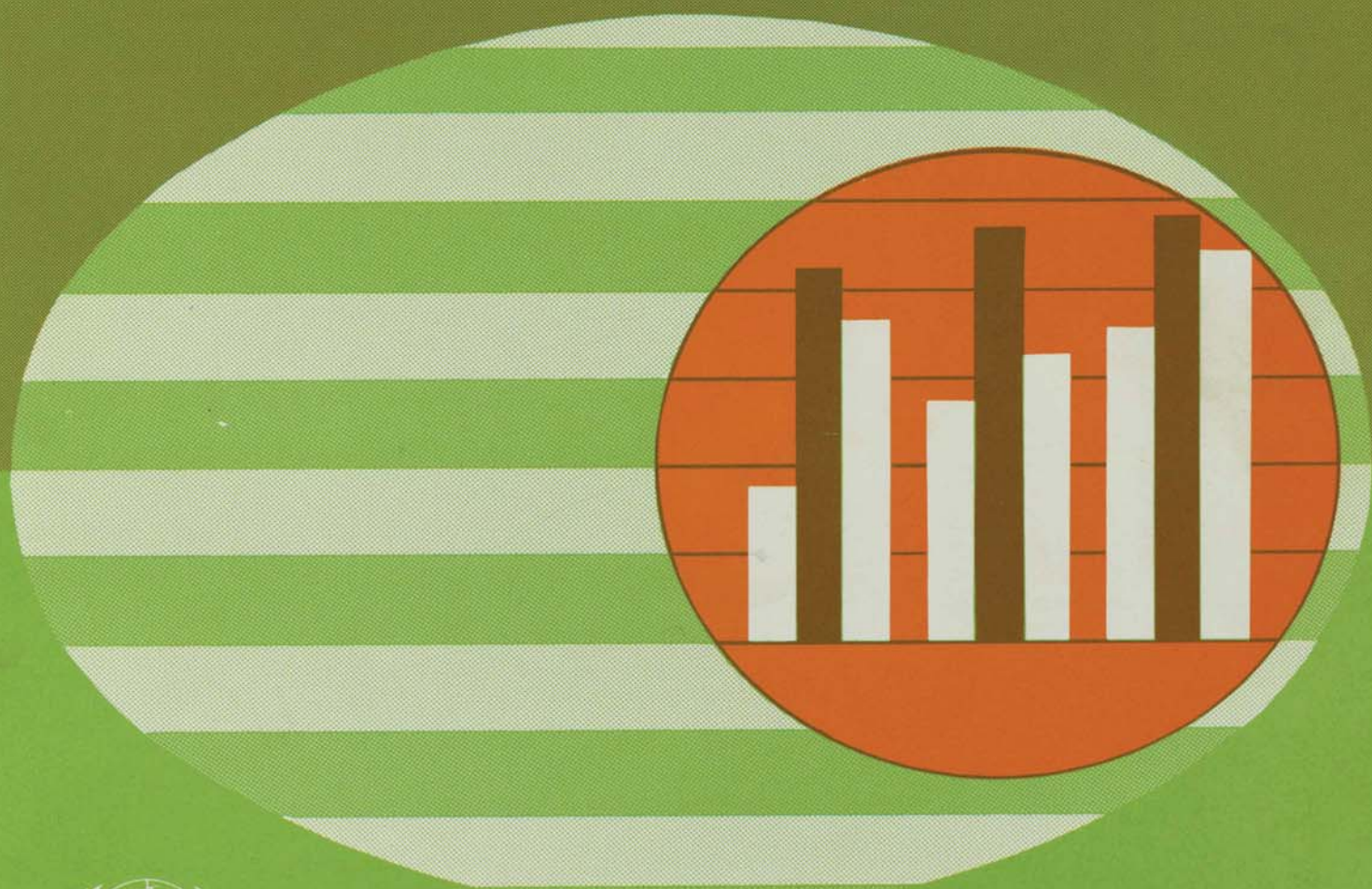


ECONOMIC and SOCIAL SURVEY of ASIA and the PACIFIC 1979



United Nations

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NATIONS

ECONOMIC AND SOCIAL SURVEY

OF

ASIA AND THE PACIFIC,

1979

REGIONAL DEVELOPMENT STRATEGY FOR THE 1980s

Bangkok

1980

Since the 1957 issue, the *Economic and Social Survey of Asia and the Pacific* has, in addition to a review of the current situation of the region, contained a study or studies of some major aspect(s) or problem(s) of economies of Asia and the Pacific, as specified below:

- 1957: Postwar problems of economic development
- 1958: Review of postwar industrialization
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- 1975: Rural development, the small farmer and institutional reform
- 1976: Biennial review and appraisal of the International Development Strategy at the regional level for the Second United Nations Development Decade in the ESCAP region, 1976
- 1977: The international economic crises and developing Asia and the Pacific
- 1978: Biennial review and appraisal at the regional level of the International Development Strategy for the Second United Nations Development Decade
- 1979: Regional development strategy for the 1980s

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PREFACE

The present *Survey* is the thirty-third in a series of reports prepared annually by the Economic and Social Commission for Asia and the Pacific (ESCAP). A major object of these *Surveys* is the analysis of recent economic and social developments in the region and of related international developments. Particular attention is paid to economic and social policy issues and broad development strategies.

In recent years, in addition to the review and analysis of economic and social developments, it has been the practice to present in the *Survey* reports of studies concerning major issues in the countries of the region, as a contribution to the continuing effort to understand the behaviour of their economies and to assess the implications of their experiences for economic and social policy.

Part One of the present *Survey* contains a review of recent economic developments in the region. Part Two presents the findings of a two-year study dealing with developmental strategies for the Asian and Pacific region, conceived as a regional input into the global strategies for the third United Nations development decade. Following an introductory review of the development experience in the region during the 1960s and 1970s, the study focuses upon the broad objectives of regional development and considers issues ranging from growth potential and policies for full employment and equity, to major aspects of social development. The critical areas of energy and national resources, environment and technological progress are discussed, as are the salient features of international trade and the transfer of financial resources. To deal with the great diversity among economies in the region, the report differentiates among subregional groupings according to patterns of economic structure and performance and gives special attention to the circumstances of the least developed, land-locked and island developing countries. Implementation of the imminent strategies is given detailed attention and consideration of the role of intraregional co-operation provides a bridgehead for links between the regional and the global domains.

This *Survey* is published on the sole responsibility of the ESCAP secretariat. Although the contents have benefited from the comments of independent experts and of official representatives from member countries, the views expressed herein are not necessarily those of the Commission or the Governments of its members and associate members.

Bangkok, May 1980

EXPLANATORY NOTE

The term "ESCAP region" is used in the present issue of the *Survey* to include Afghanistan, Australia, Bangladesh, Bhutan, Brunei, Burma, China, the Cook Islands, Democratic Kampuchea, Fiji, Hong Kong, India, Indonesia, Iran, Japan, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Nauru, Nepal, New Hebrides, New Zealand, Niue, Pakistan, Papua New Guinea, the Philippines, Republic of Kiribati, the Republic of Korea, Samoa, Singapore, the Solomon Islands, Sri Lanka, Thailand, Tonga, the Trust Territory of the Pacific Islands, Tuvalu and Viet Nam. The term "developing ESCAP region" excludes Australia, Japan and New Zealand.

The designations employed in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

Reference to "tons" indicates metric tons.

The term "billion" signifies a thousand million.

In the tables, three dots (...) indicate that data are not available or are not separately reported, a dash (—) indicates that the amount is nil or negligible, and a blank indicates that the item is not applicable.

In dates, a hyphen (-) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, a fiscal year or plan year. The plan years of the ESCAP countries coincide with their fiscal years as given in the table below:

| Country | Fiscal year | Currency and abbreviation | Mid-point rate of exchange for \$US 1 as of December 1979 |
|--|---------------------------|---------------------------|---|
| Afghanistan | 21 March to 20 March | Afghani (Af) | 42.75 |
| Australia | 1 July to 30 June | Australian dollar (\$A) | 0.9046 |
| Bangladesh | 1 July to 30 June | Taka (Tk) | 15.643 |
| Bhutan | 1 April to 31 March | Ngultrum (Nu) | 7.91 |
| Brunei | 1 January to 31 December | Brunei dollar (\$Br) | 2.16 |
| Burma | 1 October to 30 September | Kyat (K) | 6.519 |
| China | 1 January to 31 December | Yuan Renminbi (¥RMB) | 1.508 ^a |
| Cook Islands | 1 April to 31 March | New Zealand dollar (\$NZ) | 1.014 |
| Democratic Kampuchea | 1 January to 31 December | Riel (R) | ... |
| Fiji | 1 January to 31 December | Fijian dollar (\$F) | 0.8409 |
| Hong Kong | 1 January to 31 December | Hong Kong dollar (\$HK) | 4.96 |
| India | 1 April to 31 March | Rupee (Rs) | 7.907 |
| Indonesia | 1 April to 31 March | Rupiah (Rp) | 627.0 |
| Iran | 21 March to 20 March | Rial (Rls) | 70.47 |
| Japan | 1 April to 31 March | Yen (¥) | 239.70 |
| Kiribati | 1 July to 30 June | Australian dollar (\$A) | 0.9046 |
| Lao People's Democratic Republic | 1 July to 30 June | Kip | ... |
| Malaysia | 1 January to 31 December | Ringgit (\$M) | 2.189 |
| Maldives | 1 October to 30 September | Rupee (Rs) | 7.600 |
| Mongolia | 1 January to 31 December | Tughrik (T) | 2.90 ^b |
| Nauru | 1 July to 30 June | Australian dollar (\$A) | 0.9046 |
| Nepal | 16 July to 15 July | Rupee (Rs) | 12.000 |
| New Zealand | 1 April to 31 March | New Zealand dollar (\$NZ) | 1.014 |
| Pakistan | 1 July to 30 June | Rupee (Rs) | 9.900 |
| Papua New Guinea | 1 July to 30 June | Kina (K) | 0.690 |
| Philippines | 1 January to 31 December | Peso (P) | 7.424 |
| Republic of Korea | 1 January to 31 December | Won (W) | 484.00 |
| Samoa | 1 January to 31 December | Tala (\$WS) | 0.911 |
| Singapore | 1 January to 31 December | Singapore dollar (\$S) | 2.159 |
| Solomon Islands | 1 January to 31 December | Australian dollar (\$A) | 0.9046 |
| Sri Lanka | 1 January to 31 December | Rupee (Rs) | 15.445 |
| Thailand | 1 October to 30 September | Baht (Bht) | 20.425 |
| Tonga | 1 July to 30 June | Tongan dollar (\$T) | 0.914 |
| Viet Nam | ... | Dong | ... |

Source: United Nations, *Monthly Bulletin of Statistics*, April 1980; Asian Development Bank, *Key Indicators*, April 1980, and national sources.

Notes: ^a Cross rate based on Hong Kong dollar rates.

^b Basic rate denotes a fixed rate.

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ABBREVIATIONS

| | |
|--------|---|
| AAS | Asian agricultural survey |
| ADSETS | Projection of agricultural demand, supply, employment and trade system |
| ASEAN | Association of South-East Asian Nations |
| CDP | Committee for Development Planning |
| c.i.f. | Cost, insurance and freight |
| DAC | Development Assistance Committee, of the Organisation for Economic Co-operation and Development (OECD) |
| EEC | European Economic Community |
| EEZ | Exclusive Economic Zones |
| f.o.b. | Free on board |
| FWP | Food for Works Programme |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross domestic product, with variations, e.g., GDP _{fc} : gross domestic product at factor cost; GDP _{mp} : <i>idem.</i> at market price; GDP _{pv} ; <i>idem.</i> at purchasers' value, etc. |
| GNP | Gross national product, also with variations, e.g. at market price or purchasers' value |
| GSP | Generalized System of Preferences |
| HYV | High-yielding varieties; chiefly of cereals |
| IBRD | International Bank of Reconstruction and Development (World Bank) |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IPC | Integrated Programme for Commodities |
| ISS | Infrastructure and social service |
| MFA | Multi-fibre Arrangement |
| NIEO | New international economic order |
| ODA | Official development assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OMAS | Orderly marketing arrangements |
| OPEC | Organization of Petroleum Exporting Countries |
| PQLI | Physical quality of life index |
| RWP | Rural Works Programme |
| SAG | South Asia group |
| SDR | Special drawing rights, with the International Monetary Fund |
| SEEAG | South-east and east Asia group |
| SITC | Standard International Trade Classification |
| SNA | Standard national accounts |
| VERS | Voluntary export restrictions |

Part One

RECENT ECONOMIC DEVELOPMENTS, 1978-1979

I. INTERNATIONAL DEVELOPMENTS, 1978-1979

A. PREVIEW

1. In the flurry of year-end reviews and prognoses, the most recent round of oil price increases at the Caracas meeting of OPEC ministers induced a pervasive sense of gloom. Whilst the outlook for 1980 changed abruptly with the prospect of markedly higher petroleum prices and most of the earlier forecasts for the coming year went back to the computer, the general atmosphere of pessimism seems to have infected the reviews of the past year. This error of retrospect deserves to be avoided. The international economic situation during 1979, despite its many serious shortcomings and uncertainties, was not generally unfavourable for the growth of the economies of the Asian and Pacific region.

2. Quite in keeping with the earlier years of the 1970s, the final year of the decade has seen wide variation in the performance of the highly diverse economies of the ESCAP region. Continuing past patterns of performance, the distinction between the fortunes of the more heavily export-dependent economies and the more self-contained economies has remained characteristic. Broadly corresponding to the two major subregions, south Asia and east and southeast Asia, performance in the latter has been fairly good while that in the former has fallen short of expectations in several important respects. The contrast between petroleum exporters and non-oil developing economies in the ESCAP region has become less clear as a consequence of the revolution in Iran and the increased, though by no means dominant influence of oil exports for the Malaysian economy.

3. Not surprisingly, the abiding problems of development have remained true to that description in all but a very few exceptional cases. The under-utilization of human resources, the massive slough of rural (and considerable, though quantitatively far smaller urban) poverty and the obdurate difficulty of lagging agricultural production, particularly of foodstuffs, are problems that can scarcely be appreciably ameliorated in a year or two. Certain explicit difficulties have emerged, re-emerged or have become more serious during the past year or year and a half in most of the countries of the region. A new surge of inflation is unmistakable and, though it has clear international origins, also derives in part from domestic sources. Growth in real gross products has generally slowed in comparison with the preceding two or three years but has nevertheless been sustained at rates higher than those of 1970-1975 (cf. table II-1, section II.A.1 below). Growth

in the predominant agricultural sector has quite typically slowed; this has occurred after a period of relatively high rates of expansion and continues to manifest susceptibility to changes in the weather and the supply of key inputs. The pattern of performance in secondary industry has ranged from satisfactory in several countries to quite clearly unsatisfactory in others. Problems of external balance have generally sharpened, in large part owing to the marked increase in petroleum prices during the year; the additional December increases will of course have their initial serious impact in 1980. By and large, exports have continued to expand reasonably well, though this judgement must remain tentative until complete returns are in. While the barter terms of trade have not generally improved markedly, neither have they deteriorated sharply; in several cases export prices have remained high or continued to rise. Nevertheless, export volumes have begun to show signs of tapering off or decreasing, with consequent deterioration in the more fundamental, income terms of trade.

4. The balance of payments situation for most non-oil developing countries has improved very little at best and for many has appreciably deteriorated. This deterioration reflects both the slowing of export growth, in part on account of continued effects of tariff and non-tariff barriers in the industrial economies, the markets of which dominate the trade of the developing ESCAP economies, and the continued increase in the cost of non-compressible imports, fuels and foodstuffs in particular, but also of investment goods and intermediate inputs. As a consequence of deteriorating balance of payments positions, problems of international indebtedness have become more serious and in some cases critical. International reserves have on the whole continued to grow but this growth has not been great in real terms, for example, in relation to the growing import bill. With increasing indebtedness and the continued rise in the component of market loans with their high and increasing costs, the burden of debt service has continued to mount. Though up-to-date information is not available to substantiate this fully, the availability of external finance at concessional rates has continued to fall below any reasonable assessment of what is needed. Moreover, with few exceptions mainly restricted to particular industries and a small number of individual countries, private foreign investment flows have also lagged, in response to heightened uncertainty and higher costs on the one hand and deteriorating growth prospects in many countries on the other.

B. DEVELOPMENTS IN THE INDUSTRIAL ECONOMIES

5. The great fluctuations of the 1970s in world market economies in trade, production and prices, revealed a growing interdependence among them, both developed and developing. In part because of the magnitude of these short- and medium-term economic changes, movements of major variables more rapidly assumed the characteristics of generalized changes international in scope. This growing interdependence is most marked among the developed market economies and, as the patterns of change in their output, employment and prices have become more convergent, this has prompted an increasing effort to co-ordinate policies of short- and medium-term economic and financial management.

6. Far greater diversity characterizes the patterns of economic change among the developing market economies, including those in the Asian and Pacific region. Differences in economic performance in general and in response to fluctuations in the world market economy depend broadly upon the wide variations in economic structure. The responses of developing economies to demand and price variations in their major markets depend importantly on the extent of their involvement in the world market economy, thus their dependence on foreign trade. At the same time, in any interdependent system a mutual relationship must exist, though there need be no implication of equality in the gains or burdens of interdependence. The experience of the 1970s has revealed a growing importance of feed-back mechanisms in the relationships within the international market economy. While the predominant influences on the performance of the international market economy characteristically emanate from the industrialized countries which dominate world trade, the growing demand for industrial imports by the developing economies has provided an important fillip for slackening aggregate demand in the developed economies.¹

7. The developed market economies recovered fairly quickly from the sharp recession of 1974-1975, but the resurgence of real growth in most of these countries failed to be sustained at rates as high as 5 per cent in subsequent years (see table I-1). Whilst Japan alone among the major industrial economies exceeded this rate and the United States of America approached it, the performance of the rest was generally poorer. Some acceleration in the growth of GDP in Japan, the Federal Republic of Germany, the United Kingdom of Great Britain and Northern Ireland and the European Economic Community as a whole was apparent in 1978, but the total effect was close to negligible. Moreover, throughout this post-recession period un-

employment rates have remained high in most of the industrial countries and considerable inflation has persisted in all but a few of them. Uncertainty owing to international price developments and exchange-rate fluctuations as well as increasing protectionism have inhibited the growth of international trade; nevertheless, estimates of the volume of exports and imports indicate generally more rapid growth in external trade than in real domestic product (see table I-2 below).

8. Early prognoses for growth in the industrial economies during 1979 suggested a moderate slackening which would continue at least through mid-1980. Persistent inflationary pressures in the United States, including the effects of rising petroleum prices, prompted government action to restrain aggregate spending. In Japan and the Federal Republic of Germany, where inflation had abated considerably and the external balance situation permitted expansion, measures were taken to increase the rate of growth in total product. By July 1979, the increase in oil prices of nearly 60 per cent since the end of 1978 exceeded early expectations (see below); for this and other reasons, inflationary pressures continued to mount while real output failed to expand rapidly. Further monetary restrictions were applied in the United Kingdom and the Federal Republic of Germany as well as the United States, and by the end of the year monetary policy had tightened considerably in nearly all OECD countries.²

9. Thus as a consequence of both domestic anti-inflationary policy and external pressures with depressive effects through associated cost increases, the domestic economies of the industrialized countries had clearly lost momentum by the latter part of the year. Although GDP growth seems to have accelerated in 1979 in the Federal Republic of Germany and Japan, in other leading industrial economies growth has stagnated or declined (see table I-1). Preliminary estimates of the growth in the volume of foreign trade suggest that the slackening of growth in real product in the industrial

¹ Similar in this respect to the developing economies, it is the degree of dependence on foreign trade which mainly determines the incidence of such feed-back. The range of variation is great; for example, in 1978 the ratio of merchandise exports to GDP varied from 7 per cent for the United States of America and 10 per cent for Japan to 23 per cent for Canada and more than 22 per cent for the Federal Republic of Germany, among the largest trading economies. Clearly, as most of the trade of developed countries is with other developed countries (more than 70 per cent since 1975), the feed-back effect of LDC demand is considerably smaller than these percentages would suggest. The share of non-oil developing countries in the total exports from the developed market economies has been less than 15 per cent since 1975; the share in the annual increment can be much larger (or smaller) than this, e.g. 22 per cent in 1976-1977.

² Organisation for Economic Co-operation and Development (OECD), *Economic Outlook*, 26, December 1979, p. 15.

Table I-1. OECD countries. GDP growth, 1975-1979, 1980 forecast
(percentage)

| | GNP(GDP) ^a (1978 weights) | 1975 | 1976 | 1977 | 1978 | | 1979 ^p | | | 1980 ^f |
|----------------------------------|--|------|------|------|------|--------------------------|-------------------|--------------------------|--------------------------|-------------------|
| | | | | | Year | 2nd half ^b | Year | 1st half ^b | 2nd half ^b | |
| United States | (35.8) | -1.0 | 5.5 | 4.8 | 4.4 | (5.2) | 2 | (1.3) | (0.25) | -1.25 |
| Japan | (16.7) | 2.4 | 6.0 | 5.4 | 5.6 | (4.3) | 6 | (6.8) | (6.25) | 4.75 |
| Federal Republic of Germany . | (10.9) | -2.1 | 5.6 | 2.8 | 3.5 | (5.0) | 4.25 | (3.9) | (4) | 2.25 |
| France | (8.0) | 0.2 | 4.9 | 2.8 | 3.3 | (2.8) | 3 | (3.0) | (3) | 2 |
| United Kingdom | (5.3) | -1.0 | 3.7 | 1.3 | 3.3 | (3.5) | 0.5 | (0.3) | (-2.25) | -2 |
| Top seven ^c | (84.3) | -0.5 | 5.4 | 4.0 | 4.2 | (4.6) | 3.25 | (3.1) | (2.25) | 1 |
| EEC ^d | (33.3) | -1.4 | 5.1 | 2.3 | 3.1 | (...) | 3 | (...) | (...) | 1.5 |
| OECD ^e | (100) | -0.4 | 5.2 | 3.7 | 3.9 | (4.3) | 3 | (3.1) | (2.25) | 1 |

Sources: OECD, *Economic Outlook*, 26, December 1979, table 1, 2 and annex table p. 130; OECD, *Main Economic Indicators* 3/80, March 1980.

Notes: ^a GDP(GNP) weights: 1975-1977: three-year moving averages; 1978-1980: 1978 GDP(GNP) and exchange rates.

^b On preceding half year.

^c Top five listed plus Italy (weight 4.1) and Canada (3.5).

^d European Economic Community: Belgium, Denmark, France, Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, United Kingdom.

^e Twenty-four industrialized market economies, members of the Organisation for Economic Co-operation and Development.

^p Preliminary.

^f Forecast.

Table I-2. OECD area. Output and foreign trade, 1976-1979, 1980 forecast
(percentage changes in volume)

| | 1976 | 1977 | 1978 | 1979 ^p | 1980 ^f |
|--|------|------|------|-------------------|-------------------|
| <i>Output</i> | | | | | |
| GNP | 5 | 3.75 | 4 | 3.25 | 1 |
| Import-weighted: GNP | 4.75 | 3 | 3.5 | 3 | 1.25 |
| Industrial production | 7.25 | 3 | 3.25 | 4.5 | 1.25 |
| <i>Trade</i> | | | | | |
| Total exports | 13.5 | 4.5 | 5 | 7.75 | 2 |
| Imports from | | | | | |
| OPEC | 13 | 3 | -4 | 2.25 | -6.5 |
| Non-oil developing countries | 20.5 | 4 | 7.5 | 8.5 | 2.5 |
| Other non-OECD countries | 11.5 | 3.5 | 7 | 9 | 3.25 |
| Total exports | 10 | 5.5 | 6 | 7 | 5.25 |
| Exports to: | | | | | |
| OPEC | 14.5 | 15 | 4.5 | -11 | 19 |
| Non-oil developing countries | 4.5 | 6 | 8.5 | 7 | 4.75 |
| Other non-OECD countries | -4.5 | -4 | 8.5 | 7.5 | 5.5 |

Source: OECD, *Economic Outlook*, 26, December 1979, table 25 (adapted).

Notes: ^p Preliminary.

^f Forecast.

economies has yet to exert its full impact on the external sector. Given the more direct connexion between industrial production and external trade in the developed countries and in turn with the growth of the developing economies, it is useful to consider these patterns more closely.

1. Industrial production and trade

10. The growth of industrial production — manufacturing in particular — in the developed market economies depends importantly, though in varying degree among countries and industries, upon a sustained inflow of imported inputs. Traditionally these inputs have included primary products produced in and exported from the developing economies; these range through the whole gamut (in raw and semi-processed form) of foodstuffs, animal and vegetable oils and fats, natural fibres and inedible vegetable materials, and ferrous and non-ferrous ores and metals. Increasingly in recent years there has come a diverse array of more highly processed products for use as industrial inputs ranging from relatively simple fabrications, such as plywood or particle board, through textile yarns and fabrics and metal products, to sub-assemblies and components for machinery, electrical equipment and electronic products. Whilst the explicit input-output relationships are highly various, the statistical generalization of these flows typically shows a recognizable correspondence between the changes in the flow of output and that of imported inputs. Moreover, data availability permitting, some articulation of these flows by industry, country and commodity group often provides useful insights into the patterns of real and monetary flows among trading partners.³

11. Industrial performance in the developed market economies provides only a partial indication of the influence on the demand for exports from developing economies and, among these, the developing economies of the ESCAP region. Because industrial inputs at varying levels of processing and fabrication make up the predominant part of developing economy exports from this region, however, movements of industrial production in the industrialized economies are a useful indicator. A brief review of these changes helps to describe the pattern of influences upon the export performance of developing ESCAP economies.⁴ Further references to the effects of changes in demand for exports of particular product groups and countries will appear in appropriate sections of the discussion of developing economy performance.

12. Broadly similar to their patterns of GNP changes, growth in industrial production in the OECD countries appears to have slackened during the years following 1976 and the rapid recovery

from the preceding recession. Preliminary estimates for 1979 indicate that industrial production generally made a modest recovery (in comparison with the two years immediately preceding) although GNP growth apparently did not do so. Table I-2 summarizes these changes for OECD countries as a group and distinguishes their patterns among OPEC countries and non-oil exporting developing countries.

13. Year-to-year rates of change in industrial production volume (predominantly manufacturing) have varied considerably among the major industrial economies during the last half of the 1970s (see table I-3). In comparison with the international business cycle of the early mid-1970s, this contrasts with the synchronization of activity rates noted earlier. Diversity appears in related variables as well, of which the behaviour of stockbuilding is important for the changes in demand for developing country exports of primary products and intermediate inputs. The underlying causes of changing rates of inventory accumulation (or disinvestment in stocks of inputs) are found in variations in the level of demand for final products and are thus related to the influences which affect rates of production. Typically more sensitive to interest rate changes and to business expectations, inventory behaviour tends to be more volatile than changes in industrial production. This element in changing demand and prices for the predominant part of merchandise exports from developing countries thus remains the source of considerable uncertainty. Consequently, the decrease in synchronization in activity levels in the industrialized countries may serve to reduce in some degree the volatility of demand for developing country exports. Perusal of the data showing rates of change in these variables in major OECD countries (see table I-4), however, suggests that the observed lack (at least in a relative sense) of synchronization leaves much to be desired from the viewpoint of suppliers desiring greater stability in the markets for their exports. Moreover, for individual countries, each with its particular export product mix and pattern of overseas industrial markets, the degree of diversity among industrial economies may have relatively little stabilizing effect.

³ Both official institutions and private organizations have for many years monitored the performance of industries in the developed economies in order to anticipate changes in demand and prices for the exports of developing countries.

⁴ The composition of exports from the developing ESCAP countries reveals the importance of industrial inputs in the total. Crude petroleum and petroleum products in recent years prior to 1979 accounted for upwards of a third to more than two fifths of total export values from developing economies in the region. Petroleum and its products excluded, the proportions according to SITC section are as follows: (for 1975-1978): foods etc., about 13 per cent; crude materials, including metals, about 15 per cent, with little change in these shares, were declining over the period. Together with mineral fuels, these primary inputs accounted for about two thirds of developing ESCAP exports (c.f. table II-14 below).

Table I-3. Developed market economies.
Growth in manufacturing production, 1975-1979
(percentage change over preceding period)

| Countries ^a | 1975 | 1976 | 1977 | 1978 | 1979 | 1979 | |
|---------------------------------------|-------|------|------|------|------------------|-------------------------|------------------|
| | | | | | | First half ^b | Second half |
| United States | -10.7 | 11.9 | 6.3 | 5.9 | 4.8 | 2.4 | -0.3 |
| Japan | -11.4 | 11.0 | 4.5 | 6.0 | 8.1 | 1.9 | 6.8 |
| Federal Republic of Germany | -6.4 | 8.7 | 2.7 | 0.9 | 5.3 | 4.8 | 1.0 |
| France | -8.1 | 10.5 | 0.9 | 1.8 | 3.5 | 12.0 | -6.9 |
| United Kingdom | -6.4 | 1.0 | 2.0 | 1.0 | 0 | 3.6 | -1.6 |
| Italy | -9.2 | 12.0 | 0.9 | 1.8 | 6.9 | 10.8 | -2.8 |
| Canada | -6.2 | 5.8 | 2.8 | 7.3 | ... | 1.8 | ... |
| Top seven ^c | -9.6 | 10.3 | 4.4 | 4.4 | 5.4 ^d | 4.0 | 0.6 ^d |
| All developed market economies | -8.2 | 9.0 | 3.8 | 4.2 | ... | 3.6 | ... |

Sources: United Nations, *Monthly Bulletin of Statistics*, November 1979, and table 10 special table A; April 1980, table 10.

Notes: ^a In order of GDP(GNP) in 1978.

^b Change over second half 1978.

^c Weights of 1978 GDP(GNP).

^d Weighted average excludes Canada.

Table I-4. Major OECD countries. Changes in industrial production, inventories and import volume, 1976-1979, 1980 forecast (percentage change from previous year)

| | | 1976 | 1977 | 1978 | 1979 ^p | 1980 ^f |
|-----------------------------|------------------------------------|------|------|------|-------------------|-------------------|
| United States | Industrial production | 10.1 | 5.7 | 5.8 | 4 | -3.75 |
| | Stocks (current prices) | 1.5 | 0.2 | 0.1 | -0.25 | -0.25 |
| | Import volume | 21.7 | 13.6 | 7.1 | 2.5 | -2.75 |
| Japan | Industrial production ^a | 11.1 | 4.1 | 6.2 | 8.25 | 6 |
| | Stocks (current prices) | 0.5 | 0 | 0 | 0.5 | 0 |
| | Import volume | 8.4 | 3.1 | 6.2 | 12 | 4 |
| Federal Republic of Germany | Industrial production | 7.3 | 2.9 | 1.9 | 5.5 | 4 |
| | Stocks (current prices) | 1.6 | -0.1 | -0.2 | 0.75 | -0.75 |
| | Import volume | 13.8 | 3.9 | 7.9 | 9 | 4.25 |
| France | Industrial production | 9.1 | 1.2 | 2.8 | 3.25 | 2 |
| | Stocks (current prices) | 1.5 | 0.2 | -0.2 | 0.5 | -0.25 |
| | Import volume | 23.8 | 1.0 | 6.1 | 10.25 | 3.25 |
| United Kingdom | Industrial production ^b | 1.1 | 1.6 | 0.4 | 1 | -2 |
| | Stocks (current prices) | 1.7 | 0.7 | -0.1 | 0 | -1.25 |
| | Import volume | 6.4 | 2.4 | 7.6 | 9.75 | 0.5 |
| Italy | Industrial production | 12.4 | 1.9 | 1.9 | 5 | 2.5 |
| | Stocks (current prices) | 2.8 | -1.2 | -0.6 | 0.75 | -0.5 |
| | Import volume | 15.6 | -0.4 | 8.7 | 11 | 3.5 |
| Canada | Industrial production | 5.1 | 4.1 | 5.7 | 4.5 | 0 |
| | Stocks (current prices) | 1.6 | -0.8 | 0.2 | 1.5 | -0.5 |
| | Import volume | 7.8 | 1.3 | 3.8 | 8.75 | 2 |

Sources: OECD, *Economic Outlook*, 23, July 1978; 25, July 1979; and 26, December 1979, country tables and annex table 44 (26).

Notes: ^a Mining and manufacturing.

^b Manufacturing.

^p Preliminary.

^f Forecast.

14. In the event, the patterns of change in industrial production and inventory accumulation in their major markets have continued to induce marked swings in the demand for and the prices of exports of primary and intermediate products. During 1978/79 the behaviour of these variables was less than fully synchronized because industrial production and stockbuilding in the United States (and industrial production in Canada) slowed appreciably while growth in both activities accelerated for all other major OECD economies. The rather considerable acceleration in import volumes that resulted also gave rise to marked increases in a great many commodity prices (see table II-15, section II.B.1 below). If actual developments in 1979/80 come even close to current prognoses, it may be expected that the anticipated decline in production and inventory demand for developing country exports (with the associated decline in their prices) may be both fairly general and very considerable.⁵

2. Inflation

15. Among the leading developed market economies some measure of success had been achieved in curbing domestic inflation following the two or three years of double-digit increases at mid-decade.

Price increases moderated progressively from 1976 to 1978, though annual rates of inflation were still appreciably higher than they had been a decade earlier (see table I-5). Early signs of a resurgence of inflationary pressures began to appear in consumer prices during the first quarter of 1979 and were reinforced during the succeeding quarter. The influence of slackening food price rises in the autumn served to lessen the rate of inflation in several of the major economies, especially in the Federal Republic of Germany and Japan where commodity production growth continued buoyant. On average during 1979, however, four of the seven largest industrial economies recorded inflation at two-digit rates. Wholesale prices, which had behaved more modestly during the preceding three years and had risen least rapidly in 1978, advanced more strongly during the first quarter of 1979 and on average rose more rapidly than consumer prices during the full year.

16. The major part of this deterioration in the prospects for price moderation has been attributed to the sharp renewal of petroleum price increases during the first half of 1979. Slight labour cost increases in OECD countries contributed to the

⁵ See OECD, *op. cit.*, pp. 52-57.

Table I-5. Developed market economies. Changes in consumer and wholesale prices, 1975-1979 (percentage)

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|--|------|------|------|------|-------------------|
| <i>Consumer prices^a</i> | | | | | |
| United States | 9.1 | 5.8 | 6.5 | 7.6 | 11.5 |
| Japan | 11.9 | 9.3 | 8.1 | 3.8 | 3.4 |
| Federal Republic of Germany | 6.0 | 4.5 | 3.9 | 2.6 | 4.1 |
| France | 11.8 | 9.2 | 9.8 | 9.1 | 10.5 |
| United Kingdom | 24.2 | 16.5 | 15.9 | 8.3 | 13.4 |
| Italy | 17.0 | 16.8 | 17.0 | 12.1 | 14.8 |
| Canada | 10.8 | 7.5 | 8.0 | 8.9 | 9.2 |
| Total (above) | 10.9 | 7.9 | 7.8 | 6.7 | 9.1 |
| Total OECD | 11.4 | 8.6 | 8.7 | 7.9 | 10.9 |
| <i>Wholesale prices</i> | | | | | |
| United States ^b | 8.6 | 4.6 | 6.2 | 7.8 | 12.3 |
| Japan ^b | 3.0 | 5.0 | 1.9 | -2.5 | 7.2 |
| Federal Republic of Germany ^c | 4.7 | 3.9 | 2.6 | 1.2 | 5.0 |
| France ^c | -5.7 | 7.4 | 5.6 | 4.2 | 13.4 |
| United Kingdom ^d | 22.2 | 17.3 | 19.8 | 9.0 | 10.7 |
| Italy ^b | 8.6 | 22.9 | 17.3 | 8.4 | 15.5 |
| Canada ^b | 6.7 | 4.3 | 9.1 | 9.1 | ... |
| Total (above) | 6.4 | 6.5 | 6.3 | 4.7 | 10.4 ^e |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980, table 58 (wholesale) and table 61 (consumer prices); OECD, *Economic Outlook*, 26, December 1979, table 23 (consumer prices) and *Main Economic Indicators*, 3/80, March 1980 (consumer prices).

Notes: ^a All items.

^b General index.

^c Industrial products.

^d Finished goods.

^e Weighted total excludes Canada.

Table I-6. OECD countries. Changes in export and import prices, 1976-1979, 1980 forecast (percentage change from previous year in average unit values)

| | 1976 | 1977 | 1978 | 1979p | 1980f |
|--|------|------|-------|-------|-------|
| <i>Import prices^a</i> | | | | | |
| United States | 3.0 | 8.0 | 8.7 | 16.75 | 15.5 |
| Federal Republic of Germany | 4.9 | 2.4 | -3.6 | 9.5 | 11 |
| Japan | 3.4 | -3.5 | -17.8 | 24.75 | 22 |
| France | 6.4 | 12.1 | 1.6 | 10.75 | 12.75 |
| United Kingdom | 21.5 | 14.4 | 3.0 | 7.25 | 9.5 |
| OECD total imports | 7.0 | 7.6 | 1.2 | 13.5 | 13.5 |
| Net imports of oil | 12.5 | 7.0 | -5.0 | 31.5 | 33.75 |
| Net imports of primary commodities | 8.5 | 19.0 | -2.0 | 8 | 8 |
| <i>Export prices^a</i> | | | | | |
| United States | 3.4 | 4.3 | 7.0 | 9.75 | 10.25 |
| Federal Republic of Germany | 3.9 | 1.2 | 0 | 3 | 6 |
| Japan | -1.5 | -0.6 | -4.0 | 9 | 13.25 |
| France | 15.7 | 10.0 | 5.1 | 8.75 | 8.5 |
| United Kingdom | 18.9 | 17.4 | 7.3 | 10.25 | 12 |
| OECD total exports | 6.2 | 6.2 | 3.2 | 9.5 | 10 |
| Manufactures exports | 7.2 | 5.7 | 3.5 | 8.5 | 9.5 |
| <i>Developing countries' export prices^b</i> | | | | | |
| OPEC oil exports | 6 | 10 | 0 | 41 | 29 |
| Non-oil commodities | | | | | |
| Total | 7 | 25 | -7.5 | 15 | 8.5 |
| Food | 6 | 37 | -13 | 10 | 8.5 |
| Agricultural raw materials | 19.5 | 6.5 | 10.5 | 23 | 7.5 |
| Minerals, ores & metals | -2 | 5.5 | 6.5 | 27 | 6.5 |

Source: OECD, *Economic Outlook*, 26, December 1979, table 26 and annex table 48.

Notes: ^a In terms of national currencies.

p Preliminary.

^b Market prices in US dollar terms.

f Forecast.

apparent acceleration in the underlying rate of domestic inflation.⁶ Food prices, increasing moderately at retail level, served to dampen the rate of inflation in consumer prices while at wholesale, food prices were rising in the third quarter in several countries. Non-food consumer prices, influenced by higher prices of energy and industrial materials, where dominated by fuel prices. During the nine months ending in September 1979 retail energy prices rose by 22 per cent in the top seven OECD countries.⁷

17. Efforts to moderate this incipient acceleration of prices in the developed market economies have created increasingly restrictive patterns of monetary policy in most of these countries. Interest rates have risen very sharply especially during the last quarter of 1979; by November the prime lending rate of United States banks had been raised to 15.75 per cent, fully four points higher than in May. The monetary authorities have made it clear that they will not accommodate an acceleration of domestic inflation, even at the risk of reducing the pace of economic growth and increasing the levels of unemployment; though not at their highest in recent years, unemployment rates have remained uncom-

monly high. Fiscal policy measures have also been cautious, accompanied by moves towards restraint in Japan and the Federal Republic of Germany and especially in the United Kingdom.

18. Transmission of inflationary impulses between developed and developing countries through international transactions has involved both commodity and credit markets. Increased prices of commodity imports into the industrial economies, induced mainly through rapid increases in demand together with the sharp increases in petroleum prices, have exerted cost-push effects on domestic prices and contributed to rising costs of production and increasing prices of manufactures exports, particularly of machinery. Patterns of price changes in the external trade of OECD countries are presented in table I-6. Comparison with consumer and wholesale prices in these countries (see table I-5) reflects the similarity in the profiles of domestic and trade price changes for most of the largest trading countries. Coupled with volume changes (see tables I-2 and I-4) these changes suggest the relative

⁶ *Ibid.*, p. 47.

⁷ *Ibid.*, p. 49.

magnitude of changes in the flow of expenditures in external trade. Early in 1979 OECD expenditures on imports rose in consequence of increased volumes and prices of raw materials to fill stockbuilding needs; for the year as a whole these outlays appear to have expanded by 17 or 18 per cent. By mid-year with rapid increases in OPEC prices, outlays on petroleum exports were also rising rapidly; the volume of petroleum imports for the full year is estimated to have expanded by 2 to 3 per cent while prices have risen by more than a third; hence total outlays on oil imports must have risen by rather more than a third. Total import outlays expanded by more than a fifth in 1979, more as a result of price than volume increases. In contrast to the expansion of the total OECD import bill in 1976, when import prices and volumes also advanced strongly, the share of total outlays for imports going to non-oil commodities exporters was relatively smaller in 1979. The pattern suggested by these relationships yields orders of magnitude only in relative terms but it would seem to imply a relatively smaller growth-inducing thrust than the import pattern of the earlier year. Crude though this indicator must be in want of information permitting regional disaggregation, the implications are clearly consistent with the preliminary estimates of moderate export expansion for the developing ESCAP economies in 1979.

19. Demonstrably important for a considerable number of developing countries in the ESCAP region, though perhaps less generally significant, the inflation-induced increases in interest rates also imparted an inflationary thrust. In recent years, monetary authorities in an increasing number of developing ESCAP countries have been prompted to match changes in international prices of credit. In part this reflects the decline in the use of direct controls over foreign exchange transactions⁸ and the consequent risk of monetary disturbances caused by shifts in short-term capital flows. Monetary and exchange rate policy in many countries still makes possible the partial insulation of domestic money markets from external influences. Such insulation has become less effective as external debt has risen accompanied by an increase, quite marked in several countries, in the commercial share of total external debt and hence increased dependence on access to international commercial credit in the short- and medium-term.

C. THE SECOND OIL PRICE SHOCK

20. The year 1979 opened with fair prospects for moderate, programmed increases in petroleum prices; the OPEC oil ministers meeting in December 1978 had agreed upon a modest 10 per cent rise for the first quarter of 1979, with further increases

to be considered during the course of the year in the light of developments in the inflation in the industrial countries, exchange rates and demand for petroleum. In January the oil exporting countries generally raised their prices by about 5 per cent. Changes in the supply, rather than the demand situation had begun towards the end of 1978 as the Iranian revolution interrupted production and the flow of exports from OPEC's second largest producer. Reductions in supply were partially made up by increased rates of output from other OPEC producers but the supply of crude for the first six months of 1979 was appreciably below 1978 levels.

21. A new round of price rises followed in March and April as major producing countries raised prices by up to 25 per cent, on average an additional increase of perhaps 20 per cent on benchmark prices. With a substantial part of Iranian oil diverted to the spot market, prices there ranged far above posted prices, as high as \$US 37 per barrel in early July and exceeding \$US 40 per barrel in November.⁹ Following the OPEC ministers' meeting in July, a two-tier pattern evolved with prices ranging from \$US 18 to \$US 24 per barrel. Measured against the prices which had prevailed during 1978, crude petroleum prices had risen by nearly 60 per cent by July 1979. Countries supplied by upper-tier producers and particularly those which had purchased heavily from the spot market reported even greater increases in costs.

22. Repeated attempts have been made to reduce the flow of oil to the spot market without apparent success; the shortage of supply and the fear of further production cutbacks has prompted many European countries to replenish stocks even at exorbitant prices. Clearly, in addition to the producers, only the international oil companies in control of most transport facilities and distribution channels, were in a position to gain from this development.¹⁰

⁸ See, *Economic and Social Survey of Asia and the Pacific, 1977* (United Nations publication, Sales No. E.78.II.F.1), Part Two, chapter I, B. The International Monetary Crisis, especially table 1 and accompanying text.

⁹ OECD, *op. cit.*, p. 41, note 7.

¹⁰ Complaints from European Governments reinforced public sentiment in the United States for imposition of special taxes on the windfall profits of American-owned international oil companies — complaints to which the United States Congress responded late in the year by approving windfall profits tax legislation. See Reuter, "Schmidt takes US oil firms to task", *Nation Review* (Bangkok) 15 December 1979, reporting Chancellor Helmut Schmidt; compare news item "Iran having no trouble finding oil markets", *Nation Review* (Bangkok), 25 December 1979, reporting Iranian oil minister Ali Akbar Moinefar's statement that 10 per cent of Iranian exports would continue to be sold on the spot market.

23. Benchmark prices remained largely unchanged at the rates prevailing in July until shortly before the December meeting of OPEC ministers in Caracas. At that time still further increases were announced, on average perhaps as much as a third above July levels. The two-tier system has persisted with prices ranging from \$US 24 per barrel for Saudi Arabian light to \$US 30 for Libyan crude.¹¹ These figures represent increases over December 1978 levels of 89 per cent and 117 per cent; as a rough average for the major OPEC producers, the increases over December 1978 must have represented nearly a twofold increase in nominal prices.

24. Attempts to assess the impact of this second oil shock on the developed economies, mainly written before the Caracas meeting, were cautious but not especially pessimistic. The nominal price increase in 1979 was considerably smaller than that of 1973/74;¹² the 1979 import bill for oil will be only marginally affected by price changes towards the end of the year. As the total increase by year's end amounted to about 100 per cent on 1978 levels, the anticipated depressive effect during 1980 should still represent a significantly smaller magnitude than the first oil shock. Thus the size of the increases which may be expected to follow those announced by the Government of the Libyan Arab Jamahiriya at the turn of the year will be crucial to an assessment of the total impact on the developed market economies.¹³ Furthermore, the situation of the industrial economies is less vulnerable to depressive influence than was the case in 1973. The degree of synchronization of demand among the larger industrial countries is markedly smaller; while demand has weakened appreciably in the United States, considerable buoyancy prevails in the Federal Republic of Germany and Japan. Inventory accumulation has been less extreme in the last year or two and business in these countries is considered less vulnerable to a credit squeeze. Hence the risk of a sharp downturn comparable to that of 1974/75 probably considerably smaller.¹⁴

1. The "real price" of petroleum

25. OPEC pricing policy reflects a purchasing-power-parity approach, that is, the principle that the price of crude should not lag behind the increase in general price levels. More specifically, the major export of the oil exporting countries should be capable of paying for necessary imports without suffering terms-of-trade losses. In addition, some further increment can be justified on grounds that petroleum is a wasting resource, which should earn a scarcity rent against the inescapable future exhaustion of reserves. Ideally this component of the petroleum price should provide for the creation of

productive capacity to replace the earning power of petroleum exports as incomes from petroleum sales eventually diminish and finally cease altogether. In estimating an appropriate "real price" of petroleum, or essentially its price relative to the prices of other goods and services, the choice of comparative prices will depend on the product mix and the use pattern of the economy or the market for which the comparison is made. Thus there is no single "real price" of any specific product.¹⁵

26. The price data presented in table I-7 include a "real price" for internationally traded crude petroleum in terms of all other internationally traded commodities, excluding crude petroleum. Whilst this real-price series will be in some degree inappropriate for any specific economy, it is nevertheless indicative for all economies significantly involved in the international trade of the developed and developing market economies. The rise in crude petroleum prices (see table I-7) from the fourth quarter of 1978 to the fourth quarter of 1979 shows a nominal increase of about 84 per cent and a "real" — or relative — increase of nearly 61 per cent. On an annual basis the nominal increase was 45 per cent and the "real" increase nearly 28 per cent from 1978 to 1979. These changes may be compared with the first oil-shock price increase (1973-1974) of 227 per cent (nominal) and 160 per cent (real). It may also be noted that, in this commodity pattern, the relative price of crude declined in 1975, rose by 5 per cent in 1976, remained unchanged in 1977 and fell again in 1978, compared in each case with the previous year.¹⁶

¹¹ According to press reports; see Associated Press, "Current prices of OPEC members", *Nation Review* (Bangkok), 22 December 1979. By the end of the year even further increases had been announced, ranging from \$US 26 per barrel for Venezuelan crude (up 86 per cent from December 1978) to \$US 34.72 per barrel for Libyan crude (up a total of more than 150 per cent). (James Tanner, "Some oil quotes top \$30 a barrel", *Asian Wall Street Journal* (Hong Kong), 1 January 1980.)

¹² OECD, *op. cit.*, pp. 21ff.

¹³ Even if the reported price of nearly \$US 35 per barrel were to be generally followed, it does not appear that the magnitude of the shock would approach that of 1973/74. A general increase of this magnitude above 1978 levels would be of the order of 150 per cent. Translated into benchmark (Saudi Arabian light crude) prices, this would be about \$US 32 per barrel; to be of the same order of magnitude as the 1973/74 shock the increase would translate into nearly \$US 42 per barrel.

¹⁴ OECD, *op. cit.*, p. 21.

¹⁵ A recent OECD-International Energy Authority study has calculated a "real-price" series for energy (oil, coal and electricity) relative to other prices in the OECD economies. Quite clearly dominated by petroleum prices, this index shows a total rise in the relative prices of energy of just over 21 per cent from 1972 to 1978. The index reflects annual increases of less than 1 per cent in each of the years 1975 and 1976, barely more than 1 per cent in 1977 and a decline of 3 per cent in 1978, when international petroleum prices were stable (Philip Revzin, "OECD members facing oil price boosts", *Asian Wall Street Journal* (Hong Kong), 27 December 1979).

¹⁶ The discontinuity implicit in the change of base year from 1970 to 1975 is dictated by the series available in the source.

2. Non-oil developing economies' payments position

27. It is difficult to find much cause for optimism in the balance of payments position of the non-oil developing countries. According to OECD (pre-Caracas) estimates, non-oil exporting developing countries paid an aggregate of \$US 20 billion for their gross oil imports in 1978.¹⁷ On the basis of the magnitude and timing of the 1979 oil price increases, the same volume of oil will have cost fully one third more than in 1978. For 1980, at prices prevailing at the end of 1979 but allowing for neither changes in import volume nor further price rises (a few of which had already been announced at year's end) the total outlay may be expected to be almost double that of 1978. With increases of this order of magnitude in the cost of essential — and hence only partially compressible — imports during 1979, the balance of payments position for non-oil developing countries deteriorated markedly with the aggregated deficit on current account (excluding net official transfers) growing from about \$US 48 billion in 1978 to some \$US 61 billion in 1979 or by more than a fourth of the 1978 figure (see table I-8).

28. Achievement of external balance by the non-oil developing economies after the first oil shock was confirmed in a strong basic balance position in 1978 despite the sharp increase in the aggregated current account deficit (see table I-8). In long-run terms this has been a costly achievement as it has meant greatly increased external debt, though wide variation prevails among countries and areas. Developing ESCAP countries, also displaying great variation among them, were at the beginning of 1979 not the most heavily burdened by external indebtedness. Indications are that the non-oil developing countries as a group have experienced slackening inflows of both official and private long-term capital during the year.¹⁸ The resultant basic balance must have deteriorated substantially with the continued rise in current account deficits. Again, the indications are that an expanding share of the increment has been financed by recourse to the private international money market. Concurrently, reflecting the tightening of the terms of borrowing, this solution has become increasingly costly. While the mounting debt service burden has its primary incidence on the borrowing countries, the increased burden of international indebtedness increases the vulnerability of the heavily committed international private banks as well.

29. In view of the additional increases in oil prices since the OECD estimates were constructed, it is likely that the deficit on current account for the non-oil developing countries will be substantially larger than the forecast figure. Among the middle-

income developing countries, further recourse will have to be taken to the commercial money market in spite of higher costs and harder terms. In these circumstances, however, many countries will find the costs prohibitive and the tightening of lenders' conditions will effectively bar others from access to the market. In the slow decline into stagnation among the developed market economies it would be overly sanguine to expect marked expansion of private foreign investment. The possibility remains, though for reasons of increased monetary and fiscal stringency in the developed economies, the probabilities are likely to be small, of significantly enhanced flows of concessionary official financial resources. An exception may perhaps be through the multilateral agencies whose rather limited share in total ODA has in fact grown appreciably over the past several years. Another possibility is the Brandt Commission proposal for a "World Development Fund" aimed at programme financing pitched between the accommodating short-term finance of the IMF and the 25-30 year soft loans of the International Development Association. Its basic capital could well be some part of the oil surplus, for example, from a per-barrel cess. Doubtless the most attractive prospect remains the reported decision of the oil ministers at Caracas to double the OPEC assistance fund for third world economies.¹⁹

D. THE OUTLOOK FOR 1980

30. For the industrialized countries, the prospects for 1980 appear even less salutary than they did prior to the December oil-price increases. With the promise of further price increases in store, the initial depressive impacts of the oil shock will be substantially larger than those foreseen in earlier prognoses and could well reduce real growth in the OECD area to nil.²⁰ Industrial output may be expected to slacken as well, with aggregate import volumes leveling off or falling. Export growth, already forecast to decelerate in response to the oil shock, may also be expected to fall below anticipated rates. The rise in domestic prices in the developed market economies will most likely cease to accelerate, in consequence of both the depressive initial effects of the oil shock and the

¹⁷ OECD, *op. cit.*, p. 126.

¹⁸ It will be noticed that the rate of increase in net official transfers slackens markedly in the OECD estimates for 1979 and 1980; these transfers commonly represent a relatively minor component of total official inflows.

¹⁹ James Tanner, "OPEC agrees on more aid for poor countries", *Asian Wall Street Journal* (Hong Kong), 20 December 1979.

²⁰ Until the full extent of the new year round of crude prices is apparent, possible developments in international oil markets are difficult to anticipate. Barring further cutbacks in production, the possibility exists that an overly large additional increase in crude prices may create a transitory glut and lead to moderate price-cutting by late spring or early summer.

Table I-7. World export prices, 1978-1979, and the "real price" of crude petroleum

| Years and quarters | All traded commodities | | Primary commodities | | | Manufac- tures | Crude petroleum "real price" ^b |
|--------------------------|------------------------|------------------------------------|---------------------|-----------------------|--------------------|-------------------|--|
| | Total | ex crude ^a petroleum | All | ex crude petroleum | Crude petroleum | | |
| <i>Indexes: 1970=100</i> | | | | | | | |
| 1973 | 142 | 140 | 180 | 176 | 196 | 133 | 140 |
| 1974 | 199 | 176 | 308 | 227 | 641 | 162 | 364 |
| 1975 | 214 | 190 | 302 | 215 | 651 | 182 | 343 |
| <i>Indexes: 1975=100</i> | | | | | | | |
| 1976 | 102 | 101 | 106 | 106 | 106 | 100 | 105 |
| 1977 | 111 | 111 | 117 | 118 | 117 | 109 | 105 |
| 1978 | 122 | 124 | 119 | 121 | 117 | 125 | 94 |
| IV | 128 | 132 | 122 | 126 | 117 | 133 | 89 |
| 1979 | 144 | 142 | 154 | 137 | 170 | 143 | 120 |
| I | 133 | 135 | 127 | 129 | 126 | 137 | 93 |
| II | 139 | 137 | 144 | 134 | 155 | 138 | 113 |
| III | 150 | 146 | 163 | 143 | 184 | 147 | 126 |
| IV | 156 | 150 | 180 | 145 | 215 | 151 | 143 |
| <i>Percentage change</i> | | | | | | | |
| From previous year | | | | | | | |
| 1977 | 8.8 | 9.9 | 10.4 | 11.3 | 10.4 | 9.0 | 0 |
| 1978 | 9.9 | 11.7 | 1.7 | 2.5 | 0 | 14.7 | -10.5 |
| 1979 | 18.0 | 14.5 | 29.4 | 13.2 | 45.3 | 14.4 | 27.7 |
| From previous quarter | | | | | | | |
| 1979 I | 3.9 | 2.3 | 4.1 | 2.4 | 7.7 | 3.0 | 4.5 |
| II | 4.5 | 1.5 | 13.4 | 3.9 | 23.0 | 0.7 | 21.5 |
| III | 7.9 | 6.6 | 13.2 | 6.7 | 18.7 | 6.5 | 11.5 |
| IV | 4.0 | 2.7 | 10.4 | 1.4 | 16.8 | 2.7 | 13.5 |
| From 1978 IV | | | | | | | |
| 1979 II | 8.6 | 3.8 | 18.0 | 6.3 | 32.5 | 3.8 | 27.0 |
| III | 17.2 | 10.6 | 33.6 | 13.5 | 57.3 | 10.5 | 41.6 |
| IV | 21.9 | 13.6 | 47.5 | 15.0 | 83.8 | 13.5 | 60.6 |

Source: United Nations, *Monthly Bulletin of Statistics*, December 1979 and April 1980, World tables and table 59.

Notes: ^a Calculated using implicit weights.

^b Crude petroleum price index deflated by price index for all commodities excluding crude petroleum.

policies of restraint already in force. Unemployment will undoubtedly increase in most industrial countries and be accompanied by increasing political pressure for both anti-inflationary and employment-generating measures. The duration of this period of transition to lower levels of activity will depend on both the efficiency of policy measures in the developed economies and upon further developments in the international oil sector. In the event this period of stagnation and decline is protracted, it would doubtless be unrealistic to expect the developing countries to be able to sustain their demand for industrial imports, and thus contribute substantially to the maintenance of industrial production in the developed economies.

31. The outlook for the non-oil developing countries will be dominated by the effects of the 1979 oil-price increases and those foreseen for early 1980. Problems of external balance will be exacerbated for food-deficit countries by rising costs of food imports resulting from the imminent decline

in world foodgrain production. Serious indirect effects of the oil shock will issue from the much lower levels of economic activity in the industrial countries. Demand for exports of primary commodities and for the manufactured exports of developing countries will likely be substantially reduced, the reduction becoming deeper and more pervasive the longer the duration of recessive movements in the industrial economies. Pressures in these countries for sharpened protectionist measures, which have largely lain dormant during the past year, will contribute to the reduction of demand for these imports as the cost squeeze tightens and unemployment rates climb.

32. The elements of strength in the situation of the non-oil developing countries which were earlier hoped to buoy up their demand for manufactured imports²¹ will be pressed more severely the longer the period of recession and deceleration of growth in

²¹ OECD, *op. cit.*, p. 126.

the industrial countries. Commodity prices may be expected to fall from their relatively high 1979 levels and the terms of trade to worsen appreciably. Accumulation of foreign exchange reserves by the non-oil developing economies appears to have begun to slacken during the third quarter of 1979. The reserves accumulated by these countries over the past several years at this time totalled rather less than the anticipated combined current account deficit for the year (see table I-8).²² These incremental reserves may well be drawn down quite abruptly by many of the non-oil developing countries but an even greater current account deficit will have to be financed in 1980. Other conventional sources of balance-of-payments support are subject to narrow limits, given the prevailing extent of international indebtedness. Though the possibility of enlarged concessionary flows need not be ruled out, the likelihood of a timely expansion of great magnitude is presumably small. Whilst OPEC reserves may be expected to grow significantly as a result of higher oil prices, their total had declined from 1977 until mid-1979. The re-cycling process mediated by international banks which contributed so importantly to the recovery of external balance following the first oil shock is subject to most of the

constraints imposed by the greatly increased debt burden borne by the developing economies. Thus the suggestion of the establishment of an OPEC bank to channel assistance to third world countries raises some hope of at least a partial solution.

33. Domestic policies of economic management will be severely strained in many of the non-oil developing economies, especially those with the lowest *per capita* incomes. Continued resistance to externally and internally generated inflationary pressures, already showing signs of weakening in a large number of developing countries, will be subject to increasing strain. Efforts to overcome the energy problem will inevitably require more time than short- to medium-term external balance disequilibria will permit. Headway against the abiding problems of development: lagging foodgrain production, the backlog of unemployment and under-employment, generation of new employment opportunities in the modern sector — will become increasingly difficult.

²² An increment of nearly \$US 40 billion in foreign exchange reserves had been accumulated by non-oil developing countries from end-1975 to September 1979 (International Monetary Fund, *International Financial Statistics*, December 1979).

Table I-8. Major country groups. Balance of payments current account, 1975-1979, 1980 forecast (\$US billion)

| | 1975 | 1976 | 1977 | 1978 | 1979 ^p | 1980 ^f |
|---|-------|-------|-------|-------|-------------------|-------------------|
| <i>Balance on goods, services and private transfers</i> | | | | | | |
| OPEC | 30 | 39 | 31.5 | 9 | 67.5 | 78.5 |
| Non-oil developing countries | -47.5 | -34.5 | -33.5 | -48.5 | -61 | -75.5 |
| OECD | 12 | -5.5 | -10 | 28 | -8.5 | -7.5 |
| Other non-OECD countries | -18 | -13 | -8.5 | -9.5 | -11 | -12 |
| Total ^a | -23.5 | -14 | -20.5 | -21 | -13 | -16.5 |
| <i>Official transfers, net</i> | | | | | | |
| OPEC | -3 | -2.5 | -2.5 | -2 | -2.5 | -3 |
| Non-oil developing countries | 10 | 9 | 9.5 | 12.5 | 14 | 15.5 |
| OECD | -12.5 | -12.5 | -14.5 | -18.5 | -21.5 | -24 |
| Other non-OECD countries | — | — | — | — | — | — |
| Total ^a | -5.5 | -6 | -7.5 | -8 | -10 | -11.5 |
| <i>Current balance</i> | | | | | | |
| OPEC | 27 | 36.5 | 29 | 7 | 65 | 75.5 |
| Non-oil developing countries | -37.5 | -25.5 | -24 | -36 | -47 | -60 |
| OECD | -0.5 | -18 | -25 | 9 | -30 | -31.5 |
| Other non-OECD countries | -18 | -13 | -8.5 | -9.5 | -11 | -12 |
| Total ^a | -29 | -20 | -28.5 | -29.5 | -23 | -28 |

Source: OECD, *Economic Outlook*, 26, December 1979, table 30 (adapted).

Notes: ^a Reflects statistical errors and asymmetries which give rise to world totals (balances) that are significantly different from zero.

^p Preliminary.

^f Forecast.

II. ECONOMIC PERFORMANCE OF THE DEVELOPING COUNTRIES OF THE ESCAP REGION

INTRODUCTION

34. The familiar short-term concerns with agricultural production, domestic price inflation and the balance of external payments have continued to preoccupy policy-makers in the developing countries of the ESCAP region in the biennium just ended. Following hesitant economic progress at mid-decade, the last two years have seen reasonably buoyant expansion of output. However, shadowing this expansion, and necessarily dampening optimism about the immediate economic prospects, have been mounting inflationary pressures and growing anxieties about maintaining balance in external payments. Economic circumstances have conspired to bring the principal policy objectives increasingly into conflict; to a considerable degree the capacity for manoeuvre and the deftness of policy implementation in individual countries will determine how far they are able to sustain economic growth while easing inflation and balance of payments constraints in the early years of the 1980s. It is also evident that this task will be greatly facilitated in cases where countries responded to the 1974/75 conjuncture of economic crises with policies designed to bring about a permanent enhancement of the strength and resilience of their economies, notably through determined attempts to increase domestic food production and food security, to draw up comprehensive energy plans and to diversify foreign trade.

35. The major purpose of this part of the **Survey** is to review the experience of the developing countries of the ESCAP region during 1978 and 1979 with particular respect to performance in terms of production, inflation and the external sector. Each aspect will be dealt with in turn, with an eye to the implications both for the more immediate policy and economic management considerations and for prospects in the early years of the 1980s.

A. THE REAL ECONOMY: MAJOR AGGREGATES

1. Growth of GDP and domestic resources

36. The fortunes of the slower-growing economies of south Asia over the last biennium in respect of economic growth have been mixed although GDP expansion has generally been above the average compound rates recorded in the period 1970-1975 (see table II-1). In view of the large proportionate size in the south Asian economies of the agricultural sector, which accounts for between one third (in

Pakistan and India) and two thirds (in Nepal) of total value-added and well over half the labour force in each case, the performance of this sector has exerted a considerable influence. Relatively favourable weather conditions for agriculture persisted into 1978, but in 1979, inadequate rainfall seriously affected production in Bangladesh, India, Nepal and Sri Lanka. Drought conditions have had important repercussions not only for the provision of raw materials for processing industries, but also for power generating capacities.

37. The 1977/78 fiscal year in Bangladesh (ending June) was notable for rapid growth in GDP, arising out of expansion in all sectors, most notably of over 7 per cent in agriculture (see table II-2). Estimates of economic growth in the most recent year are of the order of 4 per cent, somewhat below the Two-Year Plan target (see annex table 12), mainly because of shortfalls in agriculture which grew by barely 2 per cent; foodgrains output declined by a little over 100,000 tons or about 1 per cent compared with the previous good year. In 1979/80, growth will depend very much on the country's ability to regain the path of agricultural expansion on which it has evidently embarked with some success.

38. The economy of Burma has recorded significantly higher rates of GDP growth in the second half of the decade than the first. Growth in fiscal 1978/79 was sustained at over 6 per cent, just above the Plan target, made possible by expansion of the agricultural sector of more than 7 per cent, growth in mining of nearly 16 per cent and a 10 per cent increase in the small manufacturing and processing sector (see table II-3). Preliminary estimates for 1979/80 indicate continued expansion of GDP at a rate of 5.6 per cent, or slightly below the target rate; agriculture grew at a rate well below target, while the industrial sector and services fell moderately short of targeted rates. Burma's new growth path is in part the result of policies which have contributed to a further opening of the economy to external trade. Agricultural and industrial production have benefited strongly from the increased availability of imported inputs. Higher levels of investment have been made possible by increased capital inflows as well as large increases in state revenues. Gross fixed capital formation rose by over 130 per cent in real terms between 1976 and 1978; however, despite this extraordinary increase in procurement of the surplus by the state, it can be seen that domestic consumption continued

Table II-1. Selected developing ESCAP economies.
GDP growth,^a 1970-1979
(annual percentage change)

| | 1970-1975 (compound rates) | 1975 | 1976 | 1977 | 1978 | 1979 ^b |
|-------------------------------|----------------------------------|------|------|------|-------------------|-------------------|
| <i>West Asia</i> | | | | | | |
| Afghanistan ^{c,d} | 4.4 | 10.2 | 3.1 | 0.3 | 5.5 | |
| Iran ^e | 9.0 | 2.5 | 12.1 | 1.7 | | |
| <i>South Asia</i> | | | | | | |
| Bangladesh ^{e,f} | 6.0 ^g | 2.0 | 9.7 | 1.7 | 7.9 | 4.0 |
| Burma ^e | 2.2 | 4.2 | 6.1 | 6.0 | 6.7 | 5.6 |
| India ^e | 3.0 | 9.6 | 1.6 | 7.7 | 4.9 | 1.5 ^h |
| Nepal ^e | 2.2 | 3.5 | 4.4 | 3.2 | 1.5 | 2.5 ^h |
| Pakistan ^{e,f} | 4.4 | 5.6 | 3.3 | 4.2 | 7.0 | 6.0 |
| Sri Lanka ^f | 2.6 | 2.8 | 3.0 | 4.2 | 8.2 | 6.3 |
| <i>South-east Asia</i> | | | | | | |
| Indonesia | 8.4 | 5.0 | 6.9 | 8.8 | 6.8 | 4.9 |
| Malaysia | 7.5 ⁱ | 0.8 | 11.1 | 7.6 | 7.4 | 8.1 |
| Philippines | 6.1 | 6.6 | 6.7 | 5.3 | 6.0 | 5.8 |
| Singapore | 9.5 | 4.1 | 7.5 | 7.9 | 8.6 | 9.3 |
| Thailand | 6.9 | 7.1 | 9.3 | 7.3 | 11.7 | 6.7 |
| <i>East Asia</i> | | | | | | |
| China ^j | 7.0 | 9.4 | ... | ... | 11.5 | |
| Hong Kong | 6.9 | 2.2 | 18.8 | 9.8 | 10.0 | 11.5 |
| Republic of Korea | 9.3 | 8.0 | 13.0 | 12.6 | 11.3 | 7.4 |
| Viet Nam ^j | ... | ... | 9.0 | 2.0 | 2.3 | |
| <i>Pacific</i> | | | | | | |
| Fiji ^f | 5.8 | 0.1 | 2.7 | 4.4 | 2.5 | 7.5 |
| Papua New Guinea ^e | 4.7 | 0.9 | -1.6 | -4.3 | -3.7 ^k | -2.0 ^k |

Sources: National sources except as noted.

Notes: ^a At constant market prices; various base years.

^b Preliminary estimates, official except as indicated.

^c Year beginning April; Afghanistan and Iran, 22 March.

^d United Nations, *Monthly Bulletin of Statistics*, April 1980, table 66.

^e Year ending June; Nepal: 15 July.

^f At constant factor cost.

^g 1971/72-1974/75.

^h Unofficial estimate.

ⁱ 1971-1975.

^j Net material product.

^k Calendar year.

to grow as volumes of imports expanded substantially (see annex table 2b). In fiscal 1979/80, gross fixed capital formation is again expected to increase faster than GDP, rising to a level of nearly 16 per cent, as against little more than 7 per cent in 1976.

39. Agriculture has been the main contributor to the irregular growth performance of the Indian economy in recent years. The set-backs of 1976/77, when value added in agriculture declined by more than 5 per cent, were more than compensated by growth of nearly 11 per cent the following year when GDP increased by over 7 per cent. The over-all growth-rate in 1978/79 has been estimated at over 4 per cent with a slightly slower rate of increase in agriculture, where wheat, cotton and jute showed healthy expansion, and a rather faster rate in the manufacturing sector. The growth prospects for the current fiscal year, however (ending in March 1980) are bleak. From available indicators, GDP growth is not expected to exceed 1.5 per cent, and value added in agriculture may

retreat by some 5 or 6 per cent, largely as a result of delayed and inadequate rains during the crucial *kharif* grain season. Shortages of power and transport bottlenecks are mainly to blame for the slackening growth in industrial output, with a fractional decline being recorded during the first eleven months of the 1979 calendar year. Economic circumstances have evidently not been helped by political uncertainties, and prospects in 1980 will depend heavily on the capacity of the new Government to impose renewed discipline through appropriate policies.

40. The economic significance of agriculture is nowhere higher than in the economy of Nepal, but from both climatic and ecological viewpoints the prospects are always precarious. In the fiscal year ending July 1979, agricultural production increased by an estimated 3 per cent, making up for at least part of the decline in the previous two years. Combined with sluggish industrial growth, this increase in primary production yields an unofficial

Table II-2. Selected developing ESCAP economies.
Growth in agriculture,^a 1970-1979
(annual percentage changes)

| | 1970-1975 (compound rates) | 1975 | 1976 | 1977 | 1978 | 1979 |
|-----------------------------------|----------------------------------|------|------|------|------|-------------------|
| <i>West Asia</i> | | | | | | |
| Iran | 4.1 | 6.8 | 5.5 | -0.8 | ... | |
| <i>South Asia</i> | | | | | | |
| Bangladesh ^b | 4.5 ^c | -0.2 | 9.8 | -1.4 | 7.4 | 1.9 |
| Burma | 1.3 | 4.7 | 5.4 | 5.2 | 7.6 | 4.4 |
| India | 2.3 | 12.5 | -5.2 | 10.9 | 1.9 | -5.0 ^d |
| Nepal ^e | ... | ... | 0.6 | -4.0 | — | 3.0 |
| Pakistan ^b | 0.8 | -2.1 | 4.5 | 2.5 | 2.5 | 4.2 |
| Sri Lanka | 0.6 | -2.4 | 1.2 | 10.4 | 5.4 | 2.0 |
| <i>South-east Asia</i> | | | | | | |
| Indonesia | 3.6 ^f | — | 4.7 | 1.3 | 5.1 | 2.2 |
| Malaysia | 5.7 ^f | -3.0 | 12.2 | 2.3 | 1.0 | 4.0 |
| Philippines | 4.2 | 3.7 | 8.6 | 5.0 | 4.8 | 6.4 |
| Thailand | 4.5 | 8.6 | 6.1 | -0.5 | 14.5 | -1.9 |
| <i>East Asia</i> | | | | | | |
| China ^g | 3.2 | 2.6 | 3.4 | -1.6 | 6.7 | 3.9 |
| Republic of Korea | 3.8 | 4.9 | 7.2 | 2.3 | -4.0 | 5.2 |
| Viet Nam ^g | 1.3 | — | 10.1 | 0.8 | 4.1 | 5.6 |
| <i>Pacific</i> | | | | | | |
| Fiji | -0.6 | 0.5 | 3.8 | 7.6 | 3.4 | |

Sources: National sources.

Notes: ^a Value added at constant prices. Estimates for 1979 are provisional.

^b Fiscal year ending 30 June.

^c 1973-1975.

^d Unofficial estimate.

^e Fiscal year ending 15 July.

^f 1971-1975.

^g Based on indexes of agricultural production (FAO).

Table II-3. Selected developing ESCAP economies.
Growth in manufacturing,^a 1970-1979
(annual percentage changes)

| | 1970-1975 (compound rates) | 1975 | 1976 | 1977 | 1978 | 1979 |
|-----------------------------------|----------------------------------|------|------|------|------|------------------|
| <i>West Asia</i> | | | | | | |
| Iran | 18.0 | 22.6 | 18.4 | 8.6 | | |
| <i>South Asia</i> | | | | | | |
| Bangladesh ^b | 6.4 ^c | -1.3 | 12.9 | 10.3 | 10.3 | 4.4 |
| Burma | 0.5 | 9.3 | 7.9 | 5.5 | 10.0 | 9.2 |
| India | 3.3 | 2.4 | 9.4 | 6.5 | 7.5 | 0.5 ^d |
| Nepal ^e | ... | ... | 11.9 | 31.3 | | |
| Pakistan ^b | 3.5 | 0.6 | 1.5 | 0.4 | 9.2 | 4.8 |
| Sri Lanka | 0.6 | 4.6 | 4.8 | -0.6 | 7.8 | 4.6 |
| <i>South-east Asia</i> | | | | | | |
| Indonesia | 14.7 ^f | 12.3 | 9.7 | 13.7 | 11.2 | 9.2 |
| Malaysia | 11.3 ^f | 3.0 | 18.5 | 10.6 | 14.0 | 12.0 |
| Philippines | 6.9 | 3.5 | 5.7 | 7.5 | 6.8 | 5.4 |
| Singapore | 10.5 | -1.6 | 10.9 | 8.5 | 10.9 | 13.9 |
| Thailand | 11.1 | 7.7 | 15.6 | 13.0 | 9.7 | 10.0 |
| <i>East Asia</i> | | | | | | |
| Republic of Korea | 17.9 | 12.6 | 22.6 | 14.4 | 20.7 | 10.6 |
| Viet Nam ^g | ... | ... | 12.6 | 10.0 | 7.0 | |
| <i>Pacific</i> | | | | | | |
| Fiji | 3.5 | 0.5 | 8.5 | 8.5 | 9.3 | 3.4 |

Sources: National sources.

