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ECONOMIC PROBLEMS *of* UNDERDEVELOPED COUNTRIES IN ASIA

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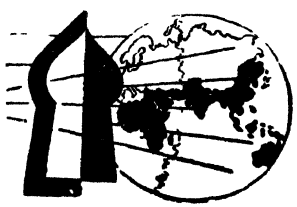

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PREFACE

It is now widely recognized that the economic development of underdeveloped countries in Asia is not only important for the welfare and stability of the countries concerned but also vital for the peace of the world. The problem in essence is this: Throughout South, South East and Western Asia the standard of living of the people is lamentably low; poverty, meagre diet, the absence of adequate medical facilities and high illiteracy are the lot of the common man. Population is on the increase. The achievement of self-government by many of the countries in the region, and the growth of national sentiment everywhere have only added to the urgency of the problem—for, the common man quite naturally thinks that self-government is or should be a means to improving his lot—and as early as possible. He cannot understand why living conditions should be so miserably poor for him, when, he knows, that in more developed countries, particularly in the West, science and technology are harnessed to raising living standards, and may, with proper organization, well be harnessed to raising his own living standards.

It is clear, as the Colombo Plan recognizes, that the human and material resources of the area are large enough to bring about an improvement in standard of living by raising agricultural and industrial production, care being taken at the same time to achieve a more equitable distribution of wealth. This urgent task, everyone agrees, requires for its fulfilment the co-operation not only of the governments and peoples of Asia but also the sympathetic understanding and assistance of economically advanced countries and international organizations.

Some attempt has already been made to analyse the relevant issues on the subject, more especially in the valuable Surveys of Asia and the Far East by the Economic Commission for Asia and the Far East (1947-1951), the Colombo Plan for Co-operative Economic Development in South and South East Asia (1950), and in the Report by a group of Experts appointed by the Secretary-General of the United Nations (1951). The Council felt, however, that there was room for a fresh study of the problem by scholars from the countries concerned not only for bringing the facts up-to-date but also for offering detailed and constructive suggestions on the subject. The thanks of the Council are due to the various scholars for their kind

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PART I

CHAPTER I

FORMS OF FOREIGN INVESTMENT

By B. K. MADAN

DURING the post-war years much economic thought has been focussed on the problem of the economic development of under-developed countries. Successive international conferences and meetings of the United Nations and its Specialized Agencies have brought their attention to bear on the difficult and complicated issues related to this subject. In essence the process of economic development involves an increase in the amount of real capital and improvement in the techniques of production. This requires what the economists call capital formation, which should be supplemented by higher technological skill, managerial ability and administrative competence. All these together go to make productive efficiency. In the very nature of things, the economic advance of any country, including any under-developed country, has to depend in the main on domestic resources and on their full and effective utilization. The economically under-developed countries of the world, however, remain under-developed not only because their resources of domestic capital and technological skills have not been fully mobilized, but primarily because these resources are small and very inadequate. It follows that foreign investment, and a large volume of such investment, is necessary if the process of economic development of under-developed countries of the world is to undergo any significant acceleration. Historically, too, the process of economic development has either hinged on the availability of abundant domestic resources of capital and technology, e.g. the industrial revolution in England, or has accompanied large capital inflows from foreign countries with ampler resources of capital and technical ability. International (private) capital movements have been the prime movers of economic progress bearing the fruits of technical advancement and scientific progress in their train from country to country. The importance given to foreign investment and international capital requirements in the contributions in Part I of the volume should not be interpreted in any sense as reflecting an inadequate appreciation of the role of domestic capital in economic development. It is intended rather to focus public attention on the international aspects of the problem of economic development of under-developed countries. The papers that follow on several individual Asian countries treat of both aspects of the problem.

Scope of the Article

It is the purpose of this article to examine the comparative merits and practicable scope of the various forms of international investment—private and governmental—in the form of direct or equity investment, shares, loans or grants—in the current national and international economic context. A general examination will also be made of the measures which are being taken to restrict, and which are being or may be taken to encourage, the flow of international capital from more highly developed to the less developed countries. Reference will be made to the appropriate fields of different forms of foreign investment as indicated by the experience of the last few years as well as by current international discussions of the problem.

Though the United States is by far the most important source of foreign capital, long-term investments abroad may be made and have been made even by countries which are capital importers on balance. Certain European countries, for instance, have recently been net importers of capital as the result of an inflow of funds from the United States at the same time as they have invested in overseas areas, more particularly in areas linked to them by political and economic ties, and their policies are also of some importance to underdeveloped countries. It is only possible, however, within the scope of this brief article, to give a general account of policies of capital-exporting countries, particularly the United States, without detailed reference to the peculiar features of the policies of individual countries.

Trends in Forms of Foreign Investment

A few of the broad trends in the field of foreign investment or international capital movements may be noted at the outset. Since the great depression of the early 'thirties which led to the practical cessation of international capital flows, the volume of private foreign investment has been extremely limited and in the course of its moderate revival during the post-war years, has been restricted to a sector of economic development. International loan or bond capital has altogether dried up and there is a distinct preference on the part of such private investors as would invest abroad for direct or equity investment so as to retain the policy control as well as management of the concerns in which the capital is invested in their own hands.

A trend beginning with the war and further reinforced during the post-war period relates to the dominating growth of inter-governmental and international loans and grants relatively to private foreign investments, the eclipse of which, expected by many to be temporary,

is for the time being nearly complete. This trend has not been particularly marked so far in respect of less developed countries, but such beginnings of this form of international capital assistance as have been noticed in respect of under-developed countries provide a clear indication of the progressively widening role of public as opposed to private investment in the post-war years. This trend in respect of international investment is matched by a similar trend in respect of domestic investments in many countries, where, too, the importance of public relatively to private net investments has increased. The trend to an increase in public international investment (including in this term grants as well as loans) is likely to continue in the immediate years ahead, though charters of several international economic agencies which have been drawn up with much assiduous care are still based on the hope and promise that private foreign investment will in time resume its traditional role and inter-governmental capital will, in due course, decline in importance.

PRIVATE FOREIGN INVESTMENT

As noted above, a distinctive feature of the post-war period has been the small amount of private long-term foreign investment in relation to the outflow of long-term capital through governmental channels. Such private capital flow as has occurred has been concentrated in relatively few areas and in extractive industries producing for export, mainly petroleum. The floatation of securities for foreign account whether in the form of bonds or shares has been negligible; and the bulk of the outflow of new capital has been in the form of direct investments by existing enterprises, financed from the reinvestment of income earned by the parent concern in the capital-exporting country or by its branch or subsidiary abroad.

The economies of many countries which in the past have been traditional sources of long-term international investment were adversely affected by the war and they have deliberately curbed the outflow of domestic capital in order to conserve their limited resources and mitigate the pressure on their balance of payments. In the United States, however, as in some other countries, the failure of capital to flow out cannot be explained by such direct control and the deeper causes of stagnation in international investment come into relief. A virtual cessation of private capital movements accompanied the collapse of the international economic system during the early 'thirties and the subsequent history has been one of abortive attempts to revive private international investment. Political insecurity has been added to economic disequilibrium and instability as a serious

impediment to the resumption of normal investment flows on a large scale among nations. Insecurity resulting from international political tension or internal strife in an under-developed country is a general factor restraining foreign investment. Particular factors relate to movements in some countries to nationalize certain forms of investments and other measures bearing on the terms and conditions on which foreign capital is permitted to enter and operate in the country; to these detailed reference will be made later.

A United Nations survey of international capital movements during the inter-war period brings out the very high price, in the form of high interest rates and discounts, which borrowing countries had to pay for loans received. The average yield of direct investments was even higher and reflected the private investor's appreciation of the risk involved. But in certain instances it was also an index of the capacity of the private investor to reap a high reward in the comparative shelter of a political relationship which smacked of exploitation. A basic dilemma of private foreign investment is posed by the heightened consciousness of economic interest in the under-developed investee countries associated in some cases with political independence. While these countries wish to pay a lower return on the foreign capital that they continue to need in ever-increasing measure for their economic development, their higher political status seems in the eyes of the foreign investor to increase the risk premium for investment abroad compared to investment at home. In the light of this dilemma it is easier to understand why the foreign investor distinctly prefers to venture his capital abroad only under the protective care of his own control and management, and the device of an ordinary loan to foreign concerns or of investment in the shares of foreign enterprises without a say in their management fails to evoke a response in him. Despite its demerit of a higher average return to the foreign investor than loans, however, the device of direct investment has its attractions for the investee countries. Direct investment has an elastic return rising in periods of high export prices and boom and falling at times of low prices and depression in production. The balance of payments is thus safeguarded against undue strain. On the other hand, the incidence of the fixed liability of a foreign loan rises embarrassingly in times of economic distress. Also, direct investment carries with it the necessary complement of technical and technological skill and managerial ability that is so necessary for a sound and lasting build-up of new economic activities. Attention in investing as well as investee countries has, therefore, rightly tended to concentrate more and more on ensuring a proper climate of invest-

ment in the countries at both ends of the investment process. The use of the term 'climate' for foreign investment had in earlier discussions of the problem been restricted to the attitudes toward such investment of countries in which the foreign investment took place. This use has now rightly been broadened to include the cultivation of proper attitudes and outlook in capital-exporting as well as capital-importing countries in recognition of the mutually beneficial nature of the process of foreign investment.

Policies of Capital-Exporting Countries

It may be of interest at this stage to go on briefly to survey current policies and attitudes toward private foreign investment in capital-exporting and capital-importing countries.

The foreign financing of economic development can be derived from governmental as well as private sources. The attitude of the capital-exporting countries, and among these of the United States, as regards the relative importance to be attached to the two kinds of sources is, therefore, a matter of interest. The preference of the United States for the bulk of foreign investment taking place through private channels is well-established and rooted in her own tradition of private enterprise. The Articles of Agreement of the International Bank for Reconstruction and Development afford an example of concern in the United States about private investment. Among the purposes of the Bank is the following:

> to promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment

Among the conditions to which the Bank's loans are subject,

> the Bank (must be) satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

In addition, the Articles of Agreement of the Bank provide that the bulk of the resources for the Bank's own lending operations is to be derived from funds raised in the capital market of a member country or otherwise borrowed by the Bank. Alternatively, the Bank may guarantee loans made by private investors. Recently the United States position was forcefully expressed by a member of the Sub-Commission on Economic Development:

> It is, I believe, the right of a great capital-exporting country, always adhering to the principles of the United Nations Charter, to parallel in its external activities the pattern of its internal economy. I, therefore, believe strongly that the United States should cooperate fully in sound economic development of underdeveloped countries, that it should look primarily to American private enterprise to provide abroad investment of capital and technique . . [1]

Apart from direct controls on capital movements, which the United States does not employ but to which several European countries have recourse for reasons already mentioned, capital-exporting countries can use indirect measures which may restrain or stimulate outflow through their effect on the security or expected yield of the foreign investment.

Taxation[2]

Policies in the sphere of taxation have a considerable bearing either as a deterrent or stimulant to the flow of foreign investment. The fact that income from foreign investment (or the investment as such) may be subject to taxation in both capital-importing and capital-exporting countries frequently puts foreign investment at a disadvantage which has grown with increases in the rates and scope of taxation in creditor and debtor countries alike.

In the United States and in most other countries which in the past have been important sources of foreign investments, present tax policies eliminate international double taxation by crediting the domestic taxpayer with the amount of taxes paid abroad. Under the present United States system, the foreign investor pays at the higher (United States) rate of taxation, and this does not provide much scope for less developed countries to offer tax incentives should they wish to do so. Some countries, e.g. Belgium and Netherlands, go further and accord preferential tax treatment either by ignoring income earned abroad by their nationals and enterprises (which is thus taxable only abroad, often at lower rates than at home) or by establishing lower tax rates on income earned abroad than on domestic income. If the Government of the capital-exporting country is thus prepared to ignore or to accord a degree of preferential treatment to income from

[1] Report of the Sub-Commission on Economic Development (Third Session).

[2] A fuller account of the policies of capital-exporting and capital-importing countries is given in two United Nations Reports: (1) Methods of Financing the Economic Development of Under-Developed Countries, Report by the Secretary-General, 7 June 1949; (2) Methods of Financing Economic Development of Under-Developed Countries, Survey of Policies Affecting Private Foreign Investment, Prepared by the Secretariat, 8 March, 1950.

foreign investments owned by its nationals, the capital-importing country could also offer tax inducements to foreign investors by reducing its own rates of taxation. There is, however, little prospect of finding an additional incentive to foreign investment through reduction in taxation on income earned abroad (by capital-exporting countries) or income earned by foreign residents (in capital-importing countries), beyond the avoidance of double taxation. The fiscal situation of most countries as well as other policy considerations would seem to preclude encouragement through this means.

Non-discriminatory or Fair Treatment

In the period since the end of the war several attempts have been made to secure bilateral or multilateral agreement on principles relating to the status of foreign investment and, in particular, to the non-discriminatory or 'fair' treatment of private international investments.

Although such proposals usually cover a variety of subjects, the chief issues relate to

(1) the extent, if any, to which foreign investments may properly be the subject of discriminatory policies, particularly with respect to taxation, the employment and training of domestic personnel, and the participation of domestic nationals and domestic capital in foreign enterprises;

(2) the principles and procedures which are to govern the determination and payment of compensation in the event of expropriation or nationalization of foreign investments, or in the event of other governmental action involving loss to the foreign investor.

Guarantees

Restrictions on the transfer of income and capital present a fundamental obstacle to potential international investment. It has been proposed recently that capital-importing countries might offer limited guarantees of transfer which take account of possible fluctuations in their foreign exchange receipts. The ability of a capital-importing country to undertake or honour such a commitment, on the one hand, and the inducement which such a commitment offers a potential investor, on the other, will, however, clearly depend on the anticipated position of the balance of payments of the country concerned. The uncertainties surrounding the future balance of payments position of potential capital-importing countries and other factors affecting the security of foreign investments have led to proposals that the function of guaranteeing transfer and perhaps other risks be assumed by the government of the capital-exporting country or by creditor and debtor

countries jointly through an agency such as the International Bank. Under current conditions, however, emphasis naturally has been placed on unilateral guarantees by the government of the capital-exporting country.

The guarantees could be extended to cover not merely transfer risks but also the risk of loss of income or capital resulting from specific events outside the investor's control such as confiscation, inadequate compensation for nationalization, war, civil disturbances, etc.

Since unilateral guarantees by capital-exporting countries might weaken the incentive of capital-importing countries to establish favourable conditions for foreign investments, any programme of guarantees by a capital-exporting country is likely to be conditional upon undertakings by capital-importing countries cencerning their policy toward existing and future foreign investments. This points to the need for bilateral treaties for regulating the conditions in which foreign investment may be fostered through the joint action and encouragement of capital-exporting and capital-importing countries.

Convertibility of Currencies

In the past the transfer of the return on foreign capital has depended, and still depends at present, predominantly on the export of primary products from the capital-importing country concerned, which these countries used to dispose of on what has been called the 'world market'. The transfer of the yield of investments thus depended on triangular or multilateral trade; the debtor countries earned the foreign currency they required for the transfer not through a net export to the creditor countries but to third countries which, in their turn, were net exporters to the creditor countries.

Even in the 1930's a substantial degree of convertibility remained, and certain underdeveloped countries continued to receive limited amounts of private capital from abroad. The appreciation of transfer risks by investors is reflected, however, in the large extent to which such capital was absorbed by countries economically or politically dependent on the creditor country.

The Second World War has led to new and drastic limitations on the convertibility of currencies. The flow of private capital movements has been largely concealed or offset by inter-governmental grants and loans, particularly from the United States, and by the using up of funds which the under-developed countries had accumulated in the United States and the United Kingdom in the course of the war.

It is true that a plentiful flow of capital to the under-developed countries would overcome—temporarily, at least—the existing balance

of payments difficulties which are reflected in the lack of an adequate degree of convertibility of the currencies of many of these countries. To this extent it might also have a significant effect on the convertibility of the currencies of many European countries to whom the under-developed countries may look for imports required for their development programmes. It might be expected, therefore, that an expansion of loans by governmental or inter-governmental agencies, or of private investments through the extension of guarantees by such agencies and other measures, would serve as a 'pump-primer'. A lasting restoration of convertibility, however, which alone can lead to a durable resumption of the flow of private foreign investment, assumes fundamental adjustments in the volume and character of production and consumption not only in the countries undergoing development (having inconvertible currencies) but in the capital-exporting countries and other countries as well.

Policies of Capital-Importing Countries

The encouragement of the flow of foreign investments in the service of economic development depends on the policies and attitudes of less developed countries as well of developed countries. The current policies in this respect in under-developed countries have a dual aspect of restricting and stimulating imports of foreign capital. The Sub-Commission on Economic Development expressed the concern of the under-developed countries in imposing specific restrictions on the entry of foreign capital thus :

> Public opinion in the under-developed countries, urges the imposition of certain conditions on the entry of private foreign capital. Among the more important of these conditions which are usually mentioned are provisions for domestic participation in the capital structure of enterprises promoted by foreign concerns within the country, for effective domestic participation in policy making and management of these concerns when operating within their boundaries, the imposition of an obligation on such concerns to reinvest within the country at least a portion of the profits that they make within the country and of obligation on these concerns to give adequate technical training, in the working of these concerns, to the nationals of the country, and the provision of facilities for the acquisition by such nationals of the technical know-how possessed by these concerns.

The acquisition of monopolistic control of public utilities and extractive industries in large measure by the direct investments of foreign capital led to demands for control over its entry and operations. 'The chief legislation affecting direct investment—disregarding

restrictions introduced with a view to national security or for similar purposes—aims at preventing the enterprises concerned from being entirely foreign ventures which utilize national resources without contributing adequately to national welfare or giving adequate impetus to economic progress Stress is laid in most under-developed countries on the employment and training of domestic personnel. In the case of concessions for extractive export industries, more importance is attributed to the financial benefits accruing to the country granting the concession. It is only natural that the exploitation by foreign enterprise of national resources, frequently exhaustible, that makes little direct contribution to a balanced development of the country granting the concession, should be the object of arrangements which permit that country to share in the profits realized.'

Exchange control and restrictions, which are only symptoms of deeper disorders, form another important category of restrictive influences on the movement of foreign capital. Under-developed countries, which seek to attract foreign capital, however, ordinarily avoid blocking the transfer of the yield on foreign investments, though policies with regard to the withdrawal of principal are often more stringent.

Perhaps the most deterrent effect on foreign investment is exercised by policies adopted by certain countries of 'nationalizing' or 'naturalizing' existing enterprises (through compulsory transfer to private domestic ownership). The principle of compensation to foreign investors has usually been accepted in such cases, but agreement on arrangements satisfactory to both parties in respect of adequate and prompt compensation, and the transfer of compensation amounts, is beset with difficulties.

The present status of international consideration of this question is indicated by the resolution of the Economic and Social Council passed in 1951 which 'with the object of achieving an expansion and steadier flow of private foreign capital' recommended that capital-exporting and capital-importing countries take certain specified steps to increase the flow of private foreign capital. Those countries able to export capital were asked: to undertake measures for the avoidance of double taxation and the negotiation of appropriate tax treaties; to be prepared to negotiate treaties with under-developed countries to ensure conditions favourable to the investment of private foreign capital; to supplement, whenever desirable and feasible, assurances given by recipient countries with guarantees to or insurance of potential investors against certain non-business risks affecting foreign enterprise; to impress on investors the importance of adhering to

appropriate standards of conduct in the operation of the foreign enterprises, particularly having due regard to the economic and social welfare of the capital-receiving countries as well as to impress on investors the importance of ensuring, wherever feasible, opportunities for participation of nationals of the under-developed countries in the administrative and technical services in industry, and in their training; to ensure conditions favourable to the investment of private foreign capital including the importation of modern equipment and techniques and other special requirements necessary for economic development. Countries seeking to attract private foreign capital were asked: to examine domestic laws and administrative practices affecting private foreign investment with a view to removing deterrents to the inflow of private capital; to provide further assurances, through treaties or otherwise, that foreign investors would be accorded reasonable freedom to operate, manage and control their enterprises and reasonable opportunity to remit earnings and withdraw capital, would enjoy secure protection for their persons and property and non-discriminatory treatment in the conduct of their business affairs, and would not have their property expropriated without prompt, adequate and effective compensation; to undertake through legislative or administrative measures and the negotiation of tax treaties, to eliminate discriminatory taxation of foreign enterprises.[3]

Joint action by capital-importing and capital-exporting countries in a variety of ways is thus necessary to create the 'climate' favourable to the renewed flow of foreign investment. Not all the joint action may, however, succeed if basic economic disequilibria are intensified or persist. This leads to a further observation: the creation of a climate for foreign investment depends to an important degree upon changes in other policies which are not determined primarily by considerations of foreign investment. For example, 'a liberal commercial policy pursued by capital-exporting countries is in the long run a corollary to their status as creditor nations; such a policy would do much, not only to facilitate the direct transfer of payments due from capital-importing countries, but to revive multilateral trade and thus bring about the international economic integration that in the last instance determines the general "climate" for foreign investment. In the capital-importing countries, the pursuance of policies which mitigate the pressure of the balance of payments appears of particular importance'. The above observations only serve to underline the point of the statement that a significant revival of private foreign

[3] Report of the Economic and Social Council covering the period from 16 August 1950 to 21 September 1951.

investment presumes the adoption of policies in capital-exporting as well as capital-importing countries which contribute to national economic stability and international economic equilibrium. Over and above these, a reasonable degree of domestic and international political stability is another essential prerequisite.

All this has been so often repeated that it sounds platitudinous. In any case, those who have particular concern with policies regarding foreign investment in capital-exporting or capital-importing countries can do no more than negotiate for the conclusion of agreements toward regulating the conditions governing foreign investment, and otherwise adapt policies, so as to reduce some of the *particular* as distinguished from the above *general* uncertainties confronting private investors. Several such bilateral treaties have been concluded by the United States with important under-developed countries, and negotiations are reported to have been in progress for a long time for the conclusion of such a treaty with India.

PUBLIC INTERNATIONAL INVESTMENT

Inter-Governmental Lending

We may turn now to consider the role of inter-governmental lending or lending by international agencies in the financing of economic development, and the proposals for modifications or improvements in this sphere. Inter-governmental lending is older and more significant in volume than lending by international agencies, particularly in relation to economic development. The latter form of borrowing, however, is more in favour with under-developed countries owing to the possibly larger political implications of inter-governmental loans than of loans and investments through international agencies. Currently, the most important example of foreign investment for development through inter-governmental channels is provided by the Export-Import Bank, which has sizable operations in the sphere of medium-term agricultural loans, particularly to Latin American countries. These operations are, however, by no means restricted to Latin American countries and include several Middle Eastern and Far Eastern under-developed countries within their range. Loans by the Export-Import Bank though extended directly for the promotion of the trade of the United States contribute in a significant degree to the development of production in the recipient countries. There is scope for beneficial extension of the activities of the Export-Import Bank.

International Bank for Reconstruction & Development

Perhaps the agency above all on which the hopes of many under-developed countries are pinned at present is the International Bank for

Reconstruction and Development which after some relatively big loans to European countries in aid of post-war reconstruction has increasingly directed its attention to the financing of economic development of under-developed countries. The setting up of the International Bank for Reconstruction & Development marks the beginning of a new phase in the field of international investment, a phase of some solid achievement and considerable promise.

The International Bank for Reconstruction and Development has adopted and encouraged a new approach to problems of economic development and to its financing. It is a comprehensive and well-rounded approach. The charter of the International Bank authorizes it to make loans for specific projects. The objective of this is simply to assure that Bank loans will be used for productive purposes. The Bank does not interpret its function as being to examine the merits of particular projects in isolation, but examines them with reference to the overall development needs and programmes of the borrowing countries. The Bank also renders a variety of technical assistance to its member countries in the normal course of its loan operations, and has latterly established a new unit to keep in touch with supply developments in advanced countries to help under-developed countries obtain the materials and equipment needed for development.

Although the Bank has given increasing attention to less developed countries, its loans to Asian countries have not yet attained any sizable proportions.

It is illustrative of the character of the Bank's financing policy that virtually all its loans to less developed countries have been granted for the purpose of improving the basic structure of their economies. It has been pointed out earlier that the Bank's role is primarily to supplement and not supplant private investment. Private investment—foreign and local—is usually readily available and Bank financing is therefore considered to be the least necessary for projects related to (a) the production and processing of primary materials, agricultural and mineral, where the bulk of output is destined for export and (b) the development of light manufacturing industries. Projects in the former category have attracted and should continue to attract private foreign capital, if conditions are favourable. The world demand for primary materials like petroleum, metal ores, timber, sugar, etc. continues strong and growing while supplies remain restricted; moreover, the transfer risk is smaller because foreign investment directly results in additional goods for export and thereby provides the foreign exchange necessary for interest, dividend and amortization payments. Light consumer industries again, do not involve a very large single invest-

ment and tend to produce relatively quick and substantial returns through sales in the domestic market, and hence prove particularly attractive to local capital and enterprise. There remains, however, large scope for investment in fields like transportation and communication facilities, irrigation and reclamation projects, power, port developments and public utilities which form the basis for the development of all other sectors of the economy. These basic facilities require large initial capital outlays which, because of the low level of savings and the inadequate development of savings institutions, often cannot be financed wholly by the countries themselves. Moreover, most of the machinery and equipment used in the construction of these facilities must be imported. This is the type of development that is most apt to require assistance from the Bank and on which the Bank has concentrated its lending operations.

International Grants-in-aid

The Bank has made a good beginning in helping forward the development of less developed countries on sound and durable lines and it may be hoped that it will accelerate the expansion of its operations and the range and scope of its beneficial activities in aid of economic development. The International Bank is, however, a bank and constituted as it is, its operations must have regard to business considerations of the productivity and to a certain extent profitability of the projects it finances as well as of the repaying capacity of the borrower. There are, however, large areas of basic development requiring investments in such spheres as education, nutrition and public health and medical programmes and in technical training of the people, which are only indirectly productive or productive in the very long run, but which are essential to efficiency and economic improvement of the less developed communities. Investment in some of the projects in this field may even bring some direct return over a long period of time and such investment in low-yielding and slow-yielding projects could become worthwhile on the basis of loan resources made available at low rates of interest for very long terms. There would be other projects, however, which although they contribute to the economic efficiency and productivity of the economies concerned would yield no or only a negligible direct return and could, therefore, be financed only with the aid of grants from more highly developed countries. These countries might consider it worthwhile to make these grants in the collective defence of those values which the more and less developed countries hold in common. The process of economic development helps directly in maintaining economic stability and employment in the developed

countries and should strengthen the economic defences of the democratic communities against those dangerous tensions which tend to mount with the widening gap between the current rates of development of the richer and poorer countries.

A certain amount of very-long-term loan capital and grant capital has been forthcoming in the last few years in aid of economically under-developed areas, principally from the United States but also from other countries of the Commonwealth. Reference to these loans and grants may be made by other contributors to this issue. In respect of the Commonwealth loan and grant funds the nucleus of an international agency is being formed to canalize these funds and coordinate their flow with other forms of international financial and technical assistance. The United States aid—which, of course, is more significant by itself than the present or probable assistance by all other countries together—is however, provided on a bilateral basis. Several proposals have been mooted in recent years to provide an international institutional framework for the organization and distribution of such loan and grant assistance. The Group of Experts appointed by the Secretary-General of the United Nations, reporting in May 1951, recommended the setting up of an international finance corporation and also recommended that 'the United Nations should establish an International Development Authority to assist the under-developed countries in preparing, coordinating and implementing their programmes of economic development; to distribute to under-developed countries grants-in-aid for specific purposes; to verify the proper utilization of such grants; and to study and report on the progress of development programmes.' The recommendation raises two questions: first, to what extent can the existing international organizations like the International Bank, for example, perform the necessary function of coordinating and advising on the implementation of the programmes of economic development? Secondly, what are the chances of setting up a new real international organization for the distribution of economic aid funds derived predominantly from a single country? To take the first question, to the extent that the funds provided by the International Bank fall short of the requirements of economic development, properly assessed though not strictly productive from the point of view of the International Bank, it can be said that the International Bank could not adequately perform the function of coordinating comprehensive economic development programmes. But this is a question begging the answer; for if the international funds available for economic development are limited to those which the International Bank can provide, the direction of the International Bank will be adequate. The crucial question then is the second one.

It involves the inquiry whether a sufficient number of countries will be able to make substantial enough contributions toward a new international agency for grants-in-aid to make it international in fact as well as in name. Or else, if the control of the single member country over its management and operations were to reflect the relative contribution of that member to the funds of the new agency, this control would be so complete that the description of the agency as international would be somewhat of a misnomer. At the same time the dangers of a new international wrangle would be real in the face of the multiplicity of criteria and principles for the distribution of international grants-in-aid funds that the new agency will have to recon with. And yet, the challenge of a quicker pace of economic development in the under-developed countries has to be met. The problem requires a bold and fresh approach. Despite the pitfalls and possible hazards of investing grants-in-aid programmes with a new international garb, there are weighty arguments in favour of serious consideration of proposals in the direction of a new international economic development authority. The international approach to the problem of grants-in-aid assistance cannot be lightly disregarded. It would, however, become the more practical in proportion as more countries with a potential surplus of capital are prepared to adopt policies which would enable them to participate in the great enterprise of economic development, and in proportion as the less developed countries themselves put forth their best to use such aid as they receive to its maximum effectiveness.

CHAPTER II

CAPITAL REQUIREMENTS IN ASIA AND THE FAR EAST[1]

By NORMAN LEON GOLD

THE process of econmic development involves primarily improvements of techniques of production and acquisition of more and better equipment. One of the axioms of economic life is that the productivity of an individual or an enterprise or a country is likely to increase as the amount of capital used in the production processes is increased. Normally the individual, the enterprise or the government, when seeking to embark upon or expand a given activity, will make an assessment of the capital requirements.

Gross capital formation is the sum of all tools, machinery, plant, equipment, and producer stocks of semi-finished goods. These capital goods are employed to make production easier or to expand production in the future. Consequently they themselves are not immediately available for the satisfaction of consumer wants. The process of capital formation thus involves a limitation of the flow of consumer goods for the immediate present in return for the possibility of a flow of goods and services in the future. Whether this gross capital formation results in an increase in the output of goods depends, among other things, on whether it is only sufficient to maintain the existing stock of capital equipment i.e. to offset depreciation and to assure satisfactory maintenance, or whether over and above this, there is sufficient increase in supply of capital goods to result in a net increase in their stock.

In many countries of Asia and the Far East important plants have been allowed to remain idle for a long period of time, railway and waterway equipment has been destroyed, or inadequate attention has been given to proper maintenance. In consequence, there are very large arrears in capital formation. The countries embarking on a programme of capital development, therefore, may find that it will take several years even partially to make up the previous losses. In such cases output of goods and services for consumption, even after large annual investment, will only slowly return to earlier levels. This is especially the case in such fields as transportation and many branches of industry, where the services of fixed capital are spread over a considerable period of time,

[1] Opinions expressed in this article are those of the author and do not necessarily reflect conclusions of the United Nations Organization or the Economic Commission for Asia and the Far East.

so that only a small part of the value of the original investment is recovered in the form of goods and services in any one year. On the other hand, in certain fields, particularly some types of agriculture, investment in fertilizer for certain crops or the selection of proper seeds and the installation of some types of irrigation may result in a very large return on the initial investment in a relatively short period of time.

The analysis of a country's capital requirements involves consideration of the resources that can be directed to economic development in the light of needs. Needs must be defined ultimately in terms of consumer requirements, and directly in terms of the individual projects and effort which will contribute to meet consumer needs. It is evident that a statement of capital requirements which is based solely on needs without any reference to practical evaluation of available resources would have relatively little meaning except as an ultimate target. On the other hand, the term 'needs' is to a very considerable extent subjective, though in the field of food requirements it has a more precise meaning as a result of nutritional investigation.

The determination of fixed amounts of money which are required for economic development for a country or a region is a new concept which has not yet been fully developed. So far as the countries of Asia and the Far East are concerned, the establishment of precise figures to indicate capital requirements, and the analysis of the sources from which these funds will be obtained, are most necessary in preparation of economic plans. Consequently it is only as comprehensive plans are developed by the countries that such figures become available and can be analysed.

Though there are still countries in Asia and the Far East that do not yet have detailed plans for economic development, there is agreement on the guiding principles for such plans, this having evolved from earlier and more ambitious statements of requirements. The minimum programme for economic development is one which will maintain minimum consumption levels and provide a gradually rising level of living for the bulk of the people. Responsible authorities are now quite likely to reject statements of capital requirements that assume a rate of development far in excess of the probable capital and technical resources available both domestic and foreign. They do this in spite of the demagogic appeal of inflated paper programmes. On the other hand, they are equally concerned that a minimum programme, which may in fact require substantial foreign assistance, shall at least result in no decrease in the lower levels of living and shall realistically assure a higher level in the near future.

A review of capital requirements is necessarily clothed in the language of public and private projects, of investments, sources of revenue

and the like. It is important to remember that the essence of its subject matter is, however, maintenance and improvement of the level of living. This must be stressed by planners and analysts alike. For capital formation requires the assent and active co-operation of a very large proportion of the population. To achieve substantial capital formation, individuals must be willing, through their own acts or through the fiscal measures of government, to forgo increases in, and in some cases even to reduce, present levels of consumption. It was long ago pointed out that the sinews of war are 'money, money, and more money'. People everywhere know what this means. As will be noted below, capital development is expensive. Its sinews, too are 'money, money, and more money'. Substantial resources—monetary and real—must be set aside for benefits which in any one year may be quite small. Usless the community sees and appreciates the steps which must be taken in the process of capital formation as realistically as it may visualize the benefit which may accrue, plans and programmes for economic development may not proceed much further than the paper stage.

INDIVIDUAL COUNTRY PLANS

Currently the most comprehensive set of figures on the financial cost of economic development programmes is contained in the estimate of the Colombo Plan for Co-operative Development in South East Asia. This plan, for India, Pakistan, Ceylon, Malaya and North Borneo, was prepared in September 1950. The areas covered include a population of approximately 440 million people, and the programme, as prepared, had a total value of approximately £312 million annually ($874 million). Table I gives some interesting economic data in connexion with these plans. It shows that the programmes for Ceylon, Malaya and North Borneo involve an annual per capita expenditure of approximately $5 (US currency equivalent) to nearly $7.50; in the case of India and Pakistan, however, annual average cost is well under $2 per capita. The programme as outlined involves from 4 to 10 per cent of 1949 national income in Ceylon and Malaya, and approximately 3 per cent in the case of India and Pakistan. Finally it may be noted, that from 17 to 21 per cent of the total requirements is foreign exchange expenditure in the case of India, Malaya and North Borneo, and 39 to 42 per cent in the case of Ceylon and Pakistan.

TABLE I

1951-57 *Government Development Programmes of Selected Countries in Relation to* 1949 *Gross National Product*

	Unit	*India*	*Pakistan*	*Ceylon*	*Malaya*	*North Borneo*
Population	million	347.3	82.2	7.3	6.1	.9
Government Development Programmes:						
1951-57 *Cost* ..	million	Rs. 18,396	Rs. 2,600 *b*	Rs. 1,359	M$838	M$83
Annual Average Cost						
Total	million	Rs. 3,070	Rs. 433	Rs. 227	M$139	M$14
Per capita ..	US$equiv.	$1.85	$1.59	$6 52	$7 45	$5.08
Domestic Expenditure	million	Rs. 2,540	Rs. 250	Rs. 139	M$114	M$11
Per capita ..	US$equiv.	$1.53	$0.92	$3.99	$6.11	$3.99
Foreign Exchange Expenditure ..	million	Rs. 530	Rs. 183	Rs. 88	M$25	M$3
Per cent of total expenditure ..	%	17	42	39	18	21
1949 *Gross National Product at Factory Cost*	million	Rs. 96,000*a*	Rs. 16,711	Rs. 2,245 *c*	M$3,345	—
Per capita ..	National Currency	Rs. 301	Rs. 222	Rs. 308	M$545	—
Per capita ..	US$equiv.	$63	$67	$65	$178	—
Annual Development Cost as per cent of 1949 *Gross National Product:*						
Total expenditure ..		3 0	2.6	10.00*c*	4.0	—
Domestic Expenditure	..	2.6	1.5	6.0	3.0	—

[a] An estimate of Rs. 78,105 million was included for the United Provinces only in which about 75 per cent of the total population live.

[b] Includes Rs. 400 million of private investment.

[c] Based on a probable under-estimate of Ceylon's national income.

Source of data: Colombo Plan for Co-operative Economic Development in South and South East Asia. Appendices 3-6.

Table II indicates the broad areas in which the government expenditure is contemplated.

TABLE II

Analysis of 1950 *Development Programme Presented by Ceylon, India, Malaya and North Borneo*

	Per cent distribution of proposed expenditure
Agriculture[a]	32
Transport and Communication	34
Fuel and Power	6
Industry and Mining[b]	10
Social Capital	18
	100

[a] Including multi-purpose projects. [b] Excluding coal.

Source of data. The Colombo Plan *op. cit.* Chapter VIII, Section 2.

Except in Malaya and North Borneo, a third or more of the requirement is for agriculture, forestry, fishery and irrigation. Transport and communications represent the second important category of expenditure. Social capital, covering the wide field of public health, sanitation, and other social development cost, is extremely important. Fuel and power development and industry and mining are the fourth largest category.

The completed programme anticipated the following results:

13 million more acres under cultivation (3½ per cent increase)

13 million more acres under irrigation (17 per cent increase)

1.1 million kilowatts more of electric generating capacity (67 per cent increase)

Such measures, it was hoped, would keep the levels of consumption from declining and provide a sound foundation for further developments in the future.

These plans as developed in September 1950, for individual countries, are certainly not the last word in appropriate statements of capital requirements for economic development in individual countries of Asia and the Far East. When the Government of India presented the draft outline of the First Five Year Plan in July 1951, it represented the first of many revisions that may be expected to take place, partly as a result of more detailed examination of individual projects, partly as a result of important modifications in the nature of the plan itself.* Changes in the supply of commodities and in prices of domestic and imported goods will also result in changes in the plans. Moreover, they are bound to be influenced very greatly by the resources that can be mobilized for the effort both in government and in private industry and by the type of outside financial assistance that may be sought or which may be made available.

INDIA'S FIVE YEAR PLAN

Because the plan of the Government of India is the latest revision available, and because of the importance of progress in economic development in one of the largest areas of Asia and the Far East, its plan deserves further consideration. The new Five Year Plan involves a total expenditure of Rs. 1,793 crores in the public sector, of which Rs. 1,493 crores is the financial requirement of the programme (the first part of the programme) which the Government believes to be manageable with the resources now in sight. The developments contemplated are as follows:

* The final plan has since been published—Ed.

TABLE III

Pattern of Proposed Five Year Outlay in the Public Sector for India

	Outlay during 1951-52 to 1955-56 (Rs. crores)	Percentage of total outlay during 1951-56
Agricultural and rural development	191.69	12.8
Irrigation and Power	450.36	30.2
Transport and Communications	388.12	26.1
Industry	100.99	6.7
Social Services	254.22	17.0
Rehabilitation	79.00	5.3
Miscellaneous	28.54	1.9
	1,492.92	100.0

Source: *The First Five Year Plan—A Draft Outline*—Government of India, Planning Commission, July 1951, page 39.

It may be noted that this classification underestimates the amount assigned to the development of agriculture, since irrigation, much of transport and communications, as well as some industry, such as fertilizer and processing, and a great deal of the social services are devoted to agricultural and rural development.[2]

In addition to the requirements of approximately Rs. 1,500 crores in the five year period (equivalent to about US $2,700 million) for the public sector, it is estimated that Rs. 250-300 crores will be used in large-scale industry in the private sector to finance expansion and arrears in replacement. Of this amount roughly Rs. 125 crores is for expansion of plant. Thus public and private investment equal to over 400 crores of rupees annually would be equivalent to approximately 5 per cent of present annual national income in India.[8]

This is a higher rate of capital development than had previously been considered feasible for India. Moreover, it may well underestimate the capital investment that is possible and probable in India under reasonably stable conditions. In the first place, it includes no calculation for the probable capital investments by small-scale enterprises or residential

[2] The International Bank for Reconstruction and Development, in answering a criticism that a relatively small proportion of its loans were directly for agriculture and forestry production, pointed out that up to October 1951, excluding loans to Europe, about 20 per cent of its loan commitments were to assist agriculture directly, and 30 per cent indirectly. Statement by Dr. Egbert de Vries, Economic Department, International Bank for Reconstruction and Development, at the 13th Council Meeting of FAO, Rome, 12-17 November 1951.

[8] See *The First Five Year Plan*, *op. cit.* p. 50.

buildings. Moreover, it does not cover private investment in agricultural improvement and livestock. If the Five Year Plan as presented is financially feasible, it seems reasonable to conclude that the probable rate of savings is fairly considerably above the 5 per cent level.

OTHER COUNTRIES

Pakistan, Ceylon and Malaya undoubtedly will revise their plans further. The improved resources of Pakistan, for example, will make possible plans at a higher level than the Colombo Plan.

For Burma, the estimates are almost entirely limited to a restricted two year plan of economic development which was published in April 1948. Currently a thorough-going revision of previous plans is being undertaken and it will be possible to assess more precisely the capital requirements visualized by the government as necessary for economic development. For Indonesia a draft plan of the Directorate of Trade and Industry provides for expenditure of Rs. 338 million in 1951 and 1952 on large-and small-scale industries. Additional large- scale enterprises after 1952 would cost an estimated Rs. 522 million. As regards both Indonesia and Thailand, as well as some of the other countries, there has been virtually no long-term plan for economic development, though special efforts are now being made to remedy this deficiency.

REGIONAL ESTIMATES OF REQUIREMENTS

Aside from the country by country estimates, there have been a number of estimates for the total area of Asia and the Far East. In the latter part of 1948 the SCAFE Industrial Development Working Party considered the problem of regional requirements on the basis of plans of individual countries, though they did not include estimates for Burma, Hong Kong, Nepal, Pakistan and Thailand. The figure arrived at was approximately US $13,600 million, over a period of years, varying from country to country but averaging five years,[4] or an average annual expenditure equivalent to approximately $2,700 million per year. In 1949 the Food and Agriculture Organization (FAO) estimated that, on the basis of national plans, investment needs in the Far East, in a four year period, aggregated approximately US $11,000 million or US $2,750 million per year.[5]

In 1950, Mr. Colin Clark made some calculations for China, India and Pakistan as well as other countries of the world. According to his calculations, China needs savings at the rate of 5.7 per cent of national

[4] *ECAFE Report and Recommendations of the ECAFE Industrial Development Working Party*, October 8 November 1949.

[5] *Report on International Investment and Financing Facilities*, Fifth Session, FAO Conference, 21 November 1949, FAO, Washington D.C., p. 22.

income, and India and Pakistan 12.5 per cent of national income, in order to absorb the increasing labour force and maintain the past rate of increase in productivity. In the case of India his calculations indicate an annual requirement equal to some 5,860 million International Units (one International Unit is the quantity of goods procurable for one dollar in 1925-34, i.e. costing over US $1.50 in 1949), for Pakistan the figure is about 1,300 million International Units and for China about 900 million International Units.[6]

An FAO calculation, based on certain assumptions,[7] indicated that for a population of 100 million people, an investment of about US $920 million annually would be required for a rapidly expanding economy in underdeveloped countries. This sum would be required, according to the estimate, to move 1 per cent of the farm population and at the same time absorb the annual increase in the working population into non-farm occupations. Since the ECAFE region includes more than 1,000 million persons, if the same assumption can be applied, the 'limited' programme for economic development suggested above would require an annual mobilization of US $10,000 million in investment resources.

Finally attention may be drawn to the much discussed estimates by a group of experts appointed by the Secretary-General of the United Nations which were published in the report entitled *Measures for Economic Development in Underdeveloped Countries.*[8] These estimates are given in Table IV. According to this group, the countries in the geographical area covered approximately by ECAFE, with a population in excess of 1,000 million persons would require an annual capital of nearly US $11,000 million for industrialization and over US $2,000 million for agriculture, in order to raise their national income per capita by 2 per cent annually.

[6] See *Fortune,* July 1950.

[7] The assumptions were that 40 per cent of its population was in the labour force, that 80 per cent of its workers was in rural occupations, that population increased at the rate of 1.5 per cent annually, that national income was US $70 per capita, and that a capital investment of US $1,000 per person was required for the 920,000 persons for which non-farm occupations were to be provided. The population structure was based on that in underdeveloped areas, including Southern and Eastern Europe, the Soviet Union, the Near and Far East, Africa and Latin America and the capital requirements estimate on investments actually made in rapidly expanding countries. See *Report on International Investment and Financing Facilities, op. cit.* p. 16.

[8] *United Nations, Department of Economic Affairs,* New York, May 1951.

TABLE IV

Capital Required by Underdeveloped Areas Annually in Industry and Agriculture to Raise their Per Capita National Income by 2 Per Cent. Annually

	South Central Asia[a]	Far East Excluding Japan[b]	Total
	million dollars[c]		
1. Population mid-1949 (million)	436	661	1097
2. Expected rate of annual population increase 1950-1960 (per cent)	1.50	0.75	..
3. National income 1949	24,000	26,400	50,400
4. Net domestic savings 1949	1,200	790	1,990
5. Industrialization } Needed for	4,360	6,610	10,970
6. Agriculture }	460	1,056	2,016
7. Total needed	5,320	7,666	12,986
8. Deficit (Col. 7 minus col. 4)	4,120	6,876	10,996

[a] Includes India, Pakistan, Ceylon, the Maldive Islands and the adjacent areas of Nepal and Bhutan.

[b] Includes Burma, China (including Formosa), Korea, Mongolian People's Republic Philippines, Thailand, British Borneo, Federation of Malaya, Hong Kong, Indonesia, Indo-China, Macao, Timor, Singapore and New Guinea.

[c] Uuless otherwise stated.

Source: *Measures for the Economic Development of Underdeveloped Countries*, United Nations, Department of Economic Affairs, New York May 1951.

POSSIBLE RESOURCES FOR ECONOMIC DEVELOPMENT

In some countries of the world, national income and capital formation studies and statistics provide considerable guidance to the administrator and the analyst on the possible levels of public and private investment and their impact on national production and prices. Such analytic sources are not available for any of the countries of Asia and the Far East and in a number of cases some of the most basic calculations have not been started. Even the concept of national income is difficult to convert into monetary terms in economies which are not entirely integrated even within national boundaries, and where many of the economic phenomena are not monetary or are not subject to any fixed pricing pattern. Considerable areas of Asia and the Far East have had

no recent population census, and the available census figures are subject to many well-known limitations. The development of statistical data for gross and net capital formation may hardly be said to have begun. As a consequence, estimates of savings and national income are generally little more than guesses. Among the more well-informed are the following: Colin Clark has estimated net domestic savings at a rate of 3 per cent of national income for China and 6 per cent for India and Pakistan. The experts appointed by the Secretary-General of the United Nations assume for their calculations a saving rate of 5 per cent in South Central Asia (India, Pakistan, Ceylon, Maldive Islands, Nepal and Bhutan) and 3 per cent in the case of the Far East excluding Japan. The rate of savings for India has been estimated at 6 to 7 per cent of national income or perhaps lower.[9] In South Korea, the very rough calculations by the Government indicate that, in 1949, total investment was perhaps 1.6 per cent of income.

So far as national income is concerned the subject is receiving increased attention but the limitations of the available material are extremely great. Table V summarizes the most recently available information prepared by the United Nations on per capita income in specified countries of Asia and the Far East. It will be noted that these rough estimates indicated a national income equivalent to approximately US $40 to 45 per capita or about 50,000 million dollars for the countries listed. There is some reason to believe that many of the national estimates err on the side of underestimation.[10] There appear to be fairly substantial differences in the level of national income between Japan as compared with China, Burma, Indonesia, South Korea and Thailand which are shown at more or less the same level, and Ceylon, India, Pakistan and the Philippines at an intermediate level.

Three national income studies in Asia and the Far East have been prepared on a basis which yield some information on magnitudes of savings. In the case of Burma, the present national income calculations show that net investment at home varied between about 1 per cent in the fiscal year 1948-49 and a negative figure in 1949-50 to a peak of about 10 per cent in 1946-47 and about 8 per cent in 1947-48. For Malaya, net savings have been estimated at roughly 5 per cent of consumption plus investment. In the case of Japan, incomplete estimates indicate that private plus government investments in 1949-50 were

[9] See *International Monetary Fund, Financial Institutions of India, with Special Reference to the Mobilization of Domestic Resources for Development*, mimeographed, 17 February 1950, page 85, and Report on *National Investment and Financing Facilities op. cit.* page 22.

[10] *Among the important studies in this field are Statistical Office of the United Nations, Statistical Papers*, Series E. No. 1, 2 and 3 and ECAFE, *Methods of National Income Estimates in Countries of Asia and the Far East* (E/CN.11/323, 29 November 1951), along with annexes on individual countries.

equal to nearly 15 per cent of gross national expenditure. With the 'capital consumption allowance' the net investment figure is in excess of 10 per cent.[11] If the 'guesses' at income and savings are reasonably accurate, it is possible to conclude that savings may be of the magnitude of perhaps 1,500 million to 3, 500 million dollars annally with the possibility that they might be higher under favourable conditions.

TABLE V

Rough Estimates of National and Per Capita Income in Countries of Asia and the Far East

Country	1949 national income million US $	Population mid-year 1949 thousands	1949 income per capita US $
Burma (1948-49)	612	17,180	36
Ceylon	487	7,297	67
China	12,384	463,493	27
India (1948-49)	19,572	346,000	57
Indonesia	2,000	79,260	25
Japan	8,260	82,636	100
South Korea	700	20,189	35
Pakistan	3,760	73,855	51
Philippines	850	19,356	44
Thailand	650	17,987	36
Average per capita income including Japan			44
Average per capita income excluding Japan			39

Source of data: Statistical Office of the United Nations, Department of Economic affairs, *National and Per Capita Income of 70 Countries in 1949 expressed in United States Dollars*, New York, October 1951, pp. 14-16.

Such calculations mean annual saving under more or less unfavourable circumstances, equivalent to perhaps $2.50 per person, lower than this under the most difficult past circumstances of countries such as Burma or South Korea, and considerably higher than those under difficult conditions for such countries as Ceylon and Japan. Perhaps the most satisfactory evidence of the fact that savings may be higher than here indicated is the fact that India, Pakistan, Ceylon and Malaya have prepared savings plans for public expenditure which imply rates of savings higher than the national income estimates would appear to war-

[11] See *Economic Survey of Burma* Rangoon, Superintendent Government Printing and Stationery, Burma 1951, pp.12-14, and Frederic Benham, *The National Income of Malaya*, 1947-49 Government Printing Office, Singapore 1951, pp. 159-181, ECAFE *Methods of Income Estimation in Countries of Asia and the Far East* E|CN. 11|323, 29 November, pp. 2-3 and Annex C, p. 46.

rant. As noted previously, in the various national estimates of capital requirements including in the Colombo Plan and the revised Five Year Plan for India, proposed development expenditures vary from somewhat under U.S. $2 per person per year for India and Pakistan to nearly U.S. $8 in the case of Ceylon, including foreign assistance.

The fact that figures for annual savings of public authorities can be obtained with some degree of precision, as well as the predominant role that government is taking in the new enterprises, draws particular attention to such data. On the other hand, investment in land improvement, tube wells and irrigation which farmers must make as the government itself spends money on programmes for irrigation and land improvement is not registered or contained in any record. Livestock growth figures are generally not known nor is there complete information on ploughs, carts and other agricultural equipment.

On the other hand, the regional estimates of capital required are generally very much higher than the respective national plans assume. For example, the report of the United Nations experts suggested an average of about $13 per capita per year. The discrepancy between needs based solely on calculations of requirements and those based on assessment of resources and included in national plans is not as great as would appear from a simple comparison of figures. Some of the discrepancy may be due to the fact that the individual country plans underestimate the amount of private investment that will be made as well as the amount that will be induced by public investment programmes. Moreover, the estimates based on needs do assume very large outside assistance. However, there is little doubt that there are in fact very real differences between the probable abilities of the countries to provide the capital requirements and the calculations made of requirements alone. In this sense estimates of the latter type are unrealistic compared with practical plans for capital development.

It should be noted that the wide gaps between possible capital expenditure and probable requirements means that the improvement of national income resulting from the practical plans will be limited. As noted previously, the Indian Five Year Plan, for example, is expected essentially to maintain consumption levels rather than to provide any substantial increase. The less realistic calculations do indicate what it would cost if there were to be a relatively rapid increase in the levels of consumption. For this reason the unrealistic calculations do have an economic meaning which should not be overlooked. They point to the fact that the process of raising national income is not an easy task and is in fact very expensive. If underdeveloped areas are to increase supplies of goods and services through economic development, an enormous investment effort will be required. Realistic consideration of

'absorptive capacity' should not blind observers to the fact that, if the countries are limited in their ability to provide, secure and absorb sufficient amounts of capital, they cannot expect or be expected to show any rapid change in real income.

NEED FOR FOREIGN CAPITAL[12]

For the six year plans prepared by a number of countries of the region, the foreign exchange requirements varied from about 17 per cent to over 40 per cent of the total. If requirements for private investment were covered, the percentage would undoubtedly be higher. At present and in the near future, few, if any, countries in the region can readily expand exports sufficiently to pay for all imports necessary to implement the plans. Until industries producing export goods are sufficiently expanded, or until local capital goods industries are developed to meet a significant portion of the present import requirements, considerable foreign capital is necessary, in addition to available domestic savings, if the development projects are to be completed within a reasonable period of time. Governments, corporations and individuals, therefore, seek to meet their needs in part at least from foreign loans. It is now generally agreed not only by countries of the region but by those outside, including capital exporting countries, that there must be substantial loans and assistance from foreign sources if the rate of economic development is to be speeded up.[13]

It is important not to underestimate the relations between external finance and domestic savings. For each country the particular relationship will depend on the special circumstances. This may be indicated by a few illustrations. In the countries where inflation is related to the abnormal scarcity of food, textiles or other consumer goods, foreign resources made available for these goods can be an inportant first step to promote increased domestic mobilization of resources. When the external resources are made available as a grant, the individual country, in disposing of the consumer goods through normal channels, may secure domestic currency proceeds as a counterpart fund which can be used in economic development and as an important supplement to the voluntary and involuntary savings required.

Without foreign exchange assistance it may be impossible for a country of the region to complete a particular project for irrigation, to

[12] This section is taken from ECAFE *Mobilization of domestic Capital through Financial Institutions in the* ECAFE *region* (E|CN.11|I&T|40, 1950, pp. 37-39).

[13] This was also emphasized in the General Assembly Resolution (A|1541) on Financing Economic Development of Underdeveloped Countries.

See also *The Colombo Plan for Co-operative Economic Development in South and South East Asia.* Ministry of Economic Affairs, Government of Pakistan, p. 55, and *Report to the President on Foreign Economic Policies,* U. S. Government Printing Office, Washington, D.C. November 10, 1950.

establish more power facilities, or to establish a textile or fertilizer plant. On the other hand, with the foreign assistance, such projects may become important creative sources of capital for new investment. Moreover, the assurance of external finance acts as a catalytic agent in the mobilization of the complementary domestic reasources required. There are many illustrations of the fact that domestic resources which might otherwise be unavailable for investment can be found if the assured external finance were present.

STEPS TOWARD MEETING CAPITAL NEEDS

The process of meeting capital requirements is not limited to provision of finance alone. There are many other bottlenecks: preparation of detailed project statements hampers many countries; limitation of skilled personnel at nearly all levels of employment is a continuous problem; lack of entrepreneurial skills or confidence in potential users of capital are other difficulties to be overcome. Nevertheless capital and finance are themselves limiting factors of special strategic importance. This in turn implies that policies and programmes should be adopted which seek both to make most effective use of the limited resources available and to provide a sound basis for the continuous expansion of those resources.

While capital is scarce relative to requirements, and incomes are extremely low, special priority must be given to the use of resources in areas where returns in the form of consumption goods are likely to be the greatest and quickest. For example, it is apparent that use of carefully selected seeds, adoption of fertilizers and provision of water can very substantially increase agricultural yields within a few years. It is not surprising therefore that programmes for agriculture occupy a large part in development plans of the countries of the region. However few countries see any possibility of improved levels of living through such devices alone, and they therefore look to the more expensive capital investment involved in industry. At the same time, the need for social capital in the form of educational facilities, hospitals, roads is extremely high. Though it is generally difficult to show a direct return for such investments, they do enhance the productive capacity of the community. With such investment, better production possibilities may develop at every turn. Finally, there is the problem of selecting strategic places to invest in order to secure industrialization. Transportation, communication and hydro-electric power have an unusually important place, for each of these is basic to other developments. At the same time they open up greater opportunities for investment and create income out of which further savings can come. It is only after minimum investments have been made in each of the above fields that it becomes practical and

effective to put larger investments into direct industries. Most of the countries of the region are following a pattern of investment that shows considerable recognition of these means of using available capital effectively.

To provide continually increasing resources for development, attention must also be paid to many long-term devices which will provide incentives for voluntary savings and increased use of sound financial institutions. This is a complicated subject on which some work has already been done and on which much remains to be done.[14] The remedies must be sought in many different ways in each country of the region. The Central, State and Provincial fiscal programmes have become extremely important as direct sources of funds for capital investment as well as inducements for (or hindrances to) private investments. In some countries the central banks can assume a powerful guiding function, especially for commercial and savings banks. The co-operative movement has not yet played a significant part as a mobilizer of resources. Agriculture and industrial banks and development corporations do not exist in many countries and are still in their infancy in others. There are many possibilities of improvement in the machinery of postal savings and rural banking facilities, which are of particular importance in Asia and the Far East.

One of the strong economic and political ties among the countries of Asia and the Far East is the common desire to move ahead on practical development programmes. The hope and the promise of national independence rest on the fundamental belief that there will be substantial assurance of improved levels of living. It is the accumulation of capital resources, largely by the efforts of the people themselves, that translates this fundamental belief into reality.

[14] The United Nations has devoted considerable attention to this subject; see, for example, *UN Domestic Financing of Economic Development*, New York, 1950, and ECAFE's new publication *Mobilization of Domestic Capital in Certain Countries of Asia and the Far East*, January 1952; as well as the preliminary mimeographed studies by ECAFE on some phases of the subject.

CHAPTER III

WHAT THE UNDERDEVELOPED COUNTRIES HAVE TO DO

By MAURICE ZINKIN

IF the underdeveloped countries are to achieve their objective of economic development, they not only have to acquire capital and to invest it, though these by themselves are formidable enough tasks. They also have to make all the changes which are required to produce a population which is saving-minded and an economy in which investment is attractive. And beyond that again they have to make all the changes in the attitude of their people and the structure of their society which are necessary if their economic life is to become dynamic instead of static. In all their habits and customs and training there will have to be an emphasis on economic initiative and material welfare without which their best talents will continue to go, as in the past, to the intellectually often more satisfying pursuits, of culture and saintliness.

Many estimates have been made of the investment which is necessary in the underdeveloped world. The most recent United Nations guess ran into billions of dollars over a few years, and indeed the value of such estimates is mainly to reveal the magnitude of the problem. Even the U.S. still has its poor. And to give the rest of the world the investment required to produce an American standard of life would involve a sum beyond practical imagining. It is more useful, if one wishes to generalize, to start from the fact that roughly one Rupee of investment will produce rather under a Rupee of extra production. The exact amount of production will vary according to the type of investment which is made. It will be perhaps only As. 8 for a steel-mill, perhaps Re. 1 for a cotton-mill, and possibly Rs. 2 or 3 for a small dam in a nulla; but, taking an average, reasonably balanced, programme for an underdeveloped country, some figure between As. 12 and Re. 1 extra production per year for each Re. 1 of investment is not unreasonable. Thus, to take a concrete case: in order to provide for India's annual increase of population, at India's existing standard of life, perhaps Rs. 150 crores (Rs. 1,500 millions) of investment annually is required and to increase the standard of life by 1 per cent or so would probably require something approaching another Rs. 150 crores. This 300 crores per year is roughly the rate envisaged in the Draft Five Year Plan, and, were India in fact

to invest at this pace, it is likely that at the end of the five year period there would be a small but definite improvement in the standard of life, though some allowance must be made for the fact that there is a certain bias in the plan towards projects, notably the multi-purpose schemes, which are capital-intensive.

Requirements and programmes in the underdeveloped countries are on a similar modest scale. The United States, by contrast, invests some twenty times as much as is proposed for India; but then U.S. industry in 1951 achieved an increase in production of 8 per cent in one year. The underdeveloped countries are, therefore, after straining every nerve, not catching up; on the contrary, they are not always even improving their standards absolutely; most of Asia has a lower real income per head today than in 1939, and Egyptian income per head may well be lower today than a hundred years ago; and they are almost never—the only exceptions are places like Venezuela and Kuwait and Malaya in their most expansive periods—improving their position relatively to the most advanced Western countries. Yet it is relatively, quite as much as absolutely, that their populations judge. Nothing makes one feel so poor as the comparison with someone else's riches and no one feels the comparison more bitterly than those who are themselves comfortably off, and therefore have the leisure and the intellectual energy to be affected by their country's poverty.

If, therefore, the poorer countries are to give contentment to their people, investment on some scale larger than any hitherto known must take place. That is generally accepted, though everywhere there are those who hearken back to the old simple life of the self-sufficient village of peasants and craftsmen. For their values, notably when they are Gandhians, one must have respect; but their policy would be possible of achievement only in a world of static population, where the bounds of self-sufficiency were not perpetually burst by an unceasing increase in numbers. In underdeveloped countries where there is a large increase of population to provide for, and that is virtually all of them, the Gandhian ideal must remain a dream. Industry and machines, power for the craftsmen and science for the farmer, are an inevitability if poverty is not to become ever more grinding, high though the price may be in slums and ever deepening dependence upon the market, a dependence all too liable to bring into the village the low moral standard of the bazaar.

Once it is accepted that investment on the maximum possible scale is a necessity, the first problem is where to find the savings. There can be no investment unless somebody first makes a corresponding saving, though that saving need not necessarily be in money. It can be in kind. The farmer who builds a bund in his own time with the help

of his own bullocks saves just as surely as the Government which taxes for a surplus in order to permit its Public Works Department to pay for a bund to be built for it. The man who brings bamboos from the jungle to build a hut is saving just as much as the man who puts money in the post-office in the hope of one day being able to buy a house.

Of this second type of saving, saving in kind, most underdeveloped societies do a certain amount, though usually very much less than is possible. Of saving in actual money, almost all do very little. Much has been said, notably in the recent U. N. Report 'Domestic Financing of Economic Development' on the institutional improvements required in order to increase savings, and to see that, when they are made, they are put to the most advantageous use; and what has been said is true. If Governments issue bonds in denominations and of maturities to appeal to every class of savers; if savings institutions are decentralized by the use of post-offices and the spread of branch banks; if the banking system is organized to direct town savings into the financing of the peasantry, rather than rural savings into town real-estate, as happens notably in Latin America; if a sound co-operative system is built up with real local control, and a keen eye for a good borrower; if banks and insurance companies are enabled to invest a part of their funds in providing certainly working capital, and possibly longer-term capital also, for industry; if Stock Exchanges were developed; above all, at the present moment, if Governments would resist the temptation to evade their problems by inflation, so that the saver does not always find that his present sacrifice gives him not a greater, but a smaller, future gain; if all these things were done, savings could doubtless be larger and better used.

