

For Review

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

POSTWAR ECONOMIC GROWTH

IN

SOUTHEAST ASIA

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I--INTRODUCTION AND SUMMARY

It is the purpose of this paper to review the major trends in the development of Southeast Asia since the war and to appraise the area's conditions and growth prospects. The survey covers Burma, Ceylon, India, Indonesia, Malaya, Pakistan and Thailand. It did not appear useful to discuss the development in the Associated States of Indochina since the largest part of the country was a battlefield until recently.

Many of the findings contained in this paper should be regarded as tentative. Factual evidence on which the analysis rests is scanty and often unreliable. This is particularly the case with national income estimates, where considerable differences exist in concepts and in the comprehensiveness of coverage. Although an attempt has been made to eliminate the obvious discrepancies, the data presented in this paper should be considered to indicate only broad orders of magnitude.

The gravity of the traditional development problem in Southeast Asia can probably be best described in terms of three factors: low per capita income, the lack of drive in a largely self-subsistent society, and high pressure of population on land. The static character of the economy, associated with a low level of savings and investment, prevents the creation of sufficient employment opportunities outside agriculture to absorb both the steady increment to the labor force and the existing rural population surplus. The resulting pressure of population on land makes for a high man-land ratio, stimulates parcelization of holdings, compels cultivation of more submarginal land and increases under-employment. Small per capita production and, consequently, low real income in agriculture, aggravated by the maldistribution of income because of land tenancy, impedes development of the market for industrial goods. As a result, aggregate savings in the industrial sector remain low. This in turn prevents an increase in the rate of accumulation of industrial capital, while new capital formation in agriculture is directly limited by the low level of per capita agricultural income.

Since the war, two external factors have tended to break down the tendency towards stagnation inherent in the economies of the area. The first and most important of these was the achievement of political independence. Until the war, all of the countries in question, except Thailand, were parts of colonial empires; with the exception of Malaya, all became independent states following the war. This political change was accompanied by far-reaching ambitions for the betterment of living standards and by a strong desire for a greater degree of social equality. As a result, newly-born national authorities suddenly became the main vehicles for economic growth and social change.

The second dynamic factor working from the outside was the sharp fluctuation of world demand caused by the Korean war. Due primarily to price increases, export value more than doubled between the first half of 1950 and the first half of 1951, substantially enhancing domestic money incomes and, since import prices rose at a lower rate, real incomes as well. This coincided with a substantial expansion of public investment under development plans formulated during 1949/50. The increase in domestic incomes, caused by the boom in exports of raw materials, served as a financial base for increased public investment activity and made much easier the task of the new governments in launching a concerted development effort. By this fortunate combination of circumstances the additional real income was acquired before the new investment had even started; the normal process of growth, involving investment first and only then an increase in income out of which to finance the next round of capital formation, was reversed without large-scale borrowings abroad. The boom in exports was followed by a slump in the second half of 1951. However, not all export prices fell below the pre-boom level, and the increase in incomes during the upswing stage of the inventory cycle remained a net gain for most of the area. Adjustments required in the downturn resulted in some slackening of capital accumulation in the private sector, but this was more than offset by the increasing rate of the public investment, financed by drawing on reserves.

The effect of the development efforts and of the export boom has been a growth in output at a rate higher than the rate of population increase. In the area as a whole, excluding Indonesia for which data are not available, output rose during 1948-1953 at an average rate of 2-3/4% per annum. Since the rate of population increase was about 1 1/2% yearly, the annual per capita rate of growth in output appears to have been around 1 1/4%. The highest rates of growth in aggregate output were achieved in Thailand, Malaya and Ceylon. However, since almost all countries in the area suffered extensive damage during the war, a part of the increase in output had to compensate for the retrogression of the previous decade. By 1952, Indonesia had no more than regained its prewar level of aggregate output, while in Burma the 1953/54 output was still 17% lower than before the war. For the area as a whole, the output of food grains per capita is only now approaching the prewar level.

Savings and investment rates appear to have been rising in the last decade. In India, the increase in both output and investment during the last three years has surpassed all expectations, and there are indications that the country may be approaching the threshold of rapid capital accumulation which might be followed by a sustained growth in income. Nevertheless, the over-all level of savings and investment in the area as a whole is still low and the present average gross investment rate is less than 10%. The obstacles to a substantial increase in, and to efficient utilization of savings are great, particularly in some countries, and they cannot be easily overcome.

In the future, the development efforts may be expected not only to continue, but to increase. They will be greatly facilitated if the capital-output ratio (capital requirements per unit of additional output) is maintained at the low level of 2.0-2.5:1 which has thus far prevailed. While development prospects appear particularly promising in India, all indications are that other countries in Southeast Asia will also continue to regard economic growth as the central problem of their public policy.

For economic development of all countries in the region, and particularly of those with a high ratio of exports to national income, the trend in world economic conditions is of decisive importance. The rate of economic progress in Malaya and Ceylon and, to a lesser extent, in Thailand, Burma and Indonesia, largely depends on both the long-term growth and the extent of income fluctuations elsewhere, particularly in North America and western Europe. Although there have been considerable intermittent variations, world demand for Southeast Asian exports has been strong during the last decade. Internal development efforts will be greatly facilitated as long as world income, consumption and trade continue to expand at rates comparable to those that have prevailed since the war.

II—GROWTH IN OUTPUT

A. Effects of the War

The Second World War had a strong impact on the productive potential of Southeast Asia. Some of the countries - Indonesia, Malaya and Burma - were battlefields and their agriculture, mining, industry and transport were severely damaged. The productive facilities in the Indian subcontinent were devoted to the allied war effort which required a very high rate of utilization of the transport system and the industrial structure, and kept repairs and replacements to a minimum. In both occupied and unoccupied regions reduction in personal consumption was accompanied by consumption of capital. A great increase in the money supply, resulting from war expenditure, was followed by inflation, the effects of which were felt for several years after the war ended.

The main source of food in the area -- rice -- was particularly affected. Immediately after the war there were 15 million acres of abandoned rice fields, and exports of rice fell from the prewar level of 5.5 million tons to less than 1 million in 1946. The expansion of acreage under foodgrain in India could not compensate for the loss, since poor weather, lack of fertilizers and draft of the best labor to the army prevented at the time an increase in output. Rubber plantations and tea estates in the occupied territories had reverted to jungle. More than a third of the prewar railway track had been torn up or completely worn out and other means of transportation had been similarly damaged. An expansion of the capital stock occurred only in India, where new metal and machine industries were built in response to war demand. However, this expansion was not able to offset the generally adverse effects of the war on the area as a whole.

The time required for reconstruction varied from country to country and among economic sectors. In some areas, reconstruction was slowed by civil disorder and military operations which continued after the war; the outstanding case is that of Burma, which has not yet regained the prewar level of aggregate output, chiefly because of the domestic political insecurity and war conditions. Military operations and civil disorder also hampered growth in Malaya and in Indonesia.

B. Agricultural Production

Recovery has progressed faster in industry and in the production of some raw materials for export than in agricultural production for the domestic market. Since agriculture is the most important component of total output, its slow recovery has strongly influenced the over-all rate of growth. The prewar level of aggregate food output in the area as a whole was not reached until 1951. Since then, however, the upward movement has continued.

Table I

Aggregate and Per Capita Production of Food Grains in Southeast Asia. a/

	<u>Prewar</u> ^{b/}	<u>1948</u>	<u>1952</u> ^{e/}	<u>1953</u> ^{e/}	<u>1953 as % of prewar</u>
<u>Aggregate production</u>					
<u>Thous. tons c/</u>					
Rice	64,066	65,591	66,670	76,667	119.6
Other grains d/	<u>31,289</u>	<u>27,911</u>	<u>30,364</u>	<u>32,254</u>	<u>103.1</u>
Total	95,355	93,502	97,034	108,921	114.2
<u>Population, thousands</u>	477,662 ^{f/}	539,158	573,698	581,512	121.7
<u>Production per capita kgs.</u>	199.6	173.4	169.1	187.3	93.8

a/ Data relate to the crops harvested in the latter part of the year indicated and in the first half of the following year.

b/ 1934-38; for some commodities and some countries 1937-41, 1936-38 and 1937-39.

c/ For Indonesia, Java and Madura only.

d/ Wheat, barley, maize, millet and sorghum.

e/ Estimates for some smaller items.

f/ 1937.

Sources: Appendix I.

Table I indicates that Southeast Asian grain production has been losing ground for a long time and that only in the last few years has a definite upward trend reversed the process, so that the prewar per capita output is now being approached.

Agricultural performance seems to have been best in Thailand, Ceylon and Malaya, next in India, Pakistan and Indonesia, while Burma is at the bottom of the scale.

Table II

Indices of Total Agricultural and Food Output
(prewar = 100 a/)

<u>Country</u>	<u>1946/47</u>	<u>1948/49</u>	<u>1950/51</u>	<u>1952/53</u>	<u>1953/54</u>
			<u>Food</u>		
Burma	56	74	71	81	78
Ceylon	N.a.	112	123	124	133
India	96	96b/	91	101	116
Indonesia	64b/	82	91	98	101
Malaya	75	88	100	99	98
Pakistan	109	114	113	111	114
Thailand	110	135	138	139	155
			<u>All Agricultural Commodities</u>		
Burma	56	74	71	81	78
Ceylon	n.a.	120	134	131	139
India	96	95	96	102	113
Indonesia	64b/	82b/	101	110	110
Malaya	73	114	115	127	125
Pakistan	102	104	107	108	105
Thailand	107	138	144	146	162

a/ Burma, 1936/37 - 1940/41; Ceylon, Indonesia, Malaya and Thailand, 1934-38; India, 1936/37 - 1938/39; Pakistan, 1936-38.

b/ Java and Madura only.

Source: Appendix I.

The reasons for the inter-country differences are many. Thailand was largely spared the ravages of war and could expand output starting at the prewar level; large-scale reconstruction was unnecessary. The strong upward trend in non-food output of Malaya and Ceylon received its impetus chiefly from high export prices of raw materials. When prices receded, output declined, particularly in Malaya. A similar discrepancy between food and non-food agricultural production is apparent in Indonesia. The 1953 level of food output equalled the prewar level, while over-all agricultural production was 10% higher. The performance of Pakistan was better before 1950/51 than afterwards; the slump in prices of jute and cotton led to a reduction of acreage, while the output of food grains was affected by bad weather conditions.

In the over-all food position of the area as a whole, the decisive role was played by India. Indian production of food grains in 1953/54 represented 62% of the total Southeast Asia output. The sharp increase in India's production which occurred in 1952/53 and 1953/54, amounting to 11.5 million tons above the 1949/50 output, is equal to the increase in the aggregate output of the area shown in Table I, and this had raised the area's per capita production of grains by 11% in a single year. For the future, therefore, the basic question appears to be whether India's gain can be maintained and increased, or whether it represents only a temporary upsurge attributable to favorable weather conditions.

