

PA-21-264

ISN 72203

IMPORT SUBSTITUTION, GROWTH, AND THE BALANCE
OF PAYMENTS: SOME COMPARISONS

by

P.T. ELLSWORTH

A.I.D. HISTORICAL AND
TECHNICAL ASSISTANCE
PROGRAM

AID-University of Wisconsin
Research Project on "Economic
Interdependence in Southeast
Asia"
Draft of a Research Paper
June, 1967

FEA Import substitution, growth, and the balance of
 payments: some comparisons.
 382 Ellsworth, P. T.
 EL47 Import substitution, growth, and the balance of
 payments: some comparisons. Madison, University
 of Wisconsin, June 1967.
 17 p. illus.
 Contract no. AID/csd-355.
 Research project on "Economic Interdependence in
 Southeast Asia".
 Draft of a research paper.

Import Substitution, Growth, and the Balance
of Payments: Some Comparisons

In the literature of economic development, the image of the developing country as one whose pursuit of rapid economic growth causes it to undertake a heavy investment program that leads to expanding income, a rising volume of imports, and soon or late, into balance of payments difficulties, has become something of a stereotype. Certainly this kind of experience has been common, as has also the method of responding to it. Most underdeveloped countries have experienced frequent or chronic balance of payments deficits over the past twenty to forty years; most dealt with them at first by haphazard increases in tariffs, by the introduction of quantitative restrictions, or by exchange control. Although in most cases the creation of import substitute industries was not a deliberate objective, but an inadvertent result, as time went on the appeal of import substitution to planners and developers took root. Increasingly, import substitution has become an important part of national plans and of the drive for industrialization that has tended to dominate those plans.

The strategy of import substitution has a natural appeal to planners, for it holds out promise both of relief to the balance of payments and of the creation of domestic industry. As Bruton has noted, the evidence shows that countries following this strategy can usually count on several years of satisfactory growth. But there is a catch: in many countries, a process of continuing growth is not started. There is progress for a while, but then retardation seems to set in.¹

¹Bruton, H.J., "On the Role of Import Substitution in Development Planning," Philippine Economic Journal (First Semester, 1965).

The difficulties of countries resorting to import substitution has aroused the interest of economists, and attempts have been made to construct appropriate models. Bruton's article, just referred to, though it does not present a formal and complete model, calls attention to the tendency of import substitution to create a biased set of incentives that misdirect resources. Where import substitution is carried to extremes, it ultimately checks growth by leading inevitably to inefficient production and by bringing on a paralyzing shortage of foreign exchange. Celso Furtado has offered a rather elaborate model, relying heavily on institutional characteristics, to explain the growth and effects of import substitution in Latin America.² And Leff and Netto

²Furtado, Celso, Development and Stagnation in Latin America: A Structuralist Approach, Economic Growth Center, Yale University (April 1965), mimeographed.

put forward for Brazil a model that contains more universal elements and that would appear to have broader application, as they themselves suggest.³

³Leff, N.H., and Netto, A.D., "Import Substitution, Foreign Investment, and International Disequilibrium in Brazil," Journal of Development Studies (April 1966).

The Leff-Netto model stresses the income-multiplying effect of a high value of the marginal propensity to spend, a value made high partly by the low or negative leakage of income into taxation--since most underdeveloped countries run a budget deficit--and partly by the low value of the marginal propensity to import, which import substitution itself tends to keep low or to reduce. With a large multiplier, the income-creating effect of investment in import substitution offsets the substitution effect of the latter. The result is chronic balance of payments problems.

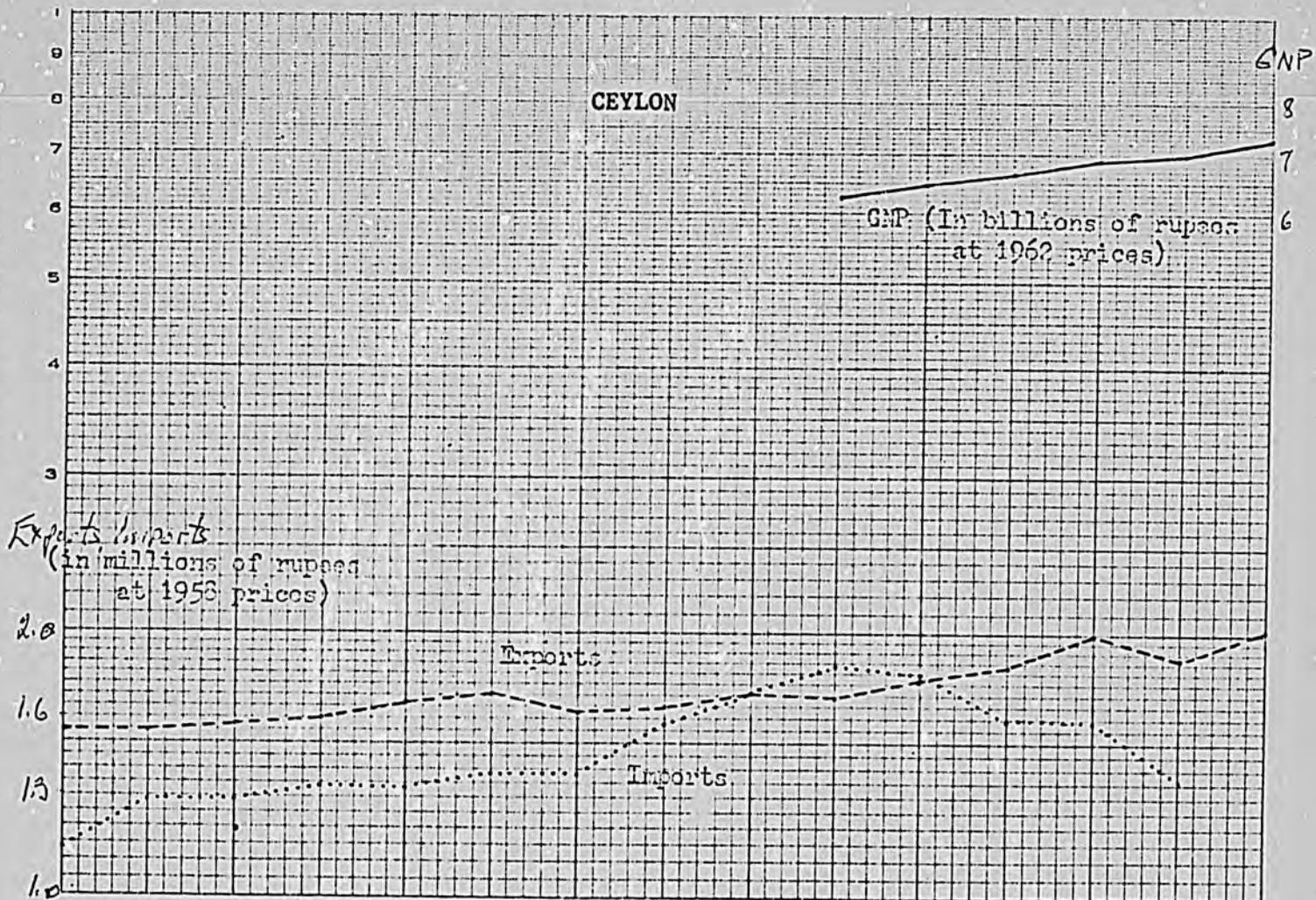
Thinking it would be interesting to see if any regular pattern is to be detected in the movements of gross national product, exports, and imports of countries that engage in import substitution, I have gathered data on these entities for seven Latin American and six Asian nations. It is not my purpose to undertake a formal test of any of the models mentioned above, but only to make use, in the interpretation of my findings, of any ideas they contain that may prove useful. The general conceptual framework from which the data are approached is formulated in the next section.