But neither that, nor such dubious expedients as gold certificates, would solve the real problem, which is the very low propensity to save at all of underdeveloped societies. All their social values are against saving, particularly saving in an economically advantageous form; and men act far more in accordance with their social values, in order to be approved of by their neighbours, than they do on any cold calculation of profit and loss. Much money, for example, is spent on jewellery, especially at weddings. Both the newly-weds and the country would be better off if this money went into saving-certificates instead; but anyone who has tried, as I have, to persuade Bhil parents to change over to saving-certificates, will be aware of how profound is the urge to keep up with the neighbours in the most primitive of societies. A saint, or the draconic punishments of the totalitarian state, might change the ways of spending money at weddings; little less will do. Yet these are probably the main savings of most underdeveloped countrysides; savings to buy land do not really count, since, in any country, where

all the useful land is occupied, and this is true of most underdeveloped countries, for every purchaser there must be a seller, for every saver a dis-saver.

The whole atmosphere of most underdeveloped societies is hostile to saving. Compared with hospitality, generosity or even ostentation, thrift is not a virtue, but a vice, fit only for a merchant. The man who saves is, of necessity, very often also the man who does not pay his fair share for village ceremonies or village amusements, the man who marries his daughter meanly or buries his mother shabbily. The West owes more of its advance than is commonly realized to the Puritan doctrine which made of thrift and quiet living a moral virtue pleasing to God. There is no corresponding belief in any underdeveloped society. The man who gets on, who rises above his fellows, is not emulated, but cut off; his eminence is a lonely one to which others are rarely tempted.

Nor are the other incentives to save of a Western society available in anything like comparable strength in the underdeveloped countries. Family obligations are usually strong, so that the need to save for old age is relatively slight, especially in the countryside where formal ownership, or the formal tenancy agreement of the family plot will probably remain in the old man's name. The scope of insurance companies, except amongst the gradually growing, Westernized urban middle class, is, therefore, limited. The industrial corporation, whose undistributed profits are so important a part of the savings of all advanced economies, exists only on the fringes of underdeveloped societies. Taxation is needed so urgently for the most elementary requirements of defence, education, health and order that none of the underdeveloped countries is able to obtain a regular surplus of even as much as Rs. 50 crores a year. Of all the stimulants to saving which work in England or America, indeed, probably only the desire to own one's own house has anything like comparable importance; and probably the lack of building societies and speculative builders of small houses is in many countries one of the few institutional defects which are of real importance. The difficulty is not, however, only that people in the underdeveloped countries are unwilling to save. It is also that they cannot. Those whose incomes barely provide subsistence, who are driven into debt by every family calamity or bout of unemployment, nowhere provide any substantial portion of the national savings. The difference in the underdeveloped countries is that these poverty-stricken sections of the population are not a mere fringe, proper objects of the solicitude of a motherly Welfare State, but the vast majority, the great mass from whom savings must come—or be squeezed—and for whom the investment is required. Savings one-twentieth the size Americans make every year of their own

free will are for Indians, or Chinese, or Indonesians an almost impossible burden.

It is made even more impossible by the modern social conscience. Most underdeveloped countries have a wide range of incomes. There are many poor, but there are also a few who are rich, even on European or American standards. Social custom prevents these rich saving as they did in Victorian England; much of the ostentation of a Maharaja was obligatory—the expected 'Circensis' of his people. Nor have the rich of underdeveloped societies had the habit of lavish and imaginative giving which is so notable in the United States or England; the Nuffield and the Rockefeller are almost unknown. Yet, with all these handicaps, much of the indigenous savings of these communities has in fact come from the few rich, the Indian Maharaja, the Egyptian Pasha, even the Chinese Warlord. This type of saving is now being cut down, in a way that is quite irreversible, by taxation. Conscience combines with fear of Communism to make intolerable the spectacle of extreme luxury side by side with starvation, of the rich growing richer next door to the poor growing poorer. It does not matter that economically it may be argued that the poor grow poorer because they have too many children, and that for the rich to get richer is the inevitable result of their performing their duty of saving. So everywhere taxation on the rich has gone up, and it is more likely that the loopholes of evasion will be closed, and that the few countries, like Egypt, whose super-taxes are still not really high, will raise them, than that there will be any appreciable reduction of taxation in countries like India. The rich can no longer be relied upon as a major source of savings, though sometimes the State which taxes them may use their taxes for economic development itself. This has happened in Mexico, for example, and is happening to some extent in India. It needs to be more widespread, bitter though it is to have to use the meagre revenues of these States for bridges and dams and power-stations, when there are sick needing doctors and children waiting to be taught.

To some extent the rising middle-class, and the growing undistributed profits of industry, may help budget surpluses to fill the gap resulting from increased taxation of the rich. They cannot do more. The rest, probably a very large percentage, of what is needed, will have to come from abroad, from those countries whose savings exceed their own most necessary demands; which means today in effect the United States, though, in special cases, like India, something may come also from Great Britain and the Commonwealth.

In these circumstances, it is natural that much has been made recently of the need for special inducements to attract the foreign investor. Yet these are, in fact, little different from those needed to attract the

domestic investor. The same circumstances which will keep the foreign investor away will cause the domestic investor to hoard or to try to export his capital; so universal is this truth that the best recent examples come not from the underdeveloped countries at all, but from Western Europe, from countries like France and Germany and Italy. The only special inducement the foreign investor needs is the promise that he will not be discriminated against, that if he is more efficient and cheaper than his native competitor, neither he nor his customer will be artificially prevented from reaping the reward of his superior ability.

The conditions required to make investment possible, whether domestic or foreign, are quite simple to state, though not easy to attain. The business man must be a reasonably respected member of society, or business will not attract its fair share of talent. Standards of business integrity must be high, or the local entrepreneur will find it difficult to persuade investors to trust him, and the foreign entrepreneur will find himself under-cut by competitors whose favourite weapons are the evasion of sales tax or income-tax. There should be a minimum of Government interference, though what constitutes the minimum may reasonably vary from society to society in accordance with the standards, or lack of them, of the local business man. Such measures as Compulsory Provident Funds, or Factory Acts, or Minimum Wages, may indeed, if industry can afford them, and if they result in a more contented labour force, be economically, as well as socially, advantageous. What is damaging is the attempt to take out of the business man's hands his major business decisions, from the location of his plant, to the qualities he will sell, from the destination of his exports to the methods of his rationalization. It is the investor who has to bear the loss if the decisions are wrong, and he carries a severe enough risk if he, or his managers for him, makes the decisions himself. To bring in also an administrator who, however skilled in his own line, is necessarily an amateur in the manufacture of cloth or confectionery, or whatever it is, is to very much more than double the risk. It is also, and correspondingly, to very much more than double the difficulty of getting new capital. And this difficulty is greatly increased by the delays inherent in any system of Government control. When a permit is required to issue capital, to locate one's plant, to get the steel and cement to build it, perhaps to expand at all, when one's profit, the customer to whom one sells, perhaps even one's specifications, are all rigidly controlled, the delays at every stage are such that it is only the most persevering of entrepreneurs who ever comes into production at all; but once he is in production, Government controls nearly always protect him against the consequences of his own inefficiency, and thus again reduce investment by slowing down the expansion of the more efficient firms. Never were there fewer bank-

ruptcies than in Socialist England.

This is not an argument for no Government controls. In today's inflation they are often a necessity; but Governments should at least recognize how severe a discouragement to investment they can be, and approach those on production, if not always also those on prices, with a corresponding bias against their continuance. Moreover, in the underdeveloped countries their discouraging effect is greatly exaggerated by the relative corruption and incompetence of most underdeveloped Governments, and by the growth of the black market. Once any large proportion of the production of any community goes through the black market, business passes more and more to rascals. Government reacts with stiffer and stiffer controls, making life more and more difficult for the honest man; prices are fixed so low that real profits, after allowing for true depreciation, are cut to very low figures; and the community's respect for the business man, never, in these countries, very high, descends to a new nadir. The honest entrepreneur is stifled; the savings are made in the black market, and black marketeers are neither very good judges of the best investments to make, nor in a position to make their investments very openly. They are more likely to buy gold than to build workers' houses.

The effect of governmental incompetence and corruption is extremely serious. Every time a decision is sold, not only do the costs of industry go up, but its control passes further into the hands of scoundrels; and the building-up of modern industry, if it is to be done really successfully, requires the highest standards of integrity. Mass-production does not depend only on a large and standardized market; it depends also on the unquestioning trust that the public places in the manufacturer's brand name, in the knowledge that something made by General Motors, or I.C.I. or Bombay Dyeing will be all that it claimed to be; for great businesses are not built on short measure and skimped quality.

More important even than Governmental corruption, however, is Governmental incompetence. Business decisions have to be made quickly; otherwise goods will rot, or demurrage be incurred, or machines stand idle. The file which stays in the 'Pending' tray, the case which peregrinates from 'Department to Department', are, to the business man, so much lost money; and economies which are already short of savings cannot afford such wastes.

One more possible source of money for investment must be mentioned, and that is the foreign loan or grant. The great method of developing in the 19th century, on which the U.S. itself partly grew, was the loan raised in London, or Paris, or, later, Berlin. But these markets no longer have the money to lend, and the misfortune of the underdeveloped countries is that they, and particularly their Govern-

ments, have so far found no substitute. The World Bank tends to lend only the foreign exchange required for specific projects, where a Government may need much more than a general development loan, or be unable to undertake the project at all without inflation, unless it can borrow to cover its expenditure in its own currency as well. The American investor is simply not interested in loans to foreign Governments. The Export-Import Bank, though it has done useful work, is only for American Allies, or immediately potential Allies. So Governments get driven back on American Government loans or, more often still, since the loans are not always easy to repay, on American Government grants; and these are not an altogether satisfactory basis for development either, for even the American taxpayer's generosity must be exhaustible eventually. He has many other responsibilities, and those whom he is helping are very far away.

It may, however, be assumed that, in combination—from their own private investors, foreign private investors, and American loans and grants—the underdeveloped economies will have available for investment very considerable sums, adequate to enable them to provide for their increasing population with perhaps a margin to spare. Many conditions will still have to be fulfilled, however, if this investment is to be effective.

The first is that underdeveloped countries have generally to accept a very large prior, and mainly governmental, investment on items which yield only a small return before private enterprise of the ordinary industrial sort can undertake its, usually much rapider, forms of development. Before an industry, or, for that matter, modern farming, can develop, there must be a certain minimum modern substructure in the society. Without some railways, a few roads which are at least metalled, a port, electric power and anyway elementary education, no development at all is possible. That is why, whether one is considering the plans of the Colombo Plan countries or those of the Rhodesias, there is always a heavy emphasis on power and communications. The machines have to be turned, the raw materials and the finished products have to be moved in and out, if factories are to make a profit.

The need for electric power-stations and railway lines, roads and docks, is thus fairly obvious. Not quite so obvious is the need for an adequate educational standard. All development requires certain sorts of skill; and many of the underdeveloped countries are either almost totally lacking in modern skills, like much of Africa, or so set in certain ancient ways, like most of Asia, that even persuading road-menders to use wheelbarrows is a major educational task. It is not that the Asian peasant or African tribesman is ignorant, though he is usually illiterate. It is rather that his education, based as it is on traditional lore and

magical formulae, is becoming as inappropriate to a modern society as the knowledge of a Roman Augur. If, therefore, these countries are to create a population which can drive tractors, go into factories, or use fertilizers, their educational system has to be both extended and transformed. Everybody must be able to read, for a farmer who cannot read a leaflet can only be shown how to change his ways orally, and therefore very slowly, and an industrial worker who cannot read a warning notice is a positive menace; but that is only the beginning. Education must change a whole series of attitudes, as well as import a whole range of new forms of knowledge. Factory workers must be punctual, a virtue of no meaning to the peasant, they must be disciplined, for the life of others may depend on their doing what they have been told in exactly the way they have been told to do it. They must have a feel for machinery, for bad treatment will wear out a machine more quickly than a bullock. They must not be too attached to routine, for every new method changes routine in order to increase productivity.

In the countryside re-education is even more difficult. The factory worker is at least in a new environment, and cannot therefore but be aware that some changes, some adaptations are necessary. The peasant is still in his old environment. Everything appears as it did in grandfather's day, yet he must now be prepared to substitute at every stage some new-fangled method, demonstrated perhaps by a young Jackanapes, fresh out of college, for grandfather's tried ways. He needs in fact to change from a peasant, shrewd in his centuries of experience with the same land, to a farmer, governing his operations by botany, biology, and relative market prices. Otherwise, improvement will be beset by setbacks. The use of fertilizer is often a delicate balance between too much and too little; the improved breed of cattle may need much more fodder than the peasant is accustomed to give; the new strain of cotton may not grow on his soil.

Compared with this general problem of re-education, the difficulty of getting technicians is not great. Experts can be hired, good students can be sent abroad. The difficulty is rather one of getting good foremen and adequate skilled workmen, for it is too expensive to bring in all one's foremen from outside, and impracticable to send every foreman, and still more every skilled workman, to the West to learn his job. So the task of producing them has to be left to managements who do not always realize that they have to create a new attitude and not merely teach specific skill.

In the countryside, education, though perhaps more important than any other single factor, can nevertheless only take full effect if land tenures themselves are changed in a way which will permit investment. No one will build a well if his land is scattered over a dozen

tiny fragments and the well can only serve one. No farm will remain large enough to justify mechanization if on every death it has to be divided amongst many heirs. Above all, no tenant is going to be able to find the money for improvement so long as he has to pay his landlord one half of the crop; and even if he could, he would not, so long as he has no security that he will be the tenant again next year, or any guarantee that he will be reimbursed for his improvements if his tenancy is terminated. Moreover, where the landlord is an absentee and, as so often happens, an improvident one at that, and the tenant holds at will, there is nobody who has at the same time the knowledge of what improvements to the land will be profitable and an interest in the land which can be pledged in order to raise the money to effect the improvements. Even amongst peasant-owners, who have a mortgageable interest, the history of the last hundred years, in India, or Burma, or China, or even Japan, suggests that it is unwise to make the interest absolute; the peasant who can mortgage without restriction does so far more often to dower a daughter or finance a son than to buy a pedigree bull or build a contour-bund. Until in the countryside there is either a protected tenantry or an owning peasantry, unable to mortgage except for productive improvements, and whose holdings can neither be fragmented nor reduced below a certain size, it is unlikely that there will be extensive improvement, however much money may be made available from domestic or foreign sources. This has, indeed, already been realized by many underdeveloped countries, as is shown by the extensive reforms undertaken in, for example, India and Mexico.

It would be possible to continue with an ever-lengthening list of detailed reforms, each of which, if carried out, would contribute something to the capacity of the underdeveloped country for economic development. But the issue is not really one of this detailed change or that. What is needed is a complete change of attitude.

Every country in the world which is poorer than America, even England, would like to have America's riches; and all of them, more or less, would like to have these riches without having to accept the American attitudes which have made them possible, but to which they are, in different degrees and for various reasons, allergic. These American attitudes may indeed have their weaknesses. The underdeveloped countries may argue that they do not produce the culture of France, or the high thinking of Scotland, or the mystic experience of India, or the feudal devotion of old Japan. But they do produce wealth, and if what the underdeveloped countries want is wealth, if without a rise in the standard of living their whole stability will be undermined, then they will have to sacrifice some of their traditional, and possibly absolutely more valuable values, in order to attain it. Sales-managers and

production-engineers are perhaps less admirable than lawyers and minor civil servants (though there seems no real reason for this general underdeveloped belief); but countries which continue to believe so will also continue to have poor sales-managers and poor production-engineers; and lawyers do not increase productivity or create mass-markets. So again, it may be that speculation, black marketing, ostentatious expenditure and evasion of tax may be more exciting, and a quicker way of getting rich than the slow slog of building up a business, soundly rooted in the goodwill of its customers; but countries whose business men continue to think so will neither have adequate savings, nor a sound Stock Exchange, nor that respect for business achievement without which capitalism cannot flourish. Yet a third example is the attitude to work. Contemplating under a coconut tree is a better way of developing the soul than carrying the stones for a new railway embankment, but societies where all the emphasis is on leisure, where work is merely an unpleasant necessity to be slopped through as quickly as possible, may be high-souled, they will never be rich.

If what the underdeveloped countries now want is to get richer, then it is upon getting richer that they must concentrate; if, in the process, they lose some of the graciousness and attractiveness of their lives, that is a sacrifice which must be accepted. In life there are no whites, only lighter greys, and it is reasonable to pay some price so that the two-thirds of their people who have always been left ignorant and hungry may at last be fed.

CHAPTER IV

TECHNICAL ASSISTANCE FOR ECONOMIC DEVELOPMENT OF UNDERDEVELOPED COUNTRIES

By P. S. NARASIMHAN

IMPORTANCE OF RAPID ECONOMIC DEVELOPMENT OF UNDERDEVELOPED COUNTRIES[1]

THE wide and striking differences in the levels of real income and the standards of living between the world's poorer countries in East and South Asia, the Middle East, Africa and South America on the one hand and the world's richer countries in North America, Western Europe and Australasia on the other have never attracted more attention or concern, both at the national and the international levels, than at present. In 1947, while the average income per head in the United States of America was over $1400 and in another fourteen countries ranged between $440 and $900, in twenty-five other countries and most dependent territories, comprising together more than half the world's population, the average income per head was less than $100 per year. The average output per person engaged in agriculture in the underdeveloped countries is often less than one-tenth of that achieved in the more advanced countries and in industry and transport the difference in productivity is even greater. The average expectation of life in parts of Asia and Africa is only half that in North America and Western Europe. This gap between the most and the least developed countries is, indeed, according to a recent United Nations report, 'one of the most significant and alarming aspects of our contemporary society'.[2]

However, during recent years, particularly since the end of the Second World War, it is increasingly recognized in the developed no less than in the underdeveloped countries that the bridging of this gap by accelerating economic development in the less developed areas is an imperative and urgent task from the standpoints of both the more and the less developed countries. The existence side by side of high living standards in a few countries and grinding poverty in many others clearly constitutes a basic source of economic and social instability throughout the world. The people in underdeveloped countries are today becom-

[1] The term 'underdeveloped countries' is used throughout this article to mean countries in which per capita real income is low when compared with the per capita real incomes of the United States of America, Canada, Australasia and Western Europe.

[2] *Technical Assistance for Economic Development*, United Nations (New York, May 1941) p. 5.

ing increasingly conscious of their poverty and of the need to improve their living standards and insistent that their governments should adopt effective social and economic policies designed to promote rapid economic development, increase the levels of productivity and generally raise standards of nutrition, housing, health and education. Similarly in the more advanced countries, both the governments and the public have begun gradually to realize that they have also a substantial stake in the rapid economic development of the world's underdeveloped areas. Obviously in an interdependent world, a few countries cannot permanently maintain their prosperity while a number of others are beset by poverty and underemployment. A team of experts who recently reported to the Secretary-General of the United Nations on 'National and International Measures for Full Employment' stated categorically: 'We are of the view that the problem of full employment cannot be solved except in the context of an expanding world economy of which the economic development of underdeveloped countries would form the most important single element.' In the long run, part of the burden of the high costs, the low productivity and the resultant poverty in the world's underdeveloped areas falls also on the peoples of the world's advanced countries. Full employment and the optimum utilization of the productive resources in the advanced countries is, therefore, possible only through a general economic expansion in which the less developed countries fully share. The wide gulf that now separates the world's richer and poorer countries results also in economic and social tensions which constitute a continuing threat to the achievement of lasting world peace and security.

It is not surprising therefore that the various States which together constitute the United Nations should have devoted, during the postwar years, almost continuous attention to the problem of accelerating the economic development of the world's underdeveloped areas. The United Nations under Article 55 of its Charter is pledged to 'promote higher standards of living, full employment and conditions of economic and social progress and development.' The General Assembly of the United Nations, at its very first session in December 1946 'recognizing that the members of the United Nations are not yet all equally developed' asked the Economic and the Social Council[3] to 'study the question of providing effective ways and means for furnishing, in co-operation with the Specialized Agencies, expert advice in the economic, social and cultural fields to Member Nations who desire this assistance.'[4] Since then the Economic and Social Council and the General Assembly have

[3] The Economic and Social Council consists of representatives of eighteen member nations elected by the General Assembly.

[4] General Assembly Resolution 58 (1).

given almost continuous consideration to this subject and the allied problem of financing the economic development of the underdeveloped countries.

THE ROLE OF TECHNICAL ASSISTANCE IN ECONOMIC DEVELOPMENT

The major effort in accelerating the economic development of the underdeveloped countries and in creating the social and economic conditions and the institutional framework favourable to rapid economic development has naturally to be made by the peoples and the governments of the underdeveloped countries themselves. This includes the cultivation among the masses of the people of a fervent desire for economic progress and of a mental attitude favourable to change, to the adoption of new and improved techniques which increase output and to experiments with new material techniques and social institutions; the elimination of the present institutional obstacles to development such as the caste system, the relatively lower social status at present accorded to purely manual and technical workers, absentee landlordism and usury; vigorous governmental action to mobilize local savings and direct it into productive channels, to promote the introduction of modern advanced production methods in the fields of agriculture, industry and transport, to increase the productivity of labour by enforcing compulsory education, by providing greater opportunities for the acquisition of technical and managerial skills, and by raising the standards of health, nutrition and housing; and the enactment of regulatory and welfare legislation to ensure that the benefits of economic development are shared by all the people instead of being appropriated by the few. This subject is discussed in greater detail in another article in this number.

While thus, the economic development of the underdeveloped countries depends primarily upon their own efforts, it is now widely recognized that their progress can be greatly accelerated by external assistance in two basic fields, technical knowledge and finance.[5] The world's richer countries have made rapid strides during the last two centuries in the application of science to production and to the protection and promotion of health. The underdeveloped countries cannot realize fully their potentialities for economic development unless they make full use of the scientific and technological advances which have already so changed the economics of the more highly developed areas. In many underdeveloped countries deficiencies in technical knowledge constitute an even more serious and immediate obstacle to progress than lack of capital. Technical assistance from the more advanced countries may therefore be of major significance in promoting more rapid and better

[5] The subject of external capital for the development of the underdeveloped countries is discussed fully in another article.

balanced economic development. The amount of scientific and technical knowledge available for this task is greater now than ever before and is constantly increasing. As the United Nations report on 'Measures for the Economic Development of Underdeveloped Countries' has emphasized 'the existence of highly productive methods and processes which do not have to be discovered anew, but are available for transmission and appropriation, lays open wide opportunities for the underdeveloped countries to profit from experience already gained and results already well established.'[6] To cite only a few examples, the underdeveloped countries can benefit considerably from the store of technical knowledge already accumulated by the more advanced countries, in such fields as the maintenance of soil fertility, improvements in agricultural tools, the use of better seeds and the control of plant disease, the maintenance of livestock and the proper exploitation of forests and fisheries; the development and diversification of manufacturing and mining industries; the building up and expansion of rail, river and air transport; the proper utilization of manpower including the training of skilled labour and the organization of efficient employment exchanges; the introduction of appropriate labour codes with a view to ensuring for workers good working conditions, proper safety measures in factories and mines, fair wages and reasonable provision against the risks of sickness, old age and unemployment; the abolition of illiteracy and the provision of expanding facilities for higher education and research; and the control and, wherever possible, elimination of all preventible disease and the development of efficient health services designed to protect and promote public health. Also, most underdeveloped countries have today few technical surveys of their resources, and do not know clearly what is possible in their territories.[7] They can, therefore, benefit greatly from technical assistance in carrying out the basic preliminary surveys to determine their development possibilities. Again the formulation and effective implementation of appropriate economic development programmes requires the adoption by the governments of the underdeveloped countries of taxation and fiscal policies designed to mobilize savings and check inflationary pressures and the strengthening of the national administrative services.

Such technical assistance for economic development may be provided to the underdeveloped countries through many channels. The two most usual channels in the past have been the technical skill and knowledge made available by foreign firms investing in dependent territories *e.g.*, the oil companies and plantation enterprises in South and East Asia,

[6] *Measures for the Economic Development of Underdeveloped Countries*, United Nations (New York, May 1951), pp. 28-29.

[7] *Measures for the Economic Development of Underdeveloped Countries*, p. 61.

and technical assistance provided by the metropolitan powers during the last century to their colonies and other territorial possessions. Both have been associated with considerable abuses and have left a legacy of distrust. The fields in which technical assistance was provided in the past to dependent territories by foreign capitalists and the metropolitan powers were determined largely not by the needs of the peoples in the area concerned but by the interests of the foreign investors and of the metropolitan Governments. In a number of cases, the result was the reckless exploitation of natural resources and unbalanced economic development. Also, with the rapid decline of colonialism and the emergence of a number of former dependent territories as independent governments, the need has arisen for new methods of providing technical assistance which will accelerate the economic development of the underdeveloped countries without in any way compromising their independence, and the right of their peoples and their governments to determine the pattern and the pace of such development. The answer to this problem is today being found in the provision of technical assistance on an international basis through the United Nations and the Specialized Agencies and bilateral and regional technical assistance programmes freely negotiated between governments, such as the various technical co-operation agreements signed by the United States of America with the Governments of India, Ceylon, Indonesia and Iran, or the technical co-operation scheme for South and East Asia inaugurated by the countries belonging to the Commonwealth and styled popularly as the Colombo Plan.

THE EXPANDED PROGRAMME OF TECHNICAL ASSISTANCE

The United Nations and the Specialized Agencies[8] have all since their inception been providing technical assistance on a modest scale in fields falling within their special competence. Special mention should be made in this connexion of resolution 200 (III) passed by the General Assembly in December 1948 appropriating funds to enable the Secretary-General of the United Nations, in co-operation with the Specialized Agencies: (*i*) to arrange for teams of international experts to visit countries whose governments request advice on economic development; (*ii*) to provide fellowships for the training abroad of experts from underdeveloped countries; (*iii*) to arrange for the training of local technicians within the underdeveloped countries themselves; and (*iv*) to assist governments to obtain technical personnel, equipment and supplies. The oldest of the Specialized Agencies, the Inter-

[8] This term is used to cover the International Labour Organization, (ILO), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Civil Aviation Organization (ICAO), the World Health Organization (WHO), the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).

national Labour Organization (ILO) has a long record of experience in advising its Member States on labour and social problems. Of the others, created during and after the Second World War, the Food and Agriculture Organization of the United Nations (FAO) has given advice and assistance in nutrition, agriculture, forestry, fisheries and rural welfare. The United Nations Educational, Scientific, and Cultural Organization (UNESCO) has assisted countries in all parts of the world in combating illiteracy and in building up educational services. The International Civil Aviation Organization (ICAO) has provided expert advice and assistance in the development of safe, efficient, and economical air transport. The World Health Organization (WHO) in accordance with its constitution has assisted governments in fighting diseases, strengthening health services, training doctors and nurses and demonstrating modern methods of controlling diseases. The International Bank for Reconstruction and Development (IBRD) has sent technical missions to advise on general economic developmental policies and the International Monetary Fund (IMF) has provided technical assistance to various underdeveloped countries in the fields of monetary and banking policy and organization.

However, the volume of technical assistance which these international organizations have been able to provide within the limit of their regular budgets has been found to be too little to meet the needs of the underdeveloped countries. The Economic and Social Council of the United Nations, therefore, adopted in August 1949 a resolution calling for a Special Expanded Programme of Technical Assistance for Economic Development of Underdeveloped Countries and this resolution was approved by the General Assembly in December 1949. This programme which in essence is a new and bold experiment in the provision of technical assistance under international auspices and control was launched in the middle of 1950 and has now been in operation for over a year and a half.

(a) *Objects and Guiding Principles of the Expanded Programme*

The purpose of the Expanded Programme, as defined by the Economic and Social Council is to help underdeveloped countries 'to strengthen their national economies through the development of their industries and agriculture, with a view to promoting their economic and political independence in the spirit of the Charter of the United Nations, and to ensure the attainment of higher levels of economic and social welfare for their entire populations.'[9] The Resolution adopted by the Economic and Social Council initiating the programme also lays

[9] Annex I to Resolution 222 (IX) of the Economic and Social Council.

down among others the following principles for the guidance of the international organizations providing technical assistance: (*i*) technical assistance under the programme may be provided to a given country only in agreement with and on the request of its government, and must be designed to meet the needs of the country; (*ii*) the assistance shall not be a means of foreign economic and political interference in the internal affairs of the country concerned; (*iii*) the experts to be provided to countries requesting technical assistance are to be chosen not only for their professional competence, but also for their sympathetic understanding of the cultural backgrounds and specific needs of the countries to be assisted, and for their capacity to adopt methods of work to local conditions, social and material.

(b) *Countries Participating in the Programme*

All governments which are members either of the United Nations or of any one or more of the Specialized Agencies have the right to participate in the programme. The various participating governments including the governments of the underdeveloped countries themselves, by means of their contributions to the Special Account which has been set up to finance this programme, place at the disposal of the United Nations and the Specialized Agencies qualified experts for work in other countries, and host facilities for technical fellowships and training courses in the different fields necessary for economic development. In this way the experience of many nations with differing social patterns and cultural traditions and in different stages of economic development is made available to the underdeveloped countries receiving technical assistance. For instance, on 30 June 1951, of the 449 experts who had been recruited for providing technical assistance under the programme to the different underdeveloped countries, 10 were from Australia, 24 from Canada, 12 from Denmark, 9 from Egypt, 37 from France, 12 from India, 10 from Mexico, 38 from the Netherlands, 14 from Switzerland, 49 from the United Kingdom and 120 from the United States of America; and the remaining 114 experts came from no less than 43 countries.[10] An important feature of the programme is that an underdeveloped country, while receiving technical assistance in some fields, might itself provide experts in other fields in which it has achieved progress for advising other countries in these specific fields. All governments of underdeveloped countries may apply for technical assistance under the programme to the United Nations and the Specialized Agencies participating in the programme.

[10] E|2054. *Third Report of the Technical Assistance Board to the Technical Assistance Committee*, pp. 15-17.

(c) *Organizations Rendering Technical Assistance*

Technical assistance under the programme is provided on an international basis through the international organizations participating in the programme. Speaking broadly the United Nations provides technical assistance in the fields of industrial and mining development, the organization of statistics, public administration and the development of transport and communications. The ILO renders technical assistance in the fields of labour protection, organization of manpower, social security and labour productivity. The FAO concerns itself with requests for technical assistance in the development of agriculture, forests and fisheries; UNESCO with requests for assistance in the fields of fundamental education, science teaching, teacher training and scientific research; ICAO with requests for assistance in the development of civil aviation; and WHO with technical assistance in the development of public health services. These organizations which are generally referred to as the Participating Organizations also act jointly in cases where such joint action is likely to be more advantageous, as for instance in the cases of a country requesting a comprehensive economic survey mission to make an overall assessment of its development potentialities and technical assistance needs.[11] The International Bank for Reconstruction and Development and the International Monetary Fund also provide technical assistance to governments requesting assistance in their special fields, but they do not directly participate in the Expanded Programme.

(d) *The Financing of the Programme*

The technical assistance activities initiated under the Programme are financed from a Special Account which has been set up the Secretary-General of the United Nations in pursuance of the decision of the Economic and Social Council approved by the General Assembly. At a Special Conference convened in June 1950 fifty nations pledged a sum slightly exceeding the equivalent of U.S. $20 million for the operation of the programme up to the end of 1951. At its thirteenth session during the autumn of 1951 the Economic and Social Council called on Governments to contribute to the programme for the year 1952 at least as much as they contributed for the first financial period, and steps are being taken at present to convene a conference of governments which are members of the United Nations and/or the Specialized Agencies to raise contributions for the current year. The contributions paid by the various governments for the Special Account are

[11] The Economic and Social Council has recently approved the participation of the International Tele-communications Union and the World Meteorological Organization in the Expanded Programme of Technical Assistance. [ECOSOC Resolution 400 (XIII)].

shared by the Participating Organizations according to a formula laid down by the Economic and Social Council and are used by them to finance their technical assistance activities under the Expanded Programme. In addition, the governments of the countries receiving technical assistance are required normally to assume responsibility for at least that part of the cost of the technical services received which can be paid in their own currencies. This has been taken in practice to mean the lodging, subsistence, local transport and secretarial help needed by the experts provided to the country.

THE TECHNICAL ASSISTANCE BOARD AND THE TECHNICAL ASSISTANCE COMMITTEE

The ensure mutual co-operation between the United Nations and the five other international organizations providing technical assistance in their special fields a Technical Assistance Board (TAB) with its own Secretariat has been created. The Board consists of the executive heads —or their representatives—of the United Nations, ILO, FAO, UNESCO, WHO, and ICAO—and is generally in overall charge of the administration of the entire programme. It reviews periodically the technical assistance activities initiated in the various countries, arranges, wherever necessary, for joint action by the participating organizations, arranges for standardization of working procedures and determines responsibility for action. It also supplements the action of the Participating Organizations themselves by maintaining overall liaison with outside organizations which operate regional and other technical assistance schemes, such as the United States Point Four authorities, the Colombo Plan Organization and the Organization of American States; and by appointing in particular countries, where the magnitude and variety of the technical assistance requests warrants this, resident technical assistance representatives to advise the government concerned on the formulation of requests for technical assistance, to harmonize the work of the technical experts working in different fields and to maintain liaison with other inter-governmental and private agencies providing technical assistance to the country. Such resident representatives have so far been appointed in Afghanistan, Colombia, Haiti, Iran, Indonesia, Pakistan and the Philippines. The Board has already approved the appointment of a resident representative in Burma and has under consideration a request for such a representative from the Government of India.*

The various governments which are members of the United Nations and/or of the Specialized Agencies exercise general supervision over the programme through the Technical Assistance Committee (TAC). This Committee consists of the representatives of the governments which

* He has since been appointed—Ed.

are members of the Economic and Social Council and invariably includes the governments of some of the underdeveloped countries receiving technical assistance.[12] It receives from the TAB regular reports on the working of the programme and reviews its progress at least twice a year. It takes decisions on policy questions submitted to it by the TAB and reports on the working of the Programme to the Economic and Social Council.

A REVIEW OF OPERATIONS UNDER THE EXPANDED PROGRAMME

The actual working of the Programme during the past year and a half has revealed that the guiding principles underlying it have been soundly conceived, and that the Programme can be of considerable benefit to all the underdeveloped countries. As of 30 June 1951 the governments of 64 countries and territories had submitted more than 500 requests to the participating organizations;[13] and more than 50 of these countries and territories are already receiving technical assistance under the Expanded Programme. Technical assistance is rendered on the basis of agreements signed between one or more of the participating organizations and each government receiving technical assistance. At the end of June 1951, 252 such agreements had been signed by the participating organizations with 45 governments providing for a total of 741 experts and 551 fellowships; and a number of other agreements providing altogether for 672 experts and 590 fellowships by the end of 1951 were in course of negotiation. Most of these agreements envisage operations continuing into 1952.[14] Some details concerning these agreements are summarized in the following table:

[12] For instance, during 1951, the Governments of Chile, India, Iran, Pakistan, the Philippines and Mexico were represented in the TAC.

[13] The requests are of varying importance. A request may, for example, call for the short-term services of one expert for one month or for the organization of a large mission to remain in a country over a period of months.

[14] E/2054. Third Report of the Technical Assistance Board to the Technical Assistance Committee, pp.15-17.

Technical Assistance under the Expanded Programme during 1950-51
(Estimates)

	1950-1951		1952
	Under agreements already signed	Under agreements expected to be signed by 31/12/51	Under agreements already signed
(*a*) Cost of work to be performed[15]			
UN	$ 660,000	$ 946,000	$ 498,000
ILO	318,000	829,000	377,000
FAO	2,468,000	606,000	2,034,000
UNESCO	1,741,000	481,000	956,000
ICAO	196,000	185,000	186,000
WHO	766,000	2,933,000	778,000
Total	6,149,000	5,980,000	4,829,000
(*b*) Number of experts required			
UN		86[16]	84[17]
ILO		61	176
FAO		248	68
UNESCO		151	30
ICAO		22	29
WHO		102	259
Total		670[16]	646[17]
(*c*) Number of fellowships to be awarded			
UN		40	160
ILO		52	283
FAO		136	43
UNESCO		185	32
ICAO		37	11
WHO		101	61
Total		551	590

[15] Does not include administrative expenses.

[16] Does not include 71 experts under agreements concluded by the United Nations under G. A. resolutions 200 (III) and 418 (V).

[17] Does not include 28 experts to be provided under agreements being negotiated by the United Nations under G. A. resolutions 200 (III) and 418 (V).

Under the agreements signed assistance is being extended in most of the fields in which the participating organizations are competent to provide technical advice. It has ranged from the establishment of broad economic and social development plans, involving all the participating organizations, to the carrying out by individual organizations of specific projects of limited scope, involving the services of one expert for a period of a few weeks. Expert advice and fellowships for study abroad are the most usual forms in which assistance is rendered to governments. The expert advice may be given through an exploratory mission sent to assess technical assistance requirements as was done in the case of Libya and Indonesia; or through a comprehensive survey mission organized to assist a government in its overall economic and social planning as in the case of Bolivia[18] and Colombia; or individual experts may be sent to help in particular problems sometimes as a follow-up on the work of such missions. Generally local personnel work along with the experts in order that they may be technically prepared in due course to take over entirely the operation of the project. Other forms of technical assistance include the operation of training programmes, often on a regional basis, for the training of the technical personnel of underdeveloped countries, as for instance in the fields of economic planning, statistics, social security, fundamental education, and public health; demonstration and pilot projects to show underdeveloped countries the techniques which they can adopt in such fields as land reclamation, fundamental education, rural reclamation and development, the promotion of specific industries and the elimination of endemic diseases; scientific documentation centres for the dissemination of up-to-date technical information; and seminaries for government officials working in specific fields.

BILATERAL AND REGIONAL PROGRAMMES OF TECHNICAL ASSISTANCE

With the increasing recognition of the important part which technical assistance can play in accelerating economic development and the growing acceptance of the concept of international responsibility for the economic development of the world's underdeveloped areas, some of the more advanced countries have come forward to provide technical assistance on a bilateral basis to countries willing to accept such assistance. The most important of these bilateral programmes is the Point Four Programme initiated by the United States Government. Under this programme the United States Government is now providing a substantial amount of technical assistance to various coun-

[18] Mission organized by the International Bank for Reconstruction and Development.

tries including Afghanistan, Burma, India, Iran, Indonesia and Thailand. Other programmes of technical assistance based on mutual co-operation among neighbouring countries and territories and countries having some common ties and interests have also been organized on a regional basis. Prominent among these are the regional technical assistance programmes initiated by the Organization of American States for the countries in Central and South America and Commonwealth Scheme of Technical Co-operation popularly known as the Colombo Plan, for the countries of South and South East Asia. The latter provides for technical assistance to India, Pakistan, Ceylon and such other countries in South and South East Asia as join the scheme from the more advanced countries in the Commonwealth including the United Kingdom, Canada and Australia. In developing the technical assistance activities under the Expanded Programme, the Technical Assistance Board and the various Participating Organizations have naturally sought to ensure that the assistance they render to particular countries does not overlap with or duplicate the assistance received by these countries from other bilateral and regional programmes of technical assistance. With a view to achieving this co-ordination arrangements have been made by the TAB for securing information regarding bilateral programmes of technical assistance and from the headquarters offices of regional organizations engaged in the provision of technical assistance. The Co-ordinating Committee on Technical Assistance of the Organization of American States, the United States authorities engaged in the provision of assistance under the Point Four Programme, the Bureau of Technical Co-operation in South and South East Asia (the Colombo Plan) and the Technical Assistance Board thus regularly exchange information on their respective activities in the various countries receiving technical assistance.[19] Liaison, in countries receiving technical assistance, between the activities initiated under the different programmes is further sought to be achieved by the appointment in these countries of resident technical assistance representatives who help the Board to secure a comprehensive picture of the situation in them. In addition to preventing overlapping and waste of effort, the Board has also under consideration methods by which the technical assistance provided to a country under the Expanded Programme can be made to complement the assistance it receives from other sources. A good example of this type of complementary action was the programme for livestock improvement in Burma in which the FAO provided the experts and fellowships and the United States ECA authorities the

[19] The Technical Assistance Board has approved the appointment of a resident liaison officer of the Board at the headquarters in Colombo of the Council for Technical Co-operation in South and South East Asia.

breeding stock and the supplies that were not available from local sources.[20]

A PRELIMINARY ESTIMATE OF THE RESULTS SO FAR ACHIEVED

The Expanded Programme of technical assistance has been in operation now for less than two years and it would be premature to attempt a judgement on the various aspects of the programme as a co-operative international undertaking. But even the limited experience that has been gained so far provides some valuable lessons for the future.

In the first place it has been made abundantly clear that an international programme of this kind has some decisive advantages and therefore commands the confidence and support of the underdeveloped countries. As the technical assistance is provided through international organizations, under international supervision and control, and only on the request of the government of the country concerned there is no possibility of the political or economic independence of the underdeveloped countries being limited in any way. Also such an international programme places at the disposal of the countries requiring technical assistance, not the necessarily limited facilities available in any particular country, but a pool of technical knowledge and services to which all the countries in the world including the underdeveloped countries themselves have contributed their best. Further, as has already been explained above, not only the governments of the developed countries but also those of the underdeveloped countries have had a share in the initiation of the programme, in determining its main features, and in supervising its operation. An important advantage of this kind of international programme is that the underdeveloped countries can not only receive technical assistance but also take part in determining the conditions under which such assistance is rendered.

Secondly experience is showing conclusively that the determination of the fields in which technical assistance is needed and the ability to make the best use of the technical assistance when it is received are both difficult problems to which governments have to give more attention than they have done in the past. In a number of cases it has been found that governments are not themselves definite about the types of assistance they need; in others, requests have been submitted without adequate preparation and without arrangements being made within the country for making the best use of the assistance when it is received. As the Technical Assistance Board has commented in its Third Report 'neither the Participating Organizations nor the Board can pick out the main problems of a country and deal with them. It is the responsibility

[20] E|2054. *Third Report of the Technical Assistance Board to the Technical Assistance Committee*, pp. 137.

of the governments to determine the fields in which they will seek assistance from the international organizations and the stage when this assistance would be most fruitful.' It is heartening, however, to see that this difficulty is now being steadily surmounted. The participating organizations themselves are now being requested by governments in a number of cases to organize general exploratory missions to assess their technical assistance needs or to appoint resident technical assistance representatives to advise them on the formulation of requests for technical assistance.

A third lesson being gradually unfolded by experience is that the number of really first rate experts in the different fields of industry, agriculture, labour problems, education, health etc. who are suitable and willing to undertake short-term assignments in underdeveloped countries is extremely limited. To secure these experts for working in the underdeveloped countries and to make the most profitable use of their services, the United Nations and the other international organizations need the fullest co-operation of both the advanced and the underdeveloped countries. This implies the cultivation in the advanced countries of active public support for international technical co-operation. At the same time, an expert working in an underdeveloped country far away from his home cannot be expected to be enthusiastic about his work, when the government of the country he is assisting is lukewarm and the public indifferent. The success of the Expanded Programme, therefore, depends also to a large extent on the building up of adequate and continuing public interest in the programme in the underdeveloped countries.

Lastly, if false hopes are not to be raised which might later lead to disillusionment, it has to be emphasized that technical assistance from external sources, while it can accelerate economic development, can in no sense be a substitute for self-help by the peoples and governments of the underdeveloped areas themselves. The rate at which an underdeveloped country achieves economic progress depends, in the last resort, not only on the technical assistance it receives but also on the willingness of its government and people to promote the basic social, economic and institutional reforms necessary for economic progress even when these are found to encroach on the privileges of particular groups, and on the success with which it is able to raise capital, both domestic and foreign, for purposes of investment. Thus, the efforts which the governments and peoples of the underdeveloped countries themselves make remains the most important element in the success of any programme of technical assistance.

CHAPTER V

THREE YEARS OF POINT FOUR

By TARA BAI

ON 20 January 1949 in his inaugural address to the Congress President Truman outlined four major courses of action of American foreign policy. The fourth of these—which has come to be known as the Point Four Programme—was aimed at assisting underdeveloped countries by providing technical assistance and by stimulating the flow of private American investment. In one sense, the announcement of Point Four was only a further development of established American policy. For, the policy of promoting economic co-operation among nations and removing the causes of international friction had not only been accepted in principle prior to 1949 but had led to effective assistance by the U.S. to various countries through UNRRA, the specialized agencies of the United Nations, the European Recovery Programme, the Inter-Departmental Committee on Scientific and Cultural Co-operation (SCC) and the Institute of Inter-American Affairs. In another sense, it was a new departure because the emphasis was more on initiating development rather than on relief and rehabilitation.

While announcing the programme, the President stated that the programme was to be mainly *technical in character*. He pointed out that the material resources which the United States could afford to use for the economic development of other countries were limited; but the vast U.S. technical 'know-how' could be shared with underdeveloped areas and the programme for making available the benefits of technical knowledge was an integral part of an overall programme of development.

With a view to giving effect to Point Four, the President recommended on 24 June 1949 the enactment of two measures. The first was to be known as the International Technical Co-operation Act of 1949 and was to authorize the expenditure of funds needed for the execution and administration of the technical assistance programmes. The second measure was to amend the Export-Import Bank Act of 1945, giving the Bank authority to guarantee U.S. private capital investment contributing to economic development in foreign countries against risks peculiar to such investments. The President also recommended an initial appropriation of $45 million for activities under Point Four.

The International Technical Co-operation Act of 1949 was approved on 5 June 1950, and was designated the Act for International Development. Though the President's request was for an appropriation of $45

nillion for the first year of Point Four, both the House of Representatives and the Senate sanctioned in August 1950 an expenditure of $34.5 nillion only. The second measure was approved in July 1950 by the House of Representatives but was not passed by the Senate.

In September 1950, the President delegated to the Secretary of State he responsibility of administering the Point Four Programme. He also uthorized the Secretary of State to create two collaborating agencies— he International Development Board and the Inter-Departmental Advisory Council on Technical Co-operation. The members of the ormer were to serve for two years and advise the Secretary on policy natters. The second agency was to consist of heads of Federal departnents that would be directly concerned with the task of providing echnical assistance to countries needing aid for their economic developnent. The Secretary was also authorized to create additional committees n special fields of activity.

From Point Four funds of $34.5 million, $12.8 million were allotted to the United Nations Expanded Technical Assistance Programme, $10.5 million to Latin America, $4.5 million for countries in the Near East and Africa, $2 million for the Far East and $0 5 million for Iran. Countries which availed themselves of this aid were required to conclude bilateral agreements with the U.S.A., specifying among other hings that due publicity to projects financed by the programme be given and that the recipient countries bear a fair share, to be mutually agreed upon, of the costs of projects in local currency.

Iran was the first country to get a grant under the Point Four Programme for an integrated health, agriculture and education project for mproving living conditions in Iranian villages. The agreement for the echnical co-operation was reached on 19 October 1950. In November 1950, Ceylon signed an agreement with the United States for technical co-operation. While the agreement reached with Iran provided for the levelopment of specific projects, that with Ceylon lays down the general conditions for the use of the U.S. aid. Under this arrangement, separate grants will be made from time to time to cover specific projects agreed upon between the two countries.

On 27 December 1950 India signed an agreement for assistance under he Point Four Programme. The U.S. Department of State announced that five projects in India had been approved and that $1.2 million had been provisionally allocated to India. Out of the five projects, three relating to agriculture and health are already under way. The remaining two projects relate to the study of India's ground water and nineral resources.

In November 1950, the President appointed the International Development Board of Point Four Programme, with Mr. Nelson A. Rocke-

feller as Chairman, to recommend the 'types and size of programmes which it considers desirable for the United States to undertake' in underdeveloped countries and how those programmes can be realized 'with maximum dispatch and effectiveness.' The Board's report was submitted in March 1951. Amongst other things, the Board suggests, (1) Government expenditure of $500 million on public works in underdeveloped areas, (2) private investment of the order of $2 billion over the next few years and (3) tax concessions and under-writing of certain risks by the Export-Import Bank to encourage private U.S. capital into the underdeveloped areas. The Rockefeller report awaits action by Congress.

During 1951, several countries concluded agreements with the U.S.A. for technical co-operation under the Point Four Programme. These were Saudi Arabia, Nepal, Costa Rica, Chile, Peru, Israel, Lebanon, Afghanistan, Pakistan, Dominican Republic, Panama, Bolivia, Colombia, Uruguay, Iraq, Jordan, Greece, Egypt, Iran, Libya, Eritrea, Ethiopia, Cuba, Haiti, Mexico, Nicaragua and Ecuador. These countries have requested U.S. technical assistance mostly in respect of schemes relating to agriculture, education, irrigation and sanitation, health, mining, rural improvement and similar projects contributing to the general economic development of the country. It is not possible to give the allocation of aid between these countries as many of these agreements do not specifically mention the amount.

CHAPTER VI

THE COLOMBO PLAN

By P. S. NARAYAN PRASAD

I. A BRIEF HISTORY OF THE PLAN

By June 1952 the Colombo Plan for the Co-operative Economic Development of South and South East Asia had completed the first of its six-year plan period. A report has been issued recently by the Colombo Plan Consultative Committee which met in Karachi in March of this year to review progress and to reassess the plan. It is the aim of this paper briefly to describe some of the concepts and to assess the extent to which its objectives have been attained during the first year.

The Colombo Plan has been described as an unique experiment in international economic co-operation. It is unique in the sense that several countries which are underdeveloped discuss with each other as well as with other countries which are in a position and are willing to offer assistance for economic development.

The idea of the Colombo Plan was first mooted at the Commonwealth Foreign Ministers' Conference in Colombo in January 1950 where the need to assist the development of the countries of South-East Asia was voiced and the foundations for preparing a plan were laid. It was for this reason that the plan has come to be known as the Colombo Plan. At a subsequent meeting of the Commonwealth Committee in Sydney in May 1950 it was decided that the plan to be effective must include not only the countries of the Commonwealth but also others located in South East Asia. Invitations were issued accordingly to other countries in the area which were not members of the Commonwealth such as Burma, Thailand, Indonesia and the 3 associated states of Cambodia, Laos and Viet Nam. All these countries in the area were invited to prepare development plans on a realistic basis and assess carefully the domestic resources available for such development. Plans were prepared in the first instance only by Ceylon, Pakistan, India and the United Kingdom territories in South East Asia—*i.e.*, Malaya, Singapore and North Borneo and Sarawak. These plans were discussed at the London conference of the Consultative Committee (which since this meeting ceased to be described as the Commonwealth Committee) in September 1950 and a report embodying the Colombo Plan for these countries was published towards the end of 1950.

At the London session of the Committee, although participation of some kind from the non-Commonwealth countries in the area did come

forth, some were not ready with plans of development and some preferred apparently to wait and see, so that plans could not be incorporated in the Colombo Plan for South East Asia as a whole. At a subsequent conference, Burma indicated her willingness to become a full-fledged member although she too has not prepared so far a detailed plan of development. At the Karachi session of the Consultative Committee, Viet Nam and Cambodia filed some tentative development plans. The same session of the Committee issued an invitation to Nepal to join the plan. Its representatives were able to attend the Karachi session itself and submitted a tentative plan of development and hope to submit a detailed plan at the next session of the Committee, which is to be held in India in 1953.

II. CONCEPTS AND OBJECTIVES

The basic objectives of the Colombo Plan are defined in numerous places in the two reports so far issued by the Committee. An important assumption which stimulates the co-operation that forms the basis of the plan is the recognition that prosperity, like peace, is indivisible. The countries in South and South East Asia, although poor, are rich in natural resources, and, therefore, immense potentialities exist for large-scale development. These countries, however, do not have capital resources and technical know-how for organizing economic development. Since incomes and standards of living are already low, available savings are scanty and capital formation is insufficient to support the annual requirements of investment in the spheres of public and private enterprise on an adequate scale to carry out development and to raise the present low standards of living. Estimates made in connexion with the various plans have revealed that while countries have many suitable schemes for development, their financial and technical resources are far below the requirements of even moderate development. In the case of India itself it was calculated at the time of preparing the first Colombo Plan report that if the various schemes which are ready to be taken up by the public authorities are to be financed, an investment of the order of over Rs. 3,000 crores will be needed over a period of six years. On an assessment of financial resources that are available and that could further be made available out of internal resources by an intensive effort at mobilization, it was found that, during this period, the country could raise not much more than about Rs. 1,000 crores, revealing a gap of about Rs. 2,000 crores between what is required for a reasonable scale of development and what is available by way of internal resources for such development. Subsequent estimates had raised the figure to near Rs. 1,300 crores which is still very low in re-

lation to the needs. The same was also true of most other countries in the area. The alternatives that presented themselves before the planners in these countries, therefore, were either to scale down their development programmes so as to keep them within the limits of what is estimated to be available; or obtain additional resources by the curtailment of domestic consumption which was, however, not easy to organize in view of the already low standards of living that prevail in the area. A third alternative was to seek to augment the supply of technical and capital resources from external sources, either by way of loans or grants, to carry out the development plans.

Such assistance, it was realized, will be needed both to meet the foreign exchange expenditures to be incurred in connexion with the development plans as well as for raising internal finance through the sale of consumer goods purchased with such external finance abroad and sold at home for raising internal finance needed for development. In the plans first submitted at the time of preparing the Colombo Plan report in London only the Indian plan postulated such need for external finance as a means of raising internal finance. In the case of India the gap between resources necessary for development and those that were estimated to be available was so large that development could not have been carried out if assistance was confined to meeting only the foreign exchange requirements of the plan without further curtailing the standard of living at home. It was, therefore, suggested in the Indian plan that such external assistance as was calculated to be necessary would have to be spent in part on the import of capital goods and machinery and in part for the import of consumer goods (e.g., cereals for which there is an extensive and ready demand in the markets at home) so that these could be sold to the public in the country for raising funds for the development expenditure. This feature of the plan was later incorporated by some other countries. A second consideration justifying this principle of external assistance was that these additional consumer goods imports are necessary to counter-balance the inflationary effects of extensive investment programmes which are bound to be severe in underdeveloped countries, especially when projects take long years to mature into production.

Most of the development envisaged in the plan was basic development and has to be carried out by the public authorities. Schemes of irrigation, development of communications, increased facilities for agricultural improvement etc. provide a necessary background for public and private enterprise to build upon later on foundations more solid than are new available. This development creates in the countries of South East Asia an atmosphere necessary for a more extensive development of industry and commerce at a later stage.

In the calculations of financial needs in the form of external assistance there was a tacit assumption that not all the external finance that the countries may receive could be repaid by them at a future date. It was, therefore, more or less assumed that while a part of the external finance will have to be in the form of loans a part will have to be in the nature of grants so that they will not leave behind the burden of repayment on the economies of the countries.

In addition to financial assistance the plan envisaged the need for technical assistance also for drawing up the plans in some cases and for carrying out the projects in most of them. In fact a scheme for technical assistance was devised even at the Sydney meeting of the Committee—before the Colombo Plan report itself was published. A sum of £8½ million was provided for setting up a Bureau for Technical Co-operation and this body was set up within a very short while with its headquarters in Colombo.

The broad objective of the Colombo Plan may be described as an attempt to organize development in the countries of South East Asia with a view to raising the standard of living through a co-operative approach to the problems of development with special emphasis laid on increasing food supply. The proposed distribution and the cost of the programmes is indicated in the following table from the Colombo Plan Report of 1950*:—

Analysis of Development Programmes

	India	Pakistan	Ceylon	Malaya & British Borneo	Total	Percentage
	£m.	£m.	£m.	£m.	£m.	
Agriculture (a)	456	88	38	13	595	32
Transport and communications	527	57	22	21	627	34
Fuel and power	43	51	8	20	122	6
Industry and mining (b)	135	53	6	..	194	10
Social capital	218	31	28	53	330	18
	1,379	280	102	107	1,868	100

(a) Including multi-purpose projects.
(b) Excluding coal.

* *The First Colombo Plan Report*, Table 19, p. 44.

It will be noticed that the major part of this development is in the sphere of agriculture, transport, power and irrigation. Taking the plan as a whole these items account for about 66 per cent of the total investment. It is true that the plan lays less emphasis on the development of industry and social expenditure but this is almost inevitable having regard to the available resources for carrying out the development plans. It is true that the size of the development programmes envisaged is small in relation to needs. In the Indian plan, for instance, if the plan succeeds as outlined, the addition to national income at the end of six years will be roughly 10 per cent over the present level. If allowance is made for the increase in population, the addition to national income at the end of the period will be almost nominal. For any significant rise in standards of living much more needs to be done and, if there were enough resources, there is no doubt that industry and agriculture could both be developed more extensively. But if resources are not sufficient to carry out and priorities have to be expressed for the more urgent ones among them, the increased production of food and the building up of facilities for the development of agriculture become the first priority. The nature of the shortage of resources needed for development is indicated roughly by the fact that the available domestic finance (not to speak of the availability of the physical resources and capital goods) in the different countries in the area is small in relation to the requirements even of the proposed, modest basic development. The following table*, for example, illustrates the nature of the relation between the resources required for development and the resources estimated to be available from domestic sources:—

Summary of External Finance Required (£ million)

1951-57

	India	Pakistan	Ceylon	Malaya and British Borneo	Total
For period, July 1951—June 1957					
Total cost of the development programme† ..	1,379	280	102	107	1,868
Cost of capital goods imported for the programme	237	115	39	20	411

* *The First Colombo Plan Report*, Table 27, p. 60.

† The internal finance available for the programmes, on the assumption that external finance is forthcoming, would be: India £772 million; Pakistan, £151 million; Ceylon, £61 million; Malaya and British Borneo, £46 million.

	India	Pakistan	Ceylon	Malaya and British Borneo	Total
External finance needed :					
From sterling balances	211	16	19	..	246
From other sources ..	607	129	41	61	838
Total ..	818	145	60	61	1,083
For the first year, 1951-52					
External finance needed :					
From sterling balances	35	10	5	..	50
From other sources ..	128	13	7	9	156

It may be seen that even for the modest development envisaged in the Colombo Plan for the four countries which submitted the plans, total expenditure was estimated at £1,868 million and, of this, external finance required (including that from the release of sterling balances) is as much as £1,083 million. It would obviously be impossible, therefore, to plan for a much larger rate of development. For the time being at any rate, therefore, this plan would seem to present approximately the limit of what can, in practice, be achieved by way of development assuming that internal resources contemplated in the plan could be raised and external finance would be available up to the extent envisaged. At a later stage, as production increases and incomes are better, the rate of saving will increase and the rate of capital formation could be stimulated and more ambitious plans can then be laid out.

The external finance needed for development was expected to come from various sources. The sterling releases from the U.K. to the countries which prepared the Colombo Plan are expected to cover about £246 million for the six-year period. Apart from this, grants and loans from other countries interested in the area were postulated. Loans from the international institutions such as the International Bank, and also from one Government to another and the movement of private capital into channels where such investment is likely to be mutually beneficial were also contemplated as likely sources.

The plan did not contemplate any central organization to execute it. Negotiations for loans and grants connected with the Colombo Plan are carried out bilaterally between the donor and the recipient countries. A central organization would have involved delicacies of all varieties and would, in practice, prove a hindrance rather than a facility for the successful implementation of the plan. The plan, therefore, has at present no central secretariat and financial negotiations are

not carried out by the Consultative Committee on behalf of an individual country. Plans incorporated in the Colombo Plan are as submitted by the countries themselves. They are not screened by the Committee as a whole which assesses the technical consistency of the plans and the validity of their basic concepts. This approach is necessary in order to enable the countries to feel free to offer their developmental plans as a part of the Colombo Plan. Any other approach would have compromised the independent character of the countries and discouraged them from joining the co-operative effort. Economic assessment of the projects is taken up, not by the Consultative Committee as a whole, but between the country offering assistance and the country receiving it at the time when a loan or a grant is under negotiation. It is this kind of mutual respect for the sovereign character of the countries that has ensured so far the success of the work of the Consultative Committee and promoted mutual trust and confidence and helped discussion at a common table of plans and programmes of different countries.

III. THE FIRST YEAR OF THE PLAN

Launched with these objectives during the middle of 1951, the Colombo Plan has completed the first year of its operation. To an extent, the assumptions and calculations envisaged in the first report were not realized in actuality. Developments connected with the Korean war created some major problems in regard to its implementation. The rise in prices had inflated the cost structure of the projects and unforeseen difficulties had arisen in some of the countries on account of the shortage of food. At the same time, there was also improvement in the terms of trade for some of the countries as a result of which their capacity to provide more finance for the plans has also improved. Conditions, however, vary from country to country and at least in one case (India) such improvement in the terms of trade has been negatived by the rise in internal prices and the worsening of the food problem.

During the first year of the plan financial and technical assistance has been received from various countries in the Commonwealth as well as the United States. During the first year of the Plan, Australia made available by way of a grant a sum of £A 8.75 million. Of this India was allocated £A 4.2 million, Pakistan £A 2.0 million and Ceylon £A 0.3 million. India obtained wheat and flour for the value of £A 3.7 million and the rest will be used for the purchase of other commodities. On the side of Technical Assistance, Australia offered 150 fellowships and scholarships to the countries in the area and in September 1951 a further 150 were offered. The Canadian Government agreed

to provide $25 million for economic assistance in the year 1951-52. This was divided $15 million to India and $10 million to Pakistan. Of the grant to India, $10 million was spent on the purchase of wheat and the counterpart funds obtained were to be applied for providing funds for the Mayurakshi irrigation and hydro-electric project in West Bengal which will irrigate some 600,000 acres of land and produce 4,000 kilowatts of electric energy. Part of the funds will also be allotted for the purchase of 1,500 trucks and buses for the State Transport in Bombay. In the field of technical co-operation, Canada offered in all 60 scholarships during the year and agreed to send 3 technical missions in the fields of agriculture, hydro-electric power development and highway and bridge construction. Canada's contribution to technical assistance as such approximates to about $400,000 for the year 1951-52. New Zealand agreed to provide a million pounds a year for the first three years for economic development and about £400,000 towards the cost of technical assistance. During the first year she offered £250,000 each to India, Pakistan and Ceylon and held in reserve £250,000 for assistance to any other countries which might become members. These also were in the nature of grants. The amount of the grant given to India is being utilized for setting up an All-India Medical Institute at a cost of £1 million. She has also offered 50 fellowships and scholarships to countries of South and South East Asia. The United Kingdom's assistance under the Colombo Plan has been mainly in the shape of releasing sterling balances according to agreements entered into with the countries in the area. Although these balances belong to the respective countries, the burden of sparing the corresponding real resources by the United Kingdom at a time of considerable strain on its economy is recognized as providing valuable assistance for carrying out the plans. Her contribution in providing technical assistance and the export of capital goods has been of considerable assistance to the development of the area. By February 1952, the United Kingdom had offered 33 professional or technically qualified experts and requests for 68 more are under consideration. They have offered nearly 300 places for training technicians from the area in factories and mines in addition to finding places for several thousand students in technical schools and universities. The United States has provided during the year 1951-52 to all countries in the area over $150 million in grants and has authorized loans in excess of $280 million between 1 July 1950 and the end of March 1952. The countries which have received these grants and loans include Burma, Cambodia, Ceylon, India, Indonesia, Laos, Nepal, Pakistan, the Philippines, Thailand and Viet Nam. So far as India is concerned, the U.S. has offered some $50 million by way of a grant, and although not specifically raised for the purpose of the

Colombo Plan, the loan of $190 million for the purchase of wheat has produced counterpart funds in rupees which will be applied to expenditure on development programmes under the plan on agreed projects. Of the funds allocated for technical assistance in India, some $400,000 was devoted to projects in agriculture and rural development. The balance of the fund was committed to programmes in the fields of public health, industry, public works and public administration.

