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(For the period from
December 1, 1964 to June
1, 1965)

ECONOMIC INTERDEPENDENCE IN SOUTHEAST ASIA

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I. RESEARCH

A. Research Activities

The Workshop on Economic Development and International Economics has been a main integrative force for the various activities of the Project, by providing a forum for presenting current research by faculty members and graduate students specializing in trade and development. During the past year, distinguished visitors have also discussed their research activities with this group. In some cases these visitors were able to meet individually with project members and graduate students to discuss and to review research in progress. Interest in the Workshop has been high with attendance in many of the sessions in excess of the registered members. (Schedule attached).

In addition, on several occasions members of the project have met as a team to hear reports of fellow members and to plan the research program. One special session was held to discuss with Dr. Mubyarto of Indonesia his dissertation on "Elasticity of Supply of the Marketable Surplus of Rice in Java". Another special lecturer was Dr. Adam Marton from the Central Statistical Office of Hungary who told of the difficulties of "Planning Foreign Trade in a Centrally Planned Economy".

In March and April we had with us for a month's stay as a Senior Staff member Dr. Hla Myint, Senior Lecturer in the Economics of Underdeveloped Countries at Oxford University, and formerly Rector of the University of Rangoon. In addition to a series of four public lectures and several class sessions, Dr. Myint regularly consulted with members of the project and made a number of valuable contributions, both in content and scope, to the research project.

WORKSHOP: "ECONOMIC DEVELOPMENT AND INTERNATIONAL ECONOMICS"

(Tuesday 3:30 to 5:30 p.m., Social Science-264)

Economics 977-978

- Dec. 1 Professor Emile Despres, Stanford University, "Trade Controls as Related to Internal Price Structures and Economic Growth of Underdeveloped Areas".
- Dec. 8 Professor Everett Hawkins, University of Wisconsin, "Indonesia: The Present Economy and Planning for the Future".
- Dec. 15 Mr. Seiji Naya, University of Wisconsin, "Structure of Japanese Foreign Trade".
- Jan. 5 Dr. Douglas Paauw, National Planning Association, "The Projection of Foreign Aid Needs".
- Jan. 12 Miss Merrienne Duncan, University of Wisconsin, "Economic Stagnation as a Consequence of Specialization: A Case Study".
- Feb. 2 Professor Robert E. Baldwin, University of Wisconsin, "Capital Goods Trade and the Theory of International Trade".
- Feb. 9 Closed Session: Short progress reports by Workshop members.
- Feb. 16 Professor Allen Kelley, University of Wisconsin, "Long Swings and Australian Economic Development 1860-1935".
- Feb. 23 Professor Jeffrey Williamson, University of Wisconsin, "The Chenery Model and its Application to Turkey".
- March 2 Professor Nathan Keyfitz, University of Chicago, "Eighteen Dimensions of the Relation Between Population and Economic Development: How can They be Made Simultaneously Intelligible?".
- March 16 Professor Gerhard Tintner, University of Southern California, "A Log-Normal Diffusion Process Applied to the Economic Development of India".
- March 23 Professor Clair Wilcox, Swarthmore College, "Economic and Political Development in Malaysia".
- March 30 Professor Frank Golay, Cornell University, "Entrepreneurship in the Philippines".
- April 6 Professor Gustav F. Papanek, Harvard University, "Planning and the 'Miracle' of Pakistan".
- April 13 Professor Hla Myint, Oxford University, "The Case for Disintegrated Planning".
- April 27 Dr. Clifton R. Wharton, Jr., The Agricultural Development Council, Inc. & Stanford University, "Agricultural Development in Southeast Asia".
- May 4 Professor Kang Chao, University of Michigan, "Trade Statistics of Mainland China".

- May 11 Dr. Ajit N. Bhagat, University of Wisconsin, "Payments Union for Southeast Asia".
Mr. Bernhard J. Abrahamsson, University of Wisconsin, "Ocean Transportation in Southeast Asia".
Mr. A. Foxley, University of Wisconsin, "Welfare Aspects of Chilean Inflation".
- May 18 Mr. K.C. Sen, University of Wisconsin, "Towards Defining a Policy of Incentive Taxation for Economic Growth".
Mr. Nyle R. Spoelstra, University of Wisconsin, "Approaches to Studying Regional Disparity in Economic Growth: The Case of the Philippines".
- May 25 Professor Hans O. Schmitt, University of Wisconsin, "Towards a European Common Currency: A Restatement".
Mr. David Stebbing, University of Wisconsin, "A Common Currency and Integration: Two Cases--East Africa and Nigeria".

In order to gather research materials from U.S. and U.N. agencies and to coordinate work with AID-Washington, or to do both, four trips were taken by staff members:

Professor Schmitt and Professor Hawkins to Washington, D.C.
Mr. Spoelstra to Washington, D.C. and New York.
Mr. Naya to New York.

In spite of his absence in Washington, Professor Morgan has frequently advised the Acting Campus Coordinator on a great variety of issues. Mr. Nyle Spoelstra, in addition to his research activities, has served as administrative assistant to the Campus Coordinator and the project as a whole.

B. Progress on Items Mentioned in the Second Progress Report

The second report mentioned four future activities all of which have been completed, or least have been the subject of considerable effort, in the last six months.

1. Theodore Morgan took a trip to develop contacts with individuals and organizations engaged in research dealing with Southeast Asia, starting in London and extending to Honolulu from January 7th to February 6th, 1965. He submitted a series of notes on each place visited and a number of documents have been added to our research files, the largest number coming from the Asian Productivity Organization in Tokyo.