Notes: ^a Value added at constant prices. Estimates for 1979 are provisional.

^b Fiscal year ending 30 June.

^c 1973-1975.

^d Based on index of manufacturing production.

^e Fiscal year ending 15 July.

^f 1971-1975.

^g Industry.

estimate of GDP growth for 1978/79 of about 2.5 per cent which continues as in previous years to be slightly above the rate of population increase. Forecasts of growth in 1979/80 are necessarily gloomy because, in common with northern India, rainfall has been erratic but generally inadequate, posing new threats to agricultural output.

41. In Pakistan, fiscal 1977/78 and 1978/79 were characterized by satisfactory growth performances which went some way towards meeting the ambitious targets of the first two years of the Fifth Plan. The growth-rate of GDP in 1978/79 would have been higher but for a rather modest increase in manufacturing value added, and the sharp declines in production levels of two key commercial crops, cotton and sugar. In fiscal 1979/80 clement weather heralds prospects of buoyant production both of foodgrains, and of the key cash crop, cotton, while manufacturing output is expected to rise faster than in recent years when the industrial sector has been troubled by labour unrest.

42. The Sri Lankan economy recorded an exceptionally high rate of growth in 1978, with a more than 8 per cent increment in GDP. This growth was strongly underpinned by expansion in manufacturing, construction and utilities and, as is familiar in the south Asian context, by a favourable year for the agricultural sector. In 1979, however, Sri Lanka has also suffered the adverse effects of drought; this factor, combined with reduced levels of fertilizer use, have brought about a decline of 6 per cent in rice production. If output levels are sustained over-all in the agricultural sector it will have been because of compensatory increases in production of subsidiary foodcrops, fruit, vegetables and fish. During the year, however, growth of the construction and utilities sectors has continued apace and wholesale and retail trading have also moved ahead strongly, yielding an estimated GDP growth of more than 6 per cent.

43. The patterns of growth in Sri Lanka over the 1978-1979 biennium have begun to bear the marks

of the country's new economic strategies. Recourse to increases in foreign financing has permitted a more rapid increase in total resources available for domestic use than in GDP, facilitating rapid growth in private and public sector investment without compromising consumption. Marked changes have also begun to take place in domestic resource mobilization, with some part of the savings from subsidies being used by the national exchequer for fertilizer subsidies; it would also appear from estimates of public revenues for 1979 that greater import liberalization has not led to decline in accruals from import duties.

44. The real expansion of the east and southeast Asian economies in the second half of the 1970s confirms the re-establishment of the high growth trends which the international economic crises of 1973-1975 had interrupted. In this expansion a major part has been played by the industrial sector, which is proportionately more important than in the south Asian economies. Manufacturing in particular, which typically accounts for between 20 and 25 per cent of total value added (except in Indonesia, where the proportion is appreciably smaller) has commonly enjoyed double-digit growth in Malaysia, Singapore, Thailand, the Republic of Korea, and it may be assumed, in Hong Kong, although there are no recent estimates by production sector. In the five large countries of this region, agriculture has experienced mixed fortunes in recent years. In Malaysia and Thailand drought has taken its toll but several other factors besides weather have borne responsibility for erratic performances, including the provision of key agricultural inputs and, in Indonesia, crop diseases. In some countries the mining sector has made a significant contribution to growth in recent years, with a few key commodities proving to be dynamic, such as oil in Malaysia and tin in Thailand.

45. GDP growth in Indonesia in calendar 1978 reached nearly 7 per cent, underpinned by an exceptionally good out-turn in the agricultural sector. Favourable weather and relative absence of pests contributed to an 11 per cent increase in rice production in the 1978/79 crop year. The growth in manufacturing value added was sustained at a rapid rate in 1978, though not as high as the rates attained in the first half of the decade. Oil production languished, however, as the direct result of diminished exploration activities in earlier years. Estimates of growth in 1979 show some improvement over earlier expectations. Food production increased by 2 or 3 per cent with the rice harvest increasing about 2 per cent over the bumper harvest of the previous year. Though manufacturing production held up well, there were mixed effects from the devaluation of November 1978; for the rest, this

hefty depreciation of the value of the rupiah has contributed to uncertainty and to the general rise in domestic prices. Oil output was down marginally in 1979; however, further price rises and the contribution of liquefied natural gas (LNG) production have boosted value added in the mining sector. Over-all, real GDP is estimated to have increased by nearly 5 per cent, which falls short of the target for the third Five Year Plan, *Repelita III*.

46. The Malaysian economy has realized growth comfortably in excess of 8 per cent in the second half of the 1970s. The outstanding engine of growth has proved to be manufacturing, in which real value added has grown by no less than two thirds in the four years to 1979. Given the openness of the economy, in which approximately half of total final demand is represented by exports, it is evident that external factors have been favourable for Malaysia in recent years, and on a basis better sustained than at any time during the last two decades. The growth in GDP had nevertheless fallen short of the target of the Third Malaysia Plan (TMP) in 1978, though the target rate was attained for 1979. Rice output fell by more than 20 per cent in 1977/78 largely as a result of drought conditions, and the performance of other commodities yielded growth of but 1 per cent in agriculture. In the 1978/79 crop year, rice production levels recovered and the values of rubber and palm oil made large gains. In both years the mining and construction sectors achieved double-digit rates of expansion. Greatly increased levels of oil production were the major stimulant to mining, while construction was boosted by increased investments in housing and infrastructure. Private investment activity picked up from 1977 and public investments were boosted in 1979 by larger than anticipated public revenues resulting from higher oil prices.

47. An outstanding characteristic of the Philippine economy in the last half of the 1970s has been the consistently healthy rate of growth of the agricultural sector. In 1977/78 rice production suffered from the effects of typhoons and drought, but the sector as a whole nevertheless recorded an advance of nearly 5 per cent in calendar 1978 on a real-value added basis. In 1978/79 both rice and maize harvests were good, and expectations are that in the calendar year the agriculture sector's real value growth exceeded 6 per cent. The growth of manufacturing has been steady though unspectacular in recent years despite the boost given to some activities by export demand. There is some concern about low levels of investment, in which growth

has slumped sharply since the mid-1970s; in late 1978 and 1979, there is evidence of further slackening, particularly in construction investment, prompting anxieties about prospects in 1980.

48. The real GDP growth rate of the Singapore economy in 1978 was 8.6 per cent, the highest since the oil boom of 1973, and in 1979 the growth rate accelerated further to 9.3 per cent. In both years, manufacturing has been the leading growth sector and double-digit real-value growth has also been recorded by the transport and communications sector. External factors have continued to dominate in Singapore's economic performance; in the 1978/79 biennium export demand for goods and services was buoyant and foreign investment inflows continued to increase. Domestically, increasing levels of private sector investment have been sustained by high rates of national savings.

49. Confirming the re-establishment of the rapid growth enjoyed in the late 1960s, healthy expansion in all the major sectors of Thailand's economy contributed to a GDP growth rate in 1978 of nearly 12 per cent. After a dismal performance in 1977 attributable in part to drought, the agricultural sector had an exceptionally good year, with record foodgrain harvests; among the major production categories, only forestry output declined. Manufacturing, mining and construction also surged ahead strongly, stimulated by rapid increases in the real values of both public and private investment. Industrial expansion continued apace in 1979 but had begun to encounter capacity constraints, while the agricultural sector was again afflicted by drought. Despite the poor performance in agriculture, GDP growth for 1979 is estimated to have neared 7 per cent, though with some retardation in the latter part of the year.

50. The second half of the 1970s has also seen a return to rapid rates of growth in the Hong Kong economy. Unusually, in 1977 and 1978, the expansion was stoked by substantial increases in domestic demand both as consumption and investment. Resources for domestic use grew significantly faster than GDP in these two years as the volume of imports, particularly in 1978, rose sharply (see annex table 3b). Apart from the increasing foreign trade imbalance, rapid expansion induced problems of capacity shortage. The construction sector in particular made great gains but encountered increasing labour constraints. In 1979, the economy continued to expand at a rapid rate as external demand re-asserted its dominance, both as a result of increasing re-export trade with China and growing sales of domestic exports to traditional markets,

encouraged by the rather minor depreciation of the Hong Kong dollar. The pace of total investment has continued to rise and the share of capital formation in GDP neared 30 per cent in 1979.

51. The economy of the Republic of Korea, which has grown faster than any other in the ESCAP region during the 1970s, showed signs of slowing down as the decade ended. After increasing by about 12 per cent in 1977 and 1978, GDP is estimated to have grown by between 7 and 8 per cent in 1979. The slow-down was associated with a marked change in the fortunes of construction and of the important manufacturing sector. Demand softened in both the domestic and overseas markets and signs of emerging excess capacity are reflected in a rise in inventories and in unemployment rates, despite continued increase in the total numbers employed. The absorption of spare capacity in manufacturing is one of the most serious problems that the country's planners will have to confront in 1980. The first years of the Fourth Five-Year Plan were characterized by substantial investments in heavy industry and chemicals which have led to large increases in capacity. Recent years have seen further liberalization of imports which in volume terms are estimated to have grown faster than exports in 1978 and 1979.

52. The last two years have been quite satisfactory for the expansion of the Chinese economy. On the basis of official figures of gross values (which may be assumed to diverge little from constant price data) agricultural output rose by 8.9 per cent in 1978 over the previous year (*cf.* FAO production index showing 6.7 per cent), led by a healthy increase in the volume of total grains of 7.8 per cent, and the industrial sector expanded by 13.5 per cent. The rise in real gross product was therefore comfortably in double figures and is reported by an unofficial source to have grown by 11.5 per cent. In 1979, the over-all growth will have been somewhat lower with smaller percentage improvements in crop production after the record levels of 1978, and sluggish production in manufacturing early in the year, yielding a slower industrial growth of 8 per cent.

53. The 1978-1979 biennium has marked an important watershed for the economy of China involving a significant change in strategy towards agriculture and the consumer sectors, as well as an opening of the economy to expanded trade with the rest of the world. Growth performance in 1980 and beyond will depend greatly on the country's ability to protect agricultural output further from the vagaries of the weather and the capacity of the manufacturing sector to respond to the impetus of expanding exports.

54. In the countries of the Indo-Chinese peninsula armed conflict has dominated the economic scene during the late 1970s. Viet Nam embarked in 1976 on an ambitious plan for reconstruction and development but after a good first year has encountered rapidly mounting difficulties. In 1977 agricultural production stagnated, but recovered in 1978 and 1979 while expansion in gross product rose by 2 per cent annually. The withdrawal of all Chinese assistance and the departure of large numbers of ethnic Chinese have meant an even more difficult year in 1979 with the probability of zero economic growth.²³

55. Fiji's economic performance, as is common among the Pacific island countries, is closely allied to its primary sector as the source of direct income for a majority of the population, as the source of supply for the manufacturing and processing sector, and as a major source of foreign exchange earnings. The pivotal commodity is sugar from which a considerable surplus is derived in the primary, secondary and tertiary sectors. After drought in 1977, production of cane and raw sugar stagnated in 1978 which was an important explanation for sluggish 2 per cent GDP growth in that year. In 1979, however, a combination of favourable weather and the success of a major new scheme to expand production contributed rises of over 30 per cent in cane and raw sugar output. Increased output of timber, gold and most manufactured products is estimated to have helped raise GDP by 7.5 per cent in 1979.

2. Agriculture

(a) Foodgrains

56. The last years of the 1970s have provided ample evidence both of the considerable potential for expansion of foodgrains production in the developing countries of the region and of the continuing fragility of this potential in the face of adverse weather conditions.

57. Aggregate out-turn among the developing countries of the region advanced by 5 per cent in 1978 (see table II-4) with substantial increases being recorded in some major rice-producing countries such as Burma, China, Indonesia and Thailand; however there were setbacks to wheat production in Pakistan and rice production in Bangladesh and Malaysia due mainly to unfavourable weather (see table II-5). In 1979, production was stationary for the developing countries of the region taken as a whole, with very mixed results among the major producers. Rice output is estimated to have declined in Burma, India, the Philippines and the Republic of Korea from the record levels which

each country had achieved in the previous year. Weather again took much of the blame through drought conditions in the Indian subcontinent and typhoons in the Philippines. However, the Philippines, having reached self-sufficiency, was last year embarrassed by a rice glut rather than a deficit and sold at a loss on the export market to recoup storage costs. Sharp falls in wheat production in west Asia (Afghanistan and Iran) in 1979 contrasted strongly with substantial increases in south Asia (India and Pakistan) and in China.

58. The production gains of recent years are in part the positive results of efforts by some developing countries of the ESCAP region to channel substantially more resources to rural areas and implement major new schemes of staple-crop production. Countries offering notable current examples of major rice-production schemes include the Philippines, where the *Masagana 99* programme helped the country to achieve self-sufficiency in 1978. Elsewhere, schemes currently being implemented give promise of appreciable increases in output. In Sri Lanka the Mahaweli Ganga Development Programme will ultimately bring an additional 135,000 hectares under cultivation; in Malaysia, the Krian/Sungai Manik project (in Selangor) and the North Kelantan project will together cover an area of nearly 160,000 hectares, to extend double-cropping of rice and help bring the country nearer to self-sufficiency. Despite the tangible progress of these comprehensive schemes, as well as China's intensified efforts to increase rice yields through mechanization, and Indonesia's successes in combating the destructive hopper pest, *wereng*, the ESCAP region still faces daunting problems of food security. These problems have serious dimensions in both the short- and longer-term.

59. As the decade closed, large numbers of people faced starvation in Democratic Kampuchea and in the province of East Timor in Indonesia. Even in India, where total grain stocks stood at over 21 million tons in June 1979, there were fears of very serious shortages in some states, and the situation in Afghanistan and Iran where there had been harvest shortfalls was also precarious. In Bangladesh, however, earlier fears of a new crisis were assuaged by the timely importation of foodgrains — some 700,000 tons of rice by year-end —

²³ Viet Nam's economic performance in 1979 was below target, largely owing to war, poor economic planning and management, according to Deputy Prime Minister Le Phanh Ngi, Chairman of the State Planning Commission, in his annual report to the National Assembly, adding that achievements during the year were "below the requirements of the tasks under the 1979 state plan". (Singapore International Chamber of Commerce, *Economic Bulletin*, January 1980, citing Vietnam News Agency, 26 December 1979.)

Table II-4. Selected developing ESCAP countries.
Foodgrains production, growth rates, 1975-1979^a

| Country | Average annual percentage change 1970-1978 | 1975 | 1976 | 1977 | 1978 | 1979 |
|-----------------------------|--|-------|------|-------|-------|-------|
| <i>West Asia</i> | | | | | | |
| Afghanistan | 3.7 | 3.2 | 3.1 | -9.9 | 6.8 | -13.5 |
| Iran | 2.0 | 18.1 | 8.0 | -16.2 | -8.1 | -1.8 |
| <i>South Asia</i> | | | | | | |
| Bangladesh | 4.1 | 13.7 | 7.8 | 11.2 | -0.8 | 0.8 |
| Burma | 3.6 | 8.6 | — | 2.6 | 11.1 | -6.2 |
| India | 3.4 | 20.8 | -5.2 | 14.5 | 3.2 | -10.0 |
| Nepal | 0.7 | 2.8 | -2.7 | -5.6 | 4.9 | 3.7 |
| Pakistan | 2.6 | 5.6 | 8.8 | 6.5 | -3.0 | 11.8 |
| Sri Lanka | 4.5 | -28.8 | 8.9 | 32.6 | 13.2 | 6.2 |
| <i>South-east Asia</i> | | | | | | |
| Indonesia | 4.2 | -1.7 | 2.6 | 2.5 | 13.0 | -1.4 |
| Malaysia | -2.7 | -6.4 | -0.9 | -11.3 | -26.5 | 57.3 |
| Philippines | 4.3 | 10.1 | 5.0 | 7.9 | 2.9 | — |
| Thailand | 6.0 | 15.5 | 3.4 | -13.0 | 32.0 | -6.8 |
| <i>East Asia</i> | | | | | | |
| China | 4.8 | 5.2 | 1.6 | 3.2 | 7.6 | 3.9 |
| Republic of Korea | 3.3 | 7.6 | 7.1 | 4.1 | 1.6 | 3.1 |
| Developing ESCAP | 2.9 | 9.3 | — | 2.5 | 5.0 | -1.6 |

Source: Food and Agriculture Organization of the United Nations computer printouts, 30 March 1980.

Note: ^a From production indexes, 1969-1971=100.

facilitated by currently high levels of world stocks (amounting in mid-1979 to 200 million tons or 21 per cent of annual world consumption outside China and the USSR).²⁴

60. Large global stocks are not sufficient, however, particularly when one half or more are located in North America. It is sobering to reflect that seven years ago, although world stocks stood at a similarly high level, they were not sufficient to avert the world-wide food crisis that followed sharp falls in production of foodgrains in 1972 and 1974, including countries in the developing ESCAP region.²⁵ Substantial surpluses in the major grain exporting countries notwithstanding, emergency measures have had to be taken when serious isolated shortages are identified, in the absence of an internationally co-ordinated system of national reserve stocks. Continuing failure to conclude negotiations for a new international grains agreement sustains the possibility of a repetition of earlier food crises. Any effort therefore by the developing countries of the ESCAP region which, together with Australia, New Zealand and Japan, account for some nine tenths of world production of rice and nearly one third of total wheat output, to attempt to ensure for themselves greater food security is only to be welcomed. The decision taken at the end of 1978

by the Association of Southeast Asian Nations (ASEAN) — a grouping which comprises both the world's largest exporter and largest importer of rice — to establish a common rice stock, is an encouraging one.

61. Yet there are more important, and more fundamental, considerations of food security in the longer-term. As can be seen from table II-6 there was a slow if unsteady upward trend in food production during the 1970s for the developing countries as a whole at a rate somewhat faster than population growth. In some countries, notably Malaysia, the Philippines, the Republic of Korea and Thailand, apparent increases in domestic production of food on a *per capita* basis were appreciable, but in certain others, particularly the populous countries of south Asia, there was little if any rise. According to data from the Food and Agriculture Organization of the United Nations (FAO), the *per capita* food production index was estimated to be lower (or no higher) in 1979 than during 1969-1971 in Afghanistan, Bangladesh,

²⁴ Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture 1978* (Rome, 1979).

²⁵ Documented in *Economic and Social Survey of Asia and the Pacific, 1977* (United Nations publication, Sales No. E.78.II.F.1), Part Two.

Bhutan, Burma, India, Lao People's Democratic Republic, Mongolia, Nepal, and Pakistan. In China an official statement has claimed that foodgrains production per head did not increase in the long period from 1955 to 1977.²⁶

62. Increasingly, individual developing countries of the region have relied on imported foodgrains to satisfy domestic demand; however in practice this growing dependence is by no means general for the region's food-deficit countries. As can be seen in figure 1, there is no clear upward trend in levels of rice imports for the period shown — in fact, the opposite is the case if Indonesia is excluded. Dependence on wheat has increased perceptibly but is mainly confined to a few countries: in Indonesia and, where in large part this results from an increasing change in tastes in favour of wheat and away from rice, in Iran, Malaysia and the Republic of Korea.²⁷ China is not included in figure 1 but its dependence on imported wheat and other coarse grains has grown substantially, from 2 million

tons in the mid-1970s to about 11 million tons in 1978 and 1979, despite substantial increases in domestic production in those years (see table II-5).

63. A closer look at trade figures for foodgrains in individual countries over the last two decades makes it immediately apparent that in several instances even total availability has not kept pace with population growth (see table II-7). In quite recent years *per capita* availability appears to have fallen in Bangladesh, Nepal and Pakistan, and even Malaysia and Thailand. In some instances other basic foods such as pulses have made up at least part of the difference (and stock changes are necessarily left out of account). However, taking

²⁶ The statement was made by the head of the Academy of Social Sciences, and quoted in *Far Eastern Economic Review* (Hong Kong), vol. 105, No. 28, 13 July 1979, p. 45.

²⁷ According to FAO data, the average annual rates of change in imports of wheat and wheat flour, and of milled rice by the "Far East Developing" countries were 2.8 and -0.66 respectively. FAO, *The State of Food and Agriculture 1978* (Rome, 1979), annex table 6.

Table II-5. Developing ESCAP countries.
Rice and wheat production, 1976-1979

| | Production (thousand metric tons) | | | | Growth rates (percentages) | | |
|-------------------------------------|--------------------------------------|---------|-------------------|-------------------|-------------------------------|---------|---------|
| | 1976 | 1977 | 1978 ^a | 1979 ^b | 1976/77 | 1977/78 | 1978/79 |
| <i>Rice^c</i> | | | | | | | |
| Bangladesh | 11,811 | 13,025 | 12,913 | 12,968 | 10.3 | -0.8 | 0.4 |
| Burma | 6,151 | 6,245 | 6,930 | 6,660 | 1.5 | 11.0 | -3.9 |
| China ^d | 90,338 | 90,630 | 95,511 | 97,580 | 0.3 | 5.4 | 2.2 |
| India | 42,056 | 52,697 | 53,856 | 46,023 | 25.3 | 2.2 | -14.5 |
| Indonesia | 15,845 | 15,882 | 17,531 | 17,918 | 0.2 | 10.4 | 2.2 |
| Pakistan | 2,751 | 2,964 | 3,288 | 3,318 | 7.7 | 10.9 | 0.9 |
| Philippines | 4,264 | 4,551 | 4,830 | 4,620 | 6.7 | 6.1 | -4.3 |
| Republic of Korea | 5,185 | 5,969 | 6,006 | 5,797 | 15.1 | 0.6 | -3.5 |
| Thailand | 9,945 | 9,188 | 11,570 | 10,322 | -7.6 | 25.9 | 10.8 |
| Viet Nam ^d | 8,091 | 7,293 | 6,727 | 7,035 | -9.9 | -7.8 | 4.6 |
| Others | 6,125 | 6,296 | 5,890 | 5,745 | 2.8 | -6.4 | -2.5 |
| Developing ESCAP | 202,562 | 214,740 | 225,052 | 217,986 | 6.0 | 4.8 | -3.1 |
| Percentage of world total | 85.0 | 85.4 | 86.1 | 85.4 | | | |
| <i>Wheat</i> | | | | | | | |
| Afghanistan | 2,936 | 2,652 | 2,813 | 2,300 | -9.7 | 6.1 | -18.2 |
| China ^d | 50,001 | 45,001 | 51,002 | 56,003 | -10.0 | 13.3 | 9.8 |
| India | 28,846 | 29,010 | 31,749 | 34,982 | 0.6 | 9.4 | 10.2 |
| Iran | 6,044 | 5,517 | 5,700 | 5,500 | -8.7 | 3.3 | -3.5 |
| Pakistan | 8,691 | 9,144 | 8,367 | 9,944 | 5.2 | -8.5 | 18.8 |
| Others | 1,086 | 1,121 | 1,297 | 1,441 | 3.2 | 15.7 | 11.1 |
| Developing ESCAP | 97,602 | 92,445 | 100,928 | 110,170 | -5.3 | 9.2 | 9.2 |
| World total | 23.0 | 23.7 | 22.5 | 26.2 | 3.0 | -5.1 | 16.4 |

Source: Food and Agriculture Organization of the United Nations printouts (30 March 1980).

Notes: Production data are allocated to the calendar year during which the major part of the crop is harvested.

^a Revised estimates.

^b Preliminary estimates.

^c Milled rice.

^d Unofficial estimates.

Table II-6. Selected developing ESCAP countries.
Key agricultural growth rates, 1975-1979
(from production indexes: 1969-1971 = 100)

| | (a) food | (b) non-food | (c) livestock production | | | | 1979 (estimate) |
|-----------------------------------|----------|--------------|--|-------|-------|------|--------------------|
| | | | Average annual percentage change 1970-1978 | 1975 | 1976 | 1977 | |
| <i>West Asia</i> | | | | | | | |
| Afghanistan | (a) | 2.9 | 3.5 | 6.0 | -9.7 | 8.0 | -5.8 |
| | (b) | 5.2 | 12.4 | — | 1.5 | 5.1 | -9.2 |
| | (c) | 2.0 | 2.0 | 6.9 | 2.8 | 2.7 | 1.7 |
| Iran | (a) | 4.3 | 4.9 | 10.2 | -4.3 | 3.7 | 0.7 |
| | (b) | 1.3 | -28.1 | 9.8 | 3.9 | -3.8 | -17.8 |
| | (c) | 5.3 | 4.2 | 9.6 | 1.4 | 8.6 | 1.3 |
| <i>South Asia</i> | | | | | | | |
| Bangladesh | (a) | 2.8 | 11.2 | -5.5 | 7.8 | 2.7 | 1.8 |
| | (b) | 3.4 | 3.9 | 10.1 | 17.2 | 12.7 | -13.0 |
| | (c) | 4.3 | 1.0 | 5.0 | 1.9 | 26.2 | 3.7 |
| Burma | (a) | 3.2 | — | 2.8 | 4.6 | 4.4 | 0.8 |
| | (b) | 10.6 | -0.8 | -29.8 | 42.4 | 16.5 | -4.2 |
| | (c) | 1.9 | 1.9 | 4.6 | 0.9 | 1.7 | 2.6 |
| India | (a) | 2.7 | 14.1 | -2.6 | 9.1 | 3.3 | -5.6 |
| | (b) | 4.2 | -6.9 | -0.9 | 7.5 | 9.6 | -7.1 |
| | (c) | 1.6 | 1.9 | 1.8 | 1.8 | 0.9 | — |
| Nepal | (a) | 0.9 | 2.8 | -0.9 | -3.6 | 2.8 | 3.7 |
| | (b) | 0.6 | 6.6 | 4.9 | 15.3 | 2.0 | -9.0 |
| | (c) | 1.9 | 1.8 | 1.8 | 1.8 | 0.9 | 1.7 |
| Pakistan | (a) | 3.2 | 1.8 | 5.2 | 5.0 | 0.8 | 3.9 |
| | (b) | 0.1 | -14.8 | -17.4 | 29.6 | -8.7 | 14.3 |
| | (c) | 3.2 | 3.5 | 3.4 | 3.3 | 2.4 | 2.3 |
| Sri Lanka | (a) | 3.7 | 3.5 | 5.1 | 2.4 | 7.9 | -1.4 |
| | (b) | -1.0 | — | -3.3 | 2.3 | — | 4.4 |
| | (c) | 1.9 | 3.0 | 4.8 | 3.7 | -1.8 | 1.8 |
| <i>South-east Asia</i> | | | | | | | |
| Indonesia | (a) | 3.4 | -0.8 | -1.7 | 7.9 | 8.1 | 2.3 |
| | (b) | 2.2 | 16.8 | 2.5 | -13.2 | 6.7 | 2.7 |
| | (c) | 6.1 | 2.4 | 14.0 | 5.4 | 0.6 | -0.6 |
| Malaysia | (a) | 3.9 | 2.4 | 3.9 | 3.0 | -1.5 | 16.4 |
| | (b) | 3.4 | -3.3 | 9.5 | 0.8 | — | — |
| | (c) | 5.2 | 8.5 | 1.6 | 7.0 | 3.6 | 3.5 |
| Philippines | (a) | 4.7 | 7.6 | 9.4 | 1.4 | 2.8 | -2.8 |
| | (b) | 3.7 | 30.9 | -2.7 | — | 0.7 | 0.7 |
| | (c) | 4.4 | 2.4 | 0.8 | -3.1 | 9.5 | 4.3 |
| Thailand | (a) | 7.5 | 9.9 | 3.8 | 1.4 | 24.3 | -8.6 |
| | (b) | 2.2 | -2.0 | 3.0 | 3.9 | 11.2 | 5.0 |
| | (c) | 2.1 | -1.9 | -0.9 | 5.8 | 6.4 | 1.7 |
| <i>East Asia</i> | | | | | | | |
| China | (a) | 3.2 | 2.6 | 3.4 | -0.8 | 5.8 | 3.9 |
| | (b) | 2.6 | -4.0 | -1.7 | -1.7 | 6.0 | 2.4 |
| | (c) | 3.8 | 4.3 | 4.9 | 2.3 | 3.0 | 3.7 |
| Republic of Korea | (a) | 4.9 | 8.9 | 6.6 | 8.5 | 0.7 | 4.9 |
| | (b) | 9.0 | 3.8 | 9.2 | 5.6 | -3.2 | -3.3 |
| | (c) | 8.5 | 12.7 | 10.0 | 13.9 | 1.6 | 22.0 |
| <i>Developing ESCAP</i> | (a) | 3.0 | 5.4 | 2.6 | 2.5 | 4.9 | 0.8 |
| | (b) | 2.5 | -3.5 | — | 2.7 | 5.3 | -0.8 |
| | (c) | 3.4 | 3.5 | 4.2 | 2.4 | 3.1 | 3.0 |

Source: Food and Agriculture Organization of the United Nations, computer printouts, dated 30 March 1980.

Figure 1. Developing ESCAP countries. Imports of rice and wheat, 1967-1978

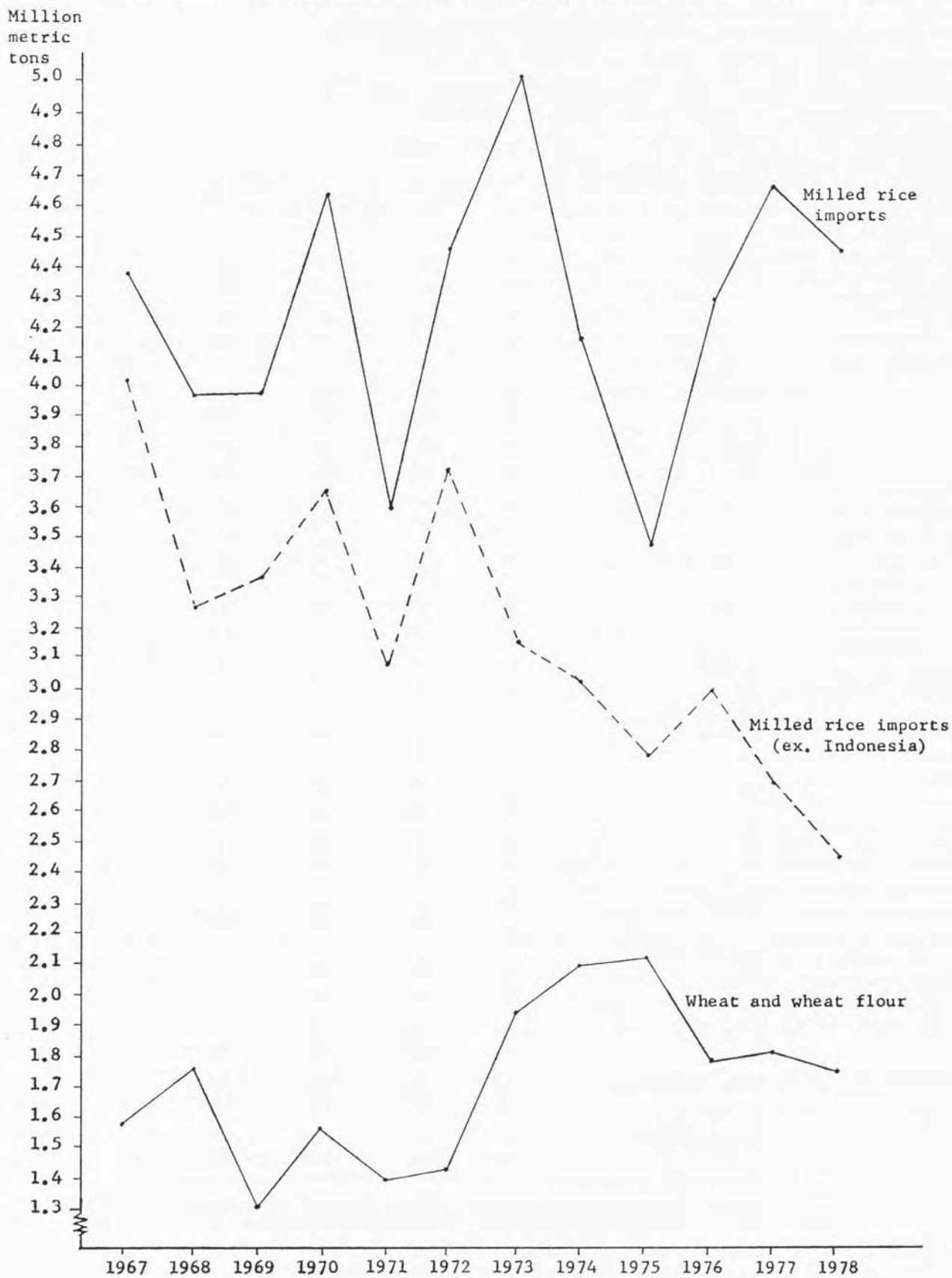


Table II-7. Selected ESCAP developing countries.
 Indexes of foodgrains availability,
 selected periods, 1970s
 (a) Index of foodgrains availability^a
 (b) Index of population^b
 (1961-1965 = 100)

| | | 1970-1972 | 1973-1975 | 1976-1977 |
|------------------------------|-----|-----------|-----------|-----------|
| <i>West Asia</i> | | | | |
| Afghanistan | (a) | 103 | 115 | 121 |
| | (b) | 120 | 128 | 137 |
| Iran | (a) | 145 | 192 | 227 |
| | (b) | 126 | 136 | 147 |
| <i>South Asia</i> | | | | |
| Bangladesh | (a) | 111 | 133 | 127 |
| | (b) | 125 | 133 | 141 |
| Burma | (a) | 127 | 155 | 158 |
| | (b) | 118 | 126 | 134 |
| India | (a) | 124 | 134 | 145 |
| | (b) | 120 | 128 | 136 |
| Nepal | (a) | 109 | 126 | 120 |
| | (b) | 115 | 123 | 132 |
| Pakistan | (a) | 145 | 164 | 176 |
| | (b) | 125 | 136 | 149 |
| Sri Lanka | (a) | 129 | 135 | 150 |
| | (b) | 121 | 127 | 133 |
| <i>South-east Asia</i> | | | | |
| Indonesia | (a) | 140 | 165 | 174 |
| | (b) | 118 | 125 | 133 |
| Malaysia | (a) | 136 | 151 | 156 |
| | (b) | 128 | 138 | 150 |
| Philippines | (a) | 135 | 157 | 177 |
| | (b) | 127 | 138 | 150 |
| Thailand | (a) | 124 | 159 | 129 |
| | (b) | 128 | 139 | 151 |
| <i>East Asia and Pacific</i> | | | | |
| Fiji | (a) | 105 | 129 | 149 |
| | (b) | 126 | 134 | 142 |
| Hong Kong | (a) | 119 | 118 | 137 |
| | (b) | 123 | 130 | 138 |
| Papua New Guinea | (a) | 200 | 207 | 238 |
| | (b) | 124 | 133 | 142 |
| Republic of Korea | (a) | 155 | 162 | 185 |
| | (b) | 124 | 131 | 138 |

Source: *Economic and Social Survey of Asia and the Pacific, 1978* (United Nations publication, Sales No. E.79.II.F.1), tables 13 and 45.

Notes: ^a Based on annual average production plus net imports.

^b Based on estimates of population in middle year of each period.

the period as a whole, the data show quite serious divergences of the indexes of availability and of population in one food deficit country (Bangladesh) and three food surplus countries (Afghanistan, Nepal and Thailand).

64. In view of the fact that every developing country of the region, with the exception of Bangladesh, has enjoyed improvements in *per capita* incomes, there is some evidence of low income elasticities of demand for food in spite of, rather than because of, a continuing high incidence of poverty in many countries of the region.²⁸ Low income elasticities of demand in poor countries are symptomatic of an acute problem that goes to the very heart of agricultural development. Contrary to what might be expected, growth in agricultural output, and particularly in food production, which is the activity that sustains a majority of rural people in Asia and the Pacific, does not necessarily ensure rising incomes for those whose food needs are greatest. It has become increasingly evident that in most developing countries of the ESCAP region, the very processes by which food production increases are being achieved also induce poverty. In particular the modern techniques of the "green revolution" (requiring dependence on external sources of energy, capital and technology) bias the distribution of income and productive-asset ownership increasingly against the poor.²⁹ Even while growth proceeds, the gap between the manifest food needs of the large numbers in the region living in conditions of serious deprivation³⁰ and their effective market demand is maintained. The existing strategies of expanding food production in many countries actually threaten to aggravate rather than diminish the gap between the need for food and its supply. This divergence is ultimately the gravest threat of long-term food security in the region.

(b) Cash crops

65. In 1978/79 export prices of the region's principal cash crops, which include sugar, tea, copra, coconut oil, palm oil, jute and kenaf, cotton, rubber and timber, moved ahead quite strongly in most cases, the notable exception being tea which fell back sharply from the heights of 1977; the levels of sugar and cotton prices were at least sustained, with little short-term change in either direction. (Selected data on exported cash crops are given in table II-8).

66. Production of sugar in the region as a whole was close to 18 million tons in the 1978/79 season and is expected to increase in the current year. Production difficulties were encountered in India and Thailand during the second half of 1979 owing to drought, and output in the Philippines has

languished. However, continuing expansion is expected in China, Indonesia and Fiji. Domestic consumption has also risen markedly in recent years in the three largest markets — China, India and Indonesia — and all are now net importers of sugar. However, sugar remains an important export commodity in Fiji (where it accounted for over 70 per cent of domestic exports in the second half of the 1970s) and in the Philippines and Thailand. Despite the fact that supply may fall short of demand in 1980, the future prospects for sugar are rather bleak. Current stocks are running at about one third of annual world consumption and only a small increase in over-all supply will be required to meet projected demand in the 1980s. Producer countries face the need for large investments to reduce costs of growing and refining, if sugar production is not to become either unremunerative for growers or costly in terms of public support.

67. Tea is subject to similar problems of potential oversupply in the long term. In spite of stagnation in supply from two of the world's major tea producers, India and Sri Lanka, prices continued to weaken through 1979. Tea is of great importance to Sri Lanka where in 1978 it provided nearly half of total export earnings. In 1979, owing to flat production and lower prices, this proportion had dropped below 40 per cent; however, tea will remain a key commodity for the foreseeable future and there is an urgent need to improve production conditions and accelerate the replanting programme which still provides insufficient financial incentives to growers.

68. The world oilseed market has, in contrast, moved from strength to strength during the last years of the decade. A slump in world production in 1977 sent prices soaring the following year and, because of initially low stocks and rapidly rising consumption, prices maintained their upward momentum throughout 1979. Oilseed production is of great importance to some of the economies of the region but the extent to which they have been able to capitalize on rising world prices has depended on their capability to expand supply. Coconut palm is planted on nearly one fifth of the total cultivated area in the Philippines where, in the

²⁸ The elasticity of demand for food with respect to income is clearly higher, the lower the consumer on the income scale.

²⁹ There is a growing number of sources to corroborate this finding. A recent one states as follows: "It has been shown that inequality, poverty, and hunger can increase, and indeed have increased, even in countries which have experienced rising income per head and greater food output per head". Keith Griffin and Ajit Kumar Ghose, "Growth and impoverishment in the rural areas of Asia", *World Development* (Oxford, Pergamon), vol. 7, No. 415, April/May 1979.

³⁰ See "Regional development strategy for the 1980s", Part Two, chapter I, and tables 7, 8 and 9, below.

Table II-8. Developing ESCAP economies. Selected agricultural commodities:
production, exports and export prices, 1975-1979

| | 1975 | 1976 | 1977 | 1978 | 1979 | |
|---|--------|--------|--------|-----------------|------------|------------------------|
| | | | | | First half | Full year ^a |
| <i>Sugar</i> | | | | | | |
| <i>Fiji</i> | | | | | | |
| Production (thousand metric tons) | 272 | 296 | 362 | 347 | ... | 460 |
| Export (thousand metric tons) | 250 | 250 | 324 | 294 | ... | 428 |
| Price (\$F/metric ton) ^b | 380 | 272 | 291 | 284 | ... | 286 |
| <i>India</i> | | | | | | |
| Production (thousand metric tons) | 4,646 | 4,653 | 4,637 | 6,588 | 4,539 | |
| Export (thousand metric tons) | 1,201 | 580 | 70 | ... | ... | |
| Price (¢US/lb) ^c | 20.48 | 11.57 | 8.10 | 7.81 | 8.00 | |
| <i>Philippines</i> | | | | | | |
| Production (thousand metric tons) | 2,394 | 2,875 | 2,685 | 2,336 | ... | ... |
| Export (thousand metric tons) | 972 | 1,466 | 2,242 | 1,124 | 513 | 1,076 |
| Price (¢US/lb) | 26.93 | 13.24 | 8.71 | 8.17 | ... | 8.17 |
| <i>Thailand</i> | | | | | | |
| Production (thousand metric tons) | 1,106 | 1,604 | 2,212 | 1,584 | ... | 1,795 |
| Export (thousand metric tons) | 595 | 1,124 | 1,655 | 1,040 | 471 | 1,175 |
| Price (B/metric ton) | 9,566 | 6,088 | 4,500 | 3,816 | 3,828 | 3,965 |
| <i>Tea</i> | | | | | | |
| <i>India</i> | | | | | | |
| Production (thousand metric tons) | 483 | 519 | 559 | 566 | ... | ... |
| Export (thousand metric tons) | 212 | 244 | 230 | 80 ^d | ... | ... |
| Price (Rs/kg) | 12.40 | 12.64 | 18.08 | 14.27 | ... | ... |
| <i>Sri Lanka</i> | | | | | | |
| Production (thousand metric tons) | 214 | 197 | 209 | 199 | 110 | 200 |
| Export (thousand metric tons) | 213 | 200 | 186 | 193 | 86 | 189 |
| Price (SRs/kg) | 9.08 | 10.50 | 18.86 | 33.22 | 32.16 | 30.67 |
| <i>Coconut oil</i> | | | | | | |
| <i>Philippines</i> | | | | | | |
| Production (thousand metric tons) | 797 | 1,279 | 1,539 | 1,639 | ... | ... |
| Export (thousand metric tons) | 614 | 862 | 770 | 1,017 | 374 | 802 |
| Price (P/kg) | 2.66 | 2.88 | 4.12 | 4.88 | 6.85 | 6.95 |
| <i>Sri Lanka</i> | | | | | | |
| Production (thousand metric tons) | ... | 264 | ... | ... | ... | ... |
| Export (thousand metric tons) | 54 | 61 | 9 | 30 | 8 | 28 |
| Price (SRs/kg) | 3.44 | 3.10 | 4.40 | 10.64 | 15.33 | 16.00 |
| <i>Copra</i> | | | | | | |
| <i>Philippines</i> | | | | | | |
| Production (thousand metric tons) | 1,718 | 2,007 | 2,120 | 2,258 | ... | ... |
| Export (thousand metric tons) | 761 | 823 | 635 | 365 | 80 | 147 |
| Price (P/100 kg) | 147.10 | 165.17 | 253.46 | 302.90 | 444.88 | 461.75 |
| <i>Samoa</i> | | | | | | |
| Production (thousand metric tons) | 15 | 14 | 17 | ... | ... | ... |
| Export (thousand metric tons) | 19 | 12 | 18 | 14 | ... | 22 |
| Price (\$US/metric ton) | 256 | 277 | 403 | 354 | ... | 451 |
| <i>Jute</i> | | | | | | |
| <i>Bangladesh^e</i> | | | | | | |
| Production (thousand bales) | 3,961 | 4,346 | 4,700 | 5,359 | ... | 6,443 |
| Export (thousand metric tons) | 1,549 | 2,347 | 2,276 | 1,667 | ... | 2,200 |
| Price (Tk/bale) ^b | 489.3 | 700.0 | 808.4 | 872.2 | ... | 1,050 |

Table II-8. (Continued)

| | 1975 | 1976 | 1977 | 1978 | 1979 | |
|---|---------|---------|---------|------------------|------------|------------------------|
| | | | | | First half | Full year ^a |
| <i>Cotton</i> | | | | | | |
| <i>Pakistan</i> | | | | | | |
| Production (thousand metric tons) | 635 | 513 | 435 | 575 | ... | ... |
| Export (thousand metric tons) | 284 | 221 | 50 | 17 | 77 | 77 |
| Price (PRs/kg) | 5.96 | 5.75 | 5.95 | 4.62 | 5.36 | 5.36 |
| <i>Palm oil</i> | | | | | | |
| <i>Indonesia</i> | | | | | | |
| Production (thousand metric tons) | 411 | 434 | 497 | 525 | 245 | 573 |
| Export (thousand metric tons) | 386 | 406 | 405 | 412 | 127 | 351 |
| Price (\$US/metric ton) ^b | 392.5 | 334.1 | 453.8 | 506.7 | 555.4 | 582.9 |
| <i>Malaysia</i> | | | | | | |
| Production (thousand metric tons) | 1,257 | 1,390 | 1,612 | 1,785 | 956 | 2,190 |
| Export (thousand metric tons) | 1,163 | 1,346 | 1,424 | 1,519 | 923 | 1,863 |
| Price (\$M/metric ton) | 1,002.2 | 1,025.4 | 1,315.7 | 1,414.7 | 1,461.5 | 1,410.0 |
| <i>Rubber</i> | | | | | | |
| <i>Indonesia</i> | | | | | | |
| Production (thousand metric tons) | 780 | 786 | 818 | 866 | ... | 824 |
| Export (thousand metric tons) | 788 | 812 | 800 | 862 | 424 | 861 |
| Price (RSS3) (Rp/kg) | 167.8 | 257.4 | 274.6 | 360.2 | 646.2 | 672.4 |
| <i>Malaysia</i> | | | | | | |
| Production (thousand metric tons) | 1,478 | 1,644 | 1,613 | 1,607 | 723 | 1,586 |
| Export (thousand metric tons) | 1,460 | 1,620 | 1,653 | 1,614 | 834 | 1,677 |
| Price (RSS3) (\$M/kg) | 1.30 | 1.90 | 1.94 | 2.22 | 2.64 | 2.70 |
| <i>Sri Lanka</i> | | | | | | |
| Production (thousand metric tons) | 149 | 152 | 146 | 156 | ... | 158 |
| Export (thousand metric tons) | 161 | 137 | 136 | 138 | 57 | 131 |
| Price (SRs/kg) | 4.06 | 6.50 | 6.85 | 14.64 | 18.00 | 19.47 |
| <i>Thailand</i> | | | | | | |
| Production (thousand metric tons) | 349 | 393 | 431 | 467 | ... | 540 |
| Export (thousand metric tons) | 332 | 373 | 402 | 442 | 288 | 481 |
| Price (B/metric ton) | 10,458 | 14,184 | 15,339 | 18,160 | 22,594 | 24,033 |
| <i>Timber (logs)</i> | | | | | | |
| <i>Burma</i> | | | | | | |
| Production (thousand metric tons) | 640 | 663 | 707 | 910 ^a | ... | ... |
| Export (thousand metric tons) | 102 | 88 | 94 | 123 | 102 | 154 |
| Price (K/cubic ton) | 2,663 | 4,188 | 4,810 | 4,490 | 4,352 | 4,432 |
| <i>Indonesia</i> | | | | | | |
| Production (thousand m ³) | 16,296 | 21,322 | 22,360 | ... | ... | ... |
| Export (thousand metric tons) | 11,042 | 14,814 | 15,802 | 16,155 | 7,826 | 15,596 |
| Price (\$US/metric ton) | 45.3 | 52.7 | 60.4 | 61.6 | 89.4 | 117.8 |
| <i>Malaysia</i> | | | | | | |
| Production (thousand metric tons) | 19,126 | 26,152 | 28,345 | 28,044 | 15,330 | 28,565 |
| Export (thousand m ³) | 8,473 | 15,394 | 16,078 | 16,772 | 8,773 | 15,900 |
| Price (\$M/m ³) | 79.0 | 95.6 | 94.5 | 99.6 | 147.0 | 180.0 |

Sources: National sources.

Notes: ^a Preliminary.^b Export unit value.^c World export price.^d First half.^e Years ending June.

form mainly of coconut oil and copra, it provides the largest single source of export earnings. Drought in 1978 affected output in 1979 but higher prices much more than offset a sharp decline in export volumes and the value of oil shipments was one third higher during the first half of 1979 than the same period in the previous year. With increasing emphasis on oil milling, copra exports have fallen back sharply in 1979 in volume and value terms. In Sri Lanka, typhoons in late 1978 threatened to reduce coconut production, but the level of output was maintained in 1979, and although exports declined in volume, value increased by a third or more. As with tea, however, a continuing problem of coconut production in Sri Lanka is inadequate financial incentives to expand output.

69. Palm oil is the fastest growing of the world's vegetable oils, in large part owing to rapid expansion by Indonesia and Malaysia which together accounted for nearly four fifths of the twofold rise in world output in the 1970s. Both countries, and particularly Malaysia, have reaped the substantial rewards of major planting programmes as their increasing supplies to the world market have met rising world prices, which in 1979 surpassed the peak levels recorded in 1974. Malaysia's palm oil production increased by 10 per cent in 1978 and by more than 20 per cent in 1979; export values were nearly 40 per cent higher in 1979 than in the previous year. Malaysia plans to expand its production from 2.2 million tons in 1979 to 4 million tons in 1985, but prospects on the world market will depend on soybean oil which is also expected to expand rapidly.

70. Jute is the mainstay of the Bangladesh economy. A high (but also highly variable) proportion of the rural labour force is involved in the production of raw jute and some 200,000 are employed in the manufacture of jute products. In all forms, jute accounts for about 70 per cent of annual foreign exchange earnings. However, despite rising export prices and recovery of production from its lowest level in mid-decade, jute continues to be plagued by problems. A combination of poor quality fibres and power shortages in the mills led to a slump in domestic demand in 1979. Although there was a sharp increase in export sales of raw jute from 1.7 million bales in fiscal 1977/78 to 2.2 million bales in 1978/79, substantial carry-over stocks have depressed prices to growers who are shifting to rice production. Prospects are therefore dim in the 1979/80 production year despite rising external demand. To some extent, India has been able to profit from Bangladesh's ill fortunes. A record crop of 8.3 million bales was collected in

1978/79 in India and, in the second half of 1979, after dislocations in the early part of the year, exports of jute products were running at high levels and fetching much higher prices. How long prices will continue to rise depends on the decisions of buyers in developed country markets and on the prices offered by manufacturers of synthetic substitutes currently suffering the effects of the second oil shock.

71. Pest and inclement weather continued to affect output of Pakistan's principal commercial crop, cotton, during the latter years of the 1970s, and yarn production did not regain the levels attained in 1971 and 1972. In the 1978/79 crop season the cotton harvest dipped by nearly 18 per cent. Recovery is expected in the current year, but the export market has been unpromising, with only a small upward movement in world prices towards the end of 1979, in response to increases in demand from China.

72. Indonesia, Malaysia, Sri Lanka and Thailand produce over four fifths of the world's natural rubber. Rubber is a key commodity not merely as a provider of export earnings, but also as a source of livelihood to substantial numbers of smallholders and plantation workers. As can be seen from table II-8, all four countries have enjoyed large increases in export earnings in the latter years of the 1970s as a result of a strong upward drift of prices and in Thailand's case, a marked advance in volumes of shipments. The year 1979 has witnessed continuing buoyancy in the market and optimism for the future was underscored by the conclusion of the natural rubber agreement as part of UNCTAD's Integrated Programme for Commodities in October. If ratified in 1980, this agreement should mark the end of the price uncertainties that were an ignoble feature of rubber trading in the early 1970s. The outlook for the 1980s depends on two outstanding factors. One is the outcome of the replanting programme, which involves approximately 1 million hectares in the region's major producing countries and India. Substantial scope still exists for further significant production increases from these countries, without reckoning on the rehabilitation of plantations in the Indo-Chinese countries, and expansion in west Africa and Brazil. Not all producers can count on continuing gains, particularly in view of the other factor, which is the competition from synthetic rubber. Demand for natural and synthetic rubber is expected to grow steadily during the 1980s, although at a diminished pace. Some projections indicate that consumption of synthetic rubber will grow faster than natural rubber, but much depends on the impact of the recent oil price increases on relative prices.

73. About four fifths of world exports of tropical hardwood logs and processed products originate in the ESCAP region. In 1979 prices soared as the market perceived emerging shortages and although Burma, Indonesia and Sabah (Malaysia) have met a buoyant world market in recent years with large increases in export volumes (see table II-8). Peninsular Malaysia, the Philippines and Thailand have ordered sharp cut-backs in log shipments. The next few years could mark the end of an era in the world timber industry. Various projections anticipate growing shortfalls of supply and since indiscriminate logging practices and inadequate reforestation programmes have already virtually eliminated the possibility of achieving sustainable timber production at prevailing quantity and quality levels in the producing countries, the move away from processed products based on hardwoods is certain to be hastened. Quite apart from the serious ecological considerations, some of the ESCAP producing countries will have other costs to pay. Logs will further decline as a source of external revenue (Thailand is already a net importer of timber) and the newly established timber processing industries in the region will be squeezed first by the rising cost of imported logs, and secondly by a possible collapse in their markets. The plywood producers in the Republic of Korea have already been hard hit in 1979 by the withdrawal of consumers in the United States and European markets unwilling to pay higher prices, and this pattern could become a familiar one.

74. Superficially, higher prices and export earnings for major cash crops in the region in recent years — and irregular improvements in the terms of trade — have provided some grounds for optimism. However, it should not be neglected that while the remuneration of the very large numbers of rural people in the developing countries of the ESCAP region dependent on the cash crop sector has been extremely paltry in recent years, the low incomes of growers (for example, of sugar, tea, coconuts, jute and cotton) have resulted from prevailing price and marketing structures weighted heavily against them. From colonial times the rewards both to intermediaries in source countries and to the transnational corporations (TNCs) that dominate the commerce in raw materials and commodities on the world market, represented a substantially greater mark-up on final consumer prices than the margin between growing costs and farm-gate prices. It would appear that this pattern has not substantially changed, even where control of the domestic intermediaries has been transferred from the private to

the public sector. Essentially, the monopsonistic balance of market power has remained the same, with many primary producers facing few purchasers. Moreover, increases in prices on export markets are often not transmitted through the marketing structure to provide substantial increases in the earnings of producers. Probably the only effective means of overcoming this serious and widespread problem is fundamental alteration of market structures, through formation of producer co-operatives capable of managing a significant part of their members' interests from procurement to storage and price negotiation.

75. However, if such co-operatives are at least partially successful in maintaining and improving the incomes of producers, much more far-reaching would need to be the reform of international markets to wrest some part of the control of the processing, shipping and commercialization of a higher proportion of the region's agricultural export commodities away from TNCs — particularly in respect of tea, tobacco, rubber, timber, vegetable oils and other foods such as pineapples and bananas. Despite the undoubted short-term advantages that TNCs can bring in fostering expansion in production, setting up processing facilities and guaranteeing access to rapidly growing markets, there could be much heavier prices for developing countries of the region to pay in the longer term for an excessive dependence on the decisions taken by parties that are few, remote and ultimately disinterested in the permanent economic well-being of their suppliers. The capacities of TNCs to switch among supply countries as market circumstances demand is overshadowed only by the awesome prospect that persistent rises in prices of agricultural export commodities will lead to the accelerated development of substitutes more readily available in the major developed markets. There are practically no agricultural commodities which are not already wholly or partially replaceable; unless research is substantially stepped up in the supplier countries to lower production costs and develop new forms of processing there may be dwindling hopes that the developed countries, as consumers, will agree to ratify long-term commodity agreements.

3. Manufacturing

76. The last years of the 1970s have witnessed widely contrasting experiences in the growth of manufacturing activities among the developing countries of the ESCAP region. If any common feature of their performance could be identified, it would be the fairly general re-establishment of satisfactory growth rates in 1977 and 1978 becoming dampened, in some cases heavily, in the latter part of 1979.

77. A review of production indexes for selected countries (see table II-9) is revealing insofar as it indicates the extent to which the developing countries of the region have surpassed the high levels of manufacturing production recorded in 1973. The index for the developing ESCAP region shows fairly steady growth between 1973 and 1978. However, while some countries (such as Burma, the Republic of Korea and Thailand) recorded quite well sustained growth in this period, others suffered declines in production in the mid-1970s; Pakistan recovered to 1973 levels only in 1977, and the Philippines at the end of 1978.

78. The experience of the 1970s has shown the manufacturing sector to have been at best an erratic, and at worst, an uncertain engine of growth. Employment in manufacturing (in most cases, with data only for the organized sector) has in most countries grown rather faster than employment in the economy as a whole. However, as table II-10 reveals, exceptions are provided by India and the Philippines. Moreover, the data of table II-11 indicate that in these countries the share of manufacturing employment in the total has stagnated or declined over a significant period of time.³¹ Tentatively at least, it appears that this pattern holds true mainly for the countries of south Asia.

In this subregion the decline in the relative importance of the agricultural sector as an employer of labour has also been slower, indicating slower rates of migration out of rural areas; in the urban areas labour has generally been more rapidly absorbed into the services sector than into manufacturing. There is a superficial similarity to the changes in the developed countries of the region where the services sector has grown quite markedly in importance as a source of employment, concomitantly with a decline in the employment shares of both agriculture and industry. Differences in relative sectoral productivities make the similarity superficial, however. Lacking industrial skills and typically wanting in education, rural migrants to the cities of developing countries can fill only unskilled jobs in the organized sector and generally gravitate into the informal labour market, casual-labour employment and chronic underemployment. Their real earnings remain miserably low, though perhaps not lower than their incomes as landless labourers in the countryside.

³¹ Data provided in the World Bank, *World Development Report, 1979* (Washington, D.C., 1979), annex table 19, taken in conjunction with the employment series in table II-10 below, make it apparent that the stagnation in employment shares in both the manufacturing sector and the broad industrial sector of the Indian economy has persisted through the middle years of the 1970s.

Table II-9. Selected developing ESCAP economies.
Indexes of manufacturing production, 1973-1979
(1975 = 100)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 (quarters) | | |
|---|------|------|------|------|------|------------------|-----------------|--------------------|-----|
| | | | | | | | I | II | III |
| <i>South Asia</i> | | | | | | | | | |
| Burma ^{a,b} | 88 | 92 | 100 | 108 | 114 | 126 | | | |
| India | 96 | 96 | 100 | 109 | 116 | 124 | 133 | 120 | 121 |
| Pakistan ^c | 102 | 99 | 100 | 97 | 107 | 110 | 123 | 111 | |
| Sri Lanka ^a | 100 | 95 | 100 | 105 | 104 | 113 | — | 115 ^d | — |
| <i>East and south-east Asia and Pacific</i> | | | | | | | | | |
| Fiji | 100 | 99 | 100 | 107 | 124 | 122 | 121 | 128 | 147 |
| Hong Kong ^a | 111 | 94 | 100 | 117 | 119 | 130 ^e | — | 146 ^{e,f} | — |
| Indonesia | ... | ... | 100 | 109 | 125 | 146 | 140 | 150 | 164 |
| Malaysia (Peninsular) | 87 | 100 | 100 | 119 | 132 | 144 | 147 | 156 | 162 |
| Philippines | 115 | 103 | 100 | 105 | 108 | 114 | — | 119 ^f | — |
| Republic of Korea | 65 | 84 | 100 | 132 | 159 | 196 | — | 220 ^f | — |
| Singapore | 97 | 101 | 100 | 112 | 122 | 137 | — | 156 ^f | — |
| Thailand ^a | 84 | 93 | 100 | 116 | 131 | 143 | — | 158 ^f | — |
| <i>Developing ESCAP</i> | 92 | 96 | 100 | 109 | 124 | 136 | 148 | 144 | |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980, and national sources.

Notes: ^a Indexes of value added at constant prices.

^b Fiscal year beginning April of year stated.

^c Average for 12 months starting July of year stated.

^d First half-year (preliminary).

^e Unofficial estimates.

^f Full year (preliminary).

Table II-10. Selected developed ESCAP economies. Employment, total and manufacturing, 1970-1979
(index: 1970 = 100)

| | 1970 Employment ^a (thousand) | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1970-1978 Average annual percentage change |
|--|---|------|------|------|------|------|------|------|------|------------------|--|
| <i>South and west Asia</i> | | | | | | | | | | | |
| <i>Iran^b</i> | | | | | | | | | | | |
| Total | 8,647 | 103 | 107 | 109 | 113 | 112 | 115 | ... | ... | ... | 2.4 ^c |
| Manufacturing ^d | 1,724 | 105 | 111 | 118 | 127 | 124 | 133 | ... | ... | ... | 4.8 ^c |
| <i>Burma^e</i> | | | | | | | | | | | |
| Total | 10,867 | 101 | 94 | 105 | 107 | 108 | 112 | 114 | 116 | 119 | 2.0 |
| Manufacturing | 745 | 102 | 112 | 108 | 111 | 114 | 115 | 118 | 125 | 130 | 2.9 |
| <i>India^f</i> | | | | | | | | | | | |
| Total | 17,060 | 102 | 106 | 110 | 113 | 115 | 118 | 121 | 126 | ... | 2.9 |
| Manufacturing | 4,680 | 102 | 104 | 108 | 111 | 110 | 113 | 115 | 121 | ... | 2.4 |
| <i>Southeast Asia</i> | | | | | | | | | | | |
| <i>Singapore</i> | | | | | | | | | | | |
| Total | 651 | 107 | 111 | 123 | 127 | 128 | 134 | 139 | 147 | 157 | 5.0 |
| Manufacturing | 143 | 108 | 121 | 133 | 164 | 152 | 164 | 172 | 189 | 206 | 8.3 |
| <i>Malaysia</i> | | | | | | | | | | | |
| Total | 3,340 | 104 | 108 | 112 | 116 | 120 | 125 | 130 | 135 | 139 | 3.8 |
| Manufacturing | 301 | 108 | 117 | 127 | 138 | 149 | 165 | 178 | 195 | 209 | 8.7 |
| <i>Philippines^g</i> | | | | | | | | | | | |
| Total | 11,772 | 107 | 112 | 113 | 123 | 123 | 131 | 127 | 123 | 135 | 4.5 ^c |
| Manufacturing | 1,402 | 105 | 105 | 101 | 108 | 118 | 120 | 131 | ... | ... | 3.9 ^h |
| <i>Thailandⁱ</i> | | | | | | | | | | | |
| Total | 16,602 | 100 | 97 | 103 | 103 | 110 | 111 | 112 | ... | ... | 1.7 ^h |
| <i>Indonesia</i> | | | | | | | | | | | |
| Total (census) | 43,140 ^j | ... | ... | ... | ... | ... | 118 | ... | ... | ... | ... |
| Manufacturing (total) | 3,360 ^j | ... | ... | ... | ... | ... | 130 | ... | ... | ... | ... |
| Manufacturing (large) ^k | 617 | 113 | 136 | 141 | 165 | 205 | 215 | ... | ... | ... | 11.7 ^c |
| <i>East Asia and Pacific</i> | | | | | | | | | | | |
| <i>Fiji^f</i> | | | | | | | | | | | |
| Total | 52 | 110 | 113 | 119 | 130 | 136 | 136 | 140 | 143 | 146 ^l | 4.6 |
| Manufacturing | 9 | 111 | 108 | 111 | 130 | 141 | 125 | 123 | 143 | 141 ^l | 5.0 |
| <i>Hong Kong</i> | | | | | | | | | | | |
| Total | 1,544 | 102 | 105 | 108 | 111 | 115 | 119 | 122 | 128 | 133 | 3.1 |
| Manufacturing | 537 | 104 | 107 | 108 | 105 | 117 | 140 | 142 | 150 | 151 | 5.4 |
| <i>Republic of Korea</i> | | | | | | | | | | | |
| Total | 9,745 | 103 | 108 | 114 | 119 | 121 | 129 | 133 | 138 | 140 | 3.4 |
| Manufacturing | 1,284 | 104 | 112 | 138 | 157 | 172 | 209 | 218 | 235 | 243 | 11.5 |

Sources: Burma: ADB, *Key Indicators*, XI:1, April 1980; Fiji: Bureau of Statistics, *Current Economic Statistics*, October 1979, and ILO, *Yearbook of Labour Statistics*, 1978; Hong Kong: Census and Statistics Department, *Monthly Digest of Statistics*, various issues (estimates of total employment for 1970 and 1972-1974, interpolated at intercensal rates); India: Central Statistical Office, *Monthly Abstract of Statistics*, June 1979; Indonesia: Central Bureau of Statistics, *Population Census 1971, Labour Force Survey, 1976* and annual surveys of manufacturing; Iran: Plan and Budget Organization, *Economic Trends of Iran* (5th ed.), 1978; Malaysia: Ministry of Finance, *Economic Report, 1979/80*; Philippines: ADB, *op. cit.*, Republic of Korea: Bank of Korea, *Economic Statistics Yearbook, 1979*, table 136, and *Monthly Economic Statistics*, No. 4, 1980, table 196; Singapore: *Singapore Yearbook of Statistics 1978/79*, table 3.4; *Economic Survey, 1979*, statistical appendix, table 6.2; Thailand: *Yearbook of Labour Statistics 1977* and *Handbook of Labour Statistics 1976*.

Notes: ^a Listed by size of total employment in 1970.

^b Year beginning 22 March.

^c 1970-1976.

^d Includes mining but excludes oil sector.

^e Year ending 30 September.

^f Fiji: paid employment only;

India: March figures, organized sector only.

^g Discontinuity in series, 1976-1977.

^h 1970-1977.

ⁱ July-September figures.

^j 1971 figures.

^k Large and medium establishments only.

^l First quarter only.

Table II-11. Selected ESCAP economies.
Employment by major sector, 1960s and 1970s^a
(percentage shares)

| Country or area ^b | Year | Agriculture | Industry | | Services | Other ^d |
|------------------------------|---------|-------------|--------------------|-------------------|----------|--------------------|
| | | | Total ^c | Manufacturing | | |
| <i>South and west Asia</i> | | | | | | |
| Iran ^e | 1966 | 50.0 | 25.0 | 17.5 ^f | 25.0 | — |
| | 1972 | 40.2 | 29.9 | 21.2 ^f | 29.9 | — |
| | 1976 | 34.3 | 33.7 | 23.5 ^f | 32.0 | — |
| Sri Lanka | 1963 | 52.9 | 13.1 | 9.8 | 28.7 | 5.3 |
| | 1971 | 50.1 | 12.8 | 9.3 | 28.5 | 8.6 |
| Pakistan | 1977 | 54.8 | 18.4 | 13.6 | 26.5 | 0.3 |
| Burma | 1975/76 | 69.0 | 11.0 | 7.3 | 15.5 | 4.5 |
| India | 1961 | 72.9 | 10.8 | 9.5 | 15.1 | 1.2 |
| | 1971 | 72.0 | 11.5 | 9.5 | 15.8 | 0.7 |
| Nepal | 1961 | 93.8 | 2.1 | 1.9 | 3.3 | 0.8 |
| | 1971 | 94.4 | 1.2 | 1.1 | 4.4 | — |
| <i>South-east Asia</i> | | | | | | |
| Singapore | 1966 | 3.5 | 27.2 | 19.2 | 69.0 | 0.3 |
| | 1970 | 3.5 | 30.1 | 22.0 | 66.3 | 0.1 |
| | 1978 | 1.9 | 34.7 | 28.2 | 63.2 | 0.2 |
| Malaysia (Peninsular) | 1967/68 | 51.1 | 15.2 | 8.5 | 33.7 | — |
| | 1970 | 49.6 | 14.1 | 9.2 | 30.9 | 5.4 |
| | 1974 | 45.6 | 20.5 | 13.7 | 33.9 | — |
| Malaysia | 1970 | 53.2 | 14.3 | 9.0 | 28.2 | 4.3 |
| | 1975 | 47.6 | 17.3 | 11.1 | 30.4 | 4.7 |
| Philippines | 1970 | 53.8 | 16.5 | 11.9 | 28.2 | 1.5 |
| | 1976 | 52.7 | 14.4 | 10.9 | 32.6 | 0.3 |
| Thailand | 1970 | 79.2 | 5.9 | 4.1 | 14.0 | 0.9 |
| | 1976 | 62.6 | 14.3 | 11.0 | 23.1 | — |
| Indonesia | 1961 | 71.9 | 7.9 | 5.7 | 18.3 | 1.9 |
| | 1971 | 64.2 | 8.4 | 6.5 | 22.8 | 4.6 |
| | 1976 | 66.0 | 8.9 | 6.7 | 23.5 | 1.6 |
| <i>East Asia and Pacific</i> | | | | | | |
| Hong Kong | 1966 | 5.2 | 46.9 | 39.4 | 47.6 | 0.3 |
| | 1971 | 4.0 | 53.9 | 42.4 | 40.0 | 2.1 |
| | 1976 | 2.5 | 51.3 | 45.0 | 44.9 | 1.3 |
| Fiji | 1966 | 56.0 | 15.7 | 7.3 | 17.1 | 11.2 |
| | 1976 | 43.8 | 15.5 | 7.4 | 33.8 | 6.9 |
| Republic of Korea | 1970 | 50.4 | 17.2 | 13.2 | 32.3 | — |
| | 1975 | 45.9 | 23.4 | 18.6 | 30.7 | — |
| | 1978 | 38.4 | 29.2 | 22.4 | 38.4 | — |
| <i>Developed ESCAP</i> | | | | | | |
| Australia | 1966 | 9.4 | 39.1 | 26.9 | 49.5 | 2.0 |
| | 1973 | 7.0 | 34.2 | 25.0 ^g | 55.6 | 3.2 |
| | 1977 | 6.6 | 32.5 | 23.1 ^g | 60.9 | — |
| New Zealand | 1966 | 13.1 | 37.8 | 26.6 | 48.4 | 0.7 |
| | 1971 | 12.3 | 34.8 | 24.8 | 51.8 | 1.1 |
| | 1976 | 10.1 | 34.6 | 24.2 | 52.4 | 2.9 |
| Japan | 1970 | 19.3 | 34.3 | 25.8 | 46.1 | 0.3 |
| | 1977 | 11.9 | 35.4 | 25.1 | 52.5 | 0.2 |

Sources: National census and labour force survey publications including those reproduced in International Labour Organisation, *Yearbook of Labour Statistics, 1978*, and earlier issues.

Notes: ^a Data are not always strictly comparable between economies, nor in some cases for a given economy in different years. Several sources include unemployed persons; these have been eliminated wherever possible. Age groups included differ considerably; some include ages 10+ and 12+, though most begin at 14+ years.

^b Listed in ascending order of share of agricultural employment in each subgroup in the most recent year for which data are available.

^c Includes mining, manufacturing, construction and utilities.

^d Insufficient information to permit classification.

^e Estimates from Plan and Budget Organization, *Economic Trends of Iran* (5th ed.), 1978.

^f Includes manufacturing, mining and petroleum sector.

^g Includes manufacturing and utilities.

79. In some countries of east and southeast Asia manufacturing employment grew rapidly in the 1970s. In Malaysia, the Republic of Korea and Singapore, the average annual rates of growth exceeded 8 per cent in the period 1970-1978, considerably less than the rate of output growth in all three. In some years, however, employment expansion was well below the average and, with a marked slowing in the growth of manufacturing at the end of the decade, employment prospects have deteriorated.

80. In most of the south Asian countries indigenous raw materials provide the bulk of material inputs for the manufacturing sector. During 1978-1979, the output of key commercial crops was one of several factors influencing performance. Pakistan recorded a sharp deceleration in growth in 1978/79 as compared with the previous year; in spite of a heavy fall in cotton output necessitating a cut-back in exports of raw cotton, the production of cotton manufactures (yarn, thread and fabrics) responded to buoyant external demand. In the same year textile production in Bangladesh advanced strongly. Notwithstanding power shortages in the jute mills, there was an increase in production of jute products of nearly 6 per cent, while cotton yarn and cloth grew by 7.5 and 12.5 per cent respectively. In Burma, the cotton crop was also up in 1978/79 but imports of cotton were reduced and the output of yarn and cloth declined owing to insufficient stocks. In India, textile production declined, in large part owing to labour unrest, which affected other manufacturing activities as well.

81. Prospects for the current fiscal year in India and Pakistan are mixed. A measure of greater discipline is expected to bring about a reduction in the disruptions arising from labour disputes in Pakistan where a marked improvement is also anticipated in raw cotton output. In India the problems go rather deeper although they seem to be amenable to fairly rapid solution. During 1979, manufacturing was adversely affected by disruption of the power and transportation nexus inflicting shortages of electricity and raw material supplies on enterprises and precipitating declines in the output of key industries such as steel, cement and fertilizer.

82. On the basis of available evidence the more export-oriented manufacturing sectors of the east and southeast Asian economies achieved rapid growth in 1978-1979, with the exception of the Philippines where, as noted earlier, investment had slackened considerably and expansion was restrained by a slow growth in textiles and garments and in the engineering industries. In 1978, manufacturing in Indonesia, Singapore and Thailand recorded

growth well into double figures, while in the Republic of Korea manufacturing grew by more than 20 per cent. Growth in Hong Kong, according to an unofficial estimate, was about 9 per cent, despite lagging textile production, in Malaysia as well, the manufacturing production index recorded a 9 per cent expansion.