I

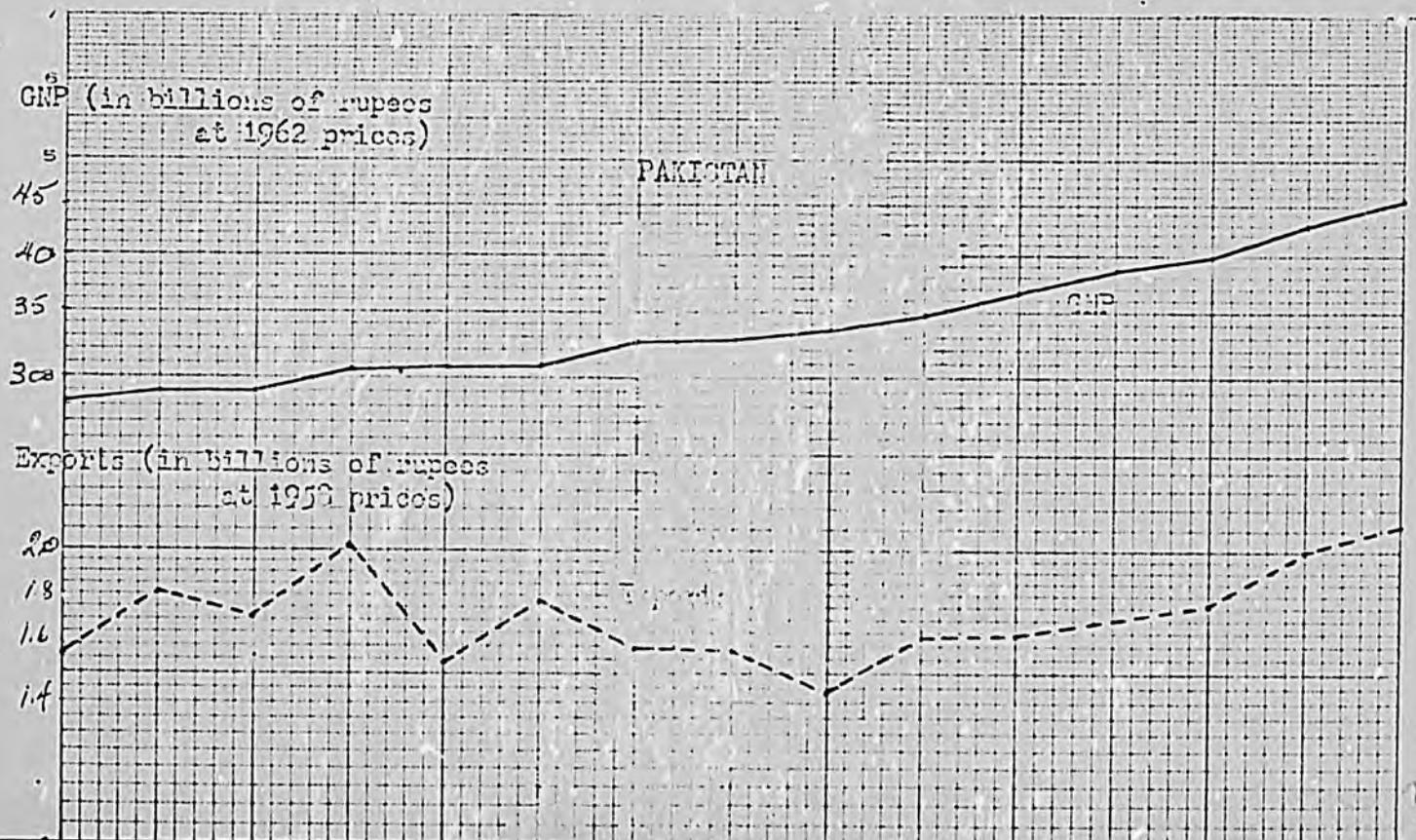
In both the Latin American countries to be surveyed as well as in the Asian nations, growth has proceeded on an isolated national basis, almost universally behind high tariff walls supplemented for some time by various types of quantitative restrictions, much of their growth--especially in Argentina, Brazil, Chile, Colombia, and Mexico--has been based on import substitution. Though at first this substitution of manufactures was haphazard, because the tariffs and quantitative restrictions were introduced to protect the balance of payments, as time went on it became more deliberate, notably in Brazil and Mexico, where the industries favored came to include increasingly sophisticated capital-goods industries and those producing intermediates, in addition to the non-essential and mostly light consumer goods industries that were first protected.

There is a limit, though it may be empirically undefinable, to the range of import substitutes that can be produced economically in any country. Those industries that are truly in the infant industry category may, even on the basis of a relatively small national market, soon become comparatively efficient. Beyond this "infant" category there are other industries that range from those that are only slightly less efficient than their counterparts abroad.

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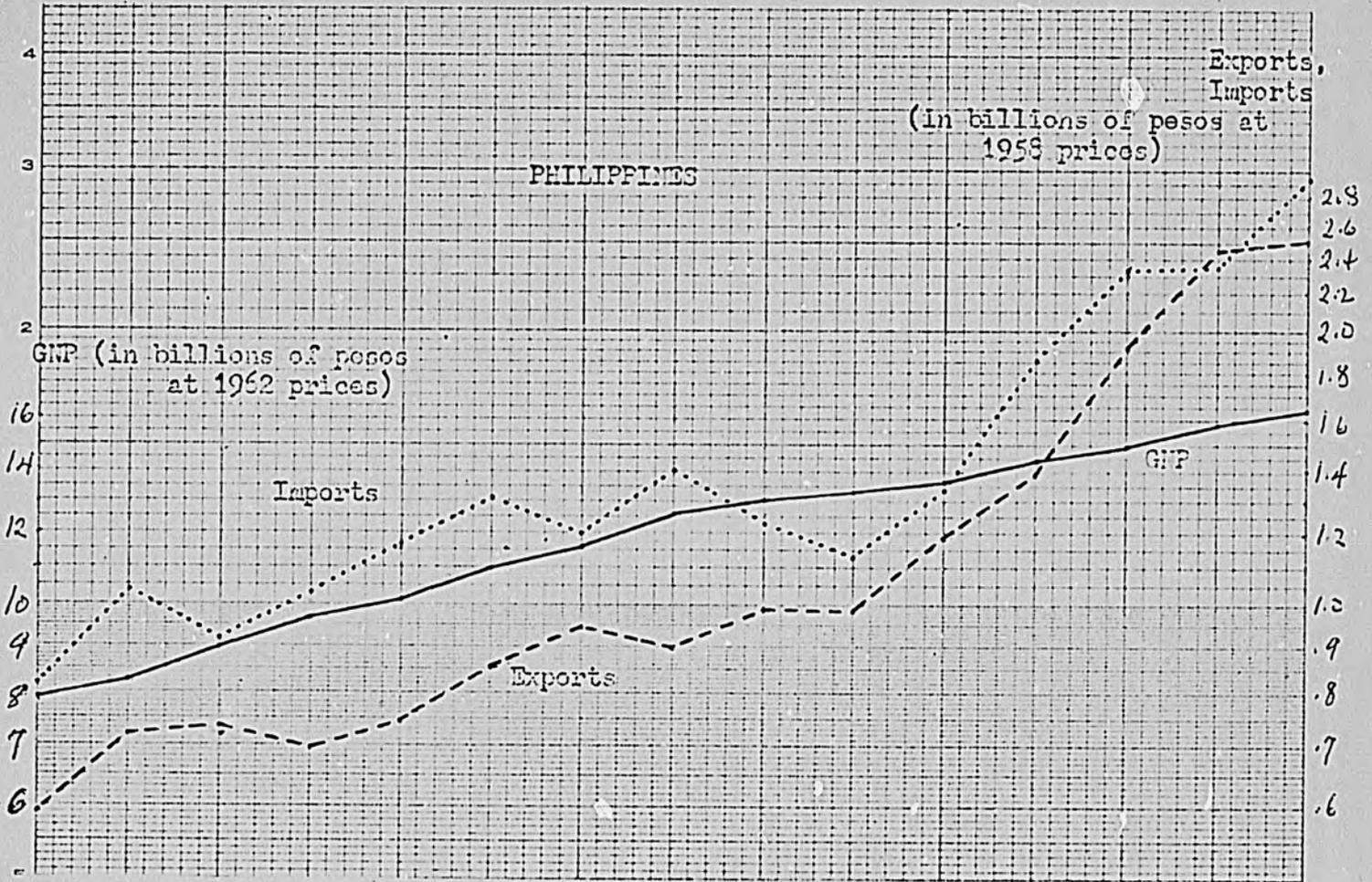
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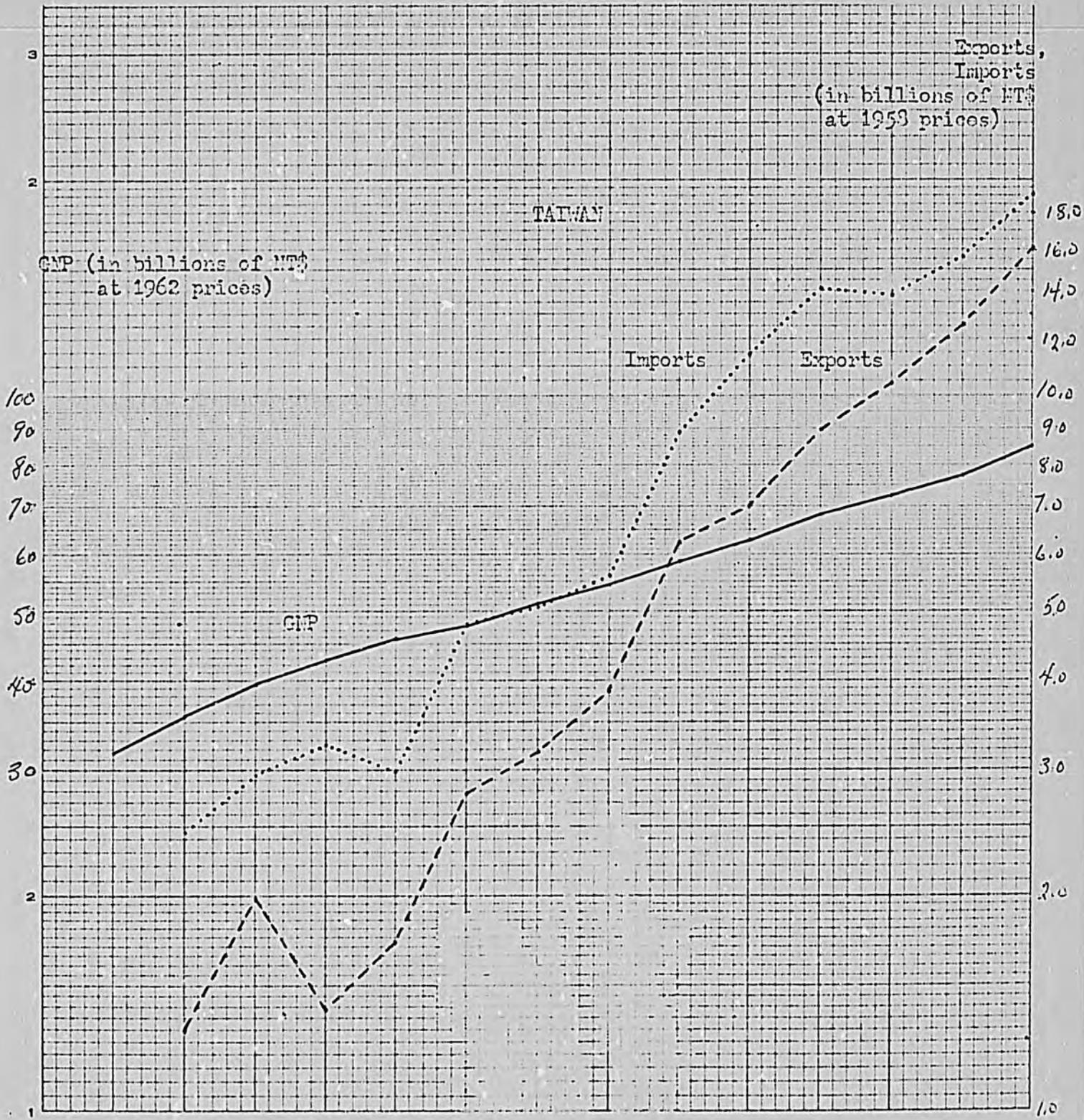


