SOME EARLY ATTEMPTS AT ASIAN ECONOMIC COOPERATION

Some of the problems with which the developing Asian countries are faced could indeed be alleviated to a large extent by greater regional and sub-regional cooperation. Measures of trade liberalization, commodity agreements, harmonization of development plans and agreed specialisation have the potentiality of appreciably aiding the development effort of the individual countries by overcoming the problems of smallness of domestic markets and increasing productive efficiency by permitting greater specialisation and achievement of economies of scale. The need for greater economic cooperation is particularly acute among countries of relatively small economic size.

It is realised that there exists sufficient scope among the developing Asian countries for fruitful cooperation in many fields. In fact the Third Ministerial Conference for Asian Economic Cooperation held at Bangkok in December 1968 drew up a strategy for integrated regional cooperation. Treating trade expansion as an end product as well as an instrument of economic growth and social development, the strategy emphasized the importance of working out interdependent sectoral action programmes contributing directly

1. United Nations, Regional Economic Cooperation for Asia and the Far East, (Regional Economic Cooperation Series, No. 8), Bangkok, 1971, p. 2.
to the overall objectives of regional cooperation. Since then, substantial progress has been made in evolving programmes for trade and monetary cooperation.

The Fourth Meeting of the Council of Ministers for Asian Economic Cooperation held at Kabul in December 1970 reviewed the progress and adopted the Kabul Declaration on Asian Economic Cooperation and Development. In regard to trade and monetary cooperation, the Kabul Declaration decided to establish a preparatory committee for examination and negotiation for an Asian Clearing Union and inter-governmental committees for examination and further action in relation to the regional trade expansion programme and for the establishment of the Asian Reserve Bank.

It is encouraging that, although countries of the region as a whole have not yet entered into any comprehensive agreements for economic cooperation, concrete beginnings have been made in arrangements of different types.

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1. In the area of trade and monetary cooperation the Kabul Declaration is as under:

"Decides
A. to establish a preparatory committee comprising representatives of regional member and associate member countries of ECAFE interested in the establishment of an Asian Clearing Union, to examine further the aforementioned guidelines and to negotiate among themselves an agreement on terms and conditions acceptable to them for the early establishment of an Asian Reserve Bank to depute representatives to an inter-governmental committee to examine further the guidelines for the establishment of such a Bank and if this is found feasible, to consider and recommend provisions for its establishment."

United Nations, Regional Economic Cooperation in Asia and the Far East (Regional Economic Cooperation Series. No. 8), Bangkok, 1971, p. 4.

In September, 1969, the six major coconut-producing countries of the region, namely Sri Lanka, India, Indonesia, Malaysia, Philippines and Thailand, established an Asian Coconut Community for the purpose of promoting and coordinating all activities of the coconut industry in the region. A similar though more limited agreement was arrived at between India and Sri Lanka in regard to tea and it was decided in principle to set up an Indo-Sri Lanka tea consortium to collaborate in blending, packaging and selling tea in overseas markets, with a view to increasing the overall exports of Indian and Sri Lanka’s tea and ensuring a fair return to tea growers in both countries. The possibilities of concluding similar agreements in respect to other commodities, such as rice, rubber and jute, have been under active study. Another recent initiative of importance in this direction has been the decision of Indonesia, India and Malaysia to set up a Pepper Community. The Association of South East Asian Nations (ASEAN), consisting of Malaysia, the Philippines, Thailand, Indonesia and Singapore, which was set up in 1967, has been exploring possibilities of fruitful cooperation in various fields. The regional grouping of Iran, Pakistan and Turkey, known as the Regional Cooperation for Development (RCD), which was formed in 1964, is reported to have made considerable headway in respect of working out the details of a number of

on the basis of joint equity participation and production sharing. In the sphere of trade, an agreement on multilateral payments, involving credit limits of up to 2 million US dollars, was signed in April 1967 and the question of removing or relaxing trade barriers has been under study. Pakistan is also collaborating with Indonesia under an agreement known as Indonesia-Pakistan Economic and Cultural Cooperation (IPECC) which envisages the setting up of a number of joint ventures.