The Indian authorities are inclined to believe that approximately one-half of the increase, i.e., 5 to 6 million tons, should be attributed to the favorable weather in 1953/54, but that the rest represents a more or less permanent gain, which will be retained in an "average" year. ^{1/} If this estimate is accepted, the food problem in Southeast Asia, even assuming the long-run maintenance of a primitive pattern of consumption based primarily on starchy products, appears considerably farther from solution than is suggested by Tables I and II. The "adjusted" 1953/54 per capita production of basic food grains would then be more than 10% lower than prewar, notwithstanding the progress already achieved in long-term expansion of aggregate output. This would suggest that there is still urgent need for a further increase of the area's food production.

C. Industrial Production

In mining and in manufacturing, postwar growth was faster than in agriculture. By 1948 the aggregate mining and industrial production appears to have reached the prewar level, whereas, as already noted, that level of agricultural production was not reached for another two or three years. There were exceptions, notably in petroleum and to a lesser extent in tin, but these were more than offset by a sharp increase in electric power, construction materials and steel.

However, growth in industry did not proceed uninterruptedly throughout the following six years. In 1949-1951, Southeast Asia was affected by the world recession in textiles. The Indian textile industry accounts for the main part of the entire Southeast Asian industrial output. The depression in textiles consequently halted over-all industrial growth until the fast expansion in non-consumer sectors of industry could compensate for the low rate of utilization of textile capacity. When textiles recovered after 1951, the rate of over-all growth increased again; the rising tempo in producers' goods industries was maintained, while consumers' goods branches resumed their upward trend.

Data on aggregate industrial production are available only for India. The Indian index of industrial production does not take into account industrialization which is developing in other countries of Southeast Asia. However, in view of its relative size, Indian industry retains a dominant place in the area.

^{1/} Government of India, Planning Commission, Five Year Plan Progress Report for 1953/54, New Delhi 1954, pp. 56-58.

Table III

Index of Industrial Production in India

	<u>1937</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	1954 as percent of 1937	1954 as percent of 1948	Annual rate of growth <u>1948-1954</u>
General in- dex, of which:	84	100	98	97	108	119	125	135	160	135	5%
Engineering & electrical goods	n.a.	100	121	146	189	170	190	233a/	n.a.	233	18%
Cotton textiles	n.a.	100	91	84	93	104	110	113a/	n.a.	113	2%

a/ First nine months.

Source: Appendix I.

The discrepancy in growth between the representative group of producers' goods industries and of the consumers' goods group is striking. Production of engineering and electrical goods rose 133% between 1948 and 1954, while production of textiles increased only 13%. This does not give a complete picture of relative supplies in the consumers' and in the producers' markets, since foreign trade in both fields is significant and other industries are quite important. But the Table does reflect vigorous expansion in the investment sector and a rather slow increase in individual consumption of industrial products. In an economy which grows very rapidly, the rate of increase in investment goods industries may be expected to be higher than the rate of increase in the output of consumers' goods. 1/ Nevertheless, the great discrepancy in the rates of growth shown in Table III indicates that the Indian domestic market for consumer goods is still very limited. The demand for industrial goods has increased primarily in the investment field, and this increase appears to have been the main stimulant to the growth in manufacturing in the last five years.

This tendency is probably less pronounced if the area is taken as a whole. The expansion in Pakistan consisted primarily of the establishment of a textile industry, while the growth in the smaller Southeast Asian countries appears to have occurred mainly in small-scale light industries. However, the production of electric power also increased at least at the same rate, while the output of construction materials seems to have risen much more than that of any other commodity. Table IV, which contains production data throughout the area for several leading commodities, suggests that on the whole the over-all rate of industrial growth has been determined primarily by the investment and producers' demand, while the output of consumers' goods has increased at a considerably slower pace.

1/ These proportions may, of course, be changed through foreign trade transactions.

Table IV

Expansion of Output by Commodity Groups
According to Sources of Demand

	<u>1938</u>	<u>1948</u>	<u>1953</u>	<u>1953 as</u> <u>percent</u> <u>of 1938</u>	<u>1953 as</u> <u>percent</u> <u>of 1948</u>	<u>Annual rate</u> <u>of growth</u> <u>1938-1953</u>	<u>Annual rate</u> <u>of growth</u> <u>1948-1953</u>
<u>Investment and</u>							
<u>Producers' Demand</u>							
Cement, 000' tons	1,520	1,990	4,798	315	241	8%	20
Electricity, mil kwh	3,338	5,731	8,502	255	148	6½	8½
Steel, 000' tons	982	1,277	1,531	156	120	3	3 3/4
Coal, 000' tons	30,800	31,700	38,200	124	120	1½	3 3/4
<u>Consumers' Demand</u>							
Rice, 000' tons	64,066 ^{a/}	65,591	76,667	119	117	1¼	3¼
Other food grains b/ 000' tons	31,289 ^{a/}	27,911	32,254	103	115	¼	2 3/4
Cotton yarn, 000' tons	592	673	739	125	111	1½	2
Cotton fabrics, mil. meters	3,907	4,092	4,708	120	115	1	2 3/4
Footwear, 000' pairs	n.a.	5,333	6,147	n.a.	105	n.a.	1

a/ Prewar average; see Table I.

b/ Wheat, barley, maize, millet and sorghum.

Cement: Ceylon, India, Pakistan and Thailand.

Electricity: Burma, (Rangoon only), Ceylon, India, Indonesia, Malaya, Pakistan and Thailand (Bankok only).

Steel: India

Coal: India, Indonesia, Malaya (lignite) and Pakistan (including lignite).

Rice, Other Food Grains: All seven countries.

Cotton yarn, cotton fabrics: Ceylon, India and Pakistan

Footwear: Ceylon and India.

Sources: Appendix I.

The upper and lower limits of the postwar rates of growth within the first group (investment and producers' goods) are 20% (cement) and 3 3/4% (coal and steel respectively). The highest rate in the second group, however, is only 3 1/2% (rice) and the lowest 1% (footwear). These comparisons are tentative because of the limited number of commodities included and the lack of data for some countries. The growth in the consumers' field is probably underestimated. It does not seem likely, however, even if additional data were available and more commodities included, that the trends outlined in the Table would be fundamentally different.

D. Growth in Gross Domestic Product

In Table V the economic performance of the Southeast Asian countries is estimated in terms of changes which have occurred in their aggregate domestic product. The rates of economic growth so obtained are only an approximate measure of actual development, since the aggregate product data are far from adequate. A large part of total output does not enter the market; rough estimates have to be made of the subsistence production and a value ascribed to that production on the assumption that price ratios would have remained unchanged if it had in fact reached the market. Equally difficult is the problem of isolating the effects of changes in the terms of trade on changes in real income, in order to obtain a measure of the growth in real output. Several countries in the area are export economies, deriving somewhere between one-quarter and two-fifths of their gross income from foreign trade. The prices of their export commodities fluctuate very widely and their terms of trade are constantly changing, involving windfall gains and losses almost year after year. A favorable turn in the terms of trade may compensate for the fall in real output or enhance the gains from a rise, and a relative drop in export prices may wholly offset an increase in real output. Table V is intended to show rates of change in real output only, although the gain due to favorable terms of trade may not have been completely eliminated.

Table V

<u>Country</u>	<u>Growth in Gross Domestic Output a/</u> (in percentages)		
	<u>Present output as</u> <u>percentage of pre-</u> <u>war c/</u>	<u>Present output b/ as per-</u> <u>centage of output in an</u> <u>early postwar year d/</u>	<u>Annual rate of post-</u> <u>war growth e/</u>
Burma	83	115	2 1/4
Ceylon	153	118	2 3/4
India f/	n.a.	111 (115)	2 1/2 (3)
Indonesia	100	100	n.a.
Malaya	n.a.	122	3 1/4
Pakistan	n.a.	109	2 1/4
Thailand g/	210	150	6

a/ In India, Indonesia and Pakistan, net output.

b/ Burma and Thailand 1953/54; Ceylon and Malaya 1953; India, 1952/53 and 1953/54; Indonesia, 1952; Pakistan, 1952-53.

c/ Burma, 1938/39; Ceylon, Indonesia and Thailand, 1938.

d/ Burma, 1947/48; Ceylon and Malaya, 1947; India and Pakistan, 1948/49; Thailand, 1946/47.

e/ Burma, 1947/48-1953/54; Ceylon and Malaya, 1947-1953; India, 1948/49-1952/53 and 1948/49-1953/54; Pakistan, 1948/49-1952/53; Thailand 1946/47-1953/54.

f/ Figures in brackets indicate growth from 1948/49 to 1953/54, which was an exceptionally good harvest year. Non-bracketed figures indicate growth from 1948/49 to 1952/53.

g/ Estimated on the basis of limited data.

Sources and methods: Appendix I.

The period for which the rates of growth are computed is very short, five to six years, primarily because of a lack of data. Nevertheless, some broad conclusions may be drawn on the basis of Table VI, which compares an adjusted summary of information on rates of growth in output with the rates of population increase both by countries and, although coverage is incomplete, for the area as a whole.

Table VI
Rates of per Capita Growth in Output

Country	Gross domestic output a/ in mln. of Indian rupees		Rate of growth in output	Population, millions		Rate of population growth	Rate of per capita growth in output
	1948	1953		1946	1953		
Burma b/	3,557	3,950	2 1/2%	17,749	19,015	1%	1 1/2%
Ceylon c/	2,670	3,156	2 3/4%	6,695	8,155	2 3/4%	0
India d/	91,600	101,000	2 1/2%	335,977	372,000	1 1/3%	1 1/5%
Malaya c/	5,337	6,581	3 1/2%	5,776	6,829	2 1/2%	1%
Pakistan d/	17,646	19,216	2 1/2%	72,587	79,000 e/	1 1/2%	1%
Thailand f/	5,168	7,390	6%	17,011	19,556	2%	4%
Total	124,000	141,293	2 3/4%	455,825	501,585	1 1/2%	1 1/2%

a/ In India, gross national output. All data in 1948 prices.

b/ 1947/48 - 1952/53.

c/ 1947-1953.

d/ 1948/49-1952/53.

e/ Crude estimate.

f/ 1947-1953, crude estimate.

g/ Total adjusted for inter-country differences in the time-span for which the national rates of growth have been measured.

Sources: Appendix I.

The weighted annual rate of growth in real output during the five-year period 1948-53 is estimated at 2 3/4% for six countries with 86% of the total population in Southeast Asia. Since the rate of population increase was somewhat below 1 1/2%, the output per capita appears to have risen at a rate of about 1 1/2% per annum, or slightly higher.

The 2 3/4% rate of growth in aggregate output may be regarded as satisfactory in that it is considerably higher than the rate of population growth. The importance of this achievement is enhanced by the fact that it has occurred after a long period of stagnation, possibly retrogression, in per capita income between 1930 and 1945. However, the rate of growth in aggregate output is far from satisfactory if compared either with that in Western Europe and Latin America since the war (6% and 4% respectively), or with the rate required to narrow the difference between per capita output in the developed countries and Southeast Asia.