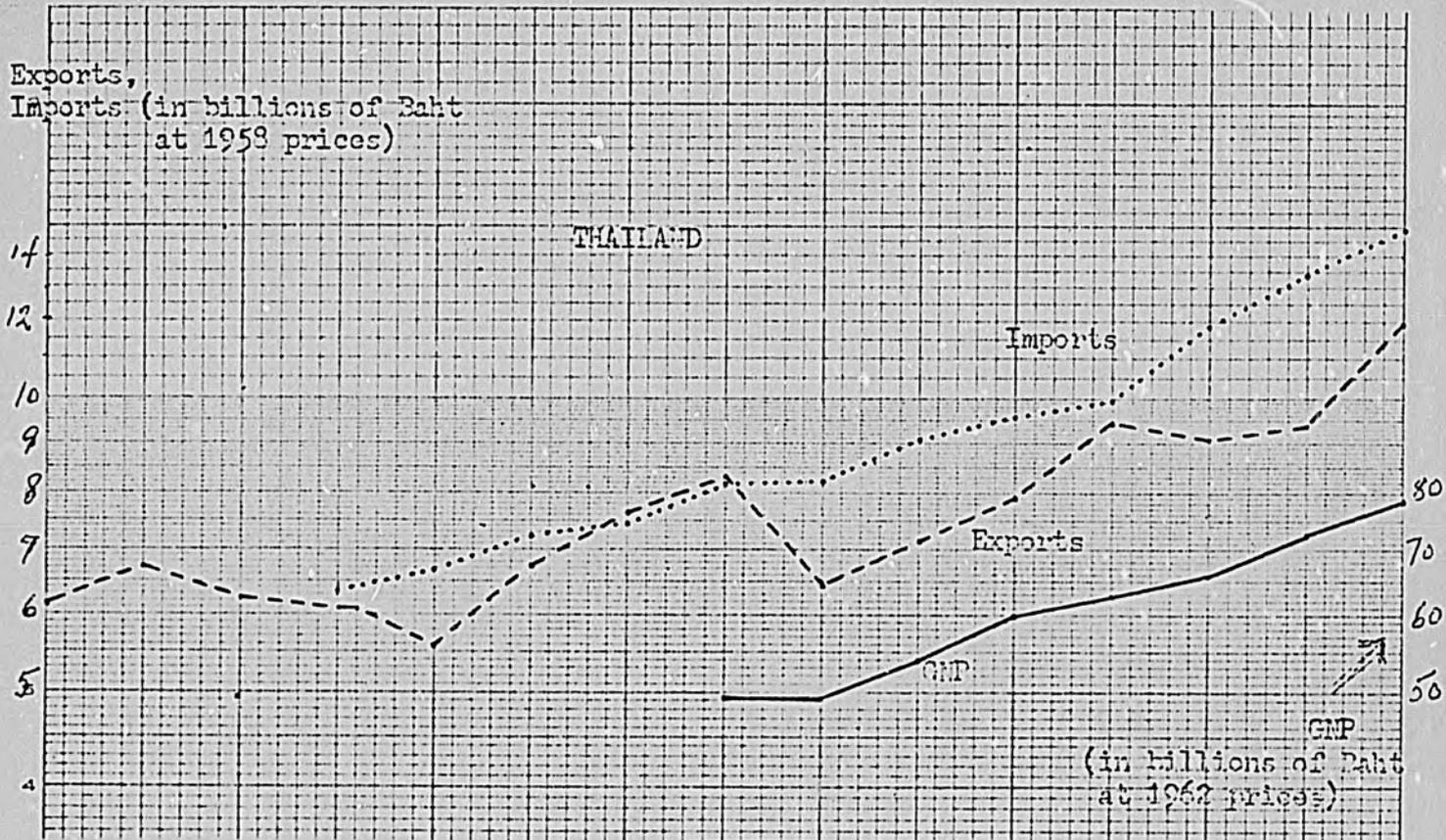
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to those whose costs are several times as high. The farther along this range of industry a country carries the policy of import substitution, the more uneconomical becomes its use of resources. An important implication is that an apparent rise of GNP by a certain percentage, calculated as it is in national values, may be to a considerable extent spurious. Had the value of production in protected industries been expressed at world prices, a considerable downward adjustment would result.⁴ Such a downward adjustment

⁴It is true, of course, that a concerted policy of economic development can steadily widen the range of industries that are potentially economical for a country to undertake. This is the result of the growth of transport, power, and other forms of social overhead capital, of the steady increase in the skills of labor and management, and of the growth of entrepreneurial ability, among other things. Though the range of industrial viability increases, the basic point made in the text is still valid: there are limits, though expanding ones, to the economical spread of industries to produce substitutes for imports.

would seem to be needed where import substitution has gone far and fast. Moreover, if the rate of increase of a country's GNP shows a decided tendency to slow down, may this not be attributed, in part at least, to the direction of resources into inefficient channels?

Heavy reliance on import substitution as a technique of development has another important consequence: diversion of resources into the inefficient production of substitutes for imports deprives more efficient industries of needed resources. This is the equivalent of a tax on export industries. It could well help to explain a tendency of exports to increase at a diminishing rate or to stagnate, though there is of course also the possibility that export markets themselves are stagnant.