2. Theodore Morgan and Everett Hawkins attended a Conference on "Economic Planning in Southeast Asia" at the East-West Center, University of Hawaii in the first week of February. Mr. Morgan chaired one of the sessions and presented a paper entitled: "Economic Planning--Points of Success and Failure". Mr. Hawkins discussed a paper presented by Goh Keng Swee on "Social, Political and Institutional Aspects of Development Planning".

3. At this meeting it was possible to recruit several speakers for the Workshop on "Economic Development and International Economics" and to start negotiations with Professor H.K. Mazumdar of the Indian Statistical Institute, who will come to Wisconsin for the summer session to teach one course on "The Economy of India" and to aid this research project. Earlier Professor Morgan had stopped in Singapore and as a result Professor Kai-Loo Huang, economist, banker and Wisconsin Ph.D., has agreed to join the research project for the academic year 1965-66. Other negotiations are still in progress.

4. A comprehensive review of the progress of the research program was made at the end of March to five representatives of AID who came to Madison for a two day conference (schedule attached). With the help of Dr. Hla Myint, an overall appraisal of the research program was made and certain priorities were suggested.

First, although much progress had been made in securing books, documents, and articles, there are still major gaps that should be filled

AID-Wisconsin Conference on
"Economic Interdependence in Southeast Asia"

- March 28: Arrive Sunday evening on Northwest Orient Flight leaving Washington at 7:30 (EST) and arriving Madison about 9:30 (CST).
Transfer to Madison Inn -- light refreshments.
- March 29: 9:00 -- Tour of Campus research facilities. Social Science Building-352.
10:00 -- First conference session: Professor Morgan, Chairman. Report of progress and problems faced by Wisconsin researchers --followed by discussion. "Commodity Trade Patterns Among Southeast Asia, Japan, India and the United States, 1962," Seiji Naya and Nyle Spoelstra. Popover Room, Memorial Union.
12:15 -- Lunch with members of the Economics and other interested Departments. "AID's Research Program". In the Round Table Room of the Memorial Union. Mr. Farrar.
3:30 -- Lecture by Dr. Hla Myint. "Patterns of Development in Southeast Asia" Room B-104 Social Science Building.
5:30 -- Informal session. Home of Mr. & Mrs. Hawkins, 3218 Topping Road.
7:00 -- Dinner: Madison Inn, 7th Floor.
8:00 -- Second conference session: How AID envisages the region and this research project; Presentation by AID Staff -- followed by general discussion. Madison Inn, 7th Floor.
- March 30: 9:00 -- Continuation of reports by researchers and comments by AID Staff. Conference Room, Department of Economics, Social Science Building.
3:30 -- Workshop: Professor Frank H. Golay of Cornell University "Entrepreneurship in the Philippines" 264-Social Science Building.

at once. Of particular importance are the materials published by the countries themselves. A further search should be made through the journals for important articles both of theoretical and empirical importance. Efforts have been made since then to fill the major gaps with books, documents, and periodicals.

Second, in analyzing the vast quantity of data about the region, priority should be assigned to regional trade patterns. In this connection it was decided to utilize some of the techniques developed by Kojima. The region's foreign trade was classified in eight categories of commodities according to the major factor input. The trade patterns of the United States, Japan and India with Southeast Asia were examined. Mr. Naya and Mr. Spoelstra made literally thousands of calculations for their preliminary report to the AID visiting team (I.B.1-2 below). Further work has been done in this field and much more will be undertaken in the summer and fall. The findings should be helpful to all the other research people as well as an analysis of all items in the balance of international payments of the area. Also closely related to the trade and payments figures, data showing the flows of factors of production, capital movements including aid and labor migrations (Professor Hawkins and Professor Kelley) into and within the region, will be investigated. Also in this connection possible barriers to international trade are being studied; both costs of ocean shipping (Mr. Abrahamson) and tariff, foreign exchange and other government restrictions (Mr. Weiser).

Third, the great differences in government plans within the region must be studied (Professor Morgan and Mr. Sen) with reference to their influence on trade patterns and growth. Attempts to increase output in the agricultural (Mr. Singh) and manufacturing sectors will be analyzed as they relate to trade flows.

Fourth, in the light of all of the above analysis, an attempt will be made to study the feasibility of a series of regional projects that have either been suggested or tried in other regions of the world. A preliminary report has been made by Dr. Bhagat on a plan for a regional payments union and he is following this up with a study of an Asian Regional Development Bank--an idea recently subscribed to by President Johnson. Professor Schmitt has been studying capital flows in the European Payments Union and Mr. Stebbing has presented a report on integration and currency unions in Nigeria and East Africa. Those studies about schemes used in other parts of the world will help in evaluating proposals for greater integration in Southeast Asia.

In the first year of its operations, the project has undertaken considerable work on the priority fields mentioned above. These correspond to the three topics listed under headings I, II, and III in the list of research topics included in the Detailed Work Program, dated June 23, 1964. Some of the preliminary findings, of course, will have to be modified in the light of future studies on related topics prior to undertaking work on the fifth priority, policy implications.

C. Summaries of Research Results

Under each heading, the research summaries will be numbered consecutively in all Progress Reports. An item that has appeared in a previous report is not repeated if there has been no change in the last six months. However, new developments in previously reported items are recorded in this report; these items are marked with an asterisk (*). New items in this period are given the appropriate serial number.

For example, under heading (I.A.1), items (1)-(4), which were summarized in the Second Progress Report are omitted because their status is unchanged. Items (5) and (6) are new developments in this report period. For item *(1) under heading (I.B.1-2), which was discussed in the Second Report, a new summary is given that discloses activities for the current six-month period.

