

AGENCY FOR INTERNATIONAL DEVELOPMENT  
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AID-UNIVERSITY OF WISCONSIN  
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2nd PROGRESS REPORT  
(For the period from June 1,  
1964 to December 1, 1964)

ECONOMIC INTERDEPENDENCE IN SOUTHEAST ASIA

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I. CONTRACT STAFF

A. Personnel employed in this report period

AID Appointment

	Period of this report, June 1 - December 1, 1964	Future periods committed
<u>1. Senior Staff</u>		
	(inclusive)	
a. Theodore Morgan Professor of Economics, University of Wisconsin (research, and Campus Co- ordinator)	June-Aug: full time Sept.-Nov: 1/2 time	Dec. '64: 1/2 time Jan.-Feb. 7 '65: 1 month; full time (Feb. 8-Aug.'65 on leave with the Council of Economic Advisors)
b. Everett Hawkins Professor Economics University of Wisconsin	Sept. - Nov: 2/3 time (in Asia)	(To become acting Associate Director and Campus Co- ordinator --See 2.a below)
c. Hans O. Schmitt Assistant Professor Economics University of Wisconsin	June-Aug: 2/3 time Sept.-Nov: 1/3 time	Dec.'64-May'65: 1/2 time; June-Aug.'65: full time

2. Central Staff

- a. Associate Director

b. Associate Director (Continued)

Everett Hawkins	(See 1.b above)	Dec.'64-Jan.'65: 1/2 time; Feb.- June'65: 1/3 time; July-Aug.'65: 1/2 time (as acting Campus Coordinator)
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b. Campus Research Assistants

(assigned to Theodore Morgan)

(1) Nyle Spoelstra (also administrative assistant to the Campus Coordinator)	(1/2 time work from July'64-June'65 on Graduate School Grant. No charge to this Contract)	July-Aug.'65: full time
(2) K.C. Sen	June:1/4 time July-Nov: 1/2 time	Dec.'64-Aug.'65: 1/2 time
(3) B.J. Abrahamsson	Sept.-Nov: 1/2 time	Dec.'64-Aug.'65: 1/2 time
(4) I.J. Singh	(Same)	(Same)
(5) Lawrence Weiser	(Same)	(Same)
(6) S. Naya	(Same)	(Same)

(assigned to Hans O. Schmitt)

(7) David Stebbing	(Same)	(Same)
(8) Thomas Helminiak	(1/2 time work from Sept. '64-June'65 on Graduate School Grant. No charge to this Contract)	July-Aug.'65: 1/2 time

c. Secretaries

(1) Mrs. Betsy Spoelstra	June-Nov. 15: 1/2 time; Nov. 16-Dec. 1: 3/4 time	Dec. 2 '64-Feb.16 '65: 3/4 time; Feb. 17-Aug.'65: 1/2 time
(2) Mrs. Liesl Tarkow	July-Nov: 1/4 time	Continuing: 1/4 time

3. and 5. Lecturers and Consultants

Note: The distinction between Lecturers and Consultants in the context of our research program is difficult to maintain, because all of our non-

Contract personnel thus far have served in both capacities; without objection we will combine categories 3 and 5.

\* indicates no charge to the Contract

- a. Professor Lloyd Reynolds, Yale University. "A Critique of Development Theory." August 4, 1964.
- \*b. Professor Henry Hart, University of Wisconsin. "India's Quiet Crisis: Its Pre-revolutionary State." September 22, 1964.
- \*c. Professor Robert Baldwin, University of Wisconsin. "Tariff Cutting Techniques in the Kennedy Round of Negotiations." September 29, 1964.
- \*d. Professor Marvin Miracle, University of Wisconsin. "Marketing and Capital Formation: The African Example." October 13, 1964.
- e. Professor Harry Johnson, University of Chicago. "Tariff Structure in Relation to Economic Development." October 20, 1964.
- f. I. Robert Sinai, New York University; New School for Social Research. "The 'Real Blocks' to Economic Growth in Southeast Asia." November 3, 1964.
- g. Professor Richard Caves, Harvard University. "'Vent for Surplus' Models of Trade and Growth." November 18, 1964.
- \*h. Dr. Benton F. Massell, The Rand Corporation. "Toward a General Theory of Customs Unions for Developing Countries." November 24, 1964.

