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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOURTH MEETING OF THE CONSULTATIVE COMMITTEE ON ECONOMIC DEVELOPMENT IN SOUTH AND SOUTHEAST ASIA

MARCH 10-28, 1952

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Economic Department

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Fourth Meeting of the Consultative Committee on Economic Development in South and Southeast Asia (March 10-28, 1952)

The Meeting of Officials of the participating governments was held in Karachi from March 10 to March 22 and the Ministerial Meeting from March 24 to March 28. The countries represented as full members of the Committee were: Australia, Burma (for the first time), Canada, Ceylon, Cambodia, India, New Zealand, Pakistan, the United Kingdom, the United States, and Vietnam. Laos was unable to send a representative. At the Meeting of Officials it was decided to extend an invitation to Nepal to join the Consultative Committee. The Government of Nepal accepted and its representatives attended a part of the Karachi meeting. The Governments of Indonesia, the Philippines, and Thailand were represented by observers.

It was decided to send a standing invitation to the General Secretary of ECAFE to attend meetings that the Consultative Committee might consider appropriate.

The main items on the agenda of both the Official and Ministerial Meetings were:

(1) Preparation of Annual Report

(2) Role of International Bank

(3) Future Organization for Continuing Consultations

(4) Technical Assistance

1. The Role of the International Bank

When this item was discussed at the Meeting of Officials, the Bank representative stated that the position of the Bank had been explained at the last meeting of the Consultative Committee in Colombo, February 1951,[1/] and had been brought out in the proceedings of the meeting and in the correspondence between the President of the Bank and the U.K. Chancellor of the Exchequer. He reviewed the operations of the Bank during the intervening period in Pakistan, India, and Ceylon and pointed out that the President of the Bank had visited the countries of the region to get first-hand knowledge of their problems. Thus the governments concerned had a good opportunity to discuss with him any problems arising out of their relations with the Bank. Various questions were asked in the discussion, among them the question as to whether the Bank grants loans only for self-liquidating projects. The Bank representative pointed out a number of loans for projects which cannot be considered self-liquidating. The term "self-liquidating" needs clarification.

1/ See: "Notes for the Report to the Board of Executive Directors by A. Basch on Colombo Conference" -- Sec. Memo No. 665, May 11, 1951.

The Government of Pakistan tabled a resolution in which it said that cases have occurred where, in spite of the fact that carefully prepared projects have been presented which have withstood the detailed technical scrutiny of the Bank experts, the Bank has been unable to assist those countries to the extent necessary. The reason is that the currencies required by the borrowers are not made available to the Bank by the member countries even against their 18% capital subscription. This applies to most European currencies and the result is that the actual availability of loans to borrowers is seriously limited. The usefulness of the Bank as an instrument to promote reconstruction and development is thus greatly reduced. The resolution stated that the following may be the best solutions to the problem:

"(a) To persuade the countries to release 18% of their subscriptions within the prescribed notice period and not to place restrictions on its utilization for loan purposes.

"(b) The Bank itself may undertake to purchase the currencies required by under-developed countries and make them available without enforcing the provisions of Section 3.02 of Loan Regulation No. III. If necessary, the loan regulations should be modified."

With regard to the release of 18%, the Bank representative referred to the Bank's efforts in this matter and quoted, among others, the respective sections of the Sixth Annual Report (pp. 8 and 10). With regard to the second point--accepting the repayment in non-dollar currencies while lending dollars--the position of the Bank was explained. The U.S. Delegate, supported by the U.K. Delegate, moved that Pakistan's proposal was a policy matter which could be decided only at the Annual Meeting of Governors and for which the Consultative Committee is not the proper forum. The meeting agreed with this view and the discussion of this problem was not resumed at the Ministerial Meeting.

The discussion on the Role of the Bank at the Ministerial Meeting was not very extensive and followed the main lines of the discussion at the Meeting of Officials. Some questions were asked, especially with regard to the sale of Bank bonds held in its portfolio. It should be noted that both the representatives of India and Pakistan expressed their satisfaction with the operations of the Bank in their countries.

The Bank representative was treated not as an observer but rather as a member and was invited to express his views on most of the questions and to work on the drafting parties preparing the various chapters of the Annual Report.

