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The United States and the Asian Development Bank: the roots of commitment.

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THE UNITED STATES AND THE ASIAN DEVELOPMENT BANK:

THE ROOTS OF COMMITMENT.

by

Nitish K. Dutt

A Thesis
submitted to the Faculty of Graduate Studies
through the Department of
Political Science in Partial Fulfillment
of the requirements for the Degree
of Master of Arts at the University of Windsor

Windsor, Ontario, Canada

1976
ABSTRACT

The purpose of this study is to analyse United States policy towards the Asian Development Bank (ADB) in order to show how the ADB has been created to further the political and economic interests of the United States in Southeast Asia.

In order to provide the background against which one has to view American policy towards the ADB, the thesis traces the changing emphasis of America's Southeast Asian policy from direct military involvement to more subtle relationships with the states of the region, and the possible reasons for the change. An attempt is also made to show how this shift in emphasis is linked with its increasing interest and involvement in the ADB.

Chapter One examines the changing political interests of the United States in Southeast Asia, and Chapter Two discusses the United States growing economic interests in the region. With this background, Chapter Three examines the origins, structure and lending operations of the ADB to ascertain the extent of United States influence in the Bank.

The study reveals that American support for and financial backing for the Bank is rooted in the fact that the ADB is well suited to promote, and to a certain extent has helped to promote, the political and economic interests of the United States.
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INTRODUCTION

The idea of regional cooperation for mutually advantageous economic development has been attracting growing attention in the years since the Second World War. The concept found acceptance in the United Nations, immediately following its establishment, which then set up agencies for dealing with issues pertaining to regional cooperation, one of which was the Economic Commission for Asia and the Far East (ECAFE). The United States too has from time to time shown an interest in promoting regional cooperation in Southeast Asia - an area of primary interest to the United States - partly to further its own political-security and economic interests in the region. A concrete manifestation of this interest, especially after its military setbacks in Indochina, was the establishment in 1965 of the Asian Development Bank largely under the aegis and direction of the United States.

The purpose of the present study is to attempt to show how the Asian Development Bank (ADB) can serve as an instrument to further United States political-security and economic interests in Southeast Asia. To this end, American interest in the ADB since April 1965 has been viewed against the background of the changing emphasis in America's Southeast Asian policy from the 'war' to the 'development' theme. While prior to 1965, the United States sought to contain the Peoples Republic of China by military means, by the late sixties - largely because of the costly and futile involve-
ment of the United States in the Indochina conflict, and
changes in the international environment (discussed later)
- the policy of military containment was increasingly dis-
credited, both at home and abroad. As a result United
States policy gradually shifted in the direction of de-
emphasising the military (physical containment) aspects of
its Southeast Asian policy and encouragement of regional
institutions like ASEAN (Association of Southeast Asian
Nations) and the ADB to promote self-help and political and
economic cooperation among the Southeast Asian nations.
The logic underlying this new approach was that collective-
ly the Southeast Asian nations could more effectively pro-
tect themselves from the threat of communist aggression.
This shift in policy emphasis is analysed within the con-
text of United States policy towards the ADB, so as to high-
light the way in which this change in policy emphasis is
connected with its increasing interest and involvement in
the ADB. The time period of the study is 1965 to 1972, i.e.
from the time the Bank was established until just prior to
the exit of Richard Nixon from the Presidency of the United
States. The ADB was chosen not only because it is one of
the three most important regional organisations in Asia,
but also because the United States interest in regional
economic cooperation has tended to centre mainly around
regional groupings like the ADB in recent years. It could
be argued, of course, that the ADB is inter-regional rather
then regional in that its membership comprises states from
outside the area. However, since the aid receiving states within the institution are all Asian, and since they regard the ADB as an Asian institution, the ADB is considered for the purposes of this paper to be a regional organisation.

Within the framework described above, the study tried to examine and answer two questions related to the interest of the United States in the ADB:

(a) What is the nature and extent of American interests in promoting regional institutions like the ADB? Is this interest rooted basically in philanthropic considerations, as American leaders would like one to believe or are there real United States political and economic interests also involved?

(b) Given the congruence of American and Japanese interests in Southeast Asia, discussed below, and a power structure within the Bank weighted heavily in favour of its largest donors – the United States and Japan – what is the possibility that the Bank could be (and perhaps is being) used to serve as an instrument to further the political and economic objectives of the United States and other major donors?

While most scholars and observers recognize and support this new orientation in United States policy in Asia in the direction of emphasising the economic development
of Southeast Asian countries and promoting regional solidarity among them as an alternative way of containing communist inroads into Asia, very few have paid any attention to this new policy alternative available to the United States, except perhaps to briefly touch upon it in passing. Among the scholars who have given some thought to this alternative, Melvin Gurtov, Russel E. Fifield and Robert A. Scalapino's names come to mind. Within the context of a future American role in Asia, all three suggest support for regional organisations like the ASEAN and the ADB as a means by which the United States can reduce its commitment and involvement in Southeast Asia without endangering its political and security interests in the region. However, American support for regional institutions is discussed by them in general terms and not within the context of any particular regional organisation.

The fact that there is an extreme paucity of published studies on the subject could be due to two possible reasons. Until recently, most scholars were so preoccupied studying the political and military dimensions of American policy (possibly because of its military involvement in Indochina) that little attention was paid to regional institutions as alternative means for furthering United States policy objectives in Southeast Asia. Alternatively it might have been the general feeling among scholars that the promotion of regional cooperation in general, and regional institutions in particular, ranked
too low in America's foreign-policy priorities to warrant investigation. The second explanation seems less satisfactory given the official shift in American policy priorities (described earlier) after April 1965.

Whatever might be the reason, this aspect of United States policy, especially the economic motive for supporting regional cooperation, has received little attention from scholars in the field of American foreign policy. The scarcity of secondary source material related to this research topic is indicative of this fact. However, two important exceptions to the above generalisation are Eugene Black's *Alternative in South East Asia*, and Bernard K. Gordon's *Toward Disengagement in South East Asia: A Strategy for American Foreign Policy*. Black's book could best be described as a reflective, speculative study based on his personal experiences as President of the International Bank for Reconstruction and Development (IBRD) and as one of the architects of the Asian Development Bank. As he himself observes in the preface, the book does not lay any claims to scholarship, but expresses the viewpoint of a development economist and a banker. Basically, Black argues for greater reliance on multilateral aid programmes administered through regional agencies like the ADB for promoting American interests in Asia. Gordón's book, on the other hand, is a scholarly, competent and perceptive piece of research. As the title of the book suggests, Gordon cogently argues for an alternative strategy which could provide a way out of America's current dilemma with regard to the nature and extent of its
future role in Asia. Reduced to its essentials, he recommends a lessening of direct American involvement in Asia by emphasising the primary role of the Asian nations in safeguarding their own security and promoting the political, social and economic well-being of their countries. Increased support for regionalism in general and regional organizations like ASEAN in particular was recommended as a way of promoting America's political and security interests in Southeast Asia. However, while Gordon discusses in some detail the role of ASEAN in furthering United States interests in Southeast Asia, he does not do so with regard to the ADB. Thus, though the ADB is referred to in a few pages, it is not dealt with in detail in the study.

In recent years a few books and articles have appeared concerned exclusively with the ADB. Since most of the authors are development economists, they have studied the Bank as an economic institution per se and have not examined it from the point of view of an economic institution with political overtones. Probably the most important and informative of these books is the one by John White, Regional Development Banks: The Asian, African and Inter-American Development Banks. His article "Asian Development Bank: A Question of Style", is also a useful source.

Thus, while a lot has been written on American policy in Asia in General and its relations with specific countries of Southeast Asia, to the author's knowledge, virtually no substantive research has been undertaken on the topic of the ADB as an instrument of United States policy.
As a result, the present study is based largely on published primary sources like the United States Senate and House Hearings, Congressional Records, Department of State publications, Public Papers of Presidents L. B. Johnson and Richard M. Nixon and major foreign policy reports of these two Presidents and their Secretaries of State. Besides these, a large number of other United States government publications have been used, which are listed in the selected bibliography.

Other important primary sources for the study have been the Asian Development Bank Annual Reports, the Summary of Proceedings of the Annual meetings of the Board of Governor's and the ADB Quarterly Newsletter.

Among newspapers, the New York Times has been extensively consulted.

Considering the nature of the problem under study and the type of material available at hand, it was thought advisable to adopt a descriptive-analitical framework of analysis. Further, a thematic rather than a chronological approach has been used for the purpose of organising the materials and presenting the research in its finished form. In this connection, it was considered useful for purposes of analysis to separate the political and economic interests of the United States. One should hasten to add that such a distinction is rather arbitrary since the terms 'economic interest' and 'political interest' do not necessarily represent two separate categories. In most cases,
economic interests are closely and subtly intermixed with political interests, so that any attempt to draw a line of demarcation between the two can be misleading. As we shall see later, ADB loans to America's Asian allies serve simultaneously to promote the political and economic interests of the United States.

From an organisational standpoint, the present study has been divided into three chapters. The political interests of the United States in Southeast Asia and the way in which the ADB helps to promote these interests are discussed in the first chapter. In chapter two we try to identify the economic interests of the United States in the above mentioned region and to show how the ADB can and is being used to further the economic interests of the United States. Chapter three then goes on to examine why the ADB is well suited to promote the interests of its major donors, in particular the United States and Japan. It begins by examining the origin and structure of the Bank in order to highlight the built-in mechanisms within the Bank's charter (largely included at the insistence of the developed Western countries, especially the United States and Japan) which provide avenues for advancing the interests of the United States and other major donors, if and when they seek to use these avenues. The chapter concludes by analysing the actual lending operations of the Bank to demonstrate how they are related to United States economic-political interests. A brief conclusion then summarizes the findings of this study.
FOOTNOTES


CHAPTER I

THE UNITED STATES AND THE ASIAN DEVELOPMENT BANK:
THE POLITICAL ROOTS OF COMMITMENT

American policy in Southeast Asia after World War II, was largely conditioned by its European experience. The uneasy wartime partnership between the Soviet Union and its Western allies began to collapse in 1944 as Soviet armies moved westward into non-Soviet territory against German resistance. The subsequent Soviet occupation of the Eastern European countries alarmed the United States. Thus, the outbreak of the Cold War in Europe in the late forties and the emergence of a powerful communist block with an opposing ideology was seen as a direct threat to the democratic way of life as epitomized by the United States. To combat this threat the United States adopted the now famous containment policy, first espoused by George F. Kennan, a foreign service officer stationed in Moscow at the end of the war. Kennan argued that Soviet policy served ideological imperatives demanding global struggle and opposition to capitalism. In July 1947, he explained:

Of the original ideology nothing has been junked. . . The first concept, innate antagonism between capitalism and socialism . . . means there can never be on Moscow's side any sincere assumption of a community of aims between the Soviet Union and the powers which are regarded as capitalist.

He went on to suggest that the

Soviet pressure against the free institutions is something that can be coo-
tained by the adroit and vigilant application of counterforce at a series of constantly shifting geographical and political points, corresponding to the shifts and manoeuvres of Soviet policy...

This point of view was shared by President Truman, who incorporated it in a speech on March 12, 1947 (later known as the Truman Doctrine) in which he announced a programme of economic and military assistance to the vulnerable states of Greece and Turkey. The assumption underlying his speech was the existence of an analogy between communist aggression and the Nazi aggression which preceded it. The fundamental issue in the war with Germany and Japan had been, he argued, "the creation of conditions in which . . . nations . . . will be able to work out a way of life free from coercion." Now once again the United States had to be willing "to help free people to maintain their free institutions and their national integrity against aggressive movements that seek to impose upon them totalitarian regimes."

Central to the strategy of containment was the idea of the formation of a series of military alliances around the globe to form a sort of defensive ring around the Soviet Union. The establishment of the North Atlantic Treaty Organisation (NATO) in 1949 — a military alliance to contain Soviet pressure in Europe — was a direct outcome of this strategy. A year earlier the United States had launched the Marshall Plan (the European Recovery Program) to rehabilitate economically the war devastated countries of Europe. Propelled by the fear
of Soviet expansionism and assisted by massive aid under the Marshall Plan, Western Europe made a rapid recovery so that in a short time these countries, as a group, formed a bulwark against the perceived Soviet threat. Encouraged by the success of the containment policy in Europe, the United States extended the policy to cover Asia also when circumstances there seemed to call for similar action.

To the United States, Southeast Asia immediately after the second World War was a responsibility of the colonial powers, and not an area of paramount interest to the United States. Its foreign aid operations were, therefore, confined to Northeast Asia, including China and the Philippines. When the Marshall Plan began in 1948, some Congressional pressure was put on the United States administration to extend its principles and aims to Asia. The American Government was of the opinion, however, that even if funds were available, the basis for supporting regional economic efforts in Asia did not exist. Asia simply did not have, in the government's view, the institutions, traditions, or established administrative and economic structures which made the Marshall Plan a viable proposition in Europe.

The question that comes to mind in this connection is what are the factors which account for the shift (referred to in the introduction) in American interest towards regional institutions like the ADB? The answer to this question is to be found in the answer to a more fundamental question, namely, what are the political and security interests
of the United States in Southeast Asia?

The first and foremost political and security interest of the United States in Southeast Asia— an interest which dates back to the time of the Korean War— is the containment of "Chinese communist influence" in the region. The defeat of the Nationalists in China in 1949, represented a major setback not only to the United States efforts to prop up the Nationalists, but also to its emerging Asian policy. Washington was aware of the communist decision in 1948 at meetings in Calcutta to enter into a revolutionary phase of activity in Southeast Asia. The communists had tried a revolution in Indonesia (in 1948), only to see it suppressed. Communists were deeply involved in revolutions underway in Burma, Malaya, the Philippines, and Vietnam.

More important, by the time of the Korean War, the situation in Vietnam had radically altered from that in 1945 and 1946, when the Vietminh had been relatively moderate, friendly to the West, and willing to experiment with democracy. Under French military pressures, moderation within the Vietminh gave way to hostility to the West, and complete communist control. Accompanied by reports of impending military aid by the People's Republic of China (PRC) to the Vietminh, Peking recognised the Ho Chi Minh government in January 1950. The Soviet Union and its East European satellites extended recognition immediately afterwards. Writing from New Delhi, Robert Trumbull reported in 1950: "Western observers here fear that Indochina may be the spearhead of
of a communist thrust into Southeast Asia from China in an effort to gain control of all the teeming millions in the non-communist countries of the Far East through the rice bowls."\(^6\)

Besides the anxiety regarding Chinese intentions, the withdrawal or forcible ejection of the colonial powers from Southeast Asia tended to heighten American anxiety regarding the future of the region. The character and stability of the governments that succeeded them had come very much into question. The peoples in the area had had little recent experience in self-government (except for Thailand). There were few experienced political leaders and public administrators, and little in the way of political structures to relate government to the people. Governments were weak and ineffective in most of these countries. Accordingly, there were fears in the United States that these new regimes would be vulnerable to undesirable external influences.

A National Security Staff Study of December 23, 1949, reflected this concern when it stated that in the past "we have consistently favoured a system of independent states /in Asia/ and opposed aggrandisement of any powers which threatened eventual domination of the region."\(^7\) As for the present it noted:

The extension of communist authority in China represents a grievous political defeat for us; if Southeast Asia is also swept by communism /the target for a Kremlin coordinated offensive/ we shall have suffered a major political rout the repercussions of which will be felt throughout the world . . . \(^8\)
On December 30, President Truman presided at a meeting of the National Security Council where the conclusions of the staff study were approved as duly amended. A basic security objective in Asia was identified in terms of preventing power relationships in Asia which would enable another nation or alliance "to threaten the security of the United States from that area, or the peace, national independence and stability of the Asian nations." 9

The outbreak of the Korean War in June 1950, provided the United States with what it considered to be 'proof' that the Soviet Union and the Peoples Republic of China were working together to expand their control and influence over Asia. The United States viewed the North Korean attack on South Korea as evidence of Soviet intent, with Chinese assistance (especially after Chinese "volunteers" entered the battle) to extend its influence in Asia in the same manner as it had been doing in Europe. Hence the United States decided to intervene militarily on behalf of the South Koreans. Thus during the early fifties and even later, the United States sought friends and allies among the Southeast Asian nations to join it in opposing the further expansion of communism. Consequently, after the collapse of the Nationalist Government on the Chinese mainland and the establishment of a communist regime in North Vietnam, the United States moved quickly to expand its diplomatic listening posts in Southeast Asia and to demonstrate its "vital interest" in Asia.

In most of the Southeast Asian countries during this
time there were small elites who had studied, argued, and
even fought for years about the nature of the government
to be established in their countries. However, those who
had well developed political ideas were relatively few and
highly fragmented. In this heterogenous and fluid situation
the United States saw danger, but also the hope of pro-
western, democratic forces ultimately triumphing if it pro-
vided these states with appropriate political and military
support. It was in this context that the containment policy
was extended to cover Asia.