4. Non-U.S. Personnel: Cooperating Country Research Assistant

Dr. A.N. Bhagat, ECAFE, Bangkok, Thailand, is currently at the University of Wisconsin on a 1/2 time Project Associateship, which began in September '64 and will continue through August '65.

B. Additional Personnel to be Employed in Future Periods

1. Senior Staff: (Short-term appointment)

Professor Hla Myint, Oxford University. At the University of Wisconsin in March and August -- about two months.

2. Central Staff: none at present.

3. Lecturers and Consultants: at present

- a. Professor Emile Despres, Stanford University, December 1, 1964.
- \*b. Douglas Paauw, National Planning Association, January 5, 1965.

-- plus 6 or 8 not yet signed for.

4. Non-U.S. Personnel: none at present.

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## II. RESEARCH

### A. The Research Program

The research program is evolving along two lines. The first is the individual projects undertaken by the Contract Staff on the major aspects of the Project Work Program. As these studies progress, the results are circulated in draft form among members of the Staff for review and criticism. The products of this initial screening process become "Working Papers" which we intend to present to AID for review, and may circulate (as seems appropriate) among our mailing list of persons and institutions interested in Southeast Asia. Revisions of these Working Papers will eventually be incorporated into a second series, "Research Papers," which will be the basic product of our research. Research Papers will include student dissertations, articles and books prepared by our senior staff, and other major works of research. We anticipate that some of the Research Papers will have been previously published and that many will be published after (subject to consultation with AID). Research Papers will be the basic documents we will submit to AID during and at the end of this project and will be the basis of our summary report to AID.

The second part of the research program involves the contributions of Lecturers and Consultants retained with Contract funds and of persons not directly connected with the project, including scholars from the University of Wisconsin. The primary forum for these contributors is the Workshop in Economic Development and International Economics, offered as a graduate level credit course by the Department of Economics. The Workshop is currently directed by Professor Morgan; from February to August, Professor Hawkins will direct. The Workshop also provides an additional forum for members of the Contract Staff. Membership in the Workshop is not restricted to Contract personnel, and thus discussions benefit from the presence of a group of students of development and trade.

Visitors to the Workshop are requested to supply copies of their lectures or prepared research (which is usually unpublished) to members of the Contract Staff and to the Project Library. Staff members are urged to consult with those who prepare Workshop presentations, and individual appointments are scheduled as time permits.

In general, the Workshop seems to provide an efficient use of our Lecturers' and Consultants' time, providing maximum exposure for their ideas and maximum stimulation for the Contract Staff.

### B. Summaries of Research Results

Explanatory Note: The following summaries are arranged to conform to the analytical outline presented in the Detailed Work Program, dated June 23, 1964. The symbols in parentheses and the phrases in upper case letters are taken directly from that outline.

Abbreviations and terminology: SS indicates senior staff  
RA indicates research assistants  
ASUS indicates Asian Staff in U.S.  
(cooperating country research associate)

"Working Papers" and "Research Papers" have been defined above.

"Draft" indicates that the paper is circulating among the Contract Staff.

(I.A.1.) ECONOMIC ADVANTAGE FROM ECONOMIC COOPERATION: THEORIES OF GROWTH

- (1) Lecture to contract staff: "A Critique of Development Theory," by Lloyd Reynolds, Yale University.

Summary: A compilation of doubts on the usefulness of savings-investment magnitudes and related mathematical parameters as central preoccupations in development policy.

- (2) Research Paper: "A Theory of Economic Growth in Newly-Settled as Contrasted with Old-Settled Areas," by Theodore Morgan (SS). Delivered in part to the Workshop on September 22, 1964; presented to the Conference on Education and Economic Development held at the Library of International Affairs, Chicago, October, 1964, with a summary to be published as part of its Proceedings.

Summary: The data suggest that in the half-century prior to World War I (and even earlier) the economic significance of population migration (human capital) from Europe to overseas territories was as great as, or greater than, that of financial investment in overseas areas. The routes to status in the two areas are contrasted, and implications drawn for economic growth.

- (3) Lecture to contract staff: "'Vent for Surplus' Models of Trade and Growth," by Richard Caves, Harvard University.

