ECONOMIC COMMISSION FOR
ASIA AND THE FAR EAST
Bangkok, Thailand

Regional economic co-operation in
Asia and the Far East:

THE ASIAN DEVELOPMENT BANK and TRADE LIBERALIZATION

Regional Economic Co-operation Series No. 2

UNITED NATIONS
New York, 1965

E/CN.11/707

UNITED NATIONS PUBLICATION

Sales No.: 65.II.F.15

Price: US$2.00 or equivalent in other currencies

CONTENTS

Blank page

Page blanche

Part I

THE ASIAN DEVELOPMENT BANK

Blank page

Page blanche

1. REPORT OF THE WORKING GROUP OF EXPERTS ON THE ASIAN DEVELOPMENT BANK

Contents

Letter of transmittal

30 October 1964

Sir,

We, the members of the Working Group of Experts on the Asian Development Bank, have the honour to transmit to you our report. The Group met at Bangkok from 20 October to 30 October 1964 and elected Mr N. M. Uquaili as Chairman and Mr Amado Castro as Vice-Chairman. All members of the Group acted in their personal capacities and not as representatives of their respective Governments or institutions.

We wish to express deep appreciation to you for your valuable guidance and for the opportunity you have given us of participating in this challenging and important activity of the United Nations.

We should like to express our appreciation to Mr R. F. Skillings, Assistant Director of Operations, Development Finance Companies, of the International Finance Corporation, whose advice and opinions as a consultant were invaluable in our deliberations.

We also wish to express our thanks to Mr R. Krishnamurti and other officers of International Trade Division of the ECAFE secretariat for the preparation of the most useful documents and for their assistance throughout our deliberations and to the secretarial staff for their co-operation and hard work.

Yours truly,

Signed
(N. M. Uquaili)
(Chairman)

Signed
(Amado Castro)
(Vice-Chairman)

Signed
(Manuchehr Agah)

Signed
(O. Letelier)

Signed
(Kraisri Nimmanhaeminda)

Signed
(S. L. N. Simha)

Signed
(Soeksmono Besar Martokoesoemo)

Signed
(T. Watanabe)

Signed
(D. L. Wilks)

U NYUN
Executive Secretary
United Nations Economic Commission for Asia and the Far East
Bangkok, Thailand

I. Introduction

1. The members of the Expert Group on the Asian Development Bank, acting in their individual capacity and not as representatives of their respective Governments or institutions, present the following report on the question of the establishment of the Asian development bank.

2. The Expert Group was convened by the Executive Secretary of ECAFE with the co-operation of the United Nations Bureau of Technical Assistance Operations in pursuance of resolution 45 (XIX) on accelerated measures for regional economic co-operation for development of trade and industry, adopted by the Commission at Manila in March 1963 and the resolution adopted by the Ministerial Conference on Asian Economic Co-operation, also held at Manila in December of the same year, which was subsequently endorsed by the Commission at its twentieth session held at Tehran in March 1964.

3. The Group was guided in its work by the objectives of the above mentioned resolutions and by the statements of government representatives at these meetings. The Group also took into account the report of the Working Group of Experts on Regional Economic Co-operation submitted in September 1963 as well as documents prepared by the ECAFE secretariat.

4. The principal assignment of the Group was "to recommend the institutional arrangements that would have to be made in order to implement . . . the establishment of an Asian development bank". In pursuing this task, the Group examined the major aspects and questions related to the establishment of such a bank, particularly its objectives and functions, fields and scope of operations, its possible financial resources and structure, including contributions of regional members and the nature and extent of participation of non-regional members, and its organization and management, taking into account the trade and development needs of the ECAFE region.

5. The Group met at Bangkok from 20 to 30 October 1964. Prior to the meeting, the ECAFE secretariat circulated to regional governments of member countries a questionnaire on the proposal (attached as annex C) and some members of the Group and of the secretariat between them visited nearly all countries for informal discussions with government officials and, in some cases, ministers. The purpose of these discussions was to give the Expert Group a background of the thinking, however tentative, of member countries on the proposal. This background was useful in assessing alternative approaches.

6. The Group as a whole was unable to prepare the draft charter for the Asian development bank, as required by its terms of reference. However, the ECAFE secretariat, with the assistance of some members of the Group, attempted a draft charter, seeking to embody the general ideas and recommendations presented in the Group's report. This draft is contained in annex D. It should be emphasized that the Group as a whole did not have time to discuss this tentative draft.

II. The role of the Asian development bank

7. It appears to the Group that the justification for, and consequently the role of, an Asian development bank lie in three directions:

(1) The attraction of additional funds to the region;

(2) The financing especially of those projects and those facilities for social and economic development of the region which at present are not financed or not adequately financed through existing sources or agencies; and

(3) The possibility of acting as a focal point for, and a stimulus to the other measures for regional economic co-operation which are at present being studied.

8. The Group was particularly interested in the experience and the success of the Inter-American Development Bank (IDB) in these fields and would like to record the valuable contributions to the discussions made by Mr Orlando Letelier of the Inter-American Development Bank.

The attraction of additional funds

9. There can be no question as to the need for substantial additional funds for the development of the region. For instance, according to estimates of the ECAFE secretariat, after taking into consideration loans and other assistance, including bilateral assistance, now being received by the countries in the region, there will be an annual gap of the order of between $600 million to $1,000 million if the developing countries of the ECAFE region are to maintain the modest level of economic growth envisaged in

their current development plans.[1] If the proposed institution could reduce this gap, it would be performing a useful function.

10. It appears to us that, in accordance with the principle of self-help, the countries of the region should mobilize the maximum amount possible from their own resources for the proposed institution. However, even taking into account contributions from the more developed countries of the region, the amounts that could be raised would not meet the minimum needs and therefore it is both desirable and necessary to raise additional funds from capital-exporting countries which are sympathetic to Asian development. In order to do this, the constitution, management and functions of the proposed institution must be designed to enlist the support of both official and private suppliers of funds in the capital-exporting countries as well as the support of international agencies engaged in promoting economic development in Asia.

Financing of special projects and facilities

11. The principle of additionality should apply not only as far as resources are concerned but also in the area of the bank's operations. If the bank is to make a real contribution, it should concentrate its lending and technical assistance activities in areas which are insufficiently covered by existing institutions. Thus there could be multi-national projects concerning one or more member countries needing financial assistance. Agriculture is a very important sector in which the financial assistance is lagging behind the needs. There is need for financing intra-regional trade requiring medium and long term funds. Growth of facilities for tourism is another sector for which adequate finances are not available from existing agencies. One of the requirements for obtaining financial assistance from abroad is the proper preparation and presentation of feasibility studies, and these studies too need financing. There is also need for financing medium and small projects. Other fields of activity could be the introduction of measures for stimulating private foreign investments in the region, and generally acting as the agent of the governments of member countries and the United Nations agencies for various purposes relating to the economic development of the region. In fact, the very presence of a regional development institution located close to member countries should by itself stimulate new functions for accelerating the economic development of the countries of the region.

The co-ordinating and stimulating function

12. Since the bank is conceived of as an instrument for the promotion of regional co-operation, it seems to the Group that it could make a contribution to the co-ordination of the developmental activities of the members of the region. The Group recognizes the many difficulties in this area, but it thinks that the bank could play a useful role concerning at least the projects that come to it for assistance. By influencing the adoption or modification of a specific project in one member country in view of a similar or complementary project in another country, it could prevent the wastage of resources. Moreover, by encouraging bilateral or multilateral agreements to free trade in the products of a particular project, it could further the cause of regional liberalization of trade.

13. This co-ordinating activity could well stimulate thought on projects which had not previously been conceived.

14. The development process in many countries of the region is hampered not only by the lack of capital, but also by difficulties in the formulation of specific projects. The bank could make a significant contribution to the alleviation of this difficulty through an active programme of technical assistance in project formulation. It could also provide training facilities for personnel of member countries engaged in development activities.

15. Thus the economic justification for the establishment of an Asian development bank is based on the principle of additionality, both in terms of the capital resources it should mobilize and the areas and fields of its operations. If the bank, in the manner of IDB, could be successful in performing these functions, the Group believes that it would play a useful role in the economic development of the region.

III. General principles

16. The Group would like to indicate certain general principles which in its view should guide the constitution and operations of the proposed Asian

[1] A rough estimate of the difference between the projected amount of external finance envisioned in current national development plans of selected ECAFE countries and the annual aggregate inflow of foreign capital into the region. See "Present Status and Problems of Economic Co-operation", MITI, 1963, Tokyo and United Nations document entitled "Development Planning in ECAFE Countries in the Recent Past-Achievements, Problems and Policy Issues" (E/CN.11/CAEP.2/L.3).

It was also estimated by Millikan and Rostow in 1956 that the annual requirements of selected ECAFE countries for capital inflow were of the order of from US$1,200 to 1,600 million if national income were to increase by only about 3 per cent per annum. These estimates are largely based on an evaluation of the amount of additional capital that can productively be absorbed by the countries concerned. See *A Proposal: Key to An Effective Foreign Policy*, (Harper Brothers, New York, 1956).

P.N. Rosenstein-Rodan also estimated that the capital inflow requirements of ECAFE countries are of the order of about US$2.5 billion per annum. See "International Aid for Under-developed Countries" Review of Economics and Statistics, May 1961.

development bank. These principles take note of the diversity of the economies of the region, their needs and capacities, as well as the experience of other international, regional and national financial institutions. Some of the principles have already been mentioned in earlier paragraphs.

(*a*) The charter of the bank should be drawn broadly so as to allow it considerable flexibility in its membership, capital resources and operations. The national and international economic scene and economic relationships change continuously and with these changes the financial needs of the individual member countries. The bank must be in a position to adapt its policies and procedures to the changing requirements. However, during the first few years, especially having regard to limitations of experienced staff and resources, the institution might with advantage concentrate on certain fields of activities so as to produce the maximum possible impact.

(*b*) The bank must endeavour to mobilize the maximum additional resources, both from within the region and outside. The bank's operations should be conducted on a sound basis, so as to gain the confidence of investors within and outside the region.

(*c*) The bank must strive to harmonize the needs of the individual member countries of the region with the broad objective of promoting regional economic co-operation and development. It must display enterprise and initiative in locating needs of the developing member countries and in trying to assist in the fulfilment of those needs.

(*d*) The bank should give particular attention to the needs of the smaller developing countries of the ECAFE region.

(*e*) The bank should not seek to disturb existing bilateral or multilateral arrangements for aid to the developing countries of the region.

IV. Areas and methods of operation

Fields of activity

17. In considering the fields in which the Asian development bank should operate, it is most important to take into account the rather marked differences in the economic structure and needs of the developing countries of the region. While, in a growing economy, all the sectors require finance for development, the specific sectors which require special attention differ from country to country. There are countries in the region which are able to get reasonably adequate finance for infrastructure but experience difficulties in obtaining finance for such sectors as agriculture and manufacturing, particularly small and medium units. On the other hand, there are countries, especially the smaller ones, where finance is difficult even for infrastructure. It is perhaps correct to say that, so far as trade is concerned, the credit facilities are reasonably good but that, in particular areas such as capital goods, the facilities are inadequate. Even in the same sector, such as agriculture, for certain types of activity, for instance, cash crops (cotton, tea and rubber), finance is much less difficult than say for food production. Here the difficulty may be largely to find suitable projects to finance or institutions through which finance can be channelled. Thus, it is extremely difficult to generalize with regard to the areas of operation on which the bank should concentrate. The sectoral distinctions however should not be overemphasized. The development of agriculture and manufacturing, for example, is interrelated. In some countries, the development of manufacturing may be the principal means of bringing about improvement in agricultural production, by making available the necessary inputs, such as fertilizers.

18. The Group has therefore concluded that the bank should not confine its activities to any particular sector or sectors but should be empowered to lend wherever it finds the need for finance greatest and wherever it can find suitable projects. However, the emphasis should be on the additionality of development. The bank should largely engage in areas and fields which have not been fully explored or for which adequate facilities are not available from other sources.

19. In the same way, although the Group strongly supports the principle that the bank should pay special attention to the financing of projects of regional and sub-regional importance, it is realized that it will be difficult, especially in the early stages, to find any great number of such projects. The bank's activities, therefore, should not be confined to regional projects but should include national projects as well.

20. By reason of its over-all regional approach, the bank should be in a position to suggest and, if necessary, promote or participate in the formulation of projects which are not at present being proceeded with because of the pressure on the expert staff of national agencies. This addition to the technical resources of the region the Group regards as being of at least equal importance to the supplementing of the region's financial resources.

21. The functions of the bank can therefore be summarized as follows:

(*a*) *General function*

This should be to promote the economic development of the member countries of the ECAFE region, collectively and individually.

(*b*) *Particular functions and objectives*

(*i*) The bank should endeavour to supplement the activities of existing agencies, both national and international, in financing or otherwise assisting agricultural, extractive or industrial projects of a regional, or sub-regional or national character but placing particular emphasis on those projects which further the general aims of regional economic co-operation.

(*ii*) The bank should not normally finance large infrastructure projects since these may take too large a proportion of its resources.

(*iii*) In the field of trade, the bank should generally confine its activities to the medium term financing of intra-regional trade in capital goods. Assistance in this field would help to build up the capital goods industries in the region. Care will have to be exercised to ensure that undue bilateralism does not occur in such trade and any activities in this field should be co-ordinated with the rest of the bank's lending in a manner designed to encourage intra-regional trade.

(*iv*) Projects in the social field, such as education, water supply, public health, should preferably be financed from the special fund or funds.

(*v*) The bank should not, however, be precluded from providing finance in the infrastructure, trade and social fields where it judges the investment to be necessary to regional development and where the finance is not available from other sources.

(*vi*) The bank should, so far as it is able, assist in the preparation of feasibility studies and should give particular attention to assisting countries which, because of a lack or shortage of technical skills, experience difficulty in the preparation of projects for examination by lenders.

(*vii*) Wherever feasible and necessary, the bank should enlist the participation of both national and international lenders in the financing of projects.

Operating principles

22. The specific suggestions on operating methods listed below are designed to give effect to the general principle that the bank should operate, from its ordinary resources, on sound commercial lines. The list may not be fully comprehensive, but it indicates the type of provision which the Group considers should be made when detailed attention is being given to the charter. The difficulties which individual borrowing countries of the region may encounter in respect of their over-all debt service obligations are recognized, as are the advantages to such countries of soft loans of the IDA type. Nevertheless, the Group feels that the advantages of placing this bank on a sound financial basis as early as possible should outweigh the natural desires of developing countries to obtain access to large amounts of cheap money.

23. The Group has endeavoured to meet a part of the need for "soft" loans by suggesting the allocation of a small proportion of the bank's resources to a special fund, as described in the following section on financial resources. It may be that non-regional members might be persuaded to make a higher proportion of the funds they supply available to the special fund. It may also be that the bank will, on the pattern of IDB, be asked to administer trust funds by aid-giving countries and that loans from these funds would be available on a "soft" basis. This could, of course, only be determined at the time of the establishment of the particular trust fund.

24. The operating methods should include in particular the following:

(*i*) The bank should aim at attaining financial soundness and building up reserves in order to enable it to borrow within and outside the region on the best terms possible.

(*ii*) To this end, the ordinary resources of the bank should be devoted to these projects which can bear interest charges and meet the agreed repayment terms.

(*iii*) Loans from its special fund may be made at concessional rates of interest and with extended periods of grace and repayment terms. The bank should nevertheless ensure that the principles discussed in sub-paragraph (*v*) below are observed.

(*iv*) Loans should be made on the basis of the bank's own investigations of and judgement on the economic feasibility of any particular project.

(*v*) In its lending programmes, the bank should take into account not only the prospects of the borrower and/or guarantor being able to meet their obligations, but also whether the economic and financial policies of the country in which a project is situated are conducive to the effective use of the money sought from the bank.

(*vi*) Loans may be made to governments or their agencies, public corporations and private companies (with a government or other acceptable guarantee if the bank deems it desirable). Special attention could be given to the financing of multi-national ventures.

(*vii*) Although the bank should be empowered to take up an equity interest in projects in which it is participating, the Group does not envisage its doing so as a normal part of its business. It is felt that the question of equity participation should be left to the judgement of the administration of the bank, with the qualifications that it should exercise particular caution in making equity investments in the early years of its existence and that general rules similar to the practice of IFC and national development corporations should be adopted to limit the proportions of equity investments.

(*viii*) As a general practice, the bank should finance only the foreign currency costs of a project and should try to stimulate the raising of internal funds in the country or countries concerned. However, the change in the practice of the International Bank for Reconstruction and Development (IBRD) as regards financing local currency costs has been noted. It may be that the Asian development bank can move in that direction later.

(*ix*) The bank should require repayment in the currency advanced or in any convertible currency acceptable to the bank.

(*x*) In general, the bank should not supply more than 50 per cent of the capital requirements of any project.

25. Once again, the Group suggests that, in implementing the above principles, the bank should not overlook the fact that there are considerable variations in the needs of individual members. Appropriate flexibility should be observed, if the institution is to serve the needs of the region, particularly of the smaller countries.

V. Membership

26. Membership of the bank should be open to all regional members of ECAFE, and to other countries interested in promoting Asian development. The Group does not consider that associate members should be admitted to full membership of the bank, although the possibility of their association in some form need not be excluded. It is noted that, in IBRD, dependent territories are included in the membership of the metropolitan country. Other types of arrangements or association such as, for instance, *ad hoc* participation in the consideration of projects of interest to non-members could also be worked out with the countries concerned.

27. It is desirable that the membership of the proposed bank should be wide enough for it to acquire sufficient resources to make it a useful and viable institution. There are other advantages in having a wide membership. Such wide membership would be an important channel for the communication of ideas and techniques in the field of development financing. It would also reinforce mutual understanding between developing and developed countries. Nevertheless, the bank should have a basically Asian character. It should be a symbol of the serious efforts of ECAFE countries to achieve regional economic co-operation and an expression of the partnership between Asian countries and other countries sympathetic to the development of the region.

28. Taking into account these considerations, the Group suggests the voting powers and financial provisions contained in the later sections of this report. These should be regarded as a starting point for negotiations with prospective members.

VI. Financial resources and structure

29. The proposed bank should be endowed with sufficient resources to carry out the range of functions indicated in the preceding section, but there is no simple formula as to the appropriate size of the capital resources. There are, however, some general

considerations which can be helpful. First of all, it is necessary to take into account not only the needs of the ECAFE region, but also the funds that are likely to be secured, both in the region and outside. The Group has already emphasized that the Asian development bank must aim at securing additional resources rather than a diversion of existing resources, though marginally some diversion cannot perhaps be avoided. The developed countries need to step up the quantum of their assistance to the developing countries, if the modest goals envisaged in the development decade programme of the United Nations are to be attained. But this stepping up cannot be expected to take the shape wholly of contribution to the resources of new institutions such as the proposed bank.

30. As earlier suggested, membership of the bank should be open and it is hoped that non-regional ECAFE members and other developed countries would contribute to its resources in a significant way. But the Group attaches the greatest importance to a substantial contribution by regional members themselves, as a demonstration of their faith in regional co-operation. No doubt this would also have a favourable effect on the willingness of the non-regional developed countries to join.

Resource structure

31. The Group suggests that, as in the case of other financial institutions, the Asian development bank's resources comprise (*i*) share capital, (*ii*) loan capital, through bond floatings and other forms of borrowing and (*iii*) other resources, such as grants and trust funds. In the first few years of its operations, it would be very difficult for the bank to borrow, and so share capital would have to be the only source of funds. Also, backing in the form of share capital is necessary for borrowing. It would be advisable that the total borrowing should not exceed the callable capital and surplus. Thus, in effect, the subscribed capital and surplus of the bank would set the limit to the total resources available to it. The capital should therefore be as large as feasible.

Considerations regarding the size of share capital

32. The size of the capital stock which the bank would require would further depend upon a number of factors, such as the extent of use of loan capital, the relationship between the paid-up and subscribed capital, the proportion of the payment of the paid-up capital in convertible currencies and the phasing of the payments.

33. Since no single formula can provide an answer to the size of the share capital, there will inevitably be some arbitrariness about this figure. Such has also been the case in similar institutions. As a starting point, a certain percentage of national income may be taken. In the case of the African Development Bank, one-half of one per cent of national income was used as a starting point. On this basis, the figure for the ECAFE region (including the developed countries of the region, viz, Australia, Japan and New Zealand) is approximately $600 million; excluding those three countries, the figure is approximately $325 million. The comparable figure for Latin America is $500 million and for Africa $200 million.[2]

34. The likely contribution of the non-regional countries is also an important factor in deciding upon the capital. But this is an uncertain element at this stage and so there is merit in considering a figure which is based upon the possible contributions of the regional members themselves. Taking a practical view of these matters and noting the capital of IDB ($1,000 million, including the fund for special operations of $150 million) and of ADB ($250 million), the Group considers that the authorized capital of the Asian development bank including the non-regional contributions should be $1,000 million. Modest as it is, it will require some effort to raise this sum.

35. In the Group's view, the countries of the ECAFE region should contribute the major portion of the $1,000 million, and it is suggested that this be fixed at $600 million. Every effort should be made to get the non-regional and other developed countries to join and subscribe to the balance. However, regardless of the subscription by the non-regional members, the members of the region must endeavour to fulfil the share suggested for them, viz, $600 million.

36. The authorized capital stock should be divided into shares of a certain par value, which it is suggested to be fixed at $10,000. This would require the rounding up of the capital subscription of individual members to the nearest $10,000.

37. The unit of account should be the United States dollar at its present gold content. This will mean that at all times member countries must maintain the gold value of their subscriptions.

Subscribed capital

38. The whole of the authorized capital should be offered for subscription, and one-half of the subscribed capital should be paid up. This ratio is recommended because, at least in the initial years, the bank may

[2] Actually, the initial total regional contribution of Latin American countries to IDB was not arrived at on the basis of one-half of one per cent of the total national income of the region at the time of the establishment of the bank. One-half of one per cent of the total national income of the African region, the basis for estimating the capital of ADB, was roughly between $150-200 million. The latter figure was adopted as the initial capitalization of the Bank.

not find it possible to raise loans, and in view of the pressing needs for finance, it must have sufficient resources to cope with the demand. On the other hand, any large callable capital will naturally increase the contingent liability of members. The balance, that is, 50 per cent of the subscribed capital, should be callable only to meet the obligations of the bank; the payments should be in gold, convertible currency or in the currencies required to discharge the obligations of the bank.

Mode of payment

39. In deciding what proportion of the subscribed capital should be paid in gold or convertible currencies, it is important to strike a balance between the interests of the region as a whole and those of the individual members. A number of countries have chronic balance of payments difficulties. The Group has taken note of the views of many countries of the region that only a small portion of the subscribed capital should be payable in gold and convertible currencies. On the other hand, from the point of view of maximum benefit to the recipient countries and for the efficient operation of the bank, it is desirable to make the convertible portion of the subscriptions as large as possible. On balance, the Group feels that 50 per cent of the subscribed capital should be paid in gold and convertible currencies, and the remainder in local currencies. The local currency subscription should be freely usable by the bank within the country concerned, but the permission of that country would have to be obtained before this local currency could be converted into any other currency. Of course, wherever possible, an endeavour must be made to permit the conversion of the local currencies into foreign currencies.

40. In the case of the developed countries of the region, there would be much less difficulty in using the local currency subscription, because of their capacity to supply goods and services needed by the developing countries of the region. In the case of the developing countries too, there will be scope for using the local currency subscription, since some of them are producers of capital goods and basic materials. This could be an important means of promoting intra-regional trade, which is one of the principal objectives of Asian economic co-operation and development.

Allocation of subscriptions to capital

41. The allocation of subscriptions to capital among the member countries of the ECAFE region is an extremely complex and delicate matter, and no simple or single formula can be suggested. Various economic variables have to be taken into account. There would naturally be objections to the inclusion or exclusion of any particular variable, and to the weightage to be given to each of the variables. It should, however, be possible to indicate the broad basis on which agreement could be reached for the relative shares of the member countries.

42. Speaking generally, the contribution of a regional country should be based on its economic capacity, which can be indicated by such factors as gross national product or gross domestic product, *per capita* gross domestic product, tax revenues, exports, imports, balance of trade, balance of payments and foreign exchange holdings. The crux of the matter, however, is which of these factors to use and what weight to give to each. In the case of the African Development Bank, an integrated formula was used, taking into account such factors as exports, gross domestic product and tax revenues of member countries for a number of years. The ECAFE secretariat has worked out the allocation of subscriptions among the members of the ECAFE region using the ADB formula, without any ceiling-floor adjustments. In the case of the Inter-American Development Bank, the subscription of the United States ($400 million) was indicated in advance and the balance of $450 million was distributed among the Latin American countries on the basis of their quotas in the International Monetary Fund in 1959, but with ceiling-floor provisions. The subscription quotas of the ECAFE members in the Bretton Woods institutions (IMF, IBRD and IDA) also provide valuable guide lines. The tables indicating the share of the various countries on these bases are contained in annex E.

43. The Group found it extremely difficult to recommend any single basis for allocation of subscriptions. Ultimately this is a matter for compromise among the governments of member countries; the tables may provide a starting point. Realizing that there are other methods of calculation, the Group considers it desirable to use an integrated formula rather than any single factor.

44. The Group emphasizes the importance of member countries taking a long-range view of this matter and contributing their maximum to the capital of the bank. The cumulative impact of a strong and dynamic Asian development bank will more than compensate for any temporary difficulties which individual member countries may feel in contributing to its resources.

45. In particular, every effort must be made to obtain the maximum possible contributions from the three highly developed countries of the region, namely,

Australia, Japan and New Zealand. The Group recognizes that these countries also are substantial capital importers but it feels that this is not inconsistent with their making reasonably large contributions to the resources of the bank.

46. The Group has also considered the question whether, as in the case of the African Development Bank, to suggest a ceiling and floor to subscription. Its view is that, in the interest of flexibility, which has been an important guiding principle in its consideration of all matters relating to the bank, it is better not to do so. Since there is urgent need to mobilize resources, there should not be any ceiling to the contribution of any member. The principle of giving a certain number of votes to every country regardless of its contribution should tend to reduce disparities in the controlling voice of member countries. Nor is it necessary to fix any minimum; thus no member need experience any difficulty in joining the bank.

Phasing of payment of subscription

47. It is recommended that the payment of the subscription be spread over a period of three years. The initial payment should be 25 per cent of the subscription and the balance should be paid in instalments of 25 per cent in each twelve-month period. Each payment should consist of equal amounts of convertible currency and local currency.

Soft loan fund

48. The Group has so far considered the general capital resources of the bank. With regard to its earlier suggestion that the bank should engage, to some extent, in the making of soft loans, the question is whether there must be separate capital resources for this purpose, over and above the sum of $1,000 million suggested for the authorized capital. In the case of the Inter-American Development Bank, the fund for special operations ($150 million) was kept formally separate from the capital stock ($850 million). There are advantages in having a formally separate fund for soft loan purposes. In the case of IBRD, it was found convenient to set up a new subsidiary, namely, IDA. Having regard to the fact that, at least in the initial years, the soft loan operations may not assume large dimensions, the Group feels that, for some time at least, there is no need to have any separate soft loan institution. A modest portion of the capital stock may be set apart for soft loan purposes. It is however suggested that the operations of the soft loan be carried in a distinct fund.

VII. Voting powers

49. In the discussion of the question of the voting powers of member countries, it was realized that this is a matter ultimately to be decided by the representatives of prospective member countries. Nevertheless the Group attempted to balance two considerations. On the one hand, it was recognized that the general principle of proportionality of voting should be broadly adhered to in justice to countries which would be subscribing larger shares of the capital of the institution. On the other hand, in consonance with general principle (*d*) mentioned in paragraph 16, it is desirable to provide some measure of equality in voting as between small and large countries, in order to minimize the otherwise wide differences in voting powers.

50. The above considerations arise in most international financial institutions. An acceptable formula is essential so that all member countries may take an active interest in the management and operations of the proposed institution. The Group was guided by the experience in IMF, IBRD, IDB, ADB and related organizations. It was decided to recommend the scheme of a basic number of votes equal for every member plus additional votes based on the number of shares subscribed.

51. In IBRD and IFC, each member has 250 votes plus one vote for each share of capital, a share being $100,000 in IBRD and $1,000 in IFC. In ADB, where membership is limited to African states, the total number of fixed votes (determined in accordance with the principle of equality) is equal to the proportionate votes. An individual country's basic votes were determined by dividing 50 per cent of the authorized voting power equally among the member countries. Each country's votes in ADB consist of 625 basic votes plus one vote for each share of $10,000. In IDB, Latin American countries paid in roughly 53 per cent of the capital and the United States of America 47 per cent. Each member country was allowed a basic country vote of 135 plus one vote for each share of $10,000. The vote of the United States of America was fixed at 40 per cent (in practice 41.8 per cent) inclusive of its basic country vote of 135. The total of fixed or basic votes in IDB is approximately 3.3 per cent of the total votes or 5.5 per cent of the votes of the Latin American countries.

52. Viewed in another way, the ratio of total fixed to proportionate votes in ADB is 1:1; in IDA it is about 1:5; in IBRD, about 1:10; in IDB, 1:30 if the total votes are considered or 1:18 relative to the Latin American votes.

53. For the proposed Asian development bank, the Group would like to propose the following scheme as a basis for discussions among the different countries:

> A certain percentage of the total voting rights would be set aside for allocation to all member countries as their basic votes. The formula would therefore be: the percentage of authorized voting power divided by the number of member countries.

Purely as illustrations of the application of the formula, the following calculations are given:

(*i*) Assuming that the total subscribed capital is \$1,000 million, that the par value of each share is \$10,000, that each share carries one vote, that there are twenty-five member countries, and finally that the percentage of the total vote set aside for the fixed or basic votes is 5 per cent, the basic vote would be:

$$\frac{5\% \text{ of } 100{,}000}{25} = 200$$

(*ii*) Assuming the same conditions as above, except that the percentage set aside for the fixed or basic votes is 20 per cent. the formula would be:

$$\frac{20\% \text{ of } 100{,}000}{25} = 800$$

The total vote of each country would therefore be the basic vote of 200 under (*i*) or 800 under (*ii*), plus one vote for every share of stock subscribed. A country subscribing to \$50 million of stock would have 5,200 votes under (*i*) and 5,800 votes under (*ii*). A country with a subscription of \$1 million would have 300 votes under (*i*) and 900 under (*ii*).

VIII. Organization and management

54. If the Asian development bank is to operate successfully from the start of its operations it is essential that it be organized in an appropriate manner. Furthermore, strong and competent management is necessary if the bank is to be able to attract member countries and to raise additional resources in capital markets. Flexibility is also required so that the bank can deal with changing problems and conditions.

55. As in IDB, ADB and similar institutions, the organization and management of the bank may take the form of a Board of Governors, a Board of Directors, a President, at least one Vice-President, and other officers.

56. Each member country should be represented on the Board of Governors, in which all the powers of the bank should be vested. Each member country should appoint one Governor and one alternate to be on the Board of Governors. The Board of Governors should delegate necessary powers to the Board of Directors and reserve certain powers for itself.

57. The Board of Governors should elect the members of the Board of Directors according to a procedure to be agreed upon in the light of arrangements in similar institutions. The size of the Board and the voting procedures should be devised with due regard to the desirability of providing adequate representation of all member countries. As the Board of Directors will have to meet frequently, their number should be limited. The Group considers that the Board of Directors could consist of seven from regional member countries, three from other member countries and the President as Chairman. A three-year term for Directors seems appropriate.

58. In this connexion, a suggestion has been made that Japan, and Australia and New Zealand together, may be given the right to appoint a Director each to the governing board of the bank. This would of course raise a new principle of creditor countries alone having a right to appoint Directors; in the case of IMF and IBRD that right to appoint Directors is based upon the size of the subscriptions/quotas rather than on whether a country is a net contributor or a recipient. However, in practice, this matter is not likely to present a serious difficulty, in view of the relative size of the likely contributions of these countries.

Board of Governors

59. The powers of the bank, in accordance with related provisions in its charter pertaining to voting power, etc., should be vested in the Board of Governors. The Board may delegate some of its powers to the Board of Directors except those functions which, as in the case of ADB and IDB, pertain to the over-all basic policies of the bank. These may include: the admission of new members, the conditions for their admission, the increase or decrease of the authorized capital stock of the bank, the suspension of members, and so on. Also, as in the case of ADB, the Board of Governors may be granted some permissive powers such as to establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the bank.

Board of Directors

60. The Board of Directors of the bank should be made responsible for the general day to day operations of the bank. It should be delegated adequate powers by the Board of Governors, particularly with regard to the lending and borrowing activities of the bank. Its powers should be clearly defined to avoid possible conflicts with those of the Board of Governors.

61. In addition to the broader powers delegated to it by the Board of Governors, the Board of Directors could have the following specific powers:

(*a*) to appoint one or more Vice-Presidents on the nomination of the President;

(*b*) to prepare the work of the Board of Governors;

(*c*) in conformity with the general directions of the Board of Governors, to take decisions concerning loans, guarantees, investments, borrowing and technical assistance, and the terms thereof;

(*d*) to submit the acocunts for each annual meeting; and

(*e*) to determine the budget of the bank in accordance with the recommendations of the President.

The President

62. The success of the bank will lie largely in the hands of the person appointed to be the President. The Group earnestly recommends that the member Governments should give special consideration to the qualifications and calibre of the President.

63. It is desirable that the President should be from a regional member country. While several members of the Group felt that, as in IDB, the President of the bank should be elected and appointed by the Board of Governors in order to lend prestige to the position, others suggested that, as in IBRD, IMF and ADB, the Board of Directors should elect the President so as to assure close working relationships. His term of office should be five years.

64. The President should be the chief executive of the bank and conduct, under the direction of the Board of Directors, the ordinary business of the bank; subject to the general control of the Board of Directors, he should be responsible for the organization, appointment and dismissal of the officers and staff of the bank.

IX. Subsidiary bodies

65. The Group felt it was premature to visualize what subsidiary institutions if any, the bank might establish in the future. However, it would be desirable to provide in the bank's charter for the formation of such subsidiaries as might be necessary.

X. Relationship between the bank and other institutions

66. The proposed bank would have to be an autonomous institution like IBRD and similar institutions, for independence gives strong assurance that its affairs will be conducted on a sound business basis. This being said, it is clear that the bank should work in close collaboration with international and national institutions, public and private, engaged in promoting economic development in the region.

67. The forms of collaboration have to be evolved in the light of the bank's experience and the emerging needs of member countries. The statutory provisions and policies of the various institutions have to be taken into account. The arrangements for collaboration should also bear in mind the principle of additionality of resources to the developing countries. At present, the Group can think of the following forms of collaboration: help in making appraisals of specific projects or programmes; joint participation in the financing of national and multinational projects; and assistance in training the bank's staff, especially during the early years of its operations, including the seconding of staff to the bank, and exchange of information and possibly joint research projects.

68. Useful working relationships with national development finance institutions should be developed and promoted by the bank. National institutions could serve as channels for a portion of the bank's capital resources, under certain conditions, particularly in the financing of projects the nature and size of which make it uneconomical for the bank to undertake. Such relationships would also assist in building up strong national institutions which could fill an important gap in domestic capital markets.

XI. Location of the bank

69. The Group was asked to suggest criteria for deciding on the location of the headquarters of the institution. It felt that the following points will all need to be taken into consideration:

— accessibility (in terms of transport and communications to member countries and to world financial centres).

— availability of qualified staff.
— political stability.
— availability of financial institutions.
— convertibility of local currency.
— acceptable living conditions.
— political acceptability.
— willingness of host country.
— prior existence (or non-existence) of other United Nations sponsored institutions.

XII. Concluding observations

70. In conclusion, the Group would like to emphasize that this report is still in somewhat general terms. If some of the matters have not been covered more exhaustively, it is not only because of want of time, but also because the Group did not wish to go into too many details at this stage when agreement is necessary among prospective member countries on a number of important basic issues. It is hoped that the report will constitute a useful basis from which interested governments can reach decisions on all the fundamental matters relating to the constitution and operations of the bank.

71. It is the Group's view that an Asian development bank, formed on the lines indicated above and properly managed, would prove to be viable and would make a useful contribution to economic development and co-operation in the region.

Annex A

Members of the Working Group of Experts on the Asian Development Bank

1.	Mr. Manuchehr Agah (Iran)	Lecturer on Money and Banking Economics, National University and Central Bank School, Tehran.
2.	Mr. Amado Castro (Philippines)	Governor, Development Bank of the Philippines, Manila.
3.	Mr. O. Letelier (IDB)	Special Assistant to the President, Inter-American Development Bank, Washington D.C.
4.	Mr. Soeksmono Besar Martokoesoemo (Indonesia)	Deputy Director, Bank Indonesia, Djakarta.
5.	Mr. Kraisri Nimmanhaeminda (Thailand)	General Manager, Industrial Finance Corporation of Thailand, Bangkok.
6.	Mr. S. L. N. Simha (India)	Economic Adviser, Industrial Development Bank of India, Bombay.
7.	Mr. R. F. Skillings* (IFC)	Assistant Director of Operations-Development Finance Companies, International Finance Corporation, Washington D.C.
8.	Mr. N. M. Uquaili (Pakistan)	Managing Director, Pakistan Industrial Credit and Investment Corporation, Karachi.
9.	Mr. T. Watanabe (Japan)	International Financial Consultant, Tokyo.
10.	Mr. D. L. Wilks (New Zealand)	Senior Economist, Reserve Bank of New Zealand, Wellington.

* Participated in an advisory capacity as Consultant.

Annex B

Terms of Reference of the Working Group of Experts on the Asian Development Bank

The Working Group of Experts on the Asian Development Bank which will be composed of experts working in their individual personal capacity shall evolve a scheme for the establishment of an Asian development bank and prepare a draft charter for the said institution, to implement the resolution unanimously adopted by the Ministerial Conference on Asian Economic Co-operation during its meeting held at Manila in December 1963.

The Group shall consider the various aspects and questions related to the establishment of the bank, particularly, the objectives of the bank, its membership, the nature and scope of its operations, its financial resources and structure including contributions of regional and non-regional members and special resources, its organization and management, fields and scope of its operations, and, if necessary, subsidiary bodies, taking into account the trade and development requirements of the region and giving appropriate consideration to the various recommendations of UNCTAD and other United Nations organizations.

The Group shall prepare a draft charter for an Asian development bank, indicating, among other things, the governing body, the voting procedures, memberships and rights of members, its relationship with other regional organizations currently existing and to be established in the future, as well as, with other national and international organizations such as AID, IBRD, IFC, IDA, IMF, etc.

The Group shall prepare a draft agreement for the establishment of an Asian development bank including procedures and transitional arrangements pending the formal establishment of the bank. It shall also recommend criteria or guidelines for the determination of the location of the bank, and its activities.

The report of the Group shall be submitted to the Executive Secretary of the United Nations Economic Commission for Asia and the Far East. The Executive Secretary will decide the manner and timing of its use, bearing in mind the resolutions of Manila, Tehran and UNCTAD.

Annex C

Questionnaire on the Asian Development Bank

I. *Objectives and functions:*

What do you consider should be the major objectives and functions of an Asian development bank? Should they include (*a*) financing agricultural, mineral, industrial, other projects—national or regional or both; (*b*) financing of intra-regional trade, such as short term or medium term, or long term contracts pertaining to capital goods, agricultural and mineral exports, and others; (*c*) financing of infrastructure and social development projects; and (*d*) other functions as well?

(1) The Inter-American Development Bank (IDB) seeks to contribute to the acceleration of the process of economic development of member countries, individually or collectively. To further its objectives, IDB finances specific projects including those that form part of national and regional development programmes.

(2) The broad objectives of the African Development Bank (ADB) are similar to that of IDB and include the following:

(*a*) to strengthen African unity by means of economic co-operation between African states;

(*b*) to accelerate the development of the extensive human and natural resources of Africa in order to stimulate economic development and social progress in that region; and,

(*c*) to formulate the harmonious growth of African economies as a whole and the expansion of African foreign trade, and, in particular, inter-African trade.

To achieve these ends, ADB is charged with the financing of investment projects and programmes relating to economic or social development including: (*a*) projects which by their nature or scope concern several members and projects designed to make the economies of members increasingly complementary and to bring about the orderly expansion of their foreign trade. Like IDB, ADB also provides technical assistance services to members.

II. *Membership and geographical area:*

Who should be the members of the Asian development bank? Should membership be confined only to regional member countries, or should it include non-regional countries?

The membership of IDB is open to the members of the Organization of American States which includes the United States. The membership of ADB is limited to politically independent countries but does not bar the future membership of countries that become independent in the course of time, or, in other words, any regional country is eligible for membership.

III. *Financial resources and structure:*

What should be the sources and structure of the financing of the proposed bank? What should be its (*a*) initial capitalization and factors to be considered for determining its size and sources; (*b*) its capacity to float debentures and securities and other forms of borrowings and (*c*) other sources of finance such as funds-in-trust, etc.?

What should be the criteria for determining the share of individual countries to the subscription of the capital of the bank?

(*a*) The initial capitalization of IDB was US$850 million, divided into 85,000 shares with a par value of $10,000 each. Of the total capitalization of $850 million, $400 million was paid up and $450 million was callable capital. The capital stock of IDB is subscribed to by members of the Organization of American States which includes the United States.

It may be noted that the total initial capitalization of IDB of $850 million approximated 0.5 per cent of the total national income of Latin American countries.

The initial authorized capital of ADB is $250 million or 250 million units of account divided into 25,000 shares of a par value of 10,000 units, divided equally into paid-up and callable shares. The capital stock of the bank is to be subscribed only by African countries.

Two of the major factors taken into consideration in determining the size of the initial capitalization of ADB were, namely: the level of national income of the region as a whole, and the expected volume of lending operations to be undertaken by the bank.

It was estimated that 0.5 per cent of the total national income of the African region would amount to from $150-200 million. However, to allow for a larger volume of lending operations for development and for any desired increases by member countries in their shares of the capitalization of ADB, the initial authorized capital stock of the bank was set at the equivalent of $250 million.

(*b*) The capital resources of ADB and IDB are not limited to their capitalizations. Both institutions are empowered by their charters to raise additional funds through borrowings or sale of bonds and securities in the region and abroad. ADB and IDB can also borrow in the form of loans from other institutions both in Africa and in foreign countries. These are other sources of finance additional to funds received in repayment of loans and income from its lending operations.

(*c*) IDB administers, quite separately from its administration of its own resources, a Social Progress Trust Fund amounting to $394 million contributed by the United States Government. As the Administrator of the fund, IDB may grant loans for projects designed to bring about improvements in such fields as land settlement and land use, housing for low-income groups, community water supply and sanitation facilities and supplementary financing of facilities for advanced education and training related to economic and social development.

The charter of ADB empowers the bank to establish or be entrusted with the administration of special funds which are designed to serve its purposes and come within its functions.

ADB adopted an integrated scale for the allocation of subscription to the bank on the bases of domestic product, exports and tax revenues during a number of past years, taking into consideration the criteria used by the United Nations and other international organizations including IMF and IBRD.

IV. *Organization and management:*

What should be the organizational structure of the Asian development bank, the voting procedures or system it should adopt, the nature of its management and its channels of communications?

IDB has a Board of Governors, a Board of Executive Directors, a President, a Vice-President and other officers and staff. Each member country has 135 votes plus one vote for each share of the capital stock of the bank held by it. In voting in the Board of Governors, each member is entitled to cast the votes of the member country he represents. Most of the matters before the Board are decided by a majority of the total voting power of the member countries. In voting in the Board of Executive Directors, the appointed director is entitled to cast the number of votes of the member country which appointed him while the elected director is entitled to cast the number of votes that counted toward his election. Most of the matters before the Board of Executive Directors are decided by a majority of the total voting power of the member countries.

The Board of Executive Directors is responsible for the conduct of the operations of the bank. The Board is empowered to determine the basic organization of the bank, including the number and general responsibilities of the administrative and professional positions of the staff as well as its budget.

To serve as a channel of communication, each member of IDB designates an official entity for purposes of communication with the bank on matters connected with the Agreement establishing the bank.

All the powers of ADB are vested in the Board of Governors, although it may delegate certain powers to the Board of Directors, the body responsible for the conduct of the general operations of the bank. Each member has 625 votes plus one vote for each share of the capital stock of the bank held by the member. Each governor is entitled to cast the votes of the member he represents and all matters are normally decided by a majority of the voting power represented at the meeting. Each elected director is entitled to cast the number of votes that counted towards his election which votes are cast as a unit. A majority of the voting power represented in the meeting decided most of the matters before the Board of Directors.

The chief administrative officer of ADB is the President elected by the Board of Directors, and is also the *ex officio* Chairman of the Board. The President is responsible for the conduct of the ordinary business of the bank and the appointment of the officers and its staff.

Each member designates an appropriate authority with which ADB may communicate in connexion with matters arising under the bank Agreement.

V. *Scope and fields of operations:*

What should be the scope and types of operations, recipients and methods of operations and limitations of the Asian development bank's operations?

The operations of IDB are broad and flexible; they consist of two types, namely, those financed from ordinary capital resources and those from special fund resources. The ordinary operations of IDB include financing principally specific projects, including those forming part of national or regional development plans, and loans to governments/or their subdivisions, public entities or to private entities which are not normally required to secure government guarantees. It also extends loans to development institutions or similar agencies as well as guarantees loans. It does not participate in risk capital of any assisted enterprise or entity. It engages in normal banking operations, in that loans are repayable in the currency in which they were made. But it also engages through its special fund in operations not normally of a banking character, e.g. loans partly or wholly repayable in local currency, of longer duration and on more easy terms. This special fund is designed to finance projects important to economic development but not necessarily self-liquidating.

The total amount outstanding of loans and guarantees made by IDB in its ordinary operations cannot exceed the total amount of its unimpaired subscribed capital plus its unimpaired reserves and surplus included in the capital resources.

In the case of ADB, the operations are divided into ordinary operations and special operations. Its over-all operations provide, except in special circumstances, for the financing of specific projects. Like IDB's financing operations, these projects include those forming part of national or regional development programmes urgently required for the economic and social development of members. The bank's operations may include global loans to, or guarantees of loans made to, African national development banks for projects of a special type serving the purposes of ADB and within the field of activities of the national development banks. Special attention is given to "suitable" multi-national projects. Like IDB, ADB applies banking principles in its operations and in particular to its investment in equity capital.

The total amount outstanding in respect of ADB's ordinary operations cannot exceed at any time the total amount of its unimpaired subscribed capital and its unimpaired reserves and surplus included in its ordinary resources. ADB's special operations cannot at any time exceed the total amount of the unimpaired special resources of the special fund.

VI. *Subsidiary bodies of the Asian development bank:*

What subsidiary bodies, if any, should the bank have?

Unlike IDB's, the charter of ADB specifically empowers the governing boards of the bank to establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the bank.

At the present time neither IDB nor ADB has any subsidiary bodies, although the need for their establishment could arise as these institutions expand their operations. Presumably, functions and operations may develop which by their nature or importance could very well be undertaken by a subsidiary body of the bank, such as, for example, the channelling of technical assistance contributed to by member and/or non-member countries for distribution on a multilateral basis or the administration of a regional payments fund to help the expansion of intra-regional trade.

VII. *Relationship between the bank and other institutions:*

What should be the relationship of the Asian development bank with other national and international institutions?

IDB co-operates as far as possible with national and international institutions and with private sources supplying investment capital. Its technical assistance activities are carried out in co-operation with other public or private, national or international institutions.

IDB, like ADB, maintains close working relationships with national development banks particularly in the financing of small-scale enterprises and smaller projects. It works through national organizations which redistribute loans from IDB to smaller units.

The charter of ADB provides that the bank, in carrying out its functions, shall co-operate with national and regional institutions existing in Africa and also with other international organizations pursuing similar purposes and with other institutions concerned with the development of Africa.

ADB has close working relationships with African national development banks, particularly in regard to loans extended to them or guarantees of loans made to them. While the charter does not provide for the bank's explicit relationship with the United Nations Economic Commission for Africa, the Commission co-operates with the bank particularly in respect to its technical assistance operations.

VIII. *Criteria for location of the bank:*

What should be the considerations or factors for ascertaining the most suitable location for the Asian development bank?

Some of the factors considered for determining the location of the African Development Bank are the following (without any order of priority):

(*a*) Accessibility (in terms of transport and communication to member countries and to world financial centres);

(*b*) Availability of qualified staff;

(*c*) Political stability;

(*d*) Availability of financial institutions;

(*e*) Convertibility of local currency;

(*f*) Acceptable living conditions;

(*g*) Political neutrality;

(*h*) Willingness of host countries; and,

(*i*) Existence (or non-existence) of other United Nations sponsored institutions.

Annex D

Tentative draft charter

THE COUNTRIES on whose behalf this Agreement is signed:

CONSIDERING the importance of closer economic co-operation as an instrument for achieving the most efficient utilization of resources and the rapid economic development of Asia and the Far East;

REALIZING the significance of making additional development finance available for the region by mobilizing funds and other resources both from within and without the region, or by seeking to stimulate, and to create conditions conducive to increased domestic savings and flow of development funds into the region;

RECOGNIZING the desirability of promoting the harmonious growth of the economies of the region and the expansion of external trade of member countries;

FURTHER RECOGNIZING that the establishment of a regional financial institution would serve these ends;

HAVE AGREED to establish hereby the Asian development bank which shall operate in accordance with the following provisions:

Chapter I

PURPOSE, FUNCTIONS AND MEMBERSHIP

Article 1

PURPOSE

The purpose of the bank shall be to contribute to the acceleration of the process of economic development of the member countries in Asia and the Far East, collectively and individually.

Article 2

FUNCTIONS

To implement its purpose, the bank shall have the following functions:

(*i*) to promote investment in the region of public and private capital for development purposes;

(*ii*) to utilize the resources at its disposal for financing development of the member countries in the region giving priority to regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic development of the region as a whole;

(*iii*) to co-operate with the member countries in the region to co-ordinate their development policies and plans towards a better utilization of their resources, with the objective of making their economies more complementary and of promoting orderly expansion of their foreign trade, in particular, intra-regional trade;

(*iv*) to provide technical assistance for study, preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;

(*v*) to co-operate with national and international institutions and private sources which invest development funds in the region or provide financial and technical development assistance to the region, and to reveal to such agencies new opportunities for investment and assistance;

(*vi*) to undertake such other activities and provide such other services as may advance its purpose.

Article 3

MEMBERSHIP

(1) The original members of the bank shall be those regional and non-regional members of ECAFE which acquire membership in the bank in accordance with the provisions of Article 62 of this Agreement.

(2) Membership shall be open to other regional and non-regional sovereign states that are interested in the development of the region at such time and in accordance with such terms as may be prescribed by the bank.

Chapter II

CAPITAL

Article 4

AUTHORIZED CAPITAL

(1) The authorized capital stock of the bank shall be one billion dollars ($1,000,000,000) in terms of United States dollars of the weight and fineness in effect on [ ]. The dollar referred to in this Agreement is of the above value. It shall be divided into 100,000 shares having a par value of 10,000 dollars each, which shall be available for subscription by members in accordance with the provisions of Article 5 of this Agreement.

(2) The authorized capital stock shall be divided into paid-in shares and callable shares. The equivalent of 500,000,000 dollars shall be paid in, and the equivalent of 500,000,000 dollars shall be callable for the purpose specified in paragraph (5) of Article 6 of this Agreement.

(3) The authorized capital stock may be increased as and when the Board of Governors deems it advisable by [a two-thirds majority of the total number of governors representing not less than three-fourths of the total voting power of the members.]

Article 5

SUBSCRIPTION OF SHARES

(1) Each member shall subscribe to shares of the capital stock of the bank. The initial number of shares to be subscribed by the original members shall be that set forth in Annex A to this Agreement. The number of shares to be subscribed by other members shall be determined by the Board of Governors.

(2) In the case of an increase in capital stock pursuant to paragraph 3 of Article 4 of this Agreement, each member shall have a right to subscribe, under such terms and conditions as the Board of Governors shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the bank. No member, however, shall be obligated to subscribe to any part of such increased capital stock.

(3) A member may request the bank to increase its subscription on such terms and conditions as the Board of Governors may determine.

(4) Shares of stock initially subscribed by original members shall be issued at par. Other shares shall be issued at par unless the Board of Governors decides in special circumstances to issue them on other terms.

(5) The liability of the members on shares shall be limited to the unpaid portion of their issue price.

(6) Shares of stock shall not be pledged or encumbered in any manner, and they shall be transferable only to the bank.

Article 6

PAYMENT OF SUBSCRIPTIONS

(1) Payment of the amount initially subscribed by each member to the paid-in capital stock of the bank shall be made in four instalments, the first of which shall be twenty-five per cent, and the remaining three instalments each twenty-five per cent, of such amount. The first instalment shall be paid by each member on or before the date of deposit, on its behalf, of the instrument of ratification or acceptance of this Agreement in accordance with paragraph (1) of Article 62. The second instalment shall become due on the last day of period of twelve months from the entry into force of this Agreement or on the day of the said deposit, whichever is later. The remaining two instalments shall become due successively each on the last day of a period of one year immediately following the day on which the preceding instalment becomes due.

(2) Of each instalment for the payment of initial subscriptions, fifty per cent shall be paid in gold or convertible currency and fifty per cent in the currency of the member. The mode of payment of other amounts subscribed by the members to the paid-in capital stock shall be determined by the Board of Governors.

(3) Each payment of a member in its own currency under paragraph (2) of this Article shall be in such amount as, in the opinion of the bank, is equivalent to the full value in terms of United States dollars of the weight and fineness in effect on [ ], of the portion of the subscription being paid. The initial payment shall be in such amount as the member considers appropriate hereunder but shall be subject to such adjustment, to be effected within 60 days of the date on which the payment was due, as the bank shall determine to be necessary to constitute the full dollar value equivalent as provided in this paragraph.

(4) The Board of Governors shall determine the dates for the payment of amounts subscribed by the members to the paid-in capital stock to which the provisions of paragraph (1) of this Article do not apply.

(5) Payment of the amounts subscribed to the callable capital stock of the bank shall be subject to call only as and when required by the bank to meet its obligations incurred under sub-paragraphs (*ii*) and (*iv*) of Article 11 on borrowings of funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources.

(6) In the event of the call referred to in the preceding paragraph, payment may be made at the option of the member in gold, convertible currency or in the currency required to discharge the obligations of the bank for the purpose of which the call is made. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

(7) The bank shall determine the place for any payment under this Article, provided that, until the first meeting of its Board of Governors, the payment of the first instalment referred to in paragraph (1) of this Article shall be made to the Trustee appointed by the Parties of this Agreement, and referred to in Article 64.

Article 7

Ordinary capital resources

As used in this Agreement, the term "ordinary capital resources" of the bank shall include the following:

(*i*) authorized capital stock of the bank subscribed pursuant to Article 5 of this Agreement;

(*ii*) funds raised by borrowings of the bank by virtue of powers conferred by the provisions of sub-paragraph (*i*) of Article 20 of this Agreement, to which the commitment to calls provided for in paragraph (5) of Article 6 of this Agreement is applicable;

(*iii*) funds received in repayment of loans made with the resources indicated in (*i*) and (*ii*) of this Article;

(*iv*) income derived from loans made from the afore-mentioned funds or from guarantees to which the commitment set forth in paragraph (5) of Article 6 of this Agreement is applicable; and

(*v*) any other funds or income received by the bank which do not form part of its special funds referred to in paragraph (1) of Article 19 of this Agreement.