Abbreviations and terminology: SS indicates senior staff
RA indicates research assistant
ASUS indicates Asian staff in U.S.
(cooperating country research associate)
"Draft" indicates that the paper is circulating among the Contract Staff
"Working Papers" and "Research Papers" were defined in the Second Progress Report

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

- (5) Working paper, "Economic Theory and the Underdeveloped Countries," by Hla Myint, Oxford University. (SS)

Summary: "There is no reason to suppose that economic policies considered appropriate for the advanced countries will prove to be equally appropriate to the underdeveloped countries. But this "realistic" objection to generalizations should apply not only to the laissez-faire but also to the planning policies in the underdeveloped countries. Further, given the wide differences which exist among the underdeveloped countries themselves with respect, say, to the degree of population pressure, the overall size of the economy, the general level of administrative efficiency and the coherence of the institutional framework, etc. it is highly unlikely that any single standard model of development planning will be appropriate for all of them."

- (6) Lecture to Contract Staff: "A Log-Normal Diffusion Process Applied to the Economic Development of India", by Gerhard Tintner, University of Southern California.

Summary: An attempt is made to apply stochastic methods to explaining the economic development of India. The explanatory variable chosen to be especially significant in income variations is government expenditure.

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

- (2) Lecture to Contract Staff: "Foreign Trade Statistics of Communist China," by Kang Chao, University of Michigan.

Summary: Economic data for Communist China are scarce and even those available are generally inaccurate or biased. There is a tendency of overstatement in Communist China's trade with the Communist Bloc countries and hence in her overall trade. Two main reasons are as follows: (1) Transactions with the Communist Bloc countries are recorded at negotiated prices while those with the West at world market prices. The former prices are generally higher than the latter. (2) During the period 1950-58, transactions with the Bloc countries were recorded at the exchange rate of one yuan to .95 roubles, an over-valuation of the yuan.

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

- (2) Lecture to Contract Staff: "Eighteen Dimensions of the Relation Between Population and Economic Development: How Can They be Made Simultaneously Intelligible?," by Nathan Keyfitz, University of Chicago.

Summary: No unique relationship between population and economic development exists in various theories. The shape of the problem depends mainly on its scale. The optimum size of the population, for example, would depend upon the point of view--a welfare optimum or a power optimum. The nature of a nation's response to the population challenge determines its outcome. Passive acceptance would be a cause of poverty, while active measures to increase production and birth control would lead to development.

- (3) Workshop Report: "Planning for Tax-Incentives--Some Case Studies," by K.C. Sen (RA)

Summary: The basic hypothesis of this paper is that the nature of tax-incentives designed to aid the process of economic growth changes from one phase of development to another. Four such phases have been distinguished. It is also suggested that in order to be effective, tax-incentives must be made an integral part of an over-all strategy of economic growth comprising several collateral facilities.

The experience of a few countries--Mexico, Puerto Rico, the Philippines, Ghana, India, Sweden, Germany--in the field of incentive taxation has been reviewed to test the hypothesis mentioned above.

It is suggested that, in the context of intra-regional cooperation, it will be fruitful to consider the establishment of some sort

of regional industrial finance corporation which could provide the monetary counterpart to a fiscal program of tax-incentives. A draft paper has been prepared incorporating these ideas.

(I.B) COMPARATIVE ADVANTAGE: TRADE THEORY

- (1) Lecture to Contract Staff: "Capital Goods Trade and the Theory of International Trade," by Robert E. Baldwin, University of Wisconsin.

Summary: The simple conventional trade theory based on the assumption of immobility of capital-goods is inadequate to explain the dynamic process of international trade and economic development. The factor-ratio differences among trading countries, which are the basis for trade in conventional theory, can be changed and are less important in the dynamic process of economic development. The relevant basis of trade may be such variables as short-run differences in the knowledge of productive techniques and differences in tastes. In order to explain such questions as the rate of change of factor conditions and trading patterns, the impact of tariffs, and the decline in trade, the inclusion of capital accumulation and trade in capital goods in the analysis of the theory of international trade is necessary.

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

- * (1) Draft Paper: "A Comparison of Trade Patterns Among Southeast Asia, Japan, India, and the U.S. for 1962," by Seiji Naya (RA) and Nyle R. Spoelstra (RA)

Summary: This study is an analysis of the direction and pattern of commodity trade of the U.S., Japan and India with Southeast Asia and possible factors responsible for the commodity trade pattern. Exports and imports, which are classified on the three-digit level in the SITC, are divided into eight categories, consisting of four natural resource-intensive, two labor-intensive, and two capital-intensive groups.

Although a few significant findings are observable, general conclusions will be made only after additional research for different years is completed. Top priority, therefore, is to complete the compilation of 1961-63 trade data which will be compared with earlier years, more specifically with a study by Professor Kiyoshi Kojima on the 1956-58 trade patterns. In addition to the commodity pattern of Southeast Asia as a whole, sub-regions in the area will be studied. Also, an attempt will be made to analyze the impact of U.S. aid, e.g., PL 480, on the trade pattern of Southeast Asian Countries.

The data assembled for this study can also be used effectively

to examine the relationship between commodity concentration and fluctuations in trade receipts. Many Asian countries have been adopting policies to increase trade diversification, fearing the damaging consequences of too heavy concentration on certain commodities. Too much diversification, however, can result in a misallocation of resources and a weakening of the comparative advantage position of various goods.

- (2) Workshop Report: "The Leontief Paradox and The Factor Structure of Japanese Foreign Trade," by Seiji Naya (RA) (Ph.D. Dissertation accepted May 25, 1965).

Summary: A major portion of the dissertation is concerned with the capital, labor, and natural resource structure of Japan's foreign trade. The findings are:

1. Japan engages in foreign trade to economize her most scarce factor, natural resources.
2. The Capital-Labor structure of her trade is dual, i.e., she exports capital-intensive goods to Asian countries and labor-intensive goods to North America and Europe.
3. In recent years, the relative share of Japan's trade with Asia has declined, while her share with the advanced regions has increased.