A few figures will help to illustrate the extent of
this effort during the 1950's. United States military aid
to the countries of Southeast Asia under the Mutual Security
Program in fiscal year 1959, in terms of net expenditures
was officially given as $43.8 million. During fiscal years
1950 to 1959 inclusive, United States obligations for mili-
tary assistance came to $280.3 million for Thailand and
$200.7 million for the Philippines. After the partition of
Indochina, South Vietnam, for fiscal years 1955 through 1959
received $445.7 million, while Cambodia received $61.8 mil-
lion, and Laos $59.8 million. 10

Besides military assistance, the United States also
supplied significant amounts of economic assistance to the
region. Between fiscal years 1955 and 1959 Vietnam received
in aid obligations $1,216.5 million, and the Philippines
between 1946 and 1959 $1,177.9 million. Between fiscal years
1951 and 1959 Indonesia received $373 million, Thailand
$240.5 million and Burma $96.4 million. Between fiscal
years 1955 and 1959 Laos received in aid obligations $190.8 million, Cambodia $173.4 million, and the Federation of Malaya $21.5 million. The sum total of American aid during the period was officially given in 1960 as $3,490 million.\textsuperscript{11}

From the very beginning SEATO was conceived of as a defensive alliance consisting of the United States, Britain, Australia, New Zealand, France, Thailand, Philippines and Pakistan. The treaty was meant to cover the general area of Southeast Asia and the Southwest Pacific with the clear purpose of forming

\begin{quote}
\textit{a collective security arrangement to deter and, if possible prevent any extension of communist control, by whatever means...}\textsuperscript{12}
\end{quote}

This purpose was incorporated in Article IV Paragraph 1 of the SEATO charter which in essence stated that an armed attack on any of the signatories to the treaty posed a threat to all others, and in that eventuality they would act in concert "to meet the common danger," subject to the unanimous agreement of the parties to the treaty.\textsuperscript{13} In an understanding accepted by the other participants and inserted above their signatures to the treaty the United States emphasized that its obligations under Article IV, Paragraph 1, as regards armed aggression and attack only applied to "communist aggression."\textsuperscript{14} Although basically SEATO was a military pact, it had an economic underpinning reflecting the containment orientation behind the United States politico-military involvement in Southeast Asia. Article III of the
treaty provided for the parties to the treaty "to cooperate with one another in the further development of economic measures, including technical assistance, designed to promote economic progress and social well-being and to further the individual and collective efforts of Governments toward these ends." 15

It must be pointed out in this connection that the idea of using SEATO as a vehicle for encouraging economic cooperation among the signatories did not come from the United States, but from the Philippines Senator Fransisco A. Delgado, speaking in place of Vice-President Carlos P. Garcia at the founding session. 16 Except for the holding of a few economic conferences, however, very little was done in the direction of promoting economic cooperation among the member countries.

With the passage of time and with what the Americans perceived to be the changing nature of the communist threat (discussed later), the utility and relevance of SEATO began to be increasingly questioned in the United States and also among the other signatories to the treaty. 17

As indicated earlier, containment was first actively applied in Asia at the outset of the Korean War. With the entrance of the PRC into the war, American leaders seemed to think of containment as a policy suited to meet the communist threat in Asia. Since the struggle in Asia was viewed as being the same as it was in Europe, the United States tried to apply the same remedy. The successful defense of South
Korea without starting a major conflagration seemed to reinforce the success the containment policy had already enjoyed in Europe and this led American leaders as discussed earlier to implement the policy on a wider scale in Asia, despite the fact that the general Asian situation differed from the particular situation in Europe. Consequently, as Morgenthau has argued, the failure of America's containment policy in Asia was due to its failure to comprehend the differing nature of the communist threat in that theatre.

In retrospect it becomes clear that the so-called 'communist threat' in Asia was not primarily one of foreign aggression or even subversion organised from abroad. Had this been the case, then one should have witnessed a mushrooming of such activities all over Southeast Asia, while the United States was militarily tied down in Indochina. However, nothing of this nature happened and the Soviet Union and China committed very little of their resources in Vietnam, proving, as some have argued all along, that the threat in Asia is fundamentally internal, not external, that it is produced by local discontent not foreign aggression or subversion. The chief defense of any regime in Asia against internal subversion and revolution is its own capacity to offer efficient government, economic progress, and hope to its people. Victory almost inevitably goes to the side which wins popular support and confidence. Any regime which fails to achieve this cannot in the long run be maintained by any country including the United States. South Vietnam
is a good case in point. The economic and military support provided by the United States government relieves such governments from pressure to reform themselves and, to the extent American military support preserves them, it helps to freeze the status quo, slowing down rather than speeding up the sort of economic, social and political development that alone can build less developed countries into healthy and stable ones. Since the United States' understanding of the problem in Asia was wrong, she saw herself in a mistaken role. In his statement before the Senate Committee on Foreign Affairs, Reischauer observed:

On the analogy of our postwar efforts in Europe, we have imagined ourselves as building a military dike against an on-rushing communist wave. The real problem proved to be the swampy economic and political terrain behind the dike the Americans were attempting to raise. It was the local groundwater which was undermining political structures.

It is, therefore, not at all surprising that over the years, the policy of military containment in Asia, as epitomised by SEATO, began to run into increasing trouble. Consequently, United States policy gradually shifted in the direction of de-emphasising the military aspects of SEATO and encouraging the development of regionalism. In the words of Bruce Russett: "In the 1950's United States policy was diagnosed as suffering from a severe case of pactomania. The disease may now be largely cured, but it has succeeded by a related affliction, regionitis." The reasons for this shift are to be found in the opportunities
afforded to the United States as a result of the Sino-
Soviet split, the changing nature of superpower relations
in the direction of detente and the growing domestic op-
position to the United States involvement in Asia as a
result of the Vietnam conflict.

While the fifties and the sixties could be charac-
terized as the period of the Cold War, the late sixties and
the seventies could be characterized as the period of de-
tente. From the American point of view a number of sys-
tematic changes contributed to a revision of the American
outlook and to a substantial reduction of tensions. First,
the communist bloc came to be seen as having several com-
peting centres of power rather than a unified command centre
in Moscow. In particular, the growing Sino-Soviet dispute
alerted the West after 1960 to the independence of China
from Soviet control. The prevailing image of communism
shifted from the fearful "monolithic" view to a more dif-
ferentiated theory of "poly-centrism". This implied the
possibility of gains for the United States by pursuing a
more fluid policy of dealing separately with different fac-
tions of the splintered communist world.

Second, some amelioration was seen in the relent-
less hostility of Soviet intentions. After fifty years of
revolution and rapid economic growth and ten years after
the death of Stalin, the Soviet Union had grown "soft" and
less inclined to pursue foreign adventures for ideological
reasons when these were of no clear domestic advantage.
The dominant elites in Moscow clearly favoured co-existence with the West and minimisation of the risks of war. Like the American government, the Soviet government was under pressure from various industrial and consumer groups to hold down defense spending and to deliver a higher standard of living to its populace, which was seen as necessitating economic and technological cooperation with the West.

The Cold War itself came to be seen in less strident ideological terms. Western images of communism began to undergo some changes. Whereas attention to the negative aspects of communism in the Soviet Union and China was the trend in the beginning, later impressions included recognition of positive achievements in Russia, China, and the East European states. Some observers saw a gradual process of "convergence" between the two economic systems, with the Russians instituting managerial reforms known as "Libermanism" (after the name of the Soviet economist who first advocated such reforms) and showing other tendencies toward free enterprise while the capitalist states accepted increased government planning and participation in their economies.

Many people in the West were also becoming increasingly aware that the problem of dealing with the Soviet Union was a practical balance-of-power issue instead of an ideological battle between the forces of communism and the forces of democracy. A less moralistic foreign policy permitted a more pragmatic explorations of options. As
perceptions of the U.S.S.R. shifted from the aggressor image to more complex and less dangerous patterns of motivations, cooperative proposals were less vulnerable to charges of appeasement by domestic opponents.

The movement towards detente, first with the Soviet Union and later with China, and the emergence of the Sino-Soviet split afforded the United States with the opportunity to modify gradually its Asian policy. With the communist monolith (if it ever were so) a thing of the past, and with the Soviet Union having superseded the United States as China's number one enemy, the United States could move in the direction of establishing closer relations with China. In the meantime, the nature of the so called 'Chinese threat' in Southeast Asia had undergone a qualitative change, in the sense that the threat was perceived as being of a more subtle nature. Thus the problem was not one of combating direct aggression, but one of counteracting the spread of communist influence in Southeast Asia.

A third and crucial factor in changing the United States approach towards Asia was its long, costly and futile involvement in Indochina, beginning in a major way with the Gulf of Tonkin incident of July 30, 1964. By suppressing the actual facts of the incident, President Johnson was able to persuade an otherwise sceptical Congress to pass unanimously a war resolution (the Tonkin Gulf Resolution) empowering the President "to take all necessary measures to repel any armed attack ..." in Southeast Asia. Conse-
quently, the United States found itself spending billions of dollars and sacrificing thousands of American lives to maintain a corrupt, reactionary dictatorship in power. As the war progressed it became increasingly clear to more and more Americans that the United States, with its awesome destructive power, would not be able to curb the indomitable North Vietnamese and their allies in the South. This point was clearly brought home by the spectacularly successful Tet offensive by the North Vietnamese in January 1968, which seemed to seriously undermine American morale regarding the efficacy of the United States involvement.

The inability of the United States and the South Vietnamese regime to cope with their North Vietnamese opponents and the alarming increase in the extent of American losses (both in terms of men and material) lead to increasing disenchantment and bitterness at home. Thus started in 1967 a series of anti-war demonstrations and riots across the United States with signs that more would follow. Faced with an increasingly hostile public opinion, both at home and abroad, President Nixon, soon after coming to office in January 1969, began the slow withdrawal of American troops from the area for the purpose of "Vietnamization" of the war. Thus the American involvement in Indochina dramatically underlined the inappropriateness of a policy which put primary emphasis on military means as a way of containing communist influence in Southeast Asia.

Along with its changing perception of the communist
threat and its growing military and political frustrations in Vietnam, Laos and Cambodia, American policy towards Southeast Asia from 1965 onwards gradually underwent a change in emphasis from military confrontation to promoting the economic development of the Southeast Asian countries, and in that manner strengthening their resistance to communist influence. It should be mentioned in this connection that the United States had been all along trying to promote economic development in Southeast Asia, but its involvement in the Indochina conflict increased the pressure on the United States to multilateralise its efforts - i.e. to get other states (especially Japan) to shoulder a greater portion of the economic and military burden of containing communism. Thus the United States hoped that a policy of multilateralism, by enabling the United States to pursue a lower, less visible profile - one merged with other states - would help to reduce the domestic and external assaults on United States policy. Hence the ADB was seen as one of the instruments by which to multilateralise American efforts and encourage the Asian states to be more self-reliant economically and militarily.

One aspect of the shift in emphasis of American policy towards Southeast Asia was the increasing inclination among American statesmen and academicians to advocate greater American support for regional cooperation as a policy alternative. For instance, Senator Mike Mansfield and President Richard Nixon suggested such a course for America's
Asian policy and saw the emerging trend toward regionalism in Southeast Asia, backed by United States power, shaping military security and economic development in the area. This shift in policy was initiated by President Johnson when he announced in his John Hopkins speech in April 1965, a $1 billion programme to encourage regional development in Southeast Asia. In his speech on March 31, 1968, when he announced his intention not to run again for the presidency, Johnson returned to the theme of development in the region. The ravages of war, he said, made the subject "more urgent than ever". Johnson felt that support for regional institutions like the ADB permitted the United States "to pull back, but not too far; to reduce the /American/ share of the burden, but not too fast" and to urge the countries of the region to be more self-reliant. It was this line of reasoning which led President Johnson to declare in his State of the Union Message of 1966 that a major pillar of United States policy toward Asia was to "take new steps this year to help strengthen . . . the regional organisations of developing countries . . ." For this purpose he picked Eugene R. Black, former President of the World Bank, to head the team which was to handle American participation in these new programmes of development. One of the first tasks assigned to Black was to press for the setting up of the Asian Development Bank (ADB). Hence, support for regional institutions like the ADB emerged as one of the important commitments of the Johnson administra-
tion in its effort to restore America's shattered world image due to its destructive involvement in the Indochina conflict. Thus, paradoxically the United States launched a new policy of multilaterization of its Southeast Asian involvement some years before its unilateral involvement in the area (in particular its military commitment in Vietnam) actually reached its peak.

It is worthwhile to note that prior to 1965, the United States did not demonstrate any active interest in promoting economic cooperation in Southeast Asia. Evidence of this is to be found in the American attitude towards the Economic Commission for Asia and the Far East (ECAFE) during the forties and the fifties. Thus, when the executive secretary of ECAFE, Mr. P. S. Lokanathan, suggested in late 1949 extending the Marshall Plan concept to Asia or channeling financial assistance through ECAFE, the United States completely rejected the idea.\(^29\)

The Soviet Union was, in fact, the only outside power to favour ECAFE's elaborating an aid programme for Asia.\(^30\) It could be argued that Soviet membership was an important consideration dissuading the United States from not channeling aid through this organization. In addition it seems likely that the United States was not interested in channeling funds through an institution in which it had limited influence. By 1965, the American attitude towards regional institutions had undergone considerable change. As a result of the factors outlined above, the United States
had come to evince new interest in regional institutions like the ADB, since it seemed possible with the ADB to create an organisation in which, unlike ECAFE, United States influence would be substantial. Thus, the Johnson administration reversed the former attitude toward regional organisations and actively supported the formation of the ADB.

Richard Nixon, when he assumed office in January 1969, continued this policy of multilateralism and support for regional institutions. It found expression in what has now come to be known as the "Nixon Doctrine". The origin of the doctrine is to be found in the comments of President Nixon at an informal news conference in Guam on July 25, 1969, when the chief executive was on his way to discussions with leaders in the Philippines, Thailand, Indonesia and South Vietnam. The doctrine, which summarised the essence of future United States policy towards Asia, contained four basic precepts. First, the United States would honour existing commitments. Second, it would provide a shield if a nuclear state menaced the freedom of an ally or of a country whose survival the United States considered vital to its security and that of the region as a whole. Third, in case of other types of aggression, the United States would give military and economic aid when asked and as appropriate in accordance with its treaty commitments. Fourth, and most important in the context of this study, the doctrine went on to state that the United States would look to the states directly threatened to take on primary responsibility for pro-
viding the manpower for its defense. Linked to this principle as collaries to the doctrine were the ideas of support through partnership for rapid economic development and support for Asian initiatives for increased regional cooperation. Although the doctrine was formulated in the context of the Vietnam war, it was clear it had wider ramifications extending beyond the conflict in Indochina.

What did the doctrine mean in practice in terms of promoting regional cooperation in Southeast Asia? It meant reduced American capability, visibility, and involvement in Asian affairs. At the same time it meant that the United States in view of its "significant interests" would continue to play a role in the defense and in the development of its Asian friends and allies. The doctrine, in other words, sought to strike a balance between the demand for withdrawal at home and the American desire to continue its role as a superpower.

Consequently, under Presidents Johnson and Nixon, a quiet, non-military, multilateral approach to achieving stability in Asia and thereby furthering United States political interests began to be adopted. During this time "low profiles" and "low silhouettes" (meaning a relatively inconspicuous presence) found widespread usage in the vocabulary of American diplomacy.

Such an approach, it was felt, was better suited to promoting United States interests in Southeast Asia, which were identified as creating stable, democratic and econo-
mically viable governments, favourably disposed towards the United States and less vulnerable to communist aggression and ideology. Eugene Black in his testimony before the Senate Committee on Foreign Affairs outlined this interest and pointed out the linkage between support for regionalism and the promotion of American political interests in Asia. He argued that regionalism should be encouraged in Asia because it would help to "build a community of more independent and economically viable nations capable of meeting the aspirations of their peoples and less susceptible to destructive Communist aggression and ideology." In other words what Black was saying was that the extent to which the Southeast Asian nations were able to cope with the threat of communist aggression or subversion, be it external or internal in nature, would depend on the economic and political strength of these countries, and the extent to which they were able to promote the well-being of their people through cooperative endeavours.

