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ECONOMIC INTERDEPENDENCE

IN SOUTHEAST ASIA

by Theodore Morgan et al.

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ECONOMIC INTERDEPENDENCE IN SOUTHEAST ASIA

by

UNIVERSITY OF WISCONSIN-AID
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I. SOUTHEAST ASIA REGIONAL COOPERATION: A BRIEF CLASSIFICATION

A. Measures for regional cooperation, can be classified by degree of formality and government commitment. Cooperative activity can go on either under private or government auspices. (1) 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.

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

(3) 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.

(4) There may be commitments to take cooperative action on matters of a "public service" type, where provision by one state of a service useful also to others causes no decreased supply of the service domestically. Among these are research activities, technical education, radio 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 programs. The Southeast Asia Treaty Organization (SEATO) has carried on research in tropical medicine; ASA also initiated some studies of the possibilities of such research. 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 (ASO). ASA, again, has done some planning in the area.

(5) There may be significant commitment of resources in the joint interest (a) 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 Viet Nam, envisages this kind of joint commitment. (b) 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. There can be regional joint effort to expand exports of products like tea, and to conduct research in and explore markets of products like rubber and fiber, and to increase tourism. ASA carried on some investigations in this area.

In the new meetings at Delhi this fall of the UN's Conference on Trade and Development (UNCTAD), a joint position is likely to be established by the trade union of countries from the different underdeveloped regions on trade policies and commodity marketing agreements,

shipping rates, and the like. With such agreement they judge they can face the high income countries in a better bargaining position.

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

(6) But domestic policies may be altered by regional cooperation. (a) There may be agreement to enforce standard sanitary regulations within individual countries, and to set up a standard grading system for ensuring the quality of regional products. (b) Trade may 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. (c) Trade may 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. (d) 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 resulting 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 (v. below: ECAFE views at Bangkok Conference): 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. (e) There may be agreement for a regional payments union, to cut the need for restrictions on intra-regional trade by deficit countries. (f) 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. (g) There may be coordination of other economic policies and regulations. There may even be mutually adjusted policies for political change.

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

B. Cooperation can exist only *within* the region. ASA has fitted this category. So does the Lower Mekong Committee; and so did Maphalindo (Malaya, the Philippines, Indonesia). Or cooperation can exist between one or more countries of the region and countries outside. The Asian

Development Bank, set up last year 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. The Asian and Pacific Council (ASPAC), proposed in 1966 at meetings in South Korea, is also such a mixed grouping.

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

- (1) Regional projects that require the agreement of two or more regional countries, *versus* those that don't--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.
- (2) 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 (AID Research Paper #11).
- (3) Purely economic inter-government agreements (trade and payments treaties) *versus* other agreements--political, cultural, educational, research.
- (4) 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 finding freely available.)
- (5) Organizations that have functioned (ECAFE, SEATO, ASA until it halted its work with the breaking of diplomatic relations between Malaysia and the Philippines in late 1963, CP, APO...) *versus* regional proposals advanced for domestic or foreign political effect, with little or no functioning (Maphalindo, was hardly more than a slogan and sentiment; Sukarno's NEFO--Newly Emerging Forces--is another example).

D. The bars to mutually-useful regional cooperation in Southeast Asia have been, much as elsewhere in the world, primarily political. And in part the causes of such cooperation as has gone on have also been 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 organizations (ECAFE, APO, CP) survive and are effective in large part because of continuing outside support--which is also partly political-economic in motivation, and only partly disinterested.

Both old and new antagonisms divide the countries of the region, and cause them to be acutely sensitive to the political and military implications of regional measures. "Confrontasi" between Indonesia and Malaysia has deeper roots than Sukarno's fancy, and these roots will give rise to continued future tension. There is long-standing antagonism between Cambodia on the one hand, the Viet Nams and also Thailand. Malaysia and the Philippines have quarreled over North Borneo.

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

Indonesia, Laos, and Cambodia have been mainly neutral between East and West, though the West has often thought they leaned toward Peking or Moscow. Now Indonesia again leans West. Burma has nearly retired from this world. Malaysia, Singapore, Thailand, the Philippines, and Taiwan have been sympathetic toward the West.

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: the maximum contribution to the obvious economic and other advantage of the region, and a maximum of 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, efficient measures listed under (1), (2), (3), and (4) are a better bet than equally efficient measures listed under (5), (6), and (7).

We of 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 twenty 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 United States would pledge good will, cooperation, and a share of goods and capital to make the plan work.

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II. THE THEORY OF INTEGRATION: A REVIEW

Economic integration may be defined as a process, and as a state of affairs. "Regarded as a process it encompasses various measures abolishing discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies."

Analysis of economic integration can be divided into two sections:
A) comparative static effects; and B) dynamic effects.

A. Comparative Statics

Comparative static analysis is concerned with the state of economic welfare before and after formation of a customs union. It focuses primarily on changes in the pattern and volume of trade rather than changes in economic structure. The net effect on economic welfare depends on the production effect, and the consumption effect.

1. The production effect consists of trade creation and trade diversion. Consider a hypothetical customs union between countries A and B. Assume that only one commodity, cotton, is produced and consumed. An example of trade creation would be that, because of protection, A imports little or no cotton before union. However, when the trade barriers are lowered between A and B, A now imports cotton from B, whose producers are more efficient than A's; a lower cost source of supply has replaced a higher cost source of supply.

An example of trade diversion, in contrast would be that country A imported cotton from the lowest cost source, country C before the union; but after union switched its source of supply to its partner country B. A lower cost source of supply is replaced by a higher cost source of supply.

The production effect--the change in the source of supply--is often called inter-country substitution.

2. The consumption effect--Trade creation will, and trade diversion may, reduce domestic prices of the commodity and thus have an effect on the amount demanded. If the consumer response is very large to the price decrease a much greater quantity of cotton is now imported. The change in demand--where within a given income, the consumer increases his purchases of one commodity and must therefore reduce his purchases of another--is called inter-commodity substitution.