It will be seen that a good beginning has already been made in regional cooperation in the economic sphere in the developing ESCAP countries through such channels as agreed specialization and harmonization of investments and production programmes, trade liberalization on a selective basis and payments arrangements. So far the trend has been in favour of sub-regional groupings involving countries inside as well as outside the ESCAP region. Historical, cultural and political links have played a part in the evolution of such regional arrangements. A synoptic view of some of the attempts at regional economic cooperation in Asia is given below:

**Association of South East Asian Nations (ASEAN)**

The first attempt at regional grouping on the part of developing countries in South East Asia was made in 1961 when Malaysia, Philippines and Thailand formed
the Association of South-East Asia (ASA). The Association did not adopt any charter or by-laws nor did it establish any permanent staff, nor were any financial provisions made for it. It amounted to no more than a "forum for discussion of mutual problems."

In 1967, it was superseded by Association of South East-Asian Nations (ASEAN), in which Indonesia and Singapore joined with the former members of the ASA. The Bangkok Declaration said that the objectives of ASEAN were "to accelerate the economic growth, social progress and cultural development in the region through joint endeavour and partnership in order to strengthen the foundation for a prosperous and equal community of South East Asian Nations; to promote regional peace and stability...."¹

This Association is in the process of studying the feasibility of a definite programme of partial or complete integration. The member countries have been examining various possible fields of joint action and the forms of such cooperation. The possibility of trade cooperation and plan harmonization cannot be ignored but, being primary producing countries, the ASEAN members could cooperate to improve the terms of trade of the primary goods. They can cooperate to mitigate aid terms and to bargain on the prices of imported goods and machinery from the advanced countries.²

². Ibid., p.456.
ASEAN signed an agreement in early 1977 which may prove to be an important landmark in the evolution of a common market in the region. The agreement provides concrete steps to stimulate the flow of trade among member countries and reduce some of the tariff barriers. Full details of the agreement are not yet available. The levels of tariff cut are to be decided item by item by the ASEAN Trade and Tourism Committee. But on certain issues like rules of origin, preferential treatment for the products of joint ventures and government tenders, it has been possible to adopt a common approach.

Thus, certain processed and semi-processed goods are eligible for preferential tariff if the exports from the non-ASEAN or undetermined countries do not exceed 50 per cent of the freight-on-board value. But for Indonesia, it is only 40 per cent in view of some special problems faced by her. The products of all joint ventures that are already working or will be set up in future also qualify for preferential treatment. Other items that are eligible for concession include food and energy products like rice and crude oil and such other articles as may be identified from time to time.

As for government tenders, it has been agreed that ASEAN members will inform one another in advance about them and accord a 2.5 per cent preferential margin, not exceeding $40,000 on the basis of the lowest evaluated and acceptable tender.¹ The implication of this decision is that if one

member can offer what is needed by another, the former will be in an advantageous position even against a developed country.

ASEAN has gradually built up a network of permanent and ad hoc committees. In the absence of a central technical apparatus, the main work of preparation is done in the committees and sub-committees, with the aid of the standing committee and the Secretary General and the national secretariats. Thus there are, for example, committees for (a) food production and supply including fisheries, (b) civil, air transportation, (c) communications, etc., and shipping.

ASEAN has already decided to undertake five major industrial projects on the cooperative basis. The output of these projects will have preferential access to the markets of other member countries. This has now been formally agreed to; fertilizers produced in Indonesia and Malaysia, superphosphates in the Philippines, diesel engines in Thailand and Soda ash in Singapore will move to other countries under long-term contracts and preferential tariffs.

Besides, these five projects quite a few others will also come up in the public and the private sectors. The industries identified as the most suitable for joint development are petro-chemicals (based on Indonesian or Malaysian

natural gas), newsprint, salt-based chemicals, rubber products, agricultural machinery and basic electronic and electrical items in which the scale of production must be large to keep costs down.\(^1\)

Despite the problems in deepening economic cooperation, some of which are unavoidable in this early phase, ASEAN has earned itself— as Mr. Marcos says— the right to be called the most successful regional grouping in Asia.\(^2\) Not to be missed among ASEAN successes is the added clout that it has given itself by jointly confronting the major trading group—the EEC which has agreed to increase its quota allocations for plywood and canned pineapples and made improvements in concessions it offers for tropical products of interest to ASEAN like palm oil.

Judicious plan harmonization could indeed lead to the development of complementarities and provide a sound basis for the development of several industries. The region has such variable foreign exchange earners as rubber and crude oil. Rice surplus of Thailand could guarantee the region self-sufficiency in food and the mineral resources (bauxite, tin, petroleum) and the forest resources (timber, pulp), and the plantation resources (like rubber and coconut) could provide the basis of manufacturing

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2. Ibid.
industries which cannot develop now in the small markets of the individual member countries. At present, bauxite of the region is the major raw material support of the aluminium industry of Japan and the high quality logs of Malaysia and the Philippines are supplying the timber and plywood to industries of Taiwan. The inclusion of Singapore in the group is an important strengthening factor because of its major port facilities and shipping links with all parts of the world.  