2. Future Organization for Continuing Consultations

At the last meeting of the Committee in Colombo in February 1951, the U.K. Delegation brought up this subject, expressing the view that it would be useful to have a small secretariat for the Consultative Committee. Apart from functioning as the clearing house of information, it could have the specific functions of serving as secretariat of the meetings of the Consultative Committee and preparing material for the Annual Report. The consensus of the Karachi meeting was that the setting up of a permanent secretariat was not necessary at present and that the question should be left open for consideration at a later meeting. The function of a secretariat for preparing a meeting and an annual report will always be carried out by the country in whose territory the next meeting will be held. Because the next meeting will take place in India, the Indian Delegation arranged to take over the preparation of this meeting. At the last meeting of the Ministerial Committee, the Indian Finance Minister moved that a committee of experts be appointed to prepare the documentation of the Annual Report, beginning with sending out a questionnaire for this report. He proposed that the Committee consist of the following experts:

Fred Benham	U.K. Territories
Wilfred Malenbaum	United States
P.S.N. Prasad	India
J. S. Reid	New Zealand
P.S. Lokanathan	ECAFE
A. Basch	IBRD

3. Technical Assistance

The Council of Technical Cooperation submitted to the Committee a report dealing with the first year of the operation of the Council and the Bureau for Technical Assistance which was established in Colombo. The amount spent by the members of the Bureau in the first year was around £ 400,000 which is substantially less than was expected. The funds which were allocated by the various governments for the period of three years amount to £ 8 million. This amount, however, does not represent a central fund of liquid resources but consists of amounts committed to be paid by the member governments on a bilateral basis.

The report of the Bureau shows that it was not difficult to place trainees in the numbers requested by various countries. The governments of Australia, Canada, India, New Zealand, and the United Kingdom have offered to take stated numbers of trainees for academic courses in universities or for practical training in industries and public utilities. It was agreed that in the future increased emphasis should be placed on the provision of training facilities within the area.

The provision of experts proved to be much more difficult. The problem has been aggravated under the existing conditions of increasing world-wide demand for technologists. The U.K. Government offered to provide services of firms of consultants which would be able to advise on specific projects or to supply a team of experts at short notice and on a wide variety of subjects. The U.K. representative at the meeting in Karachi indicated that the U.K. Government would be greatly interested to have such consultants associated with the projects financed by the Bank.

In the future more emphasis is to be placed on providing equipment not only for training purposes but also for use by technical experts. The term "equipment" should be broadly interpreted. The Australian Government has decided to expend a substantial proportion of its contribution to the scheme on the provision of equipment.

The question of coordination of technical assistance provided under the Colombo scheme with the U.N. Technical Assistance, the U.S. Point IV Program, and the operations of the various Specialized Agencies was discussed in detail. It was emphasized that simultaneous applications to more than one agency should be confined to cases of great urgency and the fact of a simultaneous approach should be made clear in the application. It was said, however, that it was for each government to decide from what source it wished to seek aid in any particular case. While the fullest possible use should be made of the facilities offered by the U.N., the Specialized Agencies, and the U.S. Program, it was not suggested that assistance under the Colombo scheme should only be sought where other sources of aid had been exhausted. It was considered advisable for the various governments to set up machinery to insure proper coordination of requests for technical assistance. This was done already by India and Pakistan.

4. Review of the Progress and Preparation of the Annual Report

The most important item on the Agenda was the preparation of the Annual Report, which includes a review of the progress achieved since the first Colombo Plan was published in September 1950.

In preparing the Annual Report[1/] the principle established at the London meeting in 1950 was maintained. This principle is that each country is solely responsible for its own chapter, and the publication of the Report does not imply that all the countries taking part in the meeting have committed themselves to the endorsement or approval of all the separate plans. Although the principle was maintained that no country should criticize a program of another country, a very broad exchange of views took place at the Karachi meeting in the preliminary sessions and in the work of the drafting parties. As a result of thorough questioning, various changes were made in the country chapters. However, the estimates, the figures, and the programs remained more or less as presented by the countries themselves. The Annual

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1/ Report of the Consultative Committee on Economic Development in South and Southeast Asia - Fourth Meeting at Karachi, March 1952 (84 pages).

Report consists, thus, of two different parts. The sections dealing with the development programs of the various countries remain the responsibilities of these countries. The Committee as such prepared the general chapters of the Report. It may be expected that as the program progresses further, more and more consultation will develop even on the preparation and presentation of the programs of the individual countries. The Finance Minister of India, Sir Chintaman Deshmukh, suggested that a thought be given to the possible integration and coordination of the Indian and Pakistani programs. As an example he indicated that, for instance, Pakistan might export fertilizers from West Pakistan to Central India; and India, from East India to East Pakistan. He also suggested a meeting of the Indian and Pakistani Planning Commissions.