Comparative static analysis provides several guide lines concerning improvement in welfare: A customs union will raise the standard of living more, 1) the higher the original tariffs of the uniting countries; 2) the lower the original tariffs vis-a-vis the outside world; 3) the greater the substitutability of the products of the countries in the

union; 4) the less the products of the countries in the union can substitute for the products of the outside world; 5) the higher is the proportion of trade with the country's union partner; 6) the lower the proportion of trade with the outside world; and 7) the lower is the trade-national income ratio (to minimize the adverse effects of trade-diversion.)

B. Dynamics

Additional important effects coming from the formation of a customs union are the "dynamic" effects. The most important dynamic argument centers on the idea of economies of scale: a reduction of input needs per unit of output as output expands. If markets are broadened within the union, there is a chance for economies of scale to become operative.

C. Application to LDC's

There has been much interest lately concerning economic integration among developing countries. The argument is that the LDC's, facing a shortage of foreign exchange needed to import investment goods, have created import replacement industries which often serve a market much too small to allow the development of efficient levels of production. If a group of LDC's were to band together in a customs union, it is argued, they would form a large market, encouraging investment in industries which enjoy economies of scale.

Some economists envision nothing more than a free-trade area among groups of LDC's. They see free competition as an efficient allocator of resources within an LDC union. Another group of economists that is gaining increasing attention advocates the "harmonization" of national development plans. Their argument calls for the allocation of large scale industries among members, while at the same time guaranteeing a market for the products.

We will consider certain aspects of the harmonization approach in the following Section.

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III. COMMENTS ON THE HARMONIZATION OF DEVELOPMENT PLANS APPROACH*

A. Introduction

Of the various forms of economic integration the Harmonization Approach advocated by ECAFE and supported by a number of economists, is the most adventuresome and comprehensive of all. Since the "Approach" encompasses elements of integration on various fronts--investment projects, tariff policy, trade agreements, monetary and fiscal policy, etc.--it is extremely difficult to define precisely. But the focal aim of the Approach seems to be 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 mutually agreed upon through negotiation. The "Approach" is an ingenious and highly institutionalized attempt to overcome the foreign exchange shortage, to alter the existing pattern of the region's foreign trade, and to accelerate industrialization of the region as quickly as possible.

B. The Approach

The salient feature of the Approach is the rejection of free or freer trade among participating countries as a means of ensuring the 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 the import substitution policies currently being followed by those countries. The countries require, therefore, radical changes in 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. For, it is contended that the mere enlargement of the market hardly leads to an expansion of *new* lines of activity.

An institutional device is required which would enable an individual country's development plans and policies to be compared and harmonized with those of others. Areas of specialization would be determined, not *ex-post* by the lowering of trade barriers, but *ex-ante* by previous agreement on the direction of investments to be channeled into each country. Once the areas of specialization are determined, it is believed that the way to expansion of trade will have been paved, because trade agreements are regarded as complementary adjuncts to agreed specialization.

*U.N., *Economic Bulletin for Asia and the Far East* (December 1964), Section on "Approaches to Regional Harmonization of National Development Plans", pp. 33-81.

The harmonization of development plans is basically said to be feasible because most countries rely on planning in solving problems of economic development. This reasoning, however, seems oversimplified since planning is understood in a different context 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.

Underlying the Approach seems to be an assumption that the political hurdles could be overcome by the lure of the considerable economic gain that the venture would bring to individual countries--a gain that would be realized 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.

C. Some Questions

Several questions come to mind. First, it has been stated in the preceding Section of this paper that regional integration will be accompanied by some trade diversion from low cost to higher cost sources of imports. It has also been stated 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. However, it is uncertain that the Approach will in itself bring about the necessary structural changes.

Second, 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--government controlled operations and private cartels--in 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.

Third, besides the inter-country coordination of development plans, there is another problem of no less importance. That is the inevitable need for bringing about changes in the monetary and fiscal policies of the

member countries corresponding to those in investment and trade.

Finally, for such a far-reaching proposal, one would expect meaningful empirical work substantiating its economic arguments and spelling out a basic set of formulae 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 differences in the economic, technical, and social conditions of these countries as compared with developing 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. For, once such an institutionalized arrangement is launched on such a large scale, steering it in another direction would be difficult. The Section following this will bear out this point.

IV. OPINIONS AND INSIGHTS: VIEWS FROM THE BANGKOK CONFERENCE
ON HARMONIZATION PROPOSAL, AND TRADE LIBERALIZATION
PROSPECTS

NOTE: This section consists of excerpts from the Proceedings of the University of Wisconsin-AID Conference on "Economic Interdependence in Southeast Asia" held January 12-14, 1967 in Bangkok, Thailand. The following statements have been taken from the verbatim transcript with only minor editing. Because it has been impossible to submit this record to the various Conference participants for verification and approval, please treat these remarks as PRELIMINARY AND CONFIDENTIAL.

Dr. Hiroshi Kitamura (ECAFE)

I think it is very significant that the theme of this Conference is "economic interdependence". The theme reflects an attempt to create a degree of economic interdependence which does not now prevail in the region.

The fact is that the degree of interdependence is declining over time in this region. This is partly due to short-sighted policies, but probably more fundamentally due to objective conditions where complementarity within the region is almost completely lacking. The countries of the region are all at similar levels of economic development--the same stage of underdevelopment.

In the 19th century world economy there was interdependence between the developed and the underdeveloped countries. Experience since the First World War showed us clearly, and this was the essence of Nurkse's thesis, that this particular type of interdependence cannot be an engine of growth for the developing countries in the twentieth century... Therefore, if the developing countries of the present day want to achieve their objective of accelerated growth, they must do something for themselves as a group, aside from trade between themselves and the developed world. This is exactly where the problem of regional cooperation or interdependence comes in...

*Professor Anthony Tang (Chinese University of Hong Kong and
Vanderbilt University)*

The argument for the plan harmonization approach stems from setting two highly idealized models against each other: a free trade model versus a model in which a group of reasoned and reasonable economic planners from the region would sit together to devise ways to capture externalities and reconsider the problem of indivisibilities--to pull together their investment plans and make rational decisions with due

attention to equity in the distribution of economic activities among countries of the region. That is to say, these people are expected to rise completely above their national interest and national considerations.

If economic planners can be counted on to operate in that manner, I think the conclusion is foregone. Of course, we will accept the second model and abandon the free trade model.