Chapter III

OPERATIONS

Article 8

Use of resources

The resources and facilities of the bank shall be used exclusively to implement the purposes and functions set forth in Articles 1 and 2 of this Agreement.

Article 9

Ordinary and special operations

(1) The operations of the bank shall consist of ordinary operations and special operations.

(2) Ordinary operations shall be those financed from the ordinary capital resources of the bank.

(3) Special operations shall be those financed from its special fund resources referred to in paragraph (1) of Article 19 of this Agreement.

Article 10

Separation of operations

(1) The ordinary capital resources and the special fund resources of the bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from each other.

(2) The financial statement of the bank shall show the ordinary operations and special fund operations separately. The bank shall establish such other rules and regulations as may be necessary to ensure the effective separation of these operations.

(3) The ordinary capital resources of the bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of operations or other activities for which the special fund resources were originally used or committed.

(4) Expenses appertaining directly to ordinary operations shall be charged to the ordinary capital resources of the bank. Expenses appertaining directly to special fund operations shall be charged to the special fund resources. Any other expenses shall be charged as the bank shall determine.

Article 11

Recipients and methods of operations

In its operations, subject to the conditions stipulated in this chapter, the bank may provide or facilitate financing to any member, or any agency or political subdivision thereof, or any institution or enterprise in the territory of a member as well as to international or regional agencies or institutions concerned with economic development of the region. The bank may carry out its operations in any of the following ways:

(*i*) by making or participating in direct loans with funds corresponding to the unimpaired paid-in capital and, except as provided in Article 17 of this Agreement, to its reserves and undistributed surplus; or with the unimpaired special fund resources;

(*ii*) by making or participating in direct loans with funds raised by the bank in capital markets or borrowed or otherwise acquired by the bank for inclusion in its ordinary capital resources or special fund resources.

(*iii*) by investment of funds referred to in (*i*) and (*ii*) above in the equity capital of an institution or enterprises; or

(*iv*) by guaranteeing in whole or in part loans made by others.

Article 12

LIMITATIONS ON ORDINARY OPERATIONS

(1) The total amount outstanding in respect of the ordinary operations of the bank shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for by Article 17 of this Agreement and other income assigned by decision of the Board of Governors to reserves not available for operations.

(2) In the case of loans made with funds borrowed by the bank to which the commitment provided for by paragraph (5) of Article 6 of this Agreement is applicable, the total amount of principal outstanding and payable to the bank in a specific currency shall not at any time exceed the total amount of principal of the outstanding borrowings by the bank that are payable in the same currency.

(3) In the case of funds invested by virtue of sub-paragraph (*iii*) of Article 11 of this Agreement out of the ordinary capital resources of the bank, the total amount invested shall not at any time exceed ten per cent of the aggregate amount of the paid-in capital stock of the bank together with the reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for in Article 17 of this Agreement.

At the time it is made, the amount of any specific investment referred to above shall not exceed a percentage of equity capital of the institution or enterprise concerned, which the Board of Governors shall determine for any investment to be made by virtue of paragraph (*iii*) of Article 11 of this Agreement. The bank shall not seek to obtain by such an investment a controlling interest in the institution or enterprise concerned.

Article 13

PROVISION OF CURRENCIES FOR DIRECT LOANS

In making direct loans or participating in them, the bank may provide financing in any of the following ways:

(*i*) by furnishing the borrower with currencies other than the currency of the member in whose territory the project concerned is to be carried out (the latter currency hereinafter to be called "local currency"), which are necessary to meet the foreign exchange costs of the project.

(*ii*) by providing financing to meet local expenditure on the project concerned, where it can do so by supplying local currency without selling any of its holdings in gold or convertible currencies. In special cases when, in the opinion of the bank, the project would cause undue loss or strain on the balance of payments of that country, the financing granted by the bank to meet local expenditure shall be provided in gold or in currencies other than that of the member country concerned; in such cases, the amount of the financing granted by the bank for this purpose shall be a reasonable portion of the total local expenditure incurred by the borrower.

Article 14

PRINCIPLES OF OPERATIONS

(1) The operations of the bank shall be conducted in accordance with the following principles:

(*i*) The operations of the bank shall provide principally for the financing of specific projects, including those forming part of a national or regional development programme. They may, however, include global loans to, or guarantees of loans made to, national development banks or other suitable institutions, in order that the latter may finance projects whose individual financing requirements are not, in the opinion of the bank, large enough for the direct supervision of the bank;

(*ii*) In selecting suitable projects, the bank shall always be guided by the provisions of paragraph (1) (*ii*) of Article 2 of this Agreement;

(*iii*) The bank shall not finance any undertaking in the territory of a member if that member objects to such financing;

(*iv*) The applicant for the loan shall have submitted an adequate loan proposal and the President of the bank shall have presented a written report recommending the proposal on the basis of a staff study;

(*v*) The bank shall not provide for financing to the extent that, in the opinion of the bank, the recipient may obtain the finance or facilities elsewhere on terms that the bank considers are reasonable for the recipient, taking into account all pertinent factors;

(*vi*) In making or guaranteeing a loan, the bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet its or their obligations under the loan contract;

(*vii*) In making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal are, in the opinion of the bank, appropriate for the project concerned;

(*viii*) In guaranteeing a loan made by other investors, the bank shall receive suitable compensation for its risk;

(*ix*) Except as provided in Article 23 of this Agreement, the bank shall impose no condition that the proceeds of any financing undertaken in its ordinary operations shall be spent in the territory of any particular country nor that such proceeds shall not be spent in the territory of any particular country;

(*x*) In the case of a direct loan made by the bank, the borrower shall be permitted by the bank to draw its funds only to meet expenditure in connexion with the project as it is actually incurred;

(*xi*) The bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed, or participated in by the bank are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency;

(*xii*) The bank shall seek to maintain a reasonable diversification in its investments in equity capital; it shall not assume responsibility for managing any institution or enterprise in which it has an investment; and

(*xiii*) The bank shall be guided by sound banking principles in its operations.

(2) The bank shall adopt such rules and regulations as are required for the consideration of projects submitted to it.

Article 15

TERMS AND CONDITIONS FOR DIRECT LOANS AND GUARANTEES

(1) In the case of direct loans made or loans guaranteed by the bank, the contract shall establish, in conformity with the principles for operations set forth in paragraph (1) of Article 14 of this Agreement and subject to the other provisions of this chapter, all the terms and conditions for the loan or the guarantee concerned, including those relating to payment of principal, interest and other charges, maturities, and dates of payment in respect of the loan, or the fees, commission, and other charges in respect of the guarantee, respectively, and, in particular, shall provide that, subject to paragraph (3) of this Article, all payments to the bank under the contract shall be made in the currency loaned, unless, in the case of a direct loan made or a loan guaranteed as part of special operations, the rules and regulations provide otherwise. Guarantee contracts shall also provide that the bank may terminate its liability with respect to interest if, upon default by the borrower and the guarantor, if any, the bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

(2) Where the recipient of loans or guarantees of loans is not a member, the bank may, when it deems it advisable, require that the member in whose territory the project concerned is to be carried out, or a public agency or any institution of that member acceptable to the bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan.

(3) The bank shall expressly state the currency in which all payments to the bank under the loan or guarantee contract concerned shall be made. At the option of the borrower, however, such payments may always be made in gold or convertible currency.

(4) The bank may determine such other terms or conditions for the making of loans or guarantees, as it deems appropriate.

Article 16

COMMISSION AND FEES

(1) The bank shall charge a commission on direct loans made and guarantees given as part of its ordinary operations. This commission, payable periodically, shall be computed on the amount outstanding on each loan or guarantee and shall be at the rate of not less than one per cent per annum, unless the bank, after the first ten years of its operations, decides to reduce this minimum rate by [a two-thirds majority of its members representing not less than three-fourths of the total voting power of the members.]

(2) In guaranteeing a loan as part of its ordinary operations, the bank shall charge a guarantee fee, at a rate determined by the Board of Directors, payable periodically on the amount of the loan outstanding.

(3) Other charges of the bank in its ordinary operations and the commission, fees and other charges in its special operations shall be determined by the Board of Directors.

Article 17

SPECIAL RESERVE

The amount of commissions received by the bank pursuant to Article 16 of this Agreement shall be set aside as a special reserve which shall be kept for meeting liabilities of the bank in accordance with Article 18 of this Agreement. The special reserve shall be held in such liquid form as the Board of Directors may decide.

Article 18

METHODS OF MEETING LIABILITIES OF THE BANK

(Ordinary operations)

(1) Whenever necessary to meet contractual payments of interest, other charges or amortization on the borrowing of the bank, or to meet its liabilities with respect to similar payments in respect of loans guaranteed by it chargeable to its ordinary capital resources, the bank may call an appropriate amount of the unpaid subscribed callable capital in accordance with paragraph (5) of Article 6 of this Agreement.

(2) In cases of default in respect of a loan made out of borrowed funds or guaranteed by the bank as part of its ordinary operations, the bank may, if it believes that the default may be of long duration, call an additional amount of such callable capital not to exceed in any one year one per cent of the total subscriptions of the members, for the following purposes:

(*i*) To redeem before maturity, or otherwise discharge, its liability on all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default; and

(*ii*) To repurchase, or otherwise discharge, its liability on all or part of its own outstanding borrowing.

Article 19

SPECIAL FUNDS

(1) The bank may establish or be entrusted with the administration of special funds which are designed to serve its purpose and come within its functions. It may receive, hold, use, commit or otherwise dispose of, resources appertaining to such special funds.

(2) The resources of such special funds shall be kept separate and apart from the ordinary capital resources of the bank in accordance with the provisions of Article 10 of this Agreement.

(3) The bank shall adopt such special rules and regulations as may be required for the administration and use of each special fund.

Chapter IV

BORROWING AND OTHER MISCELLANEOUS POWERS

Article 20

GENERAL POWERS

In addition to the powers specified elsewhere in this Agreement, the bank shall have the power to:

(*i*) borrow funds in member countries or elsewhere, and in that connexion to furnish such collateral or other security therefor as the bank shall determine, provided always that:

(*a*) before making a sale of its obligations in the market of a country, the bank shall have obtained its approval;

(*b*) where the obligations of the bank are to be denominated in the currency of a member, the bank shall have obtained its approval; and

(*c*) where the funds to be borrowed are to be included in its ordinary capital resources, the bank shall obtain the approval of the countries referred to in sub-paragraphs (*a*) and (*b*) of this paragraph that the proceeds may be exchanged for any other currency without restriction;

(*ii*) buy and sell securities the bank has issued or guaranteed or in which it has invested, provided always that it shall have obtained the approval of any country in whose territory the securities are to be bought or sold;

(*iii*) guarantee or underwrite securities in which it has invested in order to facilitate their sale;

(*iv*) invest funds not needed in its operations in such obligations as it may determine and invest funds held by the bank for pensions or similar purposes in marketable securities;

(*v*) provide technical advice and assistance which serve its purpose and come within its functions, and where expenditure incurred by such a service is not reimbursed, charge the net income of the bank therewith and, in the first five years of its operations, use up to one per cent of its paid-in capital on such expenditure; provided always that the total expenditure of the bank on such services in each year of that period does not exceed one-fifth of that percentage; and

(*vi*) exercise such other powers as shall be necessary or desirable in furtherance of its purpose and functions, consistent with the provisions of this Agreement.

Article 21

Warning to be placed on securities

Every security issued or guaranteed by the bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any Government, unless it is in fact the obligation of a particular Government, in which case it shall be so stated.

Chapter V

CURRENCIES

Article 22

Valuation of currencies and determination of convertibility

Whenever it shall become necessary under this Agreement to value any currency in terms of another currency, or in terms of gold or dollars defined in Article 4 of this Agreement, or to determine whether any currency is convertible, such valuation or determination shall be made by the bank after consultation with the International Monetary Fund.

Article 23

Use of currencies

1. Members may not maintain or impose any restrictions on the holding or use by the bank or by any recipient from the bank, for payments in any country, of the following:

(*i*) gold or convertible currencies received by the bank in payment of subscriptions to the capital stock of the bank from its members;

(*ii*) currencies of members purchased with the gold or convertible currencies referred to in the preceding sub-paragraph;

(*iii*) currencies obtained by the bank by borrowing, pursuant to sub-paragraph (*i*) of Article 20 of this Agreement, for inclusion in its ordinary capital resources;

(*iv*) gold or currencies received by the bank in payment on account of principal, interest, dividends or other charges in respect of loans or investments made out of any of the funds referred to in sub-paragraphs (*i*) to (*iii*) or in payment of commissions and fees in respect of guarantees made by the bank; and

(*v*) currencies, other than the member's own currency, received by the member from the bank in distribution of the net income of the bank in accordance with Article 39 of this Agreement.

2. Members may not maintain or impose any restrictions on the holding or use by the bank or by any recipient from the bank, for payments in any country, of currency of a member received by the bank which does not come within the provisions of the preceding paragraph, unless:

(i) that member declares that it desires the use of such currency to be restricted to payments for goods or services produced in its territory; or

(*ii*) such currency forms part of the special fund resources of the bank and its use is subject to special rules and regulations.

3. Members may not maintain or impose any restrictions on the holding or use by the bank, for making amortization payments or anticipatory payments or for repurchasing in whole or in part the bank's own obligations, of currencies received by the bank in repayment of direct loans made out of its ordinary capital resources.

4. Gold or currency held by the bank shall not be used by the bank to purchase other currencies unless decided at the Board of Directors by [a two-thirds majority of the total voting power of the members.]

Article 24

MAINTENANCE OF VALUE OF THE CURRENCY HOLDINGS OF THE BANK

1. Whenever the par value in the International Monetary Fund of the currency of a member is reduced in terms of dollar defined in Article 4 of this Agreement, or in the opinion of the bank its foreign exchange value has depreciated to a significant extent, that member shall pay to the bank within a reasonable time an additional amount of its currency required to maintain the value of all such currency held by the bank excepting currency derived by the bank from its borrowing.

2. Whenever the par value in the International Monetary Fund of the currency of a member is increased in terms of the said dollar or in the opinion of the bank, its foreign exchange value has appreciated to a significant extent, the bank shall pay to that member within a reasonable time an amount of that currency required to adjust the value of all such currency held by the bank, excepting currency derived by the bank form its borrowing.

3. The bank may waive the provisions of this Article where a uniform proportionate change in the par value of the currencies of all its members takes place.

Chapter VI

ORGANIZATION AND MANAGEMENT

Article 25

STRUCTURE

The bank shall have a Board of Governors, a Board of Directors, a President, at least one Vice-President and such other officers and staff as may be considered necessary.

Article 26

BOARD OF GOVERNORS: POWERS

1. All the powers of the bank shall be vested in the Board of Governors.

2. The Board of Governors may delegate to the Board of Directors all its powers except the power to:

(*i*) admit new members and determine the conditions of their admission;

(*ii*) increase or decrease the authorized capital stock of the bank;

(*iii*) suspend a member;

(*iv*) decide appeals from interpretations of this Agreement given by the Board of Directors;

(*v*) authorize the conclusion of general agreements for co-operation with other international organizations;

(*vi*) determine the remuneration of the Directors and their alternates and the salary and terms of the contract of service of the President;

(*vii*) approve, after reviewing the auditors' report, the general balance sheet and the statement of profit and loss of the institution;

(*viii*) determine the reserves and the distribution of the net profits of the bank;

(*ix*) amend this Agreement;

(*x*) decide to terminate the operations of the bank and to distribute its assets; and

(*xi*) exercise such other powers as are expressly provided for that Board in this Agreement.

3. The Board of Governors shall retain full powers to exercise authority over any matter delegated to the Board of Directors under paragraph (2) above.

Article 27

BOARD OF GOVERNORS: COMPOSITION

1. Each member shall be represented on the Board of Governors and shall appoint one governor and one alternate. Each governor and alternate shall serve for five years, subject to termination of appointment at any time, or to reappointment, at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. At its annual meeting, the Board shall designate one of the governors as Chairman who shall hold office until the election of the Chairman at the next annual meeting of the Board.

2. Governors and alternates shall serve as such without remuneration from the bank, but the bank may reimburse them for reasonable expenses incurred in attending meetings.

Article 28

BOARD OF GOVERNORS: PROCEDURES

1. The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Directors. Meetings of the Board of Governors shall be called, by the Board of Directors, whenever requested by [ ] members of the bank, or by members having 25 per cent of the total voting power.

2. A quorum for any meeting of the Board of Governors shall be [a majority of the Governors, exercising not less than two-thirds of the total voting power of the member.]

3. The Board of Governors may by regulation establish a procedure whereby the Board of Directors may, when it deems such action advisable, obtain a vote of the Governors on a specific question without calling a meeting of the Board.

4. The Board of Governors, and the Board of Directors to the extent authorized, may establish such subsidiary bodies and adopt such rules and regulations as may be necessary or appropriate to conduct the business of the bank.

Article 29

BOARD OF DIRECTORS: COMPOSITION

1. [Draft A] The Board of Directors shall be composed of [ ] members who shall (need) not be members of the Board of Governors. They shall be elected by the Board of Governors in accordance with annex B to this Agreement, which shall form an integral part thereof. In electing the Board of Directors, the Board of Governors shall pay due regard to the requirement for that office of high competence in economic and financial matters.

[Draft B] The Board of Directors shall be composed of [ ] members who need not be members of the Board of Governors, and of whom —

(*i*) two shall be appointed by the members specified in annex C to this Agreement.

(*ii*) [ ] shall be elected by the Board of Governors in accordance with annex B to this Agreement.

Directors shall be persons of the high competence in economic and financial matters that is required for the office.

2. Each director shall appoint an alternate with full power to act for him when he is not present. Directors and alternates shall be citizens of member countries. None of the [elected] directors and their alternates may be of the same citizenship. An alternate may participate in meetings of the Board but may vote only when he is acting in place of his principal.

3. Directors shall be for a term of three years, which may be renewed. They shall continue in office until their successors are determined. If the office of a director becomes vacant more than 180 days before the end of his term, a successor shall be determined in accordance with annex B to this Agreement, for the remainder of the term, by the Governors who [appointed or] elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise the powers of his successor except that of appointing an alternate.

Article 30

BOARD OF DIRECTORS: POWERS

The Board of Directors shall be responsible for the conduct of the general operations of the bank, and for this purpose, shall, in addition to the powers provided for it expressly in this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

(*i*) prepare the work of the Board of Governors

(*ii*) in conformity with the general directions of the Board of Governors, take decisions concerning loans, guarantees, investment in equity capital, borrowing of the funds of the bank and technical assistance, and the terms thereof;

(*iii*) submit the accounts for each financial year for approval of the Board of Governors at each annual meeting; and

(*iv*) determine the budget of the bank in accordance with the recommendations of the President.

Article 31

BOARD OF DIRECTORS: PROCEDURE

1. The Board of Directors shall function in continuous session at the principal office of the bank and shall meet as often as the business of the bank may require.

2. A quorum for any meeting of the Board of Directors shall be [a majority of the total number of directors representing not less than two-thirds of the total voting power of the members.]

3. The Board of Governors shall adopt regulations under which, if there is no director of its nationality, a member may send a representative to attend any meeting of the Board of Directors when a matter particularly affecting that member is under consideration.

Article 32

VOTING

1. Each member shall have [ ] votes and, in addition, one vote for each share of the capital stock of the bank held by that member.

2. In voting in the Board of Governors, each governor shall be entitled to cast the votes of the member he represents. Except as otherwise expressly provided in this Agreement, all matters before the Board of Governors shall be decided by [a majority of the voting power represented at the meeting.]

(3) In voting in the Board of Directors, [each appointed director shall be entitled to cast the number of votes of the member(s) which appointed him, and] each [elected] director shall be entitled to cast the number of votes that counted towards his election, which votes shall be cast as a unit. Except as otherwise provided in this Agreement, all matters before the Board of Directors shall be decided by [a majority of the voting power represented at the meeting.]

Article 33

THE PRESIDENT

[Draft A] The Board of Governors by [an absolute majority of the total number of governors representing not less than a majority of the total voting power of the member countries] shall elect a President of the bank. [Draft B] The Board of Directors, [by a majority of the total voting power of the members,] shall elect the President of the bank. He shall be a national of a regional member country. The President, while holding office, shall not be a governor or Executive or an alternate for either.

The term of office of the President shall be five years. He may be re-elected. He shall cease to hold office when the Board of Governors so decides by [a majority of the total number of governors representing not less than a majority of the total voting power of the member countries[.]......... when the Board of Directors so decides by [a two-thirds majority of the voting power of the members].

1. The President shall be Chairman of the Board of Directors but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote.

2. The President shall be the legal representative of the bank.

3. The President shall be chief of the staff of the bank and shall conduct, under the direction of the Board of Directors, the current business of the bank. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the bank.

4. In appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of personnel on as wide a geographical basis as possible.

Article 34

VICE-PRESIDENT(S)

1. Vice-President(s) shall be appointed by the Board of Directors on the recommendation of the President. Under the direction of the Board of Directors and the President, the Vice-President(s) shall exercise such authority and perform such functions in the administration of the bank as may be determined by the Board of Directors. In the absence or incapacity of the President, the Vice-President(s) shall exercise the authority and perform and functions of the President.

2. The Vice-President(s) shall participate in meetings of the Board of Directors but shall have no vote at such meetings, except that he or one of them shall cast the deciding vote when acting in place of the President.

Article 35

PROHIBITION OF POLITICAL ACTIVITY: THE INTERNATIONAL CHARACTER OF THE BANK

1. The bank shall not accept loans or assistance that could in any way prejudice, limit, deflect or otherwise alter its purpose or functions.

2. The bank, its President, Vice-President(s), officers and staff shall not interfere in the political affairs of any member; nor shall they be influenced in their

decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the bank.

3. The President, Vice-President(s), officers and staff of the bank, in discharge of their offices, shall owe their duty entirely to the bank and to no other authority. Each member of the bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

Article 36

Office of the bank

1. The principal office of the bank shall be located in [ ].

2. The bank may establish agencies or branch offices elsewhere.

Article 37

Channel of communications, depositories

1. Each member shall designate an appropriate official entity with which the bank may communicate in connexion with any matter arising under this Agreement.

2. Each member shall designate its central bank or such other institution as may be agreed to by the bank, as a depository with which the bank may keep its holdings of currency of that member as well as other assets of the bank.

Article 38

Working language, provision of information and reports

1. The working language of the bank shall be English.

2. Members shall furnish the bank with all information it may request of them in order to facilitate the performance of its functions.

3. The bank shall publish and transmit to its members an annual report containing an audited statement of the accounts. It shall also transmit quarterly to the members a summary statement of its financial position and a profit and loss statement showing the results of its operations.

4. The bank may also publish such other reports as it deems desirable to carry out its purpose and functions. They shall be transmitted to the members of the bank.

Article 39

Allocation of net income

1. The Board of Governors shall determine annually what part of the net income of the bank, including the net income accruing to its special funds, shall be allocated, after making provision for reserves, to surplus; and what part, if any, shall be distributed.

2. The distribution referred to in the preceding paragraph shall be made in proportion to the number of shares held by each member.

3. Payments shall be made in such manner and in such currency as the Board of Governors shall determine.

Chapter VII

WITHDRAWAL AND SUSPENSION OF MEMBERS, TEMPORARY SUSPENSION AND TERMINATION OF OPERATIONS OF THE BANK

Article 40

Withdrawal

1. Any member may withdraw from the bank at any time by transmitting a notice in writing to the bank at its principal office.

2. Withdrawal by a member shall become effective on the date specified in its notice but in no event less than six months after the date that notice has been received by he bank. However, at any time before the withdrawal becomes finally effective, the member may notify the bank in writing of the cancellation of its notice of intention to withdraw.

3. After withdrawing, a member shall remain liable for all direct and contingent obligations to the bank to which it was subject at the date of delivery of the withdrawal notice. However, if the withdrawal becomes finally effective, the member shall not incur any liability for obligations resulting from operations of the bank effected after the date on which the withdrawal notice was received by the bank.

Article 41

Suspension of membership

1. If a member fails to fulfill any of its obligations to the bank, the bank may suspend its membership by decision of the Board of Governors by a [two-thirds majority of the total number of governors representing not less than three-fourths of the total voting power of the member countries.]

2. The member so suspended shall automatically cease to be a member of the bank one year from the date of its suspension unless the Board of Governors decides by the same majority to terminate the suspension.

3. While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Article 42

Settlement of accounts

1. After the date on which a country ceases to be a member, it shall remain liable for its direct obligations to the bank and for its contingent liabilities to the bank so long as any part of the loans or guarantees contracted before it ceased to be a member is outstanding; but it shall cease to incur liabilities with respect to loans and guarantees entered into thereafter by the bank and to share either in the income or the expenses of the bank.

2. At the time a country ceases to be a member, the bank shall arrange for the repurchase of its shares as a part of the settlement of accounts with such country in accordance with the provisions of paragraphs (3) and (4) of this Article. For this purpose, the repurchase price of the shares shall be the value shown by the books of the bank on the date the country ceases to be a member.

3. The payment for shares repurchased by the bank under this Article shall be governed by the following conditions:

(*i*) Any amount due to the country concerned for its shares shall be withheld so long as that country, its central bank or any of its agencies remains liable, as borrower or guarantor, to the bank and such amount may, at the option of the bank, be applied on any such liability as it matures. No amount shall be withheld on account of the lilability of the countries resulting from its subscription for shares in accordance with paragraph (5) of Article 6 of this Agreement. In any event, no amount due to a member for its shares shall be paid until six months after the date on which the country ceases to be a member.

(*ii*) Payments for shares may be made from time to time, upon their surrender by the country concerned, to the extent by which the amount due as the repurchase price in accordance with paragraph (2) of this Article exceeds the aggregate amount of liabilities on loans and guarantees referred to in sub-paragraph (*i*) of this paragraph until the former member has received the full repurchase price.

(*iii*) Payments shall be made in such available currencies as the bank determines, taking into account the financial position of the bank.

(*iv*) If losses are sustained by the bank on any guarantees or loans which were outstanding on the date when a country ceased to be a member and the amount of such losses exceeds the amount of the reserves provided against losses on that date, the country concerned shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced if the losses had been taken into account when the repurchase price was determined. In addition, the former member shall remain liable on any call for unpaid subscriptions in accordance with paragraph (5) of Article 6 of this Agreement, to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

4. If the bank terminates its operations pursuant to Article 44 of this Agreement within six months of the date upon which any country ceases to be a member, all rights of the country concerned shall be determined in accordance with the provisions of Articles 44 to 46 of this Agreement.

Article 43

Temporary suspension of operations

In an emergency, the Board of Directors may suspend temporarily operations in respect of new loans and guarantees pending an opportunity for further consideration and action by the Board of Governors.

Article 44

Termination of operations

1. The bank may terminate its operations by a decision of the Board of Governors by a [two-thirds

majority of the total number of governors representing not less than three-fourths of the total voting power of the members.]

2. After such termination, the bank shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations.

Article 45

LIABILITY OF MEMBERS AND PAYMENT OF CLAIMS

1. In the event of termination of the operations of the bank, the liability of all members for uncalled subscriptions to the capital stock of the bank and in respect of the depreciation of their currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

2. All creditors holding direct claims shall be paid out of the assets of the bank and then out of payments to the bank on unpaid or callable subscriptions. Before making any payments to creditors holding direct claims, the Board of Directors shall make such arrangements as are necessary, in its judgement, to ensure a *pro rata* distribution among holders of direct and contingent claims.

Article 46

DISTRIBUTION OF ASSETS

1. No distribution of assets shall be made to members on account of their subscriptions to the capital stock of the bank until all liabilities to creditors shall have been discharged or provided for. Moreover, such distribution must be approved by a decision of the Board of Governors by a [two-thirds majority of the total number of governors representing not less than three-fourths of the total voting power of the member countries.]

2. Any distribution of the assets of the bank to the members shall be in proportion to capital stock held by each member and shall be effected at such times and under such conditions as the bank shall deem fair and equitable. The shares of assets distributed need not be uniform as to type of assets. No member shall be entitled to receive its share of such a distribution of assets until it has settled all of its obligations to the bank.

3. Any member receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the bank enjoyed prior to their distribution.

Chapter VIII

STATUS, IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 47

SCOPE OF CHAPTER

To enable the bank to fulfill its purpose and the functions with which it is entrusted, the status, immunities, exemptions and privileges set forth in this chapter shall be accorded to the bank in the territories of each member.

Article 48

LEGAL STATUS

The bank shall possess full juridical personality and, in particular, full capacity:

(*i*) to contract;

(*ii*) to acquire, and dispose of, immovable and movable property; and

(*iii*) to institute legal proceedings.

Article 49

JUDICIAL PROCEEDINGS

1. Actions may be brought against the bank only in a court of competent jurisdiction in the territory of a member in which the bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

2. No action shall be brought against the bank by members or persons acting for or deriving claims from members. However, member countries shall have recourse to such special procedures to settle controversies between the bank and its members as may be prescribed in this Agreement, in the by-laws and regulations of the bank or in contracts entered into with the bank.

3. Property and assets of the bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgement against the bank.

Article 50

IMMUNITY OF ASSETS

Property and assets of the bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Article 51

Immunity of archives

The archives of the bank shall be inviolable.

Article 52

Freedom of assets from restrictions

To the extent necessary to carry out the purpose and functions of the bank and subject to the provisions of this Agreement, all property and assets of the bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Article 53

Privilege for communications

Official communications of the bank shall be accorded by each member the same treatment that it accords to the official communications of other members.

Article 54

Personal immunities and privileges

All governors, directors, alternates, officers and employees of the bank:

(*i*) shall be immune from legal process with respect to acts performed by them in their official capacity, except when the bank waives the immunity;

(*ii*) where they are not local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations, and the same facilities as regards exchange regulations as are accorded by members to the representatives, officials and employees of comparable rank of other members; and

(*iii*) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Article 55

Exemption from taxation

1. The bank, its assets, property, income and its operations and transactions authorized by this Agreement, shall be exempt from all taxation and from all customs duties. The bank shall also be exempt from obligation for the payment, withholding or collection of any tax or duty.

2. No tax shall be levied on or in respect of salaries and emoluments paid by the bank to directors, alternates, officers or employees of the bank who are not local citizens or local nationals.

3. No tax of any kind shall be levied on any obligation or security issued by the bank, including any dividend or interest thereon, by whomsoever held:

(*i*) which discriminates against such obligation or security solely because it is issued by the bank; or

(*ii*) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the bank.

4. No tax of any kind shall be levied on any obligation or security guaranteed by the bank, including any dividend or interest thereon, by whomsoever held:

(*i*) which discriminates against such obligation or security solely because it is guaranteed by the bank; or

(*ii*) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the bank.

Article 56

Implementation

Each member, in accordance with its juridical system, shall take such action as is necessary to make effective in its own territory the principles set forth in this chapter and shall inform the bank of the action which it has taken on the matter.

Article 57

Waiver of immunities, exemptions and privileges

The bank at its discretion may waive any of the privileges, immunities and exemptions conferred under this chapter to such extent and upon such conditions as it may determine.

Chapter IX

AMENDMENTS, INTERPRETATION, ARBITRATION

Article 58

Amendments

1. This Agreement may be amended only by decision of the Board of Governors by a [two-thirds majority of the total number of governors representing not less than three-fourths of the total voting power of the member countries.]

2. Notwithstanding the provisions of the preceding paragraph, the unanimous agreement of the Board of Governors shall be required for the approval of any amendment modifying —

(*i*) the right to withdraw from the bank;

(*ii*) the right to purchase capital stock of the bank; and

(*iii*) the limitation on liability.

3. Any proposal to amend this Agreement, whether emanating from a member or the Board of Executive Directors, shall be communicated to the Chairman of the Board of Governors, who shall bring the proposal before the Board of Governors. When an amendment has been adopted, the bank shall so certify in an official communication addressed to all members. Amendments shall enter into force for all members three months after the date of the official communication unless the Board of Governors shall specify a different period.

Article 59

INTERPRETATION

1. Any question of interpretation of the provisions of this Agreement arising between any member and the bank or between any members of the bank shall be submitted to the Board of Directors for decision. If there is no director of its nationality on that Board, a member particularly affected by the question under consideration shall be entitled to direct representation in such cases. Such right of representation shall be regulated by the Board of Governors.

2. In any case where the Board of Directors has given a decision under paragraph (1) of this Article, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the bank may, so far as it deems it necessary, act on the basis of the decision of the Board of Directors.

Article 60

ARBITRATION

If a disagreement should arise between the bank and a country which has ceased to be a member, or between the bank and any member after adoption of a decision to terminate the operation of the bank, such disagreement shall be submitted to arbiration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the bank, another by the country concerned, and the third, unless the parties otherwise agree, by such other authority as may have been prescribed by regulations adopted by the Board of Governors.

The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Chapter X

FINAL PROVISIONS

Article 61

SIGNATURE AND DEPOSIT

1. This agreement shall be deposited with the Secretary-General of the United Nations (hereinafter called the "Depository"), where it shall remain open until [ ] for signature by the Governments of countries listed in Annex A to this Agreement.

2. The Depository shall send certified copies of this Agreement to all the Signatories.

Article 62

RATIFICATION, ACCEPTANCE, ACCESSION AND ACQUISITION OF MEMBERSHIP

1. (*i*) This Agreement shall be subject to ratification or acceptance by the Signatories. Instruments of ratification or acceptance shall be deposited with the Depository before [ ]. The Depository shall duly notify each deposit and the date thereof to the other Signatories.

(*ii*) A country whose instrument of ratification or acceptance is deposited before the date on which this Agreement enters into force, shall become a member of the bank on that date. Any other Signatory which complies with the provisions of the preceding paragraph, shall become a member on the date on which its instrument of ratification or acceptance is deposited.

2. Countries which do not acquire membership of the bank in accordance with the provision of paragraph (1) of this Article, may become members after the Agreement has entered into force by accession thereto on such terms as the Board of Governors shall determine. The Government of any such country shall deposit, on or before a date appointed by that Board, an instrument of accession with the Depository, who shall notify such deposit and the date thereof to the bank and to the Parties to this Agreement. Upon the deposit, the country shall become member of the bank on the appointed date.

Article 63

Entry into force

This Agreement shall enter into force when the instruments of ratification or acceptance have been deposited by countries whose initial subscriptions, as set forth in Annex A to this Agreement, in aggregate comprise not less than [sixty-five] per cent of the authorized capital stock of the bank; provided always that [ ] shall be the earliest date on which this Agreement may enter into force.

Article 64

Commencement of operations

1. As soon as this Agreement enters into force, each member shall appoint a Governor, and the Trustee appointed for this purpose and for the purpose in paragraph (7) of Article 6 of this Agreement shall call the first meeting of the Board of Governors.

2. At its first meeting, the Board of Governors:

(*i*) shall make arrangements for the selection of directors of the bank in accordance with paragraph (1) of Article 30 of this Agreement; and

(*ii*) shall make arrangements for the determination of the date on which the bank shall commence its operations.

3. The bank shall notify its members of the date of the commencement of its operations.

Annex A

Subscriptions to Authorized Capital Stock of the Bank

Country	*Paid-in shares*	*Callable shares*	*Total Subscription*
..	..	..	..
..	..	..	..
..	..	..	..

Annex B

Election of Directors

.. .. ..

Annex C

. . .

Annex E

Alternative schemes of allocation of subscriptions[a]

(In Percentages)

Members / According to:	IMF and IDB	IBRD	IDA	ADB
Afghanistan	0.78	0.75	0.55	0.59
Burma	1.04	1.02	1.15	1.16
Cambodia	0.26	0.27	0.27	0.40
Ceylon	1.56	1.56	1.70	1.43
China	19.12[b]	19.50[b]	17.19[b]	1.33
Malaysia	1.22[c]	1.29[c]	1.43[c]	4.13
India	20.86	20.80	22.90	14.41
Indonesia	5.74	5.71	5.49	5.17
Iran	2.43	2.32	2.58	3.68
Japan	17.38	17.30	19.06	34.72
Korea, Republic of	0.65	0.65	0.71	1.30
Laos	0.26	0.27	0.27	0.10
Nepal	0.26	0.27	0.27	0.30
Pakistan	5.22	5.23	5.71	4.66
Philippines	2.61	2.59	2.86	5.04
Thailand	1.57	1.56	1.70	2.34
Viet-Nam, Rep. of	0.78	0.75	0.88	1.06
Australia	13.91	13.85	11.42	14.33
New Zealand	4.35	4.31	3.84	3.85
TOTAL	100.00	100.00	100.00	100.00

[a] The Mongolian People's Republic and Western Samoa, also members of ECAFE, are not included due to non-availability of the necessary data. Brunei and Hong Kong, associate members of ECAFE, are not included.
[b] See footnote d to table 1.
[c] Federation of Malaya.

Table 1

ALLOCATION OF SUBSCRIPTIONS ACCORDING TO IMF QUOTAS *(As of April 30, 1963)*

(IDB Method)[a]

	IMF quota	Per cent
Afghanistan	22.5[b]	0.78
Burma	30.0	1.04
Cambodia	(7.5)[c]	0.26
Ceylon	45.0	1.56
China[d]	550.0	19.12
Federation of Malaya	35.0	1.22
India	600.0	20.86
Indonesia	165.0	5.74
Iran	70.0	2.43
Japan	500.0	17.38
Korea, Republic of	18.7	0.65
Laos	7.5	0.26
Nepal	7.5	0.26
Pakistan	150.0	5.22
Philippines	75.0	2.61
Thailand	45.0	1.57
Viet-Nam, Republic of	22.5[b]	0.78
Australia	400.0	13.91
New Zealand	125.0	4.35
TOTAL	2,876.2	100.00

[a] In the case of IDB, allocation of subscriptions to the share capital was based on IMF Quotas, except for the United States.
[b] As of the end of 1963.
[c] Assumed.
[d] This includes mainland China. A modification is required to arrive at an appropriate figures for China (Taiwan).

Table 2

ALLOCATION OF SUBSCRIPTIONS TO SHARE CAPITAL ACCORDING TO THAT OF IBRD

(as of June 30, 1963)

	Per cent of total IBRD subscriptions	Per cent
Afghanistan	0.14	0.75
Burma	0.19	1.02
Cambodia	(0.05)[a]	0.27
Ceylon	0.29	1.56
China[b]	3.62	19.50
Federation of Malaya	0.24	1.29
India	3.86	20.80
Indonesia	1.06	5.71
Iran	0.43	2.32
Japan	3.21	17.30
Korea, Republic of	0.12	0.65
Laos	0.05	0.27
Nepal	0.05	0.27
Pakistan	0.97	5.23
Philippines	0.48	2.59
Thailand	0.29	1.56
Viet-Nam, Republic of	0.14	0.75
Australia	2.57	13.85
New Zealand	0.80	4.31
TOTAL	18.56	100.00

[a] Assumed.
[b] See footnote d to table 1.

Table 3

ALLOCATION OF SUBSCRIPTIONS TO SHARE CAPITAL ACCORDING TO THAT OF IDA

(as of June 30, 1963)

	Per cent of total IDA subscriptions	Per cent
Afghanistan	0.10	0.55
Burma	0.21	1.15
Cambodia	(0.05)[a]	0.27
Ceylon	0.31	1.70
China[b]	3.13	17.19
Federation of Malaya	0.26	1.43
India	4.17	22.90
Indonesia	(1.00)[a]	5.49
Iran	0.47	2.58
Japan	3.47	19.06
Korea, Republic of	0.13	0.71
Laos	(0.05)[a]	0.27
Nepal	0.05	0.27
Pakistan	1.04	5.71
Philippines	0.52	2.86
Thailand	0.31	1.70
Viet-Nam, Republic of	0.16	0.88
Australia	2.08	11.42
New Zealand	(0.70)[a]	3.84
TOTAL	18.21	100.00

[a] Assumed.
[b] See footnote d to table 1.

Table 4

Allocation of Subscriptions according to the ADB Formula (Without Ceiling-Floor Adjustments)[a]

	GDP[b] *(0.7)*	*Tax*[l] *(0.15)*	*Export* *(0.15)*	*Per cent*[o]
Afghanistan	0.44[c]	0.07[m]	0.08	0.59
Burma	0.74	0.19	0.23	1.16
Cambodia	0.27[n]	0.07	0.06	0.40
Ceylon	0.83	0.23	0.37	1.43
China (Taiwan) . .	0.91	0.23	0.19	1.33
Malaysia	1.56[e]	0.38	2.19	4.13
India	11.36[f]	1.66	1.39	14.41
Indonesia	3.55[g]	0.86	0.76	5.17
Iran	2.25[h]	0.54	0.89	3.68
Japan	24.74	5.62	4.36	34.72
Korea, Republic of	1.05	0.21	0.04	1.30
Laos	0.08[i]	0.01	0.01	0.10
Nepal	0.28[i]	0.01	0.01[n]	0.30
Pakistan	3.94[j]	0.33	0.39	4.66
Philippines	3.92	0.58	0.54	5.04
Thailand	1.59	0.31	0.44	2.34
Viet-Nam, Republic of	0.77[k]	0.23	0.06	1.06
Australia	9.43	2.71	2.19	14.33
New Zealand	2.29	0.76	0.80	3.85
Total	70.00	15.00	15.00	100.00

[a] GDP, Tax Revenue and Export scales are calculated on the basis of 3 years average, 1960, 1961 and 1962.

[b] Following the ADB method, GDP scale is calculated on the basis of "assessable GDP" which is defined as follows:

$$X_y = Y \times \frac{100-P}{100}$$

where X_y is assessable GDP, Y is GDP and P is percentage of population to the total population of member countries.

This formula, however, does not necessarily seem to be a satisfactory method for introducing a population factor.

[c] Based on 1958 GDP.

[d] Based on 1959 national income.

[e] Based on the following figures: Malaya, 1961 GDP; North Borneo, *per capita* GDP is assumed to be $150; Sarawak, 1961 national income; Singapore, 1958 GDP.

[f] $NDP \times (1 + \frac{\text{depreciation}}{NDP}\ 1960)$.

[g] Based on 1958 GDP.

[h] Based on 1961 national income.

[i] Based on 1958 GDP.

[j] Based on 1961 NDP.

[k] Based on national income.

[l] Following the ADB method, tax revenue scale is calculated by the following formula:

$X_t = T\ (1 - \frac{T}{Y})$, where X_t is assessable tax revenue, T is tax revenue, Y is GDP and $\frac{T}{Y}$ is tax effort.

Due to the limited availability of statistics, only the central government tax revenue is included.

[m] Based on 1961.

[n] Based on 62/63 Budget Estimate for Exports (63/64 Budget Speech).

[o] Following the ADB method, weights were determined as follows: $\frac{T}{Y} = 0.12$ and $\frac{E}{Y} = 0.12$. Therefore, for the matter of convenience, tax revenue and exports are given a weight of 0.15 each, and GDP 0.7 This weighting method, however, is not necessarily economically explainable.

Annex F

Member and associate member countries of the Economic Commission for Asia and the Far East (ECAFE)

Regional member countries	*Associate regional member countries*	*Non-regional member countries*
Afghanistan	Brunei	France
Australia	Hong Kong	Netherlands
Burma		Soviet Union
Cambodia		United Kingdom
Ceylon		United States
China		
India		
Indonesia		
Iran		
Japan		
Korea, Republic of		
Laos		
Malaysia		
Mongolian People's Republic		
Nepal		
New Zealand		
Pakistan		
Philippines		
Republic of Viet-Nam		
Thailand		
Western Samoa		

2. A STUDY OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE AFRICAN DEVELOPMENT BANK

Introduction

The main purpose of this paper is to discuss and review briefly some of the major features of the Inter-American Development Bank (IDB), which has been in operation since 1960, and the African Development Bank (ADB), which is expected to be established very soon.[1] It outlines substantive problems discussed during the preparatory stage of ADB and gives a brief review of the experiences of IDB in its operations, which may be useful in clarifying some of the essential problems to be considered in connexion with the establishment of an Asian development bank. It has been prepared as a background paper for the expert group on the Asian development bank, being convened by the ECAFE Executive Secretary in pursuance of the resolution adopted by the Ministerial Conference on Asian Economic Co-operation held at Manila in December 1963.

The idea of establishing an Inter-American financial institution originated several decades ago, but it was only in late 1950's that concrete measures were taken for this purpose. In August and September 1957, the Economic Conference of the Organization of American States recommended that the Inter-American Economic and Social Council convoke a specialized committee to continue studies on the establishment of an Inter-American financial institution. In September 1958, an informal meeting of American Foreign Ministers in Washington recommended that the Council convoke a specialized committee of government representatives to negotiate and draft the charter of such an institution. In January 1959, the committee began its work, and in April its Final Act containing the agreement was signed. The Agreement entered into force in December of that year, and the bank began its operations in October 1960. It has been contributing significantly to the economic and social development of Latin America since then.

The Executive Secretary of the Economic Commission for Africa (ECA) was requested to study the possibilities of establishing an African Development Bank in February 1961 by a resolution adopted at the third session of ECA. In pursuance to this request, a panel of experts was appointed, which reported that every effort should be made to remove the difficulties involved and proceed with the establishment of the bank, and that the contribution of funds and many problems related to the organization and operations of such a bank would require detailed examination. ECA considered the report at its fourth session and adopted a resolution in which it decided to accept the principle of the establishment of ADB subject to further investigations, and to constitute a committee composed of nine member countries which would make all necessary governmental and other contacts and draft a charter for the bank. The Committee of Nine sent consultation teams to African and non-African countries to explain the purposes, etc., of ADB[2] and to ascertain their views, in the light of which, it prepared a draft charter for an African Development Bank. The draft charter was examined at the Conference of Finance Ministers in July and August 1963, and was adopted with few revisions.

[1] On 10 September 1964, after this paper was written, the Agreement Establishing the African Development Bank entered into force.

I. Purpose and functions

As more and more African states have achieved political independence, the needs for the promotion and acceleration of economic development and social progress throughout Africa have become increasingly manifest. The basic purpose of ADB is to meet such needs. The Governments of the African countries visited by the consulting teams of the Committee of Nine expressed the view that an African Development Bank would be a realistic step towards the attainment of African unity and solidarity and a useful means of promoting and accelerating the economic and social development of the region.[2] ADB seeks to strengthen African solidarity by means of economic co-operation, to accelerate the development of extensive human and natural resources of Africa in order to stimulate economic development and social progress in Africa, to co-ordinate national development plans for the harmonious growth of African economies as a whole and expansion of African foreign trade and, in particular, inter-African trade.[3] The broadest expression of the purpose of ADB is given in Article 1 of the Agreement, which states that "The purpose of the bank shall be to contribute to the economic development and social progress of its members—individually and jointly."

[2] E/CN.14/ADB/11 Summary of consultations with African governments on the establishment of an African Development Bank (Note by the Executive Secretary), p.1.

[3] Preamble to the Agreement Establishing ADB.

Similarly, in the Agreement establishing IDB, it is stated that its broad purpose is "to contribute to the acceleration of the process of economic development of the member countries individually and collectively." (Art. I, Sec. 1)

Before going into the functions of ADB, it might be useful to review briefly the discussions on the justification for its establishment since that justification is related to the determination of its functions.

In the early preparatory stage of ADB, the grounds for setting up a new institution were discussed by a panel of experts. The panel concluded that the new institution would be useful for financing the development needs of African countries because it could secure additional capital and also because it could perform specific functions not already performed by existing international lending institutions.[4]

It was pointed out that the flows of external capital to the various African states are very unequally distributed. Domestic savings and investments show disparities among African countries. Moreover, in most of the countries, external as well as internal capital formation is insufficient for rapid self-sustaining growth, in spite of existing arrangements and institutions.[5] In the light of these conditions, the panel of experts felt that an essential feature of the new institution should be that of additionality, in that it must be effective in securing a higher net availability of finance for the region.[6]

It was envisaged that ADB could provide additional capital in several possible ways.[7] It could make additional internal capital available by mobilizing, for instance, resources of governments in the region which might otherwise lie idle or be spent for non-productive government consumption. It could increase external capital availabilities by subscriptions from outside the region; by sale of its bonds outside the region; or by functioning as a mechanism for additional aid programmes for the region. The function of the Inter-American Development Bank as a mechanism for disbursement of funds provided by the United States Government under its "Alliance for Progress" programme was cited in this connexion. It was also made clear that additionality might be secured not only through increased lending but also through lower servicing charges for loans. The panel of experts agreed that ADB could be instrumental in attracting additional outside capital if efficiently organized and managed.[8] All governments visited by the consultation teams emphasized that ADB should mobilize additional financial resources above and beyond that which was currently available to Africa. In seeking additional funds, the bank should not replace or divert current flows of external capital.[9]

Another contribution expected of ADB was that it could perform specific functions not already performed by existing international or national financial agencies. Such functions, according to the panel of experts, would be as follows:[10]

(1) To finance or otherwise assist:

  (a) Regional projects (e.g. health and locust control, higher education and technological research, transport projects, large-scale industries, irrigation projects, hydro-electric projects, river valley development schemes, etc.);

  (b) Promotion of intra-regional trade;

  (c) Meeting the needs of newly independent countries;

  (d) Promotion of small-scale African industrial enterprises;

  (e) Promotion of education and training;

  (f) Formulation and long-range financial support to development plans; etc.

(2) To co-ordinate national and supra-national development projects;

(3) To reveal to outside financial agencies new opportunities for investment and to assist in formulating such opportunities into sound projects;

(4) To guarantee government loans for development purposes, especially for the purpose of assisting newly independent countries;

---

[4] E/CN.14/129 Reports on the Possibilities of Establishing an African Development Bank, pp.3-6.

[5] E/CN.14/129/Add.1 Possibilities of Establishing an African Development Bank, pp.3-7.

[6] E/CN.14/129, p.4.

[7] E/CN14./129, pp.54-55.

[8] E/CN.14/129, p.4.

[9] E/CN.14/ADB/11, p.122.

For full reports on consultations, see E/CN.14/ADB/6, report on the consultations with African Governments concerning the establishment of an African Development Bank (Note by the Executive Secretary); E/CN.14/ADB/6/Add. 1, report of Team A 1 on consultations with African Governments concerning the establishment of an African Development Bank; E/CN.14/ADB/6/Add. 2, report of Team A 2; E/CN.14/ADB/Add. 3, report of Team A 3; E/CN.14/ADB/16, report on the consultations with non-African Governments and institutions concerning the establishment of an African Development Bank (Note by the Executive Secretary); E/CN.14/ADB/16/Add. 1, report of Team B 1 on consultations with non-African Governments and institutions concerning the establishment of an African Development Bank; E/CN.14/ADB/Add. 2, report of Team B 2.

[10] E/CN.14/129, pp.4-6.
E/CN.14/129/Add. 1, pp.58-62.

(5) To finance long-term social expenditures which become necessary as a result of new investment for development purposes, such as expenditures for maintenance of roads.

The Committee of Nine concluded that the principle of additionality constitutes the primary justification for the bank in that it embodies the conviction that it will be possible to mobilize new resources for African development. It was also considered important for the bank to be directed towards new areas of activity, as yet little explored in Africa, and away from fields where bilateral or multi-lateral arrangements already exist, so as to avoid duplication and overlapping.[11] Exploration of new fields of activity was felt to be important for two reasons. It was important because there would be possibilities of discovering sound projects which would attract additional resources. It was important also because it would direct the bank away from duplication and overlapping with existing arrangements and institutions. These justifications prescribed the functions of ADB to some extent, in that they envisaged greater efforts in those fields of activity which had been largely neglected by the existing institutions and arrangements, such as the financing of multi-national projects and programmes and a more regional approach to economic development.

Thus, one of the functions of ADB is "to use the resources at its disposal for the financing of investment projects and programmes relating to the economic and social development of its members, giving special priority to: (*i*) projects or programmes which by their nature or scope concern several members; and (*ii*) projects or programmes designed to make the economies of its members increasingly complementary and to bring about an orderly expansion of their foreign trade." (Art. 2(1)(*a*)).

A fact which deserves special attention is that ADB expressly gives special priority to multi-national projects and programmes and those which raise the degree of economic complementality and promote an orderly expansion of trade. Prior to drafting of the Agreement, consultation teams reported that many governments agreed that some priority should be given to multi-national projects, as national projects could be financed through national development banks. It was also agreed that, although the greater part of the multi-national projects would not be immediately profitable, they were important for the integrated development of the African States. Some governments, on the other hand, felt that undue emphasis should not be given to multi-national projects since they were by their nature difficult and complicated to prepare and time-consuming because they would require prior inter-governmental negotiations. The bank might be involved in disputes over the apportionment of loans. One fear was expressed that emphasis on multi-national projects might lead to the formation of undesirable pressure groups in the bank.[12]

The original draft of Article 2(1)(*a*) used the expression "including, among others", instead of the present wording "with special priority to". The draft adopted at the Preparatory Meeting to the Conference of Finance Ministers adopted the wording "with special emphasis on." At the Conference of Finance Ministers, Mauritania proposed to change this wording to "exclusively for". There was much discussion on this point, because how much emphasis should be placed on multi-national projects, etc., was the crucial problem in determining the nature of the new institution. Finally the Conference of Finance Ministers decided to adopt a new proposal which suggested the wording "giving special priority to", as it now appears in the Agreement.[13]

Other functions of ADB are also related to the justifications in varying degree. They are:

(*b*) to undertake, or participate in, the selection, study and preparation of projects, enterprises and activities contributing to the economic development and social progress of its members;

(*c*) to mobilize and increase in Africa, and outside Africa, resources for the financing of such investment projects and programmes;

(*d*) to promote investment in Africa of public and private capital in projects or programmes designed to contribute to the economic development or social progress of its members;

(*e*) to provide technical assistance for the study, preparation, financing and execution of development projects or programmes; and

(*f*) to undertake other activities and services which may advance its purpose. (Art. 2(1)).

[11] E/CN.14/FMAB/1, final report of the Committee of Nine on the establishment of an African Development Bank (Third session, Casablanca, Morocco, 14-23 January 1963), p.12.

[12] E/CN.14/ADB/11, p.7.

[13] E/CN.14/FMAB/29, Amendment submitted by Mauritania concerning Article 2 of the Draft Agreement. Page 1, E/CN.11/14/FMAB/25, report of the Preparatory Meeting to the Conference of Finance Ministers on the establishment of an African Development Bank, annex II, p.7.

IDB has functions essentially similar to those of ADB. They are:

"(*i*) to promote the investment of public and private capital for development purposes;

(*ii*) to utilize its own capital, funds raised by it in financial markets, and other available resources, for financing the development of the member countries, giving priority to those loans and guarantees that will contribute most effectively to their economic growth;

(*iii*) to encourage private investment in projects, enterprises, and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions;

(*iv*) to co-operate with the member countries to orient their development policies toward a better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade; and

(*v*) to provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific projects proposals." (Art. I, section 2(*a*)).