On the side of technical co-operation arranged by the bureau set up in Colombo, during the 12 months some 470 applications were handled and up to the end of December 1951 it provided 45 experts of whom 19 were for Ceylon, 21 for Pakistan and 5 for India. Training facilities were arranged for 309 students, 54 from Ceylon, 124 from India and 107 from Pakistan. In a few cases requests received for the contribution of equipment required for training or for use by technical experts such as tools, films, educational material and so on were also provided. About 40 senior officials mainly from India and Pakistan were sent on short missions to Australia, Canada and New Zealand to acquaint themselves with the latest developments and to explore the possibilities of sending trainees to these countries and of securing experts for training facilities from them. These facilities were largely in the fields of civil and hydro-electric engineering, civil aviation, agriculture, road and bridge construction, health and education. In providing technical assistance not only countries outside the area but even those within the area have contributed according to their respective ability. India supplied 3 industrial experts and a consultant to Ceylon and 24 scholarships a year at the International Statistical Centre in Calcutta availed of by Ceylon, Pakistan, Indonesia, Nepal and Thailand. Facilities were given for other experts and technicians from Ceylon, the total of India's contribution to technical assistance being Rs. 10 million over the period of three years. The Government of Pakistan has offered contributions to the value of Rs. 1½ million to the technical co-operation scheme over a period of 3 years to be spent on scholarships, fellowships, the contribution of experts and such training facilities as Pakistan may be in a position to offer. Ceylon has agreed to contribute to the extent of Rs. 1,776,000 for each year of the scheme. Thus, mutual assistance activity on the part of these countries is of the greatest importance and it may be possible in future to extend the scope of such activity by offers of not only technical assistance but also finance for economic development—e.g. the proposed loan by India to Nepal of Rs. 15 crores over a period.

The first year of the Colombo Plan, therefore, may be said to have produced a fair measure of external assistance and the plan has no doubt

got off to a good start. The following table is illustrative of the trend of public investment in the 3 years commencing 1950-51:—

Public Authorities' Expenditure on Development

(in Millions of Pounds)

	1950-51 Actual	1951-52 Revised Estimates	1952-53 Estimates
India	196	256	307
Pakistan	...	116	120
Ceylon . ..	17	38	44
Malaya and British Borneo	13	18	24

It is true that the results achieved by this expenditure when considered in terms of concrete additions to productive capacity are not spectacular. But in the development of such projects which will eventually have a powerful and lasting influence upon the output of social conditions it takes several years before they are completed and begin to play their role in adding to production. Nevertheless, progress is visible in some directions. In India, for example, the Nangal barrage is in an advanced state, the Bokaro Thermal Station and the Tungabhadra irrigation project will be completed in 1953 and will command an area of 2 million acres of which 700,000 acres will be irrigated annually. The Kakrapara project designed to bring nearly 600,000 acres under irrigation should be completed by 1953-54. The Lower Bhawani Project which will irrigate some 270,000 acres is half completed and will be finished in 1953-54. Encouraging progress has also been made on the Hirakud Project and the Kans Grass Project for the reclamation of weed-infested lands. In the field of industry the Sindri Fertiliser Project is already in production and the Chittaranjan Locomotive Works is nearing completion.

IV. THE PROSPECT FOR THE PLAN

Prophecy is difficult but with the experience so far gained and given the continuance of goodwill that made possible the forms of assistance offered in the first year, there is no reason why progress in subsequent years should not exceed that achieved so far. Some Governments have already announced their intention to supply capital assistance in 1952-53. The International Bank for Reconstruction and Development is discussing the possibilities of loans to several countries in the

area. It is no doubt true that, apart from external assistance, progress will also depend upon the determination of the countries themselves to pursue development objectives and to mobilize resources effectively to that end. In some countries progress is not significant not merely for want of capital but also because there is a lack of avenues for the absorption of external assistance and the lack of trained technicians in the intermediate categories, trained administrators for manning the projects and the absence of experts to prepare plans of economic development. The pressure of expanding population is an internal factor in the area which either negatives or obstructs the raising of the standards of living. The desire to expand local resources is an important factor in making the development programme a success and more effort is necessary obviously for mobilizing domestic resources. Progress will also depend on supplementing the scope of public enterprises with appropriate extension of facilities for private initiative, the potential magnitude of which for development from both domestic and foreign sources is large. The terms of trade will have an important bearing on the progress of the plan, especially since most of the countries depend on the export of primary products for their incomes and even a small decline in the price of these products will make a substantial difference to the level of incomes and therefore to savings and investment. It is difficult to be dogmatic as to how these various factors will take shape in the years to come. But one can conclude this brief review of progress echoing the sentiment expressed in the progress report recently issued:—

The first step in any great endeavour is always the most difficult, and that, it may be said with confidence, has been taken with a degree of success that arouses and may be expected to sustain justifiable optimism for the future. In what history will record as a unique experiment in the life of nations, the capital and technical knowledge of the more advanced countries in fruitful combination with the abundant material and human resources of South and South-East Asia may confidently be expected to achieve a conspicuous and heartening progress. This progress will urge the receiving countries to an ever increasing degree of self-reliance and encourage the contributing countries to devise more and more effective means of friendly assistance. Thus invigorated, life in South and South-East Asia will be animated by a new spirit of active effort that will open up widening horizons of opportunity for its peoples and will contribute to the lasting happiness of mankind.

PART II

CHAPTER VII

ECONOMIC DEVELOPMENT IN INDIA

By D. R. GADGIL

I

THE problem of the rapid economic development of the underdeveloped areas of the world has assumed great importance in the post-war period. This is largely due to the progress of the sphere of communist influence. Governments of the underdeveloped countries in non-communist areas have begun to become aware of the need to improve internal economic conditions in order to keep in check the growing influence of communist parties and it has become an established axiom of American policy that the Communists can be effectively contained in the long run only if the standards of living of peoples in the underdeveloped countries rise rapidly. The problem was recognized and formulated in its present form only in the post-war period and it has received steadily greater attention with the increase of tension between the U.S.A. and the U.S.S.R. and the growth of effective communist influence, especially in Asia.

The growing sense of urgency has been exemplified by the constant presence of the subject on the agenda of international authorities. Last year the Secretary-General of the U.N. appointed a group of experts to report on the problem. The appointment of the group did not flow directly from consideration of the problem of economic development. Formally, the group was the counterpart to the body of experts that had been appointed previously and had reported on the problem of full employment. This earlier group had considered the problem of maintenance of full employment only in relation to the industrially advanced countries and chiefly in relation to its cyclical aspect; it had stated that for the underdeveloped areas the important problem was that of chronic underemployment, the solution for which could be found only in rapid economic development. It was recognized by this group that rapid economic development of the underdeveloped areas was a necessary pre-condition even for the success of policies of maintenance of full employment in the industrially advanced countries. It thus happened that the group of experts appointed formally as counterpart to the full employment group devoted almost all its attention not to the problem of unemployment or underemployment but to economic development which had been agreed on universally as its only remedy in the underdeveloped countries.

The second group of experts submitted its report in May 1951. This report has been considered at many stages of the organizational structure of international authorities. The reports of debates in these bodies throw valuable light on the points of view of the various countries and the time is opportune to consider the possibilities of national and international action.

The U.N. experts divided the measures necessary for economic development into two classes—internal and external; but the main controversy in international organizations has centred—on the recommendations of experts regarding international or external measures. This was for two reasons; first there was not much that international authorities could do directly in respect of the internal measures recommended by the experts; there did not also appear much difference among representatives of the various countries on the recommendations of the experts in this division. This absence of any expression of differences of opinion was due not to real agreement but to no attempt having been made to explore fully the implications, in terms of concrete policy, of these recommendations. Another feature of the debate to which attention may be invited was the large measure of agreement on a number of points of the analysis of the experts. The chief expressions of difference of opinion on these points came from the representatives of the countries of the Soviet Bloc. To them it was clear that the analysis of the experts, in so far as it did not accept their orthodox formulations, was at fault. Outside the Soviet Bloc, there appeared, in principle, agreement on certain major points which would have been surprising some years ago. In relation to internal measures the experts had emphasized the need for large political and social changes and had referred to the need of a social revolution which would bring about a shift in the distribution of income and power. This need was not directly challenged. Secondly, there appeared no opposition to the idea of an integrated plan for economic development; even the official memorandum submitted by the United States Government on the report of the group of experts accepted this idea. Here, as elsewhere, fundamental differences in approach became clear only through the details of the programme of action put forward by the different groups.

Regarding the general approach Americans and representatives of other older colonial areas contended that the development of the underdeveloped areas could take place on the same lines as the development of these older colonial areas. It was largely through the initiative of the private capitalist that the colonial economies had grown. None of them required even initially the importation of large amounts of foreign capital. Therefore, the spokesmen of this group urged, the underdeveloped countries should rely as far

as possible on their own resources and should build up their economics with incentives offered to private capitalists. Even the foreign capital that these countries would require should be obtained through investments made by private capitalists; the main requirement for this purpose was the creation of favourable conditions in the underdeveloped countries. Thus the thesis of the representatives of these countries was that the underdeveloped countries should create stable conditions, assure private capitalists from abroad and encourage domestic private enterprise to function actively within their own areas. If they did this, economic development would proceed in a normal and natural manner. The implication of the thesis was, of course, against an integrated overall economic development directed mainly by a central authority, and many representatives of these countries doubted both the utility of such a plan or the ability of the underdeveloped countries to implement it even if it could be usefully formulated. Some representatives of countries like Australia and Canada went so far as to doubt whether it would ever be possible for the underdeveloped countries to increase productivity fast enough to counteract the effects of the growth of population.

It would be useful to examine this plea of the recently colonized countries that the development of the underdeveloped areas should take place on the lines of their own past development. Their reasoning is based chiefly on historical analogy. It is hardly possible to imagine a greater contrast than that presented by the picture of conditions in which development in countries like U.S.A. or Canada took place and the existing conditions of the more populated underdeveloped regions of the Asian continent. At the time the modern process of development began, that is in the 18th century and after, these colonial countries were largely bare of population and had enormous unused natural resources and vast land areas in which populations in possession of the most improved techniques in the world were being slowly introduced. For a century and more land and other natural resources were abundant, a large body of comparatively trained, vigorous and enthusiastic immigrants was steadily arriving and the countries generated considerable incomes and investment resources internally and also attracted substantial funds from abroad. When these developments took place large parts of the world, *i.e.* countries other than those of Western Europe, were backward and the terms of trade between the agricultural and industrial economies were favourable to the latter. Also, the social and economic structure and philosophy of these colonial countries were, at least initially, largely egalitarian. The position of the Asian countries of today presents a sharp contrast to this picture. All these countries have age-old economies in which the process of settlement on land has gone on for centuries and the units of cultivation have been

adjusted to low sizes compatible with an older technique and the older ideas of possible standards of living. These economies have further been subject for a century or more to forces which have upset their balance, destroyed the fabric of their traditional industry and increased the pressure of population on land. They have also a highly stratified society riddled with privilege and quasi-monopolistic positions.[1] The existing internal situation of these old economies is, therefore, vastly different from that of colonies formed by Europeans in North America and Australia in the 19th century. Moreover, the transition from the older economies to a post-industrial revolution economy entails high cost. Technological unemployment of resources is the chief element of such cost. The costs of the transition in countries of Western Europe were, in this respect, successfully transferred by them to the colonial and dependent parts of the world. In countries like the U.S.A. and Canada there were no large pre-industrial revolution structures which would be affected by the transition, and the immense unused natural resources and the constant stream of immigrant population kept up a constantly high tempo of development. Even so, the U.S.A. maintained for the greater part of its development a high protective tariff. The situation is radically different in the underdeveloped areas today. There are large populations and extensive old structures of traditional industry which greatly intensify problems of unemployment of resources. The external situation is also materially different. A larger and larger part of the world is being organizationally transformed. Therefore, industrial development of these areas takes place in a much less favourable world situation than that of industrial transitions in the 19th century.

Apart from pressing the general analogy of the development in the colonial countries, representatives of these countries urged a broadly cautious attitude in planning for development. In this they were joined by representatives of the countries of West Europe. Together the representatives of all the industrially advanced countries formulated a programme of development which they called realistic.

One may summarize as follows the contents of this realistic programme. It favoured essentially an effort at education and at increasing productivity, especially of agriculture and traditional industry, by the improvement of techniques. The problem of the reorganization of agriculture was considered chiefly in relation to the remnants of the older landlord system where they existed. Active measures were advocated to eradicate that system and to bring into existence instead a

[1] Note the following description by an American economist of existing West European capitalist society. 'Restrictions upon entry, concerted cartel practices, use of government to maintain vested positions, and the like, are the rule there and as a result the economy is highly rigid and extremely inefficient'—*American Economic Review*, Sept. 1951, p. 565.

society of peasant family farmers. In this connexion it was important to observe the American insistence on mentioning specifically in the resolution on land reform the aim of creating small independent farms and on opposing everything that could be interpreted as smacking of collectivization. Little reference was also made by representatives of the developed countries to problems of industrialization. In relation to this aspect emphasis was placed on the large requirements of capital and of the greater possibilities of advance in and the immediate requirements of the extension of consumer industries. To the extent that the field of industry was capable of profitable exploitation, it was emphasized that it should be left to private enterprise and that if the underdeveloped countries held out proper assurances and made conditions favourable, the foreign investor would be in a position to supply the necessary funds. In short, the attitude of the spokesmen of this group was that it would be wrong for the underdeveloped countries to pitch their aims too high; the only social revolution that they should content themselves with should be that of abolishing the older landlord class and creating a small-peasant class; in industry the emphasis should be on development through private investment, domestic and foreign, mainly in the direction of simple consumer goods industries started by domestic manufacturers and the exploitation of special resources by foreign capital. The approach was thus both simple and direct. The immediate requirements of the standard of living could be satisfied by growing more food and more industrial consumer goods. The peasant would be content with acquiring a farm and, for the rest, the domestic and the foreign capitalist would look after the problems of long-term industrial development.

II

Before discussing further possible approaches to problems of development it is necessary to point to some important differences in underlying conditions among countries which are collectively described as the underdeveloped areas of the world. At least four broad divisions may be made. There are the countries in Central and South America which are in many respects close to the European historical traditions; also, in these countries the ratio of resources already fully utilized to those not so utilized is not large and the problem of chronic underemployment in agriculture does not usually arise. In many of them, modern industry has made considerable progress, at least in specific areas; and broadly their problems may be said to be of a type less urgent and difficult than those of the others. We have, next, the larger part of Africa in which the existing conditions of technique and material development are among the most backward. The pressure of popula-

tion is not so insistent but the continent, as a whole, is still suffering from a colonial regime which it may take some years to shake off. In Asia, the problems of the Middle East have to be differentiated from those of the countries of the South and the East. The speciality of the Middle East area, which includes Egypt, is oil; a full control over the exploitation of its oil resources may give this area an asset which may solve a great many of its problems of investment resources and economic development. Also, countries of the Middle East, other than Egypt, have no immediate problem of population. The countries of South and East Asia, including Pakistan and the countries of the Far East, face, on the other hand, most of the problems of underdevelopment in their most serious aspects. They have, in relation to their large populations, a comparative paucity of undeveloped resources and no special valuable asset like oil. Pakistan, India, Ceylon, Central Indonesia, Central Philippines and China—all of these suffer mostly from problems of a like nature and it will be the problems of development of these areas to which I shall pay special attention.

We may begin by considering the possible progress in development if the realistic approach as defined by the industrially advanced countries is adopted. There are available two national development plans which exemplify the possible results of this approach. One is the development plan for Colombia prepared by a mission sponsored by the International Bank and the other is the Indian five year plan. The main approach in both these plans is similar. There are, however, important differences which must be noted before commenting on the adequacy of performance of the two. Firstly, Colombia is a country much richer in natural resources and in per capita wealth and income than India; also, the magnitude of the effort outlined in the Colombia plan is very much greater than that in the Indian five year plan. Because of these two important differences the criticisms we shall make of the Indian five year plan may not apply to the Colombia plan. I am not in a position to say anything regarding the Colombia plan nor is it possible to say that the conclusions flowing from the criticism of the Indian five year plan will apply to countries of South America. The conclusions to be drawn from an examination of the Indian five year plan are valid, in the first instance, for India itself and would, by analogy, hold good in many respects for countries of South and East Asia which are similarly circumstanced.

The main features of the Indian five year plan are as follows: The plan is in the main a plan of public expenditure in which the emphasis is on construction of irrigation and power projects and on the development of productivity of agriculture through spreading of advanced tech-

nique. There is considerable expenditure proposed on the development of transport facilities and a small amount on development of industry. There is no well-defined plan for the reorganization of agricultural production or of ancillary activities connected with agriculture. Large-scale industry, banking and commerce continue as before in private hands and the targets in the plan, of investment and production in the industrial sector, embody expectations of the extent to which, in appropriate circumstances, private industry might develop. An important objective of the plan is increase of food production within the country and the plan pays special attention to increasing the supply of industrial consumer goods, for the manufacture of which large-scale industry exists in India at present. In common with the American view and with what has been attempted in the Colombia plan, the Indian five year plan does not look beyond its period, and does not think in terms of a developmental process which will be continuing and for which the initial basis is afforded by the performance in the first five years. The five year plan is thus closely modelled on what one may term the American view.

It would be unfair if this is taken to imply that the Indian Planning Commission deliberately adopted the views of the representatives of the industrially advanced countries. The correspondence between these views in the approach of the Colombia plan and the Indian five year plan merely underlines the logical consequences of the adoption of a particular approach. Once it is determined that the field of modern industry and trade is a field that is reserved for private enterprise the sphere of the planning effort is automatically very largely limited. In the Indian case Government goes so far as to reserve to itself the right to initiate or launch industrial activities in which the private industrialist takes no interest, *i.e.*, Government undertakes to start such activities as either require capital investment so large that it is beyond the resources of private industry or to establish activities which are considered too risky by private enterprise. For the rest, it leaves the field open to private enterprise, suggesting later intrusion if private enterprise fails to develop in particular directions. Even this modified approach limits severely the possibilities of planning in the industrial sphere; for, Governmental activity is looked upon as merely supplementary to private activity and as coming in only when private enterprise seems to have failed. It is obvious that in these conditions Government can neither improve a pattern of development on private activity nor dictate the pace at which progress is to take place. Special activities requiring large investment funds, *e.g.*, building of irrigation works, generating power or building a modern transport system, have always to be undertaken by other than purely private enterprise. These, therefore, become

a direct responsibility of the State in such plans. In the agricultural sphere, the abolition of a landlord system is generally agreed upon; but no important steps for reorganization of a small farmers' society can be taken. With the prevalence of the notion of a strict private enterprise system in the industrial sphere, any drastic change in the organizational unit in peasant agriculture would be taboo. Again, any efforts at, say, reservation of agricultural marketing and processing to the cooperatives would offend against the overall aim of maintenance of the private trader and operator. Therefore, excepting the spread of newer techniques, nothing much can be attempted in the sphere of agricultural production. The similarity in the different proposals thus stems from the central idea, accepted by all the three, of trying to achieve development mainly through the instrumentality of the private enterpriser and investor. In effect, a long-term plan of development of an integrated character is inconsistent with the fundamental acceptance of this idea because such a plan would lay down in advance lines of a process which should properly, from this point of view, be left chiefly to the operation of economic incentives and market forces.

We may now proceed to see to what extent the magnitude and direction of a programme based on such an approach can be adequate and appropriate. The aims of our economic policy stem from the wider national objectives. These are the development of internal resources so as to gain in strength abroad and contentment at home. There is no difference of opinion that rapid economic development is desirable from both these points of view. The present economic situation of the country cannot be said to be satisfactory. We seem to be just holding our own for the last decade or more. All the broad indications point to no increase in the standard of living. The availability of food is certainly not greater than before. Food crises seem to have become as normal a feature of our economy as the dollar crises in Britain. Calculations of the average length of cloth available for domestic consumption do not show an improving situation and in the matter of shelter and housing, the conditions in our cities and in even the large towns have notoriously worsened since 1940. There may be some credits to be put on the other side, such as that of an improvement in the condition of some classes of agriculturists as compared with the situation in the thirties. The whole picture, however, is not reassuring and no tendency or operative trend during the post-war period has indicated that relief will come from any quarter or that advance is being made in any particular direction. The problem created by the pressure of population on land is also urgent. The rate at which our population is growing is not among the highest; but it is high enough to cause concern. The existing situation regarding underemployment in agriculture is serious.

Statistics relating to the size of the average cultivated holding in almost all the States point to a situation where considerable proportions of the working population at present engaged in agriculture could be easily removed from that occupation without affecting productivity; also, they point to a unit of productive organization so small that no considerable advance in productivity could be made and no proper basis for improving the economic structure could be found without significantly increasing its size.

It is clear that we require a rapidly increasing production of material goods; but a slogan of more production is by itself of no use. What is required is an integrated plan of development which would bring about larger and more varied production. The obvious approach to this problem is, of course, that of exhorting workers to greater efforts and of taking steps for improving technique while maintaining the present structure. This is essentially the approach of the Indian five year plan. Such an approach would be justified if the difficulties of the situation were not fundamental and structural. Our economic backwardness and our poverty are not the results merely of low intensity of human effort or of a backward technique. The history of the last two centuries in all the industrially advanced areas of the world has definitely proved that economic development means a shifting of emphasis from primary production, in the sense of the direct exploitation of natural resources, to industrial production. In all countries the general level of incomes has, in modern times, been greater in the industrial sector than in the agricultural sector and reorganization or advance in agriculture has usually been brought about by shifting workers from agriculture to industry. It has also been found that mere emphasis on improving technique in primary production is not only inadequate but that it does not bring about a lasting solution.

The last feature is related to the main characteristics of modern population growth. The growth of population in the post-industrial revolution period has been marked by two separate trends. Firstly, with improvements in public hygiene, especially through control of epidemics responsible for considerable mortality in the past, the death rate has been progressively lowered. The trend towards a lowering of the birth rate, wherever it is in evidence, has been usually associated with the correlated phenomena of industrialization and urbanization. The first trend, that of a lower death rate, is in operation throughout the world and is associated merely with the existence of a government of minimum efficiency and not with any particular type of economic structure or any level of economic well-being. The peculiar features presented by

the population problem in most countries of Asia are due to this first trend having been in operation for a long time, while the second trend in most of the countries had been artificially kept down from emerging through the operation of colonial regimes. As long as industrialization and urbanization do not take place no balance could be attained in the populations of these countries. It has often been doubted whether modern methods of controlling population growth will be readily accepted and will spread in use in the industrial and urban communities in Asia, as they have done among similar communities of peoples of European stock. Whatever the doubts be on this score, it is clear that these cannot make significant progress directly in societies which are in the main rural, and that it is by slow filtering of ideas from urban communities that in time the pattern of birth rates in the rural communities may also become affected. Therefore, any programme which lays emphasis on agricultural development is a programme which by its success merely postpones the time when the inadequacy of resources to population becomes again apparent. The recent history of countries like Egypt has emphasized this lesson.

In the same way a programme for immediately increasing the supplies of consumer goods is a programme that has chances only of a short-term success; for, economic development means a complex industrial structure and an economy which is well-balanced internally. An emphasis on increased production of consumer goods because this can be easily achieved or because the products are immediately in demand exhibits only a short period view. This view aims at an immediate increase of certain goods rather than at general economic development. In this sphere again universal experience shows the necessity of starting at what would appear to be apparently a more remote point, *i.e.*, with the basic industries on which alone lasting economic progress or development can be based.

The adequacy or propriety of the approach may also be brought out by an examination of what the Indian five year plan expects to achieve in terms of increased welfare or merely increased production. It is clear that the extent of social security and assistance measures in India today is insignificant. A beginning has been made with some measures related to industrial workers, but measures of this type affect a microscopic minority of the Indian population. For the large bulk of people even the most elementary social services are not available. Among the directive principles of policy embodied in the constitution of the Indian Republic is one which promises securing compulsory free primary education to all within a period of 10 years. No State, excepting Bombay, has yet framed a programme for attaining this end and the Bombay

programme is already breaking down for want of funds. Any programme of social security or assistance for large populations in a poor country like India requires resources which far exceed the current capacity of the Governments of either the Union or States in India. The five year plan does not point to or provide for any real extension of welfare activities of the State.

It does not in any way also indicate more equal distribution of income or wealth. The Finance Members in India have been, for some years past, engaged in lessening the burden of direct taxation. As long as Government feels that the limit has been reached in the matter of direct taxation increased government expenditure can be sustained only by proceeds of indirect taxation or by inflation. The burdens of indirect taxation and of inflationary pressures bring about greater inequality and not greater equality in distribution. Also since industrial development is to be brought about by leaving the field in the hands of the private industrialist, most of the extra gains of the development process, it must be clear to the meanest intelligence, will remain in those hands and not be diffused broadly.

The magnitude of the effort indicated in the five year plan is also very inadequate. It is difficult to say what results the Planning Commission itself expects to be reached at the end of the five year period. The most detailed calculations made by the Commission are in relation to agriculture. Here it is seen that not much more than maintaining the position of 1950 in terms of per capita availability at the end of the five year period is expected to be achieved in the basic requirement of food. A special effort in food production is included in the five year plan. In other directions no such effort is indicated and the Planning Commission is content, in relation to the production of commercial crops, with the ordinary progress which it expects will come about in view of favourable factors which, it says, prevail at present. Industrial production is almost wholly in the private sector and the estimates of production made in that sector are obviously liable to a considerable margin of error, because of the forces of fluctuating market conditions and price relations during the intervening period. In the field of small-scale industry definite action by way of investment and direction is visualized to an even less extent than in the sector of large industry. Therefore, while it is impossible to conjecture the magnitude of results that may be achieved, it does not appear that the per capita income level would be expected even by the Planning Commission to be increased significantly as a result of the plan. As regards distribution of the total income, it has been pointed out how the distribution is not likely to become more even

with the progress of the plan, in spite of the many assertions to the contrary made by the protagonists of the plan.

The reasons for the inadequate effort and uncertainty of realization are not far to seek. The Indian five year plan falls neatly between two stools. It is not prepared to go far enough in the direction of creating conditions favourable for a rapid development through the agency of private enterprise. To do this, it would have to reduce much further the burden of direct taxation, dismantle a great deal of its labour legislation and disavow its social aims. For, by doing this alone could present sacrifices be imposed to a sufficient extent on the mass of the people. On the other hand, being wedded to private enterprise the Indian Government cannot think in terms of a central pool of savings, of centrally directed investment and of a general regime of austerity imposed through direct controls and fiscal devices. The failure to take boldly to one or the other of these lines logically leads to a plan which can accomplish little.

III

Most areas which are today underdeveloped have, in the recent past, been under the influence, direct or indirect, of the highly developed capitalist countries. Among them there are no instances of rapid economic development. The Philippines may be cited as an example of a country governed by a modern industrially advanced State which had no need of obtaining a net direct return from exploiting the resources of its colony. Even so, the trend of economic development in the Philippines was not strikingly different from that of the neighbouring colonial areas of South East Asia. Puerto Rico is another example of a small colony benevolently administered, receiving considerable external aid and yet failing to develop its resources at a rapid enough pace.

The largest numbers of recent cases of development of underdeveloped areas are within the communist bloc of countries. It would, perhaps, prejudice unnecessarily the case if one reasons largely from the experience of these countries. Though no underdeveloped country has developed rapidly outside the communist bloc during the last thirty years, there is the instance of Japan which started its course of development towards the end of the last century and made very considerable progress during the opening decades of this century. It is possible to reason by analogy from the case of Japan and from the general previous experience of the other industrially advanced countries. A discussion of some of the problems involved and of the lessons to be drawn may be found in Dr. Singer's lectures on 'Development Projects as part of National Development Programmes,'[2] delivered at the U.N.

[2] Included in the U.N. publication *Formulation and Economic Appraisal of Development Projects* (1951).

Asian Centre on agricultural and allied projects at Lahore. One refers with special confidence to Dr. Singer's discussion, as the U.S. Government in its memorandum on the report of the group of U.N. experts referred in approving terms to this Centre conducted by the U.N. The process of development in most countries and circumstances may, according to Dr. Singer, be described as follows: 'It is the story of the present sacrifice, maintained over extended periods and someone to see that the results of these sacrifices went into economic development.' Dr. Singer's view of the process of development in Japan is that, 'in the first instance the process of development meant a steady increase in concentration of wealth amongst a small group of capitalists. These capitalists with the help of the ruling classes were able to keep wages low and go very slow, on social improvement in the early stages.'[3] It was again, in Dr. Singer's terms, a combination of a very unequal income distribution with exhibition of a puritan spirit on the part of those people who received the big incomes. Evidently, the Japanese industrialist was not only puritanic like his fellow industrialist in England a century before, but was also patriotic and worked in close collaboration with Government in attaining the aims of national economic policy. The business of seeing that the result of present sacrifices went into economic development was done in Japan largely by the Government which had a fairly well defined picture of its priorities and which had a public development programme closely synchronized with the private development programme and which happened to have obtained in this work the full and honest collaboration of the industrialists. To the extent that Japan obtained foreign aid, that aid is stated to have been chanelled by Government into high priority investments. It is thus clear to Mr. Singer from the experience not only of Japan but also of other countries like the U.K. and the U.S.A. that economic development can follow only a large effort involving considerable present sacrifice, the central direction of pooled investment resources and dominance of a puritanic spirit over both present consumption standards and the manner in which investments for the future are made.

The first decisions to be made in relation to a programme of economic development in a country like India are regarding the minimum magnitude and the main direction of the effort. Dr. Singer, for example, talks of a minimum starting level for the cumulative process. It is interesting in this connexion to note that he considers the crucial phase in Russia was through the period between 1921 and 1926 when he feels that collectivization of agriculture took place and some surplus in food

[3] See also, Saburo Okita—'Japan and Asia's Economic Development,' *India Quarterly*, October-December 1951.

supplies was achieved. This appears a version of the case which is slightly different from the generally accepted one. One would have thought that the term collectivization is properly applied to what happened after 1927 and not before it, and that the main reason for the somewhat dangerous experiment in collectivization was that in the New Economic Policy surpluses that may have been generated in agriculture were not yet available for a communal investment effort. Dr. Singer seems to believe that there are opportunities almost everywhere of no-cost institutional changes which might bring about a large increase in productivity. It is not necessary to inquire whether the concept is a valid one and whether there are available in any society such no-cost changes. It appears clear that in India no such opportunities exist. Ours is a system already of innumerable peasant farms, in which the abolition of zamindari would have no organizational effects, and would not release enthusiasm or effort in the way that the Green Revolution is supposed to have done in the countries of South-East Europe or in China. Therefore, with us, the problem of attaining the minimum level of investment to start the cumulative process has to be considered in terms of available real resources.

Ideas regarding the magnitude of the effort required and the proper direction of it are closely interrelated. The U.N. experts made in their report an estimate of the magnitude of capital resources required for the economic development of the underdeveloped areas of the world. This is the one direction in which statistical measurement of the problem was attempted. It is not possible to measure the magnitude of the problem of internal, political and social adjustment. This may be large or small or more or less difficult from country to country. Some aspects of internal work such as that of training industrial personnel or generally educating the masses may be defined in some quantitative terms. But the quantitative measure of even educative or public health efforts has to be ultimately conceived in terms of total resources that can be spared for such work. There are, no doubt, some directions in which physical shortages may affect the timing of the development programme as a whole. One of the most important of such directions may be the availability of technical personnel. However, most of such difficulties may be met by an extra expenditure of national resources. Ultimately, apart from the changes required in the social or political structure, the most important aspect of a plan of development is the availability of resources. By and large, it may be taken for granted that if the total resources are adequate the development programme will not be significantly held up on account of inadequacy in particular directions provided that it is properly planned from the beginning. Therefore, the most important magni-

tude to be assessed or estimated was that of the total resources required for initiating and sustaining an integrated programme.

It is obvious that any attempt to measure such magnitude involved assumptions regarding the nature of the process of development. Therefore, before it was possible to discuss the magnitudes it was necessary to arrive at some agreement regarding what was involved and what were the objectives of the plan. The U.N. experts approached this question from two points of view. The immediate origin of the appointment of the experts was concerned with the problem of full employment. It was chronic underemployment in the underdeveloped countries that had drawn attention to the need for their planned development. Therefore, the plan of development had to be such as could resolve chronic underemployment in these areas of the world. Secondly, the experts were told that the U.N. authorities were concerned about the great gap in the national incomes of various member countries and that for fulfilling objectives specifically laid down in the U. N. Charter as well as for helping the attainment of generally peaceful conditions in the world it was vital that the existing differences in the levels of national income between the rich and the poor countries be reduced. Most of the rich countries were increasing year by year their average per capita productivity and incomes. Therefore, the aim of a plan of development for the underdeveloped countries would be to generate in these countries a rate of increase in per capita national income which was larger than the corresponding rate of the industrially advanced countries. It has been noticed that in recent years the underdeveloped countries had failed to show progress in relation to levels of their per capita income, and that consequently the difference between the rich and the poor had been increasing instead of lessening. The aim of increasing per capita productivity and national income involved increasing productivity and income at a rate that would, firstly, neutralize the current increase in population in these countries and subsequently lead to higher levels than the present. The admittedly crude and rough estimate made by the group of experts was related to the two requirements of reducing underemployment and increasing per capita incomes.

The statistical calculations of the group of experts are based on certain simple assumptions. Firstly, it is assumed that development must lead to a growing proportion of the total population being absorbed in non-farm occupations. This is both because the state of chronic underemployment is the acutest in farming in the large, populous, underdeveloped countries and because in most of these countries the present average incomes from non-farm occupations are much higher than those in agriculture. The calculations of the group of experts are based

on the minimum objective of preventing further increase of persons occupied in farming; this objective involves providing non-farm occupations for all increases in the number of gainful workers brought about by future increases in population. One set of figures is derived from estimates of the number of such workers multiplied by an average estimate of the amount of capital required to provide non-farm employment for each worker. Another item in the estimates of magnitude is related to expenditure which would increase agricultural productivity. As the average amount of capital investment required per non-farm worker was pitched at a figure which would provide for use of modern technique there was no need to make calculation of other investment for increasing productivity in non-farm occupations. In agriculture an increase in productivity was held to be possible through an improvement in technique; and the resources required to spread the knowledge of new techniques and to enable the adoption of these techniques had to be estimated. The experts made a rough and ready calculation and arrived, on the addition of the two items, at a rough estimate of the total magnitude of resources required to finance the economic development of the underdeveloped areas of the world. The calculation of the experts referred to a volume of investment which the experts expected would increase the per capita income of the underdeveloped countries at the rate of two per cent per annum; that is, if a country had a per capita income of 50 dollars in 1950 this would become, in 1970, $75 approximately. If in the meanwhile the per capita income of the U.S. moved from 1,400 dollars a year to, say, 1,750 dollars a year the proportionate difference between the two would have been reduced; the absolute difference in the two levels of incomes may, of course, become even larger than before. Put in such statistical terms the calculations of the magnitude of effort required, made by the group of experts would be seen not only to have not been extravagantly high but to be almost the minimum required if the aims of the U.N. authorities are to be given concrete shape. In fact it would be seen that in terms of the goal of greater equality between the rich and the poor countries the target set by the experts is extremely modest. In the same way the target in relation to the occupational structure means no more than that the present numbers of workers on farms will in no way be increased, *i.e.*, the process of development will take place at a pace which though not reducing significantly the extent of existing crowding on land will at least prevent making it worse.

While the approach of the Colombia plan and the Indian five year plan may be said to be similar, the magnitudes of their proposed performance are of entirely different dimensions. The Colombia plan

supposed a rate of annual investment for the five year period which was continuously at a level of between 17 and 19 p.c. of the total national income and of which, roughly one-third was investment on account of Government. Government investment in the plan moves up during the five years from roughly 5 p.c. of the national income to about 6 p.c. in the last year of the plan. The magnitude of the total investment required in India on the basis of the calculations of the U.N. experts would also be very large. The U.N. experts assume that capital investment at the rate of 2,500 dollars[4] per new worker employed in non-farm occupations would be necessary, and that capital expenditure for improvement of agriculture may be roughly 4 p.c. of the total national income. If it is held that about 70 lakhs of workers may be added to the total working population in India during the period of the five year plan, capital investment for employing all these workers in non-farm occupations would amount to Rs. 8,750 crores approximately during the five years. Assuming a national income of roughly Rs. 9,000 crores the investment for agricultural development may be about Rs. 360 crores per annum. Ignoring any increase in this total national income, we may take the total investment for this purpose in a five year period at five time this amount, *i.e.*, at Rs. 1,800 crores. The total investment for the five year plan period on these calculations would amount to Rs. 10,550 crores which gives a rate of annual investment of Rs. 2,110 crores. This represents about 23.3 p.c. of the assumed national income of Rs. 9,000 crores in the initial year. The Indian five year plan makes no calculation regarding the total investment in the whole of the economy during the five years. However, it is clear that the scale of investment contemplated by the plan is very small compared either to the requirements as calculated by the group of experts or the figures projected in the Colombia plan. The total expenditure on capital investment in all directions in the public sector including education and social services amounts to no more than Rs. 1,500 crores in five years of the first five year plan. The expected investment in large-scale industry by private capitalists is put at no more than a gross figure of the order of about Rs. 250 to 300 crores for the five years. These very low figures which are expected to be increased by only another Rs. 300 to 500 crores through possible external aid are seen to stand in great contrast to the proposals of the Colombia plan, which must be considered as fairly realistic, the plan having been produced by an expert mission of the International Bank. Incidentally, comparison with Colombia figures

[4] Dr. Singer assumes this figure of 2,500 dollars for persons engaged in light industrial and allied employments and stresses that this is not an American or West European figure; which would be much higher.

also proves that the calculations of the U.N. experts are by no means extravagant. The experts worked with average figures with which to make global calculations. Therefore, the results of their calculations would, in term of percentages, appear much higher for countries with very low levels of per capita income. The Colombia plan assumed total capital formation and investment of the measure of between 17 and 19 p.c. of the national income. The rates of investment of the group of experts worked out in the case of India at a little over 23 p.c. which is not high if we note that the per capita national income of Colombia is nearly three times that of India. It is interesting to note in this connexion that the Japanese post-war economic plan estimates planned capital formation to be between 23.1 and 23.5 p.c. of the national income for each year of the plan, *i.e.*, from 1949 to 1953.[5]

Apart from considerations of magnitude, the direction and structure of the plan require careful attention. The large requirements of resources for development make it imperative that the effort should be in terms of the maximum possible for the Government and the society. This maximum effort may be reached by either leaving the field free to a small dominant group of private capitalists, or by socially directed concentration of the savings and investment effort. The maximum social effort could be made only by imposing a general regime of austerity on all classes and tapping to the fullest possible extent the sources from which savings can emerge; as Dr. Singer has emphasized rapid economic development, in a poor country, also requires a careful direction of all investment according to a carefully drawn scheme of priorities. In all countries in a position similar to that of India the main savings possibilities are few and are comparatively concentrated. There are not many studies of the distribution of savings possibilities. The report on Colombia of the International Bank Mission, however, contains some illuminating data and comment. It is pointed out in the report that personal savings in Colombia formed a small percentage of the total and that, in relation to the size of the sector, the savings in agriculture were small. The bulk of savings out of the current income is supplied by retained business earnings and reserves of various kinds. 'An exceptionally large proportion of Colombia's savings accrues to relatively

[5] Following features of the Japanese post-war plan will also be found relevant. Although one of the primary aims of the economic recovery programme is to raise the people's standard of living, it is planned at the present stage to put emphasis on the increase of capital formation, with a view to increasing the productive capacity necessary for the attainment of a self-supporting economy. . . . New investment during the five-year period is planned to be concentrated mainly on important industries, such as electric power, marine transportation, coal mining, chemical fertilizer, iron and steel and agriculture. The Government will play an important role in the total investment. The percentage of government investment in the total investment will be 35.8 in 1949, increasing steadily to 41.8 in 1953.'—U.N.: *Economic Survey of Asia and the Far East*, 1949 (p. 419).

few people. Likewise a substantial portion of earning is retained by the enterprises which make them.' The Mission adds 'This may not provide the requisite capital for the expansion of more socially beneficial projects in other sectors of the economy and the measures we have proposed may be insufficient.' (P. 610). It may safely be assumed that these features of Colombia's economy are reproduced in an even exaggerated form in India. The bulk of personal savings and savings in most types of agriculture with us also appear to be small. Most savings are made and are possible only in the restricted fields of modern industry, banking and insurance, foreign trade and internal wholesale trade, and, of course, in the large speculative activities of all kinds. These savings are concentrated in the hands of a relatively few. They are largely retained in business and there is no guarantee whatsoever that they would be directed to socially beneficial channels. In these circumstances, it is obvious that a policy which leads to the State acquiring control over the saving potentials in these fields, *i.e.*, over the businesses in which it chiefly emerges, is the only one that can meet the needs of the case. This obviously means a policy of socialization of the most important areas of the fields indicated above. This socialization is made equally necessary by the need of centrally directed investment. A large part of the newly directed investment will have to be in fields of modern business and without social control over these fields, effective progress in them could not be assured; also socialization would be necessary to see that the benefits of planned rapid development are not concentrated in the hands of a few.

Dr. Singer's requirement of present sacrifice also indicates the need for considerable social control. Present sacrifices if they are to be readily acceptable must have some grounding in equity. Any effort at imposing sacrifice by the State as a preliminary to rapid economic development must begin with considerably reducing existing inequalities in wealth. Socialization of fields where large concentration of wealth or income exists is then an obvious condition precedent. At this stage in the development of political and social ideas in the world, imposition of austerity on the mass of the people by a business class, however 'puritanic,' would be impossible. In the special circumstances of India any regime of austerity which left the business classes to thrive and prosper as before is not likely to be tolerated for any length of time. Therefore, a realistic programme from the point of view of India, if it is to lead to rapid economic progress, is a programme which would be oriented in a direction very different from that sketched for the underdeveloped areas of the world by representatives of the industrially advanced countries.

The large effort necessary dictates a pool of savings and centrally directed investment for all the main lines of development. The structure of the plan must also lean heavily on the side of industrialization, and it must think of industrialization as a long-term, continuous and self-sustained process. That rapid industrialization is the remedy for underemployment in agriculture is a view endorsed by the U.N. resolution on Land Reform. From the point of view of the structure of the programme the most important lessons are those afforded by the post-war planning effort in the Balkans. It is curious to observe that even opponents of the communist regimes in these countries often admit that but for a planned rapid drive the necessary industrialization would never have taken place in them and they hope that when these regimes, which they wish to destroy, vanish, the fact of the industrialized economic structure will remain.[6]

Another thorny problem which a plan of development for India and countries similarly situated must face is that of increasing the production of and the available surpluses from agricultural activity. The problem is already being faced in India. The only fundamental solution is to reorganize and enlarge the unit of production in agriculture. Before the reorganization can be undertaken plans for absorbing parts of the rural surplus population in non-farm occupations will have to be put in operation and certain preliminary reforms completed. These are either socializing or putting into the hands of co-operative organizations the credit, marketing and processing activities connected with agriculture. Only after this is done would it be possible to think of setting up co-operative farming units on any large scale. Planned effort in all these directions obviously means government direction, reservation of the fields for co-operative activity, and perhaps legislation to compel minorities to join a communal co-operative effort.

The needs of both austerity and directed investment lead to a drastic control over foreign trade also. Even the comparatively simple objective that the British economy set before itself, of attaining an export surplus of a given size, required considerable control of both export and import trade. Such control in an underdeveloped area is necessary for a variety of reasons. Firstly, the use of foreign exchange resources has to be carefully planned so that the resources required for the development plan are all obtained. Secondly, measures of austerity necessarily imply reducing to a minimum expenditure of exchange resources on non-essential consumer imports. Exports have to be adjusted to the requirements of the plan in terms of the retention internally of the materials required for the plan and obtaining externally, through

[6] Cf. Jan Wszelaki: 'The Rise of Industrial Middle Europe,' *Foreign Affairs*, October 1951.

sale in adequate amounts of products in which the country holds a strategic position, the necessary exchange resources. During the post-war period, a number of countries producing important materials made efforts to pool all gains from export trade in these materials. The need has also been emphasized of conserving and evening out the supply of these gains for the financing of a development programme, especially by countries the prices of whose strategic exports are liable to considerable fluctuations.

Another important aim of the early stages of the plan would be to attain comparative self-dependence. The needs of development of a large country like India are immense. The process would continue for a long time and with the size of the country and the varied natural resources within it, it should be possible to plan development in a manner that is mutually helpful and largely self-supporting. Attainment of a large degree of self-dependence in a long-term plan of development cannot be too highly emphasized. The experience of the last three decades has shown that it is dangerous to the progress of a plan of development to depend to any large extent or in any essential feature on international trade of a given volume or direction. Apart from interruptions which result from a global war, the possibilities of which cannot be totally discounted in any present thinking, there are two dangers to be guarded against: (*i*) current non-availability of foreign exchange and (*ii*) current physical non-availability of the goods that are required for the programme of development. The ability to buy abroad continuously or import goods from abroad required for the development programme depends on the capacity to raise the required funds, which, in turn, depends upon the power to sell sufficient goods on reasonable terms abroad. This cannot always be depended on. Secondly, in periods such that of the rearmament drive the goods, especially the capital goods required for a development programme, cannot always be available from abroad. Therefore, it is a prudent course to plan economic development in such a manner as to provide, within an early stage of the development plan, for freedom from dependence on essential imports from abroad. Of course, development planned in this manner requires resources of a minimum size and of a minimum variety. India, has, fortunately, adequate resources in both these regards; therefore, to plan economic development in India along other lines than those sketched above is to turn away deliberately from the lessons of the experience of other countries in the recent past, and to stake our future on a gamble on international trade and international progress.

IV

Before going on to consider the problem of external resources likely to be available for economic development of the underdeveloped areas it is necessary to pay some attention to the general reaction to this process on the part of the advanced countries. Most peoples of these areas are today independent and have begun to form their own notions regarding objectives of national policy. These objectives, are, of course, broadly similar to the objectives of all other political States, which are to obtain for their States a political, economic, and cultural position which is on some measure of equality of status with other political States with whom they are in contact. The ultimate objectives of the new political States of Asia, for example, can be framed in no less generous or no lower terms than these. The implications of the new Asian States setting up such objectives have, however, great significance for themselves and for the world as a whole. There is little doubt that during the last two centuries the whole world has been dominated more than at any stage of its previous history by a small group of nations belonging to the White races. The circumstances favourable to a continuance of such dominance appear to have ceased. It cannot be said whether the present is merely a prelude to another stage where other groups will dominate. However, in the circumstances, all, especially the States that have newly won independence, must strive to gain a position for themselves which will free them from the threat of domination. Till a comparatively small number of decades ago the superiority of the European Whites was complete and that they were destined to rule the world was taken for granted. In recent years the claims made on behalf of the Whites have not appeared as clear as before and the behaviour of the Whites towards the coloured has, in particular respects, been somewhat modified. There is no reason, however, to believe that in fundamentals the situation has greatly changed. The present position and future progress of Asian nationalities presents a challenge to the older concepts of White supremacy and the political and economic assumptions on which they rested.

The situation has an economic as well as political and social aspect. It is no doubt true that in the long run everybody should benefit by the full development of all parts of the world. However, as happens in many other economic discussions, two views can be taken of a process which while raising the total product also brings about a radical redistribution of it. There is no doubt that in a large measure the rapid progress in industrial development made by modern European countries and their resultant prosperity was due to the control over resources of underdeveloped areas exercised by these countries. That the standards

of living in the imperialistic countries are likely to suffer because of the loss of colonies has been widely recognized and is now admitted by most. For example, the Liberal-imperialist British weekly *Economist* writing of the possible loss of Malaya by the British says: 'The chain of direct and indirect consequences, flowing from such an event would be far greater for Britain, *for the standard of living of its people and for the whole Western position in Asia* than is generally realized.'[7]

Obviously, the end of colonialism cannot be expected to be welcomed by the imperial powers. The U.S.A., which perhaps played some part in the decisions made by many imperial powers in the immediate post-war period that their position in Asian countries was generally untenable, has in recent years inclined to other views because of the needs of the anti-communist strategy. It has been forced, as in Malaya and Indo-China, to countenance and help actively the retention of their position by imperialist powers. Moreover, though for the bulk of Asia an active colonial regime is a thing of the past, the case is very different with Africa. Almost the whole of that continent is in the stage of colonialism and the withdrawal of colonial powers from this field is bound to be a gradual process involving some time.

Even where a modern industrial country does not hold sway over an underdeveloped country as a colony it may exercise such control over its economy through, *e.g.*, exploitation of its key resources that, for all practical purposes, the relations between their economies may be those of a colonial with a metropolitan economy. The most important cases in point arise out of the exploitation of oil resources. The oil concessions operated by industrially advanced countries in relation to fields situated in the underdeveloped areas have been in recent decades progressively contributing larger and larger incomes to the underdeveloped countries in which they are situated. However, the exploitation by foreign concessionaries means that the oil resources contribute, in the main, to the economic strength of the exploiting country. The economic strength and bargaining power as well as the complex structure of trade, transport and industry raised on the basis of oil resources all belong to the exploiting country and not to the country in which the oilfield is located. The dispute in relation to exploitation of oil is not a question of proportionate division of incomes but a fundamental one as to who will obtain all the important advantages flowing from ownership and exploitation of oil. The sedulous attempts of exploiting powers to draw a red herring across the trail by pointing to large or increasing monetary benefits now fails to conceal the true

[7] 'Consulting on Asia,' *The Economist*, 24 Nov. 1951. (Italics mine.)

nature of the struggle from even the ignorant populations of these countries.

The history of the relations of the U.S.A. with the Central and the South American countries is another important illustration and may provide useful material for a study of possible changes in the balance of such relations and the possible pattern of continuous readjustments. It is obvious that the efforts of the underdeveloped countries to free themselves from dependence on industrially advanced countries and to develop and exploit fully their own resources may result in some diminution in the economic strength and in the incomes of the richer countries of today. The possession of colonies and of concessions for exploitation have important tangible results; their loss is bound to be felt seriously by, at least, some of the European countries who, but for the peculiar political developments of the post-war period, would have made a greater fight for their retention.

It is difficult to judge how, apart from these aspects, the general development of the underdeveloped countries would affect the economic position of the present industrially advanced countries. There is one apprehension that is already felt and expressed. It is a commonplace of thought on the subject that a rapid economic development of underdeveloped areas may change the terms of trade between agricultural and industrial products in such a manner that economies built on the basis of bulk imports of raw materials would find themselves under great strain. There are other ways in which through affecting the prices or the availability of particular materials the advantages enjoyed so far by the European countries in relation to tropical and colonial products may vanish and this might affect the structure of their economies and their prosperity. Such are some of the general arguments for believing that the economic consequences of a rapid economic development of the underdeveloped areas may not be all to the advantage, at least immediately, of the present industrially advanced countries and that therefore it would be too much to expect them to assist generously such developments.

The U.S.A. is a possible exception to what has been said above. The internal resources of the U.S.A. are both rich and varied and though the country does derive some advantage from its exploitation of, *e.g.*, oil resources in different parts of the world and from the general tutelage exercised by it over Central and Southern American economy the loss of these in due course may not affect significantly the material prosperity of the people of the U.S.A.

The political and cultural consequences of a rapid economic development of the underdeveloped areas may also be important. Many of these areas, especially those in Asia, are heavily populated and if with

rapid economic development the economic and political strength and status of these countries is greatly raised an almost revolutionary change will have come about in the present balance of political power in the world. For about 200 years the European peoples have been used to thinking of themselves as the natural ruling powers. It has been with great reluctance and with strenuous opposition at each stage that they have admitted nations of the other races to a position of even theoretic equality. If now these countries, some of whom are extremely populous, attain to a status of something like real equality the mental adjustment required of the European peoples in accepting this fact would undoubtedly put them under great strain. There is little doubt that this is partly the explanation of the great attention paid by the Anglo-Americans to the population problem of the Asian countries. 200 years ago the population of the world was largely non-white; within the last 200 years, the white peoples have grown rapidly in numbers as a result of having occupied large areas of the world. In many of these areas colonized by the Europeans, older populations have been almost completely wiped out as in the present U.S.A. and Canada, Australia or New Zealand, and when in these areas a non-white element has been admitted it has been only on the status of and for use as slaves or serfs.

The racialism of the Whites has been incorporated in and expressed through many institutions and legislative enactments. At one extreme stands, no doubt, the South African segregation policy. The sentiment appears in the extreme form in South Africa only because the sense of fear under which the South African Whites labour is so much the more immediate, constant and large. The immigration laws of the U.S.A. and Australia are, in principle, based on concepts no different from the South African policy of segregation. If the economic development of the whole world was a single indivisible process, the movement of population from areas in which the productivity of labour was low to those where it was high would be the obvious first step to bring about increased prosperity. That not only can such steps not be taken but that they should be considered so impracticable that nobody should find it worth while even to mention them on an international plane is itself an adequate commentary on the present distribution of the political power in the world. There is no doubt that countries, especially like Australia, look on this matter of economic development of underdeveloped areas as something like a race against time; their constant apprehension being as to what would happen if large areas of their country are still unpeopled when coloured peoples of Asia have become strong enough to voice their real sentiments in the matter and to exercise their power accordingly.

V

The above discussion would indicate that there is no reason why the rich and developed countries which belong almost entirely to the West European group, directly or indirectly, should take any interest in the rapid economic development of the underdeveloped areas. In actual fact also, before 1940, none of the rich countries took an interest in the development of the underdeveloped countries, except as complementary economies. The problem of the availability of external aid for the underdeveloped countries, has, therefore, to be looked upon as entirely a post-war phenomenon. The communist countries claim to have solved the problem of the rapid economic development of underdeveloped areas. They claim to have actually developed many such economies without significant external aid. Whatever the extent of their actual achievement in this respect, they are seen to have attained an impressive political status in the world. They are also supposed not to entertain a racial bias. Their appeal to peoples of the underdeveloped areas is obviously great. It is in the context of counteracting this appeal that the aid policies of Western countries must be judged.

This would explain why in spite of some immediate considerations to the contrary the rich countries are disposed at present to help the underdeveloped areas. What are likely to be the terms and what the magnitude of such help? In this connexion the views of the representatives of the developed countries, indicated previously, have relevance. They illustrate what in effect is a universal phenomenon, that thought in economic policy in a society is closely related to its immediate experience and to the comparatively short-term economic interest of that society. As the experiences and immediate interests of the developed and underdeveloped areas diverge greatly, it is not necessary for us to take seriously their thinking on our problems. I have shown above that the programme indicated by them is neither appropriate nor adequate. It is, however, pertinent to enquire whether the terms and extent of the external aid available are likely to depend on the nature of the policies followed by the underdeveloped countries. The problem may be considered separately for the different sources of available aid.

Before considering future prospects, reference may be made to discussions in international authorities on recommendations regarding external aid made by the U.N. experts. The points of open disagreement were the recommendations of U.N. experts regarding the creation of a new and independent International Development Authority and the making of grants through such authority to the underdeveloped countries for certain specific types of non-self-liquidating expenditure. The division, outside the Soviet Bloc, was as among representatives of

the developed and of underdeveloped countries. In opposition to the recommendations of experts it was urged that a new International Authority was not necessary and that the experts had ignored the work that was being done by the existing international agencies and that while it may be true that at least some underdeveloped countries stood in need of grants the resources available today with the developed countries for the purpose were not adequate for the functioning of such authority. All the developed countries, other than the U.S.A., pleaded that in view specially of the rearmament expenditures they had no surplus resources and those that they had were fully required for their existing commitments in their own colonial or commonwealth areas. The United States Government took the view that there was no justification for setting up an International Authority unless it was in fact international *i.e.*, unless a substantial part of the funds of that authority were raised by contributions from a number of Governments. There was, in its opinion, no point in creating such an authority if almost all the funds, as appeared certain, would have to come from U.S.A. itself.

The ultimate decision taken by the General Assembly was the result of continuous pressure exercised by representatives of the underdeveloped countries. The Economic Committee of the Economic and Social Council, entrusted with the task of preparing a draft resolution for consideration of the Council, had emphasized the need for the underdeveloped countries providing appropriate conditions for an inflow of foreign capital, especially private capital, had drawn special attention to the non-availability of funds for grants and to the improved terms of trade of the underdeveloped countries which made grants unnecessary and had merely asked various organizations to keep the question of grants under consideration. The draft resolution of the Economic Committee came under severe criticism in the Council and was substantially modified in it; it underwent further change in the Assembly. It is, however, doubtful whether this modification of the draft resolution as originally sponsored by the developed countries will prove of any concrete use.

Consideration of the measure of likely assistance forthcoming from external sources for the development of underdeveloped countries must be made without much reference to resolutions passed by international authorities. We may begin the consideration by passing under review what has already been done in this behalf. During debates in various U.N. authorities the charge was often levelled against the U.N. experts that they had failed to pay due attention in their report to the work being done or already accomplished by existing international authorities. No doubt, a large number of international authorities have been brought

into existence since the war. Some of these such as the U.N.R.R.A., which had notable achievements in the work of rehabilitation to its credit, have been wound up. Most of the others such as the W.H.O., F.A.O. or the much older I.L.O. are all specialized agencies devoted to work in particular fields. They perform in their own fields useful service in bringing about international agreements, exchanging ideas and giving advice; their contribution to a programme of economic development cannot, however, go further than helping in the formulation or definition of particular aspects of the programme and rendering some technical assistance in its execution. The work of these agencies is also by no means confined to or concentrated in the underdeveloped areas of the world. The one recent activity undertaken on an international level and directed specifically to the economic development of underdeveloped countries has been that of technical assistance. Here again the assistance given is in the shape of the services of experts in particular fields; this could be fruitfully utilized only by a country which had previously formulated a plan of integrated development and which had the resources with which to implement it. The Technical Assistance Board set up by the U.N. has itself begun to realize this fundamental limitation on the scope of its activity.

Three elements are essential in any successful programme of economic development of an underdeveloped country. These are (1) state of internal preparedness, social and political, (2) the formulation of an integrated plan, (3) resources required to fulfil the plan. Existing international agencies could do little regarding the first requirement; the definition of the scope of existing specialized agencies and the development of their activities has also made clear that their utility in the other two respects was confined to helping the formulation of plans in particular fields and supplying the services of some expert personnel in them. The international agencies are, of course, not to blame for the manner in which their scope has been defined and the consequent limitations on their usefulness in the large task of economic development. Equally, U.N. experts were also not to blame for the fact that in view of the way in which they had analysed the problem and defined its magnitude they found no occasion to refer to the activities of these agencies.

The above has been written without reference to the international agencies which have command of general resources and could, in appropriate circumstances, supply them to individual countries. These are the International Monetary Fund and the International Bank. The resources with the International Monetary Fund are available mainly for meeting short-period balance of payment difficulties and could not be counted on in a programme of long-term development. The International Bank, though its activities are not confined to underdeveloped

areas, was on the contrary specially set up to provide investment resources. The U.N. experts, therefore, made special reference to the work performed so far by the International Bank and the part it could and should play in an international programme of economic development. The experts were somewhat critical of the extent of the assistance that the International Bank had been able to give so far. Whatever the circumstances responsible for the fact it cannot be denied that the actual performance has been disappointing. At the same time the experts noted that there had been, on the part of the International Bank, a reorientation or reinterpretation of policy and an attempt at quickening the pace and recommended that a definite target should be set up and reached.

It should be noted that the recommendation to set up an International Development Authority does not imply an underestimation or deprecation of the role of the International Bank. The International Development Authority is required because the Bank cannot perform a number of vital functions essential in formulating and implementing an international development programme. The International Bank has no doubt been driven by necessity to assist countries applying for loans to formulate plans. However, the giving of such assistance or advice is not a primary function of the International Bank and it could undertake the function only in particular circumstances and only to a limited extent. It could not initiate, even in an indirect manner, the formulation of integrated development programmes in individual countries or give the assistance required in many forms in the various stages of such formulation. The International Bank could not, also, undertake the coordination of plans or constantly help in their implementation, especially in times of international difficulties. Also the International Bank did not desire to have anything to do with the distribution of grants or with even the administration of loans at concession rates. The International Bank held the view that its activities should be confined to banking proper and that any admixture of other functions would be undesirable from all points of view. Taking an integrated view of the whole process of development and assisting in it at all stages is a task which neither the International Bank nor any arrangement of coordination between various international agencies could carry out. If the nations of the world did really consider the development of the underdeveloped areas the most urgent problem of the present, it could be adequately dealt with only by a special authority created for the purpose. Such were some of the considerations which led the U.N. experts to recommend the setting up of an independent International Development Authority.

It has been pointed out above that aid from international agencies

other than the International Bank was not likely to be substantial. The views of the international agencies also revealed large differences of opinion among themselves. At one extreme we have Dr. Ezekiel of the F.A.O. who considered that the ability of the underdeveloped countries to direct and control far-reaching programmes was limited and who professed belief in a programme chiefly of mass education. On the other hand, there were some representatives of the International Trade Union organizations who thought the U.N. experts had paid insufficient attention to problems of the workers' standard of living and there was also the complaint that the U.N. experts had not paid sufficient attention to the problem of underemployment. It was only the International Labour Office and the International Organizations of Trade Unions that supported wholeheartedly the approach of the experts and their estimate of the magnitude of the effort involved. This difference in reaction may have been due to the fact that these labour organizations were in touch with conditions of workers and the poorer classes in the underdeveloped countries and not merely with investment markets and leaders of private enterprise. The reactions shown in the official representation of the International Bank are highly interesting. The International Bank fully agreed with the need for the internal political and social changes which the experts advocated. It also supported the idea of an integrated plan of development and felt that if grants were available for non-self-liquidating expenditure the security of the loans made by the International Bank would be greatly strengthened and the terms and amounts of the loans offered by it could be improved. It did not admit that much more could have been done by the Bank in the past or that it was practicable to set up a target of annual loan amounts to be reached within a specific number of years.