Three negative factors must be taken into account in interpreting the aggregate data on postwar growth. As shown in Table I, in spite of all the achievements since the war, the prewar output of food grains per capita in the area as a whole is being approached only now; part of the effort in the postwar decade had to be devoted to regaining the ground lost during the war. In the second place, the rate of growth in Indonesia, which is not included in the over-all estimate, was probably lower than the average for the other five countries, so that the economic advance in the entire area is probably less satisfactory than appears from Table VI. Finally, the 1953 output data for Ceylon and Malaya may have an upward bias, since it was not possible to eliminate completely the gains in real income which occurred in 1953 as a result of the improvement in the terms of trade as compared to 1948. But there is also one positive aspect of equal or even greater importance. In the country by far the most important in terms of both population and income, India, the rate of growth shows a clearly upward trend during the last three years.

Table VII

Yearly Rates of Growth in the Indian Net Output

<u>Years</u>	<u>Percentage Increase above the Previous Year</u>
1949/50	2
1950/51	0.3
1951/52	3.5
1952/53	3.9
1953/54	4.5

Source: Appendix I.

Even if some adjustment is made in the 1952/53-1953/54 rate to take account of the effect of exceptionally favorable weather on agricultural output, the tempo of growth is impressive. Similar advance has been achieved in Burma during the last three years, with the rate of growth above 5% per annum. The results of this development in India and Burma are offset only in part by the recently declining rates of growth in Ceylon and Malaya, since the quantitative significance of the latter for the entire area is much smaller. In addition, it may be assumed that in Ceylon and Malaya the growth has already resumed, although probably at a lower rate than in 1948-1951. The downward adjustment after the Korean war boom has ceased, while external demand for the exports of these countries - rubber, tin and tea - has gained in strength since 1953.

III--CAPITAL FORMATION

A. Rates of Investment

The postwar period has not affected the position of Southeast Asia in the world pattern of investment rates. The economies of the area are still at the lower end of the world scale with regard to capital accumulation. However, it appears that the proportion of their gross national product devoted to fixed capital formation has not remained stagnant during the last six or seven years. This is indicated by the fact, noted previously, that the output of producers' goods has risen faster than that of consumers' goods, while in the composition of imports the share of capital equipment has been increasing. Aggregate investment data also show that the growth in output since the war has not only been followed by a pari passu rise in the absolute level of investment, but that an increase in the rate of capital accumulation has occurred.

Table VIII

Rates of Fixed Capital Formation

A. Gross Investment as Percentage of Gross National Product

<u>Country</u>	<u>Including Maintenance and Repair</u>										<u>Postwar Average Excl. Mainten- ance and Repair</u>
	<u>1938</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>Postwar Average</u>	
Burma	10.8	14.4	14.8	8.9	10.9	11.8	15.1	14.5	19.0	13.7	11.3
Ceylon	6.1	5.3	6.3	9.1	7.8	12.0	13.8	12.3	n.a.	9.5	7.7
India	n.a.	n.a.	n.a.	10.3	n.a.	n.a.	n.a.	n.a.	n.a.	(11.0-11.5)	(9.0-9.5)
Indonesia	8.8	n.a.	n.a.	n.a.	n.a.	4.7	5.3	n.a.	n.a.	5.0	4.0
Malaya	n.a.	10.6	10.2	9.0 ^{a/}	7.2 ^{a/}	7.3 ^{a/}	10.7 ^{a/}	10.2 ^{a/}	n.a.	9.3	8.8

B. Net Investment as Percentage of Net National Product

Burma	5.1	8.3	9.6	2.5	4.1	5.9	9.6	9.5	n.a.	7.1
Ceylon	n.a. ^{b/}	n.a. ^{b/}	n.a.	(5.0)						
India	n.a.	n.a.	4.9	5.5	5.9	6.3	6.3	6.5	n.a.	6.0
Indonesia	3.0	n.a.	n.a.	n.a.	n.a.	0.2	0.7	n.a.	n.a.	0.5
Malaya	n.a.	5.1	4.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(5.5-6.0)

a/ Excluding maintenance and repair.

b/ Probably understated. The 1953/54 rate approaches 7%.

Figures in brackets indicate only the order of magnitude.

Sources and Methods: Appendix I.

Comparisons of investment rates may be distorted by differences in concepts and comprehensiveness of coverage, although an attempt has been made to eliminate the obvious discrepancies. Bearing in mind this qualification, it may be said that significant intra-country differences exist between India, Ceylon and Malaya, on the one hand, and Burma and Indonesia, on the other. Both the gross and the net investment rate in Burma, especially during the last few years, considerably surpass the rates in the other four countries, but this may be in part a statistical over-statement. Extremely low rates in Indonesia - 5% gross and only 0.5% net - while probably containing some downward statistical bias, basically reflect the traditionally low savings effort of the country, which has been further weakened by the war, postwar political difficulties and inflationary financing.

The generally low level of capital formation in Southeast Asia results primarily from the long-term lack of investible financial resources. In the short run, however, investment activity is also inhibited by bottlenecks other than the availability of funds. The lack of technical and managerial capacities, the shortage of skilled labor, and political insecurity have sometimes affected the postwar level of investment activity more directly than the shortage of capital. In Burma, Thailand and Malaya, foreign exchange assets continued for a considerable time to pile up above the level which could be properly considered a safe minimum. When the magnitude of the Indian

First Five-Year Plan was determined, factors considered as limiting investment were both financial and technical.

The efficiency with which the investible resources have been used has varied from country to country. The largest country in the area, India, is an example of a successful dovetailing of financial efforts on the one hand and administrative and technical availabilities on the other. When the original version of the First Five-Year Plan was prepared, technical, managerial and labor capacities were underestimated. The error was corrected in two subsequent upward revisions of the Plan and, after a slow start, the last two years (1953/54-1954/55) were characterized by a rising rate both in investment and over-all economic activity. The country was apparently spared any waste in the utilization of its resources. In some other countries in the region, however, this could not be avoided. Such was the case in Ceylon and Thailand, where a number of industrial projects proved inefficient, both technically and economically. Similar difficulties were met in the newly built textile industry of Pakistan, and there are indications that the Burmese Draft Nine-Year Plan 1952-1960 may not take fully into account the limitations imposed by shortages of technical and managerial skills.

Difficulties encountered in the new industries should be partly attributed to the infant stage of their development. On the other hand, in some cases planning has been insufficient and hasty. The need for better coordination of investment decisions is still very great, particularly in the manufacturing field.

B. Public and Private Investment

Public investment was a leading factor in the increase in investment rates which occurred during the last few years. Almost all countries in the area adopted public development programs around 1950, and although there are great inter-country variations with respect to the scope of planning and the enthusiasm with which the projected public investment is carried out in practice, the over-all effect has been a considerable rise in public development expenditure. Except in Burma, the fraction of national product absorbed by public investment is still relatively small; however, since the over-all investment rate is low, the proportion of public development expenditure increased by 1953 to about 45% of total investment.

Table IX

Percentage Share of Public Investment
in Total Gross Fixed Investment

	<u>1938</u>	<u>1947</u>	<u>1953</u>
Burma <u>a/</u>	17	29	45
Ceylon	13	25	56
India <u>b/</u>	n.a.	35	46
Indonesia <u>c/</u>	n.a.	n.a.	41
Malaya	n.a.	12	39

a/ 1938/39, 1946/47 and 1953/54.

b/ Net fixed capital formation in 1948/49 and 1953/54.

c/ 1952.

Sources: Appendix I. For details on government development programs see Appendix II.

A part of the increase in public investment consists of large expenditure on social welfare, technical training and research. During 1952/53, this type of spending amounted to about 20% of total public development expenditure in India, Pakistan, Indonesia, Burma and Ceylon, taken together. If this indirectly productive investment were not treated as capital formation, the share of the public sector in total investment would be reduced to approximately 35%.

Several elements have had a restraining influence on postwar private investment activity. One of the effects of the long-term economic stagnation in the area has been, and still is, a reluctance on the part of domestic private capital to undertake large investment, particularly in new production fields. The existence of excess capacities in the industrial center of the area, India, both before and after the Korean boom, was a major obstacle to private capital outlay. The postwar political climate, with its lack of security and stability, was not conducive to large-scale private investment. The traditional dynamic element, foreign private capital inflow, operated on a very small scale. Fear of a slump in raw materials prices, the possibility of nationalization, civil disorder and wars in neighboring areas were a powerful deterrent to foreign private capital imports.

The relative importance of the public and private sectors in future development will be determined mainly by two factors. On the one hand, the role of the private sector will depend on public policy measures, particularly with respect to the delineation of fields of investment regarded as suitable for private investment activity. It will also depend on the structure and level of taxation. On the other hand, the strength of the private sector will be contingent upon the vigor with which private capital makes use of the external economies that are now being created, and on its willingness to assume greater risk in relying on future growth of income. In most of the area, public development projects have been concentrated in fields which are not competitive with private investment. The explicit assumption in the Indian and Pakistani planning, as well as in some other countries, was that the majority of industrial investment funds would be forthcoming from private sources, and that public investment in agriculture, devoted mostly to irrigation and the improvement of techniques, should primarily create a framework within which the productivity of private investment might increase. It was thought that the same purpose would be served by public investment in electric power, transport and communications, and housing, health and education. The expectations have been met only in part; the experience in Indian private industrial investment during 1951/52-1952/53 was disappointing. Most recently, however, after the recession was overcome, there has been an increase in private investment activity. ^{1/} Large and properly conceived public development expenditure appears to have stimulated rather than deterred private investment.

^{1/} According to the Indian plan (1951/52-1955/56), the so-called large private industry was expected to invest Rs. 2.33 billion in five years. In the first two years (1951/52-1952/53), actual investment was estimated at Rs. 520 million, or only 42% of the planned annual rate. In the third year (1953/54), however, private investment rose to Rs. 440 million, very close to the planned rate of Rs. 466 million. In the current year (1954/55), investment of Rs. 630 million is reliably forecast. The four-year total would thus come to Rs. 1.6 billion, or 68% of the amount planned for five years. It is important to note that actual public expenditure under the plan for the same four-year period will amount to Rs. 14.5 billion, which is 64% of the five-year plan. This indicates that the initial relative lag of private investment has been overcome.

C. Capital-Output Ratios

Available information suggests that the "productivity" of capital invested since the war has been high. A relatively large increase in output has been associated with a small amount of investment. These low capital requirements per unit of additional output have been one of the most encouraging features in the postwar development. This explains why aggregate growth has been considerable - 2 3/4% per year - despite only a moderate increase in investment rates, to about 6% net.

