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ECONOMIC INTERDEPENDENCE IN SOUTHEAST ASIA

FINAL REPORT

The University of Wisconsin
AID Research Program
(Contract csd/355)

March 17, 1970

Preface

In the spring of 1963, before Southeast Asia became so conspicuous a problem of foreign policy as it later became, the Agency for International Development invited a number of U.S. universities to consider the possibility of basic research on economic development in Southeast Asia, and on economic cooperation within the region. AID also sought to encourage a rapid increase in the number of American and Asian economists doing research in the field. Eleven universities submitted proposals; two were invited, in final competition, to revise and resubmit their proposals. A contract was signed with the University of Wisconsin on March 23, 1964. With extensions the contract continued through 1967; and editing and publication work under the contract has continued into 1970.

The University of Wisconsin already had on its staff a number of economists who had held teaching, research, or advisory roles in Southeast Asia, and whose interest in that region was continued in their research and teaching in the United States. The University accepted the contract because of the promise of its fitting, with mutual support, into regular programs of teaching, research, and exchanges, both with respect to economic development generally and Southeast Asia in particular.

The University was disposed toward a broad framework, in definition of the region and conceptually, including basic issues of development, regional cooperation and planning, within which to place the specific issues of economic interdependence in Southeast Asia.

The operation plan of the Contract was set out in Appendix B:

A - To ascertain as accurately as possible the nature and extent of benefits that might accrue to certain South and Southeast Asian countries through increased economic co-operation;

B - To stimulate research by qualified researchers both in the United States and in the Asian countries in the field of regional economic co-operation;

C - To hold such meetings as necessary, including working conferences in the United States and Asia ... to discuss and criticize research in progress; and

D - To appraise AID by written reports of the political aspects of its analysis, and to advise AID by written reports on the best way to use its resources to attain alternative policy objectives.

The Contract projection of the research to be done was more indicative than specific. Wisconsin agreed to use its best effort:

a - To evaluate the economic advantage to countries of the region from economic co-operation and co-ordination.

b - To assess the theory and experience of economic growth and of common market and free trade association ventures, and other forms of economic co-operation, as compared with Southeast Asian possibilities.

c - To assess the extent to which national plans have implications or specifications with respect to economic integration in the area, and the extent to which success or failures in implementation have had any systematic relation to regional economic interest.

d - To indicate future AID strategy with respect to regional economic co-operation. In this category Contractor shall advise AID what policies of AID can most effectively encourage the economic co-operation measures that best serve the interests of the region.

Most of the research done under this contract has gone into 62 papers, including 5 longer and summary studies. The majority have been circulated to AID or have been incorporated in a book published in 1969 by the University of Wisconsin Press: Economic Interdependence in Southeast Asia. The material in this Report does not in general duplicate the basic papers, though it often draws on them. This Report attempts to meet more narrowly and specifically the questions posed by the Contract: summaries and conclusions depend in part on material not reproduced here.

The 42 people listed below have been authors, in part or wholly, of one or more of the Project papers. (For those not now (March 1970) at the University of Wisconsin, we have put down the institution with which they are connected.) Among them Professors Everett D. Hawkins, Seiji Naya, Nyle Spoelstra, K. C. Sen, and Mrs. Fag el Nour have been especially close to the Project. Professor Hawkins was in touch with the work from the beginning, contributed throughout, and was for a time Director of Research. He has been a most helpful critic of this Report. Professor Spoelstra carried much of the administrative and editing burden during the whole Contract period.

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A conference on Economic Interdependence in Southeast Asia was held at Bangkok at Sala Santithan (ECAFE) in January 1967. Contributors are listed in the first group above.

The views presented here are, of course, personal ones and do not necessarily reflect those of the United States Agency for International Development, the University of Wisconsin, or the other organizations with which various contributors are or have been associated.

Theodore Morgan
Director of Research

University of Wisconsin
March 17, 1970.

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ECONOMIC INTERDEPENDENCE IN SOUTHEAST ASIA

I - Advantage to the Region from Economic Cooperation

One purpose of the Contract was to evaluate the economic advantage (or disadvantage) to the region from economic cooperation and coordination (Appendix B, pp. B 1-2). Our response to this injunction is given below under seven headings, A to G.

A - Less Developed Country (LDC) Comparative Advantage in Manufactured Goods, with Special Reference to Southeast Asia

A basic point underlying any discussion of development policies of LDC's is the fact that although international trade may not be serving as an engine of growth, it cannot be disregarded. The degree of dependence of LDC's on international trade has been and still is, typically high. In many cases exports of these countries constitute more than 15 percent of their national income, and 50 percent or more of their export earnings is derived from one or two commodities. Recurrent discussions have emanated from the United Nations and other sources relating to the present and future prospects of a large trade gap for less developed countries. These discussions run in terms of a growing need for foreign exchange by the LDC's to meet their economic development programs. Such foreign exchange needs are presumably to be met by exports of their traditional primary commodities or by expanding their recent venture into trade in manufactured goods.

Trade projections of prospects of world demand and potentialities for expanding exports of traditional primary commodities conducted by the FAO, the ECAFE and others reflect very modest rates of increase over the coming decades. It thus becomes of great importance for LDC's to expand their exports of manufactured goods.

To the advantage of LDC's, recent trends in international trade point to a tendency toward convergence in world specialization and exchange. Contrary to the long established dichotomy in world production and trade between predominantly primary goods production and export by less developed countries, and manufactured goods production and export by developed countries, recent trends indicate more diverse specialization patterns. The export of manufactures by LDC's, though still much concentrated in origin and destination, has also recently exhibited high rates of growth.

Despite the difficulties inherent in attempts to generalize on production possibilities for various countries, including the LDC's,[1] various attempts have been made to assess the implications of recent developments in world trade as an indication of the possibility of the LDC's developing a comparative advantage in the production of certain manufactured goods. If one is to generalize broadly on the LDC comparative advantage area within manufactures, one must choose for both logical and empirical reasons, the area of relatively low skill-labor intensive[2] manufactures. This gives rise to the need to apply some theoretically sound and workable criteria for the delineation of some manufactures potentially successful for LDC's specialization and trade. The choice of any such criteria would to a large extent be influenced by the nature of the data available for LDC's.

The analysis of LDC's prospective comparative advantage in the production of certain manufactured commodities thus starts with the basic assumption that the LDC's have relatively little accumulated capital in either conventional or human-skills form. Hence any comparative advantage they may have in manufactures, apart from the resource oriented ones, arises from their abundant labor. The implication, then, is to specialize in the production of those industries with a strong labor orientation defined to incorporate low capital requirements in the forms both of plant and equipment, and of education and training (human capital).[3]

---

[1]Particularly the presence of nonmonetized sector and the rigidities in the structure of their economies impeding factor mobility.

[2]The importance of the availability of different levels of labor skills as the major factor explaining the patterns of international location and trade is emphasized by Donald B. Keesing, "Labor Skills and International Trade: Evaluating Many Trade Flows with a Single Measuring Device," Review of Economics and Statistics (August 1965), pp. 287-293.

[3]Hal B. Lary, Imports of Manufactures from Less Developed Countries, National Bureau of Economic Research, New York 1968. p. 4.

Criteria satisfying this definition, which can be applied to some Southeast Asian countries data on manufactures, were utilized by Professor Hal B. Lary[1] in a study at the National Bureau of Economic Research. The criteria were based on the ranking of industries with respect to the two major components of value added per employee: the wages and salaries per employee (representing the labor component[2]), and the non-wage value added per employee (representing the returns to factors other than labor; interest, rent, profits, and depreciation allowances). The criteria thus allow for the incorporation of human capital into the analysis, a matter of first importance. In addition, the criteria have the essential merit of feasibility, since data on value added, employment, and wages and salaries are likely to be available for a large number of countries. The difficulty of incorporating natural resources as a direct factor of production is partly assumed away, since the study focuses on identifying labor intensive manufactures and omits primary products from the analysis. There are a number of labor intensive manufactures, however, which are also highly resource oriented. Their consideration for specialization purposes would, thus, vary between individual countries depending upon the degree in which their production requires specific natural resources versus low skill labor.[3] It should be noted, however, that such resource[4] oriented products, some of which mainly undergo simple processing operations, contribute significantly to manufacturing output, and are instrumental in explaining the pattern of exports of LDC's.

---

[1] Ibid., pp. 21-22.

[2] The validity of using the wages and salaries and the nonwage components of value added per employee as indications of relative skill and capital requirements was supported by finding significant relations across industries between the wages component and other measures of skill, mainly occupational and educational indices, and between the remaining component and stocks of physical capital.

[3] Ibid., p. 14.

[4] Ibid., pp. 48-50.

The entire analysis rests on the factor proportions theory, with its underlying assumption of the comparability of the factor intensities for different countries. It also assumes the possibility of approximating empirically to the Heckcher-Ohlin version of the theory of comparative advantage, and the nonexistence, or at least the practical irrelevance, of factor intensity reversal.[1]

Because of the importance of the assumptions underlying the factor proportions theory in the specification of those manufactures potentially profitable for LDC's, further research was undertaken in the NBER study on those points. Comparison of value added per employee and its components for nine countries[2] over the thirteen industry groups appearing in the U.N., "The Growth of World Industry"[3] indicated a high degree of conformity as measured by Kendall's coefficient of concordance. Thus, based on the analysis of value added and its components for array of U.S. industries, the study pointed that the LDC's should have comparative advantage in manufactures which have (1) a low level of value added per employee, and (2) low levels of both components of value added, wages and salaries per employee and other remaining components. These manufactures were found to be textiles and clothing, wood products, furniture, leather products, miscellaneous manufactures, and a number of special manufactures in other

---

[1]Some qualifications result from studies by W. Leontief, "Domestic Production and Foreign Trade: The American Capital Position Reexamined," Proceedings of the American Philosophical Society, Sept. 1953. In a second article, however, Leontief put more emphasis on the skill requirements for the different industries--a factor which is excluded in analysis based on examination of stocks of physical capital and man hours of labor. W. Leontief, "Factor Proportions and the Structure of American Trade: Further Theoretical and Empirical Analysis," Review of Economics and Statistics, November 1956. It should also be noted that in one of the calculations in which Leontief excluded natural resource sectors, the paradox disappeared: the U.S. was found to export more capital intensive products.

B.S. Minhas, "The Homohypallagic Production Function, Factor Intensity Reversal, and the H-O Theorem," Journal of Political Economy, April 1962. Minhas introduces the CES production function which permits the occurrence of factor intensity reversal and points to the existence of some factor reversals. Leontief, however, conducted more extensive tests and confirmed the empirical irrelevance of factor reversal. W. Leontief, "International Factor Costs and Factor Use," AER, June 1964.

[2]United States, Canada, Australia, Sweden, United Kingdom, Brazil, Japan, Mexico, and India. Lary, op.cit., p. 71.

[3]United Nations, The Growth of World Industry 1936-1961: National Tables (United Nations, 1963.).

major groups.[1]

1. Similarities in Manufactures Production Structure

Applying the criteria based on analysis of value added per employee to data on manufactures for selected Southeast Asian countries yields results generally in agreement with the NBER study findings. Detailed analysis of individual groups of manufactures, however, indicates somewhat wider possibilities for specialization.

In general, as shown in Table 2, there was much similarity in the rankings of the different manufacturing groups for the countries considered. The Kendall coefficient of concordance[2] and the chi square test computed for six Southeast Asian countries over twenty industry groups for 1963, and for the same countries plus Japan over eighteen industry groups, yielded results significant at the .001 confidence level. The results of this test are in Table 3 below.

The major groups of manufactures that satisfied the relatively low skill labor criteria,[3] for practically all of the countries considered, were

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[1]Examples of such manufactures are plastic goods, footwear, glasswear and china, jewelry, optical goods, cutlery and hardware, electrical apparatus and appliances, non electrical machinery, printed matter, and processing and preserving of fish and fruits and vegetables.

[2]The Kendall coefficient of concordance provides a measure of the relation among several rankings of N variables i.e., determines the association among N variables. It constitutes an index of the divergence of the actual agreement shown in the data from the maximum possible (perfect) agreement. See Sidney Siegel, Nonparametric Statistics for the Behavioral Sciences (New York: McGraw Hill Book Company, Inc., 1956), pp. 229-239.

[3]The relatively low skill labor manufactures are defined as those manufactures having (1) relatively low value added per employee below the overall average for the manufacturing sector of each country and (2) levels of both wages and salaries per employee and non-wage value added per employee below the overall average.

Table 1

ISIC Classification	Manufacturing (Division 2-3)
20	Food Products
21	Beverages
22	Tobacco Products
23	Textiles
24	Clothing, Footwear, and Made-Up Textiles
25	Wood Products
26	Furniture
27	Paper and Paper Products
28	Printing and Publishing
29	Leather and Leather Products
30	Rubber and Rubber Products
31	Chemicals and Chemical Products
32	Petroleum and Coal Products
33	Non Metallic Mineral Products
34	Basic Metals
35	Metal Products
36	Machinery except Electrical Machinery
37	Electrical Machinery
38	Transport Equipment
39	Miscellaneous Manufactures

Table 2 -- Indices of Value-Added per Employee, Wages and Salaries per Employee, and Non-Wage Value-Added per Employee for Manufactures in Selected Southeast Asian Countries (ISIC 2-3 = 100) 1963 (1)

ISIC	(2-3)	20	21	22	23	24	25	26	27	28	29
Value Added Per Employee											
Japan(2)	100.00	91.30	128.26	--(2)	64.13	53.26	58.69	67.39	108.69	117.39	89.13
Taiwan	100.00	115.55	403.60	677.41	55.21	60.34	61.85	69.63	92.97	40.79	83.11
India	100.00	90.82	142.89	63.01	81.65	64.20	63.90	76.62	127.51	93.19	73.96
Rep. of Korea	100.00	102.89	237.82	603.26	62.20	59.48	115.14	56.93	135.16	101.02	66.64
Singapore	100.00	66.57	166.99	219.94	38.34(3)		60.53	96.20	58.98	95.64	63.20
Malaysia(5) (West)	100.00	90.80	119.00(6)	138.00	66.60	72.60	82.60	64.00	103.20	86.00	70.00
Philippines	100.00	128.50	158.12	98.78	49.90	34.80	50.27	36.13	99.00	58.56	48.39
Wages & Salaries Per Employee											
Japan	100.00	75.75	84.84	--(2)	72.72	63.63	75.75	84.84	106.06	133.33	103.03
Taiwan	100.00	92.85	128.57	153.57	76.19	69.04	91.66	73.80	114.28	102.38	92.85
India	100.00	63.54	81.25	52.08	98.43	92.70	58.33	89.58	103.12	109.89	72.91
Rep. of Korea	100.00	81.95	114.03	178.07	82.54	84.90	113.41	89.10	106.09	141.10	106.99
Singapore	100.00	79.75	89.47	63.96	53.84(3)		102.42	132.79	56.68	117.40	60.72
Malaysia(5) (West)	100.00	89.01	109.89(6)	76.37	73.07	74.72	112.63	74.72	82.41	125.82	54.94
Philippines	100.00	91.85	142.53	74.66	78.28	56.10	80.99	79.18	115.38	132.12	83.25
Non Wage Value Added Per Employee											
Japan	100.00	100.00	152.54	--(2)	59.32	47.45	49.15	57.62	110.16	108.47	81.35
Taiwan	100.00	119.59	454.50	75.00	51.12	58.55	56.08	68.69	88.73	29.05	81.08
India	100.00	126.71	223.97	77.39	59.58	26.71	71.23	59.58	159.58	71.23	75.34
Rep. of Korea	100.00	110.34	281.85	754.51	54.96	50.44	115.76	45.49	145.50	86.76	52.29
Singapore	100.00	59.56	208.17	302.79	30.10(3)		38.27	76.77	60.21	84.08	64.51
Malaysia(5) (West)	100.00	91.82	124.21(6)	173.27	62.89	71.38	65.40	57.86	115.09	63.20	78.61
Philippines	100.00	140.35	163.15	106.57	40.78	27.92	40.35	22.22	93.71	34.79	37.13

Source: Data calculated from United Nations, The Growth of World Industry (United Nations: 1968).

(1) Figures for the Philippines and India refers to 1962 and figures for Taiwan refer to 1961
(2) Data excludes tobacco manufacturers (ISIC22)
(3) figure stands for textiles, clothing and footwear (ISIC 23 and 24)

Table 2 ------- continued.

ISIC	30	31	32	33	34	35	36	37	38	39
Value Added Per Employee										
Japan(2)	92.39	188.04	228.26	102.17	113.04	88.04	102.17	104.34	129.34	82.60
Taiwan	88.99	115.93	255.78	88.04	148.57	80.45	59.39	79.88	66.60	89.94
India	236.98	232.54	555.02	88.16	109.17	105.62	111.83	117.45	101.77	89.05
Rep. of Korea	60.29	147.07	67.43	107.06	103.66	63.41	63.95	91.21	64.30	55.61
Singapore	88.20	272.47(4)		111.79	175.56	98.73	76.68	95.22	75.00	54.07
Malaysia(5) (West)	88.20	194.40	--- (6)	110.00	102.80	84.00	68.20	156.60	75.00	304.00(6)
Philippines	146.07	155.24	1476.90	112.70	83.20	82.65	119.11	92.15	109.94	50.38
Wages & Salaries Per Employee										
Japan	90.90	130.30	142.42	96.96	142.42	100.00	118.18	96.96	127.27	90.90
Taiwan	94.04	125.00	130.95	101.19	157.14	91.66	110.71	102.38	133.33	83.33
India	160.41	132.81	270.83	75.52	126.04	103.12	114.58	117.18	119.79	92.18
Rep. of Korea	92.74	119.74 (4)	88.25	118.47	123.08	84.76	105.40	98.01	131.96	69.43
Singapore	80.23	131.57		106.88	101.21	97.57	108.90	158.70	125.50	63.56
Malaysia(5) (West)	90.10	116.48	(6)	100.00	117.58	93.40	104.39	118.68	119.78	168.13 (6)
Philippines	113.12	156.10	290.04	114.93	109.95	110.85	127.14	103.61	123.98	82.35
Non Wage Value Added Per Employee										
Japan	93.22	220.33	276.27	105.08	96.61	81.35	93.22	108.47	130.50	77.96
Taiwan	87.83	113.96	278.82	85.36	146.62	78.15	49.54	75.54	53.82	90.99
India	337.67	363.69	928.76	104.79	86.98	108.90	108.21	117.80	78.08	84.93
Rep. of Korea	48.74	156.79	60.02	103.00	96.76	55.82	49.21	88.79	40.24	50.69
Singapore	89.24	347.31(4)		114.40	215.05	99.35	59.56	61.50	48.17	49.03
Malaysia (West)	87.10	238.99	(6)	115.72	94.33	78.61	47.48	178.30	49.37	381.76(6)
Philippines	156.72	154.97	1860.38	111.98	74.56	73.53	116.52	88.45	105.40	40.05

(4) figure stands for chemical and petroleum products (ISIC 31 and 32)

(5) Data for Malaysia excludes tailors and dressmakers (part of ISIC 24), in smelting industry (part of ISIC 342), motor vehicles and bicycle repair shops (ISIC 384 and 385), goldsmithing (part of ISIC 394); and processing of agricultural products on estates comprising tea factories (part of ISIC 209), rubber processing on estates (part of ISIC 30), and copra kilns and palm oil milling (part of ISIC 312).

(6) Breweries and manufacturing of malt (ISIC 213) and manufactures of products of petroleum and coal (ISIC 32) are included under miscellaneous manufacturing industries (ISIC 39).

Table 3

Consistency in Value-Added by Industries in Asia*

	Coefficient of Concordance	Chi Square
A-		
Value added per employee (for six countries, 1963 data)	.6203	70.72
Wages and salaries per employee	.5776	65.85
Non-wage value added per employee	.6604	75.29
B-		
Value added per employee (for seven countries, 1963 data)	.6620	78.78
Wages and salaries per employee	.6422	76.42
Non-wage value added per employee	.6591	78.43

*The Coefficient of Concordance measures the consistency of ranking of the variable shown on the left, among countries concerned, for the industry groups measured. Complete agreement of rankings would be +1, complete disagreement would be 0. All the Chi Square ratings indicate the respective Coefficients of Concordance values are "significant", defined as having less than a .001 probability of chance occurence. (S. Siegel: Non-parametric Statistics for the Social Sciences, McGraw-Hill, New York, 1956, pp. 229-237.)

For Section A of the table, the countries included are Korea, Taiwan, India, (West) Malaysia, Singapore, and the Philippines. Data are calculated for over twenty industrial groups.

For Section B of the table, the above countries plus Japan are included. There are over eighteen industrial groups (ISIC groups 22 and 39 are excluded).

similarly those of textiles (23), clothing and apparel (24), wood and wood products (25), furniture (26), leather and leather products (29), and miscellaneous manufactures (39).

In addition, other groups of manufactures have also exhibited relatively low capital requirements measured by low indices of value-added-per-employee and non-wage-value-added-per-employee. These groups were mainly printing and publishing (28), metallic products (35), non-electric machinery (36), and transport equipment (38). Such low indices also appeared for individual countries in groups (37) of electrical machinery, (34), of basic metals (33), of non-metal mineral products, and (20) of food products. The finding therefore encourages these countries to expand the production and export of some manufactures within the specified groups. However, wages and salaries were higher for groups 28, 35, 36 and 38 than for groups 23, 24, 25, 26 and 39, suggesting somewhat high skill requirements. The difference might, however, have reflected heterogeneity in groups 35, 36, and 38, or in the other groups. Hence a detailed study of two of the countries, the Philippines and Malaysia[1] was carried out.

Our detailed analysis of manufacturing sectors in the Philippines and Malaysia gives support to favoring disaggregated consideration of LDC specialization in manufactures production. In addition to manufactures in groups 23, 24, 25, 26, and 29, all of which generally satisfy the criteria both of low-value-added-per employee and low wages and salaries and non-wages-added-per-employee, there are subgroups here and there in virtually all of the remaining manufacture categories that show the same characteristics.

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[1]Bureau of the Census and Statistics, Annual Survey of Manufactures, 1960, Volume V (Manila, Philippines, 1962) and
Department of Statistics of Malaysia, Census of Manufacturing Industries in the States of Malaya, 1963 (Kuala Lumpur, Malaysia, 1965).

We list below in Tables 4 and 5 those manufactures for the Philippines and Malaysia that qualify by the above criteria, and so invite considerations as serious candidates for LDC production. It is interesting to note that the manufactures listed below to a very large extent encompass those identified as labor intensive in the study summarized in Table 2. It is important to emphasize, however, the wider possibilities for specialization that emerge from examination of individual LDC data on manufactures.

Table 4

Manufactures Satisfying Low Value-Added per Employee Criteria in the Philippines

ISIC		Value Added per Employee	Wages and Salaries per Employee	Non-Wage Value Added per Employee
	All Industries	100	100	100
20	Food Manufactured			
201	Slaughtered, Prepared and Preserved Meat	58.33	98.63	42.60
203	Canned and Preserved Fruits & Vegetables	89.35	103.19	83.95
204	Preserved Fish and Other Seafoods	47.05	51.59	45.27
205	Grain Mill Products	81.28	76.25	83.24
206	Bakery Products	38.71	68.03	27.27
208	Cocoa, Chocolate and Sugar Confectionary	37.56	52.96	31.55
209	Miscellaneous Food Preparations	75.59	75.34	75.57
2093	Dessicated Coconut	25.25	53.42	14.25
21	Beverages	-	-	-
22	Tobacco Products			
221	Cigars, Cigarettes and related Products	80.38	78.99	80.92
23	Textiles	48.71	100	28.69
231	Textile Mill Products	46.53	79.90	33.51
2311	Hemp Mill Products	38.71	63.92	28.87
2313	Narrow Fabrics and Small Wares	40.25	62.10	31.72
2314	Cotton Textile Mill Products	46.41	82.64	32.26
2316	Jute Mill Products	53.07	80.82	42.24
232	Knitting Mill Products	55.00	72.14	48.30
239	Other Textiles	19.48	18.72	19.78
24	Footwear and Other Wearing Apparel and Made Up Textiles	30.89	54.33	21.74
241	Footwear (Shoes & Slippers except Rubber)	27.94	56.62	16.75
243	Wearing Apparel except Footwear	28.71	52.05	19.60
245	Embroideries, Hand or Machine Made	47.69	63.10	41.71

Table 4 (continued)

25	Wood and Cork Products Except Furniture	45.25	81.27	31.19
251	Sawmill and Planning Mill	46.41	81.27	32.79
2521	Veneer and Plywood	45.76	85.84	30.12
2551	Sawah, Nipa, and Bamboo	30.51	67.12	16.22
26	Furniture and Fixtures	42.17	73.97	29.76
2611	Rattan Furniture except	22.94	49.31	12.64
2621	Wood Furniture except Upholstered	33.84	73.51	18.36
2631	Venetian Blinds and Other Screens	45.00	83.10	30.12
2641	Metal Furniture except Upholstered	41.02	84.01	24.24
2661	Mattresses and Bed-Springs	67.43	75.79	64.17
27	Paper and Paper Products			
28	Printed and Published Materials (mainly)			
2821	Books and Pamphlets	89.87	97.71	86.80
29	Leather Products except Footwear	49.61	75.34	39.57
2911	Leather, Tanned or Finished	50.76	79.45	39.57
2921	Luggage, Handbags and Small Leathergoods	52.05	72.14	44.20
30	Rubber Products (mainly)			
3011	Rubber Shoes and Slippers	63.84	100.00	49.73
309	Miscellaneous Rubber Products	59.87	103.65	42.78
31	Chemicals and Chemical Products (mainly)			
3121	Vegetables Oils	77.05	101.82	67.37
32	Products of Petroleum and Coal (combined with ISIC 39 of Miscellaneous)			
33	Non-Metallic Mineral Products (mainly) except Products of Petroleum and Coal			
331	Structural Clay Products	54.87	80.82	44.74
339	Other Non-Metallic Mineral Products such as statuary concrete, lime, statuary	89.95	62.69	52.04

Table 4 (continued)

	art goods and cut stone products			
34	Basic Metal Products (mainly)			
3412	Iron and steel Foundry Products	63.46	92.23	52.22
35	Metal Products Except Machinery and Transport Equipment			
351	Tin and Aluminum Ware (except household and hospital utensils)			
352	Cutlery and Hand Tools	61.92	63.47	61.31
356	Heating, Cooking and Plumbing Equipment	47.69	90.41	31.01
3561	Heating and Cooking Apparatus	52.17	93.15	36.18
3563	Metal Plumbing Fixtures and Fittings	36.28	84.01	17.64
3594	Needles, Pins and Fasteners	68.20	98.17	56.50
36	Machinery, Except electrical (mainly)			
364	Special Industry Machinery	52.30	94.52	35.82
3641	Food Products Machinery and Euipment	42.82	92.69	23.35
365	General Industrial Machinery & Equipment	32.82	78.53	14.97
369	Other Machinery	54.87	102.28	36.36
37	Electrical Machinery, Apparatus, Appliance and Supplies	84.74	104.10	77.18
371	Electrical Industrial Apparatus	62.69	78.08	56.68
3711	Motors and Generators	34.61	72.60	19.78
3712	Electrical Distribution and Control Apparatus	76.41	80.36	74.86
3722	Household Radios, Phonogrpahs & TV Sets	67.69	98.17	55.79
3741	Household Cooking & Heating Equipment	38.58	79.90	22.45
3749	Other Household Electrical Appliances	73.46	99.08	63.45
38	Transportation Equipment			
381	Shipbuilding and Repairing	33.33	100.00	7.30
3832	Motor Vehicle Engines, Parts & Bodies	48.58	87.67	33.33
3841	Motor Vehicles Repair shop Products	57.30	103.65	39.21
3851	Bicycles	53.84	91.32	39.21

Table 4 (continued)

39	Miscellaneous Manufactures			
3923	Eye Glasses and Spectacles	60.00	78.99	52.58
397	Buttons	30.67	85.38	9.86
3991	Stationers, Artist & Office Supplies	85.00	102.28	78.25
3992	Fabricated Plasted Products	99.35	100.45	57.21
3997	Sporting and Athletic Goods	44.48	81.27	30.12
3998	Brooms, Brushed and Fans	60.64	81.73	52.40

Source: Data calculated from Bureau of the Census and Statistics, Annual Survey of Manufactures: 1960, Volume V (Manila, Philippines, 1962).

Table 5

Manufactures Satisfying Low Value-Added Per Employee Criteria in the State of Malaysia

ISIC		Value Added Per Full-Time Paid Employee	Wages and Salaries Per Full-Time Paid Employee	Non Wage Value Added Per Full-Time Paid Employee
	Total Off-Estate Manufacturing Industries	100.00	100.00	100.00
B.	Processing of Estate Type Agricultural Products in Factories Off Estates			
1121	Rubber Remilling	72.33	87.30	64.16
1122	Rubber Smoke Houses	69.15	79.89	663.29
C.	Other Manufacturing Industries			
30	Foods			
3032	Pickles and Sauces Factories	93.64	91.00	95.08
3051	Small Rice Mills	76.07	73.01	77.74
3054	Sago and Tapioca Factories	84.48	96.63	86.12
3055	Large Rice Mills	88.03	96.29	73.52
3061	Biscuit Factories	63.92	75.66	58.51
3062	Bakeries	74.20	66.13	78.61
3080	Chocolate and Confectionery Factories	72.89	53.43	83.52
3091	Meehoom and Noodles Factories	68.78	62.96	71.96
3093	Spice and Curry Powder Grinding Mills	62.05	50.26	68.99
31	Beverages			
3110) 3120)	Distillations and Wine Manufactures	85.98	84.12	86.99
32	Tobacco Products			
33	Textiles (Includes Spinning and Weaving, Knitting Mills, Cordage, Rope, Net & Twine and Other Miscellaneous)	65.98	67.72	65.02
34	Footwear (Except Rubber), Other Wearing Apparel and Made Up Textiles	81.49	60.84	92.77
3411	Footwear (except rubber & wooden)	78.31	66.66	84.68
3412	Wooden Clogs and Sandals	77.38	58.73	87.57
3432	Clothing Factories	84.48	50.79	102.89
3420) 3433) 3440)	Other Wearing Apparel (such as repair of footwear, hats, and made-up textiles)	87.66	73.54	95.37

Table 5 (continued)

ISIC		Value Added Per Full-Time Paid Employee	Wages and Salaries Per Full-Time Paid Employee	Non Wage Value Added Per Full-Time Paid Employee
35	Wood, Rattan, Meng Kuang, Attap and Cork			
3531	Wooden Boxes, Cases and Crates	57.00	71.95	48.84
3591	Carpentary Shops	84.85	59.78	98.55
	Other Wood Products (such as Wood Preserved, Rattan Processing, Basketware, Attap Products, and other wood and Cork Products	73.45	98.41	59.82
36	Furniture and Fixtures includes	67.28	75.13	63.00
361)	Household Furniture			
362)	Office and Commercial Furniture			
367)	Furniture Finishing and Repairing			
364)	Mattress Manufacturing			
369)	Other Miscellaneous Manufacture of Furniture			
37	Paper and Paper Products			
38	Printing and Publishing			
382	Job Printing, Bookbinding & Printing Service	72.89	87.30	65.02
39	Leather and Leather Products except Footwear and Wearing Apparel	75.70	52.91	88.15
40	Rubber Products	64.85	80.95	56.06
4010)	Rubber Products except Retreading and			
4021)	Vulcanizing of Tires and Tubes (includes			
4030)	rubber footwear, tires and tubes, foam			
4090)	rubber products & other Miscellaneous			
41	Chemicals and Chemical Products	60.93	90.84	63.00
4195	Matches			
42	Coal and Petroleum Products (included Under All Other Industries)			

Table 5 (continued)

ISIC		Value Added Per Full-Time Paid Employee	Wages and Salaries Per Full-Time Paid Employee	Non Wage Value Added Per Full-Time Paid Employee
43	Non-Metallic Mineral Products (except Petroleum and Coal)			
4310	Structural Clay Products	61.68	88.35	47.10
4320	Glass Products	70.09	78.83	65.31
4330	Pottery China & Earthenware	64.67	71.42	63.87
4350	Structural Cement & Concrete Products	103.17	101.15	104.33
44	Basic Metal Industries			
4421	Iron Foundries	79.06	102.64	66.18
45	Metal Products Except Machinery & Transport	85.23	95.23	79.76
4520	Architectural Metal Products	77.94	89.41	71.67
4530	Wire and Wire Products	77.75	74.60	79.47
454	Harware, Tools and Cutlery	91.58	64.02	106.64
4561	Tin Cans and Metal Boxes	77.57	85.71	73.12
4563	Brass, Copper, Pewter and Aluminum Products	89.15	90.47	88.43
4581	Blacksmithing and welding	91.96	84.65	95.95
46	Machinery (Except Electrical) Repairs	69.15	105.82	99.13
4620	Industrial Machinery and Parts	65.79	102.11	45.95
4630	General Engineering & Machinery Repair Shop	69.71	94.70	56.06
47	Electrical Machinery Apparatus, Appliances and Supplies			
48	Transport Equipment & Repairs			
4834	Motor Vehicle Parts & Accessories	52.89	69.31	34.93
4852	Bicycle, Tricycle and Trishaw Parts	63.45	55.55	83.23
4813) 4851) 4890)	Other Transport Equipment (such as Marine Engines, Bicycles, Tricycles, Trishaws and other n.e.s.	75.88	96.29	64.73
49	Miscellaneous Manufactures			
4940	Plastic Products n.e.s.	77.57	71.95	80.63

Source: Data calculated from Department of Statistics of Malaysia, Census of Manufacturing Industries in the States of Malaya 1963 (Kuala Lumpur, Malaysia, 1965).

2. Implications; Export Performance

For the purpose of estimating comparative advantage possibilities, available data suffer sharply from their aggregation--that is, they suffer from the heterogeneity of products included under a given classification. Guidance is needed for very specific kinds of specialization. But aggregated data lead only to rough guidelines; and if the rules of behavior and parameter shifts of individual segments happen to combine malevolently, aggregated data can lead to generalizations inverse to the real facts.

The problem we face in trade matters stems from definitions of products that are heterogeneous with respect to factor requirements. We should be on guard. LDC's in general and Southeast Asian countries in particular may be able to specialize efficiently in the production of a large variety of manufactures that are labor intensive and require only modest skills, irrespective of the general group within which they fall.

Greater awareness of this diversity would free policy in these countries toward a wider area of choice and greater degree of adaptability. It would also enable them to take advantage of favorable export prospects among the more numerous plausible sub-groups of manufactures.

It is a major complaint of LDC's that world demand for their traditional primary exports is unpromising. Preoccupation with only a few manufactures, which alone are supposed to have export potential, risks earning the same disappointment. There are valid factor-supply reasons for considering a wide range of industries and sub-industries; and of course also, on the demand side, their long-run demand prospects.

A study of future prospects of world trade in manufactures by Maizels[1] has projected a declining share of textiles and clothing[2] and other miscellaneous manufactures for industrial, semi-industrial, and non-industrial

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[1] Alfred Maizels, Industrial Growth and World Trade (Cambridge: Cambridge University Press, 1963), pp. 402-406.

[2] The share of textile and clothing exports as a percentage of world trade in manufactures declined from 20% in 1937 to 10% in 1959, and is projected to decline further to only 5% by 1970-75.

countries between the years 1959 and 1970-75. At the same time, capital goods and chemical products were projected to attain an increasing share of total imports of virtually all countries.[1]

A survey of the export[(1)] performance of nine Asian countries - Singapore, Malaya, Philippines, Hong Kong, Taiwan, India, Pakistan, Thailand, and also the Republic of Korea - tends to support the arguments so advanced. The most general tendency is that, although primary products still constitute the highest percentage of total exports, they are a declining share. As is shown in Table 6, the percentage share of SITC groups (0-2), that is, food, beverages, tobacco, and crude materials, has declined from 59 percent of the value of total exports of the nine countries in 1962 to 53 percent in 1965. The largest decline has been for SITC 2 (crude materials), partially as a result of the decline in the export prices of such products as natural rubber. Expanding products in this group are oil seeds, nuts and kernels, wood lumber, and cork, and crude fertilizers. SITC group 0 (food and live animals) has almost maintained its share of total exports between 1962 and 1965 at 22 percent. This is partly a result of the high rates of growth of the exports of such processed food products as fish and preparations, cereals and preparations, fruits and vegetables (almost half of its export proceeds from canned and preserved fruits and vegetables), and animal feeding stuff. Such products as sugar, coffee, and tea have shown either very low rates of increase or a declining trend.