Although the Agreement establishing IDB does not expressly provide for special emphasis on multinational projects, etc., it does provide that the bank should co-operate with the member countries "to orient their development policies . . . with the objectives of making their economies more complementary. . . ." (I(2) (*a*) (*iv*)), in pursuance of which, IDB has been contributing to the process of regional economic integration as the "Bank for Latin-American Integration", and much of IDB's activity directed toward this goal has taken the form of financing multinational projects and programmes. An example is the extention of a line of credit of $6 million to the Central American Bank for Economic Integration, which in turn has authorized 9 sub-loans to promote regional integration. Another example is the loans extended by the bank for the improvement of inter-communication systems among neighbouring countries.[14]

[14] IDB, *Statement of the President at the Second Plenary Session*, April 1964, p.18.

IDB, *Summary of Activities up to December 31, 1963*, pp.21-23.

(See also IV (5), *Principles for Operations and other Activities*)

II. Membership and geographical area

(1) During the early stages of preparations for the establishment of ADB, the panel of experts agreed that consideration should be given to including non-African governments as members with limited voting rights. The panel suggested that the creation of two categories of capital, e.g. Category A shares for African members and Category B shares with limited voting rights for non-African members, would secure an African character for the Bank, and at the same time attract sufficient external funds to make the bank effective.[15]

The Committee of Nine, however, favoured restricting the participation in the share capital of the bank to the African states only, and suggested that the contributions of non-African countries to the resources of the bank could be made in the form of loans, grants, etc.[16] The Committee of Nine was of the opinion that membership of the bank should be open to all African countries which are members or associate members of the Economic Commission for Africa, and that it should not be limited to countries which have already achieved independence.[17] The opinion of the Committee of Nine that the share capital of the bank should be entirely subscribed by African States was widely endorsed by the African Governments in the consultations.[18] It was generally agreed that its share capital should be subscribed by members and associate members of ECA. A few of the Governments considered, however, that associate members should not be allowed to subscribe to the share capital of the bank before attaining full independence.[19]

For the African territories which are not independent, the solution, it was suggested, might be to provide for the possibility of being admitted to the bank as associate members. However, it was felt that this would involve a number of special financial, legal and institutional issues—the contribution of such terriorities to the resources of the bank, the form it should take, the benefit they may derive from the bank's operations, their participation in the deliberations of the bank's organs, with or without vote, etc.[20]

[15] E/CN.14/129, pp.11, 14.

[16] E/CN.14/ADB/4, Report of the First Meeting of the Committee of Nine on the establishment of an African Development Bank, p. 4.

[17] *Ibid.*

[18] E/CN.14/ADB/11, p.2.

[19] E/CN.14/FMAB/1, p.15.

[20] E/CN.14/ADB/12, Explanatory outline of a Charter for the African Development Bank (Note by the Executive Secretary), pp.4-5.

The final report of the Committee of Nine concluded that only independent African states should be eligible for membership to the bank. All dependent African territories, however, will become qualified for membership upon achieving independence. But the bank has powers to enter into suitable arrangements with African dependent territories providing for co-operation in certain areas such as technical assistance under Article 2 (1) (*e*).[21]

(2) Membership of the International Bank for Reconstruction and Development (IBRD) depends on that of the International Monetary Fund (IMF) (IBRD Art. II(*i*)). Membership of the International Finance Corporation (IFC) and IDA depends on membership of IBRD (IFC Art. II(1), IDA Art. II(*a*)), and of IDB on that of Organization of American States, which includes the United States (IDB Art. II(*i*)). As mentioned above, the possibility of taking the membership of the Economic Commission for Africa as the basis of that of ADB was once considered. Since dependent countries have been excluded from the membership of ADB, it does not correspond to the membership of any of the existing organizations.

(3) The geographical area to which the membership and development activities of IDB may extend comprises the continent of Africa, Madagascar and other African islands (Art. 3(2)). This definition of the geographical area is based on that of ECA. The definition implies that the development activities of the bank may not extend to non-African territories of an African state and that other activities such as mobilization of additional resources may take place outside Africa.[22] The geographical area is not defined in the IDB Agreement.

(4) Articles concerning withdrawal and suspension of membership follow closely the relevant provisions of the IBRD (ADB Art. 43, 44, IBRD Art. VI (1), (2)). The only difference is that suspension under Article 44 of ADB is automatic; while, in the case of IBRD, suspension requires a decision of the Board of Governors.

IDB follows the precedent of IBRD. (IDB Art. IX(2)).

(5) The possible members of ADB are thirty-two countries. The original members of IDB are those members of the Organization of American States (OAS), which accepted membership in the bank (Art. II(1)(*a*)). All members of OAS, except Cuba, have joined IDB. The membership of IDB, therefore, covers twenty countries including the United States.

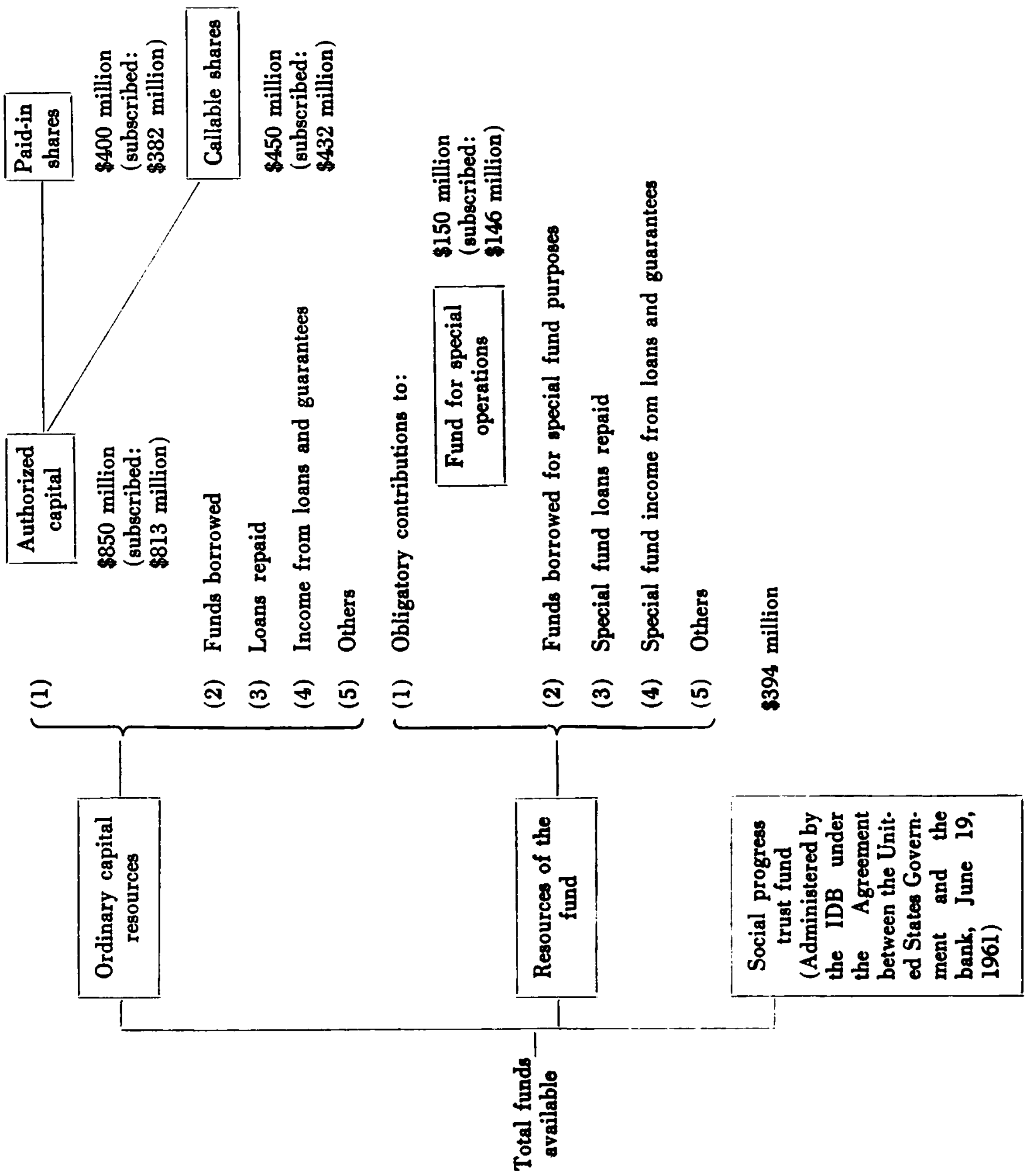
[21] E/CN.14/FMAB/1, p.14.

[22] E/CN.14/FMAB/4/Add.1, Annotated Draft Agreement Establishing an African Development Bank (Submitted on behalf of the Committee of Nine), p.7.

III. Capital structure

1. *Outline of the resources*

(1) IDB (As of 31 December, 1963).



Source: The Agreement of the IDB, Art II, IV.
IDB, *Fourth Annual Report 1963.*

(2) ADB

Total funds available

- Ordinary capital resources
  - (1) Authorized capital — $250 million
    - Paid-up shares — $125 million
    - Callable shares — $125 million
  - (2) Funds borrowed
  - (3) Loans repaid
  - (4) Income from loans and guarantees
  - (5) Others
- Special resources
  - (1) Voluntary contributions to: Special funds
  - (2) Funds borrowed for special fund purpose
  - (3) Special fund loans repaid
  - (4) Special fund income from loans and guarantees
  - (5) Others

Source: The Agreement of ADB, Chapter II.

2. *Authorized capital*

Determination of the amount of share capital

During the early preparatory stage of ADB, the panel of experts considered the problem of the proper amount of the share capital of the bank. The panel noted that the initial amount of the authorized capital of IDB was $850 million[23] (excluding the Fund for Special Operations), of which $500 million was to be derived from Latin American sources, which, according to the calculation made by the panel, constituted about half per cent of the total national income of Latin American countries. It was noted that the total national income of African countries was much smaller, so that the contribution of a similar percentage of national income would supply from $150 million to $200 million. The panel of experts accordingly suggested that $200 million over five years or $40 million a year might represent the level of contribution that African states could subscribe to the share capital of the bank.[24]

The panel of experts also estimated that a modest development programme for Africa might require an investment by the bank of roughly $1,000 million for five years, i.e. about $200 million a year or five times the expected level of African contributions to the bank's capital. Contributions from outside the region therefore would have to be about 4 times the African subscription to the share capital. It was also suggested that, of these contributions, non-African subscriptions might amount to a maximum of another $200 million.[25] In short, the panel of experts suggested a total African subscription of $200 million; a total non-African subscription of $200 million or less; and other non-African contributions amounting to $600 million or more to make the total resources of the bank $1,000 million.

The Committee of Nine studied these suggestions and agreed to accept the proposal that the African subscription to the share capital of ADB should be $200 million. The Committee considered that one half of this amount could be payable over a maximum period of five years, and the other half could be

[23] The increase in the authorized capital of IDB recommended by the Board of Governors in April 1963 became effective on January 28, 1964, bringing the total authorized capital of IDB to 2,150 million.

[24] E/CN.14/129, p.9.

[25] *Ibid.*, pp.9, 17.

in the form of callable capital. The Committee also suggested that the African member states should aim at raising the maximum of African contributions to demonstrate their determination and also to enhance the possibilities of foreign participation in the bank. However, the Committee felt that the share capital of the bank should be wholly African and that the non-African contributions should be in the form of loans, grants, etc.; it suggested that the initial share capital should be $200 million.[26] Most of the African governments visited by the consultation teams thought that the share capital of the bank should be wholly African, and that this amount was a reasonable figure and within the means of African countries. All the governments consulted also agreed that 50 per cent of the proposed initial share capital should be paid up in convertible currency over a period of five years and that the remainder should be callable capital which could serve as a guarantee fund for loans incurred by ADB.[27]

On the basis of African consultations, general lines of policy for consultations in non-African countries were established. The Committee's earlier conclusion that the share capital should be wholly African was reaffirmed.[28] The consultations with non-African governments revealed that there was support for and interest in the proposal, sympathy for African initiative and a widespread desire to help ADB when established. However, the countries visited felt that they could not make any commitment concerning specific offers of support to the bank, at least not at such an early stage, and that before non-African Governments could offer any specific assistance, ADB would first have to be started by the Africans.[29] Thus, no specific amounts concerning outside contributions are indicated in the Agreement establishing ADB.

The Committee of Nine concluded that the authorized capital of the bank should be set at the equivalent of $200 million, to be subscribed entirely by the African countries. The draft Agreement prepared by the Committee therefore provided that ADB should have an authorized capital equivalent to $200 million divided into 20,000 shares, of which $100 million should be in the form of paid-up shares and the remainder in the form of callable capital. This was approved at the Preparatory Meeting for the Conference of Finance Ministers.[30]

At the Conference of Finance Ministers, which considered the draft prepared by the Preparatory Meeting, Ethiopia and Somalia proposed an increase of its subscription from $6.3 million to $10.3 million, and from $1 million to $2.2 million respectively. These increases in the subscriptions were approved. The Conference decided that, in order to provide for possible similar proposals in the near future, the authorized capital should be set at the equivalent of $250 million. The ADB Agreement therefore provides that the authorized capital stock of ADB is 250 million units of account divided into 25,000 shares of a par value of 10,000 units of account, each divided equally into paid-up and callable shares (Art. 5).

The initial authorized capital stock

The initial authorized capital stock of IDB was $850 million divided into 85,000 shares having a par value of $10,000 each. Of this amount, $400 million was paid-in and $450 million was callable capital. In 1962, all member countries completed their subscriptions to IDB's ordinary capital resources. These amounted to $813,160,000, of which $381,580,000 was paid-in capital and $431,580,000 was callable capital.[31]

Early in 1962, it was felt necessary to enlarge IDB's resources so as to enable it to maintain a sufficient rate of lending activities. In response to the request of the Board of Governors, the Board of Directors made a detailed study from which it concluded that there was a definite need for an increase in the authorized capital of the bank and the fund for special operations.[32]

In order to determine the size of the proposed increase, the future requirement for ordinary capital resources was estimated in the light of authorized and projected loan operations. On the assumption that IDB would continue lending at the contemplated rate of $150 million a year, and taking into consideration that the loan repayment would be relatively small during the early years due to the grace periods of development loans, the additional required dollar lending capacity was estimated as follows:[33]

---

[26] E/CN.14/ADB/4, p.4.

[27] E/CN.14/ADB/11, pp.2-3, E/CN.14/ADB/6/Add.1.

[28] E/CN.14/ADB/10, Report of the Committee of Nine on its Second Session 6.4.

[29] E/CN.14/FMAB/1, pp.6-10.
For detail see E/CN.14/ADB/16/Add. 1 and Add. 2.

[30] E/CN.14/FMAB/25 Annex II, p.10.

[31] Discrepancies between the authorized capital and the subscribed amounts are due to the fact that Cuba, then member of OAS, did not join IDB.

[32] IDB, *Fourth Annual Report, 1963*, pp.12 and 54.

[33] *Proposal for An Increase In the Resources of the IDB*, Report of the Board of Directors, April 1963, p.17.

(In millions of United States dollars)

Year	Existing dollar lending capacity	Estimated annual amount of loans	Estimated repayments in US dollars	Balance of dollar lending capacity	Additional required dollar lending capacity
1961/62	440.8	172.8	—	268.0	
1963		135.0	1.2	134.2	
1964		135.0	6.4	5.6	
1965		150.0	15.2		129.2
1966		150.0	27.8		122.2
1967		150.0	45.0		105.0
1968		150.0	60.2		89.8
1969		150 0	78.5		71.5
1970		150.0	93.4		56.6
1971		150.0	114.1		35.9
	TOTAL	1,492.8	441.8		610.2

It was felt that, since investors in the world's capital markets are concerned with the size of the bank's obligations in relation to the size of its guaranteed resources, the bank's borrowing programme should be aided by a sizeable margin of unused guarantee capacity in the form of callable capital.

On the basis of these considerations, the Board of Directors concluded that an increase of $1,000 million in the callable capital would imply an increase of $411.8 million in the United States portion of the share capital and that this would permit the bank to secure sufficient additional dollars to continue lending activities through 1967.[84]

Accordingly, the Board of Directors recommended an increase in authorized callable capital of $1,000 million. Similarly, a 50 per cent increase in the fund for special operations was recommended. To provide for the possible admission of new members, a $300 million increase in the authorized capital was also recommended. The Board of Governors approved the recommendations and these measures entered into effect in January 1964.

The total authorized capital of IDB is now $2,150 million, of which $475 million is paid-in and $1,675 million callable. The fund for special operations about $220 million.[85]

The unit of account

As to the unit of account, IBRD, IFC and IDB, of all of which the United States is a member, use the United States dollar specified in terms of its current gold content. But ADB, following the practice of the European Investment Bank (EIB), expresses the amount of the authorized capital stock, the par value of the shares, etc., in a unit of account measured in fine gold and equivalent to a United States dollar.

[84] *Ibid.*, p.19.
[85] *Ibid.*, pp.12, 54.

3. *Form of share capital*

Share capital can take two alternative forms. One is a uniform share unit as adopted by IBRD and IFC, and the other is individualized shares indicating the amount subscribed by the member concerned, as in the case of EIB. Each IDB share has a par value of $10,000. Each ADB share has a par value of 10,000 units of account, as this was considered to be a suitable unit. (cf. IBRD $100,000; IFC $1,000).

4. *Paid-up and callable capital*

According to practice, a specified part of the share capital remains unpaid as callable capital until a specified contingency arises. Such callable capital serves as a guarantee fund for the borrowing activities of the bank. IBRD and EIB have callable capital of 4/5 and 3/4, respectively, of their initial capital stocks. IFC has no callable capital but the members may postpone payment. IDA's subscriptions are fully payable in fixed annual instalments.

IDB has a callable capital of 9/17 of its initial capital stock. In the case of ADB, callable capital is half of the total ordinary capital.

The distinction between paid-up and callable capital may follow two alternative patterns. In the case of IBRD, a portion of each share is declared as paid-in and the remainder as callable. With IDB and ADB, the share capital is divided into wholly paid-in and wholly callable shares.

5. *Subscriptions*

Subscribers

(*a*) In the case of ADB, the panel of experts gave intensive consideration, during the early preparatory stage, to the subscription system of the bank. The first problem was who should subscribe to the bank's capital. As large an African subscription as possible was considered necessary so as to give the bank an African character. It was expected, however, that for the bank to be effective, it would have to attract considerable outside finance. In this connexion, it was considered that, to restrict the share capital to African states would lead to extremely complicated arrangements if non-African contributors were to be given some degree of participation in the management and handling of the funds. Hence, the panel of experts suggested the inclusion of non-African Governments as share-holders with limited voting rights and the creation of separate categories of share capital.[36] The Committee of Nine, however, on the basis of consultations with African Governments, decided that the share capital should be wholly African.

(*b*) The possibility that international organizations such as the United Nations, IBRD, IFC might contribute to the share capital was also considered. But it was found difficult under the present statutes and structure of such organizations. However, contributions of international organizations to the capital resources other than subscriptions to the share capital was considered essential to the successful establishment of ADB.[37]

(*c*) Subscription to the share capital by private individuals or organizations was also considered by the panel. The conclusion was that it could not be anticipated, in view of the non-profit making nature of the investment in the capital of the bank. Private investment would be more advantageous in national projects; moreover, private participation would complicate voting procedures of the bank. Private individuals and bodies might prefer to buy bonds issued by the bank, take part in its projects, or buy securities from its portfolio.[38] Moreover, the inter-governmental character of the bank was endorsed and the ADB Agreement stipulates that its shares should be available for subscription only to governments of member countries. IDB followed the same policy in this respect.

Amount of subscription

Another basic problem related to subscription is the basis upon which the amount of subscriptions to the share capital should be assessed. Theoretically, there are many possibilities, including an equal subscription from each member irrespective of size and wealth, a population basis, a basis in accordance with United Nations, IBRD or IMF scale of contributions, and a basis taking into account various economic indicators. The panel of experts for ADB did not reach any specific conclusion. The Committee of Nine was of the opinion that, in view of the differences in the capacities of the countries and the desirability of procuring maximum resources, the contributions should vary in amount and subscriptions be allocated on the basis of each member's economic capacity. In order to avoid extreme differences between members' subscriptions, it was suggested that there should be minimum and maximum limits equivalent to $1 million and $30 million respectively.[39] The specific determination of each member's subscription was left to Conference of Finance Ministers which would make its decisions within that framework and taking into account the recent economic developments in each member country.

In this connexion, techniques of existing institutions to effect a balanced distribution of voting power were considered. In the case of IBRD, IFC and IDA, members have a minimum voting power plus voting powers in proportion to their subscriptions. ADB and IDB adopted similar techniques. The relationship between subscriptions and voting powers is further discussed under the heading of voting.

A paper dealing with the specific allocation of subscriptions of member countries of the ADB was drafted by the Executive Secretary of ECA. It noted that the scale of assessments which determines the contribution of Member nations to the United Nations budget was devised according to the capacity to pay. National income, *per capita* income, foreign exchange holdings, etc. were used as guides in measuring such capacity, and the floor principle, ceiling principle and *per capita* ceiling principle were applied.[40] IMF and IBRD quotas were also considered. It was noted that, at the Bretton Woods Conference, consideration had been given to a number of economic criteria such as national income, gold and foreign exchange holdings, exports and imports, etc., in the formulation of scheme of allocation of subscriptions.[41] The Executive Secretary suggested several allocation methods, including the United Nations scale, IMF and IBRD quotas, and an integrated scale on the basis of gross domestic products, tax revenues and exports for the past several years. In the integrated scale, GDP scale, tax revenue scale and exports scale were given weights of 0.65, 0.15, and 0.20 respectively.[42] The Commission on Capital Subscriptions and other Technical Matters selected the integrated formula based on current prices,[43] and this was approved at the Conference of Finance Ministers.

[36] E/CN.14/129, p.11.
[37] *Ibid.*, pp.11-12.
[38] *Ibid.*, p.12.

[39] E/CN.14/FMAB/1, p.17.
[40] E/CN.14/FMAB/11, African Development Bank: Allocation of Capital Subscriptions (Note by the Executive Secretary), pp.9-10.
[41] Ibid., *pp.11-12*.
[42] *Ibid.*, pp.32, 35.
[43] E/CN.14/FMAB/21, Report of the Commission on Capital Subscriptions and other Technical Matters.

Initial subscriptions to the authorized capital stock of ADB range from $30 million (UAR) to $1 million (Central African Republic and Togo). In the case of IDB, the United States contributed $150 million out of the total paid-in capital of $382 million (39.3 per cent); $200 million out of the $432 million of callable capital (46.3 per cent); and $100 million out of $146 million for fund for special operations (68.5 per cent). Subscriptions from Latin American countries (paid-in and callable combined) ranged from $103 million (Agrentina and Brazil) to $4.14 million (Costa Rica, El Salvador, Haiti, Honduras, Nicaragua, Panama, and Paraguay). Initial contributions to the fund for special operations, ranged from $10.3 million to $0.4 million.

Means of payment

As to the means of payment of subscription, in the case of IBRD, the first tenth of the paid-up capital was payable in gold or United States dollars, and the balance in the member's currency. The shares of IFC are paid in gold or United States dollars in response to a call by the Corporation. In the case of IDB, 50 per cent of each instalment is payable in gold or United States currency, and the other 50 per cent in the member's currency (IDB, Art. II(4)(*a*)). ADB requires that the initial subscription to the paid-up capital be paid in gold or convertible currency (ADB, Art. 7(2)).

CAPITAL ALLOCATION: COMPARATIVE SUBSCRIPTIONS

(in millions of United States dollars)

According to. / *Country* (A)	*Export scale* (B)	*GDP scale* (C)	*Tax revenue scale (At market prices)* (D)	*Integrated scale* (E)	*Integrated scale adjusted for floor and ceiling*[a] (F)	*UN Assessment scale* (G)	*IMF* (H)	*IBRD* (I)
1. Algeria	19.240	23.260	34.400	24.140	24.520	—		
2. Burundi	0.980	1.120	0.600	1.020	1.040	4.348		
3. Cameroun	5.180	3.740	2.900	3.900	3.970	4.348		
4. Central A.R.	0.740	1.060	0.700	0.940	1.050	4.348		
5. Chad	0.880	1.900	0.840	1.540	1.560	4.348		
6. Congo B.	0.880	1.660	1.160	1.440	1.460	4.348		
7. Congo L.	21.620	10.980	8.840	12.780	13.030	7.608		
8. Dahomey	0.760	1.660	1.040	1.400	1.420	4.348		
9. Ethiopia	3.820	7.320	4.720	6.220	6.330	5.343	4.320	2.500
10. Gabon	2.500	1.040	0.940	1.320	1.330	4.348		
11. Ghana	14.880	12.100	11.400	12.560	12.790	9.782	11.040	11.500
12. Guinea	2.140	2.980	0.900	2.500	2.540	4.348		
13. Ivory Coast	7.950	5.120	6.760	5.920	6.040	4.348	4.800	10.000
14. Liberia	3.740	2.200	2.200	2.500	2.550	4.348	3.360	3.500
15. Libya	0.780	2.080	2.220	1.840	1.870	4.348	4.320	5.000
16. Madagascar	3.900	5.420	5.500	5.120	5.210	4.348		
17. Mali	0.620	2.580	2.960	2.240	2.280	4.348		
18. Mauritania	0.100	0.580	0.360	0.440	1.050	4.348		
19. Morocco	16.760	13.880	16.320	14.820	15.105	15.218	16.800	17.000
20. Niger	0.620	1.880	1.200	1.520	1.550	4.348		
21. Nigeria	24.140	25.220	16.100	23.640	24.090	22.826	15.840	16.000
22. Rwanda	1.180	1.360	0.720	1.220	1.240	4.348		
23. Senegal	6.680	4.620	6.960	5.380	5.480	4.348	2.400	7.100
24. Sierra Leone	3.760	1.620	1.720	2.060	2.090	4.348	3.360	3.500
25. Somalia	1.160	0.940	1.020	1.000	1.020	4.348	3.360	3.500
26. Sudan	9.440	10.200	9.340	9.920	10.100	7.608	4.800	5.000
27. Tanganyika	7.200	4.960	3.800	5.240	5.340	4.348	7.680	7.100
28. Togo	0.860	1.100	0.800	1.000	1.020	4.348	3.360	3.500
29. Tunisia	6.340	6.320	9.200	6.760	6.890	4.348	5.760	7.500
30. Uganda	6.080	4.280	3.720	4.560	4.640	4.348		
31. UAR (Egypt)	24.860	35.100	39.800	33.760	30.000	27.174	28.320	26.000
32. Upper Volta	0.220	1.720	0.860	1.300	1.320	4.348		
	200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000

[a] The adjusted integrated scale was adopted at the Conference of Finance Ministers with a few modifications. (Source: E/CN.11/FMAB/11, pp. 29, 31, 32, 35).

INITIAL SUBSCRIPTIONS

(in millions of dollars)

ADB			IDB		Ordinary capital	Fund for special operations
1.	Algeria	24.50				
2.	Burundi	1.20	1.	Argentina	103.14	10.314
3.	Cameroun	4.00	2.	Bolivia	8.28	0.828
4.	Central A.R.	1.00	3.	Brazil	103.14	10.314
5.	Chad	1.60	4.	Chile	28.32	2.832
6.	Congo B.	1.50	5.	Colombia	28.30	2.830
7.	Congo L.	13.00	6.	Costa Rica	4.14	0.414
8.	Dahomey	1.40	7.	Dominican Republic	5.52	0.552
9.	Ethiopia	10.30	8.	Ecuador	5.52	0.552
10.	Gabon	1.30	9.	El Salvador	4.14	0.414
11.	Ghana	12.80	10.	Guatemala	5.52	0.552
12.	Guinea	2.50	11.	Haiti	4.14	0.414
13.	Ivory Coast	6.00	12.	Honduras	4.14	0.414
14.	Kenya[b]	6.00	13.	Mexico	66.30	6.630
15.	Liberia	2.60	14.	Nicaragua	4.14	0.414
16.	Libya	1.90	15.	Panama	4.14	0.414
17.	Madagascar	5.20	16.	Paraguay	4.14	0.414
18.	Mali	2.30	17.	Peru	13.82	1.382
19.	Mauritania	1.10	18.	United States	350.00	100.000
20.	Morocco	15.10	19.	Uruguay	11.06	1.106
21.	Niger	1.60	20.	Venezuela	55.26	5.526
22.	Nigeria	24.10				
23.	Rwanda	1.20				
24.	Senegal	5.50				
25.	Sierra Leone	2.10				
26.	Somalia	2.20				
27.	Sudan	10.10				
28.	Tanganyika	5.30				
29.	Togo	1.00				
30.	Tunisia	6.90				
31.	Uganda	4.60				
32.	UAR (Egypt)	30.00				
33.	Upper Volta	1.30				

[b] It was decided at the Conference of Finance Ministers that the Government of Kenya may sign the Agreement and upon acquiring the status of an independent state, may become a full member. (E/CN.14/FMAB/34, Suggestion on the Protocol Relating to the Signature by the Government of Kenya.)

As regards the callable portion, payments to IBRD and IDB may be made in gold, United States dollars or in the currency required to discharge the obligations of the bank for the purpose for which the call is made (IDB, Art. II(4)(*a*); IBRD, Art. II(7)). In the case ADB, it is payable in gold, convertible currency or in the currency required to discharge the obligations of the bank for the purpose of which the call is made (ADB, Art. 7 (4)(*b*)).

Payments relating to the initial subscriptions to the paid-up capital of the bank should be made in instalments to lessen the financial burden on the members, but a substantial portion should be paid in during the first year so as to enable the bank to start its operations. The scheme adopted by IBRD is that the initial 2 per cent of the full share price was payable within 60 days from the beginning of operations and the remainder "as and when called by the bank" subject to a minimum of 8 per cent payable within a year (IBRD, Art. II(8)). In the case of IFC, the full initial subscription was payable within 30 days from the beginning of operations or the date of acquisition of membership, whichever was the later (IFC, Art. II(3)(*c*)).

IDB adopted a scheme which provides for 3 instalments of 20-40-40 per cent spread over about two years. In other words, the subscription to the paid-in capital of IDB was paid as follows: The first instalment (20 per cent) was paid on or after the date on which the Agreement was signed and the instrument of acceptance or ratification deposited, but not later than 30 September 1960. The remaining two instalments (40 per cent each) were to be paid on the dates determined by the bank but not sooner than 30 September 1961 and 30 September 1962 respectively (IDB, Art. II(4) (*a*) (*i*)). Payments to the fund for special operations were made in two equal instalments.

In the case of ADB, 5 per cent of each member's subscription to the paid-up capital should be paid on or before the deposit of its instruments of ratification, 35 per cent should be paid six months after the entry into force of the Agreement and the remainder should be paid in four equal instalments of 15 per cent each, at yearly intervals thereafter. This scheme is more or less similar to that of IDB (ADB, Art. 7).

The charters of all the above-mentioned international development institutions stipulate that the callable capital must be paid in gold, dollars or in the currency required for the bank to discharge the obligation in question. This is because the callable portion is called for only in case of need to discharge the obligations of the institution. Where the institution borrows hard currencies on commercial terms in order to secure the resources with which to make hard-currency loans required by its members, it needs a guarantee fund which can be utilized in such currencies. If the callable part of the capital is available in the hard currencies in which the institution seeks to borrow, this will be a much stronger guarantee.[44] As to the paid-up part, schemes differ from one another but they are quite similar in substance. IBRD stipulates that only 10 per cent of the paid-up capital should be paid in gold or dollars, while with IDB the figure is 50 per cent; but actually there is not much difference. In the case of IBRD, heavy subscription by members with convertible currencies reduced in fact the portion payable in non-convertible currencies to 27 per cent of the paid-up part, or only about 5 per cent of the total equity capital. In the case of IDB, due to the large participation of the United States, the payments in non-convertible currencies were reduced to 30 per cent of the paid-up part or about 10 per cent of total subscription.[45]

6. *Special loans in local currency*

In the case of ADB, there is a provision for special borrowings in local currency. The Committee of Nine recommended that, in order to ensure the most economic use of the bank's resources in convertible currencies and to promote the use of African goods and services in the execution of the bank's projects, the bank should be empowered to obtain member currencies for these purposes, borrowing them from its members. Also, the bank should be able to borrow such local currency up to an amount equal to such member's subscription to its share capital at a yearly interest rate of no more than 4 per cent.[46]

[44] C/CN.14/FMAB/8, African Development Bank: Currency of Equity Capital (Note by the Executive Secretary), p.4.

[45] *Ibid.*, p.5.

[46] E/CN.14/FMAB/1.

Although it is not expected that ADB will need the currencies of all its members for some years to come, it can be anticipated that the currencies of some member countries will be utilized in some circumstances, because some industries exist or are in the process of being established in some member countries whose products could be used for the development projects located in other member countries. As it would be wasteful to purchase these currencies with the bank's convertible currency, it was thought advisable therefore to provide for such borrowing.[47] A similar provision can be seen in the Statute of EIB (Art. VI).

7. *Special resources*

(1) The capital resources of ADB consist of the following:

1) Authorized capital stock subscribed by its members;

2) Funds raised by virtue of its ordinary borrowing powers;

3) Special purpose funds, trust funds, grants and other funds received by the bank, the use of which is earmarked for some special purpose or subject to some special terms ("Special Funds");

4) Funds received in repayment of loans and proceeds from its investments;

5) Income from its loans and investments or guarantees (interest, dividends, service charges, etc.); and,

6) Others.

Of these resources, (1) and (2) are called ordinary capital resources, and (3) special resources. Items (4) and (5) are ordinary capital resources if derived from (1) or (2), and special resources if derived from (3).

It is obvious that in addition to the share capital, which was to be subscribed to only by African governments, African and non-African funds should be mobilized in various forms if ADB is to be more effective. It was pointed out that, at the United Nations, it had often been agreed that a higher proportion of additional contributions to the developing countries should be made through multilateral institutions and that an example of a tendency for a shift in this direction was the United States use of IDB to distribute and previously given bilaterally

[47] E/CN.14/FMAB/9, African Development Bank: Questions Relating to the Use of Member Currencies (Note by the Executive Secretary), pp.1-2.

to Latin America.[48] It was also noted that, in some multilateral agencies such as IBRD, there was a growing tendency to channel aid through local development banks, and that ADB might be such a channel; also that IBRD, IFC, IDA and ADB could link their operations to finance related projects.[48] In any case, external contributions in various forms were anticipated, and some of them might have to be earmarked for certain uses. Hence, it was deemed advisable to prepare articles on special resources to give expression to the idea that ADB should be in a position to receive, administer and use such resources and to provide room for possible future contributions from various sources, especially non-African countries. The Agreement, therefore, stipulates that ADB may establish, or be entrusted with the administration of, special funds which are designed to serve its purpose and which come within its functions, and that the bank may receive, hold, use, commit or otherwise dispose of resources appertaining to such special funds (ADB, Art. 8).

In this connexion, two principles are stressed, namely, the Principle of Separation, according to which the resources of special funds shall be held, used, obligated, invested or otherwise disposed of and accounted for quite separately from ordinary capital resources, and the Principle of Special Administration, according to which special funds may be administered in accordance with special rules and regulations to be adopted by the bank (ADB, Art. 8).

This separation is necessary for the following reasons. In order to be able to appeal to the capital markets and other institutions operating on a commercial basis, the bank should ensure that its available guarantees are reserved for such commitments and will not be drawn down by demands arising from the bank's special operations. This assurance can be made effective only through a strict separation of the accounts. Use of ordinary resources for soft loan operations would compel the bank to draw down its capital in order to meet its current expenses and such a practise would be destructive not only of the bank's resources but also of its ability to secure resources in the capital market. Because the terms may vary as between different special funds, these must be kept strictly apart from each other, as must all special resources from all ordinary capital resources.[49]

Although the loans made with ordinary capital resources are repayable in the currency loaned, the repayment of loans made out of special resources are subject to special rules and regulations which may provide otherwise.

(2) IDB has a fund for special operations established for the making of loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. Administration of the fund is entrusted to the bank, and should be in conformity with the purpose and functions of the bank (IDB, Art. IV(I)). This fund, as in the case of ADB, is completely separate from the bank's ordinary capital resources. The Agreement establishing IDB requires that the resources of the fund shall be held, used, obligated, invested or otherwise disposed of in a manner completely separate from ordinary capital resources.

In the case of IDB, members of the bank contribute to the resources of the fund. The fund was established with initial resources of $150 million, which the original members contributed in accordance with the quotas specified in the annex to the Agreement.[50] Loans from the fund may be repayable in whole or in part in the currency of the member country in which a project is financed. Activities using the fund for special operations will be discussed in section IV below.

(3) Mention should be made of the social progress trust fund, administered by IDB as Administrator under the social progress trust fund Agreement executed between the United States Government and the bank on 19 June 1961. This is the most important of the funds entrusted with IDB.

The Newport Declaration of President Eisenhower announced in July 1960 that the United States was prepared to co-operate with the Latin American countries in practicable ways to make faster progress in meeting their needs for social as well as economic development. In September, the United States Congress authorized $500 million toward the goals of that Declaration. At the Bogota Conference of the OAS in September 1960, the United States Government declared its intention to establish a special Inter-American fund for social development, with the purpose of contributing capital resources and technical assistance on flexible terms and conditions, including repayment in local currency and the relending of repaid funds, to support the efforts of the Latin American countries to achieve greater social progress and more balanced economic growth. It was proposed that IDB be the primary mechanism to administer

[48] E/CN.14/129, p.13.

[49] E/CN.14/FMAB/10, African Development Bank: Separation of Accounts — Ordinary Capital Resources and Special Resources (Note by the Executive Secretary pp.1-2.

[50] Due to the fact that Cuba did not join IDB, total actual contributions by the members amounted of $146.32 million. As stated before, a 50 per cent increase entered into effect on January 28, 1964. See also pp.20 and 21.

the fund. For the first time, a specific assistance fund provided by the United States was to be channeled through IDB. On 13 March 1961, President Kennedy proposed that the nations of the Latin American region join in an Alliance for Progress. In June 1961, as a first step in supporting the ten-year programme of the Alliance for Progress, the United States allocated $500 million for a Special Inter-American Fund for Social Progress. Of this sum, $394 million was assigned to the Social Progress Trust Fund to be administered by IDB quite separately from the administration of its own resources.[51]

In using trust fund resources, the bank as Administrator may grant loans for projects or programmes designed to bring about improvements in such fields as land settlement and improved land use, housing for low-income groups, community water supply and sanitation facilities and supplementary financing of facilities for advanced education and training related to economic and social development. The bank may also provide technical assistance related to projects in the said fields and related to the mobilization of domestic financial resources, etc., in the form of loans, reimbursable services or grants. Loans may be made repayable in whole or in part in the currency of the borrower at almost nominal interest rates.[51]

IV. Operations and other activities

Operations mean activities by which a bank finances, or guarantees the financing of, development projects. Other activities pertain to borrowing, technical assistance, etc.

1. *Forms of operation*

The first problem is that of the forms of operation, namely, whether a bank should have the powers not only to make, participate in, or guarantee loans, but also to make investments in other forms such as equity investment, loans with equity features, etc.

Operations of IBRD are limited to loans and guarantees. IDA's operations, as a general rule, take the form of loans. (Funds deriving from additional subscriptions and from supplementary resources, however, may be used for other forms of financing). IFC makes investments in such forms as it may deem appropriate in the circumstances.

The ordinary operations of IDB, which are those financed from the ordinary capital resources, relate exclusively to loans and guarantees, as in the case of IBRD. Hitherto, IDB's policy, however, has been not to guarantee loans.[52]

The forms of operations of ADB include loans, guarantees of loans, and investment in equity capital (ADB, Art. 14(1)).

2. *Recipients*

The next problem relating to a bank's operations is who may be financed or guaranteed by the bank or benefit from its other activities. IBRD counts as its recipients any member, any political subdivision thereof, any business, industrial and agricultural enterprise in the territories of a member. The recipients of IFC are private enterprises in the territories of its members.

IDB counts as its recipients any member, any agency or political subdivision thereof and any enterprise in the territories of a member (IDB, Art. III(4)). Up to 31 December 1963, 17.3 per cent of loans from ordinary capital resources of IDB were extended directly to private enterprises; 54.2 per cent to governments and governmental entities; and 28.5 per cent to development institutions for relending to private enterprises.[53] The category of possible recipients of ADB assistance is wider than in the case of IDB in that the former replaces "enterprise" by "institution or undertaking" and adds a new recipient, namely, "international or regional agencies or institutions" concerned with the development of Africa (ADB, Art. 14(1)). ADB, therefore, may make investments not only in the equity capital of industrial or commercial undertakings but also in institutions such as international, regional or national development banks in Africa.

3. *Limitations on operations*

In any financial institution of this kind, there is a general limitation, explicit or implicit, on the operations that the total amount outstanding of loans and guarantees shall not exceed its unimpaired capital, reserves and surplus. IBRD stipulates it in Article III(3) of its Agreement. Both IDB and ADB also stipulate this principle in the Agreements (IDB, Art. III(5), ADB, Art. 15(1)).

The same limitation is applied to special funds of ADB, which, owing to their nature, are earmarked for certain uses only and are subject to special terms. The total amount outstanding in respect of the special operations relating to any special fund must not exceed the unimpaired special resources appertaining to that special fund (ADB, Art. 15(2)).

[51] IDB, *Second Annual Report, 1961*, pp.103-105.
IDB, *Social Progress Trust Fund—3rd Annual Report*, Chap. I.

[52] IDB, Basic Information, p.5.

[53] *Ibid.*, p.14.

Such limitations apply also to the loans financed from funds borrowed by the bank and forming part of its (ordinary) capital resources (IBRD, Art. IV(4) (*b*) (*ii*); IDB, Art. III(5) (*b*); ADB, Art. 15(3)).

As to limitations on ADB's investments in equity capital, the panel of experts suggested that equity investments of the bank should not exceed a limited proportion, perhaps 20 to 25 per cent of its total outstanding investments, since a higher proportion might involve excessive risks for the bank. It was also suggested that the equity holdings of the bank in any individual project or enterprise should not exceed a minority limit, perhaps 20 to 25 per cent of the total equity capital of the enterprise.[54] The Committee of Nine concluded that the total amount of equity investments outstanding at any time, other than those made out of special funds, should not exceed 10 per cent of the bank's paid-up capital and reserves, that the bank should not acquire a controlling interest in any enterprise, and that a reasonable diversification of its equity investments should be assured. The latter two principles are expressed in the Agreement (ADB, Art. 17(1) (*i*), (*j*)). The IBRD and IDB charters do not have such a provision, because they do not engage in equity investments. IDA has no relevant provisions, although it may invest in forms other than loans in special cases. The IFC charter provides to the same effect that it shall not assume responsibility for managing any enterprise in which it has invested, and that it shall not exercise voting rights for such purpose or for any other purpose which is within the scope of managerial control, and that it should seek to maintain a reasonable diversification of its investments (IFC, Art. III(3)).

4. *Ordinary and special operations*

The operations of both IDB and ADB are divided into ordinary operations and special operations. The ordinary operations are those financed from the bank's ordinary capital resources and the special operations are those financed from the special resources. The IDB Agreement stipulates that loans in ordinary operations are repayable only in the respective currency or currencies in which they were made, and that loans in special operations, namely, loans made with resources of the special fund, may be partially or wholly repayable in the currency of the member in whose territory the project being financed will be carried out (IDB, Art. III(2), Art. IV (4)). IDB uses the fund for special operations to make loans on terms and conditions suitable for dealing with special circumstances which may arise in specific countries or with regard to specific projects (IDB, Art. IV(1)). ADB also provides that loans are repayable in the currency loaned, unless—in the case of a direct loan made as part of special operations—the rules and regulations provide otherwise (ADB, Art. 18(*i*)). ADB may establish, or be entrusted with the administration of, special funds which are designed to serve its purpose and come within its functions. It may receive, hold, use, commit or otherwise dispose of special resources in pursuance to special rules and regulations to be adopted by the bank (ADB, Art. 8).

[54] E/CN.14/129, p.18.

The inclusion of both normal banking operations and operations not of a normal banking character within their general functions seems to be a special feature of IDB and ADB. However, the Agreements establish a strict separation between these two types of operations. The inclusion of both types in a single bank must have been devised owing to the necessity of undertaking operations similar in nature to both those of IBRD, which operates on a commercial basis, and those of IDA, which grants soft loans "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans." (IDA, Art. I).

As of 31 December 1963, IDB had approved 82 ordinary operations loans amounting to $385.8 million, and 37 special operations loans with a total value of $121.7 million. From 19 June 1961, the date on which IDB became the administrator of the Social Progress Trust Fund, up to 31 December 1963, 73 loan operations totaling $367.6 million were approved from the Trust Fund. Loans in ordinary operations usually bear an interest rate of 5.75 per cent repayable in 5 to 20 years with grace periods of 2 to 3 years. Most of the loans from the Fund for Special Operations bear an annual interest rate of 4 to 4.5 per cent and other terms are more lenient than those of ordinary operations. Loans from the Social Progress Trust Fund bear an interest rate of 1.25 to 2.66 per cent and are repayable in 30 years in many cases.[55]

Up to 31 December 1963, loans in ordinary operations were extended to (1) industry, (2) agriculture, (3) electric power and transport and (4) water supply and sewage, (in the order of the volume) and loans in special operations were extended to (1) agriculture, (2) industry and mining, (3) electric power and transport, and (4) water supply and sewage. Loans financed from IDB's own resources, namely, ordinary resources and special resources combined were distributed as follows: (1) industry and mining (37.3 per cent); (2) agriculture (34.9 per cent); (3) power and transport (16.8 per cent); and, (4) water supply and sewage (11.0 per cent).

[55] IDB, *Summary of Activities up to December 31, 1963.*

Loans from the Social Progress Trust Fund were distributed as follows: (1) housing for low-income groups (45.9 per cent); (2) sanitation and water supply facilities (31.0 per cent); (3) land settlement, improved land use and tenure (18.7 per cent); and (4) higher education and advanced training (4.4 per cent).[56]

5. *Principles for operations and other activities*

The Executive Secretary of ECA suggested to the Drafting Sub-committee that the following operational principles might be included in the Agreement establishing ADB.[57] These suggestions were made on the basis of relevant provisions in the instruments of other international financial institutions. The relevant provisions are shown in the parenthesis.

(1) In selecting among qualified projects, priority should be given to those which will contribute most effectively to the economic growth of the region or countries concerned. (IDB, Art. I(2) (*a*)).

(2) The operations of the bank should be limited to the extent that the borrower is unable to obtain funds on reasonable terms elsewhere. (IBRD, Art. III(4) (*ii*); IDA, Art. V(1) (*c*); IFC, Art. III(3) (*i*) and IDB, Art. III(7) (*a*) (*ii*)).

(3) In a loan or guarantee operation where the recipient is not a member government, the bank should have due regard to the ability of the borrower and guarantor, if any, to meet their obligations. (IBRD, Art. III(4) (*v*); IDB, Art. III(7) (*a*) (*iii*)).

(4) The bank shall be satisfied that the rate of interest or other charges and the schedule for repayment are suitable. (IBRD, Art. III(4) (*iv*); IDB, Art. III(7) (*a*) (*iv*)).

(5) The bank shall ensure that it receives compensation suitable for its risk in its guarantee operations. (IBRD, Art. III(4) (*vi*); IDB, Art. III(7) (*a*) (*v*)).

(6) The bank shall be guided in its commercial transactions by sound banking principles; and, generally the bank's investments should not be made on terms more favourable than those on which its corresponding resources had been secured. (IFC, Art. III(3) (*v*), not explicit).

(7) The bank shall ensure that the proceeds are exclusively used for the purposes of the project concerned, with due regard to considerations of economy and efficiency. (IBRD, Art. III(5) (*b*); IDA, Art. V (1) (*g*) and IDB, Art. III(9) (*b*)).

(8) The bank should not interfere in the political affairs of its members and should not be influenced in their decisions by political considerations. (IBRD, Art. IV (10); IFC, Art. III(9); IDA, Art. V(6) and IDB, Art. VIII(5) (*f*)).

(9) Owing to its governmental nature, the bank should not finance a project in the territory of a member if that member objects thereto. (IDA, Art. V(1) (*e*); IFC, Art. III(3) (*ii*) and IDB, Art. III(7) (*b*)).

The ADB Agreement adopted these principles, except that:

(*a*) Principle (1) was replaced by the following provision:

"(*i*) The operations of the bank shall, except in special circumstances, provide for the financing of *specific projects, or groups of projects, particularly those forming part of a national or regional development programme* urgently required for the economic or social development of its members. They may however, include *global loans to, or guarantees of loans made to, African national development banks or other suitable institutions,* in order that the latter may finance projects of a specified type serving the purpose of the bank within the respective fields of activities of such banks or institutions;

(*ii*) In selecting suitable projects, the bank shall always be guided by the provisions of *paragraph (1) (a) of Article 2* of this Agreement and by the *potential contribution of the project concerned to the purpose of the bank rather than by the type of the project.* It shall, however, *pay special attention to the selection of suitable multinational projects.*" (ADB, Art. 17(1) (*a*)).

Paragraph (*i*) in the above is similar to the relevant provisions of IDB (Art. III(7) (*vi*)), except that ADB gives more emphasis to projects forming part of a development programme. IBRD and IDA stipulate only to the effect that they will finance specific projects.

[56] *Ibid.*

[57] E/CN.14/ADB/12, pp.18-19.

Paragraph (*ii*) is a new provision in that it stresses the importance of regional and multi-national approach as provided in paragraph (1) (*a*) of Article 2 of the Agreement, and that the emphasis is placed on the potential contribution of the project to the purpose of the bank rather than the type of the project.

(*b*) Second sub-paragraph of the principle (6) was modified and placed in the Article on Terms and Conditions (Art. 18(3) (*a*)). A provision based on IFC (Art. III(3) (*iv*)) was added to the principle (6) to the effect that the bank shall not assume responsibility for managing any institution or undertaking in which it has an investment. This provision reinforces the sound banking principles; and

(*c*) A few other principles to the following effect were added: (*i*) The bank shall not impose conditions enjoining that the proceeds of any financing under ordinary operations shall be spent in the territory of any particular country, nor that such proceeds shall not be spent in the territory of any particular country; (*ii*) In the case of a direct loan made by the bank, the borrower shall be permitted to draw its funds only to meet expenditure as it is actually incurred; and (*iii*) The bank shall seek to maintain a reasonable diversification in its investments in equity capital. Principle (*i*) above follows the precedent of IBRD (Art. III(5) (*a*)), IFC (Art. III(3) (*iii*)), IDA (Art. V(1) (*f*)) and especially IDB (Art. III(9) (*a*)). Principle (*ii*) follows that of IBRD (Art. III(4) (*c*)), while principle (*iii*) was suggested by the Committee of Nine, and follows the precedent of IFC (Art. III(3) (*vii*)).

Thus all the important principles for operations of other existing international financial institutions were adopted by ADB, and in addition, a principle emphasizing regional and multi-national consideration was introduced.

The operational principles of IDB are in many respects similar to these of ADB; they include:

(1) Loans are made principally for financing specific projects, including those forming part of a national or regional development programme. The bank, however, also makes loans to development institutions or similar agencies in order that they may relend the proceeds to finance specific development projects whose requirements are not large enough to warrant a direct loan from the bank.

(2) The bank takes into account the ability of the borrower to obtain financing from private sources in terms which, in its opinion, are reasonable. The bank also pays due regard to the capacity of the borrower and his guarantor, if any, to meet their obligations.

(3) The bank only finances projects in which the eventual borrower has made or plans to make a substantial investment. As a general rule, it finances no more than 50 per cent of the cost of a project. In the case of loans to governments, consideration is given to the contribution being made by the country to the total development effort.

(4) The bank does not extend loans or guarantees if they are unacceptable to the government of the country in which the project is proposed.

(5) The rate of interest, other charges and the schedule for repayment of principal should be appropriate for the project in question. In guaranteeing a loan, the bank shall receive suitable compensation for its risk.

6. *Terms and conditions for operations*

The main problems to be discussed in this connexion are: (1) the principle upon which the terms and conditions are determined; (2) currency in which payments to the bank shall be made; and (3) guarantee requirements.

(1) Determination of terms and conditions:

It has already been stated in the section on Operational Principles that the ADB and IDB charters provide to the effect that the rate of interest and other charges, etc., should be reasonable and that the compensation for the risk of guaranteeing loans should be suitable. In conformity with those provisions and other relevant provisions in their Agreements, both banks determine in the contract all the terms and conditions relating to their operations.

The Agreement of ADB has a unique provision that, in determining its terms and conditions, ADB "shall take due account of the terms and conditions on which the corresponding funds were obtained by the bank." (Art. 18(3) (*a*)).

This was suggested by the Executive Secretary of ECA for inclusion in the operational principles. The original expression as suggested was "The bank's investments should not be made on terms more favourable than those on which its corresponding resources had been secured."[58]

It may be recalled in this connexion that the panel of experts for ADB emphasized the necessity for attracting additional contributions for hard and

[58] *Ibid.*, p.18.

soft loans from external as well as internal donors, and that the Committee of Nine decided, as one of the general lines of policy for non-African consultations, that the bank should seek primarily to mobilize funds on terms which would permit their ready use in the financing of economic and social development projects, but that major attention should also be given to the possibility of attracting private capital on commercial terms.[59]

In view of the foregoing, the operations of ADB would be such that the capital resources procured on commercial terms would be used for financing on commercial terms, and special resources would be used to grant soft loans.

As to the fees and commissions, IDB charges a "special commission" at a fixed rate of 1 per cent on direct loans and guarantees, which may be reduced by a two-thirds majority of the total voting power. In addition, a guarantee fee at a rate determined by the bank is charged (IDB, Art. III(12), (11) (*a*)). ADB charges a commission at the rate of not less than 1 per cent on loans and guarantees. The rate may be changed after 10 years of its operation by a two-thirds majority of its members representing not less than three-fourths of the total voting power. In addition, a guarantee fee at a rate to be determined by the bank is charged. (ADB, Art. 19).

(2) Currency in which payments to the bank are made.

As discussed in "ordinary and special operations," loans in ordinary operations are repayable only in the currency or currencies in which the loans were made (IDB, Art. III(2) (*b*); ADB, Art. 18(1) (*b*)).

As to special operations, IDB stipulates that the loans made with resources of the fund may be partially or wholly repayable in the currency of the member in whose territory the project being financed will be carried out (IDB, Art. IV(4)9*b*)). ADB suggests the possibility that, in the case of social operations the rules and regulations may provide that the loans may be repayable in the currencies other than those in which the loans were made (ADB, Art. 18(1) (*b*)).

(3) Guarantee requirements in cases where the recipient is not a member.

The IDB and ADB charters stipulate that, in the case of loans and guarantees of loans to non-governmental entities, the bank may, when it deems it advisable, require that the member in whose territory the project is to be carried out, or a public institution or a similar agency of the member acceptable to the bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan (IDB, Art. III(8) (*a*); ADB, Art. 18(3) (*b*)).