The International Bank is no doubt strongly in favour of development taking place through private enterprise. In many plans of development, as, for example, that in connexion with Turkey, it has deliberately put in the forefront of the programme the development of private industry and it may safely be assumed that the check to the progress of nationalized industry in Turkey was connected with the large American aid and with help from the International Bank received by that country. It would appear that in other countries also where the International Bank has helped in preparing the blueprint of a development programme, emphasis has been placed on working through private investors. However, it may be that the International Bank would not necessarily refuse or grossly curtail help if other circumstances determined or indicated that help should be given. A notable instance is that of Yugoslavia. The International Bank has begun to grant development loan funds to the country even though it is known to profess a commun-

ist ideology in matters of economic development, though even in Yugoslavia a decided change in direction has been alleged following the help received.

Assistance from governments of individual countries, either directly or through their own agencies set up for the purpose, and assistance from private individuals in foreign countries are the other sources of external aid. The Export-Import Bank of the United States of America is an important example of an agency set up by an individual country. The U.N. experts have referred appreciatively to the work of this Bank. In fairness to the International Bank it must be observed that the Export-Import Bank operated in conditions which are somewhat peculiar. The Export-Import Bank administers resources set apart for the purpose by the Government of the United States of America and, unlike the International Bank, had not to pay any attention to reactions of its policy in making loans on the international capital market. Secondly, the administrative organization of the Export-Import Bank was such as to make it very responsive to the policy of the United States Government and highly elastic in its terms and conditions. The International Bank operated necessarily in a more rigid framework, and there were severe limitations on the possible variations and elasticity in its terms or methods of doing business. The Export-Import Bank was in brief an instrument of policy of an individual government, while the International Bank was an international agency. However, this very difference made it difficult to place as much reliance on an organization like the Export-Import Bank in a programme of long-term international economic development as on the International Bank. While the Export-Import Bank had in recent years done some useful work the total amount of assistance made available through it had not been large.

The help given or to be given by foreign Governments stands in a class by itself. At the present there is no programme of aid in Asia comparable to the Marshall aid for European countries. It is likely, however, that in the near future offers of substantial help may be made by the Government of the U.S.A. to some countries like India. These offers of aid will, most probably, be directed towards specific objectives and programmes. Help from the U.S.A. or from any foreign Government is likely to depend much more largely on political and military considerations rather than on considerations of internal economic policy of the recipient country. If the Government of a country, say, India, takes any large steps towards socialization or drastic control of foreign trade, the Government of the U.S.A. may not entirely relish the step, but it is not likely to revise its aid programme merely on that account. Receipt of aid from the International Bank or from the Government of the U.S.A. will thus mainly depend on the political situation. It is

equally clear that aid from the International Bank or from the Government of the U.S.A. will be available after a country embarks on an economic programme which they do not approve, only if political circumstances make the giving of that aid imperative. This is tantamount to saying that such aid may be available in particular circumstances but that it cannot be completely depended upon. Experience of other countries who have received American aid shows clearly that the aid always has, as such aid received by one Government from another must always have, some political implications. Action of the U.S.A. in relation to the embargo on trade with China or the case of the agreement obtained on the Japanese Peace Treaty are important illustrations of what is likely to happen. The mechanics of political action in the U.S.A. are also very peculiar and it is not certain that aid programmes in a given direction launched at a particular time will always be kept going year after year. While, therefore, it may always be perfectly honestly stated both by the donor as well as by the recipient that no strings or conditions are attached to receipt of particular aid, the political relations with the giver of aid, of a constant recipient or of one who expects a stream of gifts in the future are necessarily of a type which must shackle political discretion in a significant manner. It is specially important to observe that as matters stand there is continuous likelihood of a sharp difference of opinion on important issues between the U.S.A. and India. The peculiar position that India occupies, its tradition and history and the evolution of its foreign policy in recent times all point to possibilities of recurrence of these differences. In the circumstances, while it would be unnecessarily foolish to refuse any specific aid that is currently offered or given, only because it may give rise to possible embarrassments later, it would be highly unrealistic to continue to count on any receipt of such help or to make a programme of development dependent in any essential respect on receipt of help from a foreign Government such as that of the U.S.A.

At this stage a word may be said regarding the position of the Soviet Bloc. It must be clearly recognized that the Sino-Russian group of countries are among the poorer countries of the world and most countries within the group are undergoing or awaiting development. In particular, the development of China will require specially large resources. Therefore, even if India adopts parts of ideas on planning and economic development which have been evolved largely in the communist countries, it should not expect any substantial help from this group of countries. Not only are the surplus resources required for giving such aid not available with these countries, but also the political implications of receiving such aid from them may be found to be even more embarrassing and more inconsistent with our past and present than

those of receipt of aid from the U.S.A.

We may lastly consider the possibilities of private investment by foreigners. It is obvious that such private investment effort is compatible only with a plan drawn on the lines favoured by the advanced countries. The implications for economic policy of encouraging private foreign investment for internal development are many. Investment effort by foreigners is, in the first instance, fairly costly. The minimum returns obtained and expected on such investments is of the order of 15 p. c. or so. From the point of view of generating investment surplus from exploitation of resources, this is a rate of return which is very high and could be given only by a country which finds no way of bringing about development by other means. Secondly, encouragement of investment by foreign private entrepreneurs may influence long-term economic policy. It may imply the entrenchment of domestic private effort for periods and in conditions in which alone the foreign investor will choose to invest. The encouragement to foreign private investment may thus involve a commitment relating to domestic policy which is in fact a long-term commitment.

In the context of modern conditions it is also clear that increased foreign investment effort strengthens not only indirectly but also directly the position of domestic private enterprise; this is because whether compelled to do so by local Government regulations or not, foreign capitalists nowadays seek everywhere to exploit resources chiefly in collaboration with groups of local capitalists. The privileged position and superior bargaining status of foreign capitalists in relation to the national government thus fortifies by association with them the position of domestic capitalist classes also. In effect, therefore, encouragement to foreign private capitalists is tantamount to wanting to or guaranteeing to maintain a private enterprise economy internally for an indefinite period of time. Such a policy may fit in with the aims and the scale of efforts contemplated in the five year plan in India. It would, of course, be incompatible if any more vigorous or more radical measures are taken for development. External capital from private sources could not, therefore, be counted on in such a programme as a significant source.

It is difficult to estimate the magnitude of the help that might be available to any country from external sources. However, making a rough guess, the external aid that India may receive during the next decade may in favourable circumstances be put at from Rs. 100 crores to a maximum of Rs. 200 crores per annum. In a plan where the total investment in the public sector is no more than Rs. 300 crores per annum, external help of this magnitude will prove important. Also, in such a plan help from all sources, including, foreign private investment, can be drawn upon and help from the International Bank and the

Government of the U.S.A. may be liberal and certain. The other approach which I have indicated as providing the only solution to the problem would require an initial minimum planned investment by or through Government of the order of about Rs. 1,000 crores per annum. In such an approach utilization of private investment capital from abroad will not be possible; also in it, in comparison with the requirement of internal effort, the available foreign aid could not be proportionately large. Hence, though foreign aid of the dimension of even Rs. 100 crores per annum can never be ignored or chances of obtaining it neglected by a country like India, its absence would not affect the plan fundamentally.[8]

VI

The final decision regarding the approach to the plan and the magnitude of the effort required will ultimately be arrived at in relation to circumstances other than the availability or non-availability, or the magnitude of foreign aid. The decision will be taken by the Government of a country in relation to what it thinks is possible and necessary. If small efforts of the type of the Indian five year plan are all that the situation needs, the ruling classes are not likely to do anything more strenuous and risky, and may then, incidentally, benefit from all types of foreign help. The masses in India have lived in great poverty for generations; there is no reason why they may not continue to live in equal poverty for more generations. There may be no special urgency about economic development and no particular reason why economic development should not take place in India through private enterprise by increasing concentration of economic power and the sacrifices imposed on the poor. If the people of a country continue to stand a regime of that sort, there is no particular reason why it should be disturbed. If, however, internal pressures make it necessary for Government to embark on more difficult policies, the possible cessation of foreign aid is not likely to deter them from the effort. Absence of foreign aid would only mean that the efforts would have to be more intense, more well-planned and the sacrifices larger than might otherwise have become the case.

Whether foreign Governments, in this instance chiefly the Government of the U.S.A., extend help or not—and the conditions on which they extend it—is entirely their concern. Indians have no reason to hold any particular set of expectations in the matter. It does, however, appear unnecessary for the Americans to give the impression that

[8] In this discussion I have treated loans and grants from foreign Governments together. The justification for doing this is that ultimately the bulk of the funds for all purposes come from the U.S.A. and whether aid is in the form of an outright grant from the beginning or of a loan to be repaid over a long period the difference in the early stages of development to the plan will not be significant.

in giving aid they are favouring a particular approach to the problem of development and frowning on the other. The great emphasis laid by representatives of advanced countries on private enterprise, on foreign investment capital and on the need for recipient countries making conditions easy and favourable for the investment of foreign private capital has undoubtedly created an unfortunate impression. American spokesmen do not adequately realize the great differences in conditions and dispositions between their country and the Asian countries. Even the Europeans find it difficult today to accept all American ideas on economic policy. The following quotation from an article in the *Economist* (15 December 1951) on a conference of European industrialists in New York addressed by Americans will be found illuminating:

> It was beyond dispute that the visitors had come to the most prosperous area of the world from one not so prosperous. The Americans were well-entitled to assume that explanations of how the United States had achieved such prosperity, coupled with some advice on the methods by which the same admirable results might be reproduced elsewhere, came within the definition of helpfulness.

This from a British liberal newspaper is significant; for, the British have exhibited during the last 150 years similar helpfulness in relation to the Asians and find only recently the role reversed in relation to the Americans.

If the British and the West Europeans find the cry of more competition meaningless and unhelpful, it may well be that many people in countries where modern private enterprise has been seen in some of its more unsavoury aspects may consider the American attitude and insistence as being worse than merely unhelpful. For many Indians, it is difficult to understand why a plan of integrated development which imposes a uniform regime of austerity should on account of its rejection of the concept of a private enterprise economy be considered less democratic than one which protests about welfare and equality, but in effect maintains a regime of gross inequality and the denial of welfare. Also, it is difficult for many of us to understand how to think in terms of a socially integrated planned economy is necessarily more wicked than maintaining a system which avowedly works on the dictum: 'The race is to the swiftest and the devil take the hindmost.' These are, of course, all large disputes in which sharp differences of opinion are bound to arise and each is likely to judge according to his own experience and disposition. What I think is unfortunate is that the American help potential should in this dispute, appear inextricably mixed up with one approach to the problem. American aid in Asia is available today

largely to regimes which have been judged by the peoples of Asia as being essentially undemocratic, socially, economically and politically. The emphasis on private enterprise everywhere is interpreted, at least by many in India, as reflection of a policy which on the plea of strengthening the democratic front could only lead to bolstering up undemocratic regimes. This is a matter connected not so much with the quantum of economic help as with mutual understanding and good relations and is, therefore, one on which an Indian may express a frank opinion, thus far.

For us in India the moral of the considerations set forth in this article is clear enough. Our Government has guaranteed the maintenance of the present field of private enterprise and Finance Ministers have declared that they cannot increase direct taxation further or curtail imports. Therefore, the maintenance of the present standards of living of the rich in India is assured and no diminution can take place either in the economic resources concentrated in their hands or in the fields open to them for profitable activity. The magnitude of investment contemplated by Government in the public sector is relatively no larger than the investment made by the British when they were building railways or canals. Government will also find it impossible to increase significantly the burdens on the poorer classes or to generate general enthusiasm. The only new factor that has recently emerged is the availability of some foreign government aid on very easy terms. Evidently, the Indian Government expects the economic development of India to take place at the needed rate without any sacrifice on the part of the rich and without any special effort on the part of the Government. This is rank delusion. India is one of the oldest, biggest and poorest of the countries of the world; its problems are among the most complex and its resources among the slenderest. In such a country no rapid economic development can begin without a social revolution which changes radically the existing distribution of economic power and income; and such development will involve the imposition of great present sacrifices on all and will call for patience during the long period which will elapse before the fruits of development accrue. The need for social cohesion and solidarity is great and the situation demands, in a high degree, intelligence in planning, honesty and ability in execution and discipline within the community. It is high time thinking men within the country woke up to these realities of the situation.

CHAPTER VIII

ECONOMIC DEVELOPMENT IN THE MIDDLE EAST

By GEORGE HAKIM

IN the discussion of economic development in the Middle East[1] a certain degree of generalization is necessary. There are important differences in the degree of economic development between the various countries of the region as well as a wide diversity in economic and social organization. On the one hand there is the nomadic tribal form of organization representing a primitive stage of development and on the other there are advanced agricultural and industrial communities such as in Turkey, Egypt, Lebanon and Syria. There is in the region less economic than cultural homogeneity based on history, language and religion. Nevertheless, it is possible to attain a certain level of generalization in discussing the economic development of the region because of the similarity in the basic factors of geographic location, climate, and natural resources.

All the countries of the Middle East are underdeveloped; in fact some of them are among the most underdeveloped in the world. There are a few where fairly high levels of development in certain sectors have been reached, namely, in Egypt, Turkey, Syria and Lebanon, but even in these countries the predominant features are the low levels of technology and economic activity. In the Middle East not only is there a wide disparity in development as between different countries but also wide gaps exist in the same countries and even in the same cities in a way which is more characteristic of this region than of any other in the world. This region which saw the rise of man's earliest civilizations, has retained elements of the remote past alongside the creations of the recent past and the present. It is perhaps one of the very few regions where the past rose to greater levels of achievement than the present. Arab monuments of architecture and remains of Roman cities and irrigation systems overrun by the desert testify to the high levels of devel-

[1] There is as yet no general agreement as to the exact geographic delimitation of the region of the Middle East. This question was discussed by the Ad Hoc Committee appointed in 1948 by the Economic and Social Council of the United Nations to consider the establishment of an economic commission for the Middle East but no conclusion was reached. Some members of the Committee, however, expressed the view that the region extends to Afghanistan and Iran in the east and covers the Arabian Peninsula, Somaliland, Ethiopia and the Sudan in the south and extends to Libya in the west. This conception is somewhat wider than that used in 'Review of Economic Conditions in the Middle East,' by the United Nations in March 1951. In this article the Middle East is taken to cover the countries discussed in the United Nations 'Review' and therefore excludes Libya, Ethiopia, Eritrea and Somaliland.

opment and prosperity from which the countries of the Middle East have fallen during the last thousand years of decline.

It is difficult to give an accurate measure of the degree of present underdevelopment of the countries of the Middle East. One measure which is commonly used is per capita national income by which an evaluation is made of the average standard of living and of the degree of productivity of various countries. This measure, however, should be used with great caution. In addition to the fact that estimates of per capita national incomes of underdeveloped countries are not very accurate, the differences in ways of life between countries are such as to require that these quantitative expressions of the average standard of living be used very carefully, especially for purposes of comparison. The following figures based on the latest United Nations estimates are given as a rough indication of the degree of economic development of the countries of the Middle East:

Population and Per Capita National Income of the Countries of the Middle East

Country	Population	Per Capita National Income in Dollars
Afghanistan	12,000,000	45
Egypt	20,045,000	100
Iran	18,387,000	85
Iraq	4,800,000	85
Israel	1,370,000	390
Jordan	1,000,000	60
Lebanon	1,238,000	140
Saudi Arabia	6,000,000	60
Syria	3,435,000	100
Turkey	19,623,000	125
Yemen	4,500,000	40

These figures compare with $1,453 for the United States, $849 for Switzerland, $773 for the United Kingdom, $689 for Denmark and $482 for France. A recent study by the United Nations gives the estimates of per capita incomes by continents as follows: North America, $1,100, Oceania, $560, Europe, $380, USSR, $310, South America, $170, Africa, $75, and Asia, $50. The average per capita income for the Middle East, as derived from the figures given above, is approximately $95. While it is higher than the average for all Asia, it is one-fourth of the average for Europe and 8.5 per cent of that for North America.

It should be noted that the figures of per capita income, being average figures, give no indication of the wide disparity in the standards of living of the different classes of the population. The inequality of incomes is perhaps greater in some parts of the Middle East than it is anywhere else in the world. The overwhelming majority of the people are extremely poor, while the small minority live in abundance and luxury. In most of the countries of the Middle East the gap between rich and poor is not bridged by a middle class as it is in Europe and North America. Where it does exist the middle class is still small and stands nearer to the poor classes than to the rich minority.

The basic causes of the poverty and underdevelopment of the countries of the Middle East relate partly to the limitation of natural resources but mainly to the defective semi-feudal agrarian structure.

The Middle East is generally poor in natural resources, as it is largely a region of deserts and semi-deserts. Although soil fertility is generally high, the lack of water sets a limit to agricultural productivity which can only be overcome by irrigation. Agricultural productivity is high where irrigation is highly developed as in the Nile Valley. There are great possibilities of similar development in the lands where other important rivers flow, notably in Iraq, Syria, and parts of Turkey and Iran. Except in the territories around the Persian Gulf which are fortunate in having very rich petroleum deposits, the region is poor in mineral resources. Coal and metallic ores do not exist in important quantities. Finally forests are scarce and fisheries do not constitute a significant source of income.

A few brief remarks are needed regarding the petroleum resources of the Middle East. Firstly, they are concentrated in the Persian Gulf area and are significant only in Iran, Iraq, Kuwait and Saudi Arabia. The benefits derived from these resources, whether directly or indirectly, by the other countries of the region are extremely limited. Secondly, although Middle East oil deposits constitute about half the known reserves of the world, Middle East oil production is only about one-fifth of that of the world. Thirdly, the oil industry of the Mildle East is essentially a foreign industry and does not constitute an integral part of the economy of the countries where it is located. The oil is exported mainly to Europe where it becomes an essential element in the European industrial structure. The exceptionally large profits of the exploitation of Middle East oil resources are not reinvested in the countries of the Middle East, but are fed into the highly industrial economies of the countries of the great oil companies. The question should be raised whether and to what extent this foreign oil industry can contribute to the economic development of the Middle East not only through the payment of royalties but also by becoming integrated with the economy

of the region. Inasmuch as oil is an exhaustible resource, the question should be raised further as to what extent the oil industry should contribute to the creation of basic capital facilities and industries of a more permanent character that would give support to the economy when the oil resources are exhausted. It is true that the oil producing countries of the Middle East are now getting higher receipts from oil which are being used for financing economic development programmes and may be used still more fully for that purpose in the future. But if the full direct and indirect benefits of these valuable resources are obtained, after the proper rewards of foreign capital and technology are given, the countries of the Middle East would be capable of sustaining a process of rapid economic development leading to an appreciable rise in standards of living.

Poverty of natural resources is not to be considered an insurmountable obstacle to economic development and to the attainment of higher standards of living, except where the pressure of population has exceeded the limits set by the available resources and it becomes difficult to create new productive agricultural and industrial resources by the mere accumulation of capital. This is not the situation in the Middle East except perhaps in Egypt where the pressure of population on the limited area of cultivable land in the Nile Valley has reduced the land population ratio to exceedingly low levels. With a population of 20,045,000 (1949) the cultivated area in Egypt, all of which is irrigated, was 2,445,000 hectares (1948), and the cultivable area dependent on extension of irrigation was estimated at 3,495,000 hectares. The total area of private land-holdings was 2,510,760 hectares (1947) which was owned by 2,662,000 proprietors. The average land-holding was therefore slightly less than one hectare. The pressure of population on land in Egypt is accentuated by the fact that 72.2 per cent of the land-owners own 13.1 per cent of the total land-holdings and the average land-holding of this large majority of small owners is less than 0.2 hectares. It appears that even if all the cultivable area were brought under cultivation and even if it were more equally divided among farmers, the farms would still be too small to make possible a high standard of living for the rural population. Industrialization has so far only slightly relieved the pressure on land, and it may be concluded that only industrialization on a very large scale may make possible a solution of Egypt's basic problem of population pressure.

In other Middle Eastern countries there is considerable cultivable land which has not yet been brought under cultivation and there is thus considerable scope for extension of agricultural production to meet the increase in population. In Turkey the area of cultivable land is estimated as being twice the area of land actually under cultivation. In

Iraq it is three and a half times, in Iran, three times and in Syria, two and a half times. On the other hand while the cultivated area in Egypt is all irrigated, there is considerable scope to support a larger population as well as raise living standards in the other countries of the Middle East by the extension of irrigation on cultivated land. In all these countries the area of irrigable land is several times that which is actually irrigated.

The second basic cause of poverty and underdevelopment is the semi-feudal agrarian structure of the countries of the Middle East. Except in Turkey, Lebanon and Israel, this basic problem of economic organization is of overriding significance to the economic development of the region. In Turkey and Lebanon small peasant proprietorships predominate, although in certain parts of these two countries remnants of a semi-feudal agrarian structure exist. In Israel the greater proportion of the land is cultivated by communal and co-operative settlements. In all other countries of the Middle East the greater part of the land is owned by large proprietors and is cultivated by share-tenants or landless agricultural labour. The share-tenancy system is prevalent particularly in Syria, Iraq and Iran, while cultivation by wage-labour is common in Egypt. The extent of large land-holdings in Egypt is indicated by the fact that 11,000 proprietors who own 50 or more feddans each, representing only 0.4 per cent of the total number of proprietors, own 2,200,000 feddans, or 36.8 per cent of the total area owned. Most of these land-holdings are cultivated by agricultural wage labour. In Syria, no statistics of land-holdings exist but it is estimated that about half the area of land-holdings is owned by large proprietors. In Iraq and Iran the proportion is higher. In the latter it is estimated that 50 per cent of the land-holdings belong to 100,000 large proprietors while only 15 per cent belong to small proprietors, the remainder being owned by the State and religious foundations.[2]

The semi-feudal character of the agrarian structure is determined by two facts associated with large land-holdings whether cultivated by share-tenants or by wage-labour. Firstly, the large land-owners are mostly absentee landlords who receive large incomes from agricultural exploitation but contribute little in capital or management to the development of agricultural productivity. Secondly, the actual cultivators whether share-tenants or wage-labourers are poverty-stricken and burdened with debt and so remain completely subservient to the landlords or their agents.

The defects of the system of share-tenancy are obvious. On the

[2] For a fuller discussion of this subject, see the report issued by the United Nations on 'Land Reform,' June 1951.

one hand, the absentee landlords perform no useful economic or social service. They take little or no interest in increasing the productivity of the soil. They draw large unearned incomes which they waste in conspicuous consumption and so contribute little to the savings of the community. Their main concern is to maintain their dominant position in society, a purpose which they generally accomplish by engaging in reactionary and corrupt political activity. On the other hand, the share-tenants who are the actual producers have no incentives for increasing the productivity of agriculture. In the first place, the share-tenants have no security of tenure. They have no assurance of cultivating the same land for more than one year. Consequently they have no incentive to improve the land by greater exertions or by work in the off-season or by investment of savings, since they may lose the benefits of any unexhausted improvements when their tenure expires. In the second place, the share-tenants who receive a proportion of the crop varying with the fertility of the soil and the kind of farming, have little interest in improving productivity by their own efforts and savings since they do not receive the full fruits of their improvements. These fruits are shared in by the landlords who make no contribution towards them. Finally, the share of the tenants is barely sufficient for their subsistence and does not leave them any margin for saving, considering the average of good and bad years. On the contrary, they are usually burdened with debt contracted at excessively high rates of interest. This gives them little incentive to increase their income when any such increase would go to the moneylenders.

As a result of the absence of incentives to improve the productivity of the land by labour and investment the methods of cultivation in most of the countries of the Middle East have remained primitive and inefficient for many centuries. The share-tenants have remained miserably poor, illiterate and disease-ridden. They are fatalistic, superstitious and suspicious of any attempt to improve their condition.

The contrast between share-tenancy and peasant proprietorship is strikingly illustrated in Lebanon by the difference between the mountain farmer and the share-tenant on the plains of the interior. The Lebanese mountaineer who owns his small plot of land has transformed the barren and rocky mountain slopes into productive fruit and vegetable gardens. Having a stake in the land, he has built terraces to prevent soil erosion, dug ditches to canalize little mountain streams for irrigation, and learned to increase the productivity of the scanty soil by the use of fertilizers. With small plots of land of low fertility to work on, he has raised his standard of living far above that of the peasant of neighbouring areas. He is literate, healthy, clean and progressive. His counterpart on the plains has done nothing to increase the productivity

of the soil and remains hopelessly poor and backward.

In Egypt where many large estates are cultivated with the use of landless agricultural wage-labour, productivity per acre is high largely as a result of the development of irrigation and the use of fertilizers and improved seeds. But the condition of the wage-labourers is even worse than that of the share-tenants. It is one of utter economic insecurity and helplessness. The pressure of population on the land depresses their wages often below subsistence. Their existence is an obstacle to the mechanization of agriculture and the raising of productivity per man. They are illiterate and plagued with debilitating diseases. Their labour efficiency is therefore low and since they have no stake in the land, they have no interest in the increase of agricultural productivity and the conservation of the fertility of the soil.

This defective agrarian structure is not only a basic obstacle to the development of agricultural productivity but also constitutes a limiting factor in the development of manufacturing industry. The low purchasing power of the rural population which is about two-thirds of the total population limits the growth of large-scale manufacturing which must depend for its success on a large market for its product. Moreover, the low productivity of agriculture does not allow it to generate any savings for investment in manufacturing. The land-owning class who have sufficient income to provide a surplus for saving are traditionally not interested in industrial investment. They spend their income on lavish consumption, and use whatever money they save to buy more land or urban real estate.

Another limiting factor in the development of manufacturing industry is the limited internal market. All the countries of the Middle East have relatively small populations, and even Egypt and Turkey have only about twenty million people each. This fact coupled with low per capita national income makes the internal market too small for the development of large-scale low-cost manufacturing industries. This obstacle can be remedied by the establishment of customs unions, or free trade areas or regional preferential tariff arrangements as provided for in the proposed Charter for an International Trade Organization.

The problem of the adoption of advanced technology both in agriculture and in industry is complicated by institutional and cultural factors which tend to make the absorption of the modern techniques of an industrialized society a difficult process requiring reform and readjustment. It would be idle to expect the ignorant share-tenant who lacks initiative and incentive to adopt new scientific techniques of cultivation. Moreover, a new scientific outlook developed through education and extension work is required not only for the understanding of Western technology but also for its adaptation to local needs and con-

ditions. In addition to these basic difficulties there is the difficulty of securing the services of a sufficient number of qualified foreign experts and technicians of which there is a serious shortage in the world. The services of foreign personnel are needed particularly for the purpose of training local technicians who will carry on the continuous and permanent work of adapting and developing the scientific advanced technology of the West in the countries of the Middle East.

The problem of capital for economic development is a serious one in the Middle East as it is in other underdeveloped regions of the world. The situation is different, however, in that some Middle Eastern countries are fortunate in having rich oil resources which are yielding them royalties and other income on such a scale as to provide considerable capital resources for economic development. Recent agreements with the oil companies providing for a higher share of profits, together with an increased production of oil have resulted in considerably higher income to the oil-producing countries in the Persian Gulf area. The case of Iran where large-scale production and export have stopped following the nationalization of the oil industry is a special case where income from oil has temporarily ceased and the execution of the economic development plan has been delayed. But, normally, the oil industry of Iran, whether under full government operation or under any other arrangement, should be capable of yielding considerable net profits which would contribute importantly to economic development. On the other hand, the case of Kuwait, with a population of 170,000 and a territory of 8,000 square miles, said to be floating on a sea of oil, provides an extraordinary example of the impact of oil on a hitherto insignificant desert land. According to the terms of the recent agreement with the Kuwait Oil Company in which Anglo-Iranian and Gulf Oil Corporation are equal partners, the Sheikh of Kuwait will soon be receiving income at the rate of about $150,000,000 a year or $880 per head of the population. If spent wisely this income could transform this small desert country into a garden of welfare and prosperity.

Of the Middle Eastern countries which have no rich oil resources, Turkey has received considerable financial assistance from the United States under the European Recovery Programme which has enabled her to finance important projects of economic development. This assistance amounted, during the period from April 1948 to June 1951, to over $15,000,000 of which more than half consisted of grants. Similarly Israel has been receiving considerable capital resources from the United States through fund-raising campaigns yielding hundreds of millions of dollars, through Export-Import Bank loans amounting to $135,000,000 and lately through an issue of bonds floated in New York. These resources are being utilized not only to finance a large-scale programme of im-

migration into Israel but also to build up the basic capital facilities and industries of the country.

The remaining countries of the Middle East are poor in capital resources which are limited both by the low national income and the lack of adequate incentives and institutions for the mobilization of capital out of the existing low level of income. The rate of net capital formation in these countries probably does not exceed 6 per cent which allows little scope for economic development beyond keeping pace with population growth. The rate of capital formation could be increased by reducing the consumption of the rich through taxation and other means, by mobilizing gold and foreign exchange hoards as well as currency reserves and other foreign balances. But all such measures, even if they were feasible, would not increase capital accumulation very substantially and would at best make possible a slow rate of economic development which would result in a small rise of living standards.

According to the estimates given by the United Nations group of experts in its report on 'Measures for the Economic Development of Underdeveloped Countries,' the net domestic savings of the countries of the Middle East in 1949 were $540 million or 6 per cent of their national income, while they need $1,300 million annually for industrialization and agricultural investment, or about 15 per cent of their national income, in order to raise their national income per capita by 2 per cent annually. In view of the expected increase of income from oil, it should be possible to increase the rate of capital formation to 10 per cent for the region as a whole, without much difficulty, thus requiring an import of capital into the region to the extent of 5 per cent of the national income, or about $450 million, in order to raise per capita national income or living standards by 2 per cent annually. This should not prove to be an impossible task in view of the growing interest in the region and the expanding oil production which involves, directly and indirectly, considerable foreign capital investment.

Whether all the foreign capital needed will be forthcoming depends on the extent of United States economic aid, International Bank lending and foreign private capital investment, not only in oil production but in other fields as well. Although United States economic assistance to the countries of the Middle East is expected to be considerable, a great part of it is destined for expenditure on the rehabilitation of Arab refugees and the aid of Jewish immigration into Israel. Aside from these two purposes, the American aid programme will provide increased technical assistance as well as capital equipment for particular development projects. The International Bank has made small loans to Turkey and Iraq amounting to $25,000,000 and $12,800,000 respectively. There are no indications at present that the International Bank will undertake

substantial lending operations in the Middle East during the next few years. Finally, it does not seem likely that foreign private capital will make any important investments in fields other than oil production.

The future possibilities of economic development in the Middle East depend on the growth of a vigorous national movement under a progressive and intelligent leadership capable of mobilizing the material and spiritual resources of the people for the accomplishment of the tasks of development. For the question is not merely one of achieving the slow natural process of development which has taken place in the past few decades. Such a normal rate of development will in any case take place but the resulting increase in production, while keeping up with population growth, will cause little or no rise in the standard of living of the masses of the population. It will certainly not bring about the higher levels of economic activity and better living standards demanded by the challenge of our time. The question is whether the underdeveloped countries of the Middle East can attain such a rapid rate of economic development as to ensure an appreciable rise in living standards giving hope of a more bearable and a more decent life for the great majority of the people.

A strong, progressive and intelligent leadership commanding the full confidence and respect of the people and capable of arousing their enthusiasm and devotion to the aims and values of economic development is required for accomplishing the following tasks:

1. Land reform and agricultural organization. A programme of land reform is required to give the farmers a stake in the land and an interest in the conservation of its fertility and the increase of its productivity. Personally, I believe that it should give to the cultivators not only security of tenure but title to the land. Ownership of land is, in my opinion, the most powerful force capable of bringing forth the efforts and sacrifices, in season and out of season, that will raise the productivity of the soil and maintain it at a high level. But whatever form it takes, land reform is only a basic requirement of agricultural development. It must be followed by measures designed to give the farmers all the means required for efficient and profitable cultivation of the soil, namely, advanced technology, capital and organization. These can be provided by co-operatives of all kinds, agricultural credit institutions, an adequate government extension service and general as well as technical education. The problem of the size of farms should be tackled by achieving economies of scale through government or co-operative organizations. It is possible, for example, to provide tractors or other agricultural machinery jointly to many small farmers by establishing machinery co-operatives or government tractor stations. With land reform as a basis, a solid organizational structure can be

built up so as to meet the needs and conditions of the rural population in each country.

2. Industrialization. A programme of industrial development is required so as to give employment to the surplus labour of agriculture, to absorb the increase in the labour force resulting from population growth, to support and sustain the increase in agricultural productivity and to increase the productivity of the economy as a whole and allow a substantial rise in living standards.

3. Public capital development. A programme of public investment is necessary to provide the basic capital facilities and services including electric power, irrigation, communications, education and research, as well as investment in basic industries which the government decides to control or operate either as a matter of a national policy, or because private enterprise is lacking or because it is only available on terms that are not acceptable to the nation. Large-scale public investment requires that corruption in government administration be eliminated, that red tape and incompetence be removed and that a high level of efficiency in the economic operations of government be attained. This can be accomplished only by a national leadership that can inflame government officials with a new zeal for national regeneration and economic progress.

4. Development planning. A rapid rate of economic development in the underdeveloped countries of the Middle East is only possible by careful planning with a view to defining aims and targets, setting up priorities, mobilizing scarce resources, distributing sacrifices fairly and co-ordinating various sectors of the economy. This task of planning the process of development is particularly difficult and complicated and requires intelligent leadership of the highest character, but it is essential for the success of any programme of large-scale development.

Rapid economic development in the Middle East awaits the rise of urgently needed leadership for instituting the basic reforms required, for planning the process of development as a whole, for preparing and carrying out the programmes of agricultural and industrial development and for organizing a popular movement in support of development plans and programmes. With such leadership the countries of the Middle East can embark on a new era of national regeneration and well-being.

CHAPTER IX

ECONOMIC DEVELOPMENT OF PAKISTAN[1]

By M. L. QURESHI

General Background

PAKISTAN came into being as an independent country on 14 August 1947 as a result of the partition of the Indian sub-continent. It has an area of 365,907 square miles and a population of 75 million. It consists of two parts, namely East Pakistan and West Pakistan, which are separated from each other by about 1,000 miles of Indian territory. They are, of course, connected with each other by sea but the distance by sea is very much greater.

Pakistan is rich in agricultural raw materials, such as jute, cotton, wool, and hides and skins. Its geological survey is incomplete and the known mineral resources are limited. It is particularly deficient in good quality coal and iron ore. Thus it provides favourable conditions for the development of light consumer goods industries but not of heavy engineering industries. The dependence of the economy on the export of a limited number of raw materials, such as jute and cotton which together accounted for 85 per cent of the total exports in 1950-51, is greatly vulnerable to changes in the world demand for these commodities. Diversification of the economy is absolutely essential to reduce its dependence on factors beyond its control.

Pakistan is an active member of the United Nations, ECOSOC, ECAFE, FAO, ILO, WHO, etc. It is short of technical personnel but it is taking full advantage of the U.N. and other technical assistance programmes.

The latest estimate of average per capita income is Rs. 210 (=US $ 63) for 1950.[2]

Planning Machinery

The planning machinery consists of an Economic Council and a Planning Commission. The former is a Committee of the Cabinet with the Prime Minister as its chairman. Subject to the general control of the Government, it is an autonomous body, with power to appoint consultants, experts and officials. It is required to implement the development programme as approved by the Government, to determine prior-

[1] The opinions expressed in this article are entirely those of the author and do not necessarily represent the views of the United Nations Secretariat of which he is a member.

[2] Statement in Parliament of the Minister of Commerce, Government of Pakistan, as published in *Commerce, Karachi*, 24 November 1951.

ities and to decide about the agencies to which the actual execution of individual projects is to be entrusted. The Planning Commission is a body subsidiary to the Economic Council. It is composed of the representatives of the central and provincial governments and is presided over by the Minister for Economic Affairs. Each project is scrutinized by the Ministry of Finance before any expenditure is authorized.

The Planning Commission is mainly a coordinating agency. It would be too much to expect it to provide initiative and effective leadership. Perhaps a smaller body, composed of technicians rather than administrators, and working on a whole-time basis could serve the purpose better by keeping the country's economy under constant review for early detection of mistakes made in planning, by maintaining a close watch over the execution of individual projects for report to the Economic Council, and by suggesting changes in plans that may become necessary in the light of changing world conditions. The present body would be more suitable as an advisory body to the Economic Council rather than as a Planning Commission. Besides, the Economic Council's control over execution, in the case of projects the execution of which is entrusted to the provinces, does not appear to be very effective.

There has been considerable delay in the planning and execution of some of the projects. A reorganization of the planning machinery may eliminate some of the causes of delay.

The responsibility for the initiation, planning and execution of individual projects rests on the provincial governments or the central ministries concerned. This responsibility is, in certain respects, fundamentally different from what the services manning the central and the provincial governments have been hitherto accustomed to undertake. Pakistan inherited a sound and efficient system of administration which is staffed by able and experienced civil servants. This system was, however, built during the 19th century by the British who were, at the time, firm believers in *laissez-faire* and who regarded that government as the best which governed the least. The administration was designed to maintain law and order and to provide the minimum of certain essential services. Its role was mainly regulative rather than positive. The emphasis was on the avoidance of mistakes rather than on the achievement of results. But an easy way to avoid mistakes is to suppress initiative, follow the beaten track or do nothing. This type of approach can be most detrimental to the pace of economic development. The discharge of responsibilities in connexion with the preparation and implementation of development plans calls for initiative, drive and the ability to make quick decisions and to produce results. Outstanding performance has to be rewarded by quick promotion. The remunera-

tion to personnel engaged on the government's business enterprises has to be governed by business considerations, namely as to how much a particular person is worth to the enterprise, and has to be comparable to the remuneration paid by private business concerns. Specialization is as important as general administrative ability. Thus a reorientation of the government services appears to be necessary.

A reorientation in financial control may also be helpful. The concept of national waste, which a sound financial administration seeks to avoid, should be taken to include the loss sustained by the community as a result of the delay in the planning and execution of development projects.

In order to prevent the recurrence of avoidable delays in the future, it may be worthwhile to publicize a detailed time-table for each project. A realistic estimate of the gain to the national economy as a result of the execution of the project may also be made public. A periodic report may be issued to indicate whether or not the progress is according to schedule. The moral influence of public opinion may tend to eliminate at least some of the causes of delay.

Development Plans

Pakistan's Six-Year Development Plan (July 1951 to June 1957) is a part of the Colombo Plan, and envisages a total expenditure of Rs. 2,600 million as shown below:

		(million rupees)
Agriculture		820
Transport and communications:		
Railways	200	
Roads	100	
Ports	140	530
Telecommunications	90	
Fuel and Power		470
Industry and Mining		490
Social Capital:		
Housing	40	
Health and Medical	40	290
Education	100	
Training and Polytechnics	90	
Water supply	20	
Total		2,600

The implementation of the Plan is expected to result in a 30 per cent increase in the national income. It is not likely to produce any spectacular results, but it will bring about a measure of diversification in the economy and create the basic conditions necessary for further deve-

lopment. It will increase the electric power generating capacity by 256,000 K.W. and the area under cultivation by 6 million acres. The production of food crops will be increased by 6.8 million tons and of non-food crops by 55 million tons, including 48 million tons of fodder. The railways will be rehabilitated by carrying out the necessary repairs and the urgently needed replacements of average locomotives, rolling stock, and sleepers. The Chittagong Port in East Pakistan will be developed. The geological survey of the country will be completed. The annual coal output will be increased by 0.5 million tons. Telecommunications will be developed. Production of cotton textiles, jute goods and paper will on completion of the Plan amount to 1,350 million yards, 130,000 tons and 30,000 tons per annum respectively. Great emphasis has been laid on agricultural development, which accounts for about one-third of the total expenditure envisaged in the Plan. The balance of payments position will improve by Rs. 826 million partly through an increase in exports and partly through a reduction in imports. Agriculture accounts for about one-third of the total expenditure.

The financial requirements for economic development are estimated at Rs. 3,050 million, Rs. 2,600 million for the Six-Year Plan (Rs. 2,200 million for the public sector and Rs. 400 million for the private sector) and Rs. 450 for private investment outside the Plan. Of the necessary finance Rs. 1,200 million are to be obtained from private savings, Rs. 500 million from budget surpluses, and Rs. 150 million from the accumulated sterling balances. The balance of Rs. 1,200 million of external finance will have to be obtained from other sources.

The plan is much too modest. The favourable developments in the country's budgetary and balance of payments position, the complete release of the blocked sterling balances during the period covered by the Plan, the Canadian grant of about Rs. 30 million, the World Bank's loan of Rs. 100 million and willingness to grant further loans, all of which could not be foreseen when the Plan was formulated, have completely altered the financial position. Ability to plan the development projects and to obtain the necessary capital goods, rather than finance, appear to be the real bottlenecks. Besides, apart from the expenditure on building up the social capital, the Plan does not indicate how an equitable distribution of the increased national income, particularly in the private sector of the economy, is to be ensured. It appears to be merely a production plan.

Early in 1951 the Government announced a Two-Year Priority Development Plan providing for an expenditure of Rs. 455 million of which industry accounts for Rs. 230 million, power Rs. 125 million,

shipping Rs. 75 million and telecommunications Rs. 25 million. The projects included in this Plan are in addition to those already in hand. The main object is to achieve near self-sufficiency in respect of the country's most essential requirements. The emphasis has shifted from the development of agriculture to industry. Besides, it substantially modifies the extremely modest character of the Six-Year Plan. In view of the serious deficiency of fuel it is surprising that the Priority Plan provides neither for a stockpile of fuel nor for accelerated development of local fuel resources.

Agriculture

The various agricultural development schemes in hand include some big projects such as the Development of the Thal Area in the Punjab which will develop about 1½ million acres at an estimated cost of Rs. 180 million, and the Lower Sind Kotri Barrage which will bring over 1½ million acres of land under cultivation at an estimated cost of Rs. 200 million. Work on the former project was started in 1949|50 and is expected to be completed by the end of 1954-55. Work on the latter project was started in 1946|47 and is expected to be completed by 1956|57.

The Government has adopted various measures calculated to improve the methods of cultivation. It is subsidizing the supply of manures and fertilizers and is introducing mechanized cultivation in certain parts of the country. In addition to the existing facilities for agricultural research, the Government is establishing a technological and agricultural research institute for jute, an institute for cotton research and technology and a research station for tea. It has also appointed an Agricultural Enquiry Committee under the chairmanship of Lord Boyd Orr, former Director-General of the United Nations Food and Agriculture Organization, to make recommendations regarding the introduction of modern methods of agriculture, grading and marketing of agricultural produce, financing of agricultural production and marketing, and the collection and maintenance of agricultural statistics. The Committee has been at work for some time and its report is expected shortly.* The Government has also decided to establish an Agricultural Finance Corporation for advancing loans for mechanized farming, water lifting equipment, tractor stations, production and distribution of improved seeds, chemical and other fertilizers and establishment of seeds and other stores.

Industrial Development

The Government's industrial policy leaves the development of in-

*The Committee's report has since been published in February 1953—Ed.

dustry almost entirely to private enterprise, local and foreign. A Council of Scientific and Industrial Research has been established to promote industrial development. A Pakistan Standards Institute has also been set up to fix proper standards of production. The Pakistan Industrial Finance Corporation provides medium and long-term credit facilities to industry.

The cotton textile industry has made fairly rapid progress. The total spindlage has increased from 177 thousand in 1947 to 350 thousand in 1951. More rapid increases in spindlage and loomage are expected in the near future. A sugar mill, with a production capacity of 50,000 tons per annum has gone into production. Sulphuric acid plants installed or in the process of installation are expected to increase the production capacity by about 50 tons a day. Two big modern glass factories are under construction. A new cigarette factory has been established. The jute baling capacity has been increased by about one million bales. However, the progress made by the private sector of industry, though appreciable, is rather small. This is probably due to the delay in the allotment of factory sites, lack of electric and water supplies, shyness of capital, lack of technical personnel and, above all, lack of an industrial tradition. Some of these difficulties are being gradually overcome.

In partnership with a private concern the Government is constructing three jute mills of 1,000 looms each at an estimated cost of Rs. 65 million. One of the mills has partly gone into production and all of them are expected to be in full production by 1953. The plant for a Government paper mill which will have an annual production capacity of 30,000 tons of paper was reported to have arrived and the mill was under construction. The fertilizer manufacturing project is in an advanced stage of planning.

The Government has established the Pakistan Industrial Development Corporation for promoting jute, paper, shipbuilding, and other heavy engineering industries, fertilizers and other heavy chemical industries. It is a device to attract private capital to approved enterprises by lending the Government's name. The industries developed by it can later be passed on to private enterprise.

The Two-Year Priority Development Plan provides for the establishment of cotton textiles, steel re-rolling and fabricating mills, cement factories, paper and straw board mills, and factories for the manufacture of tyres and tubes, leather goods, edible oil, heavy chemicals, dyes and medicines at an estimated cost of Rs. 230 million. The Government has provided a sum of Rs. 180 million for building up a stockpile of strategic materials required for economic development.

Protection

The Government has set up a Tariff Commission to consider claims for protection of local industries. There is however, no general directive to the Commission to take into consideration the possible inflationary effects of its recommendations for protection. Economic development causes inflation by creating incomes without simultaneously creating consumable goods or services. It is, therefore, imperative that protection should be so devised as to prevent the generation of avoidable inflationary pressures. Protective import duties generally raise the prices of the protected articles and thereby cause inflation. Subsidies have no such effect but are a burden on the government budget. However, the inflationary effect of a protective import duty can, under certain conditions, be more serious than that of a budget deficit. Moreover, when the local production of a protected article constitutes a very small part of the total requirements of the country, the cost of the subsidy may not be very large.

Fairly heavy import duties are levied on the import of certain classes of goods partly for revenue and partly to conserve foreign exchange. But the duties have a protective effect on the local industries producing the same articles. Such protection is, however, haphazard and uncertain. It is necessary that the Tariff Commission should examine the position of all such industries to determine the degree of protection, if any, that is essential in the national interest. Excise duties on the local industries can be levied to ensure that the protection enjoyed by them is not more than what is necessary or intended. This will develop additional sources of revenue and prevent the diversion of capital from investment in desirable industries to investment in less desirable luxury industries.

The claims of a large number of industries for protection are being examined by the Commission. The Government has already granted protection, on the recommendation of the Commission, to a few industries such as the hurricane lanterns, grinding wheels, and lathe industries. In the first two cases the protection has been granted in the form of protective import duties and in the third case in the form of restriction of imports through import licensing.

Import licensing as a method for protection does not appear to be very sound. By excluding foreign competition, it provides no incentive for greater efficiency on the part of the local industry. Besides, it calls for very accurate estimation of local production and needs over the entire period of protection, and this is not always possible. Protective import duties are generally, therefore, a much better form of protection than import licensing.

As for the lathe industry, probably some sort of a subsidy would have been a better method of protection than restriction of imports, for lathes are a part of the machinery for practically all other industries and a rise in their prices would tend to raise the cost of production of other industries and thus retard their progress.

Electric Power Development

Pakistan's hydro-electric potential has been estimated at 5 to 6 million K.W. But there is only one hydro-electric station with an installed capacity of 10,700 K.W. in operation in the country. In 1949 the total installed capacity of the various power stations, diesel, steam, gas and hydel, was only 69,000 K.W. The shortage of electricity is the most serious obstacle to economic development. Three hydro-electric projects, namely Malakand, Dargai and Rasul, were expected to be completed by 1952* and to add 52,000 K. W. to the generating capacity of the country. The Six-Year Development Plan provided for an increase of 256,000 K.W. in the generating capacity and the Two-Year Priority Development Plan for the installation of diesel and thermal plants of a total generating capacity of 125,000 K.W. Orders have been placed for some of the plants. However, progress in the development of electric power has rather been slow.

Transport

Transport is of vital importance to a country like Pakistan which is greatly dependent on foreign trade. In Western Pakistan the Karachi port is well-developed and the rail and road services are more than adequate for handling the traffic to and from Karachi; lack of transport is not a serious obstacle to progress, although there is very great scope for the improvement and extension of internal transport facilities. In Eastern Pakistan however, in spite of the substantial progress recently made, transport continues to be a serious bottleneck. The transport system was designed, in pre-partition India, to converge on Calcutta and not on Chittagong, the principal port, and Dacca, the provincial capital. The Chittagong port and the Chalna Anchorage need development. The capacity of the railway system is limited. The road mileage is small and about 95 per cent of the roads are unmetalled. Inland water transport makes up, in part, for the deficiencies of the rail and road systems.

The rolling stock of the railway in East Bengal, which was in a very bad shape, has been sufficiently rehabilitated to be made serviceable. An additional 62 miles of new lines were under construction

* Completed since the above was written—Ed.

and were expected to be completed by 1951.* In order to reduce the dependence on coal, which has to be imported and the supplies of which are uncertain, a large number of locomotives have been converted from coal burning to oil burning. Diesel locomotives are shortly to be used on certain lines to provide quicker transport facilities. Surveys of new lines of over 200 miles in West Pakistan and 150 miles in East Pakistan are in progress.

The development programme provides for the purchase of 170 new locomotives, 1,950 new wagons and 310 new carriages, the replacement of 3 million sleepers and the extension of workshop facilities. Orders for some of the locomotives and the rolling stock have already been placed. The rolling stock has started arriving and some of the locomotives were expected to arrive by the end of 1951. Recently the International Bank for Reconstruction and Development is reported to have sanctioned a loan of about Rs. 100 million for the purchase of 28 diesel electric and 7 diesel shunting locomotives, 91 locomotive boilers, 235 passenger carriages, 2,800 goods wagons, one million steel sleepers, and equipment for railway workshops.[3]

The development programme of Chittagong was divided into two parts, namely short-term and long-term. The former has been completed and the handling capacity of the port has been increased from 0.6 million tons to 2.0 million tons per annum and the storage space from 300,000 square feet to 700,000 square feet. When the latter is completed in 1953 the port will have a handling capacity of 4 million tons per annum. As a result of extensive river surveys in East Pakistan an anchorage for ocean going vessels was established on the river Pussar at Chalna and was opened to traffic in December 1950. When fully developed it will have a handling capacity of 0.5 million tons per annum. It will provide relief to the port of Chittagong and also to the railway. The Government recently acquired a river flotilla to supplement the carrying capacity of the railway between Chittagong and internal riverine points. The Government has decided to establish a National Steamship Corporation and to purchase 15 ocean-going steamers as a part of its Two-Year Priority Development Plan.

Balance of Payments

A partial[4] summary statement of the balance of payments position of Pakistan for the period of 3½ years from January 1948 to June 1951 is given below:

* Information is available that the bulk of this has now been completed—Ed.

[3] *Commerce*, Bombay, 22 September 1951.

[4] Transactions with India, Nepal, Tibet and Afghanistan are excluded. However transactions with India after 27 February 1951 and with Nepal and Tibet after 16 March 1951 are included.

Balance of Payments Statement (January 1948-June 1951)

(Million rupees)

	1948 Jan.-Dec.	1949 Jan.-Dec.	1950 Jan.-Dec.	1951 Jan.-June (six months only)
Receipts				
1. Exports	705	840	1,249	1,604
2. Other receipts	62	211[5]	114	90
Total Receipts	767	1,051	1,363	1,694
Payments				
1. Imports on private account	366	850	950	684
2. Imports & other payments on Govt. account	352	473	333	283
3. Other payments	79	177	202	107
Total Payments	797	1,500	1,485	1,074
Balance	—30	—449	—122	+620
Errors, omissions & overlapping	+ 6	— 63	+ 7	— 29
Net investment (+) or disinvestment (—)	—24	—512	—115	+591

Source: Pakistan Balance of Payments (January 1948-June 1950); State Bank of Pakistan for July 1950—June 1951.

The receipts are accounted for largely by exports, the magnitude of receipts from other sources being rather small. The volume of receipts and payments shows a progressive increase. This is partly accounted for by the diversion of trade from India to the rest of the world but largely by an absolute increase in the volume of foreign trade. The imports on private account show a rapid increase due to the liberal import policy followed by the Government. The large volume of imports and payments on government account is significant.

The balance of payment statement shows a deficit consecutively for the three years ending 1950 which in all amounted to Rs. 600 million. However, the above statement does not include current transactions with India except after 27 February 1951. According to an estimate of the Reserve Bank of India,[6] Pakistan's balance of payments with India on current account from July 1948 to December 1949, that is,

[5] Including receipts on Government account amounting to Rs. 130 million.
[6] See *The Reserve Bank of India Bulletin*, February 1950.

for a period of 1½ years only, showed a surplus of Rs. 431 million in Pakistan's favour. If allowance is made for the reduced volume of trade with India during the period of the trade deadlock, it may be found that probably the difference between Pakistan's surplus with India and its deficit with the rest of the world during the three-year period ending 1950 was not very large. It may, therefore, be concluded that Pakistan's current transactions with the world as a whole during this period were probably more or less in balance. The first six months of 1951 showed a large surplus of Rs. 620 million. This is accounted for by a great improvement in Pakistan's terms of trade as a result of the post-Korean developments as well as by an appreciable increase in the quantity of exports.

At the end of June 1951, gold, dollar, and sterling reserves held and controlled by the State Bank of Pakistan amounted to Rs. 1,513 million.[7] Six months later, that is on 4 January 1952, the foreign exchange held by the State Bank registered an increase of Rs. 113 million and the total of external assets of the Bank including Government of India securities and the assets receivable from the Reserve Bank of India amounted to Rs. 2,083 million.[8] Pakistan is a member of the sterling area and the bulk of the external balances are held in sterling. It has no external debt apart from its share of the pre-partition national debt of undivided India which has not yet been determined but which has to be paid in 50 annual instalments. The pressure exerted by the service of this debt on the balance of payments position will be rather small. There is no shortage of essential consumer goods and under normal conditions the country has a substantial food surplus. The future prospects of foreign exchange earnings are good. Pakistan will probably have no difficulty in marketing its exports, although the terms of trade are not likely to remain as favourable as in early 1951. The ability of the country to honour its foreign obligations, existing or future, is beyond question. Thus the balance of payments position is not only sound but exceptionally favourable for the execution of economic development programmes.

If, however, the foreign exchange balances continue to accumulate, there may be cause for alarm. They generate inflationary pressures unless they are matched by an equivalent budget surplus. The strength of an economy is dependent not so much on the magnitude of the foreign balances held by it as on its own productive capacity and the standard of living which it can provide for the people. Besides in view of

[7] Balance of Payments Statement, State Bank of Pakistan (July 1950—June 1951).
[8] Statement of Affairs of the State Bank of Pakistan, as on 4 January 1952.

the powerful inflationary pressure at work all over the world, the possibility of a fall in the purchasing power of the foreign balance has to be taken seriously into account. In this connexion the following possible lines of approach deserve consideration:—

(1) A stockpile of capital goods required for the development programme, in so far as it is possible to determine the specifications of the goods, and of standardized imported consumer goods might be built up. If necessary and subject to a Government guarantee against possible losses, the stockpile might be treated as a reserve against note issue. This will, however, necessitate an amendment of the central banking law.

(2) Foreign balances might be used to mobilize local capital. Imports of certain luxuries could be freely allowed from sterling and soft currency areas, so long as the consumer is heavily penalized through the imposition of very high import duties. For example, there would be nothing wrong in levying import duties of the order of, say, 200 per cent *ad valorem,* on very luxurious articles. The country might well afford some foreign exchange for such purposes, if it were to result in a really substantial contribution to the public revenues.

(3) There appears to be no need for foreign borrowings for the present except for the purchase of capital goods from the dollar area.

(4) The pace of the development programme may be increased.

Direction of Trade

The diversification of its foreign trade has been the predominant feature of Pakistan's foreign trade policy. This was motivated mainly by the desire to diversify the economy and to make it independent of India, which, after partition, was its most important trading partner, accounting for more than half of its foreign trade. This policy was further intensified as a result of the exchange and trade deadlock with India since September 1949. The success of the policy is shown by the balance of payments figures for the year ending June 1951. India accounted for only 6 per cent of Pakistan's total receipts and payments on current account. The shares of other countries were USA and Canada 10 per cent, UK 28 per cent, other sterling area countries 10 per cent, continental Europe 20 per cent, Japan 14 per cent and the rest of the world 12 per cent.

Currency and Credit

When Pakistan came into being in 1947, it had neither a central bank nor a currency of its own. The Government established the State Bank of Pakistan as the Central Bank of the country in July 1948.

The Indian currency that was in circulation in the country has been withdrawn in an orderly manner and has been replaced by the Pakistan currency. The Pakistan rupee has an exchange value of 25.9 pence sterling or 30 cents US. It was not devalued in the wake of the devaluation of sterling in September 1949 and its external value has been successfully maintained.

The State Bank has made a valuable contribution towards creating conditions favourable for the growth of banking on sound lines. It has acted as the country's watchdog over the activities of banks most of which are branches of foreign banks, during a very difficult period in the currency and the banking history of the country. It has encouraged local banks to expand their operations. It has successfully floated central government loans and has developed a market for securities thereby imparting liquidity to government bonds. It has exercised a measure of control over credit by a judicious use of its open market operations, by acting as a lender in the last resort and by the use of the marginal requirements for opening letters of credit. It has not been able to develop a bill market in the country. It has established a Research Department and a Statistics Department of its own. The balance of payments and other financial statistics issued by it have filled an important gap in the statistical information necessary for the formulation of sound economic policies.

The National Bank of Pakistan was established with Government participation in November 1949 to increase the available banking facilities in the country. It played a vital role in financing the marketing of jute, particularly during the trade deadlock with India, and the marketing of cotton, when the world prices of this commodity suddenly shot up in late 1950. It made possible the holding of stocks all along the line from the producer to the exporter and thus materially helped in securing a fair return to the primary producer and in maximizing the foreign exchange earnings of the country. The Pakistan Industrial Finance Corporation was established, also with Government participation, in July 1949 to make medium and long-term capital available to industrial concerns when normal banking accommodation is inappropriate or recourse to capital issue is impracticable. The Corporation had, by November 1951, advanced loans totalling Rs. 10.2 million.[9]

The progress so far made is indeed remarkable. However, the country is still far from being provided with adequate facilities either for the mobilization of savings or for the financing of trade, agricultural and industrial production. Insurance facilities need development. An aggressive policy on the part of the Government is called for for the

[9] Pakistan Trade, December 1951.

development of the cooperative movement. The Post Office Savings Bank, which has a large network of offices all over the country, can make a valuable contribution to the mobilization of savings, particularly small savings, by adopting a more positive approach than it has done so far, for attracting deposits and by making its life insurance facilities available to the general public.

Public Finance

A summary statement of the revenues and expenditure of the Pakistan Central Government for the years 1948-49 to 1951-52 for which information is available is given below:

Summary of Pakistan Central Government Budgets

(Million rupees)

	Revised estimates 1948-49	Revised estimates 1949-50	Revised estimates 1950-51	Budget estimates 1951-52
Revenue	587	754	1237	1162
Expenditure on revenue account	583	752	947	955
Surplus (+)	+ 4	+ 2	+290	+207
Expenditure on capital account	447	351[10]	227[10]	487[10]

Source: State Bank of Pakistan, Statistical Summary, January-March 1950 and April 1951.

As will be seen from the above statement, the revenue and the expenditure on revenue account just about balanced each other during 1948-49 and 1949-50, but the revenue substantially exceeded the expenditure on revenue account during 1950-51 and 1951-52. The budget surpluses in the last two years were largely due to an increase in the export duty on cotton and wool which was made possible by an abnormal rise in the world prices of these commodities. This increase is of the nature of a windfall and has been regarded as such by the Pakistan Government.

Direct taxes constitute a very small part of the total revenues. Income and corporation taxes together have never exceeded 12 per cent of the total revenues during the period under review. Customs are the principal source of income. Defence expenditure accounts for about two-thirds of the total expenditure on revenue account and greatly

[10] Extraordinary capital transactions on currency account are excluded.

limits the available resources for the provision of social and other services.

The budgetary position of the Pakistan Government is sound. This is, in a large measure, due to the ability and skill with which the finances of the country have been managed. However, the boom conditions in respect of Pakistan exports which accounted for the budget surpluses during 1950-51 and 1951-52 cannot last forever. It is possible that the foreign exchange needs of the development programmes might require a reduction in the import of luxuries. As luxuries pay import duties at a higher rate than necessaries or capital goods, a reduction in their import would result in a considerable loss of customs revenues. The development of the cotton textile industry will also materially affect this source of revenue. Greater consumption of raw cotton at home will tend to reduce the exports of cotton and the export duty derived therefrom. Increased local production of cotton textiles will tend to reduce the import of these textiles and hence the yield of the import duties levied on them. The Government's liability to service, with effect from 1952, its share of the pre-partition national debt of undivided India would necessitate the payment of a fairly large sum of money every year. Besides, a considerable part of the developmental expenditure must be met from revenues, if inflationary conditions are to be avoided. The economic development of the country, resulting in an increase in national income, will increase the people's ability to pay taxes. But this will take time. The possibility of shrinkage in the yields from some of the existing sources of revenue and the increased demands on the public purse point to the imperative need for the development of the revenue resources of the Government. The scope for the development of central excises deserves examination. A reorientation in the methods of import control can also produce additional revenues. When it is intended to restrict the import of certain non-essential goods, the restriction may be brought about, as far as possible, through the enhancement of the import duties rather than through import licensing. It is common knowledge that import licenses for certain commodities can fetch a fairly high price in the market. There is nothing surprising in this. When the supplies are reduced the prices tend to rise. This cannot be prevented, unless there is an effective price control machinery which, however, it is very difficult to provide. Because a price much higher than the import price can be charged to the consumer, the business men are prepared to pay a premium for the import licence. The price at which an import licence can be sold in the market represents the undeserved gains of the privileged licence holder. These gains can be transferred to the Government

exchequer by auctioning the licences or by raising the import duty and putting the article on the free import list (O.G.L.). The import duty can be raised even if the article is not put on the free list. The hardship to the consumer would be just the same, whether the duty is or is not raised.

In view of the great fluctuations in the world prices of cotton, a flexible export duty on cotton could transfer to the Government a substantial part of the gains resulting from increases in the world prices of this commodity. The legitimate interests of the primary producer and the trader can be properly safeguarded. The duty at any particular time can be based on the level of prices prevailing during a specified earlier period. In this connexion it may be noted that a flexible export duty has been successfully levied in Malaya on rubber.

The capital expenditure of the Central Government over the four-year period under review adds up to Rs. 1,512 million. Of this more than half, namely, Rs. 770 million, is accounted for by defence alone. The total capital expenditure of the provincial governments for 3-year period (1949-1952) amounts to Rs. 640 million.

The large gap between total expenditure (on revenue as well as capital account) and total revenues of the Centre and the Provinces has been filled up partly by borrowing (mainly from the institutional investor) and partly by drawing down the cash balances. The financing of the deficit in this manner invariably generates inflationary pressures.

Apart from the Pakistan Government's share of the pre-partition debt of undivided India, the total outstanding public debt of the country amounts to Rs. 1,113 million of which Rs. 952 million is accounted for by the Central Government and the balance by the Provincial Governments.