Summary: The "staple" theory that has been advanced to explain the historical economic growth of regions of recent settlement, and the "unlimited supplies of labor" theory that seems relevant for present-day underdeveloped countries are actually variants of a general "vent for surplus" model. In the "vent for surplus" pattern of growth, some factor of production is abundant and resources from developed regions are drawn to exploit that factor. Whether or not sustained economic growth results depends on the linkages established between the export sector and the rest of the economy.

- (4) Lecture to the contract staff: "Marketing and Capital Formation: the African example," by Marvin Miracle, University of Wisconsin.

Summary: Middlemen in African marketing make large profits because of their monopoly and monopsony power. However, this profit has not been fully exploited as a source of funds for capital-formation. If the number of middlemen could be increased (say by turning some farmers into middlemen traders), the aggregate amount of middlemen profit need not decrease, and the resulting

different distribution of funds might increase aggregate capital formation, or at least lead to a change in the composition of capital formation that would be more conducive to economic growth.

(I.A.2.) PROBLEMS IN MEASURING AND COMPARING ECONOMIC VARIABLES

Study in Progress: "International Income Comparisons" N. Spoelstra (RA)

- Outline:
- A. Types of Bias in Income Measures and in Income Comparisons
  - B. Significance of Exchange Rate Bias in:
    - 1. Evaluation of Economic Change
    - 2. Selected Aspects of Development and Trade Theory
  - C. Binary Comparisons of Income for Selected Southeast Asian Countries

(I.A.3.) SPECIAL TOPICS RELATED TO THE STRATEGY OF GROWTH

Draft of Working Paper: "Economic Growth and the Price Level in Southeast Asia, 1950-60," (an empirical study) by K.C. Sen (RA)

- Summary: Simple and multiple correlation analysis for 7 Southeast Asian countries yielded the following preliminary results: (1) No simple, systematic relationship existed between rate of economic growth and the level of prices; (2) neither changes in the money supply nor in the terms of trade were correlated with changes in real incomes; (3) foreign assistance helped to mitigate the inflationary potential of deficit financing; (4) marginal capital-output ratios were a poor predictor of the inflationary potential of an investment program; (5) no systematic relationship existed between the type of economic planning and the rate of economic growth; (6) political stability is correlated with the process of economic development.

(I.B.1-2.) TRADE AND PRODUCTION TRENDS AND ESTIMATES OF COMPARATIVE ADVANTAGE

Study in Progress: "The Commodity Structure of Intra-regional Trade in Southeast Asia," by S. Naya (RA)

Prospectus: This quantitative study will examine the pattern of Southeast Asian trade. On the assumption that the comparative advantage position of a country is reflected by its commodity composition of trade, trade concentration indices will be derived. The presumption is that the greater the commodity concentration for a country, the greater is its comparative advantage in that commodity. A second feature of the study will be the construction

of a trade input-output matrix that will show the amount of intra-regional trade induced to meet a change in world demand conditions. The matrix will provide an indication of the region's interdependence in trade as well as the sensitivity of the regional interdependence to extra-regional changes in trade.

(Mr. Naya is currently completing his doctoral dissertation on trade patterns and comparative advantage between the United States and Japan, in which certain methodological and comparative aspects of the study in progress have been developed.)

(I.B.3.) TRENDS IN LABOR SKILLS AND LABOR MOBILITY

(1) Working Paper: "An Annotated Bibliography on Labor and Labor Mobility in Southeast Asia," by David Stebbing (RA)

(2) Study in Progress:  
By Everett Hawkins (SS) in consultation with Professor Gerald Somers (in Asia this fall on another research project for the Department of Economics).

Outline:

- I. Skills, wage rates, and comparative advantage in Southeast Asia.
- II. The experience of intra-regional labor mobility. Economic and political evaluation.
- III. Probable future movements; implication for comparative advantage.
- IV. Conclusions; recommendations for policy.

(I.B.5.) TRANSPORTATION COSTS

Study in Progress: "Transportation as a Barrier to Trade in Southeast Asia," by B. Abrahamsson (RA)

Outline:

- A. Transport costs and the structure of transportation facilities--external and internal. (A draft of this section is now completed.)
- B. The functional adequacy of existing transportation facilities in terms of the composition and volume of exports and imports.
- C. Low transportation costs as an indicator of comparative advantage, with reference to actual costs of transport for selected commodities.