Finally, unless import substitution results in the production of a wide range of intermediates and capital goods, the farther it is carried, the more are the imports that continue to enter a country compressed into an irreducible

minimum of raw materials, spare parts, and replacements for capital goods, and certain consumer's essentials. Any interruption to exports can then quickly produce a severe foreign exchange crisis.

Let us summarize the argument. If import substitution is excessive, it should show in a retardation of the growth of national product, a similar slowing down of exports and imports, and perhaps even a decline in the proportion of income exported and imported. In a report of the United Nations Economic Commission for Latin America, these points are clearly stated:

The countries that made most progress in import substitution, reducing their import and export coefficients, witnessed a slackening of this growth rate as time went by, and have found themselves faced with serious difficulties as they approach later stages of development. This state of affairs has arisen in Argentina, Brazil, Chile and Colombia, although in different circumstances and periods.⁵

⁵United Nations, Economic Commission for Latin America, Eleventh Session (Mexico City, May 1965), A Contribution to Economic Integration Policy in Latin America, C/CN. 12/728, 10 April 1965, p. 8.

If, on the other hand, import substitution is kept within reasonable bounds, and limited to relatively efficient lines of production, the rise in income should not be retarded, export industries will not be starved, and foreign exchange will be available for the continued rise of imports.

II

Let us look at the evidence, first with respect to Latin America, then with respect to Asian countries. The seven nations of Latin America for which I have assembled data on GDP, exports and imports are Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. A summary of the relevant growth rates based in each case on constant price data, is presented in Table I.

With respect to gross domestic product, five of the seven countries

turned in a fairly creditable performance, with rates of growth ranging from a maximum of 6.5 percent for Venezuela to a minimum of 4.6 percent for Colombia. Chile had only a meager 3.4 percent average annual rate of increase in her GDP, while Argentina's was less than 2 percent. Expansion of exports was fairly rapid for only four of the countries. In this respect, Peru was outstanding, with a 10.5 percent annual increase. Venezuela and Mexico tied for third with 5.8 percent. Argentina came second, with 7 percent, though this figure was largely due to the exceptionally high level of exports attained in the last two years (1962, 1963). If these years are omitted, the rate of increase for Argentina's exports was only 4 percent. Chile's exports rose at an annual rate just under three percent, while Brazil failed to reach even the 1 percent level.

On imports, stable price data are available for only four countries. Of these, Chile is outstanding with an annual average increase of imports of 10 percent. This was largely due, however, to the very sizeable inflow of both private and public capital in the years 1960-61. Colombia, with a 3.4 percent rate of increase, and Argentina and Venezuela, with 3 percent each, are more typical.

Table I
Average Rates of Change of Gross Domestic Product,
Exports, and Imports of Seven Latin American Countries

	Gross Domestic Product	Exports	Imports
Argentina	1.9	7.0	3.0
Brazil	5.6	0.9	
Chile	3.4	2.9	10.0
Colombia	4.6	1.7	3.4
Mexico	6.1	5.8	
Peru	5.3	10.5	
Venezuela	6.5	5.8	3.0

Note: All figures are in constant prices, with exports and imports using 1953 as the base year, and gross domestic product either 1958 or 1960, except for Brazil (1949), Mexico (1950), and Venezuela (1957). Rates of change are arithmetic averages of annual rates of change.

The period covered for gross domestic product is 1951-1963 or 1964, except for Chile (1950-62) and Colombia (1950-63). Exports are for 1948-63, except for Peru (1950-65) and Venezuela (1949-64), while imports cover 1949-63 for Chile and Colombia, 1951-62 for Argentina, and 1949-64 for Venezuela.

It is noteworthy that only for Peru and Argentina was the rate of increase of exports in excess of the rate of increase of gross domestic product, and of these two countries, only Peru had a reasonably satisfactory growth rate of GDP.

More important than averages for ten to fifteen years is the way the various summary indicators move during these periods. Such movements are best shown by charts, which are provided on the pages that follow. Clarity will be served by taking up one country at a time.

Argentina's poor average record is confirmed in the chart. The slowly increasing GDP showed almost no net increase after 1958. Throughout the period from 1948 to 1961, exports and imports behaved erratically.⁶ As already

⁶The charts begin with the year 1950. References to earlier years will have to be taken on faith, or checked in the original tables.

noted, exports showed almost no net movement between 1948 and 1961. The sharp increase in 1962 and 1963 would seem to reflect the effects of a devaluation of some 40 percent in 1962. Imports showed no net increase until after 1959.

Brazil: The country's rapid growth slowed down appreciably in 1962 and 1963, when the growth rates for GDP were 5.4 percent and 1.6 percent respectively. Exports slumped from 1948 to 1954, then recovered only to the initial level by 1963. Brazil's imports in current prices show a slight downward trend from 1951-52.

Chile: Income growth, though slow, was fairly steady. The slow export growth rate (2.9 percent) would be only 1.5 percent if the peak year 1963 is

omitted. The sharp rise of imports after 1959 can be largely explained by the rise of government transfers and of capital inflows from around \$70 million in 1957 and 1958 to an average of \$134 million during the next five years. (Prior to 1959, imports in stable prices increased at an annual rate of only 0.6 percent.)

Colombia: The income growth rate is fairly steady, and reflects persistent import substitution based on high tariffs and quantitative restrictions, together with internal policies aimed at replacing imports. Except during the early years of the coffee boom of 1953-56, a period of shortages and high prices for that commodity, exports gave little support to the country's growth. As we have seen, exports exhibit little net movement. In fact, the level attained in 1953 was never reached thereafter. The chief feature of imports is the extreme cyclical boom during the period of high coffee prices. The volume of imports in 1963 was only 25 percent above its level 15 years earlier.

Mexico: Next to Venezuela, Mexico had the highest rate of growth of GDP of any country in the group, 6.1 percent. Although the average rate of increase of exports was good, at 5.8 percent, the years of increase were all before 1956; from then on the trend was perfectly level. (Imports in current values behaved similarly. From 1948 to 1956, import values rose by 14 percent a year; thereafter the rate of increase was only 2.7 percent.) Although Mexico ran a deficit on goods and services account throughout the period, it reached a peak in 1957 of nearly \$300 million and declined thereafter to under \$100 million. These deficits were fully offset (and doubtless made possible because of) a sizeable inflow of foreign capital.

Venezuela: With gross domestic product growing at 6.5 percent per annum, Venezuela had the best general record on this score of any of our seven countries, though there was some tendency for it to slow down after 1959.

Exports kept close pace with GDP. On this score, Venezuela, a major exporter of petroleum, was in a fortunate position: exports provided sufficient momentum for a satisfactory growth rate. (Imports in current values, on the other hand, moved in a huge cycle, rising rapidly after 1952 to a peak in 1958, then subsiding almost as fast to a level not far above that of a decade earlier. Factors that help to explain this picture include heavy development expenditures during the Perez Jimenez period, with accompanying large imports, and a switch from large capital imports before 1958 to outflows of \$235 to \$485 million thereafter, except for 1960.)

Peru: This country's record is notably different from that of most of the others in this group. Its growth rate from 1951 to 1959 was only 3.8 percent per annum; from then on, it accelerated sharply, with an average rate of increase of GDP of 7.6 percent. Exports also rose rapidly after 1959, due partly at least to efforts to stimulate both traditional exports (copper, sugar, cotton) and new ones, notably fish meal. Part of this rise was also undoubtedly due to devaluations of approximately 25 percent and 10 percent in 1958 and 1959 respectively.

Thus of the seven Latin American countries surveyed, it seems reasonable to summarize in the following manner:

Four of the countries share a definite tendency for their rate of growth (GDP) to decelerate during the last 3 or 4 years of the period 1950-1963. The one country that practiced import substitution to the least extent and which made vigorous efforts to promote exports--Peru--not only had a respectable rate of growth, but one that accelerated in the later years.

On the side of exports, five of our countries exhibit a pattern that is consistent with the thesis that resources were being diverted from export production into the production of import replacements. There was negligible change in the level of Argentina's exports between 1948 and 1961. The increasing overvaluation of the currency was offset by a large devaluation in

1962, with a consequent sudden rise of exports. Brazil's exports moved sideways over the period as a whole; for Colombia there was no export growth after 1953 nor for Mexico after 1956. The expansion of Chilean exports was slower (at 2.9 percent) than the rather slow rise in income (3.4 percent), and omitting the year 1963 was only 1.6 percent.