The real choice, however, is not between these two models. It is between what the real world is like, and what may be a second-best solution that offers some hope for success...

It is further argued that free trade would serve to widen disparities in income distribution among countries within a particular region. Here again, I think we should look at actual experience. In many countries the government has deliberately channeled resources into selected areas within their countries. Concentration occurs around the capital city. ...If national economic planners cannot be counted on to use reasonable policies to decentralize economic activities in an equitable way within their own countries, I am not particularly hopeful that a group of economic planners representing various nations can sit together and pool their investment plans in a way that would be considered rational by economists. Furthermore, theoretical analysis and recent empirical work indicates that at least in the early stages, increasing inequality may formally be associated with growth.

Professor A. Tang--Comment 2: I have gathered the impression from the discussions here that there is a feeling that an increase in trade within the region is a good thing in itself. We have been very much interested in finding out how Taiwan, for example, has been able to increase its exports to the region.

I would like to take the position that increased trade may not be a good thing in itself. Very much depends on what sort of measures one takes to bring about this increased trade. A critical analysis of these measures may lead to the conclusion that the resulting trade contains perhaps a great deal of distortion. The task would be to analyze the rationality of the emerging trade pattern, say, within the framework of the factor proportions theory...

Dr. Douglas S. Paauw (National Planning Association: Manila)

The argument for economic cooperation goes something like this: We perceive a very low level of intra-ECAFE or intra-Southeast Asian regional trade. Trade liberalization policies *per se* will not do much to increase this level of trade for a variety of reasons. Hence, something else needs tampering with. Because the underlying structures of the ECAFE countries are similar, the need is to change the structures

of the economies. This tampering should be done by plan harmonization policies. In other words, the approach is to bring to bear human intelligence and good will in a collective way to try to change the structures of these economies, and this would then lead to increased trade among them.

I would like to raise several questions. First, do these changes in trading arrangements based on plan harmonization imply drastic changes in the present pattern of trade? Presumably they do, which leads to the second question. Is there an implication that the present pattern of trade is undesirable and that it has not been consistent with growth in the countries under discussion? Would plan harmonization to accelerate trade in fact be more positive, more conducive to increased growth and higher welfare? This suggests the third question: Can intra-regional trade be expanded without reducing the present pattern and volume of trade, which is predominantly between the less developed countries of this region and the developed countries?

I would argue that the pattern of trade that has developed between the developing countries in the ECAFE area and the developed countries over the past 15 or 20 years is probably economically viable. Few of us would deny that there must be a substantial amount of trade between developing and developed countries, both because the import component of investment is high, and interestingly enough, because the import component of import-substitution is also very high. In view of these facts, I think there is a real question in whether efforts to influence substantially this existing pattern of trade by tampering would in fact be more conducive to growth than the present pattern.

Dr. Paauw--Comment 2: I have been very impressed with hearing the attack on the doctrine of aggressive import substitution. I think the departure from the kind of import substitution policies that most developing countries have followed harbors very well for increased regional cooperation... It has been pointed out that uncritical import substitution has led not only to a new kind of import dependence both in quantitative and, as Professor Power pointed out, in qualitative terms, but it has caused other types of domestic problems as well, and it obviously has not been conducive to regional integration.

Two of the papers in the Conference indicated that there are countries in the area that have not aggressively pursued this policy, and the results are very interesting. Taiwan consciously tried to build-in export promotion policies with import substitution strategies. Exports have in fact grown rapidly, and Taiwan is one of the two countries in this area whose trade with other ECAFE countries has increased. The opposite case from this combination policy is the Thai case of expanding exports of primary products. This effort and in some cases adding some processing, also led to rapid growth of exports. Thailand is the only other country in the area which has increased its trade with its ECAFE developing neighbors.

There is some empirical evidence that the strategy of moderating drastic import substitution policies provides a basis for increased trade among developing countries. This in turn suggests a format somewhere between complete free trade and a highly planned arrangement. There is considerable room for direction from the price system pointing toward comparative advantage lying behind the kind of export substitution or export diversification industries that should be developed. But there is also room for a kind of consultation among Asian countries as to which type of industry is being planned in given cases. I would doubt very much that it is impossible to expand trade among countries of similar structure if selected industries are expanded on the basis of comparative advantage...

Mrs. Suparb Yossundara (Bank of Thailand)

As I have listened to the discussions of the last few days, I have begun to conclude that economic integration on a full scale for the region or subregion is still somewhat remote, because of the diversity of economic structure, outlook and policy which now exists in the region... Can one, for instance, have a country with a full scale planning and exchange control systems, cooperate with another country with an open economy, which relies mainly on the price and market mechanism for economic decisions?

One must not forget that domestic policy is very important. The country concerned must try to pursue the necessary policy for its own economic growth so that it may be able to cooperate with other countries and grow further. But attention must always be given to the price-cost structure... It is bad enough for a country to bear its own burden of high cost industries, but to expect a region or subregion to bear such a burden is even more deplorable...

The idea of trying to harmonize national development plans down to the last detail and target, to me is still very unrealistic. It is hard enough to make the government agencies in my own country get together and come to some sort of priority list in planning...

Professor Robert J. Lampman (Universities of the Philippines and Wisconsin)

The ends of economics and politics are generally referred to as an improvement in the income level of people and nations, increased equality or at least diminishing extraordinary degrees of inequality, and improvement of liberty, or independence, or security of people and individual countries. Those ends are given at least broad recognition by all of us. (But those ends relate differently to groups within countries and to groups of countries.)

The means to these ends could be roughly classified as nationalism, regionalism, and internationalism. As Professor Power noted, the Nurkse discussion of a few years back was very concerned with the distinction between nationalist economic policy and internationalist policy. Lying somewhere between these two broad means or patterns is regionalism.

I think in our discussions about Southeast Asia we have not always made a close distinction among these three patterns. Sometimes we have spoken of nationalism versus internationalism by analyzing the effects of restrictive policies in one country versus the effects of eliminating those restrictive policies. Regionalism, however, is restriction by the region against the rest of the world. There is a distinct set of regional techniques: trade liberalization extending only to members of the region; harmonization of investment plans only for the members of the region; improved factor mobility only for the region. Regionalism is quite different from merely moving away from nationalism or moderating some of the extremes of nationalist economic policies: it is a third alternative. We should therefore be concerned, as Professor Tang has emphasized, with whether regional cooperation of one or another sort is an effective means to the end; and whether under critical examination, regionalism will actually serve the broad economic ends of higher income and better levels of living, of less inequality within the region, and of more security and freedom for members of the region.