In order to explore possible causal factors of the last finding, which is somewhat contradictory to Japan's expressed interest in the economic development and expansion of trade with Asian countries, an extension of this dissertation is planned in which the effect of Japan's income doubling plan on her trade relation with Southeast Asia will be analyzed.

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

- *(2) Study in Progress: "Migration and Labor Skills in Southeast Asia," by Everett Hawkins (SS).

Summary: Some material has been prepared to show the importance of migration to Malaya and to analyze her labor force patterns of skills in recent years. Figures have been collected on remaining parts of Malaysia and other countries in Southeast Asia. Migration in the post-war period have been of considerable importance as have efforts to raise levels of general education and skills. An analysis of the general population, labor force and trans-migration trends in Indonesia will be completed in the summer, the balance hopefully in the fall.

- (3) Draft Paper: "Job Inflation in Indonesia," by Everett Hawkins (SS). Presented to the Faculty Seminar of the Department of Economics, University of Illinois, April 29, 1965.

Summary: Inflation has forced Indonesians to adopt many methods to increase family incomes, the most important of which is to

hold multiple jobs, not just a second job (moonlighting). Although this may result in some increase in output, it is apparent, as a person tries to hold more and more jobs, that the loss of efficiency on all jobs is serious. In fact, if pushed far enough, job inflation will result in further price inflation.

- (4) Lecture to Contract Staff: "International Migration and Economic Growth: Australia, 1865-1935," by Allen C. Kelley, University of Wisconsin.

Summary: The nature of migration into Australia in the nineteenth and twentieth centuries provides much valuable material relating to the mechanism of interregional population transfers. The model treated considers the potential migrant as comparing expected long-run benefits from migration against the costs of moving. While the long-run benefits are relatively stable through time, the costs, especially foregone earnings during the transition, fluctuate considerably with employment conditions. Furthermore, on a priori grounds, it is expected that employment opportunities in the receiving country will solicit a greater response than those in the sending area.

The results of regression analysis are consistent with the postulated model. The most important explanatory variable of Australian net migration appears to be Australian labor market conditions. There is the distinct possibility, however, that influences in other areas receiving British migrants had more influence on Australian migration flows than is usually held.

To be published in the Journal of Economic History, September, 1965.

(I.B.5) TRANSPORTATION COSTS

- * (1) Workshop Report: "Ocean Transportation as A Barrier to Trade in Southeast Asia," by B. Abrahamsson (RA).

Summary: A detailed analysis is made of the structure and supply and demand conditions in the liner and tramp markets. Most countries in the area feel that freight rates are unduly high and put their exports at a disadvantage--i.e., each country seems to feel that it is discriminated against in terms of freight rates. Five measures have been taken to effect solutions to the problem:

- a. Consultative councils have been established to negotiate lower freight rates.
- b. Freight rate study units have been established with the intention to do research into rate setting principles.
- c. Complaints as to anomalously high freight rates are being investigated. Such complaints are also published with the intention of bringing public opinion to bear on carriers.
- d. National Merchant Marines are being developed to provide

competition.

- e. Ports are being improved in order to reduce the operation costs of shipping lines.

Each of these measures is studied in some detail, but the fourth one is subjected to more rigorous analysis using a model with realistic market assumptions.

In addition to a seminar report, most of the first draft has already been submitted for criticism. It is expected that the rest will be completed in the coming summer months.

(II.A.1.a) BALANCE OF PAYMENTS RESTRAINTS ON ECONOMIC GROWTH

- (1) Lecture to Contract Staff: "The Savings Bottleneck versus the Foreign Exchange Bottleneck in Southeast Asia," by Douglas Paauw, National Planning Association.

Summary: Whereas the foreign exchange gap and the savings gap may be the same ex-post, they are likely to differ ex-ante depending upon different policy values and parameters. As a conceptual improvement is estimating the savings gap, it is suggested that:

1. Not the aggregate savings ratio, but rather "the per capita marginal savings ratio" is the true measure of savings potential in underdeveloped economies;
2. While setting the target rate of growth, both the per capita income target and the rate of growth of population ought to be taken into account.

Revised and issued as a Working Paper by the NPA.

- (2) Lecture to Contract Staff: "The Chenery Model and its Application to Turkey," by Jeffrey Williamson, University of Wisconsin.

Summary: A plea is made for a more disaggregated approach to making estimates for foreign aid; the global and aggregative models like that of Rosenstein-Rodan are critically reviewed. On the basis of a disaggregated Chenery model two observations are made with regard to Turkey:

1. The domestic saving constraint will not be important in the period studied up to 1975.
2. The balance of payments, however, will be a major constraint for the economy.

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

- *(1) Workshop Report: "A Proposal for a Southeast Asian Payments Organization," by Ajit N. Bhagat (ASUS).

Summary: The institutional arrangements proposed here are in the nature of a regional payments union with credit granting provisions. In order to put the problem in its proper perspective

of the developing countries, James Ingram's proposal of financial integration of the Atlantic Community is briefly examined. The rights and obligations of the regional payments union consist in the availability of credit to the intra-regional deficit countries and the extension of credit by the intra-regional surplus countries through the union. Allocation of initial quotas and fractional gold-credit settlement of trade balances are proposed. It is argued that the payments union can ease the process of establishment of a customs union or free trade area. It is further argued that it can function even outside the framework of a customs union to promote intra-regional trade. It is emphasized that the efficient and continued functioning of the payments union is dependent on the self-correcting nature and compensatory behaviour of the participating countries' balance of payments. Based on an analysis of past trade patterns of South and Southeast Asia, which show a majority of countries with persistent trade surpluses or deficits with the other nations in the region, a payments union might run into difficulties. When an analysis of future trade patterns is available, the case for a payment union will be re-examined. This paper is being revised as a Working Paper.