The association was formed too recently to allow any evaluation of its success. On a priori grounds however, the chances of success of this type of partial integration are high. The countries are not distinguished by any uneven levels of development and their economic potentials are such as to facilitate industrial and trade cooperation in the region.

Regional Cooperation for Development (RCD)

The decision to set up a regional cooperation scheme for participation by Pakistan, Iran and Turkey was reached at a meeting of the heads of states in Istanbul in July, 1964, after the prepartory work undertaken earlier that year by foreign ministers and economic experts of the three countries involved had been completed. The scheme is known as Regional

Cooperation for Development (RCD) and calls for broad cooperation in trade, industrial development, transport, banking and insurance, tourism and technical assistance.

The outstanding characteristic of RCD is that it gives highest priority to the coordination of industrial development programmes through the establishment of a number of jointly-owned industrial enterprises and their equitable distribution throughout the area. This approach takes into consideration what other regional cooperation schemes seem to forget; in the context of underdevelopment, possibilities of trade expansion in traditional products are rapidly exhausted and autonomous industrial development in member countries in the long-run creates obstacles to the expansion of intra-regional trade.¹

Soon after its establishment, RCD determined, in principle to seek industrial complementarity in some twenty branches of industry including electronics, pharmaceuticals, petro-chemicals, iron and steel, coal, mining, motor vehicles, agricultural machinery, railway equipment, ship building, cement and aluminium. All of these industrial branches are/were either non-existent in the area or represented by small and antiquated plants. The member countries distributed feasibility studies among themselves.

according to factor endowments with the understanding that these studies are to be undertaken on a regional basis and that each enterprise is to be established with joint equity participation by all member countries.

It is expected that the expansion of intra-regional trade will follow rather than precede the building up of regional industrial enterprises. Traditional intra-regional trade is still very small and its bulk is represented by Iran's exports to Turkey and Pakistan. Moreover, even that trade is negligible. As in other parts of the developing world, national policies of import substitution preceding the emergence of RCD caused commercial transactions among three countries to decline from about $45 million in 1961 (in terms of exports) to $30 million in 1965. Trade between Pakistan, Iran and Turkey amounted to less than 1.5 per cent of their total foreign trade in 1965.1

The work of RCD is carried out by a number of agencies including thirteen permanent committees and a secretariat with headquarters in Tehran. Meetings of the executive organs are held in the capitals of the three members on a rotating basis. To mobilise the support and participation of the private sector of the economies of the member countries, an RCD Chamber of Commerce and Industry was created in August 1965.2

RCD appears to have made considerable progress on various fronts. By the end of 1966, the majority of the nineteen industry feasibility studies had been completed and three industrial projects serving the region—aluminium, carbon black and Banknote paper plants jointly owned by the three member countries—had been approved by the Ministerial Council. Joint ventures for petroleum exploration, exploitation and refining are in an advanced stage of collaboration. A joint shipping Conference—RCD Shipping Services—started operating between the region and the United States in mid 1966. An agreement was also reached on the exchange of petro-chemicals. Bilateral trade treaties were signed by Pakistan and Turkey and by Pakistan and Iran. The RCD re-insurance pool (accident, marine and fire) has been set up, and the study of the regional payments mechanism is under way. Finally, national road and rail expansion programmes are being coordinated, in order to link rail and road among the three participating countries.¹

Measures are being taken for the exploration, drilling, exploitation, refining, transportation, and distribution of petroleum and natural gas in the region. The Izmir Oil Refinery Project is developing according to plan, while the construction of a pipeline to carry oil from Iranian fields to a Mediterranean port in Turkey is also under study.

Further Iran and Pakistan are considering the possibility of jointly exploring and exploiting the oil in Macran area. Steps are also being taken to step up fitting stations in the border area.