For the remaining two countries, the facts do not fit the import substitution-export contraction thesis. Venezuela was one of the world's fortunate exporters of a product in strong demand in the industrial nations, while Peru followed the path of export substitution rather than import substitution.

Finally, it may be of interest to introduce figures with respect to the propensity to import. These are given in Table IX. It is noteworthy that all

Table IX
Average Propensity to Import in Seven Latin American Countries

	Imports as a % of GDP (M/GDP)
Argentina (1948-62)	10.2
Brazil (1948-61)	9.0
Chile (1950-62)	8.6
Colombia (1950-62)	11.6
Mexico (1950-63)	11.0
Peru (1950-60)	21.2
Venezuela (1950-62)	18.6

Note: Calculated from current values of imports and GDP, as given in International Financial Statistics (IMF).

the figures are quite low, between 8.6 and 11.6 percent, except for Peru and Venezuela. And these countries are the one exception to the rule of import substitution, and the one country exporting a product in strong demand in the industrial countries.

The figures given here compared with figures given by Leff and Netto that range from 12 to 35 percent for developed countries.⁷

⁷ Leff and Netto refer to their figures as representing the "marginal propensity to import, but they obviously do not, being the ratio of total imports to gross national product, op. cit., p. 225.

For the five countries with a low value of the average propensity to import, Leff and Netto's hypothesis would seem to apply: that the low value of this propensity, together with a probable low domestic leakage into taxation, make for a high multiplier, a consequent tendency for a sharp rise in money income, and rising pressure on the balance of payments, with imports increasingly concentrated on those most essential to the functioning of the economy.

III

Now let us turn to certain Asian countries to see how the pattern of relations between import substitution, income, and trade compares with that observed for the Latin American countries. The countries chosen are Burma, Ceylon, Pakistan, the Philippines, Taiwan, and Thailand. All these countries have imposed high tariffs on imports of manufactures; all have supplemented these with exchange controls and quantitative restrictions, although except for Burma they have been considerably relaxed since about 1960-61. As with the Latin American countries, our Asian nations have been pursuing a policy of industrialization based on production for the home market via import substitution. Owing to a comprehensive study undertaken by ECAFE, we have far more evidence to show the direction and extent of this program than is available for Latin America.⁸ The accompanying tables (our Table III), taken from

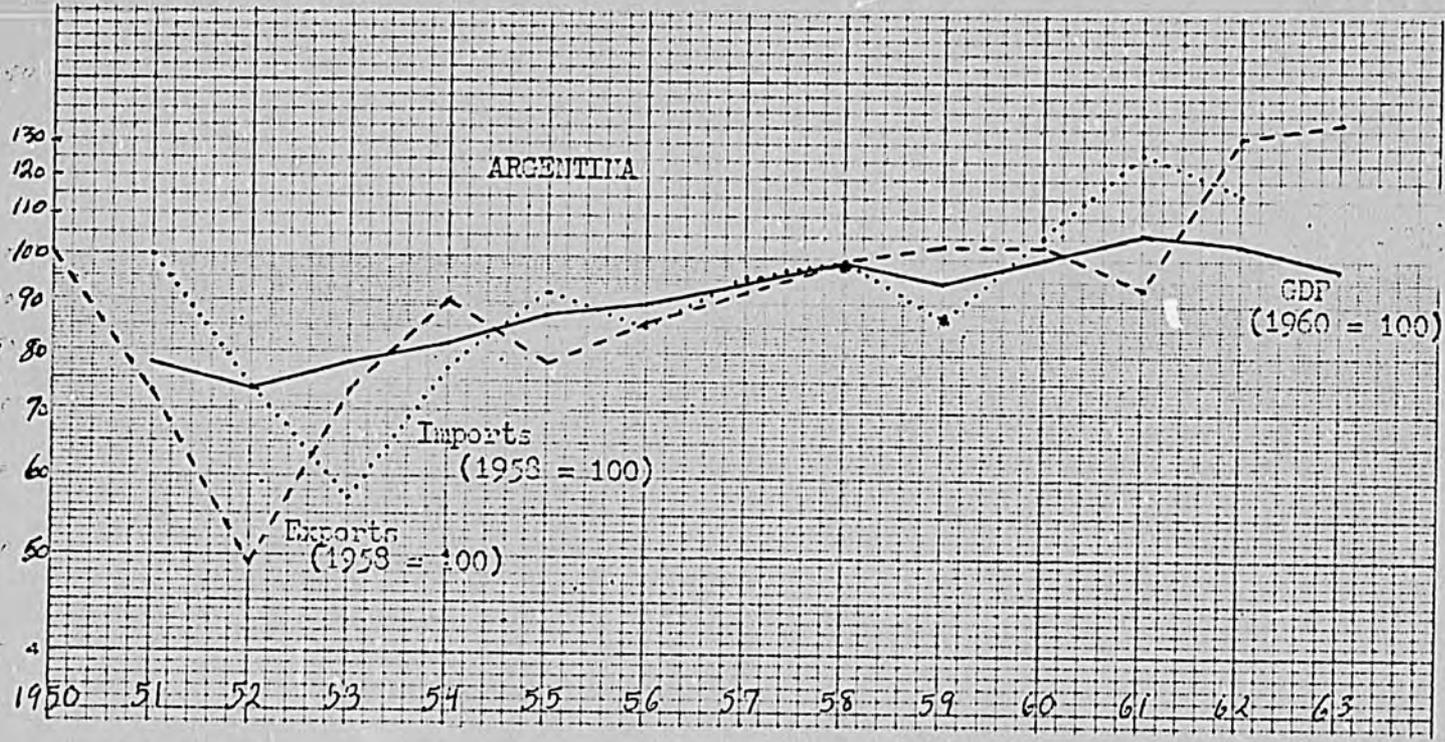
⁸United Nations, Economic Commission for Asia and the Far East, Economic Survey of Asia and the Far East, 1963, Tables II-3, 4, 5, 6, 8, and 10.

this study, vividly illustrate the progress of import substitution.

As one would expect from a policy of protection aimed at luxuries, at non-essentials, and especially at manufactures, imports of finished goods declined between 1953-54 and 1960-61 as a percent of private consumption

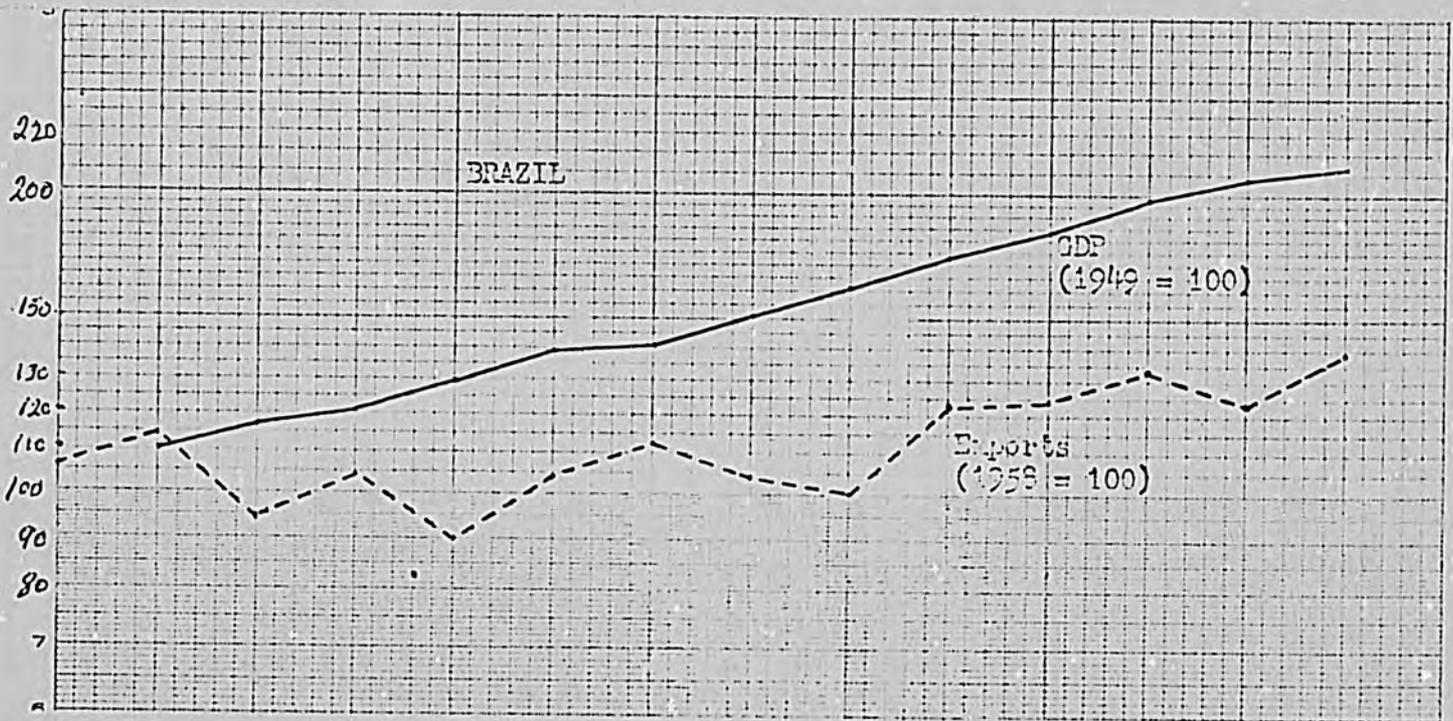
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Exports, Imports
(1958 = 100)