V. OPINIONS AND INSIGHTS FROM OUR OWN RESEARCH GROUP

A. Economic Development and Planning

1. Goals

a. Goal Formulation: "Nation building" in its various aspects is the central objective of the countries of Southeast Asia. Resurgence of nationalism has given rise to multiple goal formulation, not all of which is mutually consistent. Economic development is not the central concern of any of these countries.

b. Goal Achievement: Those countries of Southeast Asia which are relatively more market-oriented and allow initiative and enterprise to function in an environment of decentralized decision-making ("outward-looking countries") have been more successful in goal achievement than the rest ("inward-looking countries"). Hence, Thailand, Malaya, Singapore, and the Philippines performed over the fifties and early sixties better than Indonesia, Burma, or India. The former group of countries showed higher growth rates of GNP, better export performance, higher capacity to import, more meaningful structural changes, control of inflation, and economic stability.

2. Implications for Regional Cooperation

a. Market Size: Since the size of market is a crucial factor in determining the pattern of industrialization in a country, the smaller countries of Southeast Asia would benefit from liberalizing their trade policies vis-a-vis one another. Import substitution on a regional basis would be less harmful than the current policies of autarky being pursued by individual countries. Furthermore, import substitution if carried to the extreme (i.e., without any regard to domestic market size or comparative cost, etc.) is likely to prove injurious in terms of domestic price level stability, foreign exchange earnings, and resource allocation in general.

With greater factor and product mobility, on the other hand, which should follow from regional trade liberalization, a more meaningful intra-regional division of labor would be attainable. In the process, there may be some "trade diversion" (diversion of purchases from low cost extra-regional sources to high cost intra-regional sources), but there will also be some "trade expansion" (realized from lowering of average production costs and tariff reductions) among these countries. Furthermore, a better allocation of resources is likely to increase the competitive capacity of the region's exports to the world.

b. Capital Markets: Both as a spur to and as a means of facilitating the process of trade liberalization or plan harmonization of the

countries of Southeast Asia serious action on the following lines might be contemplated:

(1) A Regional Payments Union might be established to increase the liquidity of the region as a whole vis-a-vis the rest of the world. However, the prospects of such an arrangement will be jeopardized if there are countries with chronic deficits in the balance of payments.

(2) An Asian Development Bank (now established) can promote those projects that are meaningful on an intra-regional basis. The Bank can sponsor feasibility and pre-investment studies jointly with ECAFE for that purpose.

(3) A Regional Industrial Development Bank might be established in addition to the Asian Development Bank primarily for looking after the investment needs of the *private* sector. In view of the underdeveloped capital markets in most countries of Southeast Asia, institutional financial support should go a long way toward spurring industrial activity. Moreover, a vested interest in industrial location might itself lead to more successful attempts at political agreement on tariff, tax and trade policies that affect the rationalization and growth of such industrial investment.

c. The Spill-over Effect: In a study of the integration of the capital markets in the European Economic Community it has been argued that a "spill-over" effect is one of the mechanisms at work in the European integration process whereby 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 also, which may now require currency unification for its effective functioning. Currency unification, in turn, may imply a pooling of sovereignties with a concomitant destruction of the separate identities of the participating nations. There is no inevitability about these occurrences. Rather, the spill-over process implies the ultimate inconsistency of a customs union and political sovereignty.

Only politically neutral efforts at regional cooperation are likely to be viable. Over time people and institutions may become adapted to cooperation. Gradually we may expect change of heart and of outlook.

B. Trade

1. Trade Performance

Changes in Southeast Asian exports to the developed areas between 1956-57 and 1962-63 were analyzed. It was found that although the region's exports did increase between the two periods, total imports

of the DC's increased substantially more. The difference is explained in part by the changing composition of the DC's import patterns which moved against the region's exports, and in part by the region's competitive failure to maintain its share of individual commodity groups. Other findings include: (1) stagnation of primary products exports from the region while exports of light industrial goods have grown rapidly; and (2) considerable variation within Southeast Asia: Hong Kong, the Philippines, Taiwan, and Thailand increased their exports rapidly while there was near stagnation in the exports of Indonesia, Viet Nam, Cambodia, Laos, Pakistan, India, and Ceylon. (The former set of countries were grouped above as "outward-looking" and the latter as "inward-looking".)

2. Trade Policies

Two possible approaches to explaining the nature of the economic forces responsible for the competitive decline, as well as the inter-country and inter-commodity differences are: (1) analysis of "effective" rates of protection; and (2) consideration of exchange rate valuation.

Effective Protection: The concept of effective protection distinguishes between stages of production in assessing the degree of protection granted each stage: a tariff on any given commodity will protect that productive process, but will tax industries using the commodity as a material input. Thus, the typical policy of import substitution in the region probably taxes the traditional primary export sector, which must sell at world market prices, by levying duties on required inputs. The industrial sector, however, is typically subsidized relative to the traditional export sector by lower duties on its inputs combines with productive duties on its outputs. Furthermore, for some industrial goods, the lower duties on inputs (relative to the traditional export sector) may be sufficient subsidy to make them relatively more competitive in export markets than the traditional exports. This pattern appears to explain at least part of the success of light industrial goods side by side with the poor performance of traditional exports.

Overvalued Exchange Rates: This is the second factor that tends to discourage exports. Exchange rate overvaluation taxes exports and subsidizes imports. Preliminary evidence from inter-country differences within the region of Southeast Asia indicates that when a country corrects persistent overvaluation, it experiences considerable success in *both* export expansion and general development: viz., Hong Kong, the Philippines, Taiwan, and Thailand. Thus, the failure of the region as a whole to adjust its foreign exchange rate sufficiently between 1956-57 and 1962-63 may partially explain the competitive deterioration.