(II.A.1.b.) REGIONAL PAYMENTS AGREEMENTS

Study in Progress: "A Proposal for a Southeast Asian Payments Organization," by A.N. Bhagat (ASUS).

- Outline:
- A. Theoretical Background
    - 1. Regional payments organizations with and without substantial credit provisions.
    - 2. Problems in settling balances.
  - B. Southeast Asian background
    - 1. Patterns of intra-regional trade
    - 2. National balance of payments policies
    - 3. Existing settlement techniques
  - C. Proposal for a Southeast Asian Payments Organization (SEAPO)
    - 1. Scope and character
    - 2. The credit mechanism
    - 3. Relation of SEAPO with U.S. AID, the IMF and other organizations.

(II.A.2.) RESTRICTIONS ON TRADE AND PAYMENTS

- (1) Study in Progress: "Trade Restrictions and National Revenues." by L. Weiser (RA).

- Outline:
- A. Importance of trade levies in national revenues
    - 1. Comparative tabulation
    - 2. Implications for Southeast Asian economic cooperation
  - B. Trade restrictions (duties, quotas, multiple rates, etc.) and national, regional and world welfare and efficiency
  - C. Implications of alternative fiscal systems for national and regional production, consumption, investment and savings.

- (2) Lecture to contract staff: "Tariff Cutting Techniques in the Kennedy Round," by Robert Baldwin, University of Wisconsin.

Summary: The problems of negotiating reductions in trade restrictions, as exemplified in Herter Committee work for the Kennedy Round, can be traced in part to the shift in the commodity composition of trade in recent years. Whereas in the past, the "item by item" approach favored the United States, the Common Market countries now prefer this approach: the average weighted duty for groups of commodities is higher for Europe than for the United States.

- (3) Lecture to contract staff: "Tariff Structure in Relation to Economic Development," by Harry Johnson, University of Chicago.

Summary: Tariff rates in national tariff schedules are usually taken as measuring the amount of protection being achieved, and so serve as the basis for international negotiations. This assumption is unwarranted. Tariffs are levied both on final products and on intermediate products that enter into the production of final products. Only if the weighted average rate on inputs

happens to equal the tariff rate on the final product is actual protection equal to the protection indicated by the tariff schedule. Actual rates of protection turn out, in sample studies for the U.S., to vary widely both above and below the official tariff schedule levels.

(II.B.1) THE THEORY OF CUSTOMS UNIONS

Lecture to the contract staff: "Toward a General Theory of Customs Unions for Underdeveloped Countries," by Benton F. Massell, the Rand Corporation.

Summary: This paper develops a general theory of customs unions incorporating existing theorems from the literature on customs unions and including the case of increasing costs. However, this theory appears to be inappropriate for underdeveloped countries. A supplementary theory is proposed, which takes as given a preference map for these countries favoring manufacturing over equally productive primary production.

(II.B.2.) REGIONAL ECONOMIC SYSTEMS: INTEGRATION AND DISINTEGRATION

- (1) Study in Progress: "Toward a Common Currency for the European Common Market," by Hans O. Schmitt (SS)

Prospectus: This paper explores the hypothesis that economic interdependence requires the emergence of a regional marketing and financial center about which nations or sub-regions may cluster; and examines the development of the EEC around the Pas-de-Calais/Ruhr/Rotterdam industrial complex.

- (2) Study in Progress: "The Federation of Nigeria and the East African Federation--Two Case Studies in Economic Cooperation," by D. Stebbing (RA)

Prospectus: The Federation of Nigeria is an example of relatively successful economic cooperation between three regions that have articulated apparently opposing economic and political interests. On the other hand, the East African Federation, with a similar colonial heritage and similar opposing regional interests, has apparently failed to extend or even to maintain regional economic cooperation. This study will attempt to determine the economic and political factors that may help to account for these two divergent experiences. The working hypothesis is that relative success has depended on the presence or absence of a dominant financial and marketing center in each region.

- (3) Study in Progress: "The Role of Singapore as a Focus of Economic Interdependence in Southeast Asia," by T. Helminiak (RA)

Prospectus: The city of Singapore is the leading financial and marketing center in Southeast Asia; it served as a major focus of integration in the Federation of Malaya and is apparently assuming a similar role in the Federation of Malaysia. This study will trace the rise of Singapore in these contexts and attempt to assess the potential for extending the sphere of influence of Singapore beyond the Malaysian Federation.