83. A few official estimates are to hand for the full year of 1979; the indications are that in most economies of this subregion a very satisfactory first half of the year was followed by decelerating growth in some key manufacturing activities. In Malaysia preliminary estimates suggest manufacturing expansion comparable to 1978 with rapid growth in primary — products processing, beverages and chemical products but slackening rates of output of textiles, electrical products, metal products and automotive equipment. While Indonesian manufacturing expanded rapidly in 1978, growth clearly slackened during 1979. Only a few industries appear to have derived stimulus from the devaluation of November 1978, mainly textiles, electronics, wood and vegetable oil products, urea fertilizer and cement.³²

84. Manufacturing in Hong Kong also enjoyed a satisfactory year, for the slower pace of textiles, garments and plastics was more than compensated by the rapid progress of toys, photographic equipment, watches and electronics, with signs of strong external demand for some activities continuing at least into the early months of 1980. The Republic of Korea and Singapore experienced slower growth towards the end of the year as external demand weakened. In the Republic of Korea, steel and cement remained strong, while electronics and shipbuilding slowed. In Singapore, electrical and electronic products, oil-rig construction and ship-repairing and transport equipment expanded at high rates. However, as in Hong Kong and the Philippines, textiles featured prominently in the deceleration, which could be blamed in some part on protectionism in importing countries and — particularly in Singapore — on labour shortages. In Thailand external demand for textiles was well sustained throughout the year, demonstrating that for newer entrants to the international market, quota restrictions imposed by importing countries can work to their relative advantage.

85. There were several significant developments in the manufacturing sectors of the developing countries of the region in the last years of the 1970s which contain pointers for prospects and performance in the 1980s. The most important of

³² M.M. Sangian and S.F. Poli, "Annual survey of the Indonesian economy" (in Indonesian), *Ekonomi dan keuangan Indonesia* (Jakarta), vol. XXII, No. 4, December 1979.

these developments were the attempts by individual countries to adjust and accommodate to changes in the structure of the international economy with which there was increasing involvement, particularly on the part of east and southeast Asian countries, through the rapid expansion of their manufactures exports. Increasingly it was realized that this involvement contained both important limitations and important opportunities.

86. Nowhere were the limitations more apparent than in the exports of textiles and garments.³³ The need to expedite the redistribution of manufacturing capacity in favour of developing countries has become widely recognized; as part of a related process during the last few years some major established exporters have attempted to sidestep the increasing competition from newly emerging producers among the developing countries. Hong Kong and the Republic of Korea in particular have moved increasingly towards the manufacture of textiles and garments of higher qualities and more complex technical specifications in order to avoid being undercut by competitive producers. In doing so, however, they have often clashed directly with producers in the industrialized countries thus courting intensified efforts by those countries to protect their domestic industries. Both these economies, as well as Singapore, are now making conscious efforts to move away from labour-intensive manufacturing to high-technology activities (in which Singapore has recently been the most explicit proponent) or heavy industry, which the Republic of Korea is actively developing on the basis of steel, shipbuilding, petrochemicals and machinery manufacture.

87. Other developing countries have recognized that expanding world trade offers opportunities to establish new labour-intensive manufacturing activities. Determined moves in this direction have very recently been made by two hitherto relatively minor exporters of manufactures, China and Sri Lanka.

88. For China, 1979 was the first year of "economic readjustment" intended to take the country along a road of modernization featuring increasing production of light industry and consumer goods, and an expansion in international trade. The year also marked a dramatic reversal of the country's previous reliance on domestic capital resources with a guarded welcome being extended to loans and direct investment from abroad. In addition to the export-oriented manufacturing zones created in Shanghai and Tianjin, China intends to attract foreign capital to new industrial zones in Guangdong province adjacent to Hong Kong where, among other activities, off-shore assembly for export is expected to be encouraged.

89. In another notable industrial policy departure, Sri Lanka established a free trade zone (FTZ) in 1978 intended to be the backbone of its export manufacturing sector. The FTZ offers unusually generous terms to foreign equity ventures and by the beginning of 1980, 77 projects had been approved, with a total foreign investment component of 75 per cent. The FTZ, however, is seen only as the first stage of Sri Lanka's new industrialization strategy, since further zones are envisaged which, as well as facilitating the further establishment of "footloose" manufacturing activities, will broaden the industrial base.

90. While the creation of employment opportunities is often cited as a primary justification for the encouragement of labour-intensive forms of export-oriented manufacturing, it has to be recognized that the strategy has some serious weaknesses. Certain activities, and especially off-shore processing and assembly, create few linkages with the rest of the domestic economy, so that job creation is confined both in the sectoral sense and, where FTZ are the basis for such activities, in the geographical one as well. Such activities are also highly vulnerable to declines in external demand; whilst the loss in value added and net foreign exchange is likely to be small when demand slows in importing countries, the loss of jobs could be considerable. The promotion of export-oriented manufacturing based on domestic raw materials could be complementary to strategies of building a broader industrial base ultimately capable of serving a wide range of domestic needs.

B. EXTERNAL TRADE AND PAYMENTS

Introduction

91. The experience of the years 1978 and 1979 includes a number of rather considerable changes in demand, prices and volumes in the external trade of the developing ESCAP region. This variability has quite clearly been less extreme than that of the crisis years early in the decade, but it contrasts noticeably with the years since 1976. Crude petroleum apart, the primary commodities exported by developing economies in the region with few exceptions experienced favourable changes during most of 1979. With exceptions for particular countries and certain types of product, demand for manufactured exports appears to have been well sustained. Price variations have been large, especially in primary commodities; other sources of uncertainty, exchange rate fluctuations, for example, have been perhaps more than ordinarily prolific. Subject as always to

³³ Trade barriers to textile and garment exports are discussed in section II.B.1 below.

variations in weather conditions, agricultural exports have experienced supply constraints in a number of instances.³⁴ Both commercial agriculture and manufacturing for export have been increasingly afflicted with cost increases, not least the cost and availability of credit, in consequence of the resurgence of inflationary pressures and the tightening of monetary restraints. Sharply rising prices of petroleum products and their derivatives have added to the pressures on production costs in both agriculture and industry. Nevertheless, export expansion at current prices has continued high. Import prices and the value of imports have generally risen apace, in important part owing to the sharp rise in oil prices, and trade balances have commonly suffered.

1. Exports

92. An overview of patterns of change in exports for the international market economy is provided in table II-12, while the more detailed data of export values (at current prices) are given in tables II-13A and II-13B, where the focus is upon the developing economies of the ESCAP region. The overview data reflect the abrupt changes arising from the second oil shock in 1979. Although in important respects, the impact of sharply rising petroleum prices dominates the export pattern for the developing economies, it is apparent that the expansion of non-oil export values continued in 1978 and accelerated during 1979. For the

developing ESCAP economies, the deceleration in total export growth in 1978 resulted from the decline in production and export of Iranian oil. In 1979, however, the great expansion in non-oil export values accounted for the entire acceleration of nominal-value exports as petroleum prices rose sharply, while volume declined and total values stagnated.³⁵

93. It was noted in the introductory chapter that the "real price" of crude petroleum changed only slightly in 1976-1977 and fell in 1978. The patterns which appear in table II-12 suggest that the increases in prices of crude during 1979 have served to re-establish the share of petroleum (here represented by the total exports from OPEC) in the export pattern of the international market economies. A review of the patterns of these market shares from the early 1970s (from the first oil shock to the sharp decline in exports for oil producers and for non-oil developing economies in 1975) would likewise reveal the domination of export growth patterns by the oil-exporting economies.³⁶

³⁴ The more important examples have been cited in some detail in section II.A.2(b) above.

³⁵ These changes are clearly reflected in table II-14, below.

³⁶ In 1970 exports from the OPEC group accounted for just over 6 per cent of the aggregate export value of the world market economies. After the first oil shock the OPEC share in 1974 had risen to 16.3 per cent, its peak value. By 1976 the share had fallen to 15.3 per cent.

Table II-12. World and ESCAP. Export growth and shares, 1977-1979 (at current prices)
(percentages)

| | Change from previous year | | | Share of total | | |
|--|---------------------------|------|-------------------|----------------|------|-------------------|
| | 1977 | 1978 | 1979 ^a | 1977 | 1978 | 1979 ^a |
| World total (market economies) | 13 | 15 | 25 | 100 | 100 | 100 |
| Developed | 13.5 | 20 | 22 | 72 | 74.5 | 73 |
| Developing | 13 | 5 | 33 | 28 | 25.5 | 27 |
| OPEC | 10 | -4 | 43 | 15 | 12.3 | 14 |
| Non-oil ^b | 17 | 14 | 23 | 13 | 13.2 | 13 |
| ESCAP: total | 16 | 15 | 13 | 18 | 18 | 16.4 |
| Developed | 16.5 | 19 | 7 | 9.5 | 9.8 | 8.4 |
| Developing | 15.5 | 10 | 21 | 8.5 | 8.2 | 8 |
| Oil exporters ^c | 10 | -2.5 | 5 | 3.5 | 3 | 2.6 |
| Non-oil ^d | 19 | 18.5 | 30 | 5 | 5.2 | 5.4 |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980, table 52; International Monetary Fund, *International Financial Statistics*, April 1980, and national sources.

Notes: ^a Rough estimates, based on incomplete information. Decimals have been used indicatively and do not imply great precision.

^b Non-oil = non-OPEC.

^c Brunei, Indonesia and Iran.

^d Selected exporting countries and areas, excludes centrally planned economies. For details, see table II-13A and B.

Table II-13A. World and ESCAP. Exports (f.o.b.), 1975-1979
(\$US billion)

| | 1975 | 1976 | 1977 | 1978 | 1979 ^p | 1979 ^p | |
|--------------------------------------|-------|-------|---------|---------|-------------------|-------------------|----------|
| | | | | | | 1st half | 2nd half |
| Market economies: | | | | | | | |
| World total | 788.0 | 897.4 | 1,017.7 | 1,175.3 | 1,465.0 | 680.7 | 784.3 |
| A. Developed | 578.6 | 643.2 | 730.4 | 874.6 | 1,066.1 | 505.8 | 560.3 |
| B. Developing | 209.4 | 254.2 | 287.3 | 300.7 | 398.9 | 174.9 | 224.0 |
| 1. OPEC | 113.5 | 137.6 | 150.8 | 144.8 | 206.6 | 84.1 | 122.5 |
| 2. Non-oil ^a | 95.9 | 116.6 | 136.5 | 155.9 | 192.3 | 90.8 | 101.5 |
| C. ESCAP | 130.3 | 159.0 | 184.6 | 211.8 | 239.8 | 108.4 | 131.4 |
| 1. Developed ^b | 69.5 | 82.9 | 96.8 | 115.4 | 123.3 | 59.1 | 64.2 |
| 2. Developing ^c | 60.8 | 76.1 | 87.8 | 96.4 | 116.3 | 49.3 | 67.2 |
| (a) Oil exporters | 28.3 | 33.3 | 36.7 | 35.8 | 37.6 | 13.8 | 23.8 |
| (b) Non-oil exporters | 32.4 | 42.8 | 51.1 | 60.6 | 78.9 | 35.5 | 43.4 |
| (i) South Asia | 6.7 | 8.2 | 9.3 | 10.1 | 11.4 | 5.6 | 5.8 |
| (ii) South-east Asia | 13.9 | 17.4 | 20.9 | 25.0 | 35.2 | 15.9 | 19.3 |
| (iii) East Asia | 11.2 | 16.4 | 19.9 | 24.5 | 31.1 | 13.5 | 17.6 |
| (iv) Pacific | 0.6 | 0.7 | 0.9 | 1.0 | 1.3 | 0.5 | 0.8 |
| (c) ASEAN ^d | 21.0 | 26.0 | 31.8 | 36.7 | 50.8 | 22.5 | 28.3 |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980, supplemented by International Monetary Fund, *International Financial Statistics*, April 1980, and national sources.

Notes: ^a Non-OPEC.

^b Australia, Japan and New Zealand.

^c Oil exporters and non-oil exporters, listed in table II-13B.

^d Indonesia, Malaysia, the Philippines, Singapore and Thailand.

^p Preliminary.

Table II-13B. Developing ESCAP Exports (f.o.b.), selected economies, 1975-1979
(\$US million)

| | 1975 | 1976 | 1977 | 1978 | 1979 ^p | 1979 ^p | |
|---------------------------------|--------|--------|--------|--------|-------------------|-------------------|----------|
| | | | | | | 1st half | 2nd half |
| Developing ESCAP | 60 775 | 76 139 | 87 801 | 96 410 | 116 539 | 49 314 | 67 225 |
| 1. Oil exporters | 28 338 | 33 330 | 36 711 | 35 848 | 37 592 | 13 804 | 23 788 |
| Brunei | 1 023 | 1 284 | 1 613 | 1 775 | 2 580 | 1 066 | 1 514 |
| Indonesia | 7 103 | 8 547 | 10 853 | 11 643 | 15 578 | 6 539 | 9 039 |
| Iran | 20 212 | 23 499 | 24 245 | 22 430 | 19 434 | 6 199 | 13 235 |
| 2. Non-oil exporters | 32 437 | 42 809 | 51 090 | 60 562 | 78 947 | 35 510 | 43 437 |
| (a) South Asia | 6 681 | 8 228 | 9 309 | 10 071 | 11 415 | 5 641 | 5 774 |
| Afghanistan | 223 | 299 | 314 | 322 | 427 | 157 | 270 |
| Bangladesh | 303 | 432 | 451 | 576 | 676 | 315 | 361 |
| Burma | 172 | 241 | 232 | 243 | 362 | 161 | 201 |
| India | 4 393 | 5 526 | 6 378 | 6 614 | 6 900 | 3 526 | 3 374 |
| Pakistan | 1 031 | 1 163 | 1 171 | 1 470 | 2 049 | 1 048 | 1 001 |
| Sri Lanka | 559 | 567 | 763 | 846 | 1 001 | 434 | 567 |
| (b) South-east Asia | 13 892 | 17 420 | 20 954 | 25 025 | 35 182 | 15 912 | 19 270 |
| Malaysia ^a | 3 844 | 5 281 | 6 078 | 7 381 | 10 998 | 4 998 | 6 000 |
| Philippines | 2 295 | 2 574 | 3 151 | 3 425 | 4 654 | 2 090 | 2 564 |
| Singapore | 5 376 | 6 585 | 8 241 | 10 134 | 14 228 | 6 236 | 7 992 |
| Thailand | 2 377 | 2 980 | 3 484 | 4 085 | 5 302 | 2 588 | 2 714 |
| (c) East Asia | 11 228 | 16 454 | 19 918 | 24 476 | 31 069 | 13 460 | 17 609 |
| Hong Kong | 6 019 | 8 526 | 9 626 | 11 499 | 15 708 | 6 544 | 9 164 |
| Macao | 128 | 213 | 245 | 259 | 306 | 144 | 162 |
| Republic of Korea | 5 081 | 7 715 | 10 047 | 12 718 | 15 055 | 6 772 | 8 283 |
| (d) Pacific | 636 | 707 | 910 | 990 | 1 281 | 497 | 784 |
| Fiji | 159 | 127 | 172 | 199 | 249 | 77 | 172 |
| Papua New Guinea | 470 | 573 | 723 | 780 | 1 016 | 414 | 602 |
| Samoa | 7 | 7 | 15 | 11 | 16 | 6 | 10 |

Source: Same as table II-13A.

Notes: ^a Adjusted to exclude intra-trade.

^p Preliminary.

Table II-14. Developing ESCAP. Composition of domestic exports, 1975-1979; changes in value and volume

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|--------|--------|--------|--------|---------|
| Total gross exports ^a (\$US million) | 60 775 | 76 139 | 87 801 | 96 410 | 116 539 |
| Domestic exports ^b (\$US million) | 56 816 | 71 089 | 81 745 | 88 761 | 105 121 |
| Petroleum ^c | 26 323 | 30 899 | 33 315 | 31 960 | 31 973 |
| Primary products ^d (non-oil) | 16 100 | 19 036 | 23 348 | 25 992 | 34 983 |
| Manufactures ^e | 14 393 | 21 154 | 25 082 | 30 809 | 38 165 |
| Composition (shares of domestic exports; percentages) | | | | | |
| Petroleum | 46 | 44 | 41 | 36 | 30 |
| Primary products | 28 | 27 | 29 | 29 | 33 |
| Manufactures | 25 | 30 | 31 | 35 | 36 |
| Change from previous year (percentages) | | | | | |
| Value (current prices): | | | | | |
| Domestic exports (total) | | 25.1 | 15.0 | 8.6 | 18.4 |
| Petroleum | | 17.4 | 7.8 | -4.1 | — |
| Primary products | | 18.2 | 22.7 | 11.3 | 34.6 |
| Manufactures | | 47.0 | 18.6 | 22.8 | 23.9 |
| Volume: | | | | | |
| Domestic exports (total) | | 14.2 | 3.5 | 3.1 | -4.2 |
| Petroleum | | 10.7 | -2.3 | -4.1 | -31.1 |
| Primary products | | 7.5 | -0.8 | 8.1 | 12.8 |
| Manufactures | | 28.8 | 16.7 | 8.4 | 13.7 |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980; International Monetary Fund, *International Financial Statistics*, April 1980, and national sources.

Notes: ^a From countries and areas listed in table II-13B; excludes centrally planned economies.

^b Excludes re-exports from Hong Kong, Singapore and elsewhere as data permit.

^c Petroleum, crude and refined, from major producers: Iran, Indonesia, Brunei and Malaysia; excludes refined products exports from Singapore.

^d Excluding crude petroleum.

^e SITC sections 5-8 from eight major manufactures exporters (table II-13B) plus estimated value for other exporting countries; excludes refined petroleum, classified under SITC 3.

94. To obtain a clearer view of the characteristics of exports from the developing ESCAP economies during the past two years, the composition of export total values (at current prices) is presented in terms of broad categories: oil, other primary commodities, and manufactures (see table II-14).³⁷ In this compilation the relative importance of petroleum exports (both crude and refined products) from primary producing countries is clearly shown.³⁸ The share of petroleum in total export value is seen to have declined continuously from 1976 to 1979, chiefly owing to the decline in the relative price of petroleum during 1978 and to the reduction in the volume of Iranian exports in 1978 and 1979. The continued decline in the petroleum share in 1979 resulted from the upsurge in non-oil export prices and volumes and occurred despite the partial recovery of oil export volume and the marked rise in the price of crude during the second half of the year.

95. Because the figures showing changing shares of a changing total are always ambiguous, annual percentage changes are also presented (see table II-14) in nominal export values and in estimated volumes.³⁹

From these data certain broad inferences may be drawn. The deceleration in 1978 in the growth of total exports at current prices, despite increases in the prices of non-oil exports, is seen here in clearer relief. Petroleum exports apart, deceleration appears in the expansion of non-oil export values, both primary products and manufactures. As table II-15 shows, prices of non-food agricultural products and non-ferrous metals continued to rise in 1978 and accelerated in 1979, while prices of foodstuffs other than cereals fell; export prices of rice also declined in 1979. Average export volumes (weighted averages for a wide array of commodities and exporting countries) appear to have risen quite significantly. If this pattern is confirmed by more

³⁷ It will be noticed that the classification in table II-14 relates to total current values of exports net of major flows of re-exports comprising the entrepôt trade of Hong Kong and Singapore. This adjustment has been made to improve clarity and consistency.

³⁸ In order of export values: Iran, Indonesia, Brunei and Malaysia.

³⁹ These are rough estimates based on weighted average unit-value (price) indexes for the exports in each category. The resulting quantum indexes and their annual percentage changes should be interpreted as orders of magnitude.

complete and accurate data, it will suggest that increasing production costs and capacity constraints in many non-oil primary products exporting countries had not yet begun to impinge significantly on export capacity.⁴⁰

96. The patterns of change in manufactures exports contrast with those of primary products exports in several important respects. In total value (at current prices), exports of manufactures from the developing economies of the region have continued to expand at accelerating rates, though the estimates for 1979 show this acceleration to have been moderate. The lower panel in table II-14 indicates that slower growth prevailed in quantum terms in 1978 while in 1979 the rate of increase in the volume of manufactures exports rose more rapidly. Prices of manufactures exports, characteristically determined in highly organized, predominantly

oligopolistic markets in the industrial economies, have risen less rapidly than non-oil primary products prices since 1977. Although this observation is subject to qualification because the increase in prices of manufactures exports was relatively greater in 1978, it nevertheless suggests a cost-price squeeze rather different in character from that impinging upon the expansion of non-oil primary commodities exports. There seems on the whole to be little indication of a general decline in the growth of manufactures export volumes in 1979 though the performance of the Republic of Korea is an important exception. In summary, it may be noted that the increase in the share of manufactures in total export values between 1975 and 1979 is more than double that of non-oil primary products exports.

⁴⁰ There is considerable evidence in the quantum indicators for individual commodities and countries, mainly for periods less than the full year 1979, that export volumes of several important food and other agricultural products stagnated or declined in that year.

Table II-15. Developing ESCAP. Export prices of primary commodities, annual changes, 1976-1979^a
(percentages)

| | 1976 | 1977 | 1978 | 1979 |
|--|-------|-------|-------|-------|
| Primary commodities (excluding crude petroleum) | 10.0 | 23.6 | 2.9 | 19.0 |
| Foodstuffs | -4.0 | 35.0 | -14.6 | 4.5 |
| Wheat | -14.0 | -25.6 | 20.3 | 24.7 |
| Rice | -28.0 | 8.3 | 25.6 | -6.1 |
| Maize | 2.0 | 10.8 | 28.3 | 21.4 |
| Coffee | 99.0 | 75.9 | -34.9 | 6.1 |
| Cocoa | 52.0 | 103.3 | -10.4 | -12.3 |
| Tea | 12.0 | 78.6 | -20.5 | -0.6 |
| Pepper | 1.0 | 36.6 | -10.1 | -7.3 |
| Sugar | -43.0 | -29.8 | -2.5 | 23.1 |
| Agricultural non-food | 21.0 | 14.9 | 15.1 | 26.2 |
| Copra | 8.0 | 46.3 | 16.5 | 42.9 |
| Coconut oil | 0.0 | 39.0 | 21.6 | 40.8 |
| Palm oil | -6.0 | 28.7 | 14.0 | 18.0 |
| Palm kernel oil | 6.0 | 41.5 | 19.3 | 37.4 |
| Lumber | 18.0 | 9.3 | 10.1 | 19.0 |
| Logs | 30.0 | 26.2 | 13.4 | 33.9 |
| Cotton | 32.0 | -3.8 | -2.4 | 7.3 |
| Jute | -17.0 | 7.2 | 23.6 | 0.9 |
| Natural rubber | 38.0 | 5.8 | 21.2 | 28.2 |
| Tobacco | 2.0 | 8.8 | 5.4 | 10.3 |
| Non-ferrous metals | 11.0 | 27.0 | 12.8 | 20.7 |
| Copper | 14.0 | -7.0 | 4.7 | 45.0 |
| Nickel | 9.0 | 5.5 | -1.7 | 29.2 |
| Aluminium | 4.0 | 26.0 | 13.7 | 16.1 |
| Tin | 12.0 | 42.0 | 18.9 | 18.0 |

Source: United Nations, *Monthly Bulletin of Statistics*, April 1980, table 59.

Notes: ^a Derived from index numbers, 1975=100. Commodities have been selected for their relevance in the exports of the developing ESCAP region; totals are weighted averages based on estimated 1975 export values.

97. Domination of international markets for manufactures by the industrial economies is reflected in the pattern of changes in the relative prices of manufactured goods exports from developed countries and from the developing ESCAP region. Export prices of manufactured goods from the region fell during the recession year 1975 while those from developed economies did not; in the 1976 recovery, prices of regional exports of manufactures rose more rapidly than those of the industrialized economies but increased relatively much less rapidly during 1977-1979. Differences in composition, with machinery and transport equipment (SITC 7) dominating the exports of the industrial economies and light manufactures (STIC 6 and 8) dominating those from the region, are an essential element of the market pattern.⁴¹

98. As the earlier discussion of production performance has shown (section II-A.2, above), export performance does not depend solely on developments in external demand and international commodity prices. In the short or medium term during which significant structural change in production can scarcely occur, at least equally important is the ability to sustain production levels so that whatever opportunities the market may offer can be fully exploited. For present purposes, it must suffice to refer to the earlier discussion and to present in summary form sufficient information about major export commodities to permit meaningful generalization. Tables II-15 and II-16 are presented to provide a measure of disaggregation, by commodity for primary products and by major exporting country for manufactured goods exports.⁴² The considerable variation, not only from year to year in individual commodity prices, but also among commodities in any given year, immediately suggests the difficulties of generalization. Ultimately the desideratum must be the composition of exports for the individual economy; this perspective will be taken when the terms of trade are considered below. The information concerning manufactures exports provided in table II-16, is unsatisfactory in several respects as data are lacking which would show the importance of manufactured goods exports for the growth of manufacturing production among the developing economies which comprise the main exporters of manufactures.⁴³ As suggested earlier, the generalization of price data for highly individual and diverse manufactured goods is fraught with difficulty.

99. For Hong Kong and Singapore, the export of manufactures virtually determines the rate of growth of manufacturing production; though exceptionally important for manufacturing growth, manufactures exports in the Republic of Korea constitute a much smaller part of total manufacturing production.

For the others, the expansion of manufactures exports is critical for particular industry groups rather than for the sector as a whole. This applies as well to India and the Philippines where manufacturing output goes predominantly to domestic markets; in Pakistan the manufacturing sector appears to have become increasingly domestic-market oriented, even though the importance of manufactures in total exports has increased in recent years. Malaysia and Thailand are intermediate cases, in which both manufacturing and manufactures exports have grown exceptionally rapidly in recent years; in both countries the indications are that export-oriented manufacturing activity has gained significantly in relative importance in the sector.

100. Broadly viewed, the rates of growth of manufacturing output and of the quantum index of manufactures exports, tend to move in the same direction at comparable rates in the economies where export-oriented manufacturing predominates. Whilst this may appear to be an elaboration of the obvious, it is important in its tangible confirmation of at least the more modest claims of those who argue for export-led growth and export-oriented manufacturing as a development strategy. Subject to obvious qualification, that is, the growth of other export categories, the increasing shares of manufactured goods in total exports tend to provide supplementary support for the same policy recommendations. Nevertheless, it is well to repeat the important qualifications suggested in an earlier section, concerning particularly the off-shore processing and assembly operations which have become extremely popular in recent years. These industrial activities are especially vulnerable to shifts in external demand, hence the employment-creation, their major contribution, that they have provided is also frail in periods of stagnation and decline in the developed market economies. Because they lack supply and demand links with the rest of the economy (with obvious exception for those using domestic inputs), these intentionally designed enclaves contribute minimally to manufacturing

⁴¹ For the index of manufactured goods export unit values, see special tables D (March 1980) and F (June 1979) in United Nations, *Monthly Bulletin of Statistics*. A comparable index for the developing ESCAP region is implicit in the lower panels of table II-14.

⁴² In these tables the choice of the level of disaggregation and its particular characteristics is subject to the availability and comparability of published data.

⁴³ Input-output tables permit the calculation of export shares of manufacturing gross output for several of these countries: Singapore (1973), 65 per cent; Philippines (1974), 39 per cent; Republic of Korea (1975), 24 per cent; Peninsular Malaysia (1970), 17 per cent (excluding processed primary products, chiefly tin ingot and natural rubber); and India (1973/74), 7 per cent. (Sources: Official interindustry transactions tables, except the Philippines: NEDA, *Philippines Yearbook, 1977* (Manila, National Census and Statistics Office, 1977), table XVII.7.)

Table II-16. Developing ESCAP. Manufactures exports. Growth of manufacturing production and exports, and export shares, 1976-1979 (percentages)

| Country or area ^a | | 1976 | 1977 | 1978 | 1979 | Average 1976-1978 |
|--|-----------------------------------|------|------|-------------------|-------------------|----------------------|
| Hong Kong (\$US 4472 million) | Production ^b | 16.6 | 2.5 | 9.0 ^e | 12.1 ^e | 9.4 |
| | Manufactures exports ^d | 27.5 | 5.4 | 10.8 | 14.3 | 14.6 |
| | Manufactures export share | 97 | 97 | 96 | 96 | — |
| Republic of Korea (\$US 4144 million) | Production | 31.8 | 20.4 | 23.8 | 12.2 | 25.3 |
| | Manufactures exports | 41.1 | 19.5 | 13.0 | 2.5 | 24.5 |
| | Manufactures export share | 88 | 85 | 88 | 89 | — |
| India (\$US 2236 million) | Production | 9.4 | 6.4 | 6.9 | — | 7.6 |
| | Manufactures exports | 39.0 | 2.5 | 1.1 | -2.2 | 14.2 |
| | Manufactures export share | 59 | 59 | 57 | 58 ^e | — |
| Singapore (\$US 1286 million) | Production | 12.3 | 8.9 | 12.3 | 13.9 | 11.2 |
| | Manufactures exports ^d | 28.0 | 15.5 | 11.7 | 24.9 | 18.4 |
| | Manufactures export share | 52 | 50 | 51 | 51 | — |
| Malaysia (\$US 666 million) | Production | 19.2 | 10.6 | 9.6 | 10.2 | 13.1 |
| | Manufactures exports ^e | 15.0 | -0.5 | 36.8 | 18.0 | 17.1 |
| | Manufactures export share | 15 | 15 | 19 | 17 | — |
| Pakistan (\$US 522 million) | Production | -0.8 | 2.2 | 8.6 | 4.0 | 3.3 |
| | Manufactures exports | 10.2 | 0.9 | 22.0 ^e | 17.9 ^e | 11.0 |
| | Manufactures export share | 55 | 60 | 61 ^e | 60 ^e | — |
| Thailand (\$US 433 million) | Production ^b | 15.6 | 13.0 | 9.7 | 10.0 | 12.8 |
| | Manufactures exports | 36.7 | 20.0 | 43.2 | 17.8 | 33.3 |
| | Manufactures export share | 22 | 24 | 31 | 32 | — |
| Philippines (\$US 372 million) | Production | 5.2 | 2.9 | 5.5 | 4.4 | 4.5 |
| | Manufactures exports | 32.3 | 2.2 | 26.2 | 5.2 | 20.2 |
| | Manufactures export share | 21 | 18 | 22 | 21 | — |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980; *Statistics Yearbook for Asia and the Pacific, 1978* (United Nations publication, Sales No. E/F.79.II.F.14) and national sources.

Key: Production: changes in indexes of manufacturing production; exceptions noted.

Manufactures exports: SITC 5 (chemicals), 6 (manufactures classified by material), 7 (machinery and transport equipment) and 8 (miscellaneous manufactures) at constant prices of 1975.

Manufactures export share: manufactures exports (SITC 5-8) share of total exports, at current prices.

Notes: ^a In order of manufactures export values in 1975 (figures in brackets, in \$US million).

^b Based on value-added at constant prices.

^c Estimates from incomplete data.

^d Domestic exports; excludes re-exports.

^e Excludes tin ingots.

value added and to the net value of exports (export values less the value of imported inputs).⁴⁴ Thus for the economies with export shares comprised importantly of manufactures generated under this international "putting out" system, these ratios are fundamentally inaccurate. To the extent that such exports contribute importantly to the increasing share of manufactures exports visible in table II-14, these shares are correspondingly misleading.

Obstacles to export expansion

101. The mildly increased pace of business activity in a few of the industrial economies in 1978-1979, the Federal Republic of Germany and Japan in particular, and even more moderately in France and several smaller European economies, in conjunction with the rapid build-up of inventories (see chapter I, above), appears to have encouraged and sustained the expansion of imports from developing countries, including those from the developing ESCAP economies. The impression gained from monitoring current business events in the industrial economies suggests that this quickening of activity and, in several industrial countries, the improvement in unemployment figures during 1979 contributed to the lessening of demands for protectionist measures directed against the threat of low wage competition from developing areas. In some minor degree, this impression doubtless reflects at least a superficial change for the better. More fundamentally, however, very little improvement has been recorded through the reduction of barriers to trade. In the event, the superficial quiescence among the sources of protectionist sentiment has masked a number of moves for tightening conditions and quotas for developing country exports. Notable in this connexion has been the situation for exports of textiles and garments during the past year or more. An official spokesman for the Thai Government has noted that, contrary to expectations, ASEAN textile exports have not flourished under the Multi-Fibre Arrangement renewed in 1977; the industrialized countries have "added items to the list of restricted goods and export items already under restraint have been subject to more rigid administrative procedures and strict surveillance".⁴⁵ During the latter part of 1979, American trade negotiators have pressed for further tightening the conditions under existing agreements for textile and garment exports from Hong Kong and the Republic of Korea to the United States by increasing restrictions on carry-over provisions and shifting among product categories.⁴⁶ Heightened restrictions on manufactures exports are not the only target, however; representatives for the European Economic Community (EEC) have pressed for "self-limitation arrangements" in the export of primary products to EEC markets.⁴⁷

102. Nevertheless, there have also been a few more promising developments. Within the Association of South-East Asian Nations (ASEAN) agreement has been reached for the automatic inclusion in the ASEAN Preferential Trading Arrangement of all commodities with import values of less than \$US 50,000 in their intra-trade in 1978; negotiation for inclusion of items with greater intra-trade import values would be required. At a meeting of ASEAN economic ministers in December 1979 the number of products included under the Preferential Trading Arrangement was reported nearly to have been doubled.⁴⁸ Signs of good intentions have not been entirely wanting; also in December, President Jimmy Carter announced tariff reductions averaging 30 per cent of a "wide range" of goods (including textiles and garments) imported into the United States from foreign countries, including some developing countries. More important than the reduction of duties, the announcement included the reduction of some non-tariff barriers. The changes in tariff rates made in the framework of the GATT Tokyo Round negotiations, will take effect only from 1982 and will be phased into operation over a period of six years. Perhaps of greater general significance, the comments of a former United States trade negotiator paint a rather less optimistic picture for world trade during the 1980s.

"World trade is entering a turbulent period and the newly negotiated rules of conduct for the 1980s may well be rendered obsolete, irrelevant or simply be bent by overwhelming pressures as the U.S., the European Community and Japan fight for export markets.

⁴⁴ The larger the assembly and processing components of the manufacturing sector, the greater will be the divergence between indexes of production (based on volume or output at constant prices) and constant-price value added. As only domestic value added makes a net contribution to total export value, the measurement of the share of the gross value of such exports in total export values is inherently misleading. An assessment of the contribution of such activities to net export earnings is therefore necessary; such data are seldom published for this purpose, although the share of manufacturing value added in the gross value of output is available (with lengthy periods of statistical lag) in most censuses of manufacturing production.

⁴⁵ "Import curbs by West hurting textile exporters", *Bangkok Post*, 16 January 1980, quoting the Deputy Minister of Commerce, Mr. Prok Amranand.

⁴⁶ "US-Seoul textile talks stalemated", *Bangkok Post*, 10 October 1979 (United Press International). A more recent press release, citing an official Hong Kong report of a "downward modification" negotiated with United States officials in revision of the existing textile and clothing agreement, notes that the modifications affect only the flexibility provisions of the agreement and that "the actual trade effects of the revisions are expected to be slight and basic limits unaffected". "US-HK textile pact 'modified downwards'", *Nation Review* (Bangkok), 17 January 1980 (Associated Press).

⁴⁷ For example, Thai exports of tapioca.

⁴⁸ "ASEAN agrees on guideline for PTA", *Bangkok Post*, 12 December 1979 (Agence France Presse). The increase numbered 1,001 items for a total of 2,326; the import value of these items in the ASEAN intra-trade was not reported.

... the stance of the major trading nations suggests that they will protect their own industries from imports as far as possible while aggressively seeking to grab export markets. This ... spells trouble for world trade".⁴⁹

As an ancient Thai saying has it: When elephants fight the grass is crushed.

2. Imports and the terms of trade

103. During the 1970s the prices of essential imports confronting the developing economies of the ESCAP region have risen enormously in consequence of the world-wide inflation. During the first half of the decade the exceptionally great increases in the prices of petroleum products and derivatives, such as fertilizers and petrochemicals, and their substitutes followed the upward leap in the prices of crude. Less continuously but for considerable periods, prices of foodstuffs and industrial raw materials followed in train. Prices of manufactured goods, usually paced by machinery and transport equipment, rose persistently as well. Though food and agricultural raw material prices fell in 1975 with the end of the commodities boom, the prices of petroleum, petroleum products and other minerals did not, nor did the prices of machinery and most other manufactures.

104. During the greater part of the last half of the 1970s prices of internationally traded goods have been far less volatile, at least until the closing year of the decade. As indicators of the import prices offered to developing economies are difficult to compile, an attempt to provide a crude substitute has been made in table II-17. Because these data represent world export prices (in United States dollars, f.o.b.), they understate the prices of developing country imports by a margin which comprises freight, insurance and other shipping costs. More importantly, the weighting of the various types of commodities which enter the indexes is not based on the pattern of imports into developing economies.⁵⁰ Neither the import unit-value index for all developing areas (extreme left-hand column) nor the all-commodities export unit-value index is entirely suitable for present purposes. To obtain an aggregate index appropriate for the developing ESCAP region, the component indexes have been re-weighted to correspond to the estimated import mix of developing countries of this region. The resulting all-commodities index does not appear to vary greatly from the export-weighted index. The broad correspondence between the patterns of change in these indexes and those reflected in the index of import unit values for all developing areas lends credence to the usefulness of

the former and their components as indicators of import price changes confronting the developing ESCAP economies.

105. Seen in conjunction with the export data presented earlier and with the values and composition of imports of developing ESCAP economies, the patterns of price change which appear in table II-17, interpreted here as indicative import prices, provide information pertinent to the performance of these economies in merchandise trade. Among the salient patterns of price variation reflected in the table are the relatively moderate increases in market economy export prices during the period 1976-1978. Whilst the generally larger price increases of 1977 contrast in some degree with those of 1976 and 1978, in retrospect this period provides a background against which the upsurge of international export prices in 1979 stands out in sharp relief. For the developing ESCAP economies, the price movements of manufactured goods (which comprise considerably more than half the value of their aggregated imports) were the only category that accelerated continuously during 1976-1978.⁵¹ As noted earlier, petroleum prices rose relatively little in these years and prices of other minerals (generally a minor import category in developing ESCAP economies) scarcely rose at all. Prices of agricultural raw materials increased more rapidly than other commodity groups in 1976 and 1977 but

⁴⁹ "World trade seen entering time without real rules of conduct", Bhushan Bahree, *Asian Wall Street Journal* (Hong Kong), 20 December 1979.

⁵⁰ Because of the unavoidable delays in the collection, and compilation of the basic data, the more appropriate indexes published by the United Nations Statistical Office are not sufficiently current for present purposes. See United Nations, *Monthly Bulletin of Statistics*, April 1980, special table B: World trade of market economies: Index numbers by regions, import unit-value indexes for developing market economies which has been included in table II-17 for comparison. Cf. also *ibid.*, June 1979, special table F: Exports of developed and developing areas: in total, within and between the areas; unit value indexes for world exports to developing areas. Although these data represent export unit values, they are appropriately classified by broad SITC commodity classifications; the estimates currently available extend only to 1977.

⁵¹ Variations in the prices of manufactures in international trade are far too diverse to be treated here. Nevertheless, the presentation of a separate index for the prices of machinery exports (including transport equipment) is appropriate to the importance of this commodity section (SITC 7) in the imports of developing ESCAP economies. It will be noted that, except for 1979, changes in machinery prices have not diverged from those of manufactures exports in general. The relatively slower rise in machinery export prices in 1979 masks considerable diversity in the price variations among major types of machinery and transport equipment exports. During the period 1976-1979, all but two of the main sub-groups in this commodity section recorded export price increases of the same order of magnitude as manufactures exports in general. The only exceptions, displaying export prices that have risen considerably less rapidly than the rest, are those of electrical machinery, apparatus and appliances, which figure importantly in the exports of several developing ESCAP economies. See *ibid.*, February 1980, special table C: Export price index of machinery and transport equipment for several countries; cf. also detailed export unit-value indexes for Hong Kong, India and Singapore.

for most developing ESCAP economies these imports are minor; their importance as exports from the region is well known. Price of food imports (affecting perhaps a tenth of the import bill) rose sharply only in 1977. Although petroleum prices clearly dominated the rising wave of import prices which confronted most of the developing ESCAP economies in 1979, even a cursory review of the lower panel of table II-17 leaves little doubt that the resurgence of rising import prices was both general and impressively large.

106. The pattern of imports into the developing ESCAP economies is shown in tables II-18A and II-18B together with world market economy imports, using the same format and selection of

countries and country groups as those used earlier for exports. Comparison of the export and import tables over the last few years provides an indication of the patterns of change in merchandise trade balances. With exception for a few instances in which the data for individual countries are incomplete or inaccurate, these patterns reflect changes which could be anticipated on the basis of relative price patterns and export earning capacities. Among the more important characteristics which emerge from such a comparison, the general improvement in merchandise trade balances in 1976 is noteworthy, reflecting as it does both the moderate import price increases in that year and the rapid recovery of export unit values for primary products exports and the exports of manufactures.

Table II-17. Developing areas.
Indicative measures of import price changes, 1975-1979

| | Developing market economies: import prices ^b | All commodities | | World export prices ^a | | | | | |
|---------------------|---|-------------------------|-------------------------------|----------------------------------|----------------------------|----------------------------------|-----------------|--------------|-----------|
| | | Export mix ^c | ESCAP import mix ^d | Food | Agricultural raw materials | Minerals (excl. crude petroleum) | Crude petroleum | Manufactures | |
| | | | | | | | | Total | Machinery |
| (Indexes: 1975=100) | | | | | | | | | |
| 1974 | 91 | 93 | 95 | 111 | 120 | 76 | 100 | 89 | 90 |
| 1976 | 101 | 102 | 102 | 105 | 112 | 99 | 106 | 101 | 103 |
| 1977 | 112 | 111 | 113 | 120 | 124 | 101 | 117 | 109 | 112 |
| 1978 | 120 | 122 | 123 | 122 | 132 | 100 | 117 | 125 | 129 |
| 1979 | ... | 144 | 146 | 136 | 159 | 108 | 170 | 143 | 138 |
| Quarters | | | | | | | | | |
| 1978: IV | 124 | 128 | 129 | 126 | 141 | 102 | 117 | 133 | 136 |
| 1979: I | 126 | 133 | 134 | 127 | 150 | 101 | 126 | 137 | 137 |
| II | 131 | 139 | 141 | 131 | 159 | 106 | 155 | 138 | 136 |
| III | 142 | 150 | 152 | 141 | 166 | 111 | 184 | 147 | 140 |
| IV | ... | 156 | 158 | 145 | 163 | 115 | 215 | 151 | 141 |
| Annual | | | | | | | | | |
| (Percentage change) | | | | | | | | | |
| 1975 | 10 | 8 | 5 | -10 | -17 | 32 | — | 12 | 11 |
| 1976 | 1 | 2 | 2 | 5 | 12 | -1 | 6 | 1 | 3 |
| 1977 | 11 | 9 | 11 | 14 | 11 | 2 | 10 | 8 | 8 |
| 1978 | 7 | 10 | 9 | 2 | 6 | -1 | — | 15 | 15 |
| 1979 | 14 ^e | 18 | 19 | 11 | 20 | 8 | 45 | 14 | 7 |
| Quarterly | | | | | | | | | |
| I | 1.6 | 3.9 | 3.9 | 0.8 | 6.4 | -1.0 | 7.7 | 3.0 | 0.7 |
| II | 4.0 | 4.5 | 5.2 | 3.1 | 6.0 | 5.0 | 23.0 | 0.7 | -0.7 |
| III | 8.4 | 7.9 | 7.8 | 7.6 | 4.4 | 4.7 | 18.7 | 6.5 | 2.9 |
| IV | ... | 4.0 | 3.9 | 2.8 | -1.8 | 3.6 | 16.8 | 2.7 | 0.7 |

Source: United Nations, *Monthly Bulletin of Statistics*, April 1980, world tables, table 59 and special table B; special tables C, February 1980, and D, March 1980.

Notes: ^a Export prices or unit values; indexes for all market economies.

^b Import unit values for developing market economies; special table B.

^c Unit value index for all market-economy exports; world tables.

^d World export unit-value index weighted to reflect composition of imports of developing ESCAP economies.

^e Annual rate.

Table II-18A. World and ESCAP. Imports (c.i.f.), 1975-1979
(\$US billion)

| | 1975 | 1976 | 1977 | 1978 | 1979 ^p | 1979 ^p | |
|--------------------------------------|-------|-------|---------|---------|-------------------|-------------------|----------|
| | | | | | | 1st half | 2nd half |
| Market economies: | | | | | | | |
| World total | 801.7 | 911.3 | 1 044.9 | 1 212.3 | 1 472.1 | 696.7 | 775.4 |
| A. Developed | 614.6 | 704.0 | 796.1 | 921.8 | 1 161.2 | 544.5 | 616.7 |
| B. Developing | 187.1 | 207.3 | 248.8 | 290.5 | 310.9 | 152.2 | 158.7 |
| 1. OPEC | 52.0 | 63.9 | 84.5 | 98.4 | 103.3 | 44.9 | 58.4 |
| 2. Non-oil ^a | 135.1 | 143.4 | 164.3 | 192.1 | 207.6 | 107.3 | 100.3 |
| C. ESCAP | 130.8 | 146.7 | 164.9 | 192.7 | 242.3 | 109.2 | 133.1 |
| 1. Developed ^b | 70.9 | 79.1 | 86.2 | 96.1 | 131.2 | 59.2 | 72.0 |
| 2. Developing ^c | 59.9 | 67.6 | 78.7 | 96.6 | 111.1 | 50.0 | 61.1 |
| (a) Oil exporters | 15.4 | 18.8 | 20.6 | 23.0 | 15.1 | 6.2 | 8.8 |
| (b) Non-oil exporters | 44.5 | 48.7 | 58.1 | 73.6 | 96.0 | 43.8 | 52.2 |
| (i) South Asia | 10.8 | 9.7 | 11.8 | 14.5 | 17.0 | 7.9 | 9.1 |
| (ii) South-east Asia | 18.7 | 20.4 | 23.9 | 29.4 | 39.3 | 17.8 | 21.5 |
| (iii) East Asia | 14.2 | 17.8 | 21.5 | 28.7 | 38.4 | 17.5 | 20.9 |
| (iv) Pacific | 0.8 | 0.7 | 0.9 | 1.1 | 1.3 | 0.6 | 0.7 |
| (c) ASEAN ^d | 23.5 | 26.1 | 30.1 | 36.0 | 46.5 | 21.0 | 25.5 |

Sources: United Nations, *Monthly Bulletin Statistics*, April 1980, supplemented by International Monetary Fund, *International Financial Statistics*, April 1980 and national sources.

Notes: ^a Non-OPEC.

^b Australia, Japan and New Zealand.

^c Oil exporters and non-oil exporters, listed in table II-18B.

^d Indonesia, Malaysia, Philippines, Singapore and Thailand.

^p Preliminary.

107. During 1977 and 1978 merchandise trade balances deteriorated for most of the non-oil developing economies of the ESCAP region. This would appear mainly to have been the result of increasing import prices, especially in 1977. Except for manufactured goods, import price increases slackened appreciably in 1978 and crude petroleum prices remained unchanged throughout the year. Much of the continued deterioration in the balance of merchandise trade during 1978 stemmed from retardation in the increase in export prices and, in a number of instances, stagnation in export volumes; rising import costs during the year appear to have been chiefly those of manufactured goods. Against this background the accelerated increase in prices of all import categories (see table II-17) except manufactures during 1979 is the more striking. That trade balances generally should have deteriorated further in 1979 is scarcely surprising; for the same reasons, the major exceptions are found among the oil exporting countries (including Malaysia). Moreover, the cumulative effects of rapidly increasing import prices had begun to appear during the latter half of the year, even though—as the quarterly figures indicate—a retardation in the rates of import price increase generally occurred during the fourth quarter.

108. Among the major petroleum exporters, Iran's merchandise balance deteriorated slightly in 1977 and the large excess of exports was sharply reduced in 1978 as a result of decreased production and the volume of exports. Incomplete returns for 1979 suggest a near doubling of the export surplus but, as export earnings fell during the year, the trade surplus reflects a drastic decline in total import values. Both Brunei and Indonesia reported increasing trade surpluses throughout, with by far the largest increment accruing in 1979. Apart from the major petroleum exporting countries, the common pattern is one of deterioration in the merchandise balance from 1976 or 1977 onwards. Burma appears as an exception with a reduction in trade deficit in 1978 and a positive balance on merchandise account in 1979. Malaysia also constitutes an exception (though only in part because of increasing exports of petroleum), with an increasing excess of exports over imports in all years except 1978 when the surplus was slightly diminished. Since 1977 the merchandise trade of Papua New Guinea has traced a pattern similar to that of Malaysia. Trade figures for India for the first half of 1979 show a large reduction in that country's excess of imports; under the impact of the oil price rise, the improvement has not been sustained during the second half;

for the year as a whole, preliminary figures indicate that the trade deficit had greatly widened. For some countries price developments during the second half of the year have brought unexpected changes in trade and current account balances. For the Philippines, the current account deficit at year's end turned out to be much larger than had been anticipated. In Thailand, however, export prices were more favourable and the current account deficit amounted to less than half the very large figure that had been forecast earlier.

109. Variations in relative prices of imports promptly affect the shares of the total import bill, particularly in the case of essential consumer imports, such as food, and key inputs, such as fertilizer and petroleum products (see table II-19). Between 1974 and 1979, prices of food imports declined or rose moderately except in 1977. In that year countries with a significant dependence on imported foodstuffs typically spent a greater share of total outlay on such imports. With few exceptions, notably Indonesia,⁵² the proportion of the import bill going to pay for food has declined.

Raw material imports can scarcely be said to have presented a general pattern, though for several countries their cost-share increased perceptibly in 1977 as their relative prices rose. The share of the import bill devoted to mineral fuels, predominantly crude oil and petroleum products, tended to stabilize or decline for most countries during 1977 and 1978 as crude prices remained unchanged and their relative prices fell. In a few cases the partial figures for 1979 have begun to reflect the recent price increases. With the threat of more rapidly rising foodgrain prices in world markets and the accomplish fact of a doubling of petroleum prices during the past year, the pressures on the balance of payments of many developing countries in the ESCAP region will almost certainly become critical during 1980.

⁵² See section II.A.2.a above. Recent information indicates that Indonesian imports of rice may rise to 2.7 million tons in 1980, half again as much as was anticipated as late as September 1979 and about 17 per cent greater in volume than 1979 imports. At this level, Indonesian imports would account for nearly one fourth of the estimated total world trade in rice.

Table II-18B. Developing ESCAP. Imports (c.i.f.), selected economies, 1975-1979
(US million)

| | 1975 | 1976 | 1977 | 1978 | 1979p | 1979p | |
|---------------------------------|--------|--------|--------|--------|---------|----------|----------|
| | | | | | | 1st half | 2nd half |
| Developing ESCAP | 59 858 | 67 547 | 78 679 | 96 555 | 111 095 | 50 028 | 61 067 |
| 1. Oil exporters | 15 382 | 18 820 | 20 576 | 22 985 | 15 071 | 6 222 | 8 849 |
| Brunei | 269 | 253 | 276 | 276 | 317 | 155 | 162 |
| Indonesia | 4 770 | 5 673 | 6 230 | 6 690 | 7 224 | 3 215 | 4 009 |
| Iran | 10 343 | 12 894 | 14 070 | 16 019 | 7 530 | 2 852 | 4 678 |
| 2. Non-oil exporters | 44 476 | 48 727 | 58 103 | 73 570 | 96 024 | 43 806 | 52 218 |
| (a) South Asia | 10 767 | 9 748 | 11 788 | 14 452 | 17 017 | 7 878 | 9 139 |
| Afghanistan | 350 | 335 | 498 | 681 | 740 | 355 | 385 |
| Bangladesh | 874 | 788 | 1 183 | 1 294 | 1 626 | 701 | 925 |
| Burma | 250 | 194 | 309 | 309 | 319 | 132 | 187 |
| India | 6 391 | 5 710 | 6 648 | 7 954 | 8 838 | 3 983 | 4 855 |
| Pakistan | 2 151 | 2 174 | 2 447 | 3 275 | 4 060 | 2 023 | 2 037 |
| Sri Lanka | 751 | 547 | 703 | 939 | 1 434 | 684 | 750 |
| (b) South-east Asia | 18 742 | 20 420 | 23 912 | 29 359 | 39 270 | 17 792 | 21 478 |
| Malaysia ^a | 3 552 | 3 825 | 4 536 | 5 911 | 7 802 | 3 433 | 4 369 |
| Philippines | 3 776 | 3 953 | 4 270 | 5 143 | 6 566 | 3 107 | 3 459 |
| Singapore | 8 134 | 9 070 | 10 471 | 13 049 | 17 745 | 7 889 | 9 856 |
| Thailand | 3 280 | 3 572 | 4 635 | 5 256 | 7 157 | 3 363 | 3 794 |
| (c) East Asia | 14 179 | 17 837 | 21 489 | 28 674 | 38 400 | 17 522 | 20 878 |
| Hong Kong | 6 757 | 8 882 | 10 457 | 13 452 | 17 759 | 7 734 | 10 025 |
| Macao | 148 | 181 | 221 | 250 | 302 | 140 | 162 |
| Republic of Korea | 7 274 | 8 774 | 10 811 | 14 972 | 20 339 | 9 648 | 10 691 |
| (d) Pacific | 788 | 722 | 914 | 1 085 | 1 337 | 614 | 723 |
| Fiji | 268 | 263 | 306 | 356 | 468 | 209 | 259 |
| Papua New Guinea | 483 | 429 | 567 | 676 | 811 | 363 | 448 |
| Samoa | 37 | 30 | 41 | 53 | 58 | 42 | 16 |

Source: Same as table II-18A.

Note: ^a Adjusted to exclude intra-trade.
p Preliminary.

Table II-19. Developing ESCAP economies.
 Import composition by commodity section, 1975-1979
 (percentage)

| Country or area | (SITC) ^a | Food | Raw | Mineral | Chemi- | Manufac- | Machinery, |
|-------------------------|----------------------|-------|-----------|---------|--------|-----------|------------|
| | | (0+1) | materials | fuels | icals | tures (by | transport |
| | | | (2+4) | (3) | (5) | material) | equipment |
| | | | | | | (6) | and other |
| | | | | | | | manufac- |
| | | | | | | | tures |
| | | | | | | | (7+8) |
| <i>South Asia</i> | | | | | | | |
| Bangladesh ^b | 1975/76 | 30 | 18 | 13 | 12 | 12 | 15 |
| | 1976/77 | 14 | 9 | 24 | 7 | 25 | 21 |
| | 1977/78 | 26 | 16 | 14 | 7 | 19 | 18 |
| | 1978/79 ^c | 11 | 19 | 11 | 13 | 20 | 25 |
| India ^d | 1975/76 | 24 | 16 | 21 | 11 | 11 | 17 |
| | 1976/77 | 19 | 9 | 28 | 9 | 13 | 22 |
| | 1977/78 | 4 | 12 | 29 | 14 | 18 | 23 |
| Nepal | 1976 | 17 | 5 | 11 | 10 | 28 | 29 |
| | 1977 | 13 | 2 | 13 | 11 | 33 | 26 |
| | 1978 | 14 | 3 | 11 | 10 | 34 | 28 |
| Pakistan ^b | 1975/76 | 15 | 12 | 19 | 9 | 16 | 29 |
| | 1976/77 | 9 | 13 | 18 | 12 | 17 | 31 |
| | 1977/78 | 12 | 13 | 18 | 12 | 16 | 29 |
| | 1978/79 | 15 | 15 | 14 | 15 | 16 | 25 |
| Sri Lanka | 1975 | 50 | 3 | 17 | 10 | 10 | 10 |
| | 1976 | 36 | 3 | 25 | 7 | 13 | 15 |
| | 1977 | 39 | 3 | 24 | 6 | 13 | 13 |
| <i>South-east Asia</i> | | | | | | | |
| Indonesia | 1975 | 12 | 3 | 5 | 17 | 23 | 39 |
| | 1976 | 14 | 4 | 8 | 10 | 21 | 43 |
| | 1977 | 16 | 4 | 12 | 10 | 20 | 39 |
| | 1978 | 16 | 5 | 9 | 11 | 19 | 40 |
| Malaysia | 1975 | 18 | 7 | 12 | 8 | 16 | 38 |
| | 1976 | 16 | 6 | 13 | 9 | 17 | 38 |
| | 1977 | 16 | 6 | 13 | 10 | 16 | 39 |
| | 1978 | 16 | 5 | 11 | 9 | 17 | 41 |
| | 1979 ^e | 13 | 5 | 12 | 11 | 17 | 40 |
| Philippines | 1975 | 10 | 4 | 22 | 11 | 13 | 34 |
| | 1976 | 9 | 4 | 24 | 10 | 13 | 32 |
| | 1977 | 9 | 5 | 25 | 11 | 14 | 29 |
| | 1978 | 7 | 5 | 22 | 11 | 15 | 31 |
| Singapore | 1975 | 9 | 8 | 25 | 6 | 18 | 33 |
| | 1976 | 9 | 10 | 27 | 5 | 15 | 33 |
| | 1977 | 9 | 11 | 26 | 5 | 14 | 33 |
| | 1978 | 8 | 10 | 24 | 5 | 16 | 36 |
| | 1979 | 7 | 10 | 25 | 6 | 15 | 36 |
| Thailand | 1975 | 4 | 6 | 21 | 14 | 16 | 38 |
| | 1976 | 4 | 7 | 23 | 14 | 16 | 33 |
| | 1977 | 4 | 8 | 22 | 14 | 16 | 34 |
| | 1978 | 4 | 7 | 21 | 14 | 17 | 35 |
| | 1979 | 4 | 8 | 22 | 15 | 17 | 31 |

Table II-19. (continued)

| Country or area | (SITC) ^a | Food | Raw | Mineral | Chemi- | Manufac- | Machinery, |
|------------------------------|---------------------|-------|-----------|---------|--------|-----------|------------|
| | | (0+1) | materials | Fuels | cals | tures (by | transport |
| | | | (2+4) | (3) | (5) | material) | equipment |
| | | | | | | (6) | and other |
| | | | | | | | manufac- |
| | | | | | | | tures |
| | | | | | | | (7+8) |
| <i>East Asia and Pacific</i> | | | | | | | |
| Fiji | 1975 | 19 | 2 | 17 | 8 | 18 | 33 |
| | 1976 | 20 | 2 | 16 | 6 | 18 | 35 |
| | 1977 | 21 | 2 | 19 | 7 | 18 | 29 |
| | 1978 ^c | 21 | 2 | 16 | 7 | 19 | 30 |
| | 1979 ^{c,e} | 17 | 2 | 18 | 7 | 19 | 34 |
| Hong Kong | 1975 | 20 | 8 | 6 | 7 | 29 | 28 |
| | 1976 | 17 | 8 | 6 | 8 | 31 | 29 |
| | 1977 | 16 | 7 | 6 | 7 | 30 | 33 |
| | 1978 | 15 | 6 | 5 | 7 | 33 | 34 |
| | 1979 ^f | 13 | 5 | 6 | 8 | 31 | 36 |
| Papua New Guinea . . . | 1975/76 | 23 | 1 | 14 | 6 | 14 | 40 |
| Republic of Korea . . . | 1975 | 13 | 16 | 19 | 11 | 12 | 29 |
| | 1976 | 7 | 18 | 20 | 10 | 13 | 31 |
| | 1977 | 7 | 19 | 20 | 9 | 14 | 31 |
| | 1978 | 6 | 17 | 16 | 9 | 15 | 37 |
| | 1979 | 7 | 17 | 19 | 10 | 13 | 34 |

Sources: *Statistical Yearbook for Asia and the Pacific, 1978* (United Nations publication, Sales No. E/F.79.II.F.14), and national sources.

Notes: ^a Totals include SITC 9, miscellaneous transactions.

^b Years ending in June.

^c Preliminary.

^d Years beginning in April.

^e Three quarters.

^f January-November.

110. In these circumstances, when the relative prices of non-compressible imports begin to rise rapidly, the narrow limits which restrict the size of the import bill for all poor countries dictate that other imports must be sacrificed. During the past two or three years of relatively moderate increases in import prices, manufactured and semi-fabricated inputs (mainly included in SITC sections 5, chemical products including fertilizers, and 6, manufactures classified by material) have generally maintained or increased their shares of the import bill. The prospect of having to restrict such imports because of payment stringency occasioned by rising costs and dependence upon even less compressible imports foreshadows reduction of manufacturing activity and the threat of increased unemployment in the modern sector in many developing countries.

111. For most of the developing economies of this region, the larger part of manufactures imports is found in machinery and transport equipment (SITC 7) while the share of other finished goods (SITC 8) is relatively small and includes consumer items as well as investment goods. During the years since 1976, the shares of the import bill allotted

to these classes of imports have generally been maintained or have increased. The implications of payments constraints arising from drastically increased prices of non-compressible imports clearly point to the risk of retardation of investment programmes. The choices posed by these pressures and by domestic demands for non-essential imports will require strong measures to limit and reduce energy imports and to restrict effectively the imports of consumer durables, especially of luxury goods.⁵³

⁵³ Not all the pressures are those of domestic origin. A recent example of perversion of the free-trade doctrine has appeared in the demand by the International Monetary Fund to make the extension of standby credit facilities to Thailand conditional upon the elimination of an import ban on a number of consumer commodities and CBU vehicles. See *Bangkok Post*, 14 January 1980, "Government reviews import ban on luxury items".

It appears that the proposition argued by Professor Myrdal a generation ago has been quite forgotten. His thesis that equal treatment among unequals is the perversion of the substance of equality remains as true today as it was a quarter century ago. For the developing countries, unlike the industrially developed economies, restriction of imports of particular commodities as part of a commercial policy to support national economic development does not reduce international trade but rather changes its composition, because of the necessity to utilize fully all the foreign exchange that can be acquired. See Gunnar Myrdal, *An International Economy* (New York, Harper & Bros., 1956) especially "A false principle of equality", in chapter XIII.

Table II-20. Developing ESCAP economies.
Export and import prices and terms of trade, 1974-1979
(indexes: 1975 = 100)

| Country or area/indexes | 1974 | 1976 | 1977 | 1978 | 1979 | | |
|-----------------------------|------|------|------|------|-------|------------|----------------|
| | | | | | Year | First half | Three quarters |
| <i>Non-oil exporters</i> | | | | | | | |
| <i>South Asia</i> | | | | | | | |
| Bangladesh ^a | | | | | | | |
| Export prices | 82 | 88 | 99 | 126 | ... | 161 | |
| Import prices | 68 | 86 | 84 | 88 | ... | 100 | |
| Barter terms of trade . . . | 121 | 103 | 118 | 144 | ... | 161 | |
| Income terms of trade . . . | 139 | 195 | 236 | 255 | ... | 250 | |
| Burma | | | | | | | |
| Export prices | 96 | 97 | 101 | 109 | ... | 135 | |
| Import prices | 73 | 118 | 137 | 143 | ... | 157 | |
| Barter terms of trade . . . | 132 | 82 | 74 | 76 | ... | 86 | |
| Income terms of trade . . . | 120 | 86 | 83 | 94 | ... | 89 | |
| India | | | | | | | |
| Export prices | 91 | 104 | 118 | 118 | | | |
| Import prices | 81 | 106 | 97 | 99 | | | |
| Barter terms of trade . . . | 112 | 98 | 122 | 119 | | | |
| Income terms of trade . . . | 108 | 116 | 130 | 119 | | | |
| Pakistan ^a | | | | | | | |
| Export prices | 113 | 109 | 131 | 131 | ... | 142 | 151 |
| Import prices | 88 | 96 | 99 | 105 | ... | 108 | 112 |
| Barter terms of trade . . . | 128 | 114 | 132 | 125 | ... | 131 | 135 |
| Income terms of trade . . . | 116 | 125 | 140 | 145 | ... | 144 | 160 |
| Sri Lanka | | | | | | | |
| Export prices | 107 | 120 | 192 | 354 | (363) | | |
| Import prices | 85 | 88 | 109 | 184 | (230) | | |
| Barter terms of trade . . . | 126 | 136 | 176 | 192 | (158) | | |
| Income terms of trade . . . | 104 | 131 | 153 | 177 | (155) | | |
| <i>South-east Asia</i> | | | | | | | |
| Malaysia (Peninsular) | | | | | | | |
| Export prices | 115 | 120 | 141 | 151 | (174) | | |
| Import prices | 96 | 102 | 104 | 107 | (115) | | |
| Barter terms of trade . . . | 120 | 119 | 135 | 141 | (152) | | |
| Income terms of trade . . . | 119 | 135 | 150 | 182 | (235) | | |
| Philippines | | | | | | | |
| Export prices | 126 | 88 | 89 | 100 | 123 | | |
| Import prices | 96 | 99 | 110 | 112 | 132 | | |
| Barter terms of trade . . . | 131 | 89 | 81 | 89 | 93 | | |
| Income terms of trade . . . | 123 | 114 | 125 | 134 | 151 | | |
| Singapore | | | | | | | |
| Export prices | 103 | 106 | 115 | 119 | 127 | | |
| Import prices | 100 | 105 | 113 | 117 | 126 | | |
| Barter terms of trade . . . | 103 | 101 | 102 | 102 | 101 | | |
| Income terms of trade . . . | 112 | 120 | 139 | 157 | 186 | | |
| Thailand | | | | | | | |
| Export prices | 106 | 97 | 99 | 107 | ... | 125 | 128 |
| Import prices | 94 | 105 | 114 | 124 | ... | 136 | 141 |
| Barter terms of trade . . . | 113 | 92 | 88 | 86 | ... | 92 | 91 |
| Income terms of trade . . . | 117 | 128 | 139 | 148 | ... | 174 | 165 |

Table II-20. (continued)

| Country or area/indexes | 1974 | 1976 | 1977 | 1978 | 1979 | | |
|------------------------------------|------|------|------|-------|-------|------------|----------------|
| | | | | | Year | First half | Three quarters |
| <i>East Asia</i> | | | | | | | |
| <i>Hong Kong</i> | | | | | | | |
| Export prices ^b | 103 | 110 | 112 | 118 | (138) | | |
| Import prices | 106 | 104 | 109 | 115 | (135) | | |
| Barter terms of trade . . | 97 | 106 | 103 | 103 | (102) | | |
| Income terms of trade . | 94 | 137 | 140 | 154 | (176) | | |
| <i>Republic of Korea</i> | | | | | | | |
| Export prices | 108 | 112 | 122 | 135 | 162 | | |
| Import prices | 97 | 98 | 100 | 105 | 129 | | |
| Barter terms of trade . . | 111 | 114 | 122 | 128 | 126 | | |
| Income terms of trade . | 90 | 155 | 198 | 238 | 230 | | |
| <i>Pacific</i> | | | | | | | |
| <i>Fiji</i> | | | | | | | |
| Export prices | 74 | 87 | 94 | 88 | ... | 98 | |
| Import prices | 98 | 102 | 106 | 116 | ... | 124 | |
| Barter terms of trade . . | 76 | 85 | 89 | 76 | ... | 79 | |
| Income terms of trade . | 79 | 83 | 108 | 82 | ... | 81 | |
| <i>Oil exporters</i> | | | | | | | |
| <i>Indonesia</i> | | | | | | | |
| Export prices | 98 | 107 | 119 | 120 | ... | ... | 151 |
| Import prices | 89 | 108 | 120 | 119 | ... | ... | 126 |
| Barter terms of trade . . | 110 | 99 | 100 | 101 | ... | ... | 120 |
| Income terms of trade . | 117 | 112 | 126 | 137 | ... | ... | 169 |
| <i>Iran</i> | | | | | | | |
| Export prices | 93 | 106 | 117 | 117 | ... | 141 | |
| Import prices | 91 | 106 | 119 | (123) | ... | 133 | |
| Barter terms of trade . . | 102 | 100 | 98 | 95 | ... | 106 | |
| Income terms of trade . | 117 | 109 | 100 | 90 | ... | 43 | |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980, and national sources.

Key: Export and import prices: unit-value indexes.

Barter terms of trade: ratio of export to import prices. Income terms of trade: barter terms of trade times export quantum index.

Figures in parentheses: provisional estimate; Hong Kong and Malaysia: 11-month averages.

Notes: ^a July 1974-June 1975=100.

^b Domestic exports.

112. As a convenient method for summarizing the influence of export and import price changes on the external position of the economy, index numbers of the terms of trade for most of the important trading economies of the developing ESCAP region are presented in table II-20. In reviewing these data, it should be remembered that for most of these countries, 1975 was the nadir of the recession and export prices were typically at or near their lowest levels since the beginning of the decade. As import prices had not generally fallen, the ratio of export to import prices also stood at a low level. Hence any further deterioration in the terms of trade since 1975 must be considered in terms of its cumulative effects. Similarly any improvement since 1975 represents for most countries a recovery, whether

full or only partial, from levels typically well below those of 1970.

113. With the exception of countries which devalued their currencies appreciably during the period since 1975, the profile of export and import prices reflects relatively moderate price increases during 1978. Moreover, export prices commonly rose somewhat faster than those of imports, with an attendant improvement in the barter terms of trade. Deterioration in the ratio of export to import prices struck unevenly, but only Burma, Fiji, the Philippines and Thailand recorded declines in 1976 and 1977 or 1978. Some recovery took place in each case in 1978 or the first half of 1979. The resurgence of rapid price increases in 1979 seems

rather fortuitously to have improved the terms of trade for virtually all the economies included in table II-20. Most of the data for 1979 refer to less than the full year, however, and do not reflect the full impact of the increase in oil prices. It is quite likely that much of the improvement in the barter terms will have disappeared from the full year figures.

114. As an index of the purchasing power of a country's exports, the income terms of trade is in some respects a more useful measure of the relative gains from trade. During the period since 1975, most of the developing ESCAP economies for which data are available have recorded quite considerable gains in the purchasing power of their exports, at least up to 1978. For India, however, the decreasing export quantum appears to have reduced export purchasing power even in 1978. The situation was much less uniform in the first half of 1979 as constraints on production dampened the growth of export volumes in a number of countries in both south Asia and east Asia. Doubtless the record for the entire year will have been even less favourable for most non-oil exporting countries, in view of the continued rise in domestic costs and the added cost of petroleum imports. In at least one instance, however, that of Fiji, the marked increases in the price of sugar in the last half of the year has improved the Fijian trade position considerably. The indexes for the primary products exporting countries of south-east Asia show improved barter and income terms for the whole year, with the possible exception of Thailand, for which the data extend only to the third quarter.

Exchange rate variations

115. Sharply increased variability in the exchange rates for currencies of the major trading countries in the international market economy began to appear during 1978 after having moderated considerably over a period of about three years. Exchange rate fluctuations in the currencies of major trading partners of Asian countries thus influenced the effective rates for the latter more seriously as commodity prices had become relatively less volatile. These wider and more frequent variations in the relative values of the United States dollar, the Japanese yen, the Deutschmark and the pound sterling have generated an increasing element of uncertainty in commodity and credit markets and an unsettling effect on the business outlook in the ESCAP region and elsewhere in the developing world, as well as in the industrialized market economies. Available statistical studies of exchange-rate variability have failed to reveal a direct causal influence upon the growth of international trade or

foreign investment, though the creation of uncertainty has required adaptive behaviour that has been costly in terms of executive time and effort. Mainly because of the much wider impact of exchange-rate variations than the price fluctuations in the other financial markets, the former have more serious economic and political consequences. Moreover, there is a widespread view that unmanaged floating of exchange rates has been an important element in increasing exchange-rate variability. Experience of instability in recent years has encouraged increased intervention in exchange markets in continuous efforts to "manage" floating rates, and has contributed to the establishment of the European Monetary System.⁵⁴

116. Except for instances of explicit devaluation or revaluation of national currencies as a matter of policy, the effective rates of exchange for most currencies are the net residual of changes in the exchange rates of major trading partners. Given the relatively minor order of magnitude of individual developing countries' trade and financial flows in comparison with those of their industrialized trading partners, the realistic possibility of an independent exchange-rate policy is of extremely small order. Nevertheless, at the margin, the decision to maintain realistic rates of exchange for the national currency can be of considerable significance for the maintenance of external balance.

117. The impact of exchange-rate instability in recent years has prompted many Governments in the developing economies of the ESCAP region to abandon the pegging of the national currency to that of a single major trading partner, in favour of a basket of currencies dominated by a few major trading partners. Though the explicit link with the dollar or the pound has been abandoned, in many instances an effective connexion remains. Such instances are apparent for several countries included in table II-21, which presents national currency exchange rates in terms of the SDR unit, from comparison of changes in national rates with those of the United States dollar vis-à-vis the SDR unit.⁵⁵

118. Instances of significantly large devaluation have been relatively few during the past two or three years among the developing economies of the ESCAP region (table II-21). Those of Sri Lanka

⁵⁴ International Monetary Fund, *Annual Report 1979* (Washington, D.C., 1979), p. 37.

⁵⁵ Since July 1974 the value of the SDR unit has been determined on the basis of values of a basket of 16 major currencies, the composition of which was revised in July 1978.

(late 1977) and Indonesia (late 1978) are noteworthy; smaller but apparently significant devaluations were executed by Bangladesh and Hong Kong during 1978, while Samoa devalued during the first half of 1979.⁵⁶ In these instances stimulative effects on national exports have been appreciable mainly for Sri Lanka, while the effects for the others have, for differing reasons, been more difficult to identify. Reference to table II-21 shows that relatively minor exchange depreciation has been fairly general among the developing countries in the region; in many instances these reflect at least an informal link with the United States dollar and, though they also reflect implicit policy decisions, these differ in kind as well as in degree from an explicit decision to devalue. In contrast, several countries have consciously permitted their currencies to float upwards in revaluation in recent years; notable examples are Malaysia and Singapore. Although these cases of exchange rate appreciation are relatively small individually, their cumulative effects have been considerable and reflect the relative strength of the national currencies. During 1979 nearly all of the many cases of rather minor exchange appreciation which occurred during the first half year had been reversed by the end of the year.

3. Balance of payments and external financial resources

119. Current account deficits have with few exceptions characterized the balance of payments of the developing economies of the ESCAP region during the 1970s, including the most recent years for which data are available (see table II-22). The year 1978 quite generally was one of increasing current account deficits and it appears unlikely that the developments of 1979 will show any appreciable improvement. Basic balances, which include long-term capital from both private and official sources, have fared rather better, though even in these a distinct tendency to weakening appeared in 1978. While Bangladesh enjoyed an improved position in 1978, a distinct worsening was incurred by economies as diverse as Pakistan, the Philippines, the Republic of Korea and Thailand. Moreover from the limited balance-of-payments data available for 1979, it is apparent that further deterioration has occurred.

⁵⁶ The influence of the Indonesian rupiah devaluation on export and import prices and the terms of trade is not apparent in table II-20, because Indonesian external trade values are reported in United States dollars, to which the rupiah is pegged. An assessment of the influence of the Indonesian devaluation has been mentioned earlier; see section II.A.3 above.