3. Trade Prospects

Since trade prospects of the Southeast Asian countries--as of any other area--will be affected by demand *and* supply conditions, both

sets of conditions should be considered in making any predictions. Since, however, the demand conditions facing the exports of the region cannot in the main be affected by their efforts, the primary effort needs to be directed toward improving supply conditions. The comparative cost concept ought to be interpreted in the dynamic context of changing factor prices and qualities. It is equally desirable, however, that inflationary forces be kept at bay, resource allocation rationalized, exchange rate overvaluation removed, intra-regional factor and product mobility increased, and initiative and enterprise encouraged. Conditions need to be created for realizing these ends.

A fruitful area of further research is the form, e.g., trade liberalization or planning and plan harmonization, that regional cooperation should take in order to maximize its contribution to economic efficiency.

In addition, the trade policies of the DC's restrict the growth of LDC exports. LDC's are being handicapped in their effort to modernize by DC protectionism--which is (a) much higher than it appears to be, (b) which is erratic, and which (c) handicaps especially exports of LDC manufactures and so of those LDC's that have been most energetic in expanding their manufactures. These manufactures markets are of special interest of LDC's since basic world demand for manufactures is relatively expansive, and since manufactures growth is, for right reasons or wrong, much emphasized in LDC development policy. Among the right reasons: the feed-back and dynamic effects of manufactures growth offer especially hopeful vistas.

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C. International Aid and Organization*

1. Background

No Southeast Asian country has yet carried through a truly effective development program. Indonesia is obviously in the sorriest state. The Philippines suffers from corruption and government neglect of development too; a vigorous private enterprise sector brought rapid growth during the postwar reconstruction period and for a few years afterwards, but now the Philippines economy has bogged down. In Thailand the picture is much the same as in the Philippines, with economic and political problems concentrated in the Northeast but spreading. Malaysia still enjoys some growth and has a relatively stable parliamentary democracy, but future growth will become increasingly difficult as the strength of rubber and tin as leading sectors wanes. Burma is virtually stagnant, and the three countries of Indo-China are a maze of problems.

2. Requirements

If Southeast Asia is to get on the move economically, and cease to be the world's ripest field for Chinese Communist propaganda and infiltration, several things are necessary:

a. A macroeconomic plan for stabilization and development, broken down into main sectors and regions, and also broken down into time periods, a 10 to 20 year perspective plan, a 3 to 5 year implementation program, and a 1 year stabilization program. The plan should include provision for reducing glaring regional gaps in productivity and income. It should suggest concrete and effective measures for checking inflation and attaining equilibrium in the balance of payments. Most of the countries in the region have within their borders the expertise needed to prepare such a plan. However, for various reasons the men with the right kind of training have been unable to acquire experience in the preparation and implementation of development plans. It will be well, therefore, to attach a small number of experienced development planners from advanced countries to the planning teams, in order to bring experience of other countries to bear, to add to the total manpower available for the task, and to increase the confidence of the donor countries and organizations in the plans and help induce them to provide the necessary capital and technical assistance to carry out the programs.

*This section draws heavily on Benjamin Higgin's, "The Problem of Reconstruction in Southeast Asia", mimeo., February 1967. Professor Benjamin Higgins worked as a Consultant to the AID-Wisconsin Project on "Economic Interdependence in Southeast Asia".

b. The implementation program must be broken down into a set of integrated projects, each one well designed in itself, and justified in a manner likely to attract foreign funds. Foreign technicians are likely to be needed to assist in the preparation of project proposals and put them in a form that will make them "bankable."

c. There will have to be strict budgetary control. The only safe system would be one in which every payment would require the signature of a representative of the donors as well as of the government of the recipient country.

d. There will have to be expert technical supervision of the execution of the projects. The best device would probably be to have joint supervision of all projects, with responsibility shared between national and foreign technicians.

e. The program must include some projects of a kind that will bring immediate improvements in levels of living so as to assure popular support for the program and stave off disruptive revolutions. Commodity surplus disposal can play an important role here, and will have the beneficial side-effect of helping to stem inflation. Not only food, but also textiles should be made available. Urban housing also needs attention. Expansion of education and health facilities should also be considered...

3. Organization

a. Essential features: The essential features of any organization set up to carry out the program are that it should be international and that responsibility for planning, budgetary control, project preparation and supervision should be shared between the recipient and the donor countries. The organization could be set up within the framework of the United Nations, within the framework of OECD, or as a new international body (perhaps OVERSEAS, for Organization for the Valorization and Economic Development of Southeast Asia, borrowing a Latin language expression for general economic improvement and development). There are certain special advantages for working within the United Nations. Through the years ECAFE has built up an enviable relationship with its member nations. ECAFE now enjoys the confidence of the member governments, has an excellent research staff, and has proved its ability to handle large projects through the success of the Mekong River Project. Since the United Nations has the broadest membership of all international organizations, it is less subject than any to accusations of "neo-imperialism" of a particular brand. The fact that the U.S.S.R. is a member, in this context, is an advantage even from the American point of view.

For illustrative purposes, then, let us suppose that OVERSEAS is set up as an adjunct of ECAFE. Nominally, the head of the organization would be the Secretary General of the United Nations, operating in this case through the Executive Secretary of ECAFE. The Executive Secretary

would act as Chairman of the Board of Directors of OVERSEAS. Each donor country and each recipient country would have one Director, with voting power proportionate to the contribution to capital. Here it might be well to follow the IADB (Inter-American Development Bank) format, each member having so many votes as such, with additional votes for each share of capital subscribed, so as to dilute somewhat the power attached to subscriptions. There should be a limit to share in capital subscriptions, so that no country would have more than (say) one third of the total votes. The recipients would make their subscriptions in local currency, the donors in foreign exchange, preferably in transferable funds. The Organization should be able to dispose of at least one billion dollars a year for at least five years, in grants, soft loans, commodity surplus disposal and technical assistance.