The Asian Development Bank was envisaged as one of the instruments which would help to bring the countries of the region together in a common effort, and to accelerate the economic progress of the region as a whole. Because Southeast Asia is considered by the United States to be the most vulnerable to Chinese influence, and also an area of primary interest to China, this region is where United States interests most required political cohesion and stability. It was felt that the growth of regional cooperation
in Southeast Asia would complement American efforts "to make communist aggression unprofitable in Vietnam and Southeast Asia as a whole."34 In his message to the Congress, urging Congressional approval of a $200 million United States contribution to the ADB Special Funds, President Johnson stated: "I believe it  support for the ADB  protects our vital interests in Asia."35

Support for regional cooperation also helps to further another major political interest of the United States in Southeast Asia - a by-product of the first one - which has been the re-establishment of what Bernard Gordon has described as a "multipolar Asian structure." Gordon has argued that while multilateralism characterised United States policy at the turn of the century, by 1941 there was a dramatic shift away from multilateralism. "Today," Gordon has observed, "it seems to be shifting once again towards multilateralism."36 Hence the building of other power centres in Asia has been an important reason for the United States to encourage regionalism in Southeast Asia. The extent to which the region remains weak and divided would tend to enhance the likelihood of two possible outcomes, both of which would tend to maintain (and perhaps even intensify) the region's present bipolarity. The first outcome would be the successful extension of Chinese influence in Southeast Asia which would lead the United States (and possibly Japan also) to adopt a policy more hostile towards and suspicious of China. This would not help to mitigate the present confrontation between
the United States and China. The second possible outcome of continued weakness and division in Southeast Asia—which would represent precisely the other side of the coin—would be the continued need by Southeast Asian leaders to rely on the United States, and relations with the West generally, for their security. This in turn would tend to maintain a bipolar situation in Southeast Asia. It is in this perspective that Asian regional cooperation of which the ADB is a manifestation—bears upon the most vital interests of the United States in the Pacific area.

The building of other power centres in Asia has been one of the major reasons why Washington has been urging a greater Japanese role in Southeast Asia, commensurate with its rapidly increasing trade and investment interests in the region. Oran R. Young, commenting on the American objective of encouraging other power centres in Asia has commented that the

United States (and Soviet Union as well) is currently beginning to show an interest in supporting the continued development of Japan...to provide a balancing force that is likely to become increasingly important as a function of the emergence of China as an important actor in the Asian subsystem.  

Japan in its turn has been showing signs of playing a larger role in the security of East and Southeast Asia. This is the conclusion Robert Osgood came to on the basis of numerous discussions in Japan in early 1967. He observed that there is a more active interest there in the security of Asia, especially Southeast Asia. This is to be expected
since the objective factors of location and Japan's rapidly growing economic interests will lead her inexorably towards more involvement in Southeast Asia.

Perhaps the clearest expression of American thinking regarding the necessity for creating alternate power centres in Asia (i.e. other than Communist China) can be found in a major address delivered by President Johnson in October 1966. In his speech, Johnson listed the "realities" that typify Asia today and declared: "No single nation can or should be permitted to dominate the Pacific region." 39 He not only pointed to the U.S. interest in not allowing dominance by a single nation, but also to the new spirit of regional cooperation in Asia. The hope, as the President put it, was that in due time "the cooperative tasks of assistance and defense will be assumed more and more by others, and . . . by collective regional groupings . . ." 40 This was a theme he had also expressed a few weeks earlier (September 5, 1966), when he acknowledged the relationship between regional co-operation and the United States interests:

"Our purpose in promoting a world of regional partnerships is not without self-interest. For as they grow in strength . . . we can look forward to a decline in the burden that America has had to bear this generation." 41

Virtually identical views were expressed by Eugene Black, Special Advisor to the President on Asian Development, when he pointed out that the United States contributed about 75 percent of the aid (economic and military) going to Southeast Asia and that he felt that multilateral aid was a way
to step up the share of other countries and to reduce Washington's share.\textsuperscript{42}

Support for multilateral efforts through regional institutions like the ADB, besides facilitating the evolution of a multipolar Asian subsystem and reducing the American aid burden to the region, is also advantageous for the United States for a number of other reasons. Multilateralism - a major theme of the ADB - has long been favoured by American liberals,\textsuperscript{43} possibly because it was felt that it would help to disarm critics of American aid programmes both at home and abroad. On the one hand, a sharing of the aid burden with other countries is a way of enabling the United States to satisfy the growing demand within the country for a reduced American commitment abroad. At the same time, the disbursement of aid through an 'Asian' institution, supposedly controlled by Asians, helps to calm Southeast Asian suspicions normally associated with bilateral aid.

In this connection, it could be argued that channeling aid through a multilateral institution like the ADB permits the United States to limit its commitment to any particular regime and thus reduces the possibility of becoming involved in new "Vietnams". In addition, an international agency permits rich aid giving countries to make demands of a Third World country that would be politically repugnant to that country if made by the United States alone. This is what Mr. Henry S. Ruess, Chairman of the Subcommittee
on International Finance was in fact saying when he observed:

One of the hopes entertained by the Congress in helping to set up institutions like the Asian Development Bank... was that,... we would move away from a bilateral aid approach and instead channel American aid through... international institutions. This desire, of course, is thought preferable because the international institutions can more readily impose conditions on the prudent use of resources than can a bilateral institution...

In the final analysis it does seem that financial backing for the ADB is advantageous to the United States' political interests in more ways than one, which helps to explain the enthusiastic support of the Johnson and Nixon administrations for the institution.
FOOTNOTES

1 George F. Kennan writing under the pseudonym "Mr. X", "The Sources of Soviet Conduct," Foreign Affairs, 25 (July 1947), pp. 571-72.

2 Ibid., p. 576.


4 Ibid.

5 For a good though rather brief discussion of early United States policy towards ECAFE see David Wightman, Towards Economic Cooperation in Asia, (New Haven, Conn.: 1963), pp. 342-54.


8 Ibid., p. 248.

9 Ibid., p. 266.


11 Ibid., pp. 267-268. Officially included in the aid obligations to Indonesia were an Export-Import Bank loan of $100 million in 1950, a loan of $65.6 million to buy United States surplus property in 1947, and assistance to the amount of $4.1 million in 1946 in civilian supplies.


14 Ibid.,
15 Ibid.

16 Fifield, p. 232.

17 For a good discussion on the South East Treaty Organization see Fifield, pp. 226-43.


23 See Evsei-Grigorevich Liberman, Economic Methods and the Effectiveness of Production, (White Plains, N.Y.: 1971), pp. 10-41. While one may join Liberman in his long-standing attack on those Western journalists who attack the label of "Libermanism" to the economic reforms initiated in the USSR during the mid-1960's, his apparent modesty leads him to understate the role he played in this process. If not the "architect" of the reform announced by Premier Kosygin in 1965, Liberman can justly be regarded as its catalyst.


28. Ibid.


30. Ibid.


34. Ibid., p. 4.

35. Ibid.


40. Ibid., p. 1223.

41. Ibid., p. 974.

42. ADB Special Funds, Hearing, p. 17.
President Johnson in his message to the Congress, along with a bill to authorize the appropriation of $200 million to the Special Funds of the ADB, stated: "Several leaders of Congress and the Nation have urged that we transform the bulk of our foreign assistance from bilateral aid programs to multilateral, cooperative efforts where all the wealthy nations of the world join to help the developing nations through the World Bank, regional development associations, and other multilateral arrangements." ADB Special Funds, Hearing, p. 2.

CHAPTER II

UNITED STATES ECONOMIC INTERESTS IN SOUTHEAST ASIA

AND THE ASIAN DEVELOPMENT BANK

Asia, especially Southeast Asia is not only an area of political interest to the United States, but an area of economic interest too. This interest dates back to the Second World War period when Southeast Asian petroleum, coal, tin, rubber and other products were recognized by the allied forces as "strategic commodities." At that time one of the prime objectives of the allied forces in general and the United States in particular was denying the victorious Japanese forces the use of these products.

Prior to World War II, Southeast Asia had been an important producer and exporter of coal, rubber, tin and other products which provided important raw materials for the industrialised countries of the Northern Hemisphere. Even after the war ended the United States continued to stockpile these commodities against the possibility of shortages in the event of some future conflict. Although the development of substitutes (e.g. synthetic rubber, of technological "stretch-out" (e.g. tin,) and of alternative sources of supply were to some extent to reduce Western dependence on Southeast Asian production, in 1950 "the continuing and increased availability of these commodities on open world markets constituted an important economic interest of the United States."
In addition Western Europe's trade with and its dollar earnings from Southeast Asia contributed to reducing the dollar cost of Marshall Plan aid to Europe, and perhaps to ending the programme earlier than might otherwise have been possible. Thus, during the years immediately following the end of World War II, the United States had an important financial interest, as well as a commodity interest, in the economic recovery and progress of Southeast Asia and in open economic access to the region.

More general, and more long-run in nature, was the economic interest of the United States in the development of all the less industrialised countries, an interest underlying the Point Four program proposed by President Truman in his inaugural address on January 20, 1949. This program was based on political and humanitarian considerations too, but economic interest was an important factor. This interest derived from the recognition that prosperous neighbours are the most profitable neighbours; that international trade and investment grows as potential economic partners develop higher levels of production and consumption.

A concomitant interest of the United States was, and still is, its attempt to deny the two major Communist countries, as far as possible, the economic benefits that they might realize from exercising control of Southeast Asia.

These broad economic interests have been considerably strengthened over time, so that compared to the rest of Asia, Southeast Asia has tended to become the primary focus of
American economic interest in Asia. It is the basic purpose of this chapter to show that one of the factors which motivated the United States to join the Asian Development Bank was its belief that the Bank would, in an indirect way, help to promote American economic influence and interest in the region. It was perhaps because of this expectation that Eugene Black (Special Advisor to the President on Economic Affairs) was able to persuade an otherwise recalcitrant Congress to make available a $200 million contribution to the Ordinary Funds of the Asian Development Bank (ADB). The extensive discussions and hearings that accompanied the formation of the Bank are quite revealing in this respect.

That the United States took into account the economic benefits to be derived through membership in the Bank is to be evident from the September 1967 Report of the National Advisory Council on International Monetary and Financial Policies on the Special Funds of the ADB. The Report stated:

The National Advisory Council has carefully considered the present proposal (for U.S. contribution to the Special Funds of the ADB) from the standpoint of U.S. financial and economic objectives . . . and from the standpoint of the benefits deriving from intensified regional cooperation among the countries of Asia.2

The report concluded that in the Council's view, an American investment in the Special Funds, like its subscription to the capital of the Bank itself, would serve U.S. interests by promoting economic cooperation in Asia.3
The Report thus suggests that economic considerations did figure in the government's calculations regarding the benefits to be derived from participation in the Bank. This consideration therefore did play a significant role in changing the attitude of the United States from one of lukewarm support prior to April 1965, to enthusiastic participation in the shaping and creation of the Bank.

The ADB is based on a multilateral approach (i.e., one in which the burden is shared by a multiplicity of participants) to the problem of helping the developing countries of Asia to be economically self-reliant. Such an approach in turn is predicated on a basic identity of purpose among the developed Western nations. The United States and Japan are foremost among those developed nations which require stability and easy access to Asia so that their corporations can utilize the raw materials, markets and investment opportunities within the region. As this chapter will try to show the ADB can play an important role in the fulfillment of these goals.

Dominating the economic life of the 'Pacific Rim' are the ADB's three major contributors, - the United States, Japan and Australia, joined together in a triangular trading relationship. Japan is America's second best customer. In 1972, she absorbed $5.8 billion (11.8%) of United States exports. The United States in turn is Japan's number one customer taking $8.8 billion (30.9%) of Japan's exports in 1972. Australia is the minor partner in this network, but
her interest in it is substantial. Over one-third of its trade is with the United States and Japan. In 1972, Australia's exports to the United States and Japan exceeded $3 billion and its imports totalled more than $1.5 billion. As a unit, these three nations annually conduct $15.4 billion worth of trade with each other. This triangular trade grew 200 percent during the 1960's while total United States exports increased by only 69 percent and total world exports by 87 percent. 5

American investment in these countries is substantial. At the end of 1970, total United States direct investment abroad amounted to $78 billion and was growing by over $7 billion each year. Investment in Japan increased five-fold during the 1960's to a total of $5 billion. 6

Under strong United States pressure the Japanese relaxed their investment restrictions in 1973, so that the expectation has been that United States investment there will continue to grow at a rapid and perhaps accelerated pace. 7

American investment in Australia and New Zealand tripled to exceed $3 billion by the beginning of this decade.

Thus it would seem that there are strong economic ties and to a certain extent a complementarity of economic interests among these three states. This is so, despite the fact, that Japan is one of America's closest competitors in the world market. However, this competition although keen, is moderated to a certain extent by the fact that both countries need each other's help. While Japan is dependent on the United
States from the point of view of its security, the United States has increasingly come to rely on Japan to lighten its aid burden in Southeast Asia. Since the basic economic interests (trade and investment) of these two countries—and to a much lesser extent Australia as well—are very similar and since they are closely tied to each other economically, militarily and politically, it can be expected that when their basic interests are at stake, they would tend to act in concert.

These three developed countries have significant trade relationships with most of the non-communist Southeast Asian countries. Table 2.1 shows the volume of American trade with Southeast Asia by countries. It will be seen that United States export trade with these countries has increased dramatically from $1.4 billion in 1965 to $3.6 billion in 1972 (a little over 7 percent of total U.S. exports) representing a 157 percent increase in its exports to these countries. The value of imports during the same period increased from $2.6 billion to $4.7 billion (about 12 percent of total U.S. imports), an increase of 80.8 percent. Of the total amount of United States exports to Southeast Asia the Republic of China, Indonesia, Republic of Korea, Philippines, Thailand and Republic of Vietnam—countries which are politically, militarily and economically closely aligned with the United States—together accounted for 70 percent of United States exports and 61.4 percent of its imports till 1972. Though these figures might seem unim-

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>1965</th>
<th>1972</th>
<th>% increase (+)</th>
<th>% decrease (-)</th>
<th>1965</th>
<th>1972</th>
<th>% increase (+)</th>
<th>% decrease (-)</th>
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<td>Cambodia</td>
<td>92</td>
<td>73</td>
<td>(-) 20.7</td>
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<td>2</td>
<td>(a)</td>
<td></td>
<td></td>
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<tr>
<td>China</td>
<td>234</td>
<td>628</td>
<td>(+) 168.4</td>
<td>93</td>
<td>1294</td>
<td>(+) 1291.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>191</td>
<td>489</td>
<td>(+) 156.0</td>
<td>343</td>
<td>1249</td>
<td>(+) 264.1</td>
<td></td>
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</tr>
<tr>
<td>Indonesia</td>
<td>42</td>
<td>308</td>
<td>(+) 633.3</td>
<td>165</td>
<td>278</td>
<td>(+) 68.5</td>
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</tr>
<tr>
<td>Republic of Korea</td>
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<td>735</td>
<td>(+) 168.3</td>
<td>54</td>
<td>708</td>
<td>(+) 1211.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laos</td>
<td>9</td>
<td>8</td>
<td>(-) 11.1</td>
<td>(a)</td>
<td>(a)</td>
<td>(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>91</td>
<td>128</td>
<td>(+) 40.7</td>
<td>212</td>
<td>301</td>
<td>(+) 42.0</td>
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</tr>
<tr>
<td>Philippines</td>
<td>349</td>
<td>365</td>
<td>(+) 4.6</td>
<td>369</td>
<td>491</td>
<td>(+) 33.1</td>
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</tr>
<tr>
<td>Singapore</td>
<td>NA</td>
<td>385</td>
<td></td>
<td>(a)</td>
<td>265</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Thailand</td>
<td>107</td>
<td>170</td>
<td>(+) 58.9</td>
<td>41</td>
<td>116</td>
<td>(+) 182.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam (South)</td>
<td>(a)</td>
<td>318</td>
<td></td>
<td>(a)</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>1389</td>
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<td></td>
<td>2558</td>
<td>4704</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: (a) = Less than 600,000.
NA = Not Available

portant compared to the overall world trade of the United States, they assume much greater significance if compared to total United States trade with Asia. In 1972 United State's trade with Southeast Asia accounted for 68 percent of its total Asian exports and about 69 percent of its total Asian imports. Thus it should be clear that the bulk of United States trade with Asia is centered in Southeast Asia, especially with its six Southeast Asian allies mentioned above. The point to be noted here is that the sharp increase in the volume of trade with Southeast Asia is indicative of the growing economic importance of the region to the United States, as an area which is experiencing a faster rate of economic growth than many other parts of the world.

United States direct investment in the area worth $1.4 billion in 1965, had more than doubled by 1972 to $3.4 billion, at an annual rate of about 35 percent. It is centered in the Philippines, Indonesia (in mainly oil exploration and extraction), Singapore, Republic of China (in low-wage manufacturing), Republic of Korea and Hong Kong. American investment in Southeast Asia is not only fairly significant but continues to yield a higher rate of return than its earnings in the advanced industrialized countries. It is for this reason that American businessmen are interested in investing in the developing countries of Southeast Asia even though the risks are quite considerable because of political unrest and instability in the region.
According to United States government figures the rate of return on investments in 1972 in Asia (11.9%) was more than twice that in the developed countries (5.2%). Earnings in Asia were also continuing to increase at a faster pace (3.4% per annum) than in the developed countries (.03%). ¹¹ Within the context of the present study, the important point to note is that the four countries - Philippines, Republic of China, Republic of Korea and Indonesia - in which American investment is concentrated are also its leading trading partners in Southeast Asia.