Table II-21. Developing ESCAP economies. Changes in rates of exchange of national currencies per SDR unit, 1975-1979
(end of period)

| Country or area and currency unit | National currency per SDR unit 1975 | Percentage change in exchange rate ^a | | | | |
|---|--|---|------|------|------|------|
| | | 1975 | 1976 | 1977 | 1978 | 1979 |
| Afghanistan (Afghani) | 52.680 | -4.4 | -0.8 | 4.5 | 7.3 | -3.9 |
| Bangladesh (Taka) | 17.356 | 75.5 | 0.1 | 0.6 | 11.3 | 5.9 |
| Burma (Kyat) | 7.743 | 31.5 | — | 9.9 | — | — |
| Fiji (Fiji dollar) | 1.010 | 3.2 | 8.3 | -3.3 | 1.0 | 3.7 |
| Hong Kong (\$HK) ^b | 5.900 | -2.0 | -7.9 | 3.3 | 11.5 | 4.3 |
| India (Rupee) | 10.462 | 5.8 | -1.4 | -3.4 | 7.0 | -2.4 |
| Indonesia (Rupiah) | 485.820 | -4.4 | -0.8 | 4.6 | 61.5 | 1.4 |
| Iran (Rial) | 81.098 | -2.1 | 1.7 | 4.3 | 7.2 | 1.1 |
| Malaysia (Ringgit) | 3.030 | 7.0 | -2.8 | -2.4 | — | 0.3 |
| Nepal (Rupee) | 14.633 | 13.2 | -0.8 | 4.6 | 3.0 | 1.1 |
| Pakistan (Rupee) | 11.590 | -4.4 | -0.8 | 4.6 | 7.2 | 1.1 |
| Papua New Guinea (Kina) | 0.931 | 0.9 | 1.3 | -2.5 | -2.6 | 1.4 |
| Philippines (Peso) | 8.789 | 1.5 | -1.7 | 3.7 | 7.3 | 1.7 |
| Republic of Korea (Won) | 566.600 | -4.4 | -0.8 | 4.6 | 7.2 | 1.1 |
| Samoa (Tala) | 0.898 | 20.9 | 3.5 | -2.2 | 2.4 | 28.9 |
| Singapore (Singapore dollar) | 2.914 | 3.0 | -2.1 | -0.4 | -0.8 | 0.9 |
| Sri Lanka (Rupee) | 9.029 | 10.2 | 13.6 | 84.3 | 6.9 | 0.7 |
| Thailand (Baht) | 23.882 | -4.3 | -0.8 | 4.5 | 7.2 | 1.3 |
| (USA) ^c (Dollar) | 1.171 | -4.4 | -0.8 | 4.6 | 7.2 | 1.1 |

Source: International Monetary Fund, *International Financial Statistics*, April 1980.

Notes: ^a Minus sign indicates appreciation of national currency vis-à-vis SDR unit. Absence of sign indicates depreciation vis-à-vis SDR unit.

^b *Hong Kong Monthly Digest of Statistics* (Hong Kong, Census and Statistics Department), December 1979.

^c Memorandum item.

Table II-22. Developing ESCAP economies. Balance of payments summaries, 1975-1979
(\$US million)

| Country | Year | Current account balance ^a | Official capital and transfers | Private long-term capital | Basic balance | Short-term capital and E and O ^b | Over-all balance | Change in reserves (- = increase) |
|----------------------------|---------------------------------|--------------------------------------|--------------------------------|---------------------------|---------------|---|------------------|-----------------------------------|
| <i>Oil exporters</i> | | | | | | | | |
| Indonesia | 1975 | -1,136 | 594 | 476 | -66 | -792 ^e | -858 | 857 |
| | 1976 | -923 | 1,653 | 344 | 1,074 | -173 ^e | 901 | -902 |
| | 1977 | -74 | 1,280 | 235 | 1,441 | -443 | 998 | -997 |
| | 1978 | 1,483 | 1,335 | 279 | 131 | 41 | 172 | -172 |
| | 1979 ^d | 4 | 412 | 136 | 552 | 17 | 569 | -571 |
| Iran | 1974 | 12,299 | -2,294 | 324 | 10,329 | -3,303 | 7,026 | -7,026 |
| | 1975 | 4,725 | -3,027 | 141 | 1,839 | -1,727 | 112 | -110 |
| | 1976 | 4,733 | -2,599 | 744 | 2,878 | -2,438 | 440 | -440 |
| | 1977 | 5,091 | -450 | 802 | 5,443 | -2,036 | 3,407 | -3,406 |
| | <i>Non-oil exporters</i> | | | | | | | |
| <i>South and west Asia</i> | | | | | | | | |
| Afghanistan | 1975 | -99.5 | 99.8 | — | 0.3 | 52.2 | 52.5 | -52.5 |
| | 1976 | -40.1 | 93.2 | — | 53.1 | 11.6 | 64.7 | -64.6 |
| | 1977 | -107.1 | 175.3 | — | 68.2 | 86.4 | 154.6 | -154.6 |
| | 1978 | -184.5 | 195.6 | — | 11.1 | 87.7 | 98.8 | -98.8 |
| Bangladesh | 1975 | -950.7 | 953.9 | — | 3.2 | -37.2 | -34.0 | 33.9 |
| | 1976 | -435.1 | 483.6 | — | 48.5 | 21.0 | 69.5 | -69.5 |
| | 1977 | -625.2 | 598.1 | — | -27.1 | 6.3 | -20.8 | 20.9 |
| | 1978 | -900.5 | 906.9 | — | 6.4 | 91.1 | 97.5 | -97.5 |
| Burma | 1975 | -94.9 | 55.5 | — | -39.4 | -12.8 | -52.2 | 52.3 |
| | 1976 | -48.4 | 35.6 | — | -12.8 | 5.7 | -7.1 | 7.2 |
| | 1977 | -110.3 | 76.0 | — | -34.3 | -2.8 | -37.1 | 37.2 |
| | 1978 | -179.0 | 154.1 | — | -24.9 | 2.7 | -22.2 | 22.3 |
| India | 1975 | -342 | 1,134 | -11 | 781 | -493 | 288 | -287 |
| | 1976 | 1,174 | 1,443 | -8 | 2,609 | -419 | 2,190 | -2,192 |
| | 1977 ^d | 1,123 | 705 | — | 1,888 | -172 | 1,656 | -1,657 |
| | <i>East and south-east Asia</i> | | | | | | | |
| Pakistan | 1975 | -1,178 | 554 | 25 | -599 | 405 | -194 | 194 |
| | 1976 | -892 | 549 | 9 | -334 | 348 | 14 | -16 |
| | 1977 | -840 | 702 | 16 | -122 | 99 | -23 | 22 |
| | 1978 | -849 | 545 | 35 | -269 | 267 | -2 | — |
| | 1979 ^d | -591 | 359 | 22 | -210 | 235 | 25 | -26 |
| Sri Lanka | 1975 | -186.5 | 155.6 | 10.6 | -20.3 | -22.3 | -42.6 | 41.5 |
| | 1976 | -64.3 | 129.2 | 0.6 | 65.5 | -19.8 | 45.7 | -45.8 |
| | 1977 | 78.0 | 125.4 | -1.2 | 202.2 | 11.2 | 213.4 | -212.7 |
| | 1978 | -119.4 | 172.4 | 1.8 | 54.8 | 20.8 | 75.6 | -75.3 |
| Malaysia | 1975 | -460 | 116 | 616 | 272 | -365 | -93 | 93 |
| | 1976 | 638 | 194 | 348 | 1,180 | -344 | 836 | -835 |
| | 1977 | 503 | 202 | 542 | 1,247 | -762 | 485 | -484 |
| | 1978 | -29 | 183 | 675 | 829 | -373 | 456 | -455 |
| Philippines | 1975 | -1,076 | 546 | 124 | -406 | 390 | -16 | 11 |
| | 1976 | -1,374 | 1,283 | 126 | 39 | -120 | -85 | 87 |
| | 1977 | -944 | 764 | 219 | 39 | -86 | -47 | 46 |
| | 1978 | -1,275 | 957 | 163 | -155 | 1,017 | 862 | -862 |
| | 1979 ^e | -1,355 | 905 | 95 | -355 | 452 | 97 | -95 |
| Republic of Korea . . . | 1975 | -1,954 | 1,362 | 53 | -539 | 869 | 330 | -326 |
| | 1976 | -458 | 1,331 | 149 | 1,022 | 319 | 1,341 | -1,341 |
| | 1977 | -46 | 1,309 | 143 | 1,406 | -44 | 1,362 | -1,361 |
| | 1978 | -1,180 | 2,048 | 103 | 971 | -258 | 713 | -711 |
| | 1979 ^e | -3,185 | 2,093 | 102 | -990 | 1 575 | 585 | -582 |

Table II-22. (continued)

| Country | Year | Current account balance ^a | Official capital and transfers | Private long-term capital | Basic balance | Short-term capital and E and O ^b | Over-all balance | Change in reserves (- = increase) |
|----------------------------|-------------------|--------------------------------------|--------------------------------|---------------------------|---------------|---|------------------|-----------------------------------|
| Singapore | 1975 | -605 | 57 | 611 | 63 | 131 | 194 | -195 |
| | 1976 | -704 | 80 | 687 | 63 | 294 | 357 | -357 |
| | 1977 | -470 | 64 | 464 | 58 | 433 | 491 | -493 |
| | 1978 | -743 | -113 | 416 | -440 | 1,885 | 1,445 | 1,146 |
| Thailand | 1975 | -631 | 192 | 87 | -352 | 299 | -53 | 52 |
| | 1976 | -455 | 253 | 81 | -121 | 200 | 79 | -79 |
| | 1977 | -1,120 | 341 | 103 | -676 | 685 | 8 | -9 |
| | 1978 | -1,229 | 572 | 126 | -531 | 554 | 23 | -23 |
| | 1979 ^d | -714 | 343 | 61 | -310 | 522 | 212 | -211 |
| <i>Pacific</i> | | | | | | | | |
| Fiji | 1975 | -26.8 | 31.8 | 17.2 | 22.2 | 27.7 | 49.9 | -49.9 |
| | 1976 | -53.5 | 20.7 | — | -32.8 | 10.5 | -22.3 | 22.3 |
| | 1977 | -33.4 | 39.2 | — | 5.8 | 10.8 | 16.6 | -16.7 |
| | 1978 | -41.0 | 3.1 | — | -37.9 | 16.4 | -21.5 | 21.4 |
| Papua New Guinea | 1975 | -276.4 | 317.1 | 34.5 | 75.2 | -93.1 | -17.9 | 18.0 |
| | 1976 | -67.1 | 162.1 | 16.4 | 111.4 | -62.7 | 48.7 | -48.7 |
| | 1977 | -81.0 | 280.0 | 13.0 | 212.0 | -40.4 | 171.6 | -171.5 |
| | 1978 | -253.7 | 191.0 | 20.4 | -42.3 | 52.9 | 10.6 | -10.6 |

Sources: International Monetary Fund, *International Financial Statistics*, April 1980; Asian Development Bank, *Key Indicators*, April 1980 (for Afghanistan), and national sources.

Notes: ^a Comprises merchandise trade, services and private transfers; excludes official transfers.

^b Errors and omissions; also includes counterpart to SDR allocations and valuation changes, and balance-of-payment loans.

^c Includes \$1,200 million in balance-of-payments loans in 1975 and \$280 million in 1976.

^d First half year.

^e Three quarters.

120. Marked contrasts in sources of long-term capital have persisted between the south Asian economies and those of east and southeast Asia. Investment from foreign private sources, which is predominant in Malaysia and Singapore, is also significant in Indonesia, the Philippines, the Republic of Korea and Thailand. Official capital inflows, though large and in some of these economies increasing in relative importance, are almost exclusively predominant in south Asian countries and in Fiji and Papua New Guinea. Of the two main oil exporters, Iran has been a net lender on international account, while Indonesia depends importantly on official capital inflows. Increasing inflows of long-term capital generally offset weakening current account positions in 1978 but in Pakistan, with its continued negative basic balance, and in the Philippines, Singapore and Thailand short-term capital inflows served to bolster the overall balance and, except for Pakistan, to permit reserves to increase.

121. The common profile of foreign exchange reserve accumulation has been one of slackening rates of growth during 1977 and 1978, with several instances of reserves having been drawn down in 1978. Although complete balance-of-payments figures are not available for 1979, the data for

foreign exchange reserves show continued accumulation of reserves for all non-oil developing economies in the region except Thailand (end of year data).⁶⁷ In consequence of international price developments during 1979 and early 1980, those of petroleum in particular, greatly increased pressure on the balance of payments of non-oil exporters must be expected. Countries lacking strong export potential and dependent upon significant flows of external financial resources will have to face increasingly serious payments problems during 1980.

External financial flows

122. A review of the balance of payments for the developing countries of the Asia and Pacific region clearly reveals the growing requirements for external financial resources. An attempt to estimate the order of magnitude of these requirements is hindered by the availability of highly summarized data but there can be little doubt that the figure has increased significantly since 1976 and that, apart from the undoubtedly larger requirements of 1979 (for which data are as yet lacking), by far the largest part of

⁶⁷ Cf. United Nations, *Monthly Bulletin of Statistics*, April 1980, table 69, and International Monetary Fund, *International Financial Statistics*, April 1980.

the increase occurred in 1978. For the developing ESCAP economies for which information is available, a rough estimate suggests an expansion of the order of 60 per cent in nominal terms.⁵⁸

123. The compilation of external financial flow data presented in table II-23 reveals an almost entirely contrasting pattern of change.⁵⁹ It will be noticed at once that total net inflows fell by nearly a third between 1976 and 1977, and though they recovered by about the same percentage, failed in 1978 to reach the level of 1976. An aggregate decline of some \$US 2,000 million in OPEC and private flows was only partially compensated by the increase in the combined financial flows from multilateral agencies and bilateral sources of rather more than \$US 1,100 million.

124. Important differences exist in the patterns of financial resource flows among countries, which can be effectively generalized by subregion. As noted earlier, external resources flowing into the south Asian region (plus Afghanistan) have been dominated by official flows, which have on the whole been better sustained than private flows. Thus the decline in available external resources for this region during 1976-1978 is almost entirely attributable to the approximate \$US 1,000 million fall in OPEC resources. Omission of India from this group leaves a residual for the other six of the low-income countries which in fact increased by a net 12 per cent over the two-year period, albeit with an intervening drop of some 20 per cent in 1977. Measured against an estimated increase in requirements between 1976 and 1978 of something of the order of 50 per cent, the actual increase for the group (excluding India) appears rather paltry. As the country data in the table clearly show, total external financial resources available to India fell by nearly \$US 600 million between 1976 and 1978, with an even larger drop in 1977. It will be noted that the flows from multilateral agencies and DAC bilateral sources also declined, as did those from the OPEC group.

125. The flow of resources to the countries in east and southeast Asia presents quite different and contrasting patterns, except insofar as they, too, registered an over-all decline during the period covered by the table. Comprised of predominantly export-oriented, middle-level income countries (except for Indonesia),⁶⁰ this group is estimated roughly to have expanded requirements for external financial resources by rather more than two thirds in nominal terms between 1976 and 1978. Reference to the summary data in table II-23 will show that the aggregate inflow fell by about 10 per cent, 1976-1978, having fallen further in 1977 and only partially recovered towards the 1976 level.

Private flows are important for this group, accounting for about half of total inflows, and it was precisely the private flows which fell sharply in these years while official flows expanded moderately (excluding OPEC, which in any case provided only a small share of the total).

126. Omission of Indonesian data from the group total — on several criteria for significant differences: *per capita* income and important oil exports, in particular — reveals a rather different pattern for the predominantly middle-level income countries in this group. For these middle-income countries, total net external resource flows actually increased between 1976 and 1978, in nominal terms by nearly \$US 700 million, though a sharp decline had occurred in 1977. Nearly one third of this increment, over the two-year period, was attributable to private flows.

127. The pattern of changes reflected in the data for Indonesia is in some respects unique; the precipitous fall in net private flows in 1977 appears greatly exaggerated and is difficult to reconcile by reference to other independent sources.⁶¹

128. The changes in external financial flows to the Pacific island countries, though in total too small to affect the regional aggregates appreciably, contrast sharply with the larger aggregates in table II-23. While the crudely estimated resource requirements increased by comparable proportions for this group, total financial inflows expanded by about one quarter over the two-year period, though with only a negligible increase in 1977. Most of the increment is attributable to Papua New Guinea, but the pattern of increasing flows from the predominant official sources is common to the others as well.

129. Borrowing on commercial terms in international credit markets has continued to expand rapidly during the 1976-1978 period and preliminary indications are that the expansion of this source of financial resource inflows has continued

⁵⁸ On the basis of aggregated current account deficits and (net) short-term capital outflows. Cf. table II-22.

⁵⁹ The data in table II-23 correspond broadly in country coverage to the balance of payments summaries in table II-22. References in this section are made exclusively to adjusted estimates, omitting Iran (as a net lender) and adding estimated data to compensate for economies excluded from, and other incomplete information in the balance of payments table.

⁶⁰ According to the World Bank classification, Indonesia is at the top of the low-income scale with an estimated *per capita* GNP of \$US 300 in 1977. See World Bank, *World Development Report 1979* (Washington, D.C., 1979), p. 175 and annex table 1.

⁶¹ The balance of payments data in table II-22 show a decline in private long-term capital inflows of the order of \$US 100 million; only net figures for short-term capital flows are available. It is possible that this net change reflects the liquidation of debts (totalling nearly \$US 1,500 million, see note *c* to table II-22) incurred in 1975 and 1976 in connexion with the Pertamina affair.

Table II-23. Selected developing ESCAP economies.
 Net external financial resource flows, 1976-1978
 (\$US million)

| | | <i>Total net flows</i> | <i>Net private flows, DAC^a</i> | <i>Official flows</i> | | | |
|---|------|------------------------|---|---------------------------------|------------------------------|-------------------------|----------------------------------|
| | | | | <i>Total net official flows</i> | <i>Multilateral agencies</i> | <i>OPEC^b</i> | <i>DAC^a countries</i> |
| <i>West and south Asia</i> | 1976 | 4 118.6 | 63.5 | 4 055.1 | 1 090.7 | 1 398.1 | 1 566.3 |
| | 1977 | 2 909.3 | -34.6 | 2 943.9 | 1 134.6 | 421.6 | 1 387.7 |
| | 1978 | 3 819.3 | -15.2 | 3 834.5 | 1 424.0 | 334.5 | 2 076.0 |
| Afghanistan | 1976 | 76.7 | 0.1 | 76.6 | 29.1 | 14.7 | 32.8 |
| | 1977 | 100.0 | -0.2 | 100.2 | 51.1 | 21.5 | 27.6 |
| | 1978 | 95.3 | 0.5 | 94.8 | 44.4 | 18.4 | 32.0 |
| Bangladesh | 1976 | 541.5 | 4.8 | 536.7 | 201.4 | 10.9 | 324.4 |
| | 1977 | 762.8 | -0.2 | 763.0 | 213.7 | 165.0 | 384.3 |
| | 1978 | 996.0 | 8.0 | 988.0 | 296.5 | 26.8 | 664.7 |
| Burma | 1976 | 72.0 | 3.5 | 68.5 | 30.6 | — | 37.9 |
| | 1977 | 106.0 | 4.5 | 101.5 | 47.3 | — | 54.2 |
| | 1978 | 346.9 | 69.7 | 277.2 | 120.8 | — | 156.4 |
| India | 1976 | 1 838.3 | 50.2 | 1 788.1 | 606.8 | 499.6 | 681.7 |
| | 1977 | 1 071.3 | -49.1 | 1 120.4 | 522.4 | 163.8 | 434.2 |
| | 1978 | 1 256.1 | -103.6 | 1 359.7 | 563.3 | 183.9 | 612.5 |
| Nepal | 1976 | 49.9 | -0.1 | 50.0 | 20.7 | 0.1 | 29.2 |
| | 1977 | 82.0 | 0.2 | 81.8 | 39.9 | 4.5 | 37.4 |
| | 1978 | 77.8 | 0.5 | 77.3 | 36.1 | 1.6 | 39.6 |
| Pakistan | 1976 | 1 386.2 | 12.3 | 1 373.9 | 162.0 | 840.8 | 371.1 |
| | 1977 | 612.7 | 23.1 | 589.6 | 199.3 | 59.1 | 331.2 |
| | 1978 | 733.2 | 22.5 | 710.7 | 258.0 | 97.7 | 355.0 |
| Sri Lanka | 1976 | 154.0 | -7.3 | 161.3 | 40.1 | 32.0 | 89.2 |
| | 1977 | 174.5 | -12.9 | 187.4 | 60.9 | 7.7 | 118.8 |
| | 1978 | 314.0 | -12.8 | 326.8 | 104.9 | 6.1 | 215.8 |
| <i>East and south-east Asia</i> | 1976 | 6 021.6 | 3 358.9 | 2 662.7 | 1 056.0 | 129.1 | 1 477.6 |
| | 1977 | 3 810.7 | 1 516.0 | 2 294.7 | 952.3 | 85.5 | 1 256.9 |
| | 1978 | 5 468.3 | 2 470.9 | 2 997.4 | 1 211.9 | 90.9 | 1 694.6 |
| Hong Kong | 1976 | 290.5 | 279.5 | 11.0 | 1.5 | — | 9.5 |
| | 1977 | 236.9 | 239.4 | -2.5 | -2.1 | — | -0.4 |
| | 1978 | 112.5 | 112.1 | 0.4 | 1.3 | — | -0.9 |
| Indonesia | 1976 | 2 698.4 | 1 615.0 | 1 083.4 | 312.9 | 21.9 | 748.6 |
| | 1977 | 895.9 | 60.2 | 835.7 | 290.3 | 29.3 | 516.1 |
| | 1978 | 1 451.2 | 509.9 | 941.3 | 235.0 | 27.4 | 678.9 |
| Malaysia | 1976 | 298.2 | 143.0 | 155.2 | 81.7 | 4.9 | 68.6 |
| | 1977 | 128.0 | -70.4 | 198.4 | 98.6 | 7.5 | 92.3 |
| | 1978 | 291.2 | 130.0 | 161.2 | 85.7 | 8.9 | 66.6 |
| Philippines | 1976 | 1 071.5 | 691.3 | 380.2 | 143.7 | — | 236.5 |
| | 1977 | 709.4 | 359.6 | 349.8 | 149.0 | — | 200.8 |
| | 1978 | 1 061.3 | 637.8 | 423.5 | 214.2 | — | 209.3 |
| Republic of Korea | 1976 | 1 280.4 | 513.2 | 767.2 | 416.0 | 26.7 | 324.5 |
| | 1977 | 1 379.1 | 726.2 | 652.9 | 293.1 | 48.4 | 311.4 |
| | 1978 | 1 558.7 | 599.1 | 959.6 | 390.2 | 52.8 | 516.6 |
| Singapore | 1976 | 178.1 | 142.8 | 35.3 | 9.9 | — | 25.4 |
| | 1977 | 188.7 | 180.7 | 8.0 | 0.7 | — | 7.3 |
| | 1978 | 357.8 | 255.3 | 102.5 | 59.5 | — | 43.0 |
| Thailand | 1976 | 204.5 | -25.9 | 230.4 | 90.3 | 75.6 | 64.5 |
| | 1977 | 272.7 | 20.3 | 252.4 | 122.7 | 0.3 | 129.4 |
| | 1978 | 635.6 | 226.7 | 408.9 | 226.0 | 1.8 | 181.1 |

Table II-23. (continued)

| | | Total net flows | Net private flows, DAC ^a countries | Official flows | | | |
|--------------------------------------|------|-----------------|---|--------------------------|-----------------------|-------------------|----------------------------|
| | | | | Total net official flows | Multilateral agencies | OPEC ^b | DAC ^a countries |
| Pacific | 1976 | 368.5 | 55.2 | 313.3 | 28.5 | — | 284.8 |
| | 1977 | 369.9 | 37.4 | 332.5 | 36.5 | — | 296.0 |
| | 1978 | 459.9 | 55.0 | 404.9 | 43.9 | — | 361.0 |
| Fiji | 1976 | 40.3 | 8.5 | 31.8 | 8.0 | — | 23.8 |
| | 1977 | 44.1 | 14.7 | 29.4 | 7.8 | — | 21.6 |
| | 1978 | 45.8 | 17.5 | 28.3 | 4.7 | — | 23.6 |
| Papua New Guinea | 1976 | 281.9 | 47.7 | 234.2 | 13.3 | — | 220.9 |
| | 1977 | 262.8 | 19.5 | 243.3 | 16.3 | — | 227.0 |
| | 1978 | 335.7 | 35.2 | 300.5 | 25.2 | — | 275.3 |
| Samoa | 1976 | 11.6 | -0.1 | 11.7 | 4.4 | — | 7.3 |
| | 1977 | 24.4 | 2.9 | 21.5 | 9.4 | — | 12.1 |
| | 1978 | 23.3 | 1.1 | 22.2 | 8.9 | — | 13.3 |
| Solomon Islands | 1976 | 19.0 | -0.9 | 19.9 | 1.0 | — | 18.9 |
| | 1977 | 17.1 | 0.2 | 16.9 | 0.8 | — | 16.1 |
| | 1978 | 27.8 | 1.2 | 26.6 | 2.5 | — | 24.1 |
| Other Pacific ^c | 1976 | 15.7 | — | 15.7 | 1.8 | — | 13.9 |
| | 1977 | 21.5 | 0.1 | 21.4 | 2.2 | — | 19.2 |
| | 1978 | 27.3 | — | 27.3 | 2.6 | — | 24.7 |

Source: Organisation for Economic Co-operation and Development, in Asian Development Bank, *Key Indicators*, April 1980, table 37.

Notes: ^a Development Assistance Committee of the OECD.

^b Organization of Petroleum Exporting Countries.

^c Cook Islands, Kiribati and Tonga.

apace in 1979. Among the developing ESCAP economies, it is pre-eminently the middle-income countries that have had recourse to the Euro-dollar market and foreign and international bond markets. The major borrowers in order of the size of their borrowings in 1978 are: the Philippines (\$US 2,053 million), the Republic of Korea (\$US 1,743), Indonesia (\$US 1,722), Malaysia (\$US 1,216) and Hong Kong (\$US 629), for a total of \$US 7,361 million or 95 per cent of the total of such borrowing by economies in southeast and east Asia. Smaller borrowings have been made in these markets by India, Papua New Guinea, Singapore and Thailand, but the amounts borrowed by countries in south Asia and the Pacific region are quite small.⁶² These loans to developing countries in the region have expanded rapidly since 1974 when the total for east and southeast Asian countries was only \$US 1837 million, to \$US 2,568 million in 1977; the increase to \$US 7,839 million in 1978 was thus of the order of threefold. Interest rates and repayment periods are of commercial standard but the credit rating of some countries in the region, of which Malaysia is a good example, has permitted borrowing at rates fractionally above the London Interbank Offer Rate (LIBOR).

130. Concomitant with the rapid expansion of external trade and the associated growth of international financial flows in the inflation-plagued 1970s, the external debt of most developing countries in the ESCAP region has expanded rapidly and the most recent years of the 1970s do not constitute an exception. Though comprehensive data are available only to the end of 1977, the rates of growth and patterns of debt-holding are important for the fiscal prospects of the individual economies and the implications of the total pattern are wider still.⁶³ The data compiled for table II-24 present selected aspects of the international debt position of major trading countries in the region for the period

⁶² Asian Development Bank, *Key Indicators*, April 1980, table 44, citing IBRD, *Capital Markets Systems*.

⁶³ Total external public debt outstanding (including undisbursed) had increased by about 20 per cent by the end of 1978 for the countries shown in table II-24 (excluding Iran), according to figures published by the Asian Development Bank early in 1980. For the south and west Asian economies (excluding Iran) the aggregate figure had grown by 12 per cent over 1977 and that for the southeast and east Asian and Pacific group (excluding Indonesia) by more than one third; when Indonesia is included the nominal growth rate becomes 28 per cent. Asian Development Bank, *Key Indicators*, April 1980, table 28. Data showing the composition of this debt are not available.

since the first oil shock in 1973/74. Though comprehensive data are available only to the end of 1977 the patterns of change in total resource flows suggest that the marginal changes in the composition of public external debt will not have altered radically in 1978. The major qualification stems from the continued expansion of official flows in comparison to private flows and for middle-income countries the extraordinary increase in commercial borrowings in 1978.

131. The contrasts between the south Asian group and the east and southeast Asian countries (with exceptions noted in table II-24) appear both in terms of aggregate growth and composition of outstanding debt. On the whole, external public debt has grown significantly less rapidly for the poorer countries than for the middle-income countries. The predominance of official sources, and indeed the increase in this predominance for the south and west Asian countries (Iran excepted) contrasts sharply with the smaller and decreasing predominance of official sources in the public debt of the east and southeast Asian countries. Among these countries Indonesia and Thailand are exceptional only in so far as the official portion was initially larger (in 1973). Within the official segment, the share of the bilateral-loan debt has declined, especially for debts of the east and southeast Asian group, a move consistent with the continuing effort to reduce the importance of tied loans. For this same group of countries the markedly increased share of total debt to international banks is noteworthy. In some part this change reflects an effort to reduce dependence on suppliers' credits, for example, by the Republic of Korea. More importantly it reflects greatly increased borrowing for broad balance-of-payments purposes, rather than being directly linked with merchandise trade; in some instances repeated commercial borrowing has become necessary in order to roll over outstanding short- and medium-term debt and may represent heavy dependence on international private banks, implying the necessity to fulfill imposed conditions in order to obtain fresh credit.

132. Particularly during 1979 as international inflation began seriously to re-assert itself and international interest rates to be pushed up with unprecedented sharpness, the cost and conditions for borrowing have become increasingly severe. Though these developments during 1979 reflect private commercial terms, rather than concessional loans, the pattern of increasingly burdensome conditions has been evolving over a rather longer period and at

least since the first oil shock. Information compiled by the World Bank describes a pattern of diminishing cost advantages in concessional borrowing particularly for the middle-income countries of the east and southeast Asian region which have become increasingly dependent upon commercial loans. Thus for the period 1973-1977, maturities of committed loans fell by nearly a third and grace periods were reduced by about the same proportion; concessional interest rates rose by about one eighth in the same period while the grant element (a generalized measure of the concessional element in lending) was reduced by almost half. In keeping with the policy to provide more advantageous conditions for concessional loans to the poorer countries, the grant element in loans to the countries of south Asia was increased, albeit marginally, during the same period. Interest rates, at levels much lower than those paid by the middle-income countries, rose by a relatively smaller proportion, about one twelfth, while grace periods were extended and maturities lengthened by comparable orders of magnitude.⁶⁴

133. It is useful to review some of the implications of external indebtedness in terms of the level and changes in debt service ratios, which express the current cost of indebtedness as a share of a country's export earnings. This measure thus expresses the burden of indebtedness in an appropriate index of ability to pay. It should be apparent that there can be no fixed standard that will indicate when the service and repayment burdens of external debt have become excessive. The varied circumstances of individual economies, as they bear upon the balance of payments nexus, will render a given ratio inconsequential for some, while it will represent a debilitating burden for others. Moreover, the level of the debt service ratio at any time is of far less consequence than the pattern of change in the ratio, and, in particular, prospective development in the ability to earn foreign exchange. The circumstances imposed in recent years by the unprecedented increase in the price of a major imported commodity for which no facile substitute is available even in the medium term, have cast the debt service burden in a new light. Not only has it been necessary for most countries to borrow heavily to finance the cost of this intractably non-compressible import, but an increased share of the import bill has been preempted by petroleum and products derived from petroleum, thus making debt service payments relatively more onerous.

⁶⁴ See World Bank, *Annual Report 1979*, annex table 8. Maturities and grace periods for concessional loans to the poorer countries were also significantly longer (in 1973) than those for middle-income countries.

Table II-24. Developing ESCAP countries. Composition and growth of external public debt, 1973-1977

| | Total debt ^a 1977 (\$US million) | Year | Composition ^b (percentage) | | | | | | Other |
|---|---|------|---------------------------------------|-----------|--------------|------------|-----------|-------|-------|
| | | | Official | | | Commercial | | | |
| | | | Total | Bilateral | Multilateral | Total | Suppliers | Banks | |
| <i>South and west Asia</i> | | | | | | | | | |
| Afghanistan | 1 891 | 1977 | 98.5 | 88.3 | 10.2 | 1.5 | 1.5 | — | — |
| | 1.9 | 1973 | 99.1 | 92.8 | 6.3 | 0.9 | 0.9 | — | — |
| Bangladesh | 3 491 | 1977 | 94.9 | 60.1 | 34.8 | 5.1 | 4.3 | 0.8 | — |
| | 4.2 | 1973 | 72.6 | 41.6 | 31.0 | 27.4 | 24.8 | 2.6 | — |
| Burma | 1 187 | 1977 | 83.8 | 55.6 | 28.2 | 16.2 | 8.6 | 7.6 | — |
| | 2.8 | 1973 | 84.7 | 74.7 | 10.0 | 15.3 | 14.9 | 0.4 | — |
| India | 18 760 | 1977 | 98.0 | 64.1 | 33.9 | 2.0 | 1.5 | 0.5 | — |
| | 1.5 | 1973 | 96.4 | 69.0 | 27.4 | 3.5 | 3.2 | 0.3 | — |
| Iran | 11 422 | 1977 | 30.5 | 23.4 | 7.1 | 68.7 | 17.6 | 51.1 | 0.8 |
| | 1.6 | 1973 | 70.3 | 60.5 | 9.8 | 28.3 | 12.4 | 15.9 | 1.4 |
| Nepal ^d | 299 | 1977 | 99.7 | 19.9 | 79.8 | 0.3 | 0.3 | — | — |
| | ... | 1973 | ... | ... | ... | ... | ... | ... | ... |
| Pakistan | 8 764 | 1977 | 95.1 | 74.3 | 20.8 | 4.9 | 2.3 | 2.6 | — |
| | 1.7 | 1973 | 88.2 | 69.8 | 18.4 | 5.1 | 4.9 | 1.1 | 5.9 |
| Sri Lanka | 1 230 | 1977 | 93.0 | 69.9 | 23.1 | 7.0 | 7.0 | — | — |
| | 1.9 | 1973 | 88.4 | 69.7 | 18.7 | 10.9 | 10.9 | — | 0.7 |
| Total | 47 044 | 1977 | 80.4 | 56.5 | 23.9 | 19.4 | 6.1 | 13.3 | 0.2 |
| | 1.7 | 1973 | 87.2 | 67.1 | 20.1 | 11.3 | 6.8 | 4.5 | 1.5 |
| Total (excluding Iran) | 35 622 | 1977 | 96.4 | 67.1 | 29.3 | 3.6 | 2.4 | 1.2 | — |
| | 1.7 | 1973 | 93.0 | 69.4 | 23.6 | 5.5 | 4.9 | 0.6 | 1.5 |
| <i>South-east and east Asia and Pacific</i> | | | | | | | | | |
| Fiji | 102 | 1977 | 79.4 | 37.1 | 42.3 | 16.3 | 6.5 | 9.8 | 4.3 |
| | 1.6 | 1973 | 71.9 | 33.4 | 38.5 | — | — | — | 28.1 |
| Indonesia | 15 904 | 1977 | 67.7 | 52.1 | 15.6 | 31.0 | 9.8 | 21.2 | 1.3 |
| | 2.4 | 1973 | 85.2 | 75.7 | 9.5 | 10.8 | 6.1 | 4.7 | 4.0 |
| Malaysia | 3 559 | 1977 | 51.1 | 20.1 | 31.0 | 45.3 | 1.0 | 44.3 | 3.6 |
| | 3.2 | 1973 | 71.4 | 26.9 | 44.5 | 20.8 | 2.7 | 18.1 | 7.8 |
| Papua New Guinea ^d | 413 | 1977 | 43.4 | 3.1 | 40.3 | 21.7 | 0.8 | 20.9 | 34.9 |
| | ... | 1973 | ... | ... | ... | ... | ... | ... | ... |
| Philippines | 5 627 | 1977 | 57.9 | 26.5 | 31.4 | 32.8 | 4.7 | 28.1 | 9.3 |
| | 4.1 | 1973 | 79.6 | 44.8 | 34.8 | 19.1 | 1.4 | 17.7 | 1.2 |
| Republic of Korea | 13 484 | 1977 | 46.0 | 28.4 | 17.6 | 52.7 | 20.7 | 32.0 | 1.2 |
| | 3.1 | 1973 | 61.4 | 44.7 | 16.7 | 35.7 | 27.5 | 8.2 | 2.9 |
| Singapore | 1 188 | 1977 | 37.9 | 18.5 | 19.4 | 29.7 | 22.7 | 7.0 | 32.4 |
| | 2.3 | 1973 | 74.5 | 31.9 | 42.6 | 12.7 | 6.2 | 6.5 | 12.8 |
| Thailand | 2 263 | 1977 | 79.1 | 26.8 | 52.3 | 20.9 | 0.6 | 20.3 | — |
| | 3.0 | 1973 | 88.7 | 30.2 | 58.5 | 11.3 | 8.1 | 3.2 | ... |
| Total | 42 541 | 1977 | 57.7 | 35.7 | 22.0 | 38.6 | 11.6 | 27.0 | 3.7 |
| | 2.9 | 1973 | 76.3 | 55.9 | 20.4 | 19.8 | 11.8 | 7.9 | 3.9 |
| Total (excluding Indonesia) | 26 637 | 1977 | 51.8 | 26.0 | 25.8 | 43.1 | 12.7 | 30.4 | 5.1 |
| | 3.2 | 1973 | 69.2 | 40.1 | 29.1 | 26.9 | 16.4 | 10.5 | 3.9 |

Sources: World Bank, *Annual Report 1979*, annex table 4, and *World Debt Tables (1975)*, vol. I, table 5.

Notes: ^a Includes undisbursed.

^b Rows total to 100 per cent, except for minor discrepancies due to rounding.

^c Ratio of total debt at end-1977 to corresponding total at end-1973.

^d Nepal and Papua New Guinea are omitted from 1973 totals for lack of data.

Table II-25. Selected developing ESCAP countries.
Debt service ratios, 1973-1977^a

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|-------------------|------|------|------|------|
| (percentage) | | | | | |
| <i>Petroleum exporters</i> | | | | | |
| Indonesia ^b | 6.4 | 3.9 | 8.1 | 11.3 | 11.9 |
| Iran | 14.5 ^c | 6.9 | 4.2 | 3.3 | 3.2 |
| <i>South and west Asia</i> | | | | | |
| Afghanistan | 19.4 | 15.5 | 7.9 | 8.3 | 8.2 |
| Bangladesh | 2.1 | 5.9 | 17.7 | 13.4 | 11.7 |
| Burma | 26.5 | 12.9 | 17.5 | 16.2 | 13.2 |
| India | 19.1 | 16.7 | 12.6 | 10.9 | 10.5 |
| Nepal | 1.6 | 2.3 | 3.9 | 3.1 | 1.4 |
| Pakistan ^d | 14.7 | 13.8 | 15.8 | 15.0 | 13.6 |
| Sri Lanka | 12.8 | 12.0 | 21.8 | 20.1 | 14.6 |
| <i>East and south-east Asia and Pacific</i> | | | | | |
| Fiji | 0.8 | 1.6 | 1.5 | 2.2 | 2.3 |
| Malaysia | 2.6 | 2.6 | 3.4 | 4.6 | 6.5 |
| Papua New Guinea | 1.6 | 2.7 | 4.5 | 4.4 | 4.3 |
| Philippines | 8.7 | 5.2 | 7.3 | 6.6 | 6.4 |
| Republic of Korea | 14.5 | 9.7 | 10.4 | 9.2 | 8.7 |
| Singapore | 0.6 | 0.6 | 0.7 | 0.8 | 0.8 |
| Thailand | 2.6 | 1.9 | 2.4 | 2.4 | 3.0 |

Source: World Bank, *Annual Report 1979*, table 5.

Notes: ^a Actual debt service paid as a percentage of the value of goods and services exports. Data are for fiscal years beginning (in the year stated) on 22 March for Afghanistan and Iran, in April for Burma, India and Nepal, and ending in June for Bangladesh and Pakistan.

^b Exports of oil are included on a gross basis.

^c Includes pre-payments.

^d Includes figures up to 1974 relating to debt subsequently taken over by Bangladesh.

Estimates for 1978. Debt service ratios for 1978 published by the Asian Development Bank generally reflect an appreciable increase over 1977. Exceptions appear in lower ratios for Pakistan and Sri Lanka, a nominal increase for Indonesia and moderate increases (about one tenth) for Fiji, India, Nepal and Papua New Guinea; increases for the remaining countries generally are of the order of one fifth to two fifths. Asian Development Bank, *Key Indicators*, April 1980, table 31.

134. As shown in table II-25, the relatively higher debt service ratios characteristic of the poorer countries mainly in the south and west Asia region had generally declined over the period 1973-1977, though commonly showing an increase in 1975. This pattern results in part from relatively rapid growth in export values (except for 1975) and the lower rate of expansion of outstanding debt (see table II-24) as compared to the east and southeast Asian and Pacific group. In contrast, the latter group displays a predominant tendency for debt service ratios to rise in these years, despite much more rapidly increasing export earnings (again,

except for 1975) because of the more rapid rise in external debt shown in the earlier table.⁶⁵ For the two major petroleum exporters, a rate of debt increase exceeding that of export growth would appear to explain the Indonesian pattern while the opposite is the case for Iran.

135. Although the characteristic differences in these patterns have doubtless persisted during the two years since 1977, the circumstances have worsened in several respects. The rate of accretion of external debt has by all indications generally accelerated; this movement has presumably been countered but not necessarily exceeded by the rapid expansion of export earnings, especially for the southeast and east Asian countries. The more rapid increase in commercial borrowing mainly by middle-income countries and the general rise in interest rates has undoubtedly resulted in a significant in-

⁶⁵ World Bank external debt figures include only public (and government-guaranteed private) external debt and hence do not capture all of suppliers' credits, loans from foreign private banks and loans from foreign parent firms to national affiliates. The resultant external debt figures and correspondingly the debt-service ratios based on the World Bank estimates therefore generally understate the level of indebtedness.

Recently published estimates of the external debt of the ASEAN countries, based on more comprehensive information from the International Monetary Fund as well as World Bank, are generally much higher than those shown in tables II-24 and II-25. A summary of these estimates of external debt and debt service ratios is reproduced below.

ASEAN. Public external debt and debt service ratios,^a
1974, 1978 and 1979 (preliminary)
(\$US million and percentage)

| | 1974 | 1978 | 1979p |
|--------------------|-------|--------|--------|
| <i>Indonesia</i> | | | |
| Total debt | 6,277 | 12,788 | 13,500 |
| Debt service ratio | 3.9 | 12.2 | 11.4 |
| <i>Malaysia</i> | | | |
| Total debt | 867 | 2,671 | 3,000 |
| Debt service ratio | 2.5 | 8.8 | 4.3 |
| <i>Philippines</i> | | | |
| Total debt | 1,098 | 4,064 | 5,400 |
| Debt service ratio | 17.3 | 27.1 | 25.3 |
| <i>Singapore</i> | | | |
| Total debt | 509 | 1,020 | 1,100 |
| Debt service ratio | 0.6 | 2.2 | 1.1 |
| <i>Thailand</i> | | | |
| Total debt | 513 | 1,777 | 3,000 |
| Debt service ratio | 11.3 | 21.5 | 22.0 |

Source: *The Amex Bank Review*, vol. 7, No. 1, January 1980.

Note: ^a Defined as total interest and amortization payments on debt of more than 12 months' maturity as a percentage of total current account receipts, including transfers.

crease in the the carrying charges on outstanding debt. At least two major developments in the circumstances pertinent to this issue are currently in process. The doubling of oil prices in 1979, given the condition of the balance of payments of most developing countries in the region and the tendency of foreign exchange reserves to stagnate mean that many countries will be forced to borrow to finance essential imports. Further exacerbating these circumstances, the impending recession in major segments of the developed world seems almost inescapably to foreshadow a marked slackening in the growth of developing country exports and the distinct possibility of an outright decline in nominal export values during 1980

136. The world debt situation and in particular the segment comprised of international commercial loans has evolved unfavourably in important respects bearing upon the ability of developing countries to borrow large additional amounts for balance of payments support. The importance of these circumstances is heightened by the exceptionally large increase in current account deficits which are beginning to accumulate under the impact of the recent oil price rise. Not only has the aggregate debt burden grown enormously but it is also concentrated in a relatively small number of international banks. Moreover, the debtor countries holding the greatest part of this high-cost commercial debt outstanding among the developing economies are also fairly heavily concentrated among the middle-income countries of the developing world. The reverberations of a major default would undoubtedly be serious indeed. Though such a debacle may be a possibility it is not yet a likelihood nor are resuscitative measures entirely lacking. Doubtless more important than this eventuality are circumstances generated by the oil price increases which are creating a pervasive shift of financial resources towards the OPEC countries. Financial intermediation by the international banks will favour the developed economies, given their greater capacity to pay higher rates for borrowing. The costs of borrowing in international funds markets will become increasingly onerous for the middle-level income developing countries and prohibitive for the poorer countries. In these circumstances, planning for the mobilization of a massive transfer of financial resources to the non-oil developing countries acquires an exceptionally urgent character.

C. INFLATION, ASPECTS OF POLICY AND THE OUTLOOK FOR 1980

137. Among economies as diverse as the developing economies of the Asia and Pacific region, the problems of economic management confronting Governments and policy makers are understandably

highly varied. Experiences with problems of production and trade, prices and inflation during 1978 and 1979 constitute no exception, though the emergence of renewed domestic inflation probably stands out as a common problem for the management of many economies in the region. Moreover, the influence of inflationary impulses generated by the international market economy doubtless constitutes a common element in the inflationary pressures that appeared in developing ESCAP economies during this period. The sources of inflationary pressures, as will become clear in the following, have by no means been confined to the external sector. Not only have domestic sources of inflation been important and sometimes predominant in individual economies, but the transmission of inflationary impulses from abroad has varied in form and intensity from country to country, depending chiefly on the structure of production and markets and the extent of dependence upon international trade.

138. Policy responses have likewise varied according to the perception of the causes and their particular impact on the individual economy. Rising prices of important import commodities, of which petroleum products are the most obvious, though not the only examples, suggest that for many countries the nature of the stimulus was that of a cost-push, arising from the necessity to pay more for necessary imports. Nevertheless, export expansion accompanied by increasing prices of exported goods, both primary commodities and manufactures, has been of continued importance to the growth of several countries of the region during the past two years, as the earlier discussion of trade flows has indicated. With continued, and in some instances enhanced growth of total export values, domestic incomes have been generated, frequently at increasing nominal rates. With varying periods of lag, these incomes have in turn been spent, increasing aggregate demand and, in situations in which supply responses have been limited by slow growth in physical output, whether in agriculture or industry, pressures to increase domestic prices have followed in train. The circumstances which constrain policy and the effectiveness of policy responses to these inflationary occurrences has varied widely among countries, as examples will presumably demonstrate. In the event, both the particular conformation of inflationary impulses and the conditions — such as the prevailing state of monetary liquidity and the availability of physical production capacity — will bear upon the nature and effectiveness of policy measures.

139. Among the developing ESCAP economies that are less dependent upon external trade, the contribution of export incomes to the growth of

domestic demand has been less important and its inflationary influence of less consequence. In such economies, declining agricultural output occasioned by drought or other unfavourable weather conditions has been an important source of inflationary pressures. With concurrent effects of drought impinging upon power production and with the decline in the supply of industrial inputs from agriculture, accompanied by increases in their prices, an undiminished flow of money incomes characteristically leads to domestically generated inflation. It is clear that the inflation syndrome varies greatly in both symptom and cause, and policy actions have been patterned accordingly.

140. In various contexts, reference has already been made to the resurgence of price inflation in the majority of the developing countries of the ESCAP region, following a period of reasonably successful containment in the aftermath of the commodity boom of 1973-1974. Details of the annual changes of wholesale and retail prices for selected countries are contained in table II-26, although the annual data which they contain do not fully reflect the impact of the inflationary pressures that were building up in the course of 1979. Apart from seasonal variations, monthly or quarterly estimates in most cases indicate distinctly higher rates of inflation during the last half of the year.

141. Most of the countries for which wholesale price indexes are available experienced rates of inflation in wholesale prices during 1979 which were greater than those recorded in 1978. Wholesale price rises in 1978 had generally been more moderate than in the years immediately preceding. The extent to which these price increases outpaced those of consumer prices in 1979 is generally indicative of the pressures exerted by rising costs of raw materials that had yet to work through fully to prices of consumer goods. However, although it is apparent that the prices of raw materials and other inputs, some of them imported (most importantly petroleum products), were an important element in the acceleration of inflation, no clear pattern emerges from a comparison of data for wholesale and consumer prices in the table. Different combinations of factors have been responsible for the experiences of individual countries with regard to inflation; these factors are themselves related to the positions of countries *vis-à-vis* fluctuations in food supplies, the dependence on non-compressible imports of key materials, and the state of the balance of payments.

142. Individual countries reacted to the sharply rising international oil prices that began early in 1979 in a variety of ways. In general, the earlier 1973-1974 experience of oil-price increases had

prompted Governments to extend the scope of public control, but the past burdens of subsidy conditioned the willingness to restrain the prices of key items of consumer expenditure most directly affected and falling within the bounds of public control, such as kerosene and motor fuels, public transport fares and electrical power. Moreover, some Governments, notably those of the Philippines and Sri Lanka, were in the process of dismantling fairly extensive panoplies of price controls when the impact of renewed increases in the prices of oil imports began to be felt. Several Governments authorized large increases in domestic prices of these more vulnerable items in the first half of the year, while others were under increasing pressure to make concomitant adjustments as the year progressed, and further large price increases emerged from the oil pipeline. In India, by contrast, excise taxes on kerosene and diesel fuel were reduced late in 1979 to cushion the impact of price increases on households and on farmers who depend on motor pumps for irrigation.

143. In only a proportion of countries was the re-emergence of inflationary pressures coincident with, and traceable predominantly to, the second oil shock. Sharply higher import prices for Sri Lanka in 1978 followed from the substantial devaluation of its currency in November 1977 and set in train cost-induced upward pressures on prices well in advance of the rise in oil prices. In Indonesia, which as a substantial oil exporter is not affected so directly by higher prices of oil imports, the devaluation of November 1978 was a major contributory factor to an acceleration in domestic prices.

144. In the Republic of Korea, rapidly rising labour costs in manufacturing have been cited as a cause for the acceleration of inflation in 1978. Although annual increases exceeding 30 per cent in nominal monthly earnings were persistent throughout 1976-1978, manufacturing productivity rose at an increasing rate so that unit costs of labour inputs have in fact not accelerated. However, per-unit labour costs rose more rapidly than prices of power and material inputs for manufacturing industry in 1977 and 1978, thus making labour relatively more expensive than other inputs. Data for the first three quarters of 1979 indicate that labour productivity in manufacturing has risen sharply while monthly earnings have continued to rise at rates comparable to 1978. Although manufacturing industry in the Republic of Korea employs a sufficiently large share of the labour force for rising labour costs to have an inflationary impact, it is not clear that an important part of the impetus to accelerated inflation can be attributed to this potential source. There are few other developing

Table II-26. Developing ESCAP economies.
Changes in wholesale and consumer price indexes, 1975-1979
(percentage)

Key: C = Consumer prices (all items);^a F = Consumer prices (food);^a
W = Wholesale prices^b

| | | 1975 | 1976 | 1977 | 1978 | 1979 ^c |
|------------------------------|----------------|------|-------|------|-------------------|-------------------|
| <i>West and south Asia</i> | | | | | | |
| Afghanistan | C | 10.0 | 0.5 | 9.5 | 6.7 | 9.5(5) |
| Bangladesh | C | 24.4 | -9.6 | 10.4 | 13.2 | 12.7 |
| | F | 20.8 | -19.5 | 10.1 | 13.5 | 12.7 |
| | W | 49.2 | -25.6 | -6.5 | 22.0 | 20.1 |
| Burma | C | 31.6 | 25.8 | -3.8 | -6.1 | 5.7 |
| | F ^d | 35.8 | 17.8 | -3.0 | -7.4 | 5.6 |
| | W ^d | 40.8 | 24.2 | -9.1 | -11.8 | 2.3 |
| India | C | 5.6 | -7.8 | 8.4 | 2.5 | 6.3 |
| | F | 4.4 | -12.6 | 9.9 | 0.9 | 1.4 |
| | W | 3.9 | -1.9 | 7.5 | -0.3 | 11.5 |
| Iran | C | 12.8 | 11.3 | 27.2 | 9.6 ^e | 13.5(9) |
| | F | 12.2 | 6.9 | 18.8 | 14.7 ^e | ... |
| | W | 5.3 | 13.4 | 23.8 | 8.7 ^e | 15.2(9) |
| Nepal | C | 12.9 | -2.0 | 8.5 | 5.3 | 6.0 |
| | F | 13.0 | -7.3 | 12.8 | 5.4 | 6.2 |
| Pakistan | C | 20.8 | 7.2 | 10.1 | 6.7 | 9.4 |
| | F | 22.2 | 6.0 | 11.3 | 5.6 | 7.1 |
| | W | 23.6 | 8.6 | 11.3 | 5.2 | 7.4 |
| Sri Lanka | C | 6.8 | 1.2 | 1.2 | 12.1 | 10.8 |
| | F | 7.7 | -1.1 | 0.6 | 16.8 | 10.8 |
| | W | 3.4 | 8.1 | 31.0 | 7.4 | 8.7 |
| <i>South-east Asia</i> | | | | | | |
| Indonesia | C | 19.0 | 19.8 | 10.9 | 8.3 | 20.2 |
| | F | 20.5 | 22.1 | 10.6 | 7.8 | 20.6 |
| | W | 7.2 | 14.6 | 14.1 | 9.6 | 52.3 |
| Malaysia | C | 4.6 | 2.6 | 4.7 | 4.9 | 3.6 |
| | F | 3.3 | 2.1 | 5.4 | 5.0 | 2.2 |
| Philippines | C | 6.8 | 9.2 | 9.9 | 7.3 | 16.5 |
| | F | 5.2 | 9.2 | 9.6 | 6.3 | 15.1 |
| | W | 5.4 | 9.2 | 9.9 | 6.8 | 18.3 |
| Singapore | C | 2.6 | -1.9 | 3.2 | 4.8 | 4.0 |
| | F | 1.1 | -6.1 | 4.9 | 6.7 | 2.8 |
| | W | -1.5 | 6.7 | 4.5 | 1.6 | 14.4 |
| Thailand | C | 4.1 | 4.9 | 8.4 | 8.8 | 10.3 |
| | F | 4.1 | 5.5 | 11.5 | 8.4 | 9.2 |
| | W | 3.7 | 4.0 | 5.3 | 4.8 | 12.9 |
| <i>East Asia and Pacific</i> | | | | | | |
| Fiji | C | 13.0 | 11.4 | 7.0 | 5.8 | 7.9 |
| | F | 12.3 | 3.2 | 7.5 | 5.3 | 5.9 |
| Hong Kong | C | 5.4 | 3.7 | 5.4 | 5.9 | 10.8 |
| | F | 2.7 | 2.9 | 6.5 | 7.0 | 11.6 |
| Papua New Guinea | C | 10.4 | 7.7 | 4.5 | 5.8 | 5.8 |
| | F | 7.2 | 4.1 | 4.2 | 4.2 | 4.5 |
| Republic of Korea | C | 25.4 | 15.3 | 10.2 | 14.4 | 18.3 |
| | F | 31.9 | 17.8 | 11.6 | 16.7 | 13.8 |
| | W | 26.5 | 12.1 | 9.0 | 11.7 | 18.8 |

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1980, tables 58 and 61; *Statistical Indicators for Asia and the Pacific*, X:1, March 1980, and national sources.

Notes: ^a Price indexes for capital cities except Fiji, India, Iran, Malaysia, Pakistan, Papua New Guinea, the Philippines and the Republic of Korea.

^b General wholesale price index except as noted.

^c Number of months in parentheses indicates an annual rate for a period less than the full year 1979.

^d Wholesale prices of agricultural products.

^e Discontinuity in series.

economies in the region in which the share of manufacturing employment is sufficiently large to exert an independent force on inflationary developments through deteriorating wage-productivity relationships.

145. Another factor, of which the main impact was felt in 1979, somewhat after the first sharp rise in oil prices, was the shortfall in the output of foodgrains. The drought affecting Bangladesh, India, Nepal and Sri Lanka was a major cause of the acceleration of inflation that occurred in each of these countries, particularly since food items account for a relatively large share of consumer expenditure, which is reflected in their weight in the consumer price index. Bangladesh and Sri Lanka responded to incipient shortfalls in domestic grain production by augmenting imports, and India ordered increasingly large releases from its grain stockpiles as the year progressed and as a fuller assessment was made of the seriousness of the drought. These measures undoubtedly served to soften the impact of grain shortages, even if they could not have wholly compensated for them. The experience of Burma, which has enjoyed greater price stability as a result of more assured food supplies, serves to highlight the importance of this factor in the control of inflation. Increased domestic rice production and enhanced transportation capacities enabled Burma to reduce consumer price inflation rates in 1977 and 1978, although prices of food were beginning to rise during the early months of 1979.

146. Quite unlike the relative price movements during the foodgrains crisis years of the first half of the 1970s, food prices in 1978 and 1979 do not appear to have risen more rapidly than consumer prices in general (see table II-26). Though clearly not definitive in its causal implications, the comparison of relative rates of price increase in consumer prices of foodstuffs is often dependably indicative. It will be noted that annual percentage increases in food price indexes exceeded those in the all-items index by a significant margin only in a few cases: in Sri Lanka in 1978 but not in 1979, in the Republic of Korea for several years including 1978 but not during 1979, in Singapore in 1977 and 1978 but not in 1979 and in Hong Kong in 1977, 1978 and, by a diminishing margin, during 1979. For these economies, all net importers of foodgrains, it would appear that rising food prices had an appreciable impact on the general consumer price level during much of the period under review.

147. The years 1978 and 1979 were favourable export years for several of the more strongly export-oriented economies of the developing ESCAP region, both for primary products and for manufactures.⁶⁶ Primary products exporters recording high rates of export growth in one or both years

include Malaysia, the Philippines and Thailand, all of which are also among the larger exporters of manufactures; Malaysia exports an appreciable amount of crude and partially refined petroleum (nearly 16 per cent of gross export value in 1979). For each of these economies merchandise exports contribute a significant share of GDP and on average during these two years exports (at current prices) expanded by 20 per cent or more. Export incomes generated by such increases consequently contributed importantly to the growth of both GDP and, after varying periods to permit these incomes to be spent, to the expansion of aggregate money demand. Unlike the experience during the commodities export boom of 1973-1974, however, this process of export expansion did not generate exceptionally high rates of domestic inflation in all instances, though it must have contributed importantly to the upward pressure on domestic price levels. Comparison of the rates of import expansion during these years suggests that in these countries import growth was a major element in the neutralization of this potential for inflation. Except for petroleum products, the prices of imports into these economies appear to have risen rather less rapidly than those of exports. Reference to table II-20, shows that the barter terms of trade improved appreciably for Malaysia in both years and for the Philippines chiefly in 1978, while for Thailand, an appreciable improvement in the barter terms of trade is recorded only for the first half of 1979. Though the correspondence between these patterns of change and that of domestic prices in each country is approximate at best, it seems broadly to confirm the expected relationship. For the manufactures exporters these crude comparisons are less indicative. Whilst import values grew appreciably more rapidly in 1978 than the value of exports of Hong Kong and Singapore, the barter terms of trade for both remained virtually unchanged; for the Republic of Korea the barter terms improved appreciably only in 1978. It remains true, however, that the Republic of Korea experienced more rapid inflation, particularly during 1979, and that the rise in consumer prices in Hong Kong accelerated sharply in 1979 when the rate of import expansion was considerably less rapid than that of exports.

148. Anxieties about more rapidly rising prices stimulated a variety of monetary policy reactions, among which the contrasts were a function of the individual perceptions by Governments of the seriousness of the problem, of the extent to which the impact of monetary policies was likely to be mitigated by other factors, such as injections or leakages via the external sector, and of their

⁶⁶ See table II-13B, section B.1, above for the relevant current-price values for total exports.

capacities — often dependent upon the maturity and degree of articulation of the banking system — to exert an effective influence on the level of liquidity and credit in the economy. Moreover, besides the concern to control the over-all growth of money supply were the needs to facilitate the expansion of credit selectively, for example, to enable manufacturers dependent on inputs imported at rapidly rising prices to maintain adequate supplies and to promote the expansion of production in lagging sectors, such as food agriculture.

149. India, the Republic of Korea and Thailand were among the developing countries of the region which, as part of their response to inflation, attempted to impose fairly strict monetary regimes on their economies. Thailand reacted at a comparatively early stage to the quickening of inflation rates, and by the second quarter of 1979 it had become clear that the tightness of the monetary situation was potentially highly detrimental to the interests of smaller businesses. Credit restrictions were eased and during the year loans to farmers were stepped up as part of the endeavours of the Government to channel more resources to the rural areas. Also in Pakistan, when mild selective credit controls were prescribed, policy featured interest-free loans to small farmers and larger flows of credit to cottage industries and small businesses; in Burma, where interest rates also rose, credit to the agricultural sector was increased. In Hong Kong, which is characterized by exceptionally limited monetary and credit controls, there was a ban on issues of new banking licences, more stringent asset holding conditions imposed on banks and an unprecedented rise in the prime lending rate which moved up from 6 per cent in November 1978 to 14.5 per cent 12 months later, consonant with the increases in bank rates in world financial centres. However, commercial banks applied easier rates to local manufacturers for the import of raw materials.

150. Malaysia, the Philippines and Singapore pursued relatively passive monetary policies during 1979. Malaysia and Singapore generally allow the money supply to follow the requirements of the private sector for liquidity without visible exertion of drastic restraints on expansion. The Central Bank of the Philippines announced the abandonment of the "orthodox" policy of contracting liquidity to control inflation, maintaining that a slow-down in monetary growth had occurred as a result of leakages from the economy via the balance of payments.⁶⁷ Later in the year, however, mild monetary controls were signalled by the encouragement of higher interest rates on commercial bank deposits.

151. In addition to monetary measures some Governments attempting to exercise a degree of control on their economies through adjustments in levels of public spending appear to have neutralized a part of the effects of monetary restraint. Such was the case in Sri Lanka, particularly as a result of the Government's increased extra-budgetary spending. In other countries, fiscal restraint reinforced the effects of monetary policies. This occurred involuntarily in Thailand where the slow rate of disbursement in public funds was a contributory reason for the about-turn in monetary policies. In Bangladesh and the Republic of Korea, the Governments attempted at least to balance their current budgets through reductions in subsidies, among other measures.

152. Although contributing to increasing current accounts deficits, some countries have sought to facilitate the supplies of key imports as part of an anti-inflation strategy. Bangladesh and the Republic of Korea are among the countries that have pursued this policy, although in the latter case, as in Sri Lanka, liberalization of imports forms part of a longer-term development policy to favour freer trade. In these countries, as in Singapore, Hong Kong and Malaysia, import facilitation has undoubtedly made an important contribution to restraining domestic price inflation.

The outlook for 1980

153. At the turn of the year the imminent American recession had still failed to materialize, thanks perhaps to a more free-spending end-of-the-year in anticipation of further price rises all round after Caracas. Assuming only that the Government and Federal Reserve policy-makers remain adamant in their resolve to de-fuel the continuing inflation, there is little to prevent the long-awaited winding down of business activity as the new year unfolds. More obviously calculable because the cause is *fait accompli*, the initial impacts of Caracas and the closely subsequent decisions to raise the price of crude to levels which probably averaged nearly \$US 30 per barrel, nevertheless retain a certain ambiguity whether the net influence will be more deflationary than inflationary. In the short term the depressive (more accurately than deflationary) effects will undoubtedly predominate, chiefly through increases in fuel costs and the prices of petroleum derivatives. The oil shock effect on economies in circumstances such as those prevailing in the United States and the United Kingdom and a fair number

⁶⁷ The experience of the Philippines was in contrast to that of certain other countries which, despite a tendency to run up balance of trade deficits, received significant monetary injections into their economies through the remitted earnings of workers abroad: examples are Bangladesh, Pakistan and the Republic of Korea.

of smaller OECD countries will likely be quite sufficient to tip the balance in the direction of recession. The major unanswered questions involve the magnitudes of the impact and response and, as always, the timing.

154. Seen from an Asian viewpoint the implications of a serious slowdown in the developed world market economies, even though it may bring some respite from the burgeoning inflation now in progress, can scarcely be other than deleterious whether the onslaught comes a little sooner or a little later than anticipated. The oil shock has already begun to register its impact on developing Asian economies and the effects are depressive without at the same time being deflationary. On the contrary, the cost-push influence of increased oil, fertilizer and petrochemical prices with their effects on the costs of production in agriculture, mining, manufacturing, power and transportation will under current circumstances give added impetus to the resurgent inflation already in process. The depressive effects that flow from the cost-price squeeze will be reinforced by declining demand for exports from developing economies when the impending recession in the developed market economies gradually settles in. Only then is it likely that domestic measures will be capable of contributing to the stabilization of prices, but this will occur at great cost in terms of decreased levels of production in the urban industrial and commercial sectors and significant increases in open unemployment. How greatly agriculture will suffer will depend upon the degree of its dependence upon export markets and the ability of government policy to sustain demand for food and other essential domestically consumed agricultural output. Food agriculture will also depend on the effectiveness of measures to sustain the supply of key inputs, notably fertilizer, and the availability of credit especially to small farmers.

155. That these developments, even if their timing is retarded, will sorely test the capability of Governments in the Asia and Pacific region to manage the domestic economy need scarcely be underscored. The implicit threat of political unrest can likewise be anticipated. It may therefore be expected that Governments will soon set in motion the processes of planning for both short- and medium-term policy measures which will be required to sustain employment and the demand for agricultural products so that the initial impact may be weathered without unmanageable disruption. Simultaneously, plans will have to be made that have a medium- and eventually longer-term focus, altering in some cases the priorities contingent upon continuously expanding export markets and restructuring in the direction of adding to the capacity to produce essential commodities for domestic use. Programmes for the development of export-oriented production need not, and for some economies cannot be abandoned. Rather, the hitherto incipient efforts to create productive capacity in the processing of indigenous raw materials can be reactivated both for the production of import substitutes and exportable manufactures and semi-fabricates. In this process the development of indigenous energy resources can and must become an integral part. Finally, the opportunities for co-operation among neighbouring and more distant developing countries, which have gained abundant verbal approbation, can now be followed up with the inspiration and dedication derived of dire necessity. The opportunities for joint planning of production, the pooling of resources as well as of markets have all been charted and discussed. There is now the opportunity to put into effect the necessary plans and to implement them over an expanding area of activity both geographically and sectorally; it is an opportunity that has begun to knock once again and with greater urgency than ever.

Annex

Table 1a. Bangladesh. Resources balance, 1974/75-1978/79
(Taka million, current market prices)

| | (Fiscal year July-June) | 1974/75 | 1975/76 | 1976/77 | 1977/78 | 1978/79 ^p |
|---|----------------------------|---------|---------|---------|---------|----------------------|
| GNP mp | | 101 755 | 99 783 | 95 673 | 110 488 | 123 059 |
| Factor income abroad ^a | | 240 | 294 | 386 | 397 | 443 |
| GDP mp | | 101 515 | 99 499 | 95 287 | 110 091 | 122 616 |
| Imports (g&nfs) ^b | | 10 248 | 20 257 | 14 869 | 21 945 | 26 080 |
| (less) | | | | | | |
| Exports (g&nfs) ^b | | 3 170 | 5 520 | 7 930 | 8 910 | 11 190 |
| Domestic resources (DR) | | 108 593 | 114 236 | 102 226 | 123 126 | 137 506 |
| Consumption | | 100 706 | 104 969 | 92 849 | 108 178 | 119 085 |
| Capital formation ^c | | 7 887 | 9 267 | 9 377 | 14 948 | 18 421 |
| Saving ^d | | 1 049 | -5 186 | 2 824 | 2 310 | 3 974 |
| Current account ^e | | -6 838 | -14 453 | -6 553 | -12 638 | -14 447 |
| <i>Ratios (percentage)</i> | | | | | | |
| X/GDP | | 3.1 | 5.5 | 8.3 | 8.1 | 9.1 |
| M/GDP | | 10.1 | 20.4 | 15.6 | 19.9 | 21.3 |
| DR/GDP | | 107.0 | 114.8 | 107.3 | 111.8 | 112.1 |
| Capital formation/GDP | | 7.8 | 9.3 | 9.8 | 13.6 | 15.0 |
| C/GNP | | 99.0 | 105.2 | 97.0 | 97.9 | 96.8 |
| GNS/GNP | | 1.0 | -5.2 | 3.0 | 2.1 | 3.2 |
| B _c /Capital formation | | 86.7 | 156.0 | 69.9 | 84.5 | 78.4 |

Source: Bangladesh Planning Commission (November 1979).

Notes: ^a Estimated from GDP production account data in Bangladesh Bank, *Economic Trends*, IV.5, May 1979.

^b Goods and non-factor services.

^c Assumed to be fixed capital formation; stock changes not given in source.

^d Gross national saving.

^e Balance on current account, balance of payments (B_c).

^p Preliminary.

Table 2a. Resources balance, 1974-1978 and 1979 (plan)
(Kyat million, current market prices)

| | (Years begin April) | 1974 | 1975 | 1976 | 1977 | 1978p | 1979 (plan) |
|---|------------------------|---------|---------|---------|---------|---------|----------------|
| GNP | | 19 284 | 23 442 | 26 700 | 29 431 | 30 766 | 32 786 |
| Factor income abroad ^a | | -41 | -77 | -73 | -80 | -84 | -89 |
| GDP | | 19 325 | 23 519 | 26 773 | 29 511 | 30 850 | 32 875 |
| Imports (g&nfs) ^b | | 1 016 | 1 620 | 2 100 | 2 220 | 3 994 | 4 372 |
| Total resources | | 20 341 | 25 139 | 28 873 | 31 731 | 34 844 | 37 247 |
| (less) | | | | | | | |
| Exports (g&nfs) ^b | | 899 | 1 164 | 1 656 | 1 728 | 2 120 | 2 589 |
| Domestic resources (DR) | | 19 442 | 23 975 | 27 212 | 30 003 | 32 724 | 34 658 |
| Consumption | | 17 700 | 21 510 | 24 481 | 26 469 | 26 674 | 27 965 |
| Capital formation | | 1 742 | 2 465 | 2 736 | 3 534 | 6 050 | 6 693 |
| (Fixed) | | (1 267) | (1 868) | (2 305) | (3 447) | (6 006) | (6 644) |
| (Stocks) | | (475) | (597) | (431) | (87) | (44) | (49) |
| Saving ^c | | 1 584 | 1 932 | 2 219 | 2 962 | 4 092 | 4 821 |
| Current account ^d | | -158 | -533 | -517 | -572 | -1 958 | -1 872 |
| Ratios (percentage) | | | | | | | |
| X/GDP | | 4.6 | 4.9 | 6.2 | 5.9 | 6.9 | 7.9 |
| DR/GDP | | 100.6 | 101.9 | 101.6 | 101.7 | 106.1 | 105.4 |
| Fixed capital GDP | | 6.6 | 7.9 | 8.6 | 11.7 | 19.5 | 20.2 |
| C/GNP | | 91.8 | 91.8 | 91.7 | 89.9 | 86.7 | 85.3 |
| GNS/GNP | | 8.2 | 8.2 | 8.3 | 10.1 | 13.3 | 14.7 |
| B _c /Capital formation | | 9.1 | 21.6 | 18.9 | 16.2 | 32.4 | 28.0 |

Source: Burma, Ministry of Planning and Finance.

Notes: ^a Estimated at ratio to GDP for 1974-1976 in IBRD, *Economic Data Sheet-1* (1979).^b Goods and non-factor services.^c Gross national saving (GNS).^d Balance on current account, balance of payments (B_c).

p Preliminary.

Table 2b. Burma. Resources balance, 1974-1978 and 1979 (plan)
(Kyat million, 1969 market prices)

| | (Years begin April) | 1974 | 1975 | 1976 | 1977 | 1978p | 1979 (plan) |
|--|------------------------|--------|--------|--------|---------|---------|----------------|
| GNP | | 11 078 | 11 524 | 12 231 | 12 963 | 13 832 | 14 652 |
| Factor income abroad | | -23 | -38 | -34 | -36 | -38 | -40 |
| GDP | | 11 101 | 11 562 | 12 265 | 12 999 | 13 870 | 14 692 |
| Imports (g&nfs) ^a | | 378 | 454 | 454 | 604 | 985 | 1 034 |
| Total resources | | 11 479 | 12 016 | 12 719 | 13 603 | 14 855 | 15 726 |
| (less) | | | | | | | |
| Exports (g&nfs) ^a | | 511 | 448 | 491 | 573 | 694 | 847 |
| Domestic resources (DR) | | 10 968 | 11 568 | 12 229 | 13 030 | 14 161 | 14 879 |
| Consumption | | 9 868 | 10 411 | 11 081 | 11 681 | 12 002 | 12 530 |
| Capital formation | | 1 100 | 1 157 | 1 148 | 1 349 | 2 159 | 2 349 |
| (Fixed) | | (779) | (807) | (904) | (1 312) | (2 138) | (2 326) |
| (Stocks) | | (321) | (350) | (244) | (38) | (21) | (23) |
| Saving ^b | | 1 210 | 1 113 | 1 150 | 1 282 | 1 830 | 2 122 |
| Current account ^c | | 110 | -44 | 2 | -67 | -329 | -227 |
| Annual change (percentage) | | | | | | | |
| GNP | | | 4.0 | 6.1 | 6.0 | 6.7 | 5.9 |
| GDP | | | 4.2 | 6.1 | 6.0 | 6.7 | 5.9 |
| DR | | | 5.5 | 5.7 | 6.6 | 8.7 | 5.1 |
| Imports | | | 20.1 | 0.0 | 33.0 | 63.1 | 5.0 |
| Exports | | | -12.3 | 9.6 | 16.7 | 21.1 | 22.0 |
| Consumption | | | 5.5 | 6.4 | 5.4 | 2.7 | 4.4 |
| Fixed capital | | | 3.6 | 12.0 | 45.1 | 63.0 | 8.8 |
| GNS | | | -8.0 | 3.3 | 11.5 | 42.7 | 16.0 |

Source: Burma, Ministry of Planning and Finance.