7. *Borrowing and other powers*

In addition to the powers specified elsewhere in the agreements, it is customary to list other powers of a bank under a special article such as "Miscellaneous Powers". In the case of ADB, the following powers, which cover all the important powers of other existing financial institutions, such as IBRD, IFC, IDA and IDB, are included in its Agreement:

(1) To borrow funds in member countries or elsewhere, and in that connexion to furnish collateral or other security. (IBRD, Art. IV(8) (*i*); IFC, Art. III(6) (*i*); IDA, Art. V(5) (*i*) and IDB, Art. VII(1) (*i*));

(2) To borrow member's currency. (IBRD, Art. IV(8) (*iii*); IDA, Art. III(2) (*c*));

(3) To buy and sell securities the bank has issued or guaranteed or in which it has invested. (IBRD, Art. IV(8) (*i*); IFC, Art. III(6) (*iv*); IDA, Art. V(5) (*iii*) and IDB, Art. VII(1) (*ii*));

(4) To guarantee or underwrite securities in which it has invested in order to facilitate their sale. (IBRD, Art. IV(8) (*ii*); IFC, Art. III(6) (*iii*); IDA, Art. V(5) (*ii*) and IDB, Art. VII(1) (*iv*). In all these institutions, underwriting is not included.);

(5) To invest funds not needed in its operations in obligations and invest funds held by the bank for pensions, etc., in marketable securities. (IBRD, Art. IV(8) (*iv*); IFC, Art. III(6) (*ii*), and IDB, Art. VII(1) (*iii*));

(6) To undertake activities incidental to its operations such as, among others, the promotion of formation of consortia for financing which serves the purpose of the bank;

(7) To provide technical advice and assistance. (IDA, Art. V(5) (v); IDB, Art. VI); and

(8) To exercise such other powers as shall be necessary or desirable in furtherance of its purpose and functions. (IFC, Art. III(6) (*v*); IDA, Art. V(5) (*vi*), and IDB, Art. VII(1) (*v*)).

As to (1) and (3) above, the relevant provisions of IDB stipulate that it should obtain the approval of the country in whose markets its obligations are sold, and of the member in whose currency the

[59] E/CN.14/ADB/10, p.4.

obligations are denominated; and that, in the case of buying and selling securities, the bank should obtain the approval of the *country* in whose territories the securities are to be bought or sold (IDB, Art. VII(*i*)). ADB should obtain, before the borrowing of funds and purchase and sale of securities, the approval of a *member* in whose territory the transaction takes place or in whose currency the obligations are denominated (ADB, Art. 23).[60]

The power to provide technical assistance is described more fully in the IDB Agreement (Art. VI). IDB provides technical advice and assistance in its field of activity, particularly on "(*i*) the preparation, financing, and execution of development plans and projects, including the consideration of priorities, and the formulation of loan proposals on specific national or regional development projects; and (*ii*) the development and advanced training, through seminars and other forms of instruction, of personnel specializing in the formulation and implementation of development plans and projects." (IDB, Art. VII(1)). It also enters into agreements on technical assistance with other national or international institutions, either public or privae (IDB, Art. VII (2)). As to expenses for furnishing such assistance, IDB may make the recipients reimburse such expenses (IDB, VI(3) (*a*)). Expenses not paid by the recipients are met from the net income of the bank or of the fund. During the first three years of IDB's operations, however, up to 3 per cent, in total, of the initial resources of the fund may be used to meet such expenses (IDB, Art. VI(3) (*b*)).

In the case of ADB, expenses not paid by the recipients are met from the net income of the bank; and, in the first five years of its operations it may use up to 1 per cent of its paid-up capital, provided always that the total expenditures of the bank on such services in each year of that period do not exceed 1/5 of that percentage (ADB, Art. 23 (*f*) (*ii*)).

The power (2) in the above, namely the special power to borrow member's currency, was suggested by the Committee of Nine. The Committee maintained that, in order to ensure the economic use of the bank's convertible currencies and to promote the use of goods and services of the region in the execution of the bank's projects, the bank should be empowered to borrow currencies from any member to finance expenditures in respect of goods and services produced in the territory of that member, unless the country concerned invokes economic difficulties which are likely to be provoked or aggravated by granting of such loans. The bank should be able to borrow such currency up to an amount equal to such member's subscription and at a yearly interest of not more than 4 per cent.[61] This idea was adopted in the Agreement (ADB, Art. 24). Interest on such loans will be paid by the bank out of the interest paid by the borrower. The maximum rate of 4 per cent was proposed in the interest of regional solidarity.[62]

8. *IDB's activities during its first three years*

Some of the important facts relating to the activities of the IDB during its first three years of operation will be summarized as follows:[63]

(1) *Operations of IDB* (as of 31 December 1963)

- (*a*) *Total loans approved* $875.1 million (35.5% of total cost of projects)
  - *From own resources* $507.4 million (119 loans)
    - *From ordinary capital resources* $385.8 million (82 loans) (28.9% of total cost of projects)
    - *From fund for special operations* $121.7 Million (37 loans) (42.4% of total cost of projects)
  - *From social progress trust fund* $367.6 million (73 loans) (43.8% of total cost of projects)

[60] When ADB borrows funds in capital markets outside Africa, it will have to determine similar requirement therefor. The reason for insisting upon a member country is not clear, since the borrowing is likely to take place mostly in non-African countries.

[61] E/CN.14/FMAB/1, p.17.

[62] E/CN.14/FMAB/9, African Development Bank: Questions Relating to the use of Member Currencies (Note by the Executive Secretary) part I.

[63] IDB, *Summary of Activities up to December 31, 1963;* IDB, *Fourth Annual Report, 1963.*

(*b*) *From own resources* $507.4 million
- *From ordinary capital resources* $385.8 million
  - *In dollars* $328.4 million
    - *For foreign currency costs* $279.2 million
    - *For local costs* $49.2 million
  - *In L.A. member currencies* $57.4 million
- *From Fund for Special Operations* $121.7 million
  - *In dollars* $104.2 million
    - *For foreign currency costs* $63.3 million
    - *For local costs* $40.9 million
  - *In L.A. member currencies* $17.5 million

(*c*) *From own resources* $507.4 million
- *To public sector* $279.3 million (55%)
- *To private sector* $228.1 million (45%)
  - *Direct loans* $67.3 million
  - *Over-all loans to national development institutions for relending* $160.8 million

(*d*) *Technical assistance* 236 projects $23.5 million
- *From own resources* $16.9 million
  - *Reimbursable* $15.6 million
  - *Grants* $7.9 million
- *From social progress trust fund* $6.6 million

General planning and feasibility studies	58%
Agricultural development projects	14%
Others (strengthening development institutions; training programmes; housing and sanitation, etc.)	28%

(*e*) *From own resources*

Industry	35.4%
Agriculture	34.9%
Electric power	13.3%
Water supply	11.0%
Transportation	3.5%
Mining	1.9%

From social progress trust fund

Urban and rural housing for low-income groups	45.9%
Sanitation and water supply facilities	31.0%
Land settlement, improved land use and tenure	18.7%
Higher education and advanced training	4.4%

Total Loans Approved by IDB Up to 31 December 1963[a]

(in millions of dollars)

Country	Ordinary capital	Fund for special operations	Social progress trust fund	Total	Per cent
Argentina	68.2	6.2	35.0	109.4	12.5
Bolivia	—	23.1	10.9	34.0	3.9
Brazil	56.2	24.9	55.4	136.5	15.6
Chile	47.7	8.8	25.6	82.2	9.4
Colombia	42.9	3.2	31.3	77.5	8.9
Costa Rica	11.5	1.0	3.6	16.1	1.8
Dominican R.	6.0	—	6.5	12.5	1.4
Ecuador	2.3	8.5	24.5	35.3	4.0
El Salvador	4.0	0.2	11.6	15.8	1.8
Guatemala	8.5	0.3	11.3	20.1	2.3
Haiti	—	3.5	—	3.5	0.4
Honduras	0.5	9.2	7.2	17.0	1.9
Mexico	77.5	3.8	30.7	112.0	12.8
Nicaragua	2.0	—	7.9	9.9	1.1
Panama	—	3.2	10.4	13.6	1.6
Paraguay	2.8	16.5	2.9	22.1	2.5
Peru	15.1	—	26.3	41.4	4.7
United States	—	—	—	—	—
Uruguay	19.4	0.6	10.5	30.6	3.5
Venezuela	21.2	2.7	53.0	76.9	8.8
Central American countries-Central American Bank for Economic Integration	—	6.0	2.9	8.9	1.0
TOTAL	385.8	121.7	367.6	875.1	100.0

Source: IDB, *Fourth Annual Report 1963*, p.8, 35, 69, 102.
[a] Less cancellations.

(2) *Mobilization of external resources*

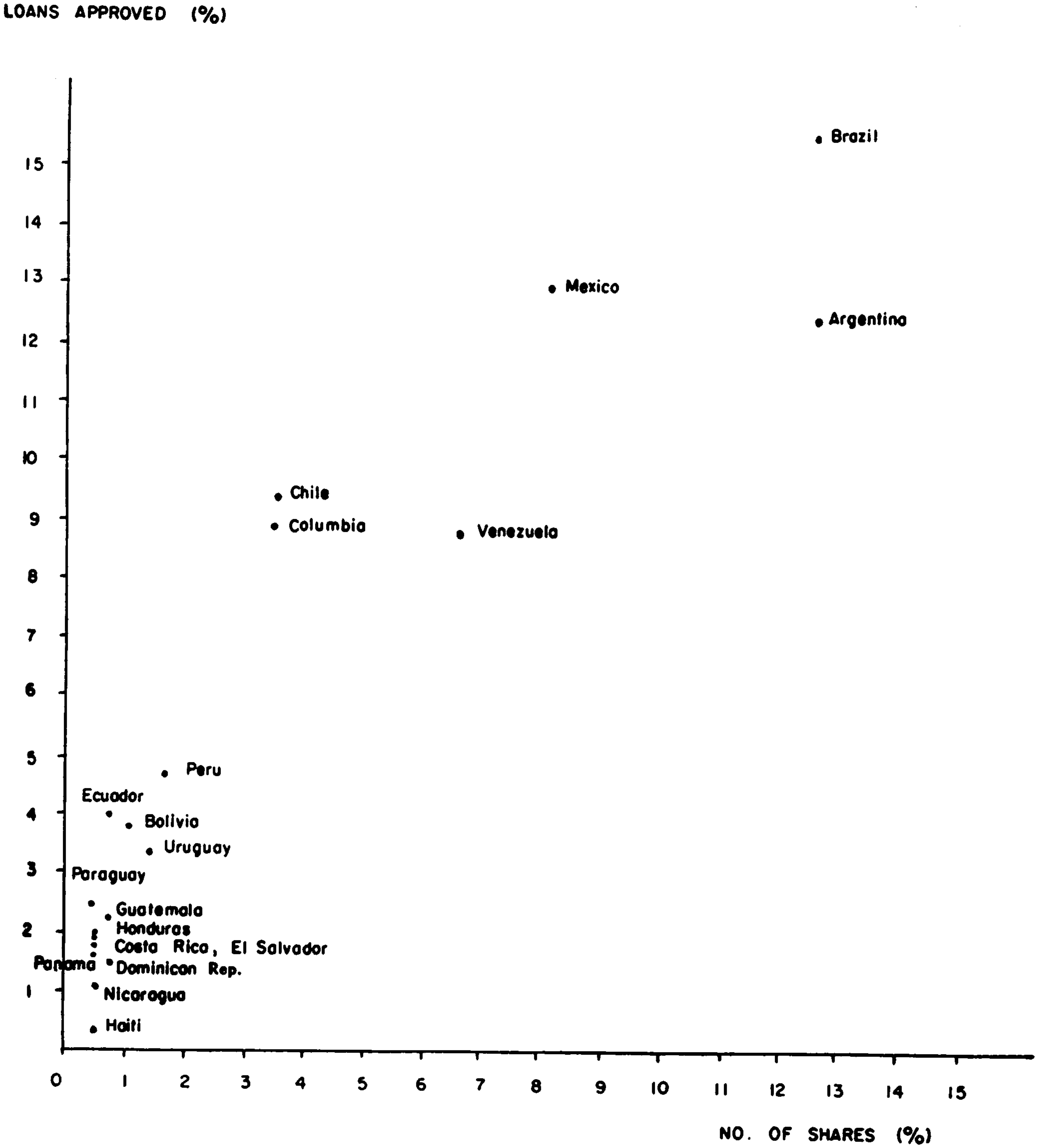
IDB has exerted great efforts in obtaining additional external resources for Latin America's development, through the placing of bonds on the world capital markets, selling participations in its loans, encouraging parallel financing and accepting the administration of trust funds.

Two sales of its bonds were made in Italy and in the United States in 1962, one for 15 billion convertible lire (equivalent to $24.2 million) offered in the Italian market and the other for $75 million in the United States market on terms and conditions which clearly reflected the establishment of IDB's credit standing and the confidence of the international capital market.

IDB has been very successful also in the sale of participations in its loans, which amounted to $15.1 million up to 31 December 1963. Thirty-nine United States banks and 11 European and Canadian banks participated in these operations. In 1963, for example, participations actually allocated to ordinary capital loans amounted to $7.38 million, but applications from banks for participations aggregated a much higher figure. In addition, the United Nations Special Fund purchased participations in 1963 amounting to $1.65 million in five loans authorized from the Fund for Special Operations.

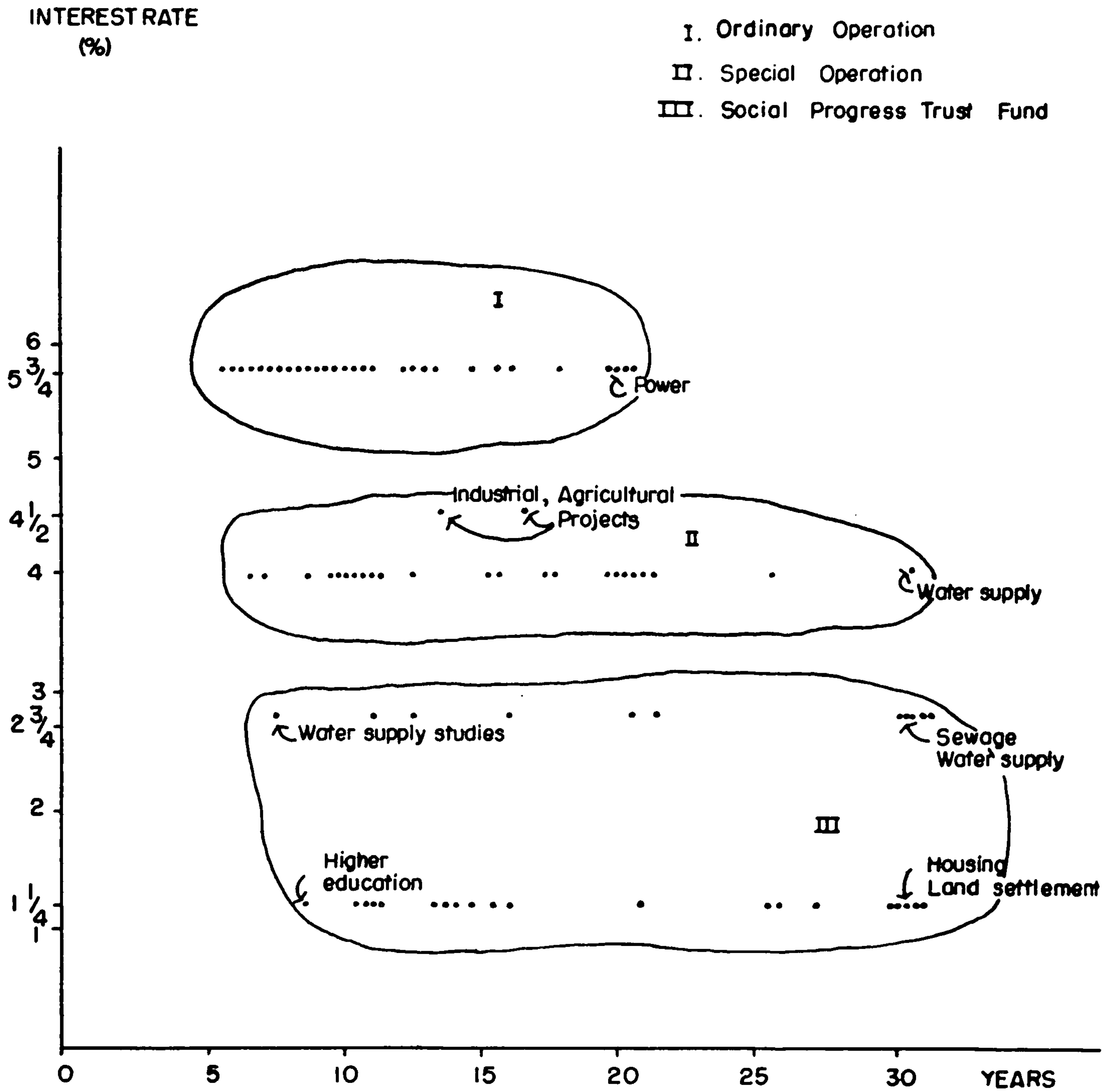
IDB has been continuing its efforts to encourage the flow of capital from Western Europe and Canada to Latin America. It participated in the 15th Meeting of DAC of OECD in March 1963 which discussed the ways in which IDB and public and private entities in DAC countries might co-operate in financing the development of Latin America. As a result of this meeting, it was agreed to organize a work group to review periodically the progress made in co-operation between the DAC member countries and IDB, especially in relation to IDB's access to the capital markets, the possibilities of placing trust funds by the DAC countries with IDB, and consultation procedures for parallel financing and the purchase of participations in IDB's loans. IDB has been in contact with agencies of EEC, which notified the bank this year of its favourable opinion regarding the possibilities of co-operation with IDB in the form

(IDB) RELATION BETWEEN TOTAL AMOUNT OF LOANS APPROVED AND NUMBER OF SHARES (UP TO DEC. 31, 1964)



Source: IDB, Fourth Annual Report 1963, P. 43, 59.

(IDB) TERMS OF LOANS 1963



Source: Statement of Loans, IDB Annual Report '63 of parallel financing for projects in which equipment suppliers of EEC participate. In September 1963, a mission of IDB went to Canada to explain its activities. The Export Credit Insurance Corporation, an official organization of Canada, expressed its willingness to consider joint financing proposals for specific projects in Latin America between IDB and Canadian suppliers of equipment and capital goods. IDB also co-operated with the Atlantic Community Development Group for Latin America (ADELA) in its efforts to create a multi-national private investment corporation designed to mobilize capital resources for Latin America.

(3) *Activities in support of integration*

The Agreement establishing IDB directs it "to co-operate with the member countries to orient their development policies toward a better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade" (IDB, Art. I (2) (*iv*)). IDB has supported various initiatives to strengthen the integration movement in compliance with this provision.

In 1963, IDB initiated a programme of technical assistance for integration purposes and established a programme to finance intra-regional exports of capital goods.

In October 1962, the bank announced at a meeting of the Inter-American Economic and Social Council that it would initiate a technical assistance programme to speed up the process of economic integration. The bank held a meeting in May 1963, of representatives of organizations concerned with the Latin-American integration with objective of co-ordinating efforts in this field.

In September 1963, the bank's Board of Executive Directors authorized the initial utilization of up to $30 million from the ordinary capital resources for a programme to finance exports of capital goods among member countries to stimulate the development of the capital goods industry in the region and to foster economic integration through the expansion of regional trade.

V. Organization and management

IDB has a Board of Governors, a Board of Executive Directors, a President, an Executive Vice President, a Vice-President in charge of the Fund for Special Operations and other officers and staff. ADB has a Board of Governors, a Board of Directors, a President, at least one Vice-President and other officers and staff. Decisions of the Board of Governors and Board of (Executive) Directors take the form of voting, which is weighted according to the capital subscribed by the members, although this is modified in varying degrees in favour of the smaller countries. The Agreements establishing IDB and ADB provide for prohibition of political activity by the bank, its officers and staff. Only economic considerations should be relevant to their decisions.

As far as general organizational structure is concerned, IDB and ADB have followed the forms adopted by existing international lending institutions, with some adaptations to suit their requirements.

One of the most peculiar features of ADB relates to the adoption of the principle that the "African" nature of the institution must be taken into account in the consideration of all issues concerning organization and management.[64] At the same time, however, it was recognized that the success or failure in attracting outside contributions would depend largely on the organization and management. The importance of banking experience and high technical standard of management was therefore emphasized.[65]

1. *Board of Governors*

Powers

As in the case of other international lending institutions, all the powers of IDB and ADB are vested in the Board of Governors, which may delegate them, subject to specified exceptions, to the Board of Directors. The problem in this connexion is the extent of that delegation. The Board of Governors of IDB does not delegate power to:

(*i*) admit new members and determine the conditions of their admission,

(*ii*) increase or decrease the authorized capital stock of the bank and contributions to the fund,

(*iii*) elect the President of the bank and determine his remuneration,

(*iv*) suspend a member,

(*v*) determine the remuneration of the Executive Directors and their alternates,

(*vi*) hear and decide any appeals from interpretations of the Agreement given by the Board of Executive Directors,

---

[64] For example, E/CN.14/ADB/11, pp.4-6 E/CN.14/ADB/12, p.23.

[65] E/CN.14/129, p.14.

(*vii*) authorize the conclusion of general agreements for co-operation with other international organizations,

(*viii*) approve, after reviewing the auditors' report, the general balance sheet and the statement of profit and loss of the institution,

(*ix*) determine the reserves and the distribution of the net profits of the bank and of the fund,

(*x*) select outside auditors to certify the general balance sheet and the statement of profit and loss of the institution,

(*xi*) amend the Agreement, and

(*xii*) decide to terminate the operations of the bank and to distribute its assets. (IDB, Art. VIII(2) (*b*)).

In addition, the IDB

(*xiii*) retains full power to exercise authority over any matter delegated to the Board of Executive Directors. (IDB, Art. VIII (2) (*c*)).

ADB is similar to IDB in this respect, except that its President is elected by the Board of Directors and that, in addition to those listed above, its Board of Governors reserves the power to:

(*i*) establish or accept the administration of special funds,

(*ii*) authorize the conclusion of general arrangements for co-operation with the authorities of African countries which have not yet attained independence or of general agreements for co-operation with African governments which have not acquired membership of the bank, as well as of such agreements with other governments,

(*iii*) select other experts necessary to examine and report on the general management of the bank, in addition to outside auditors, and

(*iv*) exercise such other powers as are expressly provided for the Board of Governors in this Agreement, which includes the power to fix "ceiling" for investments in equity capital. (ADB, Art. 15(4) (*b*)).

Composition

Each member of IDB and ADB is represented on the Board of Governors. Each member appoints one governor and one alternate, who serve for five years, subject to termination of appointment at any time, or to re-appointment, at the pleasure of the appointing member. An alternate may vote in the absence of his principal. The Board selects one of the governors as Chairman, who holds office until the next regular meeting of the Board. These two banks broadly follow the precedents of IBRD (Art. V(2) (*a*) and (*g*)). ADB, however, expressly stipulates that governors and alternates must be "nationals of the member states." (Art. 30(1)).

Procedures

Following the precedents of IBRD (Art. V(2)), the IDB and the ADB Charters provide that the Board of Governors must hold a meeting annually. Other meetings may be held when the Board of Governors so provides or when called by the Board of (Executive) Directors. Meetings also should be called by the Board of (Executive) Directors whenever requested by five members of the bank or by members having ¼ of the total voting power. A quorum is an absolute majority (ADB, "a majority") of the total number of governors, representing not less than ⅔ of the total voting power of the members.

Incidentally, ADB differs from IDB and IBRD in that it provides permissive powers for the Board of Governors to establish "such subsidiary bodies . . . as may be necessary or appropriate to conduct the business of the bank" (ADB, Art. 31(4)), in addition to the power to establish rules and regulations.

In the preparatory stage of ADB, the consultation teams which visited African governments found that the African countries were very much interested in the conditions under which non-Africans might be allowed to participate in the bank's activities. The general view was that it would not be desirable to allow non-Africans to sit on the policy-making bodies. (Some countries were willing to accept non-Africans serving on the policy-making organs or to accept them in such organs as observers and advisers.) Many governments felt that, in view of the need to attract additional external funds, a formula had to be devised which would associate non-Africans who contributed to the resources of the bank (in the forms other than subscription to the share capital) with management of the bank. To this end, the establishment of a technical committee that would include non-African contributors to assist the bank in the technical appraisal of projects or a consultative body to advise the bank on its overall policy was suggested.[66] The Executive Secretary suggested that the Drafting Sub-Committee might study the necessity for a general advisory council on committee and loan committees and whether or not the principal organs should have powers to establish such other bodies as would be required. The ADB Agreement, although not specifying such subsidiary organs, provides for the power of the Board of Governors, and the Board of Directors to the extent authorized, to establish such bodies as may be necessary to conduct the business of the bank.

2. *Board of Directors*

Powers

The Board of (Executive) Directors in IDB and ADB is responsible for the conduct of the general operations of the bank, as in other similar institutions. With powers delegated by the Board of Governors, the Board of Directors decides on the allocation of the resources and on the borrowing activities, determines the rate of interest and commissions, and performs other functions in conformity with the provisions of the Agreement.

In the case of IBRD, the powers of the Board of Directors are not specifically listed but are defined as "all the powers delegated to them (the Executive Directors) by the Board of Governors" (IBRD, Art. V(4) (*a*)).

The IDB Agreement defines the powers of the Board of Directors in a similar way, but specifies a few powers (appointment of committees and determination of the bank's basic organization) in the section dealing with the powers of the Board of Directors (IDB, Art. VIII(3) (*h*) and (*i*)).

A number of powers are specified in the Article of ABD's Charter pertaining to the powers of the Board of Directors. The Board shall, "in addition to the powers provided for it expressly in this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

(*a*) elect the President and on his recommendation, one or more Vice-Presidents of the bank and determine their terms of service,

(*b*) prepare the work of the Board of Governors,

(*c*) in conformity with the general directives of the Board of Governors, take decisions concerning particular direct loans, guarantees, investments in equity capital and borrowing of funds by the bank,

(*d*) determine the rate of interest for direct loans and commissions for guarantees,

(*e*) submit the accounts for each financial year and annual report for approval to the Board of Governors at each annual meeting, and

(*f*) determine the general structure of the services of the bank." (ADB, Art. 32).

Composition

IBRD originally had 12 Executive Directors. (As a rule, they also function as the Directors of IFC and the Executive Directors of IDA). IBRD stipulates that there should be 12 Executive Directors, who need not be governors, and of whom—(*i*) five should be appointed, one by each of the 5 members having the largest number of shares, and (*ii*) seven should be elected by all the governors other than those appointed by the 5 members (IBRD, Art. V(4) (*b*)). The relevant provision of the IDB Charter states that there should be 7 executive directors, who shall not be governors, and of whom—(*i*) one should be appointed by the member having the largest number of shares in the bank, and (*ii*) six should be elected by the governors of the remaining members. (IDB Art. VIII(3) (*a*)).

The ADB has 9 members who shall not be governors or alternates. *All* of them are elected by the Board of Governors (ADB, Art. 33(1)).

The term of office of directors is 2 years in the case of IBRD, and 3 years in both IDB and ADB. They may be re-appointed or re-elected.

In the case of IDB and ADB, the directors and alternates must be citizens (nationals—ADB) of the member states and none of the elected directors and their alternates may be of the same citizenship (no alternate may be of the same nationality as his director—ADB), which ensures a wider participation in the Board (IDB, Art. VII(3) (*c*); ADB, Art. 33 (2)).

Procedure

The Board of (Executive) Directors functions in continuous session at the principal office of the bank and meets as often as the business of the bank requires (IBRD, Art. V(4) (*e*); IDB, Art. VIII(3) (*e*); ADB, Art. 34 (1)).

As to the quorum, IBRD requires "a majority of the Executive Directors, exercising not less than ½ of the total voting power"; IDB "an absolute majority of the total number of directors representing not less than ⅔ of the total voting power"; and ADB, "a majority of the total number of directors representing not less than ⅔ of the total voting power". (IBRD, Art. V(4) (*f*); IDB, Art. VIII(3) (*f*); ADB, Art. 34 (2)).

[66] E/CN.14/ADB/11, p.5.

3. *President*

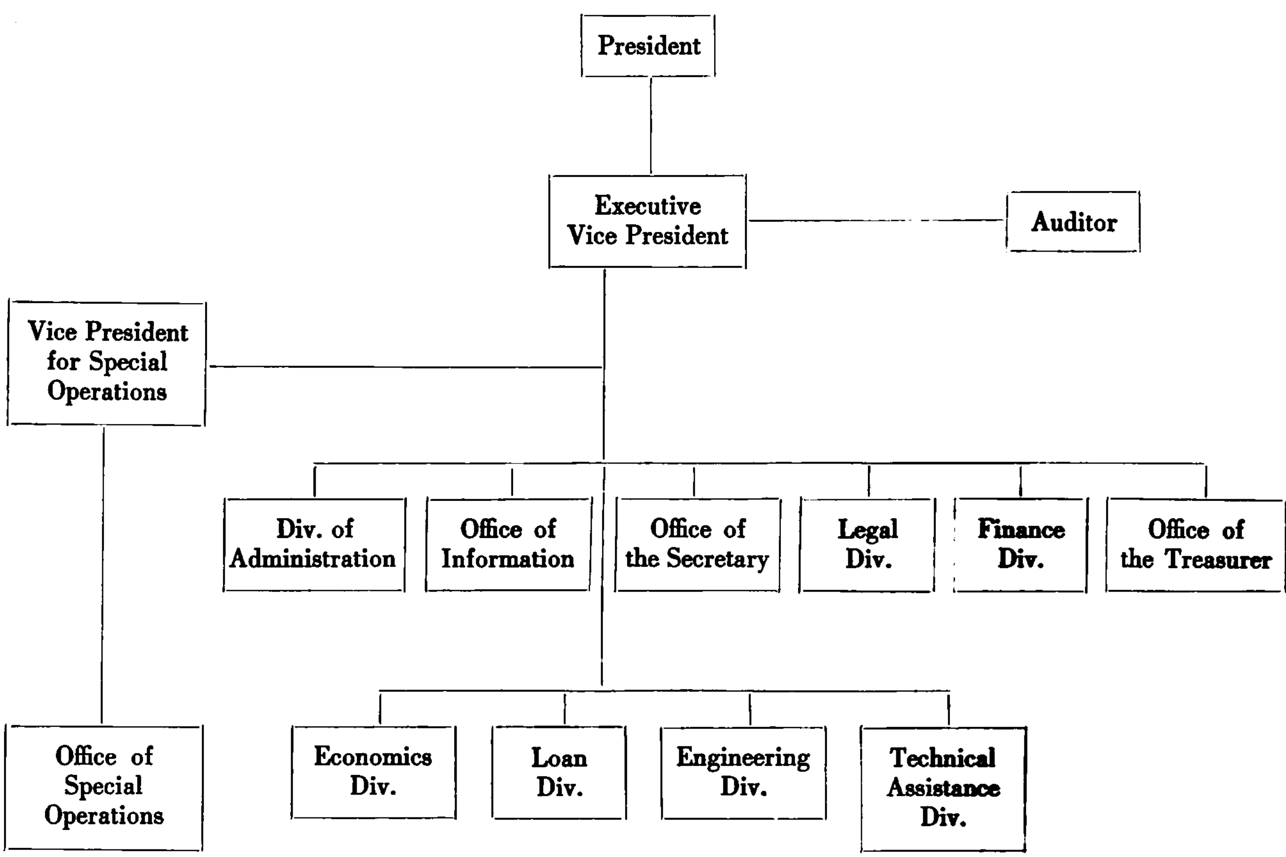
The president of IBRD is elected by the Board of Directors. The president of IDB is elected by the Board of Governors. ADB follows IBRD in this respect.

No qualified majority is required for the election of the President of IBRD. The President of IDB is elected by an absolute majority of all the governors representing not less than a majority of the total voting power. The president of the ADB is elected by a majority of the total voting power of the members

As in IBRD, IFC and IDA, the President's office is not compatible with that of a governor, director or alternate for either, in IDB and ADB. He serves for a term of 5 years, which may be renewed. He ceases to hold office if the Board of Directors (IBRD, ADB) or the Board of Governors (IDB) so decides. To make such a decision, a qualified majority is required in IDB and ADB. Under the direction of the Board of Directors, the President conducts the ordinary business of the bank. He is the Chairman (presiding officer—IDB) of the Board of Directors, but has no vote except a deciding vote in case of an equal division. He is the chief of the staff of the bank. The IDB and ADB Charters expressly provide that he is the legal representative of the bank. In the case of ADB, he must be a national of a member state. In both IDB and the ADB, the president is required to make it his foremost consideration in appointing officers and the staff to secure the highest standards of efficiency, technical competence and integrity. He should also pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible. These provisions follow the text of IBRD. The ADB Agreement, however, emphasizes the need for recruitment of African personnel (ADB, Art. 37 (5)).[67]

[67] The panel of experts for the establishment of ADB pointed out the probable difficulty of securing experienced personnel and emphasized the importance of training. They noted that in the case of IDB, about 2/3 of the staff are Latin American, the rest being of the United States and other nationals. (E/CN.14/129, p.17).

IDB: CHART OF ORGANIZATION



Source: IDB, *First Annual Report, 1960.*

4. *Voting*

(1) Except where qualified majority is expressly required, all matters at the Board of Governors and the Board of (Executive) Directors are decided as follows:

IBRD, IFC, IDA—By a majority of the *votes cast.*

IDB—By a majority of the *total voting power.*

ADB—By a majority of the *voting power represented at the meeting.*

The method adopted by ADB occupies an intermediate position between those of IBRD and IDB.

The number of votes of each governor depends on the voting power of the member which he represents. He is entitled to cast the votes of the member he represents.

In the Board of Directors, each elected director casts, as a unit, the aggregate voting power of the members which voted in his favour at his election. In IDB, an appointed director may cast the votes available to the member which appointed him, as in the case of IBRD. Thus, the total voting power of the bank can be exercised within the Board of Directors.

(2) Allocation of votes to members, or more specifically, the relationship between the size of subscription and the voting power, was one of the most debated problems during the preparatory stages of ADB, since the size of a member's subscription to the share capital influences its voting power in any financial institution, including IBRD, whose capital is supplied by its members.[68]

When the Committee of Nine sent consultation teams to African countries, many governments agreed with the Committee's suggestion that the number of votes granted to a country should be in proportion to the size of its contributions. A number of other countries, however, advocated equality of voting rights irrespective of the size of contributions, advancing the argument that African solidarity would be most strengthened by the adoption of this principle.[69]

The Preparatory Meeting for the Conference of Finance Ministers adopted an intermediary principle between the "principle of proportionality" and the "principle of equality". It felt that a voting system based exclusively on either of these two principles would not correspond to a true nature of the bank.[70]

In the intermediary system adopted, each member has (*i*) a uniform voting power which is fixed and equal for all members calculated as follows:

$$\frac{\text{Authorized capital in shares}}{\text{Number of potential members}} = \frac{20{,}000}{32} = 625$$

and (*ii*) an additional voting power of one vote for each share held by each member. Thus, 20,000 votes are based on the "principle of equality" and another 20,000 votes on the "principle of proportionality". Accordingly, members whose subscriptions are 100 shares and 200 shares, for instance, would have the voting powers of 725 and 825, respectively, which indicates that the discrepancies in the relative voting strengths are considerably narrowed in favour of those countries whose subscriptions are comparatively small.

The uniform voting power of each member of IBRD, IFC, IDA and IDB is 250, 250, 500 and 135, respectively, which constitute only a very small percentage of the member's total voting power or of the voting power in proportion to the size of the member's subscriptions. (See the tables on the relations between the amounts of subscriptions and the voting powers).

At the Conference of Finance Ministers, however, even such an intermediary system encountered opposition from some countries. The Gabon Republic submitted an amendment proposing that each member be given one vote.[71] This proposal was supported by Ivory Coast, Chad, Madagascar, Cameroun, Sierra Leone, Central African Republic and others, which argued that it would be necessary for the cause of African solidarity and unity and that the principle of "one nation—one vote" is in practice in many international organizations. On the other hand, the system adopted by the Preparatory Committee was supported by Algeria, Ethiopia, Kenya, Nigeria, the United Arab Republic, Liberia and others, which maintained that the system proposed in the draft adopted by the Preparatory Meeting is already much in favour of small countries and that, in ordinary financial institutions, the voting power is proportional to the subscriptions. The Gabon Republic withdrew its proposed amendment, and the system contained in the draft Agreement adopted by the Preparatory Meeting was approved at the Conference of Finance Ministers.

[68] E/CN.14/ADB/12, p.33.

[69] E/CN.14/ADB/11, p.4.

[70] E/CN.14/FMAB/4/Add. 1, p.91.

[71] E/CN.14/FMAB/30, Amendment submitted by the Gabon Republic Concerning Article 35 of the Draft Agreement Establishing the African Development Bank.

Thus, the ADB Agreement stipulates that "Each member shall have 625 votes and, in addition, one vote for each share of the capital stock of the bank held by that member." (ADB, Art. 35(1)). In the case of IDB, each member has 135 votes plus one vote for each share of capital stock held by that country (IDB, Art. VIII (4) (*a*)).

IDB: Subscription to capital stock and voting power (31 December 1963)

Member	*Number of shares* (1)	*Per cent* (2)	*Number of votes (135+(1))* (3)	*Per cent* (4)	(4)—(2) *Per cent*
Argentina	10,314	12.68	10,449	12.44	—0.24
Bolivia	828	1.02	963	1.15	+0.13
Brazil	10,314	12.68	10,449	12.44	—0.24
Chile	2,832	3.48	2,967	3.53	+0.05
Colombia	2,830	3.48	2,965	3.53	+0.05
Costa Rica	414	0.51	549	0.65	+0.14
Dominican R.	552	0.68	687	0.82	+0.14
Ecuador	552	0.68	687	0.82	+0.14
El Salvador	414	0.51	549	0.65	+0.14
Guatemala	552	0.68	687	0.82	+0.14
Haiti	414	0.51	549	0.65	+0.14
Honduras	414	0.51	549	0.65	+0.14
Mexico	6,630	8.15	6,765	8.05	—0.10
Nicaragua	414	0.51	549	0.65	+0.14
Panama	414	0.51	549	0.65	+0.14
Paraguay	414	0.51	549	0.65	+0.14
Peru	1,382	1.70	1,517	1.81	+0.11
United States	35,000	43.04	35,135	41,82	—1.22
Uruguay	1,106	1.36	1,241	1.48	+0.12
Venezuela	5,526	6.80	5,661	6.74	—0.06
TOATL	81,316	100.00	84,016	100.00	0

Note: Ratio of fixed votes to proportionate votes: $\frac{135 \times 20}{81,316} = 3.3\%$.

5. *Locating the banks*

The IBRD charter provides that the principal office of the bank be located "in the territory of the member holding the greatest number of shares." (IBRD, Art. V(9)). The IDB charter expressly states that it should be located "in Washington, District of Columbia, United States of America." (IDB, Art. XIV(1)). The ADB charter provides that the principal office of ADB be located "in the territory of a member state. The choice of the location of the principal office of the bank shall be made by the Board of Governors at its first meeting, taking into account the availability of facilities for the proper functioning of the bank." (ADB, Art. 39(1)).

The Committee of Nine for the establishment of ADB examined in its early preparatory stage the criteria upon which the choice should be based. Suggestions had been submitted by governments to its consultation teams. The teams reported that "the views and criteria put forward by governments in this respect were somewhat coloured by their desire to have the bank in their capitals.[72]

[72] E/CN.14/ADB/11, pp.10-11.

ADB: Subscription to capital stock and voting power

Member	*Number of shares* (1)	*Per cent* (2)	*Number of votes (625+(1))* (3)	*Per cent* (4)	(4)—(2) *Per cent*
Algeria	2,450	11.60	3,075	7.37	—4.32
Burundi	120	0.57	745	1.78	+1.21
Cameroun	400	1.89	1,025	2.46	+0.57
Central A.R.	100	0.47	725	1.73	+1.26
Chad	160	0.76	785	1.88	+1.12
Congo B.	150	0.71	775	1.86	+1.15
Congo L.	1,300	6.16	1,925	4.61	—1.55
Dahomey	140	0.66	765	1.83	+1.17
Ethiopia	1,030	4.88	1,655	3.96	+0.92
Gabon	130	0.62	755	1.81	+1.19
Ghana	1,280	6.06	1,905	4.57	—1.49
Guinea	250	1.18	875	2.10	—0.92
Ivory Coast	600	2.84	1,225	2.93	+0.09
Kenya	600	2.84	1,225	2.93	+0.09
Liberia	260	1.23	885	2.12	+0.89
Libya	190	0.90	815	1.95	+1.05
Madagascar	520	2.46	1,145	2.74	+0.28
Mali	230	1.09	855	2.05	+0.96
Mauritania	110	0.52	735	1.76	+1.24
Morocco	1,510	7.15	2,135	5.11	—2.04
Niger	160	0.76	785	1.88	+1.12
Nigeria	2,410	11.41	3,035	7.27	—4.14
Rwanda	120	0.57	745	1.78	+1.21
Senegal	550	2.60	1,175	2.81	+0.21
Sierra Leone	210	0.99	835	2.00	+1.01
Somalia	220	1.04	845	2.02	+0.98
Sudan	1,010	4.78	1,635	3.92	—0.86
Tanganyika	530	2.51	1,155	2.77	+0.26
Togo	100	0.47	725	1.73	+1.26
Tunisia	690	3.27	1,315	3.15	—0.12
Uganda	460	2.18	1,085	2.60	+0.42
U.A.R. (Egypt)	3,000	14.20	3,625	8.68	—5.52
Upper Volta	130	0.62	755	1.81	+1.19
TOTAL	21,120	100.00	41,745	100.00	0

Note: Ratio of fixed votes to proportionate votes: $\frac{625 \times 33}{21,120} = 97.7\%$.

At its second session, the Committee of Nine agreed on the following criteria upon which the choice of the location of the bank should be based:

— Accessibility (in terms of transport and communications to member countries and to world financial centres).

— Availability of trained staff

— Political stability

— Availability of financial institutions

— Convertibility of local currency

— Acceptable living conditions

— Political neutrality

— Willingness of host country

— Prior existence (or non-existence) of other United Nations sponsored institutions.[73]

[73] E/CN.14/ADB/10, pp.7-8.

Different members of the Committee attached different priorities to these criteria. In response to the request of the Committee of Nine, the Executive Secretary sent a questionnaire on the lines of these criteria to all the members of ECA.[74] A large number of countries were willing to offer host facilities and gave information on the suitability of candidate cities for the location of the bank. During the discussions at the Commission on Interim Arrangements and the Location of the bank, however, a number of countries withdrew their candidatures and indicated support for others. It was agreed that the Conference of Finance Ministers should decide this matter, taking into account those criteria, from among the following nine countries which wished to maintain their candidature: Cameroun, Central African Republic, Congo L., Ghana, Kenya, Libya, Sudan, Tunisia and the United Arab Republic.[75]

At the Preparatory Meeting for the Conference of Finance Ministers and thereafter, some more countries withdrew their candidatures while new candidatures were added. Thus, the Conference of Finance Ministers examined the following candidatures: Ivory Coast, Nigeria, Sudan, Cameroun, Central African Republic, Congo L., Ghana, Kenya, Tunisia and the United Arab Republic. Some countries withdrew the candidatures and finally the following four countries remained: Ivory Coast (Abidjan), Kenya (Nairobi), Sudan (Khartoum) and Tunisia (Tunis).

The matter could not be decided at the Conference of the Finance Ministers, and was left for decision of the Board of Governors at its first meeting.

VI. Relationship with other organizations

In carrying out its functions, IDB should "co-operate as far as possible with national and international institutions and with private sources supplying investment capital." (IDB, Art. I(2) (*b*)). ADB also should "seek to co-operate with national, regional and sub-regional development institutions in Africa. To the same end, it should co-operate with other international organizations pursuing a similar purpose and with other institutions concerned with the development of Africa." (ADB, Art. 2). IDB "may enter into arrangement with other organizations with respect to the exchange of information or for other purposes consistent with the Agreement" (IDB, Art. XIV(2)), and ADB also "may enter into agreements with members, non-member states and other international organizations" to enable it to fulfil its purpose and functions (ADB, Art. 50).

IDB maintains relations with other inter-American and international organizations which participate in Latin America's economic and social development.[76] The second annual meeting of the Inter-American Economic and Social Council (IA-ECOSOC) in November 1963 decided to create the Inter-American Committee for the Alliance for Progress (ICAP) as a permanent committee of the IA-ECOSOC. The President of IDB, together with the Secretary General of OAS, the Principal Director of ECLA, etc., were nominated to serve as permanent advisers to ICAP. IDB was given the responsibility of being the technical arm of ICAP in matters concerning development financing. The OAS-IDB-ECLA Co-ordinating Committee sent technical assistance missions to Central America, the Dominican Republic and other Latin American countries. IDB has been in close contact with the specialized agencies of the United Nations. It was represented at the annual meetings of IBRD and IMF, at the 12th Meeting of FAO in Rome, the Tenth Period of Meetings of ECLA in Argentina. The United Nations Special Fund purchased participations in 1963 amounting to $1.6 million in 5 loans authorized from the Fund for Special Operations. IDB also participated in the Conference of Finance Ministers held in Sudan, at which meeting the Agreement establishing ADB was adopted. IDB assisted in the preparatory stages of ADB.

IDB has close relationships also with national development institutions. It was felt from the early stages of its operation that "the experience of national organizations, and their knowledge of the economy and of the needs of their respective countries, may enable them to become suitable channels for the utilization of part of the bank's resources."[77] IDB does not generally consider projects involving loans of less than $100,000. Such small loans are extended through national development institutions which redistribute them to small scale enterprises and small projects. During the past three years of its operations, 70 per cent of its financing extended to the private sector was channeled through national development institutions.[78]

IDB's relationships with OECD, EEC, ADELA, and private institutions in connexion with its mobilization of external capital were discussed in IV. 8 (2).

[74] For the questionnaire, see E/CN.14/FMAB/6.

[75] ECN.14/FMAB/22/Rdd. 1, Report of the Commission on Interim Arrangements and the Location of the Bank (Addendum).

[76] IDB, *Fourth Annual Report 1963*, p.10.

[77] *Statement by the President of the IDB*, First Meeting of the Board of Governors, February 1960.

[78] See chapter IV.8(r)(c).

VII. Synoptic table

	I D B	*A D B*
Membership	Members of OAS (20) (including U.S.)	Independent African States (32)
Capital	1. Authorized Capital $850 million. Paid-up $400 million and Callable $450 million. 2. Fund for Special Operations $150 million (to be paid by the members).	Authorized Capital $250 million. Paid-up $125 million and Callable $125 million.
Sources of funds	(1) Subscription by members to Ordinary Capital. (2) Contribution by members to Fund for Special Operations. (3) Borrowing in the form of bond issue, participation to loans, etc. (4) Trust Funds (e.g. Social Progress Trust Fund $394 million).	(1) Subscription by members to Ordinary Capital. (2) Borrowing. (3) External contributions in forms other than subscription are expected.
Subscription	Initial subscriptions to the authorized capital ranged from $350 million (U.S.) to $4.14 million (Costa Rica, etc.)	Ceiling = $30 million (U.A.R.) Floor = $1 million (Togo, etc.)
Purpose	To contribute to the acceleration of the process of *economic development* of the member countries, individually and collectively. (Art. I(1)).	To contribute to the *economic development and social progress* of its members—individually and jointly. (Art 1)
Functions	(1) To promote the investment of public and private capital for development purposes. (2) To utilize its own capital, funds raised by it in financial markets, and other available resources, for financing the development of the member countries, *giving priority to those loans and guarantees that will contribute most effectively to their economic growth.* (3) To encourage private investment in projects, enterprises, and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions. (4) To co-operate with the member countries to *orient their development policies toward a better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade.*	(1) To use the resources at its disposal for the financing of investment projects and programmes relating to the economic and social development of its members, *giving special priority to:* (*i*) *projects or programmes which by their nature or scope concern several countries,* and (*ii*) *projects or programmes designed to make the economies of its members increasingly complementary and to bring about an orderly expansion of their foreign trade.* (2) To undertake, or participate in, the selection, study and preparation of projects, enterprises and activities contributing to such development. (3) To mobilize and increase in Africa, and outside Africa, resources for the financing of such investment projects and programmes. (4) To promote investment in Africa of public and private capital in projects or programmes designed to contribute to the economic development or social progress of its members.

VII. Synoptic table (Continued)

	I D B	*A D B*
Membership	Members of OAS (20) (including U.S.)	Independent African States (32)
Functions *(cont'd)*	(5) To provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals. (Art. I (2)).	(5) To provide such technical assistance as may be needed in Africa for the study, preparation, financing and execution of development projects or programmes. (6) To undertake such other activities and provide such other services as may advance its purpose. (Art. 2)
Criteria for operation	(1) Loans are made principal for financing specific projects, *including* those forming part of a national or regional development programme. It may, however, make or guarantee over-all loans to development institutions for relending. (2) It should take into account the ability of the borrower to obtain finance from private sources and the capacity of the borrower and his guarantor, if any, to meet obligations. (3) The rate of interest and other conditions should be appropriate. (4) In guaranteeing, suitable compensation for its risk should be received. (5) It should not finance undertaking in the territory of a member, if that member objects thereto. (6) With respect to loans and guarantees to non-governmental entities, the bank may require guarantee by the member, etc. (7) The bank only finance projects in which the eventual borrower has made or plans to make a substantial investment. As a general rule, *it finances no more than 50% of the cost of a project.* In the case of loans to the governments, *consideration is given to the contribution being made by the country to the total development effort.* (8) The bank *does not finance large-scale projects,* because of the limited size of its resources. It can, however, participate with other institutions in financing such projects.	(1) (*i*) Loans are made, *except in special circumstances,* for the financing *of specific projects, or groups of projects, particularly* those forming part of a national or regional development programmes. It may, however, include global loans to development institutions for relending. (*ii*) In selecting the projects the bank should be guided by the provisions of *Function (1)* in the above and *by potential contribution of the project concerned to the purpose of the bank rather than by the type of the projects.* It should pay *special attention to the selection of suitable multi-national projects.* (2), (3), (4), (5), (6) are essentially the same as IDB. (7) The bank should apply sound banking principles to its operations, in particular, to its investments in equity capital. *It should not assume responsibility for managing* any institution or undertaking in which it has an investment.

VII. Synoptic table (Continued)

	I D B	A D B
Membership	Members of OAS (20) (including U.S.)	Independent African States (32)
Forms of operations	(1) Loans. (2) Guarantees.	(1) Loans. (2) Guarantees. (3) Investment in equity capital.
Recipients	(1) Member governments. (2) Agencies and political sub-divisions of the members. (3) Enterprises in the territories of the members.	(1) Member governments. (2) Agencies and political sub-divisions of the members. (3) Institutions and undertakings in the territories of the members. (4) International and regional agencies and institutions concerned with the development of Africa.
Administration	(1) Board of Governors One governor and one alternate from each member (5 years), (2) Board of Executive Directors — 7 members (3 years) { 1 appointed by U.S. 6 elected by L.A. countries. — Each director appoints an alternate — Directors and alternates must be citizens of the member countries. — None of the elected directors and alternates may be of the same citizenship. (3) President Elected by the Board of Governors (5 years) — Executive Vice President appointed by the Board of Executive Directors on the recommendation of the President. — Vice President in charge of Fund for Special Operations appointed by the Board of Executive Directors on the recommendation of the President.	(1) Board of Governors One governor and one alternate from each member (5 years). — They must be nationals of the member countries. (2) Board of Directors — 9 members (3 years) elected by B.G. — Each director appoints an alternate. — Directors and alternates must be nationals of the member states. — No alternate may be of the same nationality as his director. (3) President Elected by the Board of Directors (5 years). — He must be a national of a member State. Vice President(s) Elected by the Board of Directors on the recommendation of the President.
Voting Power	Each member has *135* votes plus one vote for each share capital stock held by that country.	Each member has *625* votes plus one vote for each share of capital stock held by that country.

3. SOME OF THE FINANCIAL ASPECTS RELATING TO THE ESTABLISHMENT OF AN ASIAN DEVELOPMENT BANK

Introduction

One of the recommendations of the Working Group of Experts on Regional Economic Co-operation endorsed by the Ministerial Conference on Asian Economic Co-operation held at Manila in December 1963 pertains to the establishment of a regional development bank in the ECAFE region.

The Group of Experts observed that one of the major impediments to industrialization and expansion of trade among countries of the ECAFE region was the low level of the volume of capital available for investment in relation to the development needs of many countries of the region, but that the capacity to save and the capacity to channel savings into investment varied from country to country. There was a need for an institution which could further mobilize and pool part of the otherwise untapped capital resources of many countries and direct them from national uses to regional uses, particularly to the development of industrial and mineral projects which needed enlarged markets to be able to function more economically, and which might augment local savings with capital from outside the region.[1]

As in the case of other regions, such an institution could appropriately take the form of a regional development bank. This regional development bank need not perform functions that duplicate or conflict with those of existing international financial institutions such as the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC). It could be used to supplement or complement existing national development finance institutions rather than supplant them. Nor need it disturb or supplant current aid relationships between Asian countries and other capital exporting countries. In other words, it would be a means with which to open up new avenues for economic development in Asia and new opportunities for additional co-operation within the ECAFE region.

The Expert Group also noted that the size of the capital needs of the developing countries of the region was such that existing national and international financial institutions could not be expected to meet all of them. Additional capital from other sources would have to be secured to fill the gap.

The Expert Group was of the view that the implementation of any scheme of trade liberalization would involve some degree of co-operation of industrial development if the benefits expected to flow from such liberalization were to be maximized. Since the size of the market was small, such co-ordination would be necessary in order to avoid waste of resources through duplication of industrial capacity. It therefore suggested that one way by which co-ordination could be secured was through a regional financial institution which could provide finance for the development of industrial, mineral, and other developmental projects. It was felt that the bank through moral suasion and its lending policies could indirectly effect the desired degree of co-ordination which would not be possible to attain if undertaken by a formal body at a supra-national level.

It was in the light of these observations that the Ministerial Conference on Asian Economic Co-operation endorsed the principle of establishing an Asian development bank and requested the ECAFE secretariat to convene an *ad hoc* expert group to work out an acceptable scheme for carrying it out.

Two of the major questions pertaining to the establishment of a regional development finance institution such as an Asian development bank, are: (*a*) the size, structure and sources of the bank's financial resources; and, (*b*) the scope and fields of operations of the bank. The former will be discussed at some length in this note, drawing from experience gained in the establishment of similar institutions in regions elsewhere, and in the context of the conditions prevailing in the ECAFE region.

This note is intended merely to provide some background material for the Expert Group and does not propose to give the answers to the many complicated questions likely to be raised in connexion with the financial aspects of the proposed Asian development bank.

I. Magnitude of the resources of a regional development bank

The question of how large the resources of a regional development bank should be is very difficult to answer. There is neither a categorical answer nor single formula to determine the "proper" size of

[1] Report of the Expert Group on Regional Economic Co-operation 1963.

a given regional development bank's capitalization.[2] However, certain considerations will be useful in finding an approximate answer to the question.