In presenting the Report it was considered useful to give a definition of the Colombo Plan. The press communique says:

> "The Colombo Plan is a cooperative plan to enable members to help one another through bilateral arrangements for assistance both capital and technical. Its objective is to raise the standard of living by accelerating the pace and extending the scope of economic development in the countries of South and Southeast Asia, with special emphasis on the production of food."

The needs of the area are approached in a comprehensive and cooperative manner, but the Colombo Plan is not a centrally planned and directed blueprint for the development of the area. Development should proceed on the basis of individual programs.

In reviewing the progress so far achieved under the Plan, it became clear that the original programs required adjustment because the world economic situation had changed and because member countries had felt it necessary to reconsider the scope and content of their programs. It was recognized that such changes were a natural, indeed an essential, element of realistic planning, and that any estimates of a six-year period would require frequent revision. It was found extremely difficult to estimate the cost of the programs for the next five years and especially to prepare any estimates for the balance of payments in the next five years. The main emphasis was thus placed on presenting figures as dependable as possible for the year 1952-53. Where figures for a six-year program are published, they should be considered more as an indication of the magnitudes involved rather than of a forecast of the real expenditure to be expected.

Reviewing the progress achieved since the Colombo Plan Report was published, the Report of the Committee states that it is clear that the Plan "had got off to a good start." In 1950-51, the terms of trade of countries in South and Southeast Asia improved, export earnings increased, and instead of an expected balance of payments deficit the countries achieved substantial balance of payments surpluses which were carried over in the first Colombo Plan year. Through various fiscal measures they were able to obtain budget surpluses and to finance not only current expenditures but substantial development expenditures as well. Expenditures for development

were stepped up in 1950-51 and they were further increased when the first year of the Colombo Plan Program, 1951-52, was prepared. The increased rate of investment can be seen from the following table which shows expenditure by public authorities on development in the three years, 1950-51 to 1952-53.

(In millions of dollars)

	1950-51 Actual	1951-52 Rev.Est.	1952-53 Est.	Average Yearly Expenditure in the Colombo Plan
India	549	717	860	643
Pakistan	62 1/	322	331	110
Ceylon	48	106	123	47.5
U.K. Territories	36	50	67	50
Total	695	1,195	1,381	850.5

1/ No figure on Pakistan expenditure in 1950-51 is given in the Report. The amount of $62 is based on information available here.

The yearly average of public expenditure on development in the Colombo Plan was around $850 million. An amount of nearly $700 million was spent in 1950-51. The estimate for the first year of the Colombo Plan is nearly $1,200 million; and for 1952-53, $1,381 million which would be 60% more than the yearly average for the six years of the Colombo Plan. The estimated expenditure in 1952-53 for India and for the U.K. territories are one third higher than the six-year average. Pakistan's expenditures are three times as high and those of Ceylon 2.6 times as high as the estimated six-year average.

The outlay of $700 million on development in the public sector in the year preceding the first Colombo Plan year was financed with practically no foreign assistance. Moreover, during this period all countries increased their foreign exchange assets, in spite of the substantial step-up of the development program.

Financing was available for the development program in 1951-52 and substantial foreign financial assistance was obtained. According to the Colombo Plan program, the average yearly external assistance needed for the implementation of the program was estimated at $325 million in addition to the release of sterling balances. This does not include the U.K. territories in the area for which the U.K. committed foreign assistance to the amount of £ 60 million ($168 million). The total external assistance, related only to India, Pakistan, and Ceylon, granted or committed during the first year of the program amounts roughly to $338 million, or more than the yearly

estimated assistance required. Of course, the program of these three countries was stepped up by nearly $350 million. Of the total external assistance, the U.S. provided about 74%; the Commonwealth countries--Canada, Australia, New Zealand--14%; and the loans newly granted or disbursed by the Bank provided the remaining 12%. The total external assistance granted to India during this period amounts to about $280 million, that to Pakistan to about $54 million. It should be mentioned, however, that some of the funds authorized or allocated will not be spent by the end of June 1952 and there will be a carry-over either in foreign exchange or in local currency counterpart for the financing of the 1952-53 program.