Notes: ^a Goods and non factor services.^b Gross national saving (GNS).^c Balance on current account, balance of payments (B_c).

p Preliminary.

Table 3a. Hong Kong. Resources balance, 1974-1979
(\$HK million, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 ^a | 1979 ^b |
|---|----------|----------|----------|----------|-------------------|-------------------|
| GNP mp | 39 774 | 41 607 | 53 297 | 60 943 | 70 936 | 89 570 |
| Factor income abroad ^c | 988 | 1 033 | 1 324 | 1 514 | 1 762 | 2 225 |
| GDP mp | 38 786 | 40 574 | 51 973 | 59 429 | 69 174 | 87 345 |
| Imports (goods) | 34 142 | 33 532 | 43 520 | 48 796 | 63 263 | 86 469 |
| (less) | | | | | | |
| Exports (goods) | 30 036 | 29 833 | 41 557 | 44 833 | 53 907 | 75 966 |
| (less) | | | | | | |
| Exports (services) net ^d | 4 817 | 4 619 | 6 355 | 6 059 | 7 298 | 10 018 |
| Domestic resources (DR) | 38 075 | 39 654 | 47 581 | 57 333 | 71 232 | 87 830 |
| Consumption | 29 654 | 31 073 | 34 904 | 42 801 | 53 220 | 63 169 |
| (Private) | (27 216) | (28 427) | (31 857) | (39 126) | (48 767) | (57 666) |
| (Government) | (2 438) | (2 646) | (3 047) | (3 675) | (4 453) | (5 503) |
| Capital formation | 8 421 | 8 581 | 12 677 | 14 532 | 18 012 | 24 661 |
| (Fixed) | (7 743) | (7 850) | (9 698) | (12 830) | (16 907) | (25 298) |
| (Stocks) | (678) | (731) | (2 979) | (1 702) | (1 105) | (637) |
| Saving ^e | 10 120 | 10 534 | 18 393 | 18 142 | 17 716 | 26 401 |
| Current account ^f | 1 699 | 1 953 | 5 716 | 3 610 | -296 | 1 740 |
| <i>Ratios (percentage)</i> | | | | | | |
| Xg/GDP | 77.4 | 73.5 | 80.0 | 75.4 | 77.9 | 87.0 |
| DR/GDP | 98.2 | 97.7 | 91.5 | 96.5 | 103.0 | 100.6 |
| Fixed capital/GDP | 20.0 | 19.3 | 18.7 | 21.6 | 24.4 | 29.0 |
| C/GNP | 74.6 | 74.7 | 65.5 | 70.2 | 75.0 | 70.5 |
| C _g /GNP | 68.4 | 68.3 | 59.8 | 64.2 | 68.7 | 64.4 |
| GNS/GNP | 25.4 | 25.3 | 34.5 | 29.8 | 25.0 | 29.5 |
| B _c /GDCE ^g | (20.2) | (22.8) | (45.1) | (24.8) | 1.6 | (7.1) |

Sources: Census and Statistics Department, Hong Kong, *The 1980-81 Budget: Estimates of Gross Domestic Product, 1966-78*; for 1979: *Hong Kong in Figures, 1980* edition.

Notes: ^a Provisional.

^b Preliminary.

^c Supplied by the Economic Services Branch; 1979 estimated.

^d Exports less imports of non-factor services.

^e Gross national saving (GNS).

^f Balance on current account, balance of payments (B_c).

^g Gross domestic capital formation.

Table 3b. Hong Kong. Resources balance, 1974-1979
(\$HK million, at 1973 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 ^a | 1979 ^b |
|---|----------|----------|----------|----------|-------------------|-------------------|
| GNP mp | 35 455 | 36 249 | 43 075 | 47 306 | 52 046 | 58 019 |
| Factor income abroad ^c | 881 | 900 | 1 070 | 1 175 | 1 293 | 1 442 |
| GDP mp | 34 574 | 35 349 | 42 005 | 46 131 | 50 753 | 56 577 |
| Imports (goods) | 26 068 | 27 046 | 33 743 | 36 424 | 44 244 | 51 130 |
| (less) | | | | | | |
| Exports (goods) | 24 373 | 25 161 | 32 215 | 33 853 | 38 517 | 46 041 |
| (less) | | | | | | |
| Exports (services) net ^d | 3 677 | 3 725 | 4 926 | 4 522 | 5 103 | 5 893 |
| Domestic resources (DR) | 32 592 | 33 509 | 38 607 | 44 180 | 51 377 | 55 773 |
| Consumption | 25 633 | 26 218 | 28 511 | 33 316 | 39 289 | 42 461 |
| (Private) | (23 527) | (24 005) | (26 119) | (30 626) | (36 255) | (39 054) |
| (Government) | (2 106) | (2 213) | (2 392) | (2 690) | (3 034) | (3 407) |
| Capital formation | 6 959 | 7 291 | 10 096 | 10 864 | 12 088 | 13 312 |
| (Fixed) | (6 490) | (6 578) | (7 681) | (9 533) | (11 219) | (13 876) |
| (Stocks) | (469) | (713) | (2 415) | (1 331) | (869) | (-564) |
| Saving ^e | 9 458 | 10 212 | 14 564 | 13 990 | 12 757 | 15 557 |
| Current account ^f | 2 499 | 2 921 | 4 468 | 3 126 | 669 | 2 245 |
| <i>Annual change (percentage)</i> | | | | | | |
| GNP | | 2.2 | 18.8 | 9.8 | 10.0 | 11.5 |
| GDP | | 2.2 | 18.8 | 9.8 | 10.0 | 11.5 |
| DR | | 2.8 | 15.2 | 14.4 | 16.3 | 8.6 |
| Imports (goods) | | 3.8 | 24.8 | 7.9 | 21.5 | 15.6 |
| Exports (goods) | | 3.2 | 28.0 | 5.1 | 13.8 | 19.5 |
| Consumption | | 2.3 | 8.7 | 16.9 | 17.9 | 8.1 |
| Consumption (private) | | 2.0 | 8.8 | 17.3 | 18.4 | 7.7 |
| Fixed capital | | 1.4 | 16.8 | 24.1 | 17.7 | 23.7 |
| Saving | | 8.0 | 42.6 | -3.9 | -8.8 | 21.9 |

Sources: Census and Statistics Department, Hong Kong, *The 1980-81 Budget: Estimates of Gross Domestic Product, 1966-78*; for 1979: *Hong Kong in Figures, 1980* edition.

Notes: ^a Provisional.

^b Preliminary.

^c Supplied by the Economic Services Branch; 1979 estimated.

^d Exports less imports of non-factor services.

^e Gross national saving (GNS).

^f Balance on current account, balance of payments (B_c).

Table 4a. Indonesia. Resources balance, 1974-1979
(Rp billion, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p |
|---|-----------|-----------|------------|------------|------------|-------------------|
| GNP mp | 10 200.9 | 12 086.8 | 15 034.5 | 18 332.2 | 21 115.3 | 29 336.9 |
| Factor income abroad | -507.1 | -555.7 | -432.2 | -678.5 | -852.1 | -1 323.8 |
| GDP mp | 10 708.0 | 12 642.5 | 15 466.7 | 19 010.7 | 21 967.4 | 30 660.7 |
| Imports (g&nfs) ^a | 2 293.7 | 2 778.0 | 3 222.1 | 3 817.2 | 4 558.8 | 7 081.9 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 3 105.1 | 2 850.6 | 3 429.6 | 4 465.8 | 4 787.8 | 9 214.4 |
| Domestic resources (DR) | 9 896.6 | 12 569.9 | 15 259.2 | 18 362.1 | 21 738.4 | 28 528.2 |
| Consumption | 8 099.6 | 9 998.2 | 12 054.3 | 14 535.7 | 17 067.7 | 21 610.6 |
| (Private) | (7 258.6) | (8 744.5) | (10 463.8) | (12 458.4) | (14 408.8) | (18 123.0) |
| (Government) | (841.0) | (1 253.7) | (1 590.5) | (2 077.3) | (2 658.9) | (3 487.6) |
| Capital formation | 1 797.0 | 2 571.7 | 3 204.9 | 3 826.4 | 4 670.7 | 6 917.6 |
| Saving ^b | 2 101.3 | 2 088.6 | 2 980.2 | 3 796.5 | 4 047.6 | 7 726.3 |
| Current account ^c | 304.3 | -483.1 | -224.7 | -29.9 | -623.1 | 808.7 |
| <i>Ratios (percentage)</i> | | | | | | |
| X/GDP | 29.0 | 22.5 | 22.2 | 23.5 | 21.8 | 30.1 |
| DR/GDP | 92.4 | 99.4 | 98.7 | 96.6 | 99.0 | 93.0 |
| Capital/GDP | 16.8 | 20.6 | 20.7 | 20.1 | 21.3 | 22.6 |
| C/GNP | 79.4 | 82.7 | 80.2 | 79.3 | 80.8 | 73.7 |
| C _p /GNP | 71.2 | 72.3 | 69.6 | 68.0 | 68.2 | 61.8 |
| GNS/GNP | 20.6 | 17.3 | 19.8 | 20.7 | 19.2 | 26.3 |
| B _c /Capital formation | (16.9) | 18.8 | 7.0 | 0.8 | 13.3 | (11.7) |

Source: Central Bureau of Statistics, *National Income of Indonesia, 1971-1978* (Jakarta, 1979); main tables for 1979, May 1980 (mimeo.).

Notes: ^a Goods and non-factor services. ^c Balance on current account, balance of payments (B_c).
^b Gross national saving (GNS). ^p Preliminary.

Table 4b. Indonesia. Resources balance, 1974-1979
(Rp billion, 1973 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p |
|--|-----------|-----------|-----------|-----------|-----------|-------------------|
| GNP mp | 6 900.0 | 7 270.5 | 7 789.8 | 8 448.2 | 8 957.4 | 9 367.9 |
| Factor income abroad | -369.0 | -360.3 | -366.5 | -422.7 | -513.8 | -568.3 |
| GDP mp | 7 269.0 | 7 630.8 | 8 156.3 | 8 870.9 | 9 471.2 | 9 936.2 |
| Imports (g&nfs) ^a | 1 699.0 | 1 800.6 | 1 946.4 | 2 378.2 | 2 749.2 | 3 040.1 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 1 403.4 | 1 266.8 | 1 425.2 | 1 744.0 | 1 776.3 | 1 934.3 |
| Domestic resources (DR) | 7 534.6 | 8 164.6 | 8 677.5 | 9 505.1 | 10 444.1 | 11 042.0 |
| Consumption | 6 094.6 | 6 514.4 | 6 928.3 | 7 477.6 | 8 111.2 | 8 579.3 |
| (Private) | (5 453.6) | (5 678.9) | (6 031.6) | (6 433.2) | (6 955.1) | (7 394.7) |
| (Government) | (641.0) | (835.5) | (896.7) | (1 044.4) | (1 156.1) | (1 184.6) |
| Capital formation | 1 440.0 | 1 650.2 | 1 749.2 | 2 027.5 | 2 332.9 | 2 462.7 |
| Saving ^b | 805.4 | 756.1 | 861.5 | 970.6 | 846.2 | 788.6 |
| Current account ^c | -634.6 | -894.1 | -887.7 | -1 056.9 | -1 486.7 | -1 674.1 |
| <i>Annual change (percentage)</i> | | | | | | |
| GNP mp | 6.0 | 5.4 | 7.1 | 8.5 | 6.0 | 4.6 |
| GDP mp | 7.6 | 5.0 | 6.9 | 8.8 | 6.8 | 4.9 |
| DR | 12.2 | 8.4 | 6.3 | 9.5 | 9.9 | 5.7 |
| Imports | 26.9 | 7.9 | 8.1 | 22.2 | 15.6 | 10.6 |
| Exports | 3.6 | -9.7 | 12.5 | 22.4 | 1.9 | 8.9 |
| Consumption | 10.7 | 6.9 | 6.4 | 7.9 | 8.5 | 5.8 |
| (Private) | (13.8) | (4.1) | (6.2) | (6.7) | (8.1) | (6.3) |
| (Government) | (-10.5) | (30.3) | (7.3) | (16.5) | (10.7) | (2.5) |
| Capital formation | 19.2 | 14.6 | 6.0 | 15.9 | 15.1 | 5.6 |
| GNS | -19.5 | -6.1 | 13.9 | 12.7 | -12.8 | -6.8 |

Source: Central Bureau of Statistics, *National Income of Indonesia, 1971-1978* (Jakarta, 1979); main tables for 1979, May 1980 (mimeo.).

Notes: ^a Goods and non-factor services. ^c Balance on current account, balance of payments (B_c).
^b Gross national saving (GNS). ^p Preliminary.

Table 5a. Malaysia. Resources balance, 1974-1979
(\$M million, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979p |
|---|----------|----------|----------|----------|----------|----------|
| GNP mp | 21 861 | 21 606 | 27 033 | 31 074 | 35 090 | 40 740 |
| Factor income abroad | -997 | -726 | -931 | -1 189 | -1 407 | -1 725 |
| GDP mp | 22 858 | 22 332 | 27 964 | 32 268 | 36 497 | 42 465 |
| Imports (g&nfs) ^a | 10 989 | 10 071 | 11 620 | 13 507 | 16 350 | 20 683 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 11 043 | 10 172 | 14 554 | 16 216 | 18 427 | 22 597 |
| Domestic resources (DR) | 22 804 | 22 231 | 25 030 | 29 554 | 34 420 | 40 551 |
| Consumption | 16 292 | 17 010 | 18 895 | 22 043 | 25 142 | 29 197 |
| (Private) | (12 776) | (13 086) | (14 594) | (16 655) | (19 420) | (22 624) |
| (Government) | (3 516) | (3 924) | (4 301) | (5 388) | (5 722) | (6 573) |
| Capital formation | 6 512 | 5 221 | 6 135 | 7 511 | 9 278 | 11 354 |
| (Fixed) | (5 798) | (5 602) | (6 206) | (7 343) | (8 627) | (10 999) |
| Private | 4 154 | 3 492 | 3 701 | 4 265 | 5 208 | 6 428 |
| Government | 1 644 | 2 110 | 2 505 | 3 078 | 3 419 | 4 571 |
| (Stocks) | (714) | (-381) | (-71) | (168) | (651) | (355) |
| Saving ^b | 5 569 | 4 596 | 8 138 | 9 031 | 9 948 | 11 543 |
| Current account ^c | -943 | -625 | 2 003 | 1 520 | 670 | 189 |
| <i>Ratios (percentage)</i> | | | | | | |
| X/GDP | 48.3 | 45.5 | 52.0 | 50.3 | 50.5 | 53.2 |
| DR/GDP | 99.8 | 99.5 | 89.5 | 91.6 | 94.3 | 95.5 |
| Fixed capital/GDP | 25.4 | 25.1 | 22.2 | 22.8 | 23.6 | 25.9 |
| C/GNP | 74.5 | 78.7 | 69.9 | 70.9 | 71.6 | 71.7 |
| C _p /GNP | 58.4 | 60.6 | 54.0 | 53.6 | 55.3 | 55.5 |
| GNS/GNP | 25.5 | 21.3 | 30.1 | 29.1 | 28.4 | 28.3 |
| B _c /capital formation | 14.5 | 12.0 | (32.6) | (20.2) | (7.2) | (1.7) |

Source: Ministry of Finance, *Economic Report 1979/80*, appendix table 2.1.

Notes: ^a Goods and non-factor services.

^c Balance on current account, balance of payments (B_c).

^b Gross national saving (GNS).

^p Preliminary estimate.

Table 5b. Malaysia. Resources balance, 1974-1979
(\$M million, 1970 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979p |
|--|---------|---------|----------|----------|----------|----------|
| GDP mp | 16 545 | 16 916 | 18 743 | 20 072 | 21 535 | 23 264 |
| Factor income abroad | -682 | -449 | -545 | -681 | -750 | -820 |
| GDP mp | 17 227 | 17 365 | 19 288 | 20 753 | 22 285 | 24 084 |
| Imports (g&nfs) ^a | 7 517 | 6 232 | 6 805 | 7 739 | 8 715 | 10 022 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 7 401 | 7 179 | 8 379 | 8 704 | 9 330 | 9 816 |
| Domestic resources (DR) | 17 343 | 16 418 | 17 714 | 19 788 | 21 670 | 24 290 |
| Consumption | 12 641 | 12 748 | 13 601 | 14 886 | 16 337 | 18 117 |
| (Private) | (9 722) | (9 631) | (10 219) | (11 172) | (12 463) | (13 772) |
| (Government) | (2 919) | (3 117) | (3 382) | (3 714) | (3 874) | (4 345) |
| Capital formation | 4 702 | 3 670 | 4 113 | 4 902 | 5 333 | 6 173 |
| (Fixed) | (4 252) | (3 936) | (4 133) | (4 677) | (5 077) | (5 879) |
| Private | 3 047 | 2 454 | 2 465 | 2 726 | 3 076 | 3 431 |
| Government | 1 205 | 1 482 | 1 668 | 1 951 | 2 001 | 2 448 |
| (Stocks) | (450) | (-266) | (-20) | (225) | (256) | (294) |
| Saving ^b | 3 904 | 4 168 | 5 142 | 5 186 | 5 198 | 5 147 |
| Current account ^c | -798 | 498 | 1 029 | 284 | -136 | -1 026 |
| <i>Annual change (percentage)</i> | | | | | | |
| GNP mp | 7.7 | 2.2 | 10.8 | 7.1 | 7.3 | 8.0 |
| GDP mp | 8.3 | 0.8 | 11.1 | 7.6 | 7.4 | 8.1 |
| DR | 15.5 | -5.3 | 7.9 | 11.7 | 9.5 | 12.1 |
| Imports | 36.8 | -17.1 | 9.2 | 13.7 | 12.6 | 15.0 |
| Exports | 15.9 | -3.0 | 16.7 | 3.9 | 7.2 | 5.2 |
| Consumption | 10.3 | 0.8 | 6.7 | 9.4 | 9.7 | 10.9 |
| (Private) | 9.0 | -0.9 | 6.1 | 9.3 | 11.6 | 10.5 |
| (Government) | 14.9 | 6.8 | 8.5 | 9.8 | 4.3 | 12.2 |
| Fixed capital | 21.9 | -7.4 | 5.0 | 13.2 | 8.6 | 15.8 |
| (Private) | 23.5 | -19.5 | 0.4 | 10.6 | 12.8 | 11.5 |
| (Government) | 18.0 | 23.0 | 12.6 | 17.0 | 2.6 | 22.3 |
| Saving ^b | -0.1 | 6.8 | 23.4 | 0.8 | 0.2 | -1.0 |

Source: Ministry of Finance, *Economic Report 1979/80*, appendix table 2.1.

Notes: ^a Goods and non-factor services.

^c Balance on current account, balance of payments (B_c).

^b Gross national saving (GNS).

^p Preliminary estimate.

Table 6a. Pakistan. Resources balance, 1973/74-1978/79
(Rs billion, current market prices)

| | (Fiscal year July-June) | 1973/74 | 1974/75 | 1975/76 | 1976/77 | 1977/78 | 1978/79 ^p |
|---|----------------------------|---------|---------|---------|---------|---------|----------------------|
| GNP mp | | 86.8 | 112.3 | 135.0 | 154.9 | 184.3 | 209.2 |
| Factor income abroad | | 0.6 | 1.1 | 3.0 | 5.5 | 12.1 | 13.9 |
| GDP mp | | 86.2 | 111.1 | 132.0 | 149.5 | 172.1 | 195.3 |
| Imports (g&nfs) ^a | | 15.2 | 23.0 | 23.9 | 26.7 | 32.6 | 43.1 |
| Total resources | | 101.4 | 134.1 | 155.9 | 176.2 | 204.7 | 238.4 |
| (less) | | | | | | | |
| Exports (g&nfs) ^a | | 12.0 | 13.0 | 13.9 | 14.0 | 16.6 | 22.0 |
| Domestic resources (DR) | | 89.4 | 121.2 | 142.0 | 162.2 | 188.1 | 216.4 |
| Consumption | | 77.8 | 103.0 | 119.2 | 134.8 | 157.9 | 183.0 |
| (Private) | | (69.3) | (91.0) | (104.9) | (119.0) | (139.7) | (163.4) |
| (Government) | | (8.5) | (12.0) | (14.3) | (15.8) | (18.1) | (19.6) |
| Capital formation | | 11.6 | 18.2 | 22.8 | 27.4 | 30.2 | 33.4 |
| (Fixed) | | (10.6) | (16.2) | (22.8) | (26.4) | (29.2) | (31.7) |
| (Stocks) | | (1.0) | (2.0) | — | (1.0) | (1.0) | (1.8) |
| Saving ^b | | 9.0 | 9.3 | 15.8 | 20.2 | 26.4 | 26.2 |
| Current account ^c | | -2.6 | -8.9 | -7.0 | -7.2 | -3.8 | -7.2 |
| Ratios (percentage) | | | | | | | |
| X/GDP | | 13.9 | 11.7 | 10.5 | 9.4 | 9.6 | 11.2 |
| DR/GDP | | 103.8 | 109.0 | 107.6 | 108.5 | 109.3 | 110.8 |
| Fixed capital/GDP | | 12.3 | 14.6 | 17.3 | 17.7 | 17.0 | 16.2 |
| C/GNP | | 89.6 | 91.7 | 88.3 | 87.0 | 85.7 | 87.5 |
| C _p /GNP | | 79.8 | 81.0 | 77.7 | 76.8 | 75.8 | 78.1 |
| GNS/GNP | | 10.4 | 8.3 | 11.7 | 13.0 | 14.3 | 12.5 |
| B _e /Capital formation | | 22.4 | 48.9 | 30.7 | 26.3 | 12.6 | 21.5 |

Sources: Pakistan, State Bank *Bulletin*, August 1979; Central Statistical Office, *Monthly Statistical Bulletin*, October 1979.

Notes: ^a Goods and non-factor services. ^c Balance on current account, balance of payments (B_e).
^b Gross national saving (GNS). ^p Preliminary.

Table 6b. Pakistan. Resources balance, 1973/74-1978/79
(Rs billion, 1959/60 market prices)

| | (Fiscal year July-June) | 1973/74 | 1974/75 | 1975/76 | 1976/77 | 1977/78 | 1978/79 ^p |
|--|----------------------------|---------|---------|---------|---------|---------|----------------------|
| GNP mp | | 40.3 | 41.9 | 44.7 | 46.9 | 51.4 | 54.7 |
| Factor income abroad | | 0.2 | 0.3 | 0.7 | 1.3 | 2.7 | 3.0 |
| GDP mp | | 40.2 | 41.6 | 44.0 | 45.6 | 48.8 | 51.7 |
| Imports (g&nfs) ^a | | 4.4 | 4.2 | 4.6 | 5.1 | 5.8 | 7.4 |
| Total resources | | 44.6 | 45.8 | 48.6 | 50.7 | 54.6 | 59.2 |
| (less) | | | | | | | |
| Exports (g&nfs) ^a | | 3.6 | 3.0 | 3.2 | 2.7 | 3.1 | 4.0 |
| Domestic resources (DR) | | 41.0 | 42.8 | 45.4 | 48.0 | 51.5 | 55.2 |
| Consumption | | 35.8 | 37.4 | 39.2 | 41.1 | 44.4 | 48.4 |
| (Private) | | (32.1) | (33.2) | (34.8) | (36.6) | (39.5) | (43.6) |
| (Government) | | (3.7) | (4.1) | (4.4) | (4.5) | (4.8) | (4.8) |
| Capital formation | | 5.1 | 5.4 | 6.2 | 6.9 | 7.1 | 6.8 |
| (Fixed) | | (4.7) | (4.7) | (6.2) | (6.6) | (6.8) | (6.4) |
| (Stocks) | | (0.4) | (0.7) | — | (0.3) | (4.3) | (0.4) |
| Saving ^b | | 4.5 | 4.5 | 5.5 | 5.8 | 7.1 | 6.3 |
| Current account ^c | | -0.6 | -0.9 | -0.7 | -1.1 | — | -0.5 |
| Annual change (percentage) | | | | | | | |
| GNP | | | 3.8 | 6.7 | 4.8 | 9.7 | 6.4 |
| GDP | | | 3.7 | 5.7 | 3.6 | 7.0 | 6.0 |
| DR | | | 4.5 | 6.0 | 5.7 | 7.3 | 7.2 |
| Exports | | | -16.1 | 6.6 | -5.2 | 14.3 | 27.4 |
| Imports | | | -4.6 | 9.3 | 11.6 | 13.6 | 28.6 |
| Consumption | | | 4.3 | 4.9 | 4.8 | 7.9 | 9.1 |
| (Private) | | | (3.5) | (4.6) | (5.4) | (7.9) | (10.1) |
| (Government) | | | (10.7) | (7.6) | (0.3) | (7.6) | (0.6) |
| Fixed capital | | | 0.5 | 31.0 | 7.1 | 3.8 | -7.0 |
| Saving | | | 0.3 | 21.9 | 5.0 | 22.6 | -10.3 |

Sources: Pakistan, State Bank *Bulletin*, August 1979; Central Statistical Office, *Monthly Statistical Bulletin*, October 1979.

Notes: ^a Goods and non-factor services. ^c Balance on current account, balance of payments (B_e).
^b Gross national saving (GNS). ^p Preliminary.

Table 7a. Philippines. Resources balance, 1974-1979 (1st half)
(Peso billion; current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p (1st half) |
|---|---------|---------|---------|---------|----------|---------------------------------|
| GNP mp | 99.95 | 114.26 | 132.71 | 152.81 | 173.24 | 99.51 |
| Factor income abroad | 0.31 | -0.34 | -1.22 | -1.35 | -0.91 | 0.23 |
| GDP mp | 99.64 | 114.60 | 133.93 | 154.16 | 174.15 | 99.28 |
| Imports (g&nfs) ^a | 25.40 | 29.06 | 31.84 | 34.68 | 41.32 | 24.67 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 22.27 | 21.27 | 23.25 | 29.20 | 31.39 | 18.56 |
| Domestic resources (DR) | 102.77 | 122.39 | 142.52 | 159.64 | 184.08 | 105.39 |
| Consumption | 76.20 | 87.11 | 101.17 | 115.32 | 130.65 | 74.16 |
| (Private) | (67.20) | (76.16) | (87.12) | (99.66) | (112.97) | (64.11) |
| (Government) | (9.00) | (10.95) | (14.05) | (15.66) | (17.68) | (10.05) |
| Capital formation | 26.83 | 35.70 | 41.05 | 44.25 | 50.72 | 28.77 |
| (Fixed) | (18.64) | (27.80) | (32.75) | (36.32) | (41.68) | (22.67) |
| (Stocks) | (8.19) | (7.90) | (8.30) | (7.93) | (9.04) | (6.10) |
| Stat. discrepancy | -0.26 | -0.42 | 0.30 | 0.07 | 2.71 | 2.46 |
| Saving ^b | 24.01 | 27.57 | 31.24 | 37.42 | 39.88 | 22.89 |
| Current account ^c | -2.82 | -8.13 | -9.81 | -6.83 | -10.84 | -5.88 |
| <i>Ratios (percentage)</i> | | | | | | |
| X/GDP | 22.4 | 18.6 | 17.4 | 18.9 | 18.0 | 18.7 |
| DR/GDP | 103.1 | 106.8 | 106.4 | 103.6 | 105.7 | 106.2 |
| Fixed capital/GDP | 18.7 | 24.3 | 24.5 | 23.6 | 23.9 | 22.8 |
| C/GNP | 76.2 | 76.2 | 76.2 | 75.5 | 75.4 | 74.5 |
| C _p /GNP | 67.2 | 66.6 | 65.6 | 65.2 | 65.2 | 64.4 |
| GNS/GNP | 24.0 | 24.1 | 23.5 | 24.5 | 23.0 | 23.0 |
| B _c /Capital formation | 10.5 | 22.8 | 23.9 | 15.4 | 21.4 | 20.4 |

Sources: NEDA Statistical Co-ordinating Office, National Accounts Staff, *National Income Accounts* (various, to September 1979).

Notes: ^a Goods and non-factor services.

^b Gross national saving (GNS).

^c Balance on current account, balance of payments (B_c).

^p Preliminary.

Table 7b. Philippines. Resources balance, 1974-1979 (1st half)
(Peso billion; 1972 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p (1st half) |
|--|---------|---------|---------|---------|---------|---------------------------------|
| GNP mp | 64.74 | 68.53 | 72.72 | 76.65 | 81.57 | 42.35 |
| Factor income abroad | 0.60 | 0.17 | -0.24 | -0.20 | 0.13 | 0.42 |
| GDP mp | 64.14 | 68.36 | 72.96 | 76.85 | 81.44 | 41.93 |
| Imports (g&nfs) ^a | 12.88 | 13.50 | 13.68 | 14.56 | 16.38 | 9.54 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 9.98 | 9.95 | 11.93 | 14.04 | 13.99 | 7.34 |
| Domestic resources (DR) | 67.04 | 71.91 | 74.71 | 77.37 | 83.83 | 44.13 |
| Consumption | 51.04 | 53.19 | 55.44 | 57.82 | 60.86 | 31.34 |
| (Private) | (44.38) | (46.16) | (47.87) | (49.82) | (52.23) | (26.88) |
| (Government) | (6.66) | (7.03) | (7.57) | (8.00) | (8.53) | (4.46) |
| Capital formation | 15.65 | 18.98 | 20.23 | 21.02 | 22.67 | 12.22 |
| (Fixed) | (11.38) | (15.04) | (16.31) | (17.30) | (18.40) | (9.42) |
| (Stocks) | (4.27) | (3.94) | (3.92) | (3.72) | (4.27) | (2.80) |
| Stat. discrepancy | 0.35 | -0.26 | -0.96 | -1.47 | 0.30 | 0.57 |
| Saving ^b | 13.35 | 15.60 | 18.24 | 20.30 | 20.41 | 10.44 |
| Current account ^c | -2.30 | -3.38 | -1.99 | -0.72 | -2.26 | -1.78 |
| <i>Annual change (percentage)</i> | | | | | | (Annual rates) ^d |
| GNP mp | | 5.9 | 6.1 | 5.4 | 6.4 | 3.8 |
| GDP mp | | 6.6 | 6.7 | 5.3 | 6.0 | 3.0 |
| DR | | 7.3 | 3.9 | 3.6 | 8.3 | 5.3 |
| Imports | | 4.8 | 1.3 | 6.4 | 12.5 | 16.5 |
| Exports | | -0.3 | 19.9 | 17.7 | -9.4 | 4.9 |
| Consumption | | 4.2 | 4.2 | 4.3 | 5.3 | 3.0 |
| (Private) | | (4.0) | (3.7) | (4.1) | (4.8) | (2.9) |
| (Government) | | (5.6) | (7.7) | (5.7) | (6.6) | (4.6) |
| Fixed capital | | 32.2 | 8.4 | 6.1 | 6.4 | 2.4 |
| GNS | | 16.9 | 16.9 | 11.3 | 0.5 | 2.3 |

Sources: NEDA Statistical Co-ordinating Office, National Accounts Staff, *National Income Series* (various, to September 1979).

Notes: ^a Goods and non-factor services.

^b Gross national saving (GNS).

^c Balance on current account, balance of payments (B_c).

^d On half of 1978 figure.

^p Preliminary.

Table 8a. Republic of Korea. Resources balance, 1974-1979
(Won billion, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979p |
|---|-----------|-----------|-----------|------------|------------|------------|
| GNP mp | 7 279.6 | 9 644.2 | 13 051.3 | 17 021.4 | 22 917.6 | 29 553.7 |
| Factor income abroad | -65.6 | -158.9 | -83.9 | -101.3 | -112.7 | -210.4 |
| GDP mp | 7 345.2 | 9 803.1 | 13 135.2 | 17 122.7 | 23 030.3 | 29 764.1 |
| Imports (g&nfs) ^a | 2 916.4 | 3 612.6 | 4 595.1 | 5 967.4 | 8 355.6 | 10 602.3 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 2 071.2 | 2 748.4 | 4 358.5 | 5 966.8 | 7 714.8 | 8 886.5 |
| Domestic resources (DR) | 8 190.4 | 10 667.3 | 13 371.8 | 17 123.3 | 23 671.1 | 31 479.9 |
| Consumption | 5 775.0 | 7 826.2 | 10 006.0 | 12 743.0 | 16 873.2 | 21 248.2 |
| (Private) | (5 031.0) | (6 801.5) | (8 507.2) | (10 754.4) | (14 238.7) | (17 989.5) |
| (Government) | (744.0) | (1 024.7) | (1 498.8) | (1 988.6) | (2 634.5) | (3 258.8) |
| Capital formation | 2 276.1 | 2 879.0 | 3 371.7 | 4 645.0 | 7 137.8 | 10 596.7 |
| (Fixed) | (1 870.6) | (2 543.9) | (3 152.4) | (4 420.9) | (7 023.1) | (9 344.1) |
| (Stocks) | (405.5) | (335.1) | (219.3) | (224.1) | (114.7) | (1 252.6) |
| Stat. discrepancy | 139.3 | -37.9 | -5.9 | -264.7 | -339.8 | -365.0 |
| Saving ^b | 1 365.3 | 1 855.9 | 3 051.2 | 4 543.1 | 6 384.2 | 8 670.5 |
| Current account ^c | -910.8 | -1 023.1 | -320.5 | -101.9 | -753.6 | -1 926.2 |
| <i>Ratios (percentage)</i> | | | | | | |
| X/GDP | 28.2 | 28.0 | 33.2 | 34.8 | 33.5 | 29.9 |
| DR/GDP | 111.5 | 108.8 | 101.8 | 100.0 | 102.8 | 105.8 |
| Fixed capital/GDP | 25.5 | 26.0 | 24.0 | 25.8 | 30.5 | 29.7 |
| C/GNP | 79.3 | 81.1 | 76.7 | 74.9 | 73.6 | 71.9 |
| C _p /GNP | 69.1 | 70.5 | 65.2 | 63.2 | 62.1 | 60.9 |
| GNS/GNP | 18.8 | 19.2 | 23.4 | 26.7 | 27.9 | 29.3 |
| B _c /Capital formation | 40.0 | 35.5 | 9.5 | 2.2 | 10.6 | 18.2 |

Sources: Bank of Korea, *Economic Statistics Yearbook, 1979*; 1979: *Monthly Economic Statistics*, 34:1, January 1980.

Notes: ^a Goods and non-factor services. ^c Balance on current account, balance of payments (B_c).
^b Gross national saving (GNS). ^p Preliminary.

Table 8b. Republic of Korea. Resources balance, 1974-1979
(Won billion, 1975 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979p |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| GNP mp | 9 009.4 | 9 644.2 | 11 016.4 | 12 432.3 | 13 877.1 | 14 856.8 |
| Factor income abroad | -65.6 | -158.9 | -57.4 | -39.7 | -7.8 | -55.0 |
| GDP mp | 9 075.0 | 9 803.1 | 11 073.8 | 12 472.0 | 13 884.9 | 14 911.8 |
| Imports (g&nfs) ^a | 3 604.5 | 3 612.6 | 4 582.6 | 5 673.8 | 7 326.9 | 8 030.0 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 2 357.0 | 2 748.4 | 3 931.5 | 4 941.9 | 5 805.2 | 5 651.0 |
| Domestic resources (DR) | 10 322.5 | 10 667.3 | 11 724.9 | 13 203.9 | 15 406.6 | 17 290.8 |
| Consumption | 7 378.8 | 7 826.2 | 8 416.2 | 9 286.3 | 10 308.7 | 11 009.6 |
| (Private) | (6 410.1) | (6 801.5) | (7 281.8) | (8 024.1) | (8 854.0) | (9 553.6) |
| (Government) | (968.7) | (1 024.7) | (1 134.4) | (1 262.2) | (1 454.7) | (1 456.0) |
| Capital formation | 2 807.2 | 2 879.0 | 3 107.1 | 3 860.0 | 5 247.0 | 6 412.5 |
| (Fixed) | (2 326.9) | (2 543.9) | (2 918.5) | (3 695.4) | (5 152.7) | (5 647.8) |
| (Stocks) | (480.3) | (335.1) | (188.6) | (164.6) | (94.3) | (764.7) |
| Stat. discrepancy | 136.5 | -37.9 | 201.6 | 57.6 | -149.2 | -131.2 |
| Saving ^b | 1 494.1 | 1 855.9 | 2 398.6 | 3 088.4 | 3 717.6 | 3 978.4 |
| Current account ^c | -1 313.1 | -1 023.1 | -708.5 | -771.6 | -1 529.5 | -2 434.1 |
| <i>Annual change (percentage)</i> | | | | | | |
| GNP mp | 7.5 | 7.0 | 14.2 | 12.9 | 11.6 | 7.1 |
| GDP mp | 7.8 | 8.0 | 13.0 | 12.6 | 11.3 | 7.4 |
| DR | 13.8 | 3.3 | 9.9 | 12.6 | 16.7 | 12.2 |
| Imports | 16.7 | 0.2 | 26.8 | 23.8 | 29.1 | 9.6 |
| Exports | -3.1 | 16.6 | 43.0 | 25.7 | 17.5 | -2.7 |
| Consumption | 7.7 | 6.1 | 7.5 | 10.3 | 11.0 | 6.8 |
| (Private) | 6.8 | 6.1 | 7.1 | 10.2 | 10.3 | 7.9 |
| (Government) | 14.3 | 5.8 | 10.7 | 11.3 | 15.3 | 0.1 |
| Fixed capital | 7.3 | 9.3 | 14.7 | 24.2 | 35.9 | 22.2 |
| Saving | 6.7 | 24.2 | 29.2 | 28.8 | 20.4 | 7.0 |

Sources: Bank of Korea, *Economic Statistics Yearbook, 1979*; 1979: *Monthly Economic Statistics*, 34:1, January 1980.

Notes: ^a Goods and non-factor services. ^c Balance on current account, balance of payments (B_c).
^b Gross national saving (GNS). ^p Preliminary.

Table 9a. Singapore. Resources balance, 1974-1979
(\$S million, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p |
|---|-----------|-----------|-----------|-----------|------------|-------------------|
| GNP mp | 12 109.5 | 13 216.2 | 14 246.4 | 15 731.8 | 17 423.0 | 19 450.9 |
| Factor income abroad | -433.7 | -156.8 | -328.8 | -226.1 | -146.3 | -138.8 |
| GDP mp | 12 543.2 | 13 373.0 | 14 575.2 | 15 957.9 | 17 569.3 | 19 589.7 |
| Net imports (g&nfs) ^a | 2 170.7 | 1 183.7 | 1 295.0 | 827.0 | 1 479.4 | 2 348.7 |
| Domestic resources (DR) | 14 713.9 | 14 556.7 | 15 870.2 | 16 784.9 | 19 048.7 | 21 938.4 |
| Consumption | 9 094.4 | 9 661.5 | 10 338.6 | 11 425.2 | 12 770.6 | 14 144.3 |
| (Private) | (7 796.0) | (8 238.5) | (8 797.1) | (9 708.9) | (10 781.1) | (12 042.4) |
| (Government) | (1 298.4) | (1 423.0) | (1 541.5) | (1 716.3) | (1 989.5) | (2 101.9) |
| Capital formation | 5 592.0 | 5 034.6 | 5 492.2 | 5 338.5 | 6 257.5 | 7 580.8 |
| (Fixtd) | (4 694.8) | (4 698.4) | (5 149.1) | (5 282.8) | (5 940.5) | (6 826.7) |
| (Stocks) | (897.2) | (336.2) | (343.1) | (55.7) | (317.0) | (754.1) |
| Stat. discrepancy | 27.5 | -139.4 | 39.4 | 21.2 | 20.6 | 213.3 |
| Saving ^b | 2 987.6 | 3 694.1 | 3 868.4 | 4 285.4 | 4 631.8 | 5 093.3 |
| Current account ^c | -2 604.4 | -1 340.5 | -1 623.8 | -1 053.1 | -1 625.7 | -2 487.5 |
| <i>Ratios (percentage)</i> | | | | | | |
| DR/GDP | 117.3 | 108.8 | 108.9 | 105.2 | 108.4 | 112.0 |
| Fixed capital/GDP | 37.4 | 35.1 | 35.3 | 33.1 | 33.8 | 34.8 |
| C/GNP | 75.1 | 73.1 | 72.6 | 72.6 | 73.3 | 72.7 |
| C _p /GNP | 64.4 | 62.3 | 61.7 | 61.7 | 61.9 | 61.9 |
| GNS/GNP | 24.7 | 28.0 | 27.2 | 27.2 | 26.6 | 26.2 |
| B _c /Capital formation | 46.6 | 26.6 | 29.6 | 19.7 | 26.0 | 32.8 |

Sources: *Singapore Yearbook of Statistics 1978/79*; *Economic Survey of Singapore, 1979*, Statistical Appendix.

Notes: ^a Goods and non-factor services.

^b Gross national saving (GNS).

^c Balance on current account, balance of payments (B_c).

^p Preliminary.

Table 9b. Singapore. Resources balance, 1974-1979
(\$S million, 1968 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p |
|--|-----------|-----------|-----------|-----------|-----------|-------------------|
| GNP mp | 8 154.5 | 8 689.2 | 9 232.9 | 10 049.1 | 10 982.0 | 12 013.4 |
| Factor income abroad | -290.7 | -101.1 | -214.5 | -144.1 | -92.0 | -85.6 |
| GDP mp | 8 445.2 | 8 790.3 | 9 447.4 | 10 193.2 | 11 074.0 | 12 099.0 |
| Net imports (g&nfs) ^a | 1 378.7 | 757.2 | 784.5 | 484.5 | 812.7 | 883.5 |
| Domestic resources (DR) | 9 823.9 | 9 547.5 | 10 231.9 | 10 677.7 | 11 886.7 | 12 982.5 |
| Consumption | 6 437.8 | 6 516.0 | 7 135.7 | 7 697.1 | 8 364.3 | 8 930.9 |
| (Private) | (5 496.7) | (5 549.1) | (6 120.4) | (6 588.2) | (7 111.9) | (7 667.7) |
| (Government) | (941.1) | (966.9) | (1 015.3) | (1 108.9) | (1 252.4) | (1 263.2) |
| Capital formation | 3 367.7 | 2 951.1 | 3 098.8 | 2 983.1 | 3 445.1 | 3 983.2 |
| (Fixed) | (2 884.1) | (2 766.3) | (2 908.6) | (2 952.2) | (3 270.5) | (3 586.9) |
| (Stocks) | (483.6) | (184.8) | (190.2) | (30.9) | (174.6) | (396.3) |
| Stat. discrepancy | -18.4 | -80.4 | 2.6 | -2.5 | 77.3 | 68.4 |
| Saving ^b | 1 698.3 | 2 092.8 | 2 099.8 | 2 354.5 | 2 540.4 | 3 014.1 |
| Current account ^c | -1 669.4 | -858.3 | -999.0 | -628.6 | -904.7 | -969.1 |
| <i>Annual change (percentage)</i> | | | | | | |
| GNP | 6.5 | 6.5 | 6.3 | 8.8 | 9.3 | 9.4 |
| GDP | 6.3 | 4.1 | 7.5 | 7.9 | 8.6 | 9.3 |
| DR | 12.2 | -2.8 | 7.2 | 4.4 | 11.3 | 9.2 |
| Consumption | 8.3 | 1.2 | 9.5 | 7.9 | 8.7 | 6.4 |
| Consumption (private) | 9.8 | 0.9 | 10.3 | 7.6 | 7.9 | 7.8 |
| Fixed capital | 10.3 | -4.1 | 5.1 | 1.5 | 10.8 | 9.7 |
| Saving | 0.3 | 23.2 | 0.3 | 12.1 | 7.9 | 18.6 |

Sources: *Singapore Yearbook of Statistics 1978/79*; *Economic Survey of Singapore, 1979*, Statistical Appendix.

Notes: ^a Goods and non-factor services.

^b Gross national saving (GNS).

^c Balance on current account, balance of payments (B_c).

^p Preliminary.

Table 10a. Sri Lanka. Resources balance, 1974-1979
(Rs million, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p |
|---|----------|----------|----------|----------|----------|-------------------|
| GNP mp | 23 588 | 26 188 | 29 663 | 35 799 | 41 768 | 52 237 |
| Factor income abroad | -183 | -213 | -282 | -252 | -237 | -240 |
| GDP mp | 23 771 | 26 401 | 29 945 | 36 051 | 42 005 | 53 477 |
| Imports (g&nfs) ^a | 8 058 | 9 291 | 9 478 | 10 979 | 16 372 | 24 265 |
| Total resources | 31 829 | 35 692 | 39 423 | 47 030 | 58 877 | 76 742 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 6 283 | 7 306 | 8 773 | 12 311 | 14 835 | 17 956 |
| Domestic resources (DR) | 25 546 | 28 386 | 30 650 | 34 719 | 44 042 | 58 786 |
| Consumption | 21 811 | 24 246 | 25 754 | 29 460 | 35 488 | 46 259 |
| (Private) | (19 068) | (21 766) | (22 733) | (26 342) | (31 445) | (40 461) |
| (Government) | (2 743) | (2 480) | (3 021) | (3 118) | (4 043) | (4 798) |
| Capital formation | 3 735 | 4 140 | 4 896 | 5 259 | 8 554 | 13 527 |
| (Fixed) | (2 972) | (3 699) | (4 595) | (5 035) | (8 521) | (13 246) |
| (Stocks) | (763) | (441) | (301) | (224) | (33) | (281) |
| Saving ^b | 1 777 | 1 942 | 3 909 | 6 339 | 6 280 | 6 978 |
| Current account ^c | -1 958 | -2 198 | -987 | 1 080 | -2 274 | -6 549 |
| Ratios (percentage) | | | | | | |
| X/GDP | 26.4 | 27.7 | 29.3 | 34.1 | 35.3 | 34.2 |
| DR/GDP | 107.5 | 107.5 | 102.4 | 96.3 | 104.8 | 112.0 |
| Fixed Capital/GDP | 12.5 | 14.0 | 15.3 | 14.0 | 20.3 | 25.2 |
| C/GNP | 92.5 | 92.6 | 86.8 | 82.3 | 85.0 | 86.6 |
| C _p /GNP | 80.8 | 83.1 | 76.6 | 73.6 | 75.3 | 77.5 |
| GNS/GNP | 7.5 | 7.4 | 13.2 | 17.7 | 15.0 | 13.4 |
| B _c /Capital formation | 47.6 | 53.1 | 20.2 | (20.5) | 26.6 | 48.4 |

Source: Central Bank of Ceylon.

Notes: ^a Goods and non-factor services.^c Balance on current account, balance of payments (B_c).^b Gross national saving (GNS).^p Preliminary.Table 10b. Sri Lanka. Resources balance, 1974-1979
(Rs million, 1970 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^p |
|--|----------|----------|----------|----------|----------|-------------------|
| GNP mp | 14 798 | 15 155 | 16 130 | 16 512 | 18 035 | 19 653 |
| Factor income abroad | -80 | -91 | -86 | -79 | -90 | -112 |
| GDP mp | 14 878 | 15 246 | 16 216 | 16 591 | 18 125 | 19 765 |
| Imports (g&nfs) ^a | 3 049 | 3 004 | 3 464 | 3 264 | 2 693 | 3 099 |
| Total resources | 17 927 | 18 250 | 19 680 | 19 855 | 20 818 | 22 864 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 3 481 | 4 333 | 4 332 | 3 803 | 2 508 | 2 959 |
| Domestic resources (DR) | 14 446 | 13 917 | 15 348 | 16 052 | 18 310 | 19 905 |
| Consumption | 12 284 | 12 398 | 12 856 | 12 437 | 12 548 | 13 484 |
| (Private) | (10 740) | (11 130) | (11 348) | (11 121) | (11 118) | (12 055) |
| (Government) | (1 544) | (1 268) | (1 508) | (1 316) | (1 430) | (1 429) |
| Capital formation | 2 162 | 1 519 | 2 492 | 3 615 | 5 762 | 6 421 |
| (Fixed) | (1 720) | (1 357) | (2 338) | (3 460) | (5 740) | (6 288) |
| (Stocks) | (442) | (162) | (154) | (155) | (22) | (133) |
| Saving ^b | 2 514 | 2 757 | 3 274 | 4 075 | 5 487 | 6 169 |
| Current account ^c | 352 | 1 238 | 782 | 460 | -275 | -252 |
| Annual change (percentage) | | | | | | |
| GNP | 2.7 | 2.4 | 6.4 | 2.4 | 9.2 | 9.0 |
| GDP | 2.4 | 2.5 | 6.4 | 2.3 | 9.2 | 9.0 |
| DR | 4.5 | -3.7 | 10.3 | 4.6 | 14.1 | 9.8 |
| Consumption | -0.3 | 0.9 | 3.7 | -3.3 | 0.9 | 7.5 |
| Consumption (private) | -0.3 | 3.6 | 2.0 | -2.0 | — | 8.4 |
| Fixed capital | 16.2 | -21.1 | 72.3 | 48.0 | 65.9 | 9.5 |
| Saving | 20.4 | 9.7 | 18.8 | 24.5 | 34.6 | 12.4 |

Source: Central Bank of Ceylon.

Notes: ^a Goods and non-factor services.^c Balance on current account, balance of payments (B_c).^b Gross national saving (GNS).^p Preliminary.

Constant price estimates derived from deflators implicit in source data.

Table 11a. Thailand. Resources balance, 1974-1979
(Baht billion, current market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979p |
|---|----------|----------|----------|----------|----------|----------|
| GNP mp | 272.17 | 298.60 | 336.37 | 391.02 | 473.63 | 556.78 |
| Factor income abroad | 0.80 | -0.22 | -1.26 | -2.01 | -3.71 | -7.65 |
| GDP mp | 271.37 | 298.82 | 337.64 | 393.03 | 477.34 | 564.43 |
| Imports (g&nfs) ^a | 68.12 | 70.80 | 79.39 | 103.38 | 119.87 | 162.98 |
| Total resources | 339.49 | 369.62 | 417.03 | 496.41 | 597.21 | 727.41 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 60.62 | 57.02 | 71.21 | 82.20 | 99.60 | 128.32 |
| Domestic resources (DR) | 278.87 | 312.60 | 345.82 | 414.21 | 497.61 | 599.09 |
| Consumption | 204.03 | 229.48 | 262.14 | 302.19 | 358.23 | 427.86 |
| (Private) | (178.03) | (198.52) | (225.00) | (260.51) | (304.63) | (362.04) |
| (Government) | (26.00) | (30.96) | (37.00) | (41.68) | (53.60) | (65.82) |
| Capital formation | 67.44 | 75.75 | 78.44 | 102.24 | 126.45 | 157.21 |
| (Fixed) | (59.11) | (66.13) | (73.27) | (98.63) | (116.47) | (146.06) |
| (Stocks) | (8.33) | (9.62) | (5.17) | (3.61) | (9.98) | (11.15) |
| Statistical discrepancy | 7.40 | 7.37 | 5.24 | 9.79 | 12.93 | 14.02 |
| Saving ^b | 60.74 | 61.75 | 68.99 | 79.04 | 102.47 | 114.90 |
| Current account ^c | -6.70 | -14.00 | -9.45 | -23.20 | -23.98 | -42.31 |
| <i>Ratios (percentage)</i> | | | | | | |
| X/GDP | 22.3 | 19.1 | 21.1 | 20.9 | 20.9 | 22.7 |
| DR/GDP | 102.8 | 104.6 | 102.4 | 105.4 | 104.2 | 106.1 |
| Fixed capital/GDP | 21.8 | 22.1 | 21.7 | 25.1 | 24.4 | 25.9 |
| C/GNP | 75.0 | 76.8 | 77.9 | 77.3 | 75.6 | 76.8 |
| C _p /GNP | 65.4 | 66.5 | 66.9 | 66.6 | 64.3 | 65.0 |
| GNS/GNP | 22.3 | 20.7 | 20.5 | 20.2 | 21.6 | 20.6 |
| B _c /Capital formation | 9.9 | 18.5 | 12.0 | 22.7 | 19.0 | 26.9 |

Source: National Economic and Social Development Board, *National Income of Thailand, 1979*.

Notes: ^a Goods and non-factor services.

^c Balance on current account, balance of payments (B_c).

^b Gross national saving (GNS).

^p Preliminary.

Table 11b. Thailand. Resources balance, 1974-1979
(Baht billion, 1972 market prices)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979p |
|--|----------|----------|----------|----------|----------|----------|
| GNP mp | 190.63 | 203.34 | 221.49 | 237.27 | 264.06 | 279.34 |
| Factor income abroad | 0.68 | -0.18 | -1.02 | -1.57 | -2.78 | -5.41 |
| GDP mp | 189.95 | 203.52 | 222.51 | 238.84 | 266.84 | 284.75 |
| Imports (g&nfs) ^a | 38.84 | 38.00 | 40.30 | 48.90 | 53.15 | 61.18 |
| Total resources | 228.79 | 241.52 | 262.81 | 287.74 | 319.99 | 345.93 |
| (less) | | | | | | |
| Exports (g&nfs) ^a | 29.90 | 29.40 | 38.50 | 43.50 | 48.60 | 54.80 |
| Domestic resources (DR) | 198.89 | 212.12 | 224.31 | 244.24 | 271.39 | 291.13 |
| Consumption | 146.03 | 156.36 | 171.27 | 185.73 | 200.54 | 219.48 |
| (Private) | (126.21) | (134.45) | (146.24) | (158.46) | (168.72) | (183.01) |
| (Government) | (19.82) | (21.91) | (25.03) | (27.27) | (31.82) | (36.47) |
| Capital formation | 47.76 | 50.14 | 49.53 | 63.86 | 66.28 | 78.60 |
| (Fixed) | (42.14) | (42.41) | (45.12) | (59.83) | (64.91) | (72.27) |
| (Stocks) | (5.62) | (7.73) | (4.41) | (4.03) | (1.37) | (6.33) |
| Statistical discrepancy | 5.10 | 5.62 | 3.51 | -5.35 | 4.57 | -6.95 |
| Saving ^b | 39.50 | 41.36 | 46.71 | 56.89 | 58.95 | 66.81 |
| Current account ^c | -8.26 | -8.78 | -2.82 | -6.97 | -7.33 | -11.79 |
| <i>Annual change (percentage)</i> | | | | | | |
| GNP mp | | 6.7 | 8.9 | 7.1 | 11.3 | 5.8 |
| GDP mp | | 7.1 | 9.3 | 7.3 | 11.7 | 6.7 |
| DR | | 6.7 | 5.7 | 8.9 | 11.1 | 7.3 |
| Imports | | -2.2 | 6.1 | 21.3 | 8.7 | 15.1 |
| Exports | | -1.7 | 31.0 | 13.0 | 11.7 | 12.8 |
| Consumption | | 7.1 | 9.5 | 8.4 | 8.0 | 9.4 |
| (Private) | | (6.5) | (8.8) | (8.4) | (6.5) | (8.5) |
| (Government) | | (10.5) | (14.2) | (8.9) | (16.7) | (14.6) |
| Fixed capital | | 0.6 | 6.4 | 32.6 | 8.5 | 11.3 |
| GNS | | 4.7 | 12.9 | 21.8 | 3.6 | 13.3 |

Source: National Economic and Social Development Board, *National Income of Thailand, 1979*.

Notes: ^a Goods and non-factor services.

^c Balance on current account, balance of payments (B_c).

^b Gross national saving (GNS).

^p Preliminary.

Table 12. Selected developing ESCAP countries.
Key targets of development plans

| Country | Current plan | Period | Growth target (percentage per annum in real terms) | | | |
|-----------------------------|-----------------------------|-----------------|--|-------------------|-------------|-------------------|
| | | | GDP | Manufacturing | Agriculture | Food-grains |
| Afghanistan | First Seven-Year Plan | 1976-1983 | 6.2 | 9.05 ^a | 4.65 | 3.0 |
| Bangladesh | Two-Year Plan | 1978-1980 | 5.6 | 7.3 ^a | 4.1 | 4.7 ^b |
| Burma | Third Four-Year Plan | 1978/79-1982/83 | 6.6 | 12.2 ^a | 5.8 | 4.2 ^b |
| Fiji | Seventh Plan | 1976-1980 | 7.3 | 7.7 | ... | 13.5 ^b |
| India | Sixth Five-Year Plan | 1978-1983 | 4.7 | 6.9 ^c | 4.0 | 3.0 -3.5 |
| Indonesia | Third Five-Year Plan | 1979/80-1983/84 | 6.5 | 11.0 ^a | 3.5 | 3.2 ^b |
| Malaysia | Third Five-Year Plan | 1977-1980 | 8.3 ^d | 12.0 | 6.4 | 3.6 ^b |
| Nepal | Fifth Five-Year Plan | 1975-1980 | 5.0 | ... ^e | 3.5 | 3.1 |
| Pakistan | Fifth Five-Year Plan | 1978-1983 | 7.0 | 10.0 | 6.0 | 7.6 |
| Philippines | Five-Year Plan (Third plan) | 1978-1982 | 7.7 ^f | 9.2 | 5.2 | 4.6 |
| Republic of Korea | Fourth Five-Year Plan | 1977-1981 | 9.2 ^f | 14.2 ^e | 4.0 | 3.7 |
| Sri Lanka | Public Investment Plan | 1979-1983 | 5.5 | 8.0 | 4.5 | 5.2 ^b |
| Thailand | Fourth Five-Year Plan | 1977-1981 | 7.0 | 9.6 ^a | 5.0 | 3.4 |
| Viet Nam | Second Five-Year Plan | 1976-1980 | 15.0 | ... | ... | ... |

Sources: National development plans; ESCAP calculations imputed from targets of physical output.

- Notes: ^a Industry.
^b Rice.
^c Mining and manufacturing.
^d Revised 1979.
^e Physical targets established by sector.
^f GNP.

Part Two

REGIONAL DEVELOPMENT STRATEGY FOR THE 1980s

INTRODUCTION

1. In its resolution 180 (XXXIV) the Commission requested the Executive Secretary to prepare a regional input to the formulation of a global strategy for the 1980s. In a later resolution, 199 (XXXV), elaborative on resolution 180 (XXXIV), the secretariat's attention was more specifically directed to those issues concerning the new international economic order. The latter were set out in General Assembly resolution 33/193, in which the General Assembly established the machinery and guidelines for the preparations for an international development strategy for the third United Nations development decade.

2. The secretariat prepared a draft report in response to the abovementioned Commission resolutions based on a number of papers comprising individual country reports, sectoral reports, sub-regional studies, crosscountry topics and projections work. A list of these papers is annexed. The report was reviewed in first draft form by the Expert Group on Development Policy and Planning, which held its sixth session at Bangkok from 9 to 11 July 1979, and was thereafter revised to take into account the suggestions made at that session. The revised draft and a summary thereof was presented for discussion at the *Ad Hoc* Intergovernmental Meeting on Strategies for the 1980s, which was held at Bangkok from 10 to 14 September 1979. This report recorporates the main observations made at that meeting as well.

3. The report does not fully cover all of the countries in the ESCAP region. Because of a lack of data and information it has not been possible to include the socialist countries. This is unfortunate because these countries have given particular attention to integrated rural development, mass participation, mobilization of idle resources and the elimination of poverty, all of which feature among the major objectives in the development of other developing ESCAP countries. Furthermore, the developed countries of the region are considered only in so far as possible developments in their economies are likely to have a significant impact on the developing economies.

4. In a region as heterogeneous as the ESCAP region it has been necessary to disaggregate countries into groups in order not to discard valuable analytical information. Generally, this has been done by distinguishing between various

geographical subregions such as the island countries of the Pacific, the rapidly growing economies of east and south-east Asia and the slower growing, low-income countries of south Asia. In these subregions, however, there are important differences between countries and within countries. The report has attempted to reflect these differences although the ability to do this is limited by the length of the paper. At other times and depending on the nature of the problem being examined, different types of disaggregation are required and used. Examples of such typology are the least developed, land-locked and island countries, the oil-exporting and oil-importing countries, and large and small countries. The *caveat* made above about differences within country groupings holds equally for these additional categories.

5. In preparing the report, results were available of various projections made at the global or regional level by the Secretariat of the United Nations, including ESCAP, and by specialized agencies. Limited use has been made of a normative scenario envisaging the doubling of *per capita* incomes in the low-income countries of the region 1980 and the end of the century but far greater use has been made of it in determining feasible rates of growth within the region of the targets set by the developing countries in their development plans as they enter the 1980s. These have been modified where subsequent information or analysis suggests that more or less ambitious targets are realistic. At the same time, extensive use has also been made of the development plans of developing ESCAP countries to determine important shifts in perception about the objectives and style of development to be pursued.

6. The emphasis throughout the report is on determining the nature of the major problems to be faced, the stated objectives of the Governments concerned, the policy imperatives and what might be done in an international context to complement these policies and attain the objectives. Consequently, except in certain instances, where the case for separate treatment is very strong, the report has not followed the more conventional sectoral approach but has instead focused on and stressed the importance of gearing policies in all sectors towards the primary objectives of achieving fuller employment, reducing poverty and achieving greater equity.

I. THE DEVELOPMENT EXPERIENCE OF DEVELOPING ESCAP COUNTRIES IN THE 1960s AND 1970s: AN OVERVIEW

7. There are three salient features of the development experience of the developing ESCAP countries during the 1960s and 1970s. One is the marked variation in GDP growth rates across countries and particularly as between the south Asian and the east and south-east Asian countries. The second, despite the widely differing growth performances, is the nearly common failure of developing ESCAP countries to stop the increase in the numbers of people living in conditions of abject poverty. The third is the relative failure of the international economies system to assist in the attainment of the objectives of developing ESCAP countries, particularly in the case of the low-income economies.

A. Economic growth

8. The bulk of the population of the developing ESCAP countries who reside outside the socialist countries is to be found in the economies of south Asia. The average annual rate of growth in gross domestic product in this subregion (except for Bangladesh) was well below the target rate of growth of 6 per cent for the Second Development Decade and excepting the unique case of Bangladesh, ranged from 2.5 per cent in the case of India (1970-1976) to 4.3 per cent in the case of Pakistan (1970-1977) (table 1). Such relatively low over-all rates of growth, in turn, permitted of only depressingly low rates of growth in *per capita* incomes. In addition, growth in GDP during the 1970s was, on average for south Asia, below the rates achieved during the 1960s.

9. The development record was much better in the seven economies of east and south-east Asia. All of these economies recorded higher growth rates than the target rate of the Second Development Decade. While the rate of growth slowed down somewhat during the 1970s in Hong Kong and Thailand, all of the other economies improved on already satisfactory rates of growth, the most dramatic improvement being in the case of Indonesia. Thus, despite population growth rates even in excess of those elsewhere in the region, annual *per capita* increases in GDP remained comparatively high.

10. In the island developing economies of the Pacific listed in table 1, growth rates during the 1970s were below the 6 per cent growth target and declined on average.

11. Table 2 indicates that in south Asia the contribution of agriculture to gross domestic product

remained high even in 1977; it ranged from 33 per cent in Pakistan to 68 per cent in Nepal. Only in India and Pakistan was there a significant reduction in the contribution of the agricultural sector to GDP between 1960 and 1977. In east and south-east Asia, on the other hand, the relative share of agriculture declined significantly except in the Philippines. It is now less than 30 per cent in all economies in this group. In the island developing countries of the Pacific the contribution of the agricultural sector to GDP generally declined during this period, significantly so in Papua New Guinea.

Table 1. Selected developing ESCAP countries: average annual growth rates of gross domestic product (constant prices), 1960-1977 (percentage)

| | GDP growth rates | | Difference |
|---------------------------------|------------------|---------------------|------------|
| | 1960-1970 | 1970-1977 | |
| <i>South Asia</i> | | | |
| Bangladesh | — | 7.3 ^a | — |
| Burma | 1.9 ^b | 2.6 | 0.7 |
| India | 3.7 | 2.5 ^c | -1.2 |
| Nepal | 2.2 ^d | 2.6 | 0.4 |
| Pakistan | 5.2 | 4.3 | -0.9 |
| Sri Lanka | 5.4 ^b | 4.2 | -1.2 |
| <i>East and south-east Asia</i> | | | |
| Hong Kong | 9.3 ^b | 8.0 | -1.3 |
| Indonesia | 2.5 | 7.8 | 5.3 |
| Malaysia | — | 7.8 ^e | — |
| Philippines | 5.1 | 6.4 | 1.3 |
| Republic of Korea | 8.6 | 9.9 | 1.3 |
| Singapore | 7.9 | 8.6 | 0.7 |
| Thailand | 8.2 | 6.7 | -1.5 |
| <i>Pacific</i> | | | |
| Cook Islands | — | -1.2 ^{f,g} | — |
| Fiji | 5.1 | 5.6 | 0.5 |
| Papua New Guinea | 6.5 | 4.7 | -1.8 |

Sources: *Yearbook of National Accounts Statistics, 1978*, vol. II (United Nations publication, Sales No. E.79.XVII.8) for south Asia and east and south-east Asia; World Bank, economic data sheet, 1979, for Fiji and Papua New Guinea; UNCTAD, *Handbook of International Trade and Development Statistics, 1979*, for the Cook Islands.

Notes: ^a 1972-1977.

^b 1963-1970.

^c 1970-1976.

^d 1965-1970.

^e 1971-1977.

^f 1970-1972.

^g Current prices.

Table 2. Selected developing ESCAP countries:
contribution by sector to gross domestic product, 1960 and 1977

| | Agriculture | | Industry | | Services | |
|---------------------------------|-----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| | 1960 | 1977 | 1960 | 1977 | 1960 | 1977 |
| <i>South Asia</i> | | | | | | |
| Bangladesh | 61 | 55 | 8 | 13 | 31 | 32 |
| India | 50 | 37 | 20 | 25 | 30 | 38 |
| Nepal | — | 68 | — | 9 | — | 23 |
| Pakistan | 46 | 33 | 16 | 23 | 38 | 44 |
| Sri Lanka | 38 | 39 | 16 | 21 | 46 | 40 |
| <i>East and south-east Asia</i> | | | | | | |
| Hong Kong | 4 | 2 | 34 | 31 | 62 | 67 |
| Indonesia | 54 | 31 | 14 | 34 | 32 | 35 |
| Malaysia | 37 | 26 | 18 | 29 | 45 | 45 |
| Philippines | 26 | 29 | 28 | 35 | 46 | 36 |
| Republic of Korea | 40 | 27 | 19 | 35 | 41 | 38 |
| Singapore | 4 | 2 | 18 | 35 | 78 | 63 |
| Thailand | 41 | 27 | 18 | 29 | 41 | 44 |
| <i>Western Asia</i> | | | | | | |
| Iran | 29 | 10 | 33 | 55 | 38 | 35 |
| <i>Pacific</i> | | | | | | |
| Cook Islands | — | 18 | — | 5 | — | 78 |
| Fiji | 24 ^a | 21 | 12 ^a | 11 | 65 ^a | 69 |
| Papua New Guinea | 49 ^b | 33 | 13 ^b | 26 | 35 ^b | 41 |
| Solomon Islands | 60 ^a | — | 3 ^a | — | 37 ^a | — |
| Tonga | 56 ^a | 51 ^c | 2 ^a | 3 ^c | 42 ^a | 46 ^c |

Sources: World Bank, *World Development Report, 1978* and *1979*; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB, 1975* and *1978*.

Notes: ^a 1970. ^b 1961. ^c 1975.

12. Table 3 indicates that the higher over-all growth rates in east and south-east Asia were the resultant of high rates of growth in both agriculture and industry. On average, this group of countries exceeded the target rate of the Second Development Decade of 8 per cent for industry and reached the target rate of 4 per cent for agriculture. In south Asia, however, growth rates in both agriculture and industry fell well below the target rates and contributed to the low over-all growth rates. In the Pacific, too, growth rates in both agriculture and industry were well below the target rates; the record of growth in agriculture was particularly distressing.

13. The main causes of shortfalls in growth in south Asia differ from country to country. But in general they would include: (a) low saving and investment rates, (b) low (and in some countries even falling) productivity of investment, particularly, public investment, due to bad project designs, long gestation lags, unutilized capacities and managerial inefficiencies, (c) recurring shortages of agricultural and industrial inputs (fuel, power, transport, cement, steel, fertilizer etc.), (d) restricted participation of the vast small farm sector in the green revolution due to the failure to implement land reforms and

other institutional reforms, (e) continuing high population growth rates, (f) declining foreign assistance/investment ratios, (g) declining terms of trade, (h) increasing barriers faced by exports and (i) the aggravation of these long-term difficulties by the energy crisis and stagflation in the developed economies.

14. In future, the achievement of higher growth rates in agriculture will be crucial for improving the over-all development performance of all developing ESCAP countries other than the small urban economies. The agricultural sector remains the overwhelmingly important source of employment; it is the vital source of food and in time of harvest failure makes for malnutrition, inflation and domestic instability; it contributes significantly either by way of import substitution or by way of exports to the earning of foreign exchange with which to secure essential capital, intermediate and consumer products; and it is the source of many of the raw materials for manufacturing output and generates a market for a domestically based expansion of industrial production. A lagging agricultural sector aggravates the urban slum and unemployment problems and inflates the low-productivity service sector. Finally, agriculture

remains an important source of surpluses for investment in industrial expansion. But equally important is the growth of manufacturing, for it provides the market for growing farm surpluses, absorbs the rural labour surplus, supplies industrial inputs for the modernization of agriculture, and mass consumption goods for the population experiencing income growth and, in some countries, supplies a large part of the investible surplus and foreign exchange earnings as well. Universally, too, earnings per head are higher in industry than in agriculture; accordingly, industrial growth is critical for raising average income. The strategy for the future must therefore aim at a balanced growth of industry as well as agriculture.

15. With the exception of India, the difficulties experienced by the low-income countries in mobilizing adequate domestic resources and their heavy dependence on foreign savings in the form of foreign assistance to finance still inadequate investment levels are brought out in table 4. As a percentage of gross domestic product, gross domestic savings ranged from near zero in Bangladesh to 21 per cent in India. Investment ranged from 6 per cent in Bangladesh to 19 per cent in India.

16. Finally, the role of international trade in accelerating growth in the countries of east and south-east Asia requires emphasis. Table 5 indicates that ratios of exports to gross domestic product are generally high and there has been a tendency for them to increase. In terms of their contribution to GDP during the period 1971-1977, exports generated from 4.7 per cent in Bangladesh to 46.4 per cent in Malaysia. Weighted by the respective levels of GDP in each country, the contribution of exports to GDP doubled between the two periods for the region as a whole and indicates the considerable importance of increased export performance in generating national income. The table also brings out not only strong differences between individual countries as far as the relative importance of exports is concerned but also significant subregional differences. While in south Asia the weighted average ratio of exports to gross domestic product remained at about 5.5 per cent in both time periods, the export ratio in east and south-east Asia increased by around 70 per cent and reached almost 25 per cent of GDP in 1977. In Fiji and Papua New Guinea, too, the export ratios increased during these two time periods, significantly so in the case of the latter country.

Table 3. Selected developing ESCAP countries: average annual rates of growth of GDP at constant prices by kind of economic activity, 1960-1977

| | <i>Agriculture</i> | | <i>Industry</i> | | <i>Services</i> | |
|---------------------------------|--------------------|--------------------|------------------|-------------------|-------------------|-------------------|
| | 1960-1970 | 1970-1977 | 1960-1970 | 1970-1977 | 1960-1970 | 1970-1977 |
| <i>South Asia</i> | | | | | | |
| Bangladesh ^a | — | 4.7 | — | 18.2 | — | 9.2 |
| Burma | 1.8 ^b | 2.0 | 3.0 ^b | 2.1 | 1.4 ^b | 3.3 |
| India | 1.9 | 0.9 ^c | 5.1 | 3.7 ^c | 4.9 | 3.8 ^c |
| Nepal | — | 1.3 | — | 5.2 | — | — |
| Pakistan | 5.0 | 2.1 | 9.4 | 3.2 | 7.2 | 6.5 |
| Sri Lanka | — | 2.5 | — | 7.3 | — | 4.0 |
| <i>East and south-east Asia</i> | | | | | | |
| Hong Kong | — | — | — | — | — | — |
| Indonesia | 2.0 | 3.8 | 3.1 | 12.0 | 2.6 ^d | 9.6 ^d |
| Malaysia | — | — | — | — | — | — |
| Philippines | 4.2 | 3.9 | 5.9 | 6.2 | 4.5 | 7.6 |
| Republic of Korea | 4.4 | 4.4 | 16.4 | 17.6 | 11.3 | 9.5 |
| Singapore | 3.8 | 1.6 | 12.7 | 9.3 | 7.4 | 8.7 |
| Thailand | 5.5 | 3.9 | 11.8 | 10.8 | 9.0 | 6.2 |
| <i>Pacific</i> | | | | | | |
| Cook Islands | — | -3.9 ^e | — | -4.7 ^e | — | 4.8 ^e |
| Fiji | 2.6 ^c | 0.6 ^f | 4.6 ^c | 4.4 ^f | 11.3 ^c | 8.8 ^f |
| Kiribati | — | -16.8 ^g | — | 12.3 ^g | — | -1.8 ^g |
| Papua New Guinea | -2.6 ^c | -3.8 ^f | 4.6 ^c | 4.7 ^f | 0 ^c | 0.7 ^f |

Sources: *Yearbook of National Accounts Statistics, 1978*, vol. II (United Nations publication, Sales No. E.79.XVII.8); UNCTAD, *Handbook of International Trade and Development Statistics, 1979*.

Notes: ^a 1972-1977.

^e 1970-1972.

^b 1963-1970.

^f 1970-1975.

^c 1965-1970.

^g 1972-1974.

^d Excluding wholesale and retail trade.