Australia's trading interests in the region are also quite substantial and rapidly increasing. Between 1965 and 1972, Australian exports to the region increased by 188.7 percent from $234.4 million to $676.1 million. During the same period her imports increased only by about 52.5 percent, from $176.6 million to $269.4 million. It is evident from these figures that not only is Australia's trade with the Southeast Asian region highly profitable (and in all probability it will continue to be so) but that it has been increasing fairly quickly at an annual rate of about 38 percent. ¹² Australian investment in the region, although not as significant as that of the United States, is still quite substantial, and totalling about $100 million. It is concentrated mainly in Indonesia and Papua New Guinea. ¹³

While American and Australian economic interests are substantial, Japan's economic interest in the region is much greater and has been growing rapidly. Japan's
economy is overwhelmingly dependent on the import of raw resources, many of which are available in Southeast Asia. In 1971, it depended on imports for 98 percent or more of its consumption of crude oil, iron ore, phosphate, bauxite, cotton, wool and crude rubber.\textsuperscript{14} To pay for these imports and to sustain her rapid economic growth, Japan needs foreign markets in Asia and elsewhere. Derek Davis, editor of the \textit{Far Eastern Economic Review} correctly points out that the most powerful groups in Japan see their economic future as lying at

\textit{... the centre of an Asian common market or customs union (much along the lines of the old co-prosperity sphere) in which the countries of East Asia, plus possibly South Asia and Australia are gradually tied in to the Japanese market by trade and tariff agreements and by a planned programme of regional investment.}\textsuperscript{15}

Southeast Asia has always been and continues to be a major focus of Japanese trading interests in Asia. Table 2.2 shows that Japan's exports to this region during the period 1965 to 1972 more than tripled from $1131.6 million in 1965 to $4,059.2 million in 1972 (an increase of 258\%). Her exports continue to grow rapidly at an average annual rate of about 42.1\%. During the same period Japan's imports rose at an even faster pace, climbing from $636.7 million to $2,638.4 million (an increase of 314\%).\textsuperscript{16}

Japan also has a strong and fast growing investment interest in Southeast Asia. Inflows of Japanese pri-
TABLE 2.2

JAPAN’S TRADE WITH SOUTHEAST ASIA BY COUNTRIES
(in millions of dollars U.S.)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>1965</th>
<th>1972</th>
<th>% increase (+)</th>
<th>% decrease (-)</th>
<th>1965</th>
<th>1972</th>
<th>% increase (+)</th>
<th>% decrease (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of China</td>
<td>217.9</td>
<td>1092.4</td>
<td>(+) 401.3</td>
<td></td>
<td>157.4</td>
<td>421.7</td>
<td>(+) 167.9</td>
<td></td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>180.3</td>
<td>980.5</td>
<td>(+) 443.8</td>
<td></td>
<td>41.4</td>
<td>426.1</td>
<td>(+) 929.2</td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>288.1</td>
<td>911.2</td>
<td>(+) 216.3</td>
<td></td>
<td>35.3</td>
<td>119.4</td>
<td>(+) 258.2</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>204.8</td>
<td>616.4</td>
<td>(+) 201.0</td>
<td></td>
<td>148.7</td>
<td>1201.0</td>
<td>(+) 707.7</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>240.5</td>
<td>458.4</td>
<td>(+) 90.6</td>
<td></td>
<td>253.9</td>
<td>470.2</td>
<td>(+) 85.2</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1058.9</td>
<td>2264.3</td>
<td>(+) 113.8</td>
<td></td>
<td>769.1</td>
<td>1533.5</td>
<td>(+) 99.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2190.5</td>
<td>6323.2</td>
<td></td>
<td></td>
<td>1405.8</td>
<td>4171.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

vate capital into the region between 1968 and 1972 sharply increased from 39.2 percent to 74.4 percent accounting for the bulk of the total Japanese capital inflows to Asia region. Within the region Japanese investments are concentrated mainly in the Republic of Korea and the Republic of China and Thailand, though in recent years Indonesia has also become another major focus of Japanese investments. 17

It should be clear from the above that there is a basic congruence of Japanese, and American and Australian interests in Southeast Asia, and that this interest has tended to band these countries together (in spite of their competitive economic interests in the region) to work to maintain access to a region with great economic potential. Within the Southeast Asian region itself their economic interests are concentrated in more or less the same countries: Republic of China, Republic of Korea, Thailand, Indonesia, Philippines, Singapore and Hong Kong.

It is interesting to note that the above mentioned countries where the trade and investment interests of the United States, Japan and Australia are the greatest have also been the main recipients of aid from these three developed countries. For instance, United States aid to the Republic of China up to 1972 amounted to $1,366.8 million, to the Republic of Korea $2,973.2, to Thailand $563.5 million, Indonesia $642 million and the Philippines $349 million. South Vietnam received $4,721.2 million, but aid to this country was motivated by special political and military
considerations.\footnote{18}

The bulk of Japanese aid has all along been concentrated on the developing countries of Asia, (especially a few selected countries of Southeast Asia identified earlier) which have, on an average, received 95 percent of net disbursements. Although assistance has been extended to almost all developing Asian countries, the Republic of Korea, Indonesia, Philippines and Thailand have been the recipients of close to 70 percent of Japanese aid. Though cumulative aid figures by country are not readily available, we do have the figures for 1971 alone, which does give an indication of the size and direction of Japanese aid. In that year South Korea (with $124.2 million) was the leading recipient, followed by Indonesia ($111.9 million). Together these countries accounted for 64 percent of total Japanese bilateral aid.\footnote{19}

Australia's aid programme, in comparison with that of the United States and Japan has been much more limited in its magnitude. Almost all of Australia's bilateral aid has gone to Papua New Guinea which alone has accounted for 75 percent of all Australian aid. Since the late 1960's Indonesia has been the single largest recipient of aid (after Papua New Guinea). Disbursements increased from $1 million in 1965 to $17 million in 1971. Since the introduction in 1970 of a three-year $60 million grant programme, disbursements to Indonesia have accounted for 9%
of Australia's bilateral aid (and 37% of its bilateral aid to all recipients excluding Papua New Guinea).

Australian aid in 1971 (cumulative figures are not readily available) to other Southeast Asian countries was as follows: Cambodia ($1.03 million), Laos ($1.41 million), Thailand ($4.88 million) and the former Republic of Vietnam ($3.78 million).²⁰

The channeling of aid to countries in which the United States and Japan (and to a much more limited extent Australia) have significant trade and investment interests would tend to suggest that this aid may in part be designed to further other economic relations. Since in most cases a large portion of aid provided by the United States and Japan is meant to finance the purchase of food, machinery and other manufactured items, economic aid helps to artificially stimulate and guarantee a market for the products of the donor countries and to that extent serves to promote their sales abroad. More important is the point that when aid is offered for this purpose, it at the same time helps to make the recipient country or countries more dependent on the donors (for instance, in the case of sophisticated manufactured goods for spare parts). The control that the donor countries are thus able to exercise over the recipients, can then be used to pressure the aid receiving nations to relax restrictions on investments, create tax free zones, relax tariff barriers, grant most favoured nation treatment and so on ad infinitum.
When their common interests are at stake (for e.g. access to the markets of South East Asia) they could be expected to act in concert. Thus, in the context of the ADB, the United States and Japan, with the support of like-minded, developed countries like Australia, might be expected to use the Bank to promote their economic objectives in Asia. These two countries together control 34.24 percent of the voting power within the Bank. In conjunction with other developed regional and non-regional countries they control 64.66 percent of the total voting power. Thus it would be possible for them to direct the activities of the Bank along lines which help to promote their trade and investment interests in the region.

An indication of the extent to which American (and Japanese) influence and pressure has shaped the Bank's operational philosophy can be clearly discerned from the ADB sponsored study, South East Asia's Economy in the 1970's, published in 1972. The basic thrust of the study seems to be that the economic salvation of the Southeast Asian countries lies in concentrating their attention on the export of primary products (raw resources) by forging an effective economic link "to connect their abundant natural resources with the expanding world market demand for their exports". In effect what the study suggests is that the developing countries, given their economic backwardness, should confine themselves to the role of producing raw materials for export to the western industrialized countries.
To facilitate the exploitation of their raw resources, the South East Asian countries should encourage private capital investment in primary production (raw-materials) by making development of their resources, both human and natural, more attractive. This objective, the study goes on to suggest, could be achieved in two ways. First, the Southeast Asian countries could ease restrictions on foreign firms and create confidence in them that nothing would be done which would hinder their operations. Second, and more significantly (from the point of view of ADB lending activities), the governments in these countries could invest in infra-structural activities, such as improving transport and communications, in order to "reduce the capital requirements of private foreign investors" which "will make the resources more attractive to them." Of course, government investments in infra-structural activities does to a certain extent benefit the people of a country. However, what is being suggested here is that such investments tend to benefit more foreign and local investors rather than the ordinary people.

The study also provides an explanation as to why private firms of the developed countries are interested in investing their money in the developing countries of Southeast Asia despite their limited markets:

Because of the rising wages for certain types of easily trainable skilled labour in the advanced countries, these corporations are interested in locating certain
parts of their productive processes producing components in the underde-
veloped countries, where a similar type of labour can be obtained at lower wages.24

In summary, this ADB sponsored study recommends the introduction of private capital into primary production, argues against self-sufficiency and strategies of important substitution, and stresses that adequate power and transportation facilities as well as cheap but skilled labour and adequate government administrative and fiscal systems will draw needed foreign-capital. It is in short a recipe which calls for heavy reliance upon American and Japanese capital and techniques for the foreseeable future – an approach which would help to perpetuate a relationship of dependence between the United States and the developing countries.

Thus, given the emphasis which the ADB study places on encouraging foreign investments, it is not surprising to find that the ADB, by loans designed to improve the infrastructure in Southeast Asia, seeks to stimulate private investment and western style development in the developing non-communist countries of the region. Investment in infrastructure is costly and often unprofitable at first. However, because the potential for private investment is limited in a country lacking an adequate "infrastructure," American businessmen have urged that:

The level of direct governmental aid must be kept sufficient to build an adequate infrastructure, meaning by 'infrastructure' an economic environment that is conducive to private investment . . . 25

For this purpose the Report of the House Subcommittee on
Foreign Economic Policy of 1968 recommended that national policies should be coordinated so as to ensure that efforts to promote investments in these countries are not negated by restrictionist policies of the Southeast Asian countries. The report, therefore, helps to highlight the role of the American Government in pressuring the less developed countries to open up their economies for private direct investment. Further, the report also suggested ways in which the ADB could help to promote private investment in Southeast Asia, by laying down guidelines compatible with the above objective, when screening prospective loan recipients. In other words, it suggested that the American government should ensure that the developing countries of Asia adhered to American precepts of development, regardless of their suitability to the socio-economic structure and development needs of a particular developing country. 26

At this point it seems desirable to clarify what is meant in this thesis by the term 'American precepts of development'. In the literature on economic development, there are broadly two schools of thought, which Jacob Viner, a noted Princeton University economist once described as the "humanitarian" and the "aristocratic" schools. The American approach to the problem of underdevelopment approximates the second view. Before one can fully comprehend the solution advocated by the second school one must first examine its diagnosis of the causes of underdevelopment. The 'aristocratic' school would argue that the process of
economic growth (which is very different from the concept of development) in the less developed countries (LDC's) has been arrested because of low rates of productivity combined with high levels of social waste and inefficiency. The basic source of capital for all economies is production itself. Capital is a surplus of production, a portion that is not exhausted by personal consumption, but rather saved and invested. Rapid capital accumulation is necessary for a country to attain self-sustaining growth. However, most of the LDC's have been able to achieve only modest rates of saving and investment, due to their poverty and various forms of waste and inefficiency. Even where surpluses might be generated, they tend to be squandered on unnecessary forms of consumption rather than growth oriented investment.

Thus, this school argues that available resources that can be wrested from current unproductive consumption should be invested in large part in the most productive forms of physical capital equipment and facilities whose returns will go where they will be used for further investment, so as to contribute to an indefinite process of capital formation. Insofar as there results any increase in the current income available for current consumption, it should be directed toward those sections of the population, which can be most relied upon to use the increased income not in the relief of current misery, but in strengthening the long-run productive capacity of the country by
better education, increased savings and more efficient productive equipment. Exponents of this approach would deny that they lack sympathy for the economic distress of the miserably poor, but they would insist that, given the shortage of resources, surplus income should first be given to those who can add to the economic strength and capacity of the country as a whole. Only once the country is economically strong can there take place a gradual extension of prosperity to the masses. This approach, therefore, basically advocates that economic growth should begin at the top and then gradually filter down to the masses, regardless of the fact that many might perish in the process of waiting.

The "humanitarian" school, and the one with which the present author identifies, calls for investing directly in the amelioration of the poverty of the lowest-income groups of a country a reasonable proportion of the surplus resources available domestically, or obtainable by loan or otherwise from abroad. This means applying these resources to improve the health and diet of the poorest, to extend the facilities available for their general and technical education, and in the case of the peasantry to finance their acquisition of more and better tools and more and improved land.

That the growth strategy advocated by the aristocratic school has been popular in developed countries like the United States is not surprising, since they tend to
view social change from the government offices and universities of the affluent western cities rather than from the rural and urban slums of the developing countries. Further this approach has arguably found favour in the west because, by emphasising the dependence of the developing states on the developed countries for financial support and technological know-how, rather than self-reliance and innovation (along the lines of what the Chinese have done), it has served to further the economic interests of the developed states themselves.

As has already been suggested the strategy of the aristocratic school is apparent in the American attitude towards the ADB and, hence, even if the ADB is intended from the United States perspective to have a development impact, at the same time it is economically self-serving. Indeed, as it is now, ADB loans partly help to pay for imports of United States goods and technological know-how and to that extent they tend to enhance the market for American goods and services.

American economic self-interest in the creation of the ADB can be seen in another way as well. One of the major problems faced by foreign business interests in Asia pertains to the low purchasing power of people in the developing countries, which tends to have a constrictive effect on "effective demand" (i.e. demand backed by purchasing power) for goods in these countries. Thus arises the necessity of creating larger and more economically viable
markets for American investments to prove profitable. In this endeavour, promotion of regional co-operation in general and regional institutions like the ADB in particular, can play a central role. The importance of regional institutions like the ADB and others, for this purpose was implicitly recognized by the Report of the House Subcommittee on Foreign Economic Policy of 1968:

By American standards, markets in the less developed countries are often too small to justify investment in them by large American corporations in large scale operations.

For this reason, the United States has been trying to encourage developing countries to form larger integrated regional markets...

The Report of the Subcommittee thus underlined the fact that without the existence of a large and developed market to absorb the goods produced by large firms in developing countries, it is financially unfeasible for large American firms to invest money in these countries. From the United States point of view, the ADB by promoting regional economic cooperation among the Southeast Asian countries could help to bring about a greater integration of the economies and markets of these countries (something along the lines of an Asian common market as envisaged by Japan), thereby providing a larger and economically more viable market for the goods of American firms, which in turn would attract American and other investors.

In order to bring about a greater integration of the markets and make them more attractive for foreign in-
vestors a developed system of transport and communications and cheap power is required. Given this necessity, it is not surprising that $587 million (61.5 percent) of all ADB loans, have gone to help create infrastructure in Southeast Asia—roads in Taiwan, South Korea, and the Philippines, ports in Ceylon, Taiwan, Malaysia and Thailand; power grids in Taiwan, South Korea, Indonesia, Singapore, and West Samoa. For domestic and foreign entrepreneurs, the benefits are notable. Public funds are used to build an infrastructure which will enable private American and Japanese industries to profit.

Table 2.3 shows the sectorwise distribution of ADB loans for 1972 and the cumulative totals to that date. The table provides eloquent commentary on the priorities in ADB's loan operations. Given the fact that the basic needs of the bulk of Southeast Asia's population consists of food, housing, health and some basic education, one would have expected at least a portion of ADB loans to have been advanced for promoting these socially desirable projects with relatively long-run returns. However, these needs are not reflected in the sectorwise allocation of ADB loans. One of the urgent requirements in all the developing countries of Southeast Asia is and has been the necessity to produce enough food to feed the region's people (to avoid expending scarce foreign exchange on food imports), yet loans to the agricultural sector till 1972 totalled only $124.7 million (13.1%), placing it fourth in the sectorwise
## TABLE 2.3

**RANK ORDER OF LOAN APPROVAL BY SECTOR 1965-1972.**

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>1972</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount ($ Million)</td>
<td>% of Total</td>
</tr>
<tr>
<td>Electric Power</td>
<td>121.00</td>
<td>38.3</td>
</tr>
<tr>
<td>Industry &amp; Development Bank</td>
<td>32.00</td>
<td>10.1</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>67.55</td>
<td>21.4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>32.84</td>
<td>10.4</td>
</tr>
<tr>
<td>Water Supply</td>
<td>58.90</td>
<td>18.6</td>
</tr>
<tr>
<td>Education</td>
<td>3.70</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>316.09</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

allocation of loans.