The 1952-53 Program

The external assistance estimated necessary, in addition to IBRD loans already granted or under negotiation, for the Colombo Plan for the three countries--Ceylon, India, Pakistan--is about $420 million which compares with the total proposed investment in the public sector of about $1,314 million. Pakistan estimates that it will need assistance of $120 million in addition to about $24 million to be financed by drawings on the IBRD loans. India's balance of payments deficit in the second year is estimated at Rs. 2,000 million ($420 million). Around Rs. 750 million ($158 million) may be available by drawing on the sterling balances, and about $8.4 million will be disbursed from the IBRD loans. This will leave a gap of about $250 million.

Ceylon's deficit is estimated at Rs. 350 million ($73.5 million) of which Rs. 100 million would be financed by drawing down the sterling balances. The rest of the deficit, about $50 million, is expected to be met by external assistance, should the development program be carried out in full.

Against the estimated amount of the needed external assistance of about $420 million after deducting the drawings on the IBRD loans, the following amounts are believed to be available at present in the form of grants.

	Dollars Million
Canada - as in the first year	25
New Zealand - as in the first year	2.1
Australia - if the second year contribution is equal to that of the first year (this has not been decided yet)	19.6
United States	96-100

Thus the total amount of grants at present will be around $145 million, leaving an uncovered deficit of about $275 million. It would seem that the external financing of the program is not assured for the second year. However, it is not certain to what extent the projects have been prepared in detail nor to what extent the programs will be implemented. Furthermore, because of the economic recession prevailing now in the area, or for other reasons, the balance of payments deficit may be reduced. For instance,

India has already lowered, by one half million tons, the target for food-grain imports; and imports of raw cotton will certainly remain below the level of 1951-52. Finally, there will be a carry-over either in the form of foreign assets such as may be the case in Pakistan and Ceylon, or in the form of local currency counterpart as may be the case in India, which will help to finance the second year of the program.

Taking together the total grants and the expected disbursements of IBRD loans, the external assistance for the second year of the program so far available is about $180 million compared to $337.8 million in the first year. Thus, the foreign assistance for the second year remains substantially below the yearly average of $325 million and represents less than 14% of the total proposed investment by the three countries. The difference is mainly due to the U.S. Wheat Loan of $190 million granted to India in 1951-52.

United States assistance equals 55.5% of the total (it was 74% in 1951-52); that of the Commonwealth countries, 26.2%; and IBRD loan disbursements would represent 18.3%. At the Karachi meeting it became evident that the role of the United States in the Colombo Plan program was becoming stronger. The U.S. Delegation played a much more important role in Karachi than it did in Colombo. It was recognized by the member countries that they will depend to a substantial degree on the United States for the full implementation of their future programs.

The U.K. contribution consists of three items:

(a) £ 60 million grants and loans committed to the U.K. territories in the area.

(b) £ 250 million sterling to be released over the period of the Colombo Plan. The Colombo Plan countries are aware of the great importance of getting the sterling releases for the financing of their programs and the balance of payments deficit, and are somewhat apprehensive as to what might happen to their programs if they should not be able to draw on their sterling balances.

(c) The supply of capital goods. The U.K. Delegation properly emphasized the importance of the U.K. supply of capital goods to the area and repeated that the U.K. will endeavour to maintain the present high volume of capital goods export to the Colombo Plan countries.

Changes in the Development Programs

Nearly all the programs as they were prepared for the Report in September 1950 needed to be revised because the time for preparation had been too short. Resources had to be re-assessed and targets newly estimated, all of which led to substantial changes in the programs of some countries. Some changes are, however, of a bookkeeping nature because expenditures on development, which have been met from current revenue, have been separated now and have been added to the previous estimates of development outlay.

Ceylon

The revised six-year program involves estimated costs of Rs. 3,200 million ($672 million) as against Rs. 1,359 million ($285 million) in the Colombo Plan. An important rural development scheme was added to deal with the problem of under-employment in the villages. Much greater emphasis is given to education and health programs as well as to the expansion in the power and transportation fields. Compared to Rs. 233 million ($48 million) spent on development in the public sector in 1950-51, the estimated expenditure for 1952-53 is Rs. 583 million ($123 million). This seems to be rather too optimistic an assumption as to the investment and financing possibilities for the next five years. The program of Ceylon is also substantially larger than the program considered as appropriate and reasonable by the overall Bank Mission to Ceylon.