Table 4. Selected developing ESCAP countries:
foreign savings as a percentage of GDP, 1960, 1970 and 1976

| | Gross domestic investment | | | Gross domestic savings | | | Foreign savings | | |
|--|---------------------------|------|------|------------------------|------|------|-----------------|------|------|
| | 1960 | 1970 | 1976 | 1960 | 1970 | 1976 | 1960 | 1970 | 1976 |
| <i>South Asia</i> | | | | | | | | | |
| Afghanistan | 16 | — | 10 | 13 | — | 8 | -3 | — | -2 |
| Bangladesh | 7 | — | 6 | 8 | — | -1 | 1 | — | -7 |
| India ^a | 17 | 17 | 19 | 14 | 16 | 21 | -3 | -1 | 2 |
| Nepal | 8 | 6 | 9 | 3 | — | 3 | -5 | — | -6 |
| Pakistan | 12 | 16 | 17 | 5 | — | 8 | -7 | — | -9 |
| Sri Lanka | 15 | 20 | 15 | 12 | 18 | 13 | -3 | -2 | -2 |
| <i>East and south-east Asia</i> | | | | | | | | | |
| Hong Kong | 19 | 19 | 24 | 1 | 19 | 25 | -18 | 0 | 1 |
| Indonesia | 11 | 14 | 23 | 13 | — | 25 | 2 | — | 2 |
| Malaysia ^a | 14 | 20 | 24 | 27 | 21 | 27 | 13 | 1 | 3 |
| Philippines ^a | 16 | 20 | 30 | 16 | 20 | 25 | — | 0 | -5 |
| Republic of Korea ^a | 11 | 27 | 26 | 2 | 16 | 25 | -9 | -11 | -1 |
| Singapore | 11 | 39 | 41 | -3 | 18 | 29 | -14 | -21 | -12 |
| Thailand | 16 | — | 26 | 14 | 22 | 22 | -2 | — | -4 |
| <i>Western Asia</i> | | | | | | | | | |
| Iran | 17 | — | 30 | 21 | — | 42 | 4 | — | 12 |
| <i>Pacific</i> | | | | | | | | | |
| Papua New Guinea | 14 | 35 | 20 | 2 | 16 | 14 | -12 | -19 | -6 |
| Tonga | — | 20 | 34 | — | — | 19 | — | — | -15 |

Sources: World Bank, *World Development Indicators, 1978*, table 5, p. 14; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB, 1976 and 1978*.

Note: ^a 1977.

Table 5. Selected developing ESCAP countries:
share of imports and exports in GDP, 1966-1977

| | Exports | | Imports | |
|-----------------------------|------------------------|-------------------|------------------------|-------------------|
| | 1966-1970 ^a | 1971-1977 | 1966-1970 ^a | 1971-1977 |
| Bangladesh | — | 4.7 ^b | — | 10.9 ^b |
| Burma | 7.1 | 5.5 | 8.9 | 6.0 |
| India | 4.5 | 5.2 ^c | 5.8 | 5.8 ^c |
| Indonesia | 10.8 ^d | 22.2 | 17.0 ^d | 20.1 |
| Malaysia | 41.2 | 46.4 | 36.0 | 41.8 |
| Pakistan | 5.4 ^e | 10.9 | 8.8 ^e | 17.8 |
| Philippines | 16.4 | 19.3 | 18.2 | 22.9 |
| Republic of Korea | 13.3 | 30.3 | 24.6 | 34.8 |
| Sri Lanka | 19.6 | 19.1 | 23.1 | 20.6 |
| Thailand | 18.1 | 20.6 | 21.5 | 23.9 |
| Fiji | 40.3 ^d | 43.3 | 43.0 ^d | 40.5 |
| Papua New Guinea | 18.2 | 40.9 ^f | 46.7 | 43.6 ^f |

Source: *Yearbook of National Accounts Statistics*, vol. I, 1974 and 1978 (United Nations publications, Sales Nos. E.75.XVII.5 and E.79.XVII.8 respectively).

Notes: ^a SNA classification.

^b 1972-1976.

^c 1971-1975.

^d 1966-1968.

^e 1966-1969.

^f 1971-1976.

17. Exports, however, are important not only because of their direct impact upon income and employment generation; in the export sector they also generate a flow of foreign exchange which provides the essential capital and intermediate goods and services required for development efforts and for which there are no close substitutes, as well as for the import of essential food supplies to fill critical imbalances between domestic supply and demand. Table 5 also shows the relative importance of imported commodities to the countries of the region. Generally speaking, the ratio of imports to GDP is determined by the size of the country and by its access to foreign exchange, either from export earnings or from net capital inflows. Significantly, most of the countries in the region import more than they export. In the period 1971-1977 import ratios ranged from around 6.0 in the case of Burma and India to 41.8 in the case of Malaysia and 48.5 in the case of Fiji. A comparison of the ratios for the two periods 1966-1970 and 1971-1977 indicates that in most countries the relative importance of imports to GDP has increased. Weighted subregional averages also stress the differing importance of imports to the subregion.

18. Table 6 compares the growth of exports in the ESCAP region and in its subregions with the growth in world trade. In current price terms, the position of developing ESCAP economies vis-à-vis all developing countries and the world market economies has been one of continual improvement. During the period 1970-1975 the rate of growth in exports of developing ESCAP economies far exceeded that of the world's market economies in general and, despite the impact of the oil price rise on the exports of members of the Organization of Petroleum Exporting Countries (OPEC), it was slightly higher than the rate of growth in exports

of all developing countries. In 1976 and 1977 the rate of growth of exports of developing ESCAP economies considerably exceeded that of all developing countries.

B. Income distribution

19. The most disturbing feature of development in developing ESCAP countries was that, irrespective of high or low growth rates of output, the poverty situation in the region has continued to be appalling. While evidence is ambiguous as to whether or not poverty has increased in incidence in relative terms, other points are clear.

20. First, approximately 350 million people live in absolute poverty in South Asia and an additional 168 million live in the same condition in east and south-east Asia; this comprises respectively some 60 and 29 per cent or a total of 89 per cent of the world's poverty population.

21. Secondly, the already overwhelmingly large absolute numbers of the poor in 1970 have almost certainly increased because of high population growth rates, in some cases stagnant *per capita* incomes and the failure of policies adequately to redistribute income or raise the productivity of those afflicted by the curse of poverty.

22. Thirdly, there has been an asymmetry between growth in gross domestic product and other dimension of development now vividly depicted in the available data on poverty ratios, and rates of unemployment. While some of these data are still incomplete or tentative, they are adequate to suggest that the process of growth will need to be restructured to ensure a wider diffusion of income and employment and that specific measures are required to solve the problems of the poor and the underprivileged.

Table 6. World and ESCAP region:
percentage growth rates of exports (current prices), 1960-1977

| Region | 1960-1965 (— Average annual percentage change —) | 1965-1970 | 1970-1975 | 1976 (— Percentage —) | 1977 (— Percentage —) |
|--|---|-----------|-----------|--------------------------|--------------------------|
| World total (market economies) | 7.8 | 12.2 | 24.1 | 13.8 | 13.0 |
| Developed | 8.4 | 11.9 | 35.6 | 11.2 | 13.5 |
| Developing | 5.8 | 8.7 | 35.6 | 21.0 | 11.7 |
| OPEC | — | — | 58.6 | 21.5 | 7.1 |
| ESCAP | 8.3 | 13.0 | 27.7 | 23.9 | 15.7 |
| Developed ESCAP | 12.5 | 15.3 | 23.3 | 19.2 | 16.6 |
| Developing ESCAP | 4.4 | 10.2 | 33.9 | 28.8 | 14.9 |
| (A) Non-oil exporters | 4.8 | 9.5 | 24.3 | 37.2 | 17.8 |
| (B) Oil exporters | 2.7 | 13.0 | 63.1 | 17.6 | 10.2 |
| (C) ASEAN | 1.0 | 7.4 | 31.4 | 23.7 | 22.5 |
| (D) Selected (oil and non-oil) | 3.9 | 9.4 | 34.7 | 25.0 | 14.8 |
| (E) Selected (non-oil exporters) | 4.3 | 8.3 | 23.7 | 31.5 | 18.3 |

Source: United Nations, *Monthly Bulletin of Statistics*, December 1978.

Table 7. Selected developing ESCAP countries: incidence of poverty

| | Year | K (Kravis' conversion) ^a | Percentage of population below poverty line | Definition of poverty line |
|-------------------------|---------|-------------------------------------|---|---|
| Bangladesh ^b | 1963/64 | | 40 | Income level to ensure 90 per cent of "recommended" calorie intake. |
| | 1968/69 | | 76 | |
| | 1973/74 | | 74 | |
| | 1975 | 59 | | |
| India ^b | 1960/61 | | 42 | Rs 15 per person per month at 1960/61 prices (weighted average by states). |
| | 1964/65 | | 50.4 | |
| | 1966/67 | | 57.4 | |
| | 1968/69 | | 53.5 | |
| | 1970/71 | | 49.1 | |
| | 1973/74 | | 47.6 | |
| | 1975 | 41 | | |
| Indonesia | 1973 | | 50 | Annual <i>per capita</i> equivalent to 240 kg and 360 kg of rice in rural and urban areas respectively. |
| | 1975 | 57 | | |
| Malaysia | 1970 | | 36 | \$M 25 <i>per capita</i> per month at current prices. |
| | 1975 | 14 | | |
| Pakistan ^b | 1963/64 | | 45 | Income level to ensure 90 per cent of "recommended" calorie intake. |
| | 1968/69 | | 46 | |
| | 1970/71 | | 43 | |
| | 1975 | 45 | | |
| Philippines | 1971 | | 69.9 | Minimum cost of basket of food required to meet recommended nutrient. |
| | 1975 | 32 | | |
| Republic of Korea | 1975 | 3 | | |
| Sri Lanka | 1963 | | 72 | Rs 200 per household per month. |
| | 1973 | | 40 | |
| | 1975 | 7 | | |
| Thailand | 1962/63 | | 52 | \$150/month/person in rural areas and \$200/month/person in urban areas at 1975/76 prices. |
| | 1968/69 | | 34 | |

Sources: *Economic and Social Survey of Asia and the Pacific, 1978* (United Nations publication, Sales No. E.79.II.F.1), table 76; N. Akrasanee, "The Thai economy: current development, future prospects and alternative strategies for the 1980s" (Bangkok, ESCAP, 1979) (mimeo.), table 10 p. 23.

Notes: ^a K (Kravis' conversion) is the poverty line corresponding to the income level of the fortieth percentile in India, which is estimated as the level required to achieve a calorie intake of about 2,150 per person per day. This level is applied internationally using "Kravis' conversion" to allow for differences in purchasing power among countries.

^b Rural areas only.

Table 8. Selected developing ESCAP countries: absolute poverty,^a 1976

| | Population (Millions) | Absolute poor (Millions) |
|---------------------------------|--------------------------|-----------------------------|
| <i>South Asia</i> | | |
| Afghanistan | 14.0 | 8.8 |
| Bangladesh | 80.4 | 60.3 |
| Burma | 30.8 | 25.3 |
| India | 620.4 | 223.4 |
| Nepal | 12.9 | — |
| Pakistan | 71.3 | 24.3 |
| Sri Lanka | 13.8 | 3.0 |
| <i>East and south-east Asia</i> | | |
| Hong Kong | 4.5 | 0.3 |
| Indonesia | 135.2 | 68.4 |
| Malaysia | 12.7 | 1.3 |
| Philippines | 43.3 | 6.9 |
| Republic of Korea | 36.0 | 3.4 |
| Singapore | 2.3 | 0.1 |
| Thailand | 43.0 | 11.6 |
| <i>Western Asia</i> | | |
| Iran | 34.3 | 1.7 |
| <i>Pacific</i> | | |
| Fiji | 0.6 | 0.1 |
| Papua New Guinea | 2.8 | 0.4 |

Source: Organisation for Economic Co-operation and Development, *Development Co-operation Review, 1978*, pp. 166-169.

Note: ^a "Absolute poor" includes those people whose *per capita* income is below the level at which in that country it is possible to secure the minimum requirements of life — essentially, nutrition, clothing and shelter.

23. Fourthly, there is a further asymmetry between growth of *per capita* incomes and improvements in the quality of life, defined as adequate access to drinking water, energy, transport, health services, education and other essential social services. Many economies with a relatively high *per capita* income have been found to have low quality-of-life indexes and vice versa. This discrepancy is, in part, due to the fact that the level of *per capita* income does not reflect society's access to specific infrastructure and welfare services. The masses of poor people, particularly in the rural areas, have limited access to these amenities unless they are deliberately made available to them, or heavily subsidized for them, by the public sector. Therefore, the development of the sectors providing these services not only has to be undertaken or fostered directly by the public sector, but their delivery has to be differentially tilted in favour of the poverty groups.

24. It is disturbingly shown in table 7 that even in some high-growth countries, such as Indonesia and the Philippines, a high proportion — 57 and 32 per cent of the population respectively — was

still below the poverty line in the middle 1970s. In the low-growth countries, of course, the proportion was even higher and typically ranged from 40 to 60 per cent. The latest available data on the prevalence of poverty relate to the early or middle 1970s and thus do not reflect the possible effect of high growth rates in the late 1970s in some developing countries. Even in these countries, however, while poverty ratios may have diminished by the end of the 1970s, the absolute number of poor people has probably grown because of continuing rapid population growth. The numbers of those in absolute poverty are given in table 8. In the slower growing, low-income countries there is no evidence of reduction in the poverty ratios to anywhere below 40 per cent because their GDP growth rates have remained low and population has continued to increase by over 2 per cent.

25. A further indicator of poverty is the share of the bottom 40 per cent of household incomes in national income. Recent estimates given in table 9 show that this share does not exceed 20 per cent anywhere in Asia. It is much lower (11-11.5 per cent) in the relatively high-income countries such as Iran, Malaysia, the Philippines and Thailand. It is somewhat higher (16-17 per cent) in India, Indonesia, Pakistan and the Republic of Korea, and still higher (19-20 per cent) in Bangladesh and Sri Lanka. The implication of these figures is that in the relatively better-off countries the share of the bottom 40 per cent of the population is relatively low. Even more disturbing is the fact that this share is not likely to improve significantly in most countries of Asia even by 2000 A.D. if historically recorded growth-rate trends and existing policies continue. Indeed, the share is expected to decrease further except in Iran, Malaysia and the Republic of Korea. Available evidence suggests that given existing policies the share of the bottom 40 per cent would not exceed 18.5 per cent in any developing ESCAP country by the end of the century and provides graphic confirmation that over-all growth by itself would not suffice to redistribute income in favour of the poorest classes in society.

26. Real wage data, given in table 10, though scanty suggest that in Malaysia and the Republic of Korea agricultural real wages have risen significantly, but that in Bangladesh, India, the Philippines and Sri Lanka they have declined. In three south Asian countries and the Philippines, even real industrial wages declined in the early 1970s. Thus, it appears that though low rates of over-all growth are almost certainly likely to be associated with the stagnation and even reduction of real wages, high rates of over-all growth do not necessarily increase real wages.

27. The concentration of land ownership is indicated in table 11. In 16 countries of the region 46 per cent of all farm holdings account for only 9 per cent of the total area while only 12 per cent of holdings account for nearly half of the total area. Except in east Asia, where land reform was accomplished in the 1940s and 1950s, and in the more recent experience of Sri Lanka, there is no evidence to suggest that the concentration in land-holding has been reduced.

28. The prevalence of unemployment and under-employment in the region has been a matter of continuing concern, particularly as available evidence suggests that it is increasing. While such a phenomenon is generally accepted, the exact magnitudes given in table 12 need to be used with extreme caution for comparative purposes because of wide differences in definition and coverage. In general, however, it is true that estimates of over-all unemployment grossly underestimate the true magnitude of the employment problem in the region because the incidence of underemployment is very many times higher than the rates of open unemployment and there are marked differences between the urban and rural areas in the incidence of unemployment and underemployment. These are factors of direct relevance to the formulation of strategies to alleviate unemployment.

Table 9. Selected developing ESCAP countries: share of the lowest 40 per cent of the population in GNP, 1975 and 2000

| | 1975 estimates | 2000 projections ^a |
|---------------------------------|-------------------|----------------------------------|
| <i>South Asia</i> | | |
| Bangladesh | 20.0 | 17.8 |
| India | 17.0 | 15.0 |
| Nepal | — | — |
| Pakistan | 16.5 | 14.2 |
| Sri Lanka | 19.3 | 18.5 |
| <i>East and south-east Asia</i> | | |
| Hong Kong | — | — |
| Indonesia | 16.1 | 12.0 |
| Malaysia | 11.1 | 13.2 |
| Philippines | 11.6 | 10.8 |
| Republic of Korea | 16.9 | 18.2 |
| Singapore | — | — |
| Thailand | 11.5 | 10.9 |
| <i>Western Asia</i> | | |
| Iran | 11.5 | 15.3 |

Source: M.S. Ahluwalia, N.G. Carter and H.B. Chenery, "Growth and poverty in developing countries", *World Bank Staff Working Paper No. 309* (Washington D.C., World Bank, 1978), table 1, p. 7.

Note: ^a Projections here are "base case" projections which incorporate improvements in growth performance that are anticipated in current World Bank studies.

Table 10. Selected developing ESCAP countries: indexes of real wages in agriculture and manufacturing, 1966-1977 (1970 = 100)

| | 1966 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>Bangladesh</i> | | | | | | | | | |
| Agriculture | 84.8 | 100.0 | — | 71.5 | 71.0 | 63.4 | 57.1 | — | — |
| Manufacturing | — | 100.0 | 98.0 | 67.3 | 64.4 | 50.5 | 66.3 | 70.0 | — |
| <i>India</i> | | | | | | | | | |
| Agriculture | 86.1 | 100.0 | 103.5 | 93.3 | 80.1 | 66.9 | 69.0 | — | — |
| Manufacturing | — | 100.0 | 100.0 | 100.0 | 90.0 | 70.0 | — | — | — |
| <i>Malaysia</i> | | | | | | | | | |
| Agriculture | 86.3 | 100.0 | 95.4 | 83.9 | 124.1 | 113.9 | — | — | — |
| Manufacturing | — | 100.0 | 99.0 | 94.0 | 84.0 | 81.0 | 84.0 | 86.0 | 90.0 |
| <i>Pakistan</i> | | | | | | | | | |
| Agriculture | 84.0 | 100.0 | 100.0 | 104.0 | — | — | — | — | — |
| Manufacturing | — | 100.0 | 93.0 | 87.0 | 85.0 | 115.0 | — | — | — |
| <i>Philippines</i> | | | | | | | | | |
| Agriculture | 122.0 | 100.0 | 92.2 | 88.9 | 76.2 | 60.7 | — | — | — |
| Manufacturing | — | 100.0 | 92.0 | 87.0 | 81.0 | 66.0 | 64.0 | 62.0 | 64.0 |
| <i>Republic of Korea</i> | | | | | | | | | |
| Agriculture | 46.0 | 100.0 | 120.0 | 143.0 | 157.0 | 209.0 | 269.0 | 330.0 | — |
| Manufacturing | — | 100.0 | 108.0 | 112.0 | 121.0 | 131.0 | 133.0 | 156.0 | 189.0 |
| <i>Sri Lanka</i> | | | | | | | | | |
| Agriculture | 97.1 | 100.0 | 96.4 | 107.9 | 92.5 | — | — | — | — |
| Manufacturing | — | 100.0 | 97.0 | 109.0 | 98.0 | 111.0 | 108.0 | 108.0 | — |

Sources: S. Latif, *Regional Study on Terms of Trade Between Rural and Urban Areas to Strengthen Linkages between Agriculture and Other Sectors* (mimeo.), table 5.05, p. 35; Bank of Korea, *Economic Statistics Yearbook, 1978*; United Nations, *Monthly Bulletin of Statistics*, June 1978; Biro Pusat Statistik, *Survey Manufacturing Industry*; International Labour Organisation, *Yearbook of Labour Statistics, 1977*.

Table 11. Selected developing ESCAP countries: land distribution pattern

| | Year | Farm size in hectares | | | | | | Gini coefficient |
|---------------------------------|---------|-----------------------|------|------|------|--------------|------|------------------|
| | | 0-2 | | 0-5 | | More than 10 | | |
| | | Farm | Area | Farm | Area | Farm | Area | |
| <i>South Asia</i> | | | | | | | | |
| Bangladesh | 1960 | 77.9 | 41.6 | 96.5 | 80.0 | 0.4 | 5.9 | 0.47 |
| | 1974 | 88.0 | 58.0 | 98.0 | 90.0 | 2.0 | 11.0 | 0.57 |
| India | 1961 | 62.2 | 19.1 | 89.6 | 53.4 | 4.5 | 29.8 | 0.59 |
| | 1970-71 | 70.0 | 20.0 | 84.8 | 39.4 | 4.0 | 31.0 | 0.63 |
| Pakistan | 1960 | 49.5 | 9.4 | 77.1 | 31.7 | 7.9 | 42.7 | 0.60 |
| | 1972 | — | — | 68.1 | 30.4 | 10.8 | 43.0 | — |
| Sri Lanka | 1962 | 8.4 | 31.7 | 95.3 | 31.7 | — | — | — |
| <i>East and south-east Asia</i> | | | | | | | | |
| Indonesia | 1963 | 88.3 | 51.5 | 97.5 | 76.3 | 0.7 | 12.5 | 0.54 |
| Malaysia | 1960 | 67.4 | 32.6 | 96.1 | 79.2 | 1.0 | 10.4 | 0.44 |
| | 1973 | 72.1 | 48.0 | 98.8 | 94.2 | — | — | — |
| Philippines | 1960 | 41.1 | 11.2 | 61.0 | 43.1 | 5.6 | 33.2 | 0.52 |
| | 1971 | — | — | 84.8 | 47.8 | 4.9 | 33.9 | 0.51 |
| Republic of Korea | 1961 | 82.2 | 83.5 | 99.2 | 86.1 | — | — | — |
| | 1968 | 91.0 | — | 97.8 | — | — | — | — |
| | 1974 | 88.8 | — | 95.3 | — | — | — | — |
| Thailand | 1963 | 47.9 | 15.5 | 75.4 | 42.1 | 5.4 | 22.2 | 0.46 |
| | 1971 | 49.5 | 20.3 | 80.3 | 51.8 | 3.8 | 16.2 | 0.41 |

Sources: Asian Development Bank, *Rural Asia Supplementary Papers*, vol. III, 1978, p. 16; S.K. Rao, "Some reflections on income distribution and poverty in some Asian countries" (mimeo.), p. 24; United Nations, *Economic and Social Survey of Asia and the Pacific, 1975* (United Nations Publication, Sales No. E.76.II.F.1), p. 57.

Note: Figures may not total to 100 per cent owing to rounding. Size categories for Thailand are 0-2.4, 0-4.5, and more than 9.6; for India for 1970/71 figures written in column 0-5 refer to 0-4 group; for the Republic of Korea (1961) the figures given in column 0-5 refer to "up to 3 ha"; and for Sri Lanka (1962) the figures exclude area under estates.

Table 12. Selected developing ESCAP countries: estimates of unemployment and underemployment

| | Year | Open unemployment ^a | | | Underemployment ^b | | |
|---------------------------------|------|--------------------------------|-------|-------|------------------------------|-------|-------|
| | | Total | Rural | Urban | Total | Rural | Urban |
| <i>South Asia</i> | | | | | | | |
| India | 1971 | 3.9 | 4.2 | 2.7 | 8.2 | 8.9 | 5.4 |
| Pakistan | 1970 | 2.0 | 1.8 | 2.9 | 25.9 | 28.0 | 18.7 |
| Sri Lanka | 1973 | — | 24.5 | 32.1 | — | — | — |
| <i>East and south-east Asia</i> | | | | | | | |
| Indonesia | 1971 | 8.8 | 8.2 | 12.6 | — | — | — |
| Malaysia | 1974 | 4.6 | 4.0 | 5.8 | 7.3 | 8.9 | 3.5 |
| Philippines | 1972 | 6.3 | 3.3 | 9.8 | — | 13.0 | 11.7 |
| Republic of Korea | 1972 | 4.5 | 1.0 | 7.5 | 30.7 | 40.6 | 14.8 |
| Thailand | 1973 | 0.4 | 0.3 | 1.5 | 18.3 | 18.0 | 20.1 |

Source: Asian Development Bank, *Rural Asia Supplementary Papers*, vol. III, 1978, p. 14.

Notes: ^a Open unemployment is expressed as a percentage of the labour force.

^b Underemployment is expressed as a percentage of the employed.

Table 13. Selected developing ESCAP countries: selected indicators of quality of life

| | Percentage of labour force in agriculture, 1977 ^a | Depend- ency ratio, 1970 | Infant mortality rate, 1970 | Percentage of income received by lower 20 per cent | | Population per physi- cian, 1976 ^a | Adult literacy rate, 1975 ^a | Percentage of occupied dwellings without piped water, 1970 | Percentage of total dwellings with access to electricity, 1970 | Newspaper consumption per capita (kg per year), 1970 | Density of total road net-work (per 1,000 sq km), 1975 | Per capita calorie supply as percentage of require- ment, 1974 ^a |
|---------------------------------|--|--------------------------------|-----------------------------|--|------|--|--|--|--|--|--|--|
| | | | | 1960 | 1970 | | | | | | | |
| <i>South Asia</i> | | | | | | | | | | | | |
| Afghanistan | 80 | 1.5 | 182 | — | — | 28,290 ^b | 12 | — | — | — | 28 | 83 |
| Bangladesh | 78 | 1.5 | 140 | — | — | 11,350 | 22 | — | — | — | — | 92 |
| Burma | 55 | 1.1 | 139 | 6.0 | — | 5,410 | 67 | — | 0.6 | 38 | 38 | 103 |
| India | 73 | 1.2 | 130 | 4.0 | 5.0 | 3,140 ^b | 36 | — | 0.3 | 370 | 370 | 89 |
| Nepal | 93 | 1.2 | — | — | — | 38,650 ^b | 19 | — | — | 13 | 13 | 95 |
| Pakistan | 58 | 1.6 | 115 | 7.0 | 8.0 | 3,780 ^b | 21 | — | 0.3 | — | — | 93 |
| Sri Lanka | 54 | 1.4 | 50 | 5.0 | 7.0 | 6,230 ^b | — | 96 | 9 | 1.1 | 480 | 91 |
| <i>East and south-east Asia</i> | | | | | | | | | | | | |
| Indonesia | 60 | 1.5 | 135 | — | — | 16,430 ^b | 62 | — | 0.2 | 40 | 40 | 98 |
| Malaysia | 44 | 2.6 | 41 | 6.5 | 3.4 | 4,350 ^b | 60 | 65 | 43 | 4.0 | — | 115 |
| Philippines | 51 | 1.3 | 80 | 5.0 | 4.0 | 3,150 ^b | 87 | 66 | 23 | 1.8 | — | 87 |
| Republic of Korea | 45 | 1.4 | — | 7.0 | 10.0 | 1,680 | 91 | 80 | 50 | 3.4 | — | 112 |
| Singapore | 2 | 1.3 | 20 | — | — | 1,340 | 75 | 20 | 97 | 10.4 | — | 107 |
| Thailand | 77 | 1.1 | 80 | — | — | 8,460 ^b | 82 | — | 17 | 1.2 | — | 122 |
| <i>Pacific</i> | | | | | | | | | | | | |
| Fiji | — | 1.6 | 19 | — | 6.0 | — | — | — | — | 1.5 | — | — |

 Source: World Bank, *World Tables 1976* (Washington, 1976).

 Notes: ^a World Bank, *World Development Report, 1978*.

^b Figures are for years other than those specified.

Table 14. Selected developing ESCAP countries:
physical quality of life index (PQLI), 1960-1976

| | Per capita GDP at 1970 prices (US dollars) | | | PQLI | | |
|---------------------------------|---|------|-------------------|------|------|------|
| | 1960 | 1970 | 1976 ^a | 1960 | 1970 | 1976 |
| <i>South Asia</i> | | | | | | |
| India | 86 | 100 | 150 | 30 | 40 | 41 |
| Pakistan | — | 87 | 170 | 35 | 36 | 36 |
| Sri Lanka | — | 184 | 200 | 75 | 80 | 82 |
| <i>East and south-east Asia</i> | | | | | | |
| Malaysia | 226 | 380 | 860 | 47 | 67 | 73 |
| Philippines | 141 | 187 | 410 | 60 | 72 | 71 |
| Republic of Korea | 144 | 261 | 670 | 57 | 76 | 82 |
| Singapore | — | 906 | 2,700 | 70 | 81 | 86 |
| Thailand | 115 | 180 | 380 | 58 | 70 | 71 |
| <i>Western Asia</i> | | | | | | |
| Iran | 223 | 404 | 1,930 | 24 | 45 | 52 |
| Asia average | — | — | 315 | — | — | 57 |

Source: M.M. McLaughlin, *The United States and World Development Agenda, ODC, 1979*, tables A-4 and A-5, pp. 156-157, 169-171.

^a Calculated from *Yearbook of National Accounts Statistics, 1978*, vol. II (United Nations publication, Sales No. E.79.XVII.8).

29. It is instructive to survey the indicators of the availability of infrastructure and social services — elements in the “quality of life” of the people. These are given in table 13. There is generally a good correlation between the degree of availability of such amenities and the level of *per capita* income and rate of growth of the economy concerned. However, data set out in table 14 regarding a physical quality of life index (PQLI) show that Sri Lanka, a low-income, low-growth economy, had an index of 80 while Iran, a high-income, fast-growing economy, had an index of only 45. The evidence in this area underscores the fact that while high rates of over-all growth are a necessary pre-condition, the implementation of deliberate policies to tackle the problems directly discussed earlier will be required for the speedy achievement of socio-economic objectives.

C. International economic relations

30. The diverse experience of developing ESCAP countries is again apparent in examining the impact of the workings of the international economic system on their national economies.¹ Depending upon the relative importance of international economic transactions in their economies, all countries were affected by the abrupt fluctuations which marked the international economy in the 1970s. These disturbances included the boom and subsequent collapse of commodity exports during the first half of the decade, the large rise in the price of petroleum in 1973-1974 and subsequent further periodic sharp increases in price, the collapse of the

international monetary system, the international food crisis and the cycle of boom and recession with persistent inflation in the developed market economies.

31. On the surface, it was the group of more rapidly growing countries in east and south-east Asia, with relatively high ratios of international trade to gross domestic product, which should have been most affected by the abrupt changes in international economic conditions. However, while they encountered severe problems in economic management, sharp disruptions in trade flows and in many cases serious adverse movements in their terms of trade, their general economic performance remarked upon above indicates that they were able to cope with their problems relatively successfully. They adjusted fairly rapidly to the impact of the oil price increases on the structure of consumption and production; adequate reserves of foreign exchange or access to international capital markets bought short-term relief from the impact of the food crisis and rapidly deteriorating balance-of-payments positions; and the growth in the incidence of protection in the developed market economies was offset by increased endeavours to improve market penetration, diversify exports and develop new markets.

¹ These issues have been more fully explored in *Economic and Social Survey of Asia and the Pacific, 1977* (United Nations publication, Sales No. E.78.II.F.1.), part II.

32. Although less dependent on their exports for the direct generation of gross national product, the low-income and least developed countries of south Asia are generally dependent upon receipts from exports and from foreign assistance flows to finance vital capital, intermediate and essential consumer goods imports and the inflow of technology. With one notable exception in the latter part of the 1970s, these countries encountered severe balance-of-payments difficulties because of declining terms of trade, because of their inability adequately to expand exports, because of the decline in real terms of already inadequate foreign assistance flows in the first half of the decade and because of their inability to enter foreign capital markets owing to generally poor credit ratings. As a result, imports of essential goods dwindled, balance-of-payments pressures mounted and debt ratios increased. The net outcome of these various influences was to exacerbate problems already arising from lagging agricultural sectors and to add to generally unsatisfactory development performances.

33. The impact of developments in the international economy on the small island countries of the South Pacific was also especially severe. They were particularly affected by the rapid fluctuations in commodity prices, including the direct and indirect effects of the increase in oil prices, by the effects of the slow-down in growth in the developed market economies on demand for their exports and by the adverse effects on their terms of trade of the continuous rise in price of their manufactured imports.

D. The setting for the 1980s

34. As they approach the 1980s and the task of developing suitable strategies, developing ESCAP countries have to deal with an international economic environment which has changed considerably and with fairly well-known demographic developments.

35. The vulnerability of the developing ESCAP countries considered in this report to fluctuations in the international economic system has been remarked upon above in considering the impact of the various economic crises of the 1970s. Just as the vulnerability of the developing countries has increased, so too has that of the developed market economies. The world of the 1980s needs to contend with a situation in which countries have become increasingly dependent upon one another. There is now an increased preparedness on the part of the developed market economies to harmonize their policies with respect to capital flows, balance-of-

payments adjustment mechanisms, energy problems etc., and these efforts acknowledge the inability of any single country acting by itself to deal with the problems of unemployment, inflation and low growth which it often confronts.

36. The dependence of the developed market economies on the developing countries is also a fact of increasing importance. For example, United States exports of goods and services directly generate 10 per cent of gross domestic product. This is about equal to business fixed investment and 2.5 times what is spent on residential construction, both of which are important indicators of the state of the United States economy. Of total exports the share going to developing countries not members of OPEC was about 27 per cent in 1977, and developing ESCAP countries had a substantial share in this. Similar figures hold in the case of the Organisation for Economic Co-operation and Development (OECD) countries considered as a whole. The developing countries' importance is also emphasized as suppliers of raw materials and natural resources without which, and especially in the case of oil, the level of well-being in the developed market countries would be dramatically curtailed. Developing ESCAP countries are the major suppliers of many of the more important commodities and raw materials.

37. There are also other areas of recognized and increasing importance as far as co-operation in international management is concerned. The control of space, the exploitation of the renewable and non-renewable natural resources of the oceans, the management of international shipping, the need for collaboration in river basin development and the necessity of supervising internationally the activities of transnational corporations are some of the important areas which countries will have to act increasingly in a co-operative manner for their mutual benefit. In all of these aspects, developing ESCAP countries have much at stake.

38. Interdependence also continues to grow among developing countries. It is a source of collective bargaining power which is more forceful than the sum of the effects of individual countries acting unilaterally. While maximizing the benefits to be attained from North-South co-operation, intra-developing country relationships offer valuable opportunities for mutually beneficial expansion of trade, investment and technology transfer in a manner which is more compatible with their lifestyles and objectives. Ultimately, of course, this is the counterweight to increased intransigence on the part of the North in realizing the facts of life about the increasingly mutual interests of all countries in global economic reform.

39. There has been a marked indifference on the part of the developed countries to acknowledging the role of the developing countries in the world economy and to entering into fruitful discussions about changes in the international economic system which would result in a more equitable sharing of benefits and a greater participatory role for the developing countries in the management of the system. The struggle to secure these benefits and rights are sure to feature prominently for developing ESCAP countries in the 1980s.

40. The enormity of the problems concerning those who are underemployed, unemployed or living in poverty has been stressed. Available data suggest that demographic forces will continue inexorably to exert further pressures during the next decade to intensify existing problems. The demographic outlook for the 1980s is, in effect, the result of situations which are long past and of which only the stark reality remains to be faced.

41. For the developing ESCAP region as a whole, the rate of growth of population dropped from 2.3 per cent in the 1960s to 1.9 per cent from 1970-1977, the sharpest reductions being recorded in China, Indonesia, the Lao People's Democratic Republic, Singapore and Sri Lanka (table 15). More recent information also suggests that there have been significant declines in the rate of growth of population also in Bangladesh, India, Thailand and, possibly, Pakistan.

42. It is essential that the strategy for the 1980s continue to emphasize the deceleration of the rate of population growth so that further pressures are not developed for the longer term and so that resource availabilities and growth in *per capita* incomes can be sustained at adequate levels. An important consequence of further restraining the rate of population growth during the next decade will also be to increase the *per capita* availability of food supplies.

43. While the immediate past experience of this region does not completely corroborate the contention, many studies on the factors influencing levels of fertility have suggested that the major determinants include the level of *per capita* income, the distribution of national product (particularly the share accruing to the bottom 40 per cent), the level of education (particularly female literacy), infant survival rates and the intensity and efficacy of communicative and input delivery systems in population control measures.

44. There are obviously a number of factors affecting the fertility rate, even over and beyond those listed above. It has been suggested, for example, that the significant declines in the rate of growth of population experienced in some countries has been the result of growing unemployment and a consequent increase in the age of marriage.

Table 15.
ESCAP region: population growth, 1960-1977

| | Growth rates (Percentage per annum) | |
|--|--|-----------|
| | 1960-1970 | 1970-1977 |
| <i>Developing ESCAP</i> | 2.3 | 1.9 |
| <i>South and western Asia</i> | 2.5 | 2.3 |
| Afghanistan | 2.2 | 2.2 |
| Bhutan | 2.0 | 2.2 |
| Burma | 2.2 | 2.2 |
| Nepal | 2.0 | 2.2 |
| Sri Lanka | 2.4 | 1.7 |
| Bangladesh | 2.9 | 2.5 |
| India | 2.3 | 2.1 |
| Iran | 2.8 | 3.0 |
| Pakistan | 2.8 | 3.1 |
| <i>South-east Asia</i> | 2.6 | 2.3 |
| Democratic Kampuchea | 2.8 | 2.5 |
| Indonesia | 2.2 | 1.8 |
| Lao People's Democratic Republic | 2.2 | 1.1 |
| Malaysia | 2.9 | 2.7 |
| Philippines | 3.0 | 2.7 |
| Singapore | 2.4 | 1.5 |
| Thailand | 3.1 | 2.9 |
| Viet Nam | 3.1 | 3.1 |
| <i>North and east Asia</i> | 1.9 | 1.4 |
| China | 1.9 | 1.3 |
| Democratic People's Republic of Korea | 2.8 | 2.6 |
| Hong Kong | 2.5 | 2.0 |
| Mongolia | — | — |
| Republic of Korea | 2.4 | 2.2 |
| <i>Pacific</i> | 2.3 | 2.4 |
| Fiji | — | — |
| Papua New Guinea | 2.3 | 2.4 |
| <i>Developed ESCAP</i> | 1.1 | 1.3 |
| Australia | 1.9 | 1.7 |
| Japan | 1.0 | 1.2 |
| New Zealand | 1.7 | 1.6 |
| Total ESCAP | 2.2 | 1.8 |

Sources: *Economic and Social Survey of Asia and the Pacific, 1978*, (United Nations publication, Sales No. E.79.II.F.1), table 45, pp. 187-188; World Bank, *World Development Report, 1979*.

Table 16. Selected developing ESCAP countries: percentage of population of working age and by sector, 1960 and 1977, and growth rate of labour force, 1960-1977

| | Percentage of population of working age (15-64 years) | | Percentage of labour force in | | | | | | Average annual growth rate of labour force | |
|---------------------------------|---|------|-------------------------------|------|----------|------|----------|------|--|-----------|
| | 1960 | 1977 | Agriculture | | Industry | | Services | | 1960-1970 | 1970-1977 |
| | | | 1960 | 1977 | 1960 | 1977 | 1960 | 1977 | | |
| <i>South Asia</i> | | | | | | | | | | |
| Afghanistan | 55 | 53 | 85 | 80 | 6 | 8 | 9 | 12 | 1.9 | 1.7 |
| Bangladesh | 53 | 51 | 87 | 78 | 3 | 7 | 10 | 15 | 2.4 | 2.3 |
| Burma | 59 | 55 | 68 | 55 | 11 | 19 | 21 | 26 | 1.1 | 1.4 |
| India | 56 | 55 | 73 | 73 | 11 | 11 | 16 | 16 | 1.6 | 1.7 |
| Nepal | 56 | 55 | 95 | 93 | 2 | 2 | 3 | 5 | 1.8 | 2.0 |
| Pakistan | 52 | 50 | 61 | 58 | 18 | 20 | 21 | 22 | 1.8 | 2.4 |
| Sri Lanka | 54 | 58 | 56 | 54 | 13 | 15 | 31 | 31 | 2.1 | 2.1 |
| <i>East and south-east Asia</i> | | | | | | | | | | |
| Hong Kong | 56 | 65 | 8 | 2 | 52 | 57 | 40 | 41 | 3.1 | 3.3 |
| Indonesia | 56 | 56 | 75 | 60 | 8 | 12 | 17 | 28 | 1.8 | 2.0 |
| Malaysia | 51 | 54 | 63 | 44 | 12 | 20 | 25 | 36 | 2.7 | 3.6 |
| Philippines | 52 | 51 | 61 | 51 | 15 | 15 | 24 | 34 | 2.1 | 2.1 |
| Republic of Korea | 54 | 60 | 66 | 45 | 9 | 33 | 25 | 22 | 2.9 | 2.9 |
| Singapore | 55 | 65 | 8 | 2 | 23 | 32 | 69 | 66 | 2.7 | 3.1 |
| Thailand | 53 | 52 | 84 | 77 | 4 | 8 | 12 | 15 | 2.1 | 2.5 |
| Viet Nam | ... | 52 | 81 | 70 | 5 | 9 | 14 | 21 | 1.5 | 2.3 |

Source: World Bank, *World Development Report, 1979*.

45. The policy implications are that population control objectives will need to be an integral part of over-all development strategies and not conceived of in isolation. Put differently, the direct outlay on family planning programmes and the like is not by itself an indicator of the effectiveness of a country's population control programme. The success of a population control programme depends, *inter alia*, also upon the maintenance of a high rate of growth in national product, upon a more equitable distribution of assets and income, upon a more equitable provision of health, education and other social services as well as upon an intensified family planning programme.

46. While the declines in population growth rates experienced in the recent past give reason for some satisfaction — though not complacency — the markedly higher rates of growth experienced during the 1950s and 1960s have already manifested themselves in higher rates of growth in the labour force. Table 16 indicates that, compared with the annual rate of growth in the labour force during the 1960s, rates of growth from 1970 to 1977 declined only in Afghanistan and Bangladesh. With growing populations, this trend implies that the absolute increments to the labour force will continue to remain at around 2-3 per cent per year in most

developing ESCAP countries. International Labour Organisation projections suggest that during the decade 1975-1985 the average annual number of new entrants into the labour force will be 4.7 million in India, 1.3 million in Indonesia and 0.9 million in Bangladesh. The fact that such numbers will be entering the labour market and further swelling the enormous backlog of the unemployed and the underemployed underlines the urgent need for an active and purposeful employment-oriented strategy of development, a strategy of development which would also ensure an adequate output of essential consumer goods and the provision of essential infrastructure and social services.

47. Compared with 1960, the proportion of the population of working age (15-59 years) had declined by 1977 in the developing economies of the region, except in Hong Kong, Malaysia, the Republic of Korea, Singapore and Sri Lanka, where increases were recorded. While such declines somewhat temper the absolute increase in new entrants to the labour force, they create further demands on limited resources for the provision of additional social services for the dependent groups and place greater strains on the gainfully employed in situations of high rates of unemployment and underemployment.

48. Such demographic trends are the result of situations of more than a decade ago and, similarly, the demographic outlook for the 1980s will be the result of situations which antedate that decade. Thus, from a longer-term perspective it is essential

that the strategy of development for the 1980s integrate a purposive demographic policy not so much with a view to easing strains during the decade itself but rather to ensure stable and continued development thereafter.

II. OBJECTIVES

49. The experience of the 1970s has given rise to a near-unanimous consensus about the major objectives of economic policy in the developing countries. It is reflected both in the resolutions of all recent conferences organized by United Nations bodies and in the latest development plans of ESCAP countries. The *Ad Hoc* Intergovernmental Meeting of those countries on strategies for the 1980s held in September 1979 succinctly listed these "major goals" as: (a) high growth, (b) fuller employment, (c) distributive equity, (d) fulfilment of basic mass needs, (e) fuller people's, women's and youth's participation in development, (f) self-reliance.²

50. These goals remain the basic guideposts in the formulation and evaluation of all aspects of the development strategy for the ESCAP countries in the 1980s.

51. A recent survey of the latest available development plans of 16 ESCAP countries shows that explicit reference is made to these objectives in most plan documents: to high growth and distributive equity in 12 plans; to fuller employment in 11 plans; to the fulfilment of basic mass needs and/or the improvement of the "quality of life" in 10 plans; and to self-reliance in 8 plans.

52. Similarly, the "Tabulation of the main development goals and proposals of international conferences of the United Nations system held in the 1970s"³ reveals that the six goals cited above dominate the resolutions of most of these conferences. But, of course, particular aspects of the major goals have been stressed or elaborated more than others in different meetings. The same is true of plan documents. These diverse emphases deepen and concretize the meaning of every objective.

53. In the case of distributive equity, for instance, some documents emphasize the reduction of disparities in the interpersonal distribution of income and wealth; others accent the reduction of international, interregional and rural-urban inequalities. Still others stress the equitable distribution of land

(by means of land reform) or food (by means of subsidies) or services, namely, health, education, water supply, transport and sanitation. The central focus of all discussions is that in the 1980s the world's poor, the "target groups", must be given a fair share of the growing stock of assets and the flow of goods and services.

54. With regard to self-reliance, again, although the concept is widely shared, different facets of it — increasing self-reliance in food, energy and/or capital goods, financial self-reliance, collective self-reliance and/or self-reliance in technology — are given particular emphasis by different groups of countries according to their particular stage and pattern of development.

55. The various enumerations of "basic mass needs" cover not only the items listed above, but also nutrition, clothing, shelter, furniture and equipment, family planning services and cultural activity.

56. In delineating people's participation, recent ILO and FAO conferences have especially urged the "organization of the rural poor" as a condition for progress towards distributive equity.

57. Recent experience has also raised "conservation-conscious or environment-conscious development" to the status of a major objective. This qualification of the development process has profound implications for the elements of any strategy pertaining to the rate and manner of use of the land, water, forest, mineral and energy resources of nations; choices of the scale, locale, technology, material-mix and product-mix of industries; and the patterns of consumption, transport and habitation.

58. Finally, as the *Ad Hoc* Intergovernmental Meeting reiterated the strategy for the 1980s must aim particularly at accelerating the development of the least developed, land-locked, island and most seriously affected countries.

² DP/IMS/3, para. 19.

³ A/AC.196/III/CRP.2/11.

III. ECONOMIC GROWTH

A. Targets

59. The United Nations General Assembly, in its resolution 33/193 on preparations for an international development strategy for the third United Nations development decade, referred to the need for a "framework of viable, consistent, specific, quantitative and qualitative goals and objectives — both over-all sectoral . . .".

60. Accordingly, ESCAP in its resolution 199 (XXXV) called upon the Executive Secretary "to undertake studies which would identify viable goals and targets for over-all and sectoral growth in the region".

61. Such studies, designed to develop quantitative projections for every developing country, on the basis of uniform and consistent assumptions, have now been undertaken by UN Headquarters for the Economic and Social Council's Committee for Development Planning (CDP).⁴

62. The model used is subject to many limitations due primarily to lack of data. Some of these limitations have been noted in the technical papers. Others were pointed out by the ESCAP *Ad Hoc* Intergovernmental Meeting in September 1979. It is particularly necessary to recall two deficiencies recorded by the Meeting: (a) "Those models generally did not have full specifications of demographic and income distribution subsystems integrated with the system of macro equations"; and (b) "Unpredictable fluctuations in exports and imports make other macro projections very unrealistic".⁵ Continuing world-wide inflation can also impair the realism of constant-price projections.

63. Despite these reservations, these projections contain the best available estimates of major magnitudes for all developing countries. Until individual countries make their own projections with more comprehensive models, the use of these data is indispensable for strategy planning. This work has generated four alternative growth scenarios for developing countries: (1) the trend continuation scenario, (2) the scenario of "doubling *per capita* income" by 2000 A.D., (3) the accelerated growth scenario and (4) the Lima target scenario. In the technical papers,⁶ projections are presented for seven non-regional groupings of countries. The ESCAP secretariat has, however, obtained projections tabulated from basic print-outs the ESCAP region projections for individual countries as well as their subgroups. The main projections for ESCAP countries are summarized in tables

17A-17F. The projected GDP growth rates for developing ESCAP economies over the 20 years 1980-2000 are 6.2, 6.9, 8.2 and 7.1 per cent in scenarios 1, 2, 3 and 4 respectively. Considering (a) the over-all growth rates, (b) the corresponding subgroup and sectoral growth rates and (c) the domestic and foreign resource implications of the four options, the Intergovernmental Meeting accepted, "as a minimum desirable goal", the second scenario assumption of the doubling of the *per capita* income of developing countries by the year 2000.⁷

64. This option would require for developing ESCAP economies:

(a) An acceleration of the GDP growth rate from 6.4 per cent a year in the 1970s to 6.7 per cent in the 1980s and 7 per cent in the 1990s;

(b) An acceleration of the agricultural growth rate from 2.7 per cent in the 1970s to 3.5 per cent over the next 20 years; and the maintenance of industrial growth at about 8.7 per cent and service sector growth at about 6.5 per cent throughout these 20 years;

(c) An increase in the investment/GDP ratio from about 19.7 per cent at present to more than 22 per cent over the next two decades;

(d) A massive escalation of foreign resource inflow from about \$US 12 billion (or 3 per cent of GDP) in 1980 to \$US 32 billion (or 6 per cent of GDP) in 1985 and \$US 117 billion (or 9 per cent of GDP) in 2000 A.D.

65. The reasons for preferring scenario 2 lie in these implied magnitudes. The lower trend rate of growth (6.2 per cent in scenario 1) would represent no acceleration over the current rate. On the other hand, higher growth rates (8.2 per cent in scenario 3 and 7.2 per cent in scenario 4) would be attractive but difficult to achieve. For they would entail a sustained, high industrial growth rate exceeding 10 and 9 per cent. They would require the investment rate to go up steeply from 19.7 per cent at present to 24 and 26 per cent in the next five years, and to 26 and 36 per cent by the year 2000. The obvious difficulty of raising investment rates to these high levels in the ESCAP region is the most important reason why scenarios 3 and 4 should be considered infeasible.

⁴ Tables 17A-17F.

⁵ DP/IMS/3, para. 21.

⁶ E/AC.54/19 and E/AC.54/L.100.

⁷ DP/IMS/3, para. 23.

Table 17A. Developing ESCAP countries:^a
sectoral growth projections to the year 2000, scenario 1

| Year | Agriculture | Industry | Services | GDP | | | |
|---|-------------------------------|--------------------|----------|------------------------|-----------------------|-----------------|----------------------------------|
| <i>Growth rates, 1974 prices (percentage)</i> | | | | | | | |
| 1970-1980 | 2.7 | 9.5 | 7.2 | 6.4 | | | |
| 1980-1990 | 2.3 | 8.3 | 5.9 | 6.0 | | | |
| 1990-2000 | 2.2 | 8.0 | 5.9 | 6.3 | | | |
| 1980-2000 | 2.3 | 8.2 | 5.9 | 6.2 | | | |
| <i>Share of GDP, 1974 prices (percentage)</i> | | | | | | | |
| 1975 | 33.0 | 32.1 | 34.9 | 100.0 | | | |
| 1980 | 28.2 | 37.1 | 34.7 | 100.0 | | | |
| 1985 | 23.7 | 41.6 | 34.7 | 100.0 | | | |
| 1990 | 19.8 | 45.9 | 34.4 | 100.0 | | | |
| 1995 | 16.3 | 49.9 | 33.8 | 100.0 | | | |
| 2000 | 13.3 | 53.6 | 33.1 | 100.0 | | | |
| Year | GDP per capita (1974 dollars) | I/GDP (percentage) | I-S | Goods and services M-X | Factor income deficit | Inflow required | Inflow required/GDP (percentage) |
| <i>(\$US billions at 1974 prices)</i> | | | | | | | |
| 1975 | 240.2 | 19.51 | -7.067 | -3.991 | 6.181 | 2.191 | 0.80 |
| 1980 | 285.9 | 19.68 | 1.432 | 4.900 | 7.049 | 11.949 | 3.21 |
| 1985 | 331.8 | 19.62 | -0.160 | 11.306 | 9.544 | 20.850 | 4.24 |
| 1990 | 385.8 | 19.61 | -3.068 | 23.889 | 13.855 | 37.744 | 5.86 |
| 1995 | 457.6 | 19.58 | -8.765 | 36.444 | 21.054 | 57.498 | 6.75 |
| 2000 | 550.7 | 19.54 | -17.921 | 52.344 | 31.825 | 84.169 | 7.45 |

Notes: I = Investment.

S = Domestic saving.

M = Imports of goods and services.

X = Exports of goods and services.

GDP = Gross domestic product.

^a Fourteen developing economies.

Table 17B. Developing ESCAP countries:
sectoral growth projections to the year 2000, scenario 2

| Year | Agriculture | Industry | Services | GDP | | | |
|---|-------------------------------|--------------------|----------|------------------------|-----------------------|-----------------|----------------------------------|
| <i>Growth rates, 1974 prices (percentage)</i> | | | | | | | |
| 1970-1980 | 2.7 | 9.5 | 7.2 | 6.4 | | | |
| 1980-1990 | 3.5 | 8.9 | 6.6 | 6.7 | | | |
| 1990-2000 | 3.4 | 8.6 | 6.5 | 7.0 | | | |
| 1980-2000 | 3.4 | 8.7 | 6.5 | 6.9 | | | |
| <i>Share of GDP, 1974 prices (percentage)</i> | | | | | | | |
| 1975 | 33.0 | 32.1 | 34.9 | 100.0 | | | |
| 1980 | 28.2 | 37.1 | 34.7 | 100.0 | | | |
| 1985 | 24.0 | 41.3 | 34.7 | 100.0 | | | |
| 1990 | 20.5 | 45.2 | 34.2 | 100.0 | | | |
| 1995 | 17.4 | 49.1 | 33.6 | 100.0 | | | |
| 2000 | 14.6 | 52.6 | 32.8 | 100.0 | | | |
| Year | GDP per capita (1974 dollars) | I/GDP (percentage) | I-S | Goods and services M-X | Factor income deficit | Inflow required | Inflow required/GDP (percentage) |
| <i>(\$US billions at 1974 prices)</i> | | | | | | | |
| 1975 | 240.2 | 19.5 | -7.07 | -3.99 | 6.18 | 2.19 | 0.80 |
| 1980 | 285.9 | 19.7 | 1.43 | 4.90 | 7.05 | 11.95 | 3.21 |
| 1985 | 341.2 | 22.1 | 11.23 | 21.74 | 10.45 | 32.19 | 6.37 |
| 1990 | 413.3 | 22.3 | 12.19 | 37.35 | 16.92 | 54.28 | 7.86 |
| 1995 | 509.1 | 22.3 | 11.15 | 53.68 | 27.17 | 80.85 | 8.53 |
| 2000 | 633.7 | 22.2 | 7.55 | 74.60 | 42.22 | 116.82 | 8.99 |

Notes: See table 17A.

Table 17C. Developing ESCAP countries:
sectoral growth projections to the year 2000, scenario 3

| Year | Agriculture | Industry | Services | GDP |
|---|-------------|----------|----------|-------|
| <i>Growth rates, 1974 prices (percentage)</i> | | | | |
| 1970-1980 | 2.7 | 9.5 | 7.2 | 6.4 |
| 1980-1990 | 3.4 | 9.9 | 7.3 | 7.5 |
| 1990-2000 | 3.5 | 11.0 | 8.4 | 8.9 |
| 1980-2000 | 3.5 | 10.4 | 7.8 | 8.2 |
| <i>Share of GDP, 1974 prices (percentage)</i> | | | | |
| 1975 | 33.0 | 32.1 | 34.9 | 100.0 |
| 1980 | 28.2 | 37.1 | 34.7 | 100.0 |
| 1985 | 23.7 | 41.6 | 34.7 | 100.0 |
| 1990 | 19.3 | 46.4 | 34.3 | 100.0 |
| 1995 | 15.1 | 51.3 | 33.6 | 100.0 |
| 2000 | 11.6 | 55.8 | 32.6 | 100.0 |

| Year | GDP per capita (1974 dollars) | I/GDP (percentage) | I-S | Goods and services M-X | Factor income deficit | Inflow required | Inflow required/GDP (percentage) |
|---------------------------------------|-------------------------------|--------------------|--------|------------------------|-----------------------|-----------------|----------------------------------|
| <i>(\$US billions at 1974 prices)</i> | | | | | | | |
| 1975 | 240.2 | 19.51 | -7.067 | -3.991 | 6.181 | 2.191 | 0.80 |
| 1980 | 285.9 | 19.68 | 1.432 | 4.900 | 7.049 | 11.949 | 3.21 |
| 1985 | 342.3 | 23.97 | 20.767 | 27.994 | 10.572 | 38.566 | 7.61 |
| 1990 | 422.4 | 25.47 | 33.645 | 50.676 | 18.756 | 69.432 | 9.84 |
| 1995 | 532.6 | 25.90 | 44.128 | 73.862 | 31.991 | 105.853 | 10.67 |
| 2000 | 680.7 | 26.25 | 57.991 | 106.040 | 51.979 | 158.019 | 11.32 |

Notes: See table 17A.

Table 17D. Developing ESCAP countries:
sectoral growth projections to the year 2000, scenario 4

| Year | Agriculture | Industry | Services | GDP |
|---|-------------|----------|----------|-------|
| <i>Growth rates, 1974 prices (percentage)</i> | | | | |
| 1970-1980 | 2.7 | 9.5 | 7.2 | 6.4 |
| 1980-1990 | 3.4 | 9.1 | 6.8 | 6.9 |
| 1990-2000 | 3.4 | 9.0 | 6.9 | 7.3 |
| 1980-2000 | 3.4 | 9.1 | 6.9 | 7.1 |
| <i>Share of GDP, 1974 prices (percentage)</i> | | | | |
| 1975 | 33.0 | 32.1 | 34.9 | 100.0 |
| 1980 | 28.2 | 37.1 | 34.7 | 100.0 |
| 1985 | 24.0 | 41.3 | 34.7 | 100.0 |
| 1990 | 20.2 | 45.4 | 33.4 | 100.0 |
| 1995 | 16.8 | 49.4 | 33.8 | 100.0 |
| 2000 | 13.9 | 53.0 | 33.1 | 100.0 |

| Year | GDP per capita (1974 dollars) | I/GDP (percentage) | I-S | Goods and services M-X | Factor income deficit | Inflow required | Inflow required/GDP (percentage) |
|---------------------------------------|-------------------------------|--------------------|---------|------------------------|-----------------------|-----------------|----------------------------------|
| <i>(\$US billions at 1974 prices)</i> | | | | | | | |
| 1975 | 240.2 | 19.51 | -7.067 | -3.991 | 6.181 | 2.191 | 0.80 |
| 1980 | 285.9 | 19.68 | 1.432 | 4.900 | 7.049 | 11.949 | 3.21 |
| 1985 | 347.8 | 25.92 | 31.166 | 29.983 | 10.594 | 40.577 | 7.88 |
| 1990 | 447.5 | 29.68 | 66.647 | 64.451 | 19.720 | 84.172 | 11.26 |
| 1995 | 606.3 | 32.79 | 125.870 | 117.370 | 37.101 | 154.471 | 13.68 |
| 2000 | 858.6 | 35.94 | 215.300 | 215.300 | 69.034 | 284.334 | 16.15 |

Notes: See table 17A.

Table 17E. ESCAP south-east and east Asia group:
sectoral growth projections to the year 2000, scenario 2

| Year | Agriculture | Industry | Services | GDP | | | |
|---|-------------------------------|--------------------|----------|------------------------|-----------------------|-----------------|----------------------------------|
| <i>Growth rates, 1974 prices (percentage)</i> | | | | | | | |
| 1970-1980 | 4.0 | 12.3 | 8.1 | 8.4 | | | |
| 1980-1990 | 3.0 | 9.9 | 6.9 | 7.5 | | | |
| 1990-2000 | 2.7 | 8.9 | 6.5 | 7.3 | | | |
| 1980-2000 | 2.9 | 9.4 | 6.7 | 7.4 | | | |
| <i>Share of GDP, 1974 prices (percentage)</i> | | | | | | | |
| 1975 | 25.9 | 32.9 | 41.1 | 100.0 | | | |
| 1980 | 20.7 | 39.3 | 40.0 | 100.0 | | | |
| 1985 | 16.7 | 44.4 | 38.9 | 100.0 | | | |
| 1990 | 13.5 | 48.8 | 37.6 | 100.0 | | | |
| 1995 | 10.9 | 52.8 | 36.3 | 100.0 | | | |
| 2000 | 8.7 | 56.4 | 34.9 | 100.0 | | | |
| Year | GDP per capita (1974 dollars) | I/GDP (percentage) | I-S | Goods and services M-X | Factor income deficit | Inflow required | Inflow required/GDP (percentage) |
| <i>(\$US billions at 1974 prices)</i> | | | | | | | |
| 1975 | 347.0 | 22.03 | -2.103 | 1.284 | 1.527 | 2.811 | 2.86 |
| 1980 | 459.3 | 22.18 | 1.370 | 6.587 | 2.290 | 8.877 | 6.12 |
| 1985 | 562.4 | 22.05 | -0.435 | 10.295 | 4.130 | 14.425 | 7.13 |
| 1990 | 679.3 | 22.12 | -2.893 | 13.250 | 6.778 | 20.028 | 7.27 |
| 1995 | 829.0 | 22.18 | -6.817 | 17.382 | 10.456 | 27.838 | 7.43 |
| 2000 | 1,020.2 | 22.24 | -12.794 | 24.409 | 15.623 | 40.032 | 7.90 |

Notes: See table 17A.

Table 17F. ESCAP south Asia group:
sectoral growth projections to the year 2000, scenario 2

| Year | Agriculture | Industry | Services | GDP | | | |
|---|-------------------------------|--------------------|----------|------------------------|-----------------------|-----------------|----------------------------------|
| <i>Growth rates, 1974 prices (percentage)</i> | | | | | | | |
| 1970-1980 | 2.0 | 5.0 | 4.9 | 3.5 | | | |
| 1980-1990 | 3.7 | 8.2 | 6.4 | 5.7 | | | |
| 1990-2000 | 3.8 | 8.7 | 6.4 | 6.2 | | | |
| 1980-2000 | 3.7 | 8.5 | 6.4 | 6.0 | | | |
| <i>Share of GDP, 1974 prices (percentage)</i> | | | | | | | |
| 1975 | 48.4 | 20.0 | 31.5 | 100.0 | | | |
| 1980 | 45.0 | 22.1 | 33.0 | 100.0 | | | |
| 1985 | 41.0 | 24.7 | 34.3 | 100.0 | | | |
| 1990 | 36.9 | 27.9 | 35.2 | 100.0 | | | |
| 1995 | 32.9 | 31.6 | 35.6 | 100.0 | | | |
| 2000 | 29.2 | 35.1 | 35.7 | 100.0 | | | |
| Year | GDP per capita (1974 dollars) | I/GDP (percentage) | I-S | Goods and services M-X | Factor income deficit | Inflow required | Inflow required/GDP (percentage) |
| <i>(\$US billions at 1974 prices)</i> | | | | | | | |
| 1975 | 151.8 | 20.11 | 4.574 | 2.140 | 0.392 | 2.532 | 2.11 |
| 1980 | 168.3 | 20.23 | 3.715 | 3.154 | 0.888 | 4.042 | 2.69 |
| 1985 | 192.4 | 26.24 | 14.777 | 15.940 | 2.621 | 18.562 | 9.54 |
| 1990 | 229.5 | 26.61 | 17.989 | 22.477 | 6.220 | 28.697 | 10.98 |
| 1995 | 278.9 | 26.72 | 21.408 | 31.923 | 11.687 | 43.610 | 12.32 |
| 2000 | 343.1 | 26.73 | 24.957 | 45.276 | 19.938 | 62.214 | 13.00 |

Notes: See table 17A.

66. These investment rates are contingent on massive foreign resource inflows, which are also most unlikely. (The inflow must rise from about \$US 12 billion now to \$US 158 billion by 2000 A.D. in scenario 3 and to \$US 284 billion in scenario 4.)

67. These considerations suggest the acceptance of scenario 2 as representing a reasonable middle-level set of targets. In addition, an important normative aim is associated with this scenario, namely, the doubling of *per capita* income in the region as a whole. Given the present intraregional disparities, over-all doubling of *per capita* income in the region would require that *per capita* income should increase somewhat more in the lower-income than in the higher-income countries. Thus, in the poorer south Asian countries it should increase by about 126 per cent (from \$US 163 in 1980 to \$US 343 in 2000) and in the east and south-east group by about 122 per cent (from \$US 459 in 1980 to \$US 1020 in 2000).

68. It needs to be appreciated that even scenario 2 would require a major resource-mobilization effort on the part of ESCAP countries. The step-up in the agricultural growth rate from 2.7 to 3.5 per cent, in particular, would be feasible only if resource use is consciously tilted in favour of rural development, if institutional obstacles to the delivery of credit, modern inputs and know-how to small farmers are overcome, and if farm size distributions and tenancy and marketing arrangements are reformed.

69. The high industrial growth postulated (8.7 per cent) can be sustained if access to developed country markets is progressively expanded.

70. The needed rise in the domestic saving rate by 2 to 3 percentage points would necessitate active tax policies and a steady improvement of investment-oriented financial intermediation.

71. The biggest single challenge of scenario 2 is the necessary rise in the annual foreign resource inflow: nearly 3 times in the next five years and 10 times by the end of the century. Whether this materializes would depend mainly on the developed countries' acceptance of their responsibilities in this regard in pursuance of the new international economic order.

72. The resource gap to be filled by inflows from abroad can, of course, be reduced if (a) the domestic saving rate is raised even above the projected level, (b) the productivity of investment is substantially enhanced and capital-output ratios reduced and/or (c) the terms of trade of the (oil-importing) developing countries, which have been deteriorating since 1974, steadily improve over the

next two decades. As GDP has noted, "the projected trade gap would be either doubled or cut by half depending on future changes in the terms of trade".⁸

73. But in the absence of such developments, either the large projected foreign resource inflows do come about or it would be difficult to realize even the modest targets of scenario 2.

74. The implications of scenario 2 have also been examined for subgroups of ESCAP countries. The over-all regional growth rate (over the next 20 years) of 6.9 per cent is consistent with a 7.4 per cent rate in the south-east and east Asia group (SEEAG). This rate is in fact lower than what the SEEAG countries have recorded in the 1970s. So are their sectoral rates. The required investment rate (22.2 per cent) is also close to the rate already achieved. Therefore, scenario 2 should be considered feasible for the SEEAG countries. However, this outlook assumes a rapid escalation of foreign resource inflow to nearly five times the present level by 2000 A.D.

75. For the south Asia group (SAG) the projected GDP growth rate (6 per cent), the agricultural growth rate (3.7 per cent), the industrial growth rate (8.5 per cent) and the investment rate (26.7 per cent) over the next 20 years are much higher than actual recent rates. And the net foreign inflow must grow more than 15 times by the year 2000.

76. Thus, although scenario 2 targets are the minima to aim at, their achievement is more likely in the SEEAG than in the SAG countries in the light of recent domestic performance (table 18). But, as the projections stand, the achievement of targets in both subgroups is linked to heavy additional foreign resource inflows, or the resource-substitution policies enumerated in the paragraph 72 above.

77. Scenario 2 targets for the 1980s, accepted by the Intergovernmental Meeting, are summarized below:⁹

Projected growth rates (per cent)

| Group | GDP | Agriculture | Industry | Industrial exports |
|----------------------------------|-----|-------------|----------|--------------------|
| South Asia . . . | 5.7 | 3.6 | 8.2 | — |
| East and south-east Asia | 7.5 | 3.0 | 9.9 | — |
| ESCAP (developing) | — | — | — | 8.0 |

⁸ E/AC.54/L.100, p. 35. It should also be emphasized that debt amortization disbursements and receipts are not projected in the GDP exercise. "Thus, gross requirements for capital transfers are expected to substantially exceed the net requirements estimated . . ." (*ibid.*, p. 36).

⁹ DP/IMS/3, para. 23.

Table 18. Selected ESCAP countries:
actual growth rates and plan targets, 1970s and 1980s

| | Period | Average annual growth rate (percentage) | | | | Share of GDS in GDP* (percentage) | Share of GDCF in GDP* (percentage) |
|--|-----------------|--|------------------|-------------------|------------------|--|---|
| | | GDP | Agriculture | Industry | Export | | |
| <i>South Asia</i> | | | | | | | |
| <i>Bangladesh</i> | | | | | | | |
| (a) | 1970-1976 | 1.3 | 0.5 | 1.8 | 5.5 ^a | -0.2 | 6.4 |
| (b) | 1972/73-1977/78 | 5.5 | 4.6 | 7.1 ^b | ... | 9.4 | ... |
| (c) | 1977/78-1979/80 | 5.6 | 4.1 | 7.3 | ... | ... | ... |
| <i>India</i> | | | | | | | |
| (a) | 1970-1976 | 2.8 | 1.4 | 3.8 | 5.3 | 18.1 | 19.4 |
| (b) | 1973/74-1978/79 | 5.5 | 3.9 | 8.1 | 7.6 | 14.0 | 15.0 |
| (c) | 1977/78-1982/83 | 4.7 | 4.0 | 6.9 | 7.1 | 21.6 | ... |
| <i>Nepal</i> | | | | | | | |
| (a) | 1970-1976 | 2.6 | 1.9 | ... | ... | 5.4 | 9.5 |
| (b) | 1970-1975 | 4.0 | ... | ... | ... | ... | ... |
| (c) | ... | ... | ... | ... | ... | ... | ... |
| <i>Pakistan</i> | | | | | | | |
| (a) | 1970-1976 | 3.6 | 1.6 | 4.1 | 12.6 | 8.4 | 14.9 |
| (b) | 1970-1975 | 6.5 ^c | 5.5 ^d | 10.2 ^b | 8.5 ^d | 11.1 ^d | 14.5 ^d |
| (c) | 1978-1983 | 7.8 | 6.0 | 10.0 ^b | ... | 10.2 | 18.5 |
| <i>Sri Lanka</i> | | | | | | | |
| (a) | 1970-1976 | 2.6 | 1.2 | 3.0 | -2.7 | 12.8 | 15.9 |
| (b) | 1970-1976 | 6.1 | 4.9 | 10.0 | ... | 14.8 | 18.6 |
| (c) | ... | ... | ... | ... | ... | ... | ... |
| <i>South-east Asia</i> | | | | | | | |
| <i>Indonesia</i> | | | | | | | |
| (a) | 1970-1976 | 7.5 | 4.0 | 12.4 | 11.3 | 16.8 ^e | 18.4 ^e |
| (b) | 1974/75-1978/79 | 7.5 | 4.6 | 13.0 | ... | 14.7 | 20.4 |
| (c) | ... | ... | ... | ... | ... | ... | ... |
| <i>Malaysia</i> | | | | | | | |
| (a) | 1970-1976 | 7.3 | 6.4 | 9.6 | 12.5 | 23.8 ^e | 22.7 ^e |
| (b) | 1970-1975 | 6.7 | 8.4 | 11.7 ^b | 5.4 | 18.5 | 16.5 |
| (c) | 1975-1980 | 8.5 | 6.0 | 12.0 ^b | 13.5 | 22.5 | 25.7 |
| <i>Philippines</i> | | | | | | | |
| (a) | 1970-1976 | 6.6 | 4.6 | 8.7 | 7.4 | 22.8 ^e | 26.0 ^e |
| (b) | 1974-1977 | 7.0 | 5.0 | 10.0 | 8.0 | 23.4 | 20.9 |
| (c) | 1977-1987 | 7.9 ^f | 5.3 | 10.2 | 9.3 | 26.6 | 26.9 |
| <i>Singapore</i> | | | | | | | |
| (a) | 1970-1976 | 8.6 | 0.3 | 9.1 | 18.6 | 29.3 ^e | 39.1 ^e |
| (b) | ... | ... | ... | ... | ... | ... | ... |
| (c) | ... | ... | ... | ... | ... | ... | ... |
| <i>Thailand</i> | | | | | | | |
| (a) | 1970-1976 | 6.9 | 4.3 | 8.2 | 14.8 | 21.3 ^e | 24.4 ^e |
| (b) | 1971-1976 | 7.0 | 5.1 | 8.0 ^b | 4.4 | ... | ... |
| (c) | 1977-1981 | 7.0 | 5.0 | 9.6 ^b | 7.3 | 22.2 | 22.8 |
| <i>East Asia</i> | | | | | | | |
| <i>Hong Kong</i> | | | | | | | |
| (a) | 1970-1976 | 7.5 | -5.1 | 7.1 | 12.5 | 21.4 ^e | 22.3 ^e |
| (b) | ... | ... | ... | ... | ... | ... | ... |
| (c) | ... | ... | ... | ... | ... | ... | ... |
| <i>Republic of Korea</i> | | | | | | | |
| (a) | 1970-1976 | 10.7 | 4.8 | 17.1 | 34.1 | 19.4 ^e | 26.2 ^e |
| (b) | 1972-1976 | 8.6 | 4.5 | 13.0 | 19.3 | 19.5 | 24.9 |
| (c) | 1977-1981 | 9.2 | 4.0 | 10.6 | 16.8 | 24.0 | 26.2 |
| <i>Pacific</i> | | | | | | | |
| <i>Fiji</i> | | | | | | | |
| (a) | 1970-1976 | 5.8 | 2.4 | ... | -4.6 | 12.1 | 20.8 |
| (b) | 1971-1975 | 6.7 | 3.5 | 4.5 ^b | 12.1 | 22.9 | 29.3 |
| (c) | 1976-1980 | 7.3 | 4.6 | 7.8 ^b | 8.3 | 16.4 | 17.4 |
| <i>Targets of Second United Nations Development Decade</i> | | 6.0 | 4.0 | 8.0 ^b | 7.0 | 20.0 ^e | ... |

Sources: *Economic and Social Survey of Asia and the Pacific, 1978* (United Nations publication, Sales No. E.79.II.F.1), tables 3, 4, 6 and 26; various national development plans; United Nations International Development Strategy.

Notes: * Average 1970-1976.

(a): 1970s actual average annual growth rate.

(b): Target of development plan, 1970s.

(c): Target of development plan, 1970s-1980s.

^a 1973-1976.

^b Manufacturing only.

^c GNP.

^d Includes Bangladesh.

^e 1971-1977.

^f NDP.

^g Average 1970-1976.

78. The Meeting considered a minimum rate of growth of 8 per cent per annum for industrial exports as essential for the attainment of the Lima target of the developing countries' share of world industrial production rising to 25 per cent by the end of the century.

79. As indicated, the macro magnitudes recommended above are all derived from scenario 2. But for projecting them on a more comprehensive and realistic basis, it is essential that national planning authorities undertake appropriate perspective planning exercises.¹⁰

80. The question of setting quantitative targets for social sectors is discussed below in the section on social development.