(II.A.2)

RESTRICTIONS OF TRADE AND PAYMENTS

- * (1) Study in Progress: "Trade Restriction and National Revenues," by Lawrence Weiser (RA).

Summary: The revenue derived from the foreign trade sectors of nine major Southeast Asian nations accounts for at least one quarter of all government revenue and exceeds fifty percent for Ceylon and Malaya. Along with export and import taxes, other types of commercial policies that yield revenue such as multiple exchange rate systems and advance deposit requirements for imports have been studied. A regression model has been constructed to describe the relationship of the share of government revenue derived from the foreign trade sector to levels of economic development. A dummy variable technique is used which eliminates spurious correlation introduced through varying the relative size of the foreign trade sector. Preliminary empirical tests using this technique indicate that a heavy tax burden on the foreign trade sector is neither a necessary nor a sufficient condition for attaining a high per capita income.

As soon as access can be gained to the tariff schedules of these countries, the revenue loss due to prospective customs union formation will be estimated under the assumption of stable trade patterns. The problem of harmonization of taxation policy within a customs union will be analyzed. Since budget deficits can be alleviated through foreign assistance for development projects, channeling aid to the initially higher ~~the~~ countries may allow them to compete on an equal basis.

- (4) Lecture to Contract Staff: "Trade Policy and Internal Price Structure in Economic Development," by Emile Despres, Stanford University.

Summary: Economic growth, defined as an increase in per capita income, requires not only a change in the composition of output, but also a change in the structure of relative costs, specifically in new export lines and in import-substitution industries. However, changes in cost structures must follow rather than occur simultaneously with the establishment of new industries, which implies that the transformation requires some sort of subsidy.

The subsidy may come from foreign sources or from within the indigenous economy. A capital import affects per capita incomes either directly by allowing investment plus domestic consumption to exceed domestic output, or indirectly by allowing a sufficient length of time for structural change to occur.

Within the economy, one of the main ways in which the new industries can be subsidized is through import controls. However, it should be recognized that the rates of nominal and implicit protection may differ and that lack of domestic linkages may frustrate the intent of the controls. Finally, policy makers should bear in mind that subsidies may also be provided by alternatives to import controls--for example, by sales taxes on luxury imports or by devaluation.

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

- * (1) Workshop Report: "Integrating Capital Markets in Europe: A Step to Political Unification," by Hans O. Schmitt (SS).

Summary: The expectation that a customs union in Europe will ultimately lead to political unification is based on the so-called "spill-over" effect. This effect operates whenever any steps towards integration create new needs and fresh demands to proceed further in the same direction. Thus a customs union may create pressures to integrate not only commodity, but capital markets as well. An integration of capital markets in turn may necessitate currency unification for its effective functioning, and a unified currency area finally may imply a pooling of sovereignties sufficiently complete to destroy the separate identities of the participating nation states.

The chances of a common European currency emerging depend chiefly on the answers that can be given to the following questions:

1. In what way is an integration of capital markets required if a customs union is to function effectively, as the Treaty of Rome seems to expect?
2. How far has access to European capital markets been liberalized in response to the directives of the European Community and what, specifically, are the obstacles to further advance?

3. To what extent has the liberalization of capital movements begun to intensify pressures for inter-government coordination of monetary and fiscal policy, and what counter-pressures can be identified?

A Working Paper is being typed and will be ready in June.

- * (2) Workshop Report: "The Role of Central Financial Institutions in Economic Integration: A Comparative Study of East Africa and Nigeria," by David Stebbing (RA).

Summary: The subject of this study is the central monetary authority of a common market and common currency area. Although the two cases selected are African, the experience of Nigeria and East Africa in the design and management of a central monetary authority should have relevance for similar experiments in Southeast Asia, notably Malaysia.

Relying on published sources available in this country a study of the Nigerian and East African monetary systems to answer several preliminary questions has been undertaken:

1. What is the scope for active monetary policy in the context of the Nigerian and East African financial systems;
2. To what extent has money management been attempted in Nigeria and East Africa, and with what results;
3. What are the arguments for and against the establishment of an East African central bank (or banks) to replace the currency board;
4. More fundamentally, what can be learned from published sources about the design and management of the central monetary institutions of Nigeria and East Africa?

A draft paper has been prepared containing tentative answers to these questions. Very briefly, these are: that the scope for active monetary policy is extremely limited in both areas, that little has been attempted in either, and that the nature of the Currency Board is a constraint in East Africa. Since published sources available to date are unsatisfactory for information on monetary management, field work will be undertaken in 1966 on other funds to complete a doctoral dissertation.

- * (3) Study suspended: "The Role of Singapore as a Focus of Economic Interdependence in Southeast Asia".

This project will be assigned to another researcher.

(II.B.3.a.1) THE LOCATION OF ECONOMIC ACTIVITY

- (1) Study in Progress: "Regional Patterns in Economic Development," by Nyle Spoelstra (RA).

Summary: The ultimate purpose of a cooperative economic organization such as an economic union is to promote economic

growth among all of the participants. However, it is well known that within an economic union, either for a single national economy or for a group of several nations, some members (or regions) will suffer relatively to others if there is a continuing disparity between fast-growing and slow-growing regions. Regional inequalities in growth rates have been a paramount concern within several individual nations (e.g., Brazil, Thailand, Italy) as well as within cooperative ventures such as the European Economic Community and the East African Federation. Because differences between countries are pronounced in Southeast Asia, a study of prospects for increased economic cooperation in that area that ignores the potential conflict arising from regional disparities would indeed be deficient.