The RCD regional Planning Council laid down the following general criteria to govern the establishment of joint purpose enterprises: (a) Products of such enterprises established in a particular country should be sold to other member countries at internationally competitive prices; (b) in determining projects for regional development priority should normally be given to the establishment of industries, which require a market larger than any one member country can provide; (c) technical expertise and personnel required for developing and running joint enterprises should be secured as far as possible from within the RCD region; (d) attempts should be made to secure for each member country, over a period of time, a reasonable share in the benefits from the joint establishment of joint purpose enterprises and (e) arrangements should be made to incorporate approved joint purpose enterprises in the several national development plans which would thus be reviewed and modified from time to time.1

The tentatively agreed joint ventures under the RCD are notable for the flexible country participation in projects

for the extent to which individual project has been
self-contained and for flexibility in fixing the duration
of ventures. These features of RCD are likely to permit
a rapid start in cooperation.

Although RCD consists of three countries, development
of joint ventures on the bilateral basis are allowed and
encouraged. It has been noticed that negotiations often
advance more readily on a bilateral basis. This practice
imparts greater flexibility in cooperation.

Equity sharing has been combined with market sharing
in each project. Benefits from regional cooperation can thus,
be distributed to some extent on a project by project basis.
This allows cooperation in individual projects without
involving a full agreement on sectors or sub-sectors, let
alone comprehensive plan harmonization. For success, however,
it requires that joint venture projects are distributed
more or less evenly among the countries.

Market sharing agreements may be for relatively
short periods say five years. Even a short-term agreement
would enable a country to set up plants of a more economic
size than it could afford on the sole basis of home needs.
By the time that market agreement comes to an end, home
needs would presumably have grown enough to justify the
selected size of the plant. This suggests that increasing
division of labour over time is not absolutely essential
to ensure gains from regional cooperation, at present.
The long-term goal of diversification may not necessarily be compromised by postponing import substitution in certain lines for a period of time until a plant of an economic size is justified by home market demand alone.1

There is also evidence of progress in trade. The Agreement on the RCD Union for Multilateral Payments was signed in Ankara in April 1967. These payments are confined to major civilian trade settlements, invisible payments for border trade and war materials are excluded. There is provision for credit upto US$2 million. Commerce Ministers are supposed to meet and discuss ways of removing intra-regional trade barriers.

In the field of transportation and communication, a RCD shipping service started operations on the intra-regional route in 1966 and a direct sea link was provided for the first time between Pakistan and Turkey. Direct service was interrupted by the closure of the Suez canal, but RCD shipping service has continued to serve the intra-regional trade through transshipment whenever a direct sailing via a Cape of Good Hope was not possible. There is also the beginnings of rail, road and air links.

An examination of the economic structure of the three RCD countries reveals remarkably similar patterns of manufacturing. Advance in industries such as cotton

and woollen textiles, sugar, edible oils and cigarettes has been extremely rapid in all three countries during the last decade. In general, import substitution in manufactured consumer goods has already been carried far.

The intermediate products and capital goods are relatively less developed in the RCD region and dependence on the import of these products is consequently much heavier. The annual combined value of machinery and transport equipment imported into the RCD countries is in the neighbourhood of US $ 800 million and constitutes 35 per cent of the total imports. Imports of iron and steel, chemicals, and fertilizers are large in all three countries. Demand for all these heavy industrial goods is expected to grow rapidly and the industrial plans of Pakistan, Iran and Turkey place major emphasis on these projects.¹

From the point of view of regional cooperation, it may be reckoned an advantage that Pakistan and Turkey have already achieved a degree of self-sufficiency in light consumer goods. The characteristic features of these industries (relatively low-capital skill requirements, large employment effects and limited economies of scale) render them manageable and economical for development on the national basis. In contrast, the heavier and more complex industries, such as certain types of steel, engineering, aluminium, fertilizers and petro-chemicals,

all of which the RCD countries are now stressing are precisely the industries in which the economies of scale are important and advanced technological skills and large capital investments are required.

The success of the RCD may be credited to the comparable levels of development of the three countries and to the choice of partial plan harmonization proceeding by projects as much as to their geographical contiguity and close cultural ties.

The difference in approach of the RCD and the ASEAN should be noted. In the former, the projects are developed by the sectoral committees and are then examined by the regional planning council in which the three planning organisations are represented. The projects are thus capable of being fully integrated into national development plans. In ASEAN, however, the projects are considered more or less independently. Recently, the planners of the countries concerned have tended to meet and discuss their development plans in relation to each other. This process may lead to greater harmonization of their plans. However, without a permanent coordinating body like the RCD regional Planning Council, a mutually consistent and mutually supporting arrangements between the regional projects and the national projects or even between the regional projects themselves may not be very easy to evolve.¹

Sri Lanka-India Agreement on Tea

The agreement on tea which was recently concluded between Sri Lanka and India could be treated as a model for commodities that are prominent as foreign exchange earners in the region. The first meeting between India and Sri Lanka took place in New Delhi in September 1967 when the possibility of evolving a common approach between the countries for the development of their respective tea industries in a mutually advantageous manner was discussed. A fair measure of agreement was reached on a common approach to the basic issues affecting world supply and demand, particularly the prices and unit value of exports, as well as on promotion for increasing tea consumption. The second meeting took place in Colombo in January 1968 and it decided on the formation of an Indo-Sri Lanka tea Consortium.