B. Agriculture

81. The report has argued that successful development in the 1980s for developing ESCAP countries will require a balanced expansion of output in agriculture considerably in excess of what was achieved in the 1960s and 1970s.

82. Greater emphasis will have to be given in investment allocation and economic policies generally to the unutilized potential in the agricultural sector, if socio-economic objectives are to be achieved within a reasonable time period. Preliminary Food and Agriculture Organization estimates for 17 developing ESCAP countries indicate that investment in the primary crop/livestock sector and supporting investment in storage, marketing, transport and processing would be about 7.0 per cent of GDP in 1980 and about 5.0 per cent of GDP in 1990 if a growth rate in agriculture of 3.6 per cent were to be attained. These figures may be too high in that no account has been taken of the considerable scope for increasing output by institutional-cum-organizational changes which would require relatively little investment.

83. Such an over-all priority for agricultural development is suggested by at least four major considerations. First, table 19 indicates that in nearly all developing ESCAP countries, half or more of the labour force is still engaged in agriculture. Moreover, the absolute numbers in agriculture will continue to grow at more than 1 per cent a year in most countries of the region because the modern manufacturing sector cannot absorb enough labour to make the agricultural labour force decline in the near future. Therefore, opportunities for productive employment and for higher incomes will have to be found within the agricultural sector.

Table 19. Selected developing ESCAP countries: labour force in the agricultural sector, 1965 and 1975 (percentage)

| | 1965 | 1975 | Percentage point change |
|---------------------------------|------|------|-------------------------|
| <i>South Asia</i> | | | |
| Bangladesh | 73 | 67 | -6 |
| India | 73 | 72 | -1 |
| Nepal | 94 | 89 | -5 |
| Pakistan | 73 | 67 | -6 |
| Sri Lanka | 54 | 50 | -4 |
| <i>East and south-east Asia</i> | | | |
| Indonesia | 72 | 67 | -5 |
| Malaysia | 60 | 52 | -8 |
| Philippines | 59 | 54 | -5 |
| Republic of Korea | 62 | 54 | -8 |
| Thailand | 81 | 72 | -9 |

Source: Asian Development Bank, *Rural Asia, 1976*.

84. Secondly, many countries of the region are likely to remain food-deficit countries even in the 1990s if present trends continue. It is difficult to reconcile the continuing incapacity of these countries to be self-sufficient in food supply with the fact that a large proportion of their labour force remains occupied in agriculture and when there are no technical reasons why the Asian developing countries could not at least satisfy their own food needs.

85. Thirdly, without faster agricultural development it would be difficult to secure a wider diffusion of income and employment in the rural areas, where more than three fourths of the absolute poverty of Asia is concentrated. Rapid industrial growth, too, cannot be sustained beyond a certain point without a matching growth of its rural demand-base.

86. Fourthly, an examination of the technical possibilities for agricultural growth unequivocally suggests that better performance in the agricultural sector is feasible.

87. A recent study identified eight developing ESCAP countries where the annual growth of food production had remained below the annual growth in domestic demand during the 1950s and 1960s. These were: Afghanistan, Bangladesh, Burma, India, Nepal and Pakistan in south Asia, and Indonesia and the Philippines in south-east Asia. Details are given in table 20.

¹⁰ DP/IMS/3, para. 25.

Table 20. Selected developing ESCAP countries:
deficit in food production, 1952-1972
(percentage)

| | Food pro- duction ^a (annual growth rate in per cent) | Domestic demand ^b (annual growth rate in per cent) | Gap |
|---------------------------------|--|--|------|
| <i>South Asia</i> | | | |
| Afghanistan | 1.7 | 2.2 | -0.5 |
| Bangladesh | 1.6 ^c | n.a. ^c | — |
| Burma | 2.4 | 3.3 | -0.9 |
| India | 2.4 | 3.0 | -0.6 |
| Nepal | 0.1 | 2.1 | -2.0 |
| Pakistan | 3.0 | 4.2 | -1.2 |
| Sri Lanka | 3.6 | 3.1 | +0.5 |
| <i>East and south-east Asia</i> | | | |
| Indonesia | 2.0 | 2.6 | -0.6 |
| Malaysia | 5.2 | 4.3 | +0.9 |
| Philippines | 3.2 | 4.2 | -1.0 |
| Republic of Korea | 4.8 | 4.7 | +0.1 |
| Thailand | 5.3 | 4.6 | +0.7 |

Source: *Assessment of the World Food Situation Present and Future*, United Nations World Food Conference, table as reproduced in Asian Development Bank, *Rural Asia*, 1977, p. 42.

^a Food component of crop livestock production only (i.e., excluding fish production).

^b Calculated on basis of growth of population and *per capita* income and estimates of income elasticity of farm value of demand in commodity projects, 1976-1980 (Food and Agriculture Organization of the United Nations, 1971). Demand is for total food, including fish.

^c 1962-1972.

88. Projections developed in the same study and set out in table 21 suggest that by 1985 the cereal deficit of 10 Asian countries¹¹ will have grown to 20.7 million tons if the agricultural growth rate remains at the "high" level of 3 to 5 per cent per annum in different countries and could be as high as 36.8 million tons if the agricultural growth rate is assumed to be between 2.3 and 4 per cent in different countries. If this scenario were to hold, almost all Asian countries except Burma and Thailand might remain net importers of cereals with a low rate of agricultural growth.

89. The Asian agricultural survey (AAS) has also documented the scope for increases in paddy yields. Yields exceeded 4 tons per hectare in 1973 in east Asia but remained below 2 tons in Bangladesh, Burma, India, the Philippines, Nepal and Thailand; and below 3 tons in Indonesia, Malaysia, Pakistan and Sri Lanka. In the region as a whole, a doubling of the average paddy yield is technically feasible. Similarly, the average yield of wheat in parts of

south Asia is still only 1.3 tons per hectare, although in the high-technology wheat regions yields of the order of 3.5 tons are quite common. In the case of maize, the yield in Thailand is already twice the average for south and south-east Asia. Thus, as table 22 indicates, in the whole class of cereal crops a yield-doubling potential clearly exists in the Asian region. The technical literature shows that similar potentials could be attained in the case of non-food crops.

Table 21. Selected developing ESCAP countries:
projected levels of domestic supply
of and demand for major cereals in 1985
(thousand tons)

| Country | Over-all cereal balance in 1985 ^a | Over-all cereal balance in base period (1972) |
|--|--|--|
| <i>High agricultural growth situation</i> | | |
| <i>South Asia</i> | | |
| Bangladesh | -3 137 | -2 037 |
| India | -2 912 | -2 913 |
| Pakistan | -423 | -93 |
| Sri Lanka | -1 901 | -1 136 |
| <i>East and south-east Asia</i> | | |
| Burma | 1 753 | 694 |
| Indonesia | -14 241 | -1 990 |
| Malaysia (Peninsular) ^b | -1 730 | -781 |
| Philippines | -592 | -1 072 |
| Republic of Korea | -9 235 | -2 267 |
| Thailand | 3 761 | 3 702 |
| <i>Low agricultural growth situation</i> | | |
| <i>South Asia</i> | | |
| Bangladesh | -5 888 | -2 037 |
| India | -12 984 | -2 913 |
| Pakistan | -2 582 | -93 |
| Sri Lanka ^c | -1 759 | -1 136 |
| <i>East and south-east Asia</i> | | |
| Burma | 955 | 694 |
| Indonesia | -12 630 | -1 990 |
| Malaysia (Peninsular) ^c | -1 762 | -781 |
| Philippines | -2 172 | -1 072 |
| Republic of Korea | -8 918 | -2 267 |
| Thailand | 1 415 | 3 702 |

Sources: Asian Development Bank, *Rural Asia: Challenge and Opportunity* (1977), table 11-2.4, pp. 180-181; projection of agricultural demand, supply, employment and trade system (ADSETS), variant A, unless otherwise indicated.

Notes: ^a Rice, wheat and maize only; a negative value denotes a deficit, and a positive value denotes a surplus.

^b ADSETS variant C; it should also be noted that income elasticity of demand for wheat in the ADSETS variant is 0.3 in A and 0.5 in B.

^c An alternative ADSETS VARIANT.

¹¹ Bangladesh, Burma, India, Indonesia, Malaysia, Pakistan, the Philippines, the Republic of Korea, Sri Lanka and Thailand.

Table 22. ESCAP region:^a scope for yield increases
(tons per hectare)

| | <i>Paddy yields</i> ^b | | <i>Wheat yields</i> ^b | | <i>Maize yields</i> ^b | |
|---|----------------------------------|------|----------------------------------|------|----------------------------------|------|
| | 1965 | 1973 | 1965 | 1973 | 1965 | 1973 |
| Regional average ^c | 1.6 | 1.9 | 0.8 | 1.3 | 1.0 | 1.1 |
| India | | | 0.9 | 1.3 | | |
| Republic of Korea | 4.3 | 4.9 | | | | |
| Thailand | | | | | 1.9 | 2.2 |

Sources: Based on Food and Agriculture Organization data and country sources; Asian Development Bank, *Rural Asia, 1976*, pp. 67, 69 and 71.

Notes: ^a Countries mentioned have experienced the highest yield in the region and potential can be expressed as difference in the yield of that country and that of the region as a whole.

^b Five-year average centred on the years shown.

^c Bangladesh, Burma, India, Indonesia, Nepal, Pakistan, Peninsular Malaysia, the Philippines, Sri Lanka and Thailand.

90. There is also considerable scope for improvement in agricultural productivity as a result of institutional reform. While empirical evidence concerning the relation between land reform and productivity is ambiguous, a small farmer pattern of production unambiguously results in increases of output per hectare. Moreover, the consolidation of land-holdings and the updating of land records to establish land and cultivation rights would greatly increase the perceived profitability of investment in innovative, small-scale technologies such as tubewells and pumps. It would also make for better land levelling. A recent study by the International Bank for Reconstruction and Development (IBRD) suggests that in south Asia production increases of up to 2 per cent a year in agriculture could be achieved for a decade or more by better farm management and utilization of surplus labour alone. From the viewpoint of the allocation of investment, this is an extremely important observation. It implies that modest increase in investment in agriculture could still enable desired growth rates in this sector to be attained provided that the required institutional reforms and improved managerial practices could be bought about. In the Asian context, however, the latter is a formidable task which involves the alteration of historic, sensitive and potentially explosive power balances in rural society.

91. On the input side, the area potentially irrigable (with currently known reserves of surface and ground water) is 191 million hectares in south Asia.¹² Yet the area currently irrigated is only 107 million hectares, about 56 per cent of the potential. In the case of rice, the irrigation ratio exceeds 50 per cent only in Malaysia, Pakistan and Sri Lanka. In India, Indonesia and the Philippines it is 40 to 50 per cent. In Bangladesh, Burma, Nepal, Thailand and Viet Nam it is less than 20 per cent. Similarly, the range of NPK input in the region varies widely

from 1 to 340 kg per hectare. In most countries of south and south-east Asia it is less than 25 kg. Only in Sri Lanka and Viet Nam is it about 50 kg. Thus, the potential for the increased application of fertilizer is phenomenal. Finally, there is considerable potential for increasing the value of output from agricultural land through intensifying inputs and the adoption of higher-value multiple cropping.

92. This brief review of projected food deficits, the potential for increased inputs and the potential for increases in productivity leaves no doubt that substantial acceleration and diversification of agricultural growth are feasible over the next two decades. The materialization of these possibilities should be a major aim of the strategy for the 1980s.

C. Industry

93. Experience in developing ESCAP countries has resulted in two general and prevailing attitudes to the role of manufacturing and industrialization in development in the 1980s. First, plans and programmes at the national and international levels indicate clearly that rapid progress in industrialization is a necessary path for the achievement of satisfactory development. This implies that the pace of industrialization has to be maintained in east and south-east Asia, and rapidly accelerated in south Asia, where it has been well below targeted requirements. Secondly, for reasons advanced above, in virtually all member countries a rapid rate of expansion in the manufacturing sector is dependent upon a balanced expansion of activity in other sectors, including basic infrastructure such as power generation, transport and communications, construction and, above all, agriculture. This point received the most emphasis in a recent ESCAP Meeting of Ministers of Industry.

¹² Only three countries of south Asia (Bangladesh, India and Pakistan) are considered here.

94. The pattern of industrialization was also stressed at the Meeting. The question of the balance between capital goods and consumer goods in industrial growth is not an either-or question but a question about optimum proportions in various countries at different stages of growth. In the larger countries with an appropriate resource base and a significant domestic market, the contribution of capital goods industries to industrial growth should normally be higher than in countries with a smaller domestic resource and demand base. But even this proposition has to be severely qualified because in Japan, in many relatively small European countries and now in many small Asian countries, the contribution of the growth of capital goods industries to over-all industrial growth has been very high, even though these industries depend significantly on imported materials and foreign markets.

95. Another issue is the share of the public sector in investment. In some south-east Asian countries this share has been only about 22 to 25 per cent. In India, it has exceeded 50 per cent. Yet this ratio, again, cannot be the subject of a general rule for it depends, *inter alia*, on the historical traditions and ideological orientations of different countries. Moreover, the share of the public sector in investment does not indicate its share in the stock of investment or the share in effective demand for goods and services. There are only two objectives requirements: that basic industries with high forward linkages and/or industries with high capital requirements which the private sector may not be able to establish or expand on the required scale may be assisted or set up by the public sector; and that after a reasonable period of operation, such industries should become commercially viable without resource to continued protection or subsidies.

96. The Meeting of Ministers also recognized that industry in developing ESCAP countries has had a very weak nexus with what should be its real objective — the raising of the productivity and consumption standards of the vast masses of the poor. Essentially, the product mix has been determined by urban élites living in metropolitan areas. If the policies contemplated and under way in many developing ESCAP countries proceed as planned in the 1980s, the over-all pattern of demand for manufactured commodities will not only accelerate but will shift to a range of commodities consistent with new patterns of income distribution and levels of income. This consequential process of raising the productivity of the poor in agriculture especially and of the shift in demand patterns and in the product mix of manufacturing is extremely important. It should not be planned the other way around.

97. One consequence of this thrust in policy is likely to be an increased use of labour-intensive methods of production essential to the creation of fuller employment opportunities, in urban as well as rural areas. While this development will probably occur, there is no *a priori* reason why this should be so and care will need be taken to ensure pricing, licensing and other regulatory policies which do not artificially encourage the adoption of overly capital-intensive methods of production.

98. Another aspect of industrial strategy is that of the geographical dispersal of industries. A consensus has emerged that, although many industries are resource-bound or are inseparably linked with large, urban agglomerations, a large number, engaged in producing agricultural inputs or processing agricultural outputs, or supplying the ingredients of rural infrastructure and social service growth, can be geographically decentralized and policy should aim at such decentralization. The obvious means are the provision of space, water, power, transport and access to technical, financial and marketing services in convenient growth-centre towns. A policy with these elements has recorded significant successes in at least two east Asian countries and can be replicated elsewhere. Such a policy would minimize the heavy economic and social costs of excessive migration and population concentration and be an essential complement to increased demand from the rural areas consequent on the new strategies of development. The implications regarding infrastructure of this policy of decentralization are dealt with in discussing policies for employment in the section below.

99. One question of balance dealt with above has concerned that between agriculture and industry. The development plans of developing ESCAP countries emphasize a more balanced pattern of development than in the past, on the basis of the recognition of the essential complementary role of the agricultural sector. Another issue of balance touched on already is that between rural and urban areas. Again, the emphasis in development plans is on arresting the increase in vast urban concentrations by improving productivity and the income distribution pattern in the agricultural sector, by encouraging the decentralization of industrialization, by greatly increasing public expenditure on infrastructure in rural areas as well as by encouraging the growth and labour-intensive nature of manufacturing in cities.

100. A further question of balance affecting the rate and character of growth in manufacturing concerns the choice between export promotion and import substitution and the extent to which either or both are encouraged. Development experience

and development plans reveal that there is no hard and fast answer to this question. For the larger countries which have natural resource bases and a large actual or potential home market, such as Bangladesh, India, Indonesia and Pakistan, a diversified pattern of industrial growth, with a greater relative emphasis on import substitution might be appropriate. For smaller countries with large export-GNP ratios, many lines of import substitution may not be economic, or may be economic only on the basis of a high import content of the inputs, and a high share of exports in sales. Therefore, for them, a more export-oriented industrial growth would be suitable.

101. This contrast already characterizes the pattern of industrial growth that has materialized in the larger and the smaller countries of Asia. Yet it must be emphasized that import substitution and export promotion are not mutually exclusive categories. The real issue is the relative contribu-

tion of import substitution and exports to over-all industrial growth. The proportions vary across countries and in different phases of growth in the same country. However, the contribution of import substitution to industrial growth has often been around 40 per cent even in countries with a strong export orientation.

102. The issues of export orientation and of import substitution are important in considering the role of the international economic system in manufacturing. One important aspect on the export side is the likely impact of the rearranged product mix in manufacturing on intra-developing country trade. This question is discussed in the section dealing with regional co-operation. Two further issues of considerable importance to the industrialization process, however, concern access to the markets of the developed industrial countries for the manufactured exports of developing ESCAP countries, and the future role of transnational corporations.

IV. POLICIES FOR FULL EMPLOYMENT AND EQUITY

103. This section examines the general thrust of policies as revealed in the plans of developing ESCAP countries to reduce unemployment, alleviate poverty and achieve more equitable income distribution. It also discusses the direct role which Governments contemplate to attain these objectives. The role of foreign assistance and of trade is discussed in subsequent sections.

104. An important issue in conventional discussions of development policies has been the possibility of a trade-off between growth and equity. Assuming this possibility, many developing ESCAP countries' development plans have indicated that they are prepared to sacrifice some growth for greater equity. But the primary contention of this report is that policies which raise the productivity of low-income groups, and which eliminate the waste in unemployed labour, should not adversely affect growth but rather stimulate it. There is a growing body of evidence to confirm that higher savings, capital accumulation and growth can accompany policies based upon the raising of the productivity of the poor, upon the involvements of all people in development efforts, upon a balanced sectoral expansion and upon a more equitable distribution of income and assets.

A. Policies for employment

105. The problem of poverty in the region is much greater than the problem of unemployment as such. Poverty ratios usually range between 30 and 60 per cent, whereas unemployment ratios are very significantly lower. The vast majority of the poor

are not unemployed in the sense of having no work at all. They are partially occupied, but their earnings are meagre per unit of time. The solution of their poverty problem, therefore, lies not so much in increasing their working time as in increasing the productivity of their present activities or shifting them to other activities so that their incomes rise above the poverty line. A substantial proportion of the poor, however, are also literally unemployed and the creation of productive work opportunities for them must receive equal priority. Thus, the two facets of the problem of poverty — the deficiency of adequate opportunities for productive employment and the low productivity of existing employment opportunities — relate to two different segments of the population and require somewhat different policy packages.

106. The prime requirement for fuller employment is that the highest possible rate of growth be maintained because *ceteris paribus* the growth of employment is directly related to the growth of output. Appropriate policies can further improve the ratio of the growth of employment to the growth of output in two ways: first, by changing the national product mix so that more labour is absorbed per unit of output and investment; and, second, by promoting appropriately labour-intensive techniques in sectors where the available actual or potential spectrum of techniques permits choice.

107. The two-way link between an employment policy and an active equity policy should be emphasized in this connexion. Fuller employment reduces inequalities; and a strategy which stresses

a wider diffusion of income generates fuller employment since the consumption basket of the lower-income deciles is generally more labour-intensive than that of the higher-income brackets.¹³

108. In spite of considerable growth and industrialization in developing ESCAP countries in the last 20 years, the fact remains that even in 1975 the share of agriculture in the total labour force remained 50 per cent or more in most countries (table 19). The share declined over the decade by 2 to 9 points in different countries but more than half of the labour force depends on agriculture even after the decline. Moreover, as table 23 indicates, in no case did the absolute size of the agricultural labour force decline. Indeed, it increased steadily by 1 to 2 per cent per annum in spite of the high rate of growth of the non-agricultural labour force of between 3 and 7 per cent.

109. These facts suggest that in the regional setting it will remain difficult to secure a substantial fall in the proportion of the labour force in agriculture in the near future. Over the next decade at any rate the hope of additional employment generation will continue to lie in the intensification of labour use in agriculture itself, at increasing levels of income. This necessity arises from both continuing demographic pressure and the limited capacity of the modern sector to absorb labour. The total labour force continues to grow at a rate only slightly lower than or equal to the rate of population growth (table 23). In as many as 10 Asian countries the labour force grew by more than 2 per cent during 1965-1975, the highest rates of growth being recorded in Bangladesh, Malaysia, the Philippines, the Republic of Korea and Thailand. Given that

the rate of growth of employment in the modern sector amounts to about half of the rate of growth of output in that sector,¹⁴ it is imperative that the rate of absorption of the labour force in agriculture should continue to be significantly greater than the rate of natural increase. Thus, until and unless the population/labour force growth rate decelerates and/or the growth of employment in the modern sector accelerates dramatically, more and more income-yielding employment will have to be generated within the rural areas.

110. Fortunately, the potential for labour absorption in the agricultural sector is still large. In the cultivation of rice alone, for example, labour input per hectare in two districts in eastern India (Hooghly and 24-Parganas) in 1956/57, was only 103 and 133 man-days respectively. This may be compared with the Japanese national average of 256 man-days per hectare or even with the input of 217 man-days in the Salem/Coimbatore districts in south India.

111. In combined crop and non-crop agricultural activities, the labour input differences are even more pronounced, with labour inputs in India varying between 109 and 186 man-days per hectare as against the Japanese national average of 495 man-days per hectare. These figures point to the potential for additional employment in the intensification of mixed farming comprising dairying, poultry raising, sericulture and fish farming, as well as multiple cropping.

¹³ D. Morawetz, "Employment implications of industrialization in developing countries: a survey", *Economic Journal*, vol. 88, No. 349, March 1978.

¹⁴ *Ibid.*

Table 23. Selected developing ESCAP countries:
compound growth rates of population and labour force for 1965-1975
(percentage)

| | Total population | Total labour force | Agricultural labour force | Non-agri- cultural labour force | Differences in compound growth rates of population and labour force |
|-----------------------------|---------------------|--------------------------|---------------------------------|--|--|
| India | 2.166 | 1.5 | 0.4 | 1.9 | 0.666 |
| Indonesia | 2.617 | 2.1 | 1.3 | 3.9 | 0.517 |
| Malaysia | 2.562 | 3.2 | 1.7 | 5.0 | -0.638 |
| Philippines | 2.955 | 2.9 | 2.0 | 4.0 | 0.055 |
| Republic of Korea | 2.037 | 2.9 | 1.2 | 5.0 | -0.863 |
| Singapore | 1.759 | — | — | — | — |
| Thailand | 3.041 | 2.7 | 1.5 | 6.9 | 0.341 |

Sources: Asian Development Bank, *Rural Asia, 1976*, table I-3.1, p. 342; International Monetary Fund, *International Financial Statistics, 1977*.

112. Labour input differentials, of course, reflect widely differing farming conditions, prices, wages etc. and the maximum labour input levels cannot be realized everywhere. However, the differentials are large enough to suggest that agriculture can absorb a substantial part of the rural labour surplus at increasing levels of productivity.

113. The realization of this potential would, of course, require massive investment in the development of land and water resources, a further spread of high-yielding seed varieties, more intensive fertilizer use, multiple cropping and a progressive shift within agriculture towards the more labour-intensive animal husbandry activities. It will be shown below in the section on agriculture that promising technical possibilities exist in all these dimensions.

114. Rural employment is and ought to be regarded as a more inclusive category than agricultural employment. Experience within the region has shown that it is possible, and indeed necessary, to create a large and growing volume of non-agricultural employment in rural areas. If all decentralizable industries, particularly those manufacturing the wide range of inputs required by a modernizing agriculture, and those processing agricultural outputs, are decentralized, the growth of more remunerative employment within the rural areas can be accelerated.

115. In addition, an entire range of infrastructure and social service delivery systems must be established in the rural areas. The rural masses of Asia are entitled to get, within or near their habitations, safe drinking water, adequate energy supplies, cheap and efficient transport and communication facilities, insurance, banking and marketing facilities and adequate health and education services. Along with decentralized manufacturing, the dispersal of these tertiary activities can absorb a large part of the rural labour surplus. This should therefore be an important plank of the new employment strategy. The case for it is not only that it would create employment but also that without the prior development of water, power and transport services, modern agriculture and decentralized industrial growth are not feasible; that access to infrastructure and social services is a condition for improving the quality of life of the rural people; and that it would reduce excessive rural-urban migration.

116. Thus, the creation of full rural employment is a distinct possibility if the development strategy aims simultaneously at the realization of the full agricultural production potential, decentralized rural manufacturing and the provision of infrastructure components and social services for the rural people.

117. The phrase, "rural works", has unfortunately come to connote a continually subsidized, if not unproductive, programme. But the concrete content of rural works — land, water and forestry development and the construction component of investment in rural housing, water supply, electrification, transport, warehousing, health and education — can by no means be considered unproductive. If these activities are organized on the basis of technically and economically sound local projects, formulated by multidisciplinary professional teams, they will generate, directly and indirectly, not only a large mass of employment but also permanent income streams.

118. Thus, the rural employment strategy for the coming decade should not be content with patchy and dualistic agricultural development plus some inefficient rural works; it should consist of integrated area planning for greater employment, comprising the balanced and simultaneous development of primary, secondary and tertiary activities in the rural areas. This approach to rural development does not imply that normal sectoral production growth is to be given less importance. On the contrary, sectoral growth remains as important as ever. But wherever normal production growth leaves a large unabsorbed labour surplus, there is no alternative to multisectoral area planning. Such planning need not await the formulation of a comprehensive area plan. Some viable schemes can always be quickly identified and launched in any area and these should lead, over time, to a co-ordinated set of schemes which can absorb the whole labour surplus of an area.

119. There have been many interesting experiments in comprehensive rural development in some ESCAP countries. They have differed with regard to their primary objectives, the size of the area covered, involvement of the local community and methods of financing. The typically large area development projects in Bangladesh, Malaysia, the Philippines and Thailand have been oriented to the provision of irrigation, generation of power and encouragement of the production of new crops and subsidiary activities. Many of these have been financed by international development banks and bilateral donor agencies. The Mahaweli development project in Sri Lanka and the Command Area programme in India fall into this category. Unfortunately, the involvement of local rural communities in the planning and execution of such projects has not been substantial. And the additional employment generated by such projects has tended to taper off once the construction phase is completed, although the general tempo of economic activity in the project area is accelerated by the improved infrastructural facilities created.

120. At smaller area levels a number of attempts have been made in the developing countries of this region to promote sustained multisectoral development, with particular emphasis on employment creation and income generation for the target groups. Some of them were initiated *ad hoc* but have continued. Other programmes have been incorporated, from their inception, in over-all national development plans and assured of regular funding. In most cases these schemes have been undertaken with the involvement of local communities, and often with provision for the mobilization of a part of the needed resources locally. As examples, reference may be made to the *Saemaul Undong* programme in the Republic of Korea, which, in the span of less than a decade, has succeeded in upgrading the quality of life in the villages through the provision of better roads, improved housing, rural electrification, irrigation development, better health care, communications facilities and energy supply, under an organizational set-up reaching down from the national to the provincial, township and village levels;¹⁵ and to the *Kabupaten* programme in Indonesia, which, along with associated *Inpres* programmes designed to promote multisectoral rural development, has claimed a significant proportion of the total development expenditure of the Government (rising from 9.0 per cent in 1970/71 to 16.1 per cent in 1977/78). The percentage of local contributions, mainly in the form of voluntary labour, was estimated to be 52.2 per cent of the village level outlay on the *Inpres* programmes in Indonesia in 1977/78. The estimated share of local contributions in the *Saemaul Undong* programme in the Republic of Korea in 1977 was 47.3 per cent. Another initiative which may be mentioned is the district integrated development programme in Sri Lanka.

121. The preceding discussion has focused mainly on employment creation in the rural areas, but the numbers of the unemployed continue to grow also in the expanding urban concentrations in Asia, and vigorous policies are urgently required to find employment for the currently unemployed as well as for new entrants into the urban work force. The accent in urban employment policy must be on the rapid growth of the manufacturing and service sectors, but at the same time the use and upgrading of labour-intensive technologies in the large number of informal units must be encouraged to the maximum feasible extent.

122. However, hard-core unemployment, not absorbed by normal output growth, is sure to persist in the urban areas as well as rural areas, and multisectoral planning will be required to adopt urban public works schemes pertaining to low-income housing, slum upgrading, sanitation, health,

education, recreation, road construction, water supply, and transport and communication systems on an adequate scale. In the coming years Governments should try to accelerate urban dispersal as well as rural development by investing in infrastructure and service sector growth in medium and small towns ("growth poles") as well as the existing urban agglomerates.

123. Also, employment policies should now strive to make fuller use of the potential labour power of women and youth groups, which comprise more than half of the potential labour force. The current discrimination of various kinds against women needs to be eliminated and, in fact, policies to give them preferential access to educational and training facilities and to credit and employment opportunities in all fields have to be implemented.

B. Policies for equity

124. For these countries which stress reduction in inequalities in their policy-mix in addition to the mere reduction of poverty, a number of efficient policy approaches can be suggested from the development experience of developing ESCAP countries.

125. The need for the redistribution of land in favour of tenants and landless labourers in the Asian milieu cannot be over-emphasized. The facts cited in table 24 show a skewed distribution of land in Asia; this clearly points to land reform as the most critically necessary redistributive measure. Most rural property is in the form of agricultural land; its unequal distribution is, in many ways, the root cause of rural poverty. It is no accident that the countries which have recorded very high agricultural growth as well as some improvement in rural income distribution, initially carried out effective land reforms.

126. In Asian conditions land reform is not only critical as a direct measure of redistribution but is also conducive to rapid productivity growth. There is abundant international evidence¹⁶ to show that

¹⁵ A threefold classification of villages as "underdeveloped", "developing" and "developed" was adopted by the Government. It has been claimed that the percentage of underdeveloped villages came down from 100 to nil between 1970 and 1978, whereas the percentage of developed villages went up from "nil" to 67.

¹⁶ Raj Krishna, "A framework of rural credit policy for the small farmers of Asia", keynote address delivered at the Second General Assembly of the Asian and Pacific Regional Agricultural Credit Association (APRACA) at Karachi, Pakistan on 5 February 1979; Central Bank of Ceylon, *Survey on Cost of Production of Paddy* (Colombo, 1969); Keith Griffin, *The Green Revolution: An Economic Analysis* (Geneva, United Nations Research Institute for Social Development, 1972), pp. 38 and 55; and Ram Dayal and Charles Elliott, *Land Tenure, Land Concentration and Agricultural Output* (Geneva, United Nations Research Institute for Social Development, 1976).

small farmers¹⁷ consistently produce more output per hectare than large farmers if the input delivery system does not discriminate against them. This was true not only when farm technology was traditional but also after the coming of the seed-water-fertilizer revolution in the 1960s.

127. Wherever the extension and delivery systems did not neglect them, the small farmers' rates of adoption of new techniques have also been found to be no less than those of medium and large farmers.¹⁸ It is also a fact that labour used per hectare is greater on small than on large farms.¹⁹

Table 24. Selected developing ESCAP countries: percentage of small farms in total number of farms and area

| | Year | Farms | Area |
|---------------------------------|-----------|-------|------|
| <i>South Asia</i> | | | |
| Bangladesh | 1974 | 88 | 58 |
| India | 1970-1971 | 70 | 21 |
| Pakistan | 1960 | 50 | 9 |
| <i>East and south-east Asia</i> | | | |
| Indonesia | 1963 | 88 | 52 |
| Malaysia | 1973 | 72 | 48 |
| Philippines | 1960 | 41 | 11 |
| Republic of Korea | 1974 | 94 | 80 |
| Thailand | 1971 | 50 | 20 |

Source: Asian Development Bank, *Asian Agricultural Survey*, 1976.

128. These economic relationships imply that land reform which confers ownership on small tenants or redistributes land will have the unique merit of being a means of asset redistribution which at the same time generates greater employment opportunities and leads to an increase in productivity per hectare. Land reform would also change the power structure in the rural areas and thus give small farmers and landless workers better access to non-land assets, inputs and credit. The existing power structure has, in effect, denied these target groups adequate access to these facilities.

129. The delivery of credit and inputs to the land allottees on a preferential basis should immediately follow land reform. Co-operatives have been rightly regarded as the most appropriate delivery channels. But in many countries experience with co-operatives has been unhappy. Like other rural institutions, they are prone to be dominated by the rural oligarchy and operated in their interest. But where land reform has changed the distribution of assets, co-operatives can serve as equitable and efficient input delivery and marketing systems. In other situations a State-supervised multiagency system comprising banks, co-operatives, farmers' service associations etc. may be more efficient.

130. Empirical evidence on corporate concentration is not readily available. In the early stages of development, particularly in small countries, industrial growth generally tends to be oligopolistic. Oligopolistic tendencies also characterize the growth of heavy capital-intensive industries even in large countries. The few, new, big firms enjoy considerable market power. Their emergence is associated with a growing concentration of the corporate capital stock. Both these phenomena are obviously regressive in their distributive impact. They can be ignored by Governments as the inescapable consequences of the shortage of entrepreneurship and the size of the market in relation to the optimum unit-size, or as the price to be paid for rapid growth. However, equity-conscious Governments can have a definite policy to control excessive market power by introducing administered pricing in all oligopolistic sectors. They can also limit capital concentration either by legally preventing the control or ownership of a large number of corporate enterprises by a few groups, or by socializing all large investments in important sectors.

131. Neoclassical thinking relied mainly on progressive taxation for redistribution of income. But this approach would be ineffective in developing economies. Indirect tax revenue has been a growing proportion of the total tax revenue of most developing ESCAP countries. Even essential consumer goods produced for mass consumption are often taxed. Therefore, the progressivity of direct taxation is reduced or neutralized by the regressivity of then much larger incidence of indirect taxation. The coverage of the direct tax system also often remains limited only to incomes in the modern, organized sector. Larger incomes in the farm and unorganized training and service sectors escape the tax net altogether. Wealth is in any case seldom taxed significantly; only incomes are affected. The effective progressivity of whatever income taxation exists is further reduced below the formal progressivity by the prevalence of evasion on a significant scale.

132. For all these reasons, taxation, although it must remain an essential component of a policy of redistribution, cannot yet be the major instrument of policy and, while attempts need to be made to improve the effective progressivity of the fiscal

¹⁷ In Asia the proportion of small farms of less than 2 hectares is 40 to 50 per cent in Pakistan, the Philippines and Thailand, and 72 to 94 per cent in Bangladesh, India, Indonesia, Malaysia and the Republic of Korea, although the proportion of land farmed by small farmers is low.

¹⁸ Singh, "Small farmers and the landless in south Asia: prospects and problems" (Washington, D.C., World Bank, 1978).

¹⁹ See Raj Krishna, *op. cit.*, and Ram Dayal and Charles Elliott, *op. cit.*

system, more direct policy instruments which improve the distribution of specific means of production and sources of income will have to be the main ingredients of redistributive strategies.

133. Greater equity and increased productivity could also be sought by enabling the progressive participation of workers in the management of enterprises at various levels of decision making. Workers could also be afforded the opportunity to participate in the equity capital of enterprises. It is noted that in France, Yugoslavia and some Scandinavian countries significant progress has been made in these directions, with positive effects on the distribution of income and the climate of industrial relations.

134. As suggested above, the most effective method of reducing poverty directly and quickly in heavy labour surplus areas would be to implement technically sound public works schemes under which landless workers and small farmers are assured of employment at a minimum wage whenever they are not able to obtain employment at the market wage in other normal activities. Such schemes are particularly useful for eliminating the seasonal underemployment of the farming population. If the public works undertaken are parts of integrated area development plans, they can create the infrastructure needed for the development of other directly income-yielding activities in agriculture and manufacture.

135. In some countries — Bangladesh and Indonesia for example — such schemes have been implemented with success in some regions and they have succeeded in raising the incomes of hundreds of thousands of poor families above the poverty line in a few years.²⁰

136. Unorganized credit markets in developing countries systematically discriminate against small borrowers — small farmers, landless labourers and artisans. The recent growth of public credit institutions has so far produced very little impact on the situation. One study has noted that: "It is common to find 70 per cent or 80 per cent of small farmers in a given country with virtually no access to such (institutional) credit."²¹ This means that for the bulk of their production/consumption credit needs, the low-income groups continue to depend on usurious money-lenders and middlemen. A large majority of them remain in a state of debt bondage to their creditors for long periods of time.

137. This scenario cannot be changed, and the enormous production potential of the target groups cannot be realized, unless credit is progressively

institutionalized and a rapidly rising share of it is made available specifically to these groups on concessional terms. The provision of rising minimum quotas of concessional, institutionalized credit should therefore be a core ingredient of any redistributive policy. Access to credit is the condition of access to all productive assets and inputs and, hence, to a fairer share for the target groups in total national income.

138. It has been shown by recent experience in some developing ESCAP countries that special credit programmes oriented to small producers, with strong technological and marketing support, can raise their incomes above the poverty line within three to five years. Activities for which credit is most fruitful in this sense are irrigation, multiple cropping, including the cultivation of higher-value crops, dairy, poultry, fishing and other animal husbandry activities, rural industries processing agricultural inputs or outputs, and rural transport. The rates of return for most of these activities have been found to be of the order of 20 to 50 per cent. The rates of return on modern current inputs are even higher — 200 per cent or more. The incremental return on fertilizers alone has been estimated to be 7 to 15 times the incremental cost in Bangladesh and 2 to 4 times that in India.²²

139. Assuring adequate credit for the acquisition of modern assets and inputs by small producers can be a very significant redistributive measure even where land cannot be redistributed for political reasons. For it can at least change the distribution of the means of production other than land, and the income stream from them, and thereby reduce to some extent the disparities due to the maldistribution of land. However, this redistributive potential of credit can materialize only if credit delivery is delinked from the ownership of land and related directly to the potential productivity of the assets and inputs for which credit is given.

²⁰ In Bangladesh the two programmes directly designed to improve employment opportunities in rural areas, namely, the Rural Works Programme (RWP) and the Food For Works Programme (FWP), together generated 100 million man-days of work in 1976/77. On the assumption that the average RWP or FWP worker works for 56 days, it has been claimed that roughly 40 per cent of vulnerable families were helped with jobs (A.Z.M. Obaidullah Khan, "Rural development in south Asia: a historical perspective" (mimeo.)). Similarly, in Indonesia the employment generated by different *Inpres* programmes reached a peak of 100.7 million man-days of work in 1975/76, which, on the assumption of an average 60 days of work per worker, brought additional employment within the reach of 1.7 million people, or about 7 per cent of the rural labour force in a country where open rural employment was 8.2 per cent. (M. Alamgir, "Programmes of environmental improvements at the community level" (mimeo.).)

²¹ World Bank, *Agricultural Credit Sector Policy Paper* (Washington, D.C., 1975).

²² Krishna, *op. cit.*

140. It is implicit in the policy of reserving institutional, concessional credit for specific target groups that the assets and inputs to be acquired with the credit given are physically available. If necessary, the principles of institutionalization and reservation may have to be applied even to asset and input distribution.

141. What is true of the target groups' current share in the supply of credit is also true, by and large, of their share in the supply of essential goods and services. Their share is inadequate and market forces are unlikely to increase it.

142. The deficiency of their share in food supply obviously deserves the most urgent attention. Lack of purchasing power prevents them from buying the minimum necessary calories. In a recent study it has been estimated that 35 to 55 per cent of the population in Bangladesh, India and Pakistan consume less than 2,000 calories per day.²³ This can be translated into an average *per capita* gap of the order of 39 to 66 kg of grain per year, or 10 to 14 per cent of total food requirements. In Sri Lanka, however, the special food distribution/subsidy policy has kept the nutrition gap down to a mere 2 per cent. Gaps in the consumption of other necessary commodities are, of course, reflected in the poverty ratios themselves.

143. The existence of these gaps clearly implies that, given the present distribution of purchasing power, the market cannot supply the poverty population with the minimum necessary nutrition and other basic needs at current prices. It is therefore necessary for the State to operate a public distribution system which supplies, at subsidized prices, the minimum essential quantities of foodgrains and a few other necessities, specifically to the low-income population.

144. Such a system would produce a dual regime in the grain market and in the markets for other essential commodities, such as sugar, kerosene, edible oils and common varieties of cloth. In some countries of Asia such dual market systems have been working with reasonable success. Although malnutrition and deprivation continue in these countries, their intensity would have been much greater but for the existence of public distribution subsidy systems. In local drought/flood situations, these systems have played a critical role in preventing or reducing mass mortality. Until growth in output and the redistribution of purchasing power create a situation in which all people can buy their minimum consumption needs in the open market, the continuation and even the expansion of public distribution systems are indispensable.

145. The deprivation of the poor in respect of access to essential services is often even more serious than in respect of the supply of essential commodities. Safe water systems are beyond their reach. They have extremely limited access to electricity. In the interior rural regions of many countries, modern transport facilities have yet to be extended. Modern health services are often too distant and expensive for them.²⁴ Literacy rates also remain low. In this situation the State must accept an absolute obligation to carry these services, at minimum levels, specifically to the low-income people in the rural and urban slum areas. The market alone cannot be relied upon for the delivery of these services at a price within their reach.

²³ World Bank, *Growth and Poverty in Developing Countries*, Staff Working Paper No. 309 (Washington D.C., 1979).

²⁴ It has been estimated that less than 15 per cent of the rural population of Bangladesh, India, Nepal and Pakistan has access to health services (A.Z.M. Obaidullah Khan, *op. cit.*).

V. SOCIAL DEVELOPMENT

A. Scope

146. The core of the concept of social development is that, in addition to the supply of essential commodities, the development process must ensure, for all people, as a right, access to a minimum set of infrastructure facilities and social services, comprising (a) shelter, (b) water supply, (c) electricity (energy), (d) transport, (e) health, sanitation and family planning services and (f) literacy and continuing education. It also includes the notion that all sections of the people, and especially the underprivileged groups, and women and youth, should participate fully and equally, along with bureaucrats and technocrats, in the planning and operation of the delivery systems for these services. Since the

poverty groups have not been able so far to obtain a fair share of these benefits, reformed delivery systems should deliberately target and tilt deliveries in their favour.

147. In numerous recent conferences organized by United Nations agencies, and under various rubrics such as "social development", "social services", "basic needs strategy", "minimum needs strategy" and "quality of life", the list of specific services considered essential for the people appears to be the same (as in the preceding paragraph). The strategy of development for the 1980s must therefore assume as a prime goal the allocation of adequate resources for the growth of a comprehensively defined social service sector reaching out to all people within a reasonable period of time.

B. Resource allocation

148. The allocation of public sector resources between the stimulation of commodity production, infrastructure growth and social services²⁵ inevitably involves difficult choices for economic planners. Commodity production necessarily claims a major share of national investment because commodity consumption is the largest component of aggregate final demand. But development thinking has now evolved far beyond the view that investment in commodity production alone is productive. Investment in infrastructure, namely, water supply, power (energy) and transport systems, is in any case "productive" for, without these prerequisites, even the growth of tangible agricultural and industrial production is clearly impossible. Numerous studies have also established the strong positive relationship between worker productivity, health and nutrition, and job-oriented education. But even if the financial return on the outlay for services is indirect, incommensurate and realizable only in the long run, such outlay, to achieve minimum service standards for all people, is essential in the context of planning for multiple objectives, which all developing countries have undertaken. Planning now stresses full employment, equity, balanced regional development and the improvement of the quality of life as much as the growth of commodity production. When all these objectives are kept in view, the need for allocating substantial resources for ISS sectors becomes self-evident on many counts. First, the construction requirements for extending basic facilities and services to all people can absorb a large segment of unemployed and underemployed manpower. Second, these services can improve the quality of life of the rural and urban poor directly. Third, in so far as these facilities and services are made available to the poor by the public sector, free of charge, or at subsidized rates, and the funds for subsidies are raised by means of progressive taxation, the whole operation has a positive redistributive effect. In addition access to health and education alone can enable the poor to avail themselves of higher income-earning opportunities created by over-all growth. And, fourth, decentralized infrastructure growth is a pre-condition for more balanced regional development.

149. Some rough indicators of the status of individual ESCAP countries in respect of each service are given in table 13. A composite quality of life index (PQLI) for each country is also given in table 14. The major fact brought out by these tables is the extremely wide variation of these indicators across countries. It is also clear that there is no necessary or strong correlation between the economic and social service status of different countries. Some relatively high-income countries

have low social service indices; and some low-income countries have managed to have a high social service status. Policy makers obviously give varying priorities to services even in countries with similar levels or income. In the 1980s all countries with a low service rating at present will have to give much greater emphasis to the service sector in resource allocation if even minimum physical targets are to be achieved.

150. Table 25 shows that, in 1976, about one third of total government expenditures were directed to social services in Malaysia, Singapore and Thailand; about one fifth in India, Iran, Nepal, the Philippines and the Republic of Korea; and about 11 per cent in Pakistan. The largest share of total social expenditure, about half to two thirds, was, as shown in table 26, for education in all these countries, except in India and Pakistan, where the proportion was about one fourth. The share of health varied between 13 and 31 per cent. Thus, 70 to 90 per cent of service outlay was claimed by health and education in all these countries except India, Iran and Pakistan, where the two sectors accounted for 45 to 55 per cent of the outlay. In these three countries and in Singapore "housing and community services" were allotted a substantial proportion (one fifth or more) of total social service expenditures.

151. These observed ratios cannot be used to try any targeting of expenditure on social services. For, obviously, they reflect the diverse levels of over-all resource availability, the service standards already achieved and the relative priority given to the social service sector and its subsectors. But the recorded ratios do suggest, as a guideline, that the low-income countries should consider raising their social service outlay to at least 20 per cent of total public expenditure and raising the proportion to at least 33 per cent as income grows over the next decade.

C. Targeting

152. More basic, however, is the determination of physical targets of ISS growth within each country so that the bulk of the population, especially the target population, is covered in the near future.

153. Physical quantitative targeting for all ISS sectors is not only feasible but also essential for the achievement of the goal of social development, to which the world community stands committed.

154. An examination of the latest development plans of ESCAP countries²⁶ shows that they already include physical targets for ISS sectors in terms of one or more of the following indicators:

²⁵ Infrastructure and social service sectors will hereafter be collectively called "ISS" sectors for brevity.

²⁶ Bangladesh, India, Indonesia, Malaysia, Pakistan, Philippines, the Republic of Korea and Thailand.

Table 25. Selected developing ESCAP countries: government expenditure on social services as percentage of total government expenditure, 1970s

| | Year | Percentage |
|---------------------------------|-----------|------------|
| <i>South Asia</i> | | |
| India | 1974-1975 | 16.0 |
| | 1976-1977 | 17.2 |
| Nepal | 1972 | 14.1 |
| | 1976 | 21.7 |
| Pakistan | 1972 | 7.0 |
| | 1976 | 11.0 |
| <i>East and south-east Asia</i> | | |
| Malaysia | 1972 | 36.7 |
| | 1976 | 30.7 |
| Philippines | 1972 | 22.9 |
| | 1976 | 20.5 |
| Republic of Korea | 1973 | 26.3 |
| | 1976 | 23.3 |
| Singapore | 1972 | 35.1 |
| | 1975 | 37.4 |
| Thailand | 1973 | 29.5 |
| | 1976 | 33.0 |
| <i>Western Asia</i> | | |
| Iran | 1973 | 23.5 |
| | 1976 | 23.2 |

Sources: United Nations, "Pattern of government expenditure on social services" (New York, Department of International Economic and Social Affairs, 1979) (mimeo.). Government of India, *Economic Survey 1978-79* (New Delhi).

(a) *Primary and secondary education.* (1) Number enrolled. (2) Percentage of age group enrolled. (3) Annual percentage growth in enrolment. (4) Number of schools/rooms to be constructed/expanded. (5) Number of students per class.

(b) *Adult education.* Percentage of literate adults in the 15-35 years age group.

(c) *Health, family planning and nutrition.* (1) Number of health centres. (2) Number of hospital beds. (3) Percentage of population covered by health centres. (4) Population per centre. (5) Number of pre-school children/school children/pregnant and nursing mothers covered by supplementary nutrition schemes. (6) Number of physicians, nurses and midwives. (7) Population per physician. (8) Number of couples protected by various family planning methods. (9) *per capita* calorie and protein consumption.

(d) *Water supply.* (1) Number of villages to be provided with safe water supply. (2) Litres of water supplied per second for towns of various sizes. (3) Percentage of rural/urban population covered by water supply systems.

(e) *Social welfare and insurance.* (1) Number of social service centres for (a) vagrants, (b) youth, (c) children, (d) old persons and/or (e) workers. (2) Persons covered by national pension scheme/health or medical insurance schemes.

(f) *Sanitation.* Number/percentage of rural/urban population/localities having modern sewerage/sanitation facilities.

(g) *Electrification.* Number/percentage of rural/urban population/localities covered by electricity transmission systems.

(h) *Transport.* Number/percentage of rural/urban population/localities having all-weather roads/public transport.

(i) *Slum upgrading.* Number/proportion of slum population/areas to be upgraded.

155. This list demonstrates that physical targeting in all ISS sectors is an established feature of recent national plans, although their item coverage differs. It should be expected that in the years to come the sector coverage of such targeting will be increased and its methodology refined. The actual targets fixed will, of course, vary widely in different countries, depending upon the current population coverage and the total funds and manpower allocated for social development.

156. Limited coverage is often due simply to the lack of benchmark data. Therefore, it will be necessary for all countries to give high priority to the regular collection of coverage data for all ISS sectors.

157. Even in countries where national coverage of data is adequate, information is not always collected about the differential access of various sections of the population to each ISS facility. When a city block/village is recorded as having its water supply, electricity, health centre, school, sanitation and/or housing scheme, the share of the low-income inhabitants of the area in the benefit of these facilities may be negligible. Therefore, it is vitally important to gather data on "access by income class" (or by relevant socio-economic group) in each area, so that targeting of benefits for the more deprived classes may be possible.

158. International targeting for social sectors would not be meaningful in view of the extreme diversity of national situations. Targets will have to be fixed by and within each country in view of each country's own unique situation.

Table 26. Selected developing ESCAP countries: percentage distribution of total government expenditure on social services, 1970s

| | Year | Education | Health | Social security and welfare | Housing and community service | Other |
|---------------------------------|------|-----------|--------|-----------------------------|-------------------------------|-------|
| <i>South Asia</i> | | | | | | |
| Nepal | 1972 | 52.0 | 34.2 | 3.3 | 2.0 | 8.0 |
| | 1976 | 55.9 | 30.9 | 3.1 | 2.8 | 7.4 |
| Pakistan | 1973 | 18.2 | 16.0 | 35.0 | 12.9 | 18.0 |
| | 1976 | 26.3 | 16.6 | 14.6 | 29.4 | 13.0 |
| India | 1976 | 24.4 | 20.9 | 16.3 | 25.6 | 12.8 |
| <i>East and south-east Asia</i> | | | | | | |
| Malaysia | 1972 | 63.0 | 18.5 | 9.4 | 2.7 | 5.6 |
| | 1976 | 66.3 | 18.8 | 8.4 | 1.4 | 5.2 |
| Philippines | 1972 | 65.7 | 16.2 | 14.4 | 2.9 | 0.8 |
| | 1976 | 57.9 | 21.8 | 12.1 | 5.0 | 3.2 |
| Republic of Korea | 1973 | 68.9 | 6.4 | 14.6 | 6.5 | 4.6 |
| | 1976 | 69.7 | 5.1 | 15.5 | 5.7 | 4.0 |
| Singapore | 1972 | 45.0 | 19.2 | 1.6 | 29.9 | 4.3 |
| | 1975 | 46.5 | 24.0 | 5.1 | 20.1 | 4.4 |
| Thailand | 1973 | 61.4 | 11.4 | 15.0 | 10.6 | 1.6 |
| | 1976 | 65.2 | 13.1 | 11.1 | 9.0 | 1.6 |
| <i>Western Asia</i> | | | | | | |
| Iran | 1973 | 44.8 | 15.4 | 16.3 | 13.0 | 10.6 |
| | 1976 | 42.3 | 14.2 | 15.3 | 19.2 | 9.0 |

Source: United Nations, "Pattern of government expenditure on social services" (New York, Department of International Economic and Social Affairs, 1979) (mimeo.).

159. At the international level, WHO has proposed as an objective "the attainment by all citizens by the year 2000 of a level of health that will permit them to lead a socially and economically productive life".

160. But for the purpose of literacy targeting UNESCO has classified developing countries into three groups on the basis of current trend projections: (a) Those where the illiteracy rate as well as the absolute number of illiterates is declining; (b) Those where the illiteracy rate is declining but the absolute number of illiterates is nearly constant; (c) Those where the illiteracy rate is declining but the absolute number of illiterates is increasing. For each group a minimum target has been suggested. The trend and target rates for some ESCAP countries are summarized in table 27.

161. Indonesia, Iran, the Lao People's Democratic Republic, Malaysia, Philippines, Singapore and Thailand belong to the first category. These countries can consider reducing their relatively low illiteracy rate further by 5 percentage points below the expected trend rate.

162. Afghanistan alone belongs to the second category. It can consider achieving a significant reduction in the absolute number of illiterates.

163. India, Nepal and Pakistan, however, belong to the third category. For these countries the minimum target suggests that no net increase in the absolute number of illiterates during the next decade should be permitted.

164. A similar categorization of countries and the formulation of possible quantitative targets have been attempted in respect of primary education. As shown in table 28, the minimum aim, again, is to permit no net increase in the number of children of primary school age who are not in school.

165. These figures merely indicate the approximate targets required to prevent a worsening of the literacy and primary education situation. Individual countries would have to fix their own targets, which may well exceed the minima.

166. For other sectors (water supply, energy, transport, housing etc.) too, only individual country targeting, which is already a common characteristic of national plans, would be realistic.

Table 27. Selected developing ESCAP countries: projected illiteracy rate and suggested minimum targets for 1990

| | <i>Trend rate (percentage)</i> | <i>Minimum target rate (percentage)</i> |
|------------------------------------|------------------------------------|---|
| Afghanistan | 83.9 | 67.1 |
| Bangladesh | 46.5 | 43.8 |
| Burma | 23.4 | 18.4 |
| India | 54.0 | 45.8 |
| Indonesia | 22.8 | 17.8 |
| Iran | 36.0 | 31.0 |
| Lao People's Democratic Republic . | 42.6 | 37.6 |
| Malaysia | 17.1 | 12.1 |
| Nepal | 73.9 | 64.4 |
| Pakistan | 55.0 | 48.4 |
| Philippines | 7.2 | 2.2 |
| Singapore | 17.7 | 12.7 |
| Thailand | 9.2 | 4.2 |

Source: UNESCO, "Literacy targets in an international development strategy" (Paris, September 1979) (mimeo.).

Table 28. Selected developing ESCAP countries: the trend primary school enrolment ratio and the minimum target for 1985 (percentage)

| | <i>Trend ratio</i> | <i>Minimum target</i> |
|------------------------------------|--------------------|---------------------------|
| Afghanistan | 21.6 | 29.4 |
| Bangladesh | 57.7 | 61.4 |
| Burma | 71.5 | 76.5 |
| India | 64.7 | 67.4 |
| Indonesia | 70.1 | 75.1 |
| Iran | 79.2 | 84.2 |
| Lao People's Democratic Republic . | 68.1 | 73.1 |
| Malaysia | 96.3 | 100.0 |
| Nepal | 36.8 | 41.3 |
| Pakistan | 50.5 | 55.2 |
| Philippines | 82.8 | 83.1 |
| Thailand | 81.4 | 82.7 |

Source: UNESCO, "Literacy targets in an international development strategy" (Paris, September 1979) (mimeo.).

D. Delivery systems

167. In addition to targeting it is necessary to consider the desirable features of reformed delivery systems for health, education and other services.

168. *Health.* As regards the desirable health system, the following propositions now command wide agreement:

(a) The most important component of the system must be primary health care, comprising health education, proper nutrition, safe water supply in sufficient quantity, basic sanitation, maternal and child health care, family planning, immunization against major infectious diseases, prevention and control of endemic diseases, treatment of common diseases and provision of essential drugs;

(b) A three-tier system should be evolved, consisting of (i) the primary tier, which directly delivers primary health care to individuals; (ii) the intermediate tier, which provides specialized services and support to the primary tier; and (iii) the central level, which provides even more specialized services and is responsible for the planning and co-ordinated running of the whole system;

(c) Primary health care should be provided by community health workers acting as a team. These workers may include people with limited education who have been given elementary short-period training in health care. They should preferably come from the community in which they live and should be chosen by the community. And they should be continuously retrained;

(d) The community health workers should provide primary health care and refer difficult cases to the more highly trained staff and service units at higher levels. The staff at the higher levels will have to be reoriented to support the expanded primary health care system;

(e) Indigenous practitioners must be enlisted as useful allies of the modern, scientific health system;

(f) Locally available herbal drugs should also be standardized and used for primary health care along with modern drugs;

(g) The developing countries must try, and be enabled, to manufacture most of the essential drugs indigenously. A model list of about 200 essential modern drugs has been compiled;

(h) Developing countries should also try, and be assisted by the developed countries, to manufacture and maintain an increasing proportion of medical equipment locally and with indigenous materials.

169. *Education.* As in the case of health, a wide-ranging consensus also exists about the following crucial elements of a dynamic educational policy in the coming decade:

(a) The content of education must impart to people the skills they need as producers and as citizens. Therefore, vocational, scientific and technological education must be given a prominent

place in all syllabi. But at the same time, education must provide for the harmonious development of personality in the physical, intellectual, aesthetic and ethical dimensions;

(b) Developing countries should reduce the existing élitist bias of their educational systems and evolve many educational channels which are wide open to all citizens. This would require that education be redefined to comprise not only formal schooling but all kinds of non-formal and continuing education for adults as well as youth. It would also require that disadvantaged social groups should be given access to special help. And very high priority should be given to the education of girls and women on an equal footing with boys and men;

(c) Where unnecessarily high educational requirements for jobs in the organized sector have led to the overcrowding of the university system, a redefinition of job qualifications is called for. Recruitment should be increasingly linked to success in open public examinations in which job-specific skills and knowledge are tested;

(d) Interested community groups should be enabled to participate in educational decision making at all levels;

(e) And the status of the teacher must be raised and his training and retraining should be oriented to realize the redefined goals of education.

170. *Other sectors.* A great deal of concerned thinking has recently gone into the question of how infrastructure and social services facilities (other than health and education) can be extended at low cost to the masses of the people.

171. Historically, the ideal of making all these amenities available to all people as a matter of policy is relatively new. For until recently and in most countries it was taken for granted that these amenities should be accessible only to the urban population, and often only to the élite. Consequently, the standards for all the services have been so defined that they remain out of the reach of the masses. Fiscal and pricing policies have also reinforced this iniquitous situation. Therefore, if the ideal of universal coverage is to be realized, (a) standards will have to be suitably descaled and redefined and (b) fiscal and pricing policies will have to be overhauled.

172. *Standards.* As regards standards, the cost of health services can be reduced by a mixture of the "barefoot doctor" or the "community health worker system" and the modern professional doctor/general hospital system. Mass education,

again, can be made less expensive by deformalization and functionalization. Water supply must be redefined, wherever necessary, as access to community outlets rather than multiple taps in individual houses. Less expensive fuel and energy systems have to be developed and installed on a large scale. Low-cost but comfortable mass transit must replace the more expensive and more energy-intensive private automobile. Housing for the poor has to be redesigned so that maximum use is made of local materials and labour and so that cost per cubic feet of living space is minimized. And inexpensive local sanitation and anti-pollution systems have to be devised

173. To provide many of these services with new approaches, many schemes have been designed and implemented in some ESCAP countries. It is necessary to utilize and improve upon the experience of these schemes.²⁷

174. *Dual pricing.* With regard to pricing and fiscal policy for the ISS sectors, the main issue is that delivery systems for these sectors can seldom earn the normal financial rate of return deemed generally adequate in the economy. If a normal rate of return is sought, or even mere coverage of full costs is attempted, the rates will have to be so high that only a minority can avail themselves of the services. Therefore, almost everywhere ISS sectors receive very large direct and indirect subsidy payments from the exchequer. And if wider and wider accessibility is aimed at, subsidy costs must escalate.

²⁷ UNICEF has drawn attention to many recent innovative health delivery projects in Asian countries (Thailand, Pakistan, Bangladesh, India, China, Indonesia and the Philippines) in a recent paper, "A strategy for basic services" (1978). In Indonesia an attempt has been made to train village leaders as "volunteer community workers" for delivery of essential services, using the tradition of mutual help, *Jotong Soyong*. The rural health insurance scheme in Savar Thana in Bangladesh illustrates the regular education of agricultural and home economics extension workers, and community involvement. In the North-west Frontier Province in Pakistan, an effort has been made to utilize traditional village leadership for social development. The Lampang project in Thailand, aiming at maternal and child health, family planning and nutrition, extended the existing health structure by introducing "para-physicians", "health post volunteers", "volunteer communicators" etc.

The Jombang project in Indonesia, with its emphasis on relating education to improved mixed farming, management of simple trades such as tailoring, hairdressing and better animal husbandry, is an example of a new approach in education for a developing country. (UNESCO, *Education Innovations in Indonesia*, 1975.) The experiment of the Bombay Association for Science Education in collaboration with the Tata Institute of Fundamental Research aims at transforming school education, universalizing science education, and relating it specifically to economic development. (UNESCO, *Educational Innovations in India*, 1974.)

In the field of housing the mass housing scheme of Singapore is a very instructive case.

175. A threefold policy is therefore necessary. First, a resolute effort must be made to redefine service standards and/or devise appropriate techniques so that unit costs are lowered. Second, whenever and wherever possible, dual pricing must be introduced. In a dual price régime for any social service, the rate structure should specify rates covering full cost, or even a margin above full cost, for the middle- and high-income groups and make the service available without charge or below cost to the low-income target groups. Both these policies will help to maximize access within the limits of the resources available to the sector.

176. A third cost-reducing principle is the decentralization and "communitization" of services so that not everything has to be done by highly paid central staff and so that the community performs many delivery and supervisory functions without charge or by using the services of local, part-time trained workers.

177. *Linkages.* An important imperative now recognized by all sectoral specialists is the utilization of intersectoral linkages in the provision of services. The efficiency of many programmes individually administered by sectoral agencies can be enormously augmented by interagency co-ordination, apart from the fact that some sectoral goals cannot be realized at all unless developments in other sectors progress in step. Obvious examples of such necessary and efficient linkages are: food production and nutrition; the use of schools for health education and the administration of nutrition programmes for children; the use of health centres for education in family planning; the dependence of health improvement on the improvement of water supply, sanitation and housing; the education of adults in schools by school teachers and senior students on a part-time basis; and the link between guaranteed employment for adults and the liberation of children for schooling.

178. These and other linkages are indeed so pervasive that the development of ISS sectors should be planned and undertaken as an integral part of over-all multisectoral development.

E. Share of women in the benefits of development

179. The socio-economic status of women in developing countries was studied in detail during the 1970s. Some of the major findings of these studies were reported by the Secretary-General of the United Nations to the General Assembly at its thirty-third session in document A/33/238. These findings are directly relevant to the designing of policies which can secure for women a fair share of the benefits of development.

180. The prime fact is that in most developing countries women suffer pervasive discrimination in access to education, training and work opportunities. Almost everywhere their wages/earings are lower than the wages of men for similar work. Even in a dynamic economy like that of Singapore the ratio of female to male (average monthly) earnings fell from 86 to 62 per cent during 1966-1973. In many industrialized countries too, women's wages are about 50 to 80 per cent of men's wages in the same occupation.

181. Second, women suffer, more than men, the incidence of underemployment and/or "sweated" employment in traditional agriculture and artisan industries.²⁸ At the same time, they are overburdened with much unpaid work: food processing, fuel collection, water lifting and haulage, paddy transplanting, terrace repair etc. The first labour-displacing impact of the processes of agricultural and industrial modernization (or demand fluctuation for plantation products) also falls heavily on women. In plantations, for instance, new technology has displaced female labour in many operations such as planting, weeding and the application of fertilizer and insecticides. And, as in the West, the growth of mechanized factories diminishes women's employment in household industries. In some countries women have been absorbed in large number in a few growing modern industries, such as textiles, clothing, foot-wear, toys and electronics, and also in the tertiary sectors, such as secretaries, telephone operators, receptionists, hostesse etc. But the share of women in modern employment remains only 10 to 12 per cent in some developing countries such as India and Brazil even after 20 years of industrial growth. In Malaysia and Singapore, however, it had risen to 29 and 45 per cent by the early 1970s. Absorption in modern activities does not always exceed displacement in traditional activities. Therefore, women workers usually suffer a net loss of employment. In any case, women in the poorer brackets are forced to subsist increasingly on heavy, low-paid work in agriculture and in formal activities such as cottage industries, petty trade and domestic service.

182. Thus, the dynamic of modernization, as well as the stagnation of tradition, works against women, unless special counter-discriminatory policies are incorporated in the development strategy.

183. The need for such special policies is being increasingly appreciated by policy makers in developing countries.

²⁸ In most developing ESCAP countries (except Singapore), 50 to 83 per cent of working women are engaged in agriculture alone, as family workers or hired wage labourers.

184. The basic strategy must be to identify and eliminate all forms of discrimination against women in the education/training system and in the labour market. Where the mere elimination of discrimination is likely to produce results only over a long period, special incentive or reservation schemes may be necessary.

185. The first requirement is that formal and informal biases which prevent women from joining all channels of education/training/apprenticeship be eliminated. It is often taken for granted that women would be interested in training only for some light (and often low-paid) occupations. Their entry into training for other male-dominated occupations is discouraged. In consequence, the proportion of women in education/training establishments remains small in many countries. This situation must be remedied by policies that would directly encourage women to enrol/train for all trades provided that they meet the general conditions of eligibility. A fair share of scholarships, stipends, hostel facilities etc. should be made available to them, and special recognition may be given to institutions which train a specified minimum proportion of women.

186. For training in activities in which women are specially interested (animal husbandry, forestry, agro-based industries, modern small industries, teaching, nursing, textiles, electronics, secretarial work, etc.), special programmes exclusively for women should be set up and expanded.

187. General development programmes which stress the growth of these sectors will automatically expand employment opportunities for women. Under these programmes it is essential that public institutions providing technical, financial and marketing assistance make it a policy to foster the growth of enterprises which are run by women or have a high proportion of women employees.

188. In the modern large-scale sectors special inducements can be offered to employers to raise the share of women in the work-force provided that liberal arrangements for maternity leave (or re-entry) and child care are provided.

189. The utter neglect which the children of migrant women workers (farm and forest labourers and construction workers) suffer in many countries also needs to be remedied urgently through the establishment of mobile child-care units.

190. In order to protect the interests of women it is essential that in all development institutions women's development divisions headed by women be established to lobby for, monitor and oversee policies and programmes designed to benefit women.

191. But, above all, social and political workers will have to build up the bargaining power of women, especially women in the poverty groups, by encouraging the establishment of associations and unions.

F. Child welfare

192. The International Year of the Child has focused the attention of the world community on the plight of children, and hence of future generations. There are four major aspects of the condition of children which recent discussions have highlighted: (1) their health and nutrition, (2) the employment in some countries of child labour on a large scale under exploitative conditions, (3) the involuntary neglect of the children of women workers, especially migrant and informal sector workers, and (4) the phenomenon of child abuse in families and communities. Social policy in the 1980s must devote focused attention to the alleviation of these problems.

193. Reference has already been made to the need for programmes to set up child-care centres for the children of all categories of women workers.

194. All revamped primary health care systems will have to have as a basic objective the minimization of child mortality and malnutrition by means of immunization, and supplementary nutrition programmes for pregnant and nursing mothers, infants and school children.

195. Child abuse can be reduced only in the long run by wide-ranging family counselling and social education programmes.

196. The toughest child problem is the prevalence of excessive and abusive child labour in many countries. The compulsion to support themselves or to supplement the family income forces millions of children to work at a premature age and debars them from schooling and normal growth. The problem is difficult to deal with, for its underlying cause is dire poverty in the family, and its solution therefore lies in the success of over-all policies to eradicate poverty and unemployment.

197. In most countries there are laws prohibiting child labour but they can hardly be enforced in poverty-stricken areas. In these areas the possibility of guaranteeing public works employment at a minimum wage to unemployed adult workers should be seriously explored. The liberation of children must be considered as an additional weighty argument for schemes of guaranteed employment.

VI. ENERGY, NATURAL RESOURCES AND THE ENVIRONMENT

198. A major facet of the new international economic order is the shared concern about the rate of depletion of non-renewable resources. In an increasingly interdependent world, there is growing awareness of the need to reduce global depletion rates of non-renewable resources and to develop alternative satisfactory sources of supply. At the same time, there is growing concern about the profligate and often wasteful consumption of non-renewable resources in developed countries.

199. The increases in oil prices and oil supply problems have undoubtedly been among the outstanding characteristics of the 1970s and have provided a vivid example of the dangers of inordinate dependence on a resource that is being rapidly depleted.

200. Developing ESCAP countries account for only a very small part of world demand for petroleum products and petroleum accounts for only a small proportion of total energy use in these countries. However, shortages and higher prices have had a serious impact on economic performance and especially on industrial growth, domestic inflation and external trade balances. Whereas imports of crude oil were less than 10 per cent of total imports in 1973 for most developing ESCAP countries, the proportion rose sharply thereafter and, in 1978, was over 20 per cent in India and Sri Lanka and well over 10 per cent in the case of other non-oil-producing countries. With the price hikes of 1979 the import burden is likely to become insupportable in many of the developing ESCAP countries and, thereby, might force a salutary rethinking on energy development and use. The indirect dependence on petroleum is even larger if imports of petroleum-based or petroleum-using goods are also taken into account.

201. Despite increasing production, it seems likely that the region will continue to be a heavy net importer of petroleum, although it will be over 80 per cent self-sufficient in natural gas during the 1980s. In South Asia the proportion of the consumption of petroleum accounted for by domestic production was 33 per cent in 1976/77 but is projected to rise to about 53 per cent in 1985, while in east and south-east Asia it is expected to increase from 20 per cent to 30 per cent over the same period. In terms of import quantities, however, demand in south Asia is estimated to be 30 per cent higher in 1985 than 1976/77; in east and

south-east Asia it would be about 40 per cent higher.²⁹ There is clearly a need to step up the pace of oil exploration, especially in off-shore areas where the prospects of finding new sources appear promising.

202. The impact of this continued dependence will be very uneven among the developing ESCAP countries. Apart from those countries where domestic supply potentials exist, the ability to expand export earnings by making use of comparative advantages in labour-intensive products and other products substitutable for oil-based commodities will determine the capacity of developing ESCAP countries to cope with the situation, though at considerable cost.

203. The low-income, non-petroleum-producing countries will be most severely affected by the rise in price of petroleum products, despite the fact that, in some cases, these are the countries where the comparative importance of petroleum in total energy consumption is the least (e.g. Afghanistan, Bangladesh, Nepal and Pakistan). The fact that petroleum constitutes the critical margin in energy consumption is, consequently, prompting a reassessment of energy use in many countries of the region.

204. In particular, doubts are being cast on the wisdom of petroleum-intensive patterns of urban industrialization, of thermal-based electrification programmes and of agricultural modernization using diesel-powered machinery and petroleum-based fertilizers. Alternative patterns of energy use, however, require careful assessment.

205. National grid systems permit the replacement of less efficient small-scale thermal-based units and kerosene-based household lighting and the promotion of large-scale power generation may represent an efficient alternative, particularly where indigenous sources of energy can increasingly be developed. Already hydroelectric power generation is assuming growing importance in some countries. Natural gas, coal, geothermal and nuclear sources hold promise for the future. Yet, the pursuit of national grid systems, however supplied, necessitates extensive and costly transmission networks and serious consideration still needs to be given to the development of localized generating units, which may be based on hydro or other non-petroleum sources.

²⁹ R. Vedavalli, "Petroleum and gas in non OPEC developing countries, 1976-1985", *World Bank Staff Working Paper No. 289* (Washington, D.C., World Bank, April 1978).

206. A major possibility for augmenting energy supplies from local non-commercial sources, which provides for nearly all the cooking and heating needs of the rural sector in a majority of the developing ESCAP countries, is the rational use of fuelwood. Despite practical evidence (e.g., from China, the Republic of Korea and Thailand) that fuelwood plantations can be grown and husbanded on a self-sustaining basis at community level, in many parts of the region the maintenance of fuelwood supplies has been hitherto neglected and has become a major cause of deforestation.

207. In agriculture, draught animals are generally the main source of power in this region, but their central place in the rural sector has not yet attained adequate recognition.³⁰ Apart from providing power for the operation of agricultural implements, wells, local irrigation systems, grain mills and so on, draught animals provide dung which can be used as fuel, as organic fertilizer or as feedstock for biogas digesters, and are also providers of food products and industrial raw materials.

208. In fact, particularly in rural areas, efficient use of energy and resources are inseparable concerns because of their interrelatedness. Land-use patterns in specific localities determine the breakdown among production of fuelwood (and other forest products), livestock and agriculture and a judicious balance could ensure enhanced efficiency. Also, home industries can be fostered on the basis of fuelwood energy obtained locally.

209. Technically, there is considerable scope for improvement in energy and resources use through integrated, co-operative approaches. In reality, however, inequitable income and land distribution and the conflicts of interest that prevail in the rural sectors of many developing ESCAP countries tend to militate against technical efficiency and indeed any innovative departure from current practice. Such has been the experience with the use of biogas digesters in the region. Biogas has had notable success in China, but its absorption in other countries of the region (e.g., India, Pakistan and the Republic of Korea) has been limited despite the offer of government subsidies as incentives. In part, the failure is due to technical problems, and the system is subject to further development. Yet social factors are evidently an obstacle too, for in contrast to China's experience, it would appear that it is mainly the richer strata in the rural areas of other developing countries of the region that have installed biogas systems.³¹

210. Biogas is only one of the newer energy alternatives becoming available, but the conclusion is compelling that, beyond the necessary technical

development that may still be required, the adoption of other potentially efficient energy innovations at the local level is dependent on a greater degree of social homogeneity and coherence among local communities.