Table X

Marginal Capital-Output Ratios a/

A. Gross Ratios b/

<u>Country</u>	<u>Period</u>	<u>Ratio</u>
Burma	1947/48-1953/54	4.1
Ceylon	1947/1953	2.8
India	1948/49-1952/53	(3.4)
	1948/49-1953/54	(2.8)
Malaya	1947-1953	2.5

B. Net Ratios

Burma	1947/48-1952/53	3.3
Ceylon	1947-1953	(2.0)
India	1948/49-1952/53	2.3
	1948/49-1953/54	2.0
Malaya	1947-1953	(1.6)

a/ The value of fixed investment divided by the value of additional output, both in constant prices.

b/ Maintenance and repair expenditures are excluded from gross investment.

Figures in brackets are estimates based on insufficient evidence.

Sources and Methods: Appendix I.

Burma is an exception with little importance for the overall picture. The growth in output was hampered by extra-economic factors, although investment activity was relatively high. What appears really relevant is the consistency in the other three countries. 1/ Net capital-output ratio of about 2-2.5:1 must be regarded as extremely satisfactory; should it continue, any further increase in investment activity may be expected to yield quick and considerable increases in total output.

1/ It should be noted that the present draft investment plan in Burma assumes a capital-output ratio of 2.1:1, which is fully in line with the observed ratios in India, Ceylon and Malaya. Japan, another Asian country, also appears to have a low ratio of 2:1 (ECAFE, Economic Survey of Asia and the Far East, 1954).

A detailed satisfactory explanation of why the ratios have been so low cannot be given on the basis of available information. 1/ The actual level of ratios has come as a surprise to the planning authorities in the countries themselves: the Indian plan was originally based on the assumption that the ratio would be 3:1. The recent experience is now viewed as evidence that future planning should assume a considerably lower ratio, even as low as 1.2-1.5:1. 2/ While this degree of optimism may be justified in respect of certain industrial investment, it does not seem so for the economy as a whole. If the recent experience can be taken as a measure for future planning, projected ratio should not be reduced by more than one-quarter (giving 2.3:1).

What appears particularly surprising is the fact that low ratios prevailed in spite of the relatively unfavorable composition of investment. As mentioned before, public investment had a great share in total capital outlay; and within public investment the largest expenditures were on capital-intensive (electrification, transport) and slow-yielding investments (health, education, other social welfare).

Table XI

Distribution of Public Development Expenditures in 1953/54

(in percentages of the total)

<u>Country</u>	<u>Agriculture</u>	<u>Irrigation, a/ Multi-purpose projects and power</u>	<u>Transport and communi- cations</u>	<u>Industry and mining</u>	<u>Social welfare and others</u>
Burma	13	9	36	20	22
Ceylon	19	22	29	8	22
India	14	34	26	4	22
Indonesia	12	21	24	34	9
Malaya	2	25	14	0	59
Pakistan	2	29	28	15	26

a/ A substantial portion of these projects can be considered as assisting agriculture.

Source: Appendix II.

The proportion of public investment going into industry, which may on balance be expected to enjoy a favorable capital-output ratio, was very low in the countries to which Table X relates: 8% in Ceylon, 4% in India and almost nothing in Malaya. Public investment in irrigation, power, transport and social welfare, on the other hand, usually associated with high capital-output ratios, comprised some 80% of the total in India, above 70% in Ceylon and above 90% in Malaya. Yet aggregate capital-output ratios were very low.

1/ One of the explanations for India is that at the end of the period existing capacities were more fully utilized. For other countries, it is possible that subsistence-type investment in agriculture and housing has not been fully recorded since it has no counterpart in monetary savings.

2/ The Eastern Economist, November 5, 1954. In its last Survey, ECAFE uses the ratio of 2.5:1 for measuring aggregate capital requirements in Southeast Asia. (ECAFE, op.cit.)

The shortness of the period for which marginal ratios were calculated limits the inferences which might otherwise be drawn from the observed facts. It is tempting to regard the low ratios found between 1947 and 1953 as evidence that in countries which possess great quantities of cheap labor, capital requirements per unit of output are likely to be smaller than in wealthy, developed areas; they may also be taken as a further reflection of the fact that the factors which make for high rates of profit on capital employed also result in high aggregate output per unit of fixed capital invested. On the other hand, since the period is very short, it may still be argued that the low level of observed ratios is only a temporary phenomenon caused by exceptionally favorable circumstances; it is possible, although not probable, that the wave of low ratios may be followed by a wave of heavier capital requirements. While this thesis cannot be completely refuted on the ground of a restricted and short-term evidence, the fact remains that in the last decade capital requirements per unit of output have been low.

D. Savings Rates

By far the most important source of postwar investment financing has been domestic savings. In Table XII savings rates are shown for five countries in the area. The rates do not fully reflect the amount involved, however. Data on changes in inventories are not available, except for Malaya and partially for Burma. As a result of this lack, aggregate savings in the other three countries are probably somewhat understated, since it may be expected that a growth in gross product and in the stock of fixed capital would normally be accompanied by a long-term increase in the volume of inventories. There may also be a gap in the estimate of changes in external assets. While the figures have supposedly taken into account all international capital and gold movements, it is quite possible that some gold imports (and commodity exports which paid for the gold) were unrecorded. The countries in the area have a deep-seated tradition of hoarding monetary metals; for a long time, India has been the world's largest absorber of gold and silver, 1/ which may partly explain the country's long-term deficiency in productive investment outlay. The magnitude of postwar gold hoarding is not fully known; however, the activity on the Bombay bullion market and the reports on gold imports into the other countries of the area, particularly Thailand, 2/ indicate that this form of savings has not completely disappeared, although for the area as a whole it certainly has less importance now than before the war.

Neither these two omissions nor the highly tentative character of the available evidence, however, are likely to change the basic fact that, with one possible exception (Burma), savings rates in the area are low.

1/ Guesses on Indian gold hoards vary widely. The Reserve Bank of India has estimated the imports of gold between 1900 and 1952 at 45.6 million ounces and that of silver at 2,703 million. At present prices, this would amount to \$4.1 billion. An additional source of hoarding was domestic output of precious metals. See Report on Currency and Finance for the Year 1951-52, Bombay 1952, pp.203-204.

2/ In 1949-1953, Thailand's average annual import of non-monetary gold amounted to US \$30 million.

Table XII

Gross National Savings Rates

(Gross National Savings as Percentage of
Gross National Product)

	<u>1938</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>Postwar Average</u>
Burma	22.9	3.4	7.5	12.3	10.7	16.1	20.3	22.9	13.3
Ceylon	1.1	-3.3	5.6	6.3	9.8	11.7	0.9	5.0	5.1
Indonesia	n.a.	n.a.	n.a.	n.a.	n.a.	4.5	-1.0	n.a.	1.75
Malaya	n.a.	7.4	7.0	6.3	19.2	17.6	11.0	6.4	12.1
India <u>a/</u>	n.a.	n.a.	n.a.	5.1	5.1	4.6	6.2	7.0	5.6

a/ Net Savings Rates (Net National Savings as Percentage of Net National Product)

Sources: Appendix I

Two tendencies may be discerned in the postwar behavior of savings. In the first place, the degree of yearly fluctuations was exceptionally high. During the Korean war boom, the savings rate in Malaya rose to a level more than twice as high as ever before, while in Ceylon the increase was more than 50%. This cyclical sensitivity of savings is equally apparent during the downturn after the Korean boom. As soon as the slump occurred, savings shrank to a very low level in both Malaya and Ceylon, while Indonesia started, on balance, to consume capital. It should also be noted that the upswing in savings in 1950-51 was reflected much more in the accumulation of external assets than in the increase in domestic investment. A parallel examination of Table VIII (Rates of Fixed Capital Formation) and Table XII (Savings Rates) reveals that investment rates are much more stable than savings and that, as might be expected, a sudden increase in external income is devoted primarily to increased consumption and the accumulation of external monetary savings, while the accumulation of real capital lags behind and rises more slowly and regularly. As a result, investment activity reached a peak when the boom was already over, and all countries in the area had to draw on previously accumulated external assets to supplement the reduced volume of their current savings.

If savings before and after the Korean cycle are compared, there are indications of another tendency: a slow increase in savings rates over the period as a whole. This is clearer in the case of India and Burma than in the other five countries, but the latter went through a more difficult period of post-boom readjustment, and it may be expected that now, after the readjustment, their savings will also show some increase.

A similar tendency with respect to investment rates was commented on above. There is no doubt that development efforts in the area as a whole have become stronger and more effective virtually each year since the war and particularly since 1950. This is indicated by not only aggregate growth and investment figures, but even more by the number and the size of projects which have been undertaken. In India particularly, the results in the last three years may be taken to indicate the beginning of a rise in the accumulation of producers' capital which could serve as a basis for a sustained growth in income. On the other hand, however, savings rates have not shown an increase such as would fully match contemplated development targets. The marginal savings rates are higher than the averages, thereby raising the latter, but the rate of increase does not appear great enough, particularly in countries other than India, to effect a radical change in the overall domestic capital supply position in the area.

E. Inter-country Differences in Savings Rates

Inter-country differences in savings rates are substantial and cannot be explained on the basis of some simple correlation. The factors which may be expected to determine the volume of savings are enumerated in Table XIII. Unfortunately, data on one of the most important factors - income distribution - are available for one country only (Ceylon) and therefore cannot be used for any comparison. This difficulty may be partly overcome by introducing three other factors (share of foreign investment income in total domestic savings, proportion of non-agricultural income to GNP and ratio of exports to GNP), which give a rough indirect indication of the pattern of income distribution.

TABLE XIII

FACTORS AFFECTING SAVINGS RATES

Country and Year	Gross domestic savings rate	Gross domestic income per head (Indian Rs)	Foreign investment income as % of domestic savings	Gross nat'l. savings rate	Gross nat'l. income per head (Indian Rs)	As Percentage of Gross National Product					Postwar annual rate of price increase
						Rate of public savings	Rate of aggregate taxation	Rate of private savings	Export ratio	Non-agricultural income ratio	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Burma, 1951	17.1	230 ^{b/}	7	16.1	228 ^{b/}	8.9	15.4 ^{d/}	7.2	28.7	45.0	0
Malaya, 1952	16.5	1,450	38	11.0	1,360	3.8	15.8	7.2	41.5	60.0	3.5%
Ceylon, 1949	9.0	510 ^{b/}	28	6.3	520 ^{b/}	2.1	16.8	4.2	40.0	48.4	8% ^{f/}
India, 1951/52	9.1 ^{a/}	300	2	9.0	298	2.6	8.2	6.4	7.3	50.1	1%
Pakistan, 1952/53	n.a.	250	n.a.	n.a.	245	0.0	7.8	n.a.	10.0	40.0	2%
Thailand, 1952	n.a.	310	n.a.	n.a.	308 ^{c/}	4.7 ^{d/}	12.0 ^{d/}	n.a.	16.2	42.8	6%
Indonesia, 1951/52	3.3	300 ^{d/}	21 ^{e/}	2.7	290 ^{e/}	0.7	13.8 ^{d/}	2.0	13.5	44.0	15%

a/ Postwar average, estimate
b/ 1953 income
c/ Estimate

d/ Total revenue ratio
e/ 1951
f/ Wage rates.