India

The six-year Colombo Plan program has been revised in the light of more detailed investigation carried out by the Planning Commission in connection with the preparation of the Five Year Plan. India will continue to operate on the basis of the Five Year Plan but has adjusted its overall figures to the six-year Colombo Plan programs. The total for six years is Rs. 23,337 million ($4,901 million) as compared to Rs. 18,395 million ($3,859 million) in the Colombo Plan. However, an amount of Rs. 3,600 million ($756 million) depends on whether adequate foreign assistance is available and, therefore, this amount has not been allocated yet. If this sum is deducted from the total, the new total will be only Rs. 1,342 million ($282 million) more than was the program in the Colombo Plan Report. The most important change is the greater emphasis placed on irrigation and power. The new target for the production of foodgrain is 7.2 million tons compared to 3 million tons in the original program. Conversely, less emphasis is placed on the expansion of other agricultural production. A substantially smaller target has been established for the increase of production of oilseeds.

Another major revision is in process of being finalized. As a result of the Indo-American Technical Cooperation Agreement, there will be a material increase in the agricultural extension work. It is expected that up to the end of June 1957 the cost of this program may exceed $500 million, of which about 70% are costs above those provided for in the Plan.

Pakistan

The Report states that the Pakistan six-year program was hurriedly prepared within a period of just three months, and a subsequent examination has revealed omissions and inadequacies. A Planning Commission and a number of sub-commissions were set up to review the resources available to prepare detailed schemes covering the entire range of development needs, and to coordinate all development schemes and recommend priorities. This task has not yet been completed and a revised assessment of total requirements over the six years is not at present possible. In the meantime the Government has established a two-year priority program placing greater emphasis on

development of industries. The development expenditures in the public sector in the first two years of the Colombo Plan are estimated at Rs. 2,177.5 million ($653 million) as compared to Rs. 2,200 million ($660 million) estimated as the six-year expenditure in the public sector in the Colombo Plan. These figures indicate the extent of the revision of the Pakistan program.

Malaya

The program of the Federation of Malaya has also been changed in view of the emergency. It was necessary to resettle some 400,000 squatters. But some projects undertaken to cope with the emergency such as improvement and extension of railway facilities, airports, and telecommunications will be of lasting benefit. It is hoped to complete the first half of the electricity program by 1957.

Dependence on External Assistance

As mentioned already, the Colombo Plan program started its first year at a higher rate of investment than was originally contemplated, chiefly because of the improved external and internal financial situation throughout the area. It is probable that the rate of investment in 1952-53 will be at about the first-year level. In spite of the increased rate of investment, the Report of the Committee points out that because of the nature of the various projects no spectacular results should be expected in the next year or two. The full benefits would appear only in 1957 or thereafter.

The question arises as to how the investment needs will be met in the third year and the following years. The Report of the Committee does not intend to answer this question except by saying:

> "This will depend on a number of factors. Foremost is the continued determination of the countries to pursue their development objectives and to utilize their resources effectively to that end. The investment programmes must be planned so that they do give promise of production increase in excess of population increase and take full advantage of available technical assistance and the potentialities of private as well as public capital. Of great importance too is the continuation of the cooperative attitude of mutual assistance implicit in the plan, and in particular the continued willingness to provide the technical and capital assistance needed."

Without external assistance the program could not be carried out to the extent contemplated.[1] The need of external assistance will be greater if the rehabilitation programs of Burma and perhaps Vietnam are taken into account. While dependence on foreign assistance might be greater than in the first year of the Colombo Plan, there is hardly the possibility of giving the countries any assurance that such assistance will be available. There is no doubt that the Colombo Plan is being taken seriously by the developing countries and by all members of the Colombo Plan Committee outside the area. In this connection, the following sentence of the Committee Report should be quoted:

> "Every effort is being made to see that government projects which are economically justifiable and are appropriate for public finance are not impeded because of lack of capital or of technical competence."

Many projects were started and a great many are about to be begun. Should the resources needed for the implementation not be available, some of the projects will perhaps be slowed down and spaced over a longer period of time. Should the situation become even worse, some countries might be confronted with the problem of discontinuing some of the projects or providing the means for the implementation by cutting imports and by deficit financing. In a dilemma as to whether to carry on development even at a slower pace or to discontinue some of the projects, countries would probably resort to an unorthodox way of financing.

1/ See our paper: The Colombo Plan, January 23, 1951, No. E-135b.