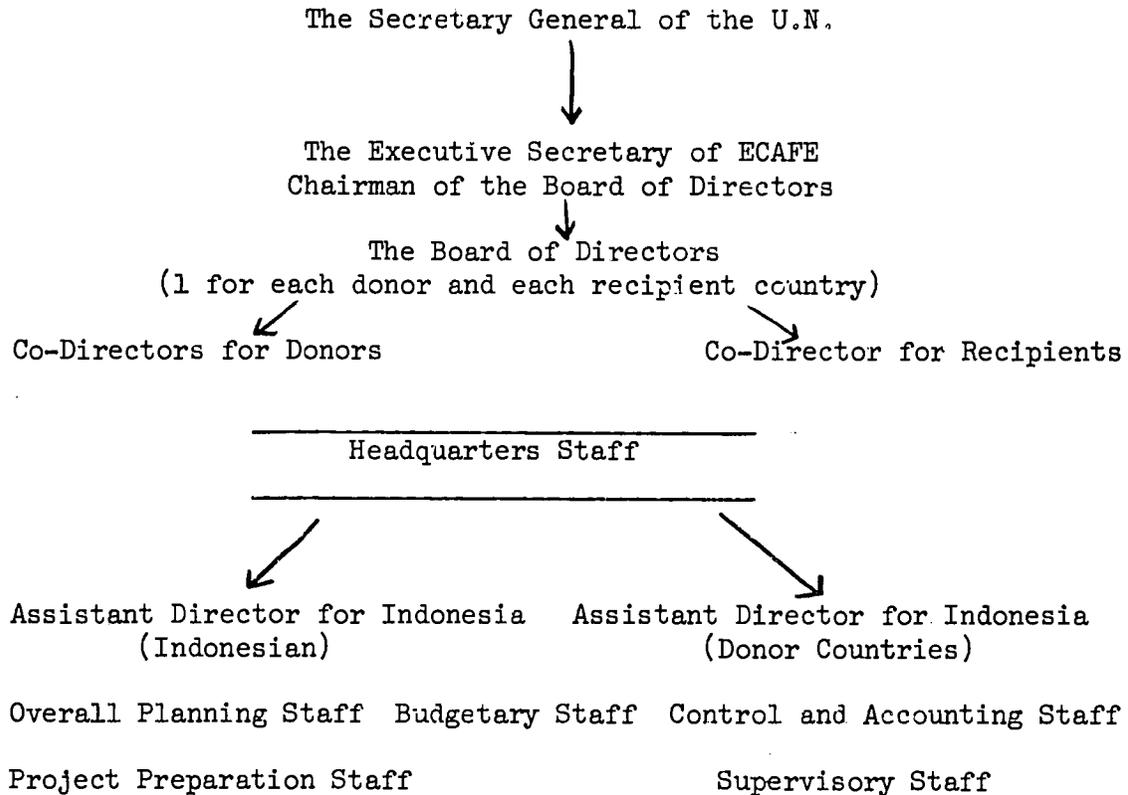
Below the Board of Directors would be a Secretariat headed by two Co-Directors, one representing donor countries and one representing recipient countries. These would have offices at ECAFE headquarters in Bangkok, would be able to draw upon the technicians on the ECAFE staff, and would have a small technical staff of its own. There would then be two Assistant Directors for each country, once again with one representing the recipient country and one representing the donors. These would have offices in the recipient country, perhaps in the Ministry of Planning or the Ministry of Finance, or in the office of the Prime Minister.

At no point would funds be turned over to the recipient governments as such; the funds would remain in possession of the Organization and would be dispensed by the Organization.

If the governments of the donor countries are unwilling to provide large-scale assistance in the form of subscriptions to capital of an Organization over which they will not have complete control, an alternative would be for each country and agency to select certain projects from the program and provide funds for those projects. However, in this case it would be well for the funds to be administered by the Organization to assure proper use of funds and effective supervision of the execution of projects. The simple truth is that effective reconstruction and development of Southeast Asia requires a modicum of sacrifice of sovereignty to an international organization by donor and recipient countries alike.

b. Implications: The implications of such a program go far beyond the economic development of Southeast Asia. By providing an example of Creative Co-existence, with the USSR and the OECD countries cooperating in the common cause of bringing a more ample life to the people of Southeast Asia, the teeth will be drawn from the Chinese dragon. Once surrounded by prosperous and progressive nations, each with an economic, political, and social system of its own choosing and reflecting its own values, traditions, goals, and ambitions, with the enthusiastic support of Communist and non-Communist countries alike, China will find no market for its own brand of Communism, and Chinese imperialism will encounter strong opposition from neighboring countries, in the future as in the past.

ORGANIZATION CHART FOR OVERSEAS



(Same organization for other countries)

VI. TRADE OF LDC'S AND SOUTHEAST ASIAN LEADING EXPORTS: PROSPECTS AND TRENDS

A. The Export Lag of LDC's

1. Background

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 emerged from the U.N. and other sources relating to the present and future (prospective) trade gaps of 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.

In spite of disagreements regarding the magnitude of the trade deficit for LDC's, there is unanimous agreement as to the presistance of such a deficit. According to a study by Bela Balassa, the trade deficit of the LDC's as a whole, under the most likely income assumption, will rise from \$1.3 billion in 1960 to \$4.3 billion in 1970 and to \$5.2 billion in 1975. Other estimates indicate an even larger trade deficit: a) \$12 billion for 1970 according to the United Nations Secretariat calculations, and b) from \$8.5 - 12.5 billion in 1975 (excluding the Middle East) according to the GATT estimates.

With respect to individual areas, the trade deficit is expected to be by far the greatest for Asia, whose deficit was projected to increase from \$1.5 billion in 1960 to \$5.2 billion in 1975 in view of the slow rate of growth of its exports and the increase in its import requirements. (A study by ECAFE estimates an export gap for the region of at least \$13.4 billion assuming a 5% annual growth rate giving rise to import requirements of \$26 billion by 1980 as against projected primary exports of \$12.6 billion. The gap is presumably to be met by exports of manufactures, import substitution, or foreign assistance.)

2. Some Causes

The blocks to expansion of exports at the desired rates originate from a variety of causes both external and internal to the Asian countries. The low income elasticity of demand for the majority of primary goods, as well as technological changes favoring the development of synthetic products competing with the natural ones (a process which is especially strong in the case of rubber), the developed countries' demand for primary commodities has been expanding at a decreasing rate. Low incomes have prevented a rapid increase in LDC demand for primary products. Finally, and perhaps of more importance, structural rigidities

in production of LDC's themselves have kept their trade patterns almost exactly the same until only very recently.