Sources and methods: Appendix I

Since the number of cases considered is small, data unreliable and the time-period short, any findings that emerge from Table XIII are of limited significance. As far as it goes, however, the Table suggests several tentative conclusions.

(a) There is no direct relationship between per capita income and the rate of public savings. The country with lowest per capita income, Burma, has the highest public savings rate, while India, which occupies the middle position in income levels, generates public savings at a rate considerably higher than do Ceylon and Indonesia. It seems that at least for the countries shown in the Table, political and social forces are much stronger determinants of public savings rates than is the level of income. On the other hand, aggregate taxation ratio greatly depends on the importance of export taxes and government export monopolies in the whole taxation structure. The countries with high proportion of exports to national income (Malaya, Ceylon, Burma) can collect taxes much more easily than the economies where export proportion is low (India, Pakistan). It should be noted, however, that a high aggregate taxation ratio is not necessarily followed by a high volume of public savings; in Ceylon, Malaya and Indonesia almost one-sixth of gross national product is absorbed by taxation, but a very small part is left after current government expenditure is financed.

(b) The rate of private savings seems to be correlated more closely with income distribution and with the rate of monetary fluctuations than with the level of per capita income. India, which shows a high private savings rate relative to other countries with higher per capita income, derives about 50% of total income from non-agricultural sources - a proportion higher than in any other country except Malaya. In Malaya, all factors except taxation appear to contribute to raising the private savings rate. The export ratio is the highest in the area; non-agricultural employment is the source of three-fifths of total income, and per capita income is the highest in the area. Malaya has a very high domestic savings rate (16.5%); and even after 38% of total savings are taken up by foreign investment income, the remaining national private savings represent the greatest proportion of GNP in the area (7.2%). In Ceylon, however, which has the highest per capita income after Malaya, the rate of national private savings is low (4.2%); and in Indonesia the private savings rate is the lowest in the region (2%).

(c) An inverse correlation is suggested between savings rates and inflation. Inflation seems to have strongly worked against capital accumulation in Indonesia; the country has a relatively high per capita income, but the propensity to save, which has been traditionally low, may have been reduced to a minimum under the impact of a rampant inflation with a 15% yearly rate of price increase. A similar observation can be made for national private savings in Ceylon, where wages increased substantially (8% per annum). Conversely, monetary stability in India and Burma appears to have provided an incentive to save. In each country the rate of price increase over the whole postwar period was barely 1% per year. Their savings rates are high, although per capita income is low.

(d) The most consistent relationship appears to exist between public and private savings. Public, private and aggregate national savings rates move closely together: the rank of each country is the same for each of the categories, the countries with the highest and lowest private savings having also the highest and lowest public savings, respectively. The ratios of public to private national savings vary widely, from 1½:1 in Burma to 1/3:1 in Indonesia, but the consistency in over-all position is maintained. For the period in question at least, the Table suggests that forces which bring about high savings rates operate in both the private and public field. The Table may also suggest that high public savings and investment, by increasing the level of economic activity and creating additional opportunities and need for capital formation, may favorably affect the private sector in terms of both its earning capacity and its incentive to mobilize unutilized resources.

IV--EXTERNAL ASPECTS OF GROWTH

A. Growth in Import Demand

In all countries in the area except India, the growth in real income has been associated with an increase in the volume of imports.^{1/}The Indian exception is due mainly to the fact that a large part of the economic expansion has occurred in the agricultural sector, thus substantially reducing food import requirements. In addition, the Indian capital goods industry has been able to satisfy a large part of domestic investment needs and expenditures on imports for development purposes have risen less than the amount of import savings achieved in food. In other countries, however, the volume of imports appears to have been rising at a considerably higher rate than domestic real income.

Table XIV

Relationship between Increase in Income and Increase in Imports

<u>Country</u> (1)	<u>Period</u> (2)	<u>Annual Rate of Growth</u>		<u>Ratio of Increase in Imports to Increase in Income (4:3)</u> (5)
		<u>Real Income a/</u> (3)	<u>Volume of Imports</u> (4)	
Burma	47/48-53/54	4	8b/	2.0
Ceylon	1947-1953	4	7 $\frac{1}{2}$	1.9
India	48/49-52/53	2 $\frac{1}{2}$	-1 $\frac{1}{2}$ c/	-0.5
Malaya	1947-1953	4 $\frac{1}{2}$	5 3/4d/	1.3
Thailand	1946-1953	7	11e/	1.6

- a/ Including gains from the improvement in the terms of trade. See Table XVIII.
- b/ 1947/48 - 1952/53.
- c/ 1948/49 - 1954/55.
- d/ 1948 - 1953.
- e/ 1948 - 1954; crude estimate.

Sources and Methods: Appendix I

Several factors have brought about the increase in import demand. In the first place, the expansion of investment activity, particularly in the public sector, was not possible without an increase in import supplies, since none of the countries except India has a domestic industrial base capable of producing capital goods. The import component of total fixed investment amounted, on the average, to about 30% in Burma and 35% in Ceylon and Malaya, while the original version of the Pakistani plan envisaged that 41% of total investment expenditure would be made for imported equipment.

Another factor, spread over the whole economy, was the import demand created by the expansion of domestic money income in consequence of increased investment or resulting from deficit financing of current government expenditure. This inflationary source was particularly strong in Indonesia and Thailand, while Pakistan and Ceylon also suffered from balance of payments pressure caused by deficit financing. Imports of all countries in the area, but especially of these four, would have risen more had

^{1/} Another exception may be Pakistan. The index of import volume is not available but it has been roughly estimated that imports in 1954 were 10% smaller than in 1948. This decline reflects import restrictions called forth by the emergence of balance of payments difficulties.

various restrictive import practices not been adopted. To that extent, income elasticities of demand shown in Table XIV (column 5) include a significant downward bias, but even so they reflect the basic postwar tendency of a faster rise in imports than in real income.

These two factors -- foreign exchange cost of enlarged public investment and investment or budget inflation -- have introduced a new element in the traditional adjustment mechanism which prevailed in Southeast Asia before the war. The countries in the area did not at that time vary the supply of money autonomously; they had a minimum of latitude in fiscal and credit policy, and the fluctuations in their domestic money incomes were almost completely correlated with changes in the balance of payments. With the establishment of independent monetary systems after the war and with a changed approach to the purposes of public policy, this automatism ceased to exist. The manner in which the monetary policy was used varied from country to country. India and Burma were careful to avoid domestic price increases, Indonesia, Thailand and Pakistan suffered from various degrees of investment and budget inflation, while Ceylon and Malaya were subjected primarily to a monetary expansion caused by a traditional dynamic factor - a large increase in export incomes.

B. Development of Exports

In all countries in the area the volume of exports rose after 1947-48. The increase was modest, however; and, except in India, it was considerably smaller than the rise in imports.

Table XV
Export and Import Volume Indices
(1948 = 100)

		<u>1938</u>	<u>1947</u>	<u>1948</u>	<u>1951</u>	<u>1953</u>	<u>1954</u>
Burma	E	254	63	100	71	97	112 ^{a/}
	I	197	100	100	102	152	181 ^{a/}
Ceylon	E	80	91	100	112	120	126 ^{a/}
	I	89	98	100	135	144	139 ^{a/}
India	E	172 ^{b/}	114 ^{b/}	100	98	109	113 ^{c/}
	I	105 ^{b/}	110 ^{b/}	100	118	85	92 ^{c/}
Malaya	E	73	89	100	134	105	111 ^{d/}
	I	81	85	100	181	139	138 ^{d/}
Pakistan	E	n.a.	n.a.	100	129	145	112
	I	n.a.	n.a.	100	n.a.	n.a.	n.a.
Thailand	E	75	46	100	162	143 ^{f/}	126 ^{e/}
	I	115	74	100	n.a.	n.a.	175 ^{g/}

E - Exports
I - Imports

a/ Eleven-month average
b/ Undivided India
c/ Nine-month average
d/ Six-month average

e/ Twelve-month average
f/ Three-quarters average
g/ Crude estimate

Source: Appendix I.

Southeast Asia is one of the main raw materials-producing regions in the world economy, with a high degree of specialization in a limited number of staple goods. Nine commodities (rice, oil seeds and oils, tea, rubber, tin, petroleum, sugar, cotton and jute and their manufactures) account for about 75% of total exports. World demand for the area's export products has a high income elasticity but low price elasticity; on the other hand, the elasticity of supply is limited in the short-run at full capacity, since a considerable time-lag occurs before new investment can yield greater quantities of additional output. A large increase in external demand is usually reflected in an immediate sharp rise of export prices, with an expansion of output lagging behind, while a decline in world demand cannot be arrested by even a substantial reduction in export prices. The instability introduced into the domestic economy by external fluctuations, even when they are limited to inventory changes, is very great, particularly in countries which are highly dependent on exports as a source of income. In these circumstances, some policy of diversification might have been expected as soon as the countries gained political and economic independence.

However, the slow growth in volume of exports is only partly explained by the inelasticity of supply and by diversification policies. Several export commodities are also threatened by a secular decline in world demand, in absolute terms or relative to the growth rate of world trade, while the production of natural rubber is subject to severe competition from the synthetics. In order to distinguish, at least approximately, between cases where exports are limited by supply conditions and cases where the main limitations stem from demand, the following Table has been prepared, indicating comparative growth in output of basic commodities in the world as a whole and in Southeast Asia.

Table XVI

Relationship Between Southeast Asian and World Output
of Selected Commodities
(percentage changes)

Commodity (1)	World output ^{a/}		Output of Southeast Asia		Percentage share of SE Asian output in world output		Ratio between SE Asian and world growth (5:3)				
	Prewar ^{b/} (2)	1953 (3)	Prewar ^{b/} (4)	1953 (5)	Prewar ^{b/} (6)	1953 (7)					
Rice	100	111.5	100	119.7	42.4	45.5	1.07				
Natural Rubber	100	172.3	100	173.6	85.8	86.5	1.01				
Total Rubber (natural & synthetic)	100	259.2	100	173.6	83.9	56.1	0.67				
Tea	100	133.0	100	134.9	84.2	85.3	1.01				
Tin Concentrate (Sn content)	100	97.7	100	87.6	64.0	57.4	0.90				
Crude Petroleum	100	249	100	120.9	3.6	1.7	0.48				
Sugar	100	126.3	100	75.8	10.0	6.0	0.60				
Copra	100	107.3	100	106.2	41.5	39.7	0.96				
Palm Oil	100	121.7	100	88.3	44.6	32.3	0.73				
Cotton	100	129.4	100	96.9	17.4	13.0	0.75				
	<u>Prewar</u>	<u>1952</u>	<u>1953</u>	<u>Prewar</u>	<u>1952</u>	<u>1953</u>	<u>Prewar</u>	<u>1952</u>	<u>1953</u>		
Jute	100	135.4	76.4	100	139.3	68.1	93.2	95.9	83.0	1.03	0.89

a/ Excluding USSR, Eastern Europe and China.

b/ Rice, tea, palm oil and jute, 1934/38 average; rubber, 1939, petroleum and cotton, 1938; tin, 1936; sugar, 1937/38; copra 1948/50 (prewar figure not available).