The response to the loans so far floated by the Pakistan Government has been satisfactory. However, the loans were largely subscribed by the banks and other institutional investors and to a very small extent by individuals. This indicates the existence of a large volume of hitherto untapped individual savings which can, in part, be mobilized by an effective bond sales drive.

CHAPTER X

ECONOMIC DEVELOPMENT IN BURMA

By THET TUN

BURMA has long been a country with rich natural resources and a poor people. Her problem today is to develop these resources to better the lot of the people. An attempt is made in the following paragraphs to present certain aspects of the problem and to suggest certain measures for the economic development of the country.

The importance of political stability and peace as a prerequisite to economic progress cannot be over-emphasized in this part of the world where this condition has been conspicuous by its absence in recent years. It is estimated that approximately half of Burma's national capital was destroyed during the last war. While the economy made some recovery at the end of the war, this was soon to be interrupted by the insurrections which flared up three years ago and have not yet subsided completely. Political disorder has no doubt some economic roots even as economic progress is hampered by political instability. This indeed is a vicious circle which must be broken somewhere.

Burma's national output before the war is estimated at 550 crores of rupees in terms of current prices. Today it is somewhere between 300 and 350 crores. Allowing for the increase in population, per capita production of Burma must have been almost halved between prewar days and now. It will therefore take some years for Burma to regain her prewar per capita production, let alone surpass it. But if these are somewhat sobering facts, there are also certain features of the economy which augur well for its future development. For instance, Burmese economy is a relatively simple one. Much of the country's income is derived from the production of a few essential and valuable products such as rice, teak and petroleum. Resilience of her economy which is no doubt partly attributable to its simplicity has enabled Burma to weather many a storm in the past.

An examination of Burma's economy must necessarily begin with agriculture which employs two-thirds of her people and accounted for about half the value of her prewar exports. In the postwar years rice constituted three-fourths or more of the total value of exports. The acreage under paddy today is approximately one-fourth below the prewar level and production of paddy is down roughly one-third. Burma was cut off from her export markets during the war as a result of which her production of paddy sharply declined and she lost her prewar position as the largest exporter of rice in the world. Further, the drop in

postwar yield is mainly attributable to unsettled conditions prevailing in the countryside which prevent cultivators from closely attending to their farms.

Rehabilitation of agriculture must begin with the reclamation of 2.5 million acres of paddy land now lying waste in the Delta. With a greater use of fertilizers, extension of irrigation and improvement of the quality of seed used, agricultural output can be considerably increased. Shortage of plough cattle may perhaps be overcome largely by transfer of cattle to Lower Burma from Upper Burma, should mechanization of farming prove successful in the latter place. The Government is now trying to meet the seasonal need for agricultural credit, which was responsible in prewar days for the indebtedness of cultivators and alienation of much of their land, by issuing loans to the extent of 2.5 crores of rupees each year. The Government has also written off a few crores of agricultural debt of the cultivators. A five-year plan for achieving self-sufficiency in crops which Burma still imports is now being prepared. The Government has also passed an Act nationalizing all land exceeding 50 acres and the Act has been put into operation in some areas in Lower Burma and will be extended to other parts of the country as conditions improve.

Perhaps the most notable postwar development in the field of agriculture is the creation of the State Agricultural Marketing Board which has taken over from private enterprise the marketing and export of rice. It has contributed large sums of its profits to the Government in its days of financial stringency and will probably continue to be the most important single source of revenue for many years to come.

Forestry provides another source of income to the people of Burma. The forests of Burma which cover about 58% of the area of the country (14% reserved and 44% unreserved) possess about 75% of the world's supply of teak which is the most important species of a variety of hardwoods they yield. Burma's export of timber (about 450,000 tons of teak and about 82,500 tons of other hardwoods annually in the prewar period) was severely curtailed by the war and the insurrection. Nationalization of the forests was completed in January 1949 and the State Timber Board now extracts, processes and markets a very high percentage of timber in Burma. The Government has plans to reorganize Burma's forests on a modern basis. Given satisfactory security conditions and uninterrupted communications, the highly trained forest service of Burma with its well-conceived conservation programme should be able to restore timber production to its prewar level in a few years.

The mineral industry of Burma producing non-ferrous base metals and petroleum was an important foreign exchange earner in prewar days. As a result of war damage and disturbed conditions of the

country, the prewar annual export of Rs. 6 crores worth of non-ferrous metals has now fallen to Rs. 1.3 crores in spite of the tremendous rise in metal prices. Similarly, the oil industry which used to export after meeting all domestic requirements Rs. 14 crores worth of petroleum and petroleum products before the war suffered considerable damage as a result of the scorched-earth policy of the British Government, and today Burma is importing petroleum to the extent of more than Rs. 3 crores. The Government has now entered into a joint venture with the Burma Corporation to rehabilitate the metal mining industry and is finalizing similar arrangements with the oil companies to work the oil industry.

However, rehabilitation of her stable industries alone will not be able to absorb the growing labour force of Burma nor raise the standard of living of her people. Industrialization seems to be desirable and necessary to achieve these objectives and also to diversify the economy which has so far been unduly dependent on a few primary products. The Government is now drawing up a development programme with the assistance of a highly competent group of consulting engineers and economists from the United States. A brief examination of Burma's industrial potential may not be out of place here. For fuel Burma has oil, coal and hydro-electric resources. Capital is not a limiting factor, at least not in the initial stages of development. However, both foreign and domestic sources of capital will have to be tapped and as far as the latter is concerned the postwar trend is and will continue to be the increase of public capital formation relative to private investment. Shortage of technical and administrative skill is a serious limitation on development but it can probably be overcome by means of an intensive training programme. On the whole, however, it seems unwise to enter at once into manufacturing involving large-scale enterprises or complex processing. On the other hand it may be well to begin with cottage and small-scale industries which can provide profitable bye-employment to the cultivators in their idle, off-season months. Apart from these factors, Burma's industrial development will in practice be determined by, among other factors, her transportation, financial and monetary and banking systems, to the examination of which we shall now turn.

The transportation system which may have been adequate to the economy's limited needs in prewar days suffered so much damage by war and insurrection that today it presents a serious obstacle to the expansion of the economy. The Government, which has operated the railways since before the war, has now set up its own agencies to operate the airways (Union of Burma Airways) and the riverways (Inland Water Transport Board). As in all other underdeveloped countries, Burma's

resources and the energies of her people will initially be devoted to basic development such as transport, power, training of technical skill, and the setting up of industries which will utilize the natural advantages of local raw materials and local markets and at the same time save foreign exchange by producing substitutes for certain classes of imports.

The fiscal system of a country is of major importance to the expansion of its economy. In fact, in underdeveloped countries like Burma the fiscal policy of the Government is the most effective single weapon for influencing economic development. The contractionist fiscal policies of the Burmese Government in the years prior to 1951-52 may have been commendable for their caution at a critical period but they are no longer suited to the development phase which Burma is now about to enter. There has been a continuous drain of money supply from the private to the public sector of the economy as a result of the Government's policy of surplus budgeting and the building up of large cash balances by the Government trading boards; this at a time when there was under-employment and a deficiency of purchasing power in the country. An attempt has been made in the 1951-52 budget to reverse this policy by providing for a fairly large investment expenditure and the way has been paved for an expansionary fiscal policy to finance the economic development of the country.

Burma today has a tax system which is fairly progressive. Land revenue, which was the largest prewar source of revenue, has now dwindled because of disturbed conditions in the countryside and a reduced tax morale. Its leading position has now been taken by customs, followed by income-tax, commercial taxes, and excise and excise duties. The tax system is on the whole well-conceived and is in keeping with the socialist economic creed of the Government. But it needs some minor adjustments in its structure as well as in its administration.

Burma's present monetary and banking system is unsuited to the requirements of an expanding economy. The Burmese rupee is at present backed 100 per cent by sterling. This will unnecessarily limit the money supply to the foreign exchange holdings of the country at a time when a large amount of expenditure is needed both internally for development and externally to purchase equipment and other capital goods. Currency and banking reforms will soon be carried out to avoid this situation and also to entrust the Union Bank of Burma with the powers and duties of a real central bank. Thus the necessary steps are being taken to attune the monetary and banking system of the country to its development programme.

One of the most striking features of the postwar economy of Burma is the growth of the public sector. To the prewar list of public utilities and enterprises, of ports, railways, and posts and telecommunications,

one can now add airways, inland waterways, agricultural marketing, timber production and marketing, civil supplies and electricity supply; also the joint ventures in metal and petroleum mining which will ultimately be completely nationalized. Trade and exchange controls have been instituted to cut down unnecessary imports, prevent flight of capital and maintain a favourable balance of payments. Thus, partly through circumstances but largely as a result of deliberate policy by the independent Government of Burma, a much larger sector of the economy has come under public control than in any other South East Asian country.

Examination of her recent economic development reveals that Burma is now committed to a programme of national planning in pursuance of a socialist economic policy. A separate Ministry of National Planning exists to plan and co-ordinate the economic development of Burma and an Economic Council acts as the supreme advisory body to the Government on economic affairs. Burma's economic development in the past, in itself inadequate, largely benefited its alien rulers and foreign capitalists. It is, therefore, the duty and the intention of the Government not only to implement the economic development of the country but also to ensure that the benefits derived from such development are enjoyed by the mass of the Burmese people.

CHAPTER XI

ECONOMIC DEVELOPMENT OF MALAYA[1]

By S. NANJUNDAN

MALAYA is the most important of the few remaining British territories in Asia. None of the other dependencies equals it in size, population and resources. It has an area of 51,000 square miles and a population of 6,200,000, comparable to Assam in India. It produces one-third of the world's natural rubber and one-third of the world's tin and the development of these two vital raw materials has made it possible for the people of Malaya to enjoy comparatively the highest standards of living in South-east Asia. The importance of Malaya to the sterling area can be judged from the fact that between 1948 and 1950, Malaya alone contributed (US) $650 million to the dollar pool, out of a total of $750 million from all British colonial and dependent territories.[2] The strategic position of the Malay Peninsula—which juts out of the mainland of Asia towards the southeast—between the Indian Ocean area and the Far East and the development of Singapore (and to a lesser extent, Penang) as the pre-eminent trade and entrepôt centre of South-east Asia are other factors which have enhanced the importance of the country during the last fifty years.

The economic development of Malaya has been typically on colonial lines.[3] Rubber and tin are the mainstays of her economy and her prosperity has been intimately linked up with these two commodities. The resources of the country have been developed through large-scale immigration and large-scale investment of foreign capital and the economy has been orientated to supply the requirements for raw materials of the advanced industrial countries and to provide a market for the manufactures of these countries. Excessive specialization in primary production has brought about a lack of balance in the national economy and large sections of the population as well as the government have to depend for their incomes on the capricious fluctuations in the foreign demand for rubber and tin. There is lack of diversification in production and undue dependence on

[1] The term Malaya usually includes what is known as the Federation of Malaya as well as the colony of Singapore.

[2] *The Financial Times*, London, 10 January 1952.

[3] The term 'colonial' is used in a technical sense and not in disparagement. For a comprehensive definition of 'colonial economy,' please see Report of the Proceedings & Documentation of the Asian Relations Conference, Asian Relations Organization, India, 1948.

imports for the bulk of the requirements of food, clothing and manufactured articles. Although the development of the rubber and tin industries and of the ancillary services (transport, communications, entrepôt trade, banking, insurance, processing factories, internal trade, etc.) so essential to an export economy has given considerable prosperity to Malaya, especially during periods of boom, yet economic life has generally been characterized by instability and incomes have fluctuated with the movements in rubber and tin prices, which have been wide and volatile during the last fifty years.

Malaya came under British control gradually over a period of more than a hundred years between 1786 and 1895. Tin mining had been carried on by the Chinese even before the advent of the British, but rubber was first introduced only in 1877. During the nineteenth century and the first three decades of the twentieth century, there was large-scale immigration of the Chinese and the Indians to open up the country and develop the plantations and mines. The Chinese immigration took place earlier and at a faster rate than Indian immigration. At the Census of 1901, 584,026 Chinese and 115,532 Indians were enumerated in the Straits Settlements and the Federated Malay States.[4] By 1931, the Chinese population had increased to 1,709,392 and the Indian to 624,009 and most of this increase was accounted for by immigration. There also took place a constant, though smaller, immigration of Indonesians from the neighbouring islands of Java and Sumatra. Immigration slowed down during the 'thirties and virtually stopped thereafter and today Malaya has a largely settled population of 2,700,000 Malaysians, 2,800,000 Chinese and 637,000 Indians. The Malaysians number 2,600,000 in the Federation of Malaya, compared with 2,000,000 Chinese and 560,000 Indians. In the colony of Singapore, which has an area of only 217 square miles, the Chinese are a majority, numbering 789,000, as against 124,000 Malaysians and 72,000 Indians.[5]

RESOURCES AND THEIR UTILIZATION

About 80 per cent of the whole area of Malaya is covered by dense tropical jungle, mountains or swamps; 14 per cent is under rubber, 2.4 per cent under rice and 2.1 per cent under coconut and oil plams.[6] Economic development has been concentrated along the west coast of the country, a strip of seventy to a hundred miles wide running down from

[4] Malaya, Report on the 1947 Census of Population by M. V. Del Tufo, Appendix C.

[5] Annual Report of the Federation of Malaya for 1950, His Majesty's Stationery Office, London, 1951. Annual Report of the Colony of Singapore for 1950, Government Printing Office, Singapore, 1951.

[6] See also Tables in the Appendix.

Penang to Singapore. The large majority of the Chinese and Indians live in this highly developed and densely populated tin and rubber belt.

Rubber is by far the most important industry in Malaya. It accounts for 65 per cent of the cultivated area and 60 per cent of the total exports and engages about 30 per cent of the working population. In 1951, about 46 per cent of the government revenue was derived from the export tax on rubber.[7] Estates of over 100 acres each account for 1,900,000 acres under rubber and for 60 per cent of the annual rubber output. About 1,400,000 acres are cultivated by smallholders, most of whom own 3 or 4 acres or less. The high price of rubber during the last two years brought prosperity to estate owners, smallholders and labourers and increased revenue to the government, but the world price has now receded to the pre-Korean war level and the threat of a slump faces the rubber industry. Moreover, there are two long-term problems which the rubber industry has to face, viz., the competition from synthetic rubber and the imperative need for replanting. Most of the rubber trees in Malaya are 25 to 30 years old and will soon have to be replaced by new trees. Since the rubber tree takes 7 years to mature, replanting has to get going very quickly, especially in the smallholdings, where little replanting has been done in the post-war period. The problem of synthetic rubber competition is equally serious. Production of synthetics has been expanded in the USA through government assistance and the price is kept at an artificially low level. The replacement of existing rubber trees in Malaya (only 16 per cent of the acreage is at present planted with high-yielding stock) by bud-grafted or clonal varieties, which yield three times more rubber as compared to the existing varieties will make it possible to face the competition of the synthetics.

Next to rubber, rice is the most important agricultural crop, which engages about 27 per cent of the population. Paddy cultivation is largely confined to the north-east and the north-west and is mainly the occupation of the Malays. One of the weaknesses of the economy is that only 40 per cent of the requirements of rice is produced in the country and 500,000 to 600,000 tons are imported annually into the Federation of Malaya and Singapore. Since World War II, new areas have been brought under cultivation with government assistance and production of rice has been encouraged at first by subsidies and now by a guaranteed minimum price. The Federation of Malaya is now producing internally about half of its requirements.

Oil palm is an estate crop, which makes a definite contribution to the diversification of Malaya's agricultural economy. Smallholders have the predominant share in coconut cultivation. Pineapples were grown

[7] *The Economist*, 24 May 1952.

as a catch crop on rubber estates before the war, but now they are grown separately in plantations on the peaty soils of Johore. Food crops and vegetables are grown by Chinese squatters, most of whom have recently been resettled in camps. Experimental cultivation of cacao, Manila hemp and jute is being undertaken with a view to diversifying Malayan agriculture. Wood pulp has been suggested as an attractive alternative crop for Malaya.[8]

About 75,000 persons are engaged in fishing and they landed about 160,000 tons of fish during 1950. A majority of fishermen are Malays, but there are also a considerable number of Chinese occupied in this industry.

Malaya has been the most important world producer of tin and, today, she accounts for a third of the world output. The industry suffered heavy damage during the Japanese occupation and post-war recovery was slow. Production is now at 70 per cent of the 1941 rate, but this industry also is subject to fluctuations in foreign demand and prices, although the agreement between the U.K. and the U.S. governments early this year for the supply of 20,000 tons to the U.S.A. at U.S. $1.18 per pound has been a stabilizing factor. In 1950, European mines using dredges and modern engineering methods produced 33,902 tons, the Chinese mines mostly using gravel-pumps produced 21,180 tons and others 2,455 tons. The main problem regarding tin is that it is a wasting asset and it has been estimated that the rich alluvial deposits at present being worked may be exhausted in another 15 or 20 years.[9] The extent of deposits in the upland areas is not known and in any case lode-mining will involve more difficult methods of extraction.

The other minerals of Malaya are coal, iron, gold, kaolin, wolfram, scheelite, ilmenite and bauxite. Postwar recovery in the mines has been slow and coal and iron ore output is still much below prewar levels. Production of bauxite has not yet been resumed, though there are large deposits in Johore.

Manufacturing industries in Malaya are secondary to the country's plantations, trading and mining activities. About 220,000 persons—8 per cent of the working population in the Federation of Malaya and 16 per cent in Singapore—are occupied in secondary industries and it has been estimated that about 15 per cent of the net national product is derived from manufactures.[10] These industries consist of processing, light engineering and simple consumption goods. The processing industries

[8] E. H. G. Dobby, Agricultural Questions of Malaya, Cambridge, 1949.

[9] E. H. G. Dobby—Development of Upland Areas in the Far East, I.P.R., 1951 (mimeographed). Some estimates place the life of present tin reserves at 30 years: *New Commonwealth*, 4 February 1952.

[10] Benham, *The National Income of Malaya*, Singapore, 1951.

are mainly concerned with rubber, rice, copra, oil palm, pineapple, timber and tin. Rubber is converted from latex to sheets, paddy is milled, coconut oil and palm oil extracted from copra and palm kernel, pineapple canned or tined, timber logs cut and prepared for building and carpentry and tin smelted. Except in the case of rice which is consumed internally and pineapple, which is ready for consumption when exported, the others are exported either raw or as semi-processed. Light engineering industries consist of firms making and repairing dredging, rubber, oil milling and other types of machinery used locally, small ships and boats, industrial gases, tanks, drums and pipes, assembling and repairing motor vehicles and bodies. Consumption goods produced in Malaya are wire fencing, electric dry batteries, aluminiumware, potteries, bricks and tiles, cement manufactures, beer and minerals; biscuits and confectionery, furniture, rubber flooring, hose-pipes, matting and toys, plastics, footwear, glass, soap, matches, cigars and cigarettes, metal boxes and tin cans, fertilizers, pewter, sauces and clothing. Cottage industries consist of textiles, silverware, mats and baskets.

This rapid survey of economic activities in Malaya serves to show how dependent the economy is on world influences affecting the demand for her exports. Rubber, tin, copra and coconut oil, palm oil, arecanuts and canned pineapples are mostly exported and the economy depends on imports for a large part of the requirements of food, clothing and consumer goods (see Table V, Appendix). The underdevelopment in the economy is illustrated by the fact that roughly 50 per cent of the net national product comes from agriculture, forestry and mineral products; 15 per cent is accounted for by manufactures; 30 per cent by services and 5 per cent by net investment. The colonial type of economy is seen in the internal distribution of the national income, 37 per cent of which accrued to persons working on their own (including owner-cultivators of smallholdings), 36 per cent went in wages and salaries and 27 per cent in profits.[11] It is true that Malaya enjoys exceptional prosperity in periods of boom, such as during the last two years, and that standards of living are much higher than in neighbouring countries; but while making comparisons with other countries, the factors to be borne in mind are the precariousness and instability of economic life so dependent on demand for exports, the high costs of transporting and distributing exports and imports which swells the figures of national income, and the uneven distribution of national income between own-account workers, wage and salary earners and entrepreneurs. The following are the estimates of national in-

[11] *The National Income of Malaya.* By F. Benham, Singapore, 1951.

come of Malaya in 1947, 1948, 1949 and 1950, made by Dr. Benham (see also Table VI, Appendix):—

(In millions of M $)

	1947	1948	1949	1950
Net National Product	3,216	3,260	3,069	4,969
Net Income paid abroad as interest, profits and dividends	20	39	47	120
National Income	3,196	3,221	3,022	4,849
Per capita National Income	549 (£64)	541 (£63)	498 (£58)	776 (£90)

Before considering the development plans of Malaya which aim at evolving a more broad-based and balanced economy, it would be useful to survey the extent of capital investment in Malaya and the part played by foreign capital in the development of the country.

CAPITAL INVESTMENT

Malaya has been a land of opportunity during the last hundred years and full liberty has been given to all to carry on lawful economic activities. Immigration into the country was free till the 'thirties and foreign capital has throughout been allowed unrestricted entry and the remittance of dividends, interest and profits freely permitted. The economic development of the country has taken place largely through the investment of foreign capital. The bulk of this capital is naturally British, but there are also large investments by the Chinese and smaller investments by Indians.

The rapid development of Malaya through the investment of foreign capital is illustrated by the following figures[1][2] of total foreign investments in Malaya in 1914, 1930 and 1937:—

Total Foreign Investments in Malaya, 1914-1937
(*Exclusive of Chinese Investments*)

(Million U.S. Dollars[2])

Year	*Rentier*[1]	*Entrepreneur*	*Total*
1914	43.7	150.0	193.7
1930	112.7	447.0	559.7
1937	82.5	372.0	454.5

[1] Mainly government loans, but also including industrial debentures.
[2] In 1937, U.S. $4.03=£1; 2 sh. 4 d.=M $1.

[1][2] *Foreign Capital in South-East Asia*. By H. G. Callis, Institute of Pacific Relations, 1942 (mimeographed).

In addition to this foreign investment, Callis has estimated Chinese business investments at U.S. $200 million. It was estimated that 52.0 per cent of the total foreign investment in 1937 was in rubber companies, 13 per cent in tin-dredging companies, 9.1 per cent in trading companies, smelting companies, breweries, collieries, electricity and power companies and others, and 25.9 per cent was outstanding Government debt. The extent of foreign investment in agriculture may be judged from the fact that about 18 per cent of cultivated land had been acquired by foreigners.[13]

Callis estimated the British share in the foreign entrepreneur investments at 70 per cent. A majority of the rubber estates over 100 acres are owned by U.K. companies, who also have invesments in oil palm, coconut, tobacco, pineapple and other fruit plantations. In the mining of tin, coal, gold and tungsten, British capital plays the chief role. The tin smelting companies are British and in trading enterprises Britain has a large share.

Callis estimated the number of American companies operating in Malaya in 1936 at 17 and their capital at 23.7 million U.S. dollars. These were direct investments, mainly in rubber plantations, organizations for buying and shipping rubber, tin mines and the distribution of petroleum products. In 1943 these investments were estimated at U.S. $27 million and there was in addition portfolio investment of U.S. $1.8 million.[14] The Dutch had investments in agricultural crops (other than rubber), trade and banking. The French had investments in tin and rubber. Japanese capital and management controlled iron ore mining in Trengganu, Kelantan and Johore and in 1937 production in these States of the Federation amounted to 2.5 million tons, or about half of Japanese iron ore imports in 1937.

The Chinese play a dominant role in the economic life of Malaya and their investments are second only to the British. Callis made a rough estimate of Chinese business investments at U.S. $200 million in 1937. The Chinese have a considerable share of the investments in tin mines, though the increasing use of dredges reduced the proportion of ore mined by the Chinese-owned mines from 64 per cent of the total in 1920 to 33 per cent in 1938.[15] Chinese ownership of rubber estates was second only to that of the British and of rubber smallholdings second only to that of the Malays. The Chinese have an important share in the cultivation of arecanuts, tea, tobacco, pineapples and other

[13] *Far Eastern Survey*, American Institute of Pacific Relations, 10 October 1951 and 27 February 1952.

[14] *American Investments in the Far East*. By A. R. Miller, Far Eastern Survey. 3 March 1950.

[15] *The Chinese in Malaya*. By Victor Purcell, I.P.R., 1948.

fruits and market garden vegetables. They also control a large part of retail and wholesale trade, import and export business, processing industries and workshops.

Estimates of Indian investments in Malaya vary between Rs. 17 crores and Rs. 25 crores.[16] Most of it is Chettiar capital invested in banking, trade and business. Indians also own landholdings, mostly under rubber and other plantation crops.

The nominal value of British capital invested in Malaya has been estimated by the Bank of England at £67 million in 1938, £65 million in 1939, £64 million from 1940 to 1948 and £68 million in 1949.[17] The estimates for 1938 are almost the same as those by Callis. The total investment of £68 million in 1949 comprised £5.6 million in Government and municipal loans; £58.8 million, share capital of U.K. registered companies; £2.1 million, loan capital of U.K.-registered companies; and £1.6 million, share capital of companies registered abroad (i.e., in Malaya). The increase in investments in 1949 over the previous years is accounted for by the issue in London of a Federation of Malaya Loan of £8,050,000 to finance rehabilitation and development projects.[18]

Further information on the amount of investment in Malaya is contained in the Report on Economic and Commercial Conditions in the Federation of Malaya and Singapore, published by the Board of Trade early this year.[19] There were 991 active local companies, 958 foreign companies and 38,084 businesses registered in the Federation of Malaya in 1950. In Singapore, there were registered 946 local companies, 283 foreign companies and 18,598 businesses. Figures of capital investment of rubber estates, tin mines and dredges and general merchants in the Federation of Malaya in 1949 are also available. The companies incorporated and operating in the Federation—139 rubber companies, 129 mining companies and 259 companies of general merchants—had a capital at the end of 1949 of (M) $284.4 million. The capital of companies incorporated outside the Federation of Malaya and having offices and interests in the Federation was as follows:

[16] Rs. 1-9-0 (approx.)=M $1. Figures are taken from *Indians in Malayan Economy*, Manager of Publications, Delhi, 1950.

[17] Bank of England, Overseas Investments, 1938-48 and 1949.

[18] International Finance News Survey, I.M.F., 18 January 1952.

[19] Overseas Economic Survey, Malaya, London, H.M.S.O., 1952.

(In million Malayan $)

	Rubber Estates	*Tin Mines & Dredges*	*Merchants*
U.K. . .	331.4	93.2	150.9
U.S.A. .	14.1	53.4	80.1
Hong Kong . .	36.3	***	***
Singapore .	31.4	9.9	108.5
India .	***	***	18.4
Australia	3.1	8.0	13.6
Others	12.4	0.4	37.9
Total . .	428.7	164.9	409.4

*** Included in others

The capital investment for U.K. companies given above, viz., (M) $575.5 million, works out in terms of sterling to £67 million, which is about the same as the Bank of England's estimate. If companies incorporated in Singapore are excluded, British investments form about 67 per cent of the total investments and U.S. investments 17 per cent of the total. About 42 per cent of capital invested in rubber estates is by companies incorporated in the U. K.

It should be noted that figures of investment given above represent nominal values. The actual realizable value of the investments would be many times the nominal value, especially in the case of British companies of long standing.

Gross and net investment in Malaya in the post-war period and the extent to which it has been financed from abroad have been estimated by Dr. Benham, Economic Adviser to the British Commissioner-General for Southeast Asia.[20] Net investment has been estimated at 5 per cent of the Net National Product. New Construction, Rehabilitation, etc. in Malaya has been estimated at (M) $365 million in 1947, $355 million in 1948, $380 million in 1949 and $420 million in 1950. After making allowance for depreciation and capital consumption, net investment is calculated at $165 million in 1947, $155 million in 1948, $150 million in 1949 and $175 million in 1950. On the other hand, private savings are estimated at an average of less than $80 million a year, about half of which ($60 million in 1947, $50 million in 1948

[20] *The National Income of Malaya*, 1947-49 (with a note on 1950), Singapore, Government Printing Office, 1951.

and $30 million in 1949) goes in remittances overseas (mainly by the Chinese and Indians), leaving little more than $30 million a year for investment in Malaya. Investment financed from overseas (i.e. deficit on income account of the balance of payments) has been estimated at $43 million in 1947, $44 million in 1948 and $54 million in 1949. Most of the rehabilitation, new construction, etc., was, therefore, financed from within the country. Apart from private savings, which are very low, a considerable amount of investment was performed by government and other public authorities. Also, companies and others spent on rehabilitation from their reserves in the expectation of recouping subsequently from War Damage Compensation payments.

POSITION REGARDING ENTRY OF FOREIGN CAPITAL[21]

The declared policy of government is to leave the development of industry and agriculture to private enterprise. State ownership and management of economic activities is confined to a limited number of fields, such as transport, water and electric supply, harbour facilities and postal and telecommunications. Apart from expanding these facilities, government does not propose direct participation in ownership or management of industrial undertakings. In respect of housing and other welfare activities, municipal participation is likely to be extended.

As regards remittances of dividends, interest and current profits and repatriation of capital, there are no restrictions whatever in regard to places within the sterling area. Where the beneficial owners are resident outside the sterling area, income is remittable only to the appropriate countries of permanent residence of the holders. Where new capital is attracted from places outside the sterling area for approved projects, the policy of the Governments of Singapore and the Federation of Malaya is to permit at any time repatriation of funds so subscribed through prescribed channels to the country from which they came.

Foreign concerns are not required to take a minimum percentage of nationals on the board of directors or provide for the employment or training of nationals. No nationalization of foreign enterprises is contemplated. Government consent is required for all issues of capital or offers of securities for sale and for transfer of capital or securities from resident to non-resident ownership. There is no discrimination against foreigners in the matter of taxation and foreign concerns are subject to the same laws and regulations as local concerns.

[21] Foreign Investment Laws and Regulations of the Countries of Asia and the Far East, UN, 1951. Economic Bulletin for Asia and the Far East, 1951. (UN, ECAFE).

DEVELOPMENT PLANS

The unbalance in the Malayan economy due to excessive dependence on exports of primary products and imports of food and essential consumer goods has already been noted. It has also been stated that tin is a wasting asset and that rubber will have to put up a hard fight for survival against the threat of synthetics. Meanwhile the population of Malaya is increasing rapidly. It has been estimated that the rate of natural increase in the population during 1950 was 2.62 per cent and that at this rate the population of the Federation of Malaya would increase from 5.2 millions to 10 millions by 1975.[22] Although three-fourths of the territory of Malaya is still undeveloped and the sparsest three-fifths of the area carries only one-tenth of the population (the density of the population over the whole country was 115 persons per square mile in 1947), such a rapid rate of growth would create problems of employment, food supplies, health and education, unless there is a commensurate development of the country. 'A revolution in methods of agricultural production combined with a big increase in industrialization must come in the not distant future if there is to be a permanent and marked improvement in standards of living in Malaya.... It is precisely this type of modernization which is likely to lead ultimately to a reduction in fertility and hence to a solution of Malaya's potential population problem.'[23]

The long-term objective of Malaya's development plan, as stated in the *Draft Development Plan of the Federation of Malaya* (August 1950) and in *the Colombo Plan for Co-operative Economic Development in South and South-East Asia* (October 1950), is to broaden and diversify the economy by increasing the production of foodstuffs, especially rice, and of other agricultural products, such as palm oil and cocoa, and by stimulating manufacturing industries. Under the Colombo Plan, expenditures by public authorities of £44.7 million in the Federation of Malaya and £53 million in Singapore during the six years 1951-52 to 1956-57 are contemplated, to provide for basic development (£1=M $8.57). Of the total expenditure in the Federation of Malaya, 24.4 per cent would be on agriculture, 24.1 per cent on transport and communications, 22.4 per cent on fuel and power and 28.6 per cent on social capital. In Singapore, 67.2 per cent of the expenditure would be on social capital, 18.7 per cent on fuel and power and 13.4 per cent on transport and communications. The programme of work envisaged and the progress so far made will be described briefly

[22] *Annual Report on the Federation of Malaya for* 1950, London, H.M.S.O., 1951.
[23] *Population Growth in Malaya* by T. E. Smith, R.I.I.A., 1952.

in the following paragraphs, taking first the Federation of Malaya and then Singapore.

In the case of rubber, Government is assisting the smallholders in various ways in replacing the existing trees by high-yielding varieties. The estates have reserves at their disposal and they have been replanting on a fairly large scale during the last 3 or 4 years. The smallholders have done little, because 'quite apart from the technical difficulties of replanting part of a smallholding, they cannot afford to lose part of their present income by destroying some of their existing trees as the new ones would take seven years before beginning to yield.'[24] In 1949, a grant of M $1,043,875 from the Colonial Development and Welfare Fund was earmarked for the supply of approved high-yielding material to smallholders at nominal cost. New land will be cleared, planted with high-yielding rubber and other crops (the technique of hedge planting would make it possible to plant other crops along with rubber) and smallholders settled there. Alternatively, a number of smallholdings would be grouped together and part of the area replanted. An example of what could be achieved by co-operative effort to improve the condition of smallholders has been demonstrated last year in the Grisek area of Johore, where 11,000 Malay and Chinese smallholders planted within six months sufficient high-yielding seedlings to replant 1,000 acres or 250 smallholdings.[25] The Johore Smallholders' Association is erecting a processing factory with an initial capacity of 3,500 lbs. a day (increasing to 6,000 lbs.) and the finished product will be sold direct to the Singapore buyer as R.S.S.I. The Rural and Industrial Development Authority (described below) is providing a loan for building a smoke-house, crepe-house, crepe-drying and packing sheds and for buying a 4-ton tanker lorry to collect latex from the holdings. Such schemes are of vital importance in improving the quality of smallholders' rubber and reducing their processing and marketing costs. A replanting cess of ¼ cent a lb on rubber exports imposed in January 1951 yielded M $50 million during the year. With effect from March 1952 an additional levy of 4½ cents per lb on smallholders' rubber has been introduced to provide more funds for replanting. As compared to 3,000 acres replanted by smallholders in 1950, 20,000 acres would be replanted in 1952, 30,000 acres in 1953 and 50,000 acres a year thereafter. The Draft Development Plan has estimated production of rubber to increase to 750,000 tons in 1955, but in the context of the prevailing trends in prices and the competition of synthetic rub-

[24] The Colombo Plan for Co-operative Economic Development in South and South-East Asia.

[25] The Times Review of the Colonies, Winter, 1951.

ber, it appears doubtful whether Malayan production would go beyond 700,000 tons.

Production of rice in the Federation of Malaya increased from 257,164 tons in 1947 to 442,000 tons in 1951. Production is being increased by opening up new rice land, by mechanical cultivation and by providing irrigation, drainage, better strains, fertilizers and protection against pests.[26] Government have on hand drainage and irrigation of 135,000 acres of new land. But this is a slow process and it is difficult to attract smallholders to paddy cultivation in periods when the rice-rubber price ratio is favourable to rubber. Mechanical cultivation is expensive and, it is feared, may not be successful on the peaty and soggy soils of Malaya. The Draft Development Plan estimates production at 535,000 tons in 1955-56, but even if this target is achieved, it would do little more than keep pace with the rapidly increasing population.

Apart from rubber and rice, fruit and vegetable gardening, poultry-keeping, dairying, livestock raising and fishing would be improved through research and assistance in techniques and equipment. As regards other agricultural products, the Draft Development Plan estimates increases of 20 per cent in the production of oil palms and of 250 per cent in pineapples. (Every pineapple cannery in Malaya is required by law to cultivate 1,500 acres of pineapples). Timber production is expected to increase from 303,000 tons (of 50 cubic ft. solid) in 1950 to 490,000 tons in 1955.

Production of tin is estimated at 70,000 tons in 1955. The Mines Department is engaged in a survey of tin deposits which will show how much longer the present reserves can last. Production of iron ore and coal, it is estimated, would increase to 1,500,000 tons and 700,000 tons respectively in 1955. Malaya's coal output is sufficient to meet present local demand, but there is a general scarcity of good coals. Exploitation of tin and other minerals as well as future industrialization depends on the development of electric power.

The estimated shortage of generating plant to meet the power demands throughout the country at the end of 1950 was 120,000 kilowatts. The Colombo Plan envisages as a first step a power station of 80,000 KW at Connaught Bridge, Klang, in Selangor State. The scheme is now in the second stage, but actual construction will not begin till 1953. Another scheme for the construction of a 100,000 KW plant in the Cameron Highlands has not made progress due to the guerilla

[26] The present yield per cultivated area is only half a ton, compared with three-quarters of a ton in Burma and over a ton in China.

activities and disturbed conditions in the interior. The long-term plan includes a number of schemes and also the completion of a grid system. The first half of the programme to be completed by 1957 will cost £8 million (M $68.6 million). The Colonial Development Corporation has given a loan of £4 million for the electricity scheme.

There are several schemes for improving water supplies, widening existing roads and building new roads, rehabilitation of railways, development of Port Swethenham and improving facilities at Penang, construction of airfields and improvement of telecommunications. Programmes for education, labour, medical and social welfare services, which account for a big chunk of the expenditure, envisage opening up new schools, improving the University of Malaya, establishing a National Employment Exchange Service, opening new hospitals, rural health centres and social welfare institutions. Most of the expenditure will be on improvement of existing buildings and construction of new premises.

The disturbed conditions in the Federation of Malaya, arising from the activities of guerillas and 'bandits,' have necessitated the granting of priority to schemes which directly help toward ending 'the Emergency.' One of the most important legacies of the period of Japanese occupation was the problem of Chinese 'squatters,' about half a million of whom had cleared back the jungle and settled on small plots of land to which they had no title. These peasant-workers were enterprising and hardworking and supplies from their flourishing market gardens and pig and poultry farms contributed a good deal towards easing the post-war food shortage, especially in the urban areas. However, when organized 'bandit' activities started about the middle of 1948, these isolated and unprotected squatters became an easy source for the guerillas' 'food, recruits and information.' Towards the closing months of 1948, General Briggs' plan for cutting off supplies to the guerillas by transferring the squatters to organized camps, where they were to be resettled and given protection, was put into operation. During the last three years, about 425,000 persons have been resettled in about 360 camps or 'new villages' and by the end of 1952 another 80,000 men, women and children were expected to be resettled in 40 new villages.[27] The villages are being provided with schools and proper drainage and sanitation and the resettled persons are to be given titles to their new land. It would be possible in these organized villages to try co-operative schemes and the application of new techniques and equipment to improve productivity and the standards of living of the settlers. The scheme has cost already £5 million (M $43 million) and there was to be a

[27] *The Statesman*, 16 May 1952.

further expenditure of £2 million (M $17 million) during 1952.

RURAL AND INDUSTRIAL DEVELOPMENT AUTHORITY[28]

One of the most important features of the development programme of Malaya is the setting up of the Rural and Industrial Development Authority (RIDA) in July 1950, designed to undertake the task of rural development and to promote the welfare of Malaya's most important socio-economic group, the smallholders.[29] Malaya is essentially a country of villages and about two-thirds of the total population is rural. Of the Malay population alone, more than 80 per cent live in Kampongs (villages) and their main occupation is cultivation of paddy, rubber or other crops in small landholdings averaging 3-4 acres each. The RIDA is a federal agency and there have also been set up similar organizations at the state, district and Kampong levels. The RIDA, it is stated, 'is a specific instrument of government designed to utilize at all hands the services and resources both of Government departments and of the people themselves, and to convert all those concerned with the rural areas into a team moving to a planned and coordinated objective for the reconstruction of Kampong life and the raising of standards of living of the peasantry.' The specific tasks of the Authority are: (a) the planning and instituting of major development projects in rural areas; (b) the organization of improved marketing and processing arrangements for rural products on a co-operative basis; (c) the stimulation of interest and provision of facilities for the further development of agricultural and industrial occupations in rural areas; (d) training for and encouragement of schemes for social improvement such as home craft, mother craft, hygiene, handicrafts, etc; (e) instruction in domestic and rural economic matters; (f) the training of rural development officers and Kampong leaders; and (g) the provision of funds to carry out these purposes where these are not otherwise provided. The ground-work of development will be based on the Kampongs. Detailed plans will be prepared in the States and Settlements, which will be provided by the Authority with the extra staff required for this purpose and for supervising the schemes when approved, and submitted to the Authority, whose business it will be to find the necessary finance. In the early stages the source of finance will be almost exclusively Gov-

[28] Scheme for the Reorganization of the Rural and Industrial Development Authority, Federation of Malaya, Paper No. 10 of 1951, April 1951. RIDA and Malayan Economic Development. *By* Charles Gamba and Ungku A. Aziz, *Far Eastern Survey* American Institute of Pacific Relations, 10 October 1951.

[29] There is virtually no landlord problem in Malaya, land being publicly owned and leased to cultivators on a uniform system of tenure—a perpetual lease with rental payments subject to revision at specified intervals. The small size of the holdings, burden of indebtedness and backward methods of cultivation are the main problems.

ernment; at a later stage, assuming that the work of the Authority develops on sound business lines, other sources of capital may become available. Grants would be made to development schemes of a non-remunerative character out of the annual allocation from the Federal Government. Loans will be granted to co-operative societies, companies, partnerships or individuals and to enterprises under direct RIDA management for capital projects of a commercial nature, such as the latex processing factory of the Johore Smallholders' Association, out of the RIDA Fund and a portion of its annual profits would be applied for augmentation of its capital. The projects sponsored by the Authority cover a wide field: tractor cultivation; co-operative marketing societies; provision of capital for the purchase of paddy; tile making; oil milling; rice mills; fish curing; collecting, processing and marketing of smallholders' latex; survey projects; water supplies; trolley schemes; improvement of earth roads; community halls and training schemes. The Authority has met with difficulties over the recruitment of suitable staff, but staff training schemes are in hand. So far it has been possible to spend only £100,000 (M $857,000), but in the future this important work of helping the small man will expand to a rate of well over £1 million (M $8.57 million) a year.[30]

It remains to outline briefly the development programmes of Singapore. Since the economy of the Colony is based on entrepôt trade and secondary industries and there is a heavy concentration of population in the city, the plan provides for expansion of harbour facilities, construction of an international airport, expansion of electric power and improvement of health, housing and education facilities and social welfare. Development of secondary industries is generally left to private enterprise, but the establishment of an industrial development estate has been proposed.

The Singapore Improvement Trust's housing programmes for the years 1948-51 (financed by Government loans recoverable from rentals) have provided new homes for only 40,000 people and it is estimated that 450,000 people still require rehousing. A long-term programme is being drawn up by a planning expert, and it is proposed to build cheap durable houses, financed by the Government and the Improvement Trust. Rehousing of all these people may well cost M $500 million. As regards electricity, the installed generating capacity at the end of 1950 was 37,000 KW and a new power station at Pasir Panjang is being constructed. Two generating sets of 25,000 KW are being installed now and two more will be in commission by 1953. The cost of the pro-

[30] First Annual Report of the Consultative Committee on Co-operative Economic Development in South and South-East Asia, Karachi, March, 1952.

ject would be $17 million and the total capacity of the station 100,000 KW, which would be enough to meet the colony's demand for some years to come.[81] A new storage reservoir is to be built at Bukit Timah to improve water supplies. An airport is to be built at Paya Lebar at an estimated cost of M $ 25 million. A new dry dock at Singapore port is also planned. The ten-year Education Plan, costing M $59 millions, aims at providing education for all children by 1960. The ten-year medical plan will cost $33 million, the 5-year social welfare plan $6 million and loans to the Improvement Trust $22.5 million. A Fisheries Research Institute is to be built at Chengi and fishermen are being given loans by government for boats and equipment. This will build companies; and £1.6 million, share capital of companies registered survey of the island had been completed and it is proposed to encourage more food production in the Colony.

FINANCING OF DEVELOPMENT

Full information is not available on the revised estimates of projects included in the Colombo Plan, but the costs are expected to be higher due to the increase in prices of imported capital goods and higher local wages. During the first year of the Colombo Plan, the Federation of Malaya has carried out development schemes costing around £10 million (M $85.7 million) and Singapore, schemes costing £6 million (M $51 million). Physical difficulties, such as the shortage of skilled and semi-skilled labour and of capital goods—and in the Federation of Malaya, the Emergency—have slowed down the rate of progress. But it is expected that in 1952-53, the present rate of expenditure might be exceeded.

The prosperity of the last two years due to the rubber and tin boom has given a new complexion to the financial aspects of the Plan. At the end of 1951, the Federation Government had an accumulated surplus of £51 million (M $437 million) and the Singapore Government of £8 million (M $68.56 million). The outlook for external assistance is also good. The U.K. Government has allocated to Malaya £20 million under War Damage Compensation, £5 million under the Colonial Development and Welfare Act, £1 million for the University of Malaya and £0.3 million for various research schemes. Less than a million pounds have yet been actually received and Malaya can draw upon roughly £25 million from the U.K., plus a further £19 million interest-free loan promised as War Damage Compensation, at the rate of up to £10 million a year. The Federation Government raised a loan of

[81] *New Commonwealth*, 21 January 1952.

:8 million at 3 per cent in the London market in 1949 for financing he development programmes.

The internal financing of the programmes would depend upon the nternational prices of rubber and tin and the margin of savings available or taxation and private savings. Early this year, the Federal Legis-ature approved a proposal to raise a domestic loan of M $100 million. \bout half of last year's tap loan of $32 million was subscribed. The ingapore Government issued a loan of $30 million last year, but only :25 million was raised. A loan of $45 million is planned for this year. While the Federation Government considers further external assistance ıecessary the Singapore Government is confident that loans for capital urposes can be raised locally and further external assistance may not e needed.

Technical assistance to Malaya is being provided by the Australian nd New Zealand Governments and by the U.K. Under the auspices f the United States ECA (now MSA) Mission in the U.K., 2 American Consultants submitted a technical report on the construction of a dam n the Klang river to improve water supplies to Kuala Lumpur and 0 American tractors and other items were supplied for the road-uilding programme.

It has already been stated that the objective of Government plans n Malaya is to provide only basic facilities in transport, communica-ions, electric supply, irrigation, housing etc., actual development of lantations, mines and secondary industries being left to private enter-rise. Private investment, including that of foreign capital, appears o have increased in 1950 and 1951. One of the most impressive rivate investments made recently is the Soap and Margarine factory uilt at Kuala Lumpur by Unilever Brothers Ltd., of the U.K., with capital of $10 million. The factory employs 700 workers and will ıave an ultimate capacity of 10 million tons of oil per year, using local il palm. A metal box factory having a capacity of 75 million tin ans a year, a refrigeration plant with a capacity of 1,000 tons of rozen meat and a £1 million canning factory are being set up in ingapore. A British firm is erecting a factory for the manufacture f 100,000 tons of cement at Batu Arang in Selangor. The Kokan Kogyo Company, a Japanese mining firm, is reported to have entered nto an agreement with an American firm, holding a concession, for he exploitation of an iron ore mine in Kelantan State, having estimated leposits of 6 million tons.[32]

[32] *The Economic Weekly*, Bombay, 14 June 1952.

PROSPECT

The overriding problem in Malaya today is 'the Emergency,' which is eating up vital resources of manpower and materials and hindering undivided attention to future development. Given peaceful conditions, economic welfare and standards of living of the people can be improved, in course of time, by increasing food production; by developing alternative crops to rubber, such as oil palm, pineapple, cocoa and wood pulp; by setting up secondary industries to process most of the primary products within the country; by developing electric generating capacity, exploiting the rich mineral resources and starting light manufacturing industries; and, finally, by improving yields and productivity and modernizing the economy. For very many years to come, however, rubber and tin will continue to be of importance to the economy and future development of the country will depend on what happens to these two commodities. A new equilibrium between natural rubber and synthetic rubber is likely to emerge during the next 10 or 15 years and, unless most of the existing trees are replaced with high-yielding material within the next few years, there appears to be no future for Malayan rubber. The future of tin depends on the economic exploitation of lode mines and the development of hydro-electric power. Malaya suffers from the usual bottlenecks of lack of capital, enterprise, trained men, techniques and organization, characteristic of an underdeveloped economy; but, given prosperity from rubber and tin for a number of years and steady advancement in the educational and social fields, it is possible to increase taxation, mobilize savings and channel them on right lines, create a trained labour force and infuse the entrepreneur spirit. Compared to many other underdeveloped countries, Malaya has the advantage that it is as yet a largely unopened country and increasing population growth would be an advantage for several years, provided the country is being opened up and provided proper training facilities for the working population are developed. Above all, economic development will be conditioned by the political and social *milieu*, with which this study is not concerned.

APPENDIX

TABLE I

Utilization of Cultivated Area, Federation of Malaya

(In acres)

	1940	1947
Rubber ..	3,412,084	3,317,299
Oil palm ..	78,256	78,181
Coconut ..	600,882	512,086
Paddy (rice) ..	785,450	813,538
Tapioca ..	46,292	41,807
Sweet Potato	12,366	20,363
Vegetable (market garden)	25,406	15,019
Pineapple ..	60,157	11,920
Banana ..	45,728	64,075
Other fruits .	79,153	105,245
Other food crops ..	25,816	20,084
Arecanut	58,619	50,983
Other spices .	8,876	8,370
Tea ..	8,898	9,732
Coffee ..	16,522	8,958
Tobacco ..	5,857	4,266
Nipah ..	27,074	32,074
Other miscellaneous ..	17,078	10,689
Total all crops ..	5,314,514	5,124,689

Source: Annual Report of the Department of Agriculture, 1948 quoted in 'Population Growth in Malaya' by T. E. Smith, Royal Institute of International Affairs, 1952.

TABLE II

Percentage Distribution by occupation-groups of the gainfully Employed Population of the Federation of Malaya and Singapore, 1947

	Federation of Malaya		*Colony of Singapore*	
	Male	Female	Male	Female
Fishing ..	4.0	0.2	1.5	0.1
Agriculture				
Rubber growers ..	21.8	37.0	0.6	1.2
Rice planters ..	22.8	31.1	0.0	0.0

Other agricultural occupations	11.1	9.4	6.7	5.8
Mining and Quarrying ..	2.2	1.8	0.3	0.2
Manufacturing, repairing and construction ..	9.0	6.7	20.2	12.5
Transport and communications	4.6	0.2	16.6	1.5
Commercial and financial occupations ..	9.3	3.7	18.6	11.7
Public administration and defence (not elsewhere classified) ..	1.4	0.0	2.3	0.1
Professional occupations ..	1.8	1.9	2.1	7.0
Entertainment, sport and personal service ..	4.1	6.1	8.5	42.1
Clerical, etc., occupations .	2.4	0.3	8.6	4.3
Other and indeterminate occupations ..	5.5	1.6	14.0	13.5
Total ..	100.0	100.0	100.0	100.0
Numbers gainfully occupied (in '000) ..	1,463	442	310	47
Gainfully occupied as percentage of total population .	56.7	19.2	60.1	11.0

Source: 'Population Growth in Malaya' by T. E. Smith, R.I.I.A., 1952, p. 93.

TABLE III

Malaya's Foreign Trade by Commodities, 1950

(Million dollars, Malayan)

Exports

Rubber and gutta-percha	2,455
Tin	474
Seeds and nuts for oils, etc. and gums	190
Oils, fats and resins manufactured	182
Food and non-dutiable drink	175
Cotton yarn and manufactures	161
Others	328
Total	3,965

Imports

Rubber and gutta-percha	618
Food and non-dutiable drink	383

Oils, fats and resins, manufactured	281
Cotton yarn and manufactures	274
Grain and floor	267
Miscellaneous manufactured goods	99
Drink, dutiable, and tobacco	97
Seeds and nuts for oils, etc. and gums	93
Manufactured textiles, other than cotton	103
Vehicles	77
Iron and steel manufactures	69
Machinery	69
Non-ferrous metal ores	62
Chemicals, drugs, dyes and colours	61
Cutlery, hardware, instruments and implements	48
Apparel	45
Earthenware, glass and abrasives	44
Electrical goods and apparatus	42
Paper and paperware	33
Others	150
Total	2,915

Source: Malaya, Overseas Economic Surveys, His Majesty's Stationery Office, London, 2.

TABLE IV

Annual Production of Principal Commodities (thousand tons)

	1929	1938	1950	1951
Rice	190	299	436	442
Rubber	446	360	693	604
Copra	112	69	149	160
Coconut oil	9	49	73	86
Tinned Pineapples	59	73	15	15
Palm oil	2	51	53	48
Tin ore (metal content)	69	43	58	57
Smelted tin	105	64	69	66
Iron ore	810	1581	499	846
Coal	N.A.	781*	416	383

N.A.=Not available.

* =1940.

Source: Figures for 1929 and 1938, except rubber and coal, are from 'British Rule in tern Asia' by Mills, Oxford, 1942; 1929 output of rubber is from 'The Rubber Industry' Bauer, Longmans, 1948; and the other figures are from official sources.

TABLE V

Estimated Consumption of Malaya, derived from Imports and Local Production, 1948 & 1949

(M $ million)

	1948		1949	
	Imports	*Local*	*Imports*	*Local*
Food	514	971	519	893
Drink	12	42	19	48
Clothing, shoes, etc.	274	75	198	77
Cigarettes, etc.	91	12	68	15
Cars, bicycles and repairs, etc.	79	15	59	16
Petrol, etc.	10	—	9	—
Hotels, etc.	—	100	—	100
Household requisites	118	154	135	149
Services	—	295	—	290
Rental value of all houses	—	75	—	88
Free government services	—	285	—	333
Grand Total	1098	2024	1007	2008

Source: The National Income of Malaya. By F. Benham, Singapore, 1951.

TABLE VI

National Income of Malaya, 1948 *and* 1950

(In Million Malayan dollars)

	1948	1950
Agricultural, Forest & Mineral product	1860	3218
Manufactures	876	1160
New Construction, Rehabilitation, etc.	355	420
Distribution of Retained Imports	420	362
Income from Entrepôt trade	153	341
Free government services	270	340
Other services, not elsewhere included	401	425
Rent of all houses	75	93
	4410	6359
Deduction to avoid double counting	830	940

Gross National Product	3580	5419
Taxes on Output	120	205
Depreciation and Capital consumption	200	245
Net National Product	3260	4969
Net Income Paid abroad as Interest, Profits and Dividends	39	120
National Income	3221	4849
Per capita National Income	541	776
	(£63)	(£90)

(Malayan $1=2 sh. 4 d.=Re. 1-9-0 approximately).

Source: The National Income of Malaya, 1947-49 (with a note on 1950) by F. Benham, Singapore, Government Printing Office, 1951.

CHAPTER XII

THAILAND, A DEVELOPING ECONOMY*

By JOSEPH S. GOULD

General Background

THE kingdom of Thailand occupies a central position on the south-eastern tip of the Asiatic mainland. Its adjacent neighbours are Burma on the west and north, Indo-China on the east, and Malaya on the south. Thailand comprises an area of approximately 200,000 square miles containing a population of over 18 million. In 1948 the estimated average population density was about 88 persons per square mile. This is rather low when compared with 111 in Malaya, 171 in the Philippines, 189 in Viet Nam, 256 in China (mainland), 272 in India, and 528 in Japan. But if the present rate of population growth of about 1.8 percent per annum continues, the average population density of Thailand will increase considerably in the decades ahead. The population growth may then become a threatening problem, unless the rate of economic development and improved utilization of human and natural resources keep at least a pace ahead of the rate of population increase. That of course will require careful planning, judicious allocation of economic and financial resources and vigorous persistence in implementation of adopted programmes.

Thailand has been a constitutional monarchy since 1932, and for many years prior to the achievement of political independence by India, Pakistan, Ceylon, Burma, the Philippines and Indonesia this small nation was the only one in all of Southeast Asia that was able to maintain an independent sovereign status. In a good measure this can be attributed to the astuteness of her leaders beginning with King Mongkut (Rama IV) who in 1855 and the years following successfully negotiated Treaties of Friendship and Commerce with most of the European countries and the United States. After the death of King Mongkut in 1868, his son King Chulalongkorn (Rama V) continued and carried forward many of his father's sagacious policies in dealing with the colonial powers.

As a sovereign member of the family of nations Thailand fully and actively supports the principles and objectives of the United Nations. Also as a member of the U.N. specialized agencies it participates in

* The opinions and conclusions expressed in this article are those of the author and do not necessarily represent the views of the Government of Thailand and the National Economic Council of which he is the Economic Adviser.

their activities, contributes its share towards their support and benefits from their services. In addition to technical assistance from the United Nations Technical Assistance Administration, the FAO, ILO, WHO, ICAO, UNICEF and other agencies, Thailand has received the full co-operation of the International Monetary Fund and the International Bank for Reconstruction and Development. The latter after considering the report of its own survey mission extended a loan of over 25 million dollars for three important projects which when completed will materially advance Thailand's economic development.

The structure of Thailand's economy is relatively simple. Basically the economy is in the primary or extractive stage of development. Agriculture, which alone has over 80 per cent of the working population, plus the extractive activities such as mining, forestry, and fishing comprise the corner-stone of the economy. The other economic activities are some light manufacturing industries producing primarily for the domestic market, rice milling and saw milling, paper making, sugar factories, a modern cement industry and a newly established small steel plant, service, industries, trade, and the professions. However in total they do not loom as significant as the combined four basic extractive industries in terms of numbers employed and contributions made to the national income.

The national income classified by source of industrial origin helps to give a picture of the relative importance of the various economic activities. It can be seen from the following table that the predominant economic activity is in agriculture. The contribution of agriculture to the national income would be even greater if to it were added the income generated by the processing, transportation, distribution, and financing of agricultural products, of which rice is by far the largest and most important single crop. This dominant role of rice presents some of the dangers peculiar to monoculture. Any economic structure in which a single export crop plays so large a role is in a vulnerable position. A better and more secure foundation rests on crop diversification, effective land-use planning and efficient farm management and diversified manufacturing.

TABLE 1

Preliminary Estimate of the Percentage Contribution to Thailand's National Income in 1950

(by groups of economic activity)

Group	*Per cent of Total*
Agriculture, Forestry, and Fishing	53.71
Agriculture	37.44
Mining	1.50
Manufacturing	13.99
Commerce	18.73
Construction	.63
Transport and Communication	1.08
Banking and Insurance	.54
Government Services	4.11
Other Services	3.35
Others	2.36

Agriculture, Fisheries, and Forestry

Of the different government activities relating to agricultural development, irrigation is certainly one of the most important.[1] Thailand realized long ago that to acquire sufficient foreign exchange to pay for essential imports, particularly machinery and equipment for economic development, she needed to increase exports of basic raw materials and foodstuff. Rice was a promising export commodity. But to have a large enough exportable surplus it was imperative that the fertile delta of the Chao Phya be made more productive. Since rice production requires a large and assured supply of water, King Chulalongkorn, in 1902, invited a Dutch irrigation expert to come to Thailand and give his technical assistance in the matter. After surveying the situation this expert recommended the construction of an irrigation system involving the building of a dam at Chainat. Due to lack of funds the proposed project was not carried through. However the Royal Irrigation Department carried on, in its limited way, along the lines recommended. Some years later an English expert was called upon to consider the irrigation project and the result of his findings corroborated the earlier recommendation. But again the full project failed to materialize because of lack of foreign currency credits. Nevertheless,

[1] Irrigation in Thailand means water control to prevent floods and droughts, the latter being more damaging. In 1917-18 the rice area damaged by floods was 21% and in 1942 it was 34%; the damage from droughts was 43% in 1919-20 and 32% in 1936-37.

work continued on a series of smaller irrigation projects pending the securing of funds to carry out in full the main project. It was not until almost fifty years after the original Chao Phya scheme was first proposed that it became a reality through the granting of a loan by the International Bank for Reconstruction and Development.

Up to 1952 the Royal Irrigation Department had completed 8 projects which made useful an area of 3,286,000 rai;[2] 13 projects were being completed which will provide irrigation facilities for an area of 2,677,000 rai; and 11 projects were under construction to be completed within five years which will irrigate 5,301,000 rai. Thus by 1957 it is expected that 11,264,000 rai will be benefiting from irrigation facilities provided by the government. With the completion of the Chao Phya irrigation project and the construction of the dam at Chainat it is expected that the resulting increase in rice production may enable Thailand to reach an exportable surplus of close to two million metric tons.

However, as has been already mentioned, there is danger in putting too much reliance on a single crop. The inherent peril of monoculture has been a bitter lesson learned by several raw material producing countries. Being aware of it, the government is encouraging crop diversification, animal husbandry, and the growing of previously imported agricultural products such as jute and sugar to be processed by factories established through the promotion of the Ministry of Industry. The government is also encouraging the introduction of new crops. For example, through the aid of the U.S. Special Technical and Economic Mission, cacao has been planted in several parts of the country and the experiment is being watched with great interest.[3] The employment of better agricultural methods is expected to be more widespread in Thailand by enlarging and improving the training facilities in scientific farming now being offered at the University of Agriculture, by augmenting the facilities for research and extension work to bring to the farmers in their own terms the knowledge acquired in the research centres. Measures are also being taken to improve the quality of farm products reaching the domestic and foreign markets. Both the FAO and the U.S. Technical and Economic Mission are co-operating with Thai officials to improve the facilities for grading, storing, and marketing of some of the major agricultural products. The government is also realizing the importance of the collection and maintenance of reliable and current agricultural statistics. An agricultural census was taken in 1950.

[2] One rai=.395 acre.

[3] Suggestions have been made for the introduction of palm oil plantations, which could profitably be grown in Thailand.

The severe floods of 1917 caused much distress among the rice farmers of the central plain, particularly among those who had previously mortgaged their land to acquire working capital at usurious rates of interest. Looking ahead the government then decided to remedy such conditions by fostering the co-operative movement and the setting up of co-operative credit societies, the first of which was established in 1919. A Department of Co-operatives was created in the Ministry of Agriculture to give impetus and direction to the movement. Progress was slow but steady, the number of such credit societies rising from 26 in 1919 to 8,438 in 1952 (April).[4] The co-operatives were for many years financed from government funds and by loans from the Thai Commercial Bank which were guaranteed by the government. In 1947 the Bank for Co-operatives was created by the government with a capital of 10 million baht.[5] It makes loans to the co-operatives who in turn lend to their members.

Aside from the agricultural credit societies the Department of Co-operatives organized other types, such as the co-operative land hire-purchase societies to help landless farmers to become individual landowners and to lend them money to get started on the farms acquired through the hire-purchase plan. Another type, the co-operative colonization societies, were organized to help solve the problem of opening up new land, some for general farming, some for special crops such as cotton and later sugar, and some for salt making.

It can be said that although on the whole the co-operative movement has been of considerable value to Thailand's farmers its benefits did not extend to a large enough membership. The government is cognizant of that and is endeavouring to do something about it. The importance attached to the furthering of the co-operative movement is indicated by the recent elevation of the Department of Co-operatives to that of a Ministry. Prior to this change the Department of Co-operatives had envisaged a five year programme looking towards the organization of about 3,000 new credit societies in the rural areas requiring a capital of about 90 million baht; new land hire-purchase co-operatives to help about 1,200 families to become owners of agricultural land; about 50 co-operative marketing societies handling paddy rice; and a central co-operative wholesale society of consumers' goods in Bangkok with distributing branches in six provincial centres. How much of this programme will be carried through by the new Ministry of Co-operatives remains to be seen.