SITC groups 3-5 (animal and vegtable oils and fats, chemical products, and petroleum and coal products) have remained stable, maintaining a 7 percent share of the value of total exports, with petroleum and its products contributing almost 4 percent. The most rapidly growing was SITC 4 (vegetable oils and fats) rising by 45.5 percent between 1962 and 1965. Exports of chemical products increased by 34.5 percent and petroleum and products by 14 percent.

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[1] Harry Johnson includes such goods among others as "manufactures of export interest to less developed countries," Harry G. Johnson, Economic Policies Toward Less Developed Countries (New York: Frederick A. Praeger, 1967) pp. 174-75.

[(1)] From United Nations, Commodity Trade Statistics, 1965, and United Nations, Foreign Trade Statistics of Asia and the Far East, 1962.

Table 6

Export Performance of Nine Asian Countries, 1962-65.

SITC	% Composition 1962	% Composition 1965	% Rate of Growth 1962-1965
(0, 1 & 2)	59.00	53.36	14.21
0. Food and Live Animals	22.58	21.87	22.27
1. Beverages and Tobacco	1.52	1.36	13.14
2. Crude Materials	34.89	30.12	9.05
(3, 4 & 5)	7.08	7.07	26.05
3. Mineral Fuels	3.86	3.49	14.15
4. Animal and Vegetable	1.70	1.96	45.53
5. Chemicals	1.51	1.61	34.53
(6, 7 & 8)	32.87	37.78	45.17
6. Basic Manufactures	21.84	23.84	37.86
7. Machinery and Transport	3.04	3.34	38.73
8. Miscellaneous Manufactures	7.98	10.59	67.63

SITC groups 6, 7 and 8 encompassing the bulk of manufactured exports--basic manufactures, machinery and transport equipment, and miscellaneous manufactures have gained an increasing share, rising from 33 percent in 1962 to 38 percent in 1965. The largest contribution is made by SITC group 6 (basic manufactures), which accounted for 23.8 percent of total exports in 1965. The most important product under this group is textile yarn and fabrics (14%) with India, Pakistan and Hong Kong, followed by Taiwan and Singapore, supplying the largest proportion of its exports. SITC 68 of nonferrous metals is the second in significance (4.5%) with tin mainly originating from Malaysia. Other important products are wood manufactures mainly supplied by Philippines, Taiwan, Korea and Singapore; nonmetal mineral manufactures mainly originating from India, Singapore, Taiwan, Hong Kong and Thailand; iron and steel products from India, Singapore, Korea, and Taiwan; leather products basically from India and Pakistan; metal products from Hong Kong, Singapore, India, Taiwan, and Malaya; and rubber manufactures from Malaya, India, and Singapore.

SITC group 7 (machinery and transport equipment) constituted 3.3 percent in 1965 and increased by 38.7 percent between 1962 and 1965, with exports of electrical and nonelectrical machinery rising at a higher rate than exports of transport equipment. Exports of SITC 8 (miscellaneous manufactures) exhibited the highest rate of growth, 67.6 percent, between the two years, and contributed 10.6 percent of total exports in 1965. The most important product in this group was clothing, followed by toys and sporting goods, footwear, plumbing, heating, and lighting equipment, furniture, printed matter, and articles of plastic. Most of the exports of this group originated from Hong Kong.

The following table (7) lists goods with rapid export growth. It shows rates of growth and percentage composition of the above products, and other manufactured and semi-manufactured goods of dynamic character,[1] in two and three SITC digit classifications.

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[1]Indicating rates of increase above that of total exports (26 percent).

It is interesting to note that the list to a very large extent consists of manufactures that were shown to be labor intensive by examination of these countries' data. Most worthy of noting is, also, the fact that rapidly growing manufactured exports from Southeast Asian countries, though still concentrated in origin, are spread, over almost all manufactured groups and extend far beyond the traditional products to which analysis of LDC's comparative advantage in manufactures has often been restricted.

We should emphasize in conclusion that the right choice of potentially successful manufacturing industries needs to be complemented by a right mix of policies for promoting exports, including, conspicuously, reasonable exchange rates. We need to hope also that the MDC's adopt favorable import policies.

It is important for LDC's to maintain price competition in the production of the manufactures in which they specialize -- a matter of the domestic price level exchange rates, and of specific policies. There are indications that it is basically those LDC's with favorable export policies that are more successful in their general development efforts.

Another important implication involves the skill composition of the labor force. Skills, including organization and administrative capacity, are a scarce resource. They should be considered so, along with quantity of capital, natural resources, and foreign exchange, in planning for industrial development. Skill availability over the course of time has relevance to the appropriate product mix of individual countries. It directly influences the level of current productivity and productivity potentials for the future.

As development proceeds successfully, the importance of industries low in skill and capital requirements will subside relative to those more demanding in their requirements.

A final caution is relevant. Experience in the United States indicates that the <u>kind</u> of industry or sub-industry that a business is in a poor guide to its individual success or failure. Expanding fields, which on the average are doing well, have a built-in check: the individual business faces increased competition from expansion of others and new entrants. Its fortunes depend crucially on its management, which can cause it to sink in calm seas, or sail sturdily through rough weather.

Table 7

Manufactured Exports of Dynamic Character for Selected Southeast Asian Countries

SITC	Product	% Composition 1965	% Rate of Growth 1962-1965
03	Fish and preparations	1.10	38.84
04	Cereals and Preparations	5.26	40.10
042	Rice	4.17	31.91
046	Wheat meal or flour	.16	63.60
053	Fruits preserved and prepared	1.00	73.09
055	Vegetables preserved and prepared	.53	78.57
081	Animal feeding stuff	1.62	32.51
24	Wood, lumber, and cork	3.38	48.79
242	Wood rough	2.49	45.65
243	Wood shaped	.87	83.31
27	Crude fertilizers	.64	28.22
332	Petroleum products	3.30	26.15
422	Fixed vegetables oils, nonsoft	1.89	64.34
51	Chemical elements and oxides	.30	45.82
512	Organic chemicals	.15	28.65
513	Inorganic elements and oxides	.07	71.98
53	Dyes, tanning and coloring products	.15	35.67
541	Medicinal, etc. products	.27	64.03
55	Perfumes and cleaning products	.45	167.48
554	Soaps, cleaning materials, etc.	.14	121.63
561	Fertilizers manufactured	.13	60.21
581	Plastic materials	.08	26.29
61	Leather manufactures	1.06	42.76
62	Rubber manufactures n.e.s.	.24	117.73
621	Materials of rubber	.04	59.09
629	Rubber articles n.e.s.	.19	62.43
63	Wood and cork manufactures	1.21	138.65

65	Textile and yarn fabric	14.19	31.15
651	Textile yarn and thread	1.41	52.97
652	Cotton fabrics, woven	4.38	48.81
657	Floorcoverings, tapestry, etc.	0.41	29.86
66	Non metal mineral manufactures	1.10	80.27
664-5	Glass and glassware	0.10	26.82
667	Pearls, precious, and semi precious stones	0.63	166.81
67	Iron and steel products	1.07	138.89
673	Iron and steel shapes	0.36	92.59
674	Iron and steel universals, plates, sheets	0.25	176.18
678	Iron and steel tubes, pipes, etc.	0.18	128.02
68	Non ferrous metals	4.49	49.50
684	Aluminum	0.10	71.69
687	Tin	4.29	48.74
69	Metal Products n.e.s.	0.93	26.69
695	Tools	0.04	30.38
696	Cutlery	0.07	202.98
71	Machinery non electric	0.95	26.47
711	Power machinery non electric	0.20	46.57
715	Metal working machinery	0.03	64.00
72	Electrical machinery	1.30	100.64
723	Electrical distributing machinery	0.06	42.67
724	Telecommunication equipment	0.55	242.30
729	Electrical machinery n.e.s.	0.45	54.40
812	Plumbing, heating, and lighting equipment	0.30[1]	51.33
831	Travel goods, handbags	0.13[1]	38.85
841	Clothing	5.39	70.50
851	Footwear	0.72	53.20
861	Instruments and apparatus	0.12[1]	44.82
89	Miscellaneous manufactured goods n.e.s.	3.54	80.52
892	Printed matter	0.28	33.18
893	Articles of plastic	0.24	116.54
894	Toys and sporting goods	1.08	123.41
896	Works of art, etc.	0.13	64.75
897	Gold, silverware, and jewelry	0.15	46.86

Source: Calculated from United Nations, Commodity Trade Statistics 1965; United Nations, Foreign Trade Statistics of Asia and the Far East 1962; and United Nations, Yearbook of International Trade Statistics, 1965.

[1] India not included.

B - Export Patterns and Trends of Comparative Advantage

The need of Asian countries for sustained export expansion has been much emphasized in recent years. These countries have in general experienced slow growth compared to their import and servicing-of-loans requirements. As means of meeting the need, regional cooperation and integration have been proposed as possible courses of action.

But although the export growth of the region has been slow, differences in performance among the countries are considerable. Differences in export performance would affect the outcome of any preferential scheme that might be adopted, and also the willingness of the countries to integrate or to move toward economic integration.

This section examines the export performance and the trends of competitiveness of individual Southeast Asian countries. Problems of transport costs are treated in C. Some implications for regional cooperation are drawn in this section; a fuller analysis is given later on. An analysis of the accuracy of Asian trade and income statistics, on which we must rely throughout, are presented in III below.

This section is divided into:

1- Asian performance in world trade,

2- Trade with more developed countries (MDC's),

3- Intra-regional trade.

1- Asian Performance in World Trade

Exports of less developed Asia have grown slowly compared to those of most other world regions (Table 8). Its exports to within the region have fallen somewhat (from 29%, between 1955-56 and 1965-66); at the same time its exports to more developed countries have remained about stable. Asia's exports to high income countries are a much larger share of its total exports than its exports to any other region. But all the other less developed regions export to high income countries a higher proportion of their total exports than does Asia.

In two respects less developed Asia is unique among the world's lower income regions. All the other less developed countries export to the more developed countries (MDC's) a higher proportion of their total exports than does Asia (60% recently). Also Asia has a much larger share of its trade flow to within the region (25% recently) than does any other LDC region.

TABLE 8

Export Directions by Regions

		Less Developed Countries	Latin America	Less Developed Asia	Less Developed Africa	Middle East	More Developed Countries	All The World
A-Less Developed Asia Exports								
Exports of less developed Asia, to the indicated regions (in $'s million F.O.B.)	1955-56	$2,535	$140	$2,020	$190	$143	$4,020	$6,870
	1965-66	3,080	116	2,345	308	240	5,690	9,520
Share of total exports from less developed Asia, going to the indicated regions (in %)	1955-56	37%	2%	29%	3%	2%	59%	100%
	1965-66	32	1.2	25	3	3	60	100
B-Exports from the Regions Listed								
Exports to more developed countries from the indicated region (in % of total exports of the region)	1938	72%	80%	70%	84%	68%	69%	----
	1955-56	72	79	59	82	68	67	----
	1965-66	72	73	60	80	74	75	----
Exports to within the same region (as % of total exports of each region)	1938	22%	6%	1%	6%	14%	69%	----
	1955-56	24	9	29	10	13	67	----
	1965-66	21	10	25	7	6	75	----
C-Exports of the indicated Region as % of total World Exports	1938	25%*	7%*	5%*	4%*	2%*	41%*	100%
	1955-56	24	8	7	5	3	65	100
	1965-66	18	6	5	4	3	69	100

*Definitions and coverage make 1938 figures not strictly comparable with later data. Part of the table is not carried back to 1938 because of lack of comparability. All percentages are rounded to the nearest whole per cent. We estimate that the accuracy of the data does not warrant putting down fractions of a per cent.

Sources: United Nations: Yearbook of International Trade Statistics, 1966, pp., 20-31; op. cit., 1962, various pages.

The lagging growth of the region's exports slower than that of Africa and the Middle East, is usually explained by the extremely high concentration of exports of traditional primary products, combined with a progressively smaller export surplus of food and raw materials. Primary commodities (SITC 0 through 4) are three-fourths of the region's total exports. We will examine data relevant to this usual explanation below.

2- Exports to More Developed Countries

The region's share of total world exports has been falling (7% in 1956-57, and 5% in 1965-66). But the share of its total exports going to MDC's appears not to have changed greatly: the share was 60% in 1965-66, and seems to have been only moderately higher before World War II.

The share varies widely for individual countries, ranging in 1965 from 95% for the Philippines to 46% for Thailand and 31% for Burma.

In evaluating the pattern of individual countries, we analyze the extent to which export growth has been affected by two interrelated factors:

(1) the compositional effect, showing the changing proportion of world exports consisting of goods exported by a given regional country;

and (2) the competitive effect, denoting the changing proportion of world exports of a given commodity that the country provides

To find quantitative values for these effects, the hypothetical export growth (h) of a given Asian country (j) is first computed. This growth is based on the assumption that the country is able to maintain the same share in each commodity for each export market in the second period as in the first. In notational form, j's hypothetical export growth (Hj) is as follows:

$$H_j = \frac{\Sigma_c \Sigma_i \left(X^c_{ji} \frac{M^c_{i2}}{M^c_{i1}} \right)}{\Sigma_c \Sigma_i \; X^c_{ji}}$$

where X_{ji} refers to j's exports to another country i, and M_i to i's total imports. Superscript c indicates the commodity, and 1 and 2 refer to periods.

The competitive effect is measured as the actual export growth (A) of the country minus its hypothetical growth (H). The compositional effect is defined as H minus D, which is the weighted average import growth of its trading partners. The sum of these effects, (A - H + H - D), is the difference between growth rate of the country's exports and its partner's imports (A - D).

In computing these effects with respect to the MDC's, two periods have been selected: Period I (1956 and 1957) and Period II (1964 and 1965). In each period, the average of the two years is used to minimize the yearly fluctuation of trade values. The country-by-commodity trade data on Asian countries are not readily available, especially for the earlier period (except Malaya-Singapore). To overcome the scarcity-of-data problem, the export patterns of Asian countries are approximated from the import data of their trading partners.

The growth rate of the region's as well as individual countries' exports to the selected MDCs in terms of the compositional and competitive effects is given in Table 9.[1] As shown in the last row, the region has lagged for both "composition" and competitive reasons. Exports grew only 28% while total imports of the MDC's rose by 76% from 1956-57 to 1964-65 -- a lag of 48%.[2]

The low growth rate for exports of the region is partly due to regional concentration on primary products that have been expanding slowly in the world market. This negative "compositional" effect is not surprising. The emphasis on and effort in Asian countries toward export diversification and toward industrialization is partly a reaction to slowly growing world markets for primary products.

The remainder of the export lag, the (negative) competitive effect of 16%, or one-third the total export lag of -48% (A-D), is unexpectedly large. Even when the unfavorable compositional effect is taken into account, the position of the region's exports in various commodities vis-a-vis other world exporters has declined.

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[1] In computing these effects, SITC Group 9, (Unclassified Goods) is excluded. The group makes up an almost negligible proportion of total exports.

[2] Also see Seiji Naya's Project Research Paper, "The Commodity Pattern and Export Performance of Developing Asian Countries to the Developed Areas," published in Economic Development and Cultural Change (July 1967), in which the region's, but not individual countries' exports to various developed countries are analyzed, employing the same method used here with 1962-63 as the terminal period.

Table 9

The Compositional and Competitive Effects of Exports to More Developed Countries by Asian Countries

Averages of 1956-57 and 1964-65

Country	Exports (in $1,000)		Growth of Exports (%)		Competitive Effect (%)	Compositional Effect (%)	Difference in Growth (%)
	1956-57	1964-65	Actual (A)	Hypothetical (H)	(A-H)	(H-D)	(A-D)
Burma	67,617	63,284	-6.4	79.3	-85.7	3.5	-82.2
Ceylon	194,219	215,434	10.9	26.5	-15.6	-49.3	-64.9
India	914,833	1,060,360	15.9	43.6	-27.7	-32.2	-59.9
Indonesia	592,632	590,476	- .3	38.5	-38.7	-37.4	-76.1
Pakistan	266,064	244,609	-8.1	31.5	-39.6	-44.3	-83.9
Philippines	461,731	750,468	62.6	40.8	21.9	-35.0	-13.2
Taiwan	72,097	274,361	280.5	183.5	97.0	107.7	204.7
Thailand	152,747	277,069	81.4	36.8	44.6	-39.1	5.6
TOTAL	2,721,940	3,477,059	27.7	43.8	-16.1	-32.0	-48.1

Average growth of more developed countries' imports (D) is 75.81%.

Within this over-all picture of the region, considerable variation exists in the performance of individual countries.[1] Striking differences are revealed: the increase in exports of Taiwan (281%), Thailand (81%), and the Philippines (63%) is outstandingly high compared with that of other countries, some of whose export values fell absolutely (Indonesia, -0.28%; Burma -6%; Pakistan, -8%).

A negative compositional effect is common to most countries considered, reflecting unfavorable commodity shifts in MDC markets for these countries' goods (Taiwan is the main exception).[1]

But there is a distinctive difference in competitive effects. The countries with fast-rising exports (Taiwan, Thailand, and the Philippines) show positive competitive effects. Countries with relatively stagnant exports (Burma, Ceylon, Pakistan, Indonesia, and India) show negative effects. Furthermore, the relative sizes of the negative competitive effects (as well as unfavorable compositional effects) that have hindered export expansion are large, in some cases more than or close to one-half the total lag (A-D). However, the Philippines was able to offset her unfavorable compositional change considerably, and Thailand, more than sufficiently. What is implied in Table 11, then, is the importance of the competitive effect in influencing relative export performance.

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[1]The country-by-commodity trade data for Malaya and Singapore are most ready available since these countries were the only reporting developing Asian countries in Commodity Trade Statistics until the latter part of the 1950's. But they are excluded in Tables 11 and 12 and Appendix Table 17, since the trade data for these two countries are reported together for early years but separately for recent years; other reporting countries (MDCs) do not consistently use the same definition of these countries from year to year; there are large reporting differences especially in Singapore's trade figures, probably because of its entrepot trade. See Seiji Naya and Theodore Morgan's project research paper, "The Accuracy of International Trade Data: The Case of Southeast Asian Countries," Journal of the American Statistical Association, July 1969.

The results, based on combined figures for these two countries, and which should be interpreted cautiously for the above reasons, are as follows: 9.19 (A), 43.81 (H), -36.61 (A-H), -30.01 (H-D), and -48.07 (A-D). Comparable results on the intra-regional trade pattern for the two countries are given separately in Table 16.

In order to determine which commodity groups are responsible for this effect, the same computation was made for each commodity group. The results are given in Table 10, together with the commodity composition of exports.[1] The differences again are striking. For Thailand, the Philippines, and Taiwan, positive competitive effects are shown in a relatively large number of commodity groups. The reverse is true for the other countries, although numerical values differ from commodity to commodity and country to country. Furthermore, in relating Tables 9 and 10, the negative (or positive) competitive effect of a country's exports (Table 9) is shown to be largely due to the negative (or positive) values in primary products, especially those that comprise a relatively large proportion of total exports (SITC Groups 0 and 2). That is, given the slow expansion of these products in MDC markets,[2] the lag in export growth of many Asian countries can be attributed to their inability to maintain even this low growth rate of primary exports.

Changes in commodity compositions and export increases by two broad categories, primary and manufactured, are shown in Table 10 together with total exports of Thailand, the Philippines, and Taiwan. The experience of these countries stands in clear contrast to stagnation for the other countries. The commonly held view that countries with high concentrations in primary exports perform poorly is not supported. Thailand and the Philippines have done remarkably well, and they have a high degree of specialization in primary exports.[3]

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[1]The hypothetical export growth for a given commodity used for this purpose is computed from the formula (page 39).

[2]The sluggish expansion of primary products in MDC markets (compared to manufactured products) is reflected in low hypothetical increases (H) of these exports. Numerical values of the increases for individual commodity groups are not shown in Table 10. They can be found by subtracting competitive effect from actual growth: A - (A-H) = H.

[3]Examinations of the three-digit commodity exports reveals that these two countries have been able to diversify within primary commodities, thereby off setting the decline of some traditional primary exports by increases of others (e.g. maize and kenaf in the case of Thailand, lumber and minerals in the case of the Philippines).

Table 10

The Composition and Competitive Effect of Exports of Asian Countries by Commodity Groups

Averages of 1956-57 (I) and 1964-65 (II)
In Percentages

C = Commodity Composition of Exports
A = Actual Growth of Exports
A-H = Competitive Effect

	Burma				Ceylon				India			
SITC[1]	C(I)	C(II)	A	A-H	C(I)	C(II)	A	A-H	C(I)	C(II)	A	A-H
0	67.3	51.0	-29.2	-132.4	78.1	79.8	13.2	-15.5	32.6	30.8	9.9	13.0
1	.0	.0	.0	- 20.6	.0	.0	.0	.0	2.5	2.5	14.3	-15.0
2	29.5	41.6	32.1	8.5	16.4	15.1	2.0	-16.2	32.0	25.9	- 6.0	-46.4
3	.7	1.1	42.6	3.2	.2	.0	.0	-40.2	.7	.4	-37.4	-85.0
4	.0	.0	.0	.1	3.9	3.7	3.9	20.0	3.9	.5	-84.5	-90.6
5	.0	.0	.0	-200.0	.6	.6	14.2	-95.8	.8	.9	21.7	-125.2
6	2.3	6.0	146.9	53.5	.7	.8	21.6	-75.8	26.4	37.4	64.6	-11.9
7	.2	.4	130.0	91.1	.1	.1	204.5	-21.5	.2	.6	198.6	-18.0
8	.0	.0	.0	-290.0	.1	.0	.0	-330.1	1.0	1.0	16.1	-300.6
Primary (0-4)	97.5	93.6	-10.2		98.6	98.5	10.8		71.6	60.2	-2.6	
Manufactured (5-8)	2.5	6.4	141.1		1.4	1.5	21.3		28.4	39.8	62.6	
TOTAL[2]	100.0	100.0	- 6.4		100.0	100.0	10.9		100.0	100.0	15.9	

Table 10 continued

C = Commodity Composition of Exports
A = Actual Growth of Exports
A-H = Competitive Effect

SITC[1]	Indonesia				Pakistan				Philippines			
	C(I)	C(II)	A	A-H	C(I)	C(II)	A	A-H	C(I)	C(II)	A	A-H
0	12.7	15.0	17.4	-58.1	5.5	5.1	-14.7	-43.0	29.4	27.3	51.0	30.4
1	4.4	2.2	-48.6	-60.2	.1	.0	.0	-61.8	.6	1.6	335.1	250.5
2	55.3	39.3	-29.1	-55.5	89.0	69.9	-27.9	-54.1	60.0	54.1	46.5	8.1
3	20.7	37.8	82.2	34.7	.0	.1	+	+	.0	.0	+	+
4	4.9	4.3	-13.6	-33.8	.0	.0	.0	- 1.9	4.7	7.6	162.1	144.5
5	.6	.9	52.0	-119.4	.2	.2	- 5.3	-152.4	.3	.2	43.5	51.3
6	1.4	.5	-62.3	-189.1	4.1	22.1	392.8	318.5	1.1	4.9	639.8	576.1
7	.1	.0	-49.4	-262.2	.3	.8	124.1	- 70.1	.0	.0	.0	-228.5
8	.0	.0	38.7	-287.7	.9	1.9	291.8	- 23.4	3.9	4.3	79.3	-160.4
Primary (0-4)	98.0	98.6	.3		94.5	75.0	-27.0		94.8	90.6	55.5	
Manufactured (5-8)	2.0	1.5	-29.2		5.5	25.0	319.9		5.3	9.4	191.5	
TOTAL[2]	100.0	100.0	- .3		100.0	100.0	- 8.1		100.0	100.0	62.6	

CONTINUED

TABLE 10 continued

C = Commodity Composition of Exports
A = Actual Growth of Exports
A-H = Competitive Effect

SITC[1]	Taiwan C(I)	Taiwan C(II)	Taiwan A	Taiwan A-H	Thailand C(I)	Thailand C(II)	Thailand A	Thailand A-H
0	77.8	67.8	231.7	30.3	23.2	42.4	232.4	131.5
1	.0	.3	+	+	.8	1.3	207.2	173.5
2	11.0	8.1	180.0	72.2	75.1	51.5	24.4	8.8
3	.9	.2	-30.7	-116.9	.0	.0	+	+
4	.1	.1	172.4	133.3	.0	.0	.0	.0
5	7.0	3.1	65.3	- 68.5	.3	.5	205.5	89.8
6	1.8	12.4	2505.7	2422.8	.5	3.9	1402.6	1317.7
7	.0	1.1	+	+	.1	.0	4.0	-248.8
8	1.5	7.1	1700.2	1473.8	.2	.4	285.2	5.9
Primary (0-4)	89.7	76.3	224.0		99.0	95.3	74.5	
Manufactured	10.3	23.7	770.1		1.0	4.8	769.9	
TOTAL[2]	100.0	100.0	280.5		100.0	100.0	81.4	

[1]SITC Commodity Groups: 0 (Food and Live Animals), 1 (Beverages and Tobacco), 2 (Crude Materials, excluding Fuels), 3(Mineral Fuels, etc.), 4 (Animal and Vegetable Oils and Fats), 5 (Chemicals, 6 (Basic Manufactures), 7(Machines and Transport Equipment), 8 (Miscellaneous Manufactures).

[2]Total may not add up to 100.00% due to rounding. For dollar values of exports, see Table 2.

= denotes positive actual growth of exports and competitive effect (no exports in Period I but positive exports in Period II)

In contrast to the varied performances of primary exports, the rapid rise in exports of manufactures common to almost all countries is very encouraging. (A notable exception is Indonesia with an absolute decline of 29% which is, however, understandable in view of the country's political difficulties during the period covered.) Some groups of manufactured goods have grown at rates even higher than the relevant import growth of the MDC's, indicating positive competitive effects. It is worth noting that those countries with expanding primary products tend to perform better in manufactured exports as well.

Examination of commodity detail shows that much of manufactured exports are suitable to the factor endowments of this region. Among these are textile products, footwear, plywood and leather. These exports have expanded rapidly despite high import protection (especially high "effective" rates of protection) generally accorded by MDC's on commodities of this type.

3- Intra-Regional Trade

Intra-regional trade (which is strikingly larger than that of other LDC regions) is analyzed here, although the record is handicapped by lack of availability of adequate data.

The share of intra-Asian trade of the individual countries varies widely, ranging from 79% for Laos, to 57% for Singapore and 50% for Burma, to 6% for Ceylon and 4% for the Philippines (in 1964-65, Table 11). Most countries show a decline in this trade, evident in the lowered shares from 1956-57 to 1964-65. The large absolute decline of intra-regional shares for Hong Kong and Indonesia stands out. Deviating from this trend are Pakistan, Korea, and the Philippines, who have had rapid increases in their intra-regional trade shares.

Of course, using intra-regional trade shares alone can be misleading. A share may be kept fairly constant, simply as a reflection of low growth of both total and regional exports, as for Burma. Or a share may fall at the same time regional trade rises rapidly, i.e. exports to the rest of the world grow faster than intra-regional trade, as for Taiwan, Cambodia, and Thailand. The latter pattern is more encouraging than the former.

The close association of the relative expansion of intra-regional exports with the export growth to the MDC's is interesting. Intra-regional export growth rates for Burma and Indonesia(India also) are extremely low compared with those for the Philippines, Taiwan, and Thailand. That is, the latter

Table 11

Export Growth and Shares of Intra-Regional Exports, Averages of 1956-57 and 1964-65

Country	Total Exports (millions of dollars)		Intra-Regional Exports as % of total		Percent Change in Value of	
	1956-57	1964-65	1956-57	1964-65	Total Exports	Intra-Regional Exports
Burma	239.8	231.5	51.8	50.5	-3.5	-6.0
Cambodia	44.5	96.5	35.8	31.6	117.1	91.5
Ceylon	358.7	401.5	5.5	5.8	11.9	17.9
Hong Kong	546.1	1,077.5	51.0	22.0	97.3	-14.8
India	1,325.2	1,715.5	11.0	9.7	29.5	13.3
Indonesia	925.7	683.0	33.2	10.5	-26.2	-76.6
Korea	23.4	147.0	13.7	23.4	528.2	1,073.4
Laos	1.2	1.2	83.3	79.2	.0	-5.0
Pakistan	349.3	510.5	5.2	19.8	41.1	53.8
Philippines	435.5	754.5	2.6	3.7	73.2	145.1
Taiwan	133.3	441.5	33.2	28.9	231.2	188.5
Thailand	349.5	610.0	54.2	46.6	74.5	50.1
Vietnam	62.8	42.0	13.4	15.1	-33.1	-24.4
Malaya	726.0	961.0	n.a.	27.0	32.4	n.a.
Singapore	1,128.5	943.4	n.a.	57.1	-16.4	n.a.

Sources: Data are taken from Direction of Trade for 1956 and 1957, and Direction of Trade, A Supplement to International Financial Statistics for 1964-65, except data for Malaya and Singapore which are taken from Yearbook of International Statistics for 1964-65.

Note: n.a. means not available.

countries perform well in export markets of both the MDC's and the region, and consequently in total exports; the reverse is true for the former countries.

Pakistan offers a contrast: intra-regional and total exports have grown fast compared to its sluggish exports to MDC's indicating a directional change towards intra-regional trade.

A pronounced directional change away from intra-regional trade (the reverse of Pakistan's) is clear for Hong Kong (Table 11). Its total exports increased 97%, in contrast to the fall of its intra-regional exports by 15% from 1956-57 to 1964-65.

The export and import commodity composition and shares of intra-regional trade are given together with the total trade of the region in Tables 12 and 15, for the years 1962 and 1965. Both tables show a considerable difference between the compostion of total trade and that of intra-regional trade. Intra-regional exports lean towards manufactured products more than do total exports (Table 12): a surprisingly large proportion of total manufactured products, about 50%, go to other countries of the region. (Of course, the intra-regional trade share of manufactured products comprises only a small proportion of total imports of manufactures.)

Primary commodities make up the largest share of both intra-regional exports and intra-regional imports: 63% and 73% respectively in 1965. But relatively small shares of total exports and imports of these primary products go to and come from regional countries (24% and 38% respectively in 1965).[1]

Although not shown here, considerable differences exist in the trade compositon for individual countries. The intra-regional exports of Cambodia, Ceylon, the Philippines, and Thailand (also Burma, Indonesia) are relatively concentrated in primary products. Exports of Malaya, Singapore, Pakistan, and Taiwan (also India and Hong Kong) are less concentrated.[2]

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[1]The pattern varies from commodity to commodity. One example of this pattern is food trade: there are considerable net imports for the regions as a whole, yet more than one-third of rice exports go outside the region.

[2]The countries given in parentheses are not included in Tables 14 and 15. For Burma, India, and Pakistan, 1965 trade data are not available. Hong Kong is excluded because of its typical export structure (primary goods are less than one-tenth its total exports in 1965).

Table 12

Commodity Composition of Total and Intra-Regional Exports of Selected Asian Countries, 1962 and 1965

SITC Code	Commodity Groups	Commodity Composition[1] (%) Total 1962	Total 1965[3]	Intra-regional[2] 1962	Intra-regional[2] 1965[3]	Intra-regional Exports (% of Total) 1962	1965
0	Food & Live Animals	26.0	28.1	28.0	27.9	32.6	28.7
1	Beverages & Tobacco	.9	.8	.8	.5	27.9	16.6
2	Crude Materials, excl. Fuels	44.9	39.1	23.3	23.5	15.7	17.5
3	Mineral Fuels, etc.	5.0	4.7	9.2	9.1	55.7	56.8
4	Animals & Veg. Oils & Fats	2.4	3.1	2.1	2.0	26.2	18.0
5	Chemicals	1.5	1.7	3.8	4.6	78.0	78.3
6	Basic Manufactures	13.1	15.9	16.5	16.9	38.1	30.8
7	Machines & Transport Equipment	3.3	3.1	10.2	9.5	92.1	88.7
8	Misc. Manufactured Goods	1.7	2.4	3.8	3.9	67.3	48.4
9	Unclassified Goods	1.1	1.1	2.3	2.2	60.6	57.1
0 - 4		79.3	75.8	63.5	62.9	24.2	24.1
5 - 8		19.6	23.1	34.3	37.3	52.8	43.9
	Total in %	100.0	100.0	100.0	100.0	30.5	29.2
	in $1,000,000	4011.7	4824.9	1213.1	1400.1		

Source: United Nations, Commodity Trade Statistics, various issues of 1962 and 1965.

Notes:
1. Countries included are the Philippines, Singapore, Thailand, Taiwan, Cambodia, Ceylon, Malaya, and Pakistan.
2. Intra-regional trade refers to exports of these above countries to countries listed under "Other Asia" in Commodity Trade Statistics.
3. For the Philippines only, 1964 figures are used.

Table 13

Commodity Composition of Total and Intra-regional Imports of Selected Asian Countries,[1] 1962 and 1965

SITC Code	Commodity Groups	Commodity Composition[1] % Total 1962	Total 1965[3]	Intra-regional[2] 1962	Intra-regional 1965[3]	Intra-regional Imports (as % of tot.) 1962	1965
0	Food & Live Animals	16.4	16.5	23.9	28.1	40.2	33.2
1	Beverages & Tobacco	1.3	1.2	.8	.6	16.0	10.3
2	Crude Materials, excl. Fuels	13.7	9.9	37.4	29.7	75.7	58.2
3	Minerals Fuels, etc.	10.3	8.3	16.3	12.1	43.9	28.4
4	Animal & Veg. Oils & Fats	1.4	1.5	1.4	2.3	27.6	28.7
5	Chemicals	7.8	8.7	2.6	3.1	9.3	7.0
6	Basic Manufactures	20.4	20.9	8.8	13.1	12.0	12.2
7	Machines & Transport Equip.	22.7	26.5	2.4	3.6	2.9	2.7
8	Misc. Manufactured Goods	4.6	4.6	4.6	5.1	27.2	21.6
9	Unclassified Goods	1.4	1.8	1.9	2.4	38.9	24.1
0 - 4		43.1	37.4	79.7	72.8	52.2	37.9
5 - 8		55.6	60.8	18.4	25.0	9.1	8.0
	Total in %	100.0	100.0	100.0	100.0	28.7	19.5
	in $1,000,000	4739.0	5796.6	1310.6	1120.4		

Source: United Nations, Commodity Trade Statistics, various issues of 1962 and 1965.

Notes: 1. Countries included are the Philippines, Singapore, Thailand, Taiwan, Cambodia, Ceylon, Malaya, and Pakistan.
2. Intra-regional imports are imports from those countries listed under "Other Asia" in Commodity Trade Statistics.
3. For the Philippines only, 1964 figures are used.

The period from 1962 to 1965 is short. Nonetheless, the intra-regional trade pattern points to a trend of declining intra-regional trade, and to relatively fast-rising manufactures and stagnant primary products. In order to better analyze intra-regional trade, the export performance of individual countries is discussed here with respect to the two effects, competitive and compositional. The results are summarized in Table 14.[1] (The computational method employed for this table is the same as that for Table 9, with the growth rate of total imports of Asia, S, corresponding to D in Table 9).

The intra-regional export performances of Burma, Indonesia, India, Hong Kong and Singapore are extremely poor in comparison with those of Pakistan, the Philippines, Korea, Taiwan, and Thailand. A few qualifications are, however, in order. Because of the short period for which we have data, the results shown may be due to random fluctuations rather than to trends, though the results conform very closely to those for the longer period of Table 11. The results are also generally similar to those shown for these countries' trade with MDC's in Table 9.

The different competitive effects provide implications for intra-regional trade. The countries performing poorly in intra-regional trade are generally those with negative competitive effects (e.g. Burma, India, Indonesia, Hong Kong; but not Singapore). Furthermore, the negative competitive effects far exceed the positive compositional effects. In contrast, the countries that have been expanding their regional exports (Taiwan, Korea, the Philippines, Pakistan, Thailand, and Malaya) have positive competitive effects. For Malaya, Pakistan, and Thailand, negative compositional effects have been more than offset by positive competitive effects.

The commodity breakdown of individual countries indicates that the positive (or negative) competitive effects are due in large measure to the relative expansion (or decline) of intra-regional primary exports. Furthermore, as indicated in Table 13, the intra-regional imports of primary goods declined <u>absolutely</u> while total imports of these goods were rising. The decline of the intra-regional primary trade of a few countries had a large dampening effect on total intra-regional trade.

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[1] As an example, figures given for India are for the actual and hypothetical growth of exports from India to Asia.