Source: Appendix I.

The fall in world demand, resulting from technological changes and from the development of substitutes, was the main cause of the absolute decline in the Southeast Asian output and exports of jute and tin. In these two commodities there is a parallel drop in world and Southeast Asian production. In sugar, oils and cotton, the limiting factor has been on the supply side: Southeast Asian output is smaller than it was prewar, while world production and consumption has been rising at a fairly high rate and is now substantially above the prewar level. Petroleum output in the area has risen in absolute terms, but the area's rate of growth has been by far lower than the world rate. Rubber is a special case. The area's output of natural rubber has risen at a very satisfactory rate in absolute terms (more than 70% over prewar), but the production of synthetics has risen even more. As a result, Southeast Asia's share in total rubber production dropped from 84% before the war to 56% in 1953. The area is the only supplier of tea for the world market, so that the considerable increase in output above the prewar level is the same for both the world as a whole and Southeast Asia.

On the whole, Table XVI would appear to indicate that, except in tin, jute and tea, the export markets for traditional products were not fully utilized. It is probable that for some commodities further increases in exports would have involved some price sacrifices. Nevertheless, other more profitable employment opportunities were not readily available, and since the competitive position of Southeast Asia in its traditional exports was strong an additional export expansion, had it occurred, would have produced a considerable net gain in income.

C. Terms of Trade

The adverse effects of the disproportionate increase of the volume of imports relative to exports were greatly mitigated by the improvement in the terms of trade. In the face of an inelastic supply of exports, strong postwar external demand pushed export price upward, while during the Korean war boom the world-wide inventory accumulation resulted in price increases which assumed fantastic proportions for some commodities. The slump which followed was extremely sharp, but except for copra, jute and cotton, prices did not fall below the pre-Korean level. After mid-1953, export prices recovered in response to the upswing in economic activity and demand in Europe. The upward trend was mild but steady, and on the whole it has been maintained for almost two years.

Import prices were much less erratic and their level, except in India and Pakistan during the last few years, remained considerably below that of export prices.

Table XVII

Indices of Terms of Trade
(1948 = 100)

<u>Country^{a/}</u>	<u>1938</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954^{b/}</u>
Burma	58	62	100	90	81	175	184	252	209
Ceylon	139	105	100	111	147	151	109	122	132
India	80	105	100	106	105	130	92	97	96
Malaya	119	96	100	97	150	179	140	125	122
Pakistan	n.a.	n.a.	100	108	118	123	94	70	79

a/ Price indices are not available for Thailand and Indonesia. It may be assumed, however, that Thailand's terms of trade behaved similarly to those of Burma and Ceylon, while the Indonesian index would have been similar to that of Malaya. See ECAFE, Gains from Trade in ECAFE Countries, Economic Bulletin, Vol. V, No. 1, 1954.

b/ Burma, Ceylon, India and Pakistan: average for nine months; Malaya: average for six months.

Source: Appendix I.

Year-to-year fluctuations in export and import prices, numerous and extensive as they were, do not obscure the basic fact that the area as a whole received additional income of substantial magnitude from improved terms of trade. The gain influenced the balance of payments by increasing foreign exchange supply; at the height of the Korean boom, the expansion of export income was so great that Malaya and Ceylon, countries with the highest export ratios, suffered from an export inflation, with an increase in domestic prices of 30-40% in a twelve-month period.

The indirect effect of the improvement in the terms of trade on the rate of economic growth consisted of a substantial increase in both private savings and taxation receipts, which were used, usually with some time-lag, to finance investment. The direct impact consisted, except in Pakistan where the terms of trade deteriorated, of a greater rise in real income than was warranted by the actual increase in real output. The magnitude of this "windfall" gain can be seen in Table XVIII.

Table XVIII

Annual Rates of Growth Excluding and Including the Effects
of Changes in the Terms of Trade

<u>Country</u>	<u>Period</u>	<u>Rate of Growth in Output^{a/}</u>	<u>Rate of Growth in Real Income^{a/}</u>
Burma ^{b/}	1947/48- 1953/54	2 1/4	4
Ceylon	1947-1953	2 3/4	4
India ^{c/}	1948/49- 1952/53	2 1/2	2 1/2
Malaya	1947-1953	3 1/2	4 1/2
Pakistan	1948/49- 1952/53	2 1/4	2
Thailand	1947-1953	6	7

a/ Rate of growth in output excludes, and rate of growth in real income includes, the effects of changes in the terms of trade.

b/ The 1947-1953 rate of growth appears so high because the 1947 (base year) output and income were extremely low due to the war destruction. The 1953/54 output was only 83% of that in 1938/39, while the 1953/54 real income was approximately equal to, or slightly higher than, the prewar.

c/ If the year 1953/54 is included, the average annual rate of growth in aggregate output and income rises to 3% for the entire period.

Sources and methods: Appendix I.

In absolute terms, and expressed in a uniform currency, it has been estimated that the capacity of Southeast Asia to import increased, on account of the improvement in the terms of trade, some U.S. \$2.4 billion, at 1949/50 prices, over the period between the first half of 1950 and the second half of 1953.^{1/} This can be taken only as a very rough estimate; it contains an upward bias, since in the base year (1949/50) the terms of trade were exceptionally unfavorable for those countries that benefited most from the Korean boom. Nevertheless, the estimate indicates the order of magnitude.

The distribution of gains was uneven. A lion's share was taken by Malaya and Indonesia. Ceylon followed next, while Thailand and particularly Burma reaped the benefits later and for a longer period, since the cycle in the price of rice lagged behind and was more lasting than in other primary products. The Indian gain was very modest since the benefits from other exports were greatly offset by the world

^{1/} ECAFE, Economic Bulletin, op. cit.

depression in textile products. Pakistan appears to have been the only country that suffered a net loss.

D. Export Promotion Vs. Import Substitution

In determining the allocation of resources, the countries in the area constantly face the choice between export promotion and import substitution. The problem seems much less acute in India and in Pakistan than elsewhere. In a large country with a variety of natural resources and without an obvious comparative foreign trade advantage on a mass scale, economic development may be expected to depend primarily on domestic rather than export demand. In this case, the increase in domestic requirements for raw materials and capital goods would be the basic determinant of export growth. The ratio of imports to gross national income in India is only 6%, and in view of limited prospects for Indian exports, it may be assumed that export expansion would be a follower rather than a leader in the creation of income.

The position of smaller countries in the area is different. They have for a long time been specialized producers for the world market, relying on exports as their most important source of income. In view of the limitations imposed on other possible directions of development, the specialization appears to have paid relatively well, except in Burma. The two countries with the highest ratio of exports to national output, Malaya and Ceylon, enjoy the highest per capita income in the area, and they, together with Thailand, had the highest rate of growth in both output and real income after the Second World War.

Whether such a degree of specialization will constitute an optimum use of resources in the future depends primarily on the development of world demand for Southeast Asian export commodities. The demand since the war, with all its fluctuations, has been strong, except in tin and jute; and if it is assumed that the present world economic upswing will not be followed by a prolonged and deep depression, the smaller countries in the region would not find it profitable to stop expanding their export industries. On the other hand, there is certainly a point beyond which specialization represents a misuse of resources. The case for diversification is strong, particularly in view of the high rate of population growth, which can be only partly absorbed by export activities. What appears necessary is the maximum use of other investment opportunities alongside export expansion as may be determined by the long-term rate of growth in world demand.

Table XIX shows the changes which have occurred in the proportion of gross domestic product going to exports. It reveals conflicting tendencies from country to country. On the whole it indicates a decline; except in Indonesia, for which a particularly depressed postwar year is recorded, the decline is moderate. This is partly the result of favorable export prices, but it also suggests that the distribution of resources between home and export use has not undergone radical change since the war.

Table XIX

Ratio of Exports of Goods and Services to Gross Domestic Product
(in percentages)

	<u>1938</u>	<u>1947</u>	<u>1953</u>
Burma	32.8	15.6	29.8
Ceylon	43.4	37.0	35.3
India	n.a.	5.4 ^{a/}	4.7
Indonesia	20.3	n.a.	11.2 ^{b/}
Malaya	n.a.	42.1	35.0 ^{b/}
Pakistan	n.a.	4.4 ^{a/}	9.9
Thailand	21.0	11.4 ^{a/}	22.0

a/ 1948.

b/ 1952.

Source: Appendix I.

E. Capital Movements

The extent to which current national output was supplemented by external resources appears relatively small. The deficit on current account of the area as a whole during the seven-year period 1947-1953 amounted to \$1.7 billion, or \$240 million per annum. It was covered mainly by grants-in-aid and by drawing on external reserves. Grants amounted to some \$600 million, while the utilization of reserves gave an additional \$800 million. The net foreign capital inflow was small, about \$300 million. Gross import of capital was, of course, larger, but countries in the area have since the war repaid a considerable portion of their external debt and have also purchased some of the foreign-owned assets, thereby reducing the net amount of resources received on capital account.

A great part of external payments consisted of investment income and other payments to foreign production factors. In the area as a whole, excluding Malaya, such payments amounted to about \$1,000 million during 1947-1953, or slightly less than \$150 million per annum. In Malaya, investment payments were exceptionally large, about \$900 million in the seven-year period.

Table XX compares the balances on current external account with gross national income and gross home investment.

Table XX

Relative Magnitude of Capital Movements^{a/}
(in percentages)

<u>Annual Averages^{b/}</u>	<u>Burma</u>	<u>Ceylon</u>	<u>India</u>	<u>Indonesia</u>	<u>Malaya</u>	<u>Pakistan</u>
1. Balance on current account as percentage of gross national income ^{c/}	1.2	-2.4	-0.4	-1.0	2.3	-0.8
2. Balance on current account as percentage of gross fixed investment ^{c/}	9.4	-24.0	-4.1	-19.4	24.8	n.a.
3. Balance on goods and services as percentage of gross national income ^{c/}	2.6	0.7	-0.4	0.3	10.2	-0.6
4. Balance on goods and services as percentage of gross fixed investment ^{c/}	19.9	6.7	-4.0	7.1	110.8	n.a.

a/ Comparable figures for Thailand are not available.

b/ Deficit is indicated by a minus sign.

c/ The balance on current account includes, and the balance in goods and services excludes, investment and other foreign factor payments.

Sources and methods: Appendix I.

Three countries in the area--Malaya, Burma and Thailand--had an over-all net surplus on both current account as a whole and on the account of goods and services. Each received some external aid, loans and direct private capital. However, their accumulation of external reserves was larger than the amounts received from abroad.

The other four countries--Ceylon, India, Indonesia and Pakistan--were net recipients of external resources, drawing on their international assets and also receiving grants or loans from abroad. In relation to national income and investment, however, the magnitude of these resources was modest. In Ceylon and Indonesia, the inflow of funds was offset by investment payments.