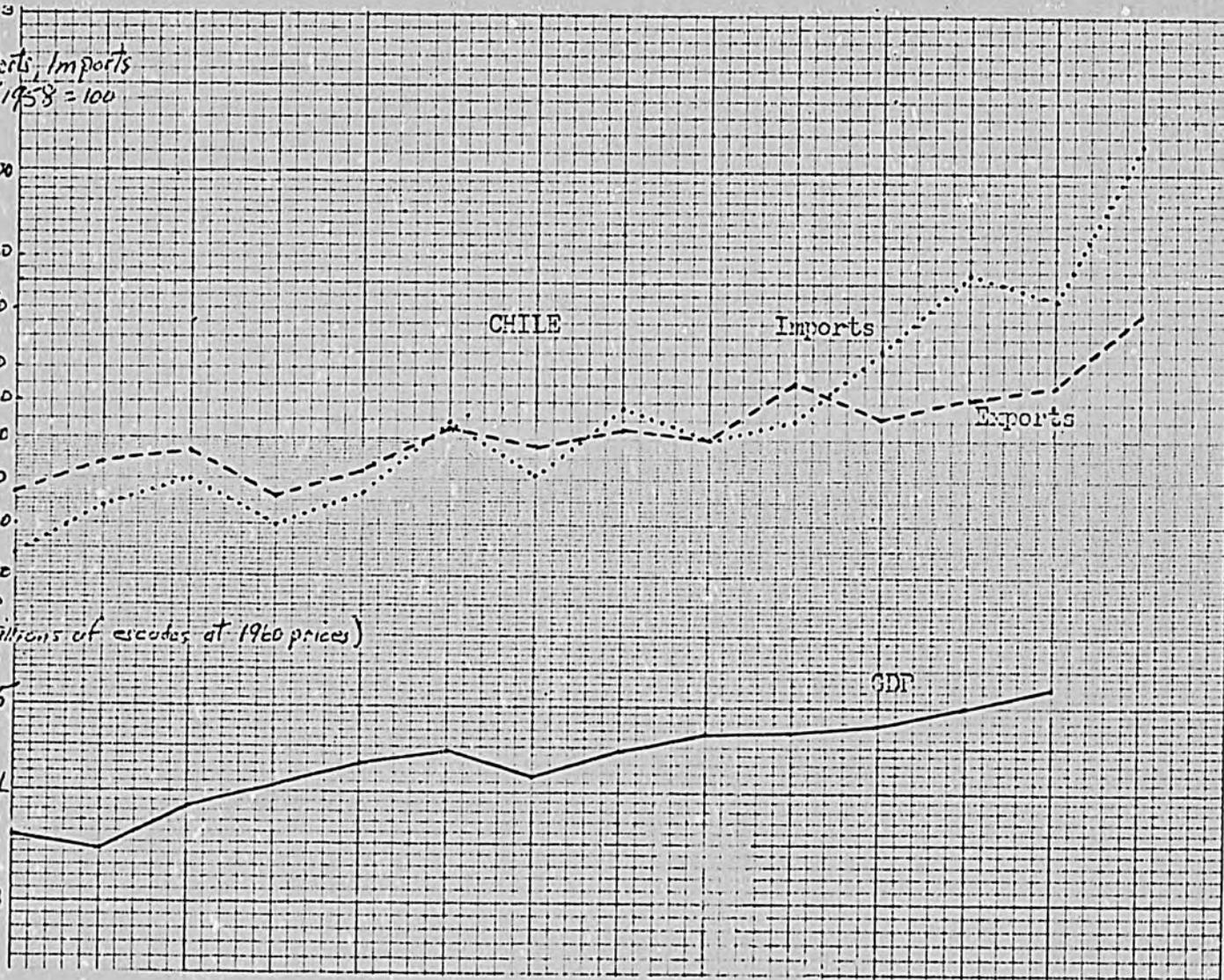
CHILE

Imports

Exports

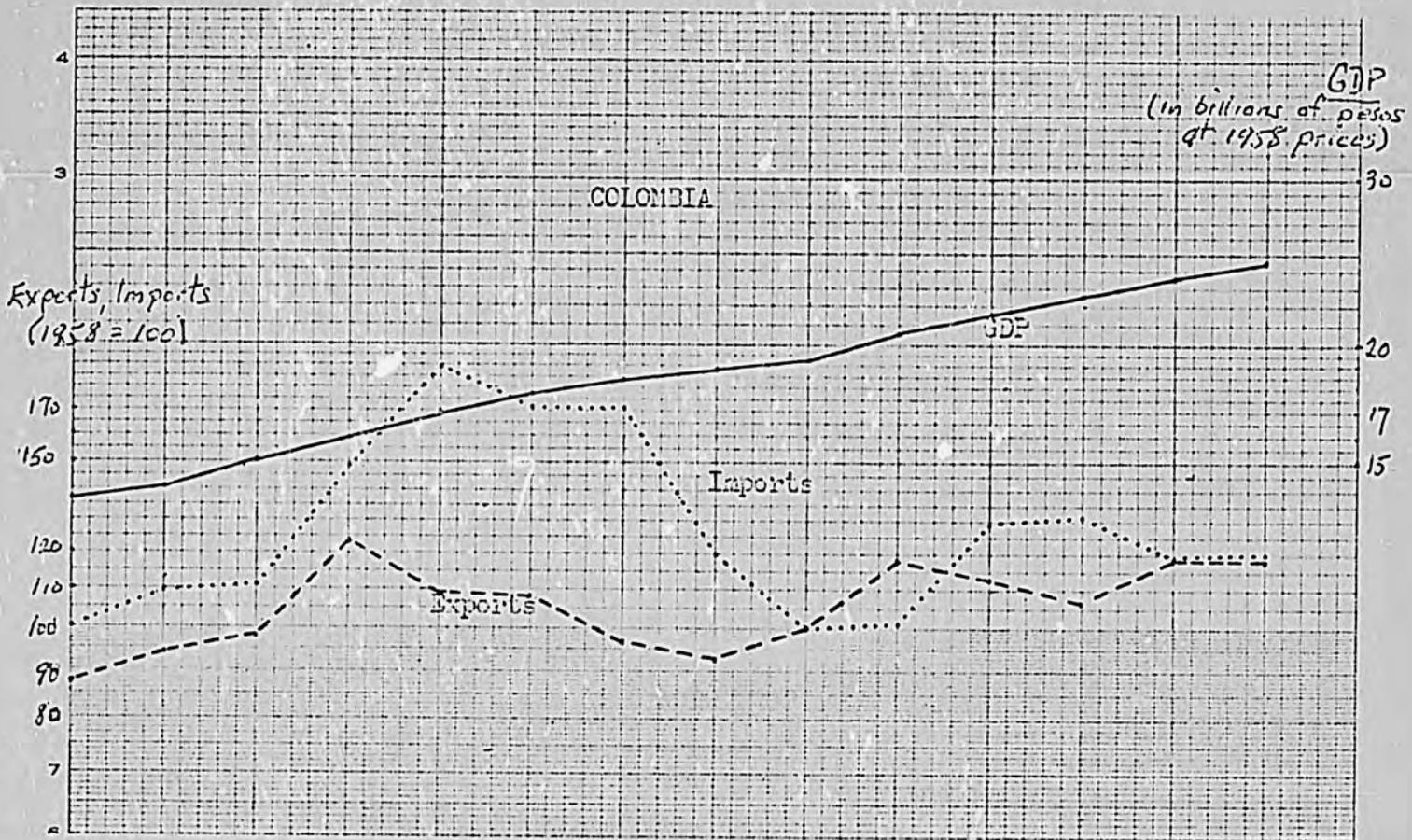
GDP
(in billions of escudos at 1960 prices)