The extent of the region under consideration in terms of the number of countries covered by it, its geographical size, population, and various economic indicators are some of the factors that help in arriving at an approximation as to the desirable size of capital resources which a development bank designed to serve the region should have. The levels or stages of development of the countries of the region and of the region as a whole, the nature of their economies and related characteristics are also relevant factors. Since the share capital of such a bank would presumably be subscribed by member countries, the capacity of members to contribute to it should also be taken into acocunt. Since most countries have national development plans indicating goals or targets and capital requirements in relation to expected levels of domestic resources as well as the direction of development, it follows that appropriate consideration must be also given to these plans, in which there are considerable differences of emphasis. Some countries emphasize the development of infrastructure or economic overhead facilities, while others give higher priorities to manufacturing and industrial development; still others attach the greatest importance to agriculture. Another relevant factor is the adequacy of existing development financial institutions in countries of the region under consideration.

The proper size of the capital resources of a regional development bank also depends considerably upon the nature and scope of the functions expected of the institution, or in other words, the extent and manner of the impact the regional bank expects to have on the development of the region concerned. A regional bank which merely aims to provide supplementary finance or the foreign exchange costs of national projects is not likely to require a larger volume of capital resources than one that expects to provide the bulk of the capital requirements of both national and multi-national projects catering to regional markets. A bank that is designed to assist in the promotion of intra-regional trade as well would, of course, require relatively much larger capital resources than either of them.

The question of the size of capitalization was resolved in the cases of the Inter-American Development Bank (IDB) and the African Development Bank (ADB), but with great difficulty.

The total size of IDB's initial authorized capital of $850 million and Fund for Special Operations (special resources) of $150 million were the outcome of negotiations between the Latin American member countries and the United States. Various amounts of anticipated needs for public foreign financing in the Latin American region were considered. Latin American countries suggested an initial capitalization of more than $1,000 million, but the United States favoured a somewhat lower figure. As a result of the negotiations between the Latin American countries and the United States, the initial capitalization of $1,000 million, including the Fund for Special Operations, was agreed upon by the countries concerned.[3]

In its consideration of the proper amount of share capital for ADB, a panel of experts noted the relationship between the size of the initial capitalization of IDB and the total national income of the region covered by the bank. It observed that the portion of IDB's initial share capital which was to be contributed by Latin American members corresponded to roughly one-half per cent of the total national income of the Latin American region at that time. When applied to Africa, one-half per cent of total regional income was equivalent to approximately from $150 to $200 million. It was agreed that $200 million over 5 years or $40 million a year represents the level of contribution that African states could subscribe to the capital. An estimate was also made as to the capital requirements of a modest development programme for the region. It suggested that such a programme would require roughly $1,000 million over a five-year period or approximately $200 million per year. About three-fourths of such an amount or roughly $800 million over the five-year period was expected from all possible sources outside the region.

Actually, the final amount of $250 million was arrived at by adding $50 million to the original estimate of $200 million (one half per cent of regional income) to take care of any desired increases by member countries in their shares of the capitalization of ADB.[4]

Both IDB and ADB have broad functions. IDB is charged with the objective of contributing to the acceleration of the process of economic development of the member countries, individually and collectively. To achieve that objective, IDB is designed to promote public and private investment for development purposes, finance loans on reasonable terms and conditions, and provide guarantees for projects that will

[2] *Problems and Practices of Development Bank*. A study published for IRBD by the John Hopkins Press, Baltimore.

[3] The initial authorized capital stock of IDB is $850 million, of which United States participation amounts to $350 million and the balance of $500 million was shared by Latin American countries.

[4] Ethiopia and Somalia were the first two cases.

most effectively contribute to the economic growth of member countries; assist member countries in making their economies more complementary; foster orderly growth of foreign trade; and provide technical assistance in various forms.[5] It is interesting to note that, after only three years of operations, IDB decided to increase, its capitalization in order to enable it to maintain a sufficient rate of lending activities.

No single formula or specific set of factors were used by the organizers of either IDB or ADB in determining the initial sizes of their capitalizations.[6] The amount finally adopted by ADB was the result of a consideration of many factors, including the rule of thumb of one-half per cent of total regional national incomes, the financial requirements of regional development programmes, the scope of operations of the bank, its membership, and, possibly the desire of certain member countries to acquire relatively larger shares in the capital stock of the bank.[7]

The basic objective of ADB is to promote and accelerate the economic development and social progress of the whole African region.

The ADB charter provides that the bank must give special priority to projects which by their nature and scope concern several countries and also to those that are designed to make the economies of member countries more complementary and will promote the orderly expansion of their foreign trade.

It will be noted that both IDB and ADB emphasize those types of projects which assist in promoting growth not only in individual countries but in their respective regions as well. Furthermore, both are charged with the financing of a wide area of industrial and social development. Both give attention to the development of intra-regional trade.

The European Investment Bank (EIB) has a capitalization of $1,000 million. Its principal objective is the solution of the investment problems connected with the development of the European Common Market. But its present functions emphasize the financing, through loans and guarantees, of projects for all sectors of the economy, including agriculture, basic industry and transport, that are designed to contribute to the development and raising of the standards of living of the less developed areas of the European Community.

As has been discussed earlier, the question of the proper size of initial capitalization for a multinational development finance institution has been a difficult one to resolve for existing international as well as regional financial institutions. The case of an Asian development bank may not be an exception.

However, on the basis of the experience of existing regional financial institutions and in the light of conditions currently prevailing in the ECAFE region, some indications of the approximate initial size of the capitalization of the proposed Asian development bank may be secured. One such indication would be, learning from the experience of the IDB and ADB method, an estimation of an amount equivalent to roughly one-half per cent of the region's total national incomes. It is estimated that one-half per cent of the total ECAFE national income of about $65,000 million in 1962 (excluding Japan, Australia and New Zealand which presumably would, like the United States in IDB, not be recipients) would be equivalent to roughly $325 million, which compares meaningfully with the $500 million and $200 million for IDB and ADB, respectively, since each figure corresponds to the portion of capital stock subscribed by the recipient members of each bank.[8]

If the three regions were ranked in order of the sizes of their national incomes or gross national products, Asia would rank first, then Latin America and Africa third. The gross national products of these three regions in 1962 were estimated at $147,000 million, $57,000 million and $25,000 million, respectively.[9] The same order of rank applies even more markedly to the population of the three regions; according to the most recent data available, Asia has a total estimated population of 904 million; Latin America 201 million; and Africa, 278 million. This order similarly applies to the geographical or physical coverage of the three regions. The order of rank, however, understandably changes when applied to comparative *per capita* regional incomes. Latin America with its *per capita* regional income of

[5] While the charter of IDB does not specifically provide for intra-regional trade, the bank has initiated a trade financing programme concerning trade in capital goods among countries of Latin America.

[6] The European Investment Bank (EIB) has an initial capitalization equivalent to $1,000 million. Information is not available to the manner by which this figure was determined.

[7] There is a reason for this in that, with certain systems of voting, an increase in a country's contribution vis-a-vis other members, also increases its relative strength in the organization. For instance, the increase in Ethiopia's share of the capital stock of ADB from $6.3 million to $10.3 million also increased the country's voting power from 3.0 per cent of ADB's total voting power to about 4.0 per cent.

[8] If Japan, Australia and New Zealand are included, this amount becomes approximately $600 million. The contributions of these countries would raise the capital stock of the proposed Asian development bank, as the contribution of the United States did in the case of IDB.

[9] For Asia, an aggregation of GNP of regional ECAFE member countries. For Latin America and Africa, an aggregation of GNP of regional member countries of IDB and ADB, respectively. This coverage applies also to populations. The figure for Asia is large because of the inclusion of the developed countries of the region, namely, Japan, Australia and New Zealand. If these countries were excluded, the GNP of the remaining developing countries would total $74,000 million.

approximately $285 ranks first; second, Asia with $160; and, third Africa with $90; this indicates the differences of the levels of economic development among the three regions.

Almost every country of the ECAFE region has a development plan of one type or another. These plans are aimed at accelerating the rate of economic growth, but they vary as to emphasis and as to the direction which development should take. In some countries such as Afghanistan and Nepal, emphasis is placed on the development of infrastructure or economic overhead. In India, the Philippines and Thailand emphasis is placed on industrial development; while, in others such as Brunei, Ceylon and Indonesia, high priority is given to the development of the agricultural sector.[10]

An aggregation of the projected capital resources that are expected to be available to individual countries and the investment targets to be met by them during the plan periods shows to some extent the order of magnitude of the gap that would have to be filled if the planned growth targets are to be achieved. The total projected external assistance necessary for current national development plans of 11 regional countries is estimated at about $2,600 million annually over the plan periods. It will be far over $3,000 million for all the developing countries of the region. On the other hand, the estimated total capital inflow into the region in recent years is only approximately $2,000 million a year, thus reflecting a total gap of about $1,000 million a year.[11] The absence of any special scheme of mobilizing this additional external capital suggests that some sort of regional machinery would be of assistance in performing this task.

As was earlier mentioned, the size of the capital stock of a regional development bank would to some extent also depend upon the functions the bank is charged to perform. The more limited its functions, the relatively smaller its capitalization could be.

An Asian development bank would presumably have objectives and functions similar to those of the existing regional development financial institutions. The bank should have the basic objective of forwarding the economic growth of the countries of the region, as well as of the region as a whole, through the provision of additional finance, financial guarantees, technical assistance and, perhaps in a limited way, the promotion of intra-regional trade. It would need to promote a wide range of development activities both national and multi-national, especially agricultural, industrial and other types of development projects including those related to the promotion of intra-regional trade.

The size of capitalization will depend on no small measure on the membership of the proposed institution. A region composed of only a few relatively less developed countries could expect to raise a much smaller amount than one composed of a larger number of relatively more developed countries. By the same token, a regional financial institution, whose membership is restricted to a region in which most of the countries are still developing, could afford a much smaller capitalization than one whose membership includes non-regional countries, especially if they are more economically advanced.

The size of the initial capitalization of IDB of $850 million is partly explained by the fact that about 40 per cent of this amount was subscribed by the United States. On the other hand, the comparatively small capitalization of ADB is partly due to the restriction of the membership of the institution to African countries only.

It may be recalled that the panel of experts during its deliberations on the size of the capitalization of ADB estimated that the bank might be able to start with a capitalization of $1,000 million if all possible contributions from non-regional sources were taken into account. It had realized that the wholly African character of the bank would impose a limit to size of its capitalization.

EIB, which started with capital resources of $1,000 million, is, of course, a special case in that its membership comprises some of the wealthiest countries in the world.

Some lessons can be drawn from the experience of IDB and ADB. An Asian development bank whose membership is limited to regional countries would be able to raise a comparatively smaller initial capitalization than if it extended its initial membership to say, the United States, United Kingdom, Union of Soviet Socialist Republics, France and the Netherlands, non-regional members, and other developed countries.

The initial authorized capital of a regional bank may have to provide some room for increases which may be desired by member countries. The motivation of member countries to increase their contributions to the capital stock of the regional institution is illustrated in footnote 7 (page 73). Unless all the members are allowed the same proportional increases in their

[10] Please see the ECAFE document entitled "Foreign Trade Aspect of National Development Plan of Countries in the ECAFE region."

[11] Professor P.N. Rosenstein Rodan in a recent study estimated that the annual foreign capital requirements of countries of the region could well be of the order of $3,000 million.

respective shares of the bank's capitalization, any increase in a member's share increases its relative voting power in the bank.

One of the recent increases in the capital of IDB, amounting to $300 million, was made to provide for the admission of new members and for any increases in the shares of the capitalization of the bank desired by Latin American member countries. The initial capitalization of ADB provided for the same contingency by increasing the $200 million estimated initial capitalization by $50 million and thus raising it to $250 million, at which figure it now stands. Some similar provision may be considered in determining the size of the initial capitalization of the Asian development bank. The exact magnitude is rather difficult to ascertain at this stage, but future consultation with countries of the region could give indications as to the amounts they would be willing to subscribe.

The adequacy of existing domestic development finance institutions has also some bearing on the determination of the magnitude of the capital stock of a regional development bank; for the latter's responsibility for development financing would become larger where the quantitative financing capacity of the existing institutions is more limited; conversely, the magnitude of its capital would become larger where the qualitative channelling capacity of those institutions is more satisfactory because, in such a case, it could extend additional funds to smaller projects and borrowers. National development financial institutions have as their primary task the furthering of the economic development of the economies in which they operate by mobilizing and channelling finance and performing functions not otherwise undertaken by commercial banks and other domestic financial institutions. They are conversant with the economies they cover and have a thorough knowledge of the needs of their respective countries. They can thus function as channels for any regional development finance institution in activities which, on account of their nature and size, would not be appropriate for that institution to undertake directly.

The charters of both IDB and ADB provide for some degree of relationship between them and national development finance institutions. In 1963 alone, more than $50 million or 30 per cent of IDB's total loan operations were loans for relending by national development finance institutions. Moreover, during the past three years, about 70 per cent of the bank's financing of the private sector was channelled through national development institutions which redistributed loans from the bank to small-scale enterprises and projects.[12]

Almost all countries of the ECAFE region have some sort of development financial institutions,[13] many of which have established relationships with international finance institutions. These arrangements take several forms, namely:

(1) direct participation in the capital of the national development banks;

(2) extension of general loans and credit lines to the national development banks; and

(3) using the national development banks as intermediaries for relending funds to smaller projects or enterprises.

Many of the development banks in the region have acquired considerable experience in development financing and have been quite effective and successful in their operations. They can thus be readily available as intermediaries of the proposed Asian development bank.

As mentioned earlier, the size of the initial capitalization of a regional financial institution is not determined by any single one of the foregoing factors. The various factors that influence size are closely inter-related, thus making the task more difficult. As in the cases of IDB and ADB, the size of the initial capitalization of the proposed Asian development bank may have to be determined on the basis of practical considerations.

II. Subscription to the capital stock

(1) *Share capital*

In accordance with usual international development banking practice, only a portion of the authorized capital of the bank is paid up by the shareholders. The other portion, usually larger, remains unpaid until a specified contingency arises. This is called the callable capital which serves as a guarantee fund for the borrowing activities of the bank.[14]

There is no single formula for determining the exact proportions between the paid-in and callable capitals of a regional development bank. Presumably, the volume of cash resources that a regional development bank should have upon its establishment

[12] Inter-American Development Bank, *Fourth Annual Report, 1963.*

[13] For a more detailed review of national development finance institutions in the ECAFE region, see the unpublished paper prepared by the Trade Division entitled "National Development Finance Institution in Countries of the ECAFE Region".

[14] Although IFC and IDA do not have callable capital, IFC members may postpone payment, and IDA's subscriptions are paid in periodic installments.

is influenced by the volume of lending operations it expects to undertake during the early years of its organization while it is still finding its way,[15] the speed at which it hopes to achieve the credit standing necessary for it to be able to borrow with ease in the capital markets, once it becomes a going concern, and the capacity of members to pay their subscriptions.

Another important consideration is the size of the capitalization itself. A small percentage of a large capitalization could be much larger in absolute terms than a larger percentage of a relatively smaller capitalization.

The extent of dependence that the bank desires to place on borrowing is, of course, another factor. The main backing of the bank borrowings is its callable capital, so that a larger reliance on borrowed funds requires a correspondingly larger proportion of callable capital relative to paid-in capital.

IDB had an initial callable capital equivalent to $450 million, of its initial authorized capital of $850 million while the callable capital of ADB was $125 million of its initial authorized capital of $250 million. Members of IDB and ADB have respectively paid in eight-seventeenths (less than one-half) and one-half of their shares of the capitalization of their respective institutions.

The relative proportions of the paid-in and callable capital of the proposed Asian development bank may have to be influenced by the factors discussed above.

(2) *Allocation of subscription*

Another of the basic problems that faced the organizers of the African Development Bank was how to arrive at a basis for assessing the amount of the subscriptions of the members to the share capital of the bank. Several methods were considered, including: (*a*) an equal subscription for each member irrespective of size and wealth, (*b*) subscriptions in proportion to the size of population of member countries; (*c*) the scale of contributions used by the United Nations, IMF and IBRD, and, (*d*) an integrated scale that takes into account of such economic factors as exports, gross domestic product and tax revenues of member countries for a past number of years.[16]

The allocation scheme finally adopted by ADB, after considering various methods, was the integrated scale.[17] Various weights were assigned to the different components of the scale based on current prices. Gross domestic product was given a weight of 0.65; tax revenues, 0.15; and exports, 0.20.[18] The organizers of the bank felt that the integrated scale took account of differences in the financial and economic capacities of member countries and that it served as a means of securing the maximum resources for the bank consistent with the capacity of individual countries. The scheme was, however, somewhat modified with the introduction of minimum and maximum limits equivalent to $1 million and $30 million, respectively. Thus, the initial subscriptions to the authorized capital stock of ADB ranged from $1 million for the Central African Republic and Togo to $30 million for the United Arab Republics.

The allocation of subscriptions of member countries to the capital stock and Fund for Special Operations of IDB was determined as follows:

a. the contribution of the United States was first ascertained. The United States agreed to a total share of $450 million in the capital stock and Fund for Special Operations;[19]

[15] If the bank has more resources than are actually needed during its initial period, it may invest these temporarily idle funds in high grade securities and thus derive some income from them during the interim. In the case of IDB, much of the income during its initial period derived from such investments.

IDB: *Results of Ordinary Operations* (In million U.S. dollars).

Year	*Total income*	*Income from loans*
1960	0.84	0
1961	2.49	0.09
1962	6.89	1.31

[16] The principles of equal sharing and progressivity may also be used, but their disadvantages far outweigh those of allocation on a proportional basis. They were therefore ruled out by the ADB.

[17] GDP was adjusted by population as follows:

$$X_y = Y \times \frac{100\text{-}P}{100}, \text{ where } X_y \text{ is assessable GDP, Y is}$$

GDP and P is percentage of population.

Tax revenue was adjusted by tax effort or tax burden ratio as follows:

$$X_t = T\ (1 - \frac{T}{Y}), \text{ where } X_t \text{ is assessable tax revenue, T is}$$

tax revenue and Y is GDP.

These methods of adjustments as well as a method of weighting employed in the case of ADB seem to include some degree of arbitrariness. It is easily seen that the GDP formula in the above would not give appropriate results if used for ECAFE countries, as their sizes of population differ markedly from one another.

[18] It must also be mentioned that the tax revenue factor, while reflecting the level of government or public saving, should nevertheless be adjusted, if it is to be used for our purpose; for those countries where the burden of military commitments for internal and external security are heavy, as in the cases of Indonesia, South Korea and to some extent India, are compelled to resort to deficit financing so that the share of the government is but a small proportion of total domestic savings. The ability of the government, especially in cases of this kind, to undertake a given public investment programme depends on its ability to secure an excess of revenues over current expenditures.

[19] The United States contribution to capital stock was $350 million and to the Fund for Special Operations, $100 million.

b. the formula used by the International Monetary Fund (IMF) in 1959 in assessing the contributions of Latin American countries to IMF was adopted as a basic factor;

c. the contributions of Latin American countries to IMF as derived in (*a*) above were converted into percentages as applied, with slight adjustments, to the agreed total contribution of the Latin American countries members of $550 million.

The subscriptions of Latin American members of IDB ranged from $4.14 million for several small countries to $103.14 million for the larger countries such as Argentina and Brazil. The United States share of the total initial capital stock of the bank amounted to $350 million or about 40 per cent.[20]

Below is a comparative table showing the capital allocation of IDB and ADB member countries:

[20] Inter-American Development Bank, *Third Annual Report, 1962.*

Table 1. Initial Subscriptions to The Authorized Capital Stock of IDB and ADB

ADB

Country	*Amount of contribution (US$ million)*
Algeria	24.50
Burundi	1.20
Cameroun	4.00
Central A.R.	1.00
Chad	1.60
Congo B.	1.50
Congo L.	13.00
Dahomey	1.40
Ethiopia	10.30
Gabon	1.30
Ghana	12.80
Guinea	2.50
Ivory Coast	6.00
Kenya	6.00
Liberia	2.60
Libya	1.90
Madagascar	5.20
Mali	2.30
Mauritania	1.10
Morocco	15.10
Niger	1.60
Nigeria	24.10
Rwanda	1.20
Senegal	5.50
Sierra Leone	2.10
Somalia	2.20
Sudan	10.10
Tanganyika	5.30
Togo	1.00
Tunisia	6.90
Uganda	4.60
UAR (Egypt)	30.00
Upper Volta	1.30
Total	211.20

IDB

Country	*Amount of contribution (US$ million)*
Argentina	103.14
Bolivia	8.28
Brazil	103.14
Chile	28.32
Colombia	28.30
Costa Rica	4.14
Dominican Republic	5.52
Equador	5.52
El Salvador	4.14
Guatemala	5.52
Haiti	4.14
Honduras	4.14
Mexico	66.30
Nicaragua	4.14
Panama	4.14
Paraguay	4.14
Peru	13.82
United States	350.00
Uruguay	11.06
Venezuela	55.26
Total	815.16

Somewhat different formulae than that used in estimating the contribution of member countries of ADB may be tried for the Asian development bank. Instead of GDP adjusted in a particular way by population, we could use GDP without such an adjustment and introduce *per capita* GDP in addition.[21]

The value of adding a fourth factor is that it enables the scale to take into account the casual relationship between *per capita* income and domestic savings. This relationship is not only one way; the two factors are somewhat interrelated. It has for instance been observed, with but very few exceptions (South Korea and Burma), that in the ECAFE regional countries with the highest *per capita* incomes, such as Japan and Malaysia, also have the highest ratio of gross domestic savings.[22]

Different scales with different components and of varying weights may also be tried. The effects of applying two different types of integrated scales are reflected on the table below.[23] An alternative may be to use the IMF quota, as in the case of IDB, and the United Nations Scale of Assessment.

[21] GDP was converted into US$ at the exchange rates of the countries concerned. It must however be borne in mind that this does not necessarily reflect true foreign purchasing parities unless the exchange rates are adjusted by a set of weights which varies only with *per capita* GDP. See "International Burden-Sharing: Comment", James E. Price. The Journal of Political Economy, Vol. LXX II No.3, June 1964.

[22] See "Financing of Economic Growth", *Economic Survey for Asia and the Far East, 1961,* United Nations, (Sales No.62, II.F.1).

[23] The export factor in scale II was replaced with the balance of trade factor. The trade gap seems to be a better indicator of capacity to pay than exports.

Integrated scales for estimating contribution to capital stock applied to a hypothetical initial capital stock of $200 million

Table 2. Allocation of Subscriptions to Share Capital according to Experimental Integrated Formulae

	I		II	
	GDP 0.5 Per Capita GDP 0.2 Tax Revenue 0.15 BOT 0.15		GDP 0.5 Per Capita GDP 0.2 Tax Revenue 0.15 Export 0.15	
	Factor (%)	*Contribution (million dollars)*	*Factor (%)*	*Contribution (million dollars)*
Afghanistan	1.35	2.70	0.63	1.26
Brunei	3.91	7.82	3.14	6.28
Burma	1.63	3.26	1.08	2.16
Cambodia	1.35	2.70	0.64	1.28
Ceylon	2.01	4.02	1.61	3.22
China (Taiwan)	1.87	3.74	1.34	2.68
Hong Kong	1.84	3.68	2.00	4.00
India	15.32	30.64	16.66	33.32
Indonesia	5.13	10.26	4.93	9.86
Iran	3.75	7.50	3.62	7.24
Japan	19.79	39.58	23.35	46.70
Korea, Republic of	2.28	4.56	1.77	3.54
Laos	1.13	2.26	0.34	0.68
Malaysia	4.95	9.90	5.36	10.72
Nepal	0.40	0.80	0.40	0.80
Pakistan	3.43	6.86	3.24	6.48
Philippines	4.41	8.82	4.20	8.40
Thailand	2.26	4.52	1.90	3.80
Viet-Nam, Republic of	1.79	3.58	1.20	2.40
Australia	13.86	27.72	15.09	30.18
New Zealand	7.54	15.08	7.50	15.00
TOTAL	100.00	200.00	100.00	200.00

Note: (1) GDP represents gross domestic product.
(2) BOT represents balance of trade.
(3) This table is a result of only a rough trial, using 1958 GDP, 1961 tax, 1960 exports and BOT. To be more accurate, an average of several years should be taken for fluctuating indicators such as BOT. In additon, there may be a doubt as to relevancy of tax revenue.

As can be seen from the above table, the effects of the two scales on the estimate contribution of each country differ from one country to another. Scale I has a range of from $39.58 million for Japan to $0.80 million for Nepal; and, Scale II from $46.70 million for Japan to $0.68 million for Laos. Allocation by IMF Quota and United Nations Scale of Assessment give still different results as shown in tables 3 and 4.

Table 3. Allocation of Subscriptions to Share Capital According to IMF Quotas (As of 30 April 1963)

(In million U.S. dollars)

	IMF Quotas	*Factor (%)*	*Contribution (million dollars)*
Afghanistan	22.5[a]	0.78	1.56
Brunei	(7.5)[b]	0.26	0.52
Burma	30.0	1.04	2.08
Cambodia	(7.5)[b]	0.26	0.52
Ceylon	45.0	1.56	3.12
China	550.0	19.02	38.04
Federation of Malaya	35.0	1.21	2.42
Hong Kong	(7.5)[b]	0.26	0.52
India	600.0	20.75	41.50
Indonesia	165.0	5.71	11.42
Iran	70.0	2.42	4.84
Japan	500.0	17.28	34.56
Korea, Republic of	18.7	0.65	1.30
Laos	7.5	0.26	0.52
Nepal	7.5	0.26	0.52
Pakistan	150.0	5.19	10.38
Philippines	75.0	2.59	5.18
Thailand	45.0	1.56	3.12
Viet-Nam, Republic of	22.5[c]	0.78	1.56
Australia	400.0	13.84	27.68
New Zealand	125.0	4.32	8.64
TOTAL	2,891.2	100.00	200.00

[a] As of the end of 1963.
[b] Assumed.
[c] As of the end of 1963.

Table 4. Allocation of Subscriptions to Share Capital According to the United Nations Scale of Assessment

(For 1963)

	Per cent of UN total	Factor (%)	Contribution (million dollars)
Afghanistan	0.05	0.38	0.76
Brunei	(0.04)[a]	0.30	0.60
Burma	0.07	0.53	1.06
Cambodia	0.04	0.30	0.60
Ceylon	0.09	0.68	1.36
China	4.57	34.60	69.20
Federation of Malaya	0.13	0.98	1.96
Hong Kong	(0.04)[a]	0.30	0.60
India	2.03	15.37	30.74
Indonesia	0.45	3.41	6.82
Iran	0.20	1.51	3.02
Japan	2.27	17.18	34.36
Korea, Republic of	(0.05)[a]	0.38	0.76
Laos	0.04	0.30	0.60
Nepal	0.04	0.30	0.60
Pakistan	0.42	3.18	6.36
Philippines	0.40	3.03	6.06
Thailand	0.16	1.21	2.42
Viet-Nam, Republic of	(0.05)[a]	0.38	0.76
Australia	1.66	12.57	25.14
New Zealand	0.41	3.11	6.22
TOTAL	13.21	100.00	200.00

[a] Assumed.

Once the method of allocation is decided, it may also be used for determining the contributions of member countries to the other capital resources of an Asian development bank, such as the fund for special operations, if such a fund is to be established. It may not however be as meaningful in estimating the shares of prospective non-regional members as they may not be willing to be assessed as having the same status as the regional members. For instance, assuming that the United States were to become a member of the Asian development bank, its expected contribution using the integrated scale II for a capitalization of $200 million would be over $160 million, an amount which it may not be prepared to contribute to the bank.[24]

ADB, in assessing its members, adopted the floor (minimum) and ceiling (maximum) principles so that assessments of below $1 million were raised to that amount and no member country contributed more than $30 million. These principles may be of some use in the case of the proposed Asian development bank, so that countries which would otherwise be assessed less than $1 million may be assessed by that amount, with a ceiling of say, $40 million (this would of course depend upon the final size of the capitalization of the bank) for Japan.

[24] Obviously the reason for this is that the spreads between the gross domestic product, exports, tax revenues, and *per capita* income of the United States and the regional countries are too wide.

Regardless of what method is adopted it must be stressed that it should be as equitable as possible in that it should reflect the economic capacity or ability to pay of member countries on the basis of meaningful indicators and also that extreme differences among members' subscriptions should be avoided.[25]

III. Capital structure of a regional development bank

A regional development bank cannot and need not completely rely on its capital stock for the financing of projects falling within the scope of its objectives and functions. The more the share capital is supplemented by conventional loan funds, the greater is the power of the bank to maintain a higher level of lending operations.[26] And, if the policy of the bank is one of profit making, the earning power of the shares is further increased. Thus, the higher the proportion of borrowed funds to share capital, the greater the capacity of the bank to engage in financing and the greater the potential earning power of share capital. The proportion of total resources put up by shareholders must however not be too small, since the possibility for the bank to obtain further capital by means of loans is otherwise prejudiced. Prospective lenders will be wary of lending to the bank unless they feel reasonably certain that it has an equity cushion adequate to protect their interests.

There is no single debt equity ratio which a regional development bank may adopt. There are a variety of such ratios in practice.[27] For instance, IDB's ratio was approximately 0.1:1 as of the end of 1963.[28] EIB specifically provides in its statute that the amount of current loans which the bank may incur should not be more than two and one-half times its share capital of $1,000 million or a debt equity ratio of 2.5:1.

[25] One difficulty with regard to the use of quantitative formulae relates to the availability of data both in terms of reliability and comparability, which are rather limited in the ECAFE region.

[26] *Problems and Practice of Development Banks*, Shirley Boskey, published for the International Bank for Reconstruction and Development by the John Hopkins Press, Baltimore, 1959.

[27] The debt-equity ratios of fourteen national development banks in the ECAFE region vary from 2:1 to 61:1 according to the recent data available. The reason for this is that some development banks are advanced funds by their national governments, often without any maturity periods. Experiences of national development banks in the ECAFE region seem to suggest that the debt equity ratio is fairly high at the start but tends to go down as the bank's operations gather momentum.

[28] The amount of borrowings over the capital stock.

Nor need the capital resources of a regional development bank be limited to its ordinary resources. The bank may not be able to achieve its regional development objectives if its operations are restricted to "bankable" projects, irrespective of their purposes.

The bank's capital may consist of (1) ordinary resources and (2) special resources. Ordinary resources which will mostly comprise share capital, funds raised in capital markets and repaid funds, may be utilized by the bank strictly on a commercial basis. Special resources which will consist of non-regional grants, trust funds, etc., and may perhaps be supplemented by a small appropriation from ordinary resources under strict conditions, may be used for financing development projects on easier terms and conditions, including lower interest rates, longer maturities and whole or partial repayment in local currency.

It was recognized during the establishment of ADB that, in addition to share capital which was to be subscribed by its wholly African members, additional African and non-African funds should be mobilized in various forms, since a larger amount of capital resources would make ADB more effective. In addition to African capital, external contributions in various forms were anticipated including those that might have to be earmarked as to their uses. Thus, in the charter of ADB, a special provision was made for other forms of capital resources indicating in broad terms the special manner by which these resources should be administered and used by the bank, separately from its own ordinary capital resources.

In view of the limitations placed on the amount of share capital it could mobilize in relation to the development needs it was expected to meet, an Asian development bank would, like the other regional development banks, also have to depend on other types of capital resources. Principles similar to those governing the establishment of the special resources and trust funds of IDB and ADB may be adopted for the bank. Pertinent provisions could be incorporated into its charter to allow room for possible future contributions from other sources, particularly from non-regional countries.

Just what proportion of its total capital resources the special resources of the regional development bank should be is also difficult to determine. This depends on a number of factors. The magnitude of the operations which the bank would be expected to undertake that could not meet strict normal banking requirements is one such factor. The magnitude of the amount the members and non-members would be willing or prepared to extend to such resources are also relevant considerations.

At any rate, the volume of the non-share resources of a regional development bank is likely to be initially small, growing larger as the bank increasingly proves its efficiency particularly with regard to the management of its capital stock resources.

The fund for special operations of the IDB was established with initial resources of $150 million contributed by member countries. This was increased three years after its establishment by 50 per cent or $75 million. The fund was set up to make loans on terms and conditions appropriate for dealing with special circumstance arising in specific countries or with respect to specific projects in the light of the needs of member countries for the financing economic development. Loans from the fund are given on terms which include lower interest rates and longer maturities than those financed from the ordinary resources of the bank. They may also be repaid in whole or in part in the local currency of the borrower member country. This special resources fund comprised 15 per cent of IDB's initial total capital resources of IDB. As already stated in this note, ADB has provided in its charter for the bank to receive, administer and use resources appertaining to special funds contributed by members and non-members.

The volume of such special resources that may be available to a regional development bank is very difficult to anticipate, since it depends largely upon the volume of grants and aids non-member countries are willing and able to give to the bank for its administration.[29]

IDB has been administering a trust fund, the Social Progress Trust Fund, since 1961 under an agreement signed with the United States Government. This fund was established by the United States as part of the Alliance for Progress Programme, with $394 million or roughly 28 per cent of the total capital resources of IDB at the time of its establishment.[30] The administration of the fund gives IDB the additional task of making capital resources and technical assistance available in support of the efforts of Latin American member countries to initiate or expand measures to bring about greater social pro-

[29] It is encouraging to note that there seems to be a tendency by aid giving countries and international organizations to channel a proportion of additional contributions to developing countries through multilateral institutions. The operations of IDB and the decision of UNCTAD pertaining to foreign aid policies of development countries are some indications of this tendency. It is estimated that about 90 per cent of aid flows have been in the form of bilateral aid from loan country to recipient area, and only 10 per cent through multilateral organizations.

[30] Total initial ordinary capital stock, Fund for Special Operations and Social Progress Trust Fund.

gress and balanced economic growth.[31] The bank uses the resources to finance projects and programmes in four broad fields of social development: land settlement and improved land use, housing for low-income groups, community water supply, and higher education and advanced training. In 1963, the fund was replenished by an additional United States Congress appropriation of $131 million, bringing the total resources of the fund to $525 million. At the present time, these resources make up more than 18 per cent of IDB's total capital resources.

[31] Inter-American Development Bank, *Fourth Annual Report, 1963.*

The following table shows the relative proportions of the various types of capital resources of IDB.

(In million US dollars)

	Initial Stage of Operation	*As of the end of 1963*	*At present*
(1) Authorized capital	850 (85%) < 400 (40%) 450 (45%)	850 (61%) < 400 (29%) 450 (32%)	2150 (75%) < 475 (16%) 1675 (58%)
(2) Fund for Special Operation	150 (15%)	150 (11%)	220 (8%)
(3) Social Progress Trust Fund		394 (28%)	525 (18%)
Total of (1), (2) (3)	1,000 (100%)	1394 (100%)	2895 (100%)

It may be noted that the relative proportions of the different types of capital resources, namely: share capital including proceeds from borrowing, special fund and trust fund, are not stationary over time but vary from one period to another.

In the case of the proposed Asian development bank, a pattern of capital structure similar to that of IDB and ADB may provide useful guidelines, particularly if its functions are the similar as those two institutions. However, it is likely that a more clear-cut structure of capital resources for the proposed Asian development bank will only emerge, as in the case of IDB, during the later stages of its establishment.

Conclusions

(1) The determination of the size of the initial capital stock of a regional development bank is a rather complex question. There is no single formula, nor one categorical answer to it. However, the experience of IDB and ADB may be useful in this regard.

A consideration of the size of the capital of a regional development bank involves a constellation of inter-related factors. The more important of these are:

(*a*) the characteristics of the region in terms of number of countries, geographical size, population, and various economic indicators which show the levels of and needs for economic development;

(*b*) the number of developing countries in the region to be served by the bank;

(*c*) the expected impact the bank is to have in accelerating the development of economies of members and of the region as a whole—in other words, the scope of its operations;

(*d*) the capacity of the regional member countries to subscribe to the capital stock;

(*e*) the membership of the bank—whether or not contributors to the share capital are confined to regional countries only or include non-regional countries as well;

(*f*) the adequacy of existing national development finance institutions in the region.

(2) As with (1) above, there is no one specific formula for determining the proportion between the paid-in and callable capitals of a regional development bank. Again, some useful guidelines may be drawn from the experience of IDB and ADB.

Several factors are relevant to this question, namely:

(*a*) the size of the capitalization of the bank;

(*b*) the volume of initial cash resources the bank requires during the early period of operations;

(*c*) once it has become a going concern, how soon it expects to acquire sufficient credit standing.

It is also rather difficult to assess the contributions of individual countries to the capitalization of a given regional development finance institution.

Any scheme of assessment must, however, not only be equitable in that it takes into account the economic capacities of member countries but must also avoid extreme differences in shares among the countries. The IMF quota, United Nations assessment scale, or a scale which integrates the various indicators of economic capacity, may be a useful basis for allocating the shares of member countries to the capitalization of the proposed Asian development bank.

(3) The capital resources of any given regional development bank should not be limited to its capital stock if the bank is to be as effective as possible.

The experience of IDB shows that the bank's capital resources may include special resources for financing on more liberal terms of projects which, by virtue of their nature, would not qualify as "loan-worthy". In addition to these special resources, IDB also administers a trust fund under a bilateral agreement. The charter of ADB also provides for other forms of capital resources which the bank could administer and use separately from its own capital stock resources.

The determination of the relative proportions of the different types of capital resources earlier mentioned is also a difficult task. This is because some part of the resources is not within the control of the regional development bank in question. Presumably, an optimum combination of these different types of capital resources could only be evolved during the later stages of the bank's operations.

Part II

TRADE LIBERALIZATION IN THE ECAFE REGION

Blank page

Page blanche

1. REPORT OF THE WORKING GROUP OF EXPERTS ON TRADE LIBERALIZATION

Contents

Letter of transmittal

16 November 1964

Sir,

We, the undersigned members of the Working Group of Experts on Trade Liberalization, have the honour to transmit to you our report. The Group met at Bangkok from 2 November to 16 November 1964 and elected Mr G. V. P. Samarasinghe as Chairman and Mrs Suparb Yossundara as Vice Chairman. The members of the Group acted in their personal capacities and not as representatives of their respective governments or organizations.

In preparing the report and formulating the recommendations contained therein, we were guided by the resolution on regional economic co-operation adopted at the Ministerial Conference on Asian Economic Co-operation held at Manila in December 1963. The resolution, which constitutes the terms of reference of the Group, calls for necessary technical investigations and enquiries by an expert group with a view to suggesting practicable and acceptable programmes of trade liberalization and to recommending the institutional arrangements that may have to be made to implement such programmes. We also took into account suggestions contained in the report of the Working Group of Experts on Regional Economic Co-operation and the views expressed by government representatives at the Preparatory Meeting for the Special Conference on Asian Economic Co-operation, both held in 1963. Finally, members of the Group, in an effort to arrive at realistic and practicable measures of trade liberalization most suitable for the current conditions in the ECAFE region, had the benefit of consultations with high ranking officials in several member countries of the region. The views of these officials have been taken into consideration by the Group in formulating its proposals. Consequently, you will find that the alternative measures suggested by us, while not far-reaching or ambitious, aim at providing the practical elements of a programme of trade liberalization capable of immediate implementation by regional countries, an objective to which the Manila Ministerial Conference attached the highest importance.

We wish to express our appreciation to you for the opportunity you have given us to participate in this task. We also wish to record our thanks to Mr R. Krishnamurti and his colleagues in the International Trade Division for the valuable documentation and assistance rendered to us in our task.

Yours sincerely,

Signed
(G. V. P. Samarasinghe)
(Chairman)

Signed
(Mrs. Suparb Yossundara)
(Vice-Chairman)

Signed
(Jagdish Bhagwati)

Signed
(G. L. Easterbrook-Smith)

Signed
(Nurul Islam)

Signed
(Charles Muller)

Signed
(Bengt Reuterskiold)

U Nyun
Executive Secretary
United Nations Economic Commission for Asia and the Far East
Sala Santitham
Bangkok

I. Introduction

1. The Ministerial Conference on Asian Economic Co-operation held at Manila in December 1963 unanimously adopted a resolution which set forth the objectives of regional economic co-operation. One of the major objectives of this resolution is "to promote the growth of intra-regional trade on the basis of non-discrimination and mutual advantage by examining appropriate measures of trade liberalization such as the removal of quantitative restrictions and reduction of tariffs and through the promotion of free trade areas or customs union on a sub-regional basis among interested countries". Hence the resolution calls for the necessary technical investigations and enquiries through *ad hoc* meetings of representatives and expert groups to recommend an acceptable programme of trade liberalization, removal of quantitative restrictions and tariff reduction within countries of the ECAFE region, and the institutional arrangements that would have to be made in order to implement such a programme.[1]

2. Pursuant to the above resolution, the present Working Group of Experts was convened by the Executive Secretary of ECAFE with the co-operation of the United Nations Bureau of Technical Assistance Operations. The timing of convening this Group soon after the conclusion of the United Nations Conference on Trade and Development was opportune. The Conference, which opened up a new era for international trade policy, had given firm and clear encouragement to developing countries in establishing regional and sub-regional economic development and trade expansion. Several recommendations unanimously adopted at the Conference by developed as well as developing countries suggested measures for progressive trade liberalization among developing countries on both a regional and a sub-regional basis. The developed countries had further indicated to the developing countries their general support of measures for creating regional and sub-regional groups, and establishing regional payments unions, credit arrangements and credit insurance systems, for the purpose of promoting the economic development and intra-regional trade of the developing countries. The developed countries had also agreed to refrain from taking any action that would hinder the process of trade liberalization among developing countries.[2]

[1] Report of the Ministerial Conference on Asian Economic Co-operation, (E/CN.11/641).

[2] See recommendations A.II.5, A.III.4, A.III.5, A.III.8 and A.IV.1 of the United Nations Conference on Trade and Development (E/Con.46/L.28).

3. The Group believes that, in this favourable climate of international trade relations, the trade liberalization measures proposed in this report, if adopted by the ECAFE regional countries, will have a good chance of success. But above all, the success of any trade liberalization programme will depend very largely on the will and determination of the regional Governments concerned.

4. During the previous decade, the rate of growth of exports of the developing ECAFE region had not increased sufficiently in relation to its import requirements; the region's intra-regional trade had increased even more sluggishly. There could be little doubt that the implementation of trade liberalization measures would not only have a favourable effect on regional trade, but also create more favourable conditions for wider and more ambitious measures of regional economic co-operation.

II. Trade liberalization on a region-wide basis

1. Introduction

5. The case for trade liberalization within the ECAFE region had been clearly set out in the report submitted in September 1963 by the Working Group of Experts on Regional Economic Co-operation, and in the report of the Preparatory Meeting for the Ministerial Conference on Asian Economic Co-operation (see document E/CN.11/641). The Group was convinced that, while the complete removal of quantitative restrictions and tariffs within the region was not feasible, less far-reaching measures of trade liberalization were not only practicable but would also greatly benefit the participating countries by bringing about a substantial increase of intra-regional trade. In accordance with the resolution of the Ministerial Conference, the Group was called upon under its terms of reference to formulate a practicable and acceptable programme of trade liberalization; its report, therefore, concentrates on measures in regard to which action for immediate implementation should be possible, taking into account the underlying economic and political structure of the region.

6. Against this background, the Group excluded from its consideration any schemes of automatic trade liberalization, i.e. commitments for progressive steps, to be taken over a period of time, for reduction of tariffs or of quantitative restrictions. Equally, no other action for the reduction of tariffs within the region as a whole is proposed, since the problems involved in instituting such measures for countries as widely different from one another and divergent in economic and social structures as those in the ECAFE region would render a region-wide tariff scheme

impracticable, at least for the present time. The suggestions of the Group for region-wide action are therefore limited to the field of quantitative import restrictions. It may be noted that this is in line with the conclusions reached by the Preparatory Meeting for the Manila Ministerial Conference.

7. The Group considered that it was highly desirable to take concerted measures to bring about a higher rate of increase in intra-regional trade than had been hitherto recorded, in order to take advantage of profitable and mutually beneficial trade opportunities. The purpose of these measures is not deliberately to divert trade from extra-regional to intra-regional sources.

8. The broader the range of commodities covered by any such scheme, the greater will of course be its impact on the flow of trade. Nonetheless, the proposals of the Group are based on a selective approach. In other words, they cover only a selected number of commodities and not the whole range of imports of the participating countries. This is not as restrictive an approach as it may appear, since the range of commodities currently produced and exchanged within the region does not appear to be very wide. The aim, however, should be to include in the scheme other commodities which are currently produced in the region but not exchanged, as well as commodities which may be produced within the region in the future. Moreover, the selectivity permitted by the proposed scheme would enable one to come near to achieving a reasonable balance of the additional trade opportunities, i.e., it would ensure that each country would be offered a chance to increase its exports as much as it is ready to increase its imports. This has been a major consideration underlying the deliberations of the Group, especially in view of the fact that one of the most serious obstacles to the liberalization of trade within the region lies in the permanent difficulties which most countries of the region are facing with regard to their over-all balance of payments; these difficulties make them hesitant to undertake any commitments which might put additional strain on their balance of payments position.

9. The Group was, of course, aware that the current pattern of production within the region is in itself a factor limiting the possibilities of trade expansion. There is, however, some scope for trade expansion in a number of commodities and this will increase with progressive industrialization within the region.[3] The prospects for such expansion are closely linked to the possibility of regional co-operation in the field of investment and development planning and the Group wishes to stress the great importance it attaches to the recommendations made by the Second Conference of Asian Economic Planners.[4]

10. With these general considerations in view, the Group worked out three alternative courses of action, namely:

(A) bilateral trade agreements

(B) free lists for the imports of selected commodities

(C) regional quotas for selected commodities.

These three courses are set out in detail below and are followed by some general comments.

2. Three alternative courses of action

Course A: Bilateral trade agreements

11. The Group surveyed the various current trade and payments agreements concluded by countries of the ECAFE region and found that bilateralism could be one of the practical approaches towards region-wide trade liberalization if appropriate new steps were taken. The survey suggested that, by and large, bilateral trade agreements existing between ECAFE countries took two main forms: first, agreements which did not involve specific undertakings directly to increase trade, and second, those in which undertakings were exchanged in relation to specified purchases of listed commodities.

12. The first type of agreement generally was a simple expression of mutual friendship and interest in the development of bilateral trade and provided a broad framework for long-term trade expansion. The second type involved commitments to purchase from each other a specified value of listed goods over a stated period. It might be a strict barter deal involving no current payments or a commercial transaction with payments made through normal multilateral channels.

13. The second type of agreement showed a more serious intention on the part of the contracting parties to expand trade than did the first type. Yet, the effectiveness of the second type of agreement in which trade targets were specified depended largely upon the follow-up action and the frequency of reviewing the targets and the working of the agreements by the contracting parties. Commodity lists and targets

[3] For exploratory studies on some of these commodities, see: "Foreign trade of the economic development plans of ECAFE countries", *Economic Bulletin for Asia and the Far East,* Volume XIV, No.1, June 1963. See also: "Approaches to regional harmonization of national development plans in Asia and the Far East", (E/CN.11/CAEP.2/L.5).

[4] See report of the Second Conference of Asian Economic Planners (E/CN.11/673).

would have to be revised from time to time in the light of new developments and the results of regular consultations between well organized delegations of officials. This time-consuming and rather costly process of holding regular consultations between well-prepared missions could be afforded only by very few developing countries. From the point of view of long-term expansion of trade, it was not satisfactory and the effectiveness of the existing agreements was seriously impaired.

14. In view of the limitations of strict bilateralism which could restrict trade in the long run, the Group did not wish to encourage bilateral compensation for trade of the ECAFE region.

15. The Group felt that the existing bilateral agreements could be made more effective by the following measures:

(1) The working and targets of these agreements would be systematically reviewed at the ECAFE annual forum of Intra-regional Trade Promotion Talks, when trade delegations of member countries of the region could hold bilateral and multilateral discussions with one another. For this purpose, much greater effort and preparation than hitherto would be required from the participating governments; but the effort should be adequately rewarded in terms of concrete results in intra-regional trade.

(2) The countries of the region might at that forum bilaterally negotiate increases of import targets over a specified period. These targets could be implemented, in accordance with the existing trade regulations of the countries concerned and on the basis of bilateral agreements, through bilateral quotas, barter deals or any other available means. It should, however, not be the aim to balance these targets bilaterally, but to achieve a multilateral balance of the new trade opportunities thus created. This could be done by means of a multilateral confrontation of the results of the bilateral discussion.

Course B: Free list for the imports of selected commodities

16. The Group considered that a more advanced measure for region-wide trade liberalization could be by means of member countries in the region establishing lists of commodities which would be completely free from quantitative restrictions in respect of intra-regional trade.

17. The list would not be identical for the whole region but would vary from one country to another, depending upon their import needs and possibilities.

18. In practice, these lists could be worked out in the following way:

(*a*) Each country would circulate a list of commodities which it would like other countries to put on their free lists. On this basis, each country would establish its own preliminary free list which should include as many of the proposed items as possible;

(*b*) These preliminary offers for free lists would form the basis of a multilateral negotiation which could be held under the auspices of ECAFE. During these negotiations, each country would try to find a reasonable balance between the export possibilities which it expected from the lists of other countries for its own products and the additional imports it would allow for the goods on its own list. The final lists would thus be a result of negotiations between the participating countries.

(*c*) The Group did not deem it necessary as yet to propose in what legal form the commitments for free imports of the goods on the lists should be couched. Various possibilities were open, such as a formal multilateral agreement or a protocol to be signed by all participating countries.

(*d*) The initial lists should be reviewed regularly at intervals of, say, two or three years, in order to adjust any net imbalances of each country *vis-a-vis* the rest of the region which might have resulted from the operation of the free lists and to take account of changing production and demand pattern. In effect, these reviews would be conducted along the same lines as the initial negotiation of the free lists and it should be the general aim to increase the number of commodities included in each list.

Course C: Regional quotas for selected commodities

19. Another method of increasing intra-regional trade would be the following:

(*a*) Each country would establish regional quotas for selected products in addition to global quotas which would continue to be available to countries of the region. Each country would undertake to issue import licences to the full extent of regional quotas. These licences would specify that the goods concerned must be imported from the ECAFE region. The commodities covered by the quotas would vary from country to country.

(*b*) These basic regional quotas would initially be established as a result of a multilateral negotiation which could be based on the same proceedings as described under Course B. This means that the initial step would be for each country to submit a list of commodities for which it would like other countries to open regional quotas. The balancing of import and export possibilities would be achieved through multilateral negotiations.

(*c*) The legal form which these commitments would take might be the same as that mentioned under Course B.

(*d*) It might be useful if, in addition to the regional quotas to be opened for the particular year, import targets for the year after could also be agreed upon subject to formal approval. This would permit planning to be based on firmer indications.

(*e*) There should be a review of the regional quotas towards the end of each period during which changes to them should be negotiated in the same way as the establishment of the initial quotas.

(*f*) It should be the understanding that there would normally be no reduction of a quota, since unduly fluctuating regional demand would upset production plans based on newly developed export markets. On the other hand, it might be that a country would experience difficulties in maintaining its quota for a given product. If reduction were considered essential owing to such factors as protection for domestic infant industries, the proposed action should be made part of the regular periodic renegotiations of quotas.[5]

3. General comments

(*a*) *Bilateralism and multilateralism*

20. The limitations of the bilateral approach as set out in Course A have already been stressed. It might, however, be said that, insofar as the results of bilateral negotiations could be multilateralized as indicated, the establishment of such regular multilateral trade discussions would be a step forward in itself, since it would create the habit of co-operation without which more intensive trade liberalization in the future would hardly be possible. Nevertheless, the Group strongly favoured the adoption of the multilateral methods envisaged in Course B and Course C.

(*b*) *Participating countries*

21. The two multilateral approaches (Course B and Course C) are in principle designed to extend to the developing countries of the region only. These systems are, however, flexible enough to allow the inclusion in some appropriate form of the developed regional countries also; but the latter should not expect to get full reciprocity. Under Course B, these countries could themselves establish free lists for the import of certain commodities from the region. While the lists of the developing countries would in principle not be applicable to the imports from the developed countries, it might be possible in certain specific cases to extend to them the benefit of the free list for a given commodity. The developed countries could also participate in Course C by themselves opening regional quotas for a given range of commodities. But the regional quotas of the developing countries would not cover imports from the developed countries except perhaps in very specific and limited cases.

22. Countries which have complete state control of foreign trade could obviously not participate in these schemes in the same way as other countries since free lists and regional quotas would lack relevance to their economic systems. Trade liberalization measures could, however, be made applicable to them to the extent that they are willing to enter into specific commitments for increased imports from the region in return for the advantages they obtain.

23. Those countries in which the state has an import monopoly in certain sectors would have to prepare free lists or regional quotas in other commodities which are not affected by state trading. If the import of the commodities covered by free lists or regional quotas came under a state monopoly, it would be necessary to consider whether additional measures were required.

24. Countries which have already liberalized their imports to a great extent should, of course, also be enabled to participate in the envisaged schemes. Under Course B, the inclusion in the free list of any commodity the import of which had already been liberalized would in fact constitute a binding of the present position, i.e. a commitment not to introduce quantitative restrictions with respect to this commodity. Under scheme C, it would naturally not be expected that these countries institute regional quotas for commodities which had already been liberalized, since such a re-introduction of quantitative restrictions would run counter to the over-all objective, namely the abolition of such restrictions. Here again, these countries could be asked, as a counterpart to the liberalization measures of other countries, to enter into a commitment not to introduce quantitative restrictions on a certain number of liberalized commodities. Apart from that, the liberalization of imports which these countries had already achieved should be recognized as a sufficient contribution to the envisaged scheme.

[5] Reference is invited to paragraph 28 which considers situations arising from balance of payments difficulties.

25. As far as landlocked countries are concerned, the effectiveness of the proposed scheme would of course depend on the unrestricted flow of goods through the transit countries. The Group noted that this problem was currently under study in the United Nations Conference on Trade and Development and other United Nations bodies.

26. In its report to the Manila Ministerial Conference, the Preparatory Meeting had expressed the opinion that, in order to take account of the different stages of development between the countries of the region, it should be made possible for certain countries to defer their participation in such a liberalization scheme. This point is covered by both Course B and Course C, which would allow a country to join the scheme at a later stage, on the occasion of one of the reviews foreseen. Whether, in the meantime, the other countries would extend the benefits of the free lists or the regional quotas to such countries would, of course, be a question on which a common decision should be taken.

(c) *Combination of Courses B and C*

27. The three courses outlined above are in principle alternative proposals. If considered desirable, it would however be possible to combine Course B and Course C in various ways; for example, by all countries establishing free lists for some commodities and regional quotas for some other commodities, or by some countries establishing free lists and others establishing regional quotas, or by some countries establishing free lists for some commodities and regional quotas for some other commdoities, and other countries establishing either free lists or regional quotas only. These combinations would make the scheme even more flexible and would greatly facilitate the taking into account of the differences in the foreign trade regulations of the ECAFE countries.

(d) *Balance of payments difficulties*

28. In case a severe balance of payments deterioration for any particular country were to result in its taking remedial action that would affect Courses B or C, a meeting of the interested countries of the region should be held to review the situation at the request of any participating country through an appropriate body. Through consultations, a joint or co-ordinated programme of action might be suggested in order to minimize the impact on the trade liberalization programmes of the other countries in the region.