Table 14

Competitive and Compositional Effects of Intra-Asian Trade by Country, 1962-65
(in percentages)

Country	Growth Rate of Export to Asia		Growth Rate: Total Imports of Asian Countries	Competitive Effect	Compositional Effect	Differences in Growth Rates
	Actual (A)	Hypothetical (H)	(S)	(A-H)	(H-S)	(A-S)
Burma	-43.9	5.8	12.5	-49.7	- 6.7	-56.4
Hong Kong	.5	17.3	17.7	-16.8	- .1	-16.9
India	-10.1	7.5	17.4	-17.6	9.8	-27.4
Indonesia	-82.5	- 5.5	28.1	-77.0	-33.6	-110.6
Korea	220.4	25.7	15.4	194.7	10.3	205.0
Malaya	25.7	-16.3	6.4	42.0	-22.7	19.3
Singapore	15.7	5.2	28.1	10.6	-22.9	-12.4
Pakistan	127.5	2.9	12.2	124.6	- 9.3	115.3
Philippines	113.0	76.8	20.5	36.2	56.3	92.5
Taiwan	70.2	18.7	12.5	51.5	6.2	57.7
Thailand	19.7	-4.4	14.2	24.1	-18.5	5.5

Notes:

Data are taken from United Nations, Commodity Trade Statistics, various issues of 1962 and 1965.

All figures listed are based on import of Asian countries which include (1) Ceylon, (2) Cambodia, (3) Malaya, (4) Singapore, (5) Pakistan, (6) Taiwan, and (7) Thailand. Asian countries, which in some cases, do not clearly break down imports from particular countries by SITC one-digit codes are excluded for the listed countries concerned. The following gives (in parentheses) those Asian countries considered for each of the listed countries:

Burma (1, 3, 4, 5, 7 above)
Hong Kong (1, 3, 4, 5, 6, 7)
India (1 through 7)
Indonesia (1, 2, 3, 5, 6, 7)
Korea (3, 4, 6, 7)
Malaya (1, 2, 4, 5, 6, 7)
Singapore (1, 2, 3, 5, 6, 7)
Pakistan (1, 2, 3, 4, 5, 6, 7)
Philippines (3, 4, 5, 6, 7)
Thailand (1, 3, 4, 5, 6)

The negative compositional effects shown for many countries suggest that some intra-regional trade decline is due to the small proportion of manufactured goods exports, set against the large import requirements of those products by countries of the region. This trade-reducing effect is likely to continue in the future at a declining rate, since most regional countries have been expanding their manufactured goods exports rapidly.

The trend is significant because it is to these very fields that import substitution policies are directed and so high protection is accorded. The strength of comparative advantage in manufactured goods for the regional countries is much greater than it is generally diagnosed. And in time a tendency toward more economic cooperation among the countries of the region may facilitate the exchange of manufactured goods.[1]

The pattern of Asian country exports to MDCs and to their intra-regional neighbors is similar. We have not found any significant association between the high concentration of countries such as the Philippines and Thailand, and the stagnant performance of other countries such as Burma, Indonesia, and India. A shift increasing the share of manufactured exports is taking place, and should be encouraged to offset the relative stagnation of primary exports. The latter has probably been caused in part by heavy industrialization programs pursued by many countries in the region, tending to divert resources away from production of primary commodities and to push aside the difficult but necessary problems of improving the agricultural sector.

The material above has been mainly based on descriptive trade data. Ascertaining why these Asian countries perform as differently as they do is another range of inquiry. But it is likely that more favorable export performances are largely due to the relatively "outward looking" economic and

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[1] A greater exchange of commodities, especially manufactured goods, is central to the existing and proposed plans for economic cooperation among Asian countries although progress in this direction so far seems more apparent than real -- see Theodore Morgan and Nyle Spoelstra eds., Economic Interdependence in Southeast Asia, (Madison: University of Wisconsin Press.)

trade policies of certain countries (e.g., Thailand, the Philippines, Taiwan), and poorer performances to the "inward looking" policies of other countries (e.g., Burma, Ceylon, India). In the former countries, economic planning is generally adopted to maintain the framework in which economic activities are pursued by individuals and private firms with a minimum of government intervention: in the latter countries, economic activities are more directly controlled by government.[1]

Import substitution policies have in various forms been common to all these countries. But outward-looking countries have been more "selective" in the application of the policy than inward-looking countries. Outward-looking countries have also exhibited greater concern for economic "efficiency" and a tendency toward de-control (i.e., away from exchange and import control, as in the Philippines and Korea in recent years). In Taiwan, for a product to be eligible for the import control list, the domestic producer has had to show that his factory cost would not be more than 15% above the c.i.f. import price of a similar product.[2] Variations in export performance seem, in part to be explained by built-in-bias against exports in large-scale import substitution programs.[3]

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[1] Cf. Hla Myint, "The Inward and Outward Looking Countries of Southeast Asia and the Economic Future of the Region," Research paper #7, February 1966; K. C. Sen, "The Inward-Looking and Outward-Looking in Southeast Asia," Project paper of January 1965. Cf. also Barend A. DeVries, The Export Experience of Developing Countries, World Bank Staff Occasional Papers, #3, International Bank for Reconstruction and Development, 1967, esp. pp. 11-15, 60-63, 43-47.

[2] IMF, Annual Report on Exchange Restrictions, 1964.

[3] It is interesting to note that even some of the strong advocates of protection have recently expressed considerable disenchantment with the distorting effects of excessive protection. Mr. Raul Prebisch, for example, cautions that "customs protection has been indulged in excessively, and, by limiting competition from abroad, has frequently given rise to internal restrictive practices or monopolistic combines that weaken the incentive to obtain satisfactory levels of productivity." (Raul Prebisch, "Surmounting Obstacles to a Latin American Common Market," pp. 141-142 in M.S. Wiconezek, ed., Latin American Economic Integration, Frederick A. Praeger Inc., 1966).

Table 15

THE COMPOSITIONAL AND COMPETITIVE EFFECTS OF LESS DEVELOPED ASIA'S EXPORT TO MORE DEVELOPED AREAS, 1956-57 to 1964-65
(in percentages)

Developed Countries	Growth Rate of Southeast Asia's Exports to the Developed Areas		Actual Growth Rate of Developed Areas' Total Imports	Composi-tional Effects	Compe-titive Effects	Difference in Growth Rates
	Actual (A)	Hypo-thetical (H)	(D)	(H-D)	(A-H)	(A-D)
U.S.	29.13	24.94	56.33	-31.39	4.19	-27.20
U.K.	6.03	18.52	41.00	-22.48	-24.55	-47.03
EEC	20.38	44.39	95.32	-50.93	-24.01	-74.94
Japan	86.72	93.44	114.27	-20.83	- 6.72	-27.55
Australia	32.71	74.94	85.19	-10.25	-42.23	-52.48
TOTAL	27.74	43.81	75.81	-32.00	-16.07	-48.07

C- Cutting transportation costs

Transportation costs, like administrative blocks to the movement of goods, reduce the potential gains from regional specialization. Goods that are relatively heavy and bulky compared to their value -- which are most goods moving across national boundaries in Southeast Asia -- move by water. Is there much room for reducing the costs of ocean transportation in the region?

Water transportation costs can be divided into two types. The first is the expenditures most governments make in providing for waterway and port facilities. These costs are indirect as far as the ship owner is concerned. The second type is the costs incurred by the carriers directly. This cost category consists of two components: the capital costs of acquiring equipment, and operating costs. Permanently reduced freight rates are primarily dependent on lower costs of operation.

Most of the operating costs are port costs. "Sixty to seventy percent of the cost of transporting cargo at sea is accounted for by what takes place while the ship is at the dock, and not by steaming time."[1] From the frequent surcharges imposed on shipments to and from Southeast Asia, it seems highly probable that a figure near the upper limit is relevant to that area. For example, a recent study found that delays that could be controlled or avoided -- waiting time for pilots, tugs, barges, berths, stores, and clearance of customs papers -- were responsible for more lost time than unavoidable delays such as those due to adverse weather and tides.[2] There appears to be much scope for improvement.

Insurance for the ship and crew is to some extent affected by the degree of congestion of the ports the ships call at, and a country can lower the insurance premium paid by the carriers through port improvements. Although this part of cost reduction is small compared to other cost reductions achieveable through port improvements, from the shipowners' viewpoint, there may be implication, in vigorous action here, of other government action to lower port costs that are likely to have a greater final effect on the carriers' costs structures.

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[1] D.C. MacMillan and T.B. Westfall, Competitive General Cargo Ships (Society of Naval Architects and Marine Engineers, November 1960), p.2.

[2] New York Times (February 21, 1965), reviewing a study by the Socony Oil Company.

Measures to lower operating costs can also be taken by ship owners. The scope for government action is wider than that for the carriers. But there is close relationship between actions taken by the two parties: a change by one will have repercussions on the other. For example, technological innovations in shipping equipment that require facilities other than those currently available in ports will encourage installation of such facilities or else the innovation will not be generally adopted.

There is no unique cause-effect relationship between port improvement and carrier innovation. However, a good case can be made for the ports' being the major causal factor. Ports require huge long-term investments. At the time that investment is made, the port facilities are adapted to the existing or immediately foreseeable shipping technology. The ships, on the other hand, while requiring large capital investments and having a life of twenty to thirty years, are, relative to ports, short-term investments. A ship owner who builds a new ship adapts his ship's design to the expected ports.

Another means of reducing operating costs is the introduction of larger and more efficient equipment by shipowners. This policy is generally limited at present to tanker operations. Possible cost reductions are large: a tanker of, say, 65,000 tons can operate profitably at rates that would drive a 20,000 ton tanker into bankruptcy. But tankers cannot carry dry cargo; and a dry-cargo ship requires dock space and depth. Unless the major ports of the world undertake dredging and enlarge berths, dry-cargo ships as large as the modern tankers will be restricted to a very few ports.

Innovation by carriers in the field of cargo stowage appears to be the best cost reducing action they can take. Increased use of pallets and containers has been the most important development in this area.

Pallets and containers reduce cargo handling and make possible the use of smaller gangs. It has been estimated that the use of containers can cut terminal costs by fifty percent on the average, and that U.S. ship operators in coastwise trade have reduced this costs to one third of the costs faced in the break-bulk system used previously.[1] An additional advantage of containers is the protection they give against pilfering and rough handling. Such losses are greater where labor is unskilled and illiterate. The gains in this respect would be particularly great in LDC's.

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[1]See Times (London) January 3-4, 1962, quoted in J.L. Eyre, The Unhappy Marriage, paper delivered at the American University School of Business Administration (Washington, D.C., May 22, 1963), p. 5.

Despite the advantages of using pallets and containers, their rate of adoption has been slow. Income is lost by many of the participants in maritime transportation services: stevedores, forwarders, truckers, and the port authority. Customs procedures are insufficiently flexible for container shipments, since ordinary procedures require inspection at the pier rather than at ultimate destination. A further problem is the balancing of inward and outward use by individual carriers: container pools, such as those found in Europe, can reduce this potential cost.

In addition to institutional blocks and delays, the use of containers in Southeast Asia has been hampered by the costs of acquiring containers, redesigning stowage space, and the heavy port installations required. Further, internal transportation facilities to move the containers are inadequate in most countries of the region. In consequence, the region is only in the early stages of considering pallet and container port facilities. Increased capacity of ships and quicker turn-around time in more efficient ports like Singapore and Hong Kong seem to be compensating for the extra some five days required, now that Suez is closed, to sail around the Cape of Good Hope. The sharply competitive tramp-shipping trade is expanding.

The issues of containerization are therefore being uncertainly anticipated and faced. Hong Kong is cautious, Colombo has already one container berth, Singapore has built one wharf for bulk cargo. There is general rather rapid expansion in port tonnages handled, with sharp decline during the past several years in Burma a sharp exception to the trend.[1]

In summary, reduced port congestion and innovation in cargo stowage and handling appear to be promising avenues to lower operating costs and hence lower freight rates. The scope for governmental action here is wide. Futhermore, regional cooperation in developing more efficient ports and providing the facilities for containers and container pools on a common standard could bear considerable fruit. In these ways the countries of Southeast Asia can benefit from a reduced freight bill on their trade, both intraregionally and with the rest of the world.

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[1]Some data on recent shipping volume, policies, and problems are given in Far Eastern Review, Oct. 31, 1968.

D- Asian commercial policies and the possibilities of expanding regional trade

1. Introduction

Tariffs and quantitative restrictions restrict international trade, and administrative practices can do so. This section seeks to ascertain the Asian countries that are most likely to cooperate toward expanding their trade by changing their commercial policies. To make such a selection we must have a set of criteria in mind for predicting the most likely candidates for cooperation.

In part 2 we examine some recent theoretical contributions on commercial policy bargaining and customs union formation. First to be considered is the orthodox approach developed by Viner and extended by Lipsey, Meade, and Vanek, which focuses on the effects of a customs union on welfare derived from personal consumption. A second approach to the problem developed by Johnson, Copper, and Massel will then be presented. It defines welfare more broadly to include a collective preference for industrial production. Finally, the view of trade expansion problems of the developing countries themselves expressed in the UNCTAD document Trade Expansion and Economic Co-operation among Developing Countries will be presented as evidence for emphasizing the selection criteria implied by the second approach.

In part 3 of this section, the status of quantitative restrictions in nine Asian countries are examined, and recent trends defined. Part 3 will examine tariff schedules, primarily of the countries that make the least use of quantitative restrictions. Quantitative restrictions are usually more important in checking and blocking trade flows than are tariffs. Hence there is considerable presumption that countries making the least use of quantitative checks on trade (the most use of tariffs) are the most likely candidates for regional cooperation to facilitate trade flows.

2. Theory

(a) The potential gains from freer trade are well known. They are, assuming unrealistically no influence on the rate of change of technology, skills, and organization:

i - increased specialization according to (even assuming unchanged average costs) comparative efficiency;
ii - increased realization of economies of scale; and
iii - increased efficiency through more specialization among the resources used -- labor and other resources.

If countries have different factor endowments (which includes the subtleties of skill and organization differences), and hence different relative cost structures, each country can raise its real income through fuller participation in international trade. By specializing in the products that can be produced domestically relatively most cheaply, and trading a part of these products for other products produced relatively most cheaply by other countries, each country can transform its given factor endowment into a greater quantity of output than it could otherwise.

Economies of scale can be achieved by expanding the size of the market. Domestic markets, especially in LDC's, may not be large enough to permit existing firms to take advantage of the fact that costs can decline as output increases, or to permit the building of new plants whose scale is optimal in the sense that they have the lowest possible unit costs.

External economies may also be realized by expansion of the market. The expansion of one firm in an expanding market can induce the expansion of others if the expanding firm either produces more cheaply an input for other firms, or provides a market for the output of the other firms. Other external economies such as increased diffusion of technical knowledge and organizational ability can result from non-market inter-action among industries. To the extent that commercial policies, especially administrative practices, are applied arbitrarily or on an ad hoc basis, the freeing of trade can produce external economies by reducing the risk and uncertainty of international transactions.

Where commercial policies protect inefficient firms, an increase in competition brought about by freer trade forces a more efficient allocation of resources in all trading countries. Increased efficiency may also result from the increased specialization of labor that freer trade makes possible.

Having briefly described the gains that can result from a reduction in trade barriers, we move to a discussion of the methods countries can use to bring about a reduction in barriers to trade.

The most obvious method for reducing trade barriers is for a country unilaterally to remove its restrictions on foreign products. Governments are often reluctant to take such steps because they fear that they will lose their bargaining power in future attempts to induce other countries to lower their barriers. Or, if restrictive commercial practices were originally initiated to improve a country's terms of trade by exploiting monopoly power, unilateral reductions are unlikely. Where commercial policies are used to influence the domestic distribution of income and employment so as to favor a particular factor of production or power group, uncompensated or unilateral reductions in restrictions are not to be expected. A final reason why unilateral reductions in restrictions are unlikely is the infant industry argument, which has special appeal to less developed countries.

Reductions in trade barriers are therefore more likely to be achieved by negotiation than by unilateral action. Negotiations, under the rules of GATT, should be based on the principles of non-discrimination and reciprocity. The direction of negotiations under these limitations is likely to be shaped by the advanced, internationally competitive countries, who can offer access to a large well-protected market in return for concessions granted.

International negotiations have, therefore, tended to focus on products of particular interest to the relatively advanced countries, indirectly discriminating against third parties, especially less developed nations. For example, the Kennedy Round negotiations were dominated by the products of special interest to the United States and the EEC countries. GATT rules, through anti-dumping provisions, also prohibit the subsidization of exports. Less developed nations faced with balance of payments problems, limited domestic markets, and "infant" export industries are likely to find export subsidization particularly attractive.

GATT rules do sanction customs unions, free trade areas, and common markets, all of them exceptions to the principles of non-discrimination and reciprocity. Regional integration schemes are attractive means for less developed nations to expand exports and to negotiate trade barrier reductions on products of mutual interest, so evading the GATT limitations on export subsidization and the general requirements of non-discrimination and reciprocity.

(b) (i) Much of the discussion of regional integration has been in terms of static effects on the allocation of resources; that is, of increases in specialization according to comparative advantage Viner, Meade, Lipsey and Johnson have used the traditional definition of welfare based on the personal consumption of goods and services to analyze the effects of changes in the allocation of resources caused by the formation of a customs union. Their analysis, reduced to barest essentials, concludes that there will be gains in welfare for the countries forming a customs union to the extent that the reduction in protection within the union permits a shift toward lower cost sources of supply, i.e., "trade creation." There will be losses in welfare for the countries of a customs union to the extent that a high external tariff causes the substitution of a higher cost source of supply for a lower cost source of supply from outside the union, i.e., "trade diversion."

However, Lipsey points out that the possibility of substitution in consumption qualifies the claim that a trade-diverting customs union always lowers welfare. By providing the members of the customs union with a wider choice of consumers goods, the union can permit a consumer shift to higher utility goods; that is, the relevant domestic price ratios may diverge more from the union-wide price ratios than from the previous international price ratios.

(ii) To go more in detail: From the trade-creation-trade-diversion analysis a number of causes can be identified that shape the size of the gains or losses resulting from a customs union. (i) The gains from trade creation are larger, the greater the differences in relative cost ratios of the countries considering union. This is true because the greater the differences in relative cost ratios, the greater the scope for specialization according to comparative advantage. (ii) the losses from trade diversion to the countries forming a customs union are smaller the more competitive, and the more similar, the goods they produce, as compared with non-union economies. The more these conditions hold true, the less likely are substitutions of high cost sources of supplies within the union for supplies previously obtained from outside. (iii) A customs union moves prices toward the relative price pattern (rates of transportation) of partners and away from the relative price pattern (rates of transformation) in the world outside. We therefore expect gains from customs union formation to be larger, the greater the proportion of pre-

union trade among the prospective members, and the smaller the union's volume of world trade relative to internal production. Pre-union trade is evidence that potential partners are efficient producers whose costs do not exceed world costs. The smaller the ratio of world trade to domestic production, the smaller will be the share of supplies from outside the union whose prices are relatively low.

Harry Johnson supplements the above reasoning. Among his points: A country is more likely to gain from trade creation, the higher the initial level of its tariffs, the more elastic is domestic demand for the partners' goods, and the more elastic the supply of goods that the partners export. A country is less likely to lose from trade diversion, the less elastic are the partners' supplies and the less elastic the world's supplies, the less the substitutability between goods from partner and foreign sources, and the lower the tariff on foreign sources after union is formed relative to the pre-union level.

(iii) The preceding analysis is weak as a guide to policy on two grounds.

First, LDC's are likely to be concerned with their balance of payments position, unemployment repercussions, inflation implications, redistribution of domestic income, and social and political implications of the structural changes expected in the economy.

Second, the static orthodox analysis is too limited. It employs a definition of welfare -- the current utility derived from personal consumption of goods and services -- that is too narrow. Loss from "trade diversion" is normal among LDC's (that is, they are likely to have higher costs in many products than the outside-of-union MDC's.) But they can often and reasonably hope for offsetting long-run gains through the dynamic improvements mentioned above: feedbacks toward eventual higher skills, better organization, and the like. Any losses to MDC's may earn a lower emphasis in the total calculation.

The static analysis ignores the possible gains from economies external to the firms that expand (or losses from external dis-economies to the firms that contract). Possible economies of scale within the firms need emphasis, and possible business cumulative (business cycle) effects should be considered. The business cycle effects alone can be more important than all the static effects.

Dynamic effects, primarily the effects on efficiency over time, are crucial. Long periods of time are necessary to work out the effects of cuts in trade restrictions. (How much gain was there immediately, from eliminating tariffs among the fledgling colonies that formed the United States?) Expectations are shifted for the pattern of trade in the years ahead, and the impact of those shifts are eventually fundamental. The shaping of trade toward a regional network is a basic change.[1]

These long-run dynamic effects, in outline to be predicted only uncertainly, and in detail usually impossible to predict, can easily completely swamp effects predicted in the static kinds of reasoning. The static analysis can be nearly irrelevant, and if its predictions are taken as indicating the direction of dynamic change, it will often be misleading.

The rate and pattern of growth of the LDC economies in a union over 10, 20, and more years after the union is formed, are the crucial questions. Clues may be found in the static analyses; they may also be found, more uncertainly and vaguely and also more relevantly, in the wide range of other economic and non-economic considerations.

(c) Concern with their mixed objectives in addition to the level of income at a point in time, has led less developed nations to view industrialization as a very desirable goal. They argue that external economies, especially those arising from the diffusion of technological knowledge, are most likely to be found in the manufacturing sector. The fact that manufactured goods tend to make up a large proportion of imports in less developed countries makes them likely to believe that import substitution which will also improve their country's balance of payments position is desirable (cf. Chenery's view). The terms of trade of primary products compared to manufactured goods are often asserted to be deteriorating (Prebisch). To the extent that foreign factors are concentrated in the export sectors,

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[1]See R. F. Mikesell: "The Theory of Common Markets as applied to Regional Arrangements among Developing Countries", in International Trade Theory in a Developing World. R. Harrod and D. Hague, eds., Macmillan, London, 1963; also Organization for Economic Cooperation and Development: International Economic Integration among Development Countries, mimeo., Paris, May 1968, esp. pp. 3-28.

the desire to minimize the leakage abroad of future earnings or to maximize the re-investment of future earnings will cause the industrial sector to be preferred over the traditional section (Levin). Finally, the historic experience of most of the advanced countries confirms a pattern of development led by rapid growth of the industrial sections (Kuznets).

Cooper, Massel, and Harry Johnson have developed approaches to the analysis of commercial policy formation that take explicit account of the existence of a "collective preference for industrial production". Johnson points out that the orthodox approach, which focuses on the gains in personal consumption arising from the trade creating effects and the losses from trade diverting effects of a union, always leads to advocacy of free trade, which is attainable by unilateral action. Cooper and Massel point out that the total effects of a customs union results from two processes: a tariff lowering trade and income creating step; and a tariff raising, trade and income diverting step. Since unilateral action can achieve gains from the first effect without suffering losses from the second, customs union formation, according to the orthodox analysis, would always be inferior to a unilateral reduction in barriers to trade.

To explain such real world phenomena as commercial policies, tariff bargaining, and the limited conditions under which countries are likely to begin customs union negotiations, these authors employ a broader definition of welfare. They recognize an association between welfare and personal consumption similar to that of the orthodox analysis but in addition, they posit that people enjoy increased welfare derived from the collective consumption of domestic industrial production. Trade restrictions provide resources to satisfy collective preferences for industrial production by placing a tax on the consumer, the proceeds of which are transferred to the industrial producer who is unable to compete in the world market.

Protective commercial policies can be thought of as an additional resource which the economy uses efficiently when the marginal collective utility from industrial production is equated to the marginal private cost of protection. In such a formulation we can not make judgments about the "goodness" and the "badness" of orthodox trade creation and trade diversion. Trade creation within a customs union results in gain in consumer welfare, since consumers obtain goods at a lower cost; however, trade creation means a decrease in

welfare to the extent that a country loses industrial production. Trade diversion results in a loss in consumer welfare through increased costs of goods and services, but in gains by increasing domestic industrial production.

This formulation helps account for the facts of tariff bargaining and of estimates of advantages of customs unions among less developed nations. A reduction in protection implies a reduction in psychic income (through losses in industrial production) which can be compensated for by less protection among partners (allowing a rise in industrial production). Countries with strong competitive positions would be likely to seek such partner concessions on a multi-national basis. But countries with weak comparative advantage in industrial production could expect to gain little from increased industrial exports within the union, and would suffer from increased competition from within the union.

Discrimination in the guise of a customs union offers a fairly efficient country a chance to increase industrial exports without suffering losses in its own industrial production. That is, countries find that they can satisfy their preference for industrial production more cheaply than they could in isolation. Each encourages the other's exports through granting preferential entry within the customs union.

We have been stressing the factors affecting gains and losses to welfare when there are changes in industrial production. In so far as industrial production is a goal, the most likely candidates to gain industrial production by establishing a customs union are countries:

i) with a strong and nearly equal preference for industrial production;

ii) with weak comparative advantage in industrial production compared to the world;

iii) whose comparative advantage ratios differ so that they will each have a profitable basis on which to exchange industrial production; and

iv) whose kinds of products are complementary rather than competitive.

The Cooper, Massel, and Johnson approach does not replace the orthodox approach. They have presented reasoning that only qualifies gains and losses to personal consumption as ordinarily defined.

(d) We conclude our discussion of the theory of commercial policy formation by listing problems that were brought before the 1968 Delhi meeting of UNCTAD by the less developed nations (UNCTAD, Trade Expansion and Economic Co-operation among Developing Countries, 1968).

The UNCTAD document presents the less-developed economy view of the gains from trade. Trade is seen not as an end in itself, but as a means to foster development. Increased exports are needed to pay for the increased imports that usually accompany a development effort. A market widened by trade is desirable because it enables economies of scale to be captured. Greater specialization of labor and "a certain amount" of external competition increases efficiency, in line with the general objective of industrialization and development.

Nowhere in the discussion of the gains from trade is increased specialization according to the existing pattern of comparative advantage presented as gain. Trade is viewed as means of securing industrial development more effectively. Increases in income from a more efficient allocation of resources in the more traditional sectors of the economy are not a concern.

UNCTAD discusses a number of influences on the rate of development which therefore should be considerations in the negotiating process:

i) The more severe the balance of payments problems of a country, the more sensitive it is to a possible greater increase in imports than in exports.

ii) The greater the disparity in tariff structure before negotiations, the greater the problem of establishing an external tariff.

iii) The more the reliance on commercial policies to earn government revenue, the greater is the readjustment in fiscal policy necessitated by a customs union.

iv) The more rapid a country's rate of inflation, the more difficult are payments adjustments within a union.

v) The greater the disparity between levels of development, the more sensitive a country is to unequal gains in industrial production resulting from the union, and the more important is the problem of compensation within the union.

vi) The greater the preference for industrial production of potential members, the more important will be the need for compensation to insure equitable distribution of economies of scale and external economies arising from the union.

3-Quantitative Restrictions

Below is a summary of a survey of quantitative restrictions in nine Asian countries from 1961 to 1967. Part a contains an overview of the kinds of commercial policies followed by these nine countries. A comparison of the two years, 1961 and 1967, is made, and important trends noted.

Next, specific restrictions on current account in 1967 are compared to restrictions in 1961. On the basis of their 1967 position, the nine countries are divided into three categories: relatively unrestrictive, moderately restrictive, and severely restrictive. Next an attempt is made to determine the relative positions of these countries within a particular category. A rather detailed schedule of changes in current account restrictions for the nine countries is made. On the basis of this schedule, the countries are divided into those moving toward freer trade, and those having made changes in both directions.

Then the nine countries are surveyed as to their treatment of foreign capital in 1967. Policies toward inflow and outflow are noted.

When examining commercial policies one is confronted with maze of specific details pertaining to a myriad of international transaction. The form the summary below has taken is dictated by the two aims of this survey: to present a survey of commercial policies in developing Asia today; and to assess the direction of change in these policies over the years covered. Numerous details concerning the policies of particular countries are excluded.

(a) A Survey of Asian Commercial Policies, 1961-1967.

In Table 16 an assessment of the 1967 position of Asian countries is made with respect to particular commercial policies, and important trends toward the changes in the use of particular commercial policies are noted. Where given restrictions or characteristics exist, they are marked by an X.

Fixed exchange rates, usually based on the par value of a country's currency as established with the IMF, have been maintained by five of the countries surveyed.

Table 16

Asian Commercial Policies

	Burma		Indonesia		Pakistan		Ceylon		Taiwan		Korea		Malaysia		Philippines		Thailand	
	'67	'61	'67	'61	'67	'61	'67	'61	'67	'61	'67	'61	'67	'61	'67	'61	'67	'61
Exchange Rate																		
Agreed Par Value	x				x	x	x						x		x	x	x	
Par Value Applied	x				x	x	x						x		x		x	
Unitary Effective Rate																		
Fixed				x					x	x								
Free											x	x						x
Pegged		x						x						x				
Special Rates for Capital Transactions			x		x											x		
Import Rates diff. from Export Rates	x		x	x	x											x		
Multiple Import Rates	x		x		x											x		
Multiple Export Rates	x		x		x	x										x		
Trade Restrictions																		
On Current Account	x	x	x	x	x	x	x	x	x	x	x	x	x			x		
On Capital Account	x	x	x	x	x	x	x	x	x	x	x	x	x			x	x	x
Prescriptions of Currency	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
Bilateral Payment Agreements			x		x	x	x	x	x						x			
Import Surcharges			x		x		x		x									
Advanced Deposit			x	x	x			x			x					x		
Surrender of Export Proceeds	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Part of a Monetary Area					x	x	x	x					x	x				
Participates in Economic Cooperation					x													

Source: IMF, Annual Report on Exchange Restrictions, 1961, 1967

In the period 1961 to 1967 there has been a movement toward fixed exchange rates and the establishment of par values with the IMF. The former British colonies of Burma, Ceylon, and Malaysia replaced exchange rates pegged to the British pound; Thailand replaced its freely fluctuating exchange rate; and the Philippines replaced its system of multiple exchange rates. Contrary to this trend, Burma and Indonesia have moved from their application of a fixed rate toward the use of multiple exchange rates. Pakistan uses multiple exchange rates to subsidize some exports and to encourage some capital imports. Korea has freely fluctuating rates.

Among these countries restrictions on current account range from extensive state trading in Burma to the absence of any quantitative restrictions in the Philippines. (A detailed survey of current account restrictions will be made in the next section below.)

All Asian countries except the Philippines have restrictions on capital movements. Most countries, especially former colonies, discriminate between "old," and "new" or approved investments. Repatriation of "old" capital is considered on an individual basis, while new capital is in general treated much more liberally. (A detail survey of capital account restrictions will be made in sections c below.)

All countries except Thailand list prescribed currencies with which international transactions must be made. In the last seven years this list has been widened considerably, usually to include the currencies of European countries. All countries require the surrender of export proceeds.

Import surcharges have been increasingly used to counteract balance of payments problems or to raise revenue for defense purposes. They are now in effect in Indonesia, Pakistan, Ceylon, and Taiwan. No trend in the use of advance deposits is apparent for Asian countries as a whole. Three countries have introduced them; two countries have abandoned them.

There has been a general trend toward bilateral payments agreements reflecting increased trade between Asian and Communist Bloc countries. Ceylon, Pakistan, and Malaysia are members of a larger monetary area, the Sterling Area; Pakistan participates with Turkey and Iran in a program of regional cooperation.

(b) Quantitative Restrictions on Current Account

With the aid of Table 17 the present level of import restriction in various Asian countries can be evaluated. The Philippines, Thailand, and Malaysia, are the most free of import restrictions, although no country allows completely unrestricted imports. The Philippines prohibits imports of some agricultural products for protective purposes; Thailand had in 1967 quantitative restrictions on ten items; and Malaysia has prohibited certain agricultural and industrial products and has recently imposed a number of quantitative restrictions pending an increase in tariff rates to protect "pioneer" industries.

The imports of Korea, Pakistan, Taiwan, and Ceylon face more regulation than do the imports of the Philippines, Thailand, and Malaysia. In Korea and Pakistan most imports are free or subject to open general licensing. In Korea 87% of imports are made under open general licensing; 142 items require approval; and 362 items are prohibited for protective reasons. In Pakistan most items are on the free list and may be imported without quantitative restrictions. Licenses for other items are allocated to industries on the basis of the industry's importance in the nation's development program. An industry's ability to earn foreign exchange is considered when import licenses are issued. Importation of some items is prohibited for protective reasons.

Taiwan requires specific licenses for all imports. Import quotas are allocated to industries on the basis of their importance in the overall development program and their ability to earn foreign exchange. In 1964 Taiwan declared that to be eligible for protection an industry had to show that its costs were not more than 15% above the product's import price.

Ceylon requires a specific license for all imports. A state monopoly imports forty items. Most luxury imports are prohibited.

Indonesia and Burma have the most restrictive import regulations. Burma practices state trading, and private importers are generally not permitted. In Indonesia most imports have been subject to quantitative restrictions and sharply differentiated multiple exchange rates.

Table 17

Current Account Restrictions

	Malaysia 67	Malaysia 61	Philippines 67	Philippines 61	Thailand 67	Thailand 61	Ceylon 67	Ceylon 61	Taiwan 67	Taiwan 61	Korea 67	Korea 61	Pakistan 67	Pakistan 61	Indonesia 67	Indonesia 61	Burma 67	Burma 61
IMPORTS Open generally or automatically approved	x	x			x			x			x							
Free			x		x								x		x			
Specific licensing and quota	x[1]				x[4]		x		x	x	x	x	x	x	x	x		x
Prohibited	x[2]		x[3]								x		x		x			
With export vouchers only													x					
State trader							x[6]									x	x	
Multiple exchange rates to allocate imports				x											x			
EXPORTS Approval or license required					x[5]	x	x	x	x	x	x		x		x	x		x
Free	x		x	x	x						x	x	x	x				
Prohibited											x							
State trader							x										x	

Notes:

1. Import of sugar and wheat flour are restricted for protective reasons.
2. Import of textiles and most other light manufactured goods from Communist China are prohibited.
3. A few agricultural products are prohibited for protective reasons.
4. Ten items still require licenses. In 1961, 72 items required licenses.
5. Rice export is subject to government approval.
6. The state controls the import and export of about 40 items.
7. Korea permits the import of 2984 items on open general license; 142 items required individual licensing; 362 items are prohibited. The export of a number of raw materials is prohibited.
8. Pakistan requires import licenses for most important industrial input.
9. Those goods on the free list as well as those which require licensing are subject to multiple exchange rates.

Source: Annual Report on Exchange Restrictions, International Monetary Fund, 1961-1967.

Table 18

SIGNIFICANT CHANGES IN CURRENT ACCOUNT POLICY

	1961	1962	1963	1964	1965	1966
MALAYSIA	Rice import control scheme tightened.	Licensing of Soviet Bloc sugar removed.	Quota on Thai poultry removed.	Central government places quotas on 101 items.	Government required to purchase locally goods whose imported price less than 10% below the domestic price.	Quotas established for T.V.'s, table fans, rice milling machines, bicycles and certain chemicals.
					Licenses are required for the import of iron and steel bars.	Wheat flour import prohibited.
						Quota removed for tires and copper wire.
						Registration fee of 50¢m per ton for rubber export.
PHILIPPINES	Importers of decontrolled items permitted to use own exchange.	Quantitative restrictions removed from imports.	None	None	Requirement that 20% of export proceeds be surrendered at the official rate removed.	Export licensing by Central Bank abolished.
					Free market rate abolished.	
					Par value export rate established.	
THAILAND	Export of eggs, rice, require specific licensing.	Cigarettes, gunny bags, and timber subject to import license.	Prior approval for export of large quantity of rice required.	Import control over nickel & paper established.	Export control over sorghum.	Duties raised on 10 items, quantity restrictions on 15 items
	Import of steel drumbs, fish, chemicals and motor vehicles require specific license.	Rice price stabilization plan establish.	Import restriction on tires and tubes.		Import license for rice milling machines, enamel ware, & cotton yarn.	Export license for rice discontinued.

Source: Survey of Commercial Policies, International Monetary Fund, 1961-1967.

These countries can be ranked according to the degree of current account restriction they practice. The Philippines is the least restrictive, followed by Malaysia and Thailand. Then come Korea and Pakistan. Taiwan comes next, followed by Ceylon, which practices a great deal of import restriction. Indonesia and Burma are the most restrictive countries surveyed.