(II.B.2.) REGIONAL ECONOMIC SYSTEMS: ASIAN EXPERIENCE

Draft of Working Paper: "Problems of Economic Cooperation in Asia," (current work and attitudes in the ECAFE Agency) by Dr. A.N. Bhagat (ASUS)

Summary Outline:

- A. The evolution of thought on economic cooperation in Asia.
- B. Past progress on economic cooperation in Southeast Asia.
- C. State of the current controversy over approaches to economic cooperation: planning vs. the market.
- D. ECAFE proposals relating to economic cooperation in Asia.

(II.B.3.b.) POLITICAL AND SOCIAL ASPECTS IN NATIONAL AND REGIONAL INTEGRATION

Lecture to contract staff: "The Real Blocks to Economic Growth in Southeast Asia," by I. Robert Sinai, New York University.

Summary: Professor Sinai suggests that the real blocks to economic growth are in fact not economic, but are instead political, social and cultural. He distinguishes between traditional leaders (Sukarno, Nkrumah, Nehru) and modernizing--but not necessarily Westernizing--leaders (Mao tse Tung, Kemal Attaturk in the 1930's). He hypothesizes that the traditional elites do not have economic advance as a serious goal, and, more importantly, do not have the ability to achieve the thorough-going change required for economic development. When a modernizing elite does appear, it may function in the context of either a bureaucracy or as individuals, in either a democratic or a totalitarian system. The essential characteristic of the modernizing elite is an innovative, entrepreneuring approach to economic and social issues.

(II.C.1.b.) AGRICULTURE

- (1) Study in Progress: "Experience with Regard to Agricultural Development in Southeast Asia," by I.J. Singh (RA)

- Outline:
- A. Agriculture and Economic Development (draft of this section near completion)
    - 1. Theory
    - 2. Some historical comparisons
  - B. Agriculture in Southeast Asia
    - 1. The record: by countries and for the region
    - 2. Patterns of Agricultural versus Industrial development
    - 3. Supply conditions (productivity, marketing, finance)
    - 4. Demand conditions (prices, income elasticities)
    - 5. Points of similarity and difference:
      - a. Within the region
      - b. Between the region and other regions

- (2) Draft of Working Paper: "The Role of Agriculture in Economic Development: From the Point of View of the Industrial Sector," by Theodore Morgan (SS). Presented to the Purdue Conference on Agricultural Development, May 14, 1964.

- Outline:
- A. Interactions between agricultural advance and industrial advance
  - B. Comparison of the approaches of writers in the field
  - C. The possibility of industrial advance without concurrent or prior agricultural advance

#### (II.C.2.) GOVERNMENT ORGANIZATION AND PROCEDURE

Lecture to contract staff: "Is India a Pre-revolutionary Society?", by Henry Hart, Professor of History, University of Wisconsin.

Summary: Politically, India may have been galvanized into action as a nation, but economically she has not. There are pockets of significant economic transformation, but there remains an overall lack of an effective expression of the basic need to change. The Congress Party, which dominates the national political scene, can become an instrument of such expression by becoming a "cadre party", leaving other parties free to criticize and to compete.

#### (III) NATIONAL ECONOMIC PLANNING

- (1) Study in Progress: "Success and Failure in Economic Planning," by Theodore Morgan (SS) To be presented at the Conference on Planning in Southeast Asia, University of Hawaii, February, 1965.

- Outline:
- A. Points of Success and Failure in Economic Planning
  - B. Biases inherent in administrative procedures as a limit on the effectiveness of planning

- (2) Draft of Working Paper: "Some Aspects of Economic Growth in Planned Economies--A Hypothesis of Convergence," by K.C. Sen (RA)

Summary: Regardless of the degree of comprehensiveness of planning, the plan experience of several countries (Yugoslavia, China, Mexico, France, and the Scandinavian countries) tends to converge on a common set of problems; and similar set of solutions seems to emerge. Common problems include the role to be assigned to prices, interest rates, profits, productivity, and economic as well as non-economic incentives in the work effort. Solutions have taken the form of economic pluralism and decentralization, and a certain flexibility in implementing the plan. In addition, the development of functional banking seems to play a significant role in the success of plan implementation.