Thailand is fortunate that her adjacent and inland waters contain

[4] *Source*: Ministry of Co-operatives.

[5] 1 U.S. dollar=12.50 bahts (par value not established).

an abundance of commercially valuable fish. This resource has long been an important asset to the Thai economy. However, it could be more extensively exploited. The inland fresh-water fisheries could be further expanded to provide a highly valuable source of protein in the diet of the people of the northern and northeastern provinces. The development of the fisheries industry has been hampered by the lack of modern gear and equipment to make large-scale commercial fishing operations successful. Recently the Department of Fisheries has proposed plans which if put into effect will do much to remove these obstacles.

Forestry contributes a substantial share to the total national income. It has been estimated that 63 per cent or approximately 324,300 square kilometres of the total land area of Thailand is under forest cover.[6] The exploitation of forests including logging, transport, and trade in timber and forest products provides a complete or partial source of income to a large number of people. Therefore this important national asset should be carefully and economically used. Realizing the economic importance of forests and becoming aware of the undesirable consequences which follow wasteful practices of unregulated exploitation, the government is now emphasizing better forest management and conservation. The technical assistance in forestry which it is receiving from the FAO should prove most helpful. In this connexion the Department of Forestry is proposing two projects to be completed within a four year period involving an expenditure estimated at about 19.5 million baht and about 250,000 U.S. dollars. One aims to establish a series of plantations of desirable species of trees covering a total area of 8,600 acres, about three fourths of which will be devoted to teak. The other project is more comprehensive and aims at achieving a sustained yield of timber and other forest products through an integrated plan for conservation, forest improvement, and modernization of techniques of exploitation.

Industry

Although the country is predominantly agricultural, manufacturing has shown a definite though modest growth, particularly in the post-war years. Though Thailand cannot and does not expect within the immediate future to embark on any large-scale industrialization programme which would include a full complement of heavy capital goods industries, she can substantially increase her industrial capacity of light industries producing a wider range of essential consumers' goods now being imported. She could have more industries for the first pro-

[6] *Thailand and Her Agricultural Problems*, Ministry of Agriculture, Nov. 1950, Revised edition, p. 78.

cessing of many of her basic raw materials. This can be done as soon as electric power, trained personnel, and financing are made available.

Thailand's industrial development began on a small scale a number of years prior to the war. By 1941 there were already in existence, beside a good railway system and port facilities, rice mills, saw mills, cement works, thermo-electric power installations, and a variety of small craft industries. The coming of the war gave additional impetus to the establishment of industries making formerly imported goods. The problem confronting the government then was to make Thailand, as it was cut off from overseas trade, as nearly self-sustaining as possible. Encouragement was therefore given to the diversification of agriculture and the establishment of industries that would help alleviate acute shortages.

One of the obstacles hampering industrial development has been the lack of fuel and power. Reliance on firewood has proven costly and in the long run not to the best interest of the nation in that denuding the forests brings with it the problem of soil erosion and all that it implies. Fuel and lubricants have to be imported. Although deposits of coal in the form of lignite have been known to exist, the amount of proven reserves of this fuel resource has not yet been determined. With the co-operation of the mining experts of the United States Technical and Economic Mission the Department of Mines has now under way a project for assessing the nature, extent, workability, and utilization of two highly promising deposits. If proven adequate and if properly developed these deposits may become a very important source of fuel for the railways and other industries. It is expected that lignite briquettes might be made for use as a domestic fuel and if successful will materially reduce the dependence upon charcoal as a cooking fuel. It is also contemplated that thermo-electric power plants using lignite coal at the mines could be integrated with some of the projected hydro-electric power plants into a national grid system supplying power to most parts of the country. When that is done a good base for further industrial growth would have been established.

One of the important imports requiring an expenditure of considerable foreign exchange is petroleum and its products. The amount increases as industry expands. For this reason the Department of Mines has undertaken to explore for oil in a systematic manner using modern geological and geophysical methods. At present this is being done at Fang in the Province of Chiengmai where oil seeps have long been known. Drilling equipment has arrived and some tests have already started. If successful this area will prove to be the first oilfield in Thailand.

In addition to the existing industrial establishments, the Ministry

of Industry is planning the expansion of alcohol production through the newly constructed plant at Ayuthia. The plant will use the Guilaume system of continuous distillation and will have a capacity of 30,000 litres of alcohol per day. The Ministry is also proposing a means of encouraging better quality standards by private producers of tapioca by setting up a sample plant capable of handling 30 tons of starch per 8 hour day. The plant would show other producers the proper and most economical methods of milling tapioca into starch of standard quality. Another industrial project proposed is the establishment of a vegetable oil extraction plant at Chiengmai to process local oilseeds, groundnuts, and soya beans. The plant is to have a daily capacity of 18 tons of oil from which will be made 7,200 kilograms of soap and 2,160 kilograms of margarine per day. The unused portion of pressed oil will be sold directly in the local market.

Thailand has been importing nearly 20 million gunny bags annually. As a result of difficulties experienced during the war encouragement was given to the growing of jute. Based on the fact that jute can be grown in Thailand, the Ministry of Industry undertook to establish a gunny bag factory which was completed and put into operation in 1952. It is expected that when working at capacity the plant will produce at the rate of 3,280,000 bags annually using two eight hour shifts per day.

The Ministry of Industry has also projected the establishment of a number of other types of plants to process a variety of agricultural and forestry raw materials. The following are some examples. A modern tannery to process 300 hides per day which would produce about 560 tons of leather and 630 tons of by-products per annum. The initial investment has been calculated to be about 19 million baht and 440,000 U.S. dollars. A paper mill of 50 tons per day capacity which would either supplant or supplement the present paper mill now operating at less than its daily rated capacity of 10 tons. There is abundant raw material available and if efficiently operated such a plant could supply a major portion of the domestic paper requirements. The estimated cost of the project has been put at about 17 million baht and 1,740,900 U.S. dollars. A glass factory producing 5,000 tons of glass per annum in various forms, and a soda ash plant to produce by the Solvey process about 4,500 tons of soda ash per year to be used both by the paper mill and the glass factory have also been proposed. Other plants are to produce on a small scale some basic chemicals such as carbon dioxide, ammonium sulphate, sulphuric acid, caustic soda, chlorine, and hydrochloric acid for use by other industries.

The degree of fulfilment of these industrial development projects is predicated on the relative speed with which certain impediments will

be overcome, namely, adequate financing, sufficient electric power at reasonable rates, and availability of enough trained technical and supervisory personnel. Some measures have already been taken towards meeting these difficulties. In the matter of financing, the government took a forward step this year when the Industrial Bank Act became law. It is expected that the Bank will begin operations about the end of June. The capital is fixed at an amount not to exceed five hundred million baht. It is to be wholly owned and operated by the government. An initial payment of twenty million is to be made by the government as capital and additional capital may be paid by the government from time to time in amounts deemed proper by it. With the approval of the Cabinet, the Industrial Bank may issue bonds or debentures or contract loans by other means in order to increase its capital. Such bonds, debentures or loans are to be guaranteed by the government for repayment of both capital and interest. The Minister of Finance, who is to be in charge and control of the execution of the Act, may entrust the Bank with the control and management of any capital or current appropriation allocated to any government branch for industrial purposes subjects to such conditions as may be agreed upon between the Minister of Finance and the Bank.

The two main objectives of the Bank are (1) to develop new industries and expand or modernize existing industries, and (2) to encourage industrial financing. The word 'industry' as defined in the Industrial Bank Act indicates the Bank's possible borrowers. 'Industry' is defined to mean 'the production of goods as finished or unfinished products, mining, production and distribution of electricity or other power or public water works.' The creation of the Bank, if adequately staffed and efficiently managed, should be of material help not only in mobilizing domestic capital but also in channelling local capital into such productive activities as would bring a desired balance to Thailand's economic development.

As to the critical shortage of power some progress has been made to meet it but at a rather slow rate. The war damaged thermal plants in Bangkok are being rehabilitated and new generating equipment is being installed. Additional power has been supplied through the cooperation of the U.S. Special Technical and Economic Mission which supplied five 1,000 KW diesel electric alternators. Nevertheless power is still short, and without sufficient power steadily available at low cost no substantial industrial growth can be expected. Hence the government in 1952 took another step forward in the right direction by appointing a National Power Commission which will survey the power needs of the entire nation and the means to meet them

from both thermal and hydro-electric sources. The Commission, headed by the Prime Minister, will study every phase of power development including financing. It is expected that when plans now being prepared are completed the International Bank for Reconstruction and Development will be approached for a loan to help finance the foreign exchange requirements.

Thailand's major potential sources of electric power are lignite deposits (one in the north at Mae Moh about 600 kilometres from Bangkok and the other in the south at Krabi about 750 kilometres from Bangkok) and the following four major hydro-electric sites:

1. *Chainat,* where an irrigation barrage dam is under construction which when completed will have an installation of 12,000 KW producing about 90 million KWH. This project was one of the first three for which the International Bank for Reconstruction and Development granted a loan.
2. *Kang Rien,* which has been studied at different times in the past by several engineering groups from several countries. The last group of investigators contemplated an installation of 80,000 KW.
3. *Kang Soi,* where investigators have indicated that an installation of 100,000 KW can be developed.
4. *Tak,* which is now under investigation and where it is expected that an installation of 160,000 KW will be constructed. In addition it is thought that this site will serve as a multipurpose scheme by providing irrigation for about two million rai.

Present plans call for the completion of the Chainat and Tak hydro-electric projects by 1957. Together they will provide an installation of 172,000 KW. With these as a start and the eventual development of the sites at Kang Rien and Kang Soi, plus the thermal plants at the lignite deposits and the thermal power generated at Bangkok it will be possible to have an integrated grid system of interconnected transmission lines serving most of the kingdom. But this will take some time and considerable financing.

The lack of technical and supervisory personnel has been a serious hindrance to more rapid development in the public sector as well as the private sector of industry. A number of ministries and departments of government are attempting to deal with the problem by establishing schools and training centres of their own. The University of Chulalongkorn trains engineers but the number graduating each year is far from sufficient to meet the demand. It has been estimated that to meet the needs for replacement due to death and retirement and to meet the needs of an expanding economy, Thailand requires about 500 additional engineers annually. This does not include the requirement

for other technically trained people. All this means that enlarged facilities will have to be provided for education and training at levels which bring into the economy not only highly trained professional engineers, but also qualified technicians and supervisors as well as workers who know how to handle tools and equipment in a variety of crafts and industries.

Steps have already been taken by the Ministry of Education to enlarge the scope of vocational education. The U.S. Special Technical and Economic Mission and the UNESCO Education Mission are co-operating in this effort. Under the leadership of the UNESCO Mission they have been working closely with Thai educators during the past two years in establishing a model education and training centre in Chachoengsao, not very far from Bangkok. Lessons learned there are to be applied throughout the school system to help meet the skilled manpower requirements in the ensuing years. The establishment of a Technical Institute in Bangkok is another move forward. A budgetary allocation of 3,961,450 baht has been approved and the U.S. Special Technical and Economic Mission is aiding by supplying necessary teaching equipment. The course of study will be two years and tuition will be free.

Industrial training by providing a reservoir of skilled workers now will prove of significant importance in Thailand's economic development. It would be desirable that the training programme for skilled workers be coordinated with the development plans of the government, private industry, and the Industrial Bank which would know the specific needs of its prospective borrowers. In view of the fact that it will not always be possible to anticipate skills required by each industry or enterprise, a good deal of the training will have to be of a general rather than specific character.

Transport and Communications

Adequate transport is very important to Thailand not only for the growing volume of international trade but also for the fuller development of her hinterland and internal commerce. Thailand realizes her need for improving and extending railways, highways, airways, inland waterways, and port facilities. Prior to the war there was an efficient railway system operating 3,213 kilometres of line. In 1941 it carried over 7,700,000 passengers and hauled about 2,000,000 tons of freight. But as a result of the bombing during the war this railway system was badly dislocated. Bridges, principal stations, repair shops, about 50 per cent of the rolling stock, signalling equipment, etc. were either completely destroyed or made unusable. After the war efforts were made to restore the system and repair the damage as rapidly as possible. But progress was slow due to lack of funds, materials, and trained personnel. Within the past two years, however, marked improvement has been made

in railways rehabilitation, especially in the acquisition of rolling stock and in the repair of the workshops at Makkasan. This was made possible in part by aid from the U.S. Technical and Economic Mission which provided wheels and supplies to rehabilitate over 1,000 goods wagons, and installed two 500 KW diesel electric alternators to supply power to the shops. The Mission also furnished the services of a technical consultant who aided in designing and layout of the new shop buildings to be financed by a loan granted by the International Bank for Reconstruction and Development. A consultant has also been provided for the railways to help set up a modern accounting system.

The railways now operate as an independent Railway Authority. Formerly they were a department in the Ministry of Communications. A five year programme has been projected for modernization of maintenance equipment; replacement of about 900 kilometres of single track rails of 50 pounds, which have been in service over 40 years, with 60 pound rails at the rate of 180 kilometres of track per year; replacement of semi-permanent timber trestle bridges with steel bridges; and the construction of 704 kilometres of new lines. The estimated expenditures for these improvements and extension will require almost 62 million baht, over 18 million U.S. dollars, and about 8,300 pounds sterling. The government is also purposing to meet the shortage of locomotives and passenger coaches by ordering 55 locomotives, 100 passenger coaches, and 500 goods wagons from abroad for delivery within the shortest possible time.

Bangkok is the most important port in Thailand handling nearly 90 per cent of the imports and about 85 per cent of the exports. However, the existence of a bar at the mouth of the Chao Phya river prevents large vessels from entering the port. This necessitates the use of lighterage which increases the cost of loading and unloading. A project to improve and further develop the port of Bangkok has been under way for some time. It involves the dredging of the bar and the installation of cargo handling equipment, track and railway equipment, and improving the wharf and shed facilities at Klong Toi.

Work has already started on dredging the bar. It is a dredging project of no small magnitude. The minimum excavation of material will amount to 14,250,000 cubic metres and will extend over 18 kilometres in length. A private dredging firm has contracted to dredge 10,500,000 cubic metres. The balance of 3,750,000 cubic metres is being dredged by the government. The big dredge used by the private contractor is pumping the excavated material ashore through pipelines to reclaim marshland for eventual use as agricultural land. By the end of 1952, when the project was expected to be completed, ships of 10,000

tons were expected to be able to come into Bangkok with drafts up to 28 feet as compared with the earlier maximum of 17.5 feet. About 55 per cent of the cost of the project is being met by budgetary appropriations and 45 per cent by a loan from the International Bank for Reconstruction and Development. The U.S. Special Technical and Economic Mission provided a dredge which is being used for dredging now and later will be useful in maintenance of the channel.

There are also plans to develop a port at Songkhla and various smaller ports in southern Thailand. The project at Songkhla will involve dredging of the port area and sea channel, the construction of breakwater and quay wall for ships up to 8,000 tons. It would take about four years to complete and cost about 70 million baht. The programme to develop the ports of several coastal towns so that 300 to 600 ton ships could wharf envisages the dredging of entrances and the construction of smaller wharves. It is also proposed to construct a highway to interconnect these coastal towns. The entire project will take about four years to complete at an estimated cost of 130 million baht and 1,743,000 U.S. dollars.

The highways system needs improvement and extension not only to provide greater facilities for the movement of exportable raw materials from and imported finished goods to the hinterland but also to increase the volume of internal trade. The Highways Department has therefore proposed a plan to construct about 2,257 kilometres of macadam surfaced roads in three major systems of trunk lines leading from Bangkok to Burma, Malaya, and Indo-China. This network is planned to be completed by 1957 at an estimated cost of 552,435,000 baht of which 15 per cent or 4,134,500 U.S. dollars is expected to be spent for imported machinery and equipment.

Another project proposed by the Ministry of Communications is to provide a government-owned and operated transport organization with approximately 230 motor buses of 40 passengers each and about 200 diesel engine trucks to operate additional highway routes. If the project is carried through it is expected that the motor buses and trucks would provide additional passenger transportation of about 2 million kilometres and the hauling of about 8,000 tons of additional freight per month. The estimated cost would be about 9 million baht and 9.7 million U.S. dollars.

Thailand's inland waterways were her main arteries of transport before the coming of the railways and highways and are even today the common means of transportation and cross-country communication in the central plain. These waterways are based on the inter-connexion of four rivers by a system of artificial canals. They were designed pri-

marily as irrigation canals. Though they are not navigable by steamers, they are used by lighters which move the rice crop and other produce either poled or towed in a chain by launches. The canals are supplemented by a maze of smaller waterways both natural and artificial which are used for irrigation, and for navigation by smaller boats. Water is thus available all over the central plain which produced about two-thirds of the exportable rice and which is one of the more densely populated sections of the country. In order to further the usefulness of the inland waterways, the Ministry of Communications is considering a project for the construction of additional facilities such as landing stations and docks at various important points and the interconnexion of highways and waterways. The project would necessitate an estimated expenditure of approximately 17 million baht and five million U.S. dollars, and would take about four years to complete.

Bangkok is an important point on the international flying routes. Don Maung is a modern airport equipped with concrete runways, ample hangar space and facilities for repairs. There are also a number of smaller airfields in the provinces whose growing volume of traffic warrants consideration for further development. The government is planning to expand and modernize these provincial civil airfields by constructing runways and control towers. It also plans to install modern equipment to provide up-to-date facilities to planes which will make it possible to use these fields as alternate international airports for Bangkok or for other international airports in South-East Asia.

This project is one part of a five year civil aviation programme. Other parts are concerned with the development of a first class international civil airport in the vicinity of Bangkok for 24 hour civil air traffic service throughout the year; the setting up of air traffic control (ATC) service at all airfields to conform to ICAO standards; and providing telecommunication between airports and air-ground communications. The complete project will require an estimated expenditure of about 37 million baht and 3 million U.S. dollars.

The Post and Telegraph Department has drawn up a four year plan involving three projects at an estimated cost of about 21 million baht and 3 million U.S. dollars. If the programme is carried through it will (1) improve the telephone system of Bangkok by the extension of about 2,500 lines and addition of 3,200 sets of instruments; (2) rebuild and expand telephone facilities in several provincial towns and construct a trunk system and telegraph circuit which will provide for local and long distance telephone and telegraph service throughout the country; and (3) recondition and develop the existing radio service so as to provide long distance international radio-communication, inland radio-

communication, maritime service radio-communication, and foreign radio news reception service.

Public Finance

The war-time budgetary deficits reached a peak of 144 million baht in 1944. Effort was made after the war to reduce them by measures to increase revenues, particularly from custom duties and excise taxes. Income taxes also were raised, but the yields were disappointingly lower than hoped for. It was the noticeably rapid recovery of import and export trade plus the expansion of internal economic activities which provided the steadily increasing revenue to narrow the gap between expenditures and revenue until in 1948 the budget was practically in balance. A deficit was experienced in 1949 and the estimated budgets for the ensuing years also have shown deficits as can be seen from the table below.

TABLE 2

Summary of the Estimated Budgets of the Government of Thailand, 1950-1952

(in million baht)

	1950	1951	1952
Revenue			
Direct Taxes	79.2	112.7	174.0
Indirect Taxes	873.4	1,222.2	1,717.4
Government Domain	66.2	101.8	106.6
Government Enterprises	532.4	561.0	474.5
Fees, Licenses and Fines	113.9	141.5	150.2
Rice Bureau	240.0	260.0	322.0
Purchasing Bureau	7.5	3.0	3.5
Miscellaneous	56.7	97.9	106.8
Treasury Balances and Loans	700.3	989.2	751.9
Total Revenue	2,669.6	3,498.3	3,806.9
Expenditures			
National Debt Service	64.9	160.2	103.2
External Security	284.9	512.2	708.3
Internal Security and Justice	103.9	90.6	179.4
Social Welfare	55.9	109.4	114.3
Government Enterprises	370.2	264.2	141.2
Economic Development	339.1	857.8	960.6
Education	138.3	171.1	203.0
Civil Service	939.7	1,062.6	1,205.0
Other	327.7	270.2	191.9
Total Expenditures	2,669.6	3,498.3	3,806.9

Source: The Department of the Comptrollers-General.

The deficits for 1950 and 1951 were met through reduction of treasury balances by withdrawal of cash from treasury accounts, by sale of Treasury bills to the Bank of Thailand, by sale of domestic bonds, and by drawing on loans from the International Bank for Reconstruction and Development. The 1952 deficit will probably be met by similar means plus overdrafts from the Bank of Thailand.

As shown in the above table, the government has been increasing the budgeted expenditures for economic development in each year following 1950, mainly for irrigation, communications, and some industrial as well as agricultural projects. The capital expenditures for such development purposes represented 7 per cent in 1947, 9 per cent in 1948, and about 14 per cent in 1949 of the total expenditures. The 1950 allotment for economic development remained close to that of 1949, but expenditures earmarked for these purposes increased to 24 per cent in 1951 and 25 per cent in 1952.

Direct taxes provide a very small portion of the total revenue, less than five per cent in any one of the past three years. Indirect taxes yield a much larger percentage of the total revenue and the bulk of the income derived from taxes. Customs is a major source of government receipts and following the outbreak of hostilities in Korea the expanded world demand for some of Thailand's main exports such as rubber and tin contributed much towards increasing the revenue from that source. Increased imports, particularly of luxury items were also a contributing factor. However, as projects in the economic development programme emerge from the planning to the implementation stage the demand for foreign exchange for development needs may force the adoption of measures leading to the curtailment of luxury imports in favour of capital goods. Since luxury goods generally bear higher customs duties a noticeable loss of customs revenue can be expected should measures for limiting their imports be imposed. Furthermore, it is quite possible that further losses in customs revenue from imports may take place as industrialization develops, either as a result of domestic production supplanting some consumer goods imports or by the government granting aid to domestic industries through protective tariffs. If the protective tariffs are really effective they will reduce revenue from customs.

It is therefore desirable that the government should reduce its reliance on such duties as much as possible and seek other sources of revenue. As industrial growth expands the direct sources should also expand and be made to contribute an increasing percentage of the total revenue. However, that will require not only a materially improved tax structure and tax collection system but also improved overall administration.

Government Debt Structure

The combined internal and external debt of the government is relatively small. At the end of January 1952 it amounted to 1,886.3 million baht of which a little over 8 per cent represented external obligations. This percentage is lower than for 1950 in spite of the acquisition of a 3,984,000 U.S. dollar indebtedness to the International Bank for Reconstruction and Development. That was of course due to the scaling down of other external debts in the meantime. The increase in the total debt by about 615 million or 3 per cent from 1950 to 1952 reflected the increase in the internal debt, mainly the increase in financing by means of Treasury bills. However, the debt load cannot be deemed too burdensome when it is noted that the total debt service on 31 January 1952 was only 2.7 per cent of the total expenditure which compares very favourably with over 5 per cent during the prewar year 1938-39. The total outstanding internal debt at the beginning of this year was 1,727.4 million but that amount includes a considerable volume which was incurred during the war period.

TABLE 3

Thailand's Internal and External Public Debt

	Jan. 31, 1950	Jan. 31, 1951	Jan. 31, 1952
	Internal Debt (in million baht)		
Funded Debt	418.1	399.6	371.1
Treasury Bills	726.5	1,126.3	1,356.3
Total Internal Debt	1,144.6	1,525.9	1,727.4
	External Debt (in thousands)		
Sterling	1,561	1,483	1,402
U.S. Dollars	5,771	5,411	4,803
IBRD Loan (in U.S. Dollars)			3,981
Total External Debt (in baht)[1]	126.8	119.5	158.9
Grant Total of Debt (in baht)[1]	1,271.4	1,645.4	1,886.3

Source: Bank of Thailand.

[1] Official exchange rates used for conversion into baht as follows: £1=35 baht; U.S. $1=12.50 baht.

Thailand has an excellent foreign debt record. Aside from the suspension of payments forced by conditions during the second world war Thailand has not defaulted on any incurred obligation. In 1947 the servicing of foreign debts was resumed and all arrears were settled in full.

Currency, Credit and Prices

The following table shows the extent to which the volume of money was expanded during the war, particularly the rapid increase in circulation of notes. This was in part due to the wartime budgetary deficits and in part to the required advances to the Japanese government and the accumulation of clearing balances in Japanese yen. The circulation of notes continued to expand after the war but at a reduced rate of increase. Sight deposits of commercial banks also increased in volume, but they do not constitute an important medium of exchange. Most payments are made in notes. Commercial bank sight deposits are mainly confined to foreign trade transactions and to rice mills in Bangkok and tin and rubber enterprises in the southern part of the country.

Both the cost of living index and the index of wholesale prices show the marked rise in prices that characterized the war and early post-war period. Comparative stability is indicated for the more recent years. However, these indexes have rather doubtful value as measures of inflationary pressures, because of inadequacy of number of commodities covered and uncertainty of weights assigned. Also the cost of living index is limited to the very low income class of Bangkok only and the prices used are the official rather than the prevailing market prices.

TABLE 4

Volume of Money, Prices, and Cost of Living[1]

Year	Notes in Circulation (in million baht)	Total Volume of Money (in million baht)	Wholesale Prices 1948-100	Cost of Living 1948-100
1938	177	—	6.04	8.03
1945	1,839	2,296	—	73
1946	2,119	2,944	—	86
1947	2,107	2,918	105	100
1948	2,390	3,406	100	100
1949 Dec.	2,566	3,622	90	95
1950 „	3,278	4,485	102	100
1951 „	4,052	5,577	107	106
1952 Jan.	—	—	104	109

Source: Current Statistics, Bank of Thailand, Feb. 1952.

[1] Consists of sight deposits of Bank of Thailand and commercial banks, and cash reserves of commercial banks, plus notes in circulation.

Credit Institutions

There is practically no capital market in Thailand and there is no stock market. The sale of securities of a few well-established companies such as the Thai Cement and the Thai Commercial Bank are occasionally accomplished privately or through auctioneers or through some commercial banks. The most significant credit institutions are the commercial banks located in Bangkok. Some of them have opened branches in several of the growing provincial towns. There are at present 25 banks of which 10 are foreign compared to a total of 13 in 1938 of which 7 were foreign.[7]

The growth in economic activity and expansion of foreign trade is reflected in the rising trend of operations of the commercial banks. For example, total deposits rose from about 752 million at the end of 1947 to 1,274 million at the end of 1951; loans, advances and discounts from 274 million in 1947 to 741 million in 1951; cash reserves from 302 million to 461 million; government bonds (internal) from 692 million to 2,148 million. Being commercial banks they do not engage in long term financing of agriculture or industry. Their loans and advances are of a short term primarily to finance foreign trade and the movement of rice and other principal crops from the provinces to Bangkok.

Although commercial banks do accept time deposits, the main institutions for mobilizing savings are the Government Savings Bank and the insurance companies. The Government Savings Bank has branches and agencies throughout the kingdom. Its total deposits has grown from 14.5 million baht in 1938 to 387.1 million in 1952 (Jan. 1) and the number of individual savings accounts from 126,594 in 1938 to 812,712 in 1952 (Jan. 1).[8]

Though the number of insurance companies has increased since the war and their net premiums collected have substantially increased, nevertheless the total savings through this medium is still very small. In 1946 insurance premiums totalled about 10 million baht as compared with 66 in 1950. At present insurance companies are comparatively free of government regulations regarding their collection of savings in the form of premiums, benefits and protection to policy holders, and the direction of investments. However, the government has recently indicated its intention to consider these matters in a proposed new insurance law.

Another credit institution is the Bank for Co-operatives which was created in 1947. It lends to co-operative credit societies which in turn advance loans to their members, mostly farm families. The source of

[7] *Source*: Research Department, Bank of Thailand.

[8] *Source*: Government Savings Bank.

funds of the Bank is the 10 million baht capital, the proceeds from two government co-operative loans, and loans from the Government Savings Bank. The co-operatives borrow from the Bank at 6 per cent and lend to their members at 10 per cent for short term and at 8 per cent for long term loans. The Bank did not accept deposits on current account from the public until January, 1952.

Foreign Trade and Balance of Payments

Following the war the major exports increased in volume substantially. In 1951 the volume of exports of rice reached 1,612,100 metric tons or 355 per cent of the volume in 1946. The volume of teak exports rose to 98,600 cubic metres or 480 per cent of the volume in 1946. The table below shows the changes in the value of the principal exports and their relationship to the value of total exports.

TABLE 5

Value of Exports of Selected Commodities of Thailand for 1946, 1950 and 1951

(in million baht)

Commodity	1946	1950	1951
Rice	238.9	1,743.3	1,875.2
Rubber	40.6	724.3	1,483.7
Teak	24.8	140.0	154.0
Tin	N. A.	298.0	198.7
Total Exports	401.7	3,576.3	4,678.0

Source: Customs Department.

It can be seen that in 1946 rice comprised 59 per cent of the total merchandise exports with rubber at about 10 per cent. But in 1950 and 1951 the value of rice exports declined to 49 and 42 per cent respectively while the value of rubber exports increased to 20 per cent in 1950 and 33 per cent in 1951. The increase in the percentage for rubber in attributable to the steep rise in the price of rubber following the outbreak of war in Korea.

Thailand has been steadily increasing her foreign trade since 1946 and from 1948 on has consistently experienced a balance of trade in her favour. In 1946 the pent up demand for every kind of consumers' and producers' goods was one reason for the excess of imports over exports. The other was that export trade had not yet fully re-established itself on the prewar scale. In 1950 and 1951 the balance of trade was more favourable as can be seen from the following table.

TABLE 6

Thailand's Balance of Trade for 1946, 1950 *and* 1951

(in million baht)

	1946	1950	1951
Exports	401.7	3,576.3	4,678.0
Imports	504.9	2,876.6	3,704.2
Balance	—103.2	+ 699.7	+ 973.8

Source: Unadjusted figures supplied by Customs Department.

An analysis of the distribution of imports by type of commodity indicates that the pattern of Thailand's imports is not much different from the prewar period. Textiles, petroleum products, machinery and vehicles, foodstuff (mostly canned goods), and beverages are among the important items. The volume of machinery and vehicles increased considerably as may be expected from an expanding economy. The directional pattern of trade has changed somewhat. Although Thailand still has most of its trade with the sterling area, trade with the United States directly has noticeably increased since the war. Prior to the war the percentage of total imports from the United States was only 4.2. The percentage of total exports to the United States was even lower—less than one-half of a per cent. After the war these percentages grew so that by 1949 the per cent of total imports was 14 and the per cent of total exports reached 25. In the early postwar years trade with Japan was negligible as compared with prewar. However, this trade increased appreciably after the signing of the first barter agreement. It is fully expected that trade with Japan will expand in the years ahead since Japan needs Thailand's rice, salt, and other raw materials while Thailand will need Japan's manufactures, particularly machinery and equipment for her developing economy.

The balance of payments statements have shown a surplus in every year since 1948. The current position is strong as can be seen from the table below. The terms of trade have been particularly favourable since the outbreak of hostilities in Korea caused a marked appreciation in the prices of exported goods as well as an increase in the quantity exported. Of course there is likelihood that such favourable terms of trade may not continue, nevertheless it may be expected that the overseas demand for her major commodities will continue in such volume and value that Thailand's capacity to earn foreign exchange will remain good. This ability to earn foreign exchange coupled with a foreign debt service which cannot be considered burdensome plus an unimpaired record of honouring all foreign obligations makes Thailand's credit position very sound.

TABLE 7

Estimated Balance of Payments and Balance of Trade of Thailand for 1951

(in million baht)

Items	Credit	Debit	Net Credit or Debit
Goods and Services			
1. Merchandise	4,698.5	3,713.7	+ 984.8
2. Monetary Gold Movement (net)	..	4.2	— 4.2
3. Foreign Travel	53.0	44.2	+ 11.8
4. Transport and Insurance	7.2	11.8	— 4.6
5. Investment Income			
Direct Investments	..	..	.
Other Interest & Dividends	14.8	4.9	+ 9.9
6. Government Expenditures	37.6	118.4	— 80.8
7. Miscellaneous	..	..	..
8. Total Goods and Services	4,811.1	3,894.2	+ 916.9
Donations			
9. Private Remittances and Migrant Transfers	75.9	34.9	+ 41.0
10. Official Donations	..	20.5	— 20.5
11. Total Donations	75.9	55.4	+ 20.5
Total (8 plus 11)	.	..	+ 937.4
Capital and Monetary Gold			
12. Private Capital Movements	..	..	..
Direct Investment	..	..	..
Other Long Term	..	..	..
Other Short Term	..	..	..
13. Official and Banking Institutions			
Loan & Long Term Obligations	27.7	..	+ 27.7
Contractual Repayments	..	19.2	— 19.2
Other Long Term	..	829.9	— 829.9
Short Term Claims on UK	254.6	..	+ 254.6
„ „ US	..	590.0	— 590.0
„ „ Others	49.1	..	+ 49.1
14. Total Capital & Monetary Gold	331.4	1,439.1	—1,107.7

15. Errors and Omissions	+ 170.3
	— 937.4

Source: Research Department, Bank of Thailand.

The manner in which Thailand financed her international transactions during 1951 is shown in the following table.

TABLE 8

Financing of Thailand's International Transactions, 1951

(in million baht)

A.	Goods and Services	
	Exports f.o.b.	4,698.5
	Imports c.i.f.	—3,713.7
	Trade Balance	+ 984.8
	Non-monetary Gold Movement (net)	— 4.2
	Other Services	— 22.7
	Total	+ 957.9
B.	Special Official Financing	
	Amortization and Other Contractual Repayments	— 19.2
	Rice Donation to Korea and UNICEF	— 20.5
	Total	— 39.7
C.	Net Errors and Omissions	+ 170.3
D.	Surplus or Deficit (—) (A through C)	+1,088.5
E.	Compensatory Official Financing	
	Loan from IBRD	+ 27.7
	Other Long Term	— 829.9
	Short Term Assets	
	Sterling	+ 254.6
	Dollars	— 590.0
	Rupees	+ 4.0
	Others	+ 45.1
	Monetary Gold	..
	Total	—1,088.5

Source: Research Department, Bank of Thailand.

Planning Machinery and Planning Objectives

There is at present no permanent official body in the government designated specifically as a planning agency. And there is a definite need for one. Plans, schemes, and projects are initiated by each department in the various ministries. After approval by the ministry concerned they are submitted to the Cabinet for consideration and action. If approved by the Cabinet and funds are found by the Minister of Finance the project is ready for implementation. Planning thus becomes an ad hoc procedure of proposing specific projects in a more or less piecemeal fashion. The specific projects in themselves may be engineeringly feasible and economically sound, but they may also be totally unrelated to any overall consideration of their impact on the national economy or to any ultimate objectives of a national plan or programme. A national plan need not be a rigid and minutely detailed blueprint of the 'straitjacket' type. Rather it should be a flexible programme of development recommending specific economic and financial measures and policies to be adopted for achieving stated objectives. The National Economic Council might be designated to work out such a national plan or programme, but to do it properly it will have to be staffed and equipped for the task.

The ultimate goal of any sound development programme is the raising of the living standards of the people in terms of their needs for the essentials of health, education, housing, balanced diet, and those goods and services that add to the amenities of life. The achievement of this purpose involves more than just building factories. It requires wise utilization of the country's human and natural resources, conditions of economic and social stability, and the maintenance of internal and external security. It means increases in productivity per man and increases in yield per acre, better distribution of real income, and increased investment in productive activities. It entails (1) better organization and utilization of existing resources through the introduction of improved techniques and the diversion of capital both private and public into productive and socially beneficial channels; (2) a substantial increase in the amount of electric power available per worker to increase his productivity; (3) further increases in agricultural output with little additional labour; (4) marked reduction in transportation costs through improvement and expansion of facilities of every means of transport; (5) establishment of new industries and the expansion of existing ones; and (6) better methods of distribution and financing.

Although the government will have to undertake major projects of a public nature it should not ignore the large sector of private business which contributes so much to the national income. Encouragement

should be given to the private sector to assure willingness to invest in risk-bearing enterprises tending to expand productivity in a manner which will aid in raising living standards. These the government should undertake to do through well-conceived measures and effective administration. With her good credit rating and favourable balance of payments position Thailand has now a real opportunity for carrying out an integrated national economic development programme leading towards a strong and well-balanced economy.

CHAPTER XIII

PHILIPPINE ECONOMIC PROBLEMS, PROGRESS AND PROGRAMMES

By SALVADOR ARANETO

AFTER four years of Japanese occupation, a war of liberation, and the wanton plunder of the Japanese retreating forces, we found ourselves in 1945 with a per capita wealth and an economy reduced to what it was forty years back. Thus, four years of Japanese occupation erased a great portion of the material progress that the Philippines had achieved during forty odd years of American sovereignty in the Philippines.

The Philippine-U.S. Trade Agreement

On July 4, 1946, Philippine Independence was proclaimed, as scheduled in a United States Act of 1934. Because of the war, readjustments had to be made to the trade agreement between the Philippines and the United States. Since 1909 we had free trade with the United States. In broad outlines, under the 1946 Trade Agreement, total free trade would continue between the two countries for a period of eight years, to be followed by gradually diminishing preferences for another period of twenty years. These diminishing preferences would consist in a gradual imposition of the basic tariff rates with 5% of the said rates and increasing annually by 5%, but in the case of certain Philippine exports to the United States (coconut oil, cigars, scrap, tobacco and pearl buttons) the diminishing preferences would consist of a gradual diminution of their respective export quotas, increasing by 5% every year. The period of total free trade would maintain the *status quo* of our colonial economy, favouring the production of a few export commodities, and the importation of most of our consumption goods. The period of diminishing preferences is a period of gradual liquidation of industries dependent on free trade and, for that matter, could not provide the congenial atmosphere to increase our productive capacity, and to create new industries to replace those that are being liquidated. Because the war had destroyed most of our industries dependent on free trade (sugar centrals, coconut oil, cordage, and cigar factories) it was impractical to build anew an economy tied up with the United States, to exist for eight years only, after which they would have to be gradually liquidated. But there were more fundamental reasons to oppose the trade agreement. President Quezon during the Commonwealth Government five years prior to the war had to change our then colonial eco-

nomy to one less dependent on that of the United States, and to increase our productive capacity and the standard of living of our people. But all the efforts of a great leader and a willing people were in vain. With free trade with the United States and with our currency pegged to the dollar at the artificially high rate of 2 to 1, in addition to the fact that we had no autonomy in tariff and monetary matters, our government was powerless to make any headway. And then the war came; and the very few industries worth the name that we had, which were only those that were fostered by free trade, were greatly destroyed by the war.

The Government of the United States had great world problems to solve in 1945 and 1946, and with the passing of two great leaders, President Quezon and President Roosevelt, the confusion brought by the war, the collaboration issue which tainted some of our best minds temporarily incapacitating them to present our case without fear, American vested interests in the Philippines had a field day in Washington, and the best of America was not given an opportunity to participate in the drafting of the Trade Agreement, which as finally approved, aimed at the impossible. It protected American imports to the Philippines without any limit; it protected our pre-war exports to the United States subject to certain quotas for eight years, thereafter to be gradually liquidated; and while these were the main objectives, we were expected at the same time to diversify our economy, becoming less dependent on exports to the United States by the production of more goods for home consumption and by the discovery of new lines for export.

The Post-Liberation Dance of the Dollar

During those immediate post-war years, the Government of the United States was pouring dollars into the Philippines, of which one billion nine hundred million dollars were paid mostly by the United States Army to local residents, Filipinos as well as Americans and other aliens, for goods and services, and 149 million dollars as direct financial aid granted since the liberation by the United States to our government.

The vicious propaganda which hasty observers have been giving the Philippines is illustrated by this sweeping statement of an English writer, Barbara Ward, in her book *Policy for the West*:

> The speed with which an incompetent government can swallow up assistance can also be illustrated from American experience in the Philippines where some $2 billion of external assistance vanished almost without trace in a couple of years.

Mr. Myron Cowen, when he was the American Ambassador to the Philippines, had occasion to clarify that the alleged assistance was more

than 90% granted directly to the people at large—and I wish to add that under the framework of the Trade Agreement, until the import controls were imposed, our government was powerless to prevent the return of these dollars to the United States to pay for American imports, mostly in the form of consumption goods, in many ways made necessary by the great destruction of the war.

The Philippine-American Finance Commission

After one year under the Trade Agreement, President Roxas must have realized the paucity of our economic development, contrary to his prognosis to the people, when he advocated the acceptance of the Trade Agreement, which parenthetically carried with it the requirement that our Constitution be amended to give Americans parity rights, *i.e.*, the same rights as Filipinos, in the exploitation of our natural resources and in the operation of public utilities. And he, jointly with President Truman in 1947, created a Joint Philippine-American Finance Commission, made up of three Americans and three Filipinos. The Government of the United States redeemed itself in this report. Without in any way criticizing in express terms the Trade Agreement, the Report, however, recommended two measures which were in virtual contradiction with the spirit, if not the letter, of the Trade Agreement. I refer to the creation of the Central Bank, and the recommendation for the imposition of Import Controls. Although the Commission recommended import controls as a measure to conserve our foreign exchange, and its use was not recommended as a means of affording protection to our production, the fact is that they are just different facets of the same economic coin.

The Central Bank

The Central Bank was created in 1948, and its charter authorized the issue of bonds to the amount of 200 million pesos (equivalent to 100 million dollars, U.S. Currency) to finance certain projects for our economic development. Thanks to this piece of legislation in deficit expanding, the Government has been able, after almost three years of inaction since Independence, to become the major factor in the implementation of our industrialization programme for major industries, which are listed further on in this article.

Import Controls and Exchange Controls

The Philippines was rather slow in establishing import controls. The first Import Control Law was not made effective until 1949, and it was a very timid and ineffective law, with the result that in 1949, our imports were even slightly higher than in 1948. Pressure from

importing houses, mostly controlled by foreigners, and the Presidential elections of 1949, delayed the effectiveness of real import control measures until the year 1950. And this delay brought about the need of exchange control measures which were imposed with the approval of President Truman on 9 December 1949. Our economic development continued moving slowly, and our national income was not increasing fast enough in proportion to the increase of our population. Thus, in 1950, our production was only about 97% of pre-war, and our per capita income was only 85% of pre-war due to the increase in our population. Some teeth were put into a second Import Control law that came into force in 1950, and imports were reduced from the all high of 1,137 million pesos in 1949, to the sum of 712 million pesos in 1950. With this fine accomplishment and the further savings in dollars brought about by the exchange controls, our dollar position at the end of 1950 had improved substantially, and the balances stood at 385 million pesos, as against 250 million pesos at the time of the imposition of the exchange control on 1 December 1949. But following the advice of American friends, who intimated that help from the United States Congress would be difficult to obtain with such a dollar balance to our credit and that imports had to be relaxed to curtail inflation, during the first semester of 1951, we foolishly and prematurely eased our import controls, with the decontrol of a long list of commodities, and thus we imported to an excess of our immediate requirements and at prices much higher than were obtaining a few months later due to the decline in prices brought about by the Korean Armistice. The result has been a large unfavourable trade of 141 million pesos for 1951 with total imports at 960 million pesos. As it is, we have depleted our reserves, and at the end of 1951 they are again at 303 million pesos.

A third Import Control law was enacted by Congress in 1951 which grants the President the power to reduce or ban the importation of non-essential commodities and those that are already produced economically in sufficient quantities in the Philippines. With this power granted to the President, sufficient elasticity has been provided in the Act to synchronize our programme of importation with our programme of production. Furthermore, the Act gives due preference to producers in the importation of raw materials. The President, by Executive Order, has implemented the new Act with a well studied reclassification of articles into decontrolled (very few in number); essentials; non-essentials; and banned articles. Another incentive provided by the Government for the creation of new industries is the tax exemption of four years granted to new and necessary industries. But although the Act was passed in September 1946, new industries were not en-

couraged until effective and real control measures were imposed in 1950.

The Bell Mission Report

But before the salutary effects of the import control measures of 1950 could be felt, government finances had become very critical that year, and President Truman sent to the Philippines another mission, at the invitation of our government. This time America insisted that it should be purely American in composition and it was called an Economic Mission. The result was the celebrated Bell Report, released in October 1940.

The Report declares in unmistakable terms that a permanent solution to our economic problems will require not only the determined efforts of the people and the government of our country, *but also the aid and encouragement of the United States.* It recommends aid in the form of loans and grants in the total sum of 250 million dollars for a five-year development programme, but predicated on the condition that finances of the government should first be placed on a sound basis, mainly through the imposition of additional taxes and greater efficiency in tax collections.

The Report recommended greater attention to the following three main objectives:

1. To increase production and improve productive efficiency;
2. To raise the level of wages and farm income; and
3. To open new opportunities for work and for acquiring land.

For the achievement of these goals, the Report recommends the following:

1. That the present trade agreement between the Philippines and the United States be re-examined;

2. That additional tax measures be raised immediately mainly by increasing the proportion of taxes collected from high incomes and large property holdings; that the tax collecting machinery be overhauled to secure greater efficiency; that a special emergency tax of 25% be levied for a period not to exceed two years on the sale of foreign exchange and on imports of all goods other than rice, corn, flour, canned fish, canned milk and fertilizer;

3. That rural banks be established to provide production credit for small farmers; that the opening of new lands for settlement in homesteads be expedited and the clearance of land titles promptly assured;

4. That steps be taken to diversify the economy of the country by encouraging new industries, including a petroleum refinery to process

imported crude oil; that adequate power and transportation facilities be provided as needed for further economic development; that a Philippine Development Corporation be established to coordinate all government corporations and enterprises and liquidate those that are ineffective; that financial assistance be made available to productive enterprises by the corporation acting in co-operation with private banks; and that more ample training facilities for technicians be provided in the Philippines, with the help and encouragement of the Government;

5. That better facilities for urban housing be provided; that a minimum wage for agricultural and other workers be established; and that civil service salaries be raised to provide a decent standard of living;

6. That Philippine economy be developed by encouraging small and moderately-sized enterprises, specially through the improvement of credit facilities; and

7. That American aid be extended to the sum of 250 million dollars through loans and grants for a five-year programme of economic development under American technical assistance, conditioned upon the implementation of the fiscal recommendations contained in the Report.

On the slow progress made along lines of production, the Report poses this query:

> It is of fundamental importance to the well-being of the Philippine people to determine why so little progress has been made in production and in productive efficiency in a period of such rapid change as the postwar years, when large amounts were being invested in the reconstruction of the Philippine economy before the war; (the availability of cheap imports, the preference for investment in real estate, commerce and trade, and the failure to apply better technical methods in agriculture and industry).

The Report answers its own query in another part thereof when it says:

> . . . . the easy availability of imports hampered the domestic production of similar goods. This was especially so because imports (from the United States) were even cheaper relative to home price and home costs after the war than they had been before the war.

The Report correctly points out, with an accusing finger, that 'While some new enterprises have been started particularly in the past year . . . ., the country still relies too heavily on the export of a few basic agricultural crops—coconut, sugar and hemp, which provide a meagre livelihood to most of the people engaged in their production.'

This situation was foreseen by very few of us who strongly opposed the Trade Agreement. If there is a criticism to be made of the Report, it is this: it has failed to point out that the basic cause of all our maladies is the present unequal and unwise free trade arrangement between the Philippines and the United States. This is now more generally realized by our Government and even by American students of our economy, and the same is confirmed by the fact that, with the imposition of import controls on American goods, the evils of unlimited free trade with the United States have been greatly curtailed. Indeed, the imposition of effective import controls has brought about the many new enterprises that were organized in the past two years.

It is indeed gratifying that the Report recommends re-examination of the present Trade Agreement 'in the light of new conditions.' It would seem, however, more appropriate to recommend re-examination of the said Trade Agreement in this light—that the new conditions which were expected by the said Trade Agreement had not been brought about and that, because of the said Agreement, our economy continued to be a colonial economy not much different from the one we had before the war.

Philippine Implementation of the Bell Report

The first step to carry out the implementation of the recommendations of the Bell Report was the signing of an informal agreement between President Quirino of our Republic and the Hon. William Foster as Special Representative of President Truman. The said agreement contained the following significant statement,

> The President of the Philippines, highly appreciative of the proffered help on the part of the President of the United States, to bring about social and economic well-being in the Philippines, announces his determination to lead his country in the attainment of this great goal, through the total economic mobilization and the bold implementation of measures that will bring about a higher degree of social justice in the Philippines.

In this paragraph, our President simply re-echoes the feelings and longings of a whole nation, to bring about his programme of total economic mobilization, coupled with the programme of social justice first enunciated by President Quezon of the Commonwealth period.

Our Government implemented the said agreement with the enactment of the law imposing a tax of 17% on the sale of foreign exchange, which increased the income of the government from taxation by more than 30%, and greatly solved its financial difficulties. It also enacted a minimum wage law for industrial and agricultural workers.

U.S. Contributions to Our Economy

But the much-hoped-for American help, first under ECA and more recently under the Mutual Security Agency, has been coming rather slowly and ineffectively. The American mission in the Philippines, composed mainly of men of sterling qualities and high capacity, has been handicapped by a constant change in personnel at high and near-high levels (in the short period of two years, we have had two heads in the mission here, and the bosses in Washington have also been changed), and by the time consumed by Americans unfamiliar with our problems to study the same, as well as by too limited discretion granted to the local mission. In the first year, ECA help has consisted mainly in the distribution of fertilizers and the importation of essential commodities.

In a period of about eight months, the Philippine Council for United States Aid (PHILCUSA) has allocated ECA aid to the Philippines among 45 economic development projects involving a total outlay of $44.15 million. This is the major portion of the $47 million allocated under the ECA aid up to 30 June 1952. Together with the Export-Import Bank loan of $20 million for the Ambuklao Hydroelectric Power Project, the total American aid to the Philippines for the present fiscal year would amount to $67 million.

Of the $44.15 million programmed and allocated as of 31 March 1952, about $29.6 million have been distributed among various development projects in agriculture, public health and education, transportation and public works, and industries including handicrafts; $10.5 million for the importation of scarce essential commodities for distribution through normal trade channels; and $4 million for technical assistance and miscellaneous items. A small balance of the $47 million total allocation to the Philippines for 1952 still remains to be programmed and approved; this will be covered by additional projects and scarce producers' goods for existing industries. The figures cited are much smaller than those recommended in the Bell Report.

Status of Our Present Economy

Nearly six years after independence, we still remain short of attaining sufficiency in rice by 11%, corn by 14%, beans and vegetables 34%, coffee and cacao 62%, fish and fish products 45%, milk 93%, meat products 27%, and root crops 8%.

And notwithstanding import controls, which parenthetically were prematurely relaxed in the first semester of 1951, we still are importing from the United States most of our consumption goods, to the tune of 341 million dollars (U.S. Currency) while our exports to the United States amounted only to 257 million dollars (U.S. Currency), of which not less than 50% are in the free list of the Tariff Act of the United

States, and only the balance is protected by our Trade Agreement.

There is no doubt that import control has stimulated the creation of new industries in the Philippines. After parity rights had been granted to Americans, necessitating the amendment of our Constitution, on the great expectation that the same would precipitate an influx of American capital to the Philippines, the country for nearly four years had to wait in vain. After vainly waiting for the much promised capital, we had come to realize finally that the best way to attract American capital to the Philippines is to make it difficult for American products to enter this country. This has only been possible with import controls.

New Private Industries

As a result of the protection extended by the controls, private initiative has been able to embark into the following industries:

One oil refinery with a capacity of 13,000 barrels a day to be put up by Caltex expected to be in operation by the middle of 1954;

Three bottle factories;

Twenty-seven companies producing aluminum, enamel and its allied products, including the manufacture of kettles, cooking pots, cooking utensils, casseroles, tin plates, covers, bottles, caps, household utensils, etc.;

Five industries producing chemical products, including sulphuric acid, caustic soda, superphosphate and other chemicals;

Six industries producing medical and allied products, including the production of machineless pads, beauty parlour products, etc.;

Fifteen factories producing knitted goods of rayon and cotton;

Six industries processing and manufacturing fibre products, including jute and ramie fibres;

Twelve factories producing food products like seasoning powder, jam, ham, sausages, packing of coffee, meat packing, canning of fish, imitation catsup;

Nine industries engaged in mine products like barites, gypsum, petroleum or carbon gas, refining of lubrication oil, wet lime, and agricultural lime;

Thirteen industries processing wood and bamboo, including two companies for the manufacture of pulp and paper, and various companies manufacturing plywood, wallboard, corrugated and carton containers, toys, plain ground equipment, tooth picks, wooden ice cream spoons;

Twelve industries producing phonograph, radio and allied products, including pianos and organs, fuses, radio sets, phonograph records, radio receivers and amplifiers;

Ten companies producing plastic and rubber products, including the manufacture of plastic and other household utensils, auto tyres, silk, etc.;

Many companies manufacturing poultry feeds and one institute manufacturing poultry vaccines;

Forty-six industries producing steel and its allied products, like steel bars, nails, wires, pipes, steel cabinets, lockers, etc.; and

Thirty-nine other miscellaneous industries manufacturing fish nets, zippers, typewriter ribbons, stencils and carbon papers, glue, sipping straws, lead pencils, asbestos, cement, fire bricks, athletic goods, chalks, paints, jute cuttings, ribbons, flue curing and drying of virginia leaf tobacco, glass bottles, etc.

Government Direct Participation

It will be noted that private initiative, with very few exceptions, has not gone into heavy and basic industries. This field, apparently, will need direct government participation. The Government although with some delays, is now doing a grand job in hydroelectric projects, and a few big industries, as follows:

Lumot River Diversion Project.—Cost 4,633,782 pesos[1]—Completed on 10 May 1951—It has provided the City of Manila and environs no less than 50 million KWH additional energy, with the construction of additional water storage to prime *Caliraya* plant fourth 10,000 KVA generating unit. Gross income is 780,000 pesos—Expenses 380,000 pesos—net profit 400,000 pesos.

Maria Cristina Hydro and Fertilizer Plant Proper.—Revised estimate 19 million pesos.

The Maria Cristina hydroelectric project is the cheapest of a series of seven plants that could be put up along the Agus River from Lake Lanao to the sea for the fullest utilization of the power resources in this basin. A comprehensive study of the over-all development has shown that a total capacity of 736,000 KW could be put up in this river with an annual output of 4,895 million KWH.

It was decided to start with a 25,000 KW hydroelectric development together with a 50,000 metric ton ammonium sulphate plant which would consume a major portion of the power to be generated by the hydro unit.

When completed, the combined hydroelectric-fertilizer project is expected to net a profit of 3.8 million pesos annually, from gross revenue of 9.9 million pesos and expenses of 6.1 million pesos.

Iligan Steel Mill.—Revised estimate 7 million pesos. Machineries

[1] 1 peso=0.5 U.S. Dollar.

already ordered. Expected to be completed October 1953. Using also hydroelectric power from Maria Cristina, it will have an annual capacity of 18,000 tons of steel. Award for furnishing the electric furnace was made after public bidding to the Pittsburg Lectromelt Furnace Corporation, Pittsburgh, Pennsylvania, in the amount of about 300,000 pesos. Delivery of the furnace is scheduled before June, 1952. Award for the manufacture of the major steel machineries was made also after public bidding to Hydropress, Inc. of New York City in the amount of about 3 million pesos. Delivery of the machinery is expected by December, 1952. Actual deliveries may, however, be delayed in view of the difficulty of securing priority rating in the United States resulting from the heightened preparations in that country. The Philippine Government, however, has made strong representations to facilitate early delivery of the needed machineries.

Ambuklao Hydroelectric Project.—Revised estimate 101 million pesos. Only about 5% of the project is completed. Expected for completion in December, 1954. By far the most ambitious hydro project consisting of three units with a total capacity of 75,000 KW. This is the first step towards the possible development of the Agno River, that could provide a grand total of 430,000 KW, to serve Northern Luzon from Baguio to Manila. (Baguio is a mining area and the summer resort of the Philippines).

Expected gross annual income is eight million pesos. Expected profits one million and a half.

Three Ocean-Going Vessels with a Combined Gross Tonnage of 22,065. Constructed in Japan.—Already completed and in operation at a total cost of 14.5 million pesos.

National Development Company.—2.5 million pesos to partly finance four projects, namely, the rehabilitation of the Government Machine Shops at Engineer Islands, the rehabilitation of the Malangas Coal Mines, and the construction of a nail plant and pulp mill. Malangas Coal, we hope, will play a very important role in the future industrial development of the Philippines.

Narvacan Spinning Mills.—Already completed at a cost of 2.7 million pesos with a capacity of 10,000 lbs. a day working three shifts. They are built with secondhand Japanese spinning mills.

Mariveles Shipyard.—Revised estimate 16 million pesos. The most important feature of the project is the graving dock with capacity for boats of 7,000 tons. Attached to it are shops that could undertake heavy machinery construction, using many of the units of reparations equipment received as Interim Reparations from Japan.

Large Scale Mechanized Farming in Mindanao.—13.2 million pesos. Project fully organized April 1949. Covering a rice project of 5,000 hectares in Mindanao (Ala Valley and Bukidnon), fully mechanized. 1950 crop was 65,937 cavanes of palay at a cost of 9.18 pesos each. 1951 crop was 92,794 cavanes of palay at a cost of 9.35 pesos each.

Ten Locomotives for the Manila Railroad Co.—1.98 million pesos. These were purchased from Japan.

Irrigation Projects.—11 million poses—These projects are the result for economic development to be made by this government financial institution.

Irrigation Projects.—11 million pesos—These projects are the result of a series of studies and surveys, approved by the National Economic Council, and they have been gradually and slowly pushed through since 1949.

The Rehabilitation Finance Corporation.—This government financial institution has been instrumental, by means of long term loans, in pushing through our economic development. Outstanding loans granted by this government instrumentality to the different sectors, are as follows:

	(*In pesos*)
For Industries . . .	113,779,000
For Agriculture—	
To abaca	7,000,000
To sugar	38,800,000
To Utilities—	
Serving industries . .	12,582,000
For Mining	6,348,000
For Deep Sea Fishing . .	902,000

Programmes for the Future

We must continue our industrialization programme at a higher tempo especially in the sector of basic industries. Because these basic industries require a big amount of capital, the Government will have to initiate most of them in the immediate future. The Industrial Technical Committee of the Office of the Economic Coordination has studied a two-year basic industrial development plan to be undertaken by government corporations, to consist of the following:

Projects	*Estimated Investment* (In pesos)
Hydroelectric plants	18 million
Steam plants	2 „
Iron smelting and steel plant	40 „
Copper smelting and refinery	15 „
Ferro-alloy plant	14 „
Malangas coal development	2 „
Ammonium nitrate plant	18 „
Industrial explosives plant	3 „
Rayon plant processing sugar cane Bagasse	24 „
Wallboard plant using coconut husks ..	4 „
Miscellaneous heavy & light chemicals ..	8 „
Irrigation and flood control	12 „
Total ..	160 „

It is estimated that these projects will contribute a gross national production of 59.4 million pesos annually. This will be the new added direct wealth that the country will realize every year, without considering the favourable chain reaction that they will generate. They also have in common the fact that they will be using our natural resources and local raw materials and not imported raw materials.

The emphasis of our economic mobilization should be to increase our national production for local consumption rather than for exports, utilizing as much as possible our natural resources and raw materials. As of June, 1951, the price index of Philippine exports increased by only 89%, while the price index of commodities that we had to import increased by 133%, both compared to 1937 prices. It will be noted that the increase in price of Philippine imports is nearly double the price of domestic exports and that our local market is more profitable than our export market. Moreover, the competitive position of the Philippines in the world markets is not favourable, due to the following combination of factors:

Being an underdeveloped country, we have a minimum wage law even for agriculture, and our people educated in the American way of life, refuse to work as hard as their neighbours in East Asia, and yet cannot count on the labour-saving devices and do not have the benefit of the low cost of power prevailing in the United States. In other words, we do not have the efficiency of the American producer—nor are we prepared to compete in hard labour with our neighbours. Thus, we can neither compete in America nor with Americans, nor can

we compete in East Asia, nor with our co-Asians. Add to this the fact that our currency is pegged to the dollar at a very artificial high rate of two pesos for one dollar and we can see how difficult it is for the Filipino exporter to attempt to compete in America and in the world markets. It is true that the Philippines, being a tropical country, has a natural advantage over the United States in the production of a few agricultural products, but this, I believe, is limited to the production of abaca and copra. But even copra from which coconut oil is derived is being subjected in the United States to the strong competition of such products as other vegetable oils and detergents. Natural rubber, not a major crop in the Philippines, is being replaced by artificial rubber which in several respects is of better quality. The cost of production of sugar cane in many districts in the Philippines is higher than in Hawaii and Louisiana. Again the cost of production of rice in the Philippines is higher than in the mechanized rice farms of the United States. Thus, with farm mechanization and more scientific farming and the discovery of new products and substitutes, the natural advantage which tropical countries had in the production of tropical products has been greatly limited. And needless to say, because of the factors already enumerated and our high cost of living, Philippine copra does not compete with Ceylon or Indonesian copra. And if we can export Philippine sugar to Japan, it is because Indonesia's sugar industry is temporarily out of commission.

Thus, the future of Philippine economic development does not lie in the export market, but rather in the local market which could be many times expanded by increasing the standard of living of the people. Our local market is not a small one, considering our population of 20 million people.

The clamour not only for industrialization but for rapid industrialization is increasing among our economists and industrial leaders. In a recent speech, Mr. Bernardo Abrera, General Manager of the National Shipyard and Steel Corporation, one of the government corporations, expressed the views of many of us when he said:

> Unless redundant agricultural labour and the phenomenon of chronic under-employment is solved, the continuous growth of rural population will steadily increase year by year and as a result living standards will steadily deteriorate. Agriculture cannot possibly provide employment for a growing population except at a steady decreasing standard of living. Industry is the only outlet for this steadily growing population and places a technological function deterrent in its growth under certain conditions. This general statement may be made thus: Population grows in geometric progression. Land area cultivation increases in arithmetical ratio.

> Industry increases productivity almost in logarithmic fashion or proportion. The resulting ratios against population are self-evident, viz: a continually decreasing standard of living in an agricultural economy and a progressively rising STANDARD OF LIVING IN AN INDUSTRIAL ECONOMY; AND CONSEQUENTLY SINCE BOTH FIELDS OF ENDEAVOUR are complementary to each other for a balanced economy, both must necessarily be developed in parallel. Like the tract of a railroad, agriculture is one side of the tract and industry the other.

And still further on, he rounded his thoughts, as follows:

> In this thesis, I propose rapid industrialization because where industrialization process is slow it may take a long time, if not become impossible, for the country to free itself from population pressure. An increase in population may swallow up the increase of productivity resulting from industrialization and will require the available capital to be spread more thinly. This will have a depressing effect upon the rate of capital accumulation (which is one of our most serious problems today) and making savings impossible for most families. On the other hand where the process of industrialization is rapid in the basic industries, it can be predicted that there will be a substantial rise in real incomes. The higher incomes are likely to increase the rate of capital formation by encouraging larger savings.