The objective of the consortium was of course to increase the overall exports of Indian and Sri Lanka's tea in all its forms and in particular to increase the convertible currency earnings from them so as to ensure a fair and equitable return to the tea growers of both India and Sri Lanka. With a view to attaining these objectives consortium has been engaged in the following activities.

(a) marketing both loose and packaged tea in all forms (either pure Indian or pure Ceylonese or blend of these two) outside India and Sri Lanka and to enter into trading operations in tea for this purpose.
(b) establishing blending and packeting units in foreign countries and wherever necessary in collaboration with their nationals.
(c) promoting the sale of packaged tea, and
(d) carrying out market surveys and research in product development.

It was decided to set up a working group to finalise the memorandum and articles of association of the consortium and to define objectives, functions, financial and administrative structure and scope of operations. The following guidelines were suggested for the working group:

(a) the consortium would consist of firms or organisations operating in each country;
(b) the board of directors of the consortium shall be nationals of either country;
(c) provision should be made for the appointment of a government representative from each government on the board;
(d) and the chairman and the vice-chairman of the board should be elected in rotation from India and Sri Lanka.

The consortium has been in receipt of fiscal, financial and legal support from the two governments including equity participation. It was recognised that for their international operations, it may be necessary for the two governments:
(a) to underwrite any losses in the initial stages;
(b) to grant tax incentives;
(c) to give financial assistance for promotional activities, and
(d) to provide the necessary foreign exchange facilities and credit facilities from financial institutions and banks.

In order that the consortium may become a commercially viable unit in the shortest period of time, it was decided that special tax and fiscal concessions be limited to a period of five years from the date of commencement of its business. These concessions, however, have been subject to periodic review by the two governments.

**Asian Coconut Community (ACC)**

Another noteworthy development in regional cooperation has been the agreement to establish the Asian Coconut Community which is concerned with all aspects of the development of the coconut industry as a whole; the development of better strains by selective breeding, agronomic research, trade both domestic and foreign and processing of coconut and other products of the coconut palm. It is the last aspect which is to be the major concern of the community. Article 3(2) of the agreement establishing the community described the need in this area as follows:
"In the area of the processing industries the community shall study and skill ways and means of improving the efficiency and diversification of those industries so as to maximise the utilisation of their industrial potential." The agreement also expresses the wish that the community should undertake research into all aspects of the industry, seeking the help of the national and international organisations and assist member states to intensify their own research activities by mobilising both internal and external resources and technical assistance and by promoting the coordination of research activities of member states. It also suggests that the training programmes should be evolved for the training of appropriate personnel to meet the varying needs of the coconut industry.

Asian and the Pacific Council (ASPAC)

The Asian and Pacific Council (ASPAC) has nine members, namely Australia, Taiwan, Japan, The Republic of Korea, Malaysia, New Zealand, Thailand and the Republic of Vietnam. This differs from the other geographical groupings mentioned earlier in that it is not confined to developed countries nor to the developing countries. The basis for the grouping appears to be primarily a similarity of outlook on political matters and because the Pacific is too vast an area to allow for a grouping of, for instance, Taiwan and New Zealand to be described as based on geographical considerations. The council does not appear to have taken any concrete steps in any specific directions yet, excepting
the bilateral agreement reached between the Taiwan and the Republic of Korea, which covers the construction of two petro-chemical plants to supply the needs of both the countries. The agreement involves a market-sharing device with the Republic of Korea supplying Caprolectum and importing DMT from Taiwan.

Indonesia-Pakistan Economic and Cultural Cooperation (IPECC)

Indonesia-Pakistan Economic and Cultural Cooperation (IPECC) has an organisational structure similar to what are called in the RCD joint purpose enterprises. The IPECC Committee on Industry is authorised to set up sub-committees for dealing with individual projects or other matters of substance. The reports of the sub-committees are considered in the first instance by the Committee on Industry. The reports of this committee are considered by the regional planning council whose recommendations are subject to approval by the ministerial council as in the case of RCD, projects.