The pattern of export control is like the pattern of import control. Exports are, in general, free of restriction in Malaysia, the Philippines, Thailand, Korea and Pakistan. Exceptions are government control of rice export in Thailand, and prohibitions against the export of a few essential products in Pakistan and Korea. China, Ceylon, Indonesia, and Burma require approval for all exports. No approval for private exports has been granted in Burma since 1963.

Table 20 illustrates the most important changes affecting the current account position of three countries. From this kind of table, trends toward increasing or decreasing control can be ascertained, which may forecast a country's future position on quantitative restrictions.

Burma and the Philippines have undergone the most radical, though opposite, changes in the use of quantitative controls. Between 1963 and 1964 Burma nationalized all international trade. Beginning in 1960, the Philippines, in contrast, gradually abandoned all quantitative restrictions and multiple exchange rates. By 1967 the Philippines had become the least restrictive country in Asia.

Pakistan and Korea have gradually moved away from quota restrictions; Thailand, Ceylon and Malaysia have moved toward increased restrictions. Ceylon made the greatest change, moving from the application of open general licensing for most categories of imports in 1961 to quantitative restrictions and state monopoly in 1967. Malaysia temporarily increased quantitative restrictions to protect "pioneer" industries while tariff increases were being considered.

Indonesia, although remaining in the most restrictive category, liberalized its position considerably, moving from a position of 80% state trading in 1961 to the position of issuing licenses to private importers on a quota basis in 1967.

These countries can be classified as to whether or not they have been increasing or decreasing current account controls. Burma and Ceylon have increased restrictions the most. Malaysia and Thailand have made moderate increases in quantitative restrictions. Indonesia, Pakistan, Korea, Taiwan and the Philippines have made substantial reductions in quantitative restrictions on current account transactions.

Table 19 - Restrictions on Current Account

	1961	1962	1963	1964	1965	1966
Taiwan China	11% devaluation of official exchange rate	None	Exchange certificate system abolished and fixed rate set	Decontrolled: coconut, coffee, synthetic fibres, cement, fibres, unfinished motor cycles frames Quantitative restriction would be limited to 3 years To be eligible for control a products cost less than 15% import price	None	Controls relaxed for a large number of items
Ceylon*	Imports of 45 items placed under quant license; from open license Imports of tires and tubes prohibited	Customs duties raised by 20% on all items, except food & pet.	Pet. subject to import license, fish & most other commodities	All products made subject to individual import license	Imports of Petr. products, newsprint, cotton, yarn, corn fodder, caustic soda under state trading	State control of textiles imports was announced needed
Korea	Retention of export earning scheme blocked Special customs duties imposed on luxury goods.	None	Restrictions imports removed from number of items	A number of special taxes on imports were abolished. Most goods brought under automatic approval procedure. Number of items imported only by end user, reduced	The number of items imported was doubled	Imports from countries with whom Korea had favorable B of P were given preference. The number of items automatically approved up to 3,000
Pakistan	The list of automatically imported goods doubled to include 62 items. 11 items placed on open gen. license Export of cotton garments to U.K. subject to license	None	None	Restrictions on trade with India established. A defense surcharge of 25% levied on all imports.	Items of free list doubled, 31 to 66. Number industries allowed to apply for import license, 128-258. 64 import of metal from US liberalized between raw materials &	Govern. control over import iron & steel. 1965 finished goods Import chemicals put on free list Tariff structure revised to account for difference

	1961	1962	1963	1964	1965	1966
Indonesia	Import taxes on certain goods eased	Import Quotas sharply reduced	Effective exchange rates depreciated sharply. State monopolies on number of goods ended; private importers licensed.	New appreciated exchange rate estab. & all exchange taxes that existed, abolished. Govern. would allow importers to bring in any product, but most use own resources. 5% tax imposed on all imports. A levy of 1,350 Rps per $U.S. was imposed on all imports.(?)	Withdrew from fund	A surcharge of 50% introduced for less essential imports
Burma	Licenses were increased to exporters. 27 raw materials could be imported freely from anywhere.	Tires & tubes removed from open general license. petr. products, chemicals placed on open general license.	All foreign firms prohibited making imports. Govern. assumed control over all imports & most exports.	Govern. completed nationalization of export trade.	none	none

(c) Quantitative restrictions on foreign capital.

Only the Philippines has no restrictions on foreign capital inflows or outflows. The Philippines does, however, require that at least sixty percent of the capital invested in extractive industries be of domestic origin. Pakistan allows free inflow of foreign capital. Malaysia allows free inflow of foreign capital into a list of approved industries. Thailand, Ceylon, Korea and Indonesi have no list of approved industries and negotiate terms of entry of foreign capital completely.

Malaysia, Ceylon, Pakistan and Indonesia distinguish between "old" foreign capital and "new" or approved foreign capital. In all these countries except Indonesia repatriation of approved capital is guaranteed, although Ceylon and Pakistan limit repatriation in any one year to prevent disturbance of the balance of payments. Indonesia requires prior approval before any capital can be repatriated.

Malaysia, Ceylon, Pakistan and Indonesia define foreign capital that was in the country before independence as "old" capital. Its repatriation is subject to individual approval in Ceylon, Pakistan, and Indonesia. Malaysia permits free repatriation of "old" capital within the Sterling Area; repatriation outside the Sterling Area requires individual approval.

Thailand and Burma generally allow free repatriation but both reserve the right to limit repatriation of capital in any one year for particularly large transactions. Korea requires prior approval for any repatriation.

There have been relatively few changes in restrictions on foreign capital over the last seven years. The Philippines has undergone the greatest change, moving from a position in 1961 of prohibiting all repatriation, and of severely limiting remittance of dividends, to a position of permitting the unrestricted remittance of both in 1963. Other changes of note in the countries surveyed include the establishment in 1964 of blocked Malayan dollar accounts for firms desiring to remit outside the Sterling Area, a moratorium on all remittances declared by Ceylon in 1964, and the nationalization of all foreign firms in Burma during 1963 and 1964.

4- The pattern of tariff protection

In evaluating tariff protection and in making international comparisons, one needs to take account of two qualifications. One is the uncertainty, varying between countries and the times concerned, as to valuation of imports, and so the rates of duties actually imposed. The evidence summarized below on pervasive error in Asian trade data indicates that this worry is no minor one. The second is that effective protection, not nominal protection, is what is important. Effective protection is measured by the percentage change in value-added, or alternatively in net earnings, of the producer in the protected product. Suppose a 10% duty is levied on imports of a good for which the domestic producer pays out 80% of the former price for his raw materials, so that his value-added is 20% of the former price. When domestic price is raised by 10% (a simple result that does not always hold), value-added rises (from 20 to 30) by 50%.

If net earnings (profits) of the producer were half of value added, or 10% of the previous price, then effective protection defined in relation to net earnings rises (from 10 to 20) by 100%.

If the cost of raw materials rises as a result of the complete schedule of protection, effective protection will be different, and is likely to shift surprisingly, even to negative levels (which means that cost of raw materials rises by more than does price of final product).

"Effective protection" has had high success in theoretical trade discussions in recent years, and has come to be actively used in practical trade negotiations. Its success is justified. It offers a much closer approximation to measuring the influences on production decisions than does the "nominal protection" reported in the tariff code books. But effective protection is difficult to calculate: it requires data on average industry inputs and costs, and sometimes firm costs, that we do not have in Asian countries in adequate reliability and detail.[1] (We have experimented in such a calculation for one of our countries, which we do not reproduce here.) In most countries effective rates are higher, and erratically higher, than nominal rates; and that generalization appears to hold for Southeast Asian countries.

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[1] Bela Balassa does attempt such estimates for four high income countries and the Common Market: Trade Liberalization among Industrial Countries, McGraw-Hill, 1967, pp. 178-184.

The following samples briefly tariff rates for the four countries of region that rely on tariffs relatively most, and on quantitative controls least.

With few exceptions Philippine duties are higher than those of other three countries. Philippine duties also seem more consistently graduated, to tax more heavily products with a high degree of fabrication. The aim is evidently to protect domestic processing and assembling. Effective protection of processing and assembling must be very much greater than the reported nominal protection.

The contrast between the Philippines and the other countries is especially great for such luxury and semi-luxury things as processed foods, perfumes, consumer durables, and such import-substitution candidates as cotton yarn and fabrics, cement and glass products, processed fertilizer, and paper board.

Although lower than those of the Philippines, Thailand's duties are generally high and show little graduation by degree of processing. The pattern reflects a heavy reliance on import duties for revenue purposes rather than the aim of protecting domestic industry or controlling consumption.

Malaysia's duties on non-consumer goods are generally much lower than those of Thailand and the Philippines. Their pattern is closer to that of the Philippines than that of Thailand, indicating the ruling purpose of domestic protection rather than revenue. Duties are 0 to 5% on investment goods, and low for intermediate goods, save some of special interest (lumber, rubber and tires, glass, and textile products) which are relatively highly protected. Consumer goods are subject to a uniform rate of 25% suggesting the implicit purpose of revenue.

Singapore has in general the lowest level of duties. Except for revenue producers such as alcoholic beverages, tobacco, processed foods, cement, and a few consumer durables, all other items are free. Singapore is constrained against raising duties on consumer products because of its over-riding aim of luring a swelling tourist trade through low prices on a wide range of standard consumer goods. When it raises duties, as in the budget speech of December 1968, it does so cautiously and modestly.

In conclusion the tariff structures of these four countries differ widely in their heights, and considerably in the apparent purposes of the levies -- to raise revenue, to check luxury consumption, to protect the balance of payments to stimulate domestic industry; or some combination of the four.

The quantitative and qualitative differences in these tariff schedules, and the different commercial and political purposes that the schedules reflect, are likely to be stubborn obstacles to lowering tariffs in a regional cooperation scheme. Reform mongering is possible, especially if the goals are modest, but it will be difficult.

Table 20 - Tariffs-Major Categories

Consumer Goods	Malaysia	Singapore	Thailand	Philippines
Food products				
Cereal & Preparations	0%	0%	2.20 Ba/kg.	10-30 P/100kg.
Dairy Products	89%	10%	30%	Milk 5 - Butter 70%
Meats and Preparations	0-20%	0%	25 Ba/kg.	15%
Fish & Preparations	0-25%	0%	30%	75%
Sugar	40%	50%	65%	2.5-10 P/kg.
Non-Durables				
Coffee and Tea	10%	0%	25-55%	30-75%
Alcoholic Beverages	100-200%	60-100%	25-100Ba/lit.	100-200%
Tobacco	250%	200%	40%	100% + 8-200P/kg.
Soap	20%	20%	7.50Ba/kg.	40%
Essentials Oils & Perfumes				
Pharmaceuticals	0%	0%	0-80%	0-30%
Footwear	25% or $12	40%	30%	50-100%
Garmets	25%	0%	30-40%	90-110%
Durables				
Refrigerators	20%	20%	60%	120-150%
Air Conditions	20%	0%	60%	100%
Appliance & Handtools	15-20%	0%	30-55%	10-25%
Automobiles	0%	10%	60%	40-160% Assem. 20-30% Unassem.
Bicycles	$14	0%	25%	80%
Radio & T.V.	25%	0-25%	35%	80-100%

Table 20 (continued)

Intermediate Products I	Malaysia	Singapore	Thailand	Philippines
Crude Oil	0	0	0	5%
Crude Material including Wood	0-25%	0	30%	5-10%
Thread and Yarn	15%	0	100Ba-220 Ba/kg.	Cotton 70% Wool 25%
Intermediate Products II				
Fuels & Lubricants	Diesel 3% Gasoline 40%	30-40%	12-80Ba/lit.	8-25%
Chemicals	0	0	30%	10-25%
Rubber Manufacture	50%	50%	30%	Belts 10-100% Foam
Tires	70%	1.40/lb.	15%	30-60%
Cement	10%	20%	150Ba/Met. ton.	60%
Glass	25%	0	50-70%	50-70%
Iron & Steel pig and ingots	0	0	10%	0
Metal Manufacture	0-25%	0	22-1.50 Ba/kg.	10-80%
Paper & Paperboard	15%	0	10%	40-69%
Fabrics	25%	0	25-30%	50-100%
Investment goods & agriculture imports				
Railroad	0	0	5%	10%
Trucks	0	0	20%	15-20%
Electric Equipment, motors and generators	0-5%	0-5%	15%	10-20%
Other	0-5%	0-5%	80%	10-20%
Machinery	0	0	15-25%	10-30%
Fertilizer	7%	0	0	Guano 0 Potassic 20%
Tractors	0	0	5%	10%

Table 21: Sample Commodities Duties

(Ad Valorem or Specifics Equivalent)

Code	Product	Malaysia	Singapore	Thailand	Philippines
0	Food and live animals				
00	Live animals	0	0	25Ba/kg.	0
01	Meat & Meat Preparations	0-20% 0	0	25Ba/kg.	15%
02	Dairy Products	8%	10%	30%	Milk Butter 5 - 70%
03	Fish & Fish Preparations	in cans 0; 25%	0	30%	75%
	Rice	0	0	2.20Ba/kg.	10-20P/100kg.
	Maise	0	0	2.20Ba/kg.	1.5P/100kg.
	Flour	0	0	2.20Ba/kg.	20-30P/100kg.
05	Fruits & Vegetables	60-100% 45% Preference	0	50%	15-40P/100kg.
06	Sugar Preparations	40%	50%	65%	raw refined 2.5 - 10P/kg.
07	Coffee, Tea	10%	0	Coffee Tea 25% 55%	Coffee Tea 30-40% 75%
11	Beverages				
	Beer	100%	100%	16.50Ba/lit.	75%
	Spirits	200% and up	60%	24-100Ba/lit.	100-200%
12	Tobacco	250%	200%	40% or 25-55/kg.	100%+8-20P/kg.
2	Crude Materials, inedible	0-25%	0	30%	5-10%

Table 21 (continued)

Code	Product	Malaysia	Singapore	Thailand	Philippines
3	Mineral Fuel & Lubricants				
33	Petroleum & Products				
	Gasoline	40%	$1.30 gal. or 40%	.80Ba/lit.	25%
	Kerosene	2%	30%	.33Ba/lit.	8%
	Diesel	3%	30%	.12Ba/lit.	8%
	Residential Fuels	30%	30%	.25Ba/lit.	15%
	Crude Oil	0	0	0	5%
	Lubricating Oil	$1/gal.	$1/gal.	.66Ba/lit.	10%
4	Animal & Vegetable Oils	0	0	4.40Ba/kg. or 25%	5P/kg.
5	Chemicals				
	Sulphuric Acid	0	0	30%	25%
	Nitric Acid	0	0	30%	10%
	Sodium Hydroxide	0	0	30%	10P/kg.
	Pharmaceuticals	0	0	0-80%	0-30%
	Soap	20%	20%	7.50Ba/kg.	40%
	Paints	20%	25%	30%	15%
	Essential Oils	50%	0	50%	50%
	Perfumes	50%	0	80%	200%

Table 21 (continued)

Code	Product	Malaysia	Singapore	Thailand	Philippines
6	Manufactured goods				
61	Leather goods	25% or rubber sole	40% or $12 rubber sole	30%	50-100%
85	Rubber Manufacture	50%	50%	30%	Belts Foam 10 - 100%
	Tires	70%	1.40/lb.	33-132 Ba. or 15% ea.	30%-65%
65	Textile Products				
	Yarn cotton	15%	0	grey bleached 100-220 Ba/kg.	70%
	Fabrics cotton	25% or 10 cts.	0	25-30%	50-100%
	Silk, Hemp, Man Made Textile Products	0-25%	0	30-40%	Yarn Fabric 25 - 75%
84	Garments	25%	0	30-40%	90-110%
66	Non Metallic Mineral Manufacture				
	Cement	10%	20%	150Ba/met.ton.	60%
	Glassware	25%	0	50-70%	50-70%
67	Iron and Steel				
	Ingots or Pig	0	0	10%	0
	Rods, Plates, Shapes	0	0	10-30%	10-30%
68	Non Ferrous Metals	0-30%	0	30%	0-20%
69	Manufactures of Metals	0-25%	0	22-1.50Ba/kg.	10-80% most 20%
70	Machinery	0	0	15-25%	10-30%
	Refrigerators	20%	20%	60%	120-150%
	Air conditioners	20%	0	60%	100%

Table 21 (continued)

Code	Product	Malaysia	Singapore	Thailand	Philippines
72	Electrical Equipment				
	Motors & generators	0-5%	0-5%	15%	10-20%
	Other Elect. equipment	0-5%	0-5%	30%	10-20%
	Bulbs	0	0-20¢ ea.	30%	10%
	Batteries & Cells	25-30%	5¢ ea.	30%	20%
	Radio & Television	25%	Radio 0 T.V. 25%	35%	80-100%
	Appliances & Tools	15%-20%	0	30-55%	10-25%
73	Transport Equipment				
	Rail	0	0	5%	10%
	Tractors	0	0	5%	10%
	Buses	0	0	20%	15-20%
	Trucks	0	0	20%	15-20%
	Automobiles	0	10%	60%	40-160% Assem. 20-30% Unassem.
	Bicycles	$14 ($11 prefer)	0	25%	80%
	Fertilizer	7%	0	0	Guano 0 Potassic 20%

Source: Recent Tariff Codes of the four countries.

e- Customs Revenue Loss in a Southeast Asian Customs Union

One of the economic deterrents to governments considering the formation of a customs union among LDC's is the possible loss of customs revenue. It is often casually assumed that since governments normally place great reliance on import duties as a source of revenue, a customs union would substantially reduce national revenues.[1] The purpose of this note is to examine briefly the significance of the problem as a deterrent to a Southeast Asian customs union.

The national governments in Southeast Asia have been obtaining 13% to 30% of their total revenues from import duties (Table 22). By means of a simplified model we will attempt to indicate how much of this would have to be given up, presumably be replaced from some other revenue source, if a customs union were

Table 22 - Import Duties as a Percent of Total National Government Revenues, Selected Southeast Asian Countries, 1963-65.

Country	1963	1964	1965*
Ceylon	27.2%	29.7%	30.2%
India	13.3	14.9	15.7
Federation of Malaya	29.7	N.A.	N.A.
Pakistan	25.6	16.0	18.3
Philippines	21.9	22.6	23.6
Taiwan	17.2	17.5	19.0
Thailand	31.8	29.9	22.6

Source: Statistical Office of the U.N., Statistical Yearbook, 1965 for all, except Taiwan from Monthly Statistics of the Republic of China, Taipei, December, 1966.

Note: * 1965 figures represent latest available estimates.

[1] Some governments also obtain substantial revenues from export duties; however, on the assumption that these apply mainly to goods sold outside the region, we are ignoring them.

formed. We will then present a case study: an estimate of the consequences for the Federation of Malaya of a free trade area with the Philippines and Thailand.

(1) The Model

Consider a typical country with the following pattern of import duties:

(a) Competitive and luxury imports subject to extremely high duties:

(1) For most, the rates are prohibitive and hence not revenue-producing.

(2) A few luxuries, however, continue to enter. There is some revenue.

(b) Non-competitive imports:

(1) Near-zero duties are on imports required as inputs for domestic production, and thus negligible revenue generated.

(2) Moderate to high duties are on non-competitive imports for final consumption, providing almost the entire import duty revenue.

Descriptions of such a pattern can be found in a variety of sources. The Overseas Business Reports of the U.S. Department of Commerce,[1] contain frequent references to such tariff structures. In Taiwan, for example, the duties under 20 percent apply to books, raw materials, certain machinery, and fuels; those between 20% and 40% to products essential to education and health; those between 40% and 80% to most manufactured articles; and those above 80% to luxuries and certain textiles."[2] This structure of tariffs, combined with an import licensing system that grants licenses liberally for raw materials, capital equipment, and essential consumer goods, but sharply limits imports of luxuries and of goods produced domestically,[3] is the frequent and near-typical pattern.

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[1] U.S. Department of Commerce, Overseas Business Reports (Washington D.C.), irregular.

[2] O.B.R. 64-89, "Foreign Trade Regulations of Taiwan." September 1964, p. 1.

[3] Ibid., p. 6.

Similarly, the Thai customs tariff is being used increasingly "to protect new industries... Luxury items are dutiable at higher rates; imports of manufactures which are not produced locally are dutiable at lower rates; and essential materials are often duty free."[1]

"The Malayan import tariff automatically provides many Malayan industries with a measure of protection against competing imports. In addition, a Tariff Advisory Committee has been set up by the Malayan Government to consider applications of manufacturers... for tariff protection; the reduction of import duties on raw materials;... or any application for other assistance or concessions involving tariff policy."[2]

Finally, the ECAFE study of import substitution notes the same pattern: "A brief examination of the tariff rates shows that there are two broad categories of tariffs which may relate to two basic aims of tariff policy. One aim is to influence the pattern of domestic consumption by levying high duties on luxuries and semi-luxuries... The other aim is to protect domestic industries.. Essential goods.. would normally be expected to carry a low tariff...(but) the higher rates of import duty are obviously imposed for protection. Thus there seems to be a blending of these two basic aims of tariff policy...higher duties on non-essentials and essentials produced adequately, or likely to be produced adequately at home...lower duties on essentials which cannot be met by domestic production at present or in the very near future."[3]

A customs union would alter the typical picture just described by eliminating duties on intra-union trade, but would probably retain approximately the existing pattern of external duties. Customs revenue would thus continue to accrue to our typical national government from luxury imports and from non-competitive imports for final consumption coming from outside the union, but not from within the union. The crucial question then is: what proportion of

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[1] O.B.R., 66-52, "Market Factors in Thailand," July 1966, p.1.

[2] O.B.R., 65-18, "Foreign Trade Regulations of Malaya," March 1965, p. 2.

[3] ECAFE, Economic Survey of Asia and the Far East, 1963. pp. 46-47.

the value of existing imports in these two categories would be purchased from within the union? The answer depends, in part, on whether one is speaking of the short-run, with the existing industrial structures constant, or of the long-run, with time allowed for the establishment of new industries.

In the short-run the high degree of similarity in the productive structures and outputs of the economies of the region suggests the following impact on the revenue-producing imports of a typical country:

(a) luxury imports would be obtained from outside the union, and thus continue to provide the same revenue.

(b) A small proportion, say, (the probably excessive proportion of) 10% or 15% of the value of existing non-competitive consumption imports would be available from within the union. Altogether, then, let us assume that in the short-run union would place 10% of current revenue-producing imports in the duty-free category.

The revenue loss in the short-run would be the tariff rate times the value of those imports that will come duty-free from within the union but now pay duty. Assuming a tariff rate of 50% on affected imports,[1] then 50% of 10%; that is 5% of current national import tariff revenues would be lost by a customs union. This, in turn, amounts to a normal maximum of 1.5% of total government revenue. The preceeding (alternative) and similar calculations are presented in tabular form in Table 23.

In the long-run, union should accelerate the broadening of import substitution with the tariff wall to include more and more of currently non-competitive consumption imports from outside the region. This would mean a further reduction of revenue-producing imports for our typical country. Although it is difficult to determine exactly how much of such structural changes would be attributable to union, let us make the extreme assumption that in total, 50% of current revenue-producing imports are either eliminated or are obtained

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[1]The assumption of a 50% rate on non-competitive consumption imports is probably an overstatement. Even import substitution items on the average are subject to nominal rates lower than 50%.

Table 23: Hypothetical Calculations of Revenue Losses

Alternative	Import duties as a % of national revenue	Percent of non-competitive imports available within union	Non-competitive imports as % of revenue-producing imports.	Percent of revenue-producing imports to be admitted duty-free	Tariff Rate on revenue-producing imports to be admitted duty free	Percent of current tariff revenue to be lost by union	Percent of total current national revenues to be lost by union
	(1)	(2)	(3)	(2)x(3)=(4)	(5)	(4)x(5)=(6)	(1)x(6)=(7)
A	25%	12.5%	80%	10%	50%	5%	1.25%
B	25%	12.5%	80%	10%	100%	10%	2.50%
C	25%	12.5%	80%	10%	25%	2.5%	0.625%
D	20%	12.5%	80%	10%	50%	5%	1.0%
E	30%	12.5%	80%	10%	50%	5%	1.5%

from within the union. Thus, again assuming a tariff rate of 50% and that import duties account for 25% of government revenues, the government would have to adjust to a loss of (50% times 50%), 25% of current import tariff revenues, or a maximum of 7.5% of government revenues (tariff revenues assumed 30% of total revenues). Alternative calculations can be made in the manner of Table 14 above for other long-run assumptions.

(2) Example

To illustrate the foregoing analysis, consider the impact on the revenues of the Federation of Malaysia of a hypothetical free trade arrangement with the Philippines and Thailand.

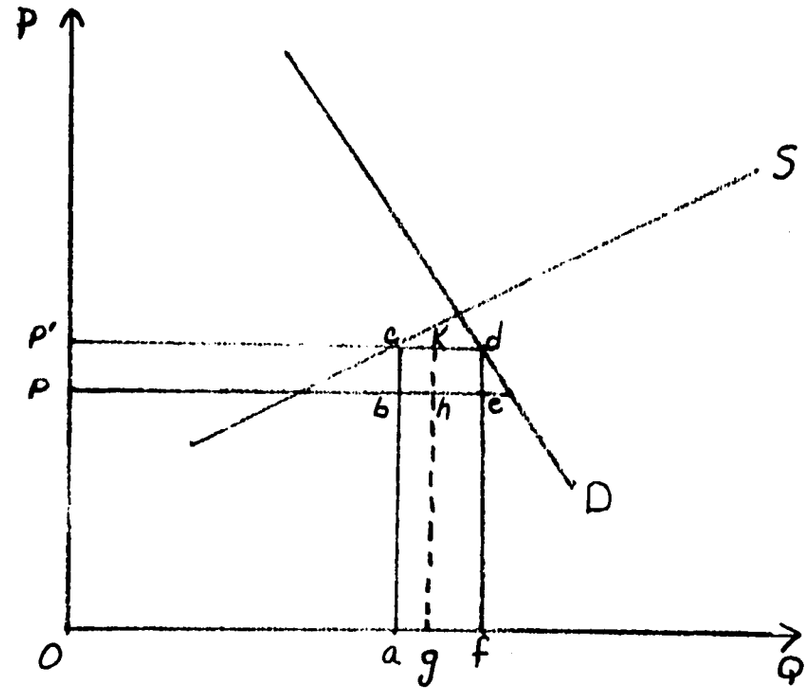
The Federation of Malaysia is highly dependent on import duties for revenue, and would be hard-pressed to replace them completely in a short period. (See Table 24). However, we will show that the effect on revenues of the assumed free trade arrangement is very small.

Table 24: Federation of Malaysia Revenues of Federal and State Governments (millions of Malay dollars)

	1961	1962	1963	1961-63
Taxes on income and wealth	239.6	235.1	196.4	223.7
Export duties	192.0	178.4	152.4	174.3
Import duties	357.9	359.2	334.1	350.4
Other direct taxes	117.8	120.2	158.4	132.1
Other receipts	265.4	275.5	281.9	274.3
Total	1,172.7	1,168.4	1,123.2	1,154.8

Source: U.N. National Accounts Yearbook, 1963, New York, 1964. Estimates for for 1962 and 1963.

The minimum loss to the Malaysian government would be the duty collected on imports from the partner countries. Thus, in the figure below, if the foreign supply price is Op and the duty rate is pp', then the total revenue is measured by the rectangle pedp'. If the partner countries supply the quantity a g, then the revenue collected on imports from the partner countries amounts to b h k c. We calculate this value by applying the scheduled Malaysian tariff[1] to each commodity imported[2] in 1963 from the two assumed partner countries, the Philippines and Thailand. The results are given in Table 25.[3]



[1]The Malayan tariff schedule is contained in Malaysia, Trade Classification and Customs Tariff (Kuala Lumpur, 1964).

[2]Import data were taken from Department of Statistics, States of Malaya, Annual Statistics of External Trade, 1963, Vol. I, Imports.

[3]These results are in summary form. The Malaysian tariff schedule is at the six-digit level of detail, and the calculations therefore were carried out at the six-digit level. In this, and the subsequent calulation any item generating less than M$100 duty was omitted.

Table 25: Malaysian Revenue Collected on Imports from Two Partner Countries, 1963.

SITC Section	Duty (in thousand M$)
0	1,576.5
1	2,581.9
2	984.0
3	4.6
4	1.7
5	3.6
6	124.0
7	0.0
8	237.3
Total	5,543.9

Note: Items do not add exactly to total because of rounding

The total duty collected on imports from the two partners amounts to only 1.58% of the duty collected on imports from all sources in 1963.

Free trade, however, will cause a shift of Malaysian imports away from traditional sources and towards the partners. The crucial question is, how much of the quantity of a f on page 95 would the partners supply in the short-run? As a hypothetical extreme we assumed that for each good the partner countries would replace other suppliers in the Malaysian market up the amount of their (the partner countries') total exports of that good.[1] This procedure assumes that exports of the partner countries are perfect substitutes for the Malaysian imports within each SITC six-digit grouping. Further, we assume that there would be no substitution between SITC six-digit groupings, and hence no loss of revenue on other imports. The revenue loss calculated on this basis is summarized in Table 26 .[2]

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[1]Only those goods currently imported from the partner countries are considered, on the ground that the partner countries' products are not substitutes for the goods of other suppliers if they do not sell currently in the Malayan market. These calculations were also carried out at the six-digit level, using the Philippine export statistics for 1963 (Bureau of Census and Statistics, Foreign Trade Statistics of the Philippines, 1963, Manila.) Thai export statistics were for 1964 (Thailand, Department of Customs, Foreign Trade of Thailand, 1964, Vol. II, Exports and Re-exports.) These figures were used because 1963 was not available to us. There were a few difficulties encountered in matching items, but such cases all involved small amounts of trade, and therefore any inaccuracies arising from this source should have little effect on the result.

[2]No attempt was made to separate out Commonwealth and non-Commonwealth imports that would be eliminated. Consequently the full rate was applied. This assumption yields an upward bias in the calculated duty loss.

Table 26: Potential Revenue Loss

SITC Section	Loss. Th. M$
0	7,862.6
1	111,164.9
2	1,191.6
3	4.6
4	20.9
5	133.2
6	1,658.2
7	0.0
8	918.9
Total	122,955.0
Total except 1	11, 790.1

The total potential revenue loss amounts to 35.03% of Malayan customs revenue in 1963. However, this is concentrated in Section 1, beverages and tobacco. If one omits the duty loss on Section 1, which could readily be recouped by imposing equivalent excise taxes, the total revenue loss is only 3.36% of Malayan import duty revenue in 1963,[1] or approximately 1% of total Malayan government revenue.

Finally, we should add that duties collected on exports to the two hypothetical partner countries in 1963 was 0.105%, and of tin, 0.301%[2] of total customs revenue.

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[1]Further, Section 0 includes an assumed Philippine switch of exports of refined sugar from the U.S. to Malaya, which is unlikely in view of the high US price paid. If this is omitted, along with all of Section 1, the revenue loss amounts to 1.74% of import duty revenue in 1963.

[2]The variable levy export duty made it impossible for us to calculate the revenue collected on rubber and tin. The ad valorem duties on other exports to the partners yielded revenues of less than M$10,000.

The conclusion is clear. Both from general reasoning and from the case example, we conclude that government revenue of a typical Southeast Asian country entering a regional customs union would be reduced very little in the short-run. Long-run structural changes would cause greater loss; but since intra-union tariff reductions would occur over a period of a few years, adjustment to the loss of revenues should not prove a major impediment to union.

f- Protectionism and the growth of productive efficiency.

Let us summarize and extend the above, and develop policy implications. Trade barriers, within the region and internationally, are a major qualification on the possibilities of achieving comparative advantage growth, and of expanding in the fields where feed-back effects toward still higher efficiency are most promising. They are higher than they seem: modest rates on the customs books (above, Section D4), say 10% or 40$, can in fact mean 80% or 200% change in the returns left to the producer when his local business costs are paid, and even more change in his net profits.

Modest quotas, also, can be surprisingly protective to final processors.

In addition, protective effects are erratic. A modest duty on final output can be transformed, when tariffs on inputs into the production process are counted, into a heavy net tax rather than the subsidy innocently intended by lawmakers. High and erratic protection means that the distortion to world patterns of specialization and the injury to regional and world efficiency are much greater than have been traditionally thought.

Protection in DC's and LDC's alike is relatively high on manufactures, and specially high on more complex manufactures. Hence less developed countries are especially handicapped in trying to expand sales abroad of manufactures, which they judge have feedback and dynamic advantages to them in training of skills, improvement of organization, and capital formation.

These feedback and dynamic effects justify much attention. They are the mainly important potentialities from a regional preference or freer-trade arrangement.

In such an arrangement, export markets will expand for the products of the most efficient regional countries. Domestic markets for their products are small, often very small. As the size of the market and the volume of production expand, average costs in many industries can fall sharply through a considerable range: handicraft and small-scale production is outcompeted by mechanization, use of power equipment, specialization in subprocesses, and assembly line fabrication. Expansion of the market develops other economies, feedback effects in their broadest sense: skills and entrepreneuring abilities in one industry that are useful also in others; better communications (a road or railroad developed for one business can be used by others); simplifications and standarization encouraged through producing for a large market; emergence of new industries out of the specialization encouraged by producing for a large market and from more contacts; and growth of a sense of momentum and confidence in economic possibilities.

Industries differ in their extent of feedbacks toward higher efficiency. It is sensible, in any regional or broader scheme for increased trade, to stimulate those that have the most.

The trend of world trade, since 1900 and more recently, reinforces the urgency of the argument that LDC's should aim diligently to up-grade their skills, organization, and technology, and do so as rapidly as they can. In world trade as a whole, commodities with low skill-and-capital requirements have been making up a falling proportion, and those with high skill-and-capital requirements a rapidly rising proportion. The value of food and raw materials has been rising recently at less than one-fifth the rate of growth of manufactures. Exports of LDC's to high income countries show this same pattern: foodstuffs and agricultural raw materials exports have been rising recently at the rates of 2.0% and 1.4% a year, respectively. In contrast, manufactures and base metals have been growing recently (1960 to 1964) at the surprising rate of 14% a year, faster even than petroleum exports. Among manufactures, the highest growth rates among exports have been for "machinery and equipment," followed by "other manufactures," "textiles," and "chemicals."

Low income countries have been gaining new markets within the manufactures class, in "...the less complex types of producers goods and machine parts, such as electric generators, diesel engines, locomotives, steel frames

for furniture, and the like."[1] These have a high labor content, and require less elaborate marketing than consumer goods, especially consumer durables.

Tariffs and other restrictionist measures within the region have therefor three reinforcing injurious aspects: (1) they are much more distorting to the efficient static flow of resource use than the nominal rates imply, since it is the effective (not the nominal) rates that count. (2) They bear most heavily on manufactures, and the more technical manufactures, in which feedback effects toward higher productivity are often most promising. (3) They limit trade in that segment of international commerce, the higher skill-and-capital requirement group, which are often manufactures, in which market opportunities have been growing specially fast.

In addition (4) lowered trade barriers within the region and ganerally, have a special advantage to the smaller LDC's for a reason not often highlighted. LDC economies are typically thin, subject to sporadic scarcities and surpluses of particular products due to crop failure or abundance, to transport breakdown, to industrial difficulties or successes where suppliers are few, and to failures of central planning. There is, therefore, especially large gain to their economic life from opening up freer trade channels for supplies and markets; and for this reason they ought to be devout supporters of freer trade.

On the other hand, because most low-income countries are heavily dependent on government revenues for customs receipts, they are inclined to move cautiously--probably excessively cautiously (see the analysis above)--in lowering customs levies, even though lower rates need not mean lower receipts.[2]

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[1]United Nations: World Economic Survey, 1962, vol. I, pp. 14, 65. T. Morgan, "Economic Relationships among Nations: the Pattern of Commodity Trade," ch. 5 in B. Hoselitz, ed., Economics and the Idea of Mankind, pp. 156, 174.

[2]The subject matter of this section is discussed more in detail in the research paper of the Project entitled "Preferences Revisited."

g- The variety of economic and non-economic cooperation.

This section has been centered on the possibilities of regional trade-increasing cooperation, with its implications for increased economic efficiency. This is the usual focus of studies of regional cooperation. But there are in addition many other kinds of economic cooperation, and many kinds of cooperation that are not primarily economic.