(e) *Problems of origin control*

29. The Group felt that any problems in respect of the origin of goods that might arise in practice would mainly depend on the goods to which the scheme would apply, and that such problems could be dealt with by *ad hoc* arrangements.

30. It has to be stressed that, unlike the situation in a free trade area where tariffs are abolished, goods coming from outside the region would be subject to the import duties of the country into which they are first imported and that, in the case of re-export to another country within the region, the import duties of that country would have to be paid also.

31. Entrepôt trade in Singapore and Hong Kong might, however, present certain difficulties in identifying the origin of goods, particularly in the case of Hong Kong, where extensive processing and repacking are undertaken. However, the arrangements which provide for Singapore's entrepôt trade in relation to its membership of Malaysia and those for the identification of Hong Kong products enjoying preferential tariff rates from Commonwealth countries should provide a suitable basis for the determination of the domestic products of these countries.

(f) *Incidence of tariff levels on the effectiveness of the proposed measures*

32. While the Group, for the reasons stated earlier in this report, did not recommend any action for reducing tariffs on a region-wide basis, it considered that the effectiveness of the proposed action on quantitative restrictions might be adversely affected by the existing tariffs. This would particularly be the case where the customs duty on a commodity was so high as to be prohibitive or nearly prohibitive, so that the benefits of the free list or regional quotas would be very small. These benefits could also be impaired if subsequently the customs duty were substantially increased. This should be one of the factors which Governments would take into account in the course of the negotiations. The Group did not consider it possible to make any general recommendations for dealing with such situations, but it did not exclude the possibility that, in certain specific cases, such duties would, as a result of the negotiations, be reduced or bound at the existing level. It was assumed that any such reduction would be made on a most-favoured-nation basis.

(g) *Other international obligations*

33. The Group did not examine in detail the impact of the proposed measures on other international obligations of the countries of the region. As far as GATT is concerned, it was felt that it would be up to those countries of the region which are members of that institution to examine whether any specific action within GATT was needed before these proposals could be implemented.

III. Payments arrangements

34. The trade liberalization measures suggested in the preceding chapter are, however, unlikely to result in a significant growth of intra-regional trade unless they are accompanied by some form of payments arrangement. If the trade resulting from liberalization measures has to be of a self-balancing nature in a short period, the progress will be limited and slow. On the other hand, if it is undertaken simultaneously with the provision of credit facilities to assist the member countries experiencing resultant imbalances, trade liberalization will clearly proceed more rapidly. The Group, therefore, considered it necessary and useful to discuss the possible shape that a payments arrangement involving credit facilities may take.

35. The Group, however, did not confine its attention to this form of payments arrangement. In its opinion, a clearing union, which compensated multilaterally the surpluses and deficits within the region, would also have some advantages. It would, *inter alia*, economize on the use of foreign currency in international payments, thereby cutting down avoidable costs incurred in trade and possibly releasing corresponding real resources for domestic investment.

Clearing union

36. Under the existing arrangements, each foreign payment within the ECAFE region—and outside the region, for that matter—is made individually and involves the routine (transfer) costs attached to international payments. On the other hand, a clearing union provides facilities for offsetting debits and credits and therefore calls for settlement in foreign currency merely of the net deficit or surplus at the end of a specified accounting period. Hence it reduces the magnitude of the expenses incurred in conducting a given value of trade. It should be noted that the offsetting takes places on a multilateral basis, thereby increasing the saving on foreign transaction costs which accrues to members of the union.

37. As already indicated above, the clearing union necessarily involves the specification of an accounting (or settlement) period during which international transactions between member countries are not settled but merely recorded. Only at the end of the accounting period are the net balances settled. The use of the accounting period thus necessarily involves the extension of credit by one member country to another during the accounting period. The shorter the accounting period, the smaller would be the credit implicit in the clearing union. The Group noted that the European Payments Union worked with monthly settlements.

38. The Group considers that the establishment of a clearing union within the ECAFE region, covering intra-regional trade, would be a feasible proposal but that this should be studied in greater detail at both the expert and governmental levels. It is desirable that the clearing union cover the entire region; but it would be equally workable on a smaller scale. The Group would like to emphasize that the establishment of a clearing union is neither a pre-condition of, nor conditional on, the initiation of the trade liberalization measures proposed earlier.

Payments union

39. The clearing union, as envisaged above, will not extend credit facilities except over the accounting period. However, the steady liberalization of trade will be facilitated, as noted earlier, by the provision of credit beyond the accounting period. A payments union represents the institutional arrangement which provides for such credit extension. It can be conveniently and economically combined with a clearing union of the type proposed here.

40. The Group has considered alternative forms which a payments union could take. Two major types of payments union can be distinguished: (1) one in which credit facilities would cover the deficits and surpluses in total intra-regional trade (the European Payments Union variety); and (2) one in which they would cover only the deficits and surpluses arising from supplementary trade within the region (for which there appears to be no parallel).

41. It is considered that the former type of payments arrangement may be unsuitable to the ECAFE region. In view of the fairly sizeable and persisting deficits and surpluses realized in intra-regional trade by member countries, such a payments union would put too much strain on the resources of the creditor countries regardless of their over-all balance of payments position unless a significant proportion of the resources required by the union were to come from outside the region.

42. The Group noted that the payments arrangement, mentioned under (2) above, circumvents these difficulties with respect to present structural imbalances in intra-regional trade.

43. On the other hand it raises another difficulty, namely, that of defining supplementary trade. While no definite conclusions were arrived at, some alternative ways of defining supplementary trade were discussed. For example, the average exports and imports of each member country in the past three years could be considered as the base. Supplementary trade would then be the difference between the

base period trade and its current level. The net improvement or deterioration in the trade position with the rest of the region would then be linked to the drawing rights and obligations of the member countries of the payment union. Alternatively, the base could itself be revised periodically in terms of the trend values of imports and exports. These alternative methods naturally have different implications. For instance, under the three-year average scheme, supplementary trade coming under the purview of the payments arrangement would grow steadily; whereas, under the other scheme, the magnitude of such trade would be relatively diminished. Similarly, these two schemes could make different demands on the resources of the payments union.

44. The formation of the payments arrangement envisaged by the Group will raise the familiar issues of the scope and methods of finance and operation. These relate essentially to (*i*) the drawing rights of debtor countries, (*ii*) the obligations of creditor and debtor countries, and (*iii*) the sources of finance for the union. The Group discussed several issues typical of each of these areas.

45. The deficit country, under the payments union, could be entitled to a partial settlement of the deficit by borrowing from the union—as under the European Payments Union (EPU). The remainder could be settled in convertible currency. The proportion of the deficit for which a member country would be entitled to draw on the union, would depend upon, the resources that the union could mobilize. The borrowing rights from the union would be governed by provisions regarding interest charges and period of repayment.

46. Since credits to the deficit countries are envisaged in the payments union, the union must have access to funds. These funds can come from two sources: (*i*) the member countries' contributions, and (*ii*) external resources raised from international institutions and from governments of developed countries.

47. The member countries would be required to accept a minimum deposit obligation with the union, on the basis of criteria to be agreed upon. This deposit could be required entirely in convertible currencies. Alternatively, a proportion thereof could be in the local currencies of each member, with a corresponding obligation on the part of each potential creditor to accept part of the settlement in the regional currencies. One major advantage of the latter scheme would be that it would require correspondingly smaller contributions in convertible currency from each member, so that less of the foreign exchange resources of each country would be tied up in the union. On the other hand, the surplus countries within the union would have less convertible currencies at their disposal for imports from countries outside the union in view of the obligation to accept regional currencies in partial settlement of their surplus within the union. The disadvantage for persistently creditor countries, however, could be kept within bounds by appropriate ceilings built into the payments arrangements.

48. The foreign exchange resources of the union could be significantly augmented, and the strain on the member countries' resources alleviated, by specific aid funds from developed countries, as in the case of EPU which obtained funds under the European Recovery Programme. The channelling of funds through the proposed Asian development bank would be a possible method of augmenting the resources of the union.

IV. Trade liberalization on a sub-regional basis

49. The Expert Group felt that developments within the region were indicative of the growth of sub-regional groupings as exemplified by the establishment of the Association of South-east Asia, the discussions between Australia and New Zealand to establish a limited free trade area, and the proposals for regional co-operation for development among Iran, Pakistan and Turkey.

50. It was felt that there was no inherent conflict between the existence of sub-regional groups and a wider regionalism and that, indeed, it could be easier within the context of a sub-regional arrangement to move towards closer economic integration than seemed currently feasible on a region-wide basis.

51. The Group noted with satisfaction that some of these sub-regional arrangements had made provision for other interested countries to participate. In this connexion, it was stressed that provision should be made in any sub-regional grouping which might subsequently be formed within the ECAFE group of nations to permit the enlargement of that grouping, should other member nations signify their desire to participate and their willingness to meet whatever reasonable measures were required of them.

52. The Group further emphasized that member countries entering into sub-regional arrangements should have due regard to the trade interests of other countries of the region and, as far as possible, ensure that those interests are safeguarded. In this connexion, it was suggested, with due regard to the confidential nature of such discussions, that member countries within a sub-regional group could facilitate a review of their progress and activities by presenting

periodic statements to the appropriate bodies of ECAFE. Although the practical possibilities of making progress in economic co-operation are greatest on a sub-regional basis, the Group felt that it was not possible to generalize on this subject, and therefore, did not examine in detail all the measures that could be taken. It noted, however, that, in addition to the adoption on a sub-regional basis of the measures suggested above for region-wide liberalization, more advanced measures might be possible including, *inter alia,* tariff reductions, automatic quota liberalization, more extensive free lists of commodities, combined tariff and quota preferences, free trade areas, customs unions, and the closer co-ordination of sectoral programmes of development.

53. It was felt that some countries within the region might be inclined towards closer economic co-operation but not yet fully aware of the present and even greater potential complementarity of production among their economies. This complementarity, on which mutually beneficial liberalization of trade could be based, would be more clearly revealed by an examination of existing production and trade patterns, co-ordinated resource studies and harmonized industrial planning. The Group suggested that member countries contemplating closer economic ties with one another might request the ECAFE secretariat to assist them in studies to determine the most suitable forms of co-operation and the steps necessary to achieve this object.

V. Other measures

54. In this chapter are set forth certain other measures which the Group considered would supplement the liberalization measures proposed in the previous chapters.

Extension of most-favoured-nation treatment

55. The Group noted that several developing countries of the region extend m-f-n treatment relative to trade matters to one another as well as to developed countries within and outside the region. It further noted that the m-f-n treatment is extended under the General Agreement on Tariffs and Trade, of which nine regional countries are contracting parties.[6]

56. It was observed that the scope and degree of the m-f-n treatment varied from case to case, but that generally the m-f-n provision included reciprocal privileges in regard to matters such as customs duties, import-export licensing, foreign exchange transfers and freedom in conducting commerce and industrial enterprises. Although it was not possible for lack of adequate information to evaluate the effectiveness and real benefits of m-f-n clauses in the trade agreements and treaties currently in force, the Group felt that such m-f-n clauses could provide a minimum foundation for economic co-operation and trade expansion within the region. The Group considered that it would be a progressive step towards closer regional co-operation and long-term intra-regional trade expansion if all the ECAFE developing countries were to extend to one another, even on a bilateral basis, m-f-n treatment of the type and extent that some of them were already according to countries outside the region.

57. In this connexion, the Group suggested that it would be desirable to examine the possibility of drawing up a set of standard m-f-n clauses for region-wide application in the form of a multilateral treaty or convention to which all countries of the region could accede. The recommendations adopted by the recent United Nations Conference on Trade and Development and supported by the developed countries indicated that the principle of applying preferential treatment among developing countries without extending the same treatment to the developed countries was recognized as reasonable and legitimate. The suggested framework of regional m-f-n treatment would be consistent with those unanimous recommendations of the United Nations Conference on Trade and Development.

Commodity consultations

58. The Group noted that the ECAFE secretariat, at the request of interested Governments of the region, had sponsored consultations among countries which were the main producers and exporters of such primary products as pepper, coconut and coconut products, jute, kenaf and allied fibres. These consultations had not aimed at solving the problems involved in marketing these commodities, since such problems had to be tackled on a global basis rather than a regional basis, but they served to assist the countries in preparing for participation in global negotiations.

59. The Group felt that the scope and objectives of the consultations could be expanded to include the exploration of ways and means of increasing regional trade in these commodities. The consuming countries of the region, particularly the developed ones, might also be invited to participate in consultations dealing with such questions as import tariffs and quantitative restrictions as well as with the possibility of establishing processing industries jointly, of which the products would enjoy free access to the markets of several countries. Such techniques could also be used for other regional commodities.

[6] The following countries in the region are contracting parties to GATT: Australia, Burma, Ceylon, India, Indonesia, Japan, Malaysia, New Zealand, and Pakistan. Cambodia participates in the work of the Contracting Parties to GATT under special arrangements.

Export promotion

60. The Group noted that the efforts made to promote both intra-regional and extra-regional exports varied among countries of the region and that some countries were lagging considerably behind others. The Group also noted the measures taken by ECAFE to remedy the situation by means of regional consultations, trade fairs, trade missions, etc. Its attention was drawn in this connexion to an UNCTAD recommendation that consideration be given to the establishment of regional trade information centres.[7] All these steps would in due course increase the opportunities to expand intra-regional trade.

Facilities for credit and insurance

61. The Group noted that the credit and insurance facilities currently available for financing trade were not adequate and that this was a hindrance to the expansion of intra-regional trade. In this connexion, it took note of the recommendations adopted by the United Nations Conference on Trade and Development in respect to suppliers' credit and credit insurance and the development of insurance and re-insurance in the developing countries. It noted that the Conference had recommended that IBRD be invited to make a study of suppliers' credit and credit insurance. On the question of insurance and re-insurance, it took note of the UNCTAD recommendation to develop regional insurance and re-insurance institutions and hoped that such facilities would in time assist the expansion of regional trade.

VI. Summary and recommendations

62. Trade liberalization measures recommended by the Group may be broadly classified into two main categories; namely, measures designed for region-wide liberalization and those for liberalization on a sub-regional basis. The introduction and operation of these liberalization measures are not conditional on payments and credit arrangements; nevertheless, the absence of such arrangements would make their progress slow and limited.

1. Trade liberalization on a region-wide basis

63. The Group felt that schemes for the automatic and complete removal of quantitative restrictions and/or tariffs within the ECAFE region were not feasible; but that less far-reaching measures would be practicable and beneficial to the participating countries. The following three courses were recommended for adoption either singly or in combination.

[7] See recommendation A.II.4 of the United Nations Conference on Trade and Development (E/CONF.46/L.28).

Course A: Bilateral trade agreements

64. The working and targets of the existing bilateral trade agreements could be systematically reviewed by delegations of countries of the region during the ECAFE Intra-regional Trade Promotion Talks, when the delegations could hold bilateral and multilateral discussions with one another about increasing import targets over a specific period. These targets could be implemented through bilateral quotas, barter deals or any other available means, but should aim at a multilateral balance.

Course B: Free lists for the imports of selected commodities

65. Each member country could establish lists of commodities which would be completely free from all quantitative restrictions in respect of intra-regional trade. The preliminary free lists would form the basis of a multilateral negotiation in which each country could try to find a reasonable balance between the export possibilities and the additional imports it would allow for the goods on its own list. The lists would be reviewed regularly at two or three-year intervals, in order to adjust any net balances of each country *vis-à-vis* the rest of the region resulting from the operation of the free lists.

Course C: Regional quotas for selected commodities

66. Each country would establish regional quotas for selected products in addition to global quotas through the same procedure as in Course B. The balancing of import and export possibilities would be through multilateral negotiations. Reduction of the regional quotas should not be made except for compelling reasons, in which case it should normally be made through the regular periodic re-negotiation of quotas.

General comments

67. Although the Group strongly favoured the adoption of the multilateral methods envisaged in Courses B and C, the bilateral approach under Course A was felt to be a useful step towards more intensive schemes of trade liberalization. Courses B and C are designed for developing countries of the region, but developed countries of the region might be included. However, the latter should not expect to obtain full reciprocity.

68. These liberalization measures could be made applicable to those countries of the region which have complete state control of foreign trade if they are willing to enter into specific commitments for increased imports from within the region in return for the advantages they would thus obtain. In countries where the state has an import monopoly

in certain sectors, if the import of the commodities covered by free lists or regional quotas came under a state monopoly, additional measures might be necessary.

69. For countries which have largely liberalized their imports, the inclusion in the free lists of any commodity would in effect be a commitment not to introduce quantitative restrictions with respect to that commodity. Under Course C, these countries could reciprocate by entering into a commitment not to introduce quantitative restrictions on certain liberalized commodities.

70. In order to take account of different stages of development among the countries of the region, it should be made possible for certain countries to defer their participation in such a liberalization scheme. Whether, in the meantime, the other countries would extend the benefits of the free lists or the regional quotas to such countries would, of course, be a question on which a common decision should be taken.

71. In case a severe balance of payments deterioration for any particular country were to result in its taking remedial action that would affect Courses B and C, a meeting of the interested countries of the region should be held to review the situation and to suggest a joint or co-ordinated programme of action.

72. Any problems in respect of the origin of goods that might arise in practice would mainly depend on the goods to which the scheme would apply, and such problems could be dealt with by *ad hoc* arrangements.

73. The impact of the proposed measures on other international obligations of the countries of the region was not examined. As far as GATT is concerned, it would be up to those countries of the region which are members of GATT to examine whether any specific action was needed before these proposals could be implemented.

2. Payments arrangements

74. The proposed trade liberalization measures would result in a more rapid growth of intra-regional trade if they were accompanied by some form of payments arrangement with credit facilities.

75. Short of a payments union (with credit facilities), a clearing union would also have some advantages. Its establishment would be a feasible proposal and this should be studied in greater detail at both the expert and governmental levels.

76. Payments arrangements with credit facilities, intended to facilitate trade liberalization, could take two alternative forms: (*i*) one in which credit facilities would cover the deficits and surpluses in total intra-regional trade; and (*ii*) one in which they would cover only the deficits and surpluses arising from supplementary trade within the region. The choice between these alternative payments arrangements, as also the specification of the details with respect to their financing and operation, would follow upon examination and negotiation by the Governments of the region.

3. Trade liberalization on a sub-regional basis

77. The development of sub-regional groups within the ECAFE region need not conflict with wider regionalism. Such groups should, however, provide for possible extension to include other nations and should design their liberalization programmes so as to mitigate any possible harmful effects on the trade of other countries of the region.

78. In addition to the possibility of adopting, on a sub-regional basis, the measures suggested for region-wide liberalization, sub-regional groups might find it possible to adopt more advanced forms of economic co-operation.

79. Interested countries could request the ECAFE secretariat to assist them in making studies regarding the most suitable forms of co-operation and the steps necessary to achieve this object.

4. Other measures

Most-favoured-nation treatment

80. It would be a progressive step towards closer regional co-operation and longer-term intra-regional trade expansion if all the ECAFE developing countries were to extend to one another, even on a bilateral basis, m-f-n treatment of the type and extent that some of them are already according to non-regional countries.

81. It was desirable to examine the possibility of drawing up a set of standard m-f-n clauses for region-wide application in the form of a multilateral convention to which all countries of the region could accede.

Commodity consultations

82. The scope of existing commodity consultations convened by ECAFE could be widened to include exploration of opportunities to increase intra-regional trade by the participation of the consuming countries of the region. Such consultations could also be extended to other regional commodities.

Export promotion

83. The recommendation of UNCTAD for the establishment of regional trade information centres was noted. This and other export promotion efforts would in due course help to expand intra-regional trade.

Facilities for credit and insurance

84. It was noted that the implementation of the UNCTAD recommendations on suppliers' credit, insurance and re-insurance would be helpful in promoting regional trade.

5. Institutional arrangements

85. The Group considered the institutional arrangements which would be required for carrying out the recommendations summarized above. The Manila Ministerial Conference had recommended that member countries of the region carry out the programme of regional economic co-operation through *ad hoc* meetings of government representatives and expert groups, fully utilizing the assistance of the ECAFE secretariat. The Conference had also recommended that the Executive Secretary of ECAFE convene ministerial conferences from time to time to review the progress achieved in implementing the programme. Moreover, the Group noted that the Executive Secretary of ECAFE would be calling an inter-governmental meeting of countries of the region to consider the proposals on trade liberalization some time around the middle of 1965. In the light of this, the Group considered that it was not necessary as yet to recommend the establishment of special or permanent institutional arrangements in connexion with the proposed schemes of trade liberalization.

Annex

Members of the Working Group of Experts on Trade Liberalization

Chairman:

Mr G. V. P. Samarasinghe,
Permanent Secretary to the Ministry
of Rural and Industrial Development,
Government of Ceylon.

Vice-Chairman:

Mrs Suparb Yossundara
Director, Department of Economic Research,
Bank of Thailand.

Members:

Mr Jagdish Bhagwati,
Professor of International Trade,
Delhi School of Economics,
Delhi University, India.

Mr G. L. Easterbrook-Smith,
Director, Development Division,
Department of Industries and Commerce,
Government of New Zealand.

Mr Nurul Islam,
Professor and Head of the Department
of Economics, Dacca University,
Dacca, Pakistan.

Mr Charles Muller,
Assistant Secretary General,
European Free Trade Association,
Geneva, Switzerland.

Mr Bengt Reuterskiold,
Institute of Economic Relations,
University of Stockholm.

2. THE DYNAMIC EFFECTS OF ECONOMIC INTEGRATION WITH SPECIAL REFERENCE TO THE ECAFE REGION*

I. Alternative policies for economic growth

As in all less developed areas, the principal objective of economic policy in the countries of the ECAFE region[1] can be taken to be the acceleration of their rate of growth, with the maintenance of acceptable levels of balance-of-payments deficit. An acceleration of the rate of economic growth in these countries is necessary and desirable in order to make possible raising the living standards of the population, while the permissible level of balance-of-payments deficit appears as a constraint on the growth process and is determined by the availability of foreign financing.

Aside from the case of countries, such as the United States and the Soviet Union, which are by and large self-sufficient, economic growth may proceed through an expansion of the exportation of primary products, the exportation of manufactures, and/or import substitution. In the nineteenth century, the first of these alternatives found application in Australia, New Zealand, Canada, and Denmark; the second in the United Kingdom at time of the Industrial Revolution; while a combination of the second and the third alternatives pertained to Germany, France and Japan. The question arises, what possibilities exist for utilizing these three methods of accelerating economic growth in present-day less developed countries and, in particular, in the ECAFE region.

As regards the first alternative—the expansion of the exports of primary products—several writers have suggested that, by reason of the low income elasticity of demand for primary products and technological changes leading to the replacement or the reduction of per-unit requirements of certain raw materials, the import demand of industrial countries for primary commodities does not rise at a rate commensurate with the increase of their national income. While the lack of consideration given to the rapid expansion of trade in fuels and metals reduces the applicability of this proposition to the case of all developing countries, taken together, it fits reasonably well the conditions prevailing in the ECAFE region.

The main primary product exports of this area to developed countries[2] include commodities, such as natural rubber ($969 million in 1960), tea ($455 million), oilseeds and vegetable oils ($326 million), sugar ($199 million), and tin ($179 million), the demand for which appears to be growing at a slow rate. According to projections prepared by the present author, an estimated 80 per cent rise in the GNP of the developed countries during the period 1960-1975 would be accompanied by a 36 per cent increase in their imports of primary commodities from the ECAFE countries, whereas their primary product imports from Latin America, Africa and the Middle East, taken together, would rise by 75 per cent.[3]

This comparison indicates the implications of the unfavourable commodity composition of its traditional exports for the trade prospects of the ECAFE region. Whereas other developing areas are expected to benefit from increased trade in fuels and metals, the prospects for the primary product reports of the ECAFE countries are somber indeed. Taking account of the growth of population in this areas, *per capita* exports of primary commodities may in fact decline somewhat, so that the projected expansion of these exports would hardly contribute to the raising of living standards. This conclusion is strengthened if we consider that efforts to increase exportable production over and above the projected import demand of the developed countries will, in many instances, reduce rather than increase export earnings, by reason of the low price elasticity of demand for rubber, tea, jute, and tin.

On the other hand, a continuation of past trends would offer more favourable prospects for the ECAFE region in the exportation of manufactured goods. From small beginnings, manufactures came to account for 16 per cent of the region's exports to development economies in 1960, and the share of the ECAFE countries in the total exports of manufactures originating in less developed areas reached 70 per cent. However, for various reasons, a continuation of past trends cannot be expected.

---

* Prepared for the Economic Commission for Asia and the Far East by Mr. Bela Balassa, Associate Professor of Economics, Yale University. Views expressed in this paper are those of the author.

[1] Throughout this paper, the expression "ECAFE region" will be used to refer to the developing ECAFE countries other than the centrally planned economies of the People's Republic of China, North Korea, and North Viet-Nam.

[2] North America, Western Europe, Japan, Australia, New Zealand, and South Africa.

[3] Bela Balassa, *Trade Prospects for Developing Countries*, (Richard D. Irwin, Homewood, Ill. 1964), table A3.1.2.

To begin with, exports of cotton textiles to developed economies, that had been growing rapidly during the fifties and amounted to about 40 per cent of the exports of manufactures from the ECAFE region in 1960, were subjected to formal and/or informal quotas in the importing countries. Correspondingly, increases were small in the years following, and although the International Cotton Textiles Agreement provides for a future expansion in trade, the proportion of textile consumption in developed economies to be supplied from developing countries is expected to remain relatively modest. Thus, in the United States and the European Common Market, who imported about 1 per cent of all domestically consumed cotton goods from India, Hong Kong, and Pakistan in 1960, this proportion would not surpass 2-2.5 per cent even if the International Cotton Textiles Agreement were to be extended until 1975. And United States imports may, in fact, rise at a slower rate than envisaged, given that the United States has already invoked the "market disruption" clause of the Agreement.

In Western Europe, quantitative restrictions are applied also to jute goods which account for one-fourth of the manufactured exports of the ECAFE countries, as well as to the imports of bicycles, sports goods, toys, etc. that also originate chiefly in this region. The graduation of tariffs in the main industrial countries provides a further obstacle to exports of manufactures from ECAFE countries.

By graduated tariffs we mean the progression of tariff rates according to the degree of fabrication as observed with respect to a wide variety of commodities, including oilseeds and vegetable oils, leather, rubber, lumber, cotton, jute, and metals. In the case of these commodities, duties are low or nonexistent on raw materials and the rate of tariff generally increases with the level of fabrication. In the EEC, for example, there is no duty on hides and skins, a 10 per cent tariff is levied on leather, and 17-20 per cent to leather manufactures.

In this connexion, note that the disincentive effects of graduated tariffs are only imperfectly indicated by a comparison of absolute tariff levels, since, from the point-of-view of the producer, not differences in the rates of duty but the ratio of the increment in duty to value added to the manufacturing process is relevant. Thus, a 10 per cent tariff on leather, as against zero duty on hides and skins, will represent a 20 per cent duty on value added if we assume that the raw material (hides and skins) accounts for one-half of the price of leather.

At the same time, possibilities for the manufacturing of more sophisticated products for exportation in the narrow national markets of the ECAFE countries are greatly limited. The manufacturing of these products required technical and organizational skills that are often not available in these countries and, perhaps more important, the production of many of these commodities presupposes the existence of a highly developed industrial structure with all its inter-industry relationships.

With appropriate consideration given to these influences, I have projected a doubling of the manufacturing exports of the ECAFE region to developed countries in the years 1960-1975. Including also exports to other less developed regions and to the centrally planned economies in the calculations, the value of extra-regional exports of the ECAFE countries would rise by about one-half during this period. This increase would fall considerably below import requirements, since, assuming a unitary income elasticity of import demand, the maintenance of the 4.2 per cent growth rate experienced during the fifties would require an 80 per cent increase in imports. Correspondingly, the trade deficit of the ECAFE region would rise from $1,500 million in 1960 to $5,400 million in 1975—to which a nearly one billion dollar deficit on the service account should be added.

It appears, then, that economic growth in the ECAFE countries is constrained by their limited possibilities for expanding extra-regional exports. In fact, under the above assumptions, a 4.2 per cent annual rate of growth of GNP could be achieved only by a massive increase of foreign aid (or foreign investment).

At the same time, given the expected rapid population growth, a 4.2 per cent growth rate would permit *per capita* incomes to rise only by 2.0 per cent a year, so that differences in living standards vis-à-vis the developed countries would further increase not only in absolute but also in relative terms. In order to attain more favourable results, it may appear necessary to rely on a policy of import substitution.

In the period 1950-1961, imports into the ECAFE region increased approximately *pari-passu* with GNP and the maintenance of this relationship has been assumed in the above projections. This average conceals, however, a reduction in the imports of non-durable consumer goods, accompanied by rapid increases in imports of foodstuffs, fuels, machinery and equipment. Yet as far as non-durable consumer goods are concerned, the present amount of imports from outside the region is said to be near to the "minimum level of economic feasibility" in most countries.[4]

[4] Cf. United Nations publication, *Economic Bulletin for Asia and the Far East*, December 1961, p.49.

At the same time, developing countries encounter various obstacles in the domestic production of durable goods, intermediate products, and capital goods.

II. Import substitution in the framework of national economies

Whereas the manufacturing of a number of non-durable consumer goods involves a relatively simple production process based on natural raw materials and semi-skilled labour, the production of durable consumer goods, intermediate products, and capital goods is generally more complicated; it requires advanced technical and organizational skills, and depends to a considerable extent on inter-industry relationships. To these inter-industry relationships we now turn.

Direct relationships between industries comprise forward and backward linkage effects. On the one hand, industries use the products of other sectors as inputs; on the other, with the exception of the industries producing consumer goods, they also provide inputs for further transformation. The availability of inputs, as well as the demand for output, will contribute to the establishment of a given industry, and this industry also creates external economies for other sectors. These may take the form of induced technological change by allowing for the exploitation of large-scale economies. As an example of this interdependence, we may refer to the case of the steel-industry.

An expansion of steel output increases the demand for iron ore and coal and may provide cheaper inputs for steel-using industries—especially if transportation costs from abroad are high. Increased demand for iron ore and coal can then permit greater mechanisation in mining, while the availability of steel may lead to the establishment of steel-using industries, or, in the case of existing industries, it may induce entrepreneurs to reconsider their production methods. The steel industry, in turn, would benefit from cost-reductions in the production of coal and iron ore as well as from the increased demand for steel.

Note further that the efficient production of machinery and durable consumer goods presupposes the availability of manufacturing facilities for producing various parts, components, and accessories, as well as the establishment of subsidiary activities. In the case of automobiles, for example, at a high level of specialization, the manufacturing of electrical and ignition systems, spark-plugs, heaters, steering wheels, springs etc. takes place in separate plants.

But while the simultaneous development of interrelated industries would be necessary for their efficient operation and technological advance, it encounters various obstacles in present-day less developed countries. On the supply side, the scarcity of capital, entrepreneurship, and technical skills appear as limiting factors; on the demand side, the small size of national markets is the relevant consideration. Although supply limitations could be escaped by concentrating development in a few branches of manufacturing, the application of the latter alternative tends to aggravate the imbalances between domestic production and consumption and/or leads to the use of inefficient, small-scale production methods.

At the same time, in the absence of external economies obtainable through inter-industry relationships, the competitiveness of these industries will suffer; and, in cases when they may become competitive, the existence of trade restrictions and the uncertainty related to the possible imposition of restrictions interfere with the expansion of exports to other developing economies as well as to developed countries. In the face of unfavourable export prospects, then, countries that have followed a policy of concentrated growth, have chosen to build small-size inefficient plants in substituting domestic production for imports.

We may conclude that market limitations in less developed countries interfere with the simultaneous development of interrelated industries and lead to the establishment of plants of inefficient size. Correspondingly, whereas import substitution has been an important factor contributing to economic growth in the ECAFE countries during the last decade, it has generally required a high degree of protection, and protection involves an economic cost. Moreover, import substitution becomes increasingly difficult and costly after imports of simple manufactures have been replaced by home products.

A related consideration is that import substitution behind national frontiers has often taken place at the expense of the products of neighbouring countries since it has generally been easier to replace the less sophisticated goods manufactured in countries at similar levels of economic development than the technologically more advanced products of industrial economies. National import substitution has been operative in industry as well as in agriculture; it has led to an absolute reduction of trade in some commodities, and contributed to the stagnation of total intra-regional trade. For example, trade in rice among the ECAFE countries declined from 4.7 million tons in 1938 to 3.0 million tons in 1957, and 2.6 million tons in 1959, and trade in cotton piece goods fell from 1,246 million square yards in 1938 to 879 million in 1957 and 683 million in 1959. Further, whereas total imports into the ECAFE countries rose from $5,700 million in 1948 to $9,800 million in 1962, intra-regional trade first declined from $2,000 million to $1,800 million and later stabilised at a level around $2,000 million. Thus, instead of integration, national economic policies followed in the last 15 years have contributed to disintegration in the ECAFE area, thereby increasing the cost of protection and leading to inefficiences in the allocation of new investments within the region.

One might object to this analysis that market limitations could be of little importance in a country such as India, which, in terms of population, is one of the largest countries of the world. But population cannot be a proper measure of market size since it is not indicative of the possibilities of reaping increasing returns to scale which is the relevant consideration for our discussion. Rather, for present purposes, the consumption of industrial goods can be an appropriate indicator of market size.

Data on the consumption of manufactured goods are not readily available, however, and we have to rely on some other, necessarily crude, indicators instead. As a first step, a comparison of gross national products and *per capita* incomes may be useful, when it should be emphasized that the demand for manufactured goods increases more rapidly than *per capita* incomes—especially so in countries with low living standards.

For purposes of comparison, let us take the case of West Germany, France, and the United Kingdom, the gross national product of which—converted into dollars by utilizing purchasing-power parities rather than exchange rates—is about $70,000-80,000 million a year, and *per capita* GNP around $1,400-1,500. On the other hand, not even in India does GNP exceed $60,000 million, and, more importantly, the *per capita* income of its population is about $140. In Pakistan, the next country in line, the gross national product is estimated at $11,000 million, and incomes per head at $120. While *per capita* incomes are higher in some countries of the region, such as China (Taiwan) and Malaysia, in 13 out of 17 countries in South-east Asia the gross national product does not reach five thousand million dollars.[5]

Reference should further be made to the existing inequalities of incomes in the less developed countries. It is safe to say that the peasants and the urban poor, who make up 80-90 per cent of the population, fall outside the market for a wide range of industrial products. Correspondingly, in countries that are large in terms of population and, in some cases, also in terms of national income, the effective market for industrial goods, in the production of which large-scale economies can be obtained, is rather small. Thus, the market in India for durable and a number of nondurable goods does not reach that of a country like Belgium or the Netherlands, which have a gross national product of $15,000 million and *per capita* incomes of $1,300-1,500. And Belgium and the Netherlands, too, consider it advisable to become part of a larger economic area in order to escape the limitations imposed upon them by the narrowness of their national market.

Economic integration in South-east Asia would then create larger markets for various industrial products by increasing the number of people at similar income levels who live within an integrated area. An indication of the demand for industrial goods within the ECAFE region can be given by reference to the fact that in 1961 its import trade in chemicals was $800 million, in metals $700 million, in machinery and equipment $2,400 million, and in nondurable goods $2,100 million. Further, inasmuch as higher income levels are attained in an integrated area, the demand for industrial goods would increase at a rate exceeding the rise of incomes, creating thereby further possibilities for the exploitation of large-scale economies.

III. Forms of intra-industry large-scale economies

In the above discussion of the effects of an enlargement of the market on economic activity, frequent references have been made to the possibilities of obtaining large-scale economies in individual industries. In the following, we will examine the forms these large-scale economies may take.

An enlargement of the market can have a three-fold effect on the operation of individual industries. To begin with, as the size of the market increases, larger plants, or combinations of plants will be built, as long as a lowering of costs is obtained thereby. This is economies of scale in a narrower sense and, when using the word, we usually refer to this one (economies of scale proper). Second, a widening of the market will make possible the reduction of product variety in individual plants, accompanied by a lengthening of the production runs. Third, in a wider market, various activities can be separated in individual plants. Thus, instead of producing, for example, automobiles with all their parts, components, and accessories in one plant, the latter can be manufactured in separate establishments.

[5] GNP estimates for developing countries have been taken from Paul Rosenstein-Rodan, "International Aid for Underdeveloped Countries", *Review of Economics and Statistics*, May 1961, p.118. while data for industrial countries have been derived from B. Balassa, *Trade Prospects for Developing Countries*, ch.2.

In other words, an increase in the size of the market allows for establishing larger plants as well as for horizontal and vertical specialization. By horizontal specialization we mean that different varieties of the same commodity are produced in separate plants while vertical specialization refers to separating various activities leading to the production of a given commodity in individual establishments.

In the process of horizontal and vertical specialization, all newly established plants can enjoy economies of scale but they may be smaller in size than the original, non-specialized plant. This conclusion indicates the difficulties of comparing plant sizes in individual industries that produce heterogeneous products and the possible pitfalls the unwary can fall into. An argument put forward by A. J. Brown is a case in point.[6]

In attempting to assess the possibilities of obtaining economies of scale in East Africa, Brown suggested to compare the consumption of manufactured goods in this area to the median size of plants in British industries, so as to calculate the number of efficient plants the East African market would support. It appears, however, that while this method may be applicable to the case of homogeneous commodities, such as cement, it leads to misleading results in regard to cotton textiles, footwear and other consumer and producer goods where product differentiation is prevalent.

In the latter instances, a median sized British plant is efficient under the assumption that it forms part of an industry manufacturing heterogeneous products, when individual plants specialize in different varieties of the same commodity. Thus, while the consumption of e.g. footwear in an under-developed country might equal the production of a median British establishment, efficient production could still not be ensured in such a country since its only plant would have to produce all kinds of footwear in use rather than one or two varieties. Considering also the cost reductions that can be derived from vertical specialization, it appears desirable to separately examine the three types of economies of scale.

IV. Plant size and economies of scale

Economies of scale proper can be classified with reference to indivisibilities, capacity-cost ratios, non-proportional activities, and the application of advanced technological methods. Among these, indivisibilities may pertain to a single unit of equipment that is necessary to produce a certain commodity, or, alternatively, several units of indivisible equipment may be called for. In the latter case, optimal operation requires that the plant's capacity should equal some multiple of the capacities of units of efficient size.

Further economies of scale result from the technological relationship between capacity and cost in the case of containers, pipelines, compressors, etc., where cost is a function of the surface area while capacity is related to volume. The loss of heat or energy in furnaces and electrical conductors is also related to the surface area whereas increases in capacity are proportional to volume. On the basis of these relationships, engineers have derived the so-called .6 rule, according to which a 10 per cent increase in capacity would be accompanied by an approximate 6 per cent rise in costs.

We can also obtain economies of scale in conjunction with various non-proportional activities, such as design, production planning, research, channeling and collecting of information, handling, shipping and repair facilities. In general, we find that at higher levels of output the per-unit cost of these activities declines. Finally, larger plant size may allow for the application of advanced technological methods that entail the use of specialized equipment and assembly-line production, and can lead to the specialization of workers and management.

The relative importance of these forms of economies of scale and the magnitude of cost reductions at higher levels of output will differ among industries. In the following we shall present available evidence for several industries that are of interest to the ECAFE countries. The information provided has been derived from engineering estimates pertaining to the manufacturing of homogeneous products where direct comparisons can be made.

Fertilizers

Important economies of scale can be obtained in the manufacture of fertilizers, where capital and labour costs have been shown to rise less than proportionately with increases in output. A doubling of the output of ammonia involves a 40 per cent increase in labour costs and an 81 per cent rise in capital costs, for example, while the relevant figures for ammonium nitrate and ammonium sulphate—the most important types of fertilizers—are 27 and 68 per cent, and 20 and 65 per cent, respectively.

The consumption of fertilizers is at low levels in most South-east Asian countries (exceptions are China (Taiwan) and South Korea); yet, in view of

[6] A.J. Brown "Economic Separation versus a Common Market in Developing Countries", *Yorkshire Bulletin of Economic and Social Research*, May 1961, pp.33-40 and November 1961, pp.86-96.

the large deficit in foodstuffs and rapid population growth in this area, substantial increases are necessary. At the same time, the imports of fertilizers as well as the construction of fertilizer plants involves a foreign exchange cost, which has delayed their application. The question arises whether cost-savings can be obtained if the construction of fertilizer plants takes place in a regional, rather than in a national, framework.

In attempting to provide an answer to this question we can make use of estimates prepared for Latin America. With regard to the latter area, Vietorisz and Manne have concluded that estimated fertilizer needs of 1 million tons of ammonia (in terms of nitrogen content) for 1970 can be most efficiently supplied by a single integrated plant, and, for the establishment of two plants of optimum size, production would have to reach 2 million tons. By comparison, production in South-east Asia does not exceed 300 thousand tons of nitrogen and is divided among five countries.[7] Assuming the same output target as for Latin America, a concentration of production in one or two locations would appear desirable.

Vietorisz and Manne have also estimated the possible savings attained by an efficient allocation of investment in fertilizer plants. According to them, in case the optimum configuration is chosen, the annual cost of producing 1 million tons of ammonia would be $64.9 million in Latin America, as against $89.4 million in the event of national autarchy, and $100 million if the area fully relied on imports. These figures include transportation costs and would, therefore, be modified in the case of South-east Asia. Still, they can be useful for indicating approximate magnitudes.

Steel

Economies of scale can also be obtained in the production of steel. According to information provided in a publication of the United Nations Economic Commission for Latin America (ECLA), *A Study of the Iron and Steel Industry in Latin America*, while over 1 million ingot tons is the annual output of an integrated steel plant of efficient size, costs are approximately 18 per cent higher at capacity levels of 0.5 million tons and 33 per cent higher in a plant producing 0.25 million tons per year. Yet, with the exception of India, production as well as planned capacity is considerably smaller in the steel producing countries of South-east Asia. (China (Taiwan), South Korea, and Pakistan).

[7] Thomas Vietorisz and Alan S. Manne, "Chemical Processes, Plant Location, and Economies of Scale," *Studies in Process Analysis*, ed. A.S. Manne and H.M. Markowitz, (New York, John Wiley & Sons, 1963), pp.136-58.

Taking account of production as well as transportation costs, Mrs Marterina Mantel, a student in my integration seminar, estimated that the 13 million tons steel consumption foreseen for 1970 in Latin America by the *Institute Latine-americano del Fierno y del Acero* could optimally be produced in two countries of the area, Mexico and Chile. While similar calculations have not been made for South-east Asia, it can be suggested that an optimum allocation of investment in steel-producing facilities would entail a concentration of steel mills here also.

Pulp and paper

Indivisibilities and capacity-cost ratios account for economies of scale in pulp and paper manufacturing. The magnitude of these economies of scale is indicated by a comparison of production costs at various capacity levels and the world market price f.o.b. mill, made on the basis of American data by the Economic Commission for Latin America. It appears that at capacity levels of 50 thousand tons a day, pulp and paper mills operate at a unit cost 60-80 per cent higher than the net world market price, and the latter is approached only in mills with a daily capacity of 200 tons. Costs decline further as capacity increases, the decrease being approximately 15 per cent between the 200 and the 500 ton level.

Unit Costs and Prices per ton, $

Product	Capacity (tons per day)	Capital charges	Direct cost	Total cost	Mill net price[a]
Bleached kraft pulp	50	82	167	249	130
	100	58	127	185	130
	200	44	105	149	130
Bleached kraft pulp and paper	50	108	200	308	190
	100	73	150	223	190
	200	56	123	179	190
Newsprint	50	72	150	222	125
	100	48	119	167	125
	200	36	101	137	125

Source: United Nations document ST/ECLA/CONF.11L.19.

[a] Mill net price = Approximate world price less allowances for selling and freight expenses.

At the same time, mills with a daily output of less than 50 tons are the rule rather than the exception in the ECAFE region. In fact, among these countries, total installed capacity in pulp production exceeded daily 100 tons in 1961 only in India, and it was below this limit in the manufacturing of newsprint and other paper. Economic integration would lead to a reduction in costs inasmuch as it contributes to the expansion of production in countries where conditions are the most favourable, and it makes possible building larger mills. While detailed information on raw material costs in the various countries is not available, it may be of interest to indicate differences in costs in setting up pulp and paper under varying assumptions as to plant size.

On the basis of data published by FAO and ECLA, we have calculated that an increase in productive capacity necessary to supply the 485 thousand tons estimated increase in newsprint consumption between 1965 and 1975 would require an investment of $202 million if mills with a daily capacity of 50 tons were built, $135 million in the case of plants producing 200 tons and $101 million for plants producing 200 tons a day. The $100 million saving in investment costs obtainable by building 200 ton instead of 50 ton mills would be accompanied by a saving in operating costs of about 33 per cent. In the production of pulp and paper other than newsprint, the saving in investment costs would be $190 million, and in operating costs 38 per cent.[8]

The construction of larger mills would also reduce foreign exchange recovery time. Estimates prepared for Latin America in my integration seminar by A. Munoz indicate that for woodpulp this would fall from 5.3 years in the case of mills with a daily capacity of 50 tons to 1.8 for mills producing 200 tons and 1.6 for mills producing 300 tons daily. Reductions of similar magnitude could be obtained in regard to paper, while differences are somewhat smaller in the case of newsprint. These results are of special importance given that approximately 70-80 per cent of the cost of construction involves a foreign exchange expenditure.

Other manufacturer

Economies of scale obtainable in the production of synthetic fibres should further be mentioned. According to information provided by J. S. Bain, optimal operation in rayon yarn manufacturing requires an annual output of 20-25 thousand tons, while costs increase 8 per cent for a plant half of this size and 15 per cent in a plant with one quarter of optimal output.[9] At the same time, among South-east Asian countries, annual output in about 30 thousand tons in India, and 2 thousand tons in China (Taiwan) while the other countries of the area do not yet produce rayon.

Economies of scale can also be had in the production of metals, transport equipment, machinery, consumer durables, cement, and several other products.[10] But economies of scale proper can be appropriately estimated only in the case of industries that manufacture homogeneous products while the difficulties encountered in the comparison of plant sizes do not permit reaching definite conclusions with respect to the manufacturing of heterogeneous commodities. In the latter instances, economies of scale in the form of horizontal and vertical specialization assume importance.

V. Horizontal specialization

In industries producing a great variety of commodities, plants established in larger countries are generally able to specialize in a narrower range of commodities and will enjoy cost advantages due to longer production runs. These cost-advantages relate to reductions in fixed costs per unit, decreases in some elements of direct costs, and increased productivity at higher output levels.

A lengthening of the production run may entail reductions in fixed costs per unit of output through the use of specialized machinery and by reason of the lower costs involved in making molds, preparing designs, etc. Savings in fixed costs are of special importance in the metal-working and machine-tool industries, although examples can also be found in various branches of engineering.

Longer production runs further contribute to a lowering of certain direct costs. These include the expense associated with resetting machines, reorganizing work, and shifting labour from one operation to another. Besides the industries mentioned above, the direct cost of changeover assumes importance in the textile industry and in the production of some chemicals. With regard to the latter, the cost of set-up and clean-up operations in the manufacturing of pharmaceuticals, dyes, and various organic chemicals may also be mentioned.

Last but not least, in the case of short production runs, potential improvements in manufacturing efficiency are foregone. Estimates made for several industries indicated improvements in productivity along a "learning curve" as output expands. This gain has been put at 15-20 per cent as output doubles, although one could not expect it to continue indefinitely. The manufacturing of airframes, machine tools, and shipbuilding are examples.

It has been suggested that, in explaining productivity differentials between the United States and Western Europe, differences in the length of the production run may be of greater importance than differences in plant sizes.[11] Available information does not permit us to evaluate this claim, however,

[8] FAO, *Pulp and Paper Prospects in Asia and the Far East,* Vol. 1, (1962), and United Nations document ST/ECLA/CONF.11L.19.

[9] J.S. Bain, *Barriers to New Competition* (Cambridge, Mass., Harvard University Press, 1958), ch.III.

[10] Information on economies of scale in these industries is given in Bain's above-mentioned study as well as in Bela Balassa, *The Theory of Economic Intergration,* ch.6.

[11] P.J. Verdoorn in *Economic Consequences of the Size of Nations,* Robinson, E.A.G. (ed.) (London, Macmillan, 1960), p.346.

and neither can we provide a quantitative appraisal of gains to be attained from standardization in countries of the ECAFE region. For one thing, in the latter countries, several of the industries in question have not yet been established or are still in their infancy; for another, few estimates of gains derived from the lengthening of production runs are available. Yet some indications can be given as to potential improvements in the textile industry.

Economies of scale proper appear to be of relatively small importance in the textile industry; according to estimates by ECLA, costs per unit decrease by about 10 per cent as output doubles. But further improvements can be obtained by reducing the variety of products presently manufactured in textile plants as shown by a comparison of United States and Canadian manufacturing.

According to information provided by firms operating in both countries, higher manufacturing efficiency in the former as compared to the latter can be explained by the fact that in the larger American market plants can specialize in one type of fabric while Canadian mills often produce 5 to 100 types of fabrics. These conclusions apply *a fortiori* to the textile industries of the ECAFE countries since production in most of these countries takes place on a scale considerably smaller than in Canada.

VI. Vertical specialization

We come next to economies of scale that can be obtained as an enlargement of the market leads to changes in the structure of individual industries, involving the segregation of various operations in separate undertakings. This process of vertical specialization will contribute to greater productivity, inasmuch as economies of scale can be appropriated in the newly-established specialized plants.

Gains from vertical specialization appear at various levels of industrial development. In chronological order, the tanning industry might have provided the first example of this process in present-day industrial economies, followed by the printing-trade, the metal industry, machine-building, and the automobile industry. Among these, metal manufacturing has often been cited as an example of vertical and horizontal specialization in describing developments in Europe during the latter half of the nineteenth century.

With the expansion of metal manufacturing, plants have come to specialize vertically in founding, casting, forging, and tool-making; and horizontally, in the manufacture of needles and pins, safes and locks, domestic hollow were, and more recently, in electric heat and cooking apparatus, batteries, etc. These advantages of specialization can be appropriated in the countries of the ECAFE in many of which metal manufacturing is in its infancy. Similar conclusions apply to the production of durable consumer goods and machinery.

VII. Large-scale economies and economic growth in an integrated area

We may conclude that an enlargement of the market creates possibilities for better resource allocation and for the exploitation of internal and external economies in an integrated area. These results are reinforced as demand for industrial goods increases at higher income levels. In fact, we find a multiplier-type relationship here, with an enlargement of the market leading to higher income levels, and the market for manufactured products being further broadened as demand for manufactured products rises with incomes. The wider market, then, again makes possible raising income levels through the use of large-scale production methods and inducements provided for technological improvements.

It is not to be assumed, however, that the described results would automatically follow after integration. Economic integration is not a panacea. By enlarging the market, it can provide a suitable framework for economic growth but the actual results will greatly depend on the economic policies to be followed. To appropriate the large-scale economies attainable in an integrated area, for example, increased investments are necessary which can hardly be forthcoming if foreign investment is discouraged and domestic savings are not generated. Also, changes in the social structure will often be called for in the process of economic development, and so is some degree of co-ordination of national economic policies.

3. PAYMENTS ARRANGEMENTS IN LESS DEVELOPED REGIONS WITH SPECIAL ATTENTION TO THE ECAFE REGION*

I. The controversy on payments arrangements in developing areas

In discussions on economic integration in Latin America, interest has recently been focussed on payments arrangements. The proponents of such schemes have generally referred to the experience of the European Payments Union (EPU) and claimed that the establishment of an intra-regional payments system is a precondition of increased trade among the member countries. On the other hand, the critics of these proposals argued that the experience of EPU is not relevant for a union of Latin American countries since trade relations among the latter are much less extensive than in Europe, and, at any rate, with the advent of convertibility, EPU itself has been dissolved. The critics have further asserted that, since the currencies of most Latin American countries are convertible, a payments union would represent a backward step.

The question arises as to what extent these arguments — pro and con — apply to the ECAFE region. To begin with, while in Latin America, as well as in Africa, the intra-regional exchange of commodities is relatively unimportant and does not reach 10 per cent of total trade, this proportion is considerably higher in the ECAFE region. In the latter, intra-regional trade amounted to 21.1 per cent of total trade in 1962, higher than the corresponding proportion in the European Free Trade Area (17.8 per cent), although falling much behind the 40.9 per cent share of intra-regional trade in the European Common Market.

The scope for payments arrangements thus appears to be considerably greater in the ECAFE region than in Latin America, or, for that matter in Africa. Note, however, that a substantial part of this trade consists of entrepôt transactions which are little affected by the existence of payments restrictions. Nevertheless, even adjusting for entrepôt trade, the degree of economic interdependence among the ECAFE countries is higher than in other less developed regions.

A further consideration is that, for judging the desirability of payments arrangements in developing areas, not *actual* but rather *potential* trade is relevant. In turn, differences between actual and potential trade can be due to a number of factors, including payments restrictions, trade barriers, and the overvaluation of exchange rates. Among these the question of convertibility shall first be raised.

Although the currencies of most Latin American countries are formally convertible, limitations of foreign exchange impinge upon international exchange. In addition to tariffs, trade is restricted by the use of various devices, such as prepayment requirements and differential taxes, all of which raise the cost of importation. Formal convertibility is thus often maintained through the employment of measures that represent a "cross" between tariffs and exchange control.

The ECAFE countries are even farther from convertibility; with but few exceptions their currencies are subject to exchange control. Correspondingly, trade among these countries is financed in convertible currencies (usually sterling or dollars), or, in some instances, it is carried out in the frame work of bilateral agreements, with the balance settled in gold, sterling, or dollars.

The inconvertibility of their currencies restricts the international trade of the ECAFE countries—this is, in fact, its *raison d'être*. For our present topic, however, the relevant question is whether the payments and trade restrictions in fact discriminate against intra-regional exchange or affect all trade in the same way.

II. Sources of discrimination against intra-regional trade in the ECAFE region

It is suggested here that the system of controls in use in South-east Asia indeed discriminate against intra-regional exchange. To begin with, in exchange control schemes the lowest priorities are usually assigned to commodities produced (or desired to be produced) domestically, and thus to consumer goods and other relatively simple products manufactured in neighbouring countries. Further, in choosing among the suppliers of a given commodity, there appears to be a tendency to use hard currency exchange earnings in a country whose currency is also convertible. This tendency is reinforced by reason of

* Prepared for the Economic Commission for Asia and the Far East by Mr. Bela Balassa, Associate Professor of Economics, Yale University. Views expressed in this paper are those of the author.

the existence of the Sterling Area, of which several countries of the region are members. A related consideration is that bilateral trade arrangements tend to restrict international intercourse by reason of the limitations of commodity assortment in trade among any two countries and the desire to avoid incurring a debit balance that would have to be settled in hard currency.

Commonwealth preference is also a source of discrimination. Member countries of the Commonwealth in the ECAFE region include Brunei, Ceylon, Hong Kong, India, Malaysia and Pakistan. These countries give preferences to each other, as well as to Great Britain, Australia, New Zealand and other Commonwealth countries, at the exclusion of the non-Commonwealth ECAFE economies. Philippines-United States agreements have a similar effect, while tied aid, loan and credit arrangements have recently become important sources of discrimination.