Further evidence of the way in which the ADB helps to promote the interests of foreign investors (in the case of Southeast Asia - the United States and Japan) is to be found in the fact that a substantial portion of the Bank's loans have gone to development banks, which then reloan the money to small and medium-sized businesses in the recipient countries. This money can be used not only by local entrepreneurs but also by foreign investors. Table 2.4 shows that by 1972, $164 million or 17.2 percent of the total loans of the Bank had gone to development banks in Malaysia ($15 million), Pakistan ($37 million), Papua New Guinea ($4.5 million), Philippines ($20 million), Singapore ($10 million), and Thailand ($15 million). Of these countries Republic of Korea, Republic of China, Philippines and Thailand together accounted for $97.5 million or 59.5 percent of all loans advanced to national development banks - all these being countries in which the United States has strong investment interests.30

A more pronounced bias can be observed in the countrywide distribution of the Bank's loans for industrial development since the loans have gone mainly to countries in which the United States and Japan have major trade and investment interests. Again three countries, Taiwan, ($14 million), South Korea ($25 million) and Indonesia ($10 million) have accounted for five of the seven loans advanced to industry up to 1972. These five projects were
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td></td>
</tr>
<tr>
<td>Malaysian Industrial Development</td>
<td>15.00</td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
</tr>
<tr>
<td>Industrial Development Bank of Pakistan</td>
<td>25.00</td>
</tr>
<tr>
<td>Pakistan Industrial Credit &amp; Investment Corporation Ltd.</td>
<td>12.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>37.00</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td></td>
</tr>
<tr>
<td>Papua and New Guinea Development Bank</td>
<td>4.50</td>
</tr>
<tr>
<td>Phillipines</td>
<td></td>
</tr>
<tr>
<td>Private Development Corporation of the Philippines</td>
<td>20.00</td>
</tr>
<tr>
<td>Republic of China (Taiwan)</td>
<td></td>
</tr>
<tr>
<td>China Development Corporation</td>
<td>7.50</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td></td>
</tr>
<tr>
<td>Medium Industry Bank</td>
<td>25.00</td>
</tr>
<tr>
<td>Korea Development Bank</td>
<td>10.00</td>
</tr>
<tr>
<td>Korea Development Bank</td>
<td>20.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>55.00</td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td>Development Bank of Singapore</td>
<td>10.00</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td>Industrial Finance Corporation of Thailand</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>10.00</td>
</tr>
<tr>
<td>Subtotal</td>
<td>15.00</td>
</tr>
<tr>
<td>Grand Total</td>
<td>164.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project &amp; Country</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimethyl terephthalate (DMT)</td>
<td>10.20</td>
</tr>
<tr>
<td>Manufacture - Rep. of China</td>
<td></td>
</tr>
<tr>
<td>Aluminium Plant Expansion</td>
<td>2.67</td>
</tr>
<tr>
<td>Republic of China</td>
<td></td>
</tr>
<tr>
<td>Copper Fabrication Plant</td>
<td>1.15</td>
</tr>
<tr>
<td>Republic of China</td>
<td></td>
</tr>
<tr>
<td>PUSRI Fertilizer Plant Expansion</td>
<td>10.00</td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
</tr>
<tr>
<td>Cotton Spinning Mills</td>
<td>12.00</td>
</tr>
<tr>
<td>Pakistan</td>
<td></td>
</tr>
<tr>
<td>Coprolactum Plant</td>
<td>25.00</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td></td>
</tr>
<tr>
<td>Cold Storage</td>
<td>7.00</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td></td>
</tr>
<tr>
<td>Srilanka</td>
<td>4.15</td>
</tr>
<tr>
<td>Total</td>
<td>72.17</td>
</tr>
</tbody>
</table>

worth $49 million, 68 percent of all loans to industry. Besides these loans, the Bank had made by 1972 only two other loans, one to Pakistan ($12 million) and one to Ceylon ($4.2 million). It is significant to note in this connection that three of the seven loans have gone to industries engaged in the processing of raw resources like petroleum and petroleum based products. (see Table 2.5). From the foregoing discussion, one is therefore tempted to conclude that the ADB has proved to be a useful multilateral institution for the covert promotion of American economic interests in Southeast Asia, without arousing the suspicions and resultant hostility of the countries of the region — features of American efforts to pursue these interests by bilateral means in the past. It would appear, therefore, that the United States was in part motivated by economic considerations when it decided to encourage the creation of the Asian Development Bank.
FOOTNOTES


3 Ibid.


7 Yearbook 1973, p. 80.

8 The countries referred to are: Cambodia, Republic of China, Hong Kong, Indonesia, Republic of Korea, Laos, Malaysia, Philippines, Singapore, Thailand, South Vietnam.


10 American investments in the Philippines totalled $1.2 billion, in Indonesia $92.3 million and Republic of Korea $5 billion. Corresponding figures for Singapore, Republic of China and Singapore were not available. In the case of Hong Kong the United States was the prime source of foreign investment with 44 percent of the total.

11 Abstract 1975, p. 802.


13 FEER, August 28, 1971. p. 27.
14 Yearbook 1972, pp. 74, 293.


16 All figures represent cumulative totals. The growth rate figures computed are for the period 1972 to 1974, the latest year for which data was available. Donald P. Whitaker et al. Area Handbook for Japan, Washington, D.C.: 1974, pp. 512, 518.


20 Ibid., pp. 19, 22.

21 See Chapter IV, Table 1.


23 Ibid., p. 96.

24 Ibid., p. 102.


28 For a detailed, if somewhat technical discussion of this point see Myint, *Southeast Asia's Economy*, pp. 71-72, 155-159.


CHAPTER III

THE UNITED STATES AND THE ASIAN DEVELOPMENT BANK:

ORIGINS, STRUCTURE AND LENDING OPERATIONS

The idea of establishing a regional development bank in Asia, dates back to as early as 1954. At that time the member countries of the Economic Commission for Asia and the Far East (ECAFE) and its secretariat began talking about the formation of an Asian development bank. Unfortunately the idea aroused little enthusiasm among the member countries, and the United States and Japan in particular, were actually opposed to it, as they saw drawbacks to such an institution. The United States was "reluctant to adopt a multilateral approach to development aid" that would limit American influence," while Japan did not want to lend its resources to an institution "that seemed destined, like the World Bank, to become primarily an instrument of American policy." 1

Discussion of the possibility of establishing the Bank was reactivated in August 1963, again under the auspices of ECAFE. The idea of forming the Bank and the initial proposal to do so emanated not from direct discussions among sovereign states, but within the framework of the ECAFE secretariat. It was U Nyun, ECAFE's executive secretary, who then took the initiative in encouraging and channeling these discussions into concrete proposals. Even those who were in general sceptical of ECAFE initiatives acknowledged
U Nyun as the Bank's originator. This would seem to discount the claim made by President Watanabe that the proposal for establishing the Bank came from the Asian states themselves.

The discussion leading to the creation of the Bank moved quickly. In all it took two years from the first formal proposal to the signing of the agreement establishing the Bank. Generally speaking this period can be divided into two broad phases. From August 1963 to April 1965, the initiative and the enthusiasm came almost exclusively from U Nyun and the ECAFE secretariat. From April 1965 up to the signing of the agreement and beyond, additional and perhaps crucial momentum was provided by the United States in the person of Mr. Eugene Black, former President of the International Bank for Reconstruction and Development (popularly known as the World Bank), who embarked on a fund raising tour of Europe. In his effort to secure the financial backing of the developed European countries for the proposed Bank, Black was eminently successful as witnessed by the large number of European countries which subsequently became members of the Bank.

Black's efforts were not confined to winning support for the Bank. He also played a central role, as an expert on international finance, in shaping and formulating the structure and functions of the Bank. This can be gleaned from the fact that the discussions centered around the issue of mobilising external financial support. From the United
States point of view it was felt to be more important for the Bank to qualify as a solvent financial institution, than that the Bank have a clearly 'Asian' character. Thus the Asian identity of the Bank was compromised in the interest of securing financial support for the Bank. It was probably because of this concern that Eugene Black took a personal interest in the selection of the Bank's first president, Takeshi Watanabe, a person who was considered to be "primarily responsible for Japan's success on the world capital market." With regard to giving the Bank an Asian character, the position of Japan as an Asian, yet developed country was bound to be crucial. However, Japan was initially reluctant to commit itself "lest it should find itself bearing a disproportionate financial burden" in an institution, which, as was mentioned earlier, it felt seemed destined to become a tool of American policy.

Right up to the inaugural meeting, the ECAFE secretariat, headed by U Nyun, continued to play a central role. Thus at the inaugural meeting in November 1966, U Nyun during his speech could justifiably stress the role of the ECAFE, and speak of "our collective efforts in establishing this great Asian bank." From the very beginning the nature of the bank had not been a major issue in the discussions leading to the creation of the institution. Precedents regarding the structure and functions of such institutions had already been established by the World Bank, the Inter-American
Development Bank (IADB) and the African Development Bank, which seemed acceptable to the founders of the Asian Bank.\textsuperscript{9}

Formal discussion of the possibility of setting up an Asian development bank began in August 1963, under the auspices of ECAFE. This was the result of a resolution passed at the nineteenth session of ECAFE, early in 1963, calling for accelerated measures of regional economic cooperation.\textsuperscript{10} The result was the convening of a ministerial conference in Manila in December of the same year. To assist the Asian regional countries in preparing for the conference, U Nyun formed an expert group to make "recommendations on practical measures for promoting ECAFE regional economic cooperation." Nine major recommendations were made by the group, one of which was the establishment of a regional bank. This proposal was endorsed by the ministerial conference meeting in Manila, which directed that further studies should be undertaken. At this early stage therefore, the proposal was only one of a number of such proposals which together amounted to a broad plan for increasing cooperation within the region.

As a result of the Manila meeting another Ad Hoc Working Group of Experts on the Bank was established by U Nyun under the chairmanship of Mr. M. Uquali, managing director of the Pakistan Industrial Credit and Investment Corporation. Among the members of the group was Mr. Takeshi Watanabe, a prominent Japanese financial consultant, who subsequently became the Bank's first President.
The group's report showed a sharp change of tone. The strategic view of the Bank as one of a broad range of instruments for changing the internal structure of the region gave way to a narrower, more institutional view, in which the emphasis was on the functions, resources, and structures of the bank itself. This change in outlook regarding the Bank can only be explained by the fact that the Expert Group consisted mainly of bankers so that their approach reflected their own professional inclinations. In its description of the role of the proposed Bank, for instance, there was an implicit reversal of the priorities established in the 1963 ECAFE resolution. The Bank's functions were listed as follows:

1. The attracting 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;

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

The Bank under the terms of the original proposal had been conceived as an instrument for promoting regional
economic cooperation among its Asian members, besides furthering economic development. Yet, from the report of the Ad Hoc Group of Experts, it becomes clear that this important function was not only listed third in the order of priorities, but was also given little attention.

The bulk of the report was concerned with the Bank's capital structure, subscriptions, voting and so on. In this connection, it is noteworthy that in spite of its concern for attracting additional capital resources to the region, it gave virtually no consideration to the question of establishing a special fund for lending at low interest rates or soft terms. It was Mr. Black on behalf of the United States, who in his words found himself "in the unaccustomed position of urging my Asian friends not to rely too heavily on conventional instruments of finance." The question that comes to mind in this connection is why was the United States so interested in establishing a soft fund when the would-be beneficiaries themselves were not too keen, in the interest of seeing 'their' bank qualify as a sound financial institution? The answer to the question is to be found in the nature of the Special Fund. As conceived by the United States and Japan, the loans made out of this fund would be tied to the purchase of goods and services from the donor countries. It was this aspect of the proposed soft loans which was possibly the main reason (though never openly expressed, except by Cambodia) for the Asian regional countries being unenthusiastic about establishing a Special Fund. Their
subsequent interest in such a fund would seem to be indicative of the success of Black in calming the fears of these countries regarding the possibility that a tied Special Fund as proposed by the United States and Japan could compromise the sovereignty and independence of these countries.

Unlike the Ordinary funds, the Special Fund was meant to finance the purchase of goods and services from the donor countries. Thus, whatever the amount of the United State's contribution to the Bank's Special Funds might be, the market for American goods and services would be enhanced to that extent. This point was repeatedly emphasised by Joseph W. Barr, Under Secretary of the Treasury, during the hearing on the Asian Development Bank Act and the Special Fund before the Committee on Foreign Relations. In his statement before the Committee on February 16, 1966, Barr emphasised that "any U.S. contributions as special funds to the Bank can be tied explicitly to procurement in the United States." This statement tends to refute any claim that American support for an ADB Special Fund was basically motivated by altruistic considerations.

Guided by the Working Groups ideas and recommendations the ECAFE secretariat prepared a draft charter. The model that took shape was similar to the World Bank in character. What emerged was a straightforward financial institution, in which the developed countries would be dominant, and the chief purpose of which would be the financing
of economic projects from its Ordinary Funds, selected on the basis of comparative rates of return on each loan. In other words financially profitable, quick return projects were to be given priority over projects which promised greater economic and social benefits in the long run to the recipient countries but slower and lower rates of return.

This model was then presented to the twenty-first session of ECAFE, held in Wellington, New Zealand, in March 1965. According to the summary records, the representatives of Britain, France, and the United States made no mention of the Asian Bank in their contributions to the discussions. The silence on the part of the United States was indicative of its lack of interest, since this meeting took place prior to the shift in United States policy towards greater support for regional institutions in Southeast Asia. This position was to be dramatically reversed a month later. Also significant was the position taken by Japan, which, while expressing interest in principle, was of the opinion that "the cooperation and participation of the developed countries outside the region were essential." Roughly translated, this meant that Japan was waiting to see whether or not the Americans would join the bank.

It was clear that further persuasion of the developed countries and in particular the United States would be needed in order to get the Bank launched. The participants to the conference therefore adopted a resolution establishing a consultative committee, one of the principal
functions of which was to undertake consultations with the governments of the developed countries outside the region regarding their interest in and the extent of their likely participation in the Asian Development Bank. The countries represented on the committee were Ceylon, India, Iran, Japan, Malaysia, Pakistan, the Philippines, the Republic of Vietnam, and Thailand.

The scheme gained momentum in April 1965, when the United States for the first time manifested real interest in the institution. The reason for this sudden enthusiasm was apparently the war in Vietnam. The American commitment and casualties in the country were growing with alarming speed. Already, some 400 Americans had died there. Vietnam was fast developing into a trap from which it would be increasingly difficult to extricate the United States.

Financial backing for the ADB and other regional institutions was probably seen as a way by which the United States, in cooperation with other developed countries, could help (at less cost to itself) the vulnerable nations of Asia to be more self-reliant economically and militarily, thereby strengthening their capacity to defend themselves against what it perceived to be the ever present communist threat. In addition the United States by taking an active interest in the economic development of Asia could demonstrate to the world in general, and its Southeast Asian allies in particular, that its concern for the economic welfare of these countries extended beyond its immediate political and security preoc-
cupations. It was possibly because of these reasons that President Johnson in a speech delivered at John Hopkins University in April 1965, declared that the United States was prepared to help regional self-help programmes with a one billion dollar American investment. To implement this programme, he appointed Mr. Eugene Black as his special adviser on Southeast Asia. Mr. Black was instructed to contact Secretary General U Thant immediately to ask him what concrete steps the United States could take then and there to signal its interest in regional cooperation.

Now that American support for the Bank was assured, matters began to move more quickly.

Indeed, American support for the proposed Bank rapidly evolved into sponsorship. In July, the consultative committee visited 34 countries, including fourteen outside the Asian region, one of which was the Soviet Union. Simultaneously, Mr. Black embarked on a fund-raising tour of Europe.

Washington's backing for the proposed Bank considerably improved the financial prospects of the institution and made it more acceptable to the developed Western countries as a whole. One indication of this was the decision of Switzerland, which had consistently refused to join the Bank, to become a full member, with a $5 million subscription.

