MEMORANDUM FOR: Francis Bator

SUBJECT: German Subscription to the Asian Development Bank

At a meeting today with Under Secretary Langer (Economics Ministry), the German Government for the first time revealed the size of their proposed subscription to the Asian Development Bank.

The proposed range of $23 - $30 million is much too low and, unless raised, would make it impossible for the quota to be subscribed by the United States, Canada and the European members to be fulfilled. The disparity between the U.S. and the prospective European subscriptions would also raise problems in Congress. The Germans indicated surprise and interest on being told that the ADB was a matter of personal interest to President Johnson. However, this message coming from middle-level officials was not very effective.

After the meeting, George Lilienfeld took me aside and said that the matter was being handled in Bonn by the Economics Ministry who did not understand the political implications for Asia or the significance in terms of U.S.-Bonn relations. He said the German Embassy was continuing to press Bonn for a higher subscription and that he was hoping for ammunition from McGeorge Bundy at his meeting with Bundy tomorrow.

The officials in Bonn obviously do not consider the ADB an important project and do not propose to extend themselves on this issue. Gene Black came to a similar conclusion during his trip to Europe in July where he discussed the Bank with Prime Minister Wilson and Foreign Minister Couve but was unable to get an appointment with any high ranking German officials.

The following should be stressed to Lilienfeld:

1. The success of the ADB is of direct concern to the President.

2. The importance of the Bank should not be judged so much from the viewpoint of the development of economics as for its possible contribution to political stability in Asia.
3. Unless the German subscription is substantially increased before the start of the Bangkok meeting (October 21-30), the non-regional members of the Bank will fall far short of their quota and their influence in the charter negotiations in Bangkok will be correspondingly decreased. This may in turn create serious problems in Congress.

4. The German subscription should be at least $75 million. This would match the Australian subscription. A $75 million subscription would commit Germany to five annual payments of only $7.5 million each.

5. By subscribing to the ADB capital, the Germans would relatively painlessly give the United States some assistance in our attempt to stabilize South East Asia. (However, we feel that any discussion of European contributions to the proposed South East Asia Trust Fund should be postponed until after we have completed our efforts to get the Europeans to meet their quotas on ADB capital subscriptions.

Some fuller background information is attached.
Background Information on German Subscription to Capital of the Asian Development Bank

A Charter drafting conference to be attended by all prospective members of the Asian Development Bank is scheduled to open in Bangkok on October 21st. In preparation for this meeting, a Treasury/State/A.I.D. team has been conducting bilateral talks during the IBRD-IMF meetings with delegations from those countries who have indicated that they will attend the Charter conference in Bangkok.

The most crucial subject under discussion was subscriptions to the capital stock of the Bank, the initial capital of which is projected at $1 billion.

During the June 28-29, 1965 conference of the Asian members of the proposed Asian Development Bank (attended by Gene Black as Adviser to the Asian group and U.S. Representative), it was generally agreed that the $1 billion initial capitalization should be raised by subscriptions of $600 million from the regional members (including Japan, New Zealand and Australia) and $400 million from the non-regional members (United States, Canada and European countries, and possibly the Soviet Union). At the June meeting the United States and Japan each pledged $200 million with the reservation that the total subscription of each country would not exceed 20 percent of the total finally subscribed by all prospective members.

During the past week it has become clear that while the regional members will probably meet their goal of $600 million, the non-regional members will fall short of their assigned quota despite the fact that the United States has already pledged 50 percent of the non-regional quota.

Although they have not said so irrevocably, the French have stated quite firmly that they will not join the Bank because they consider it an American tool. The Soviet Union has not committed itself to membership but has told the Asian countries that the USSR will attend the October Bangkok conference. Fairly firm pledges from non-regional countries have been obtained as follows: Canada - $23 million, The Netherlands - $11 million, and Belgium - $7 to $9 million. The major problem is to get adequate subscriptions from the United Kingdom and Germany.
At the discussion with the German delegation we received the official indication as to the size of the proposed German subscription. Under Secretary Langer of the Economics Ministry, heading the German group, first paid some lip service to the general commitment to the ADB made by the Chancellor on his last visit to Washington. He then said that the German Cabinet had met last week and authorized him to tell the U.S. Government that the Germans would join the Bank, but that they had not fixed an amount. However, Langer went on to venture his personal view that the German subscription would be somewhat larger than the Canadian ($23 million), but under no circumstances more than $30 million. Since only one-half of the subscribed capital is to be paid in and payments are to be over a five-year period, the Germans are only proposing to limit their commitment to five annual payments of $3 million each. The first payment would not be due before autumn 1966 at the earliest.

He also said that at some later date the Germans would consider a possible contribution to the proposed South East Asia Trust Fund of the Bank. No figure was mentioned. The Germans were told (1) that $30 million for capital subscription was disappointing in view of the U.S. and Japanese pledge of $200 million, the Australian pledge of $75 million and the Indian pledge of $45 million in hard currency plus $45 million in rupees and (2) that the United States felt that meeting the quota on capital subscription should have priority over trust fund contributions.

Under Secretary Langer inquired about the size of the U.K. commitment, about which we could give him no information. He expressed the view that the United Kingdom had a much larger stake in Asia than they did and should be expected to make a much larger subscription than Germany.

He inquired as to the level of the U.S. representation at Bangkok and was visibly impressed on hearing that Barr would probably head the U.S. group. He was also somewhat impressed on being told that the ADB was a matter of very direct concern to President Johnson, but the impact of this was limited since the statement was made by middle-level U.S. officials.

The Germans were troubled on being told that the United States was pushing hard to obtain a charter provision limiting procurement to member countries of the Bank. They agreed with the principle underlying this limitation but concluded that its purpose was to
pressure the French. This raised unpleasant visions of being caught between Washington and Paris. We tried to explain that the limitation on procurement was aimed at preventing procurement, first of all, from Communist China and, secondly, from the Soviet Union if that country should fail to join. The explanation did not fully reassure the Germans.

In the hope that subsequent pressure on the Germans will succeed in raising their subscription to $75 million, we asked the Germans not to reveal the $23 - $30 million figure to the public or to other delegations. We explained that a very low German subscription would hamper our negotiations with the United Kingdom and others. They agreed to this request.