These will be referred to in various contexts in the later sections. We list below four groups to suggest their range and variety. Among them are:

--informal and formal consultations on economic and other matters;

--agreements to undertake cooperative administrative action on economic and other problems of joint concern (e.g., health measures);

--agreement among two or more countries to commit resources for joint purposes (e.g., river valley development, cooperative deep sea fishing);

--arrangements with international organizations and with countries outside the region to undertake notions of regional benefit (ECAFE and Asian Development Bank activities, the Colombo Plan).

Regional advantage as distinct from advantage to one country can come through (a) measures that, benefitting one country, can have their advantages spread to other countries without added cost (e.g. research and health measures); (b) projects where there are economies of scale of substantial amount (e.g., a regional market can enable output to rise to a level where average costs are substantially lower); (c) projects and activities that in addition to their direct effects can stimulate and catalyze across national boundaries—broaden people's horizons, encourage them with evidence of possibilities, extend their perspectives, raise their usable skills.

Potential gains are large. The evaluation of their realized amount turns on the kinds of projects undertaken, the conditions under which they are carried out, and the energy and perception applied to them.

The acceptance or rejection of any one project proposal rests on the outcome of a specific cost-benefit analysis. Priority goes to those projects that rank highest in such analyses, up to the limit of the resources available--which is itself a variable depending on the estimated productivity of the resources at the margin.

One general presumption gives a useful rule-of-thumb for policy decisions. Projects that expand production and/or productivity have an obvious presumption in their favor. Conversely, projects that seek high money returns through checking production and/or productivity are suspect. The latter of course deny the basic nature of economic progress, which consists of increasing production or real income. The latter are likely also to involve specially burdensome administrative problems--and administrative efficiency is a major LDC bottleneck. Finally, their intent is apt to be frustrated by the obvious, the subtle, and the manifold inroads of competition, both from the same product and from substitutes, both in the short run and the long run.

II - Foreign Exchange Constraints and Regional Cooperation in Southeast Asia

One of the most vivid and persistent contraints on economic development is that of scarcity of foreign exchange. The Minister of Finance and the Chairman of the Development Board must, in the typical LDC, ask themselves whenever any attractive growth project is proposed, "Do we have or can we obtain enough foreign exchange to meet its external costs."

In one sense the concern is no more than the inevitable "not enough money" image of the resource scarcity permanently faced by any group and any individual. In another sense, if the LDC economy is composed of private maximizing units and of government bodies that behave as if they were, it reflects disequilibrium exchange rates: the exchange rate overvalues domestic currency. But the survival power of disequilibrium exchange rates is very great: they are chronically with us.[1]

A - A Regional payments union?

Hence proposals for that form of regional cooperation called a regional payments union continuously invite attention. The basic idea is that among the national members of the union, a large part of their payments falling due can be offset and cancelled against claims in the opposite direction. Hence an advantage: (1) foreign exchange will be economized, and there will be a larger value of trade made possible both within the union, and between the union members and the outside world. A larger volume of trade means that specialization along the lines of comparative advantage can be carried further, with its direct (static) and indirect (static and dynamic) advantages to the rate of growth.

A payments union can operate in one of several ways. Simply lengthening the period over which international payments are made will conserve foreign exchange: ordinarily importers must pay their debts in foreign money on demand or within a limited specified period. Instead, member countries can designate central authorities to keep accounts in which importers pay and exporters receive domestic money, and in which foreign transactions are offset and the

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[1] See the reasoning of C.P. Kindleberger: Liberal Policies vs. Controls in the Foreign Trade of Developing Countries A.I.D. Discussion Paper #14, April 1967.

net foreign balance settled at the end of some agreed-on-period -- a week or month, for example. The national clearing houses are an easy variation on the exchange control offices with which most LDC's are familiar. The latter are already in fact extending credit across national boundaries as part of their functioning. They grow to extend credit explicitly if member countries agree to give each other "swing credits" for, say, three or more months. Such swing credits function most effectively if changes in bilateral balances tend to average out over the settlement period.

If a regional clearing office is set up, the bookkeeping can be done more efficiently. A regional clearing house can, by joint agreement grow into a central authority with specified powers, among which may be the establishment of common unit of account for settling balances. Such accounting units permit still greater foreign exchange economizing: the credits of a persistent creditor can be used to finance negative balances of a persistent debtor country -- up to agreed-on amounts and time periods.

Two additional advantages are sometimes claimed for a payments union among LDC's. (2) Through regional cooperation it may be possible to avoid some of the ordinary financial charges on international transactions. Proponents of financial cooperation for Central American have made such of the savings that would result from by-passing New York as a financial center.[1] In the past, for example, payment for an export from Guatemala to Nicaragua had to pass through New York banks and thus was subject to a maximum of two financial charges: one when the importer's cordobas were converted into dollars for payment and again when the exporter took payment in quetzales. The same kind of economy -- not large, but something -- would be obtained in Asia through a regional payments union, to the extent obligations can be settled directly in rupiah or baht or pesos, rather than indirectly into pounds or dollars and out again.[2]

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[1] John Parke Young, Central American Monetary Union, United States Department of State. Agency for International Development, RCCAP, 1965.

[2] This economy is advocated cautiously by Robert Triffin in a interesting symposium with disbelievers in an Asian Payments Union: "Japan and the Development of Asia," The Oriental Economist, Nov. 1968, pp. 26-38.

(3) A third claimed advantage stems from the fact[1] that currencies of LDCs are usually overvalued and often inconvertible. By clearing through the union, member countries avoid paying the premia in local currency that would otherwise be required to obtain hard currencies needed to finance intra-regional trade. Some further saving in charges may therefore result.

(4) Finally, there are the advantages of more home rule. Decisions on credits and other payment terms are made less in London or New York, and to a greater extent within the region. Nationalist sentiments are favored, and governments grow more into the habit of considering regional interest and of cooperating with their neighbors in the joint interest. This advantage may be the most important of all those claimed.

One of two conditions must be met in order for a payments union to be successful. The totals of existing and incremental intra-regional trade may or may not be fairly evenly offset among countries. If persistent creditors and debtors become conspicuous, the union is threatened with breakdown. But it can still survive if the persistent creditors are willing to lend at long term to cover the deficits of the persistent debtors within the region. We illustrate with concrete examples.

The most conspicuous payments union of the post-war period is the European Payments Union (EPU), in operation from 1950 to 1958. The EPU structure provided for a se tlement period of one month with swing credits allowed over a longer period. European trade and financial flows tended to be unbalanced, but the EPU was able to function effectively because the nations that became persistent creditors (especially Germany) were willing ultimately to convert the short term balances of the persistent debtors (Greece and Italy) into long term loans.

The EPU operated under unique historical circumstances: the economies and trade network of Europe had been disrupted by World War II and were afflicted in the early 1950's by what was called, partly misleadingly, "the dollar shortage." Thus the EPU helped provide liquidity and time for the European Countries to rebuild already proven industrial structures and reconstruct old patterns of intra-regional trade. With the successful recovery of Europe, the basically discriminatory payments arrangements could be abandoned. A return to convertibility was possible by 1958.

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[1] Jaroslav Vanek, "Payments Unions Among the Less Developed Countries and Their Economic Integration, "Journal of Common Market Studies."(Dec. 1966).

In partial contrast with EPU: the Central American experiment began as a clearing-house with minimal credit provisions, progressed through a stage of bilateral credit arrangements, and has evolved to a stage where liabilities and claims within the Union are stated in a common unit of account--the Central American peso. The success of the organization owes much to strong support by the authorities of the countries involved. In addition, the initially balanced trade pattern of Central American and especially the balanced growth of regional trade must also have contributed. And the balanced growth of trade has to be attributed to factors and policies other than the payments union itself. (e.g. to the program of "integration industries.")

The situation in Southeast Asia is different from those just described in important respects.

We have examined the possibilities for a payments union among six countries of Southeast Asia proper: Burma, Cambodia, Indonesia, Malaysia-Singapore, the Philippines and Thailand. The calculation is necessarily based only on reported trade and is therefore subject to uncertainties surrounding trade data (see below Section III). But the data indicate that the benefits from creation of a payment union among these six, while positive, would be small.

The main reason for this conclusion is shown in Table 27, which lists bilateral trade balances among the six countries on the right, with imports of the country (-) subtracted from exports (+). The bilateral negative balances are subtracted from the bilateral positive balances to give the "net position"; "gross claims" have no such subtraction. Both totals are given with, and without, Burma and Cambodia, which are special cases.

The pattern of trade, so measured, has remained very stable; and it is clearly unbalanced. Simple debt pooling would promptly lead to the appearance of heavy creditors and heavy debtors, both between pairs of trading countries, and between a given country and the region as a whole. There is little reason to expect the regional creditor nations (Thailand, Indonesia, and Cambodia, who are caught up in their own development problems, to be willing to advance long term credits to the persistent regional debtors (the Philippines and Malaysia-Singapore).

But because--as we shall see--this debtor-creditor problem can be overcome in various other ways, we should inquire as to whether or not at least savings in foreign exchange would be possible. Quarterly trade balances

Table 27

INTRAREGIONAL BILATERAL BALANCES OF TRADE 1958-1965

(recorded exports in millions of U.S. dollars)

Trade of/with	Burma	Cambodia	Indonesia	Malaysia	Philippines	Thailand	Net Position	Net Position without Burma & Cambodia	Gross Claims	Claims without Burma & Cambodia
Burma										
1965	x	- - -	+ 6.9	+ 7.6	+31.0	-1.7	+ 43.8		+ 45.5	
1964	x	- - -	+31.6	+ 9.4	+ 9.1	-0.1	+ 50.0		+ 50.1	
1963	x	- - -	+31.2	+16.9	+12.6	-0.5	+ 60.2		+ 60.2	
1962	x	- - -	+31.0	+14.6	- 0.1	-1.3	+ 44.2		+ 45.6	
1961	x	- - -	+30.6	+15.2	+ 0.4	-1.2	+ 45.0		+ 46.2	
1960	x	- - -	+41.1	+ 7.6	- - -	-0.3	+ 48.4		+ 48.7	
1959	x	- - -	+35.2	+ 7.1	- - -	+0.6	+ 42.9		+ 43.5	
1958	x	- - -	+24.9	+16.1	+ 3.2	-0.8	+ 43.4		+ 44.7	
TOTAL							+377.9		+384.5	
Cambodia										
1965	- - -	x	- 3.2	+12.4	+ 5.7	- - -	+ 14.9		+ 18.1	
1964	- - -	x	- 2.1	+10.7	+ 0.8	- - -	+ 9.5		+ 11.5	
1963	- - -	x	- 5.8	+ 9.3	- - -	- - -	+ 3.5		+ 9.3	
1962	- - -	x	+ 0.1	- 2.2	- - -	- - -	- 2.1		+ 0.1	
1961	- - -	x	- 0.2	- 0.8	- - -	- - -	- 1.0		- - -	
1960	- - -	x	+ 0.5	+ 6.4	- - -	- - -	+ 6.9		+ 6.9	
1959	- - -	x	- - -	+ 4.3	- - -	- - -	+ 3.4		+ 3.4	
1958	- - -	x	- - -	+ 7.2	- - -	- - -	+ 7.2		+ 7.2	
TOTAL							+ 42.3		+ 56.5	
Indonesia										
1965	- 6.9	+ 3.2	x	- - -	+ 17.3	+ 2.9	+ 16.5	+ 20.2	+ 23.4	+ 20.2
1964	-31.6	+ 2.1	x	- - -	+ 21.3	-28.5	- 36.7	- 7.2	+ 23.4	+ 21.3
1963	-31.2	+ 5.8	x	- 16.2	+ 18.9	- 3.4	- 26.1	- 0.7	+ 24.7	+ 18.9

Table 27 (cont.)

INTRAREGIONAL BILATERAL BALANCES OF TRADE 1958-65

(recorded exports in millions of U.S. dollars)

Trade of/with	Burma	Cambodia	Indonesia	Malaysia	Philippines	Thailand	Net Position	Net Position Without Burma & Cambodia	Gross Claims	Gross Claims Without Burma & Cambodia
Indonesia										
1962	-31.0	- 0.1	x	- 41.4	+ 23.9	+ 5.3	- 43.3	- 12.2	+ 29.2	+ 29.2
1961	-30.6	+ 0.2	x	+134.8	+ 19.2	-11.2	+147.3	+177.7	+189.1	+188.9
1960	-41.1	- 0.5	x	+200.1	+ 19.1	- 9.0	+168.6	+210.2	+219.2	+219.2
1959	-35.2	- - -	x	+177.7	+ 18.4	+ 0.8	+161.7	+196.9	+196.9	+196.9
1958	-24.9	- - -	x	+ 95.4	+ 29.0	- 7.6	+ 91.9	+116.8	+124.4	+124.4
TOTAL							+484.9	+726.1	+830.3	+819.0

Table 27 (cont.)
INTRAREGIONAL BILATERAL BALANCES OF TRADE 1958-1965
(recorded exports in millions of U.S. dollars)

Trade of/ with	Burma	Cambodia	Indonesia	Malaysia	Philippines	Thailand	Net Position	Net Position without Burma & Cambodia	Gross Claims	Gross Claims without Burma & Cambodia
Subject Countries										
Malaysia										
1965	- 7.6	-12.4	- - -	x	+ 11.3	-116.3	-125.5	-105.5	+ 11.3	+ 11.3
1964	- 9.4	-10.7	- - -	x	+ 7.9	-111.9	-124.1	-104.0	+ 7.9	+ 7.9
1963	-16.9	- 9.3	+ 16.2	x	+ 11.4	-102.9	-105.5	- 75.3	+ 27.6	+ 27.6
1962	-14.6	+ 2.2	+ 41.4	x	+ 8.6	-105.1	- 67.5	- 55.1	+ 52.2	+ 50.2
1961	-15.2	+ 0.8	-134.8	x	+ 6.8	- 74.7	-217.1	-202.7	+ 7.6	+ 6.8
1960	- 7.6	- 6.4	-200.1	x	+ 19.3	- 60.6	-255.4	-241.3	+ 19.3	+ 19.3
1959	- 7.1	- 3.4	-177.7	x	+ 18.9	- 67.9	-237.2	-226.7	+ 18.9	+ 18.9
1958	-16.1	- 7.2	- 95.4	x	+ 17.4	- 55.3	-156.6	-133.3	+ 17.4	+ 17.4
TOTAL							-1,284.9	-1,143.9	+162.2	+ 159.4
Philippines										
1965	-31.0	- 5.7	- 17.3	- 11.3	x	- 14.5	- 79.8	- 43.1	- - -	- - -
1964	- 9.1	- 0.8	- 21.3	- 7.9	x	- 13.3	- 52.4	- 42.5	- - -	- - -
1963	-12.6	- - -	- 18.9	- 10.4	x	- 7.2	- 49.1	- 36.5	- - -	- - -
1962	+ 0.1	- - -	- 23.9	- 8.6	x	- 0.6	- 33.0	- 33.1	+ 0.1	- - -
1961	- 0.4	- - -	- 19.2	- 6.8	x	- 16.4	- 42.8	- 42.4	- - -	- - -
1960	- - -	- - -	- 19.1	- 19.4	x	- 0.4	- 38.9	- 38.9	- - -	- - -
1959	- - -	- - -	- 18.4	- 18.9	x	+ 0.2	- 37.1	- 37.1	+ 0.2	+ 0.2
1958	- 3.2	- - -	- 29.0	- 17.4	x	- 5.9	- 55.5	- 52.3	- - -	- - -
TOTAL							-388.6	-325.9	+ 0.3	+ 0.2
Thailand										
1965	+ 1.7	- - -	- 2.9	+116.8	+ 14.5	x	+130.1	+128.3	+131.2	+ 129.5
1964	+ 0.1	- - -	+ 28.5	+111.9	+ 13.3	x	+153.8	+153.7	+153.8	+ 153.7
1963	+ 0.5	- - -	+ 3.4	+102.9	+ 7.2	x	+114.0	+113.5	+114.0	+ 113.5
1962	+ 1.3	- - -	- 5.3	+105.1	+ 0.6	x	+101.7	+100.4	+107.0	+ 105.2
1961	+ 1.2	- - -	+ 11.2	+ 74.7	+ 16.4	x	+103.5	+102.3	+103.5	+ 102.3
1960	+ 0.3	- - -	+ 9.0	+ 60.6	+ 0.4	x	+ 70.3	+ 70.0	+ 70.3	+ 70.0
1959	- 0.6	- - -	- 0.8	+ 67.9	- 0.2	x	+ 66.3	+ 66.9	+ 67.9	+ 67.3
1958	+ 0.8	- - -	+ 7.6	+ 55.3	+ 5.9	x	+ 69.6	+ 68.8	+ 69.6	+ 68.8
TOTAL							+809.3	+803.9	+817.3	+ 810.8

for these countries for the years 1962-1965 have been calculated. The quarterly pattern indicates that a payments union based on quarterly swing credits would not save appreciable (added) amounts of foreign exchange: there are very few swings in quarterly bilateral balances.

Nevertheless, a simple clearing union would lead to some saving of foreign exchange, simply because weekly or longer clearing periods would allow some transaction to be offset. We have been unable to determine whether net substantial savings in the administrative costs of making transactions would result. Partly for his reason, we have made no attempt to determine whether or not the actual monetary costs of operating a regional payments union in Southeast Asia would exceed the monetary benefits (measured in foreign exchange).

Although the detailed study was made for six countries, might there be some other group of countries in the region that could form a viable payments union? Professor Nurul Islam[1] has suggested that Pakistan and India might benefit considerably from a payments union with other countries in the region. But from the data we have available, we conclude there is little in the pattern of bilateral trade balances to indicate that other groups of the region, larger or smaller, could form a viable payments union. There would still be persistent and extreme creditors and debtors for whatever plausible set of countries one selects.

The above analysis is based on the existing pattern of trade and regretably but necessarily, on an uncertain statistical base. Let us approach the problem in a different way.

A relevant question is whether or not the existing low levels of intraregional trade as well as the lack of bilatoral or multilateral balance in the region may not to some extent be a result of a past history of

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[1]Nurul Islem, "Comment" in T. Morgan and N. Spoelstra, eds., Economic Interdependence in Southeast Asia, University of Wisconsin Press, Madison, 1969.

regional payments problems. For example, the region's Sterling bloc countries (Ceylon, Burma and Malaysia-Singapore) adjusted the direction and composition of their foreign trade during the 1950's to cooperate with the requirements of the entire Sterling bloc.[1] But the Asian case on the whole does not seem to be one of regaining a past pattern of regional trade. From the evidence on trade and economic structure presented earlier, we judge that the present pattern of regional trade is primarily due to fundamental structural economic characteristics of the region. Analogies between Europe in the 1950's and Southeast Asia at present are not appropriate.

There are, it is true, incipient changes in the structure of Asian production and trade, that may prove to be a basic for meaningful cooperation in the future. And an Asian payments union may have indirect effects of the type that apparently were important for Central America, facilitating and accelerating other forces for change. But a payments union for Asia (as for Central America) is more likely to be a permissive or passive factor than an initiating or active force. We find little evidence that a payments union will by itself do much to increase the volume of Asian regional trade.

In addition to these considerations, we should report a minus that stems from a fundamental reality of the region. In recent years, several countries -- notably Thailand, Malaysia, Singapore, and the Philippines - have enjoyed absence of pressure on their exchange rates as well as a favorable basic international reserve position. Other countries -- Pakistan, India, Burma, Indonesia, and Ceylon -- have operated under often extreme foreign exchange pressures, with the familiar accompanying features of overvalued rates, complicated systems of exchange control, and bilateral trading arrangements.

Professor Islam's point about the potential benefit of a payments union to deficit countries like Pakistan is well taken. But it is not clear that countries in the first (surplus) group have much incentive to enter into payments arrangements with the second (deficit) group. The countries with comfortable reserve positions and reasonable exchange rates

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[1] American Trade with Asia and the Far East, Robert J. Barr, ed., Marquette University Press, 1959.

have maintained satisfactory export performance, and they have been free to import the commodities they choose from any source they choose. Because their participation in a regional arrangement with the deficit group might require purchases of less-desirable products from within the region, and because there might be some planned or unplanned pooling of regional foreign exchange reserves, countries in the first group would probably suffer a clear loss from being cooperators. They would do better by acting alone.

If in anticipation of economic benefits or for other policy reasons a payments union should be established in Southeast Asia, there are certain policies that might be adopted to maximize short run and long run benefits. Nurul Islam suggests one possibility[1]:

> The credit facilities would . . . be extended to the deficits and surpluses arising, not out of total trade, but from incremental trade among the member countries. The volume of trade taken as the base for estimating increments could be a moving base, which can be taken to increase by a given percentage per year....

Instead of an incremental trade or payments union suggested by Islam, a complete payments union would be possible, despite the presence of extreme creditors and debtors, if the problem of extending regional long term credits could be solved. One possible solution would be to use external foreign aid to support the net positions of debtor countries with the rest of region. Of course, adequate safeguards would have to be employed so that debtor countries would not be able to run up excessive obligations. A general infusion of long term capital into the region through the payments union is preferable to bilateral aid to the extent that a payments union (1) allows more scope for the price mechanism to operate to fix the patterns of intraregional trade and of regional location of industry; and (2) introduces useful regional disciplines against low-efficiency uses of foreign aid.

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1 Nurul Islam, "Comment" in T. Morgan and N. Spoelstra, op. cit.

In view of the above arguments, an obvious institutional arrangement for regional cooperation might be a regional payments union combined in some way with a regional development bank. One of the functions of the development bank would be to finance by long term investment the net regional trade deficits of slow growing countries.

B - The end of the Vietnam War

The hoped-for and prospective easing off and perhaps ending of the Vietnam war offers an obvious opportunity for useful regional cooperation. The present payments flows within the Region are influenced by direct and indirect spending for the War. Continuing studies of these payments flows, by countries, kinds, and amounts can be helpful in envisaging what is likely once the War ends, and what compensating policies on a regional basis are most feasible. AID can be helpful in such studies; the Asian Development Bank at Manila will naturally carry them on; other organizations may assist.

C - Two gaps, saving and foreign exchange, as checks on regional growth

In the growth literature of the past several years, attention has often been directed to the concept of a "double gap" -- a domestic savings gap and a foreign exchange gap -- that checks economic growth. The argument is that LDC's are generally deficient in the ability to finance domestic capital formation (the domestic savings gap); and that this capital deficiency can be met only through kinds of goods and skills that must be imported in excess of what can be paid for by prospective exports (the foreign exchange gap).

This approach assumes a division of income between consumption, which does <u>not</u> contribute to real income growth, and national -- accounts-- definition savings (identical in total to investment) which <u>does</u>. A target rate of growth of GNP is accepted, and a constant incremental capital-output ratio assumed (dK/dO equals a fixed value). Hence a minimum sufficient rate of savings (investment) is implied. Part of those investment goods may have to be imported because of domestic production lacks.

If resources can be shifted readily between domestic investment use and exports abroad, then no distinction need be drawn between the "savings gap" and the "foreign exchange gap". The question of the two gaps arises, in this model, when resources cannot be so shifted.

The two-gap approach has the inconvenience of diverting attention from the accounting fact that a savings-investment relation is not something separate, but is implicit in the balance of payments. A surplus of imports over exports is necessarily equal to the surplus of products utilized by the economy over products created by it, or the excess of investment over saving.[1]

More savings; that is, less consumption if income and domestic consumption are constant, is a condition for closing the foreign exchange gap.[2]

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[1]Harry Johnson: Economic Policies toward Less Developed Countries, Allen & Unwin, London, 1967, pp. 53-54.

[2]This is the "Absorption Approach" to the balance of payments which states that an improvement in a country's balance of payments implies an increase in savings, a decline in domestic investment or some combination of the two. In this approach, the balance of payments is generally defined in terms of B-Y-E, where Y is total income from home production and E is total domestic expenditure. This can be derived from the usual foreign trade definition as follows:

Let M be total imports;
X the total production of exportables, of which X_h is consumed at home and X_f exported, so that

$$X = X_h + X_f;$$

Y be total income derived from production of exportables, X, and of goods sold at home only, H, so that

$$Y - X + H;$$

E be total domestic expenditure both for consumption C and investment I, so that

$$E = C + I = H + M + X_h.$$

Foreign exchange earnings are a constraint on the process of economic growth [1] if (a) the elasticity of demand for the country's exports is close to unity or is less than unity, so that a rise in the quantity of exports cannot (much or at all) raise foreign exchange earnings; or if additional resources cannot be freed to flow into export uses; and if (b) the growth of the economy is dependent on the import of strategic goods and services, including capital goods, intermediate inputs and raw materials, and also goods conventionally classed as consumer goods, that are nonetheless necessary for growth. Foreign exchange is assumed not to be significantly available through external assistance.

(continued from page 115)

Then the balance of payments (surplus or deficit)

$$\begin{aligned} B &= X_f - M \\ &= X - X_h - M \\ &= (Y - H) - (E - H) \\ &= Y - E \end{aligned}$$

But also, total income is (conventially) defined as distributed between savings, S, and consumption, C; so that:

$$Y = S + C, \qquad \text{and } E = I + C$$

So that: $B = (S + C) - (I + C)$

or

$$B = S - I$$

[1] Ronald I. McKinnon, "Foreign Exchange Constraints in Economic Development and Efficient Aid Allocation," The Economic Journal, June 1964, pp. 388-409; John Fei and Douglas Paauw, "Foreign Assistance and Self-Help: A Reappraisal of Development Finance," The Review of Economics and Statistics, August 1965, pp. 251-267; Hollis B. Chenery and A.M. Strout, "Foreign Assistance and Economic Development," American Economic Review, September 1966, pp. 679-733.

Domestic savings are said to be a constraint on the process of growth if required (national-accounts-definition) investments are not created by the economy in "adequate" quantity. (Savings are not, of course, a constraint on growth to the extent specific kinds of consumption needed for growth are bottlenecks, or institutional or other blocks limit the usefulness of more capital goods. These are major qualifications.)[1]

There is no unique sequence of the two constraints, nor is there any a prior reason why either of the two constraints must have a finite termination data. It may be that for some countries only one constraint is binding: then the other is never relevant.

Limits on the availability of foreign exchange are (1) demand oriented if the elasticity or position of the foreign demand curve for the LDC country's exports is the block. The elasticity of demand for the country's exports may be near one, or be less than one, so that no amount of output increase will increase foreign exchange earnings. There may be a problem of secular stagnant demand. Price instability may be the problem: the prices of a country's exports can fall for a number of crucial years. Technological change abroad sometimes threatens the sales of LDC exports. There may also be institutional barriers to trade -- tariff or non-tariff restrictions that prevent the LDC's from exploiting fully their comparative advantage.

A frequent cause of sluggish foreign demand is simply that exports are priced "too high" in foreign markets. The problem is a combination of the exchange rate and of domestic price trends -- so that eventually, given the current domestic price level, the exchange rate overvalues the currency. The policies involved may be forced by political considerations, or they may be unintentional or the result of inaction...We assume what is usually the case, that demand for the exports of the given country is reasonably elastic. Then a rise in price to foreign buyers will decrease foreign exchange earnings.

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[1]See our Research Paper #11, "Investment Versus Growth," summarized in part below in III-B.

Alternately, limits on the availability of foreign exchange are (2) supply oriented if (a) the supply of exports cannot be readily expanded, or if (b) the supply of exports is so erratic or the quality so poor that foreign markets find them unattractive.

1 - Empirical Studies

All the specific causes of export earnings lag listed above are relevant to Southeast Asian experience. Three of the papers of this Project relate to the over-pricing of exports[1] -- which appears to be a thoroughly important possible error of policy or of omission of policy. We have surveyed above (Section I-B) the study in the Project[2] of the export lag of Southeast Asian countries in terms of "compositional effect" and "competitive effect." We summarize briefly.

We saw in Section I-B that the compositional effect is a measure of demand deficiency; the competitive effect is a measure of supply deficiency or maladaptation. The compositional effect is defined statistically as the difference between the growth rate for the Southeast Asia kind of mix of exports into the More Developed Areas and the growth rate of total imports into those areas. The compositional effect therefore indicates the extent to which Southeast Asia exports to MDC's are helped or injured because they are like or unlike what the MDC's are importing.

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[1] Hla Myint, "The Inward and Outward Looking Countries of Southeast Asia and the Economic Future of the Region," Research Paper #7, Feb. 1966; K.C. Sen, "The Inward-Looking and the Outward-Looking in Southeast Asia," Jan. 1965; K.C. Sen, "Economic Growth and the Price Level -- an Analysis of Some Asian Data," Research Paper 13, Mar. 1966.

[2] Seiji Naya, "The Commodity Pattern and Performance of Southeast Asia's Exports to the Developed Areas," Research Paper 10, May 1966. The Southeast Asian countries include Burma, Ceylon, India, Malaysia, Singapore, Laos, the Republic of Vietnam, Cambodia, the Philippines, Thailand, China (Taiwan), Hong Kong, and the Republic of South Korea. The developed countries consist of 20 countries in seven areas: the U.S., Canada, Japan, Australia, the E.E.C., the U.K., and "other Europe." Cf. also the findings of Barend A. DeVries, The Export Experience of Developing Countries, World Bank Staff Occasional Papers, #3, 1967.

The competitive effect is the difference between the actual growth rate of Southeast Asia exports to the MDC's (A below), and the growth rate of the Southeast Asia kind of mix of exports to the MDC's (H below). The competitive effect so defined is due to one or more of price, quality, and supply disadvantages or advantages, as compared to MDC imports of the same kinds.

The evidence is that Southeast Asia has been lagging behind in export growth to the MDC's because of both effects. Between 1956-57 and 1964-65, exports of the eight Southeast Asian countries covered fell behind the average import growth of the more developed countries by 48%. The competitive effect contributed 16% to this lag, the compositional effect 32%.

Exports of the Southeast Asian countries lagged partly because the region was not, on the average, able to maintain its base year export share of the various commodity groups, even when the unfavorable commodity composition of its exports--mainly primary goods, particularly foodstuffs and other agricultural products--is allowed for. Some countries did very well with traditional primary commodity exports.

The above study therefore denies the importance of demand deficiency as a unique explanation of the regions relatively slow export growth.

(2) Doubt has been cast on the hypothesis of demand deficiency, to the exclusion of supply considerations, by other writers.

Commenting on Maizel's attempt[1] to demonstrate the demand deficiency hypothesis, Bieda maintains that "the actual world trade figures reflect the Supply effect and the Demand effect together and the two are inextricably fused in the amount traded.[2] He rejects Maizel's thesis that "...the process of industrialization per se did not have a retarding effect on

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[1]A. Maizel's "The Effect of Industrialization on Exports of Primary Producing Countries," KYKLOS, Vol. xiv, 1961, Fasc. 1.

[2]K. Bieda, "The Causes of the Export Lag of the Industrializing Countries, A comment," KYKLOS, Vol., xv, 1962, Fasc. 2, pp. 485-95.

the development of exports from the semi-industrial countries..." He gives two reasons for this rejection: first, resources can be diverted away from agriculture to industry as a result of forced industrialization, reducing the exportable surplus of agricultural commodities; and second, the protectionist policies of the LDC's might divert resources in general toward the domestic market, adversely affecting their exports. The generally more rapid inflation in the LDC's as compared to the MDC's[1] has tended to discourage production for export since domestic demand has been strong, and price competition abroad has been keen.

(3) Manmohan Singh has provided data suggesting that for India the supply lag has been an important factor in explaining the behavior of exports. He ascribes the lag to defective government policies with respect to export duties and export controls that the Indian government followed

Table 28

Growth of World and Indian Exports

	A		B	
	Growth of Exports 1948-50 to 1958-60		Growth of Exports 1951-53 to 1958-60	
	World	Indian	World	Indian
Tea	28.0%	11.0%	13.3%	2.6%
Cotton textiles	17.9%	4.5%	14.8%	9.7%
Tobacco	37.2%	11.3%	25.2%	- 2.8%
Pepper	144.4%	28.7%	71.8%	15.7%
Castor	20.0%	28.7%	4.5%	2.2%

[1]Cf. W. Arthur Lewis in a Note (on an article by R. W. Lindholm) in Social and Economic Studies, March, 1960.

[2]Manmohan Singh, India's Export Trends and the Prospects for Self-sustaining Growth, Clarendon Press, Oxford, 1964, p. 153.

during this period.[1] Indices of gross profit in Indian industries (Table 32) show that the large and flourishing domestic demand for "new manufactures" stands in the way of exports.

Table 29

INDICIES OF GROSS PROFITS IN INDIAN INDUSTRIES

(1950-100)

	1951	1952	1953	1954	1955	1956	1957	1958
Engineering	117.3	124.9	115.9	1571.4	255.2	305.2	335.7	353.9
Chemicals	113.4	86.2	105.9	106.6	151.9	176.4	212.7	235.5
Cement	128.0	128.9	124.5	150.1	168.9	154.9	160.5	177.5

Singh's general conclusion is that, though there were adverse trends in world demand, it is fair to stress also overvalued exchange rates, export controls and increased domestic absorption as being in part responsible for the lagging exports over the three plan periods (1950-51 to 1965-66).

The empirical evidence above supports one point clearly: causes of foreign exchange shortage may lie on the supply side as well as on the demand side. There is not reason to regard the supply deficiency as less significant than demand deficiency in explaining the foreign exchange bottleneck to growth in the LDC's.

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[1]Export controls were exercised on jute manufactures, tea, cotton textiles, vegetables oilseeds and oils, raw cotton, raw wool, coffee, manganese ore; export duties were levied on jute manufactures, tea, raw cotton raw wool, black pepper, cotton cloth, manganese ore, groundnut oil, linseed oil, cottonseed oil.
The period covered is 1950-60.

(4) In a recent study Hollis Chenery and A. M. Strout examine the performance of 31 LDC's between 1957 and 1962 in terms of three criteria: investment, saving, and trade. They define these criteria as follows:

Investment criterion: Initially the rate of growth of investment must be greater than the target growth rate of GNP. Thereafter, the investment rate must be adequate to sustain the target GNP growth rate;

Saving criterion: The marginal savings rate must be greater than the target investment rate unless the average rate of saving is already above this level;

Trade criterion: Either export growth must exceed the growth target for GNP or the marginal import ratio must be substantially less than the initial average ratio.[2]

Of 31 countries studies, 12 meet both and 10 meet neither of the Saving and Trade criteria for approaching self-sustaining growth (at a rate of 5% a year in GNP). Failure on the trade side seems to be at least as important as deficiencies in domestic saving and investment. A number of these countries -- India, Greece, Turkey, Chile, Columbia, Costa Rica, Boliva, Guatemala, and Honduras -- have been characterized by import shortages, substantial excess capacity, and in some even falling saving rates.

In the 12 countries that satisfy both the savings and trade criteria, exports play a predominant role. Of these, 10 have export rates of 5% or more. Conversely, one of the most significant aspects of the unsatisfactory performance of countries meeting neither of the two criteria is the stagnation of their exports. Finally, "there is almost no example of a country that has for a long period sustained a growth rate

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[1]Over this period India's share of world exports has declined from 2.1% in 1950 to 1.2% in 1960 to 1.0% in 1966. The export-import ratio was 83.4 during the first five year plan, 56.2 in the second, and 58.0 in the third. See Fourth Five year Plan of India, (A Draft Outline), Government of India, Planning Commission, New Delhi, 1966, pp. 92-105.

[2]Hollis B. Chenery and A.M. Strout, "Foreign Assistance and Economic Development," American Economic Review, September 1966, pp. 679-733.

substantially higher than its growth rate of exports through continuing import substitution. In the past, Brazil, Colombia, Turkey, and India have done so for considerable periods, but each has run into severe balance of payments difficulties in recent years."[1]

(5) There is no necessary reason why either the Savings gap or the Exchange gap should have a termination date; though that is of course desirable for both. Fei and Paauw analyze this problem at length.

Fei-Paauw model of "Foreign assistance and self-help" consists of five primary parameters[2] and two scale factors.[3] They estimate these values for 31 countries that received over 70% of United States development assistance in recent years. They observe that the termination date for foreign assistance (as a proof of foreign exchange gap) is finite for only 8 out of 31 countries. The absence of a finite termination date for foreign assistance is, in most cases, associated with a low per capita marginal savings ratio. Their final conclusion is as follows: "...relatively high values of the per capita marginal savings ratio are associated with a finite termination date for foreign assistance ... In other words, the inductive evidence seems to indicate that with reasonable realistic values of other parameters, domestic austerity efforts involving a per capita marginal savings ratio of about 35% are essential for fulfilling the self-help criteria...."[4]

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[1] Ibid., p. 710.

[2] Primary parameters: (1) the initial average saving rate -- $s(o)$; (2) the per capita marginal savings ratio -- (u); (3) the capital rate of population growth -- (r);

[3] Scale Factors: (1) initial population, and (2) initial gross national product.