The IPECC Economic Council has designated several industries as suitable for joint ventures like Jute, fish catching and processing, rubber processing and metal processing, the building of small ships and river crafts and coconut oil. However, not much progress in implementation has yet been reported.
Asian Development Bank (ADB)

Regional Economic Cooperation in the form of sub-regional common markets and free trade arrangements has never taken off the ground in Asia mainly because of highly unsettled political conditions. The Asian Development Bank put into operation in December 1966, seems, however, to offer greater hope for the future.

Proposals for the establishment of the Asian Development Agency first emerged informally with the United Nations Economic Commission for Asia and the Far East (ECAFE) in the early 1960's and may in part have been inspired by Inter-American Development Bank. An ECAFE paper prepared for the first session of the Conference of Asian Economic Planners held in New Delhi in 1961, offered arguments that an Asian Development Bank with a more intimate acquaintance with the economic problems and opportunities of the region would make possible a more efficient use of funds by the countries of the region and that such an agency would make a substantial contribution to the coordinated development of the Asian economies, assuming that the establishment of the Bank would at the same time bring more rational and multilateral allocations of foreign capital assistance to the countries of South and South East Asia.
The idea of the regional bank was discussed at the preparatory meeting for the special Conference on Asian Economic Cooperation (Bangkok, October, 1963) which considered a report prepared by the working group of experts on measures for economic cooperation in the ECAFE region. The expert group suggested that there was a great need in the area for an agency that would pool part of the savings available in different countries and direct them from national to more essential regional uses. Such a body, it was stressed, might augment local savings with capital from outside the region for financing the development of industrial and general projects requiring enlarged markets to function effectively and fitting into patterns of coordinated industrial development. The group suggested that, in addition to financing industrial and mineral development projects of regional interest, the proposed regional financial agency might also help finance intra-regional export trade. It was further proposed that one half of the contributions of Asian member countries be made in foreign exchange and the other half in local currencies and that the Bank undertake to finance, as far as possible, only the external cost of the development projects. It was assumed that the Bank's capital would be contributed by the countries of the region, but the expert group expressed the hope that this capital could perhaps be augmented by loans from outside the region.
At the Ministerial Conference on Asian Economic Cooperation in Manila in 1963, the 21 participating countries of Asia and Oceana agreed, inter alia, to proceed with the setting up of an ad hoc committee that would recommend the institutional arrangements necessary to establish an Asian Development Bank. Consultations on the possible draft of the Charter of the Bank were held in Bangkok under ECAFE auspices in June 1965, shortly after the US reversed its negative attitude towards the proposed Asian agency. On that occasion, in view of the US offer to contribute $200 million towards the initial capitalisation of the Bank and to give additional resources for a special fund for development loans on concessional terms, it was agreed in principle that the initial capital of the agency would be $1000 million, with 60 per cent subscribed by Asian countries and the rest by industrial powers. In the later part of 1965 and early 1966 the charter of the Bank was drafted by a preparatory committee. It was signed by 31 (19 Asian and 12 non-Asian) countries during the Spring 1966 session of the ECAFE in New Delhi. Asian countries offered to subscribe 65 per cent of the previously agreed initial capital and the advanced non-Asian powers pledged to provide the rest. The largest Asian contribution equal to that of the US came from Japan. The proposed subscription quotas of other Asian countries range from less than $100,000 for Western Samoa to $93 million.
for India and for other non-Asian countries from $5 million to $30 million.¹

The size and terms of loans from the ADB vary from one borrowing country to another, depending on the project and the economic situation of the borrowing country. Thus, a country may walk out of the Manila office with a loan for which it will pay normal "hard" interest rates (eight and three quarters per cent in 1974) or as little as one per cent service charge - or some combination of the two. The total advances made by the Bank between 1968-74 amount to $1924 million.²

Since resources for soft loans are naturally scarce, borrowing countries are expected to pay ordinary rates as soon as possible. For example, Indonesia when emerged as an oil producer, it graduated from concessional loans to paying full market interest rates, as do Thailand, South Korea, Malaysia and the Phillipines.

ADB's role does not end with the financing of a project. For the least-developed countries, the Bank will provide more technical assistance to implement a project and, through on-the-job training programmes, help train local personnel to take it over.