Economic analysis provides neither a comprehensive nor a rigorous theory of the genesis and dynamics of regional inequality. Furthermore, there is only limited empirical evidence concerning actual historical patterns of regional development in a supra-national or even a national context. The purpose of this study, therefore, is to formulate some testable propositions concerning changes over time in regional disparities. The two most promising areas seem to be factors leading to changes in the concentration and regional distribution of population, especially the labor force, and of economic activity. These propositions will then be subjected to empirical tests in one or more countries in the region. A possible third phase may involve an examination of the way in which specific institutions governing the flow of goods and factors of production affect regional patterns of development.

(II.B.3.a.2) REGIONAL INVESTMENT PROGRAMS

- (1) Study in Progress: "Regional Development Bank for Asia," by A.N. Bhagat (ASUS).

Outline:

- A. Regional Development Bank in the perspective of the theory of capital movements.
- B. Case for a Development Bank for Asia. Experience of other regional development banks.
- C. Objectives of the Bank.
- D. Sources of finance for the Bank.
- E. Suggestions concerning the projects that can be eligible for the Bank's resources.
- F. Loans operations and other related technical aspects.
- G. Projected assessment of the possible role of the Bank in the region's economic development.

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

- (2) Lecture to Contract Staff: "Indonesia--The Present Economy and Planning for the Future," by Everett D. Hawkins (SS).

Summary: Serious efforts at systematic economic planning in Indonesia have been retarded by political unrest, military expenditures and the consequent inflationary rise of prices. Political rather than economic criteria have been the dominating influences behind policy. In 1963, however --after the Economic Declaration--efforts at a coordinated stabilization policy were undertaken: a single pricing system, a tight monetary and fiscal policy, and the encouragement of exports to facilitate the rise of necessary imports. Parts of these measures were attacked by three major political forces even before Malaysian confrontation which resulted in the termination of the proposed consortium aid and the stabilization program. Indonesia will not secure the growth she needs, even for political power reasons, unless she gives more consideration to economic factors.

(II.C.1.a) REGIONAL PRODUCTS

- (1) Lecture to Contract Staff: "Agricultural Development in Southeast Asia," by Clifton R. Wharton, Jr., Stanford University.

Summary: The agricultural economies of Southeast Asia suffer from what may be called "the perennial mono-culture export dominance". The two basic problems which are peculiar to such economies are: (1) potential price-instability resulting from price-inelasticity of exports and (2) technological dualism. Hence there is a need for diversification of agriculture and the development of infra-structure in the economy.

(II.C.1.b) AGRICULTURE

- * (1) Draft Paper: "The Role of Agriculture in Economic Development: A Survey," by I.J. Singh (KA).

Summary: It is the contention of this paper that all planning has a time element in it and that an emphasis on industrialization in the long-run is not incompatible with an initial emphasis upon rural development. Indeed, for Southeast Asia in particular, given the stagnation of the export sector and the growing pressures of population, the rapid development of the rural sector could play a crucial role in stimulating and sustaining rapid industrialization.

Work in Progress: In any given country in Southeast Asia the stagnation of the rural sector is not due to demand deficiencies, but rather to the structural inelasticities of the supply of agricultural outputs. A study is proposed where an attempt will be made to construct a model within which the nature of supply elasticities can be investigated. Special attention will be paid to the problem of statistical identification; simultaneous equation models will be used for estimating the relevant elasticities.

(III.A) NATIONAL ECONOMIC PLANNING

- * (1) Draft Paper: "Success and Failure in Economic Planning," by Theodore Morgan (SS). Presented at the Conference on Planning in Southeast Asia, University of Hawaii, February, 1965.

Summary: Failures of economic planning originate both in (a) government instability, with its context of maneuvering for political power and shifts of persons and policies, and in (b) the nationalist and one-party policies that governing groups use to keep themselves in power. They originate also in (c) centralized large organizations that attempt to control economic life in detail, with their tendencies to substitute ideology for reality; to alienate the people of the villages and farms for whom the planning is done; and to delay and to be rigid.

Successes of planning, actual and potential, originate in (a) influencing the economic environment in which private individuals make their decisions, and in trying to supplement those decisions; (b) in evoking expression of felt wants for improvement from the people in the villages and fields, and hence stimulating their ideas and energy, which the government can then assist. Finally, planning is in our time a popular word like democracy: Hypocrisy being the homage vice pays to virtue, dictatorships proclaim they are democracies, and governments that have no intention of serious planning go through the motions. Even so planning (c) keeps green the hope of economic advance, which makes more likely its eventual reality.

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

Summary: See second report. This paper was edited and presented as a working paper to the AID visiting team. It will be re-worked and issued as a Research Paper this summer.

- * (3) Draft Paper: "The Inward-Looking and Outward-Looking Countries in Southeast Asia," by K.C. Sen (RA).

Summary: Four Southeast Asian countries--Burma, Ceylon, India and Indonesia--have been grouped as "Inward-Looking", while three countries--Malaya, the Philippines, and Thailand--have been grouped as "Outward-Looking". The former exercise (i) strict control of resource-allocation through formal planning, and (ii) strict trade and capital flow controls, and show (iii) some disposition to nationalize foreign enterprises. The latter have these characteristics in a mild degree or not at all.

The criteria of success in economic development since 1950 include per capita income growth, growth of savings and investment, and price stability; and also certain structural changes, among them a falling share of agriculture in total production,

falling deficit financing, import substitution, and export growth and diversification.

The conclusions are mixed. On the growth and price stability front, the evidence is rather inconclusive. With respect to desirable structural changes, the outward-looking group have a clear advantage. They have had far greater access to external financial resources, which has kept down their deficit financing. In addition, they have in general a much better record in import substitution, productivity increases, increase in import capacity, and government spending for development.

It is planned to develop this into a working paper this summer.

- (4) Lecture to Contract Staff: "Economic and Political Development in Malaysia," by Clair Wilcox, Swarthmore College.