If potential trade is interpreted in a wider sense, to include the possible effects of integration through industrial development, the argument for a payments union becomes even more compelling. Until recently, trade among the ECAFE countries was confined largely to primary products and textiles, while other manufactured products originated chiefly from outside the area and became subject to intra-regional trade through re-export from Hong Kong and Singapore. And although trade in manufactured goods (other than textiles) of regional origin expanded at a rapid rate during the last decade, in absolute terms it has remained small. In 1961, the relative shares of the three commodity groups were 65.6, 9.0 and 25.3 per cent, respectively, when much of the latter was still re-export.

With industrialization accompanying economic integration, however, trade in manufactured goods is expected to assume considerable proportions, augmenting thereby the share of intra-regional trade. This conclusion is based on the historical experience of the present-day developed countries where industrialization has been followed by increased exchange of manufactures, resulting from national product differentiation in consumer goods (e.g. Volkswagen vs. Fiat) and producer goods (e.g. specialized machines and machine tools).

It appears, then, that the elimination of discrimination against imports from other ECAFE countries would raise the share of intra-regional trade in total trade, and this outcome would be reinforced through the economic integration of the area. But, aside from the direct effects of trade barriers and exchange controls, another source of discrimination exists in trade among countries with overvalued and inconvertible currencies that would be removed by instituting a payments union.

It is a matter of common observation that the currencies of most ECAFE countries are overvalued, in the sense that balance of payments equilibrium in a free exchange market would necessitate a devaluation of considerable magnitude. As a result of this overvaluation, the internal prices of traded commodities are generally higher than are world market prices converted into domestic currency at the going exchange rate. The difference between internal and external prices either accrues to the government in the form of premiums on foreign exchange auctioned to importers or appears as traders' profits. Should we assume, for example, that the currencies of the ECAFE countries are overvalued uniformly by one-third, the prices of imported goods would be one-third above world market levels. (For simplicity's sake, we assume tariffs to be zero).

Let us now consider two hypothotical South-east Asian countries, one of which is an exporter of shoes and an importer of textiles (country A), while the other country exports textiles and imports shoes (country B). The prices of both commodities are assumed to be $10 on the world market. Export prices must also be $10, otherwise the countries in question could not compete with producers in other parts of the world. Yet, in view of our previous discussion, import prices will be $13.33. Thus, the price ratios of textiles to shoes will be 133/100 in country A and 100/133 in country B, and the ratio of relative prices in the two countries 1.78. By comparison, the ratio of relative prices between an ECAFE country and an industrial nation with convertible currency will be 1.33. In other words, in intra-regional trade, an exporter has to give up 1.78 units of shoes to get 1 unit of textiles, and vice-versa, whereas in trade with industrial countries the corresponding ratio is 1.33.

It is easy to see that these differences in price ratios between ECAFE countries, on the one hand, and in ECAFE-industrial country relationships, on the other, discriminate against intra-regional trade. In fact, comparative advantages in these countries have to show wide variations in order to allow for intra-regional trade in manufactured goods within the ECAFE region. This analysis is modified by introducing the possibility of substitution between exports and import-competing goods, although the main conclusion is not affected.

Our discussion has been based on the assumption that commodities traded among ECAFE countries are paid for in convertible currencies, the scarcity value of which causes the domestic price of imported goods to rise. Bilateral agreements, with the balance paid on convertible currencies, will reduce the discrepancies between price ratios by bringing larger quantities of the imported goods to the home market. But such arrangements are notoriously inefficient, — for one thing, because they provide incentive to obtain bilateral balancing through redirecting trade in line with payments needs rather than according to comparative advantage. For the same reason, the existence of bilateral agreements tends to restrict international trade. These deficiencies are obviated, however, if a multilateral balancing of payments and receipts is carried out in the framework of a payments union.

In a payments union, then, differences in relative prices will diminish, reducing thereby the opportunity cost of imports. Correspondingly, the possibilities for exploiting differences in comparative costs will increase, and intra-regional trade expand. It should be emphasized that this result follows without any reduction in tariffs, although tariff reductions will certainly further contribute to greater interchange in commodities. A historical example for the above alternative is the establishment of the European Payments Union which was accompanied by little, if any, reductions in duties.

It may be objected that the described situation can be remedied without having recourse to a payments union if all ECAFE countries established convertibility. This solution can hardly be recommended for the present time, however. We have noted earlier that the demand for the primary product exports of these countries is rather inelastic, hence even if we take account of the possibility of increasing exports of little manufactures following a devaluation, a substantial rise in export earnings is not expected. At the same time, given that much of extra-regional imports serve developmental purposes, imports into the region would not fall much, and world market prices of commodities imported into the ECAFE region would not be affected. Correspondingly, ECAFE countries would suffer a considerable deterioration in their terms-of-trade after a devaluation that will have brought them nearer to convertibility.

But while convertibility cannot be an immediate objective, it should be regarded as a long-term goal, since it makes possible a better allocation of resources and, perhaps more important, it contributes to the expansion of the exports of manufactured goods from less developed countries by making these more competitive. But the establishment of a payments union can be expected to help, rather than hinder, ECAFE countries in approaching convertibility. This conclusion follows since, by allowing for the exploitation of intra-regional comparative advantage, a payments union leads to improved efficiency and increased incomes in the region.

The question arises, however, whether these benefits accruing to the countries of the ECAFE region will have their counterpart in losses to industrial countries due to discrimination inherent in a payments agreement. This charge had been levied against the European Payments Union at the time of its establishment, and has also been raised in connexion with the proposed Latin American payments union. The experience of EPU has not borne out this assertion, however, and similar conclusions may follow in regard to the ECAFE region too.

It appears that, in the ECAFE countries, taken together, extra-regional imports are restrained by the availability of export earnings rather than by any other factor. Correspondingly, establishing a regional payments union would not affect the total of extra-regional imports, unless it leads to a decrease in exports. At the same time, the exports of ECAFE countries consisting chiefly of primary products, the reallocation of resources employed in producing these is not likely to assume large proportions, since an increase in the labour force in industry can take place at the expense of disguised unemployment prevailing in many of these countries without much affecting exportable production.

But while the total of extra-regional imports may change little, their composition would likely to be altered. Increased intra-regional trade in simple manufactures would be accompanied by a reduction of imports from outside the area, thereby freeing hard currency for the purchase of machinery and equipment. At the same time, larger savings at higher income levels would increase the need for investment goods, and an acceleration in the rate of growth of incomes would have similar results.

We have indicated here the desirability of establishing a payments union in the ECAFE region. It has been shown that a multilateral payments arrangement would remove some of the causes of discrimination against intra-regional trade and would complement a policy of trade liberalization within the area. Accordingly, it would contribute to better resource allocation in the area and would help to meet the liquidity needs of increased inter-regional trade. Greater specialization can, then, favourably affect the rate of growth in the participating countries by allowing for the use of large-scale production methods and supplying incentives for technological improvements.

The next question concerns the form a payments scheme may take. In this connexion, it appears useful to review proposals made with respect to a payments union in Latin America. In the discussion use will be made of various documents published by the United Nations Economic Commission for Latin America (ECLA) and the Centro de Estudios Monetarious Latino-americanos (CEMLA). The proposals to be examined include these made by ECLA, Robert Triffin, and R. F. Mikesell.

III. The ECLA proposals

The purpose of the ECLA plan is to multilateralize bilateral settlements among the member countries of the Latin American Free Trade Area and to provide automatic credits in intra-regional trade. Countries would automatically receive credits to settle their deficits in intra-regional trade up to predetermined—and rather generous—margins, and would have to pay in convertible currencies any amount exceeding these margins. In turn, surplus countries would be required to grant credits until their margins are exhausted and would receive payments in convertible currencies only for amounts exceeding these limits. ECLA's proposal provides for two alternatives for the practical application of this scheme: a system of *a priori* and *a posteriori* credits.

The first alternative would dispense with the use of convertible currencies in trade transactions. Central banks would designate commercial banks to finance international transactions and would also provide internal credits in the course of an accounting period. At the end of each accounting period, the central banks of the participating countries would communicate the net balance reported to them by the commercial banks to the Agency in charge of the payments scheme for the making of settlements. Creditor countries would now be required to grant credit up to predetermined margins while the balance would be settled in convertible currencies, as noted above.

By comparison, the *a posteriori* credit system involves the use of dollars and other convertible currencies in individual transactions, as at present. At the end of each accounting period, on the basis of transactions reported by the central banks, the Agency would reimburse the deficit countries up to the authorized limit in dollars, while the surplus countries would have to grant credits in dollar terms.

As far as the choice between the *a priori* and the *a posteriori* credit systems is concerned, note that the first would dispense with the use of New York and London banks for financing intra-regional transactions and would enlarge the role presently played by domestic banks in the LAFTA countries. It would also involve the granting of credits without limitation during the accounting period and, more important, it would economise on the use of convertible currencies.

It appears, then, that in the event of a payments system similar to that proposed by the Economic Commission for Latin America was to be adopted in the ECAFE region, the *a posteriori* system would offer certain advantages over the *a priori* scheme. The former alternative would strengthen the banking system in the participating countries, and it would reduce reserve requirements since hard currencies would now be used only in transactions with non-regional trading partners and in settling balances above the authorized limits in intra-regional trade. It is a different question, however, whether the ECLA plan as such would provide an appropriate solution for the ECAFE region.

The first objection to ECLA's proposals relates to the underlying idea which involves the application of the so-called reciprocity principle. According to this, it is desirable to establish equilibrium in intra-regional trade for each country; i.e. none of the participating countries are to export more to the other member countries, taken together, than what they import. The ECLA scheme would be designed to put this principle in practice by taking the balance of intra-regional trade as a basis for credit arrangements, and thereby providing an incentive to equilibrate this trade.

The emphasis on equilibrium in intra-regional trade appears to be misdirected, however, since it puts an additional constraint on the flow of international trade. As long as each nation's balance of payments with all their trading partners, taken together, is in equilibrium, it matters little whether they have a surplus or a deficit in intra-regional trade. Thus, a mineral producer may continue to run a surplus with non-member countries, and a deficit in intra-regional trade, without the need for corrective measures.

In fact, measures taken to balance intra-regional trade could create disequilibrium in the total balance of payments of the individual countries which, in turn, might necessitate the application of further corrective measures. At the same time, under ECLA's plan, debtor countries would be encouraged to use export receipts originating outside the area to increase their extra-regional imports or to build up exchange reserves, while taking advantage of intra-regional credit facilities. On the other hand, creditor countries would find part of their intra-regional export earnings "locked in", and their response may well consist in the reduction of intra-regional exports rather than an increase in imports.

Reference should further be made to the fact that exports — especially exports of manufactured goods — often embody imported materials, intermediate goods, or the services of machinery. Now, the proceeds of such a sale might, in part, be tied up in the area credit system while the surplus countries have to pay hard currency for their extra-regional purchases of parts, components and other inputs. The objective of balancing intra-regional trade, then, becomes even less tenable.

IV. The Triffin proposals

Robert Triffin's proposals for a clearing union in Latin America removes the principal deficiencies of the ECLA plan that follow from the assumed objective of the equilibration of intra-regional trade. In presenting his proposal, Triffin has utilized the experience of the European Payments Union and has derived a scheme that, from cautious beginnings, would serve functions similar to those of EPU.

As a first step, Triffin proposes to establish a clearing house for Latin American central banks, without any credit function. The clearing house would carry out the multilateral balancing of all debits and credits expressed in some common unit of account, with full payment of the outstanding balance in convertible currencies. This scheme would hence provide interim credits within an accounting period and would dispense with the use of dollar instruments in intra-regional trade, just as ECLA's *a posteriori* system, but it would not grant credits at the end of each period.

The latter feature would undergo changes in the second step, when moderate automatic credits would be granted to debtors for limited periods. These would be guaranteed by the clearing union and, indirectly, by all participating countries. Given the limitations imposed on granting short-term credits both in amount and in time, loans of longer duration would have to be negotiated at IMF or obtained on international money markets.

In addition to the limitations on credits as against the more "generous" approach of ECLA, a further important difference between the two proposals is that according to Triffin's plan credits would be based on the over-all balance of payments position of the participating countries rather than on their intra-regional balance as proposed by ECLA. Correspondingly, the main objections voiced against ECLA's scheme do not apply to Triffin's proposal.

Triffin's suggestions might be criticised on different grounds, however. While a similar scheme worked well in Western Europe, where the participating countries, taken together, had an equilibrium in their balance of payments, it would run into difficulties in an area where all or most countries simultaneously incur balance of payments deficits. And the latter may well happen in Latin America, as well as in South-east Asia.

It appears, then, that a payments arrangement which provided credits on the basis of the over-all balance of payments position of the participating countries, presupposes an equilibrium in the balance of payments of the region (in determining the balance of payments position, appropriate account should be taken of foreign investment and foreign aid). Otherwise, the credits granted by the clearing union (and financed from the reserve funds of the union provided possibly by international organizations and/or the United States) would soon be exhausted, and, in fact, an incentive would be provided for countries to use up their credit margins at an early date.

V. The Mikesell proposals

In turn, Mikesell's proposals are designed to provide for the liquidity needs associated with the expected expansion of trade in LAFTA. This purpose would be served by establishing closer relationships among Latin American banks and by providing limited loans to countries with an over-all balance of payments deficit from extra-regional or intra-regional sources.

Mikesell notes that the financing of the increment of intra-regional trade entails certain costs, inasmuch as it necessitates drawing instruments on New York and London banks. These costs could be reduced by establishing correspondent relationships among Latin American banks which are largely non-existent at the present. To facilitate the establishment of closer relationships among these banks, obligations would be expressed in a non-resident LAFTA monetary unit convertible into dollar. The 100 per cent backing of these obligations by dollar would ensure their convertibility.

In addition to reducing financial costs, such a scheme might contribute to increased trade among the countries in question through the establishment of financial ties. To deal with possible imbalances, credit facilities would also have to be created, however. This Mikesell proposes to provide from IMF loans, as well as through a Latin American credit agency. The latter would have the function of guaranteeing letters of credit issued by Latin American banks and sold in domestic and foreign money markets. In doing so, the bank would observe commercial principles while its eventual loan activity would be modelled after that of IMF.

Mikesell's proposals can hardly be considered revolutionary, and, as far as they go, they are unlikely to encounter objections from any quarter. But do they go far enough to provide for the liquidity needs of expanding trade in Latin America and, for the matter, in South-east Asia? We will be concerned, among other things, with this question in the concluding section of this paper.

VI. Payments arrangements for the ECAFE area

Any payments arrangements in the ECAFE region would have to provide for the multilateralization of bilateral agreements and allow for settling obligations arising from intra-regional trade in some common unit rather than in convertible currencies. These objectives would be well served in a clearing union which can be accompanied by the establishment of correspondent relationships among area banks. To this extent a payments arrangement among ECAFE countries would be based on the Triffin plan, complemented by some features of Mikesell's proposals.

In view of our previous discussion, establishing a clearing union, as well as correspondent relationships among commercial banks, would reduce liquidity needs per unit of transaction. It would not, however, make available credits to tide over periods of deficit except during the accounting period. Granting credits is a difficult question, partly because the area as a whole is—and is likely to remain—in deficit, and partly because the balance of payments position of the participating countries and the convertibility of their currencies varies from country to country.

In the opinion of the present writer, instituting a system of automatic credit should be postponed until a later period when balance of payments equilibrium in the region as a whole appears to be ensured. In the meantime, continuing reliance should be based on credit provided by international institutions and industrial countries, and facilities should be created for the introduction of export credits and export insurance schemes.

Exporters in the ECAFE region are at a disadvantage as compared to producers in industrial countries, because they are rarely able to provide credit to would-be buyers and may have difficulties even in financing the sale during the period the merchandise reaches the importer. Further, the weak financial position of these producers often does not permit them to take the exchange and other risks involved in exportation, and export insurance schemes are generally not available to them. On the other hand, in addition to their greater financial power, the exporters of most industrial countries can participate in various export credit and insurance schemes.

It appears, then, that instituting a system of export credits and export insurance would contribute to the expansion of trade in the ECAFE countries. Credits and insurance could in the first instance be granted by appropriate institutions in the individual countries, with a regional agency providing for the rediscounting of bills and for reinsurance. The insurance should extend also to political risks as well as to exchange risk. To reduce the cost of these activities to the member countries, assistance from international institutions should be sought.

As far as institutional arrangements are concerned, the appropriate separation of the relevant functions would require establishing two institutions, a bank of international settlements for South-east Asia that would carry out clearing operations, and an agency for export promotion which would be responsible for export credits and insurance. A detailed discussion of the modus of operation of these institutions must, however, await further research into the specific circumstances characteristic of the ECAFE region.

4. TRADE BARRIERS IN COUNTRIES OF THE ECAFE REGION

— a preliminary note —

This is a factual note attempting to give a bird's eye view of the commercial policies of countries of the region with special emphasis on import regulations by the Governments. The first part gives a general description of the aims and methods of the imposition of import barriers in various countries of the region, and a review of preferential arrangements existing in the region. The second part contains a more detailed country-by-country description of import policies and regulations.

Part I

A. Purposes and methods of import barriers

The aims of the import policies of countries in the ECAFE region are manifold and vary greatly from country to country. They are based not only on economic but often on political reasons. Likewise, the methods used in the attempt to translate these objectives into reality are multiple and complex. From the point of view of the degree of control and objectives, developing countries of the region may be broadly grouped into three categories, namely: 1) those that apply a minimum of import control, 2) those which institute a comprehensive import control system through quantitative restrictions, foreign exchange budgeting and/or other measures, and 3) those which aim at achieving a complete control over imports through state trading or nationalization of import trade.

Of course, there are other useful ways of classification, such as, by the country's methods of controlling imports—through measures that affect the relationship between domestic costs and external prices and through primarily arbitrary means such as a total ban, import quotas or similar restrictions. However, the paucity of necessary data does not permit classification other than by the first of these methods. It is certainly necessary that more data on this subject be collected in order that studies more analytical than the present one can be undertaken, especially in regard to tariffs, commodity taxes and various forms of trade restriction and their effects on specific commodities and industries, as well as their impact on various aspects of the economy. It is also most desirable to include in future studies the nature and effectiveness of each type of trade barrier, including tariffs, internal taxes, quantitative restrictions, exchange control, mixing regulations, state trading, monopolies, preferential treatment, bilateral agreements, and certain disguised regulations.

There are few developing countries in the region that belong to the group mentioned above. These countries are relatively more fortunate in respect of their balance of payments positions; Malaysia, the Philippines and Thailand are among these. Imports into these countries are fairly liberal and subject to simple exchange control regulations, if there are any. As they actively engaged in encouraging local industrial and agricultural production, the imposition of high import barriers is confined to a limited range of goods which are under protection. The barriers are in the forms of quantitative restrictions, mixed regulations and/or high import duties, often supplemented by other internal taxes. In the Philippines, advance deposits of up to 100 per cent of the import value of less-essential goods are required, but there is a marked tendency for the Government to shift its emphasis from import and exchange restrictions to tariffs as an instrument for promoting the growth of import substitutes and other industries. Except for protected goods, the general rates of import tariffs in these countries are not particularly high in relation to other countries; nor does the revenue derived from import duties constitute an especially large proportion in the Government's total revenue (see table 1).

It should be noted, however, that there are noticeable trends in these countries toward adding more and more products to their lists of protected industries and thus imposing higher import barriers on selected manufactured articles. On the other hand, exemptions or reduction of import duties on raw materials and machinery used by the new industries tend to increase in keeping with the extension of privileges to these industries.

The second group comprises the largest number of countries, including China (Taiwan), India, the Republic of Korea, Nepal, Laos, Pakistan and the Republic of Viet-Nam. These countries, being faced with persistent and heavy trade deficits, are compelled to impose comprehensive quantitative restrictions and/or foreign exchange controls on imports. Most of them draw up short-term foreign exchange budgets based on estimated foreign exchange availability and make appropriate changes in their import regulations to suit the current budgets. The methods of regulation include not only foreign exchange allocation for various categories of goods, but also the maintenance of dual or multiple rates of exchange, requirement of cash deposits upon opening letters of credit and imposition of foreign exchange taxes and super-taxes at varying rates according to the essentiality of imported goods and availability of foreign exchange. The foreign exchange regulations are often combined with import licencing and, in several countries, state trading organizations enter into the picture by monopolizing or regulating the importation and distribution of goods specially reserved for them. The subject of state trading will again be dealt with subsequently.

While foreign exchange shortage is the underlying cause of erecting high import barriers in these countries, the desire to protect local industries and to encourage local food production has become so strong a reason for the Governments to maintain a strict control over imports. Especially for the benefit of the industries that produce import substitution and exportable products, import barriers are raised in the form of import bans, prohibitive rates of duty and quantitative restrictions. The operation of agricultural price support schemes in food deficit countries and the Governments' anxiety to ensure adequate food supplies at reasonable prices are often a reason for their complete control of food imports. In India and Pakistan, the industries that produce defence and strategic goods are also given full protection. In addition, import control has been instrumental in promoting the export of certain surplus commodities; some Governments give transferable certificates of special entitlement or a "bonus voucher" to exporters of these goods to enable them to import restricted and thus more profitable goods.

Table 1. Proportions of customs duties and tax revenue in total revenue of certain countries in the ECAFE region

(As percentage of total revenue)

Country	Year	Type of account	Total tax revenue	Customs duties		
				Total	Import duties	Export duties
Developing countries						
Afghanistan	1963/64	E	82.4	32.6	30.2	2.4
Brunei	1963	DE	38.6	3.3	3.1	0.2
Burma	1963/64	RE	82.2	25.9	...	...
Cambodia	1963	E	77.1	29.2	26.9	2.3
Ceylon	1963/64	DE	86.6	48.1	29.4	18.6
Hong Kong	1963/64	A	62.1	14.8	14.8	—
India	1963/64	RE	61.9	15.1	14.7	0.4
Indonesia	1963	DE	38.6	17.0	...	...
Iran	1963/64	PR	86.0	17.6	17.6	—
Korea, Republic of	1963	DE	71.1	12.4	...	...
Laos	1963/64	DE	91.8	51.8	51.8	—
Malaysia	1963	A	77.5	44.5	30.5	14.0
Nepal	1963/64	RE	73.9	31.1	...	...
Pakistan	1963/64	RE	84.5	32.7	...	...
Philippines	1963/64	DE	88.3	23.1	23.1	—
Thailand	1963/64	A	90.2	33.5	29.8	3.7
Viet-Nam, Republic of	1963	A	89.6	32.6	27.9	4.7
Developed countries						
Australia	1963/64	PR	93.2	6.8	6.7	0.1
Japan	1963/64	RE	93.1	5.5	...	...
New Zealand	1963/64	A	87.7	13.2	13.2	—

Source: Economic Survey for Asia and the Far East, 1964

A = Accounts
PR = Provisional results
E = Estimates
RE = Revised estimates
DE = Draft estimates

There are other countries, namely, Ceylon and Indonesia, which are not faced with such chronic trade deficit problems, and yet, for other reasons, place similarly strict controls on their imports. Ceylon's fluctuating export earnings, which are mainly derived from commodities with unstable markets such as coconut products, rubber and tea, coupled with its heavy food import requirements, oblige the country to be particularly careful in spending its foreign exchange and thus to exercise a strict control over imports. Also for the purpose of diverting trade to Ceylonese nationals, import control and state trading are resorted to in implementing the "Ceylonization" policy. Indonesia is in a somewhat similar position. Liable to heavy expenditures on food imports and to widely fluctuating export earnings, it maintains strict import and exchange controls, requiring up to 100 per cent cash deposits on non-essential imports. Moreover, the new (1964) tariff schedule imposes up to 800 per cent *ad valorem* duties on imports. Moreover, it is through the import control system that Indonesian nationals have been able to gain larger control of trade from non-nationals.

Often more than one type of trade barrier is used to restrict the import of a particular commodity. For instance, the food deficit countries usually control food imports through quantitative restriction and state trading as well as exchange control, but not through tariffs. In most cases, these countries more freely allow those food imports which involve little or no payment in foreign exchange. For the protection of infant industries, tariffs and internal taxes are usually used and often supplemented by quantitative restrictions which can give both flexibility and absolute protection. It is hardly necessary to mention that, for the purpose of finding practical ways of liberalizing the trade of the countries of the region, a commodity study on each principal commodity exported by the ECAFE countries and the types of import barrier which the commodity encounters in various importing countries should be made.

Since the problems causing the second group of countries to erect high trade barriers are of a long-term nature and the current economic and political conditions are still working against their strenuous efforts of industrialization and development of export trade, the recent trends in most of them have not been towards trade liberalization. With the increasing needs for food and other essentials created by the rapid growth of population, the urgent defence and strategic requirements and the growing demand for capital and development goods to fulfil development plan targets, on the one hand, and the slow and erratic growth of their export earnings, on the other, it is most likely that these countries will be obliged to continue their present rigorous import restriction policies for some time.

Iran is another country which, from the point of view of its present policy of strict and complete import control, should come under the second group of countries. In 1961, Iran shifted from the "open gate" import policy despite its considerable surplus of exports (including oil) over imports. But the inflationary pressure and its desire to stabilize foreign exchange rates and to encourage new industries are the reasons for raising tariff and non-tariff barriers. Against continuous pressure from private sectors to liberalize import and to reduce tariff and commercial profit tax, the Iranian Government announced that every effort would be made to maintain the present policy until the end of the third development plan (1963-1967). However, the Government agreed in principle to the gradual reduction of import restrictions and commercial profit tax after 1967.

Before going further into the third group of countries whose trade policies fully reflect the Governments' desire to take over the entire trade through state trading or nationalization, it may be appropriate at this stage to mention that state trading also plays a rather significant role in the import trade in several countries falling into the second group, namely: Ceylon, China (Taiwan), India, Indonesia and Pakistan.[1] In these countries, the import control systems are often used as a means to assist the state trading organizations to secure a desired proportion of trade or to remain in business in case they are in competition with the private sectors.

State trading is conducted for a variety of aims and purposes, of which those more commonly pursued by countries of Asia and the Far East are:

a) to ensure adequate and regular supplies at reasonable and stable prices of essential commodities to meet local demand;

b) to secure better prices for export and import products through increased bargaining power;

c) to secure transfer of trade from the control of non-nationals;

d) to encourage production of essential agricultural and industrial commodities by means of price and other incentives;

[1] State trading in imports accounts for substantial proportions of the total import values in several countries: Ceylon about 25-30 per cent, India 40-50 per cent, and Pakistan from 30 to 50 per cent. For China (Taiwan) and Indonesia, no figures are available but it is believed that the share of state trading is quite significant.

e) to stabilize the domestic prices of specified products by controlling their production and marketing;

f) to explore export markets for products and to dispose of exportable surpluses of commodities;

g) to secure the advantages of bulk transactions;

h) to facilitate trade with centrally planned economies;

i) to facilitate the import of goods financed under foreign aid programmes;

j) to facilitate the implementation of trade agreements and barter deals;

k) to transfer trade from the control of non-nationals;

l) to raise revenues for the treasury;

m) to facilitate sanitary and public health controls.

There is hardly any instance in which state trading is pursued to attain only one specific economic objective. Indeed, in most countries; it is pursued for a mixture of economic and political objectives. On the whole, there are indications that state trading in the developing ECAFE region is following an upward trend and that it will become an increasingly important aspect of public policy in many countries of the region.[2]

The third group consists of Burma and Cambodia, whose Governments' declared policies include nationalization of the entire import and export trade. The Burmese Revolutionary Government's objective in such a move is to "eliminate all profiteering and blackmarketeering indulged in foreign and domestic vested interests." Practically all private business establishments have been nationalized and a complex of state trading organizations and government agencies has taken control of virtually all commercial activities in Burma.

The Cambodian Government decided in November 1963 to nationalize the country's import and export trade with effect from 1 March 1964. Its purpose, as officially announced, is to eliminate middlemen and to stabilize commodity prices. Unlike Burma, Cambodia suffered from persistent and heavy trade deficits for some time and, upon the cessation of aid from the United States, the Cambodian Government announced this drastic decision and curtailed further the imports of a number of non-essential goods. Again, unlike Burma which had had considerable experience in state trading in rice and timber exports for over a decade, Cambodia had virtually no history of state trading before 1964. The Cambodian Government in early 1964 established a company called Société Nationale d'Exportation et d'Importation (SONEXIM) to conduct the bulk of the country's foreign trade. The end of June 1964 was the deadline by which all imports granted under the former policy were allowed to enter Cambodia. The same date was also fixed as a deadline by which all private banks were to liquidate their affairs and the National Bank of Cambodia was to take over the entire banking system.

It should be noted that the nationalization move in both countries is confined mainly to trade; it does not cover the entire economic activities including agricultural aspects of the economy. With such a move primarily motivated by political forces, it is impossible to assess its possible consequences or to estimate its future course.

Among the three developed countries of the ECAFE region, Australia is the only one that has virtually no import restrictions; tariffs and additional duties on less essential goods are the main import barriers. New Zealand maintains a nominal foreign exchange control, but all imports are subject to licensing which is guided by the foreign exchange availability and the need for encouraging local production. Japan has a comprehensive import licensing and exchange control system. Although imports into Japan have been largely "liberalized", quantitative restrictions have been replaced by higher rates of tariffs on those "liberalized" goods. Discrimination against dollar imports ceased in 1961; but, with a complex system of foreign exchange regulation and state trading in food, tobacco, salt and other imports, the Government has been in a position to select sources of imports most beneficial to Japan from the point of view of export market expansion, costs and other factors.

B. Preferential arrangements

Tariff

Tariff preference is accorded by several ECAFE countries to imports from certain countries having traditional political ties. The Philippine tariffs on imports from the United States are 75 per cent of normal rates up to the end of 1964, 90 per cent to the end of 1973, after which full rates will be collected. But concessions given to the Philippines

[2] See document E/CN.11/TRADE/L.69 for a detailed study of state trading in countries of the ECAFE region.

by the United States are not only in tariffs, but also in terms of special import quotas for the Philippine principal exports to the United States.

Cambodia, Laos and the Republic of Viet-Nam do not extend preferential treatment in tariffs to one another, but each separately entered into an agreement with France. Under the agreement with the Republic of Viet-Nam,[3] imports from France and French territories were until recently accorded a "preferential margin" ranging from 5 to 15 per cent of minimum tariff rates, and the "preferential margin" for Viet-Nam imports into France and its territories ranges from 2 to 80 per cent. France and the Republic of Viet-Nam agreed to provide, reciprocally, special quotas for the imports of specified goods into each other's territory. It is interesting to note that the agreement also provides that, when the Republic of Viet-Nam imposes import control on non-essential goods for the purpose of protecting its local industries, Viet-Nam will reserve quotas for the imports of French products.

Under a similar agreement between Laos and France, selected French products may enter Laos free or at reduced rates of duties, and a few Laos products may enter France and its territories free of import duty. An agreement with Cambodia only provides for duty-free access to France for certain Cambodian products.

The Commonwealth preference is applied to the following countries in the ECAFE region: Australia, Ceylon, Hong Kong, India, Malaysia, New Zealand, Pakistan and Western Samoa. It is the only tariff preference system that is extended by one country to another in the region as well as to those outside the region. Burma, although having left the British Commonwealth, still enjoys tariff preferency for its imports of certain commodities to some Commonwealth countries.

Non-tariff

There is no evidence of any developing country in the region giving direct non-tariff preference to any other country within or outside the region. It is not likely that state trading, especially in food, in developing countries can afford terms of payment. But this is not the case of Japan which, for the purpose of maintaining export markets, has sometimes chosen to import from more expensive sources, such as Iran and Iraq for raw cotton and dried fruits.

[3] Effective from 28 January 1964 the Government of the Republic of Viet-Nam has banned imports of French goods (with certain exceptions) and no longer issue licences to French importers.

In developing countries that are short of foreign exchange, it is only natural that preference is given to imports for which no foreign exchange payments are required or long-term payments are permitted. But sometimes, bilateral agreements involving financial and technical assistance or credit arrangements could result in an obligation, moral or otherwise, on the part of the recipient countries to purchase certain goods only from the donor countries.

Part II

Afghanistan[4]

Import policy

The main objective of Afghanistan's import policy is to provide adequate essential producers' goods as well as consumers' goods which are basic elements for raising the standard of living of the country's population.

Import licensing and exchange controls

Import licences are not required for most of the goods imported but, according to the provisions of the Afghan Customs Act, all merchandise imported into the country must be accompanied by a customs permit or declaration.

Import of certain items such as pork products and alcoholic beverages is forbidden by Islamic rules, as well as poisons, narcotics and goods injurious to the development of domestic industries.

Commercial samples whose intrinsic value does not exceed 50 Afghanis are admitted duty-free and have to be declared.

There are practically no discriminatory practices concerning the country's import trade.

There is no quantitative restriction on import of goods or on capital and invisible transactions.

A new exchange system was introduced in Afghanistan in March 1963. The Government abolished the complex system of multiple exchange rate and introduced instead a uniform rate of 45 Afghanis per United States dollar effective from 22 March 1963.

The Government also decided to undertake a comprehensive reform of its exchange system designed to establish a realistic exchange rate and to strengthen the country's trade efforts.

[4] *Source:* [a] Asian Recorder, India, 16-22 July 1963.
[b] World Trade Information Service, U.S. Department of Commerce, Washington D.C., Part 2, No. 62-47.
[c] Survey of Progress 1960, Ministry of Planning, Kabul.

Tariff system

Most import-duty rates are on an *ad valorem* basis. There are fixed arbitrary values on most articles on which *ad valorem* rates are based.

Import duties are payable in Afghan currency at the prevailing-free market rates.

Customs surtaxes are levied in Afghanistan. Importers are charged 1 per cent of the invoice value of their imported goods to cover handling and administrative expenses.

There are no preferential duties in the Afghan customs tariff.

The country's foreign trade statistics are systematically arranged and published according to the Standard International Trade Classification (SITC).

State trading and government monopolies

1) The Government Monopolies Department handles the import of sugar and petroleum products.

2) The Government Co-operative Depot has the sole monopoly for the importing of industrial equipment, motor vehicles and parts, cotton piecegoods, etc.

Australia[5]

Import policy

The import policy of Australia is designed mainly to protect "economic and efficient" local industries, and to provide adequate foreign exchange reserve for the import of normal consumer goods as well as the imports of those goods used in the growth of the country's economy.

Import licensing and exchange controls

At present there are only four items subject to licensing restrictions in Australia. These are: lumber, ball and roller bearings,[6] aluminium, and certain kinds of used machinery, mainly construction. Imports of some other items such as dangerous drugs, firearms, undesirable publications and articles dangerous to public health are prohibited. Free samples and certain printed advertizing materials which are not designed for sale by a person or a firm are freely imported.

The Department of Trade is responsible for the administration of import licensing, but the issuance of the licences is carried out by the Department of Customs and Excise at the ports.

The Licensing Advisory Review Board, set up in each state, examines applications to ensure equitable treatment of individual cases within the framework of government policy decisions.

When import licences are approved, the necessary foreign exchange is usually made available for payment.

Tariff system

The Australian tariff consists of sixteen broad divisions of commodities covering 450 items, and about 2,700 sub-items. The tariff duties are classified into four categories: *ad valorem*, specific, combination of specific and *ad valorem* duties, and alternate (i.e. either *ad valorem* or specific).

Australia has a multi-column tariff structure comprising the British Preferential Tariff, the Intermediate Tariff and the General Tariff. The British Preferential Tariff applies to imports from the Commonwealth countries. The rates are lowest under this tariff. The Intermediate Tariff applies to imports from countries accorded MFN status on a reciprocal basis. The General Tariff applies to remaining countries.

Additional duties known as primage duties are levied on a number of commodities not considered highly essential. The rates of primage duties range from 5 to 10 per cent.

A special Advisory Authority is appointed by the Government under the Tariff Board Act to inquire into and report on application for temporary protection to local industries in the form of temporary duties on commodities concerned or quantitative restrictions or both.

State trading and government monopolies

There is no state trading in import trade.

[5] *Source:* [a] Overseas Business Reports, OBR, 63-129, October 1963.
[b] Overseas Business Reports, OBR, 62-43, December 1962.
[c] State Trading in countries of the ECAFE region, E/CN.11/TRADE/L.69.
[d] Year book of the Commonwealth of Australia, No.49 1963, Canberra, Australia.

[6] Import restriction on ball and roller bearings was removed on 14 May 1964. (GATT:/L/1769/Add.4).

Burma[7]

One of the declared objectives of the Revolutionary Government has been to nationalize the entire import and export trade as a measure to eliminate "all profiteering and black-marketeering indulged by foreign and domestic vested interests".

With effect from 9 April 1964, all big trading enterprises throughout the country, especially those dealing in foodstuffs, textiles and other categories of consumer commodities were nationalized.

Earlier on 19 March 1964, the Government nationalized all such establishments in Rangoon "to check the anti-social activities of profiteers and black-marketeers".

The trading enterprises thus nationalized comprise wholesale shops, banking houses, department stores, general stores and co-operatives dealing in foodstuffs, textiles and other essential consumer commodities.

Nationalization of private business

Under a new statute, "The Socialist Economy Protection Law of 1964" enforced on 13 March 1964, all private wholesale shops, brokerage houses, department stores, general stores and co-operatives shops dealing in foodstuffs, textiles and fourteen catergories of general merchandise, namely, machineries and spare parts, spare parts for all kinds of vehicles, all kinds of hardware goods, watches, clocks and their parts, spectacles and parts, fountain pens and parts, paper and stationery, electrical goods, imported drugs, Chinese medicines, patent household medicines, sports goods, photographic goods, porcelain-ware, glass-ware and mirrors and all the warehouses within Rangoon city were also taken over by the Government.

The following were exempted from nationalization: Small retail shops; hotel; restaurants; teashops and foodstalls; vegetable shops; fruit stalls; shops selling tobacco leaves, and stalks and cheroot leaves; and shops selling meat, fish and eggs; shops and stores dealing in leather goods; tailoring shops; shops dealing in footwear, umbrellas, and hats.

Foreign trade nationalization

The Government also took over the entire export trade of the country effective from 11 April 1964.

In accordance with an order issued under section (3) of the Import-Export Control Act of 1947, all importers were asked to:

(*a*) surrender export licences in hand to the Socialist Economy Construction Committee;

(*b*) give their names and addresses to the Committee if they had been exporting goods for which export licences were not needed;

(*c*) submit returns relating to their export business in the prescribed forms;

(*d*) continue to ship the goods already in course of exportation, under the supervision of the Committee;

(*e*) deposit relevant documents relating to their export trade with the committee; and

(*f*) surrender to the Committee money remitted by foreign buyers in respect of goods in course of shipment. The exporters will be reimbursed the sums due to them plus their expenses.

Tariff system

Burma has a single-column tariff; there are no preferential duties. No customs surtaxes are imposed.

Sales taxes are levied mainly on goods imported for sale. These goods are classified, for tax purposes, as luxury, standard, privileged and essential.

Goods under the "essential" category are not taxable.

State trading and government monopolies

1. *People's Stores Corporation*

Under the People's Stores Law 1963, promulgated on 25 September 1963, the Corporation came into being. It has been entrusted with the execution of the Government's economic policy. All contracts previously made with the Government Purchasing Boards, Commerce Development Corporation, Civil Stores Management Board, and Civil Stores Committee Nos. I, II, and III, have been taken over by this Corporation.

[7] *Sources:*

[a] Forward, Directorate of Information, Rangoon, Vol. II, No.18, 22 April 1964.

[b] Forward, Directorate of Information, Rangoon, Vol. II, No.16, 22 March 1964.

[c] Forward, Directorate of Information, Rangoon, Vol. II, No.15, 7 March 1964.

[d] Overseas Business Report, U.S. Department of Commerce, OBR, 62-36, December 1962.

[e] Home Bulletin, Engineering Export Promotion Council, Calcutta — 1, Vol. VII, No.3, 1 February 1964.

The newly formed People's Stores Corporation now acts as the main importing body for consumer goods in Burma. 39 Economic Development Board firms have been nationalized and merged with the appropriate Government Departments, Boards, and Corporations. Now all imports have to be made direct from the manufacturers, factories and dealers in foreign countries.

2. *Myanma Export-Import Corporation*

The section of the People's Stores Corporation dealing with export-import trade has been named "the Myanma Export-Import Corporation" which employs private experienced businessmen as managers for stepping up export of agricultural products such as beans, pulses, potatoes, etc., and for negotiating import business on behalf of the People's Stores Corporation.

3. *Export Agency, Burma (EAB)*

The Export Agency of Burma (EAB), was formed in January 1964, mainly to handle the export trade of the country's products with foreign countries. This Agency is under the Ministry of Trade, the Government of Burma.

Since its conception in January 1964, EAB has taken over the export business of the International, the General Trading Co., and Burma Beverages Ltd., three former subsidiaries of the Burma Economic Development Corp.

EAB has not opened its own buying activities but serves as the principal channel for the export of domestic products purchased by the state trading organizations such as UBAMB.

Apart from exporting activity, EAB is responsible for finding new markets and stabilizing old ones and for negotiations with interested parties for the sale of the country's products abroad.

4. *Union of Burma Agricultural Marketing Board (UBAMB)*

Board conducts negotiations for sale of rice to foreign governments and private buyers. Its main functions are to manage, to supervise and to improve the processing and marketing of agricultural products. It also procures rice and rice products from farmers as well as rice millers at guaranteed prices. The Minister of Trade Development acts as the Chairman of the Board.

5. *State Timber Board (STB)*

The State Timber Board was formed after the merger of five pre-war British firms. The functions of the Board include extraction, milling, and marketing of teak and other hardwood.

The Board purchases logs and lumber from private operators and millers for export together with its own logs and lumber.[8]

6. *The Burma Economic Development Corporation (BEDC)*

The Burma Economic Development Corporation was formed in May 1961 with the objective of co-ordinating, supervising, and helping to finance the activities and operations of a number of subsidiary companies of the Defence Service Institute. The administration of the Corporation is headed by the Chairman of the Revolutionary Council.

In addition, there are a number of other state trading agencies, such as the Petroleum and Mineral Resources Development Corporation; the Burma Corporation Limited; the Agricultural and Rural Development Corporation; the Industrial Development Corporations; the Rubber Export and Development Corporation; and the Drug House Limited.

Cambodia[9]

Import policy

From 1 March 1964, the process of nationalizing the entire export and import trade of Cambodia began. The main purpose of the nationalization move, so far as imports are concerned, is to eliminate middlemen and to stabilize prices of commodities. With the cessation of United States aid, the Government took this step to rationalize its limited foreign exchange earnings by judicious allocations for the import of goods on the basis of their essentiality.

Such commodities are butter, cheese, dried and canned fruits, vegetables, sugar, alcoholic beverages and tobacco products. Jewelry and luxury items are no longer importable.

Authorization for imports financed by Government-held foreign exchange has been stopped. However, import licences were issued until 31 December 1963 against authorization already made, but goods must enter the country before 1 July 1964.

[8] The Revolutionary Government nationalized all timber shops in the Rangoon city on 19 March 1964. The nationalization move affected 3,000 shops worth more than $100 million.

[9] *Source:* [a] International Commerce, US Department of Commerce Weekly, Washington, D.C., 27 January 1964, p.46.

[b] Overseas Business Reports, US Department of Commerce, OBR, 63-48, February 1963.

[c] State Trading in countries of the ECAFE region, E/CN.11/TRADE/L.69, p.33.

[d] Engineering Export Promotion Council's *Home Bulletin,* Vol. 8, No.4, 15 February 1964.

The Government is considering the nationalization of imports of petroleum products, the largest single import item, for distribution by the present suppliers through their facilities. There are, at present three foreign oil companies handling the petroleum products.

Tariff system

Cambodia's tariff system is based on the Brussels Nomenclature and Rules. It is double-column tariff with minimum and general tariff rates. The minimum tariff rates apply to GATT member countries and to other countries (namely, Japan, some centralized economies and Yugoslavia) with which Cambodia has special agreements. The Cambodian tariff is administered by the Directorate of Customs which is under the Ministry of Finance.

The tariff rate structure is designed mainly for revenue purposes. Protective rates are levied for some local agricultural products and certain manufactures.

Various types of customs surtax are imposed on a specific list of imported commodities including alcoholic beverages and spirits, mineral oil, refined and palm sugar, tobacco, salt, live animals and fresh fruits. These include taxes for examination, inspection, warehousing, circulation and sanitation. These taxes are specific and each commodity is subject to one or more of them.

A turnover tax is levied on imported goods. The rates vary from 35 per cent on alcoholic beverages and 25 per cent on cosmetics, to 12 per cent *ad valorem* on all other imports.

State trading and government monopolies

To conduct the country's international trade, a state trading agency, named Société Nationale d' Exportation et d' Importation (SONEXIM), was set up early in 1964 with a capital of 240 million riels ($6.8 million), of which 60 per cent is held by the Government and 40 per cent by the people. The company is authorized to engage in export, import, shipping, financing, to enter into licensing agreements, and to establish agencies or purchasing offices abroad.

The special export credit retention scheme for the import of equipment and raw materials by industries was terminated. Thenceforth, *Sonexim* became the agency with which orders for all agricultural and end-users equipment and materials are placed.

The Government required the private banks to liquidate their affairs by 1 July when the National Bank of Cambodia took over their operation.

During the liquidation period, individuals were permitted to withdraw 10,000 riels daily, and businesses 50,000 riels upon approval by the Ministry of Finance.

The Government created a Special Account of 200 million riels to assure the smooth liquidation of private banks by the nationalization date.

The Société d' Etat des Distilleries, a new state company was created. To support this company and to reduce competition, the Government purchased the 30,000 shares owned by French interests in the Société Khmere des Distilleries (SKD) and apparently took over SKD completely.

The Company was capitalized at 250 million riels, of which private interest amounted to 30 million riels. SKD had been producing about 50,000 hectolitres of alcohol annually and private distilleries an additional 42,000 hectolitres.

In addition, the following are the agencies which are engaged in the country's import trade:

a) The Office for Purchase Abroad deals with the import of the Government's requirements;

b) The Royal Office of Co-operatives handles imports of goods needed by the consumer's Co-operatives;

c) The Office of State Enterprises takes care of imports financed under foreign aid programmes for use in foreign aid projects.

Upon request, the Cambodian Government is prepared to guarantee non-nationalization to other industrial projects for a period of 15 years and for life in the case of agricultural enterprises. There is no intention to nationalize the rubber plantations or private enterprises other than banking, foreign trade, and the distillation of alcohol. The state intends to direct its available resources into industry, e.g. automobile assembly plant and petroleum refinery.

Experienced businessmen and not government officials will be used in the key positions of the nationalized import-export trade and industrial sectors.

Purchases for state enterprises need no longer be made on the basis of public bids, since the managing directors of the new national companies have full freedom in purchasing raw materials and other items where and from whom it appears in the best interest of the company to do so.

Preferential arrangements between Cambodia and France

Preferential tariff arrangement between the two countries was first laid down by Decree No. 57.609 of 16 May 1957, which stipulates that certain Cambodian products may enter France duty-free and that all other Cambodian goods are subject to the minimum rate of duty. The list of duty-free imports includes pineapple, tea, pepper, turpentine, rum, resin, rubber sheets, etc. This arrangement was renewed several times.

Ceylon[10]

Import policy

The import policy of Ceylon is designed to regulate the country's imports in the light of its balance of payments position, to safeguard its foreign exchange reserves, to protect certain local industries and to divert the country's trade to Ceylonese nationals.

Import licensing and exchange controls

Effective from 10 December 1963, for the purpose of licence control, imports are classified in the following manner:

1) "'OGL' Items": Goods may be imported by registered importers without individual import licences, but import of such products from "Ceylonized areas"[11] may be made only by Ceylonese traders. The OGL list composes of mainly foodstuffs and specified drugs.

2) "General Quota Items": Individual import licences are required for the import of goods appearing in this category, but import of such products from "Ceylonized areas" may be made by Ceylonese traders only. Import allocations are released to the trade against quotas registered with the Department of Import Control.

3) "Special Quota Items": For such items individual import licences which are subject to special foreign exchange allocation procedures are required.

4) "Reserved Items": Commodities included in this category are reserved for the sole import by Government or State Corporations or the Co-operative Wholesale Establishment. Import licences are not issued for such items.

5) "Industrial Raw Materials and Components": The manufacturing industries are permitted to import on an "Actual User" basis items appearing in this category, against individual import licences. Actual User licence holders are allowed to import goods from any source including "Ceylonized areas".

In addition, a direct user licensing scheme has been introduced this year, under which import licences are granted to approved direct users who import goods for their own use and not for resale purposes. The following are approved direct users: organizations, associations and institutions other than manufacturing industries covered by the actual user scheme, diplomatic and consular services; repair work shops engaged in maintenance of motor vehicles, radio and watches; direct user applicants for lorries, commercial vans and trucks; direct user applicants (import for personal use only); and state co-operatives (and Government imports through local agent).

For the first time in Ceylon, the Government formulated a national foreign exchange budget for the 1963-64 fiscal year. It proposed to allocate foreign exchange to the amount of Rs 1,763 million, of which Rs 600 million was apportioned for Government imports and for goods imported by the Co-operative Wholesale Establishment on behalf of the Government, and the balance was for all other imports including government corporations.

For certain imports, mainly those falling in the "less-essential" category a prior deposit is required. These imports may be made on a letter-of-credit basis. A 50 per cent cash deposit is required from the importer at the time the letter of credit is established.

The grant of individual licences has also been made subject to a fee equivalent to 1 per cent of the value of goods (except for importers exempt from payment of import duties).

Tariff system

The Tariff Schedule of Ceylon is based on the Standard International Trade Classification. The Government accords preferences on a number of items imported from the British Commonwealth countries.

[10] *Source:* [a] Overseas Business Reports, OBR 63-90, April 1963.
[b] GATT, Committee on Balance of Payments, BOP/33, 5 May 1964.
[c] Budget Speech, 1963-64, I August 1963, Colombo, Ceylon.
[d] Quarterly Economic Review, No.44 November 1963, E.I.V. London.
[e] Far Eastern Economic Review, 1965 Yearbook, Hong Kong, pp.115-117.

[11] The Government has made such moves in order to enable Ceylonese nationals to carry on an increasing proportion of foreign trade. Trade with a number of countries such as Austria, Bulgaria, mainland China, Czechoslovakia, Germany, Hungary, Japan, Poland, Rumania, the Soviet Union and Yugoslavia is reserved for Ceylonese traders. Further, imports of specified goods such as watches, textiles and motor cars produced in the countries in the European Payments Union are also reserved for Ceylonese nationals.

State trading and government monopoly

1) The Ceylon Petroleum Corporation is entrusted with the task of sales and distribution of petroleum and petroleum products imported mainly from the Soviet Union and the United Arab Republic.

2) The Cement Corporation handles cement imports.

3) The Food Department of the Government of Ceylon is the sole importer of paddy, rice, wheat, flour, sugar, sugar candy, palm sugar, and maldive fish, and onions and lentils.

4) The Co-operative Wholesale Establishment (CWE) handles the entire import of cumin seed, tamarind, dried fruits, cane jaggery and dried fish.

As part of the Government's policy of Ceylonization of imports, or state-control without resorting to nationalization, it was proposed to establish another state trading corporation for handling the import of milk-foods, drugs and pharmaceuticals, textiles, fertilizers, bass metals, etc.

Republic of China[12]

Import policy

The import policy is aimed at accelerating the national economic development and protecting the local industries. The Government has been making every effort to reduce its imports, especially of consumer goods.

Import licensing and exchange controls

All imports are controlled, and are subject to licensing. Licensing requirements vary in accordance with the essentiality of the imported commodity.

For licensing purposes all imports into Taiwan have been classified into the following three categories:

(1) Prohibited: Very few items are on the prohibited list. These include, cigarettes and wines which are monopoly-controlled, lotteries and such products as sugar and camphor which are abundantly available in the country.

(2) Controlled: Controlled imports in general are those which can be produced in Taiwan or those considered not absolutely necessary. But the item will be opened for import if the price of the local product is 25 per cent higher than a foreign product.

(3) Permissable: For imports on permissible lists, there is no limitation on amounts. However, applications must come from registered traders with paid-up capital of at least NT$200,000 (or US$5,000). Items such as capital equipment, raw materials, and essential consumer goods generally appear in this category.

Imports are also categorized as those financed by government foreign exchange and by United States Aid Money.

The Foreign Exchange and Trade Control Commission (FETCC), a government agency, handles the country's export and import trade. Its main function is to carry out foreign exchange and trade control in line with the policies of the Government regarding the promotion of exports, domestic economic development, etc.

The Commission is also responsible for co-ordination and co-operation among various agencies at the central and provincial government levels so far as foreign exchange and trade are concerned.

Under the new exchange rate approved by the Government in October 1963, submission of foreign exchange settlement certificates is no longer required when applying for import licences.

Exchange rates for both buying and selling previously were unitary: for example, US$1 = 40 New Taiwan dollars. But there are separate new foreign exchange rates for both buying and selling. Any importer can now obtain the necessary foreign exchange from the Bank of Taiwan at the selling rate, provided his application has been approved. Foreign exchange proceeds from exports must be sold to the Bank of Taiwan at the buying rate. The new exchange rates are: for buying US$1=NT$ 40.00 and for selling US$1=NT$40.10.

Import controls have recently been lifted on the following items:

1) Vehicles, small and mechanically propelled, and fort-lift trucks, and parts or accessories thereof;

2) Electric air filters, purifiers and sterilizers, and parts thereof;

[12] *Source:* [a] Overseas Business Reports, OBR, 63-34, February 1963.
[b] Taiwan Trade Monthly, Vol. I, No. 1, December 1963.
[c] World Trade Information Service, Part 2, No. 61-2.
[d] State Trading in countries of the ECAFE region, E/CN.11/TRADE/L.69.

3) Bolts, nuts, washers, nails, rivets, screws, spikes and tacks made of brass, copper, aluminium and other base materials;

4) Jute ramie (raw);

5) Honey;

6) Cocoa, cocoa beans and cocoa butter;

7) Dextrin;

8) Flints and flint pebbles.

To protect local industry, the Government has placed restrictions on the import of accessories and parts of TV sets, refrigerators, air conditioners, power tillers, automobiles and motor cycles.

Only factories and plants making parts or accessories have the privilege for purposes of assembly.

For power tillers, automobiles and motor cycles, traders' quantities are limited to 50 per cent of the average annual import during the last two years.

Tariff system

Taiwan's tariff is administered by the Customs Administration of the Directorate General of Customs, which is under the Ministry of Finance.

The present tariff rates are based on the 1959 revision. Those on essential goods and raw materials, are lower, whereas rates on non-essential and luxury goods are higher.

Taiwan has single column tariff rates and no perferential duties are granted.

The dutiable value of an import is based on its wholesale market value in local currency at the port of importation. A defense tax of 20 per cent is levied on the assessed rate of duty at the time of the delivery of import cargoes.

In addition, a harbour reconstruction fee, at the rate of 2 per cent *ad valorem*, is collected on imports.