The data in Table XX should not obscure the fact that foreign financial resources had a practical importance far above that suggested by the relative magnitudes. In some countries, like India and Pakistan, they were crucial in averting temporary balance of payments crises, and they also served to defray the heavy foreign exchange cost of a number of large investment projects, particularly in electric

power, irrigation and transportation, which otherwise would have not been readily undertaken.

The low level of postwar capital imports has been accompanied by a decline in the ratio of investment payments to exports compared either to the prewar level or to the level soon after the war.

Table XXI

Investment Service Ratio
(Gross payments on investment account as percentage of exports of goods and services)

<u>Country</u>	<u>1938</u>	<u>1947</u>	<u>1953</u>
Burma	18	n.a.	1.4
Ceylon	18	10.6	3.7
India)) 12.7) 2.4	4.9
Pakistan)			1.8
Indonesia	31a/	5.8	10.0b/
Malaya	n.a.	8.6c/	3.8
Thailand	n.a.	5.3	1.8

a/ Rough estimate.

b/ 1952.

c/ 1949.

Source: Appendix I.

While the absolute amount of investment payments remains quite large, the decline in the proportion is substantial. It suggests a relative improvement in the external capital position, it introduces more flexibility in the disposition of foreign exchange earnings and, if savings are not reduced, it raises the countries' capacity to service new external debt.

The need for external financial resources may be expected to rise swiftly and substantially in future years. After a relatively slow start, the countries in the area are only now entering a dynamic stage of development, which is likely to generate a need for capital at a much faster rate than that at which domestic savings are likely to grow. In addition, the pressure on the balance of payments will probably increase more than is warranted by the lack of domestic savings, due to the inelasticity of the domestic productive structure and the uncertainty of world demand for the area's traditional export commodities. Almost all countries in the area are planning a considerable increase of present public investment expenditure. The greater emphasis on industrialization apparent in the drafts of the new plans will raise the import requirements for capital goods, while expected increases in money incomes, after basic food requirements are satisfied, are likely to result in an increase in the propensity to import industrial consumer goods. The demand for imports appears to have risen faster than income in the last several years, and there is no reason to believe that this trend will be reversed in the immediate future.

Increased import requirements can be partly met by further drawing on available foreign exchange reserves. In spite of a considerable liquidation which

occurred both before and after the Korean war boom, the reserves are still relatively high (except perhaps in Indonesia and Pakistan), due primarily to the spectacular improvements in the terms of trade during 1950-1951.

Table XXII

Ratio of External Reserves to Annual Imports
(in millions of US dollars)

<u>Country</u>	<u>Present gold and foreign exchange holdings^{a/}</u>	<u>Annual imports (1953 - 1954 average)</u>	<u>Gold and foreign exchange holdings as percentage of annual imports</u>
Burma	142 ^{b/}	190	75
Ceylon	205 ^{b/}	315	65
India	1,782	1,213	147
Indonesia	295 ^{a/}	691	43
Malaya	676 ^{b/}	1,042	65
Pakistan	191	336	57
Thailand	273	328	83
Total	3,564	4,115	86

a/ Malaya, December 31, 1953; Burma, India, Indonesia, Pakistan and Thailand, December 31, 1954; Ceylon, January 31, 1955.

b/ Including foreign assets of commercial banks.

Source: Appendix I.

There are rather rigid limits, however, beyond which the drawing on external assets endangers both the long-run external liquidity and the internal monetary stability of the particular country. Except under exceptionally favorable circumstances, countries engaged in a development process are not likely to replenish external reserves as long as there is a rapid accumulation of producers' capital at home. While almost all countries in the area may use a part of their reserves to finance investment, they cannot do so for a prolonged period.

All this raises the problem of future foreign capital requirements. If a low level of capital-output ratio is maintained, the task of development will be facilitated but it will not be solved. The popular pressure to raise the rate of growth above the 1947-1953 level is great; the growth already achieved actually serves as an additional incentive to a more rapid advance in the future. A recurrence of fortuitous gains from external price movements cannot be expected, and while domestic savings may be expected to rise, all present signs suggest that the rate of increase will be moderate.

For economic growth of all countries in the area, but particularly for those on its periphery the importance of world economic conditions cannot be overemphasized. The trend in world income, consumption and trade determines the economic life of Malaya and Ceylon; it affects the most important single source of income in Burma, Thailand and Indonesia. The future economic development in this part of the area is closely linked with both the long-term growth and the cyclical fluctuations elsewhere, particularly in North America and Western Europe. High rate of growth in the rest of the world is a necessary condition though not the single essential of South-east Asian growth.

APPENDIX I

Sources and Methods

- Table I United Nations, Statistical Yearbook; FAO, Yearbook of Food and Agricultural Statistics; FAO, Monthly Bulletin of Agricultural Economics and Statistics.
- Table II For all countries except India and Burma: FAO, Yearbook of Food and Agricultural Statistics; FAO, Monthly Bulletin of Agricultural Economics and Statistics, March 1955. For India: The Eastern Economist index until 1948/49 (1936/37-1938/39 base) and India's Department of Agriculture index beginning 1949/50 (1949/50 base). For Burma: Ministry of National Planning, Economic Survey of Burma.
- Table III Economic Commission for Asia and the Far East, Economic Survey of Asia and the Far East; ECAFE, Economic Bulletin for Asia and the Far East; United Nations, Monthly Bulletin of Statistics.
- Table IV United Nations, Statistical Yearbook; FAO, Yearbook of Food and Agricultural Statistics; ECAFE, Economic Survey of Asia and the Far East.
- Table V Percentage changes in output and growth rates are derived from the following sources:
- Burma: Official GNP estimates by the Burmese authorities (The Ministry of National Planning, National Income of Burma; The Ministry of National Planning, Economic Survey of Burma).
- Ceylon: Data in current prices computed by the Ceylonese Ministry of Finance (Department of Census and Statistics, Statistical Abstract of Ceylon). After some conceptual adjustments, the conversion into constant prices has been made by using the index of unit value for exports and the wage rate index for the rest of the economy.
- India: For the period 1948/49-1951/52, official estimate (Government of India, Central Statistical Organization, Estimates of National Income, 1954). For the years 1952/55-1953/54, semi-official preliminary estimate (Planning Commission, The Second Five Year Plan, A Tentative Framework, 1955). The output in the last two years may be slightly understated.
- Indonesia: Semi-official estimate by a foreign expert (Daniel Neumark, The National Income of Indonesia, Economics and Finance in Indonesia, June 1954).
- Malaya: Data in current prices for 1947 and 1948 computed by Frederic Benham, The National Income of Malaya, 1951. Data in current prices for 1949/1953 computed by the IERD Mission (IBRD, The Economic Development of Malaya, 1955). After some conceptual adjustments, the conversion into constant prices has been made by using the index of unit value for exports and the average of the three existing cost of living indices for the rest of the economy.
- Pakistan: Data in current prices for 1948/49 computed by The Ministry of Economic Affairs, Government of Pakistan, Report of the Economic Appraisal Committee, 1952. Preliminary data in current prices for 1949/50-1952/53

computed by The Central Statistical Office, Government of Pakistan, National Income Estimates, 1955. The conversion into constant prices has been made by using the index of unit value for exports and the cost of living index for the rest of the economy.

Thailand: Crude estimate based on (a) J. Gould, Preliminary Estimates of the Gross Geographical Product and Domestic National Income of Thailand, 1938/39, 1946/1950 and 1952; (b) index of agricultural production; (c) volume changes in main export commodities.

Table VI

The Indian rupee is chosen as a common currency into which other national data are converted. It is at par with the Ceylonese rupee and the Burmese Kyat; by its weight alone it expresses more adequately than any other currency the relative prices ratios.

Since there are differences in the time-span for which the national rates of growth in output have been measured, while year-to-year rates diverge from the five or six-year annual average, the comparability was achieved by projecting backward to 1948 a national output which would have been obtained if year-to-year rates of change had been equal to the annual average. The 1948 figures thus computed are somewhat different than the actual shown in the notes on Table V.

In order to have comparable concepts, estimated depreciation allowances have been added to the net national output of India and Pakistan. In India, depreciation in the year 1948/49 is put at the same level as in 1949/50, for which an estimate of Rs 5.1 billion is available, covering depreciation, repairs and maintenance (Mukherjee and Gosh, The Pattern of Income and Expenditure in the Indian Union, International Statistical Conference, 1951). For the year 1952/53, depreciation is estimated at Rs. 5.8 billion on the assumption that replacement requirements were increasing at the same rate as net national output. Since the figures are relatively small, final results in the table would not be changed if some other assumption was adopted.

For Pakistan, it has been assumed that depreciation allowances amounts to 4% of the gross product.

Sources: Output data, Table V and notes; population data, United Nations, Statistical Yearbook.

Table VII

See notes accompanying Table V.

Table VIII

All gross investment data (unadjusted) appear to include maintenance and repair expenditure alongside capital consumption allowances. The available evidence for Ceylon and Malaya suggests that such expenditure amounts to about 20% of reported gross fixed investment (K. Williams, The National Income of Ceylon, 1951; the comparison of Benham's and IBRD figures for Malaya). On the basis of this it has been assumed that the same ratio applies to other countries in the area, and corresponding adjustments have been made. It should be noted that in the Scandinavian countries, which include the maintenance and repair expenditure into gross capital formation, this expenditure has been estimated for Norway at 18%, for Denmark 26% and for Sweden 29% of gross fixed investment (CEEC, Statistics of National Product and Expenditure, 1954).

Sources: See notes on Table V for Burma, Ceylon and Malaya. For India, in addition to sources for Table V, B. R. Shenoy, Basic Considerations relating to the Plan Frame, 1955. For Indonesia, the 1938 figures taken from ECAFE, Economic Survey for Asia and the Far East, 1950, and ECAFE, Economic Bulletin, Vol. III, Nos. 1-2.

Table IX See notes on Table V. For India in 1953/54, Planning Commission, Third Progress Report, 1954.

Table X Capital-output ratios have been computed directly, i.e. they result from dividing aggregate investment by increase in output. One-year time lag has been assumed as a gestation period. Investment data have been reduced to constant prices by using the British index of export prices of metal and engineering goods for the import component, and the appropriate domestic price or wage-rate index for the domestic component.

Indirect computation (investment rate divided by the rate of growth in output) yields very similar results as direct computation.

Sources: See notes on Tables V and VIII.

Table XI See Appendix II.

Table XII Sources: See notes on Tables V and VIII. In addition, International Monetary Fund, Balance of Payments Yearbook. For India, Taxation Enquiry Commission Report, 1955. Both gross product and gross savings exclude maintenance and repair expenditure.

Table XIII See notes on Tables V, VI and XII. Data on price movements (mostly cost of living) are taken from: United Nations, Monthly Bulletin of Statistics; International Monetary Fund, International Financial Statistics; ECAFE, Economic Survey and Economic Bulletin. Rates of public savings (difference between public revenue and current expenditure) and of aggregate taxation have been computed from data in ECAFE, Economic Survey and Economic Bulletin. Gross domestic savings exclude, and gross national savings include, factor payments (investment income and private remittances).