- (3) Study in Progress: "The Impact of Planning on Economic Growth," by K.C. Sen (RA)

Prospectus: A sample of countries with various degrees of planning will be examined with respect to economic growth and structural economic change in their respective planning and pre-planning decades. Time-series variables for each period will include changes in GNP, savings, investment, employment, export, imports, and productivity for the appropriate sectors of each economy.

### III. SUMMARY FINANCIAL REPORT

#### Explanatory Notes:

(1) The University Accounting Office discloses the amounts of actual disbursements for a given month on the 8th day of the following month. Actual expenditures for the month of November will not be available until the 8th of December. Therefore, for each Line Item, we show: (a) expenditures from June 1, 1964 through October 31, 1964; (b) an estimate of expenditures for November, 1964; and (c) an estimated total from June 1, 1964 through November 30, 1964.

(2) We show expenditures for three periods: (i) this report period; (ii) a revised schedule for the previous report period (March 23, 1964-June 1, 1964); and (iii) total expenditures to date. The revision in (ii) is necessary because of our previous misunderstanding of the University's accounting periods.

(3) Overhead (Line Item 5) is entered as actually computed and charged to our account by the University (as of October 31, 1964). The November figure is not available and we have no way of estimating it.

Line Item Number	Category	This Period (col. i)	Expenditures Previous Report Period (col. ii)	Total to Date (col. iii)
1.	Salaries, Wages, Stipends, Consulting Fees			
	a. To Nov. 1 '64	\$15,903.97	\$746.30	\$16,650.27
	b. Estimate for Nov.	<u>4,847.04</u>	-----	<u>4,847.04</u>
	c. Estimate to Dec. 1 '64	20,751.01	746.30	21,497.31
2.	Allowances	-- 0 --	-- 0 --	-- 0 --
3.	Travel and Transportation			
	a. To Nov. 1 '64	none	none	none
	b. Estimate for Nov.	<u>855.75</u>		<u>855.75</u>
	c. Estimate to Dec. 1 '64	\$ 855.75		\$ 855.75
4.	Other Direct Costs			
	a. To Nov. 1 '64	301.19	84.94	386.13
	b. Estimate for Nov.	<u>273.04</u>	-----	<u>273.04</u>
	c. Estimate to Dec. 1 '64	\$ 574.23	\$ 84.94	\$ 659.17
5.	Overhead (See note 3 above) to Nov. 1, 1964 only	\$ 4,248.27	none	\$ 4,248.27
6.	Equipment and Materials	-- 0 --	-- 0 --	-- 0 --
7.	Research Services by Non- U.S. Personnel			
	a. To Nov. 1 '64	700.00	none	700.00
	b. Estimate for Nov.	<u>350.00</u>		<u>350.00</u>
	c. Estimate to Dec. 1 '64	\$ 1,050.00		\$ 1,050.00
8.	Conference	-- 0 --	-- 0 --	-- 0 --
9.	Participants	-- 0 --	-- 0 --	-- 0 --
<hr/>				
TOTAL TO NOV. 1		\$21,153.43	\$831.24	\$21,984.67
TOTAL ESTIMATES FOR NOV.		<u>6,325.83</u>	-----	<u>6,325.83</u>
ESTIMATED TOTAL TO DEC. 1, 1964 (Excluding November overhead)		\$27,479.26	\$831.24	\$28,310.50

#### IV. FUTURE ACTIVITIES

1. Theodore Morgan to visit Southeast Asia to meet and develop contacts with research people in India and at ECAFE, etc., on way to meeting at Honolulu, January 7 to February 6, 1965.
2. Theodore Morgan and Everett Hawkins to attend Conference on Economic Planning in Southeast Asia at the East-West Center, University of Hawaii, February, 1965. Morgan to present a paper.
3. We continue efforts to locate experts on Southeast Asia for short-term or longer appointments at the University of Wisconsin and in Asia. We are now in touch with three prospects.
4. A comprehensive review of the progress of the research in March or April, 1965, in order to determine what areas will require additional efforts and which areas should be assigned priorities for the second year of the project.



Theodore Morgan  
Director of Research