B. Analysis of Trade Projections

The situation being thus, any study attempting an analysis and projection of trade prospects for developing countries merits considerable attention by the LDC's. Not claiming accuracy or functioning as exact forecasts, such studies serve to shed some light on the most probable outcome for trade conditions, given the available knowledge and with a number of limiting assumptions.

1. Content

In a study conducted by ECAFE a number of the region's leading exports were estimated to obtain the following over-all percentage increases between 1960 and 1980:

Natural Rubber	58.5%	Sugar	42.6%
Petroleum & Products	184.0	Tin Metal & Concentrates	52.0
Tea	43.6	Wood & Lumber	94.6
Vegetable Oils	56.0	Cotton Fabrics	38.8
Rice	66.5	Jute & Jute Fabrics	24.0

The greatest increases, apart from petroleum, were projected for wood and wood products, rice, natural rubber, tin and tin concentrates, followed by tea, sugar, cotton fabrics and jute and jute products.

2. Experience to 1964

The export performance of Southeast Asian countries with respect to those commodities has shown on the whole a higher rate of increase than projected between the years 1960 and 1964. Exports of natural rubber, however, from virtually all of the rubber exporting countries have fallen and exports of tea have stagnated. The following are the percentage changes in exports for the various commodities between 1960 and 1964:

Natural Rubber	-35.0%	Sugar	58.7%
Petroleum & Products	17.6	Tin	24.7
Tea	1.0	Wood & Products	72.5
Vegetable Oils	24.0	Cotton Fabrics & Yarn	16.8
Rice	40.6		
Jute & Jute Products	22.8		

The export gains with respect to individual countries have been,

however, less satisfactory particularly in the case of rubber and tea exporters. And, the overall picture still suggests insufficient rates of export expansion, especially in view of the increasing trade deficit which has amounted to over \$3 billion for the area by 1964, thus doubling the 1960 trade deficit. For individual countries, the deficit was the largest for India followed by Pakistan and Hong Kong.

C. Implications for Policy: Concentration on Labor Intensive Exports

Although it is still inconclusive exactly where the comparative advantage of the LDC's for the production of manufactured goods lies, the growing belief is that it is basically in the area of *labor intensive manufactures*. Certain relatively less complex manufacturing groups such as textiles and apparel, wood products, leather products, and rubber footwear, as well as some other miscellaneous manufactures have generally been defined as the most suitable for production and export by LDC's. It is the suggestion, however, that the problem is more complex, and that a clear cut delineation of certain relatively simple manufacturing groups to the possible exclusion of others (such as those of metal products, machinery and transport and other capital goods products, and chemical products) does not seem to be an optimal choice from a long run developmental point of view. If LDC's in general and Southeast Asian countries in particular are to avoid another narrow based export trap for manufactured goods, long run projections for the export potential of the different manufacturing groups have to be similarly taken into consideration.

A study of future prospects of world trade in manufactures by Maizels has in fact projected a declining share of textile and clothing and other miscellaneous manufactures as a percentage of total imports of manufactures for industrial, semi-industrial, and non-industrial 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.

In view of such forecasts, further competition among LDC's for the production and export of a few manufacturing categories whose future prospects are not projected to be very bright may only worsen the situation for those countries.

D. Identification of Appropriate Commodities

The analysis of LDC's prospective comparative advantage in the production of certain manufactured commodities starts with the basic assumption that LDC's have relatively little accumulated capital. Hence any comparative advantage that they may have in manufactures, apart from the resource oriented ones, must arise from their low wages. The conclusion then is to specialize in those industries with a strong labor orientation, generally defined as to incorporate low capital requirements per worker both in the form of education and training (i.e., human

capital) and in the more tangible form of plant and equipment.

1. N.B.E.R. Study

One possible criterion for the selection of industries satisfying this definition utilized by the National Bureau of Economic Research was the ranking of industries with respect to the two major components of value added per employee, mainly the wages and salaries per employee representing the labor component and the non-wage value added per employee representing the returns to both capital and natural resources. The conclusion reached was that LDC's are expected to develop a comparative advantage in manufactures with a higher percentage of wages and salaries component of value added per employee. These manufacturing groups were defined to be textile and apparel, wood products, furniture, leather and miscellaneous manufactures.

2. Our Own Work on Southeast Asia

In attempting a similar study for six Southeast Asian countries: Japan, India, Federation of Malaya, Pakistan, Indonesia, and the Philippines, our figures indicate that in addition to the previously mentioned manufactures, those of metallic products, machinery and transport equipment had a similarly high percentage of wages and salaries per employee. This percentage was lower for Japan, however. It is the contention, therefore, that due to the large degree of aggregation as well as the heterogeneity of products included under any classification, LDC's and Southeast Asian countries may, generally speaking, specialize in the production of any commodity which is relatively labor intensive, irrespective of the particular group in which it falls. Granting such a larger degree of diversity would enable these countries to take advantage of the better prospects for the exports of metallic, capital and chemical products.

A survey of the export performance for manufactures for a number of Southeast Asian countries tends to support the arguments so advanced. The most general tendency was that although agricultural products still constitute the highest percentage of total exports, manufactured exports as a whole are gaining an increasing share. For the majority of those countries food manufactures, mainly in the form of simple processing operations, constituted the largest proportion of total manufactured exports. Textile exports were of no major significance except for Hong Kong and India, followed by Pakistan and Singapore. Finally metallic products as well as machinery and transport equipment, though absolutely representing a smaller percentage of total exports, have exhibited on the whole a higher rate of expansion.

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E. The Accuracy of Trade Data of the Southeast Asian Countries

The empirically minded economist suffers a serious handicap from the inadequacy of economic data for the less developed countries. At the same time, the need for empirical work is more acute than ever for such purposes as development policy and national planning. If meaningful conclusions are to be drawn and policy suggestions made, extreme care must be exercised in checking the accuracy of data used. This burden must fall on the initial investigator since his conclusions are often used by others.

An area in which economic data are available in relatively abundant supply is that of trade statistics. These data serve an extremely useful purpose in the analysis of less developed countries since their trade-income ratio is high and since their economic structure is often inferred from the pattern and composition of their exports and imports. Also, with the recent rising expectations of regional cooperation, a better grasp of trade relationships between various countries is needed.