Indeed, today, we are no longer envisioning a half-hearted industrial development, made up mostly of light industries. Our industrial development must be based on the full exploitation of our iron, manganese, chrome, coal and other mineral resources coupled with cheap hydro-electric power, for we realize that we must have in the Philippines the major basic and chemical industries. Anything less would not do justice to the programme of total economic mobilization launched by our President, and the great natural resources that we have been endowed with by Providence.

Dr. Roland R. Renne, Chief of the ECA Philippine Mission, in a study entitled 'A Master Plan for Industrializing the Philippines' states that—

> .....the country is reasonably well off with regard to (1) potential sources of power, (2) iron, (3) copper, (4) manganese and chrome, (5) acids and bases, (6) sulphur and (7) non-metallic minerals. It is obvious also that the country is deficient in many, many important metals and minerals that are essential for the development of a balanced heavy industry economy (but not in coal).[2] This being so, it would seem, at this stage at least, that

[2] Words in parenthesis are mine.

> the country should proceed along a pattern that takes advantage of what at present is known to be available in substantial to large amounts. In other words, development should proceed along a path of limited industrialization, exploiting the surplus mineral potentialities, the lumber potentialities, and the commercial crop potentialities in agriculture.

He, however, admits that—

> Some of the specialized fields for intense development in the Philippines could be: Hydro-electric and coal-steam power, the essential basis for industry; iron and steel, limited to a few specialized lines at least, in the beginning; cement manufacture, for local needs, and also for export; nitrogen and cyanamide fertilizer manufacture, for local needs, as well as for export; processing of forestry products especially for export; and manufacture of non-metallic mineral products, including ceramics (dishware, tiles of all kinds, etc.) and stone products.

We are also advised that—

> In the initial master programme, possibly a ten-year programme, no project should be tolerated which does not have for its primary purpose the use of indigenous raw materials, or that does not involve the mechanization and improved production and refinement of these raw materials.

Much as this last suggestion could be accepted as a general policy, it should, however, give way to possible deviations as in the following cases:

Even though crude oil will have to be imported by the Caltex people for their oil refinery soon to be constructed in Batangas, the country will save in foreign exchange about 70% of the value of the finished products that would otherwise be imported and thus the project is very meritorous.

Again, several jute weaving plants are already in operation, and more are being contemplated in the near future. While our kenaf production is in the stage of development, we will have to continue importing jute from Pakistan, saving about 50% in dollar exchange by importing the raw material rather than the finished product. It will be easier to encourage the production of kenaf if our planters are assured a local market rather than if they have only to depend on the uncertainties of the world markets.

The Problem of Financing

The primary problem in this vast effort of total economic mobilization is that of financing. Some of it can be raised by additional

taxation and some by a system of compulsory savings. Some of us believe that taxes could be imposed on agricultural commodities that would be absorbed by the middlemen. Perhaps a special tax can be imposed upon certain specific crops especially earmarked for the further development of those particular crops. Perhaps the experiment initiated by the chartering of the Philippine Sugar Institute (PHILSUGIN) which is financed by a special tax imposed upon the sugar industry, can be repeated for the promotion of the rice and corn industries, our coconut industry, our abaca industry, and our tobacco industry. A substantial portion of our financial problem might be cleared up with the help that we are at present receiving from the United States through ECA. But we know now that the rate of assistance that the United States is willing to grant us is not sufficiently ample and effective to answer for all of our pressing needs.

But, by and large, our Government and people will not be in a position to solve the financing problem effectively without using our national credit and accepting deficit spending as a major factor to bring about our economic development. This we have already undertaken with the 200 million pesos bond issue authorized in the charter of the Central Bank, thanks to which a good beginning has been accomplished in President Quirino's programme for total economic mobilization.

We will have to adjust our economic thinking to that of the 'new economics' of Lord Keynes. The principles of the new economics have been tested and found valid in the most expensive of laboratories—the last war. For in the last war, we saw the Government of the United States sinking more than four hundred billion dollars worth of commodities and human labour in the world's battlefields, on land, water and air, only to find herself after the war enjoying the greatest prosperity and the greatest general well-being in her whole history. Now, then, if expenditures by the Government of the United States had such a stimulating good effect, even if these expenditures had all gone to waste, how much more stimulating to the general well-being would be a bold programme of productive government expenditures!

Selective Free Trade with the United States

And now two years since the beginning of the second period provided in the Trade Agreement with the United States which is scheduled to start the liquidation period of our export industries to the United States, our Government will have to obtain either revision of the Trade Agreement, or find itself faced with greater economic difficulties. And it is now a matter of serious concern to our Government that the rehabilitation of our export industries fostered by the Trade

Agreement will probably reach, in 1954, the maximum quotas allowed in the said agreement, coincidentally at a time when the United States tariff duties and declining free quotas will begin to apply on our exports to the United States.

American economists and statesmen have admitted the need of providing for a transition period prior to the total abrogation of free trade between the Philippines and the United States. The Independence Act of 1933, as well as the Trade Agreement of 1946 between our two countries has tried to solve the problem by providing a transition made up of two periods, one of total free trade, thus continuing our previous free trade colonial economy of more than 30 years before the war, to be followed by another period of diminishing preferences, both ways, which is a period of slow strangulation for industries dependent on free trade. We need ample time to increase our production and create a more diversified economy not only to replace the industries that will be destroyed with the termination of free trade but also to increase our standard of living. In the Philippines, it is now generally realized by our leaders in the Government and in industry that the proper solution is to provide a period of selective free trade, both ways, as a transition to the cessation of total free trade. By selective free trade, we mean free trade limited to a few categories of commodities, both ways. With selective free trade, the Philippines and the United States would be able to maintain for the balance of the transition period of 20 years, their present volume of trade, with this difference. While the Philippines will be exporting practically the same kinds of commodities as at present, which are dependent on free trade, the categories of United States exports to the Philippines would change from consumption goods to capital goods. Thus selective free trade would achieve two good purposes—it would maintain valuable existing trade, and it would allow the Philippines to change her economy from a colonial to a more diversified economy.

It is hoped that in the revision of this present trade agreement, the United States will realize that the Philippines needs her help in trade and privileges, at a time when she is not herself in a position to give full reciprocity. As very well stated by Prof. Harris of Harvard University:

> Americans will have to learn that the balance of payments will not be in equilibrium until this country accepts a weakening of her competitive position vis-a-vis the rest of the world and, therefore, a rise in the level of imports relative to exports.

Even as England in 1840, then the leading industrial country, stimulated prosperity throughout the world by unilaterally allowing free im-

ports, without demanding from other countries less developed at that time, like the United States, France, and Germany, to reduce their tariffs, today the United States, the leading industrial country, would do well to lower its duties substantially and even to have free import trade without demanding reciprocal concessions from the rest of the world. It seems to me that the economic problems of the world will not be solved with a universal application of the formula of free trade but with the application of a formula of diminishing protection for the industries of a country in inverse proportion to her economic development.

Our accomplishments so far are indeed not in line with the magnitude of the problem facing the Philippines in developing a more abundant economy. The need to solve social difficulties deeply rooted in our past, to reduce unemployment and to increase our standard of living should alert us to the need for firm decisions to carry out a bold programme of social change and economic progress.

We need an agency at cabinet level to exercise centralized direction and control over the country's economic forces, an Economic Mobilization Board that will plan and implement the slogan of our President for total economic mobilization, say, a five-year programme synchronized with MSA assistance, Japanese reparations, if any, and import controls, coordinating public participation with private initiative, agricultural progress with industrial progress, higher wages and social reforms with increased production.

CHAPTER XIV

ECONOMIC PROBLEMS IN INDONESIA AND OUR WAY OUT

By DR. SUMITRO DJOJOHADIKUSUMO

I. THE OVERALL PICTURE

THIS is an effort to appraise the present situation, subsequently to project it into a perspective of the future. I will refrain from a mere statistical treatise on the different aspects of today's economy. Rather, it is an interpretation with due account to prevailing facts and figures. In view of the diverse complexities of problems and conflicting reports pertaining to present-day Indonesia, I feel that there is need for a realistic appraisal in which we see trends and figures in their true proportions.

There are those who, looking exclusively from the point of view of the balance of payments, are inclined to hold that the economy of this country is well on its way towards advancement. Referring to the balance of payments at the end of 1950, the improvement is indeed striking.

It should be recalled that only nine months ago we did not know how to get the wherewithal to meet our obligations, yet, we entered the new year with a slight surplus in our balance of payments. From the short-term point of view, there is no indication that this increase will soon vanish in the near future. Where the countries of Western Europe are still suffering from inherent dollar-shortages, the dollar-sphere can be named as the best of our currency-areas. For various reasons the guilder-area is the weakest point in our currency position. On the other hand, the increase of our export values is such that our proceeds of non-guilder currencies enable us to sufficiently cover our guilder deficits. No difficulty was experienced in selling our primary produce.

An opposite view is being held by those who base their judgement almost exclusively on existing huge budget-deficits, fearsome amount of money in circulation, inflationary dangers with domestic prices skyrocketing, decreasing productivity with labour strikes as the order of the day; there are numerous non-economic factors in addition, such as grave deterioration of internal security, lack of moral and material authority of the central Government, traces of anti-foreign feelings, inefficiency of the Government machinery, corruption and inexperience.

This latter category of people is completely discouraged. It embraces both foreigners as well as Indonesians. Whatever hope they

had, they have lost it. Whatever concept of the future or whatever sense of imagination they may have had, they see no perspective any more.

They see Indonesia moving along a downward spiral of which the end is not in sight, under circumstances where time is rapidly running out. Neither of the two pictures given above presents, of course, the complete truth.

Those who contend that Indonesia's progress is an established fact are optimistic without adequate justification. It is equally true, however, that the dark and sombre views of the pessimists cannot be considered as well-founded.

Let us try then to approach our problems in a realistic manner, giving due credit to all factors involved.

The present situation is neither unequivocally good nor is it hopeless. Difficulties there are many, some of them of a grave nature. But I venture to say that they are not insuperable. I sincerely believe that we will manage to overcome them, that we will be able to pull through. Judging from mere figures, our balance of payments is far from unfavourable. At least, we will be able to meet our obligations in terms of debt-services and invisibles. By the same token, we may theoretically be able to supply our people with a reasonable flow of needed goods; we are able to allocate the required amount of foreign exchange pertinent to a reasonable quantity of imports.

However, looking more closely at the actual world situation in which we find ourselves today, such would be a hasty and erroneous conclusion. It is well to realize that the high level of world market prices for basic commodities (still the main basis of our economy) is being accompanied by an equally sustained high price-level of manufactured goods. Moreover, it is subject to doubt whether we can get in adequate quantities the goods required for the rehabilitation and the upkeep of our domestic economy. Already difficulties in maintaining a sufficient flow of goods have caused an upward trend in domestic prices. Furthermore, how long will these profitable prices for raw materials continue?

A country such as ours, with an economy still dependent on a relatively small number of export-goods, is highly sensitive to the fluctuations of world markets. We owe the improvement of our balance of payments to a great extent to factors beyond our own control. What if sooner or later the tide turns? Shall we be able to keep up a good fight for our markets? It would be a dangerous thing if in our efforts to safeguard, let alone improve, the standard of living, we are at the mercy of our export-markets.

Foremost in our minds, therefore, is the question of production and its organization. All these are matters to be considered when we want to use the balance of payments as an indicator for the state of our economy. In making a prognosis on the basis of present and anticipated figures of our balance of payments, it is well to proceed cautiously.

On the other hand, we refuse to accept the defeatism prevalent among a number of people, who see no way out of their day-to-day troubles. Throwing up their hands in despair, they let themselves drift and allow a dangerous mood to take the upper hand. I exclude the minority, which derives a certain kind of joy from the bad aspects of present conditions; in these circles, with a hardly controlled and morbid sense of satisfaction, word is privately being passed 'I told you so'.

Certainly, the picture as presented by budget-deficits, great amount of money in circulation, low productivity, frequency of labour-strikes, growing insecurity, is not an encouraging one.

Let us face it squarely. Even a cursory glance makes one fully realize that the job to be done is a most difficult one. Far be it from me to give a rosy interpretation of the hard facts and figures that we have before us. I could myself name numerous other factors which would darken the picture even more. I am a daily witness to the sad reality of a lack of 'managerial skill,' both within the administration as well as among private Indonesian business. I am painfully aware of the slackness and slowness of the government machinery; in addition to the usual kind of bureaucracy that one finds everywhere in government, there are only a small number of administrators able to combine experience with bold imagination and decisive action, badly required by the present situation. Worse even is the lack of follow-up people in the middle ranks.

I am also conscious of the ever-present danger of corruption, mainly due to enduring hardships which the ordinary civil servants have to face. They can hardly meet the minimum requirements of daily life. Nor do I wish to conceal that the masses in the rural areas are getting restive. Outside the cities dissatisfaction prevails. They were, in the past, brought up under the impression that freedom would bring them the moon—now they ask for the moon.

They do not comprehend why things have remained as they are. The youth find it difficult to adjust themselves. Quite a few have become disappointed and pose the question: 'What did we fight for?' Having been used to handling a rifle, they resort to it too easily when they do not get what they want soon enough.

Too many don't realize that years of Japanese occupation, internal strife, two military actions, disruption of productive output, disintegra-

tion of authority, social dislocations and all that these things entail, cannot fail to leave their effects for years and years to come.

I am not blind to all such things; at times they are quite disheartening. But by the same token I have come to the conclusion that there definitely are bridgeheads — from which we can meet the challenge of the situation with more than a fair chance of success. The past seven months after the inception of the Unitary State have been a tedious period, both as to economic problems as well as other issues. In spite of difficulties and disappointments, we could observe a dogged determination among many groups in all sections, not only to prevent disintegration, but to make and do things with fervour and zeal.

There is a continuous process of destruction as well as of growth. To the superficial onlooker the constructive forces have hitherto been overshadowed by the elements of disruption. They have not come sufficiently to the fore to catch the imaginative eye. But they are there just the same.

Close observation and analysis of the experience of the past half year seems to warrant the conclusion that the Government was on the right track when in September of 1951 in its statement before Parliament, the main accent of its economic policy was stressed on organizing the economic strength of the small producers. It boils down to giving highest priority to stimulating and organizing the productive activities in rural areas. This equally and simultaneously refers to the agricultural as well as the industrial field. The majority, by far, of our population comprise small producers, foodcrop-peasants, growers of rubber, copra, etc., as well as people engaged in small-scale industries.

The key to the manifold problems of Indonesia lies in the extent to which we will succeed in what we may call our 'community approach in rural development.' The plight of the small producers is indeed something to think about. Even with booming prices for our basic commodities, the producers only receive a small fraction of the total proceeds. The bulk goes to commercial houses in the big cities or to middlemen, collecting the produce. In small-scale industries aspects of organization are even more important than the mere technical process of production.

Improvement of transportation and communications, engineering works, specific projects such as those submitted to the Eximbank, modernizing industrial equipment of large-scale units, are necessary conditions; but they should be regarded as supporting elements to productive activities connected with rural development. They should be planned and implemented within the framework of increasing the economic strength of small producers.

Should we lose sight of this fundamental principle, there would be the danger that too much attention would be focussed on setting up large-scale units and big factories as projects in themselves. While giving urban centres a modern industrial outlook, it would leave the plight of the small producer in the same state, if not worse. Ultimately, it would bring about inevitable social dislocations and unrest which in turn would turn loose forces disruptive of the economy of the country as a whole.

With this fundamental concept in mind we have gone ahead with our programme for economic development of the rural areas. This stage was primarily an experimental one. We continuously had to keep in mind that failures of some importance would create disappointments with more than ordinary consequences. Reorganization of extension services was implemented with a view to rendering State credit facilities for village cooperatives as well as for cooperatives on a higher level. Credits were actually granted in various areas covering both farmer's as well as industrial cooperatives. The farmer's cooperatives considered eligible included rice-growers as well as other producers. Activities in the field of growers of tobacco, sugar, kapok, copra and of rural industries have been intensified. Industrial centres for finishing processes have been established with Government's help, both technical as well as financial.

The transition of former village credit banks into village credit cooperatives has been implemented in certain parts of Indonesia, e.g. in West Java, Central Java and in some areas of the other islands. The channels and methods of rendering credit and other aid to cooperative associations are getting organized. For the purpose of credit aid, a central credit foundation is already at work. It is the ultimate aim that after a certain number of years this central credit foundation, now still under the direct supervision of the Ministry of Commerce & Industry, will be transformed into an autonomous central cooperative credit bank, servicing the village and other cooperative associations, for which the spade work is now being done.

In the meantime, we have worked on our short-term economic plan*. This plan covers a period of two years. It includes a programme for intensified development of cooperatives, sponsoring and strengthening organizations and associations of small and middle-class business enterprises, and also our industrial programme. In the industrial programme emphasis is laid on the development of small-scale industries. It will be the foundation for the future long-term industrialization and economic development of Indonesia.

* See below, 'The Industrialization of Indonesia.'

Apart from strengthening the bargaining power of the producers in the small-scale industries there is the very important consideration that sound small-scale industries as a source of steady employment and income will to a considerable extent alleviate the burden of 'disguised unemployment', which is rampant especially in the agricultural areas in Java. It can furthermore mean a source which would attract former guerillas and demobilized men who, for lack of constructive work, up till now have very often disrupted law and order by roaming about the country. In this industrial programme are also included a number of large-scale industries.

But, as I stressed before, the idea is that the large-scale industries function as a supporting element to facilitate and strengthen the development of domestic rural industries. We have included in the short-term programme those large industries which can be started and made ready for operation within a period of two years. In the meantime we will continue with projects of other industries, which for technical reasons can only be set up in large units and which require a much longer period as to implementation and putting into operational stage. Some of them will require four to five years, or even more, before they will reach the stage of completion.

I mention the above as a concretization of the underlying principles which guide us in our economic policy. To my mind, the implementation of those principles forms the only solution for the economic impasse, which our country now faces in more than one respect.

I should however like to draw attention to one striking feature. We fully realize that we have drawn up our short-term plan for economic reconstruction in a rather unorthodox way. Usually, a government or a country starts to draw up a plan for a rather long term, covering a period of five years, for instance, or even several five-year periods. However, in view of the particular situation we decided under the circumstances that it would not get us one step further.

On the basis of 'first things first,' considerations of expediency had to be given priority. From an overall point of view, we decided to start immediately with drafting a programme the implementation of which will enable us to prevent further disintegration, and subsequently to achieve a satisfactory degree of stability. Only then can we have a foundation upon which to build our long-term plans for further economic development. It is in this light that the short-term economic programme should be regarded. Allowance must be given for some flexibility in the programme itself. It needs polishing, alterations and, if necessary, deviations must be possible as we go along and gain experience during the actual implementation.

The problem of obtaining goods for domestic economy is a matter of concern. We are for the greater part dependent on imports from abroad, both in the consumptive sector as well as for raw materials for our domestic industries. It is realized that, in view of the international situation, more difficulties will have to be faced in this respect. The possibility to get goods is one of the determinants to soften inflationary trends caused by money in circulation in the domestic sphere. This aspect of our economy is the principal consideration which guides us in our policy on foreign trade.

It is all very well to speak of untenably high prices of raw materials in the world markets, but it only gives one side of the picture. I would like to stress that the benefits assuredly gained by producers of primary produce are only of relative importance. The producers are largely dependent for the supply of their daily requirements on manufactured goods of the industrial countries. This certainly is true in the case of Indonesia. The price-trends of manufactured goods for which the proceeds of our commodities are being spent have shown a similar increase at the same rate.

In addition, manufactured goods have become more and more difficult to obtain as a result of various kinds of restrictions. It does not seem quite fair, therefore, to demand the establishment of controls on production, exports and prices of raw materials only, while no provisions whatever are contemplated to safeguard the domestic economies of producers' countries from falling to pieces.

In more than one respect our budget position gives cause for apprehension. But again, it would be a grave error to base a judgement on the state and prospects of our economy, almost exclusively on figures of the budget. In so doing we would erroneously apply an utterly static criterion to the dynamics of economic life.

While it is of urgent necessity that we drastically cut down many unjustifiable expenditures, we should not give the (obsolete) concept of a 'balanced budget' the meaning of a 'deus ex machina' which would save us from all economic evils. That might only give disastrous effects. It would inevitably decrease initiative (now more needed than ever), eliminate perspective and banish all hope by sacrificing economic possibilities for the sake of balancing static figures. It would not help us in getting over the many 'humps' that we have now before us. Looking at the objective possibilities and potentialities, a policy of budget deficits during the next number of years is justified, as long as everything is being done to enable economic life in general and productive activity in particular to gain momentum again.

A word about labour-problems and the wave of strikes that has been

going on until recently. It is a matter of life and death to keep production going in Indonesia. It implies that, in the overall interest of the country, it is our first duty to maintain and safeguard the productive sources now available to our community. For this purpose, the organization of production should be adjusted to make equitable distribution possible.

But it stands to reason that before we can even start the process of distribution, we must at least have something that can be distributed at all. In other words it is a matter of *produce or perish.* Actually, the two desiderata — production and equitable distribution of the national income — are not inconsistent with each other; they are two aspects of the same problem and objective.

It would, therefore, be disastrous to allow available productive sources to be hampered and disrupted just for the sake of agitation, slogans and false popularity. It may seem brave to scream at 'foreign interests' and to demand their confiscation or even destruction. Should we be tempted to give in to such tendencies, where would the interests of the common people come into the picture?

There would hardly be anything left to meet their basic material needs. After these years of hardships, it would mean to them an additional burden; their suffering would be beyond imagination. No responsible Government would ever allow such a thing to happen. I would like to submit that in many instances the demand for wage-increases have real economic justification, as a result of the increased costs of living. But the problem will not be solved by resorting to increased money wages as such. If not followed up or accompanied by an increase in productive output, the community would be even worse off; soon enough will we find ourselves in the maelstrom of a vicious circle of inflationary trends, because of the greater flow of money amongst the social groups.

Furthermore, we are faced with the hard fact that the national output of the country is still considerably less than before the war. Accordingly, it is unavoidable that for a number of years we have to go through a process during which the community as a whole has to be content with less than would be possible under normal conditions. Up till now, it has been the group of peasants and small producers who suffered most from decreased productive output.

Last but not least, it became increasingly clear that a certain pattern was discernible in the frequency and methods of numerous strikes. It was obvious that to a large extent strikes were called, not in the interests of the workers concerned, but as a political weapon of certain groups; not with the objective to improve actual conditions for the common

people, but to make matters difficult for the Government, any government for that matter. A strategy is being carried out to disrupt production and thereby the economic basis of the country.

According to well prepared plans, political capital is being made out of bad economic and social conditions, not with the interests of the Indonesians at heart, but solely for reasons alien to Indonesia and its people.

It is a mere truism to say that our ability and possibility to pursue an independent policy in foreign affairs (because of our conviction that such will be to the best interests of Indonesia) bears a direct relation to our ability to get things internally under control. In other words, with our ability to ensure production and, consequently, achieve economic as well as political stability.

Lack of 'managerial skill' applies equally to the administration as to private business. Even the dyed-in-the-wool chauvinist must have realized by now that more important than potential wealth of a country is the power to create wealth and transform the potentialities into realities. Our best plans will remain paperwork, unless we have people to carry them out.

It is here that the various technical assistance programmes as envisaged by agencies of the United Nations, the United States and by the Colombo Plan can prove of invaluable aid to implement the programmes that we projected for our economic reconstruction. It is necessary, however, that a great deal more coordination be achieved amongst afore-mentioned agencies themselves. Because of the various and diverse proposals, suggestions, overlapping, crosswiring by those agencies, such lack of coordination tends to create a dangerous kind of confusion amongst our own people that should not be underestimated in its consequences. Secondly, the kind of aid—both material as well as in terms of technical experts—should be completely geared to the plans and programmes as formulated by the Government of the areas involved.

As far as Indonesia is concerned, it boils down to strengthening and improving the extension services, setting up training-centres, teaching the people in the field how to do the job. It means aid to put the deplorable state of our laboratories on their feet again, to set up and implement pilot-projects in the agricultural as well as in the industrial sectors. On the whole, the dominant issue in Indonesia is the problem of training and educating the people for the purpose of obtaining the required managerial skill—training in the fields of administration, commerce, finance, economic field work, engineering, and an endless number of other sections.

On our part, we have gone ahead with our work in getting trained people. Some months ago, we have formally opened our Graduate School of Business Administration where theoretical study is being combined with actual practice. The courses are given during the evening hours, as almost all students work during the daytime either in private business or in government-agencies.

Before long, courses will be opened for civil servants, engaged in industrial extension services. They are meant to improve the quality of consultants to small industries in the rural areas. As to our extension services for development of co-operatives, we are ready to open a similar course. Moreover, we are sending out young people to get training abroad during a period of approximately two years. A beginning has been made with the first group. They will be stationed with our missions in various countries. They will be trained under the supervision of qualified Trade Commissioners, chiefs of economic sections of embassies, technical experts working in our missions and so on. It will also be necessary to send more groups abroad to get them placed in foreign banks, commercial houses, economic organizations, so they can get a thorough practical training in the day-to-day work of the organizations and learn their business right from the start.

It is in this way, added with technical assistance that we hope will be provided, that we try to solve the problem of trained people. It would be foolish to assume, as is being actually done in certain quarters, that we can do without technical experts from abroad. We have to bring them in, either through the technical assistance programmes, or at our own initiative, or both. The success of our economic plans is greatly dependent on the degree in which we can increase within the shortest possible time both the quality and the number of the people that must do the job.

We will encounter numerous disappointments and discouragements, but we will face them with our eyes wide open.

The job ahead is more than tough—but it can be done: it is a matter of 'never say die.'

In addition to the above-mentioned factors, there is unequal distribution of the population among the various regions of Indonesia. We have the disproportionate density of population in Java, and on the other hand the shortage of manpower in areas outside Java, with the consequence that the economic potentialities cannot be fully utilized.

Another factor is that of lack of 'managerial skill' which I have already mentioned above. By pointing out these basic defects inherent in our economic structure, it has become clear in which direction we should go in order to extricate ourselves out of the present economic morass.

Whether we like it or not, the following problems should be tackled forthwith if we want to change our economic structure.

1. (*a*) Balanced economy and the broadening of the foundation of the economic structure.
   (*b*) An increase of production and of national income and purchasing power of the majority of the people.
   (*c*) Mitigation of the burden of 'disguised unemployment.'
2. Migration. This in the first place to lessen the population pressure of Java. The scheme of migration should form an integral part of the plans of industrialization and others.
3. To fill up the lack of 'managerial skill' which directly affects the nature of the aims of education.
4. The coordination of the economic activities of the people, especially as mentioned in the overall picture, and the development of rural areas.

II. THE FOOD PROBLEM

A. *Food*

In the field of food, production has already reached the pre-war level. The average annual output of rice between 1935 and 1939 was 6,400,000 tons. In 1950 the rice production in Indonesia amounted to 6,300,000 tons while the 1951 index has already surpassed somewhat the pre-war level of production. However we should take into account the increase of population from 66.7 million before the war to about 76-77 million at present. The available quantity of rice per capita is thus less at present compared to pre-war. Before the war the available quantity of rice per head was 90 kilograms per year, while the average need per person was 82 kilograms per year. Similarly the quantity of fish available per head was 7.1 kilograms, while after the war it amounts only to 3 kilograms.

The problem is thus the increase of production to obtain an equilibrium while taking into account the increase of population. Besides attention should be paid to the substance of the diet which should contain items of importance for the health and energy of the people. At present the composition of the diet is not satisfactory and it is very necessary that attenion should be paid to this question.

The regional situation is as follows:—

Sumatra has several areas which have a rice deficit, amounting to 272,000 tons annually. On the other hand there are also several surplus areas in Sumatra, which have a surplus output of rice amounting to 42,000 tons. As such Sumatra on the whole has a rice deficit of

230,000 tons. The arable lands in Sumatra can easily be expanded by another 250,000 hectares for the cultivation of rice.

Kalimantan (Borneo) has a rice deficit of 70,000 tons per year. There are good possibilities of meeting this shortage, but it may take more than 5 years before this objective can be achieved. It is estimated that within ten years Kalimantan can be made self-supporting in food production, if the efforts of land reclamation are started forthwith and the work intensified. Within the period of 5 years, the above deficit can be brought down to 35,000 tons.

In Sulawesi (Celebes), the Moluccas and the Lesser Sunda Isles, the surplus areas are South Sulawesi and Bali which have a surplus of 65,000 tons of rice. On the other hand these regions also contain deficit areas like North Sulawesi and the Moluccas with a deficit of 60,000 tons annually. So, in fact these regions comprising Sulawesi (Celebes), the Moluccas and the Lesser Sunda Isles are just self-sufficient.

Apart from this, South Sulawesi still offers possibilities for increasing production. The surplus in this area can still be increased to about 60,000 to 100,000 tons. This additional surplus should then be directed to the minus areas of Kalimantan (Borneo) and Sumatra.

On the condition that the process of production in Java be intensified and the work carried out in an efficient manner, it will be safe to say that the rice deficit for the whole of Indonesia will not be more than 265,000 tons annually. Taking into consideration the abovementioned figures and keeping also in mind the pressing conditions in Java, it is estimated that for the whole of Indonesia an annual import of rice amounting to 200,000—300,000 is considered a necessity.

At present there are several schemes to tackle the problems in the fields of production and consumption of food. These schemes are:—

a. the special welfare scheme of 1949,
b. the Kasimo plan,
c. the Gunung Iskandar Plan.

The implementation of these agricultural schemes should be carried out with more vigour than what is visible on the surface at present in order to surmount the difficulties we are in now. The question is also closely related to the question of fisheries.

B. *Fisheries*

A regrettable factor is the decrease in the consumption of fish, the present consumption being not more than 50 per cent of pre-war days. The present annual consumption is about 3 kilograms per person. This is very little. The average annual consumption of fish in Britain for instance amounts to 25 kilograms per person, besides the consumption

of a significant quantity of meat. In Japan the figure of fish consumption amounts to 50 kilograms per person per year.

Problems in this field are:

1. Better fish breeding in conjunction with rice cultivation, in the lakes and swamps of Kalimantan (Borneo).
2. Better fish conservation in order to encourage the growth of fish markets near the big lakes and swamps in Sulawesi (Celebes) and Kalimantan (Borneo).
3. The expansion and intensification of pond fishery.
4. Import of fishery equipment and implements.

C. *Cattle Breeding (Cattle Husbandry)*

Cattle breeding in Indonesia is primarily directed to meeting the requirements of draught animals. The production of meat is very insignificant. On the other hand skin processing is also important for export as well as for the leather industry at home. The consumption of food in the form of meat, chickens (fowl) etc. does not amount to more than 3 kilograms per person annually. During the Japanese occupation and several years after the Japanese surrender, conditions had led to the slaughter and destruction of cattle and other animals on a mass scale. It is estimated that the rehabilitation work in this field will take 5 to 6 years.

III. PRIMARY PRODUCTION

Agricultural Products

The composition of the agricultural products for home as well as for export trade can be put into two categories: those which are produced by the people themselves and those which are products of foreign-owned plantations.

1. Agricultural Products of the People

After world war II, the production is very low and has not yet reached the pre-war level. Yet the agricultural productive capacity of the people records more progress compared to the production in foreign-owned plantations. With regard to the plantations owned by the people, only the production of the so-called people's rubber has already surpassed the pre-war level. Taking into consideration the present situation, the development and progress of the agricultural production of the people depends largely on the following factors:

a. the improvement of transport facilities, including the network of roads, especially for the transport of agricultural products;
b. the provision to the peasants in those producing areas of implements and equipment and stock of consumer goods (regularly).

Only in this way will producers feel encouraged and inspired to produce more.

The availability of agricultural equipment and implements (like spades, ploughs, sickles etc.) is certainly very important to increase the level of production.

The producers should be assured that they themselves will receive the greater part of the proceeds of their produce. Organization is, therefore, very important: efforts aimed at making the organizations of these producers more perfect and strong should certainly be encouraged, whether by cooperatives or other forms.

2. Estates (Plantations)

The produce of the estates as well as its export volume are much lower than pre-war. Here capital investment plays a more important role. The estates' production up to now has always to face various difficulties such as insecurity and labour problems. Considering that export of these agricultural products still constitutes an important source of foreign exchange, needed to finance some economic reconstruction at home, we shall keep in mind that the sources of income in the estates' production will still play a role which cannot be ignored. At least the produce and the sale of the Government owned estates' enterprises should always be protected and given full attention.

Forestry

Forestry constitutes a problem of a very important nature. So far insufficient attention has been paid to this question either by the public or by official circles. What forestry means to our economy can better be explained by the following:

1. The preservation of the forests is important for the climatic conditions and the preservation of the soil. Also with regard to the preservation of the water supply.

2. Timber is a good export product and is also needed for the construction-projects at home, to meet the requirements of the connected industries.

3. Forestry also constitutes a source of forest products which are valuable as a means of obtaining foreign exchange. These forest products are meant for export, while part of them is utilized to meet the requirements at home. In Java every hectare of forest land and its contents are registered. But other regions are still neglected. In those regions even registration has not been started. The exploitation of these forests outside Java has been and is at present for the greater part still in private hands, mostly foreign. In Borneo, Sumatra and Celebes many forest products constitute export goods of importance,

like rattan, damar, forest rubber, mangrove timber, fruits, eucalyptus, various forest seeds, timber etc.

Especially in Java very great damage has been caused to the teak forests. The damage had mainly been caused by the activities of the Japanese occupation forces, the consequences of the revolution and disorders and also because of the irresponsible activities on the part of the people who are not aware of the significance of forestry with regard to the economy of the country as a whole. The real productive capacity of the teak wood is very small at present.

The most important things to be done in the field of forestry are:

1. reafforestation.

2. the rehabilitation and the improvement of the means and implements of production.

3. registration of forest lands especially those outside Java. These efforts will take about ten years. One handicap is the shortage of foresters. At present there are only one or two Indonesian experts who have received sufficient education and training. The question of training in this field constitutes an important problem.

Mining

Important sources which can be efficiently utilized for the prosperity of Indonesia are the riches which are lying dormant in the earth. The important products of the mining industries are: tin, bauxite, petrol and coal.

At present the rehabilitation of the means of production has been carried out and the productive capacity of the tin industry has already reached the pre-war level. The level of production of the oil industry has already surpassed the pre-war level. The rehabilitation of this oil industry after the war has been carried out by the oil companies themselves. These enterprises are still operating under a contract with the Indonesian Government under the so-called 'let alone agreement'. According to this agreement these foreign-owned oil industries are not under the control of the Indonesian Foreign Exchange Institute with regard to import and export of the products and sale. This agreement was entered into by the former Netherlands East Indies Government with oil companies like the Royal Dutch Shell (B.P.M.), Stanvac and Caltex before the transfer of sovereignty. This agreement is still valid up to the end of 1952|1953. The question of this so-called 'let alone agreement' and the whole question connected with the mining industries need due attention.

IV. INDUSTRY, TRANSPORT AND POWER

Industry

Industry has not yet played a significant role in the economic life of the country. Before the war, the number of people who earned their livelihood in the industrial field was about 3 million; out of this number 350,000 were engaged in the factories and industries, which produced manufactured goods.

The position of the industry before the war can be judged from the value of industrial production, which is as follows:—

Handicraft Industry	110 m. rupiahs
Small-scale Industry	32 m. rupiahs
Small-scale Industry on retail basis . .	19.8 m. rupiahs
Manufactured goods Industry	20.6 m. rupiahs
Fabrics	58 m. rupiahs
Totalling all together about	240 m. rupiahs

We can see that out of this total amount the greater part is contributed by the handicraft industry.

After world war II, the industrial apparatus in Indonesia has suffered severe damage, caused by the Japanese occupation and by military actions after the Japanese surrender. After the transfer of sovereignty, the consequences of those actions and the steps taken in the monetary field are certainly not factors beneficial for the development and progress of the industry.[1]

At present, the level of production has not yet reached 60% of the pre-war level of production. To Indonesia, the development of industry is of prime importance.

At present, the Government has in fact a scheme for industrialization ready on hand, which forms a part of the Economic Emergency Scheme. This Emergency Scheme constitutes an attempt to lay the foundation for the development of industry, and this scheme will cover a period of two years. This scheme can be viewed from the angle of short-term objective to be achieved as well as from the standpoint of necessity for our community. This necessity is a means to prevent the process of disintegration, which is now discernible in some groups of the community. This scheme for industrialization has not yet been implemented satisfactorily within the time limit. The above-mentioned scheme is aimed at the development of industry in Indonesia in all its aspects: the cottage, small-scale, medium-sized and the large-scale

[1] In 1946, the level of production is estimated to be between 20 and 30% of the pre-war production; in 1947 about 40% and in 1949 about 50%.

industries. Proper attention should be paid to the efforts to develop the small-scale and medium-sized industries. However, several projects for large-scale industries have been planned alongside the above-mentioned scheme; but which because of technical reasons can only be realized in big units. These big industrial projects have been planned in such a way that the various units can perform the role as a promoting force for the intensification of industrial activities, aimed at the development of the various regions. It has also been planned to increase the economic potentialities by introducing the small-scale producer into the field. Viewed from the angle of capital investment and its influence, the industrial aspect can be grouped into four categories:

1. Vital industries and strategically important—these industries ought to be in the hands of the Government, or at least the Government should exercise paramount control over them.

2. Small-scale and medium-sized industries which should be left to the people.

3. Industry, which is considered as not being of strategic and vital importance but which is considered as being important because it exercises a direct influence on the development of industry in the country or in some other fields. Indonesian interests should participate in this industry, whether it is from official side or from private sector, and Indonesian interests should be predominant over foreign interests.

4. The remaining industries, which may still provide significant opportunities, can be left over to the initiative of private capital. Another guiding line, which is also still to be taken into account is the utilization of raw materials, used in the industry in Indonesia.

The industries which we want to develop in Indonesia should be such as for the greater part could utilize raw materials which are already to be found in Indonesia and those which are already produced in the land. This policy has got many advantages, for they can economize the requirements of foreign exchange, and also in a state of emergency these industries do not depend on imported raw materials. Not only in time of war but also at other times when it is difficult or impossible to obtain them, the industries can still continue to function.

An equilibrium should be found between three guiding factors, referred to above, in our efforts, aimed at the industrialization of our country in the future. These three guiding factors are as follows:

a. the industrial aspect of the small-scale, medium-sized and large-scale industries;

b. the aspect of capital investment and its influence;

c. the aspect of the utilization of raw materials in the industry.

Transport and Communication—Conditions of Roads

We need not explain at length the importance of conditions of transport and communications to such a country as Indonesia. Both from the strategic and from the economic points of view, for an archipelago, sea transport is of course of vital importance. Economically transport should be at the service of economic progress. The capacity of transport should be enough for the movements of the minimum goods and people without taking any risk and without heavy cost. Secondly it should also be useful for opening new areas or for the increase of possibilities for development in new economic fields.

Much work has still to be done in respect of every form of transport in Indonesia, from bicycles, bullock-carts to civil aviation. According to the schemes now available in official circles, it would take five to ten years to keep up with the present needs and for those in the future. Much attention should be given to the importance of this problem and it should not be looked at only from the point of view of technical reconstruction. Too much of foreign exchange has been used for cars for personal use, whereas the country needs more trucks and buses, so that even today the most productive areas are still badly in need of means of transport. Transport by road deserves certainly more attention than rail transport. The maintenance and reconstruction of the roads are of vital importance for progress of our present economy. The following figures will give an idea of the conditions.

Of the 33 thousand road miles, 7,700 or 25% are in need of very heavy reconstruction. So far the maintenance of the roads has not yet received due attention from the Government, and if the government is not able to do that, it should be left to private organizations. Private business people could be invited to repair the roads on a contract basis on conditions laid down by the Government. If we should wait until we could produce our technicians, we have then to wait for another 25 years. Employing foreigners will have the advantage of immediacy as there are many private companies who are established with all tools and equipment and are in fact specialized for such work. The same could be said for the reconstruction of the harbours.

Irrigation

Nobody knows for the moment what should be done or could be done in the field of irrigation. This regrettable circumstance is more painful as everybody is aware of the fact that irrigation and agriculture are still the most vital points in the economy of Indonesia. Thousands of acres even in Java could be more productive with better irrigation; 332,000 hectares are still open for irrigation, out of which 288,000 hectares are for irrigation during the dry season. Similarly in Sumatra

125,000 hectares, in Kalimantan 209,000 hectares, in East Indonesia 102,000 hectares, or a total of 768,000 hectares await irrigation.

Electric Power

This is, will be and will remain in the future, a very important factor in the economy of Indonesia. It is necessary for the future economic development of the country. The available power is now insufficient for the present needs. The demand for power is far more than what could be supplied, and it is well over 50%, and in the industrial areas even a hundred per cent. The need for more electric power is felt everywhere, but of course first of all in the industrial field. The industrial capacity is more or less limited with the shortage of the electric power; in fact there is a waste of industrial capacity in the country because of the lack of electric power. Electric power will determine the industrial progress, and in fact further the economic development of the country. Any plan for economic development will be determined by the availability of electric power. In fact the limit has been reached and no further progress can actually now be achieved. A strange situation has already occurred. It is only here in Indonesia that the consumption of electric power for household use exceeds that for industrial purposes. It is in fact 65% to 35%. The possibilities for the increase of electric power outside of Java should also be considered such as in Sumatra, Kalimantan, East Indonesia and other areas.

V. INTERNATIONAL ECONOMIC RELATIONS

a. The Balance of Trade

The developments in foreign trade show that since the end of the war up to 1949, we have suffered from a negative balance of trade and it was only in 1950 that a surplus balance has been achieved, mainly because of the rise in prices of raw materials and agricultural products since the Korean war. But it shows only the rise in prices and not in volume of the exported goods. The export value in 1950 is not the same as that of 1949, whereas the volumes differ only by 7%. Trade with the outside world is still fluent. Of all the foreign exchange earned, not less than 65 to 70% come from the sale of rubber and tin. The picture shows no difference in the pattern of export and import as compared to pre-war conditions. Netherlands interests are controlling the market to a great extent. Holland and Singapore are important sectors for Indonesia's foreign trade. Another important factor is that the import of consumer goods far exceeds that of raw materials or semi-finished products or capital goods needed for industrial development. In any plan for development, the import of

raw materials, semi-finished products and capital goods should be given a priority.

b. Balance of Payments

The balance of payments shows another surplus in 1950, and without counting foreign aid, not less than 500 million Indonesian rupiahs, with foreign exchange value. This surplus was even bigger in 1951. From the point of view of balance of payments, the Indonesian foreign exchange is satisfactory, but it does not give an indication of the situation and of the state of economic development in Indonesia. As it is we have a big surplus of foreign exchange, but it is feared that it cannot be used for the economic development of the country. It has become more and more difficult to import goods from industrial countries, goods which are necessary for the maintenance of the present economic conditions. Industrial goods are becoming scarce.

VI. THE ORGANIZATION OF INTERNAL ECONOMIC FORCES

The organization of the economic forces within the country is needed not only for the increase of production, or the expansion of production, but also for the distribution of the wealth produced. Furthermore, manpower could also be a subject for active more than for passive use in the economic process. One of the forms for organization of these forces is the cooperative way. Although in pre-war days, cooperative movements had been started, a definite government policy towards this problem has never been followed—at least certainly not as integral parts in the economic set-up of the country. The attention given by the colonial government to this aspect had been very little. It is understandable, as the economic organization and the views of economic justice were based on the colonial interests. There were in pre-war days, 540 cooperative societies including credit, consumption, production and other cooperatives, and also cooperatives for the abolishment of debts, all in all with a membership of 42,000 and a capital of 1,182,783 Netherlands Indies guilders. At the end of 1951, the number has increased to 818. Besides that there are more than 3,000 others which have not yet been recognized officially by the department for cooperatives. They can be regarded as future cooperative societies. All the cooperative societies have now a total capital of 20,057,347 Indonesian rupiahs. The co-operative societies have suffered during the war. Many have been destroyed during the war and others during the struggle against the Dutch. There were some cooperative societies before the war which were set up with the aim of helping the small producer who suffered from the small mortgage systems of their land and their fruit gardens. This has now become again a very important

factor, as reports coming from East, Middle and West Java, show that this system of small mortgages, is again ruining the small producers.

The number of members of cooperative societies has since the end of the war been growing considerably and is now fifteen times the number in pre-war days. During 1951 the Government had supplied a loan of six million rupiahs, and the credit given by the village banks amounted to seven million. The plan was to provide the association with a loan of 86 million as an urgency programme. Several reasons can be given for the failure of the implementation of this plan. Firstly, the programme was submitted to the Natsir government, which soon after the adoption of this programme resigned. Secondly, the department of cooperatives has not been well organized. Thirdly, there is still a lack of understanding in the use of credits given by the government on the part of the people in charge of the cooperative associations. Cadres for the cooperative movement should be formed immediately, and more should be given to people already in charge now of big associations with heavy responsibilities. The big centres are in West Java where sound development can be expected.

One fact should be noted here, which struck the writer; that is, the choice of the people beginning the establishment of a co-operative society, is always for the most difficult form of cooperative society, and that is for consumption. In fact the people forget that once they start these cooperative societies, they have entered the field of trade and there is a danger that such cooperatives will soon be transformed into a purely trade organization which will only think of competition and which will not be able to compete in technique and knowledge of the private traders, and it is, therefore, advisable to start with easier forms of cooperatives, such as credit or production co-operatives or village cooperatives, and to start with consumption cooperatives only when all the others have been established. Another feature in the development is that many societies have too many members so that discipline, which is so necessary for the growth of the organization, will always lack. The urgent economic plan of the government which was adopted by the Natsir cabinet, provides for other forms also in which native forces will play a prominent part. The implementation of this plan, however, has not been stisfactory.

VII. NATIONAL INCOME

It is obvious that a decrease in production and consumption and the decrease also in the economic strength of the people as described above will be reflected in the national income of Indonesia.

The following tables will give a fair idea of the national income of Indonesia in 1938, with some adjustments made by the author of this

article, based on the calculation done by the Government of the Netherlands East Indies in 1938:

		1921	1926	1930	1934	1938	1948
I.	Income of Indonesians ..	3.94	3.84	2.13	1.56	2.01	1.64
II.	Income of non-Indonesians ..	0.64	0.88	1.02	0.52	0.68	0.52
III.	Other incomes ..	0.34	0.47	0.06	0.08	0.15	0.14
IV.	National income (in billion rupiahs) ..	4.92	5.19	3.21	2.16	2.84	2.30
V.	Index, 100, 1938 ..	1.75	1.84	1.61	7.1	100	82

The figures given above are based on the 1938 index of 100. It therefore gives a picture of the economic development during these 25 years. So the real income in 1948 was only 82% of that of 1938, and I think that for 1950, considering the progress made since 1948, could not be more than 90% of the figures of 1938 which is 2.54 billion rupiahs (1938 rupiahs). A further estimate could be given for the income per capita with some adjustments, that is allowing for the increase of population from 67.5 million in 1938, to 75|77 million in 1950. These figures as given in Table II below are certainly rough figures, as although based on the 1938 figures, they give no indication as to the difference in wages and salaries received by workers and other employees, nor do they indicate the big difference between the payments for experts and for unskilled labour.

Average per capita income

1938 *rupiah value*

1938	41.85 rupiah	(total population 1938 about 67 million).
1948	30.58 „	(total population 75 million).
1950	33.77 „	(total population 75 million).

Average income per capita per day

1938 *cent value*

1938	11 cents
1948	8 cents
1950	9 cents

From these figures it is clear that the income is very low although the figures given are probably higher than it is. It gives an idea also of the difference in wages or salaries between a higher technical expert

and the unskilled labourer. Some economic experts have tried to give figures based on the rupiah value of the post-war years.

1948	10.5	billion rupiahs
1948|49	12	billion rupiahs
1949|50	13	billion rupiahs

The national income as national product.

As a check to the calculation above, we should count the goods and services as produced in the year and expressed in rupiahs. The following are the estimates:

TABLE III

Goods produced	Rupiahs	16,661,160
Services	„	868,309
Gross national product in Indonesia	„	17,529,469
Receipts from foreign countries	„	190,000
		17,339,469
15% for Natura	„	2,600,920
Gross national product 1950	„	19,940,389

Subtracting now depreciation cost and indirect taxes, we then come to the following Table IV.

National income 1950

The gross national product	Rupiahs	19,940,389,000
Minus depreciation cost	„	1,495,529,000
Net national product	„	18,444,860,000
Minus indirect taxes	„	10,751,900,000
National income 1950	„	7,692,960,000

Comparing now the net national product of 1950 with the other figures given, we come to Table V: (in billions of rupiahs).

	1948	1948|49	1949|50	1950
National income	10.5	12	13	17.7

This means that the income per capita in 1950 is rupiahs 223, and per day 61 cents. The figures given for 1950 are rough estimates. There is no such 'average' in Indonesia, as the differences between the wages or salaries of the several classes are extremely great. As we have seen in

Table II, as compared to 1938, the average income per capita per day in 1950 will be only 9 cents, which is equal to 61 cents of the 1950 rupiah. According to our own calculation the average income of a family, among the masses of the people in 1950 would be not more than 35|40 cents of the 1950 rupiah which comes to about 5 to 6 cents in 1938 rupiahs.

VIII. PRODUCTION, NATIONAL INCOME AND PROCESS OF INVESTMENT

A decrease of the economic activity in the production level is due to the lack of new investments since the end of world war II. New investments have always been a very important factor in the process of the economic activities, the process of production all leading to a higher national income. In fact we are now in a process which is going the other way round, which means dis-investment. It is the consumption of the wealth we have already gathered. This process of dis-investment is one of the biggest dangers in our economy of today. It is the main reason for the decrease in all economic activities with distressing effects for the masses of the people. The distribution of national income will show a greater injustice than before, and this problem, therefore, is of vital importance for the whole nation. It is also for these reasons considering the objective possibilities and the atmosphere prevailing now, that the first push towards progress should come from the quarters for new investments. First of all for domestic investments. It should be directed to most important fields, so as to open the possibilities for the development in other fields too, which consequently will strengthen the production power of the society. The direct investment by the state for instance, could now be considered also as a pioneer in the process of investments by private owners. The process of investments in earlier years was not satisfactory, and this is probably the cause of the unsatisfactory situation of today.

IX. GOVERNMENT FINANCE AND THE MONETARY SYSTEM

The financial budget which has been published and submitted to parliament in fact did not give a good impression of the Government's handling in the financial field. It did not give a picture of the receipts and revenues of the states. The items of the government's spending mentioned too many unimplemented projects, so that government spending will not be as big as it has been announced. The unsatisfactory element in this matter is that government officials are not sure of the figures given for receipts and spendings. We should, therefore, also consider the picture as given by the Java Bank, the only bank of circulation and the only bank for the government. Since the transfer of power, all government spendings have been done through this bank,

only in small cases have the government been acting without the help of the bank. It is for this reason that the amount of notes circulating has not been changed very much as compared to two years ago. Therefore, the financial situation or financial position of the government could be easily described from the debts to this bank All figures of the transactions between the state and the Java Bank are published officially in the balance-sheet of the Java bank. From these figures it can be concluded that during 1951, the debt of the state to the bank has been considerably cut by 1.5 to 1.9 thousand million rupiahs. This has been only possible of course when receipts exceed the spendings. On the basis of these figures we can say that at the end of 1951, the budget shows a surplus of about 1 billion rupiahs. The orthodox circles in the Ministry of Finance of the government and of the bank are of the opinion that for the achievement of a sound financial policy, a well-balanced budget should be maintained. If possible a surplus budget. For them I believe the surplus budget at the end of 1951, must have been pleasing, but we know that the facts justify the contrary. The budget surplus is a source of sorrow as it means in the present structure of our society the exploitation of the masses by the government. It is nothing less, and nothing more. The surplus means that the receipts by the government from the people are considerably more than what has been given to the people. It is more distressing, as what has been spent by the government is more in the form of consumption, such as salaries, wages, the financing of delegations abroad and so forth. There is hardly any form of productive spending. Therefore, it should be stressed that the finances of the government and the financial policy of the government should be viewed not from the narrow angle of finance only but it should be regarded as one of a combination of all other activities in the society. The financial policy of the government should be reflected in the budget and should form the basis of all efforts for the achievement of a balanced economy. We should aim at a situation where all economic activities should have the active cooperation of the major part of the productive capacity in the country, both the human part as well as the material part, that is, the natural resources and the capital goods—and the balanced economy should give possibilities for the enhancement of the standard of living of the masses of people. The financial field also, in giving credit, should aim at a monetary balance which should be part of a balance of economy, that is, a situation where effective demands of goods and services are equally worth the concurrent production. There is a close relation between the monetary field on the one hand and production activity and national income on the other hand. Monetary policy should form a part of the

economic policy, and it should be used by the government, as such, and it certainly should not be left to a private bank of circulation. The government should be for the well-being of the society and not for the bank. This shows a close relation between the bank of circulation and the government. To our view the ownership and the implementation of the policy of the bank of circulation should be fully controlled by the government. The bank of circulation should only implement what has been thrashed out by the government. It is necessary certainly in a society with an economic set-up as in Indonesia. We cannot achieve economic progress if the monetary policy is not in the hands of the government. In the future we hope that the bank of circulation will be placed organizationally and integrally in the framework of the Indonesian society, based on the economic interest of the people. The bank of circulation as the pioneer in banking should be the supporter of all the national banking institutions in Indonesia. It should actively support and help in the organization and the regulation of the credit system in Indonesia, for the interest of the economic activities of the people. The bank of circulation should actively control and actively regulate the credit system for farmers, for middle class people, and for trade, which should be all in the interest of the Indonesian people. It certainly should cease to function in the interest of foreigners or foreigners who are not rooted in Indonesian society.

[A summary and conclusions can be added to this as follows:—

a. The set-up of the economy and the organization of the society.

1. The government should lead the economic process in the country, and it should directly invest in all basic and vital economic activities. The government or the State should be the producer of all vital and strategical material or products.

2. All forces of the people should be organized. Cooperative movements should be developed all over the country as one of the ways to achieve a greater strength of the people.

3. Support and create initiative among the people for the strengthening of the economic basis of the Indonesian society.

b. Control by the government.

c. The government should be invested with all powers in matters of basic importance, economically, strategically, and so forth.

d. The implementation of policies be executed with the cooperation of private organizations on terms determined by the government.]

CHAPTER XV

ECONOMIC DEVELOPMENT OF CEYLON

By N. U. JAYAWARDENE

To promote the economic well-being of the people is the goal of policy of every modern State. In the less developed countries of the world, this policy has acquired a new emphasis in recent times. It is even fashionable now to speak of developed and under-developed countries. These attributes are relative terms and it is important that one should be quite clear about what they mean. A country may be fully developed and yet be not so well off as another because it is less endowed with resources. It is incorrect to describe such a country as under-developed, even though it may be poor. Under-development implies that the country is not as productive as it could be. It means that the country is not utilizing its manpower and natural resources to obtain maximum returns. It is either not using or is misusing resources of men and material.

Development, however, cannot be dissociated from the culture of a people. Our ancestors would have regarded their country as highly developed in the context of the then prevailing culture, even though we might hold different views on their state of development. A major consideration underlying public policy in Ceylon, as in other under-developed countries of Asia, is the creation of an adequate synthesis between the technological civilizations of the West and the ancient cultures of our people. Perhaps it is in establishing such a synthesis that the civilizations of the East can make their contribution.

The traditional socio-economic order of Ceylon was one of village communities producing for subsistence, and of village families knit together by a complex of customs and institutions. What we have lost with the inroads of a technological civilization is the organic community with a living culture. Our folk songs, folk dances, handicrafts and traditional agriculture have been the signs and expressions of a way of life, growing out of immemorial experience. It had its own technology, considered efficient in its day and yielding a satisfactory rate of output, its balance between individual effort and collective effort, and its pattern of capital accumulation which kept pace with the growth of population.

This socio-economic order, which was already declining even before European powers established contact with Ceylon, crumbled with the

introduction into Ceylon, during the British period of its history, of th elements of what are commonly described as modern technology an civilization. They were associated with the expansion of Europea commerce and later with the flow of foreign capital. They struck roo in our country in the growth of the commercial-cum-plantation secto of our economy. Even today this sector is developed, judged by moder technology. In contrast, however, there remains the large village sec tor with unused or under-employed resources, which continues to us ancient implements and methods. Although Ceylon had been for ove a century and a half under the political dominance of one of the mos technologically advanced countries of the time, the simple woode plough, the oxen-drawn cart, the outrigger canoe, and the wattle an mud hut are still the symbols of the capital equipment of the people.

The development policy of any country should aim at the best utili zation of the natural resources and aptitudes of the people. But th present pattern of economic specilization in Ceylon is partly a force product of political circumstances. It is partly the outcome of th nineteenth century land policy and the political neutralization of th central portion of the country, known as the Kandyan provinces, whic remained the bastion of freedom, until it was forced to capitulate to th converging forces of the British who held the maritime districts. Th economic needs of the occupying power, eager to secure in a hospitabl climate agricultural land suitable for growing products for sale i metropolitan markets, coincided with the political aim of suppressin the sturdy independence of the Kandyan peasantry and aristocracy In the result, large tracts of peasant and communal land in the uplanc were transferred to British planters, who aided by British capital an enterprise and actively supported by benevolent policies of a paterna colonial Government, opened up the alienated land in coffee and, atte its destruction by blight, in cinchona, and later in tea and rubbe Even the growing of coconuts, which had been almost entirely in Cey lonese hands, began to attract the attention of British capital. Th uplands soon became the centre of most development activity, whil the plains which in their pristine glory could boast of having been th granary of the country continued to be the home of the beast and c malaria, save for those coastal regions which too could produce expo crops or formed the hinterland of a port or provided arterial commun cations with the fast developing uplands.

Ceylon, thus, grew into a typical export-import economy which predominantly what it is today. In the course of the last generatio when Ceylon emerged from the status of a colonial dependency an advanced from a regime of popular Government still under the tutela

of a colonial power into independent nationhood as a free democracy, vigorous attempts have been made to develop the country in other directions. The fruits of these efforts are just beginning to appear but much still remains to be done. The problem of economic development is, in a sense, the problem of expanding an export-import economy to make the fullest and most efficient use of all of its productive resources.

A brief review of the economy, as it is today, should serve as a back-ground to the development needs of the future and the problems of the present. About one half of the national income of Ceylon is generated directly or indirectly from its exports and is expended on its imports. About two-thirds of the cultivated land is devoted to the production of the three main export commodities, tea, rubber and coconut. Two-thirds of the population depend on this production or allied manufacturing and distributive operations. Though much of this development has been pioneered by foreign, mainly British and, to a less extent, Indian, capital and enterprise, there has been in recent times a gradual transfer of ownership into Ceylonese hands. Today Ceylon nationals have come to own almost the entire extent of coconut plantations, some three-fifths of rubber plantations and about a sixth of the tea plantations Ceylonese also enjoy a small share in commerce and trade and in manufacture which is carried on in a limited way. But foreign capital and enterprise still occupy a dominant place in the economy. However, the aversion to foreign capital, which was pronounced during the period of political dependence because of the general belief (not without justification) that it allied itself too readily with politically reactionary forces and blocked the country's progress toward political freedom, is now giving way to a general desire, and even eagerness, to welcome foreign capital and enterprise to develop the resources of the country in equal partnership with its nationals.

The specialization in export crops has, however, been at the expense of food production. The peasantry that preferred to continue their traditional way of life were left behind in the march of technical progress. From the outset immigrant labour was employed on tea plantations, and such labour also provided the bulk of the work force on rubber plantations. It is true to say that Ceylonese are occupied predominantly in agriculture not because they grow their own food but because of the agricultural character of their export products. Even now, about two-thirds of the rice consumed, the staple food of the people, has to be imported: 400,000 tons of rice out of a total consumption of 587,000 tons in 1949/50 were imported. Village agriculture is very often the last resort open to an expanding population which is without expanding opportunities of employment. It is indeed, signifi-

cant that according to the most recent census (1946) nearly two-thirds of the holdings of rice-growing land consist of less than one acre in extent and that the average size of all holdings is only 1 1|5 acres.

The import trade presents a revealing account of the agricultural deficiency of the country. Of the total imports valued in 1951 at Rs. 1500 million, food, drink and tobacco accounted for Rs. 700 million or nearly one half. Grain and flour alone cost Rs. 387 million; but because of the steep rise in its price, rice is supplied to the consumer at a subsidized price which is estimated to cost the exchequer nearly Rs. 250 million in the current year. Ceylon's deficiency in animal husbandry is indicated by the following imports in 1951:

Commodity	Rs. (Million)
Animals for food	4 4
Animals not for food	2 2
Eggs	3.3
Beef, frozen or tinned	9
Pig products	1.1
Poultry, game & other meats	.2

The lack of diversity in a village agriculture, which is devoted very largely to the growing of rice and vegetables, is well illustrated by the following imports in 1951:—

Commodity		Rs. (Million)
Coffee	..	3 3
Chillies	..	25 4
Onions	..	11 2
Potatoes	..	15.3
Coriander	..	9.5
Cummin seed	..	2.8
Fennel seed	..	.9
Garlic	..	2.1
Tamarind	..	1.4
Turmeric	..	7
Sugar	..	102.0

Although Ceylon is an island with excellent fishing grounds and is endowed with numerous inlets and lagoons, it still continues to import fish and fish foods, which were valued at Rs. 53 million in 1951.

High as is the scale of imports as revealed by these figures, there is no evidence of any significant increase in the level of food consumption. This is confirmed by the next table which shows the per capita value of imports of consumer goods, expressed at constant prices: in other words, the per capita value of consumer imports.

	Per capita value of imported consumer goods at 1938 prices	Index Number 1938—100
	Rs.	
1938	25.35	100.0
1939	25.90	102.2
1945	22.39	88.3
1946	23.21	91.6
1947	26.39	104.1
1948	24.29	95.8
1949	25.33	99.9
1950	27.02	106.6

Colonial economic policy is tardy to recognize that industry has a place in a colonial economy. Being a typical product of such policy, Ceylon does not possess any manufacturing industry except for the simple processes of converting plantation crops into a marketable condition for export. Recently, and more especially after Ceylon regained independence, some efforts have been made to promote industries mainly by direct state participation. By and large, Ceylon remains industrially a very backward country. The following table describes the composition of imports of manufactures in 1951 which were valued at Rs. 793 million. These imports not only indicate the size of the domestic market for manufactured goods but also shows how under-developed the industrial sector of the economy is. In most lines of manufactured goods there is no domestic production at all, and in those few lines in which there is some production, it is, save for the solitary exception of cement, hardly significant.