Summary: In an atmosphere of cultural and political heterogeneity the success of Malaysian economic development can be attributed primarily to the private sector. What is called "grass-roots planning" by means of "Red Books" and careful follow-up from the national to the state to the local level is an attempt to improve the rural areas which are predominantly Malay. The Malayan Plan also provides for government investment in social overheads.

- (5) Lecture to Contract Staff: "Entrepreneurship in the Philippines" by Frank H. Golay, Cornell University.

Summary: The Philippine experiment of promoting national economic development has been successful primarily due to an aggressive policy of encouraging indigenous entrepreneurship. Many entrepreneurs--financial, production, export, commercial, industrial--have arisen, aided by the government through lighter taxes, import controls and credit availability. As a result, the entrepreneur is no longer looked upon as a social deviant but as a folk hero. The Philippines, however, faces problems because of the great disparities in income and because of limited investment by the government in social overheads.

- (6) Lecture to Contract Staff: "Planning and the Miracle of Pakistan," by Gustav F. Papanek, Harvard University.

Summary: Since 1960 four factors have been responsible for bringing about a rapid over-all and structural change in the economy of Pakistan: (1) a policy of incentives towards the industrial and the agricultural sectors--terms of trade between industry and agriculture moved first in favor of the former and then in favor of the latter; (2) a policy of protection; (3) a network of institutional finance for industry; and (4) decentralized administration of incentives programs, for example the Rural Works Program. The major drawback of policy has been the huge disparity between East and West Pakistan due to lack

of mobility of labor and entrepreneurship between the two wings and administrative and political factors.

- (7) Lecture to Contract Staff: "The Case for Disintegrated Planning," by Hla Myint, Oxford University (SS).

Summary: Those who argue for integrated planning ignore the fact that for the less-developed countries, planning has to create a suitable strategy of high linkage interdependence and a new center of interrelationships within the economic system. Planning for development being a long-term process must concentrate not only on inter-sectoral coordination but also on inter-temporal. Hence the need for effective techniques of plan implementation, for example, proper coordination of government and private sectors so as to avoid competition leading to bottlenecks and shortages during the plan period. As the economy becomes more integrated the more likely will a failure in one part of the plan disrupt other sectors. In this situation the use of market mechanisms, or disintegrated planning, allows more flexible adjustments.

(III.B) PLANNING AND ECONOMIC INTEGRATION

- (1) Study in Progress: "Strategies of Planning in Southeast Asia-- A Study in Attitudes," by K.C. Sen (RA).

Prospectus: In this study an attempt will be made to focus on those aspects of formal and informal planning in the various countries of Southeast Asia which might influence the prospects of intra-regional cooperation. This will be mainly a study in attitudes --as revealed through official documents, declarations, and reports --of these countries towards industrialization, import substitution, export promotion, foreign capital, technique of planning, plan implementation, and private enterprise.

II. FUTURE GENERAL ACTIVITIES OF THE PROJECT

1. Fill in the collection of documents from countries in the region.
2. Secure the services of three or four Asian scholars in the field to help in the data collection process and to carry out research on an intensive short-term study to project trade and investment flows along similar lines in each country. It is hoped to work closely with the Institute of Economic Research and Development of the University of the Philippines. Arrangements with other institutes may be possible.
3. Assign new staff members to projects with high priorities already discussed in I.B.4 above.

4. Revise several of the present draft papers mentioned in the preceding section, and circulate them as working papers for criticism in Washington, in the university and research circles in South and Southeast Asia. The best papers should be published.
5. Select for the fall workshop speakers who will make the maximum contribution in the priority fields.
6. Work with Professor Kelley to prepare our data in such a form that it can be analyzed quickly in many alternative ways on a computer.
7. Plan another conference with AID/Washington officials.
8. Start plans for the Conference to be held in Asia in 1966.

III. CONTRACT STAFF

A. Personnel Employed in This Report Period

AID Appointment

Period of this report, December 1, 1964-June 1, 1965	Future periods committed
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1. Senior Staff

- | | | |
|--|--|--|
| a. Theodore Morgan
Professor of Economics, Univ.
of Wisconsin (Research Dir. &
Campus Co-ordinator) | Dec.'64: 1/2 time;
Jan.-Feb.'65: 1 month
& full time (Feb.8, '65
-Aug.'65 on leave with
Council of Economic
Advisers) | Sept. '65-May'66:
1/2 time |
| b. Hans O. Schmitt
Assistant Professor of
Economics, Univ. of
Wisconsin | Dec.'64-May'65:
1/2 time | June'65: full
time, then on
leave with
World Bank |
| c. Hla Myint
Professor of Economics,
Oxford University | 15 March-15 April:
full time | Visiting |

2. Central Staff

- | | | |
|--|--|--|
| a. Associate Director | | |
| (1) Everett D. Hawkins
Professor of Economics
Univ. of Wisconsin | Dec.'64-Jan.'65:
1/2 time; Feb.-May'65:
1/3 time | June-Aug.'65:
1/2 time. Became
Acting Campus
Co-ordinator
Feb.8, '65 |
| b. Project Associate | | |

c. Campus Research Assistants

(1) Nyle Spoelstra (Also Administrative Assist. to the Campus Co-ordinator)	Dec.'64-June '65: (1/2 time on Grad. School Grant. No charge to Contract)	July-June '66: 1/2 time on AID
(2) K.C. Sen	Dec.'64-June '65: 1/2 time	July-June '66: 1/2 time
(3) B.J. Abrahamsson	Dec.'64-May '65: 1/2 time	June '65: 1/2 time
(4) I.J. Singh	Same	June '65: 1/2 time; Sept.'65-mid Jan.'66: 1/2 time
(5) Lawrence Weiser	Same	July-Aug.'65: 1/2 time
(6) Seiji Naya	Same	Will become Project Assoc.: 1/2 time
(7) David Stebbing	Dec.'64-June '65: 1/2 time	July-Aug.'65: 1/2 time
(8) Thomas Helminiak	Dec.'64-May '65: (1/2 time on Grad. School Grant. No charge to Contract)	Off the project

d. Secretaries

(1) Mrs. Betsy Spoelstra	Dec.'64-June '65: 3/4 time	July-June '66: 3/4 time
(2) Mrs. Liesl Tarkow	Dec.'64-June '65: 1/4 time	July-June '66: 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.