On the completion of its tour of potential member countries, the committee again reassembled in Bangkok in August for final discussions and to prepare a draft charter
for the Bank. At a preparatory meeting of officials from 31 countries held in October, this draft charter was adopted with certain amendments. These amendments were primarily designed to clarify certain technical details. The only substantive matter to be dealt with in any detail by the Committee related to the question of balance of control between the regional and non-regional members. It was decided that voting should be related to subscription, with only a small redress in favour of the smaller members through the allocation of 20 percent of the votes, which were to be divided equally among all the members of the Bank regardless of the level of their subscription. To make this arrangement more acceptable to regional members like Japan, Australia, New Zealand and the less developed Asian countries, it was decided that these countries should always have a majority of the voting power. This was meant to assure the 'Asian' character of the institution.24

The delegation from the Soviet Union was the only one to point out the weakness of this assurance, arguing that the significant feature of the proposed voting power was that the developing countries "would always be in a minority."25 From then on, it was clear that the Soviet Union was not going to become a member. It is interesting and somewhat intriguing to note that Mr. Black, who was present at the meeting, subsequently stated in reply to a question from Senator Aiken (during the course of the hearing on the ADB Act) as to why the Soviet Union declined to
join the Bank: "I don't remember what the reasons were or if I did hear I didn't understand them"! Black's answer, represented an attempt to evade a question, a direct answer to which could have lead to a number of more awkward queries, as regards the United States role in assuring the preponderance of the developed countries within the Bank.

After the Bangkok meeting, events moved more quickly. In November, the consultative committee held its last meeting in Manila where it prepared a final report. This was presented to a conference of Asian ministers which took place in Manila immediately afterwards. The conference accepted the draft charter, but got entangled in the question of location of the Bank's headquarters. After considerable discussion and lobbying, Manila was selected, much to the disappointment of the other members, especially Iran and Japan. As a matter of fact, Iran, offended by the rejection of its offer to house the Bank, subsequently withdrew from membership.

Following the adoption of the draft text by the Asian ministers, the Agreement was signed in Manila at a Conference of Plenipotentiaries of thirty one countries that followed immediately after the Ministerial Conference. The agreement was then left open for further signatures in Bangkok until 31 January 1966. It entered into force on 22 August 1966 when in accordance with the charter it had been ratified or accepted by fifteen signatories, including at least ten countries in the ECAFE region, whose initial subscription
in the aggregate comprised not less than sixty-five per-
cent of the authorised capital stock of the Bank.\textsuperscript{28} The
inaugural meeting was held in Tokyo in November, and was
attended by thirty-one countries.\textsuperscript{29}

The speed with which the discussions moved after
the appearance of Mr. Black on the scene would seem to sug-
gest that the most conspicuous accelerating force was the
sudden interest of the United States. Part of the explana-
tion is to be found in the desire of the United States to
"become active at . . . the very beginning," so as to in-
crease its "own constructive influence in the organisation
and management of the Bank."\textsuperscript{30} However, this does not con-
stitute a sufficient explanation of the speed with which the
preparatory discussions were completed. A more complete ex-
planation is to be found in the success of the developed
states in foisting a prefabricated institutional formula,
which was not in any sense derived from the needs of the
Asian nations, upon the prospective members.

Furthermore, the importance of the American role in
speeding up the process of establishing the Bank seems to
be reinforced by the fact that it was the backing of the
United States which ensured the approval of other Western
nations for the Bank. Equally significantly, the pres-
ence of Mr. Black coupled with the election of Mr. Watanabe,
in conjunction with the general but little publicised aware-
ness among the financial specialists that rates of return
on investment in Asia are exceptionally high,\textsuperscript{31} ensured the
confidence of international financial institutions. This confidence was expressed at the inaugural meeting in Tokyo, in November 1966, by the presence of the representatives of some 60 commercial banks and other financial corporations, including more than 20 each from the United States and Japan, and 8 from Britain. 32

The strong dependence of the developing countries on the United States, both for its financial contributions and for securing donations of capital from other developed Western countries, gave it a big voice in the shaping of the Bank along lines favourable to the pursuit of its own political and economic interests. This dependence meant that the developing regional members, even though they had some reservations, especially with regard to the distribution of voting power within the Bank, were compelled to go along with the position taken by the developed countries. It was a case of 'beggars can never be the choosers'.

The professed objective of the Bank, as laid out in the Articles of Agreement, is to "foster economic growth and co-operation" in the Asian region and to accelerate the "process of economic development of the developing member countries in the region collectively and individually." 33 Here it should be noted that economic development is explicitly equated with economic growth, suggesting a purely quantitative approach devoid of any qualitative aspects like 'social progress'. This latter concept was dropped, and was replaced by the looser term 'cooperation', which had emerged
in the 1960's partly as a catchword for the comfort of small and vulnerable developing countries, anxious to construct larger political and economic units. The assumption was that such units in some sense would be more viable. For developed countries 'viable' meant 'not needing aid'. For developing countries, it meant among other things being in a stronger bargaining position to get more aid.

In keeping with its purpose, the Bank is required to give priority to projects and programmes which would effectively promote "harmonious economic growth of the region as a whole." At the same time, it is required to give special consideration to the needs of the smaller nations. The Bank's functions also include the promotion of public and private investment, the provision of assistance in the coordination of national policies, particularly in foreign trade, and the provision of technical assistance in the preparation of projects.

The financial resources of the Bank consist of the authorised capital stock, funds raised by borrowings, funds received in repayment and income derived from loans and guarantees, and any other funds received which do not constitute 'Special Funds'.

From its ordinary resources, the Bank may set aside 10 percent of its paid-in capital for the purpose of establishing Special Funds. It may also accept resources for administration as Special Funds, provided that these funds "are designed to serve the purpose and come within the
functions of the Bank." Special Funds derived from the Bank's own resources are to be used for lending on more generous terms than those established by the Bank for its ordinary operations. Special funds received from other sources may be used in any manner that is consistent with the Bank's functions, subject to an implicit reservation concerning such conditions as may be attached to their use by the country or institution which provides them. Theoretically speaking, the Bank would seem to have a lot of leeway in the administration of the Special Fund, but in actual practice the position is quite different.

Within the Bank, those who had given most thought to the question of Special Funds were the executive directors representing the developed countries. If this at first seems odd, it becomes more readily explainable in the context of the political and economic objectives of the larger donors within the Bank, especially the United States and Japan. While the charter empowers the Bank, under the supervision of its Board of Directors, to administer the funds and make the detailed programme judgments involved, it can do so only with the express consent of the Governors of the countries contributing to the Special Funds. It was for this reason that the Special Report of the National Advisory Council on Special Funds of September 1967 stated that:

the main channel through which the United States would exercise its influence in shaping Bank decisions regarding special
funds would be the U.S. representation on the Bank's Board of Governors and the Board of Directors, in which the principle of weighted voting applies. 35

This arrangement, then, permits the United States "to make stipulations regarding use of . . . funds when given . . ." 36

At the time of its formation the authorised capital stock (excluding contributions from member governments or other sources, outside the subscribed capital stock) of the Bank was $1 billion, 37 divided into 100,000 shares of $100 each. The Board of Governors by a special vote, representing not less than three-fourths of the total voting power of the members, could increase the authorised capital.

Of the $1 billion authorised capital, $650 million was available for subscription by the Asian regional members, while the remaining $350 million was reserved for subscription by non-regional member countries. 38

Half of the authorised capital consists of callable shares. The subscription of each member-country to the capital stock of the Bank consists of equal parts of paid-in and of callable shares. The function of the callable capital is to provide a backing against which the Bank would be able in the future to sell bonds in the capital markets of the world. 39

The Bank is open to membership by members and associate members of the United Nations ECAFE and by other regional and non-regional countries which are members of the United Nations or any of its specialised agencies. 40

Thus the Chinese Peoples Republic, (at the time of the Bank's
Democratic Peoples Republic of Korea, and Democratic Republic of Vietnam were not eligible for membership. It was originally hoped that the Soviet Union would join, and this hope was shared by the United States. However, the Soviet Union refused to join, on the grounds that it objected to the proposed distribution of voting power between the developed countries and the developing countries. For the same reason, France also refused to join in the beginning. For similar reasons, no East European country is a member.

The absence of any Communist countries in the Bank has led Henry S. Bloch, one of those most closely associated with its creation, to regard the Bank as having a frankly 'Western' image. Apparently for this reason Burma and Outer Mongolia refused invitations to join. For similar reasons Indonesia did not apply for membership until the fall of Sukarno in 1966. During the later years of his rule, Sukarno considered the United Nations and other organisations of which the United States was a member as tools of 'neo-colonialism'. Thus Indonesia had withdrawn from the United Nations in 1965. Cambodia accepted membership, but with some qualms, which were clearly expressed at the inaugural meeting of the Bank. Mr. Son Sann, Governor for Cambodia, observed:

... we cannot ignore the fact that many Asian countries remain outside this organisation. In our opinion, their absence should not be ascribed to any deliberate desire to neglect, or to show indifference
towards, the best interests of this part of the world. But it is perhaps due, rather to misgivings lest the Bank should neglect the objectives set out in its statutes... and should engage in other activities of a more or less political nature.

From this point of view, Cambodia's decision to become a member of the Asian Development Bank is attended with a certain amount of risk. With this consideration in mind, Cambodia... asks... that it should be treated fairly without recourse to occult pressures or discriminatory practices. 45

Cambodia subsequently announced its withdrawal from membership, and then withdrew its withdrawal. 46

Admission of new members requires an affirmative vote of two-thirds of the total number of governors, representing not less than 75 percent of the total voting power. This means that neither the United States nor Japan by itself has a veto, but combined the two countries, with 34.24 percent of the voting strength (see Table below), can prevent any new member from being admitted, if they choose to do so. In any case, even if they did not act in concert, it is unlikely that any new member could be admitted against opposition from either Japan or the United States.

Annex A of the Agreement divides the subscribers into two categories: regional and non-regional members. Subscriptions are allotted to regional members in accordance with a scale derived from gross domestic product, adjusted for population, total exports, and total tax revenues. The subscriptions of non-regional members depend on what they are willing to offer above the prescribed minimum of $5 million. 47
The only other stipulation laid down in the Agreement, besides this was that the capital stock held by regional members should not be less than 60 percent of the total.\textsuperscript{48}

The Articles of Agreement provide for an authorised capital of the Bank of $1,000 million of which $500 million was to be paid-in and $500 million was callable if required. At the inaugural meeting, the Board of Governors authorised an increase in the capital stock to $1,100 million. At the time of the meeting, the capital subscription amounted to $970 million.\textsuperscript{49} The paid-in portion of the subscriptions was to be paid in five equal installments.\textsuperscript{50} One half of the paid-in capital was payable in gold or convertible currency, the other half in the currency of the member.\textsuperscript{51}

This provision has the effect of doubling the subscriptions (paid-in portion) of those members who have convertible currencies, i.e., the developed countries, in relation to the subscription of the developing countries. This in turn helps to strengthen the position of member countries like the United States, with a convertible currency, within the Bank.

The day-to-day supervision of the general operations of the Bank rests with the Board of Directors. The Board consists of ten Directors, seven to represent the Asian regional countries elected by the governors representing the regional members and three representing the non-regional countries to be elected by the governors representing the non-regional members.\textsuperscript{52} The size of the subscriptions of the United States (a non-regional member) and of Japan
(a regional member) enables them to elect their own directors to the Board even though the voting procedure does provide some safeguards to ensure a relatively even distribution of voting power among the members of the ADB. To be elected, a director representing the regional countries requires only 10 percent of the votes of such countries. In the case of the non-regional countries, however, a director, in order to be elected has to receive at least 25 percent of the total voting power of non-regional members. Such a procedure was meant to ensure that no director could be elected outright by a single non-regional member. While this particular safeguard seems quite effective for the bulk of the non-regionals, it is not very effective with regard to the United States, since that country already has a high percentage of votes (17.12%) allotted to it, and would require only a further 7.88 percent to assure itself of a directorship.

Likewise, among the regional members, Japan, controlling 17.12 percent of the votes, is able to guarantee the election of a Japanese director. India with 8.30 percent and Australia with 7.64 percent are other regional countries who can virtually ensure the election of their nominees as directors. Another reason for this disparity in the voting power of the members is the division of the member countries into regional and non-regional members, which results in the
directors with the greatest voting power representing developed countries exclusively! At the end of 1972, the directors represented the following countries or groups of countries with percentage of total voting power of these countries in brackets (See Table 3.1): United States (17.12); United Kingdom, Canada, Denmark, Finland, Norway, Sweden (9.95); Germany, Italy, Netherlands, Austria, Belgium (10.33); Japan (17.12); New Zealand, Malaysia, Thailand, Singapore, Western Samoa (8.69); Australia (7.64); India (8.30); Indonesia, Ceylon, Afghanistan, Cambodia, Nepal, Laos (7.41); Philippines, Pakistan (6.77); Republic of Korea, Republic of China, Republic of Vietnam (6.65). 54

It is evident from this list that the most powerful directors in 1972 had nearly three times the voting power of the weakest, that the four most powerful directors, with 53.5 percent of the total voting power, represented developed countries exclusively, and that the three weakest directors represented developing countries exclusively. These figures, therefore, are indicative of the relative degrees of influence of the member countries, especially the United States and Japan. Furthermore, the overall impression one gets by examining the speeches of the governors at the annual meetings of the Bank is that the directors most active in policy formulation are those with the largest voting power. 55

The smaller developing countries, like Cambodia and Ceylon, had anticipated such a development, and they there-
<table>
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<tr>
<th>Member Country</th>
<th>Shares (m)</th>
<th>% of Total</th>
<th>No. of Votes</th>
<th>% of Total</th>
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<tr>
<td>Developed Countries</td>
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### TABLE 3.1 (Cont'd.)

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<th>% of Total</th>
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<td>2,757</td>
<td>6,371</td>
<td>2.27</td>
<td>2.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>5.00</td>
<td>13.57</td>
<td>0.52</td>
<td>0.62</td>
<td>1,257</td>
<td>2,621</td>
<td>1.04</td>
<td>1.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>20.00</td>
<td>54.29</td>
<td>2.06</td>
<td>2.46</td>
<td>2,757</td>
<td>6,371</td>
<td>2.27</td>
<td>2.51</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep. of Vietnam</td>
<td>12.00</td>
<td>32.57</td>
<td>1.24</td>
<td>1.48</td>
<td>1,957</td>
<td>4,371</td>
<td>1.61</td>
<td>1.72</td>
<td></td>
<td></td>
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<tr>
<td><strong>Total: Vietnam</strong></td>
<td>60.92</td>
<td>159.66</td>
<td>6.28</td>
<td>7.09</td>
<td>10,634</td>
<td>22,931</td>
<td>8.76</td>
<td>9.03</td>
<td></td>
<td></td>
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<tr>
<td><strong>Other</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Afghanistan</td>
<td>4.78</td>
<td>12.97</td>
<td>0.49</td>
<td>0.59</td>
<td>1,235</td>
<td>2,566</td>
<td>1.02</td>
<td>1.01</td>
<td></td>
<td></td>
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<tr>
<td>Ceylon</td>
<td>8.52</td>
<td>23.13</td>
<td>0.88</td>
<td>1.05</td>
<td>1,609</td>
<td>3,501</td>
<td>1.33</td>
<td>1.38</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Rep. of China</td>
<td>16.00</td>
<td>43.43</td>
<td>1.65</td>
<td>1.97</td>
<td>2,537</td>
<td>5,371</td>
<td>1.94</td>
<td>2.12</td>
<td></td>
<td></td>
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<tr>
<td>Korea</td>
<td>30.00</td>
<td>81.43</td>
<td>3.09</td>
<td>3.69</td>
<td>3,757</td>
<td>8,871</td>
<td>3.10</td>
<td>3.50</td>
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<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>2.16</td>
<td>5.95</td>
<td>0.22</td>
<td>0.11</td>
<td>973</td>
<td>1,509</td>
<td>0.80</td>
<td>0.60</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Philippines</td>
<td>35.00</td>
<td>95.00</td>
<td>3.61</td>
<td>4.31</td>
<td>4,257</td>
<td>10,121</td>
<td>3.51</td>
<td>3.99</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Samoa</td>
<td>0.06</td>
<td>0.65</td>
<td>0.01</td>
<td>0.03</td>
<td>763</td>
<td>1,377</td>
<td>0.63</td>
<td>0.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Others</strong></td>
<td>96.52</td>
<td>258.96</td>
<td>9.95</td>
<td>11.72</td>
<td>15,131</td>
<td>42,516</td>
<td>12.33</td>
<td>13.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total: Developing Countries</strong></td>
<td>307.44</td>
<td>825.47</td>
<td>31.69</td>
<td>37.28</td>
<td>43,036</td>
<td>107,060</td>
<td>35.34</td>
<td>38.56</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1Countries with populations of more than 100 million

fore sought concessions, such as an increase in the number of directors to allow them stronger participation in the administration of the Bank. Mr. N. Wimalasena, Governor for Ceylon, in his inaugural speech emphasised this point and observed:

While . . . in drafting the Charter of the Bank an effort was made to give the smaller countries more recognition, it does not seem to have adequately provided a means whereby the smaller countries could participate in the active direction of the Bank's affairs and we hope that steps will be taken to remedy this situation early. 56

Accordingly, the Agreement provided that after two years the size and composition of the Board of Directors would be reviewed by the Board of Governors. It was stated, however, that any change would require approval by a majority of the total number of Governors having at least two-thirds of the total voting power. Thus, the United States and Japan are free, if they wish to do so, to prevent any such change in the directorships, since they jointly control 34.24 percent of the total votes. No change was, however, made in the composition of the Board when it came up for review. In this regard it is important to point out that a change in the number of Directors would not affect the number of votes cast by the United States or other countries, since voting strength is related to the size of the subscription and not to directorships.