It is generally believed that among the various kinds of statistics trade data are the most accurate and reliable of all. The goods move under the noses of the customs officers. They can be systematically counted and measured. A convenient check on accuracy is presented by the circumstance that trade data are recorded by both trading partners, and so can be compared side by side.

An empirical test of discrepancies in the trade data for 1962 and 1963 of the Southeast Asian countries reveals the following:

1) The total trade recorded by the individual Southeast Asian countries was compared with the recorded trade by their respective partner countries. Some of the comparative figures are astounding: the same trade statistics recorded by two trading countries can differ by 100 times or more! We have made a significance test (T-test) on the basis of tolerating 10% differences between the two recordings of export statistics as a norm (often used by the IMF). For six of the nine Southeast Asian countries tested the two recordings of the same trade figures for 1962 are significantly different at a 5% confidence level (see Table One.)

2) A comparison of trade balances between using export figures and import figures for the average of 1962 and 1963 shows several large differences. In some cases a trade surplus shown in one recording becomes a trade deficit in the other recording (see Supporting Tables for details).

There are a number of possible reasons for the discrepancies. 1) Transport costs will cause a usually moderate discrepancy between FOB export and CIF import values. 2) Different recording definitions are

used by different countries. For example, the entrepot trade of Singapore and other countries of the region is not consistently treated. And for specific trade commodities, sub-items may be differently defined and so be entered under different aggregated headings.

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 smuggling. 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 purpose of the capital flight may be (a) avoiding taxation and legal seizure of ill-gotten gains, (b) avoiding the risk of confiscation of property (as of the Chinese in Indonesia in 1959-61 and later), (c) avoiding property destruction from disorder or 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--all these transfers illegal under exchange control laws, or difficult, or likely to lead to unpleasant questions about the sources of the funds and whether all taxes had been paid and to uncomfortable knowledge on the books of the authorities about one's assets.

The basic conclusion is that analysis of the benefits and costs of any integration scheme for the region now must rest on the shaky foundation of inaccurate trade data. And any planned harmonization analyses, as ECAFE proposals required, must now rely on inaccurate, hence at least partially misleading, trade data.

Much can be done by energetic customs administrations to correct the causes of discrepancies number 1, 2, and 3 above. But 4, 5, and 6 are more resistant: they are likely to be less serious sources of error only as tariffs and other trade restrictions are lowered, and as exchange controls wane; and in fact as economic development in general progresses, and so probity and efficiency improve.

Table 1: A Test on Difference in Export Statistics Reported by Southeast Asian Countries and Importing Countries, Assuming Expected Difference of 10%, 1962

Asian Countries (j)	Number of Importing Countries (j) Compared (n)	Average Ratio of Imports from Asian Country to Exports of Asian Country	Standard Deviation	Standard Deviation of Sample Mean	Value of t
Indonesia	25	664.02	1,329.40	265.88	2.084
Thailand	26	116.59	52.91	10.38	.635
Malaya	28	218.60	189.08	35.73	3.039
Singapore	25	34.96	28.51	5.70	-13.160
Philippines	24	138.26	64.64	13.19	2.900
Taiwan	25	150.18	135.61	27.12	1.482
Hong Kong	27	152.19	82.64	15.90	2.653
Burma	19	146.83	102.55	23.53	1.801
Ceylon	22	143.58	115.21	24.56	1.367

EXPLANATIONS:

1. Average ratio of imports from Asian country to exports of Asian country is computed as follows:

$$\frac{\sum_{i,j} M_{ij} / X_{ji} \cdot 100}{n}$$

M_{ij} = Imports of the i th country from the j th country (Asian country) reported by the i th country.

X_{ji} = Exports of the j th country to the i th country reported by the j th country.

n = A number of the i th country compared

Hence, 664.02 for Indonesia, for example, indicates that, on the average (unweighted), i th imports from Indonesia are reported to be more than 6 times the export figures reported by Indonesia.

2. The expected difference of 10% between M_{ij} and X_{ji} is used here as first approximation following a customary procedure of IMF--

(That is, $\frac{M_{ij}}{X_{ji}} 100 = 110$).

3. Source: U.N., *Commodity Trade Statistics*, 1962.

VII. CONCLUSIONS

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

The countries of Southeast Asia have had a diversity of background and experience with economic development. Any meaningful approach must be based on and proceed from such experience in these countries. 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 attempts would compel the countries of Southeast Asia to redefine certain national goals and abandon certain national policies. In the visible future their viability is very doubtful.

In contrast, the 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 can 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.

A major commitment to integration such as ECAFE's harmonization proposal must hold out the promise of great gain for the participants in order to be acceptable; and in fact the gains have been assumed to be substantial. But, in our view it remains unproved that the economic gains would be large enough to justify such an approach.

A modest attempt at cooperation within the region might be made through analyzing the comparative advantage of the region as a whole in an effort to discover which products would provide the stimulus to growth through the contributions both of current efficiency and dynamic feedback effects that traditional exports have failed generally to provide. But even this policy is limited and handicapped by uncertainties of data. With correction of existing, sometimes flagrant errors, standardization and further refinement in the regional economic data now collected, assessment of the consequences of any given proposal is very uncertain.

Finally, diversities within the region and the uncertainty of benefits from existing proposals for formal integration suggest that outside encouragement should be in the main directed to informal, partial, politically neutral measures of obvious joint benefit. Outside encouragement

of major integration projects should be limited; more emphasis needs to be placed on research and mutual education through discussion of the 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 any continuing effect.

One specific form of U.S. encouragement to regional freer trade measures might take the form of trade preferences extended by the United States on condition of reciprocal lowering of Southeast Asian barriers among themselves. The extension of such preferences by the DC's, 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 conveyed. The United States might well be in the forefront in exploring the practicalities of preferences, as a major step toward lower trade barriers generally, rather than to remain conspicuous in its opposition.

Support biased toward projects of regional benefit from such agencies as the Asian Development Bank, ECAFE, possibly an Asian Industrial Development Bank and the like--with safeguards in planning and execution like those described above--can also afford a persisting long-run pressure toward mutually beneficial cooperative activities.