GDP



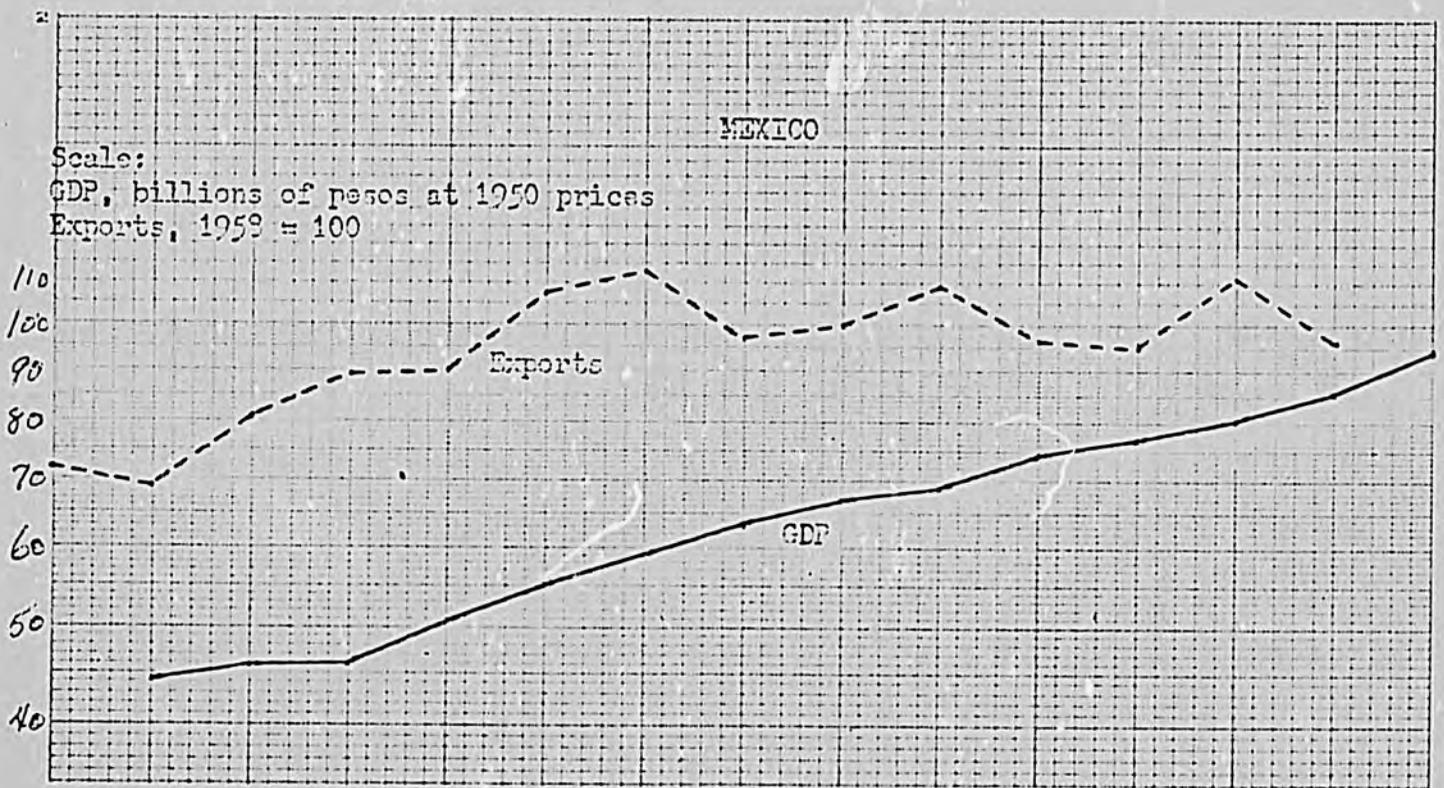
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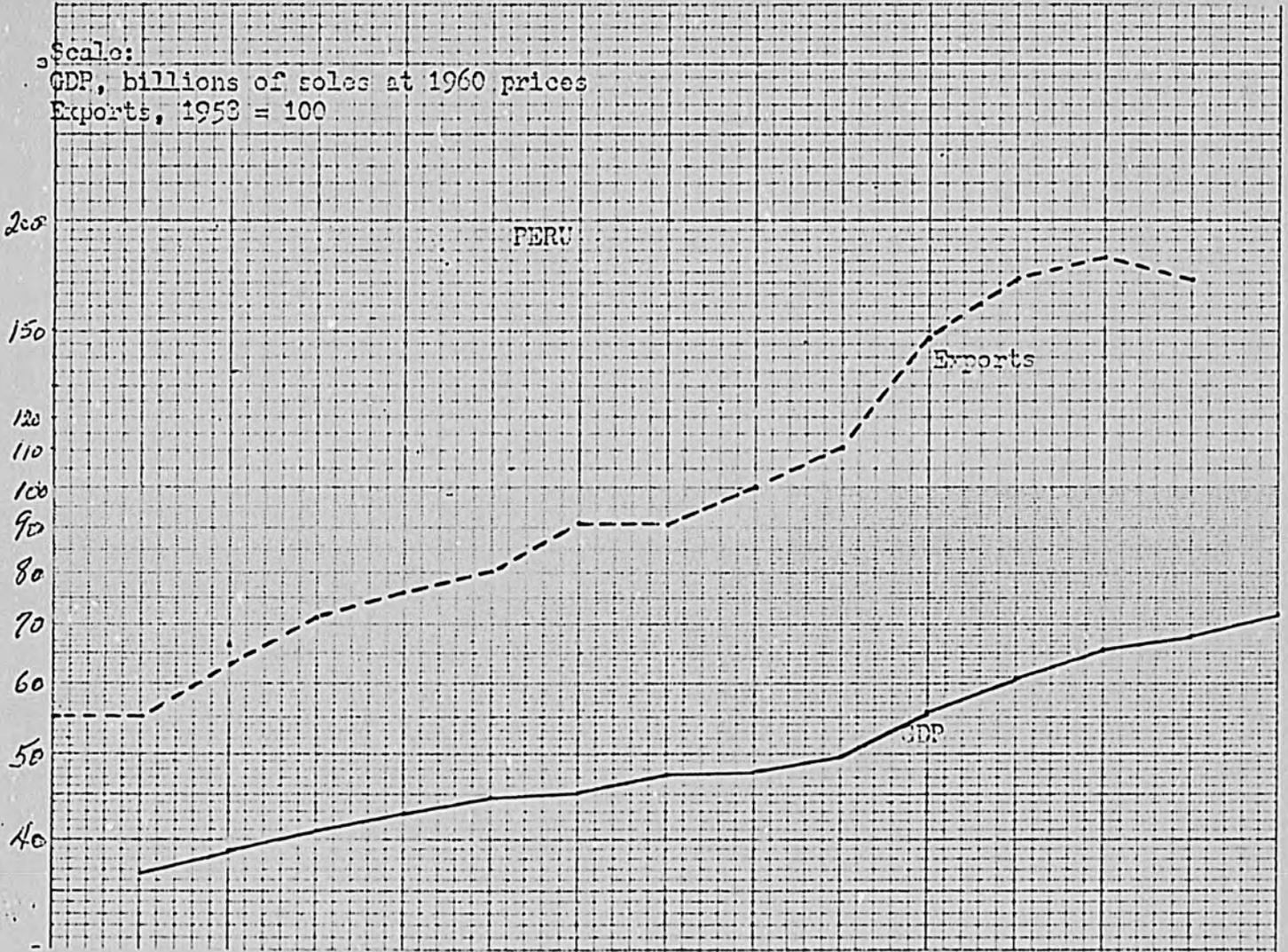
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Scale:
GDP, billions of soles at 1960 prices
Exports, 1953 = 100





expenditure in five of our countries. (No data on Pakistan are available, where doubtless this decline also occurred, since the same policy was in force.) The decline was quite moderate in Taiwan (where such imports were initially less than 5 percent of consumption expenditure) and in Thailand. The Philippines cut their imports (as a proportion of consumer expenditure) to less than half; in that country, too, the initial proportion was low, at only 6.6 percent. The reduction was substantial in Burma and Ceylon, but for special reasons. In Burma, tightened import restrictions alone must be held mainly responsible, while in Ceylon there was a marked increase in the domestic production of food, which displaced imports.