State trading and government monopolies

1) The Central Trust of China is the largest government trading agency; it is authorized to conduct all government procurements, public and private exports, insurance, and some banking business.

The Trust plays an important part in the country's foreign trade. In 1963, for example, it handled about 30 per cent of the country's total imports, amounting to more than US$90 million, and over 34 per cent of the total exports, representing at more than US$120 million.

2) The Taiwan Supply Bureau handles the export of canned fish, handicrafts, paper and pulp, worsted yarn and goods, hats, starch, sewing machines, bicycles and other items. It also handles the importation of a number of commodities through a system of competitive tenders.

3) The Taiwan Sugar Corporation monopolizes the export of sugar, except to Japan. This Corporation owns 30 per cent of the whole sugar cane producing area and twenty-seven sugar mills in the country.

4) The Provisional Tobacco and Wine Monopoly Bureau is engaged in the country's foreign trade mainly for fiscal reasons.

Hong Kong[13]

Import policy

At present the Colony's import policy is aimed at avoiding as far as possible the imposition of any restrictions and controls over trade and foreign exchange, except those exercised for the purposes of health, safety and security. Import duties are levied mainly for revenue purposes.

Import licensing and exchange controls

Import licences are required for the following five groups of commodities:

1) Dangerous commodities, such as arms and ammunition, explosives, petroleum;

2) Restricted commodities such as rice, frozen and chilled beef, mutton and pork, firewood and coal, automatic gambling machines, sugar, etc.

3) Strategic commodities, such as metalwork machinery, chemicals and metallurgical plant, furnaces, pumps, valves, etc., petroleum equipment, diesel engines and electric generators, general industrial equipment, transportation equipment, electronic and precision instruments, metal and mineral manufactures, chemical and chemical products, arms and ammunitions, military equipment, atomic energy materials and appliances, etc.

[13] *Source:* [a] Licensing and exchange controls . . . Hong Kong, World Trade Information Service, US Department of Commerce, Part 2, No. 60-51

[b] Hong Kong Directory of Commerce, Industry and Finance 1963. Appendix 13, page 86-89.

4) Dutiable commodities, composing all petroleum products, all alcoholic beverages, all tobaccos and tobacco products, table waters, and methyl alcohol. There are no quantitative limitations on the import of these items, but the import permits may be received by licensed importers only. If the item imported is for sale within the Colony, the importer must also be a licensed-dealer in the commodity. Preferential rates are granted on tobacco and tobacco products and alcoholic beverages of British origin.

5) Goods controlled for exchange control reasons. Goods originating in or exported from centrally planned countries, namely the Soviet Union, Eastern European countries and North Korea have been under surveillance by licensing for exchange control reasons since 1947.

Currently, import licences and exchange permits are being issued by the Trade Licensing Branch, Department of Commerce and Industry, for all goods coming from those countries.

Hong Kong has a fairly extensive system of exchange regulation designed mainly to keep certain currency exchange under surveillance. The Colony is also in a unique position to benefit from a healthy foreign trade situation and expanding invisible exchange earnings, such as shipping, banking, insurance and foreign remittances.

The following are the exchange transaction procedures adopted by the Colony:

1) Imports from "Scheduled Territories" (Formerly known as the Sterling Area). Payment is made in the currency of the area of origin.

2) Imports from the United States and "American Account" countries: Payment is generally made in US dollars obtained in the Hong Kong open market. No exchange permit is needed when goods are imported in on consignment or open account; the importer remits US dollars bought in the Hong Kong open market.

3) Import from "transferable account" countries (i.e. all countries other than "Scheduled Territories", the "American Account" area, and Canada): In this case, payment may be made in any "Scheduled Territory" currency, usually sterling, held by a bank in a "Scheduled Territory" for a non-resident of that territory. In this case, the exchange permit is issued on form E.L.

4) Other imports. For imports from mainland China, the Republic of China and Macao, payment is made in Hong Kong dollars and no exchange permit is needed.

For imports from Cambodia, Indonesia, Laos, Thailand and the Republic of Viet-Nam, when payment is made in Hong Kong dollars to a "non-resident account" an exchange permit on an E.L. form is required.

Tariff system

Hong Kong has a two-column tariff: one is preferential, being especially for British Commonwealth imports, and the other is general.

Tariffs are imposed on such items as hydrocarbon oils, liquor, tobacco, table waters, methanon (methyl alcohol), etc.

In addition to the normal tax of 10 per cent, a special registration of 15 per cent of the CIF value is imposed on the initial registration of motor vehicles not manufactured in the British Commonwealth.

State trading and government monopolies

There is no state trading in import trade.

India[14]

Import policy

India's import policy is mainly guided by the basic economic needs of the country, the available foreign exchange reserves, and the requirements of domestic industries and other consumers.

The primary purpose of the Government's import policy is to allocate the available foreign exchange reserves in such a way as to provide maximum assistance to the country in its economic development programme.

Import licensing and exchange controls

Import licences are required for all commercial imports into India with the exception of imports on Government account, relief supplies, travellers' baggage, gifts of books up to $52.50 in value, samples and advertizing matter valued up to $52.50 and goods imported as replacements for defective articles previously imported.

The administration of import regulations is handled by the Chief Controller of Imports and Exports, Ministry of Commerce and Industry, New

[14] *Source:* [a] Overseas Business Reports, OBR, 63-120, September 1963

[b] Import Trade Control Policy for the year, April 1963 to March 1964.

[c] Eastern Economist, 21 February 1964, p.348.

[d] State Trading in countries of the ECAFE region, E/CN.11/TRADE/L.69.

Delhi and twelve other regional licensing authorities located in various parts of the country and entrusted with the task of issuing licences for imports.

Highest priority is given to the import of foods, medical supplies, industrial raw materials, machinery (both used and new) and such other products as are considered economic essentials. The import of less-essentials, mainly of the consumer goods category is restricted, or even prohibited.

For the purpose of licensing, importers are divided into the following four broad categories:

(*a*) Established importers (persons or firms actually engaged in import trade of the Import Trade Control (ITC) Schedule);

(*b*) Actual users (industrial manufacturing units which require raw materials and accessories for use in industrial manufacturing processing);

(*c*) New-comers;

(*d*) Others, who do not fall in any of the above categories.

Small-scale industries which have an export potential and which are engaged in the manufacture of essential commodities currently imported are given import licences on the basis of requirements certified by the appropriate government authority.

In view of the acute shortage of foreign exchange reserves, imports of capital goods and heavy electrical plants and machine tools by the industrial sectors are allowed if one or more of the following reasons for financing are applicable, namely:

(*a*) long-term foreign investment in the capital of the project;

(*b*) loan to the Government from foreign Governments and financial institutions;

(*c*) long-term foreign exchange loans from financing institutions abroad;

(*d*) trade and payments agreements between the Government of India and foreign countries.

The period of the validity of licences varies from item to item, depending on the nature of the item. The licence is normally granted for a period of 12 months or 18 months as the case may be.

The validity of an import licence is decided with reference to the date of actual shipment or despatch from the supplying country and not to the date of arrival at an Indian port.

With a view to enabling the applicants to know as early as possible whether the Government is prepared to consider favourably the proposals put forward by them, a "letter of intent" is issued to them in the first instance. 'Letters of intent' indicate the period for which they will be valid.

The applications made in existing forms are to be sent in original with 10 extra copies accompanied by a treasury receipts for Rs 50.00.

Intending industrial firms are to address their applications to the Co-ordination and Licensing Programme Section (C.L.P. Section) of the Ministry of Industry which will act as the co-ordinating ministry for all industries. The importation of animals, plants, leaf tobacco and used clothes into the country is subject to quarantine regulations.

The country's foreign exchange reserve is under strict control by the Reserve Bank of India (the country's central bank). The funds are made available in accordance with the provisions of the import policy.

After obtaining an import licence, the importer has to present to the bank the exchange control copy of the import licence.

Goods from the United States are generally imported on the basis of confirmed letter of credit, as a means of insuring receipt of payments.

Tariff system

The import duty rates vary from nil to 150 per cent *ad valorem* with most rates ranging from 10 to 75 per cent. Imports of agricultural implements are free while there is an average duty of 15 per cent on industrial machinery.

Most commodities imported from Burma, the United Kingdom and other British colonies, are given preferential treatment which is between 5 and 10 per cent lower than the standard rate.

Import duty is payable in Indian rupees converted from foreign currency at the current rate of exchange.

A uniform customs surcharge of 10 per cent of the duty on all products has been imposed with effect from 1 April 1963.

State trading and government monopolies

State trading plays an important role in India's import trade. The following are the two agencies engaged in state trading business:

1) *State Trading Corporation of India (STC)* handles export of salt and cement as well as imports of caustic soda, soda ash, raw silk, tin and ball bearings, copper, zinc, lead, betel nuts, clove, cassia, copra, etc.

2) *The Mineral and Metals Trading Corporation* was set up recently. This new Corporation took over from the State Trading Corporation of India the existing trade relating particularly to mineral ores, concentrates, metals and allied commodities as well as the assets and liabilities concerning such business.

The Directorate-General of Supplies and Disposals, New Delhi, as well as the Indian States Department, London, and the Indian Supply Mission, Washington, D.C., purchases the Government's requirements.

Indonesia[15]

Import policy

Indonesia's import policy is defined in its annual foreign exchange budget which is reviewed on a quarterly basis. The policy, at present, is designed mainly to ease, as far as possible, the balance of payment difficulties, to protect domestic industries, and to provide foreign exchange for the import of essential goods and raw materials.

Import licensing and exchange controls

Although, in 1958, a comprehensive import licensing system was introduced, it has been subject to frequent changes and modifications.

Priority is given to military requirements followed by the goods needed for the production of exportable goods as well as basic essentials and raw materials for domestic industries. Insurance must be effected in Indonesia except for imports required for large government projects.

Applications for import licences are submitted to the Commercial Foreign Exchange Bureau. After the licence is obtained, the importer has to conclude an exchange contract with a foreign exchange bank which then opens a letter of credit. A 100 per cent cash deposit is required against the letter of credit except for imports of essential goods and raw materials for industries.

Under the new system enforced in April 1964, the commodities for import purposes have been classified, according to essentiality, into the following groups:

Group I. Goods very essential for economy;

Group II. Raw materials, semi-manufactured products, equipment needed for manufacture of goods yielding foreign exchange or for domestic manufacture of goods to some foreign exchange;

Group III. Raw material, semi-manufactured goods, equipments needed for manufacture of goods intended for domestic consumption;

Group IV. Manufactured goods for domestic consumption, not of a luxurious character;

Group V. Manufactured goods for domestic consumption, of a luxurious character.

A person or a firm willing to participate in import trade must be registered as an importer with the Commercial Foreign Exchange Bureau. Most importers are required to deposit money with the Foreign Exchange Fund. A distinction is made between foreign and national importers. An Indonesian national is required to deposit 500,000 rupiah, whereas for a non-national or foreigner the amount is a million rupiah. After the importer is registered, the deposit may be used to finance imports.

The administration of foreign exchange controls is handled by the Foreign Exchange Institute (LAAPIN), which is under the direction of Bank Indonesia on whose behalf "combined" import/export licences are issued by the Commercial Foreign Exchange Bureau. These "combined" import/export licences enable the Government to link imports closely to exchange availability.

[15] *Source:* [a] Overseas Business Reports, US Department of commerce, OBR, 62-34, December 1962.
[b] Overseas Business Reports, US Department of Commerce, OBR, 64-6, March 1964.
[c] Bangkok World, Bangkok, 21 April 1964.
[d] Tariff Book of the New Indonesian Customs Import Duties and Clarification of Import Commodities, in Group I, II, and III (D. Lombogia) Djakarta, June 1963, p.223.
[e] International Commerce, US Dept. of Com. 25 May 1964, p.20.
[f] Far Eastern Economic Review, Hong Kong, No. 96, 29 October 1964, pp.239-43.

A Foreign Exchange Fund has been set up under Bank Indonesia. This Fund acts as a clearing house for all foreign exchange, receiving all amounts due, and paying out all amounts owed abroad.

Actual operation of the exchange control is carried out by the Foreign Exchange Institute, Bank Indonesia and the eleven commercial banks authorized by the Institute.

The Dewan Ekonomi Dan Punbangunan (Economic Department Council) is the final authority to determine the country's foreign exchange policy.

On 17 April 1964, the Government announced now economic regulations, which came into effect immediately, to replace the May 26 Regulations of 1963. According to the new regulations, the basic rates of exchange remains the same, i.e. 45 rupiah to the US dollar.

Tariff system

Indonesia has a two column tariff system: a general tariff duty and duty applicable to commodities imported from GATT member countries.

According to the new regulations, rates of import duties have been divided into five groups: 0, 50, 100, 300, and 800 per cent, according to essentiality. Most of the tariff duties are *ad valorem* calculated on c. & f. value, and are levied at one of the five rates.

State trading agencies and government monopolies

Until the end of 1964, the nine state trading companies handled a wide range of products and had monopoly responsibility for importing the most essential items, including: rice, cloves, cambrices, fertilizers, raw cotton, weaving yarn, and thread, textiles and textile dyes, tinplates, paper and paper products, cement, concrete reinforcing rods and wheat flour. Six of them also engaged in exporting such major export commodities as rubber, copra, spices, coffee, etc. It was estimated that about 80 per cent of the country's imports and 10 per cent of its exports are handled by the state-owned companies.

Towards the end of 1964, the Government reorganized the state-trading enterprises, liquidating all the nine companies. The objective of the reorganization was to increase effeciency by specialization and distribution of activities among the new companies.

Iran[16]

Import policy

The import policy of Iran is guided by the country's industrial and consumer requirements and by the availability of foreign exchange resources. Iran's foreign exchange resources and economic needs are examined annually, and a new import schedule, effective from 21 March to 20 March of the following year, is published by the Ministry of Commerce.

Imports of basic economic essentials such as food, medical supplies, machinery replacement parts, industrial raw materials, and capital goods are given highest priorities, while less essentials or non-essentials are restricted or prohibited.

Import licensing and exchange controls

All imports into Iran are subject to control by the Government. The Ministry of Commerce determines the items to be imported and the Central Bank of Iran controls all foreign exchange transactions relating to imports and exports.

There is no import licensing, but the exchange sale certificate that represents the approval of foreign exchange transfers by authorized Iranian banks constitutes, in effect, an import licence. The exchange sale certificate, the shipping documents, and the special import authorization for certain specified goods are required for the clearance of imports through customs.

The importer purchases foreign exchange from the Central Bank of Iran or an authorized bank, and he may transfer the payment for goods by (*a*) opening a L/C with a foreign bank, or (*b*) arranging for sight or time drafts.

Exchange regulations issued by the Central Bank of Iran identify commodities for which foreign exchange is granted. According to the new and revised foreign exchange regulations, imports are divided into four categories: The first are those which may be imported through sight draft; and the remainder are those which may be imported through documentary credits (L/C) with a local currency advance deposit requirement of 15, 40 or 100 per cent. Advance deposit requirements on L/C for imports have been revised. Those for industrial goods have been reduced

[16] *Source:* [a] Overseas Business Report, US Department of Commerce Part 2, OBR-63-152, December 1963.
[b] World Trade Information Service, WTIS, Part 2, No. 62-42, December 1962.
[c] International Commerce, 3 February 1964.
[d] Quarterly Economic Review, E.I.U. London, No. 33, April 1964.
[e] Iran Almanac, 1963, Tehran, p.312.

from 20 to 15 per cent, for essential and semi-essential goods from 70 to 40 per cent but for non-essential goods, the rate remained the same.

New foreign exchange regulations

The Central Bank of Iran has issued new regulations governing transactions in foreign exchange to all banks. Henceforth, rates for foreign currencies at the Central Bank will be determined in accordance with dollar rates in the international money markets, rather than pounds sterling which was previously used to set par value.

The buying and selling rates for other currencies have been allowed to fluctuate within 2 per cent above and 2 per cent below their par values in terms of US dollars. This is a change from the 1 per cent fluctuation from IMF-approved par values which were used before.

The new regulations will maintain the buying and selling rates for the dollar at 75.00 and 76.50 rials respectively.

The banks are still permitted to carry on their own foreign exchange operations in the international market with assistance from the Central Bank. They may also set buying and selling rates for their customers which differ from the central bank rates.

Tariff system

Most goods imported into Iran are subject to specific duties assessed on net weight. Tariff levies on commodities regarded as essential are considerably lower than on other kinds of imports. Duties on essential machinery range from 0 to 10 per cent, chemicals and pharmaceuticals are taxed at 25 per cent; while duties on automobiles are as high as 50 per cent.

In addition, there are other taxes and charges, most important of which is the *commercial profit tax* levied on imported as well as domestic goods. (This tax, which often exceeds the import duty is levied on specified imports to protect domestic industries and to control imports of goods considered non-essential). For instance, the commercial profit tax on automobiles ranges from Rls 60 to Rls 300 per kilo. The commercial profit tax on deluxe sports cars is 30 per cent more than on regular cars. On certain raw materials for industries, this tax was raised from Rls 5 to Rls 15, i.e. 300 per cent; and on coconut oil, from Rls 5 to 35, i.e. 700 per cent. On the other hand, the commercial profit tax on fruits including citrus and tropical fruits was reduced to Rls 25 a kilo, and on wheat it was lifted from Rls 1.5 to nil per kilo. Rates of commercial profit tax are changed from time to time. The commodities subject to this tax includes slaughtered domestic poultry, slaughtered game animals and birds, live fish, bananas, coconut, wool grease, animal oils, chemical oils, lubricating materials other than grease for motors, machines and transport vehicles, antiseptic soaps, developed cinematographic films, nitrogenous fertilizers, artificial silk fibres, jute yarns, iron and steel plates, pipes and joints, rivets, nuts and bolts, springs, plain aluminium tape for use in zipper making factories, cigarette lighters, aircraft and marine engines, automobile engines, ventilation pumps, dry cleaning machinery, some refrigerating equipment, some printing equipment, electric traffic lights, electric switches and plugs, pianos and most other musical instruments, some fire arms, some articles made of celluloid or plastic.

Since the recent abolishment of the sugar monopoly as a part of the programme to transfer commercial affairs to private concerns, the Government receives 10 rials as duty and surtax on every kilo of purified cube sugar and 7.75 rials per kilo granulated sugar. Preceding this step, the Tea Board was abolished. Tea imports have been derestricted and the commercial profit tax on them has been reduced.

State trading agencies and government monopolies

The Foreign Trade Company, a state-owned company, has been established recently to handle trade with the Soviet Union and other centrally planned economies, the total volume of trade exchange with Czechoslovakia (each way) was $15 million, with Poland $11 million and with Hungary $10.5 million in 1963.

Japan[17]

Import policy

The import policy of Japan is aimed mainly at promoting the nation's economy and maintaining its foreign exchange reserves through judicious expenditures of foreign exchange income.

Since Japan's balance of payments position has improved in recent years, there has been gradual liberalization of imports. As of 1 October 1964, 92 per cent of all imports have been already

[17] *Source:* [a] Selling in Japan, a supplement to *Overseas Trading*, Melbourne, Vol. 16, No. 2, 7 February 1964.

[b] GATT, Committee on Balance of payments Restriction (Japan), BOP/11/22 August 1962.

[c] Far East Economic Review, 29 October 1964, No. 96, p.239.

"liberalized", although they are subject to licensing under the Government's import programmes and semi-annual foreign exchange allocation, through which the choice of courses of imports may be determined.

Import licensing and exchange controls

Virtually all commercial imports into Japan require a licence which is generally valid for a period of 6 months. Imports are programmed by the Government on a semi-annual basis and import budgets are announced for the 6 month period from April to September, and October to March.

Priority in imports is given to essential raw materials and foodstuffs, while restrictions are imposed on imports of a number of luxury and other non-essential items.

All imports are permitted within the scope of the budget and a person or a firm wishing to import goods is required to apply for an import license to any authorized foreign exchange bank in Japan.

The following are the five types of import procedure followed by the Government:

1) *Foreign Exchange Fund Allocation System.* Goods imported under this system are mostly foodstuffs, some raw materials and other essentials. The importer must obtain foreign exchange allocation certificates from the Ministry of International Trade and Industry (MITI) before applying to the authorized bank for a license. The list of items falling under the system is called the "Negative List".

2) *Automatic Fund Allocation System.* Foreign exchange funds are automatically allocated by MITI to the importers at their request for some specified categories of items covering most machinery and consumer goods, provided these imports do not have any serious impact on Japan's international balance of payments and the national economy.

3) *Automatic Approval System.* All commodities except those classified under 1 and 2 above are covered by the Automatic Approval System. For their importation, licences are issued freely on application to the authorized banks without prior approval of the Government. Foreign exchange is appropriated in the budget for all eligible items and may be supplemented if required.

4) *Imports which do not require any foreign exchange outlay.* Some items which do not require any foreign exchange outlay are admitted under a Special Licensing System. These include: 1) imports for public welfare, charity, religious activities, educational and scientific purposes; 2) gifts; 3) commercial samples; 4) fuel oils for ships and air-planes.

5) *Licence-free imports.* These include relief goods, commercial samples up to a specified value, certain products in non-commercial quantities for personal use, articles imported by foreign diplomats for their personal use, and certain materials or specimens of reference donated for exhibition in schools, museums and research institutes.

Quantitative controls are exercised at present by a system of foreign exchange allocation.

A foreign exchange budget issued every six months sets the limit on the amount of foreign exchange which may be spent on restricted goods. This foreign exchange budget is the joint product of the deliberations of MITI, the Ministry of Finance and the Economic Planning Agency (EPA). The Ministry of Finance discusses the total amount of foreign exchange, EPA developes a general import plan within the framework of the economic plan and MITI does the specific allocation. MITI is the principal agency charged with administering the import budget.

Until 1960, 70 per cent of imports into Japan were subject to rigid licensing controls, which have since been relaxed from time to time. With the relaxation of restrictions on imports of numerous items early this year, over 92 per cent of all imports have become "liberalized". At present, there are 189 items still subject to restrictive licensing, including the 37 items as based on Brussels Tariff Nomenclature which are "immune" from liberalization under GATT.

Tariff system

Generally the Japanese tariffs are moderate, ranging from 30 per cent downwards for most commodities.

Raw materials are usually duty-free, with duties becoming higher for various stages of manufacture. For example, raw cotton is duty-free, but cotton yarns are from 7.5 per cent to 15 per cent, cotton piecegoods are dutiable at between 10 per cent and 25 per cent depending on the type, while finished textile products have rates up to 40 per cent.

Japan has a single column tariff with provision for some concessional rates to members of GATT and other friendly countries. Most of the tariff duties are *ad valorem.*

Although there is provision for temporary duties, emergency duties and anti-dumping and countervailing duties, only the first have been used to date. Japan's tariff system is based on the Brussels Nomenclature.

State trading agencies and government monopolies

1. *Japanese Food Agency,* the most important state trading organization, controls imports of wheat, rice and barley. Imports of these commodities may only be made, under permit from the Food Agency, by traders who must then sell the goods to the Food Agency.

2. *The Japan Monopoly Corporation* controls all trade in tobacco and salt, buying all local supplies and directly importing all supplies from abroad.

3. *The Ministry of International Trade and Industry* has a sole monopoly for the manufacture, sale and import of alcohol. The Government purchases all alcohol produced in the local state-operated and private firms. Only the Government or persons authorized by it can import alcohol; but no particular restrictions apply to its export.

Republic of Korea[18]

Import policy

The import policy of the Republic of Korea is designed to promote the import substituting industries, to restrict the importation of luxury items under the austerity movement and to provide foreign exchange only for the import of basic essential goods and materials for the nation's economic progress.

Import licensing and exchange controls

Foreign exchange is placed under strict Government control. Under the control system introduced in 1962 all foreign exchange receipts must be sold and handled through foreign exchange banks authorized by the Government. These foreign exchange banks also, in turn, sell foreign exchange at official rates to the importers and others who have a legitimate need for it.

The available foreign exchange balance is called the KFX Fund.

The Foreign Exchange Committee was set up, within the Ministry of Finance, for the purpose of studying and deliberating on important matters regarding foreign exchange control. It is composed of seven members including the Minister of Finance, the Minister of Agriculture and Forestry, the Deputy Chairman of the Economic Planning Board, the Deputy Governor of the Bank of Korea and two persons who are experts in international economy and law, appointed by the Prime Minister. The Minister of Finance is the Chairman.

Tariff system

Effective from 1 January 1962, the Korean Tariff Code was changed to the Brussels Nomenclature.

Tariffs (single column) are levied on imported goods for the purpose of protecting local industry and of increasing government revenue. The duties are levied on the CIF price of import goods. The duty rates range from 10 per cent to 100 per cent. Low rates apply to essential goods, whereas higher rates are charged on luxury goods. Certain items are exempted from customs duty. These include: *i*) raw materials and production equipment considered essential for the country's key industries; *ii*) raw materials and facilities required for foreign exchange earnings; *iii*) production facilities brought into the country by foreign investors in accordance with the provisions of the Foreign Investment Encouragement Law; *iv*) various relief goods received free of charge from abroad; *v*) goods which by international practice or by reciprocal treaties are free of customs duties; *vi*) equipment and facilities for certain government projects; *vii*) goods imported under technical aid programmes.

Effective from 23 June 1964, the Government introduced a Special Customs Tariff Law designed to restrict imports of non-essential commodities. Items in the tariff table are divided into three groups. Group I covers all the items listed in the 1964 Republic of Korea Tariff Table as dutiable at 40 per cent or more, together with certain other items. Goods in this category are taxed at 90 per cent of the difference between the domestic wholesale price and the import cost plus 30 per cent.

Group II comprises all the remaining commodities in the tariff table, on which a rate of duty is leviable. For this Group, the special tariff rate is 70 per cent on the same basis as on the first group items. Group III, which is exempted from special tax comprises those items whose imports are considered to be essential for the development of the national economy, and items listed in this group are non-dutiable.

Malaysia[19]

Following upon the formation in 1963 of Malaysia, which comprises the former Federation of Malaya, Singapore, North Borneo (Sabah) and Sarawak, a

[18] *Source:* [a] Korea Trade Directory, 1963, Seoul.
[b] Board of Trade Journal, 2 October 1964, p.772.

[19] *Source:* [a] Overseas Trading, Department of Trade, Melbourne, 7 February 1964, Vol. 16, Nos. 1 & 2.
[b] International Financial News Survey, IMF, Vol. XV, No.43, 1 November 1963.
[c] International Commerce, US Department of Commerce, Washington, D.C., 3 February 1964.
[d] Malayan Trade Classification, Fed. of Malaya Customs Tariff 1962.

common external tariff to encourage industrialization and trade within the country is being gradually introduced.

Import licensing and exchange controls

All imports require permits or licences, in addition to inward declarations for statistical purposes.

Most goods are on the OGL list. Special licences are required only for few products including fresh eggs, hides and skins, live poultry, meats (except canned), flour, rice, some fertilizers, arms and ammunition, livestock, torch and radio batteries, television receivers and components and parts.

Apart from the large number of imports which comprise entrepôt trade, rubber, crudes and petroleum products, foodstuffs (rice, flour, condensed milk, fruit, vegetable, meat and fish), textiles, machinery and transport equipment are the country's main imports.

Veterinary health certification is required for live animals and all animal products including meat, bulk milk powders, edible and inedible tallows, feeding meals and fertilizers.

The Government of Singapore removed the specific licensing and quantitative controls on imports of various medical preparations, cosmetics, and rubber shoes obtained from any country.

The control on imports of flashlight and transistor radio batteries and on monosodium glutamate obtained from the territory of the former Federation of Malaya was also lifted.

Tariff system

Both *ad valorem* and specific duty rates are adopted by the Government. The *ad valorem* rates range from nil to 25 per cent. The country has a two-column tariff: full and preferential. Preferential treatment is given to the British Commonwealth countries.

Under the Tariff Advisory Board Act 1963 which came into effect throughout Malaysia on 16 September 1963, a Tariff Advisory Board was established to advise the Government on the creation of a common market and a tariff structure in Malaysia.

Broadly, the functions of the Board are to consider and make recommendations regarding the imposition and alteration of import duties (including consideration of changes applied for by local manufacturers and potential manufacturers). In making recommendations, it will keep in view their probable effect on:

i) balanced industrial development;

ii) the interest of the entrepôt trade of Singapore, Penang and Labuan;

iii) the interest of existing industries and of consumers in Malaysia, with reference to the cost of living, the cost of production of industries (particularly of export industries) and the cost of development works in the public sector of the national economy;

iv) employment and national income;

v) federal and state revenue.

In addition, the Board will advise the Government on establishing a common market in Malaysia for locally-consumed local products and will review the protective tariff periodically.

The Board will review revenue duties before the end of 1968 with a view to harmonizing them throughout Malaysia.

Singapore is still substantially a free port, but an increasing number of items are being referred to the Tariff Advisory Commission in connexion with proposals for their local manufacture. The few items currently dutiable include intoxicating liquors, tobacco, petroleum, soap, paints and eggs.

A preferential rate applies to some intoxicating liquors and tobacco imported from Commonwealth areas.

In order to encourage the development and growth of industries, the state Government of Sabah issued a new Customs Duty Order removing import duties previously charged on a wide range of raw materials used for industrial and manufacturing purposes and on a wide range of machinery for development purposes.

The nomenclature in the new order is based on the SITC (Revised) and is identical with that used in the Malayan Customs Duty Order.

A new volume covering the Trade Classification and Customs Tariff for Malaysia as a whole has now been published.

State trading and government monopolies

There is no state trading in import and export trade.

Nepal[20]

Import policy

The import policy of Nepal is mainly aimed at providing people with adequate quantities of essential producer goods as well as consumer goods, discouraging as far as possible the import of non-essential commodities and conserving foreign exchange for buying goods needed for development projects.

Because of its landlocked location with no access to the sea, about 94 per cent of Nepal's external trade is conducted with India, less than 1 per cent with Tibet, and 5 per cent with overseas countries through India.

Import licensing and exchange controls

Imports of Indian goods into Nepal are licence-free. Both import and export payments are effected in Indian rupees. The quantities of some essential commodities imported from India, such as cement, salt, iron and steel, are limited by Indian export quotas.

Nepal has a dual currency system. Both Nepalese and Indian currencies are in circulation.[21] Since there is no exchange control between Nepal and India, the two currencies are freely convertible at the fixed rate of NRs 1.6=IRs 1.0.[22]

Licences are required for all imports from overseas countries. The Ministry of Commerce issues import licences.

All foreign exchange other than Indian currency, is subject to exchange control. Permission of the Nepal Rastra Bank is required for all foreign payments.

Imports of vegetables, vegetable oil, margarine, animal fat, beef, explosives, chemicals to be used for explosives, and wireless transmitters are prohibited.

Tariff system

Under the Treaty of Trade and Transit signed between Nepal and India in 1960, the two countries do not impose duties on one another's goods, except that Nepal is allowed to levy protective import duties on Indian manufactures. For trade with other countries, Nepal has a single-column tariff schedule with duty rates ranging from one to 100 per cent *ad valorem.*

State trading and government monopoly

In May 1962, the National Trading Company Limited was incorporated; its main function is to handle commodities imported through grants and loans from the Soviet Union and mainland China. The company also handles goods supplied on a quota basis by India, such as cement, iron and steel. So far, it has been dealing with the imports only, particularly under a short term contract as the agent of the Department of Commerce.

New Zealand[23]

Import policy

The import policy of New Zealand is aimed at using its available foreign exchange resources either for essential economic goods to expand the economy or for those consumer goods which are not produced locally. The products of British Commonwealth countries are given preference. GATT member countries also enjoy preferential treatment, but not as substantial as that accorded to the Commonwealth countries.

Import licensing and exchange controls

The Import Control Regulations 1964, which entered into force on 10 April 1964 in replacement of the Import Control Regulations 1938, provide the legal basis for the import control imposed in New Zealand. These Regulations were promulgated under the enabling powers of the Customs Act 1913. The control of import was imposed, and has been maintained, for balance-of-payments reasons. Under the Import Control Regulations, the importation of all goods, other than those exempted by the Minister of Customs by notice appearing in the New Zealand Gazette, is prohibited except pursuant to a licence or permit.

The 1964/65 Import Licensing Schedule makes provision for the following import licensing categories:

"E" or "Exempt" items. No import licence is required for importation of goods under these items.

---

[20] *Source:* [a] Basic data on the Economy of Nepal, Overseas Business Reports, OBR, 63-103, July 1963.
[b] News from Nepal, Vol. I, No. II, 1 October 1960.
[c] Report of the Board of Directors, HMG of Nepal (1957-61), Nepal Rastra Bank.

[21] The Government recently started a drive to end the dual currency system.

[22] The exchange rate of the Nepalese rupee with other currencies is quoted in terms of this rate.

[23] *Source:* [a] Overseas Business Reports, OBR, 64-4, January 1964.
[b] Import Policy for 1963-64 Licensing Period, Comptroller of Customs, 30 June 1963, Wellington.
[c] State Trading in ECAFE region, E/CN.11/TRADE/L.64, pp.67-8
[d] GATT, Committee on Balance of Payments, BOP/38, 6 September 1964.

"Basic" items. Licences for these items are granted according to the percentage allocation indicated in the Schedule, based upon either the amount of a previous period's licences or upon the amount of imports during a previous period. The provision of a basic allocation for goods does not preclude the granting of additional licences or the granting of licences to importers not qualifying for basic licences, where circumstances warrant.

"A" items. For these items, an initial percentage allocation is made to normal and regular importers with further licences being considered in the light of the need for additional requirements for the balance of the licensing period, as evidenced by sales performance or usage in manufacture. The initial allocation is 75 per cent of the value of licences granted for imports of similar goods from all sources during the 1963/64 licensing period, with a maximum entitlement of 100 per cent of the value of 1963/64 licences, except where there are exceptional circumstances in which licences above that level may be considered.

"C" items. Applications for licences to import goods classed under these items are considered individually. Licences are granted on such criteria as essentiality, availability, price, etc.

"C plus basic" items. These items have an initial basic allocation based on a previous period and applications for further licences are considered individually as "C" items.

Administrative basic licences. These licences are issued to provide for the importation of particular or specific goods which fall within a range covered by a particular item code, and the allocation is made to vary the allocation specified in the Schedule for the general range of goods covered by the item code.

"D" items. No allocation has been made for these items, but licences may be granted in exceptional circumstances.

"Token" licences. These are granted to regular importers to the extent of 100 per cent of 1963/64 licences for the same goods and provide for the importation in commercial quantities of certain classes of goods imports of which are not generally permitted under the schedule.

There is no discrimination in treatment of imports from different sources; all licences are issued on a "global" basis and are, therefore, available for imports from any country.

The 1964/65 Import Licensing Schedule, covering importation of goods during the period 1 July 1964 to 30 June 1965, gives the following commodity groupings:

Of approximately 840 items[24] in the Schedule, there are 122 items in the "A" category covering many of the more important raw materials required by industry, including sewing threads, most fabrics, —other than wool—most classes of unfabricated iron or steel, metals in ingot or primary forms, raw coffee, cocoa beans, unground spices, crude rubber, gypsum, waxes, tanning materials, shellac and certain gums and resins, kapok, petroleum jelly and certain mineral oil products many dry colours and pigments for paint manufacture and a number of other essential items.

There are thirteen items exempt from the requirement of an import licence including butter and cheddar cheese, unrefined sugar, tobacco for manufacture in New Zealand, fertilizers, sulphur in bulk, motor spirit, kerosene, fuel oil and lubricating oil, explosives, detonators, printed books (other than brochures, pamphlets, newspapers, magazines or comics), dried, salted or smoked meat, greasy or scoured wool, undressed hides and skins (except furskins), and tea in bulk.

The 380 basic items cover a large proportion of the consumer goods and some of the raw materials and machinery imported into New Zealand; they include many items in the following classes of goods: chemicals, rubber goods, yarns, floor coverings, metal manufactures, machinery, electrical apparatus, instruments, photographic equipment and hand tools. Tractors, cameras and some of the agricultural machinery are also in this category.

The 129 items in the "C" category include capital machinery, motor vehicles assembled and "knocked down", insulated wires and cables, machine yarns of wool, dressed leathers, and some of the crude minerals, plastic materials and rubber manufactures.

The eighty-four "C plus basic" items cover certain medicinal preparations and medical and surgical instruments, measuring, checking, controlling, etc., instruments, a number of machinery items and certain partly manufactured materials used in industry.

There are 115 items in the "D" category, covering goods of kinds made in New Zealand, for example, corrugated aluminium, some agricultural machinery,

[24] Not including the Industry Groups and Interchangeability Groups mentioned in the last paragraph of this section.

some kinds of clothing and footwear, manufactured articles of wire, bags and boxes of paper or paperboard. For most of the "D" items, token licence allocations are provided.

The token import licensing scheme covers 169 items. Among the items included are: dried or preserved vegetables, jams, jellies, preserved or potted meats, cigarettes, cigars, tobacco, men's and boys' overcoats, and suits, children's socks and stockings, knitted underwear of wool, cardigans, footwear, toilet preparations and perfumery, lawnmowers, radios, vacuum cleaners, domestic knitting machines and aluminium holloware.

In addition, there are seventeen Industry and twenty Interchangeability Groups, thirty-two of which have "basic" allocations, one "C + basic", two "C" and two "A" allocations. Each group covers raw materials and components normally associated with the manufacture in New Zealand of particular classes of goods, e.g. brushware, paints, varnishes, and printing ink, radio and electronic apparatus, stationery and footwear. The Interchangeability Groups cover spare and service parts of motor vehicles, educational apparatus, and articles and materials to be used by religious organizations for religious purposes only, and many kinds of consumer goods.

Exchange control generally presents no problem in New Zealand. Most licences to import goods automatically insure that the importer will be granted the necessary overseas funds.

For goods exempt from licensing, exchange control is automatically granted against the usual documentary evidence of shipment of the goods.

Tariff system

The present New Zealand customs tariff is based on the Standard International Trade Classification and the Brussels Tariff Momenclature which came into force on 1 July 1962.

New Zealand has a multi-column tariff which includes three main tariff rates—the British preferential, the most-favoured-nation, and the general tariffs. In addition, there are separate rates applicable to Canada, Australia and South Africa.

State trading and government monopolies

The only commodity imported as a state trading enterprise is wheat.

Pakistan[25]

Import policy

Pakistan's import policy is guided by the availability of foreign exchange resources and by industrial and consumer requirements. Highest priority is given to the import of basic essentials such as food, medical supplies, machinery, spare parts, petroleum products, industrial raw materials, and capital goods and equipment, whereas the import of less essential commodities is restricted. In recent years, because of the improved foreign exchange position, the Government has liberalized its imports substantially.

Import licensing and exchange controls

All imports are subject to control by the Central Government, which determines the commodities that may be imported, the sources from which they may be admitted, and the amount of foreign exchange which may be allocated for import purposes.

Licences are required for all imports into Pakistan except the following: (*i*) the Central Government's imports for defense; (*ii*) goods imported directly by government departments; (*iii*) certain imports by land from Iran; (*iv*) books, magazines and medicines up to a maximum (C & F) value of Rs 150 ($31.50) provided they are for the personal use of the importer; and (*v*) *bona fide* samples and advertizing matter supplied free of charge valued at not more than Rs 250 ($52.50) a year.

The following are the various types of licences issued: (*i*) individual import licences; (*ii*) open general licences (OGL); (*iii*) automatic licences; (*iv*) industrial licence; and (*v*) imports under the Export Bonus Scheme.

(*i*) Individual licences are issued to commercial importers and industrial consumers for items on the regular licensing list on the basis of their past performance over a specified period.

(*ii*) A small quantitative quota of items on the OGL list is granted to the importer for each licence. Licences are issued only to nationals or local firms situated outside Karachi, Lahore, Chittagong, Dacca and Narayangang. Repeat licences are granted after proof of utilization of the initial licence.

(*iii*) Industries which are on the automatic licencing list are granted import licences for the raw materials and spare parts. Repeat licences are also granted if required.

[25] *Source:* [a] Overseas Business Reports, OBR, 62-5, November 1962.
[b] GATT, Pakistan's Balance of Payments, BOP/35, 7 May 1964.
[c] Pakistan Customs Tariff, 1960, Ministry of Commerce, Pakistan.

(*iv*) Industries on this list are granted licences based on a certain percentage of their industrial capacity. The issue of additional licences depends on their export performance.

(*v*) Under the Export Bonus Scheme, Pakistani exporters of certain primary products and manufactures get bonus entitlement vouchers equivalent to a portion of their foreign exchange earnings. These vouchers are transferable freely and may be exchanged for a licence to import products.

Foreign exchange is controlled by the State Bank of Pakistan under the authority of the Foreign Exchange Regulation Act, 1947. The bank appoints authorized dealers (approved commercial banks) to handle private foreign exchange transactions. All foreign exchange must be bought and sold at rates set by the bank.

A semi-annual foreign exchange budget is drawn up in the light of expected receipts (including foreign aid) and the level of foreign exchange resources. On the basis of the exchange budget thus established, an over-all ceiling of foreign exchange available for private imports is determined and separate ceilings are established for individual items, groups of items, or industries. Below these ceilings, percentage allocations are fixed for commercial importers, industrial consumers and common users, etc. These allocations are further divided among the three licensing areas, namely, Karachi, East Pakistan and West Pakistan.

Tariff system

Pakistan's tariff system is based on the Brussels Nomenclature and the Standard International Trade Clarification. Both specific and *ad valorem* duty rates are in use.

Pakistan has a multi-column customs tariff. The GATT member countries are given concessionary rates on a reciprocal basis. Concessionary rates are also allowed to Ceylon, the United Kingdom and its colonies. India enjoys exemption or concessionary rates, as the case may be.

Defence materials imported by the Central Government for the use of Defence Services are exempt from import duty.

State trading agencies and government monopolies

The Government monopolizes the import of wheat, rice and coal in order to ensure equitable marketing and adequate supply at reasonable prices to the local population. Under barter agreements, Pakistan imports coal and rice from mainland China and coal from Poland. It receives wheat from the United States under Public Law 480. Government purchases abroad account for 20 to 30 per cent or total import expenditure.

Philippines[26]

Import policy

There is no import licensing in the Philippines. On 21 January 1962, the Government lifted import licensing and strict exchange controls. Since then it has been the Government's policy to keep import transactions as free from restriction as possible without affecting the country's balance of payments as well as the development of domestic industry. All import transactions now take place at the freely fluctuating exchange rate.

Import regulations

To prevent excessive imports from abroad of less essential goods, import finance is regulated by the Central Bank through advance deposits. In such cases, special advance or time deposits equivalent to 25 per cent, 75 per cent and 100 per cent of the value of goods are required to be lodged for 120 days when the letter of credit is opened. The letter of credit opened against exchange allocations is considered as an exchange licence. All commodities are freely imported with the exception of a very few items whose importation is still regulated or prohibited by special law or charter in order to protect domestic industry. These items include coffee, tobacco, onions, potatoes, garlic and cabbage.

Imports of weapons of war, contraceptives, habit-forming narcotics, gambling outfits and pronographic literature are prohibited.

No exchange licences are required and there are no restrictions on the repatriation of capital or the remittance of profits abroad.

Exchange dealing continues to be limited to authorized agents, but these agents can sell to any importer without prior Central Bank licensing and without regard to previous allocation patterns.

Importers are required to follow Central Bank regulations on financing. Most imports over 100 pesos must be covered by letter of credit. Each letter of credit must be accompanied by an advance

[26] *Source:* [a] Overseas Business Reports, US Department of Commerce, OBR, 63-138, November 1963.
[b] Overseas Trading, Department of Trade, Melbourne, 3 April 1964.
[c] State Trading in countries of the ECAFE region, E/CN.11/TRADE/L.69, page 77.

or time deposit. The amount of the deposit required varies from nil to 25, 75 or 100 per cent depending on essentiality of the product covered.

Tariff system

The tariff code of the Philippines is based on the Brussels Nomenclature. Tariff rates range from nil to 250 per cent depending on the essentiality of goods.

The tariff is single column, and is applied without discrimination with the exception that goods of United States origin pay only 75 per cent of the ruling rates of the tariff until 1964, 90 per cent between 1965 and 1973 and 100 per cent thereafter.

In addition, a special import tax is levied temporarily on almost all imports. In 1963, the tax was 5.1 per cent of the c.i.f. value of the import; in 1964, 3.4 per cent; in 1965, 1.7 per cent; and on 1 January 1966, it will be eliminated. An advance sales tax is also imposed on most goods with rates depending on essentiality. Certain categories of goods exempted from the tax include drugs and medicines, medical, dental and hospital supplies; canned salmon and sardines; and unassembled kerosene lamps. Also exempted under special circumstances are explosives, fertilizers and books.

State trading agencies

The following state trading agencies were established by special charter:—

1. The Rice and Corn Administration (for paddy and corn).
2. The Abaca Corporation of the Philippines (for abaca).
3. The Philippines Tobacco Administration (for native tobacco).
4. The Philippines Virginia Tobacco Administration (for Virginia tobacco).
5. The National Marketing Corporation (NA MARCO) is entrusted with the task of maintaining prices for the benefit of consumers. It operates 2,000 wholesale distributors and 30,000 retail outlets, and is the major buyer of many basic foodstuffs).

Preferential arrangements between the Philippines and the United States

Special trade privileges enjoyed by the two countries were first based upon the United States-Philippines Trade Agreement (1946), better known as the Bell Trade Act. A revision was made and effective from 1 January 1956 to 3 July 1974. The existing preferences may be summarized as follows:—

a. General tariff concessions

The proportions of Philippine import tariff to be collected on United States imports are as follows:

1 January 1956—31 December 1958:
25 per cent of existing duties

1 January 1959—31 December 1961:
50 per cent of existing duties

1 January 1962—31 December 1964:
75 per cent of existing duties

1 January 1965—31 December 1973:
90 per cent of existing duties

1 January 1974 and subsequently:
100 per cent of existing duties

The proportions of United States import tariff to be collected on Philippine imports are as follows:—

1 January 1956—31 December 1958:
5 per cent of existing duties

1 January 1959—31 December 1961:
10 per cent of existing duties

1 January 1962—31 December 1964:
20 per cent of existing duties

1 January 1965—31 December 1967:
40 per cent of existing duties

1 January 1968—31 December 1970:
60 per cent of existing duties

1 January 1971—31 December 1973:
80 per cent of existing duties

1 January 1974 and subsequently:
100 per cent of existing duties

b. Absolute quotas, on the following goods to be imported from the Philippines into the United States:—

(*i*) Sugar: 952,000 short tons (of which 56,000 short tons may be refined sugar)

(*ii*) Cordage, (including yarns, twine, etc.): 6,000,000 lbs

The above are annual quotas effective until 3 July 1974. The United States imposes the lowest rates of import duties on these goods.

c. Tariff quotas, on the following goods to be imported from the Philippines into the United States:

(*i*) Cigars: 2,000,000,000 cigars

(*ii*) Scrap tobacco, and stemmed and unstemmed filler tobacco: 6,500,000 lbs

(*iii*) Coconut oil: 200,000 long tons

(*iv*) Buttons of pearl or shell: 850,000 gross

Imports up to the above annual quotas are subject to the following tariff concessions:—

1956-1958: 95 per cent of duty

1959-1961: 90 per cent of duty

1962-1964: 80 per cent of duty

1965-1967: 60 per cent of duty

1968-1970: 40 per cent of duty

1971-1973: 20 per cent of duty

On and after 1 January 1974: nil

Imports beyond the above quotas are subject to 100 per cent duties.

Thailand[27]

Import policy

Thailand has maintained a liberal import policy. Only a relatively few items are subject to import control, which is designed to provide protection to local producers.

Import licensing and exchange controls

Although licences are normally not required for most commercial imports into Thailand, a number of commodities are subject to import licensing.

Imports of some agricultural products are controlled. These include, potatos, pepper, garlic, melon seeds, betel nuts, rattan, tea, coconut oil, groundnut oil, palm oil, straw products, fresh fruits and meat.

A foreign exchange permit is not necessary, but a "certificate of payment" issued by the Bank of Thailand or any authorized bank is required.

Imports of certain items are subject to special licence requirements. These include: arms, ammunition and explosives, dangerous drugs, playing cards, radio and television receiving sets, and tobacco and tobacco products.

[27] *Source:* [a] World Trade Information Service, US Department of Commerce, Part 2, 61-1, January 1961.
[b] Bangkok Post, (daily newspaper), 21 October 1963.
[c] Bangkok Bank, August 1963, p.44.
[d] Budget in Brief (Thailand), Fiscal Year 1964, Budget Bureau, Office of the Prime Minister.

In accordance with the provision of the Promotion of Industrial Investment Act of 1960, new or expanding industries are granted for a certain period of time a total or partial exemption from import duty.

The Government has established the Exchange Equalization Fund as its tool for maintaining stability in the exchange rate. It sells foreign exchange to the market when there is a shortage and buys where it is surplus in the market. The fund functions under the auspices of the Bank of Thailand. Its reserves comprising foreign exchange and baht are kept separately from those of the Government and the bank itself.

Tariff system

The tariff schedule is single-column and non-discriminatory. Both specific and *ad valorem* duties are applied. Specific duties are calculated on the actual net weight, whereas *ad valorem* duties are assessed on the wholesale cash price (exclusive of import duties).

The tariff of Thailand has no preferential duties nor are any customs surtaxes levied. For revenue purposes, the Government charges all importers a 5.5 per cent business tax on the invoice value of all goods imported. Higher rates apply to certain goods such as motor cars, refrigerators, radios, television receivers and liquors.

In accordance with the Provision of Tariff Bill passed recently by the National Assembly, the Minister of Finance has been empowered to lower customs tariffs to levels one-tenth of the declared tariff rates. The main purpose of the bill is to promote agricultural and industrial production and the export trade.

The tariff system is based on the Brussels Tariff Nomenclature.

State trading and government monopolies

There are, at present, thirty-eight state enterprises "whose stocks and shares are held by the Government of Thailand entirely or more than 50 per cent of the shares". Most of these enterprises handle local business and do not play any significant part in the country's foreign trade. They are as follows:

1) Yanhee Electricity Authority;
2) Metropolitan Electricity Authority;
3) Provincial Electricity Authority;
4) North-East Electricity Authority;
5) Lignite Authority;
6) Port Authority of Thailand;

7) The State Railway of Thailand;
8) Telephone Organization of Thailand;
9) Express Transport Organization (ETO);
10) Rubber Plantation Organization;
11) Cold Storage Organization;
12) Warehouse Organization;
13) Fish Marketing Organization;
14) Preserved Food Organization;
15) Glass Organization;
16) Tanning Factory;
17) Fuel Organization;
18) Textile Organization;
19) Battery Organization;
20) Dusit Zoo Organization;
21) Tourist Organization of Thailand;
22) Thai Paper Mill;
23) Ceremic Factory;
24) Fang Oil Refinery;
25) Bang Jak Oil Refinery;
26) Pharmaceutical Factory;
27) State Pawn Shops;
28) Thai Navigation Co., Ltd.;
29) Thai International Co. Ltd.;
30) The National Economic Development Corporation;
31) Cholburi Sugar Industry Co. Ltd.;
32) United Hotel and Tour Co. Ltd.;
33) Chemical Fertilizer Co. Ltd.;
34) Thai Television Co., Ltd.;
35) Yang Thai Co. Ltd.;
36) Bangkok Dock Co. Ltd.;
37) Provincial Bank Co. Ltd.; and
38) Farmers' Bank Co. Ltd.

In addition, there are some other enterprises in which the Government has an interest.

Republic of Viet-Nam[28]

Import policy

The present import policy of the Republic of Viet-Nam is designed to meet, within the limits of its foreign exchange reserves, the demand for industrial and consumer products and to provide assistance to local industries engaged in the production of import substitutes.

To a certain extent, import policy is influenced by the United States aid, as it largely covers the country's trade deficit.

Import licensing and exchange controls

Import licences are required for all commercial imports into Viet-Nam. A substantial part of the country's commercial imports are financed by foreign aid, particularly United States aid. Essential consumer goods and raw materials not eligible for aid financing are imported largely on the country's own foreign exchange account.

An import licence-holder is automatically entitled to an exchange permit.

Viet-Nam's multiple exchange rate was replaced by a dual exchange permit.

Viet-Nam's multiple exchange rate was replaced by a dual exchange rate system in January 1962. Effective rates of 60 piastres per US dollar for all import and export transactions and of 73.5 piastres per US dollar for various invisible transactions have been retained. A number of import taxes which gave rise to the multiple rate system have been abolished.

Foreign exchange controls are administered by the National Exchange Office of the National Bank.

Tariff system

The Government has two classes of duty rated, "minimum" and "maximum"; the "minimum" rates are levied on goods imported from the country's major trading partners, including the United States, Japan, France, Indonesia, the Federal Republic of Germany and China (Taiwan); and on certain basic essential commodities imported without regard to origin for economic development.

Imports from other countries are subject to "maximum" rates. Since January 1956, the maximum rates have been double the minimum rates.

The tariff schedule was revised on 1 January 1963; accordingly, most essential raw materials, machinery and equipment now are exempt from duty, while luxury imports and those directly competitive with local products are subject to increased duties and to an "austerity" tax. The austerity tax is particularly applicable to luxury imports, non-essential commodities and goods directly in competition with the local products. The tax ranges from 15 to 190 per cent *ad valorem.*

---
[28] *Source:* [a] World Trade Information Service, Part 2, 62-62.
[b] Overseas Business Reports, OBR, 63-5, March 1963.
[c] Board of Trade Journal, London, 6 March 1964.

State trading agencies and government monopolies

The Central Purchasing Authority (CPA), the only state-owned agency, has been established to handle government imports, particularly those received under United States aid.

Special relations with France

The Government announced on 28 January 1964 that, until further notice and with the exception of special cases, no licences would be issued for goods imported from France, and, in addition, no import licences would be issued to importers holding French citizenship.[29]

Otherwise France and the Republic of Viet-Nam enjoy special arrangements under the Agreement of 20 March 1955 expressing the desire to maintain the highest level of trade between Viet-Nam on the one hand and France and French Territories on the other. Preferential tariff rates and special import quotas were stipulated under the Agreement as follows:

[29] The imports of certain essential products from France, e.g. spare parts for industrial machinery and material, necessary to prevent the disruption of local industries are allowed, but the ban would affect such products as machinery and heavy equipment, automobiles, electrical appliances and consumer products particularly, textiles and pharmaceuticals.

(*a*) *Preferential tariff rates*

While several ECAFE countries including Cambodia and Laos enjoy the minimum rate of duties, France and French Territories are accorded further tariff privileges under the above-mentioned Agreement. Annex A and B of the Agreement give a "preferential margin" for each commodity imported from Viet-Nam into France and French Territories and from France and French Territories into Viet-Nam. The "preferential margins" for imports into Viet-Nam from French Territories range from 5 to 15 per cent of the minimum rate. The "preferential margins" for Viet-Nam imports into France and French Territories range from 2 to 80 per cent.

(*b*) *Special import quotas*

Both countries agreed to provide, reciprocally, special quotas for the import of specified goods, which include rice, maize, rubber and matches from Viet-Nam and dairy products, wheat flour, malt and sugar from France. The Agreement also provides that, in case Viet-Nam imposes import control on non-essential goods for the purpose of protecting local industries, it will reserve quotas for the imports of French products.