Table XIV See notes on Table XX for growth in real income. Data on growth in the volume of imports, except for Thailand, are taken from: United Nations, Monthly Bulletin of Statistics; ECAFE, Economic Survey and Economic Bulletin. For Thailand, the 1954 current value has been decreased by 20% to obtain an approximate volume figure (1948 base).

Table XV See notes on Table XIV.

Table XVI See notes on Table I.

Table XVII United Nations, Monthly Bulletin of Statistics; International Monetary Fund, International Financial Statistics; ECAFE, Economic Survey and Economic Bulletin.

APPENDIX II

Public Development Programs
in South East Asia

1. The attached tables contain basic information on development programs and major investment projects presently executed or contemplated by the public authorities in India, Pakistan, Ceylon, Burma, Indonesia and Malaya and Singapore. The periods covered by the programs vary from country to country, and great differences exist in the extent to which the countries actually follow in practice their investment plans. As a result, the compiled data for the area as a whole should be regarded as highly tentative, and any interpretation of the inter-country differences should be made with utmost caution.

2. In Tables A, B and C, an attempt is made to put together all available aggregate information. Table A shows the total investment called for by the national development programs, as well as the annual averages. Converted into U.S.\$ at the official exchange rates, the annual average for the area as a whole amounts to \$1,623 million. In Table B, this average is related to the population numbers and to national incomes, in order to obtain an approximate idea of per capita public development expenditure and of the proportion of national income which will be devoted to public capital formation. For the area as a whole, the annual per capita spending on public development is planned at about \$2.80, while the programmed public investment rate varies between 2.6% and 13% of the national income. Table C presents the distribution of public development expenditure by economic sector. In addition, information is given on actual expenditure during 1953/54. It shows the total for the area of \$1,378 million, compared to the planned annual average of \$1,623 million. In the last year (1953/54), heavy emphasis was laid on agriculture, irrigation and power (41% of total expenditure), and on transport and communications (26%).

3. All data shown in the attached tables have been compiled from the available published material on public development programs in the area. Since the programs are very flexible, particularly in some countries, the information presented reflects only the general framework of the desired rate and pattern of development. In practice, both the overall size and the composition of investment expenditure may differ considerably from the concepts embodied in the existing programs.

Table A
Public Development Programs, Totals and Annual Averages
(in millions)

Country	Currency	Period	Total Program		Annual Average		
			Nat'l. Currency	US\$ Equivalent	Nat'l. Currency	US\$ Equivalent	
India	Rupee	5 yrs., 1951/52-55/56	22,489	4,710	4,498	942	
Pakistan	Rupee	3 yrs., 1951/52-53/54	2,066	622	689	207	
Ceylon	Rupee	6 yrs., 1953-1959	1,600	337	267	56	
Burma	Kyat	9 yrs., 1952-1960	5,100	1,067	564	118	
Malaya & Singapore	Malayan \$	5 yrs., 1955-1959	1,350	450	270	90	
Indonesia	Rupiah	5 yrs., 1956-1959	11,400	1,000	2,280	200	
<u>Total</u>							<u>1,623</u>

Country Notes:

India: The 1953 revision of the Five-Year Plan. The annual average in the Six-Year Plan, which was submitted to the Colombo Conference in 1950, amounted to \$644 million, and that in the original version of the Five-Year Plan (1952), \$869 million. Subsequent revisions raised the total program to Rs.22,489 million, or \$942 million annually (shown in the table above). The Second Five-Year Plan is now in preparation. According to preliminary reports, it is intended to raise development expenditure by 50 to 100% above the First Five-Year Plan.

Pakistan: Actual public spending on development in the last three years. The plan originally prepared for the Colombo Conference in 1950 amounted to Rs.2,600 million (including Rs.400 million private investment) over the period of six years, 1951-1957, or \$131 million annually. The Colombo Plan was superseded by the Two-Year Priority Program, 1951, amounting to Rs.507 million or \$77 million per annum. Both programs were highly tentative with regard to both cost estimates and coverage; actual spending was almost double that originally contemplated. For this reason, actual rather than planned expenditure is presented in the table.

A comprehensive development program is in preparation. In the meantime, the Economic Appraisal Committee has tentatively estimated public development requirements in 1953-1957 (five years) at Rs.3,000 million or \$181 million per year.

Ceylon: The development program outlined by the IBRD mission in 1952. The original national version, submitted at Colombo in 1950, amounted to Rs.1,359 million for the six-year period 1951-1957 (\$48 million annually). The second version, prepared in 1951, amounted to Rs. 3,200 million (gross) for the same period, yielding an annual average of \$112 million. None of the three programs has been officially adopted as a formal development plan. The actual average public expenditure on development during the last three years (1951/52-1953/54) amounted to \$64 million.

Burma: Planned net public investment (alone and in joint venture with private enterprise) within the development program prepared in 1953-54. Total program, including both public and private investment (net), amounts to K.7,500 million or \$174 million annually. Total gross investment is planned at K. 10,675 million or \$248 million per annum. As formulated, the program is more an overall guide to development policy than a rigid set of investment targets.

Malaya and Singapore: The development program recommended by the IBRD mission, 1954. The original plan, submitted at Colombo in 1950, amounted to M\$ 838 over six years, 1951-1957, or US\$ 45 million annually. The revised version for three years, 1951-53, was considerably higher: M\$ 603 million, or US\$ 67 million per annum. The IBRD recommendation will soon be considered by the Government.

Indonesia: The draft Five-Year Plan as reported most recently in the press. Actual spending in 1951-1953 amounted to RP. 5,484 or at the annual rate of \$160 million.

General Note:

The following exchange rates were applied for conversion into US dollars:

<u>Country</u>	<u>Currency</u>	<u>Currency Units per US dollar</u>
India	Rupee (Rs.)	4.775
Pakistan	Rupee (Rs.)	3.320
Ceylon	Rupee (Rs.)	4.750
Burma	Kyat (K.)	4.780
Malaya	Malayan dollar (M\$)	3.060
Indonesia	Rupiah (Rp.)	11.400

Sources:

India: The Five-Year Plan Progress Report, 1953/54; the Colombo Plan, 1950; The First Five-Year Plan, 1952.

Pakistan: The Colombo Plan, 1950; The Ministry of Economic Affairs, Report of the Economic Appraisal Committee, 1953; The Third Annual Report of the Colombo Plan, 1954.

Ceylon: IBRD, The Economic Development of Ceylon, 1953; The Colombo Plan, 1950; The First and the Third Annual Report of the Colombo Plan, 1952 and 1954.

Burma: The Economic Survey of Burma, 1954.

Malaya and Singapore: IBRD, The Economic Development of Malaya, 1955; The Colombo Plan, 1950; The Second Annual Report of the Colombo Plan, 1953.

Indonesia: Press reports, March 1955; The Second and the Third Annual Report of the Colombo Plan, 1953 and 1954.

- Table XVIII Rates of growth in output are taken from Table V. Rates of growth in income have been computed from national accounts (see notes on Table V). The conversion into constant prices has been made by using the index of import prices for exports and the appropriate domestic price index for the rest of the economy.
- Table XIX For gross domestic product data see notes on Tables V and VI. Data on exports are taken from national statistics and from International Monetary Fund, Balance of Payments Yearbook.
- Table XX See notes on Tables V, VI, VIII and XIX.
- Table XXI See notes on Table XIX.

TABLE B
Relationship Among the Main Aggregates

A. Planned Public Development Expenditure
Per Capita in US \$ Equivalent

	<u>India</u>	<u>Pakistan</u>	<u>Ceylon</u>	<u>Burma</u>	<u>Malaya</u>	<u>Indonesia</u>	<u>Total</u>
Annual average planned expendi- ture, mln.US\$	942	207	56	118	54	200	1,577
Estimated po- pulation, thou- sands	372,000	80,000	8,384	19,249	7,057	81,100	567,790
Annual expen- diture per capita, US\$	2.53	2.59	6.86	6.07	7.65	2.47	2.78

B. Planned Public Development Expenditure
as Percentage of National Income

Annual average planned expendi- ture, mln. national currency	Rs. 4,498	Rs. 689	Rs.267	K. 564	M\$ 270	Rp.2,280	
National Income	105,800	18,067	4,374	4,267	5,462	88,690	
Annual ex- penditure as % of national income	4.25	3.81	6.10	13.2	4.94	2.57	

Country Notes:

India: population in 1953; net national product in 1951/52.

Pakistan: estimated in 1954; national income in 1952/53.

Ceylon: population in 1954; national income in 1953 estimated as 95% of gross national product.

Burma: population in 1954; net national product in 1952/53.

Malaya: population in 1954 (including Singapore); national income in 1953 estimated as 96% of gross national product.

Indonesia: population in 1954; national income in 1952.

Sources:

Annual average planned expenditure taken from Table A. Data on population from United Nations, Statistical Yearbook, 1954. National income data: India, Central Statistical Organization, Estimates of National Income 1948/49-1951/52, New Delhi 1954; Pakistan, Central Statistical Office, Government of Pakistan, 1954; Burma, The Ministry of National Planning, The National Income in 1952/53; Malaya, IBRD, The Economic Development of Malaya, 1955; Indonesia, D. Neumark, The National Income of Indonesia, 1954.

TABLE C

Distribution of Public Development Expenditure by Economic Sector1. Distribution of Planned Expenditure

Country	Period	Total Program in US\$ mln	Percentage Distribution				
			Agri-culture	Irriga-tion, multi-pur-pose Pro-jects and power c/	Transport & commu-nications	Industry and Mining	Social welfare & Misc. invest-ment.
India	51/52-55/56	4,710	17%	27%	24%	8%	24%
Pakia-tan <u>a/</u>	51-57	783	18	32	20	19	11
Ceylon	53-59	337	17	25	27	5	26
Burma <u>b/</u>	52-60	1,569	n.a.	19	20	n.a.	27
Indo-nesia	56-60	1,000	13	25	25	25	12
Malaya	55-59	450	15	12	20	5	48

2. Distribution of Actual Spending in 1953/54

Country	Actual spending in US\$ mln.	Percentage Distribution				
		Agri-culture	Irrigation, multi-purpose projects and power c/	Transport & commu-nications	Industry and Mining	Social welfare and others
India	745	14%	34%	26%	4%	22%
Pakistan	273	2	29	28	15	26
Ceylon	66	19	22	29	8	22
Burma <u>d/</u>	78	13	9	36	20	22
Indonesia	152	12	21	24	34	9
Malaya	64	2	25	14	0	59
Total	1,378	12	29	26	10	23

a/ The program submitted to the Colombo Conference.

b/ Both public and private net investment.

c/ A substantial portion of multi-purpose projects can be considered as assisting agriculture.

d/ Gross investment.