In only two countries did import of capital goods become a noticeably larger ingredient in gross domestic fixed capital formation. In Taiwan the proportion of capital goods imports rose from 28 to 38 percent, in the Philippines from 38 to 52 percent. For Burma the increase was unimportant, while in Ceylon, because the emphasis in capital formation was on investment in food production, the share of capital goods imports fell from 47 to 40 percent. In Thailand, too, the proportion fell--43 to 36 percent--because capital formation was predominantly in increased construction, whose needs were to a large extent met by a large increase in the domestic output of cement.

A growing trend toward imports of materials is evident in all countries, where such imports became from 2 to 6 times as important as imports of finished consumer goods in three countries, and rose sharply in relative importance in the rest.

Since one of the objects of the drive for import substitution was to release foreign exchange for the purchase of scarce capital goods, the large increase in imports of capital goods as a proportion of consumer goods imports attests to the success of the program in this respect. In Taiwan in 1953-54, capital goods imports were already twice the value of consumer goods imports;

Table III

Some Data Relating to Import Substitution in Southeast Asian Countries

	Import Substitution of Consumer Goods		Import Content of Gross Domestic Fixed Capital Formation		Substitution of Materials Imports for Imports of Finished Manufactured Goods		Substitution of Imports of Capital for Imports of Consumer Goods	
	Imports of Finished Consumer Goods as a % of Private Consump- tion Expenditure		Imports of Capi- tal Goods as a % of GDFCF		Imports of Materials as a % of Imports of Finished Consumer Goods		Imports of Capital Goods as a % of Imports of Consumer Goods	
	1953-54	1960-61	1953-54	1960-61	1953-54	1960-61	1953-54	1960-61
Burma	16	11	30	32	43	60	63	138
Ceylon	28	23	47	40	41	65	70	100
Taiwan	4.9	4.5	28	38	374	660	221	507
Philippines	6.6	3.2	38	52	56	253	71	446
Thailand	10.3	9.8	43	36	25	45	89	126
Malaya-Singapore					64	100	45	80
Pakistan					119	193	212	505
	Average Annual Growth of Income, 1953-54 to 1960-61, in the:				Percent Manufactures were of Total Exports in:			
	Primary Sector		Industrial Sector		1955	1961		
Burma	3.2		8.4		3.0	2.2		
Ceylon	1.7		5.6		0.8	0.8		
Taiwan	5.0		7.3		7.8	35.4		
Philippines	1.0		3.8		2.2	6.3		
Thailand	4.6		6.3		1.5	1.8		
Malaya-Singapore	2.9		5.9		17.8	22.1		
Pakistan	1.2		6.0		6.8	27.1		

(Source of data: United Nations, Economic Commission for Asia and the Far East, Economic Survey of Asia and the Far East, 1963, Tables III-3, 4, 5, 6, 8, and 10.)

by 1960-61 they were five times as important. In the same interval they rose from 71 percent to 446 percent in the Philippines. In the other countries the rise was less dramatic but still impressive.

The growth of industry as compared with agriculture and extractive occupations is also indicated. The average annual growth (computed in stable price of 1960) of the industrial sector nowhere fell below 5 percent, and was well in excess of this figure except in Ceylon. (These figures are somewhat misleading. Rapid growth in a small sector can be small in absolute terms. It should be recalled that manufacturing accounted for no more than ten percent of GNP in all seven of the countries in the table.)

It should be interesting, after this evidence of the presence of vigorous import substitution activity in the Asian countries, to compare their performance in terms of GNP, total exports, and total imports, with the Latin American countries. Summary figures from the available data are given in Table IV. Out of the six countries, four had a respectable rate of increase

Table IV
Average Rates of Change of Gross National Product,
Exports, and Imports of Six Asian Countries

	Gross National Product	Exports	Imports
Burma	5.25	4.34	
Ceylon	3.01	3.62	2.72
Pakistan	3.52	1.19	
Philippines	5.42	11.70	8.60
Taiwan	7.8	24.8	20.80
Thailand	6.8	6.4	8.1

Note: GNP figures are for the period 1950-65, except for Ceylon (1960-65 only) and Thailand (1957-65), and are expressed in terms of 1962 prices. (Source: USAID, Gross National Product.) Figures for exports and imports are computed from data in the United Nations Yearbooks of International Trade Statistics, expressed in terms of 1953 prices. Computed from figures expressed in terms of 1962 prices obtained from USAID, Gross National Product.

of GNP, ranging from 7.8 percent for Taiwan to 5.25 percent for Burma. Ceylon and Pakistan showed up worst, with growth rates of 3.01 and 3.52 percent

respectively.

More significant, however, than overall arithmetic averages of growth rates are the trends of these rates. Thus although Burma has a creditable 5.25 percent rate of increase of GNP, during the decade of the 'fifties it was highly erratic, varying from -3.8 percent to +12.7 percent. Moreover, and most important, from 1960-65 the growth rate slowed down; the average for this most recent period was only 3.3 percent. These features of the movement of GNP, as well as of exports and imports, are shown in the accompanying charts.

Burma's exports in constant prices exhibit a slower average rate of increase than her GNP, but this increase was fairly steady. Even in current prices, imports exhibit only a moderate upward trend of some 6-7 percent a year.

Ceylon shows slow growth in both the domestic and foreign sectors, with rates of increase for GNP, exports, and imports all in the neighborhood of 3 percent.

The performance of both these countries is consistent with a "slowdown caused by import substitution" hypothesis. Burma's growth slowed down after ten years of continuing import substitution, while Ceylon's never amounted to much. There was little inflation in either country. The price level showed no trend in Burma, only irregular variations, while in Ceylon prices moved upward at the very moderate pace of 1 percent a year. Thus currency overvaluation could not have been a serious deterrent to trade or growth, unless the currencies were overvalued at the start.

Stagnant markets for exports doubtless explains, to some extent, Ceylon's relative stagnation. Her principal exports--tea, rubber, and coconut products--have certainly not enjoyed rapid market expansion. As for Burma, her rice and cotton have experienced erratic movements both in volume and price, which are distinctly unfavorable for rapid growth.

So far as concerns the movement of GNP, all our remaining countries either show a creditable average growth rate or, as in the case of Pakistan, there is considerable improvement in the later years of our period. Thus Pakistan's GNP increased at an annual rate of only 2.1 percent until 1958; during the remaining years it averaged 5.1 percent.

Inflation was very moderate in Pakistan, approximately 2 percent per annum. There seems little doubt, however, that the rupee was considerably overvalued, for as we have seen, exports have been sluggish, and this in the face of vigorous efforts to promote them through a bonus scheme.

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 baht was overvalued, even with a virtually stable exchange rate.

Finally, we come to Taiwan, where inflation was substantial and fairly continuous, at an average rate of some 9 percent a year. Exports, however, were buoyant, partly because any tendency for overvaluation to appear was quickly offset by recurrent and substantial devaluation (1951, 1953, 1954, 1957, 1958), and partly because import substitution, or industrialization, succeeded in opening up lines of production that expanded from import substitution into export markets. (As Table III shows, manufactures were only 7.8 percent of total exports in 1955, as against 36.4 percent in 1961.)

Considering the Asian countries as a group, the evidence indicates that import substitution, though very actively pursued in most of them, had

possible adverse effects on growth--as reflected in GNP, exports, and imports-- in only two, Burma and Ceylon. And in these countries, it appears likely that relatively stagnant markets for their principal exports were at least as important as import substitution as a cause of slow growth. As for the other four countries, there seems to be little evidence that import substitution caused a slowing of the growth rate or that it seriously diverted resources from exports. Except for Pakistan, the growth rate has been fairly satisfactory and steady, and exports have been rising, from moderately to very rapidly, with Taiwan greatly increasing the share of manufactures in exports. Pakistan alone had a rather slow rise of GNP, while its exports have been relatively stagnant. Yet Pakistan, too, has seen manufactures as a share of total exports rise sharply, from 6.8 percent (1955) to 27.1 percent (1961). And national income rose appreciably faster after 1958. The picture in this country is very mixed. Extensive use of export promotion schemes have succeeded in pushing manufactures but not in raising appreciably the level of total exports. And this with 42 percent of imports provided out of foreign resources through loans and grants. Currency overvaluation induced perhaps by the pressures flowing from import substitution, certainly is an important element in explaining the sluggishness of exports, probably the most important.