- a. Professor Emile Despres, Stanford University, "Trade Controls as Related to Internal Price Structures and Economic Growth of Underdeveloped Areas," December 1, 1964.
- b. Dr. Adam Marton, Central Statistical Office of Hungary, "Planning Foreign Trade in a Centrally Planned Economy," January 20, 1965.
- c. Professor Nathan Keyfitz, University of Chicago, "Eighteen Dimensions of the Relation Between Population and Economic Development: How Can They be Made Simultaneously Intelligible?," March 2, 1965.

3. and 5. (Cont'd)	Period of this Report	Future Periods Committed
d. Professor Gerhard Tintner, University of Southern California, "A Log-Normal Diffusion Process Applied to the Economic Development of India," March 16, 1965.		
e. Professor Clair Wilcox, Swarthmore College, "Economic and Political Development in Malaysia," March 23, 1965.		
f. Professor Frank Golay, Cornell University, "Entrepreneurship in the Philippines," March 30, 1965 (partly supported with AID Contract funds).		

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

Dr. Ajit N. Bhagat, ECAFE, Bangkok, Thailand	Dec. '64-May '65: 1/2 time	July-Aug. '65: 1/2 time
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B. Additional Personnel to be Employed in Future Periods

1. Senior Staff

a. Professor P.T. Ellsworth Univ. of Wisconsin		Sept. '65-May '66: 1/2 time
b. Assistant Professor Allen Kelley, Univ. of Wisconsin		July-Aug '65: 1/2 time; Sept. '65-Jan. '66: 1/6 time; Feb.-May '66: 1/3 time
c. Professor James Earley, Univ. of Wisconsin (in Asia; no transportation charge to Contract)		Feb. & March '66: full time
d. Visiting Summer Appointee (negotiations in progress)		One month: full time
e. Visiting Senior Research Associate (to be appointed)		Sept. '65-Jan. '66: full time

2. Central Staff

a. Project Associate: Dr. Seiji Naya, Univ. of Wisconsin		Sept. '65-May '66: 1/2 time
b. Research Assistants:		
(1) Peter Bell, Univ. of Wisconsin		July-Aug. '65: 1/2 time
(2) Don DeVoretz, Univ. of Wisconsin		July-Aug. '65: 1/2 time
(3) J. Clark Leith, Univ. of Wisconsin		Sept. '65-May '66: 1/2 time

3. and 5. Lecturers and Consultants: None at present

4. Non-U.S. Personnel

- | | |
|--|------------------------------------|
| a. Professor Harendra K. Mazumdar, Indian
Institute of Statistics (currently visiting
Professor of Economics, Univ. of Hawaii) | July-Aug.'65:
1/2 time |
| b. Professor Kai-Loo Huang, Singapore, Malaysia | Sept.'65-May'66:
2/3 time |
| c. Junior Asian Project Associate (to be
appointed) | Sept.'65-May'66:
full time |
| d. Several short-term research scholars in
Asian countries | June'65-March'66:
18 man-months |

IV. SUMMARY FISCAL REPORT

Line Item Number Category	This Period (12/1/64-5/31/65)	Previous Periods (6/1/64- (3/23/64- 11/30/64) 5/31/64)		Total to May 31, 1965
1. Salaries, Wages, Stipends, Consulting Fees, total	<u>\$21,968.86</u>	<u>\$20,277.40</u>	<u>\$746.30</u>	<u>\$42,992.56</u>
--Dec.'64-April'65	18,950.58			
--May'65 estimate	3,018.28			
2. Allowances	-- 0 --	-- 0 --	-- 0 --	-- 0 --
3. Travel and Trans- portation total	<u>4,117.86</u>	-- 0 --	-- 0 --	<u>4,117.86</u>
--Dec.'64-April'65	4,117.86			
4. Other Direct Costs, total	<u>2,841.07</u>	<u>576.44</u>	<u>84.94</u>	<u>3,502.45</u>
--Dec.'64-April'65	1,621.57			
--May'65 estimate	1,219.50			
5. Overhead				
--Dec.'64-April'65	<u>7,037.67</u>	<u>6,845.57</u>	-- 0 --	<u>13,883.24</u>
6. Equipment and Materials	-- 0 --	-- 0 --	-- 0 --	-- 0 --
7. Research Services by Non-U.S. Personnel, total	<u>3,800.00</u>	<u>1,050.00</u>	-- 0 --	<u>4,850.00</u>
--Dec.'64-April'65	3,450.00			
--May'65 estimate	350.00			

	This Period (12/1/64-5/31/65)	Previous Periods (6/1/64- 11/30/64)	(3/23/64- 5/31/64)	Total to May 31, 1965
8. Conference	-- 0 --	-- 0 --	-- 0 --	-- 0 --
9. Participants	-- 0 --	-- 0 --	-- 0 --	-- 0 --
TOTAL, ALL LINES	<u>\$39,765.46</u>	<u>\$28,749.41</u>	<u>\$831.24</u>	<u>\$69,346.11</u>
--Dec.'64-April'65	35,177.68			
--May'65 estimate	4,587.78			

Everett D. Hawkins

Everett D. Hawkins
Associate Director