John Fei and Douglas Paauw, "Foreign Assistance and Self-Help: A Reappraisal of Development Finance," The Review of Economics and Statistics, August 1965. Also Douglas Paauw and Forrest E. Cookson, Planning Capital Flows for Southeast Asia, National Planning Association 1966, esp. pp. 38 follows, "Application to Southeast Asia."

[4] Ibid., p. 263.

From the above it follows that, first, even if the per capita marginal savings ratio is high, it will not help in narrowing the domestic savings gap if the values of other parameters are not "realistic," and second, that "adequate" domestic savings are a prerequisite to reducing the foreign exchange gap.

(6) In another study,[1] Paauw and Cookson find that of the six countries studied by them (Burma, Indonesia, Malaya, the Philippines, Thailand and Taiwan) the first two have no termination date for either the domestic savings gap or the foreign exchange gap, the next two have a termination date for the domestic savings gap only, while the last two have termination dates for both. The period of projection covered by them is 1965-1975 and beyond.

In summary, the studies above suggest that foreign exchange can be a binding constraint on economic growth. In actual practice, factors behind emergence of the foreign exchange constraint might lie in the overall absorption of the economy, that is, in its capacity to save. The implication is that it would be of interest to study the effects of specific growth-promoting policies of the LDC's on the domestic savings and foreign exchange gaps. Regional cooperation in such studies can be useful.

2 - Criticism

These savings-gap exchange-gap studies are valiant and commendable efforts to attach numerical tags to conditions for growth. But the studies have sharp deficiencies.

Specifically: (1a) Some of the data are influenced by post-War II, and by other war and crisis phenomena affecting prices and production. The hope is that these aberrations will average out, even though they certainly

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[1] Douglas S. Paauw and Forrest E. Cookson, "Planning Foreign Capital Requirements in Southeast Asia: The Savings and the Foreign Exchange Gap," Centre for Development Planning, National Planning Association, May 1965 (mimeographed).

misrepresent the secular trends for individual countries. Earlier studies based on data from the first years of the 50's clearly had distortion built in.

(1b) Statistical errors in trade data are large. (We discuss this matter in III A below.) Errors in trade data for other LDC's must be also substantial; and errors where data have as partial basis financial flows across borders are likely to be very large. Errors in the estimates for GNP are likely to be larger than those for trade flows; and variations of GNP can be substantial for the most of the LDC's where agriculture is a major sector and can be affected for a year or several years by climate, pests and disease. Unreliable data are used; they are aggregated invalidly.

(2) Even if the social accounts data were precisely accurate, they measure variables that are related only partially to the causes and concomitants of growth. Part of investment, as measured in national income accounts, does not contribute to economic growth or does not contribute within the time period under consideration; parts of consumption are or can be critical determinants of growth; some growth does not require inputs of "economic" resources at all. (Our Research Paper #11, "Investment versus Growth," discusses these issues. Some of its material is given in Section III - B below).

In summary, these studies use data that have a wide margin of error, and whose concepts are only partially adapted to their purpose. They analyze only a modest part of the total determinants of growth, and so require implausible assumptions of "other things being equal" and "other things changing appropriately." When the necessary qualifications are added, the significance of these diligent studies becomes very uncertain.

III - Major Cautions on the Statistics

A - Inaccuracies in Southeast Asian Trade Data

1. The problem; procedure.

For a number of reasons, trade statistics are considered to be, among various LDC economic data, the most reliable. Foreign trade is a well-defined area in which goods move under the noses of customs officers. Goods are supposed to be counted and/or measured systematically for such purposes as the imposition of tariffs, subsidies and other regulations. In LDC's where foreign exchange is scarce, particular attention is focused to the trade sector, the single largest source of demand and supply of foreign exchange.

A check on accuracy is presented in the records kept by both trading partners, which can be compared side by side. Comparable double accounts are not usually available for domestic economic transactions.

One country's exports to another country should be roughly equal in values, and identical in types, with the imports of the receiving country. In practice modest differences will result due to transport and other service charges, timing lags, differences and inconsistencies of classification, and transit trading. The amounts of these divergence are rarely measured quantitatively. Instead, any differences in two records are usually assumed away or considered to be caused by the obvious factors, especially the transport margin (c.i.f. imports and f.o.b. exports). For example, M. Michaely assumes away the discrepancy between two recordings in computing a given country's geographically-weighted share in world exports.[1] The likely discrepancy is recognized but dismissed: "... from casual observation one gets the impression that the element of error introduced by differences between the records of the exporting and importing country is not very large."[2]

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[1] M. Michaely, Concentration of International Trade (Amsterdam: North Holland Publishing Co., 1962), p. 135.

[2] Ibid.

For our region, in a trade projection study made by ECAFE, adjustment is made for the differences between values of intra-regional exports and imports by attributing the difference to shipping and insurance charges between the region and outside.[1] The freight and insurance accounts in the balance of payments of a given country are often derived simply by taking some percentage margin of its imports; e.g., Malaya used 8.9% and 6.5% of the c.i.f. imports from sterling and non-sterling areas, respectively.[2]

For a study of the accuracy of the region's trade statistics, we selected data from Burma, Ceylon, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. For each of these countries, two ratios were computed:

1) M_{ij} (i's imports from J) to X_{ji} (j's exports to i);
and 2) M_{ji} (j's imports from i) to X_{ij} (i's exports to J);

where j is a given Southeast Asian country and i is j's trading partner. The trading partner countries include both Asian and Developed Western countries (approximately 30 in all). 1 and 2 are defined respectively as the export and the import ratios of j country. For most of these bilateral or pairwise comparisons, the average value of 1962 and 1963 trade figures is used in order to minimize differences that can result from time lags in the reports of any two trading countries.[3] For Indonesia's exports (import figures not available) and some minor cases of other Southeast Asian countries, only 1962 figures are used, due to the lack of suitable figures and comparable data for 1963.

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[1]United Nations, Review of Long Term Economic Projections for Countries in the ECAFE Region, 1964. p. 199.

[2]Department of Statistics, States of Malaya, States of Malaya Statistics of External Trade, 1963, Vol. 1, p. 11.

[3]The trade data are taken primarily from 1962 and 1963 issues of the United Nations, Commodity Trade Statistics, and partly from the United Nations, Yearbook(s) of International Trade Statistics. Data for some minor cases are from the International Monetary Fund and International Bank for Reconstruction and Development, Direction of Trade, a Supplement to International Financial Statistics, Annual 1961-1965.

Standard deviations and "t" statistics were computed (Section 2 below) to assess the probability of a systematic bias in each of j's ratios. Then "F" statistics measure whether or not there exists a significant difference between the variance of j's intra-regional trade ratios and j's trade ratios with more developed countries. In section 3 below, the discrepancy in trade data is observed again after trade values of each country are adjusted by the difference between official exchange rate and the "free" or "black" market exchange rate. Examination of the pattern of individual commodity trade statistics follows in section 4.

2. The Errors

The ratios of all pairs of recordings for every Southeast Asian country's exports (M_{ij}/X_{ji}) and imports (M_{ji}/X_{ij}) are plotted in Charts 1 and 2 respectively. Each ratio is marked by a lower case letter which is the initial of j, the Southeast Asian country. Corresponding trading partners are given on the horizontal axis. (Absolute values of each paired recording and the ratios for individual Southeast Asian countries are given in Table 33.) A dotted horizontal line is drawn on each chart to indicate indentical values (the ratios = 1.0) of paired recordings. If bilateral pairs of recordings are accurate, then the ratios should be slightly above this line (perhaps usually 1.06 to 1.14) since imports are typically valued at c.i.f. The diversion of the ratios from the line measures the influences of obvious causes such as transportation and other charges, and of uncertain factors, such as errors and deliberate falsification.

Conspicuous in both charts (and especially Chart 1) are the wide dispersion and variation of the ratios. Transport margins do not adequately explain the discrepancies. Many ratios demonstrate flagrant discrepancy, with the higher figure of a pair 100% or more above the lower figure. Ratios for Indonesia reach as high as 4,800! A surprising number of ratios fall well below the dotted line in both charts--a deviation in the reverse direction from what the transport cost margin could explain: for the region as a whole, almost one-third of the total ratios

lie below 1.0. The discrepancy in these pair records that have ratios less than one is larger than it seems on the chart. The overstatement of X_{ji} (or X_{ij}) in relation to M_{ij} (or M_{ji}) is proportional to the reciprocal of ratios of M_{ij}/X_{ji} (or M_{ji}/X_{ij}) between 1.0 and 0.

Most of Singapore's M_{ij}/X_{ji} ratios can be plausibly explained. Out of 25 ratios (Chart 1), 22 are below 1.0. The plausible qualitative implication of these low ratios is difference in labels, not statistical error. Singapore's entrepot trade is large, and much of such exports are not recorded as being from Singapore by her trading partners. Similarly, Singapore's import ratios M_{ji}/X_{ij} (Chart 2) are generally much greater than one, suggesting that countries exporting via Singapore as entrepot often list those exports as going to the ultimate destination, while Singapore customs enter the goods simply as an import (only 2 out of 26 ratios fall below one).

In Direction of Trade, export and import figures for a non-reporting country are derived by using a 10% margin as a norm, that is, if ratio values for M/X of 1.10 are accepted as reasonable, a significance test (the "t" test) can be applied to judge whether or not the average ratio of each Southeast Asian country can be explained by normal statistical error. Data for each j country were evaluated separately since there is considerable variation from country to country. We have assigned equal weight to ratios of all paired recordings, but have excluded ratios involving absolute values less than $20,000 in either X or M, on the grounds that small absolute errors can in these cases lead to large proportionate errors. The exclusions have eliminated most of the extreme ratios. Results of the significance test are given in Tables 33 and 34 for exports and imports respectively.

A survey of Column 2 in both Table 33 and Table 34 shows that the average ratios of M_{ij}/X_{ji} and M_{ji}/X_{ij} usually differ considerably from the assumed norm ratio of 1.10. For half the ratios, the deviation is "significant," using the "t" test with the 5% criterion of significance as the watershed; the other half fail the criterion.

Even for the former cases, however, it is difficult to accept the notion that the average and the expected ratios belong to the same universe, with differences due only to normal statistical errors. A large

value for the computed probability (associated with a low "t" value) might have resulted either from a small difference or from a large estimate of the standard error--or both. For example: relatively satisfactory "t" values shown for Burma, Ceylon and the Philippines seem to have resulted mainly from high values of the computed standard errors. Especially for Indonesia, little statistical meaning can be inferred from its "t" value in view of the wild implications of the other two sets of statistics.

Two exceptional cases, out of 13 in all, are consistent with aggregative trustworthy data. Thailand's export ratio and the Philippine's import ratio[1] indicate satisfactory and acceptable results in terms of both the average ratio and the estimated standard error. (But for Thailand's import ratio and the Philippines' export ratio, the consistency does not exist.) Save for the two exceptions, we can reasonably regard the M_{ij}/X_{ji}'s and M_{ji}/X_{ij}'s of these countries as random samples with respect to the expected value of 1.10.

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[1]The use of the 10% difference for the Philippines is not correct since this country reports its imports at f.o.b. value (which is reflected in the low average import ratio, .98).

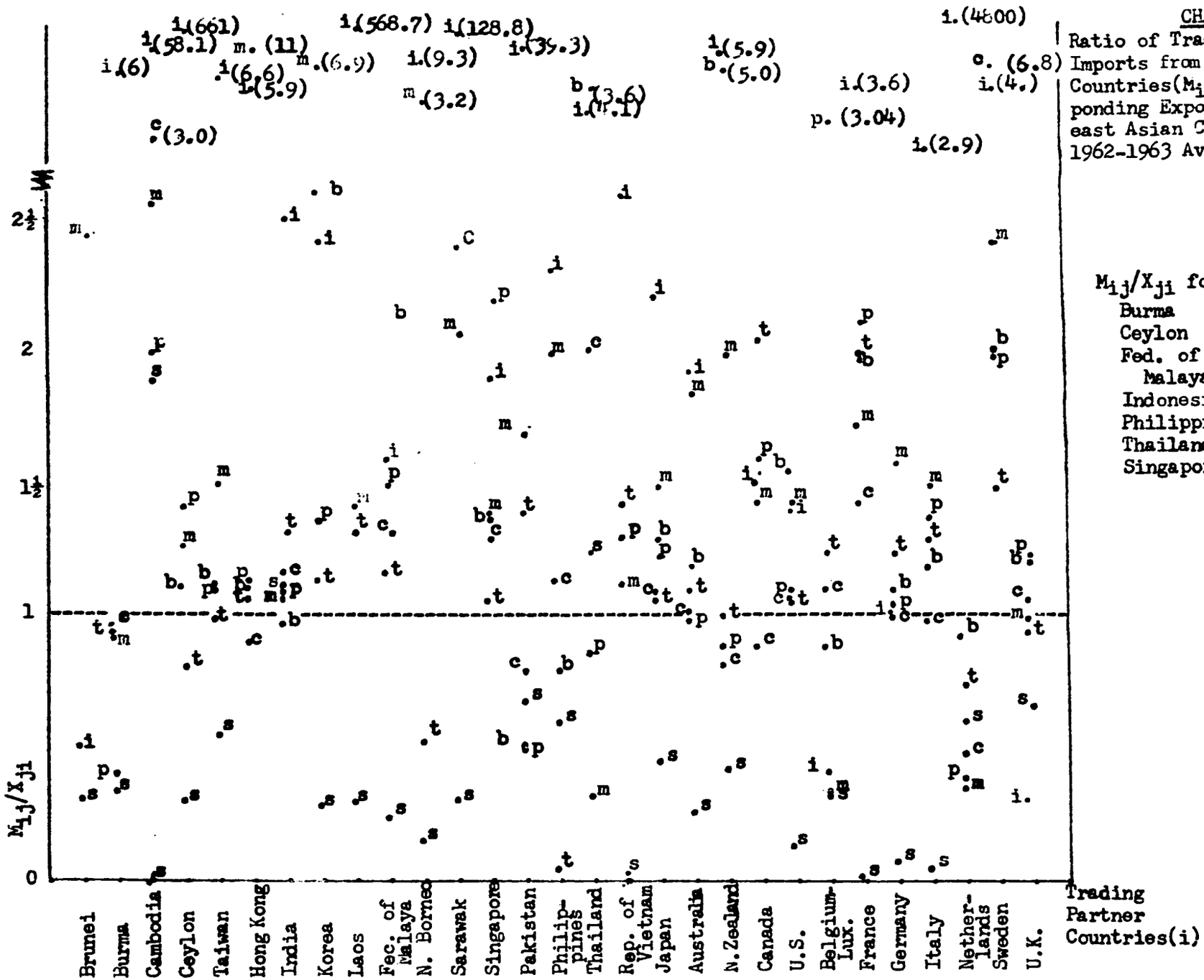

CHART 1

Ratio of Trading Partners' Imports from Southeast Asian Countries(M_{ij}) to Corresponding Exports of Southeast Asian Countries(X_{ji}). 1962-1963 Averages

M_{ij}/X_{ji} for

Burma	=	b
Ceylon	=	c
Fed. of Malaya	=	m
Indonesia	=	i
Philippines	=	p
Thailand	=	t
Singapore	=	s

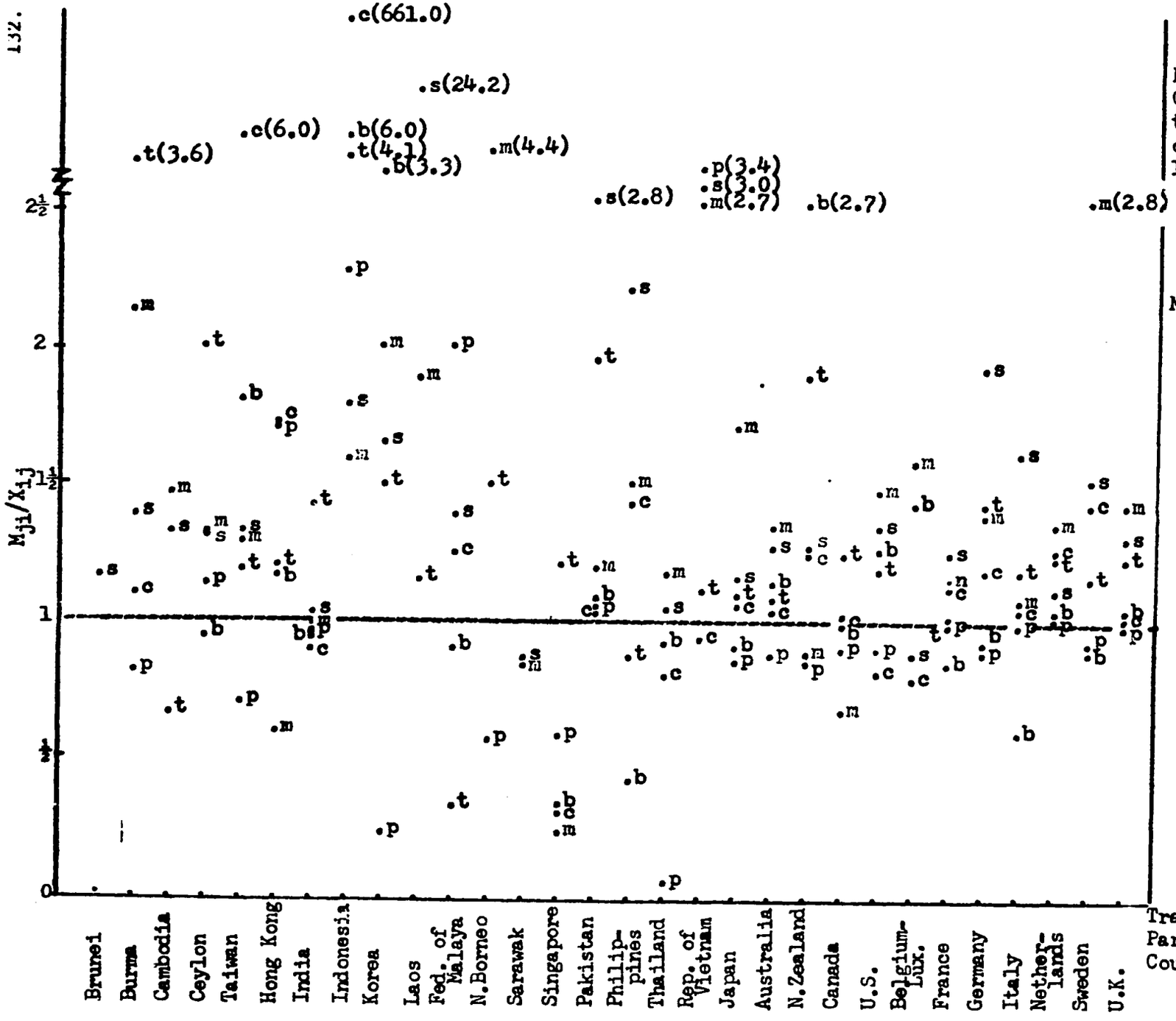

CHART 2

Ratio of Southeast Asian Countries' Imports (M_{ji}) to Corresponding Exports of Trading Partners (X_{ij}) 1962-63 Averages .

M_{ji}/X_{ij} for

Burma	=	b
Ceylon	=	c
Fed. of Malaya	=	m
Philippines	=	p
Thailand	=	t
Singapore	=	s

Table 30. A Test of Average Export Ratios (M_{ij}/X_{ji}), Assumming an Expected Value of 1.10

Country	No. of Trading Partners (i) Compared (1)	Average Ratio (M_{ij}/X_{ji}) (2)	Computed Standard Deviation (3)	Computed Standard Error (4)	Value of "t" (5)
Burma	20	1.433	.716	.160	2.081
Ceylon	21	1.443	1.295	.283	1.212
Thailand	25	1.143	.405	.081	.531
Malaya	27	2.105	2.165	.417	4.308
Singapore	25	.460	.426	.085	-7.529
Philippines	24	1.336	.613	.125	1.888
Indonesia	24	10.470	27.681	5.635	1.695

Table 31. A Test of Average Import Ratios (M_{ji}/X_{ij}). Assumming an Expected Value of 1.10

	No. of Trading Partners (i) Compared (1)	Average Ratio (M_{ij}/X_{ji}) (2)	Computed Standard Deviation (3)	Computed Standard Error (4)	Value of "t" (5)
Burma	23	1.375	1.217	.254	1.083
Ceylon	22	1.301	1.086	.232	.866
Thailand	26	1.463	.778	.153	2.373
Malaya	28	1.509	.796	.150	2.725
Singapore	25	1.485	.524	.105	3.667
Philippines	24	.991	.485	.099	-1.101

The assumption of the 10% margin used above, though plausible, is arbitrary. Transport and other service costs vary according to such influences as value, volume and type of goods traded, and distance. Accurate information on these costs is not available. But these costs, even if available and accurate, could not explain the violence and directions of the deviations shown in Charts 1 and 2 and the results of Tables 30 and 31.

Our tests of trade data of Southeast Asian countries indicate frequent and large errors. But conclusions are less gloomy if we divide the M/X ratios into two groups:

(a) their trade with other countries in the region, and

(b) their trade with more developed countries (MDC's) including Japan.

A statistical measure of the dispersion in terms of variance and "F" ratio for individual Southeast Asian countries is given in Table 32.

The import ratios for Table 32 show variances for intra-regional trade (Column 1) uniformly higher than those with the MDC's (Column 2). Also, the import ratio values of "F" indicate that the probability of obtaining values of "F" as large as those observed fails at the 5% criterion of significance. We conclude that the variances of import ratios for the two groups of countries differ significantly.

For the export ratios, the result is slightly different. Values of variance and "F" for the intra-regional trade of Indonesia, Burma, Malaya and Singapore are larger than those values for their trade with MDC's. But for Ceylon, Thailand, and the Philippines, the variance with developed countries is larger than that with Asian countries. The "F" ratio for the two latter countries is small enough, however, so that we can judge no significant difference exists between the variances of the two sets of data. Ceylon's "F" value indicates that the variance of its MDC trade is significantly larger than that of its intra-regional trade. But this high variance with the MDC's is to a great extent illusory since it is largely the result of one untypically high M_{ij}/X_{ji} ratio, 6.810 with Sweden. When Sweden is excluded, Ceylon's variance with the MDC's is .048 and is significantly smaller than that with Asian countries.

We conclude that data on Southeast Asian countries' intra-regional trade suffers from much more of discrepancies than data for their trade with developed countries.[1] This finding encourages the use of MDCs' trade data to measure Southeast Asia's trade with them, especially whenever data from Southeast Asian countries are not directly available.

There has in recent years been rising interest in regional cooperation among ECAFE countries. The analysis presented so far implies that studies of the benefits and costs of any integration scheme for the region must rest on the shaky foundation of conspicuously wrong trade data. The shares of intra-regional trade, surprisingly high for these countries save for the Philippines, vary substantially depending on which trade data are used. For example, the percentage figure for Indonesia's exports to less developed Asian countries is 41.42% according to the country's data and 54.36% according to that of its trading partners. Similarly, intra-regional import shares of Malaysia are 43.80% according to Malaysia data and 64.32% according to partners' data. There also are many vexing cases where a trade surplus (or deficit) in one recording reverses itself and becomes a trade deficit (or surplus) in the other recording.

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[1]That MDC trade data show smaller discrepancies is evident in a frequency distribution we have made of bilateral ratios of exports and imports of the U.S., Canada, the U.K., the Common Market countries and Japan with 14 MDC trading partners. For almost all countries in our sample period, 75% or more of export and import ratios for pairs of countries fall within the .90 to 1.29 range. Most of the remaining ratios do not diverge much from that range. Some error is suggested, most clearly in the range below about 1.06, but not the wide errors of our LDC's.

Table 32. A Test on Variability of Export and Import Ratios of Southeast Asian Countries with Asian and More Developed Country partners.

	Import Ratio (M_{ji}/X_{ij})			Export Ratio (M_{ij}/X_{ji})		
	Variance		F Ratio	Variance		F Ratio
	Asian 1	Developed 2	1/2	Asian 3	Developed 4	3/4 or 4/3
Burma	2.798 (11)	.295 (12)	9.471	.907 (10)	.154 (10)	5.874
Ceylon	2.581 (10)	.033 (12)	78.147	.252 (9)	2.861 (12)	13.385
Thailand	1.031 (14)	.053 (12)	19.505	.148 (13)	.160 (12)	1.080
Malaya	.931 (16)	.265 12)	3.507	7.722 (15)	.379 (12)	20.367
Singapore	.417 (14)	.076 (11)	5.465	.250 (15)	.052 (10)	4.801
Philippines	.483 (12)	.008 (12)	57.003	.284 (12)	.484 (12)	1.706
Indonesia	-	-	-	1,353.010 (13)	2.878 (11)	470.136

Note: Computations are based on data given in Table 33 Ratios involving absolute values less than $20,000 in either X or M are excluded.

The numbers in parentheses denote the number of trading partners (i) considered.

Each F ratio is computed by placing the larger variance in the numerator.

3. Effect of Adjusting Trade Data by the Exchange Rate

The trade data of Asian countries (except Korea and the Philippines), initially reported to world institutions such as the U.N. and IMF in domestic currencies, are converted by these institutions into dollar equivalents according to each country's official exchange rate. The conversion, though convenient, may be a source of discrepancy since the official exchange rates of many Asian countries are over-valued. The rates are maintained by exchange controls and trade regulations that encourage individual exporters and importers to overstate or understate their reporting. The controls also encourage black market transactions.

In order to observe how discrepancies are modified by the use of more realistic exchange rates, the trade figures of each country have been adjusted by using the "free" or "black" market exchange rate of the particular country. Selection of the "free" or "black" market rate has been determined by data availability -- this and the official rate generally are the only exchange rate information available. Since the proportions of free and official rates in which reported trade is initially transacted are not known, using the "free" or "black" market rate does not by itself eliminate the arbitrariness in the exchange rate adjustment made here. In the adjustment, the conversion factor of the country, or the ratio of its official exchange rate to its "free" or "black" market rate (average of monthly figures), has been multiplied by the dollar value of the country's trade.[1] Application of this adjustment is made to all Southeast Asian countries and their trading partners (except the U.S.)

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[1]The monthly exchange rates, as well as official rates, have been taken from 1966 Pick's Currency Yearbook (New York: Pick Publishing Co., 1965). A 24-month average (1962-63) is used for the "free" or "black" market rate, and a 12-month average where trade figures are available for only one year.

The conversion factor that measures the extent of over-valuation of a country's exchange rate varies--estimated as the ratio of the official rate to the free or black market rate--substantially in 1962-63 among Asian countries, ranging from nearly 1 for Hong Kong, Malaysia, the Philippines and Thailand, to low values for India (.670), Ceylon (.503), Burma (.434), and Indonesia (.118) for 1962 and 1963. For all MDC's there is some deviation from one, the range being from 1.090 to .915 (to .996 if Japan is excluded).[1]

In general the ratios of bilateral recordings derived from the adjusted trade figures reveal a deviation from one greater than that of the unadjusted ratios. Little difference from unadjusted figures is shown for the bilateral ratios of Malaysia, the Philippines, Singapore and Thailand with MDC's. The results reflect the likeness of conversion ratios of the two groups of countries. Greater discrepancies from the unadjusted ratios are observed in the ratios of Burma's, Ceylon's, and Indonesia's trade with developed countries. For intra-regional trade, deviation is greater compared to "unadjusted" results, for every Southeast Asian country.

Table 33 presents averages, standard deviations, and coefficients of variation for both export and import ratios, using the "adjusted" data. On the whole, both averages and standard deviations are considerably greater than those given earlier in Tables 30 and 31. And all import and export ratios of the adjusted data (except with Singapore's exports) are more widely dispersed around the average ratios than are those of unadjusted data as shown by the coefficients of variation. This result holds especially for the import ratios. (The unadjusted data coefficients are given in parentheses in Table 33.)

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[1] U.S. data are not adjusted because the exchange rate of other countries is given as the price of dollars in terms of their currencies.

Table 33: Averages of Export and Import Ratios, Standard Deviations and Coefficients of Variation on the Basis of "Adjusted" Data

Country j	Export Ratio $\frac{M_{ij}}{X_{ji}}$			Import Ratio $\frac{M_{ji}}{X_{ij}}$		
	Average Ratio 1	Computed Std. Deviation 2	Coefficient of Variation 3 (2/1)	Average Ratio 4	Computed Std. Deviation 5	Coefficient of Variation 6 (5/4)
Burma	3.288	2.189	.666 (.500)	1.568	4.758	3.034 (.885)
Ceylon	2.722	2.632	.967 (.897)	.756	.661	.874 (.835)
Thailand	1.027	.457	.445 (.354)	2.939	6.383	22.172 (.532)
Malaya	1.908	2.090	1.095 (1.029)	2.320	2.500	1.076 (.528)
Singapore	.371	.296	.798 (.926)	2.401	2.851	1.187 (.353)
Philippines	1.218	.664	.545 (.459)	1.860	3.664	1.970 (.489)
Indonesia	175.195	221.050	2.940 (2.664)	---	---	---

Notes: The number of trading partners (i) is the same as that given in Tables 33 and 34 for each j country. Coefficients of variation given in parentheses are those based on "unadjusted" trade data and derived from average ratios and standard deviations given here and in Table 34.

4. Commodity Trade Statistics in Detail

The analysis so far has dealt only with totals for exports and imports of given countries, not with individual commodities. One can expect the discrepancies in data to be larger and more dispersed on a finer scale than when we deal with totals. Large differences in totals, e.g., X_{ji} and M_{ij}, prove marked discrepancies in individual commodity items that make up the totals. But small differences in paired recordings do not necessarily reflect similarity: they may be due to the cancelling out of opposing errors in the data for individual commodities.

The Philippines is selected, for two reasons, to illustrate the discrepancies in commodity data. For one reason, this country is the only Asian country that reports f.o.b. values of its imports in U.S. dollars (theoretically, M_{ji} should be equal to or very close to X_{ij}), thus eliminating the problem of transport costs. Also, discrepancies in the country's total exports and imports are small compared with those of other Southeast Asian countries (except Thailand) --- thus presenting a limiting case of only modest error.

The commodities considered are nine groups of the one-digit Standard International Trade Classification (SITC), excluding "Goods Not Classified by Kind." Bilateral ratios of the country's exports and imports with the four largest trading partners are given by commodity groups in Table 34. Also shown in Table 34 are the weighted ratios (SM_{ji}/SX_{ij}) and (SM_{ij}/SX_{ji}) with all trading partners (the four largest plus all others).

In bilateral comparisons of ratios for all totals, that of the grand total as well as of the major trading partners, ratios are usually not far from 1 (last column of Table 34). The individual commodity ratios, however, exhibit wide variation. The Philippines-U.S. export ratios by commodities, for example, vary from 15.24 for SITC-8 to 0 for SITC-3 and SITC-7 (no values recorded by the U.S., positive values by the Philippines) whereas total M_{ij}/X_{ji} is a plausible 1.06. And when SM_{ij}/SX_{ji} is 1.11, the commodity ratios range from 14.45 to .43. Similar dispersions hold for import ratios.

Out of 178 bilateral export ratios of country-commodity recordings (not shown here), 78 are less than .5 and 35 are greater than 2.0---under or overstatement of X_{ji} by more than 100% compared to M_{ij}. Similarly for import ratios, 70 out of 191 total are less than .50 and 26 are greater than 2.0.

Table 34: Philippine Export Ratios and Import Ratios by commodities with the Four Largest and with all Partner Countries[1]

Ratio	Country i[3]	SITC[2] 0	1	2	3	4	5	6	7	8	0 thru 8
Export (M_{ij}/X_{ji})	U.S.	1.09	1.26	.85	0	.93	.98	1.05	0	15.24	1.06
	Japan	1.26	4.22	1.24	.52	1.51	.99	1.27	139.57	1.81	1.25
	Netherland	.30	1.22	.41	0	.09	-	0		0	.40
	W. Germany	1.39	1.311	1.25	0	.73		.49	0	0	1.26
Import (M_{ji}/X_{ij})	U.S.	.98	5.00	2.04	1.14	1.25	1.00	.66	1.01	.69	.96
	Japan	.97	.26	1.01	1.21	.91	.82	.74	.87	.71	.82
	W. Germany	2.61		1.67	1.74		1.00	.92	.92	.58	.93
	U.K.	1.07	.72	6.67	1.25	1.20	1.05	1.01	1.02	.76	1.03
Export ($\$M_{ij}/\$X_{ji}$)	All Partner Countries[4]	1.10	1.48	1.08	.43	.90	1.28	1.06	4.26	14.45	1.11
Import ($\$M_{ji}/\$X_{ij}$)		.98	.15	1.57	2.09	1.33	1.01	.74	.97	.72	.94

[1]Computed from trade data for 1962 and 1963 given in United Nations, ECAFE, Foreign Trade Statistics of Asia and the Far East, Vol. I, No. 1 and Vol. II, No. 1, 1965 and 1966 for the ECAFE countries, and various issues of United Nations, Commodity Trade Statistics, for other countries.

[2]SITC commodities are Food and Live Animals (0), Beverages and Tobacco (1), crude materials, excluding Fuels (2), Mineral Fuels, etc. (3), Animal Oils and Fats (4), Chemicals (5), Basic Manufactures (6), Machines and Transport Equipment (7), and Miscellaneous Manufactures (8)

[3]For both ratios, the countries are listed in descending order of X_{ji} and M_{ji}.

[4]Twenty-six countries are included.

5. Concluding Comment

There are a number of possible reasons for errors in trade data: 1) Transport costs will, as we have seen, create a discrepancy between f.o.b. export and c.i.f. import values. 2) Different recording definitions are used by different countries.[1] The entrepot trade of Singapore with other countries of the region is, as we have also seen, not treated congruently in their respective records. And for specific trade commodities, sub-items may be differently defined and so be entered under different aggregated headings. Customs officers may have considerable discretion as where among several plausible categories a given item should be listed.

But the discrepancies are often so large that these innocent explanations plainly fail. 3) There may be simple error in counting and recording. 4) Countries with considerable tariffs and other trade barriers, and with poorly policed boundaries on land, or extensive shorelines on the ocean, invite attempts to smuggle. Smuggling enterprises in the Philippines are said to be notably successful; and Indonesia was, like England, made by heaven for free trade. 5) Customs officers may be encouraged by suitable tokens of friendship to understate quantity and quality of imports, where these are taxed; similarly for exports, where these are taxed. 6) The major channel for illegal transfer of wealth between countries is under-invoicing of exports and over-invoicing of imports.

The purposes of capital flight may be (a) avoiding taxation and legal seizure of ill-gotten gains, (b) avoiding the risk of taxation or confiscation of legally-gotten property (as of the Chinese in Indonesia in 1959-61 and later), (c) avoiding property destruction from domestic disorder or from war, (d) avoiding loss of value of liquid assets through inflation, (e) transferring funds for the care of relatives abroad, or to meet debts accruing abroad, or to provide for one's retirement abroad. These transfers may be illegal under exchange control laws, or difficult; or likely to lead to unpleasant questions about the source of the funds and whether all taxes had been paid, or simply to uncomfortable knowledge by the authorities about one's assets.

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[1] See R. G. D. Allen and J. Edward Ely, eds., International Trade Statistics (New York: John Wiley and Sons, Inc., 1963), for detailed appraisal of international trade statistics and definitions.

Much can be done by energetic customs administrations to correct the causes of discrepancies numbered 2 and 3 above. But 4, 5, and 6 are more resistant. They will be less serious sources of error if tariffs and other trade restrictions are lowered, if exchange controls wane; and a economic development in general progresses and so probity and efficiency improve. 6 is a major source of error, though the error will not be visible in the statistics unless different documents are entered in the exporting and importing countries. It is said that in some countries a 10 to 20 percent misrepresentation of the quantity and/or quality of traded goods is normal. In one case that has come to our attention, a large export from a Southeast Asian country was under-invoiced by 90%.

Errors in trade data are substantial and plainly can be overwhelmingly large. Of our original M/X ratios, imports and exports taken together, 62 per cent, well over half, are in a range that is prima facie evidence of error.[1]

For countries with high tariffs or equivalent bars to the international movement of goods, and with legal or other bars to the export or import of capital, substantial errors in trade data are likely to continue. For some countries -- those with inviting boundaries, high hurdles to the movements of goods or of capital, and lakadaisical administration--the best guess of an informed and conscientious outside student can be more trustworthy than the official figures.[2]

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[1]Taking 1.30 and .90 as tolerable limits to discrepancies. 198 out of 318 observations fall outside the range: Difference in origin-classification is the only other significant explanation as not due to error, and may well explain descrepancies for Singapore.