The Board of Directors is responsible for the initial screening of all loans or guarantee applications, overseeing
financial operations, and approving the Bank's budget. Unlike the Governors, the directors are supposed to meet at frequent intervals as demanded by the pace of the Bank's operations.

As already indicated, a system of weighted voting is in effect in the ADB, as in other financial institutions of which the United States is a member; that is, voting strength varies according to the size of the country's subscription. Each member has one vote for each share he holds. Twenty percent of the votes are allocated as basic votes at a uniform rate of 778 votes per country; the balance is distributed in proportion to each country's subscription. Originally Eugene Black representing the United States and Takeshi Watanabe on behalf of Japan fought for 95 percent of voting strength to be based on contributions. They reluctantly accepted 80 percent of the votes to be based on donations of capital. A number of the smaller developing countries like Laos, Nepal and Singapore, had previously fought for complete parity in voting strength or an arrangement whereby no more than 50 percent of the votes would be based on the size of subscriptions. The compromise which was adopted, as can be seen from Table 3.1, gave the smaller members some increase in voting power, but left the dominant position of the United States and Japan more or less unchanged.

On the basis of their subscriptions, Japan and the United States each exercised in 1972, 17.23 percent of the
vote both in the Board of Governors and in the Board of Directors. Table 3.1 clearly reveals the dominant position of the United States and Japan in relation to the other members in terms of share holdings and voting power. These two countries held in 1972 nearly 14 percent more votes than all non-regional countries (excluding the United States) put together, and almost as many as those jointly held by the regional developing countries. The developed countries together held in 1972 nearly 69 percent of the shares and 65 percent of the voting power. Since the balance-of-power within the Bank is overwhelmingly in favour of the developed countries (a ratio of about 2 to 1), lack of absolute control is not a high price for the United States to pay. It is unlikely that any important decision could be taken against American interests, Important questions require a two-thirds majority, so that the United States, Japan and any other member could, at least theoretically, block any major decision. To ensure or block the passage of any proposal by the two-thirds or three-fourths majority required by the charter, they must only exert pressure on such heavily dependent nations as Taiwan, South Korea, Laos, Thailand, South Vietnam, West Samoa and the Philippines. As Black testified: "the majority of the votes are from the capital exporting countries, which is very important. In other words, the borrowers can't run the Bank."\(^{58}\)

The Bank's claim to be an 'Asian' institution rests on the provision in article 5(1) which ensures that at least
60 percent of the subscribed capital will be held by the countries of the region. However, these regional countries include two — Australia and New Zealand — which on grounds of ethnic, cultural and religious differences cannot properly be considered to be a part of the Asian continent. In the event of a difference of opinion, therefore, it is likely that these two countries would tend to side with the developed countries.\(^{59}\) Thus, since these two countries hold 11 percent of the shares, it would be technically possible for a majority of the shares to be held by non-Asian countries. At the end of 1968, the Asian members held 51 percent of the shares and 52 percent of the voting power. By the end of December 1972, they held about 62 percent of the votes and 63 percent of the shares. The figures for 1972 are however, misleading. The increase in the percentage of shares and votes of the Asian members (excluding Australia and New Zealand) was due to the fact that before the end of December 1972, most of the non-regional members (Austria, Canada, Denmark and the United Kingdom) had not subscribed their share of the increased capital stock (from $1,100 million to $2,750 million) authorised by resolution 46 of the Board of Governors in 1971.\(^{60}\)

A further relevant factor in analysing voting power in the ADB is the fact that one of the Asian members, Japan, is a developed country. John White, in an article\(^{61}\) written in 1965, has pointed out how in Japan's foreign policy its status as a developed country is emphasised at least as
strongly as its adherence to Asia. When the two orientations are in conflict, it is Japan the developed country which tends to dominate. Within the context of the Bank the important point is not that Japan is a regional member, but that it is one of the two principle subscribers with an economic perspective similar to that of the United States.

Thus, the real division within the Bank would seem to be between the developed and developing countries, and it is a division in which the developed countries, with nearly two-thirds of the voting power, are overwhelmingly the dominant partners. One should perhaps add in this connection that this division can on occasions be in a sense misleading. The position of the United States and Japan with clear cut objectives is sometimes distinct from that of the other developed countries, for which the Bank is only of marginal interest, and which can therefore take a more flexible approach. Some of these countries became members as a result of American pressure, which was motivated by the desire of the United States to acquire partners in its Asian commitments. Once in, they were bound to give thought to their role. Canada, for instance, has consistently taken a stand which is markedly different from that of the United States. At the first annual meeting of the Board of Governors, for example, the Canadian alternate governor stated his government's view regarding tying contributions to the Special Funds of the Bank. It was a viewpoint that was rather different from that of the United States and Japan:
Our assistance to a Special Fund is intended to be as free as possible from restrictions. Although our contribution will be tied to purchases of Canadian goods and services, this provision will apply only to the first round of disbursements.62

He went on to point out that the use of contributions to the Special Funds should be governed not by the general objectives and priorities of the individual members contributing such special funds but by those of the Bank. As a way out of the problem of tied funds, the Canadian Governor suggested that while the contributions could remain tied, they should be "opened to the fullest extent possible to international competitive bidding." This would enable, he argued, the developing recipient nations to procure the required goods and services at the most favourable price.63

Another point to be noted with regard to the United States influence within the Bank is that the origins of its involvement (discussed in Chapters I and II) - problems of political instability in Southeast Asia, increasing problems in Vietnam, the strong investment and trade interests in the region of the United States and Japan - suggested that the Bank would be most active in Southeast Asia. As will be seen a little later, this is precisely the area in which the Bank has concentrated its activities. The figures of voting strength given in table 3.1 clearly indicate that an orientation of this kind could not spring from the Bank's Asian character. With less than 9 percent of the voting power and only 6 percent of the shares, the Southeast Asian
countries are a very small minority. Thus, the concentration on Southeast Asia tends to further corroborate the contention that the Asian Bank is not an Asian institution, but rather a policy instrument for the pursuit of the interests of its largest donors, made possible by the nature of the voting system. Perhaps, it was for this reason that David Kennedy, Secretary of the Treasury in his letter to Gale McGee, Chairman of the Subcommittee on Foreign Operations, U.S. Senate wrote:

Congress has made funds available to these institutions because of their important contribution...to furthering United States objectives in Southeast Asia.⁶⁴

Up to this point this chapter has tried to show the extent of American influence (as also Japan's, America's close friend and ally) in shaping the organisation and structure of the Bank, especially the way in which voting power was distributed among its members. Now it will try to demonstrate how United States influence within the Bank has manifested itself in one particular and crucial aspect of the Bank's day to day activities, namely its lending operations. The reason for focusing on this aspect of the Bank's activities is that the heart of the ADB is its lending operations.

President Watanabe once argued that his Bank "should be a bank with a heart," not simply a "money lending machine." Paradoxically, this is precisely what the Bank
seems to have become. A partial explanation for this would seem to lie in, as Watanabe has often stated, the need to "follow sound banking principles." In practice this meant "establishing a high credit standing and proving the worthiness of the institution." However, since the Bank at the same time professes to pay special attention to the needs of the smaller, poorer, regional countries, this explanation does not seem fully satisfactory. A more comprehensive explanation is to be found in the fact that the Bank, under pressure from the capital exporting countries like the United States and Japan, has come to emphasise its role as a 'Bank' more than that of a regional financial institution, whose primary tasks are to promote the economic and social well-being of its Asian members.

Such an orientation is only to be expected given the considerations on the basis of which the ADB makes loans. A perusal of the statutes reveals three primary considerations which can be summarised as follows: 1) Priority is to be given to countries where certain conditions making for viable development exist and with populations possessed of the will to work; 2) aid will be restricted to countries possessed of sufficiently ample means to ensure re-payment; 3) interest rates will be adjusted, so far as this proves feasible, with due attention being paid to the nature of the loan granted, but the Bank will be required to ensure that it receives a reasonable return. These principles from the ADB's point of view are basic to sound banking.
At the ADB's inaugural meeting, Mr. Son Sann, Governor for Cambodia, expressed the concrete demands of the poor nations. They wanted quick progress, "long-term credits" at "very low interest rates," and greater power for the small recipient nations within the Bank's administration. United States Treasury Secretary Fowler spoke for the developed nations. He insisted that the Bank should "concentrate its energies and skills first and foremost on becoming a banking institution... [with] prudent management of funds, high standards of loan appraisals... [and] policies that permit accumulation of adequate reserves..." 

A comparison of the guidelines laid down by the Bank and those laid down by Secretary Fowler shows that the American vision prevailed.

Table 3.2 demonstrates that between 1968 and 1972, 77 percent (117 loans totalling $753,005,000 million) of all ADB loans were hard loans made out of its ordinary resources. The terms of these loans ranged from ten to twenty-five years at a rate of 6 7/8 percent (which was increased in mid 1970 to 7 1/2 percent). On these terms the Bank's loans could hardly be called aid. They are scarcely distinguishable from commercial bank loans. Not surprisingly, the ADB's first loan went to the Industrial Finance Corporation of Thailand, an institution that could easily have got the money elsewhere.

Given the interest rates which have applied to its ordinary funds, ADB loans have tended to add to the debt
### TABLE 3.2

**ADB Loan Approvals: 1968 - 1972**

(In millions of dollars U.S.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Number</th>
<th>Amount</th>
<th>Number</th>
<th>Amount</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>41,600,000</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>41,600,000</td>
<td>7</td>
</tr>
<tr>
<td>1969</td>
<td>76,095,000</td>
<td>14</td>
<td>22,005,000</td>
<td>6</td>
<td>98,100,000</td>
<td>20</td>
</tr>
<tr>
<td>1970</td>
<td>211,940,000</td>
<td>22</td>
<td>33,693,000</td>
<td>10</td>
<td>245,633,000</td>
<td>32</td>
</tr>
<tr>
<td>1971</td>
<td>202,520,000</td>
<td>16</td>
<td>51,510,000</td>
<td>12</td>
<td>254,030,000</td>
<td>28</td>
</tr>
<tr>
<td>1972</td>
<td>221,750,000</td>
<td>16</td>
<td>94,340,000</td>
<td>16</td>
<td>316,090,000</td>
<td>32</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>753,005,000</strong></td>
<td><strong>73</strong></td>
<td><strong>201,548,000</strong></td>
<td><strong>44</strong></td>
<td><strong>954,553,000</strong></td>
<td><strong>117</strong></td>
</tr>
</tbody>
</table>

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1 Excludes $0.5 million approved in 1968 and $0.5 million approved in 1970 incorporated in new loans in 1970 and 1971, respectively.
burden of the poor nations of the area, already staggering under service payments in view of an existing foreign debt of about $1.2 billion per year. Only 23 percent (44 loans totalling $20,548,000) of ADB loans advanced between 1968 and 1972 were "soft" (low interest) ones. Although between 1971 and 1972 the amount of the soft loans approved by the Bank increased by 54.6 percent ($42,830,000 million), it was still far less than the amount of ordinary loans approved by the Bank. These loans were made from the Bank's "Special Funds," donated by individual countries with strings attached to them. These funds are not, however, part of the Ordinary Funds of the Bank. The comparatively larger amount of Ordinary loans made by the Bank, based on the capability of its Asian regional members to pay higher rates of interest, is, therefore, reflective of the viewpoint of the developed countries and the relatively more developed Asian regional countries that the Bank must follow sound banking principles. The support of countries like the Republic of Korea, Republic of China, Thailand and so on for the Bank's lending policy was only to be expected since they naturally felt that they would be the prime beneficiaries of such a policy.

Thus an operative philosophy of this kind has its spin-offs for the United States in the form of furthering its political, security and economic interests in Southeast Asia. Of all the regional developing countries of Southeast Asia, only relatively more developed countries like Thailand, Republic of Korea, Philippines, Republic of China and so on
have the capacity to draw up sound loan proposals and absorb the high interest rates on Ordinary loans. Since the bulk of the ADB loans have been made from its ordinary resources, it is these countries which tend to benefit most from the ADB's lending activities. It should at the same time be borne in mind, that these are the very countries in which the United States has deep and abiding interests. Hence it can be argued that by concentrating its ordinary loan operations in these countries, the Bank not only helps to reduce American aid commitments to these countries, but also in the long run, by promoting economic growth and the concomitant stability that would result from it, serves (from the point of view of United States thinking at least) to make these countries less vulnerable to communist influence, thus fulfilling another goal of United States foreign policy. Simultaneously, the enhanced economic prosperity of these countries makes them more attractive for the American investor in terms of trade and investment.

The 'soft loans' of the Bank also tend to serve a similar purpose. These loans have generally gone to a handful of relatively less developed countries of Asia like Indonesia. As the loans from the soft funds are tied loans, and since the United States happens to be one of two major contributors, those countries which received loans from the United States share of the contribution to the Special Funds will of necessity be tied to it economically and politically. Indonesia which has monopolised the soft loans of the Bank is
a good case in point. Since the overthrow of Sukarno in October 1965, it has been so dependent on direct American aid and aid channeled through American dominated financial institutions that it is now politically and economically closely aligned with the United States.

An analysis of the distribution of ADB loans by country helps to illustrate the extent to which the ADB can serve the interests of the United States. Table 3.3 shows the distribution of ADB Ordinary and Special Funds loans by country up to the end of 1972. Four nations, Taiwan ($196.8 million), South Korea ($100.4 million), Phillipines ($101.5 million), and Thailand ($74.2 million) have together received 62.8 percent ($473.4 million) of all ADB loans made out of its ordinary resources. Out of the $201.5 million soft loans made by the Bank, Indonesia alone has received $69.6 million (34.5 percent), Philippines ($3.5 million), Taiwan ($3.7 million) and South Vietnam ($11.3 million). Together these four nations accounted for 43.7 percent of the Bank's soft loans. Ten other countries - Afganistan, Cambodia, Laos, Malaysia, Nepal, Pakistan, Papua New Guinea, Singapore, Sri Lanka and Western Samoa - have together received only $113.4 million or 57.3 percent of all soft loans.

It should be clear from the way the loans have been distributed that the bulk of ADB loans between 1968 and 1972 have gone to those countries which are closely aligned to the United States, both politically and economically. A brief review of America's relations with these countries
<table>
<thead>
<tr>
<th>Country</th>
<th>Ordinary Capital</th>
<th>Special Funds</th>
<th>Ordinary Capital + Special Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>-</td>
<td>5.15</td>
<td>5.15</td>
</tr>
<tr>
<td>Fiji</td>
<td>4.70</td>
<td>-</td>
<td>4.70</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>21.50</td>
<td>-</td>
<td>21.50</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-</td>
<td>69.64</td>
<td>69.64</td>
</tr>
<tr>
<td>Khmer Republic</td>
<td>-</td>
<td>1.67</td>
<td>1.67</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>196.80</td>
<td>3.70</td>
<td>200.50</td>
</tr>
<tr>
<td>Laos</td>
<td>-</td>
<td>4.34</td>
<td>4.34</td>
</tr>
<tr>
<td>Malaysia</td>
<td>79.60</td>
<td>3.30</td>
<td>82.90</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.00</td>
<td>35.71</td>
<td>37.71</td>
</tr>
<tr>
<td>Pakistan</td>
<td>67.15</td>
<td>18.20</td>
<td>85.35</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>-</td>
<td>14.60</td>
<td>14.60</td>
</tr>
<tr>
<td>Philippines</td>
<td>101.75</td>
<td>3.50</td>
<td>105.25</td>
</tr>
<tr>
<td>Singapore</td>
<td>91.38</td>
<td>3.00</td>
<td>94.38</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>13.14</td>
<td>22.41</td>
<td>35.54</td>
</tr>
<tr>
<td>Thailand</td>
<td>75.00</td>
<td>-</td>
<td>75.00</td>
</tr>
<tr>
<td>Republic of Vietnam</td>
<td>-</td>
<td>11.30</td>
<td>11.30</td>
</tr>
<tr>
<td>Western Samoa</td>
<td>-</td>
<td>5.33</td>
<td>5.33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>753.01</strong></td>
<td><strong>201.55</strong></td>
<td><strong>954.55</strong></td>
</tr>
</tbody>
</table>

¹Excludes $0.4 million approved in 1968 and $0.5 million approved in 1970 incorporated in new loans in 1970 and 1971, respectively.

help to clarify this point.