². Ibid., p.4.
The full social impact of each project is taken into account. There is no use of building a fine new dam if when the farmer's production increases, he does not have a road for getting his produce to the market. Realising this, whenever possible, an integrated plan is recommended by the Bank.

While sound banking principles alone might recommend that a majority of loans go to such proven successful projects as power plants, ADB has increasingly committed itself to agriculture. The developing countries which are members of ADB account for a third of the world’s population, and agriculture is their principal means of livelihood. Accordingly, the share of agriculture in the Bank's lending increased from 11.2 per cent in 1973 to 24.5 per cent in 1974.¹ (Table A-2).

The recent oil crisis dealt an especially crucial blow to the developing countries of Asia adversely affecting hard-won increases in agricultural production and industrial development. The so-called green revolution requires extensive use of fertilizers and pesticides, most of which are petroleum based. ADB, therefore, has been giving top priority to financing alternative power projects which reduce the need for imported expensive fuel oil.

In June 1974, an important arm of the Bank, The Asian Development Fund (ADF), became operational after ten

¹ Asian Development Bank, Annual Report, 1974, p.4
member countries had pledged $245.5 million with which to make concessional loans. Until then, soft loans were arranged through ad hoc contributions by member countries. But with this systematic mobilisation of concessional resources, the Bank can now offer rates as low as the one per cent service charge on loans repayable over a 40-year period. It is only on such terms that a country like Bangladesh can afford to borrow at all. Lack of concessional resources—soft funds to maintain the rising tempo of Bank's assistance to the poorest of its poor members remain ADB's major problem.

Objectives and Policies in respect of Integration Projects

A policy regarding integration projects is implicit in the Agreement establishing the Asian Development Bank, which states that one of the purposes of the institution is to contribute to the individual and collective economic development of member states and that

1. The ten were Canada, Denmark, Finland, West Germany, Japan, Netherlands, Switzerland, the United Kingdom and the United States. Japan almost put up 43 per cent of the total and the USA about 20 per cent.

<table>
<thead>
<tr>
<th>Country</th>
<th>Ordinary capital resource</th>
<th>Percentage</th>
<th>Special Fund's resources</th>
<th>Percentage</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>11.40</td>
<td>0.80</td>
<td>73.75</td>
<td>14.97</td>
<td>85.15</td>
<td>4.43</td>
</tr>
<tr>
<td>Burma</td>
<td>6.60</td>
<td>0.46</td>
<td>28.80</td>
<td>5.85</td>
<td>35.40</td>
<td>1.84</td>
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<tr>
<td>Nepal</td>
<td>200.96</td>
<td>14.04</td>
<td>3.30</td>
<td>0.67</td>
<td>204.26</td>
<td>10.62</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>14.13</td>
<td>0.99</td>
<td>26.71</td>
<td>5.42</td>
<td>40.84</td>
<td>2.12</td>
</tr>
<tr>
<td>India*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Not a borrowing member.

# Table A-2

## Loan Approvals by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>1968-74 ($ million)</th>
<th>1973 ($ million)</th>
<th>1974 ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>306.00 (15.9)</td>
<td>47.32 (11.2)</td>
<td>133.95 (24.5)</td>
</tr>
<tr>
<td>Electric power</td>
<td>441.84 (23.0)</td>
<td>92.50 (21.9)</td>
<td>76.55 (14.00)</td>
</tr>
<tr>
<td>Industry</td>
<td>529.64 (27.5)</td>
<td>106.60 (25.3)</td>
<td>336.87 (34.1)</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>410.47 (21.3)</td>
<td>125.00 (29.7)</td>
<td>81.51 (14.9)</td>
</tr>
<tr>
<td>Water Supply</td>
<td>222.66 (11.6)</td>
<td>43.66 (10.4)</td>
<td>68.80 (12.5)</td>
</tr>
<tr>
<td>Education</td>
<td>13.10 (0.7)</td>
<td>6.40 (1.5)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1923.71 (100.0)</strong></td>
<td><strong>421.48 (100.0)</strong></td>
<td><strong>547.68 (100.0)</strong></td>
</tr>
</tbody>
</table>

Figures in brackets indicate percentages

Bank will utilise "the resources at its disposal for financing development of the developing member countries in the region, giving priority to those sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole and having special regard to the needs of the smaller and less developed member countries in the region."

The agreement also states in article 2 that the Bank will assist member countries" in the coordination of their development policies and plans with a view to achieving better utilisation of their resources, making their economies more complementary and promoting the orderly expansion of their foreign trade, in particular intra-regional trade."