Imports

	Rs. (Million)
Consumer goods:	
Cotton piece goods	133
Art silk piece goods	53
Other textiles	37
Boots and shoes	5
Drugs and medicines	13
Motor cars, cycles	35
Petroleum products	28
Other	30
	334

		Rs. (Million)
Developmental goods:		
Building & Engineering Supplies—		
(*a*) Iron & steel manufactures	58.0	
(*b*) Electrical goods and apparatus	24.0	
(*c*) Machinery and implements	50.0	
(*d*) Others	26.0	158
Chemicals		15
Fertilizers		45
Fuel (excluding bunkers)		98
Packing materials		37
Paper		17
Vehicles		44
Other		45
		459

Thus economic development in Ceylon may be said to resolve itself into, first, more efficient use of resources already fully employed; second, better use of resources now under-employed; third, harnessing into productive use resources at present unused; and, fourth, providing assured

opportunities of use for future expanding resorces. Perhaps the most important characteristic of the Ceylon economy today is the annual increase of 225,000 persons in a population numbering 7 1|2 million. This represents a rate of increase of about 3% per annum which is, if not the highest, certainly one of the highest in the world. The increase is primarily due to a reduction of the death rate and has not been accompanied by any significant rise in the birth rate. Since the occupied population is about 40% of the total, a rate of increase of 3% per annum must eventually lead to an expansion of the work force by something like 92,000 workers every year. The problem of providing opportunities for efficient production for an expanding work force of this size, difficult as it is, is rendered more difficult and complex by the presence of a level of unemployment and under-employment, especially in the rural sector, which is by no means insignificant. Clearly, a large programme of development is necessary, if only to preserve current living standards. In the words of Lewis Carrol, we must keep running even if we are to remain in the same place.

Fortunately, there exist large extents of cultivable land and untapped and mostly unsurveyed resources capable of industrial use. The total surface area of Ceylon is about 16½ million acres; but its population and land resources are unevenly distributed. At present two-thirds of the people live in the wet zone, which contains less than one-half of the total cultivable land. The remaining one-third occupies the so-called dry zone, where the extent of cultivable land, including what is potentially developable, is reckoned at 3½ million acres, exceeding even the area already in productive use in the wet zone. With the eradication of malaria, at one time the scourge of the dry zone, the great bulk of potentially cultivable land has ceased to be inhospitable. However, before development can proceed systematically, this vast area has to be provided with irrigation facilities, cleared of the jungle, made fit for the plough, and supplied with stored water for consumption, with roads for communication and access, with power to aid cultivation and development, with housing, hospitals, schools, community centres and other amenities of a civilized life.

PART III

CHAPTER XVI

AN INTERNATIONAL DEVELOPMENT AUTHORITY

By V. K. R. V. RAO

THE preamble of the Charter of the United Nations affirms the determination of the peoples of the world 'to promote social progress and better standards of life in larger freedom' and pledges them to '*employ international machinery* for the promotion of the economic and social advancement of all peoples' (italics mine). Article 1 accordingly lays down that one of the purposes of the United Nations is to achieve international co-operation in solving international problems of an economic character; while Article 55 states that the United Nations shall promote 'higher standards of living, full employment, and *conditions of economic and social progress and development*' (italics mine), and Article 56 lays down, 'All Members pledge themselves to take joint and separate action in co-operation with the Organization for the achievement of the purposes set forth in Article 55.' It is clear therefore that one of the definite objectives underlying the creation of the United Nations is the promotion of economic development; and it is equally clear that international machinery and joint action were to be the primary measures to be adopted for the achievement of this objective.

Accordingly, a number of international agencies were set up for the promotion of economic development, some in the field of technical assistance, and others in that of financial assistance. Exercising some kind of co-ordination over the activities of these specialized agencies but having its own subordinate regional and functional organs for purposes of study and advice is the Economic and Social Council of the United Nations. In the field of economic development, the Council —or ECOSOC as it has come to be known—set up the Economic and Employment Commission. This Commission had comprehensive terms of reference in regard to advising the Council on economic matters, among which was included 'the promotion of economic development and progress with special regard to the problems of less developed areas.' The Council also instructed the Economic and Employment Commission to appoint a Sub-Commission on Economic Development to make a technical study of the problem relating to economic development with particular attention to the inadequately developed parts of the world and make recommendations. This Sub-Commission consisted of seven persons elected by name, the countries represented being the U.S.A.,

U.S.S.R., China, India, Brazil, Czechoslovakia, and Mexico. The writer of this article had the honour to be the Indian member of this Sub-Commission and functioned as its Chairman during its entire existence, having been elected to that office at each of its four sessions during the period 1947-1950.

The Sub-Commission at its first session concerned itself mainly with the formulation of general principles of economic development. During its second session, the Sub-Commission dealt with the problem of technical assistance and made a number of comprehensive recommendations for international action in this field; these recommendations formed the basis of the famous Resolution 200 (III) passed by the General Assembly of the United Nations at its Paris Session in December 1948 which set up a U.N. programme of technical aid for promoting economic development. Following this came the historic announcement by President Truman of Point Four, which was also intended to furnish technical aid for promoting economic development, partly through U.N. agencies and partly through the United States' own administrative channels. A Technical Assistance Board was set up by the U.N. with the Secretary-General as chairman and heads of the specialized agencies as members mainly for the purpose of distributing amongst them the funds made available for this purpose which amounted approximately to 20 million dollars a year. It must be added however that this body did not evolve a co-ordinated and integrated programme of technical assistance but mainly concerned itself with putting together the schemes put forward by its members. At its third session, the Sub-Commission devoted itself almost entirely to a discussion of the mobilization of domestic and foreign financial resources for the economic development of the underdeveloped countries and made a number of suggestions designed to meet this end. This session was notable for a proposal put forward by the Chairman for the creation of a new international agency designed to meet the problem of promoting economic development in a more comprehensive as well as in a speedier manner. I think it would be best if I were to quote below the observations I made at the sixtieth meeting of the Sub-Commission held on 30 March 1949 at New York, explaining the need for a new international agency in the field of the financing of economic development. The quotation is taken from the official summary record of this meeting:—

"The CHAIRMAN said he wished to review the three existing forms of foreign investments—private, inter-governmental and international —all of which had their place in a general scheme of economic development. He wished to stress in that connexion that all countries should

obviously enjoy full freedom to choose the type of capital they wished either to export or to import and the conditons under which it was either granted or received. That freedom, however, was subject to the overriding condition that all investments should be consistent with the promotion of the principles embodied in the United Nations Charter and with the resolutions adopted by various United Nations organs on the question of economic development.

"He would make his survey of the three forms of foreign investments in the light of past experience, showing whether they contributed to promoting economic development and whether they were consistent with the aims of the Charter. After expressing the Sub-Commission's appreciation of the very useful and interesting study prepared by the Secretariat on that subject, and especially of its most objective character, he said that past experience in the field of private investments led to certain obvious conclusions.

1. A careful analysis of the report clearly showed that, on the whole, private investments did not primarily go to the underdeveloped countries. Page 21 of the Report stated that 'it is striking to find that the underdeveloped countries, in which the lack of capital was likely to have been most pronounced, received less capital, absolutely and in relation to the size of their population, than those which had already made substantial progress in their economic development. Indeed one of the most characteristic features of private investments was that they were made in countries which had already achieved a measure of economic development rather than those which were most in need of such development.

2. Profits were the guiding motive underlying private investments. That was quite natural and foreign investors could not be expected to behave like philanthropists. They had naturally sought outlets assuring them the highest return and had shown very little concern for any systematic plan for the economic development of underdeveloped countries. They could not be blamed, however, for failing to do what domestic investors had also failed to do.

3. Private foreign investments were not based on any planned study of economic development and were mainly used for developing export and primary products industries. Page 41 of the Report stated that 'only to a very small extent, therefore, did American direct investments enter into manufacturing for the domestic markets of underdeveloped countries. The British direct investments showed similar characteristics . . direct investment in plantations, mineral production, public utilities appear to predominate also in the direct investments abroad of several other creditor countries, such as the Netherlands and

France,' while page 55 clearly said that 'foreign capital, particularly in countries lagging behind in industrial development, shunned investment in manufacturing industries working for the domestic market of these countries.' Page 42 of the Report pointed out that 'since foreign trade tends to vary on the whole in proportion with the degree of economic development, investments in manufacturing have a tendency to shun underdeveloped countries. The difficulties of absentee-ownership are probably also greater in manufacturing industries, which must adapt themselves to a constantly shifting nature of demand, than in extractive industries, railways or similar activities.' The Report made it clear however—and the Chairman expressed full agreement with its conclusion—that 'what is said should not detract from the role of foreign capital in economic development. Clearly, such capital employed for the creation of transport facilities, public utilities and production of simple processing of primary products for export prepared the way for industrialization in the form of manufacturing which provides the home market with a richer supply of manufactured products. But the evidence suggests that foreign capital is in the main confined to preparing the way for such industrialization, and that, when it has done so, the growth of manufacturing for the domestic market will in the main have to rely on domestic capital formation.'

4. In addition to the profit motive foreign investments were also influenced by various non-economic considerations such as racial and political affinities, imperial ties, geographic proximity, etc. Indeed, those considerations were even more decisive than the profit motive in determining the direction taken by foreign investments. United States capital, for instance, had been mainly invested in Latin America and in Europe, while the United Kingdom had invested capital in Latin America and in the Asian countries under its colonial control. The United States had no investments in Asia with the exception of very small amounts in China and the recent investments made in the oil-bearing regions. It was clear that private investments from the United States—the largest exporter of capital in the world—had hardly fostered economic development in the underdeveloped areas in Asia and Africa. Tradition also played a very important role. The United States, for instance, was ready to invest in Latin America despite various drawbacks such as previous defaults on loans and confiscation of investments, but not in India, which had never defaulted once in her international commitments, simply because India was at such a distance and had no racial or cultural link with the United States.

5. The very nature of private foreign investments made it impossible to plan their volume, their timing, their regional distribution or

their functional distribution, *i.e.*, the types of development they should stimulate and promote. Indeed, private investors could not be told where, how much and for what purpose they should invest their funds. This constituted a fundamental defect, if one were to consider foreign private investments in the context of planned economic development.

"In the light of those considerations, he did not think that the future economic development of the world could be really promoted to any considerable extent, consistent with the principles of the United Nations, by private investments. Private investment could serve *laissez-faire* development, but economic development for raising living standards on a planned and socially desirable basis in the national interest of the underdeveloped country could not rely, in the main, on private investment.

"In his document, Mr. Collado had said that foreign financing should take the form of private foreign investments. The same view on economic development has already been expressed by Mr. Thorpe[1] who had said that 'the American economic system is predominantly a private enterprise system and as a result investment, even in many publicly-owned projects, is arranged through the private capital market, subject to limited public controls and aids. We consider it natural, and desirable, to look to these same private sources to service the foreign field as well.' The Chairman did not wish to suggest for one moment that private investments had no part to play in financing economic development—perhaps their place was more secure in the development of better-developed countries. Countries wishing private foreign investments must of course be prepared to safeguard the rights of private investors. But he would emphasize that private investments could not effectively achieve the type of economic development contemplated by the Charter of the United Nations, the first report of the Sub-Commission, and resolutions of various United Nations organs.

"Turning to the inter-governmental form of foreign financing, he said, experience showed very clearly that it was most difficult to separate inter-governmental loans and grants from political objectives and ties, irrespective of whether such ties were good or bad. In the past England had always financed countries which would fight for her and perhaps some other countries were now drawing on that experience. The major motive for inter-governmental loans in history has always been either war itself or the fear of war. After the First World War, France, for instance, had granted numerous loans to the countries of the so-called Little Entente. At present, loans were again being granted

[1] Mr. Willard Thorpe, then Assistant Secretary of State in the U.S. Government, was speaking before the Economic and Social Council.

because of the fear of war. Recent events proved beyond any doubt that economic independence of the countries receiving Marshall aid was greatly impaired and they were prevented from having normal economic relations with the so-called non-Marshall countries. That was clearly illustrated by the reactions in the United States Senate regarding a recent statement made in the United Kingdom House of Commons by the President of the United Kingdom Board of Trade, Mr. Harold Wilson, who had said that his country was negotiating a barter agreement with the USSR and that politics had nothing to do with economic matters.

"The United States was not the only country to attach political strings to its loans—the same practice was also followed by the USSR when it granted loans to its associates. That had been clearly illustrated by the developments which followed Marshal Tito's so-called rebellion in Yugoslavia. It was obvious that each country wanted to strengthen its friends and to weaken its possible enemies. In a world divided into two blocs, it was impossible for inter-governmental loans to be completely divorced from political and economic strings. Indeed such loans were subject to approval by the respective parliaments of the countries granting them and members of parliament would obviously object to granting a loan to a potential enemy. It was very difficult for countries not wishing to join any political bloc to obtain inter-governmental loans.

"It was clear that so long as political conditions remained as they were, inter-governmental loans could not promote economic development as envisaged by the United Nations Charter and various resolutions of United Nations organs.

"In his view, international financing was the best method of promoting the economic development of underdeveloped countries in accordance with United Nations principles. Indeed, financing through the medium of international agencies was the only sound way of approaching the problem.

"He could only express his wholehearted and sincerest approval of what the President of the United States had said in his inaugural address on 20 January 1949:

> I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in co-operation with other nations, we should foster capital investments in areas needing development.
>
> Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more

materials for housing, and more mechanical power to lighten their burden.

We invite other countries to pool their technological resources in this undertaking. Their contributions will be warmly welcomed. *This should be a co-operative enterprise in which all nations work together through the United Nations and its specialized agencies.* (italics mine).

"The Chairman wished to lay particular emphasis on the last sentence of the above quotation which stated the need for a co-operative enterprise in which all nations worked together through the United Nations and its specialized agencies. He deprecated, therefore, the manner in which Mr. Thorpe had interpreted President Truman's speech in the Economic and Social Council when he had said that he looked to private sources for promoting economic development. The Chairman could not see how private investments could possibly be channelled through the United Nations.

"Turning to the role played by the International Bank for Reconstruction and Development, the Chairman said that its resources were not adequate to meet the needs of economic development in underdeveloped countries. Indeed, the total amount of free funds at the disposal of the Bank was only slightly over $600,000,000. On the other hand, the National Association of Manufacturers had estimated the requirements of underdeveloped countries at some $30,000,000,000 over the next ten or fifteen years, which meant an average expenditure of two to three billion dollars a year. It had been stated that Latin America would require $8,000,000,000, Africa $6,000,000,000 and South East Asia $10,000,000,000. He failed to see how the Bank could finance economic developments on such a scale. Moreover, the third annual Report of the Bank made it clear that it did not intend to leave Europe outside its scope of activities: 'It should be noted, too, that in determining the amount of United States aid, it was expressly assumed that the Bank would advance substantial credit to Western Europe during the ERP period. It seems clear, therefore, that there is a real need for Bank financing in addition to the financial assistance made available by ECA. Furthermore, since the first claim on ERP funds will necessarily be for those imports most immediately essential, the long-range investment field seems obviously the one most appropriate for Bank assistance. Accordingly, it is the intention of the Bank to supplement ERP, to the extent that the Bank's revenue (in the light of the other demands upon them) and the credit standing of the ERP countries permit, primarily by financing projects which involve permanent additions to productive capacity.' It is clear therefore that

even the $600 million will not be devoted entirely to economic development of underdeveloped countries.

"Furthermore it should be noted that the Bank—as was clearly shown in its first report—had to observe strict banking principles and it was doubtful whether the needs of economic development and the nature of such developments could bear the test of strict banking requirements. The Bank was conscious of the fact that some types of developments required would not be in accordance with strict banking principles and it had listed various examples on pages 15 and 17 of its Third Report: 'A fundamental obstacle to long-range development is the lack of capital to build the necessary productive facilities and buy equipment; to provide schools and shops to train workers in new skills; and to establish the housing, public utilities, transportation and other services needed for an efficiently functioning economy.' On page 17 the Report said that 'In almost all underdeveloped countries a major part of the necessary investment must be made for transportation and communication facilities, port developments, power projects, water and sewage systems and other public utilities which form the basis for the development of other sectors of the economy. If housing and similar facilities are included, requirements in this category may amount to two-thirds or more of the total capital needed.'

"If economic development were to proceed in accordance with the principles and purposes of the United Nations, there had to be international financing. Owing to its limited funds and strict requirements, the Bank could not meet the needs of economic development. There was, therefore, a distinct gap in the structure of the United Nations for financing economic developments and he ventured to suggest the need for setting up a new international agency to promote the economic development of underdeveloped areas. Economic development could not be promoted by technical assistance only—it also required capital equipment and financing. There was need for an overall and comprehensive plan.

"In his inaugural address, the President of the United States had suggested 'a bold new programme'—he wished to suggest a bold new organization under the aegis of the United Nations to promote economic development of the underdeveloped countries of the world. The new organ would work in co-operation with the International Bank and other organs of the United Nations, but it would be charged with responsibility for economic development. It should not be merely a planning or advisory organ but should have finance at its disposal.

"President Truman had said that 'more than half of the people of the world are living in conditions approaching misery. Their food is

inadequate. They are victims of disease. Their life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas.' If the high promise the President had held out to the world were to be fulfiled there was need for such a comprehensive new international organization to deal with all the problems pertaining to economic development.

"Before concluding he wished to make a last suggestion concerning the financing of such a new organization. The United States could request all the countries receiving aid under the Marshall Plan to give in return a certain amount of equipment and commodities for the promotion of economic development in other parts of the world. Thus the flow of aid from the United States would extend far beyond Europe and by promoting economic development throughout the world would in the end be to the advantage of all mankind."

The proposal for a new international agency was put forward by me not only because of the need for supplementing the existing agencies for financing economic development but also because of the need for having one agency whose sole task would be that of promoting and progressing economic development, which would coordinate technical assistance, periodically assess the extent and pace of development in the underdeveloped areas, and itself undertake the supervision of development projects that spread across more than one national frontier. In fact, the idea of having a permanent organ of the United Nations to concentrate on coordinating the activities of the specialized agencies in the field of economic development had been put forward at the Havana Conference on the International Trade Organization, but no action had been taken on the suggestion.[2] I further elaborated my ideas on the

[2] Vide the following resolution passed by the United Nations Conference on Trade and Employment.

The United Nations Conference on Trade and Employment

Having considered the problems of the industrial and general economic development and reconstruction of the Members of the International Trade Organization; and

Having noted the related activities of other inter-governmental organizations and specialized agencies; and

Having determined that positive measures for the promotion of the economic development and reconstruction of Members are an essential condition for the realization of the purpose stated in Article 1 of the Charter of the International Trade Organization and to the accomplishment of the objectives therein set forth; and

Having regard to the provisions of Article 10, 72, 86 and 87 of the Charter

THEREFORE RESOLVES:

1. That the Interim Commission of the International Trade Organization is hereby directed to examine

(i) the powers, responsibilities and activities in the field of industrial and general economic development and reconstruction of the United Nations, of the specialized agencies and of other inter-governmental organizations, including regional organizations;

subject and presented them to the Sub-Commission in the form of a concrete proposal for the creation of a new international authority solely concerned with the promotion of economic development to be called 'United Nations Economic Development Administration' or UNEDA. The Sub-Commission did not have the time to consider my proposals in detail but recorded its opinion that 'the proposals are deserving of consideration' and commended them to the attention of the Economic and Employment Commission.

I give below the text of these proposals, which was included as an Appendix to the report of the third session of the Sub-Commission.

I. *Reasons for the Proposed Organization*

Whereas at present there is no international agency for:

1. Financing projects of economic development in underdeveloped countries which are not financially productive in a banking sense,
2. Aiding underdeveloped countries in the preparation and|or the execution of their programmes of economic development,
3. Co-ordinating the distribution of technical assistance made through the United Nations or its specialized agencies to the underdeveloped countries and linking the same with financial assistance,
4. Promoting or aiding in the execution of projects of economic development extending over more than one national frontier and not likely to be taken up by any one of the countries concerned, on its own initiative.

It is hereby suggested that a new international organization be set up to be called 'The United Nations Economic Development Administration, or UNEDA.'

II. *Function of the Proposed Organization*

The function of UNEDA will be:

(ii) the availability of facilities for technical surveys or studies of the natural resources of underdeveloped countries; or the possibilities of their industrial development, whether general or in relation to the processing of locally produced raw materials or other particular industries; or for the improvement of their systems of transportation and communications; or with respect to the manner in which investment of foreign capital may contribute to their economic development;

and in the light of this examination to report to the Organization upon

(a) the structure and administrative methods,
(b) the working relations with the United Nations, the specialized agencies and other inter-governmental organizations including regional oragnizations

which will enable the International Trade Organization most effectively to carry out its positive functions for the promotion of the economic development and reconstruction of Members.

2. That the report and recommendations of the Interim Commission shall be submitted in such a manner and at such a time as will enable the Conference of the International Trade Organization to take appropriate action at its first session.

1. To make technical assistance available to underdeveloped countries in preparing schemes for economic development.
2. To coordinate the technical assistance for economic development at present available to underdeveloped countries within the United Nations and its specialized agencies, in order to see that different types of technical assistance are properly integrated and lead to a planned development of the resources of the country concerned.
3. To assist underdeveloped countries in obtaining materials, equipment, personnel etc. required by them for the execution of their programmes of economic development.
4. To finance or help to finance such schemes of economic development as cannot be financed from the country's own resources and for which loans cannot be asked for on strict business principles.
5. To promote and, if necessary, undertake the direction and financing of regional developmental projects extending over national frontiers and not likely to be undertaken by any one of the countries concerned on its own initiative.

III. *Finances of the Proposed Organization*

The fund of UNEDA will be obtained from contributions by Member Governments. These contributions will be made by members in their own currencies, and the commodities on which their contributions will be expended will also be subject to the approval of the governments concerned. In addition, countries now receiving assistance from the United States under European Recovery Plan may be asked to make special contributions after the completion of their economic recovery by 1952.

IV. *Principles of Financial Assistance to be Rendered by the Proposed Organization*

1. Financial assistance will be given only to underdeveloped countries. The list of countries coming under this category will have to be arrived at by international agreement.
2. This assistance will be given only on the request of the countries concerned, except in the case of Non-Self-Governing and Trust Territories, in which cases UNEDA itself may take the initiative by special arrangement with the Administering Powers concerned.
3. This assistance will apply only to projects which cannot be financed, either by the International Bank for Reconstruction and Development or by inter-Governmental finance or by private foreign investments, but which, nevertheless, are basic

to economic development and are expected eventually to result in an increase in national productivity and a rise in the standard of living of the people concerned.

4. Assistance will normally take the form of loans and not of grants, though terms of repayment will be liberal and the interest charged may be only nominal.
5. Assistance will normally be made conditional on the receiving country providing a share of the cost of the projects. In fact, in many cases the underdeveloped country may be asked to provide for a 50 per cent share of the costs involved.

General Remarks

UNEDA is not expected to function as a philanthropic body, ready to give away money to underdeveloped countries asking for foreign funds. While it is true that it will be primarily concerned with projects not normally passable by orthodox banking criteria, it does not mean the financing of wildcat or sentimental schemes. Projects for economic development calling for the aid of UNEDA will have to stand the economic test, in the sense that their completion will result in raising the productivity of the underdeveloped areas and the standard of living of their peoples, largely by providing the basic conditions for ensuring the efficient and successful operation of the more orthodox[3] projects of economic development that may have been undertaken by these countries, or that they may want to undertake.

UNEDA will thus be essentially a complement to other channels of foreign financing and must not be regarded either as an alternative or a substitute to these other channels. Moreover, it will be expected to work in a businesslike way; it will, therefore, not begin its work in a grandiose and extravagant manner with a multitude of schemes, but will be expected to take up specific projects of urgent importance and proceed to expand its activities on the basis of experience of results achieved. The caution must also be added that the operation of technical and financial assistance by UNEDA will not involve the setting up of a new international bureaucracy interfering in the internal administration or life of the underdeveloped countries, but will be carried out largely through the specialized agencies and, in all cases, in the closest possible co-operation with the governments of the countries concerned; and the assistance given will be operated in such a manner as to promote national self-reliance and enable the countries concerned to be in a position to dispense with this foreign assistance

[3] An orthodox project is used in the sense of one which generates enough income to meet the interest and amortization charges arising from its investment.

at a subsequent stage. Essentially, therefore, UNEDA will be an organization that will work on economic criteria and help the underdeveloped countries to help themselves.

Speaking realistically, I must confess that for the time being, at any rate, the bulk of the finances required by UNEDA will have to come from the United States of America, but the amount involved will be of a much smaller order of magnitude than what the United States of America is now spending on European Recovery Plan; and it will have the further advantage of being of a global character, fulfilling the objectives of President Truman's recent inaugural address, and functioning within the framework of the United Nations Organization.

The suggestions made above obviously represent a very rough outline and need a good deal of detailed thinking before they can be the basis of concrete action. Nevertheless, I have thought it worthwhile to put forward this idea in the hope that attention may be drawn to the imperative need for something urgent and concrete being done by the United Nations for the rapid promotion of economic development in the underdeveloped countries; and it is my belief that this cannot be done without the setting up of a new United Nations agency which will, on the one hand, act as a complement to orthodox foreign financing and, on the other, help to co-ordinate and integrate the supply of technical assistance to underdeveloped countries.

The Economic and Employment Commission did not consider these proposals. Strong dissatisfaction was expressed by the representatives of the more developed countries, including the U.S.A., at the report of the Sub-Commission and especially its comparative lack of faith in private investment as a way of financing economic development, its emphasis on international action and on the extension and increase of international financing of development. The U.S.A. was getting more set on the path of national action through its own administrative agency for dealing with this problem, while the other European and metropolitan forces were afraid that a new international agency would impose a further strain on their own finances and also interfere with their own independent and unilateral programme for promoting the economic development of their colonial territories. The result was not only a refusal to consider the proposal to set up a new international agency like UNEDA but also a recommendation by the majority of the Economic and Employment Commission that the Sub-Commission on Economic Development be abolished. My proposals also met with

severe criticism in other circles in the United States, including the monthly *Fortune* and were also the subject of a sharp critical comment in the fourth annual report of the International Bank for Reconstruction and Development. I quote:

> The desire of the underdeveloped countries to set the speed of their development faster than their own resources and existing international resources will permit has sometimes led to the suggestion that loans should be made, either by the Bank or by some new agency created for the purpose, at nominal interest rates and repayable over a very long period of time. Such loans, it should be noted, would probably involve a substantial international subsidy and to that extent a disguised grant to the borrower. If the governments of those few countries in a position to provide international subsidies should consider it desirable in certain instances to provide supplementary grants in order to expedite the process of economic development, it would be the Bank's judgment that such assistance should be rendered as outright grants rather than in some form of "fuzzy" loans which would tend to cast discredit upon the integrity of normal international investments.

At the same time, certain other circles in the U.S.A. concerned with the importance of speeding up economic development and conscious of the need for doing it through international machinery were showing sympathetic interest in my proposals. The fight between private investment and public lending, and between operation through a national agency and operation through an international agency had now begun in the field of foreign financing of economic development.

The Economic and Social Council when discussing the report of the Economic and Employment Commission and its Sub-Commission on Economic Development, devoted considerable attention to the whole problem of financing economic development, discussion centring largely on the problem of whether a gap existed in the present sources of international finance for economic development as suggested by the Sub-Commission. The Council reserved discussion of this problem at its tenth session early in 1950 and resolved that the Sub-Commission on Economic Development should 'practical recommendations for financing economic development of underdeveloped countries at its next session and make them available in time for consideration by the eleventh session of the Council.' The Sub-Commission met accordingly for its fourth and final session in April-May 1950 and made certain recommendations which are discussed at a later stage of this article.

In the meanwhile, at the instance of the Economic and Social Council, an ad hoc committee of economic experts had been appointed by

the Secretary-General of U.N.O. to report on national and international measures required to achieve full employment. Their report was submitted in December 1949 and discussed, among other things, the subject of financing of economic development as an international measure for promoting full employment. The experts laid stress upon the relevance of international investment for the maintenance of full employment and affirmed that 'the outflow of capital from the industrially advanced countries to the underdeveloped areas should both be adequate and stable.' They further stated that it was necessary 'that the bulk of international investment should be channelled through an appropriate international organization,' thus lending the weight of their authority to the conclusion advanced by the Sub-Commission that private investment was not going to meet more than a minor portion of the international funds required for economic development. The experts however did not propose that a new international agency should be set up for this purpose. They agreed that both private investments and International Bank loans at their existing rates of flow were not enough either in amount or in stability of tenure. They recommended therefore that 'lending countries should fix annual targets for long-term international investment for five-year periods and make the necessary legislative and institutional arrangements to enable them to stabilize the total flow of lending at the planned level; the total to be thus fixed comprising both private investment and public lending.' A significant feature of their recommendations was that the greater part of governmental loans should be channelled through the International Bank funds being placed at its disposal, directly and on a current basis, by the governments of the lending countries. To enable the International Bank to administer these funds for financing economic development and in a more liberal manner than was consistent with the existing loan policy of the Bank, the experts recommended that the Articles of Agreement of the Bank should be amended in a suitable manner. Whereas I had suggested that a new international agency called UNEDA should be created and that it should not only deal with the problem of increasing the facilities available for financing economic development but also deal with other matters relating to development, the experts confined themselves to the field of finance and suggested the creation of an additional department in the International Bank for this purpose. Details of organization of the addition they thus suggested to the existing international financing agency are given below:

Organization of a Department for General Developmental Lending

(a) A new department of the Bank should be set up to conduct general development lending to governments and to raise the funds

required for such lending by borrowing from governments.

(b) The new department should be under the management of the Bank, but, apart from that, it should be entirely distinct from the Bank as at present constituted. In particular, the new department should have no recourse to the Bank's capital or other resources arising from the performance of its present functions. It should therefore operate with no capital of its own, but should rely entirely on borrowed funds.

(c) Funds borrowed by the Bank from lending governments should be paid into a general loan fund out of which the Bank would make loans to borrowing governments. There should therefore be no direct relation between specific lending by the Bank and specific borrowings by it.

Relations of the Bank with Lending Governments

(a) The Bank should borrow from governments on a long-term basis on the same terms as those governments themselves can borrow in their own markets.

(b) The extent to which governments lend to the Bank should derive in general from the nature of their long-term foreign lending programmes and from the requirement that they stabilize their volume of foreign investment in the manner outlined above.

(c) The Bank should normally repurchase securities issued by it to lending governments as it receives repayment from borrowers. However, if in the opinion of the Bank, developmental needs are not being adequately met, it should, in agreement with lending governments, relend funds received by it in repayment of loans. In that case the lending governments would agree to the refunding of their loans when they became due.

(d) Loans to the Bank should be made in the currency of the lending country, and should normally be available for expenditure by borrowers from the Bank in any country. However, pending the establishment of general currency convertibility exceptions to this rule should be permitted to such lending countries as are still encountering balance-of-payments difficulties.

(e) Losses by the Bank arising from default on any loan made by it should, in cases where they cannot be met from the department's reserves, be apportioned by the proportionate writing down of outstanding loans to the Bank.

Relations of the Bank with Borrowing Governments

(a) The Bank should make developmental loans to the central governments of the borrowing countries.

(b) The Bank should make such loans on the basis of general developmental programmes submitted to it by borrowing govern-

ments. The criteria for the worthwhileness of such loans should be their effect on national income, taxable capacity and export capacity. While the effects of a developmental programme cannot be calculated with precision, the Bank should not, in general, lend unless it is convinced that, in consequence of the loan, the borrowing country's current balance of payments will improve sufficiently to permit interest and amortization payments to be made.

(c) Borrowing governments should be required to set up separate capital budgets[4] for their development programmes which should show, in detail, all disbursements under those programmes. While the capital budget would normally be financed, in part, by funds raised locally in addition to those raised by foreign borrowing, its use would permit the Bank to survey the entire development programme and to ensure that its funds were not being used to finance the current expenses of the borrowing government.

(d) Developmental loans should be made at interest rates uniform for all borrowing countries as is the Bank's present practice. The rate charged should be the average rate at which the Bank borrows plus a fixed allowance of 1 per cent to cover the operating expenses and the risk of default.

(e) Loans should be amortized over as long a period as is consistent with the Bank's obligations to make repayments of its own borrowings. Where appropriate, amortization payments should be deferred for the initial period that must elapse before the effects of the developmental programme are felt on the borrowing country's national income.

Apart from the two fundamental respects in which these proposals differed from mine, there was also a third important difference viz., that whereas I had laid stress on the importance of rates of interest being very low, involving if necessary an element of subsidy, with a view to facilitating the financing of projects basic to economic development, the experts suggested for these governmental loans channelled through the Bank a rate of interest not significantly different from that which the Bank was already charging on its other loans. The experts seemed to believe that what held up an adequate financing of economic development was inadequacy in the size of the funds at the disposal of the Bank and overstrictness in the conditions determining the eligibility of projects for their loans, whereas it was my belief that in addition to these reasons, the rate of interest charged was a highly deterrent factor to the borrowing necessary for economic development. Adequacy in

[4] If governments so desired, such budgets could be prepared side by side with their budget as it is at present constituted. No basic changes in executive and legislative budgetary procedures may therefore be required.

the international financing of development requires adequacy not only in the size of loanable funds but also adequacy in the size of the funds that underdeveloped countries are willing to borrow consistently with financial prudence. Failure to recognize this constituted, in my opinion, perhaps the major weakness of the plan put forward by these experts.

At its fourth session held in April-May 1950, the Sub-Commission returned to the problem of financing economic development. Warned by the reception that had greeted its previous proposals, especially the proposal of its Chairman, the Sub-Commission went about the job of suggesting the creation of a new international authority with much greater circumspection. From the report of the experts on National and International Measures for Full Employment, it was obvious to the Sub-Commission that a part of its battle had been won. Thus, e.g., the limitations of private investment to deal with the financial requirements of economic development were now becoming increasingly evident to disinterested observers even in the developed countries. The International Bank was also showing a distinctly more liberal attitude in its treatment of development loans, especially in the giving up of the specific project approach, and also in its readiness to judge the financial aspects of a project from its effects, both direct and indirect, on the economy as a whole instead of merely from the specific results directly attributable to the project in question. There was also recognition on the part of disinterested observers like the U.N. experts of the need for increasing the funds at the disposal of the Bank for financing economic development. But what was still not realized was the importance of liberalization of the conditions of development loans, in terms both of the rate of interest and the period of repayment, if economic development was to proceed on a comprehensive basis and with speed. The Sub-Commission set itself therefore the task of clearly analysing the nature of development finance, especially the divergences in the ability to repay generated by different kinds of development projects. I do not think the nature of economic development from the financial point of view has been better described than in the following words of the Sub-Commission :

'Progress in economic development involves a variety of projects with different degrees of direct productivity and different degrees of self-liquidating properties in terms of both their total yield for liquidating the investment required to be financed and the yield in the form of foreign exchange that may be necessary to service the investment. Any programme of economic development, of necessity, contains a proportion of low-yielding and slow-yielding projects which yet are essential pre-conditions for the high-yielding and rapid-yielding projects.'

The crux of the problem of financing economic development is that such projects are essential as a foundation for economic development and the advance of domestic agricultural and industrial pursuits. Such basic projects may be regarded as constituting the necessary 'social and economic overhead capital.' They include investments necessary for the promotion of health, education and housing—the human or social overhead capital—and of transport, communications, power and other public utilities—the economic overhead capital. These projects provide little or no yield in foreign exchange, usually furnish low yields in the short run and also generally require a considerable period of time before their yield can be realized in financial terms because their benefits are derived from the more balanced development of the economic activities which utilize their services. They are none the less a necessary foundation for the growth of economic activities that provide high yields in financial terms.

These basic projects are necessary in order to speed up the broadening of the base for diversified economic development in the more directly productive fields of agriculture, industry and commerce, and yet these are the very projects for which the underdeveloped countries find it most difficult to raise the necessary finance either from domestic or from foreign sources. The Sub-Commission has rightly stated:

> In respect of these, the Sub-Commission wishes to state its conviction that herein lies the problem and challenge of economic development; a good deal of the work that is necessary in this field is incapable of being financed, even by international institutions or other public sources, so long as the prevailing banking standards of repayment are maintained. The conclusion at which the Sub-Commission arrives, which must be frankly faced, is that even after private foreign investment, domestic mobilization of capital and international financing have made their proper contribution, there still remains a difficult field of investment which requires an international solution. The Sub-Commission considers that this is an inescapable conclusion; without such basic projects of the social or economic overhead type, there can be no worldwide economic development on a scale to make a real impact on the problem of raising living standards in underdeveloped areas.

The Sub-Commission, however, did not provide a cut and dried solution for this problem. They did not make a positive recommendation for the creation of a new international agency on the lines suggested by me like UNEDA, because they realized that the major financial incidence of such an agency would fall on the United States, at any rate for the time being, and they felt that the initiative for such an agency

should therefore come from the official spokesman of that country rather than from a mixed body of experts the majority of whom came from countries which would be beneficiaries rather than contributors to such an agency. This decision had my full approval and, in fact, was taken on my initiative. It would be best if I were to quote the Sub-Commission itself on this subject.

> It was the need for providing this low-cost and long term finance that led the Chairman of the Sub-Commission to place before the Sub-Commission at its third session his proposal for the creation of a United Nations Economic Development Administration (UNEDA). While it is possible to hold the view that loans granted by such an organization for financing basic economic development could be regarded as sound in the sense that they correspond to the economic characteristics of the projects they are designed to finance, it is equally possible to hold the view that the loans sought to be provided by this organization would include a substantial element of grant. In fact, to the extent to which the rate of interest charged on such loans would be lower than the rate of interest which would have to be paid by the organization if it were to obtain its funds from the open market or through governmental borrowing, there is quite clearly an element of subsidy which involves the use of funds raised from taxpayers of member countries. In view of the fact that very few of the industrial countries are now in a position to make such funds available out of their tax resources and also in view of the fact that in practice the main burden of financing such an institution, at any rate in the immediate future, would fall on the taxpayers of one particular member State, the Sub-Commission has come to the conclusion that it would not be appropriate for it to recommend the creation of such an agency. It does urge, however, that prompt consideration be given to this whole subject by the industrialized countries and especially by those which may be in a position to contribute substantial financial resources to such an organization. The Sub-Commission also suggests, in view of the essential character of the basic development sought to be financed in this manner, that it would be appropriate for the Economic and Social Council at its eleventh session to discuss the possibility of obtaining international funds on a basis which may contain an element of grant; if the necessary response is forthcoming in the course of the discussion, it would then be time to consider the setting up of an *ad hoc* committee by the Council to consider the problem in greater detail and to work out plans for implementing it by setting up an appropriate international organization.

Thus ended the labours of the Sub-Commission on Economic

Development. They had proved the thesis that public rather than private funds had to play the major role in the financing of economic development, that these funds had to be channelled through international machinery, that the existing machinery was neither wholly adequate nor wholly suited to this purpose, that there existed a distinct need for financing low-yielding and slow-yielding projects involving the creation of the social and economic overheads that were so basic to economic development, and that this necessitated the creation of a new international authority dispensing international funds with an element of grant in them and otherwise looking after economic development. The Sub-Commission did not themselves put forward a scheme for such an agency, but commended for the consideration of the various organs of the United Nations a scheme put forward by its Chairman for the setting up of a United Nations Economic Development Administration or UNEDA.

The report of the Sub-Commission was considered by the Economic and Social Council at their Geneva Session in August 1950 and even a cursory reading of the resolutions adopted by that body reveals the tremendous extent to which it was influenced by the Sub-Commission. On the major subject of international financing of economic development the Council recognized by its Resolution 294 (XI) of 12 August, Clause 9(a) that 'economic development requires the execution not only of self-liquidating projects but also of projects in such fields as transport, power, communications, public health, educational institutions and housing, which, while not always fully self-liquidating are justified by reason of their indirect effect on national productivity and national income.' But the Council did not follow up the logic of this recognition and recommend either the setting up of an authority on the lines of the UNEDA suggested by me or any other concrete proposal for dealing with the vexed problem of low-interest or nil-interest loan finance. All that they did was to ask international lending institution to make loans 'at rates of interest and on terms of amortization designed to place the smallest feasible burden on the exchange availabilities of the underdeveloped countries, consistent with the maintenance of these institutions as self-supporting entities.' It must be added, however, that the Council called on the Secretary-General to appoint an Ad Hoc Committee of experts to go thoroughly into the whole question of unemployment and under-employment in the underdeveloped countries and suggest measures for their economic development. As this action was presumably based on the recommendation of the Sub-Commission that 'there should be a companion study to the report of the experts on full employment, that would deal with the allied and

equally important problems of unemployment, underemployment and disguised unemployment in underdeveloped countries,' it seems clear that the Council was only acting cautiously and awaited further examination before committing themselves to the principle of international financing of economic development embodying a measure of the grant element.

The General Assembly which met in Paris in the winter of 1950 went further, however, and by its Resolution 490(v) of 20 November took note of 'the fact that some basic development projects are not capable of being adequately serviced through existing sources of foreign finance although they contribute directly or indirectly to the increase of national productivity and national income' and recommended that 'the Economic and Social Council, in giving further study to the problem of the financing of economic development, consider practical methods, conditions and policies for achieving the adequate expansion and steadier flow of foreign capital, both private and public, and pay special attention to the financing of non-self-liquidating projects which are basic to economic development.' The Assembly called upon Member States and specialized agencies to submit concrete proposals in this connexion and directed the Economic and Social Council to submit its recommendations to the sixth session of the General Assembly.

The next step in the evolution of the idea of an international development authority was the publication of a report entitled 'Partners in Progress' by the International Development Advisory Board under the Chairmanship of Mr. Nelson Rockefeller. This Board which had been constituted under the U.S. Act for International Development was specially requested by President Truman to report on desirable plant to accomplish with maximum dispatch and effectiveness the broad objectives and policies of the Point Four programme, taking into account existing governmental and private activities bearing on international economic development. It is interesting to note that the working staff who helped the Rockefeller Committee in preparing their report included Mr. August Maffry, who had functioned as the American Member of the Sub-Commission on Economic Development during its fourth session.

The major part of the Rockefeller Committee's report concerns itself with the need for coordinating and centralizing the various activities both public and private, national and international, within the United States for promoting international economic development with a view to achieving speedy and efficient results. With this end in view, they suggested the centralization and unification of major foreign economic activities of the U.S. Government into one over-all agency headed by a

single administrator reporting directly to the President, the agency to be termed the United States Overseas Economic Administration. The Committee also recommended that the Overseas Economic Administrator plan and operate the new agency on a regional basis.

> The Rockefeller Committee agreed however that progress in the production of food, raw materials and manufactures must move along with the construction of highways, the improvement of rail and port facilities, the expansion of electric power for factories, and irrigation to bring in new farm lands. Unless projects of this nature are carried through, efforts to increase production or to lift living standards will be frustrated. Currently in most of the underdeveloped areas these facilities are either entirely lacking or woefully inadequate. Their cost is high and generally beyond the financial resources of these underdeveloped countries, even if assisted by existing lending institutions. Many of these projects yield no direct income or only small returns over many years. In other cases the costs are so large that they run far beyond the present borrowing capacity of these countries. The construction of essential public works gains urgency as the result of the present emergency. The opening of new sources of strategic and critical materials for the free nations requires highways, railroads, improved ports, new land under cultivation, and electric power. Properly conceived, these improvements will prove a lasting contribution to the productivity and well-being of the underdeveloped areas.

They emphasized the fact that there are at present numerous projects of economic and social importance, basic to the development of underdeveloped countries, that cannot be financed entirely on a regular loan basis. The Committee gave it as their considered judgment that 'such public works can be most effectively financed and developed through a well-managed international agency,' but found that none of the existing international agencies is so organized or has the authority to perform the functions which would have to be entrusted to the agency they envisaged. Reluctantly, therefore, the Committee felt compelled to suggest the creation of a new international agency to be known as the International Development Authority. I give below a brief summary of the objects, organization, mode of operation and financing of the new International Development Authority proposed by the Rockefeller Committee.

Objects

To finance a portion of the cost of public works which are essential to the underdeveloped countries and which cannot be financed on an ordinary loan basis.

Membership & Finance

(a) Membership to be open to all the 'free' nations.
(b) Subscriptions to be in the same proportion as their subscriptions to the International Bank.
(c) Subscriptions not to exceed initially a total of 500 million dollars.
(d) Subscription payable by each member in its own currency.
(e) In no case should the Development Authority make grants covering the *full* cost of the project. All projects should be able to support at least a portion of the necessary financing on a loan basis, and in every case there should be some degree of matching of the grant by the beneficiary country in terms of local materials, local labour or other local resources.
(f) If part of the cost of these projects of economic and social importance were covered by a grant from the International Development Authority, the International Bank would be able to finance the remainder of the cost through a sound loan.

Management

The new Development Authority would have its own board of directors who would decide finally which projects submitted to it would be approved or rejected.

Operation

It would operate under a management contract with the International Bank. The services of the staff and management of the Bank would be available for the investigation of proposed projects, as also for the supervision of grants after they are made.

The Committee concluded 'The International Development Authority may prove to be a practical mechanism for financing large-scale foreign public works over a long-time period in co-operation with the International Bank and other nations.'

There are, however, four principal defects from which the Rockefeller scheme for an International Development Authority suffers in my opinion. These are

(1) It is only confined to public works or what may be called economic overheads, and does not deal with what are called social overheads such as education, sanitation, medical relief, technical training etc.

(2) Its membershp is sought to be confined to what are called the 'free nations,' which means that it becomes a part of the armoury of the cold war.

(3) Its management and operation is too closely tied up with the International Bank which does not include some of the major nations of the world and which moreover is dominated by the United States.

(4) The initial subscription suggested is much too low in view of the requirements which are sought to be met.

The idea however is basically sound and is in line both with the suggestions made by me for a United Nations Economic Development Administration as well as with the logic underlying the report of the fourth session of the Sub-Commission on Economic Development.

The Rockefeller Committee has broken new ground in suggesting the creation of yet one more international authority for the purpose of making foreign funds available for the promotion of economic development by private enterprise in the underdeveloped countries. This is of particular interest to countries like India which are going in for planned economic development but on the basis of a mixed economy which allows private enterprise a definite place in the economic field. The Committee has suggested the creation of an International Finance Corporation. This body is proposed to be set up as an affiliate of the International Bank, with authority to make loans in local and foreign currencies to private enterprise without the requirement of government guarantees and also to make non-voting equity investments in local currencies in participation with private investors. The latter power would enable new concerns to be started without being overloaded by the fixed charges of loan financing. At the same time, these investments would be sold to the general public in the underdeveloped countries as the concerns become successful, thus promoting their capital markets and simultaneously directing private investment into the channels desirable from the point of view of the economic development of these countries. The International Bank could establish such a corporation by nominal subscription to voting stock, and give it the benefit of the management staff and technical services of the Bank. The funds of the corporation could be raised by subscription to non-voting stock by the members of the International Bank in the same proportion as their subscriptions to the latter organization, the initial amount to be subscribed being placed at a total of 400 million dollars. I can see no objection to this suggestion. In fact, I would heartily welcome the creation of such an agency as filling an obvious gap in the existing international machinery for financing economic development.

The next step in the evolution of organized international thinking on the improvement of the existing machinery for financing economic development was taken by the U.N. Committee of Experts who were appointed to consider measures or the economic development of under-

developed countries. This Committee, which included an Indian member, Prof. D. R. Gadgil, submitted its report in May 1951. The Committee frankly recognized that the very capacity of the underdeveloped countries to absorb large amounts of loan capital and put them to productive use depended on the amount which is being spent at the same time on improving social capital, especially on public health, on education, and on roads and communications. Most of the underdeveloped countries, however, do not have the money required for these purposes and they cannot borrow it; nor are they are able to raise it by taxes. The Committee therefore urged 'most strongly that some mechanism be created for transferring from the developed to the underdeveloped countries by way of grants-in-aid, a sum of money which should increase rapidly, reaching eventually a level of about 3 billion dollars a year.' They recommended therefore that the United Nations should establish an International Development Authority with power to make grants to the governments of underdeveloped countries for the purposes listed below:

(a) Research and education. This includes grants for agricultural extension services, technical schools, farm schools, local universities and for training technicians abroad, grants to departments of governments, research institutes or universities, wherever located, working on problems of underdeveloped countries;

(b) Public health programmes, emphasizing preventive medicine and nutrition rather than curative medicine;

(c) Subsidization of medium- and short-term farm credit;

(d) Improvement of rural public works. This includes grants for roads, rural water supplies, land reclamation, drainage, soil conservation and afforestation.

The functions proposed for this Authority were not however merely limited to making grants but covered other items which showed a remarkable family resemblance to those of the United Nations Economic Development Administration which I had proposed earlier. Thus, the Committee suggested that the functions of the International Development Authority should be as follows:

(1) To decide upon and administer the distribution of grants-in-aid for the specific purposes listed below, and to verify their utilization.

(2) To co-operate with underdeveloped countries in preparation and co-ordination of plans of economic development by affording general assistance and, where necessary, by providing the services of technical experts and by giving grants-in-aid for the preparation of plans of economic development.

(3) To help in implementing development plans, especially in the procurement of scarce resources, e.g., capital goods, technical personnel.

(4) To make periodic reports regarding the preparation and progress of plans of development, to provide for continuous study of the problems of economic development of underdeveloped countries, and to make recommendations to the Economic and Social Council in regard to any action that may be required concerning these problems.

No details were furnished by the Committee regarding the constitution, management, operation, and method of raising funds of the proposed new authority. The Committee also failed to recommend the creation of an authority for making low-interest or nil-interest loans on the ground that 'exactly the same purpose can be met by combining a loan from the International Bank with a grant-in-aid from the International Development Authority, in cases where an undertaking desirable on social grounds could not meet the full burden of loan finance.'

The scheme recommended by this Ad Hoc Committee of U.N. Experts is, in my opinion, open to the following objections:—

(1) It does not appear to be based on mutual aid as it classifies nations into two classes, one, of donors and the other, of receivers, no indication being given as to what contribution is expected from the latter to the funds and management of the proposed organization. The U.N. Technical Assistance Administration scheme is superior in this respect in so far as it is based on some contribution—small or large depending on the individual capacity of each country—from each member to the funds of the organization.

(2) The scheme does not appear to take into due account one of the fundamental principles of international assistance laid down by the U.N. viz. that it will stimulate local effort and initiative. This is usually done by the provision requiring international aid to be matched equally or otherwise by local contributions; and this has been done both in my UNEDA proposals and in the Rockefeller Committee's International Development Authority proposals. But this salutary provision is missing in the U.N. Experts' proposals.

(3) The scheme does not make provision for low-interest or nil-interest loan finance for the large number of development projects that are economic and possibly even self-liquidating in the long period, but cannot afford ordinary loan finance of the type available from the International Bank. The Committee's statement that this need would be met by combining International Bank loan finance with the proposed International Development Authority grant finance does not, it seems to me, meet the type of needs I have mentioned and which have also

been mentioned in subsequent ECOSOC and Assembly resolutions and discussions.

(4) The scheme contains no indication about the organizational nature of the proposed Authority. Thus, nothing is said about the composition of the Board of Management nor about either the machinery for the approval of projects or for verification of the utilization of funds granted by the Authority.

The next stage was the consideration of this problem by the Economic and Social Council at its August session of 1951 in the light of the U.N. Experts' Report and other previous documents on the subject. By its resolution of 22 August, the Council recognized that 'for some countries, particularly the least developed, the financing of basic non-self-liquidating projects may, under some circumstances, require a measure of external grant assistance, particularly in order to provide an initial impetus to such basic projects,' but was again unwilling to act up to the logic of this recognition. They did not therefore recommend the creation of a new agency on the basis of the UNEDA suggested by me or any similar agency, but merely contented themselves with urging the International Bank 'to continue to expand their lending operations in underdeveloped areas taking into consideration the fact that progressive economic development will generally result in an increase in the debt servicing capacity of borrowing countries.' This did not mean, however, that the Council did not want to do anything on the subject of low-interest and nil-interest or grant finance. They were only being cautious, as usual, and desired further examination. They requested therefore.

(a) The Secretary-General, in consultation with the State Members of the United Nations, the International Bank for Reconstruction and Development and the other competent specialized agencies, to keep under active study the problems and methods of domestic and external, including international, financing of non-self-liquidating projects in underdeveloped countries, including the possibility of supplementing existing international co-operation by means of external grant assistance in favour of those underdeveloped countries whose economic situation makes it impossible to raise sufficient domestic capital for financing the essential and basic projects mentioned in paragraph 9 (a) of Council resolution 294 (XI), and to submit these studies together with recommendations to the Council as soon as practicable;

(b) Without either accepting or rejecting the principle of the establishment of an international fund to assist in the financing of economic development of underdeveloped countries or of an international development authority, the Secretary-General, in consultation with

the International Bank for Reconstruction and Development and other appropriate specialized agencies, to formulate a series of methods which he deems practicable for dealing with the problem of grant assistance, taking into account the debate in the Council at its thirteenth session concerning recommendation 14 of the report of the group of experts, and to submit these methods to the session of the Council preceding the seventh session of the General Assembly.

Then comes the sixth session of the General Assembly in the winter of 1951-52. The Indian delegate, Sir B. N. Rau, formally put forward a proposal in the Political Committee for the creation of a United Nations Fund for Reconstruction and Development and asking Member States to send to the Secretary-General a scheme setting forth the principles and the scale on which it would be prepared. The unique merit of Sri B. N. Rau's proposal lay in its linking up disarmament with economic development, a part of the national funds released by the former being utilized for financing the latter. Financing of economic development, however, was a subject which more properly came under the purview of the Economic Committee and they had before them the recommendations of the Economic and Social Council. Sir B. N. Rau's proposal was therefore not pressed, but there can be no doubt that it had a salutary effect in influencing the deliberations of the Economic Committee of the General Assembly.

The General Assembly went much further than the Economic and Social Council in dealing with this problem of low-interest, nil-interest and grant finance, even as they had gone further than their Council in their previous year's session. Thus, the Assembly adopted a resolution on the subject at their plenary meeting of 12 June which may well prove a historic turning point in the whole history of the international financing of economic development. The resolution stated:

> *Considering* that the statistics contained in the *World Economic Repot* 1949-50, published by the Secretary-General early in 1951, show that the national incomes of the underdeveloped countries do not allow a sufficient accumulation of domestic savings to provide heavy investments for their rapid economic development,
>
> *Believing* that there exists an urgent necessity for studying the problem of creating new sources of international financing suitable for the acceleration of the economic development of underdeveloped countries, with a view to raising the standard of living of their peoples,
>
> *Convinced* that the acceleration of the economic development of underdeveloped countries calls, among other forms of international financial assistance, for an international system of grants-in-aid

to those countries, but believing that such an international system of grants-in-aid should not be established on a permanent basis and should in any case be correlated with the efforts of the underdeveloped countries themselves,

Believing that the promotion of the economic development of underdeveloped countries calls for the closest co-ordination of the activities of already existing international organizations,

Believing further that detailed plans for action designed to increase the flow of international public funds for the development of underdeveloped countries, especially for assisting in the financing of the non-self-liquidating projects basic to their economic development, must be initiated without delay if such plans are to be translated into action within a reasonable period of time,

Cognizant of the fact that, although the necessary acceleration of the economic development of underdeveloped countries requires foreign financial aid, the study and elaboration of the plans mentioned in the preceding paragraph cannot and must not be regarded as in any way committing the governments participating in such study or in the elaboration of such plans to join in implementing those plans in any degree, whether financially or otherwise,

1. *Requests* the Economic and Social Council to submit to the General Assembly at its seventh regular session a detailed plan for establishing, as soon as cirumstances permit, a special fund for grants-in-aid and for low-interest, long-term loans to underdeveloped countries for the purpose of helping them, at their request, to accelerate their economic development and to finance non-self-liquidating projects which are basic to their economic development;

2. *Further requests* the Economic and Social Council, in implementing paragraph 1 above, to prepare for consideration by the General Assembly at its seventh regular session a series of recommendations concerning:

(a) The size, composition and administration of the special fund, keeping in mind, with respect to its administration, that the creation of a new international organization should be considered only if a careful examination of the functions of existing organizations proves that the required functions cannot be carried out by them;

(b) The manner of collecting contributions to the special fund, keeping in mind the desirability of universal participation and the utilization of any savings that may accrue from any programme of disarmament, as one of the sources of contributions;

(c) The character of the contributions of State Members of the United Nations and of those which are not Members;

(d) The policies, conditions and methods to be followed in making grants and loans from the special fund to underdeveloped countries;

(e) The principles which countries receiving grants and loans from the special fund should observe;

(3) *Requests* the Secretary-General to assist the Council in carrying out the responsibilities placed upon it by the present resolution;

(4) *Invites* governments to make suggestions to the Council with respect to the recommendations mentioned in paragraph 2 above.

The Economic and Social Council now meeting in New York have before them this problem. They cannot delay consideration of this important subject any longer nor can they put in a plea for further examination. They have now to put forward concrete recommendations for filling in the lacunae which is admitted to exist in the international machinery for financing economic development and to which I drew forceful attention in the Sub-Commission's third session in March-April 1949, and for which I was strongly criticised in the subsequent session of the Economic and Employment Commission and the Economic and Social Council in 1949 during the course of their discussions on the report of the third session of the Sub-Commission on Economic Development.

I do not have before me the documentation which must have been prepared by the U.N. Secretariat for the consideration of this problem. Nor being a non-official economist, am I, in possession of the proposals which may have been made by my own Government on this subject in response to the request contained in the resolution of the General Assembly. But, having been in some measure responsible for initiating the idea and forcing discussion on it, however unfriendly it may have been at that time, I feel a natural and sincere interest in contributing my quota at the final stages of the consideration of this idea. I have therefore ventured to place below my concrete proposals for the creation of an International Development Authority or, as I would still prefer to call it, the United Nations Economic Development Administration or UNEDA.

INTERNATIONAL DEVELOPMENT AUTHORITY (OR UNITED NATIONS ECONOMIC DEVELOPMENT ADMINISTRATION)

1. *Objects*

To promote the economic development of the underdeveloped areas of the world on the basis of mutual aid.

2. *Functions*

(i) To make technical assistance available to underdeveloped countries in preparing schemes for economic development.

(ii) To co-ordinate the technical assistance for economic development at present available to underdeveloped countries within the United Nations and its specialized agencies, in order to see that different types of technical assistance are properly integrated and lead to a planned development of the resources of the country concerned.

(iii) To assist underdeveloped countries in obtaining essential materials, equipment, personnel etc. required by them for the execution of their programme of economic development.

(iv) To finance or help to finance such schemes of economic development as cannot be financed from the country's own resources and for which loans cannot be asked for on strict business principles.

(v) To promote and, if necessary, undertake the direction and financing of regional developmental projects extending over national frontiers and not likely to be undertaken by any one of the countries concerned on its own initiative.

3. *Membership*

Membership of the organization shall be open to all independent States, whether they are members of the United Nations or not, provided they accept its object and functions and express their readiness to play a constructive role in their implementation.

4. *Finance*

(i) Members shall make annual contributions to the Organization to the extent of not less than .2% of the annual average of their national income during the preceding three years. It shall, however be open to the Organization to arrive at special rates of contribution below this amount in exceptional cases.

(ii) Contributions will be made by members in their own currencies, and the commodities on which their contributions will be expended will generally be subject to the approval of the governments concerned.

(iii) Countries now receiving assistance from the United States under the European Recovery Plan may be called upon to make special

contributions after the completion of their economic recovery or by the end of 1953, whichever is earlier; the amount and nature of such contributions being determined after discussion and with the consent of the countries concerned.

(iv) From any reduction that may take place in the national expenditures on defence at their 1952 levels, due either to the conclusion of an international agreement on disarmament or otherwise, a part which shall be not less than 10% of such reduction, shall be payable as special contribution to the Organization for a period of not less than 5 years.

5. *Principles of Financial Assistance*

(i) The funds shall (a) be given to or through Governments; (b) be designed to meet the needs of the country concerned; (c) avoid distinctions arising from the political structure of the country requesting assistance, or the race or religion of its population; (d) not be a means of foreign economic and political interference in the internal affairs of the country concerned and not be accompanied by any considerations of a political nature.

(ii) Financial assistance will be given only to underdeveloped countries. The list of countries coming under this category will have to be arrived at by international agreement.

(iii) This assistance will be given only on the request of the countries concerned, except in the case of Non-Self-Governing and Trust Territories, in which cases the Organization itself may take the initiative by special arrangement with the Administering Powers concerned.

(iv) This assistance will apply only to projects which cannot be financed, either by the International Bank for Reconstruction and Development or by inter-Governmental finance or by private foreign investments, but which, nevertheless, are basic to economic development and are expected eventually to result in an increase in national productivity and a rise in the standard of living of the people concerned.

(v) Assistance will normally take one or both of two forms viz., loans and grants.

Loans will carry little or nil interest as the case may be, and terms of repayment will be liberal.

Grants will normally be made for specific projects, provided of course they form part of an integrated development programme, funds being advanced as they are expended and not in one lump sum amount.

(vi) Assistance by way of both loans and grants shall be condi-

tional on the receiving country providing a share of the cost of the projects concerned. The local contribution shall normally be at least 50% of the cost involved, but it shall be open to the Organization to reduce this figure. It is understood that applications for such relaxation will be considered more favourably in the case of assistance by way of loans rather than that by way of grants.

6. *Management*

(i) The Organization shall be administered by a full-time Board of Governors consisting of 15 members, elected by the General Assembly, of whom 5 shall be elected for one year, 5 for two years, and 5 for 3 years, retiring members being eligible for re-election. The members shall have full-time Alternates.

(ii) The Board of Governors shall

(a) consider applications for assistance and take decisions on the same

(b) make appropriate grants or loans as the case may be

(c) make arrangements for verifying the utilization of the funds sanctioned by them and receive progress reports on the implementation of the projects concerned

(d) take over the duties of the U.N. Technical Assistance Administration and coordinate the various schemes of technical assistance supplied by the specialized agencies to the underdeveloped countries, with one another, with the schemes financed by the International Bank, and with the schemes financed by their own Organization

(e) arrange for assisting underdeveloped countries in drawing up their development programmes

(f) assist the underdeveloped countries in procuring essential supplies and equipment as well as technical personnel either through the specialized agencies or otherwise

(g) publish quarterly reports on the working of the Organization and submit a detailed annual report together with recommendations to the General Assembly through the Economic and Social Council.

7. *Regional Authorities*

Wherever development projects are such as to cover more than one State, the Organization shall take the initiative in arranging for a joint conference of the States concerned and set up a regional authority for the preparation of plans and the implementation of the projects in question. Such a regional authority will have on its management representatives of the governments of the States concerned, and no work shall be undertaken without their consent.

8. *Technical Staff*

The Organization shall have a basic nucleus of qualified and competent technical staff on a permanent basis to enable it efficiently to discharge the duties imposed on it by para 6 above. It shall, however, be open to the Organization to recruit from time to time technical staff for temporary periods as also to obtain from member governments the services of technical staff in their employment on a loan basis and without detriment to their own national interests.

9. *Headquarters*

The headquarters of the Organization shall be located in an underdeveloped country, preferably in Asia.

May I conclude this article with the hope that the United Nations Organization will take up this most important task; and, by establishing this new International Development Authority (or United Nations Economic Development Administration), not only help to promote the economic development of the underdeveloped countries, but also perhaps show a way out of the dismal morass created by the cold war and turn men's energies once again into the constructive channels of international cooperation and mutual aid for the preservation of world peace.

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