[2]Detailed statistics relevant to much of the discussion of the above pages are available in our full study.

B. Inaccuracies and misleading concepts in the standard national income statistics

We have been very concerned that in these pages conventional and misleading interpretations of national social accounts and their sub-categories should not creep in, as they can so easily do, to distort analysis and conclusions.

1-Errors in LDC social accounts

It is a truism that the social accounts of LDC's are less accurate than those ofMDC's. The reasons partly lie in scarcities of skills and of time, a measure of the pressure of economic realities on the statistics offices of the various countries: governments give higher priority to other uses of their funds and training resources. (In one country of our region, the basic social accounts reported to the U.N. were developed in two weeks by an available non-specialist.) The methods of estimation and the difficulties of estimation of macro-totals vary widely. The accuracy of results therefore varies considerably. A general rule is that where there is incentive to misrepresent, the figures will be biased; and where difficulties of estimation are great, random errors will be large.

In most countries government reported tax and expenditure data are quite accurate. In other sectors, errors increase. Simon Kuznets, a long time research worker in the U.S. on national income data, some years ago, with his fellow workers, once put down estimates of the estimated range of error in three classes: With an estimated error of under 15%: basic manufacturing and public utilities. -- With estimated errors above 15% but below 30%: agriculture, mining, manufactured gas, pipelines, trade, banking, insurance, and government. -- With errors of 30% or more: construction, water transport, real estate, direct service industries, and "miscellaneous".

What is the implication of Kuznets' estimates of error for the range of error to be expected in LDC income data?

Kuznets found the least error in manufacturing and public utilities. The first produces normally a small segment of total production in LDC's and usually the second also. Relatively large segments of productive activity in lower income countries are in agriculture, construction, and service industries. All these lie in the 15% or more error classes.

Where data are not written down, accuracy suffers because respondents genuinely do not know what the facts are. Often accuracy suffers because respondents are uncertain of the meaning of inquiries, or because of the demands of courtesy. The average farmer knows only roughly what the yield has been of crops not grown for sale. His uncertainty may have a bias added by suspicion that his answer will in some way influence the taxes he must pay.

It is difficult also to value output that is not sold in the market. In the LDC's much of what is produced, especially in agriculture, goes into home consumption and not the market. At the market place, part of the goods brought in may be bartered, not sold for money.

But improvements in the accuracy of the national accounts -- given their concepts and detailed definitions -- have been proceeding steadily in recent years. And to some extent one can diminish the inevitable errors by averaging (as Kuznets does), using the average of 2 years, or 5 to 10. One should avoid using as base periods years that are clearly abnormal, like the late 1940's and the early 1950's when adjustments to the ending of World War II were incomplete, or the early 1950's again when the Korean War was causing sharp rises in primary product prices. Studies of Southeast Asia trade and incomes are becoming more significant as these years recede into perspective.

The application of the national accounts to the LDC's, and specifically those of Southeast Asia, involves special problems of interpretation. There is in LDC's more fusing of economics and social activities than in the higher income countries for which the accounts were primarily designed. Separating out "economics" from the blur requires rule-of-thumb decisions, arbitrary at the margin.

Also, averages and aggregates in the social accounts can move misleadingly. They may, for example, rise because of higher production in a few export industries while nearly all the population live as before, back in the bush away from port cities, mines, and plantations. Still worse, as in Africa, the indexes may rise as male workers migrate into mining employment, while back in the villages farming deteriorates -- unmeasured in the indexes -- and wives and children find family life disrupted. Some of this disruptive movement to employment and away from families exists also in Southeast Asia.

2 - Misleading categories for LDC growth analysis

But a further and more important worry inhibits our use of the national accounts, in Southeast Asia and in other LDC's, as a measure and guide for social policy; and so as a guide to the economic effects of regional integration.

The basic concepts of the social accounts are astray from the purposes of growth analysis. The accounts were formulated and defined in the 1930's and 1940's, and are still dominated by the interests of those two decades. The over-riding interests of the times were the desire to interpret and to shape policy on business cycles (the Great Depression and the World War II and post war inflations were concerns), and to classify production (especially during the war years).

The particular special-purpose of social accounts is due in surprising measure to Keynes and other economists with interest in cycle analysis in the late '30's and in the '40's.[1] Keynes was unworried about the division in the national accounts between consumption and investment because he was concerned with the motives of groups of spenders: "Any reasonable definition of the line between consumer-purchasers and investor purchasers will serve us equally well provided it is consistently applied."[2] His purpose was the analysis of unemployment and the business cycle.

His light-hearted view on the social accounts is inappropriate if one's aim is instead to understand the process of economic growth. The standard accounts were not focussed on, and turn out to be ill adapted to, interpreting the growth problems of less developed countries. The basic categories of consumption and investment are misleading and partial when applied to growth problems. It is more usual than not for reasoning and policy to go astray through assuming that one can analyse growth issues in terms of the conventional national income categories.

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[1] General Theory, Macmillan, London, 1960, p. 61.

[2] Edward F. Denison, "Report on Tripartite Discussions of National Income Measurement," Studies in Income and Wealth, vol. 10, Conference on Research, in Income and Wealth, National Bureau of Economic Research, New York, 1947. Referred to in John W. Kendrick, "Restructuring the National Income Accounts for Investment and Growth Analysis," Statististisk Tidskrift, No. 5, 1966. p. 354.

For example, the central problem of growth is conventionally portrayed as extracting more (national income concept) savings out of an economy in order that there can be more (national income concept) investment. The majority of academic and official discussions take this framework for granted... But in all economies this is sharply imperfect reasoning, and in LDC's it can be flagrantly wrong. In low income societies a very large proportion of the population, possibly the great majority, live at consumption levels that closely determine the health and energy that in turn determine productivity. Carl Shoup concludes there is a range of consumption where the ratio of marginal products to increased consumption reaches the order of 20-to-1 to 80-to-1.[1] Increased food supplies -- calories and protective elements both -- can be the critical requisite for increased production...More consumption can also offer necessary incentives.

To the extent this effect is important, cutting consumption in an LDC economy (for example, by higher taxes), in order to have more savings for conventional investment, can have the effect of reducing production, not increasing it.

The crucial matters of the general health, energy, skills and incentives of the working population are completely neglected in the traditional analyses focussing on national income consumption versus investment: that is, they neglect "human capital," and various forms of social capital nourished by "consumption" outlays.

Nor is national income "investment" either locally or empirically necessarily to be closely associated with growth. Conventional capital includes public buildings and luxury housing and prestige-orientated public buildings. Capital may stand idle or be used only one shift a day due to lack of demand and effective organization. There may be frequent holidays and long weekends, and frequent absences from work due to debility, sickness, and lack of incentives. Scarcity of conventional capital need not be an important bottleneck at all...And sometimes a high priority route to higher production does not draw on real resources at all: for example, leisure time can be used productively.

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[1]Where absenteeism from illness is due to too little consumption, and where children's low consumption forces down their future productivity. Carl S. Shoup, "Production from Consumption," Public Finance, vol. xx, no. 1-2, 1965, pp. 173-202.

Our concern in this research project to avoid the conventional and misleading uses of the standard national accounts in reasoning on economic growth and its relation to regional cooperation, suggests the possibility of useful future research to improve the regional accounts so that they can be more useful.

A model that could be productively followed in improving the national accounts of the region is offered in the work of John Kendrick of the National Bureau of Economic Research in New York. Using U.S. data, Kendrick has been experimenting with redefining social accounts categories so that they interpret growth more effectively. He does not go so far as to estimate "non-economic" inputs that raise production. He does add to conventional investment other uses of resources that increase productive capacity.

Parts of these are purchases of durable goods plus inventory change of consumers and of government. The rest consists of intangible outlays:

(1) education and training,
(2) medical and health outlays,
(3) research and development,
(4) mobility costs, and perhaps--an optional item--
(5) costs of rearing children to working age.

Much under these headings is usually classified as "consumption".

Kendrick's total investment turns out to diverge widely from official investment estimates. This total investment is much larger, its share of GNP has grown as GNP has grown, and it is more stable cyclically. In 1965 his total investment is $422 billions,[1] or 380% of higher than the official (gross) investment figure of $111 billions.

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[1]Excluding rearing costs. If they are included, total investment is $476 billions. In the present official estimates gross investment is 16% of GNP: Kendrick's total investment is 47% or 53% of adjusted GNP, depending on whether rearing costs are excluded or included.

Kendrick's work is a major advance toward shaping national accounts so that they interpret better the process of economic growth. Similar work in LDC's, specifically in Southeast Asia, should be very fruitful toward better reasoning on growth and so toward better policy. Such efforts could well be supported by international or national aid programs.

To our knowledge it has not been attempted in LDC's, save for a small study in Singapore.

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Total investment as a share of "adjusted GNP" has risen from 38% in 1929 to 47% in 1965. The contrast suggests, reasonably enough, that the share of income a society devotes to future growth rises when income rises.

A summary of this experiment-in-progress is given in John W. Kendrick: "Studies in the National Income Accounts," Forty-seventh Annual Report, National Bureau of Economic Research June 1967, pp. 9-15. An earlier fuller report is his "Restructuring the National Income Accounts for Investment and Growth Analysis," in Statistisk Tidskrift, No. 5, 1966, pp. 353-365.

See also our fuller analysis of this basic problem: Research Paper 11 - "Investment vs. Growth," published in Economic Development and Cultural Change, April 1969.

IV - NATIONAL PLANS AND REGIONAL INTEGRATION IN SOUTHEAST ASIA

To what extent have national plans had implications for economic integration in Southeast Asia? And to what extent have successes and failures in plan implementation had systematic relation to regional economic interest? We seek to shed light on these questions in this summary section.

A - Planning Patterns

Planning as a means accelerating economic growth has become a catchword and an orthodoxy.[1] Whether a national plan is formal or eclectic, its inevitable characteristic is multiplicity of goals, all associated in some sense with "nation building."[2] In those countries where formal

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[1]At the national level, the most striking event of the early nineteen sixties has been the widespread adoption of planning as a tool of economic and social policy. In the nineteen fifties, relatively few developing countries had national plans for economic and social development, though numerous countries had elaborate medium term programmes for specific sectors or regions of the economy. Since the turn of the decade, however, almost all of the developing countries--often with the encouragement of national multi-lateral agencies concerned with international development assistance--have undertaken the formulation of medium-term or long-term plans as a means of guiding their current policy decisions. Two major events occasioning this upsurge in planning activity were the achievement of independence by many African countries and the launching of the Alliance for Progress in Latin America. A more fundamental and general cause, however, was the widespread realization that the acceleration of economic and social development requires a more long-sighted approach to policy formulation; it has come to be understood that current policy decisions can no longer be made simply in response to the circumstances of the moment but have to contribute actively to bringing about the structural and institutional changes which underlie economic development." United Nations, World Economic Survey, 1964, pp. 3-4.

[2]As one strong instance of this we may quote the following: "We are neglecting our wealth purposefully because we are concentrating on nation-building," said Dr. Subandrio, ex-Foreign Minister and Deputy Prime Minister of Indonesia, Straits Times, December 7, 1963. Quoted in Clair Wilcox, "The Planning Straits and Execution of Economic Development in Southeast Asia," Harvard University Center for International Affairs, Occasional Papers #10, January 1965. "Economic development has not been the central concern of any government in Southeast Asia," ibid., p. 43.

plans have been instituted--countries like India, Pakistan, and Malaysia--the measurable role of the public sector in direct economic decision making has been increasing over time.[1] In other countries where no formal plans have been instituted, the State systematically assumes responsibility for promoting private enterprise. In both cases, the role of the State in the economic life of the people has been increasing.

1. Two Directions of Policy in LDC's

The two over-riding popular aims of economic policy making in the LDC's are (a) diversification of exports, and (b) import substitution.[2] Diversification of exports has seemed necessary to LDC policy makers (in part wrongly - see Section I) because of alleged inelastic demands for primary products in the world markets. Import substitution has been partly the result of foreign exchange difficulties, and partly--this is crucial--it is the expression of the urge to nation-building itself. In short, planning for economic development has meant in the LDC's in large part, planning for industrialization.[3]

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[1]For instance, "The share of the public sector (i.e., the government sector) has steadily grown: in the Fourth Plan about three-fifths of all investments will be in the public sector." Fourth Five Year Plan of India, 1966-1971, Planning Commission, Government of India, p.22.

[2]"Rapid development cannot be achieved in the future simply by continuing the traditional pattern of economic growth. The twin pillars of the Malayan economy, rubber and tin, will remain important for some time to come but they cannot be expected to contribute significantly to income growth..." First Malaysian Plan, 1966-1970, Juala Lumpur, 1965, p. 6. "The most important of the long term objectives (in Malaysia) is the need for economic diversification, and industrialization." Ibid., p. 15. "... although attempts will be made wherever possible to promote the growth of exports, efforts to solve the problem (of foreign exchange) will probably have to rely mainly on import substitution." Ibid., p. 16. "If industrialization and diversification of the economy are to be rapid enough, the country must aim at developing basic industries and industries which make the machines needed for further development." Third Five Year Plan of India, Chapter 2, p. 27.

[3]"Both countries (India and Pakistan) tended to identify economic development with industrialization achieved principally through import substitution and without significant regard for considerations of comparative advantage." Edward Mason, Economic Development in India and Pakistan

2. Two Patterns of Growth in Southeast Asia

Two distinct patterns of growth are observable in Southeast Asia: the Inward Looking and the Outward Looking. The Inward Looking pattern--that of Burma, Ceylon, India, Pakistan, Indonesia--has been generally characterized by (i) strict control of resource allocation through formal planning, (ii) strict trade and capital flow controls, and (iii) some disposition to nationalize foreign enterprises. Recently Ceylon to some extent and Indonesia more emphatically, have retreated from this pattern. The Outward Looking pattern--that of the Philippines, Malaysia, Thailand, Taiwan--has these characteristics in mild degree or not at all. The Outward Looking group has followed relatively liberal trade policies, and their exchange rates have been adjusted where needed to achieve equilibrium.[1]

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(Center for International Affairs: Harvard University Press, September 1966), p. 12. Reporting in 1960, the Food Agricultural Commission of Pakistan noted: "It is essential to appreciate how very recent is the sense of any urgency for increased agricultural production..." Report of The Food and Agriculture Commission (Karachi, Pakistan, 1960), p. 150.

[1] P.T. Ellsworth has observed: "In the Philippines, the price level showed no net upward movement until after 1959; from then to 1963 it advanced at an annual rate of about 4 percent. A 60 percent devaluation in 1962 seems to have been effective in overcoming any currency overvaluation that may have persisted from World War II, for exports responded vigorously in the following year. Thailand's inflation rate was approximately 5 percent per annum; since exports increased at 6.4 percent a year (at about the same rate as GNP) there would appear to be little reason to believe the haht was overvalued, even with a virtually stable exchange rate. In Taiwan where inflation was at an average rate of some 9 percent a year, exports were buoyant, partly because any tendency for overvaluation to appear was quickly offset by recurrent and substantial devaluation (1951, 1953, 1954, 1957, and 1958), and partly because import substitution, or industrialization, succeeded in opening up lines of production that expanded from import substitution into export markets." "Import Substitution, Growth, and the Balance of Payments: Some Comparisons," June 1967, Madison, Wisconsin, mimeographed.

The Outward Looking group of countries have, in the 1950's and 1960's, shown a better record than the Inward Looking Group with respect to rates of growth of GNP, productivity increases, increase in import capacity (i.e., income terms of trade), price level stability, import substitution.[1]

3. A Recent Trend

Recently, there has been a growing awareness among the countries of Southeast Asia--particularly the Inward Looking group--of the importance of the market mechanism in efficient resource allocation.[2] Increasing reliance is being placed on the following:

1) Exchange rates not "too far" from equilibrium,
2) Moderation of tariff rates and equivalent bars to imports,
3) Selective encouragement of import competing industries, and
4) Encouragement of exports.

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[1] Hly Myint: "The Inward and Outward Looking Countries of Southeast Asia and the Economic Future of the Region", Research Paper #7 February 1966; K. C. Sen "The Inward and Outward-Looking in Southeast Asia, working paper, January 1965.

[2] "The Plan places greater reliance on the market mechanism and fiscal and monetary policies, instead of on direct consumption and discourage production so that over the longer run, economic development is adversely affected. Where it is necessary to retain controls, their rationalization and simplification will be necessary. Controls which restrict imports must be continued, but the form of controls may be modified and heavier reliance placed on market forces." The Second Five Year Plan of Pakistan, 1960-1965, Planning Commission, Government of Pakistan. "It must be remembered that excessive (exchange) rates could provoke undervaluation of imports, dumping and smuggling, defeating the very purpose of development and growth." Socio-Economic Development Program for FY 1966-67 to FY 1969-70, of the Philippines, Manila, Philippines, May 1966. "Indeed, in the long run import substitution and export promotion will become harmonizing policies since new industries which spring up in response to local demand can later expand, if they are efficient (our underlining), into export markets." First Malaysia Plan, 1966-1970, p. 16. Similarly, the Third Plan of Pakistan, calls for a "revision of the present tariff policy (which is highly protective and discriminatory), reexamination of the current interest rate structure, and use of shadow prices for the appraisal of at least the major projects in the Plan." p. 135.

Several reasons may be given for this evolution in thinking: overvalued currencies have discouraged exports while subsidizing imports, leading to adverse balance of payments; restrictive import policies--through tariff and non-tariff protection--have encouraged indiscriminate import substitution; preoccupation with foreign exchange saving as against foreign exchange earning has resulted in the neglect of exports;[1] excess capacity in export industries has been a common phenomenon; the attempt to save foreign exchange at any cost has led to a wasteful use of domestic resources in the import-competing industries; the total real resource cost of every unit of foreign exchange saved is extremely high; the protectionist environment in which import substitution policy is followed has contributed to inflation.

This list of reasons for change implies disillusionment with past policy; but not a clear reversal. The policy objectives in the LDC's remain the same, but there seems to have been a perceptible shift toward policy instruments that depend less on bureaucratic discretion and more on the market.

It is being realized that import policy invariably affects the export sector; that the net effect on balance of payments is the result of import savings and export earnings; not just the former. The importance of the opportunity cost of resources is now being emphasized more than before. These changes of emphasis improve the prospects for regional cooperation.

B- Planning in Five Countries: A Summary

The following material summarizes briefly trends in planning as indicated mainly in the published plans--which means there is a publicity and political aspect--of five countries in Southeast Asia.[2]

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[1] The Indian Third Five Year Plan document somewhat ruefully observed in 1961 that "one of the main drawbacks in the past has been that the program for exports has not been regarded as an integral part of the country's development effort under the Five Year Plans." Quoted in Mason, op.cit., p. 31.

[2] Among the compact evaluations of planning in this area, attention should be drawn to Clair Wilcox's perceptive "The Planning and Execution of Economic Development in Southeast Asia, referred to above; and also to the series of empirical reports in late 1968 and early 1969 by Hermann Hatzfeldt, and mimeographed by the Ford Foundation regional office, Thai Farmers Bank Building, Bangkok. See also our own Research Paper #5, "Economic Planning--Points of Success and Failure".

1. Indonesia

Indonesia was not able, during the early 1950's and emphatically during the Sukarno regime, to formulate and implement an effective development plan. In 1951 the government adopted an "Economic Urgency Program", the objectives of which were to raise production of consumer goods, to increase the processing of domestic raw materials, and to mechanize small firms. Some new factories were built, but few continued to operate and few of the small plants received or used new equipment. A second plan was formulated in 1956. It emphasized long-run economic goals, calling for substantial capital formation and projecting sources of financing. However, the plan foundered on economic and political disorder. Funds for development were diverted to current expenditures. Against this background the "Eight Year Development Plan", covering the years 1961-1968, was drawn up.

The new plan was a product of the National Planning Council, an *ad hoc* committee of representatives of regional and functional groups. No professional economists sat on the committee; there was little of supporting statistics or economic justification for the recommended projects in the Plan. It was intended to achieve several, sometimes conflicting, goals. There seems to have been little effort to weigh the costs and benefits of such objectives as self-sufficiency in food and clothing, which conflict with the objective of efficient allocation of resources.

The Plan was divided into "A" and "B" projects. The former were to contribute directly to national development; the latter to provide domestic revenues and foreign exchange to finance the "A" projects. Some recognition was given to the need to balance outlays and resources. However, the plan was confined to the public sector alone; an economy-wide balance was not attempted. The needs for imports were understated; projected exports were overstated; the effects of inflation were ignored. Many of the "A" projects clearly represent undertakings that would be desirable for economic development. Yet, the failure adequately to analyze their costs in terms of construction, maintenance, inventory replenishment, and resource allocation casts doubt on the micro-economic aspects of the plan.

No attempt was made to program outlays in such a way that output and expenditure would increase together in order to reduce the rate of inflation.

In 1967 and later, under the new Suharto government, Indonesia again "leaned to the West", sought to check the rate of inflation, and enlist the energies of private enterprises in the service of economic growth. The new planning group has drawn on able local economists, a number of whom were trained at Berkeley and Wisconsin, and several groups of foreign specialists. In agriculture hopeful plans are being made to introduce high-yielding varieties of plants -- especially rice strains developed in the Philippines that preliminary trials indicated can be adapted to Indonesia. The new varieties are very responsive to fertilizer inputs, and require an appropriate mix of other inputs and conditions, including adequate incentives to farmers. It is likely that by 1973 the agricultural picture in Indonesia will be widely improved over recent years.[1]

Planning in Indonesia is hobbled by shortage of reliable statistical data, and by excessive centralization rather than reliance on needed competent planning groups of high status within the Ministries and in the regions of the far-flung and diverse country. Land reform issues in Java are important for the longer run; so are those of cooperation between the regions and the central government and between the technicians and the military. The possibilities of steadily improving the effectiveness of the public administration are crucial.[2] Given these major constraints, the present plan seems to be a very good one.

2 - Thailand

Most efforts of the Thai planning authorities have been concentrated on the analysis of specific projects. The development plan is still a

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[1]See Leon A. Mears: Guidelines to an Agricultural Strategy for Indonesia, Discussion paper 68-27, Institute of Economic Development and Research, School of Economics, University of the Philippines, August 1968. Also Everett D. Hawkins and John A. Richards: Too Little and Too Much Rice, Center for Development Working Paper, University of Wisconsin, August 1968.

[2]Cf Hatzfeldt, op. cit., esp. pp. 66-80.

combination of sectoral programs and projects, rather than an over-all plan that would balance the outputs of one sector with the requirements of another. It also suffers, like other plans of these countries, from inadequate integration and from lack of tying together planning and government financing.

Thailand formulated its first National Economic Development Plan for the years 1961-66, a second for 1967-71. There was no attempt to achieve balance in development outlays and resources for the whole economy, but an estimated balance of expenditures and revenues in the public sector was presented for each of the plan years. In the first phase of the plan, development funds often had to be held in reserve due to a shortage of approved projects. More recently, the staff of the Economic Planning Office of the National Economic Development Board has been increased.

In both the 1961-66 and 1967-71 plans the government concentrates on provision of the basic infra-structure and maintenance of a favorable investment climate. Emphasis is placed on rural development and on manpower training. Regional planning and an attempt at achieving balance in economic growth on a regional basis are undertaken. The development of manufacturing industry is left to private investment.

The second plan provides for a Private Sector Planning Committee, composed of representatives of private manufacturing, trade and services, which will identify investment areas of national significance to be contained in the Plan and recommend appropriate government policies. Government policy will shift emphasis from investment in state enterprises to provision of analysis and research services, establishment of industrial standards, and aid to small industry. In this way the planning process will be broadened to include the private sector.

Since its beginning in 1960, Thai central planning has become more comprehensive and more relevant to national possibilities. It is technically competent. The deficiencies lie in the political sphere: the planning lacks authority; its recommendations are in the main not carried out. The need is for serious commitment to growth by the national political leaders.

3 - Singapore

Singapore is a city-state so heavily dependent on foreign trade, (and on flexibility and efficiency in that trade) that any tight aggregative targets of GNP and export growth are unrealistic. The government aims at infrastructure to increase efficiency and ability to adapt to changing circumstances, and at social outlays to increase welfare and maintain political stability. There has been formal "Planning", with a planning group attached to the Prime Minister's office. But the effort was not important, and has been abolished. Nevertheless, Singapore has not, like Hong Kong, its parallel in many respects, taken pride in non-planning and in non-collection of statistics!

The Economic Development Board is the chief government agency focussing on the problems of economic growth. It gives loans to encourage private industrial projects and participates directly in such projects. The large Jurong Industrial Estate, developed by the Board on built-up land west of the city, contains many private firms in "pioneer" status, encouraged by tax and other concessions. The Estate is an impressive success: all of its scores of industrial plots have been committed, and more land is to be cleared for future expansion.

The already considerable unemployment in Singapore -- about 9% -- will be increased through withdrawal of British military forces by the end of 1971. The government is very concerned about the problem: its strategy is major encouragement of foreign investment, with some emphasis on the tourist industry, which is labor intensive. In general the tone of government policy is eclectic and energetic: there is reliance on encouraging private enterprise and on social welfare measures -- education, municipal housing, and other. The government is committed to improving economic research and statistics.

Singapore's eclectic approach leads to risk of inconsistency between the implications of the total of individual projects and over-all purposes; and to risk of lack of vision on long run trends.

4 - Philippines

There have been a succession of planning agencies and development plans in the Philippines since the end of World War II. But the plans have not been put into effect.

Responsibility for planning lies with the National Economic Council. The current plan, the "Socio-Economic Development Program" for fiscal years 1966-67 to 1969-70 covers detailed government programs in agriculture and in the development of infra-structure. There is also detailed planning for industrial development, although principal reliance is placed on free enterprise. The plan takes into account the effects of expansion in one industry on another. Attempts are made to balance government developmental expenditures with revenues and to establish foreign exchange requirements for sectoral programs and individual projects. Timing of construction, rated capacity, and financing of individual projects are specified.

The industrial development program is designed to achieve the establishment and expansion of basic industries such as iron, steel, and aluminium, chemicals wood pulp and paper, food processing, and wood product industries. Promotion of industrial research, development of small-scale industries, and increased capacity utilization are also to be pursued. The goals are to be achieved through use of the government's direct allocative powers and through public policies to channel private investment. This plan is said to enjoy more official support than have the previous development plans. But responsibility for implementing the plan still rests with the individual ministries. If there is not firm executive support for the plan, it -- like its predecessors -- is little more than a wishing book.

5 - Malaysia

Malaysian development planning is, unlike that of the other nations of Southeast Asia, determined in large degree by the choices of people throughout the cities and countryside. The plans built on this solid foundation have been carried out with considerable success. Clair Wilcox, in his summary of planning experience in Southeast Asia concludes: "Only in Malaysia has (plan execution) been thorough and sustained."[1]

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[1] op. cit., p. 33

Malaysian planning dates back to the two Malayan plans for 1956-1960 and 1961-1965. The latter describes general goals of development, growth targets, and general programs, but gives little information on specific projects. Outlays for development are balances against the resources available. Industrial development is left to private enterprise with provision for public encouragement. Public expenditures are made among broad programs with principal emphasis on agriculture.

The Plan for 1966-70 continues the policies of the earlier "Malayan" plans, extending these policies to Sabah and Sarawak. Provision is made in the new plan for substantial developmental expenditures in the latter areas for government buildings, survey, and transport and communications. The government continues to leave the operational aspects of industrialization to private enterprise, seeking to encourage both domestic and foreign private investment. This is to be done through manpower training policies, general stabilization of the economy, development of infra-structure, and the provision of incentives.

The Economic Planning Unit itself recommends capital expenditures so that the Plan and the budget are more closely related than in many countries. The central planning agency has more influence on the capital budget than does the Ministry of Finance. Implementation is through the Ministry of Rural Development, headed by the vigorous Deputy Prime Minister, to whom full authority for development planning has been delegated. Sometimes the Rural Development Department has gotten ahead of the Plan, and inadequate pre-investment studies have led to difficulty in securing foreign funds. Few programming units (but more than in most LDC's) are found in the operating departments. Waterston[1] praises the quality of operations flow and the "operations room" approach for evaluation and reporting (but attributes success mainly to executive pressure). Resources available, rather than "requirements" are emphasized as the starting point--which may have resulted in a failure to stretch resources to the utmost. "Resources" for the planners include protective tariffs, tax incentives, medium and long-term industrial credits, loans to small industries, industrial site development, establishment of industrial standards and the undertaking of industrial research, and apprenticeship and training programs.

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[1]Albert Waterston: Development Planning--Lessons of Experience, Johns Hopkins Press, 1965. Malaysia's experience is referred to at many places in this excellent volume.

Development projects are proposed in the villages and municipalities, aggregated into district proposals, screened at the state and federal level, and forwarded to the Economic Planning Unit, which is responsible for formulating the national plan. Detailed reporting on the progress of approved projects is required and frequent inspection trips are made to insure that the plan is carried out. Thus local participation and a combat-like operations procedure are combined.

C - Multiple Objectives

1- Difficulties as seen by the planners

At the Bangkok conference of Asian Economic Planners in 1963, the delegates were frank in citing difficulties they faced, and the deficiencies in their governments' efforts to meet growth problems. The external difficulties they specified were unfavorable changes in terms of trade, and in the availability of external assistance. As to domestic faults in economic planning, they cited: (1) inadequate statistical data, (2) poor coordination among government planning and implementing agencies, (3) lack of coordination between government agencies and the community, (4) unrealistic planning goals, and (5) failure to set priorities among sectors and projects.

With respect to execution of programs, they listed: (6) scarcity of adequately trained and motivated administrators and technical people; (7) ineffective mobilization of domestic savings; and (8) failure to stimulate private business and the community to make their best contribution to planned development.

These are, then, the conscious points of failure in economic planning in the minds of these knowledgeable planners. The natural moral is that the concerned administrator and technician should study how to correct the faults, and then do the correcting.

An air of unreality hangs over such an analysis. It assumes that governments have maximum, or at least rapid, economic growth as their central goal. Neither the one nor the other is necessarily true. Economic growth is one only among a number of goals of government. It sometimes is not a serious goal at all. Second, any large organization, like a government or government department, is subject to

administrative and ideological constraints on behavior that force it systematically askew from efficiently achieving its goals. This "theory of error of large organizations" holds for laissez-faire and communist governments and large private businesses alike, and for their large departments and divisions also. The existence of such systematic error is far from implying that government economic activities are not useful and necessary, or that small private businesses are not subject to their own patterns of error.

As soon as we accept the facts that governments have multiple goals and that bureaucracies function in their own characteristic patterns, the evaluation of success versus failure in economic planning becomes a complex problem.

2 - The purposes of planning

We list and comment on briefly below, first, the economic goals and, second, the political and social goals of economic planning. The latter turn out to be normally of major, often of overwhelming importance. The question then arises, third, of the extent to which the two goals are normally coincident or in conflict.

(a) Economic goals include the following:

(1) Maximum rapidity of growth, to be achieved within some given time horizon.

(2) Minimum pressure on the standard of living.

(3) Minimum unemployment and under-employment.

(4) Minimum instability in economic life.

(5) Maximum shift of the rate of population change toward an estimated ideal level, in order to maximize income per capita.

These economic goals are in competition with one another. There is an administrative opportunity cost to each, in that limited administrative resources devoted to one mean less available for the others. They are also in more fundamental conflict. Maximizing the standard of living is in conflict with maximizing the rate of economic growth: higher consumption means less investment, which often means a lower rate of growth. Maximizing employment forces a choice of techniques that both immediately and through feedback

effects will diminish the rate of growth. To maximize income, one must seize technical, market, and organizational opportunities as they appear; but this means more instability. Effective policies to check the growth of population may not be consistent with the location and occupation trends that will maximize total economic growth.

Economic success must therefore be measured by a weighted index of the subgoals.

(b) As to the political goals: The usual central preoccupation of any governing group is keeping itself in power, swelling its power if possible, and checking any decline. The threat of loss of power may be remote, permitting considerable short-run freedom of action; or it may be pressing, leading to urgent or desperate measures for survival.

Means to the goal of maximizing political power involve strategically (1) control of the military and police, authority over taxation and the money supply, and control of general government and party administration; (2) making effective use of nationalist sentiments; and (3) the weakening and dividing, winning over, or possibly repressing and silencing of political opposition. We comment on each of these in turn.

(1) Not much need be said about the first. The functions of the military are external defense and domestic order; that is, to achieve a credible external posture, and to put down the threat and fact of domestic disorder and insurrections. The threat of the military itself is parallel: it may turn against its own sponsors.... Complete control of taxation and the creation of money is normally achieved with independence.

(2) The implications of nationalism are more interesting. Nationalism is a major asset for nearly all governing groups and above all for those newly independent through force of arms. The desire of governing groups to use this power for their own political advantage tempts them to oppose the foreigner in conspicuous ways that are not too risky. They are impelled also to cater to local religions, customs, and patterns of value. They are likely, specifically, to support local economic orthodoxy, whatever it is--private enterprise, socialist, communist, cooperative; or state-directed isolationist.

(3) As to the political opposition, governments that are insecure are tempted--above all where the example of history is that of autocracy--to repress expressions of dissent and independent criticism. The governing group may move abruptly, or patiently and subtly, toward the one-party state. Ill-fortune may more and more clearly await those who are discontented and show

it. For those who accept the going orthodoxies and support the regime, there will be the chance of political success and influence, social success, and perhaps economic good fortune as well.

Such a pragmatic listing has an unsympathetic air. But it is meant to be only descriptive. The desire for power and status is one of the deepest human drives, found in all societies in all periods of history. And party leaders may feel a non-selfish responsibility to their followers, whose status, incomes, and perhaps personal safety, depend on the continued strength of the regime. Finally, no economic or other program in fact focussed toward the welfare of the people of the state has much chance of success unless it is carried out over a considerable period of time--which means government stability.

In Indonesia, in the early years after independence, in the Philippines in recent years, and in many another country, effective economic planning has been vitiated by maneuvering for power among political leaders, and frequent shifts of faces and policies. Such government instability makes economic planning a frivolous exercise. Whether one calls the pattern a failure of planning, or a failure of direction, is a matter of words.

D - Spill-overs, "Plan Harmonization," and Bilateral Agreements

1- The Spill-over Effect

The achievement of any kind of regional cooperation, agreement, or customs or payments union, has deeper implications for the national economic policies, monetary and fiscal, of the member countries. There is what Schmitt has called the "spill-over effect" of integration,[1] whereby, as in the case of the European Economic Community, each step toward integration creates new needs and fresh demands to proceed in the same direction. Thus, with the OEEC as a beginning, the Customs Union created pressures to integrate capital markets, which in turn may eventually require currency unification for effective functioning. Currency unification, in turn, may imply pooling of sovereignties with a concomitant destruction of the separate identies of the participating countries.

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[1] Hans O. Schmitt, "The Integration of Capital Markets in Europe: A Step Towards Political Unification," World Politics, 1968. (Research paper #6 in this Project.)

There is no inevitability about this succession. Rather, the spill-over process implies the ultimate inconsistency of a customs union and the political sovereignty of member countries. In view of the resurgence of nationalism, both political and economic, the less formal such cooperative efforts are initially, the more successful they are likely to be--which is an implication for policy.

The ECAFE proposal of the "regional harmonization of national development plans" deserves specific discussion.

2- The "Regional Harmonization" Proposal

The plan harmonization approach to integration is regarded by its authors[1] as an alternative to the "classical" prescription of free trade. It is defined as "partial or comprehensive extension of national economic planning to a regional or sub-regional plan for the allocation of productive resources." Sooner or later, it should lead to the formulation of an investment and production program and policy from the point of view of the region as a whole. Trade liberalization is a "permissive circumstance" of plan harmonization, so that commodity movements will be a "dictated" rather than a "dictating" factor in plan harmonization.[2] The plan harmonization approach would replace national import substitution policies by regional or sub-regional

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[1]"Approaches to Regional Harmonization of National Development Plans," in ECAFE, Economic Bulletin for Asia and the Far East (December 1964), pp. 33-81; Hiroshi Kitamura and Ajit N. Bhagat, "Aspects of Regional Harmonization of National Development Plans" in T. Morgan and N. Spoelstra, eds. Economic Interdependence in Southeast Asia, University of Wisconsin Press, 1969, pp. 39-58.