Asian Clearing Union (ACU)

There appears to be considerable scope for new forms of payments arrangements designed to promote the mutual trade of the developing countries of Asia. A new initiative in this area has recently been taken by six countries, viz. Bangladesh, India, Iran, Nepal, Pakistan and Sri Lanka, which have formed the Asian Clearing Union (ACU). The ACU was formally inaugurated in December 1974. The Bank of Markazi in Iran provides headquarters for the Union in Tehran.
The Union is intended to provide a clearing mechanism for the multilateral settlement of payments among member countries, to promote the use of their currencies in regional transactions, to effect economies in use of their foreign exchange reserves, and to promote trade and monetary cooperation in the region. Two clearing arrangements of this type have been operating in Latin America for many years, one linked to the countries of Latin American Free Trade Association, the other covering the member countries of the Central American Common Market.¹

Asian Clearing Union is a project that was promoted by the Economic and Social Commission for Asia and the Pacific (ESCAP) (formerly Economic Commission for Asia and the Far East) as a part of the effort at economic development through measures of trade liberalization and monetary cooperation within the region. Central banks or monetary authorities of regional members or associate members of the ESCAP are eligible to participate in the Union.

ACU provides facilities for multilateral settlement of payments for transactions between residents of territories of their members. Such multilateral settlement arrangements help to economize the use of foreign exchange reserves needed to effect international payments and foster savings in transaction costs involved in making international payments. The clearing arrangements are often supported by the provision of significant credit facilities and are conceived of as aspects of and steps toward expansion of trade and promotion of wider monetary and economic cooperation between the participants.

The part played by the European Payments Union in the post-war Europe is well known. The Asian Clearing Union, as the agreement setting it up makes clear, is in many ways a more modest effort at regional economic cooperation than its counterparts in Europe and Latin American countries. First, the payments for current international transactions other than payments for petroleum and natural gas and their products are eligible to be put through the clearing facility. The Directors of the Union are, however, authorised to exclude payments for other specified imports (and terminate such exclusion).

As a result of the developments since late in 1973, the amounts involved in trade are so massive and their impact on the balance of payments positions of net oil importing countries in the region is so critical that special arrangements are in any case required in respect of petroleum payments.

Secondly, clearing arrangements would not cover transactions under bilateral payments arrangements and at the time of signing the agreement, participants may also declare specified current invisible transactions of their residents as ineligible for clearing. Nepal and India have also already agreed that payments between them would continue as at present and would not pass through the Asian Clearing Union. However, apart from India's trade with Nepal and the petroleum and natural gas trade, the exclusion of transactions from the clearing arrangements are likely to be minor and in any case would not obtain permanently.

Thirdly, residents of territories of participants are entirely free to choose or not to use the clearing facility. The agreement, however, permits a participant to require residents of its territory to make payments through the facility so long as the requirement does not lead to restriction or delay in the making of payments for current international transactions or creation of discriminatory currency arrangements.
Fourthly, the ACU is in essence only a multi-lateral settlement facility. It has a fairly restricted credit element. A net debtor gets credit for a maximum period of four weeks (the settlement period) up to one-twenty-fourth or 4.17 per cent of its annual merchandise imports excluding petroleum and natural gas and their products from other participants. The liability of the next creditor to provide credit for the four weeks settlement or about 8.33 per cent of its annual merchandise exports, again excluding petroleum and natural gas and their products to other participants. The net creditor can claim immediate settlement and the net debtor is obliged to settle at the end of the four week accounting period the outstanding net positions in excess of their limits.

A degree of liberalization of credit element is possible because authority exists for Directors to change by unanimous vote both the length of the settlements and accounting limits on net creditor and net debtor positions at the end of each accounting period. The rate of interest to be paid by the net debtors and transferred to net creditors on daily balances outstanding between settlement dates is to be determined on the basis of the return on balances held on similar availability in major world financial centres.
The Asian Monetary Unit (AMU) equivalent in value to the special drawing right (SDR) allocated by the IMF is the unit of account of the Asian Clearing Union. This arrangement will continue until the AMU attains the stature to be assigned an independent value of its own.¹ Other operational issues, such as the types of instruments eligible to be cleared, currencies to be used, rates of exchange, procedures to be followed by trade, commercial banks and central banks for effecting and receiving payments as also the detailed clearing procedure would be settled on the basis of the recommendations of the technical committees.