Mr. Chairman and Members of the Committee:

It is a pleasure to discuss with you the proposed Asian Development Bank and the status of the Administration thinking with respect to this proposal, as I did about two weeks ago with the House Banking and Currency Committee. There has been but little change in the situation since then, at least so far as United States thinking is concerned. Thus, what I have to tell you today is essentially the same as I told that Committee. I will, of course, gladly attempt to answer such questions as you may wish to raise.

As you know, the concept of an Asian Development Bank evolved from discussions in the UN Economic Commission for Asia and the Far East (ECAFE), which over a year ago appointed a Group of Experts to draft preliminary plans for a regional development bank. Following an Experts Group meeting in October 1964, such plans were circulated to all ECAFE member governments for their consideration.

You are, of course, all familiar with President Johnson's significant
announcement last spring that the United States was prepared to participate in and support the proposed Asian Bank as a means of facilitating economic progress in the Far East. He called on other industrialized countries to help support this effort. Upon being requested by the President to serve as his Advisor on Economic and Social Development in Southeast Asia, I have undertaken to study the proposed Bank very carefully. I met last June in Bangkok with a second Consultative Committee of Experts, set up by the ECAFE to develop further the plans for the proposed Bank. It was most useful to attend this meeting. I was indeed impressed by the regional interest that had developed in this proposal which I look upon as a highly significant multilateral approach to mobilizing capital and increasing the flow of capital into the region for the purpose of accelerating the area's economic development. Apart from its own capital, the Bank should be in a position to encourage private as well as governmental financing for projects within the region. It should be able to stimulate regional and sub-regional cooperation, particularly through its anticipated non-lending functions of a technical assistance nature. It is gratifying to me personally to have a part in this project because it is to an unusual degree the result of Asian initiative.

Subsequent to the discussions in Bangkok which I attended, the Consultative Committee of Experts visited a number of countries --- Asian
and non-regional members of the ECAFE and some other European countries—looked upon as potential subscribers to the Bank, to inform them with respect to the discussions that had been held in Bangkok. The conclusions reached in Bangkok served as the terms of reference for these discussions in the various capitals. One group, led by Mr. Cornelio Balmaceda, Secretary, Department of Commerce and Industry, The Philippines, met with United States Government officials in Washington on July 23 and July 26. I, myself, met with the group on July 27 in New York, prior to its departure for Canada and various European capitals.

The entire Consultative Committee, which incidentally is made up of experts from nine Asian ECAFE countries, convened again in Bangkok early this month to reconsider its position in light of the consultations held during its travels. It has just finished these deliberations and has prepared a preliminary draft Charter. This document will be circulated to all interested governments. There is a meeting scheduled in October for those governments to negotiate a draft charter. If sufficient agreement is reached in the October meeting, it is contemplated that there will be a Ministerial level meeting in December for the purpose of final agreement on the draft Charter. If the draft then appears to be acceptable, approval of the Congress will be sought for United States membership in the Bank.
The position of the Administration with regard to the structure, functions, and operations of the proposed Bank is substantially the same as described to the House Committee on Banking and Currency. It must be kept in mind, of course, that modifications may be required subsequent to receipt and study of the revised draft Charter. With this qualification the Administration views may still be summarized as follows:

1. **Capitalization:** The Administration agrees with the ECAFE Experts' proposal for a capitalization of $1 billion and has indicated that it is prepared, subject to Congressional approval, to subscribe up to $200 million of this capitalization. Sixty percent of the capital is expected to be contributed by Asian regional members, including Japan, Australia, and New Zealand, and 20 percent by non-regional countries other than the United States. Japan has already indicated it will subscribe $200 million.

2. **Form of Payment:** The Administration has taken the position that all of the paid-in capital of the developed countries would be convertible, but that procurement would be made only in countries which are members of the Bank. The developing country members, on the other hand, would be required initially to contribute 50 percent in convertible currency and the remainder in their national currencies.
5. **Paid-in Capital:** The Administration is willing to agree to a 50-percent paid-in capital formula, the remainder being subject to call. I originally suggested that 75 percent of the total capitalization be paid in, in order to increase the Bank's initial capital. However, there is objection to this by other developed countries. With a 50-percent paid-in capital formula, payments would be made in five installments, the initial installment on the establishment of the Bank; thus, the payment of capital subscriptions would be completed in four years.

4. **Bond Issues:** I stated in Bangkok that it is extremely important that no bonds be offered in a country without the prior consent of that country. It is also important that no bonds be issued denominated in the currency of a country without that country's consent. These points should be covered by a provision in the Charter.

5. **Lending Terms:** I can report that the Asian countries are proposing that the bulk of the Bank's regular capital should be loaned on hard terms similar to those of the IBRD. The Consultative Committee has proposed that soft loans from regular capital will be made only in special circumstance and that such resources for soft loan operations shall not exceed a small proportion of regular capital.