One of the major considerations of Thailand's foreign policy has been its historic apprehensions about China, which have been intensified by its fear of communism. Thus Thailand has closely aligned itself with the United States for security reasons, as well as to secure financial and economic assistance. The multilateral mutual defense pact, SEATO, which came into being in 1954, also helped to foster close relations between the United States and Thailand. Out of this pact was born a tie that became a crucial source of support for the American presence in Southeast Asia and the military campaign in Vietnam in the 1960's. The importance of the Thai military bases can be gauged from the fact that in numbers the United States armed forces stationed in Thailand constituted the largest American military contingent based abroad, next to West Germany. Though the economic interests of the United States in Thailand have been fairly significant, they have never been as important as its military interests in that country.

In the case of the Philippines also, one of the leading principles of its foreign policy is the maintenance of close and friendly relations with the United States. This is essential because the republic relies upon the United States for its defense, as a market for its exports and as the principal source of economic aid and private foreign investments. As the government itself is strongly
opposed to communism both at home and abroad as a result of its experience with the Huk rebellion, and as it has historical ties with the United States (it is a former colony of the United States), it has all along closely aligned itself with that country. From the point of view of the United States, it has proven to be a crucial factor in the implementation of the United States containment policy in Asia and the primary focus of American trade and investment interests in the region.

The extent of American political and security interests in South Vietnam until very recently is common knowledge. Beginning in 1955, with the elimination of the French from Indochina, the United States alone has borne the burden of financially and militarily propping up successive South Vietnamese regimes from being toppled by the communists. Thus the total dependence of South Vietnam on the United States has been the central fact of American-South Vietnamese relations, until the South was overrun by the North Vietnamese.

Similarly the Republic of China for economic and security reasons is closely tied to the United States. It was its so-called fear of being attacked (and possibly overrun) by the Peoples Republic of China which motivated it to get the United States to guarantee its security through the signing in 1954 of a Mutual Defense Treaty. Thus for its continued existence as a separate political entity it is dependent on the protective umbrella and continued support
of the United States. Besides its economy is closely tied to that of the United States in terms of trade and investment, though in recent years its trade with Japan has been increasing at a faster rate than that with the United States. 73

In recent years Indonesia has proven to be one of America's dependable political allies in Southeast Asia. The importance of the Indonesian connection is further emphasised by the fact that United States influence and prestige in Southeast Asia has reached an all-time low, largely as a result of its military and political setbacks in Indochina. Faced with such a situation, Indonesia has come to occupy a central position in America's strategic and political thinking with regard to Southeast Asia. Besides its political interests, the United States also has significant economic interest in Indonesia centered mainly in petroleum and other extractive industries. Thus, one of the striking features of the post 1965 period (i.e. the period since the downfall of Sukarno who was extremely critical of the United States) has been the accelerating pace of American investments in Indonesia, along with sizeable amounts of military and economic aid to that country. Consequently, Indonesia is heavily dependent on the United States for its security and economic well-being.

One of the central facts of the history of the Republic of Korea has been a constant fear of attack from the North. It was for this reason that it signed in 1963 a
Mutual Defense Treaty with the United States. Thus, it is largely beholden to the United States for its continued existence as an independent nation. This dependence is further accentuated by the fact that it has to rely heavily on the United States for badly needed economic assistance and private capital investments to sustain its economy. After Japan, the United States is its largest trading partner. For all these reasons, the Republic of Korea is closely linked to the United States politically, militarily and economically. In turn Korea has provided the United States with a reliable ally in its attempts to contain the Peoples Republic of China. At the same time, it is a profitable market for trade and investment.

Thus, what is noteworthy about all these countries is their dependence on the United States which in turn makes them pliable and cooperative allies, a fact that assumes great importance with respect to the pattern of distribution of ADB loans.

Viewed in this context, it does not seem to be sheer coincidence, that Indonesia, Republic of Korea, Philippines, Thailand, and Republic of China, countries which together accounted for 72.2 percent ($1183 million) of all American aid to South and Southeast Asia in 1971 (excluding India), also received 90.6 percent ($230.1 million) of ADB loans from its Ordinary and Special Funds during the same year. A significant point that emerges out of the foregoing discussion is that the ADB has been most active in Southeast Asia.
rather than in 'Asia', an understandable fact considering that it happens to be the primary area of American interest in Asia. This point was emphasised by Black during his testimony before the Senate Foreign Relations Committee in 1967 when he stated: "... as far as the United States is concerned our interest is that this money [contribution to the Special Funds] be used in ... Southeast Asia," an area of "primary interest" to the United States. Thus the Special Report of September 1967 of the National Advisory Council on International Monetary and Financial Policies on Special Funds of the ADB states that the United States, at the time it initially agrees to provide the funds "can stipulate the purpose for which the funds could be used and the basis on which they would be made available." A special geographic emphasis seems to have been an implicit stipulation which was attached to the United States contribution to the Special Funds of the ADB.

The ADB's president Mr. Takeshi Watanabe once claimed that the Bank is not guided by political considerations, or open to pressure from any country, when it examines the merits of a project proposal. In fact, this does not always seem to have been the case. For example, the ADB did not make any loans to Cambodia while Prince Norodom Sihanouk was in power, possibly because during the later years of his rule he had become an outspoken critic of United States policy in Southeast Asia. Its single loan to Cambodia was approved two weeks after the coup which overthrew him, and
established a regime under Lon Nol, favourably oriented towards the United States and the free enterprise system. 80 The new, acceptable attitude of Cambodia was apparent in the statement made by Mr. Mau Say, the Alternate Governor for Cambodia at the third annual meeting of the Board of Governors, held in Seoul, in April 1970:

"... our nation is more than ever determined to follow the path leading to nation building by promoting private initiative and by practicing an open door policy. ... Furthermore, new and liberal laws grant numerous advantages and facilities to foreign investors. They offer many opportunities for the employment of available capital which will not fail to find security and profitability on Cambodian territory."

The conclusions to be drawn from the preceding discussion can be summed up very briefly. The Asian Development Bank is certainly a bank and on that basis it is not to be criticised for seeking a high standard in being what it is. A large part of the reason for this orientation is to be found in the priorities of its major donors, the first of which was the establishment of a sound banking institution. Consequently, its role as a Bank has been emphasised more than its role as a 'catalyst' to promote regional economic cooperation among its members.

Again, because of the influence of its major financial backers, - the United States and Japan, the geographical focus of the Bank's lending activities has been predominantly Southeast Asia, with particular attention having been given to five major Asian allies of the United States:
Indonesia, Philippines, Republic of Korea, Republic of Taiwan and Thailand.

Although the Bank is supposed to be an independent 'Asian' institution, it is neither independent nor 'Asian'. First, except for Japan, the most influential members of the Bank are not Asians. Second, power within the Bank rests primarily with the United States and Japan along with the other developed member nations. For all practical purposes, the Bank is an agency for the transmission of multi-lateral aid and western technology to countries selected largely by its developed members. Finally, loans made by the Bank have gone predominantly to those member states in which the United States has significant economic and political interests.

Thus it would seem the ADB is well suited to further the economic and political interests of the United States in Southeast Asia.
FOOTNOTES

¹Far Eastern Economic Review, April 14, 1966, p. 59. Henceforth cited as FEER.

²During the inaugural meeting of the Board of Governors virtually all the members paid tribute to the crucial role of U Nyun in creating the Bank. See Inaugural Meeting of the Board of Governor's, Asian Development Bank, Tokyo 24-26 November 166, Summary of Proceedings, Manila: 1967, pp. 9-65. Hereafter cited as Summary Proceedings.


⁵While testifying before the House Committee on Banking and Currency Mr. Black stated: "... he /Mr. Watanabe/ was my pick for the presidency of the Bank because I think it is very important who heads an institution."


⁷FEER, p. 59.


¹⁰Resolution 54.


14 See for instance the statement of the Governor for Cambodia, Mr. Son Sann, Inaugural Meeting, Summary of Proceedings 1966, pp. 24-25.

15 Loans from the Ordinary Funds were supposed to be made at conventional rates of interest, without any strings attached to them.


17 For the text of the Charter see ADB Act, Hearing, Appendix 2, pp. 75-104.


19 Ibid., p. 143.

20 Resolution 62 (XXI).

21 The Japanese representative was again Mr. Takeshi Watanabe.

22 See Chapter I.

23 Black, p. 97.

24 White, Regional Development Banks, p. 47.

25 Ibid., p. 47.

26 ADB Special Funds, Hearing, p. 22.

27 For an interesting account of how Manila came to be selected as the Bank's headquarters see, Ibid., pp. 48-49.
The countries were: Afghanistan, Australia, Austria, Belgium, Cambodia, Canada, Ceylon, Republic of China, Denmark, Finland, Federal Republic of Germany, India, Italy, Japan, Republic of Korea, Laos, Malaysia, Nepal, Netherlands, New Zealand, Norway, Pakistan, Philippines, Republic of Vietnam, Singapore, Sweden, Thailand, United Kingdom, U.S.A., and Western Samoa. In addition Indonesia was admitted at the inaugural meeting by an accelerated procedure after the overthrow of Sukarno.


This, at least, is the general conclusion of such statistical analyses as have been undertaken by the Organisation for Economic Cooperation and Development, and is confirmed by more detailed surveys which exist for U.S. overseas investment. See for instance U.S. Congress, House, Committee on Foreign Affairs, Report of Subcommittee on Foreign Economic Policy, The Involvement of U.S. Private Enterprise in Developing Countries. H.R. No. 1271, Washington, D.C.: 1968.

Inaugural Meeting, Summary Proceedings, 1966, Appendix F.

Article 1, Agreement Establishing the Asian Development Bank, hereafter cited as Agreement, reproduced in ADB Act Hearing, p. 76.

Article 2, Ibid.


At the end of 1971 the total subscription stood at $1,005,380,000.

Article 4, Chapter II, Articles of Agreement, ADB Act Hearing, p. 77

Ibid., Article 5, pp. 77-78.

Ibid., Article 3.

ADB Special Funds, Hearing, p. 15.

White, Regional Development Banks, p. 15.


ADB Annual Report, p. 6.

Agreement, Annex A.

Ibid., Article 6(2).

By December 1972, the total subscriptions had increased to $2,985,714,000.

Article 4., Agreement, reproduced in ADB Act Hearing, p. 90.

Article 6(2), Ibid.

Article 30(1), Ibid.

For further details about the complex process by whith directors are elected see Agreement, Annex B.
54 ADB Annual Report for 1969, Appendix 1-V and 7. Percentages do not add up to 100, as Switzerland was at that time unrepresented.


56 Inaugural Meetings, Summary Proceedings, 1966, Ibid., p. 28. The Governor for Cambodia expressed a similar point of view at the meeting: "Regarding the regional countries with small voting power, we consider that it is necessary to favour them by allowing a stronger participation in the administration of the Bank; for this reason it would be useful to increase as soon as possible the numbers of Directors elected by regional members." p. 25.

57 PEER, April 14, 1966, p. 59


59 However, at the time of writing, no such occurrence has come to our attention.

60 ADB Annual Report for 1972, Appendix 1-VII, p. 81.

61 For a good discussion of this point see J. White, "Japan's Foreign Policy," in Venture 17 (December 1965).


63 Ibid., pp. 30-31.


65 Watanabe's speech at the inaugural meeting, 24 November 1966, Summary of Proceedings, p. 16.

67Ibid., pp. 24-25.

68Ibid., p. 63.

69No loans were made prior to 1968.


71The argument presented here is basically theoretical, since it was not until 1973, that Congress approved an American contribution to the Special Funds. The possibility of using the Special Fund for its own advantage exists, although it is beyond the scope of this study to ascertain if this has been the case since 1973.


73The literature on Southeast Asia bearing on the relations between the United States and individual Southeast Asian countries, especially those referred to above, is extensive. Two dated but informative books which give a broad overview of United States relations with the region are Richard Butwell, Southeast Asia Among the World Powers, Lexington: 1968, and Claude A. Buss, Southeast Asia and the World Today, Princeton: 1968. Besides these two books for more contemporary perspectives the journal Current History is particularly useful. See particularly the December 1970 and 1972 issues.

74India has been excluded from the computation because it is a donor nation.

75Figures for 1971 have been used since comparable figures of American aid and ADB loans to Asian members were not available for all countries for years other than 1971.

76ADB Special Funds, Hearing 1967, p. 23.

77Special Report, Ibid., p. 46.

78Takeshi Watanabe, Paths to Progress: A Collection of Speeches, Manila: March 1971, p. 65.

79FEER.
80 ADB Annual Report 1967, p. 94.

CONCLUSIONS

This thesis has demonstrated that the United States has substantial political and economic interests in Southeast Asia and that American support for the Asian Development Bank (ADB) during its formative period (i.e. 1965-1972) was due in large measure to its utility for the promotion of United States interests.

In chapter one (which dealt with the political interests of the United States) the emergence of the policy of containment of communism after World War II and its application to Asia was discussed. It was noted that in accordance with this policy a series of military alliances around the globe was formed as a sort of defensive ring around the Soviet Union and China—the two major communist countries. One such link in this defensive chain of alliances was the South East Asia Treaty Organisation (SEATO), which was meant to provide a protective shield for the Southeast Asian region against a possible 'Chinese threat'.

Over the years however, the policy of military containment began to run into increasing trouble. Consequently, United States policy gradually shifted in the direction of de-emphasising the military aspects of this policy and encouraging regionalism as a means of containing the spread of communism. The reasons for this shift were primarily the changing nature of super power relations, the opportunities afforded to the United States by the Sino-Soviet conflict and the failure of the United States military effort in
Indochina. These factors together served to alter the American approach to dealing with the perceived 'communist threat'. Henceforth, the United States viewed this threat as being more subtle; i.e. the problem was seen not so much as one of combating direct communist aggression as one of counteracting the spread of communist influence around the world. As the United States saw it, financial support for a regional institution like the ADB would provide it with an instrument for furthering this fundamental political interest in Southeast Asia since the ADB would facilitate the evolution of a multipolar Asian subsystem. Chapter one also examined certain secondary political advantages which the United States could derive from the creation of the ADB. It noted that the ADB could be used to reduce the American aid burden in the region, thus helping to pacify critics of American aid programmes both at home and abroad. The ADB could also serve to calm Asian suspicions normally associated with the bilateral American aid. Finally the chapter pointed out that the channeling of aid through an international agency like the ADB could help to limit the American commitment to particular regimes; while at the same time the ADB could lay down stipulations that would be politically repugnant to a 'Third World' country if made by the United States alone.

Chapter two examined United States economic interests in Southeast Asia. It noted that Southeast Asia has for long been an area of American economic interest. These
interests have been considerably strengthened over time, so that Southeast Asia has tended to become the primary focus of American (and Japanese) economic interests in Asia, in terms of aid, trade and investments.

It was also found that the ADB in its lending operations has tended to channel the bulk of its loans to Southeast Asia, reflecting the priorities of its major donors - the United States and Japan. These loans have been made for the purpose of building infrastructure, and for supplying development banks with capital for relending to small and medium sized business enterprises and semi-private industries. All these loans, it was noted, have helped to promote the interests of foreign investors in Southeast Asia, especially American and Japanese investors. Thus the Bank has proven to be a useful multilateral institution for the covert promotion of American economic interests in Southeast Asia, without arousing the suspicions, and the resultant hostility of the countries and people of the region, which have been features of American efforts to pursue these interests by bilateral means.

Having established in the first two chapters that the United States has substantial political and economic interests in Southeast Asia, chapter three then went on to examine how and why the Bank has tended to promote the political and economic interests of the United States. We found that once the United States decided to join the Bank, it did so by becoming active at the very beginning so as to
ensure its own 'control' over the organisation and management of the Bank. Thus the United States was the most enthusiastic advocate for a tied Special Fund, which permitted the donor country to exercise a certain amount of control over the policies pursued by the recipient countries. It was also shown that power within the Bank rests primarily with the United States and Japan. Within the Bank the directors representing the United States and Japan had nearly three times the voting power of the weakest. These two directors along with the two directors representing the developed western countries, with 53.5 percent of the total voting power, represented developed countries exclusively, while the three weakest directors represented developing countries exclusively. Thus, the chapter illustrated that although the Bank is supposed to be an independent 'Asian' institution, with the exception of Japan, the most powerful nations within the Bank are not Asians. The chapter suggested that it is largely because of the predominant influence of the United States and Japan within the Bank that the primary focus of the Bank's activities has been Southeast Asia - an area of 'vital' American and Japanese interest. Thus it was found that the bulk of ADB loans have gone to five Southeast Asian countries: Indonesia, Philippines, Republic of Korea, Republic of China and Thailand - all countries in which the United States has significant political and economic interests.

In sum the study has shown that the American com-
mitment to the ADB is rooted in the fact that the Bank was considered to be a promising institution for promoting the political and economic interests of the United States in Southeast Asia.
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