[2]Two reasons are given, one economic and the other institutional: first, it is said that liberalization by itself would increase trade only on the assumption of some elasticity of supply of internal resources in particular uses -- a condition that is often only dubiously satisfied in LDC's, and second, since almost all countries in Asia have resorted to some sort of planned approach to economic development, a negotiated, rather than a spontaneous coordination of policies will be more meaningful. "Approaches..." op. cit., pp. 37-39.

import substitution policies that should have more specialization and larger scale and so greater chances of success.[1] Locational factors though important[2] are subsidiary to the main elements in the harmonization approach: the widening of the size of the market and the avoidance of duplication of productive activity.[3] It is suggested also that in its earlier phases, the approach should emphasize the "sectoral" or the "commodity" approach on a "sub-regional basis".[4] When once resource allocation over agreed areas of specialization has been made and trade liberalization has taken place, the evils of nationally-based import substitution policies would be prevented.

The focus of the plan harmonization approach therefore is the establishment of a single region-wide investment and industrialization program, requiring deliberate changes in the production structure of individual countries. Such changes would be pursued along lines of specialization jointly agreed on through negotiation. The Approach is an ingenious and highly institutionalized attempt to overcome foreign exchange shortages, to alter the existing pattern of the region's foreign trade, and to accelerate industrialization of the region as quickly as possible.

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[1]The Approach warns against the "possible dangers of non-operation of market forces of competition." It suggests that "appropriate safeguards will have to be devised to prevent the emergence of state monopolies and state-owned cartels and the loss of economic efficiency." Furthermore, "suitable accounting and pricing procedures, criteria for choice of techniques, incentives to improve production techniques are relevant factors that will need to be examined." "Approaches...", p. 43.

[2]"The location of the industries will be based on considerations relating to the availability of material, power, techniques, servicing facilities, etc., as to an equitable distribution of the industries among participating countries." Economic Survey of Asia and the Far East, 1963, pp. 115-116.

[3]"It should not be difficult to devise joining industrial ventures at any (our underlining) location on the basis of some market-sharing agreements." "Approaches...", op. cit., p. 38.

[4]The ECAFE Secretariat has in fact made some "feasibility" or "pre-investment" studies in the fields of iron and steel, fertilizers, aluminum, pulp and paper, rubber, jute and allied fibers, and rice." "Approaches...", ibid., pp. 44-81.

The Approach rejects free or freer trade among participating countries as a means of ensuring efficient allocation of existing and future productive resources. It is argued that enlargement of the market by a mere lifting of trade barriers is insufficient to expand intra-regional trade because of the lack of complementarity of economic structure among the countries of the region and because of the import substitution policies currently being followed by those countries. The countries require, therefore, radical changes of resource allocation in a desirable direction, which is assumed to be one that would lead to an increase of new (rather than traditional) lines of economic activity and to significant economies-of-scale. It is contended that the mere enlargement of the market need not lead toward new lines of activity.

Underlying the Approach seems to be an assumption that political hurdles can be overcome by the lure of the considerable economic gain that the venture will bring to individual countries--a gain achieved by cost reductions flowing from the growth of large-scale industries. Furthermore, it is argued that in reaping the benefits of the economies-of-scale, the location of key industries does not really matter as long as the market is large enough to absorb the increased production--only a larger market makes it possible to exploit the best technology.

Several questions come to mind. (1) It has been reasoned in a preceding section of this paper that regional integration is accompanied by some trade diversion from low cost to higher cost sources of imports. It has also been reasoned that such short-run losses would be offset by long-run gains arising from dynamic elements such as internal and external economies and structural changes. This, in fact, is the implication of the Approach. But it remains uncertain that the Approach will bring about the necessary structural changes.

(2) A number of pertinent problems, such as the structure of industry (competitive versus monopolistic forms) in member countries and their pricing policies, are hardly touched upon. The relative absence of competitive forces--in, for example, government controled operations and private cartels--within the integrated industries may considerably reduce the economic gain otherwise made possible. A competitive environment is in part inconsistent with the Harmonization Approach. Nevertheless, competition is imperative for

economic efficiency, as even the champions of import substitution policies, e.g., Prebisch, and Linder, agree.

(3) Besides the inter-country coordination of development plans, there is another problem of no less importance. That is the unavoidable need for bringing about changes in the monetary and fiscal policies of the member countries consistent with regional policies in investment and trade.

(4) For such a far-reaching proposal, one would expect meaningful empirical work substantiating the economic arguments and spelling out a basic set of formulas for the agreed specialization. This work is conspicuous by its absence. The proposal does contain exploratory studies of seven industries: iron and steel, fertilizer, aluminum, pulp and paper, rubber, jute and allied fibers, and rice. Evidence of economies-of-scale comes from data on other countries such as the U.S. and France. But, due to difference in the economic, technical, and social conditions of these countries as compared with less developed Asian countries, the comparisons may not always be justified. It is not surprising, therefore, to come across repeated references to the unavailability of necessary data and to the need for "further empirical research." A positive proposal such as this needs more solid ground to stand upon. Once such an institutionalized arrangement is launched on scale, steering it in another direction would be difficult.

(5) The harmonization of development plans is said to be feasible because most countries rely on planning in solving problems of economic development. This reasoning, however, seems oversimplified. Planning means something different from country to country. In Malaya and Taiwan, for example, economic planning is generally adopted to maintain the framework in which economic activities are pursued by individuals and firms with a minimum of government intervention. In India, Burma, and Ceylon, more of direct control of economic activity is carried out by the government. The former countries, in view of the comparative success to date of their private enterprise orientation, may be extremely skeptical of an approach demanding detailed and joint planning. Also, for Malaya, Taiwan, and Thailand, the foreign exchange gap has not been a critical problem: the Approach, directly oriented toward region-wide saving of foreign exchange, will not be especially attractive to them.

(6) Finally, an obvious problem with the harmonization approach is that it is likely to give rise to sensitive bargaining by member countries for allocation to them of desirable industries--those with prestige and those conferring military advantage. Since trade liberalization follows rather than precedes resource allocation, the "criteria" of resource allocation are in constant danger of being distorted by national pressure groups and national lobbying. This risk exists in spite of pre-investment and feasibility studies that will be made prior to settling upon the agreed areas of specialization.

One possible way out of the predicament is that institutional pressure might be put on the prospective beneficiaries of a scheme through agencies like the Asian Development Bank and the ECAFE Secretariat, that are directly involved in extending technical and financial help to promote two or three nations or regional joint concerns. International donor agencies involved might make their help conditional on the recipient countries' adherence to the various criteria suggested in feasibility studies. A certain degree of institutional pressure within the framework of an obviously sound economic rationale should be suspected neither of partisanship nor of arbitrariness.

3- Bilateral agreements

Quite a few countries in Asia have entered into bilateral agreements with other Asian and non-Asian countries.[1]

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[1] For instance, India has entered into bilateral trade agreements with Burma, Ceylon, Indonesia, Nepal and Afghanistan. See Sunanda Sen, India's Bilateral Payments and Trade Agreements (Calcutta: Bookland Private Limited, 1965); Ceylon has similarly, extensively used this technique for expanding her trade. During the 15 years period--between 1950 and 1964--Ceylon entered into trade agreements with 24 countries, including China, India, Burma, Ceylon, Egypt, Australia, Austria, Japan. See, Karunatilkae, H.N.S., "The Impact of Import and Exchange Controls and Bilateral Trade Agreements on Trade and Production in Ceylon," in T. Morgan and N. Spoelstra, eds. Economic Interdependence in Southeast Asia, University of Wisconsin Press, 1969, pp. 285-304.

Bilateral trade and payments agreements are not in general a desirable form of trade expansion. They are not a substitute for multilateral trade.[1] Though flexible between the contracting parties, bilateral agreements restrict the scope of trade, especially when non-transferable bilateral credits are granted. This limitation, however, is not an unmixed evil in so far as bilateral trade and payments agreements help toward utilizing surplus capacity in specific industries as well toward avoiding unnecessary duplication of production. By bringing into emphasis the possibilities of resource and demand complementarity among contracting parties, such agreements can serve as guides for future action. The detailed pricing and credit clauses worked out as the integral parts of such agreements need not be far removed [2] from prevailing conditions in the world market. Trade preferences, of which bilateral trade and payments agreements are special case, are potentially as important among the LDC's as they are between them and the MDC's--but in both cases the hope is that they are steps toward general freer trade.

E - Some Conclusions

Despite their heterogenity,[3] the countries of Southeast Asia do share a common aspiration: they all want to build for themselves

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[1] Often bilateral agreements are a symptom of the inability of the contracting parties to sell in the open market.

[2] In the case of the Regional Cooperation for Economic Development among Pakistan, Turkey and Iran (July 1964), three commodities, viz., aluminum (to be supplied by Iran), banknote paper (to be supplied by Pakistan), and carbon black (to be supplied by Turkey) will be supplied at world market prices. This would ensure markets without putting the buyers to any price disadvantage. Kitamura and Bhagat, op. cit., pp 26-27.

[3] "It is clear, then, that Southeast Asia does not constitute an "economic region" in the sense that all the countries in the region are more like each other than any of them is like countries in other regions, in terms of the usual indicators of economic performance." Benjamin Higgins, "Dominant Problems in Southeast Asia Planning: A Western View," The Philippine Economic Journal (Second Semester 1965), p. 430.

self-sufficient and politically viable nation states. Realization of this fact is important in any move toward economic interdependence. Economic and political nationalism can be a friend of and stimulus to regional economic cooperation.

The accepted role of the State in planning economic development is therefore an asset of much potential value. Realities of the situation demand that regional cooperative endeavors promote national felt interests. Often this promoting will prove a subtle exercise in compromise, along the pattern of the superb efforts of Jean Monnet in the earlier days of the integrated-Europe movement.

Pressure from international institutions is likely to be far more effective than pressure exerted by individual countries from outside: the experience of political colonialism in the past has made countries wary of economic "neo-colonialism." The external and regional framework necessary for objective and impersonal pressure does exist in the area already -- ECAFE, the Asian Development Bank, and perhaps other regional organizations that can render service. And from the outside, the International Bank group and other United Nations organizations can be helpful.

In no one of the national development plans of the countries of Southeast Asia, however, is there a mention -- direct or indirect -- of the possibility of improving development efforts through the formation of regional groupings. Nevertheless, as evidenced from various inter-government conferences held under the auspices of the ECAFE Secretariat, there seems to be an increasing awareness of the possible advantages of multi-national efforts toward economic growth, in the hope of avoiding the pitfalls of autarchic policies.

A proposal forcibly made by Benjamin Higgins is that there should be set up associations of recipient nations to evaluate jointly the promise of national and regional proposals; and once proposals are underway, to follow and check on their progress and efficiency. There are political advantages in having technicians from neighboring countries on committees to evaluate costs and benefits-- in addition to technicians of donor countries and of regional organizations like ECAFE and the Asian Development Bank.

V - Regional Cooperation in Southeast Asia --

Forms, Policy

A - Taxonomy

1 - Degree of formality and government commitment

Measures for regional cooperation can be classified by degree of formality and government commitment. Cooperative activity can go on under either private or government auspices. (a) The most informal are occasional meetings of private societies in various countries, and exchange of information, advice, and published documents. Examples are meetings of and exchange between technical and professional societies, literary groups, cooperatives, and political groups.

(b) Occasional, *ad hoc*, meetings of government officials and groups are a bit more formal. These meet special problems as they arise.

(c) There may be understandings or agreements to consult, or regular meetings on matters of joint interest. The Association of Southeast Asia (ASA), composed of Malaya, Thailand, and the Philippines during its active period 1961-1963, both held *ad hoc* consultations and maintained continuing joint committees and working parties.

(d) There may be commitments to take cooperative action on matters of a "public service" type, where provisions by one state of a service useful also to others causes no decreased supply of the service domestically. Among these are research activities, technical exchanges, exchange and television programs, films, artistic exhibit exchanges, exchange visits of specialists and of groups. ASA carried on such exchanges. The

UN's Economic Commission for Asia and the Far East (ECAFE) carries on research in regional economic problems. The Southeast Asia Treaty Organization (SEATO) has carried on research in tropical medicine; ASA also initiated some studies of the possibilities of such research. The Association of Southeast Asian Nations (ASEAN) set up by 5 nations in 1967, proposes many forms of regional cooperation. Technical advice has been supplied and programs of technical education undertaken by ECAFE, SEATO, and also by the Colombo Plan (CP) and the Asian Productivity Organization (APO). ASA, again, has done some planning in the areas. The Asian and Pacific Council (ASPAC) a regional group of nine countries set up in 1966 also proposes to carry on cooperative activities.

(e) There may be significant commitment of resources in the joint interest (1) of contiguous countries in individual fields, like road or river valley development. The Committee for Coordination of Investigations of the Lower Mekong Basin, on which four bordering states are represented (Thailand, Laos, Cambodia, and South Vietnam) envisages this kind of joint commitment. (2) Resources may be contributed for regional purposes. Cooperative deep-sea fishing and fish canning, and the setting up of regional air and shipping lines have been discussed by several organizations including ASA and ECAFE. Several years ago ECAFE recommended setting up a regional development bank, now solidly in operation as the Asian Development Bank at Manila. There can be regional joint effort to conduct research and explore the market for products like rubber, coconuts, and fiber, and to increase tourism. ASA carried on some investigations in this area. There may be agreements to market cooperatively, including cartel policies to limit sales and raise prices. In late 1968 seven Asian nations agreed to form an Asian Coconut Community to improve production and marketing. Standardization of products, production research, training of technicians, and market research were all included.

In the meetings at Delhi of the UN's second Conference on Trade and Development (UNCTAD) in early 1968, a common bargaining position was sought by the trade union of countries from the different underdeveloped regions on trade policies and commodity marketing agreements, shipping rates, and the like. The aim was to face the high income countries in a better bargaining position.

In the list above, none of the forms of cooperation require abrogation of sovereignity; that is, there is no appreciable commitment to change domestic government policies.

(f) But domestic policies may be altered by regional cooperation. (1) There can be agreement to limit production of export crops in order to raise market prices as under the Stevenson Rubber Agreement of the 1920's. Sanitary regulations may be agreed to be enforced in two or more countries. (2) Trade can be encouraged between two or more countries of the region by joint simplifying and standardizing of customs regulations. ECAFE has recommended such measures, and ASA to some extent undertook to carry customs liberalization measures into effect. (3) Trade can be encouraged within the region by lowering or eliminating tariffs and other trade barriers. In 1963 ASA urged study of the possibility of setting up a regional free-trade area. Several such proposals were made in 1968. (4) Would a free trade area in part or all of the region imply the need for agreement on the location of given industries? The argument for such a need is that duplicating investment should be avoided, and so also excess capacity and high average costs because of small scale of production. This line of reasoning, in turn, implies that major investments will be decided within countries in the main by government policy; and that private decisions and competitive pressures should not or will not be effective in determining location, growth, and contraction. ECAFE has been in the forefront in urging this kind of policy. A 1963 ministerial meeting responded to an earlier economists' report by accepting as an aim of policy the establishment of a customs union or free trade area within the region; and agreed that national development plans should be harmonized in order to achieve rational location and size of new industries. The 1966 Kojima and Miki plans proposed patterns for achieving regional free trade. (5) There may be agreement for a regional payments union, to cut the need for restrictions on intra-regional trade by deficit countries. (6) The desire for stable trade and payments relationships exerts pressure toward coordinating monetary and tax policies so that prices will be stable or change at similar rates. (7) There may be coordination of other economic policies and regulations. There may even be mutually adjusted policies for political change.

(g) Finally there may more or less be complete political union, as exemplified in the assimilation of West New Guines by Indonesia, and in the checkered history of Malaysia and Singapore.

2 - Cooperation within the region only?

Cooperation can exist only within the region. ASA has fitted this category. So does the Lower Mekong Committee; and so did Maphalindo (Malaysia, the Philippines, Indonesia). Or cooperation can exist between one or more countries of the region and countries outside. The Asian Development Bank, set up in Manila, fits this category. The Asian Productivity Organization has its nine members in Southeast Asia and outside, from Pakistan to Japan. ECAFE has 23 Asian members, in Southeast Asia and beyond. SEATO has Thailand and the Philippines, and also Pakistan and non-Asian members. CP has 15 Asian members, Afghanistan to South Korea, plus countries outside.

3 - Other categories

The range of regional cooperation measures listed above in accordance with their formality and degree of official commitment, is only one pattern useful for setting up alternatives. One may list, disregarding overlapping:

(a) Regional projects that require the agreement of two or more regional countries, versus those that don't, such as regionally useful enterprises set up by one government, perhaps with support from the U.N. or other international organizations, the U.S. or other governments, or by private foundations.

(b) Regional physical investment projects (the Asian Highway, the Mekong River Project), versus educational and technical projects (the Los Banos Rice Institute, APO, the UN's Economic Research Institute at Bangkok, technician exchange agreements, any well-thought-of educational or research program that attracts students from other countries of the region. This division parallels the economic theory issue over emphasis on conventional physical investment versus emphasis on human and non-material resources for growth.[1]

(c) Purely economic inter-government agreements (trade and payments treaties) versus other agreements -- political, cultural, educational, research.

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[1]See Research Paper 11.

(d) Arrangements with invidious economic and/or military implications (SEATO, trade or investment agreements leading to national location of iron and steel, metalworking, electronic, chemical, and like industries) versus those that don't have them (e.g., educational and research projects, with entry open to students from other countries, and research findings freely available).

(e) Organizations that have functioned (ECAFE, SEATO, ASA, CP, APO...) versus regional proposals advanced (and broken up) for domestic or foreign political effect, with little or no function. Sukarno's NEFO-- "Newly Emerging Forces"-- is an example of the latter... Maphalindo (Malaysia, Indonesia, and the Philippines) was hardly more than a slogan and sentiment, and was ended with Sukarno's campaign of "confrontasi" against Malaysia including Singapore. ASA, the Association of Southeast Asia, composed of Thailand, Malaysia, and the Philippines, carried on for a time after its founding in 1961 a number of modest and useful cooperative activities. It was broken up by a Philippine claim to Sabah, in North Borneo, a part of East Malaysia. Its successor, ASEAN, the Association of Southeast Asian Nations (Thailand, the Philippines, Malaysia, Singapore, and Indonesia) launched in 1968, seems to be weathering a crisis over the same Philippine claim.

B - The Political Hurdles

The bars to mutually useful regional cooperation in Southeast Asia have been, much as elsewhere in the world, primarily political. And in large part the causes of such cooperation as has gone on have also been conspicuously political.

Maphalindo, a purely political vehicle, died getting born. ASA's imaginative efforts were halted by political falling out between Malaysia and the Philippines. SEATO survives mainly because of its political-military implications. Other organization (ECAFE, APO, CP) survive and are effective in large part because of continuing outside support--which is partly political-economic in motivation, and only partly disinterested.

There are, here and there among countries of the region, persisting suspicions and antagonisms that cause them to be acutely sensitive to the political and military aspects of regionalism. These sensitivities will continue in varying degrees into future years. New sensitivities may arise.

And basic policies differ. Burma and Indonesia (and India to the west) have been "inward looking," relying on direct controls and checking trade. Indonesia after its 1965 crisis has become less "inward." Malaysia, Thailand, the Philippines (and Taiwan) have been "outward looking," choosing to rely more on private enterprise and relatively free trade.

The political differences and sensitivities imply a moral. Outside encouragement to regional cooperation measures have the best chance of success when they achieve a net maximum from two goals: contribution to the obvious economic and other advantage of the region, and intra-regional political neutrality and colorlessness. The avoidance of political suspicions and antagonisms is an absolute requisite.

In the list at the beginning of this section, effective measures listed under (a), (b), (c) and (d), informal and requiring little resources and frequently politically colorless, are a better bet for survival than equally effective measures listed under (e), (f), and (g).

C - Guidelines for Policy

Unqualified conclusions cannot validly be drawn from facts, analyses, and evaluations with as many aspects of uncertainty as those surveyed in this study. But, we do need guidelines for policy--guidelines that are neither unduly vague, in view of what we know, nor unduly positive in view of what we don't.

The United States, concerned with encouraging for their own benefit cooperation among the countries of Southeast Asia, could do worse than consider seriously as a guide to policy the two key provisions of the highly successful Marshall Plan of 23 years ago: (1) International cooperation was proposed for planning and carrying through programs to solve some one obvious problem, while the nations concerned could remain at odds on other matters that were to be set aside for the time. (2) The U.S. would pledge good will, cooperation, and a share of goods and capital to make the plan work.

The countries of Southeast Asia have a diversity of background and of experience with economic development. Any meaningful approach to cooperation must be based on and proceed from their backgrounds and experiences. Among the domestic political aims that have first priority, "nation building" takes high place. It may be a costly goal and dream, but it is highly cherished. Nationalism is a central fact. Hence, any attempts at regional cooperation must be viewed as subordinate to the major theme of nation building. How can nations and their elites consciously gain as individual units through regional cooperation?

The more formal proposals would compel the countries of Southeast Asia to redefine some of their national goals and modify some national policies. The viability of such proposals is therefore very doubtful.

In contrast, less formal attempts and partial measures may soften the edge of nationalism. And, in time the experience of varied individual forms of cooperation, and we hope, the discipline imposed on diverse economic policies by success and failure, causing convergence of those policies, can lead to a deepening sense of regional identity and hence willingness to deepen and broaden regional cooperative ventures.

VI - Summary and Implications
(Implications for foreign assistance policy are starred)

1 - Southeast Asia, like other LDC areas, should have comparative advantage in manufactures with relatively low levels of productivity per employee, and with relatively low value added both from labor and capital components. These manufactures are in general textiles and clothing, wood products, furniture, leather products, "miscellaneous," and other narrowly defined groups. Exceptions to this generalization arise significantly from management and local skills differences. Also climate, soil, mineral deposits, and other local resources can give advantage in special primary products, and other local resources can give advantage in special primary products, and to rubber, wood and cork manufactures, and iron and steel products.

2 - The region as a whole has been doing badly in its exports to MDC's. While, 1956-7 to 1964-5, total imports of MDC's rose by 76%, the region's exports to them rose only 28%. Two-thirds of this lag is due to a negative "composition effect"--that is, the region has a high concentration in primary product exports that have been expanding slowly in the world market. One third of the lag is due to a negative "competitive effect"--that is, the region was being outcompeted in the kinds of goods it did export.

3 - The best performers with respect to export sales are Taiwan (+281% in this period), Thailand (+82%), and the Philippines (+63%). The poorest performers were Indonesia (+.3%), Burma (-6%) and Pakistan (-8%). The main explanation of this wide divergence in performance is the competitive effect. Good performers typically did well in a wide variety of commodities; and vice versa. The commonly held view that countries with concentration in primary exports perform poorly is not supported in our data. Thailand and the Philippines have done very well despite high specialization in primary products.

4 - One tentative induction, or hypothesis, to be drawn from these data is that export success and failure, which is closely correlated with general economic growth trends, is influenced in major degree by the extent of over-valuation, equilibrium, or under-valuation of the exchange rate of a country. Furthermore, it is implied that efforts to compensate for the frequent over-valuation (by various forms of export subsidies and import price adjustments) are inadequate because of administrative costs and administrative weaknesses that are characteristic of LDC's, and political pressures and uncertainties that are characteristic of all countries.

5 - The confirmation of this hypothesis would imply that regional co-operation to shift disequilibrium exchange rates toward agreed-on equilibrium levels could have highly beneficial effects toward speeding up economic growth.

6 - The share of intra-regional trade of these countries varies widely, from 79% for Laos, to 57% for Singapore and 50% for Burma, to 6% for Ceylon, and 4% for the Philippines. Most countries show a recent decline in this share (for Hong Kong because its external trade has been growing fast). Pakistan, Korea, and the Philippines have had rapid increases in their intra-regional trade.... The countries performing poorly in intra-regional trade are those with negative competitive effects.

7 - Protectionism in the region, as it is in the world generally, is relatively high on manufactures, and specially high on more complex manufactures. Hence less developed countries are specially handicapped in trying to expand sales abroad of manufactures, which they judge to have feedback and dynamic advantages to them in training of skills, improvement of organization, and capital formation. These dynamic effects justify much attention (#14 below). Though not amenable to quantitative estimation, they are the mainly important potentialities from a regional preference or freer-trade arrangement.

8 - The effects of quantitative restrictions and of tariffs toward checking trade and distorting the structure of production is best measured not by the nominal in-the-books tariffs and equivalent levies, but by the "effective" protection the restrictions produce. "Effective" protection refers to the effect of the regulation or duty on (a) net value added by the producing firm, or alternately on (b) its rate of profit.

In general in this region quantitative restrictions appear to be more important than tariffs. There is a wide range in the amounts of restrictionism among the countries. The Philippines was recently the least restrictive, administratively, but often imposes the highest tariff duties of all the countries....

9 - Protectionism is a much sharper bar to economic growth than it seems: "effective" protection is erratic, and is in general far larger than the rates in the tariff codes. The chance therefore of gains in efficiency from lowered trade barriers is great; this goal might well be approached on a regional basis.

10 - Our analysis and sample calculation indicate that a typical Southeast Asian country would suffer little reduction in tariff receipts from entering a regional free trade area. Tariff reductions would probably occur gradually over some years, so that any revenue loss would be similarly spaced out.

11 - Major candidates for attention in Southeast Asia as promising products for negotiating lower trade barriers are a long list of manufactures that have recently been showing very rapid growth rates (from 14% to 49% a year) in lower income countries. Among them are aluminum, musical instruments, watches and clocks, sanitary plumbing, heating, and lighting fixtures, travel goods, handbags, glassware, toys, games, scientific etc. measuring and controlling equipment and food preparations.

12 - Among these are many products for which economies of scale are important. Hence efficient producers might well be able to compete and expand successfully in a regional market, though they could not survive save with burdensome protection in one (small) country market. Here is logical space for regional agreement toward freeing trade.

13 - It is sometimes argued that regional LDC trade is a will-of-the wisp because "they all produce the same thing." This view is mistaken. Successful economic growth is characterized by the opening up of small, but swelling niches of comparative advantage, which can gradually build into a large and complex network of exchange.

14 - Among the potential dynamic gains from regional or wider-area shifts toward freer trade; the effects on resource supplies and productive efficiency are crucial: for example, simplification and standardization encouraged through producing for a larger market, emergence of new industries out of the specialization encouraged by large scale production and from more contacts, development of skills and entrepreneuring abilities in one industry that are useful in others, and better communications (a road or railroad developed for one business can be used by others).

A regional scheme should be specially solicitous toward freeing trade in kinds of production that have the most feedbacks. Attempts to secure these efficiencies by protectionism invite the blockage through rising costs that has been weighing down import-substitution policies in recent years in Latin America and elsewhere.

15 - The trend of world trade since 1900, and also recently, reinforces the argument that LDC's should seek to up-grade their skills, organization, and technology as urgently as they can. Commodities with low skill-and-capital requirements have been making up a falling proportion, and those with high skill-and-capital requirements a rapidly rising proportion, of world trade as a whole. The value of food and raw materials exports of LDC's has recently been rising at less than one-fifth the rate of growths of manufactures.

The relatively rapid growth of LDC and Southeast Asian manufactures exports, despite relatively high tariff protectionisms against them in the world
** offers a useful opportunity. With less protectionisms, through regional or other agreements, manufactures exports would grow still more rapidly.

16 - One specific form of U.S. encouragement to regional freer trade measures might take the form of trade preferences extended by the U.S. on condition of reciprocal lowering of Southeast Asian barriers within the region. The extension of such preferences by the more developed countries, especially the U.S., would meet the official and emphatic wish of the LDC's--which is more firmly rooted in fact and analysis than the usual arguments have convey-
** ed. The United States has already formally accepted the general concept. It might well be in the forefront of exploring the practical issues involved, as a step toward lower regional trade barriers and perhaps lower trade barriers generally.

17 - Useful research contributions to regional cooperation can be made through continuous studies of comparative advantage within the region. The effort would be to discover what products promise the best stimulus to growth, through contributions both of current efficiency and of dynamic feed-back effects, that traditional exports often have failed to provide.

** In our own research, we have made a modest venture in this direction. External assistance could support such studies.

But even this policy is limited and hobbled by uncertainties of data. Without correction of existing, sometimes flagrant errors, standardization, more appropriate definitions, and further refinement in the regional economic data now collected, assessment of the consequences of any specific industry expansions is very uncertain (See #19 and #20 below).

18 - A regional payments union, though in general attractive as a means of economizing foreign exchange, offers only very modest gains in Southeast Asia. The reason is that trade within the region is highly unbalanced: there are heavy creditors and heavy debtors. The unbalance exists both in the short-run (in quarterly data), and in the longer run (over a recent 8-year period). There is little reason to expect that the regional creditors (Thailand, Indonesia, Cambodia, Burma) will be willing to extend long-term credits to the regional debtors (the Philippines and Malaysia-Singapore).

However the payments slumps that will result from the prospective ending of the Vietnam War offers a useful opportunity for regional cooperation in forecasting the dislocation problems by countries, kinds, and amounts; and for proposing offsets. External assistance could support such studies and the formulation of proposals, perhaps assisting other regional organizations, like the Asian Development Bank, in that work.

19 - All quantitative judgments on the effects on trade in Southeast Asia of policy changes, cooperative measures, and normal growth, rest on the foundation of existing statistics. We have tested the accuracy of trade statistics of seven countries: Burma, Ceylon, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The basic method is to compare total imports reported by each of these countries for the years 1962-63 with exports from it reported by its trading partners. The partners were 29 countries, within the region and developed Western countries. Similarly exports reported by each of the seven were compared with imports reported by its trading partners.

The import-to-export ratios vary widely. Many display flagrant discrepancy, with the higher figure of a pair twice or more the value of the lower. Of the ratios for total bilateral trade, 62 per cent have a discrepancy wide enough (taken as below .9 or above 1.3, where 1.1 is in the neighborhood of a normal expectation) to present a firm presumption of error. The use of free or black market exchange rates does not alter these findings.

We conclude that quantitative conclusions resting on available trade statistics, even with the special cases of entreport economies (Hong Kong, Singapore) and of Indonesia allowed for, are resting on feet of clay. For countries with high tariff or other barriers to trade, or with legal or

other barriers to the flow of capital, substantial errors are likely to continue. Since the statistics will emphatically not sustain much of quantitative conclusions, we are compelled mainly to qualitative judgments.

20 - Even more basic worries pertain to the national income statistics, including specifically their savings and investment components. (a) Their margin of error is probably large (but not checkable as with trade data), for one main reason because agriculture is a major sector of the LDC economies and because the uncertainty inherent in estimates of farm production is greater than that for most other economic sectors. (b) More important, the concepts of the standard national income accounts have been shaped, especially in the 1930's and '40's, primarily for business cycles and classification-of-final-product purposes--and not for separating out the uses of resources that do and do not lead to economic growth.

A major effort toward redefining national income aggregates, especially consumption, savings, and investment, so that they fit more adequately the purposes of economic development analysis, carried out for U.S. data by John Kendrick of the National Bureau, gives an estimate of "total investment" nearly four times the official estimates.

This more useful approach, from the conditions-of-growth point of view, when applied to the national accounts of Southeast Asian LDC's, implies that the effects of regional cooperation measures on, for example, savings and investment, would shed only modest light on the probable changed rate of growth. We do not attempt such estimates.

It would be highly useful to re-estimate Southeast Asia national income
** accounts along the lines pioneered by Kendrick. AID might well support such efforts in the various countries of the region.

21 - National economic plans inevitably have multiple goals, of which economic growth is only one. Two policy patterns exist in the region: the "Inward Looking" countries (Burma, Ceylon, India, Pakistan, Indonesia until recently), tend to plan strict resource allocation, control trade and capital flows, and often nationalize foreign enterprises. The "Outward Looking" countries (the Philippines, Malaysia, Thailand, Hong Kong and Taiwan) have these characteristics in milder degree or not at all. The latter group have had a better record in growth of GNP, productivity increase, import capacity growth, price level stability, and import substitution.

22 - Plans in the region often suffer from lack of government firm intention to execute them, and from shifts of government faces and policies. The Malaysian effort alone has won praise for its evoking of felt wants in the villages and towns, incorporation of plans in the government budget, and vigorous execution.

23 - In none of the Southeast Asian national development plans is there reference to the possibility of accelerating development through regional
** cooperation. Outside agencies, foundations and donor governments, can often be helpful through directing attention to regional group activities and policies that can further national aims.

24 - The planned harmonization of national investments and economic policies into a regional pattern faces difficult and sensitive negotiation problems on the location of prestigious and militarily important industries. The proposal suffers so far from lack of emphasis on competitive efficiency, and from knowledge of the amount of economies of scale that can be relied on
** (data used have come primarily from distant high income countries). Detailed studies of local economies of scale could be useful, and might be supported from outside the countries.

25 - The range of kinds of regional cooperation is very wide, varying by degree of formality and of government commitment, by the extent to which they may involve countries outside the region, by the extent to which real resources are involved and external economies to one nation are present, by the extent to which non-economic matters are involved, and, specifically, by the extent to which there are political and military implications.

26 - The bars to continuing mutually-useful regional cooperation in Southeast Asia, even more than elsewhere in the world, are primarily political. The problem is shown most vividly in the Maphalindo, ASA, ASEAN succession of attempts at co-operative activities. Fairly basic policy differences are likely to continue, and also to appear and disappear at intervals. An election in the offing can persuade candidates for office to stir up nationalistic sentiments; joint danger can draw countries together.

27 - Individual proposals for regional activities require individual cost-benefit analyses--which, with all their difficulties and inherent uncertainties of valuation, are indispensable. International agencies and national donors can usefully support such cost-benefit analyses.

Ad hoc and continuing groups of technicians of countries of the Region might well be set up to evaluate the promise of national and regional proposals, including those that could be financed by individual donors and by the ADB, etc.; and to follow and check on the efficiency of projects once
** they are started. Such committees or associations might be supported by AID. Any cost-benefit studies of regional industrial possibilities need to consider both current efficiency (comparative advantage), the dynamic, feedback effects on skills, organization, values, and social changes, and capital formation.

28 - One general presumption gives a useful rule-of-thumb for initial
** evaluation of proposals. Projects that expand production and/or productivity have an obvious presumption in their favor. Projects that seek higher money returns through checking production and/or productivity (for example, commodity agreements to limit output) are highly suspect. They of course deny the basic nature of economic progress, which consists of increasing production (= real income). They carry inevitable administrative burdens--and administrative efficiency is a major LDC problem. Their intent is apt to be frustrated by the obvious, the subtle, and the manifold inroads of competition, both from other producers of the same product and from substitutes, both in the short run and the long run.

29 - Regional cooperation measures may well have their greatest benefits through an indirect influence. Southeast Asia appears to distant peoples to be a tolerably homogeneous area. It is in fact widely heterogeneous in the relevant aspects of history, culture, mineral resources, soil fertility, population density, exposure to the "West" and to modern technical methods, and local patriotisms and antagonisms.

Such contrasts have historically proved to be opportunities: the cooperative mixing of peoples of diverse backgrounds has repeatedly in various parts of the world been a mutual stimulus to practical achievements. The potential gain is great.

30 - Diversities within the region and the uncertainties of benefits from existing proposals for formal integration both suggest that external
** assistance should in the main be directed to informal, partial, politically neutral measures of obvious joint benefit.

Outside encouragement of major integration projects should be cautious. More emphasis needs to be placed on research and on mutual education through discussion of going problems and possibilities. Until potential participants see clearly that there is a problem, that the problem requires regional cooperation, and that the net benefits will be significant, pressure from outside the region is unlikely to achieve a continuing effect.

31 - A modest one-thing-at-a-time policy is desirable: focusing on some
** one obvious problem, whose solution is in the unmistakable joint interest--about which nations can cooperate while other matters they are at odds on can be put aside for the time.

32 - External support to regional cooperation measures has the best
** chance of success when it achieves a joint maximum from two goals: obvious contribution to the economic and other advantage of the regions, and intra-regional political neutrality and colorlessness. The avoidance of political suspicions and antagonisms is an absolute requisite.

33 - Nationalism is a central fact. Any attempts at regional cooperation in Southeast Asia must be viewed as subordinate to the major theme of nation-building. How can nations and their elites consciously gain as individual units through regional cooperation?

Formal cooperation plans that would compel nations of Southeast Asia
** to modify their national goals or their national policies have a highly dubious viability.

** Less formal and partial measures may soften the edge of nationalism. In time the experience of various forms of cooperation, and the disciplines imposed on diverse economic policies by success and failure (so causing convergence of those policies) can lead to a deepening sense of regional common interest, and hence willingness to deepen and broaden regional cooperative ventures.

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