6. **Voting Rights:** I have urged that about 90 percent of the total voting shares should be distributed proportionate to the size of capital
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7. Management of the Bank: The Administration is prepared to agree with the Consultative Committee that the Board of Directors be made up of ten members, seven of whom would come from regional countries. It expects, however, that a formula will be used which will enable the United States, as a substantial shareholder, to provide one of these Directors. The United States anticipates that the President of the proposed Bank will be an Asian. I have stressed that a highly qualified person be chosen for this post. His selection, as well as the site of the Bank, are matters essentially for decision by the regional members.

8. Southeast Asia Regional Development Fund: It is important that the Bank be able to serve fiduciary functions such as administering special funds. In this connection, I was authorized to propose at Bangkok that a Southeast Asia Regional Development Fund be established, to be administered by the Bank, with up to $100 million contributed by the United States, subject, of course, to Congressional approval and sufficient participation by other members to make the fund a truly multilateral operation. Contributions to the fund could be tied to United States
MEMORANDUM FOR Mr. Joseph A. Califano, Jr.
   Special Assistant to the President

Subject: Task Force on the Asian Development Bank

This is a report on the Asian Development Bank as requested in your memorandum of August 18, 1965. Further reports will be sent to you as appropriate.

I agree with your view that the Asian Development Bank merits a special message to the Congress. We hope to have everything ready on the Asian Development Bank for relatively early action in the 1967 legislative program. There will be inter-governmental negotiation on drafting a charter for the Bank at a meeting in Bangkok from October 21 to November 1. This is to be followed by initialing by governments on an agreement on the Bank at a meeting in Manila early in December. Therefore, we should be able to send you before the end of November preliminary proposals on the Asian Bank for the 1967 legislative program, which could be firmed up by December 10.

Preparations on the Bank appear to be going well. The Asian experts have drawn up a draft of the charter which presents us only with a few serious negotiation problems. By and large the draft is satisfactory. With the exception of issues on procurement and voting rights, referred to below, the draft just circulated to interested governments is amazingly close to the IBRD charter. This satisfactory result at this phase of the operation is due in no small measure to the benign influence exerted by Eugene Black, who served as advisor to the Asian experts in early July when they met in Bangkok for early discussions on formation of the Bank.
There are a number of drafting points and lesser questions which the U.S. will attempt to cover in the Bangkok discussions in October, but the most important substantive points held by the U.S. not yet accepted by the Asians in their draft charter relate to procurement and voting rights. We will take a strong stand that the charter should limit the Bank's procurement to the member countries in the Bank so that industrialized countries not subscribing to the Bank (e.g., France, which now does not seem favorably disposed toward the Bank) will not be able to benefit from procurement orders for Bank projects. Another major issue still to be worked out with the Asians concerns how much of total votes should be weighted and how much should be given to basic votes divided equally among members. The Asians want to have 20 percent for basic votes and 80 percent to be weighted. We, as well as Japan, Australia, and New Zealand, have taken a strong position that basic votes should be no more than 15 percent of the total, leaving 85 percent for weighted votes. The Asians have been advised of our position on these questions, as well as our view that the charter should not set an arbitrary limit of 2 percent payment of regular capital for technical assistance which could be furnished by the Bank during its first five years of operation on a non-reimbursable basis.

The U.S. has maintained strict neutrality with regard to the choice of the site of the Bank, leaving this decision to the Asians. Tokyo, Bangkok, Tehran, Kuala Lumpur, Colombo, and Manila are serious contenders for the site of the Bank. We have also maintained a neutral position on the choice of the President except to emphasize the need for competent management.

There have been several meetings of the Task Force and of the staff Working Group serving it. The draft which emerged from the August work of the Asian experts (at which we informally had a Treasury lawyer) is now being gone over carefully. Papers are now being prepared to focus and help
decide on issues we will have to deal with at the charter
negotiating sessions in Bangkok in October. Also, papers
are being prepared for a series of bilateral meetings I am
having with ministers of prospective members of the Bank
attending the IMF/IBRD Meetings later this month. I
thought it would be a good idea to get acquainted with
representatives of these countries, particularly the
principal ministers concerned with the Asian Development
Bank, prior to our delegation going to Bangkok in October
on the Bank. Also, we can use this opportunity to convey
to them our thinking on key questions on the Bank prior
to their sending their representatives to Bangkok.

I have been particularly pleased by the excellent
impression that Eugene Black has made with the Banking and
Currency Committee of the House and Foreign Relations
Committee of the Senate. He appeared before the House
Committee on July 29 and before the Senate Committee on
August 19 on the subject of the Asian Development Bank,
both in executive session. Both were well attended and
the atmosphere was very friendly. Mr. Black promised
further contact with the Committees after the October meeting.
He also invited each Committee to send a staff representative
to accompany the U.S. Delegation to Bangkok in October and
members of both Committees to attend the initialing ceremonies
in Manila in early December.

Joseph W. Barr
Under Secretary of the Treasury