211. Energy (particularly petroleum) problems have, partly because they are more visible, received considerable publicity in recent years as an emerging development constraint. However, urgent attention will also need to be paid in the coming decade to other basic resources such as land, forests, water and fisheries if other constraints are not to become increasingly serious. The environmental and resource impacts of development call for anticipatory action and the need for careful planning.

212. Surveys by FAO indicate that a high proportion of land in the region is vulnerable to processes of degradation.³² 82 per cent in south Asia, 86 per cent in south-east Asia, and 90 per cent in north and central Asia. These percentages are not out of line with those for other regions, but in view of high population densities, many parts of the region are close to their maximum "carrying capacities" in terms of providing for subsistence food needs.

213. Serious dangers arise from soil degradation and desertification. Soil erosion is a permanent phenomenon and occurs under all types of vegetative cover. However, the process is being exacerbated by a variety of factors. The most dramatic is deforestation, but the extension of cultivation to all marginal dry lands and mountain sides without proper protection of the top-soil by bunding or terracing has equally serious consequences. In Pakistan, more than one third of the land is affected in some degree by erosion of soils by water (and a further 40 per cent by wind). In Nepal, an estimated 240 million cubic metres of soil are annually transported to India by the country's rivers. In fact, mainland Asia records some of the highest soil erosion rates in the world if measured by the suspended sediment loads of major rivers. An average of 363 metric tons per km² of river drainage basin has been estimated for 16 of the world's major rivers, with which may be compared 1100 metric

³⁰ "... the most important single source of energy for most people of the region — food for draft animals — has yet to find a place in most energy studies and in statistics of energy production and use". Arjun Makhijani, "Economies and sociology of alternative energy sources" (DP/EDRS/8), topic paper for the UNEP/ESCAP Regional Seminar on Environment and Development, Bangkok, 1979, p. 1.

³¹ S.K. Subramaniam, *Bio-gas Systems in Asia* (New Delhi, Management Development Institute, 1977). One constraint on the ownership of biogas digesters by individual families is the need for a certain minimum number of livestock head.

³² Drought, mineral stress (nutritional deficiencies and toxicities), shallow depth, excess water and permafrost are among the problems.

tons/km² for the Brahmaputra, 1500 metric tons/km² for the Ganges and 2800 metric tons/km² for the Hwang Ho. Silting is shortening the lives of many dams and reservoirs throughout the region, including Mangla and Tarbela in Pakistan, Ambuklao and Buhisan in the Philippines, and Citarum in Indonesia, thereby reducing storage and irrigation capacities, and lowering hydroelectric potentials.

214. Soils are also being degraded by salt and chemical intrusion, causing a diminution of the nutrients necessary to support vegetation. In south-east Asia no less than 59 per cent of soils are affected by mineral stress on account of weathering and their relative sterility. Soils in this subregion are generally acid, deficient in calcium and phosphorus (although fairly rich in nitrogen) and have low holding capacities for nutrients and water. Salt-affected soils in south-east Asia amount to about 20 million hectares (about 6 per cent of total land area) compared with some 85 million hectares (8 per cent of total land area) in south Asia.

215. Aridity and desertification are of serious concern in Afghanistan, China, India, Iran and Pakistan. The region as a whole contains about 20 per cent of the world's existing desert lands, but FAO estimates that the areas vulnerable to desertification are considerably higher in Asia than in other regions. Again, higher population densities and the inexorable annexation of marginal lands are reflected in the fact that 60 per cent of the world's population (380 million) currently living on dry lands are in the ESCAP region. If desertification is occurring in the region at the rate estimated at the global level, then about one million additional hectares are being desertified each year. China, India and Iran are seeing increasing encroachment of deserts and deteriorating range lands; in Nepal, the principal factor in desertification is deforestation and soil erosion; in Afghanistan, Bangladesh and Pakistan it is mainly attributable to hydrologic factors.

216. Closed forest³³ covers 410 million hectares or about 15 per cent of the total land area of the region, and open woodland³⁴ accounts for a further 100 million hectares, or 4 per cent: the combined percentage of cover is the lowest of all the major regions of the world. Serious denudation has occurred over the long term in Bangladesh, India and Pakistan, although more than 50 per cent of the land areas of Burma, Indonesia, Malaysia and Papua New Guinea are still forested.

217. The process of forestry depletion is continuing on a wide scale, however, and it is estimated that

net annual losses in the region are between 4 and 5 million hectares. In some countries, deforestation has reached alarming rates:

“Total forest area in Nepal decreased by about 25 per cent from 1964 to 1975. Without the initiation of large-scale reforestation projects, accessible forests in the hill areas could disappear within 15 years and those of Terai within 25 years. India's forest resources are similarly in jeopardy unless viable reforestation projects are implemented and alternative cheap fuel resources made available. Sri Lanka's forest lands have been largely depleted during the last two decades . . . In the Philippines, forest cover decreased from 44 per cent of total land area in 1957 to 33 per cent in 1976, with most significant decreases in the late 1960s and early 1970s. The National Forestry Department of Thailand estimates that at the present rate of loss — 2,500 square kilometres a year — Thailand's forests will be completely denuded in 25 years. A recent study predicted that the remaining accessible lowland forests of Malaysia could be exhausted within a decade.”³⁵

218. The three major causes of deforestation are the search for fuelwood, commercial logging and shifting cultivation. The situation with respect to fuelwood supplies gives, potentially, the least cause for concern and, as mentioned above, proper management and control can make local communities permanently self-sufficient. An important part of commercial logging in some countries is illegal and has proved difficult to control, while restrictions on legal logging have other important implications for exports and domestic production of wood products. However, shifting cultivation poses the most important threat because of the necessity to bring about complete transformations in life-styles in order to bring it under control, and the scale of the phenomenon. An estimated 80 million people are involved in shifting cultivation in the region and it causes the annual destruction of 200,000 hectares in Indonesia, 40,000 hectares in Nepal, 16,000 hectares in Peninsular Malaysia and over 150,000 hectares in the Philippines.³⁶

³³ Tree crowns covering 20 per cent or more of the ground when viewed from above.

³⁴ A scattering of trees providing crown cover of between 5 and 19 per cent.

³⁵ United States Agency for International Development, *Environmental and Natural Resource Management in Developing Countries: A Report to Congress* (Washington, Department of State, February 1979).

³⁶ K.K. Nair, “Consultancy report on forestry for community development and its relevance to agrarian reforms and rural development” (Bangkok, 1978) (mimeo.).

219. Projections by FAO of consumption and sustainable supply of roundwoods in the region in 1991 suggest a possible deficit of 230 million m³, with the most serious potential deficits emerging in south Asia for fuelwood and in east Asia for industrial hardwood.

220. There are important problems associated with water supplies in the region, both at the level of water resources management for irrigation and power purposes, and at the level of drinking water supplies.

221. As noted above, suspended sediment loads of several major rivers in the region are substantially higher than the world average, causing siltation hazards and inhibiting irrigation and power generation efficiency. Inefficiency of irrigation systems also increases as a result of poor maintenance, seepage losses (which can be as high as 40 per cent of the amounts released from head works), poor preparation of land to be irrigated, and in certain countries land tenure patterns which inhibit the sharing of water according to need.

222. As regards rural water supplies, several countries have earmarked substantial funds under their current plans. At present, the percentage of the rural population served by protected water supply

is extremely low in most developing ESCAP countries and, while the situation may be slightly better in the urban areas, the lack of adequate protected water is a major cause of the high incidence of cholera, and diarrhoeal and other diseases in the region.

223. Fishing is an important source of protein in the ESCAP region (particularly in south-east Asia) and could become increasingly so in the future through judicious management. Some marine sources (e.g., the Gulf of Thailand) are already over-exploited, but others (e.g., the waters around Indonesia and the south Pacific) have considerable unexploited potential. Concerted efforts are also under way in several countries to promote inland fisheries, which holds considerable promise. Proper management, however, includes careful control of effluents. Agricultural chemical residues (inland) and effluents and tailings from industrial and mining activities (both inland and in coastal areas) have already contributed to a deterioration of fish habitats. There is also very considerable scope for developing integrated agriculture-cum-fisheries production systems through wider use of organic fertilizers for growing crops, and the recycling of human, animal and agro-industrial wastes into fish culture.

VII. TECHNOLOGY IN THE NEW STRATEGY

224. The need rapidly to develop the technological capacity of developing countries was emphasized in Commission resolution 199 (XXXV) as an essential element of the international development strategy for the 1980s. There is a pressing urgency to upgrade domestic skills, within a finite time-frame, and to generate and adapt technologies in consonance with domestic resources and requirements rather than to continue the historically entrenched dependency relationships with developed countries for types of technology which are becoming more inappropriate given the socio-economic objectives of the developing countries. □

225. Transnational corporations have been a major vehicle for the transfer of technology from the developed countries. Experience in the ESCAP region on the role of these corporations in this field has been rather mixed. While reliable empirical evidence is lacking, it appears that there has been negligible transfer to the small, poor countries while in the larger and/or semi-industrialized countries in the region technological advances have been successfully absorbed.

226. It seems that technological knowledge in social sectors, such as health and education, or in large atomistic sectors, such as agriculture, moves without much delay or cost across national frontiers. The major reservations are in those instances where the existence of patent rights leads to technological protectionism (a situation favoured by both the transnational corporations and their home Governments) and, thereby, frustrates the desire of the developing countries for low-cost technological diffusion. To some extent, however, there has been a tendency for a shortening of the time required for industries such as textiles, chemicals, automobiles, antibiotics and transistors to become "foot-loose", and this has reduced the ability of transnational corporations in these areas to restrict the flow of technology.

227. What is clearly evident is that these corporations have not been the cheapest source of technology. From their point of view technological knowledge is a commodity to be carefully husbanded and to be used for maximum financial returns whereas technology could be diffused at much lower cost through engineering consultants, students and other developing countries.

228. The outlook for the 1980s has to note also that the role of transnational corporations in the manufactured exports from the developing countries of the region during the 1970s has not been significant and that their role in the provision of the "hardware" of technology has been decreasing in relation to the function of supplying "software" where technological knowledge can be more securely guarded. Also, whatever transfer of technology has arisen through these corporations has up to now been largely associated with the heavy concentration of their investments in the consumer goods sector catering mainly for the wants of the higher-income classes. The impact of this concentration and of the associated high-pressure advertising and sales campaigns has often tended to exacerbate rather than reduce social and economic class distinctions, encourage consumption at the expense of domestic savings and, where significant in scope, run counter to the social and economic objectives of the country concerned.

229. An emerging factor in this field is the rapidly expanding activities of transnational corporations based in the developing countries of the region. Many of these fledgling corporations emerged as import-substituting industries and were often based on the adaptation of imported technology, on small-scale production, on the use of lower quality or domestic raw materials etc., and with the advantages of lower wages even for highly skilled staff have now become a force to reckon with. Given their genesis and the fact that they largely operate within developing countries, these fledgling transnational corporations offer great promise for the transfer and dissemination of technologies which are likely to be more appropriate to the needs of other developing countries than those which can be expected of such corporations based in developed countries.

230. While, at first glance, such a transfer of technology should be much less expensive than that through transnational corporations based in developed countries, the challenge for the 1980s will be to improve the negotiating capacity of host developing countries through better training, information etc., so that transnational corporations in general can become a useful conduit for the transfer and dissemination of technology more appropriate to the resource endowments of the host countries and on terms and conditions which are mutually beneficial to both parties. Groups of developing countries in the region could also significantly lower the costs of imported technology by negotiating purchases as a group. This will have increasing

relevance in the next decade with the rapid move towards the "unpackaging" of foreign investment activity and will open greater scope for intraregional substitution for hitherto imported packages of technology.

231. However, even given a satisfactory climate for the transfer of technology from abroad, the need to generate and adapt technologies within the developing countries themselves will become increasingly great.

232. In the Asia and Pacific region, there are significant variations among the developing countries in the level of technological efficiencies in crucial socio-economic sectors. Thus, there are in this region countries currently classified as "developing" which already exhibit high degrees of sophistication, in such fields as shipbuilding (e.g., the Republic of Korea) and manufacture of heavy equipment (e.g., India). Yet there are also countries where skills and facilities required for even routine maintenance of simple agricultural implements and irrigation are lacking or in short supply. This implies that the time horizon in which a reasonable degree of across-the-board technological adequacy, not to mention excellence, and self-reliance can be realized will not be uniform as between these countries. By the same token it also opens up possibilities of fruitful collaboration and assistance among the developing countries themselves in this important area of common concern.

233. The concept of technology planning on a comprehensive basis with identified priorities related to over-all national development goals and with earmarked investment resources is finding increasing support. In the ESCAP region, two countries — India and Pakistan — came up with such plans in the mid-1970s. Other countries have identified key areas for major efforts for technology adaptation and diffusion, without an attempt as yet to undertake comprehensive planning and relate it functionally to development programmes in agriculture, industry, health, education, transport and the like.

234. It is for each country to determine which areas or sectors require priority attention for upgrading of technology in order to meet urgent socio-economic needs. In general, agricultural production, processed foods and other consumer articles including textiles and footwear, building materials, paper and pharmaceutical formulations are areas where improvements in technology can contribute tangibly to national welfare. Fortunately, these are also areas where most countries, given the necessary determination and assistance, can hope to achieve a measure of technological self-reliance with reasonable speed. The mutual co-operation principle

referred to earlier would hold good not only between the already more fully developed and the less developed countries as such, but also between countries which have broadly comparable technological attainments in general, but which have varying capabilities in particular sectors or areas.

235. Determination of national priorities is a first step. The actual work which in essence should be nationally inspired and sustained is nevertheless likely to call for the deployment of technical, physical and financial resources on a scale and of a quality which few developing countries can expect to mobilize entirely by themselves. Hence the scope and need for international assistance measures to strengthen national endeavours in this field of critical importance to development strategies for the 1980s.

236. International involvement in technology development and diffusion is nothing new. Leading research and development establishments in developed countries have long been interested, for instance, in work connected with tropical agriculture and tropical medicine. Multilaterally, the first two development decades witnessed major initiatives in the organization of agricultural research with particular focus on increasing food production in the developing countries. There is a growing realization of the need to expand such collaborative efforts and to ensure that the process of technology transfer takes place on terms and conditions acceptable to, and in a manner consistent with the interests of, the developing world.

237. The possibility needs to be explored of evolving consortium type arrangements among donors to facilitate and finance technological development, adaptation and extension work on the basis of the identified needs of groups of developing countries. The determination of national priorities should be the responsibility of the countries concerned, but areas for international collaboration could be determined jointly by the developed and the developing countries. The work should be undertaken in the developing countries themselves as a rule, and the best available expertise and equipment should be mobilized for each project from the developed and the developing countries. However, the use of foreign personnel should be time-bound, along with the close involvement of national personnel in the planning, execution and monitoring of the work.

238. There are other relevant considerations. First, particular attention will be needed for the field testing, adaptation, evaluation³⁷ and extension of the fruits of research locally in the participating countries through indigenous personnel. This aspect has been a weak link in the chain of agricultural

research, delaying fruitful adaptation and application in the developing countries of breakthroughs generated by international research establishments. Secondly, special facilities should be provided for exchange of information and expertise among the countries. The Regional Centre for Technology Transfer at Bangalore, sponsored by ESCAP, could undertake such work. Thirdly, training of local staff should be specifically provided for in all such international collaborative work and proper manpower planning and reorientation of education should receive constant attention. Fourthly, an agreed time-table will need to be worked out for the termination of external inputs in respect of each project. Finally, good research work tends to be expensive and available external and domestic resources should be utilized in a planned and co-ordinated manner in the interest of efficient use and timely results, with emphasis on using existing national and international institutions to the utmost.

239. In pursuing the objective of raising the capacity of developing countries to innovate, adapt and disseminate the types of technology which will be appropriate to the realization of their socio-economic goals, the international community will need to consider carefully the continuing phenomenon of the "brain drain" from the developing countries of this region. This phenomenon is quite unlike that of the temporary migration of skilled labour to the Middle East because in the case of the "brain drain" the loss to the developing country is almost a total one in that it either leads to permanent emigration or to the loss of the professional's skills throughout most of his/her working life. Furthermore, it appears that in the case of the "brain drain" remittances back to the developing country are nowhere near as significant as with temporary emigration.

240. The loss to the developing country is very significant in terms of both the resources expended in the migrant professionals' education, training and upbringing and the consequent loss of his services to society. Bangladesh, India, Pakistan, the Philippines and Sri Lanka have, in particular, been the major sources of the outflow. While some part of the "brain drain" has been to countries within the region itself — notably Australia, Malaysia, New Zealand and Singapore — the far more

³⁷ While alternative techniques are already available in many fields, there has been a lack of vigorous and systematic evaluation under field conditions. The main criterion for the choice of technology should be the minimization of average cost with the factors of production priced at their social opportunity cost. An optimum allocation of output/capacity between alternative techniques can be determined by a programming solution which minimizes average cost subject to an upper bound on capital investment and a lower bound on employment. Such a methodology has been used to allocate output between alternative techniques in the sugar and textile industries in the latest five-year plan of India.

significant outflow has been to the United Kingdom and the United States: additionally, too, there has been a significant outflow to France from the countries of Indo-China.

241. The reasons for the outflow are many and complex — being historical, social, political and economic in genesis — and it is not intended in this paper to discuss all these factors but rather to note the major policy options which might be considered during the next decade to cope with this problem.

242. Appropriate policies by the developing ESCAP countries themselves seem to offer the best solutions to the problem. Except in a very few cases like Malaysia and Singapore, it is generally true that the remuneration for professional skills has been low and declining in real terms. This has been true not purely in relation to the international markets for such skills but even relative to the salary levels and costs of living within the developing country itself. Opportunities for supplementing such low incomes, such as by permitting professionals in government service to engage in private practice, have generally not been permitted. A classic case in point is the experience of Sri Lanka, where such restrictive policies in the past led to a massive outflow of professionals. The new policies adopted in Sri Lanka might well be the type of base on which a satisfactory solution to the problem might be realized.

243. While large income differentials have been strongly argued against in this paper, the reality is that professional skills with a world market cannot otherwise be retained for the benefit of the developing ESCAP countries except where strong nationalism or draconian measures on emigration exist. Yet it is equally true that many professionals from the developing ESCAP countries are over-trained in the developed countries in the light of the needs of the region and, consequently, suffer the frustration on their return of being underutilized

and/or finding that the facilities for research etc. in highly specialized fields are unavailable. The onus is on both the developed and the developing countries alike to avoid such a situation. In this respect, international assistance could play an important role in developing national, subregional or regional training capacities which are better attuned to the developing countries' needs. To the extent that such training facilities are not attuned to the requirements of the world market for skills, the outward flow could be largely reduced. But such policies will need to be carefully implemented as they should not preclude the development of professional skills, in selected areas and disciplines, to the highest world standards.

244. The developed countries can also act decisively to mitigate the impact on the developing ESCAP countries of this reverse transfer of technology. There is no doubt that the developed countries have obtained at minimum cost and used to maximum benefit the "brain drain" at the cost of and to the over-all detriment of the developing ESCAP countries. If selective immigration policies are to continue in the developed countries and if shortfalls in specific skills will need to be met from immigrants, the developed countries concerned should consider the possibility of assisting and facilitating the training of larger numbers of personnel in the developing ESCAP countries so that their needs and those of the developed country can be met. Concurrently, too, developed countries requiring such a reverse flow should consider schemes of reimbursing the developing ESCAP countries for such professional imports since, while the individuals concerned are no doubt paid for their services, their societies of origin are not recompensed. Many possibilities for such reimbursement have been discussed in various forums and they include suggestions of a once-and-for-all reimbursement on immigration and/or the repatriation to the developing ESCAP countries concerned of all direct taxes paid by the immigrant.

VIII. THE IMPLEMENTATION SYSTEM AND PEOPLE'S ORGANIZATIONS

Introduction

245. The recent and proposed shifts in development strategies in Asia will make onerous and complex demands on economic administration in the 1980s. New policies would also entail a great expansion of the network of para-statal agencies, such as public corporations, area development authorities and autonomous boards; and people's organizations, such as co-operatives, voluntary organizations and associations/unions working for the weaker socio-economic classes.

246. In many countries of the region, even when rational and progressive development policies were determined by planners and politicians and large investment resources were deployed, the actual rate of growth remained low and progress towards equity was negligible because the State apparatus, which had evolved to perform a few colonial or feudal functions, simply was not reformed to cope with the enormous new tasks of development administration thrust upon it.

247. For the success of any strategy in the 1980s, therefore, it is much more important to undertake necessary administrative and organizational reforms than only to elaborate the socio-economic content of the strategy itself. In fact, these reforms should constitute a core ingredient of the strategy itself.

A. The role of the state

248. The steering of the development process remains inescapably the responsibility of the State. The elements of any development strategy are in fact addressed to the State.

249. Even in market economies, the State has to create and maintain the physical, fiscal/monetary and institutional environment for private enterprise to maximize the growth of output.

250. Second, it has to establish, own and operate production/infrastructure/service units which are essential for the country but would not attract private enterprise: (a) in highly capital-intensive and technology-intensive sectors, such as metallurgy and heavy machinery, basic chemicals, railway and air transport, power and communications, and (b) in sectors with financially low or negligible or privately "uncollectable" return, such as large-scale irrigation, road construction, health, education, supplemental nutrition, water supply, sanitation and housing for the poor.

251. Third, the State has to regulate actual and potential private monopoly power (created by economies of scale in relation to market size) which may be used to exploit workers and consumers, reduce potential output levels, raise costs, and inhibit technological change.

252. Fourth, some regulation of the inflow of foreign investment, outflow of profits and the terms on which technology is imported (particularly through transnational corporations) is indispensable if basic development objectives are to be effectively pursued.

253. Fifth, where growth of output *per se* does not reduce poverty and unemployment fast enough, the whole gamut of special measures proposed for such situations, for example, multisectoral area planning, public works, public distribution, dispersal of infrastructure, expansion and targeting of social services, land reform, protection and promotion of labour-intensive sectors, credit and input reservation etc., have to be implemented by the State.

254. Under a socialist government, the State will of course, take on a greater share of the responsibilities but the few forms of State action listed above would be unavoidable even in most market economies.

B. Deficiencies of the state apparatus

255. The deficiencies of the traditional State machinery are too well known to need detailed reiteration. Briefly, the bureaucracy has an excessive number of staff tiers, so that decision making is extremely slow. Decisions are over-centralized at the top; therefore, information with which decisions are made flows up slowly through the numerous tiers. Final decisions again flow down slowly through the same tiers. Supervision and evaluation of field action are poorly organized. Numerous new agencies are often set up to perform vaguely defined, overlapping and unco-ordinated functions. As a result, there is considerable over-staffing and the mushrooming of unproductive, non-developmental public expenditure.

256. An overwhelming majority of staff are "generalists" with ordinary college or school education. Their intellectual equipment normally does not include adequate specialized knowledge of developmental subjects such as science, technology, mathematics, statistics, economics, management science or business administration. Thus, there is a serious mismatch between the knowledge they have and the knowledge they need for their developmental tasks. Consequently, their policy decisions and field operations often remain amateurish, inefficient and irrational.

257. Finally, staff motivation is not "client-oriented"; it is rather "élite-oriented" or "favour-oriented"; it is, in any case, not oriented to the service of the poor in the rural areas and the urban slums. Whatever the administrators deliver to the people, and especially to the poor people, is delivered as a "favour for subjects" rather than as a right of the people. Therefore, delivery systems are often ineffective or inequitable.

258. Significant administrative reform efforts were made in the 1970s in many ESCAP countries.³⁸ These will have to be continued in the 1980s. The main lines of action needed are discussed below.

C. Decentralization

259. The basic need is to reduce the over-centralization of State decisions and move the apparatus toward an "optimum" mix of centralized and decentralized decisions. This formulation is better than the unqualified demand for decentralization, for it recognizes that some decisions cannot be efficiently decentralized. But some decentralization seems to be necessary in favour of (a) lower

³⁸ A detailed account is available in the ESCAP secretariat note, "Major changes and trends in public administration and finance in the ESCAP region", 1979 (mimeo.).

levels of the main administrative hierarchy itself, (b) regional and subregional administrative authorities, (c) autonomous authorities, boards and corporations charged with the task of regional or sectoral development and (d) people's organizations (local councils, unions, associations and co-operatives).

260. The case for decentralization in all these dimensions is that it would cut down costly delays in the process of decision making and free operating enterprises from the rigidities of old, bureaucratic rule-books and procedures. Decentralized decisions are also likely to be better informed in terms of a detailed knowledge of specific field situation, and permit greater participation of the people.

261. As indicated by the following discussions, there is evidence of a progressive movement towards various forms of decentralization in many ESCAP countries.

D. Regionalization

262. In the geographical dimension, for example, the Philippines has been attempting "regionalization" since 1972, when regional development councils, and regional offices of national departments and agencies, were set up and given much delegated authority to plan and implement development projects. The five-year plan (1978-1982) has stressed the integrated area development approach. Malaysia set up or strengthened State planning units and area project offices in the mid-1970s, accepted the concept of integrated area development and identified five areas for intensive development. Two autonomous area development authorities were also established (Pahang Tenggara and Trengganu Tengah.) In Pakistan elected local governments have been given considerable powers. In Indonesia under the 1974 civil service reform provincial and local planning bodies were strengthened at nine selected growth centres. In India there is a well-established demarcation of central and state-level plans and projects. And, recently, unusually large development funds have been devolved from the centre to the states by the finance and planning commissions. In some states, too, district and block-level bodies have been given considerable funds and powers to make and execute local projects.

263. In all large countries, and even in small countries with large less developed regions, these trends towards geographical decentralization will need to be carried forward in the 1980. But a rational allocation of different types of projects between central and regional authorities will be necessary. Responsibility for the development of sectors/projects of nation-wide importance (heavy and basic industries, large irrigation and power

systems, national highway and railway networks, ocean shipping, national airlines, banking and insurance) cannot be decentralized. But the development of agriculture, small industry and local-level infrastructure and social services can be efficiently decentralized. Even these decentralized operations, however, will produce the best results only if they are backed by appropriate central policies and technical and financial assistance.

E. State enterprises³⁹

264. State enterprises, with various degrees of autonomy, have also multiplied and diversified. Thailand has more than 100 public sector enterprises; the Philippines about 140, Iran 137, Indonesia 160 and Malaysia 600. In India and Pakistan almost all basic industries, banks and insurance are in the public sector.⁴⁰ Thus, the public enterprise sector has been expanded at a rapid rate in all ESCAP countries as a matter of pragmatic concerns, regardless of ideology. In recent years (the late 1970s) the average share of the public sector in gross capital formation was about 20-21 per cent in the Philippines, the Republic of Korea and Singapore, 28 per cent in Thailand, 43 per cent in Malaysia, 49-50 per cent in Pakistan and Sri Lanka, 65 per cent in India and 84 per cent in Bangladesh. In more recent plans the ratio is expected to rise further. In the fourth plan of the Republic of Korea (1977-1981), for example, government investment is to be 31 per cent of total investment.

265. In all these countries the public sector has recorded some success stories; but, by and large, its operations have been inefficient in terms of physical productivity and financial returns. With large and growing investments in this sector every country will urgently need to reform the operations of State enterprises. The first requirement is that public enterprises be enabled to function with real and substantial autonomy. The tendency to run them as government departments or under the detailed day-to-day supervision of the departments, according to archaic rules and procedures, runs against one of the main motives for establishing them, namely, that they will be independent, scientifically managed production or promotion units.

266. Secondly, their executives must be professional managers trained in the techniques of scientific management, and not generalists, seconded or retired civil servants or politicians.

³⁹ The term "enterprises" here covers all autonomous, parastatal agencies.

⁴⁰ ESCAP, *op. cit.* and DP/STR(2)/3.

267. Thirdly, while the enterprises must operate subject to general policy guidelines laid down by the Government, and submit regular reports and audited accounts to the Government, they must be freed from day-to-day interference or inquests by public leaders. The executives should, of course, be replaced in the event of gross mismanagement, but they must not be subjected to frequent harassment by politicians in the name of accountability.

268. Fourthly, these enterprises must be given clear guidelines concerning the special constraints under which they are to operate (e.g., wage and price specifications, profit/loss limits, output quotas, subsidy arrangements, etc.), and these constraints must be made realistic in the sense that they leave operations feasible.

269. If these minimum norms are adhered to, the growing cadres of professional managers in ESCAP countries can ensure efficient performance by State enterprises.

F. Peoples' organizations

270. Delegation of power (or authority-cum-responsibility) to local peoples' bodies, as distinguished from regional officers or State enterprises, involves special issues. Although decentralization in this sense has always been advocated, more emphasis is currently being given to it in the context of the new stress on rural development. Significant experiments in this direction have been made over a long period in Bangladesh, India, Indonesia, Pakistan, the Republic of Korea and Thailand. The *Inpres* programme in Indonesia, the *Saemaul Undong* movement in the Republic of Korea, the thana rural public works programme and the thana irrigation programme of Bangladesh, the basic democracy movement of Pakistan and the community development and integrated rural development (IRD) programmes in India may be recalled as examples in this connexion. In addition, there are scores of small-scale experiments in integrated (or partial) rural development being carried on by voluntary agencies in all ESCAP countries in collaboration with local peoples' bodies.

271. Many of these programmes have recorded significant successes. Local peoples' institutions can, in principle, have better rapport with the people than bureaucrats, and design and implement programmes conforming to their felt needs, with more input of local knowledge, than projects designed by a remote central authority. They can also mobilize local resources supplementary to funds devolved from above.

272. But the limitations of rural project decentralization, established by all evaluations, should

also be noted. First, there is the fact that the civil administration does not, in fact, transfer much effective power or finance to peoples' institutions, regardless of the intentions of top policy makers. The use of the limited power and finance which are nominally devolved is hamstrung with the usual rigid and bureaucratic control by government departments (as in the case of public enterprises).

273. Second, the richer classes in the rural areas, who own most of the land and other rural assets, invariably get the lion's share of the benefits from resources made available to the "people's" bodies, because power in all these bodies comes to be wielded effectively by these classes. This is the most important single limitation of decentralization.

274. Third, local knowledge is necessary but not sufficient for designing and executing technoeconomically sound projects. Much money is wasted by local bodies because the necessary input of technical expertise is not made available.

275. Fourth, there is a strong tendency for decentralized funds to be frittered away in consumption rather than in productive investments.

276. There are, of course, exceptional cases in which these general tendencies were held in check. But it is important that safeguards against them are built into every scheme of decentralization. Top-level leaders have to ensure that the transfer of funds and power to people's bodies is real and substantial, subject only to annual reporting and audit. An adequate number of well-staffed technical agencies must be present in the field to aid local bodies. And the rural poor must be given reserved and weighted elective representation on such people's bodies. It has already been noted in several contexts (in the chapters on equity and social development, for example) that deliveries of credit, inputs, and infrastructure and social service facilities should also be reserved and targeted clearly for the poor. Even reservation and targeting may not prevent leakages unless the poverty groups themselves are made conscious of their rights and assisted in co-operating to demand and secure their due share of the fruits of development.

G. Co-operatives

277. The above argument applies to co-operatives as much as to other agencies. In recent decades the co-operative sector has expanded and diversified phenomenally in most ESCAP countries. Confined in early years to the functions of providing rural credit and retailing consumer goods, it now comprises: (i) a large subsector of banking; (ii) a large network for the supply of seeds, fertilizer, pesticides, farm equipment and machine services;

(iii) a government purchase and sale system; (iv) a cash-crop marketing system and (v) even a co-operative farm processing apparatus. But it is no longer the kind of democratic and self-reliant form of organization which its founders had contemplated. It runs on the basis of massive State financing and detailed State patronage and control. It has become, by and large, simply an agency of the Government to provide credit, inputs and marketing services to the rural areas, and subsidized grain and consumption goods to the urban areas, at a cost slightly lower than what the Government would incur in making all these deliveries through full-time civil servants. For this explicitly recognized function, the co-operative sector should continue to be expanded further in the 1980s

278. The two main problems besetting the sector are: (i) its managerial inefficiency and excessive losses, the latter often due to heavy loan-arrear rates; and (2) its failure to reach and benefit the small farmer and the land-less worker. As in other bodies, effective power and most of the gains from co-operative deliveries have been appropriated by the rural oligarchy and, to some extent, the middle-level peasantry, to the exclusion of the poor. The remedy for mismanagement will lie, as in the case of State enterprises, in the progressive professionalization of management. And the answer to the neglect of the poor by co-operatives can only be, once again, the reserved representation and unionization of the poor and reserved delivery quotas for them.

H. The planning system

279. All ESCAP countries have recently been strengthening their planning systems. It is now generally recognized that even if a major part of new investment is contributed by the private sector, it should be channelled by the State in the light of an overview of the nation's long-term needs and priorities. Planning bodies generally produce this overview. The broad allocation of public investment between sectors, between regions and between big projects should also be the responsibility of development planning agencies of the central level. Detailed sectoral planning and project formulation are best done by ministries but they need to have strong planning units for the purpose. And for multisectoral regional planning and formulation of projects of regional importance, regional planning bodies should exist. These sectoral and regional planning units should invariably have strong multidisciplinary project formulation teams including technologists, economists and management experts. The economists in all planning teams should be required to have professional expertise in modern cost benefit analysis

280. These are now regarded as essential features of a satisfactory multi-level planning system which ESCAP countries should try to evolve in the 1980s.

I. Evaluation

281. It is equally important that equal priority be given to the strengthening of systems of evaluation. Even in countries where such systems have been set up, they have not been functioning effectively. Consequently, top policy makers are not informed promptly of cases of mismanagement, waste and failure, and cannot take remedial action. When large investment funds are committed in numerous projects/enterprises, the waste due to weak feedback can escalate to unacceptable levels. Thus, investment in an evaluation system is critical for maintaining the productivity of all other investments.

282. Since primary information originates at the field/workshop/branch office level, basic evaluation (monitoring/reporting) cells should be set up in every such operating unit. Information should be regularly collected by these units in computerizable forms designed by the central evaluation organization and transmitted both to the organization and to the relevant departments/ministries. The evaluation organization is best located in, and under, the central planning agency, for this agency is normally relatively independent and is most in need of feedback and information to make further decisions.

283. For these reasons, all the statistical systems of the country are also best supervised, co-ordinated and developed by the central planning agency.

J. Evaluation criteria

284. It is expected that the use of modern techniques of (*ex ante* and *ex post*) project appraisal will grow in the ESCAP countries. The effort to secure increasing amounts of assistance from international financial institutions already requires them to have their projects subjected to professional appraisal. This discipline should be extended to cover all large domestic projects as well.

285. The criteria for approval, however, still remain a subject of controversy. If a project has a satisfactory direct financial return, approximating or exceeding the opportunity cost of capital, or when its direct financial return is low but the financially measurable direct plus indirect social return is high, there is no difficult problem. But when the financial return is low but financially non-measurable social returns (in terms of equity, em-

ployment or national self-reliance) are substantial, the policy makers of every country will have to make their own judgements on the basis of the relative weights they assign to different policy objectives. It is important to recognize that in seeking development with multiple objectives, the neo-classical paradigm of mere output maximization or profit maximization is inadequate.

K. Training, recruitment and placement

286. Major reforms are needed in the training-recruitment-placement system for civil servants to reduce the present hiatus between the knowledge they have and the knowledge they need. The most important need is to have more specialized cadres for developmental departments (that is, departments other than those dealing with military, political, legal, judicial, security and diplomatic subjects — the non-development fields). Within the developmental cadres there can be subcadres with sectoral specialization. Specialized knowledge of modern technology, economics and/or scientific management techniques has to be made an essential condition of recruitment to these cadres. Transfers between these two types of cadres will have to be minimized and eventually eliminated; but transfers between various developmental cadres may continue until the progress of specialization (say, in agriculture, capital goods, consumer goods, infrastructure, health and education) reduces them. The obvious condition for the success of these measures in promoting the growth of specialized cadres is that in each cadre and subcadre its members find enough opportunities for career advancement. Cadres should therefore be restructured with this aim in view.

287. Since new recruitment is a small proportion of the existing contingent of employees, the upgrading of the knowledge of the currently employed staff through regular on-the-job retraining courses is a vital need. Most ESCAP countries have perceived this need and set up a number of administrative training institutions. The current drawback of many of these programmes is that they succeed in imparting only some additional general knowledge; the transfer of specialized, operational knowledge of technology, quantitative economic (statistics) or management science is limited. The programmes need to be reviewed to give greater weight to these disciplines. In addition, greater use of recognized expert non-official consultants, drawn from the private business sector, and from academic institutions, will be desirable. In fact, administrative and financial arrangements must facilitate regular two-way movement, for fixed

or long periods, of specialists between official and non-official positions. This will ensure a constant inflow of new knowledge into the bureaucratic apparatus and stimulate more operationally useful teaching and research in academic institutions.

288. The success of training or a lateral entry system to impart more specialized knowledge will remain limited unless it is coupled with other recruitment-placement reforms. The trainees are at present poorly motivated to acquire specialized knowledge for they expect to be placed after training in non-developmental or other positions where the new knowledge has little relevance. Or else their superiors and subordinates do not share the new knowledge and have no use for it; or the new knowledge cannot be utilized unless established procedures are changed. These considerations bring out the importance of implementing a package of a minimum set of administrative reforms.

L. The incentive system

289. The emolument structures of most countries have anomalies which do not allow developmental performance to be rewarded and non-performance penalized adequately. It should be a regular concern of the administrative reform strategy to have high-power commissions reduce these anomalies at regular intervals.

290. A well-known general principle which needs to be applied on a wider scale is that the emoluments of individual development personnel (or groups) should include, besides regular pay, a supplement which is strictly proportional to objective indices of performance, say, production in productive enterprises, and deliveries to target groups in other systems.

291. Moreover, fringe benefits, promotion prospects etc. can be tilted in favour of cadres working in urban slums or with the rural poor, for otherwise there is little incentive for administrative and technical personnel to stay and serve the poor in the backward areas.

M. The reform machinery

292. Administrative/organizational reform in these various aspects will be a tedious process requiring continuous effort. Therefore, it is desirable that a division with sufficient power should operate in the office of the chief executive of the Government (president or prime minister) to initiate, implement and monitor co-ordinated reforms on a continuing basis.

IX. LEAST DEVELOPED, LAND-LOCKED AND ISLAND DEVELOPING COUNTRIES

293. Recent United Nations resolutions have stressed the need for special policies to be pursued by national Governments and the international community to accelerate socio-economic progress in the least developed countries and the geographically handicapped land-locked and island developing countries.

294. According to criteria suggested by the United Nations, seven countries of the ESCAP region have been identified as "least developed": Afghanistan, Bangladesh, Bhutan, the Lao People's Democratic Republic, Maldives, Nepal and Samoa. Four of them are land-locked: Afghanistan, Bhutan, the Lao People's Democratic Republic and Nepal. The only other land-locked country in the region is Mongolia.

295. Maldives and Samoa are the only islands in the list of least developed countries. But developing island countries/regions with full or associate membership in ESCAP include: Brunei, Cook Islands, Fiji, Indonesia, Kiribati (Gilbert Islands), Nauru, New Hebrides, Niue, Papua New Guinea, Philippines, Singapore, Solomon Islands, Sri Lanka, Tonga, Trust Territory of the Pacific Islands and Tuvalu.

A. Land-locked countries

296. The special difficulties of the land-locked countries arise from the fact that they have no direct access to the sea. Transport through neighbouring countries is costly because of the long distances involved, and beset with physical, legal and procedural delays and difficulties. In consequence, the land-locked countries are relatively isolated from world markets.

297. The record of their recent development (excepting Mongolia) has been extremely unsatisfactory (tables 29 and 30). The rate of growth of *per capita* income varied between -2.5 per cent in the Lao People's Democratic Republic and 1.2 per cent in Afghanistan during 1970-1977. Population continued to grow at the rate of 2.2 to 2.3 per cent. As a result, the *per capita* income in 1977 ranged between \$US75 and \$US135 (in 1976 prices).

298. In their structure the land-locked economies (excluding Mongolia) share the well-known characteristics of least developed countries. Agriculture continues to occupy 80 to 93 per cent of the labour force and 50 to 70 per cent of the national product originates in agriculture.

299. The social indicators for the land-locked countries (excluding Mongolia) are also disturbing. Only 8 to 9 per cent of the population has access to safe water supply in Afghanistan and Nepal. The infant mortality rate in Afghanistan is as high as 27 per cent. The physician/population ratio and the primary enrolment ratio are low. In Nepal and Bhutan only 3 to 5 per cent of the population is urbanized.

300. This situation obviously requires special developmental measures.

301. The prime need is the earliest possible improvement of transport and communications systems along with the improvement of connected systems in the transit countries. This would comprise the construction of all-weather roads suitable for heavy vehicles, extension of railway systems, and the improvement of inland waterways, air services and communications facilities. Wherever possible, alternative transport routes will have to be explored and developed. New transport technologies such as pipeline systems and containerized systems may also have to be pressed into service. In addition, port facilities in the transit countries will have to be developed—for preferential or reserved use by land-locked countries. Transit storage arrangements will also need to be improved. And transit countries will have to be persuaded to simplify the legal and administrative arrangements governing transit so that clearances are expedited. For this purpose all land-locked countries could benefit from membership in the Customs Co-operation Council and GATT and through the use of the services available from the Council.

302. For all these developments, more feasibility studies, followed by large investments would be necessary. In most cases, investments would have to be made in a co-ordinated way in the land-locked as well as the transit countries.

303. The second major ingredient of policy must be accelerated import substitution in all sectors where it is economically feasible, so that imports transported over long distances, at a heavy cost, are minimized in the long run. At the same time, the production structure should be diversified in favour of low-bulk and high-value commodities.

Table 29. Least developed and land-locked ESCAP countries: economic structure
(Percentage)

| | Distribution of gross domestic product | | | Average annual growth rates | | | | Percentage of labour force in | | |
|---|--|-----------------|-----------------|-----------------------------|-----------|------------------|-----------|-------------------------------|----------|----------|
| | Agriculture | | Services | Agriculture | | Manufacturing | | Agriculture | Industry | Services |
| | 1977 | 1977 | | 1961-1970 | 1970-1977 | 1961-1970 | 1970-1977 | | | |
| Afghanistan ^a | 50 ^b | 12 ^b | 38 | 1.6 | 4.0 | 5.8 ^c | — | 79 | — | — |
| Bangladesh | 55 | 13 | 32 | 3.1 | 1.7 | 3.9 | 4.5 | 78 | 7 | 15 |
| Bhutan ^a | — | — | — | 2.3 | 2.1 | — | — | 93 | 2 | 5 |
| Lao People's Democratic Rep. ^a | 63 | 13 | 24 | 6.7 | 1.3 | — | — | 80 | 6 | 14 |
| Nepal ^a | 68 | 9 | 23 | 0.9 | 1.1 | — | — | 93 | 2 | 5 |
| Samoa | 67 ^d | 3 ^d | 50 ^d | -2.8 | 1.3 | — | — | 67 ^e | — | — |

Sources: United Nations Conference on Trade and Development, TD/240/Suppl. 1; World Bank, *World Development Report*, 1979.

Notes: ^a Land-locked countries.

^b 1975.

^c 1962-1969.

^d 1972.

^e 1971.

Table 30. Least developed and land-locked ESCAP countries:
per capita gross domestic product, population and growth rates

| | Per capita GDP (US dollars) | | | | Average annual growth rates of per capita real product | | Projected per capita GDP in 1990 ^a at 1976 prices (dollars) | | | Population | | |
|---|-----------------------------|------|----------------|------------------|--|-----------|---|-----|-----|------------|-----------------------------|------|
| | At 1970 prices | | At 1976 prices | | 1960-1970 | 1970-1977 | A | B | C | Millions | Average annual growth rates | |
| | 1970 | 1977 | 1970 | 1977 | | | | | | | | 1977 |
| | (Percentage) | | | | | | (Percentage) | | | | | |
| Afghanistan ^b | 100 | 109 | 124 | 135 | 0.0 | 1.2 | 135 | 158 | 211 | 17.45 | 2.3 | |
| Bangladesh | 81 | 89 | 82 | 90 | 1.3 | 1.3 | 106 | 106 | 141 | 82.71 | 2.4 | |
| Bhutan ^b | 45 | — | — | 75 ^c | — | — | — | — | 117 | 1.23 | 2.2 | |
| Lao People's Democratic Rep. ^b | 69 | 58 | 119 | 100 | 2.1 | -2.5 | 131 | 72 | 156 | 3.46 | 2.2 | |
| Maldives | 88 | — | — | 121 ^c | — | — | — | — | 189 | 0.14 | 2.1 | |
| Nepal ^b | 77 | 73 | 105 | 99 | 0.0 | -0.8 | 99 | 89 | 155 | 13.14 | 2.3 | |
| Samoa | 211 | — | — | 350 ^c | — | — | — | — | 547 | 0.15 | 1.0 | |

Source: United Nations Conference on Trade and Development, TD/240/Suppl. D.

Notes: ^a Projection variants A, B and C assume (a) continuation of the growth rate of *per capita* real product in the period 1960-1970, (b) continuation of the rate in 1970-1977 and (c) a 3.5 per cent rate as called for in the International Development Strategy respectively.

^b Land-locked countries.

^c 1976.

304. Finally, it has to be recognized by developed countries, as well as neighbouring developing countries which are better off, that the land-locked countries can escape stagnation only with massive doses of external assistance to develop their transport and communications infrastructure, production potential and social services. Therefore, reserved funding of the investment requirements of land-locked countries will be necessary.

B. Island developing countries

305. Island developing countries share with the land-locked countries a relative isolation from major markets owing to their remoteness. Transport is costly between islands and other countries and, sometimes, even between islands. Small islands are also handicapped by their poor resource endowment and limited internal markets. Typical tropical islands frequently suffer natural calamities such as cyclones, volcanic disturbances, earthquakes and tidal waves. They are extremely trade-dependent, with one or two commodities dominating their exports, and with export earnings being subject to violent fluctuations due to the variations of demand or output. Small island countries also suffer from severe shortages of trained administrative and technical personnel.

306. Table 31 shows that most of the ESCAP island developing countries have small populations ranging between 6,000 and 600,000. Only Papua New Guinea has a comparatively large population (2.8 million in 1976). *Per capita* incomes in most of these countries ranged between \$US300 and

\$US500 in that year, although some of the islands had middle-level *per capita* incomes exceeding \$US700. In most islands, as table 32 indicates, social service standards remain unsatisfactory.

307. As in the case of land-locked countries, the primary need of the island countries is access to low-cost sea and air transport and communications. In view of the smallness of individual islands, it is essential that this development be undertaken on a co-operative basis.

308. Secondly, island countries urgently need diversification of their trade and production patterns in order to reduce the instability of their earnings. At the same time, they must be accorded preferential access to their export markets.

309. Their third requirement is investment in rapid development of their infrastructure sectors — water supply systems, power systems, industrial estates, training establishments etc., for which additional feasibility studies will be required.

310. In addition to the training of local personnel, they need the deputation of high-grade administrative and technical personnel, and even line staff, to manage large projects and organizations. Often, they are not even able to avail themselves of various aid and trade concessions because of their inability to master the complex procedures of negotiating them. Again, these inputs for their accelerated development can be made available only if substantial international technical and financial assistance is earmarked for them.

Table 31. Island developing ESCAP countries: selected economic indicators, 1976

| Country or territory | Population 1976 (thousands) | GDP per capita 1976 (\$ US) | Imports per capita 1976 (\$ US) | Exports per capita 1976 (\$ US) | Aid per capita ^a 1976 (\$ US) |
|--|-----------------------------------|--------------------------------------|--|--|---|
| Brunei | 177 | 3 026 | 1 548 | 7 926 | 1 |
| Cook Islands | 18 | 468 | — | — | 386 |
| Fiji | 580 | 1 142 | 453 | 219 | 40 |
| Kiribati (Gilbert Islands) | 52 ^b | 730 ^b | 231 | 423 | 77 |
| Maldives | 122 | 121 | 25 | 33 | 35 |
| Nauru | 8 | — | — | — | — |
| Papua New Guinea | 2 829 | 521 | 152 | 202 | 85 |
| Samoa | 151 | 350 | 199 | 46 | 82 |
| Solomon Islands | 197 | 319 | 132 | 117 | 98 |
| Tonga | 90 | 428 | 167 | 78 | 49 |
| Trust Territory of Pacific Islands | 125 | 500 ^c | 307 | 38 | 717 |
| Tuvalu | 6 | — | — | — | 500 |

Sources: United Nations *Demographic Yearbook, 1976* and *Monthly Bulletin of Statistics, December 1978*; IMF, *International Financial Statistics, December 1978*; *Pacific Island Yearbook, 1972* and *1977*.

Notes: ^a Official development assistance, including aid from socialist countries.

^b 1973.

^c 1974.

Table 32. Island developing ESCAP countries: selected social indicators, 1974

| Indicator | Unit | Fiji | Kiribati | Papua New Guinea | Samoa | Solomon Islands | Tonga |
|--|----------------------|--------------------|----------------------|------------------|--------------------|--------------------|------------------|
| Daily <i>per capita</i> calorie supply . . . | Calorie | 2 650 | 1 790 | 2 230 | 2 212 | 2 060 | 2 620 |
| Daily <i>per capita</i> protein grams supply | Gram | 58 | 32 | 48 | 59 ^a | 40 | 48 |
| Life expectancy | Year | 63 ^b | 54 ^b | 52 ^a | 63 ^b | 57 ^b | 56 ^b |
| Infant mortality | Per 1000 live births | 41 ^c | 59 ^d | 96 | 18 ^e | 77 ^f | 21 ^a |
| Persons per hospital bed | Number | 360 | 110 ^{c,g} | 224 | 229 ^e | 247 ^a | 303 ^e |
| Persons per physician | Number | 2 070 ^h | 2 692 ^{c,g} | 11 740 | 2 727 ^e | 6 452 ^a | 333 ^e |
| Literacy rate | Percentage | 64 ⁱ | — | 32 ^h | 98 ^h | 13 ^a | — |
| Primary school enrolment rate . . . | Percentage | 111 ^e | 112 ^j | 59 ^e | 75 ^h | 73 ^a | 140 ^j |
| Secondary school enrolment rate . . | Percentage | 51 ^e | 23 ^k | 12 ^e | 25 ^h | 8 ^a | 98 ^j |
| GNP <i>per capita</i> ^l | \$US | 1 220 | 690 | 480 | 350 ^a | 260 | 370 |

Source: Asian Development Bank, *Key Indicators*, April 1979.

Notes: ^a 1976. ^g Includes Tuvalu (formerly Ellice Islands).
^b 1972. ^h 1971.
^c 1975. ⁱ 1946.
^d 1973. ^j 1968.
^e 1977. ^k 1967.
^f 1970. ^l 1977.

311. As has been stressed in this chapter and in many other sections of this paper, the least developed, land-locked and island developing countries will require concerted and consistent assistance from the international community and a sympathetic understanding of their problems from their more developed neighbours if even minimal improvements are to be achieved in their social and economic well-being.

312. Apart from foreign assistance flows, special efforts will have to be made to assure these countries of export outlets at remunerative prices so as to enable them to make fuller use of whatever resources are available within their domestic economies. A major resource which has become more fully available to the island developing economies since the declaration of Exclusive Economic Zones (EEZ) are marine resources. The island developing economies, with appropriate international assistance, could explore the possibilities of exploiting these resources—and, particularly, pelagic fish resources—jointly and to common benefit rather than to attempt to negotiate individually.

313. Special institutions and funds have already been established within the United Nations system to deal with the special problems of these countries by increasing and improving the flow of technical assistance and financial resources. These efforts continue to be constrained by lack of adequate resources and donor countries could consider the further expansion of the activities of these available institutions as part of an added programme of assistance to these countries.

314. Much more could be done to extend the operations of the World Bank and the Asian Development Bank in these countries. While, no doubt, the operational costs in lending to the island developing countries are relatively high owing to added travel costs and the smaller scale of projects, lending institutions should absorb these added costs as part of the international effort to assist these countries. In addition, the establishment of resident offices could be considered in order to assist in the formulation and implementation of projects.

315. Bangladesh is the only large country which is categorized as "least developed" but is neither a land-locked nor an island country. With a comparatively large population of about 85 million, increasing at about 2.4 per cent per annum, Bangladesh is confronted with serious development problems in improving the standards of living of a population whose *per capita* income was only \$US90 in 1977. A massive and sustained foreign assistance effort will be required to mobilize fully the natural and human resources which are available. Given the demonstrated political will to undertake the necessary institutional changes, rapid growth can be attained and maintained in the economy particularly if the investment required for infrastructure and river-basin development are forthcoming in adequate amounts. An important contribution of foreign assistance will also be to insulate long-term development efforts from the disruptions and food shortages caused by natural disasters.

X. INTERNATIONAL TRADE

316. Developing ESCAP countries are heavily dependent on international trade and this dependence has, in most cases, increased significantly during the past decade. Expressed as shares of gross domestic product, exports and imports were, except in Bangladesh, Burma, India and Pakistan, above one fifth and ranged over two fifths in Fiji, Malaysia and Papua New Guinea during the 1970s (table 5).

317. Most developing ESCAP countries have a significant dependence on primary product exports; in eight of the 13 developing ESCAP countries listed in table 33 primary commodity exports amounted to well over 50 per cent of total exports during the mid-1970s.

318. Often, too, one or two commodities have a large share in the exports of individual countries (table 34). Apart from petroleum, which dominated in the case of Iran and Indonesia, rice accounted for 47 per cent of the exports of Burma; sugar, rice and maize for 38 per cent in Thailand; rubber and tin for 35 per cent in Malaysia; tea and rubber for 66 per cent in Sri Lanka; oilseeds and cocoa for 83 per cent in Samoa; and rice and cotton for 34 per cent in Pakistan. Although not shown in the table, jute and jute products completely dominate the exports of Bangladesh. Finally, it should be noted that the ESCAP region is the major world supplier of many of these commodities. Approximate percentage shares in world exports in the period 1970-1974 were: jute, 70 per cent; tea, 58 per cent; rice, 28 per cent; natural rubber, 90 per cent; sugar, 11 per cent; palm oil, 66 per cent; coconut oil, 69 per cent; copra 62 per cent; and coconuts 94 per cent.⁴¹

319. This heavy dependence on primary commodity exports and often on a few primary commodities has made for extreme vulnerability to international market forces. Developing ESCAP countries, consequently, have a vital interest in reforms which would stabilize commodity prices and/or export earnings, in greater processing of these products for export and in better access to markets.

320. Exports of food, agricultural and other raw materials (other than mineral fuels) have been declining slowly in relative importance (table 33). However, they still continue to provide the majority of the exports of developing ESCAP countries and are of critical importance in the exports of the island economies of the Pacific, to some of the lower-income countries such as Bangladesh and Sri Lanka and even to the majority of the countries in the Association of South-east Asian Nations (ASEAN). Hence, the fully justified protests

against protectionism in manufacturing should in no way obscure the continued protectionism of agriculture in Europe and Japan, which has hindered and interrupted trade flows in food-stuffs and in processed raw materials.

321. Furthermore, the long-established escalation in tariffs in accordance with the degree of processing of raw materials continues almost unabated. Developing ESCAP countries have raised this issue again in the last three rounds of the GATT trade talks. Reduction in tariffs on raw material imports have often been offered and featured as a "concession" by the developed industrial countries because the poorer raw material exporting countries had often little to offer in return. But a "concession" it is not. The tariff "concessions" offered by the United States of America on imported raw materials during the Dillon Round of negotiations effectively increased the protection of the United States processors and eased the cost squeeze on the processors. In the Kennedy Round of negotiations, too, exceptions to across-the-board tariff cuts were often in the simpler processed goods categories where the developing countries had a genuine comparative advantage. The reductions in tariffs on tropical products offered by EEC have also been confined to raw materials and have generally increased effective protection for European processors.

322. The pressures for the continuance of such protective measures is likely to increase in future as a result of the increasing comparative advantage of many ESCAP developing countries in the processing of their raw materials. There is already apparent a slow but perceptible increase in the processing of primary export commodities in the producing countries themselves, as seen in the falling market shares of raw-form products and a rising market share of semi-processed and processed products. With developing country exports still mainly in raw form this trend clearly demonstrates the scope for significant increases in semi- and fully-processed exports from the developing ESCAP countries provided that obstacles to such trade are removed.

323. The potential for increased earnings from the processing of commodities and raw materials is very considerable. IBRD and UNCTAD studies indicate, for example, that the processing of natural rubber into sheets, plates and tubes would nearly double the export value of natural rubber, with further processing into tires again almost doubling export receipts.

⁴¹ Asian Development Bank, *op. cit.*, appendix I-71, p. 384.

Table 33. Selected developing ESCAP countries: structure of merchandise trade, 1960 and 1975-1976

| | Percentage shares of merchandise exports | | | | Percentage shares of merchandise imports | | | | | Rate of growth of manufactured exports, 1970-1977 | |
|---------------------------------|--|------|--------------|------|--|-------------------|------|-------------------|--------|---|-------------------|
| | Primary commodities | | Manufactures | | Food | | Fuel | | Others | | |
| | 1960 | 1975 | 1960 | 1975 | 1960 | 1976 ^a | 1960 | 1976 ^a | 1960 | | 1976 ^a |
| <i>South and western Asia</i> | | | | | | | | | | | |
| Bangladesh | — | 37 | — | 63 | — | 42 | — | 13 | — | 45 | — |
| India | 56 | 55 | 44 | 45 | 21 | 28 | 6 | 26 | 73 | 46 | 10.4 |
| Iran | 97 | 99 | 3 | 1 | 13 | 11 | 1 | (.) | 86 | 89 | — |
| Nepal | — | — | — | 12 | — | — | — | — | — | — | — |
| Pakistan | 78 | 45 | 22 | 55 | 22 | 21 | 10 | 18 | 68 | 61 | 12.4 |
| Sri Lanka | 99 | 89 | 1 | 11 | 39 | 36 | 7 | 25 | 54 | 39 | — |
| <i>East and south-east Asia</i> | | | | | | | | | | | |
| Hong Kong | 20 | 3 | 80 | 97 | 27 | 18 | 3 | 6 | 70 | 76 | 7.6 |
| Indonesia | 100 | 99 | 0 | 1 | 23 | 15 | 5 | 8 | 72 | 77 | — |
| Malaysia | 94 | 82 | 6 | 18 | — | 17 | — | 14 | — | 69 | 21.6 |
| Philippines | 93 | 83 | 7 | 17 | 15 | 10 | 10 | 24 | 75 | 66 | 23.7 |
| Republic of Korea | 86 | 18 | 14 | 82 | 10 | 9 | 7 | 20 | 83 | 71 | 32.8 |
| Singapore | 74 | 57 | 26 | 43 | 21 | 10 | 15 | 27 | 64 | 63 | 28.3 |
| Thailand | 98 | 77 | 2 | 23 | 10 | 5 | 11 | 23 | 79 | 72 | 22.8 |

Sources: United Nations, *Monthly Bulletin of Statistics* vol. XXXII, No. 7, July 1978 (ST/ESA/STAT/SER.Q./67); World Bank, *World Development Indicators*, 1978.

Note: ^a World Bank, *World Development Report*, 1979.

Table 34. Selected developing ESCAP countries: primary exports, 1975-1976

| | Average annual rate of growth between 1970 and 1976 or 1975 | | | Share of primary commodities ties in total exports ^a | Three most important exported primary commodities from each country ^b | | | |
|------------------------------------|---|------|---------|---|--|---------------------------------|------|---|
| | Primary commodities | | Nominal | | real | Nominal | real | Share of primary commodities ties in total exports ^a |
| | Nominal | real | | | | | | |
| Afghanistan ^c | 21.9 | 8.1 | 90 | Natural gas (20.3, 25.9) | Fruits and nuts (18.5, 19.2) | Cotton (14.2, 30.3) | | |
| Burma | 7.7 | -4.5 | 98 | Rice (46.8, 6.7) | Rough wood (14.2, 9.2) | Shaped wood (10.2, 10.9) | | |
| Fiji | 9.2 | -1.4 | 97 | Sugar (89.4, 25.3) | Vegetable oil (4.7, 0.5) | Spices (0.6, 21.8) | | |
| India | 17.5 | 6.2 | 54 | Sugar (12.7, 85.0) | Tea (6.7, 8.3) | Iron ore (5.7, 9.3) | | |
| Indonesia | 41.7 | 28.1 | 99 | Petroleum (69.3, 74.2) | Rough wood (6.6, 35.4) | Petroleum products (5.5, 59.9) | | |
| Iran ^c | 51.8 | 34.7 | 97 | Petroleum (91.1, 57.0) | Petroleum products (5.0, 24.5) | Cotton (0.7, 19.7) | | |
| Malaysia ^c | 15.6 | 2.5 | 87 | Rubber (22.0, 9.2) | Tin (13.1, 8.9) | Petroleum (9.3, 156.7) | | |
| Pakistan ^c | 9.3 | -3.0 | 44 | Rice (18.3, 47.9) | Cotton (15.3, 24.2) | Vegetable materials (2.0, 19.7) | | |
| Philippines | 11.9 | 1.1 | 85 | Sugar (26.8, 25.5) | Non-ferrous metal (10.4, 3.5) | Oilseeds (7.6, 16.8) | | |
| Republic of Korea | 36.0 | 22.9 | 21 | Fish (6, 4, 53.6) | Sugar (2.3, 151.7) | Petroleum products (1.9, 82.4) | | |
| Samoa ^c | 8.7 | -3.6 | 94 | Oilseeds (58.0, 16.0) | Cocoa (25.1, 4.6) | Rough wood (3.5, 106.7) | | |
| Singapore | 22.2 | 10.4 | 63 | Petroleum products (32.9, 37.6) | Rubber (20.4, 7.7) | Spices (1.4, 13.3) | | |
| Sri Lanka | 6.9 | -3.4 | 93 | Tea (49.2, 7.9) | Rubber (16.7, 4.7) | Fruits and nuts (5.2, 11.4) | | |
| Thailand | 25.0 | 12.9 | 87 | Sugar (14.0, 224.3) | Rice (13.3, 18.9) | Maize (12.7, 25.3) | | |

Source: United Nations Conference on Trade and Development, *The World Commodity Situation and Outlook*, pp. 33-34.

Notes: ^a Average of 1970 and 1975 or 1976.

^b The first figure in the bracket shows the share of the indicated commodity in total export earnings in 1975, and the second figure shows the average annual rate of growth in the value of exports of that commodity for that country between 1970 and 1975.

^c 1975 or 1970-1975.

324. The barriers to the further processing of raw materials by developing ESCAP countries are of three kinds: those imposed by the Governments of the developed industrial economies to protect their producers from efficient external competition; those which are the result of industrial and market structures; and those which arise because of restrictive trade practices. The first of these has been discussed above. In the case of the second barrier, the obstacles relate to scales of production and investment requirements. Where the supply of the good in raw form is considerably less than would be required to operate an optimum-size plant, the processing of the commodity would depend upon either some economic form of co-operative with other suppliers or on importing supplies. Ideally, in the larger countries where a sizable domestic market exists, production can be established to cater for the combined domestic and international markets.

325. Investment requirements can range from over \$US 1 billion in the case of an aluminium plant to as little as approximately \$US 10 million in the case of a jute mill. In practice, investment requirements could be a major obstacle, particularly in the case of minerals. However, while funding for such ventures from multilateral sources such as IBRD, IDA and IFC has been small in comparison with investment requirements, the probable cause of the lack of multilateral and/or private funding is due not to a scarcity of funds but to the third barrier, the restrictive trade practices of transnational corporations, which make it difficult to establish what would otherwise be viable industries in the countries concerned.

326. Recent developments have seen a noticeable change in the role of transnational corporations with respect to the production, processing and marketing of raw materials in developing ESCAP countries. Historically, they dominated in all three areas. Today, the extensive recovery of the ownership of their own natural resources by developing ESCAP countries has greatly reduced their influence in production, with the result that their attempts to control the two remaining areas have intensified. The transnational corporations have generally offered non-equity finance and technology on the input side in exchange for long-term procurement agreements and, backed by their Governments, have taken steps to keep downstream activities in their own hands.

327. In the case of commodities and raw materials, this has meant transnational corporation support for the heavy protection of food industries and a steeply escalated tariff system, which ensures high effective rates of protection to those industries processing commodities and raw materials in the

transnational corporations' home countries. In this matter the interests of home Governments and the corporations coincide. Thus, despite the developments mentioned above, which are increasing the comparative advantage of developing ESCAP countries in the processing of their raw materials, their logical efforts to develop their own production, processing and marketing systems are likely to be seriously frustrated by the structural characteristics of most commodity and raw material markets in the developed industrial economies. Any attempts to reduce escalated tariff rates and other non-tariff barriers to trade are bound to be vigorously opposed by transnational corporations.

328. Table 35 indicates why the tendency for their export earnings to become more unstable is a matter of great concern to developing ESCAP countries. Because of their heavy dependence upon commodity exports, these countries and, in particular, the land-locked, least developed and island developing countries, have a vital interest in the stabilization of the prices of primary exports and of export earnings at equitable levels through the Integrated Programme for Commodities (IPC). Encouragingly, at its fifth session UNCTAD agreed to include in IPC some processed and semi-processed products derived from raw materials and commodities,⁴² to expand the processing of primary commodities in the developing countries and to increase market outlets for processed and semi-processed commodities exported by the developing countries.

329. Developments to date have been profoundly disappointing, however, as the resources of the Common Fund are considerably less than originally anticipated and resources for the "second window" have been slow in forthcoming. There has been resistance to the idea of negotiating multicommodity agreements and, of the 18 commodities originally identified for inclusion in the Fund, only one — natural rubber — has reached the stage of negotiations where there is a good prospect that an international agreement could be concluded shortly.

330. There also appears to be an understanding in principal to work towards an international agreement on tea, with emphasis to be placed on improved real export earnings. In the case of other commodities of interest to developing ESCAP countries, preparatory work on cotton, jute, hard fibres and tropical timber has reached an advanced stage and it should be possible to move soon to negotiations. In the case of iron ore there has been no agreement in the preliminary discussions

⁴² The list of commodities and raw materials concerned is contained in UNCTAD resolution 93 (IV).

about the type of international actions required and there are major problems concerning vegetable oils because there are a wide variety of competing products.

331. But, while the stabilization of primary export commodity prices at remunerative levels is imperative to enable stable and accelerated development in developing ESCAP countries, this alone cannot suffice. For access to markets and the fullest exploitation of their comparative advantages in semi- and fully-processed products is crucial to the continued development and modernization of the developing ESCAP economies, just as much as it is vital to the development of a stable and viable international economic system.

A. Manufactured exports

332. Table 33, which gives different percentage shares of different commodity groupings in developing ESCAP country trade, indicates the rapid change which has occurred in the structure of merchandise trade. On the export side, with the exception of India and Indonesia, there have been marked increases in the percentage share of manufactured exports. In India, however, there have been significant shifts in the composition of exports while in Indonesia oil exports have played a dominant role.

Table 35. Selected developing ESCAP countries: coefficient of variation in export earnings, 1961-1978^a (percentage)

| | 1961-1965 | 1966-1970 | 1971-1978 |
|---------------------------------|-----------|-----------|--------------------|
| <i>South Asia</i> | | | |
| Afghanistan | — | 11.39 | 36.67 ^b |
| Bangladesh | — | — | 22.47 ^c |
| Burma | 8.46 | 25.70 | 25.71 |
| India | 7.49 | 7.36 | 37.77 |
| Nepal | — | — | — |
| Pakistan | 12.00 | 6.88 | 23.56 |
| Sri Lanka | 4.57 | 3.36 | 32.58 |
| <i>East and south-east Asia</i> | | | |
| Hong Kong | 18.30 | 23.38 | 42.59 |
| Indonesia | 5.01 | 16.83 | 57.70 |
| Malaysia | 4.74 | 14.48 | 49.47 |
| Philippines | 17.61 | 10.48 | 34.36 |
| Republic of Korea | 50.39 | 42.66 | 65.82 |
| Singapore | 8.34 | 14.71 | 49.48 |
| Thailand | 14.17 | 2.91 | 45.62 |
| <i>Pacific</i> | | | |
| Fiji | — | 14.64 | 35.05 |
| Papua New Guinea | — | 22.46 | 43.45 |

Source: United Nations, *Monthly Bulletin of Statistics*, various issues.

Notes: ^a Coefficient of variation = standard deviation/mean.

^b 1971-1977.

^c 1972-1978.

333. Manufactured exports have grown rapidly from a low base in the 1960s with developing ESCAP countries winning a larger share of an expanding world market. Rapid growth in the developing ESCAP countries concerned raised the industrial capabilities of exporters and improved their ability to shift to other types of product; at the same time, in some countries, the relative importance of import-competing industries declined as a result of the partial exhaustion of substitution possibilities in consumer goods industries; improved transport and communications facilities were established and until recently the markets of the developing industrial economies remained reasonably open. During this time, developing ESCAP countries also benefited, to some extent, from the Dillion and Kennedy Round tariff cuts, from off-shore assembly provisions and from GSP. This being said, however, there remained an enormous potential for the expansion of primary and manufactured exports from developing ESCAP countries had the substantial barriers to trade been further and significantly lowered.

334. Developing ESCAP countries which have successfully specialized in manufactured exports are characterized by limited domestic natural resource availability, relatively high levels of education and technical training and a high dependence on international trade. At first, their successful export performance was built around labour-intensive goods such as foot-wear, clothing, textiles and electronic components. Such industries were attracted also by the duty-free import of inputs and by a range of export incentives. Foreign direct investment often brought with it the necessary marketing and design skills. Slowly these marketing skills have accumulated, enabling the countries concerned to diversify the range of their exports and at the same time making it more difficult for other potential exporters to enter the same fields.

335. Other countries in south-east Asia which were exporting significant amounts of manufactured goods in the early 1960s have as a result of private initiatives based on low wage levels and government encouragement proved successful in expanding manufactured exports. Finally, in the developing ESCAP countries there are those which have low wage levels and extensive domestic markets making for some economies of scale and which have until fairly recently adopted an import-substitution orientation in their industrial policies.

336. In terms of export prospects it is probable that economies such as those of Hong Kong, India, the Republic of Korea, Singapore and possibly Malaysia will move increasingly towards the production of more skill-intensive, sophisticated, finished

products, including capital equipment and consumer goods. Table 36 supports this contention. Others, now slowly shifting away from specialization in commodity exports, such as Malaysia, the Philippines and Thailand, and the low-income countries of south Asia are increasingly likely to expand their share of labour-intensive manufactured exports as comparative advantage shifts in their direction as a result of rising real wages in those developing countries which have until now dominated the market for manufactured exports. In south Asia the potential for developing further exports of textiles, clothing, foot-wear and leather products is considerable. Of a global developing country total of \$US 18 billion of these commodities exported in 1976, the share of south Asia accounted for less than \$US 2 billion.

337. Prospects for the manufactured exports of developing ESCAP countries will also be affected by supply conditions in the above countries (and in the countries of competitors) and by conditions in the developed industrial economies. On the supply side, the ability of developing ESCAP countries to expand their exports will depend upon the broad spectrum of their development policies, which determine how rapidly they develop and industrialize, as well as upon the emphasis given to policies which will improve their international competitiveness. The expansion of manufactured exports will be the more successful the more competitive are labour markets (and, hence, the more comparative advantage in labour-intensive manufacture can be used) and the more adequately interest rates reflect the scarcity of capital and exchange rates the real value of the domestic currency. It will also depend on how successful are efforts to diversify the range of manufactured exports.

338. Apart from its interest in ensuring that export industries are not discriminated against domestically, the role of government in many of the successful

export-oriented developing ESCAP countries has been interventionist. Governments have frequently acted to ensure favourable access to credit, to assist in the marketing of the exports of nationally-owned enterprises, to establish export zones, to simplify licensing procedures and to exercise diplomacy in promoting their trading interests. It is both likely and desirable that such activities increase during the coming decade.

339. Given the probable supply response of the developing ESCAP countries and their ability to obtain access to markets (which is discussed below), the rate of expansion in the developed industrial economies will significantly affect the prospects for the export of manufactured goods. The higher is growth in these countries the more rapidly will their demand for imports grow. Indirectly, the faster their economic growth the less will be the pressures for protection.

340. The increasing incidence of protection in the developed industrial economies and the reasons for it have been well documented and its impact on developing ESCAP countries has been particularly severe. Its harmful consequences are that it has directly reduced the capacity of developing countries to earn foreign exchange, thereby affecting employment, the flow of vital imports and the capacity to service debts; indirectly, it has encouraged a less efficient use of resources as the industries concerned seek alternative less efficient ways of employing their resources; where investment has already taken place there has been wastage of existing assets and, possibly more important in the long run, there has been a strong element of uncertainty introduced as far as investment in labour-intensive, export industries is concerned; and *ad hoc* application of protectionist measures has caused unanticipated fluctuations in export receipts. Finally, the increasing incidence of protectionism in the developed industrial economies makes it more difficult for

Table 36. Selected developing ESCAP countries:
exports of capital goods and finished consumer
goods as a percentage of manufactures
exported, 1965 and 1975

| | Capital goods | | Consumer goods | | Total | |
|----------------------------------|---------------|------|----------------|------|-------|------|
| | 1965 | 1975 | 1965 | 1975 | 1965 | 1975 |
| Hong Kong ^a | 1.5 | 2.8 | 57.3 | 76.7 | 58.8 | 79.5 |
| India | 1.3 | 9.3 | 5.5 | 16.8 | 6.8 | 26.1 |
| Republic of Korea | 2.5 | 7.0 | 34.0 | 49.9 | 36.5 | 56.9 |
| Malaysia | 12.9 | 11.4 | 15.8 | 16.4 | 28.7 | 27.8 |

Source: United Nations, *Yearbook of Industrial Statistics*, various issues.

Note: ^a Re-exports are included in 1965 but not in 1975.

developing ESCAP countries to expand their industrial sectors at a pace commensurate with their share in the attainment of the Lima⁴³ target of the United Nations Industrial Development Organization.

341. Table 37 sets out the situation generally with respect to tariff and non-tariff barriers to trade. In particular, it is the non-tariff measures encapsulated in agreements described as "voluntary export restrictions" (VERs) and "orderly marketing arrangements" (OMAs) which are profoundly disturbing. These apply particularly to areas such as clothing, textiles and foot-wear, which are of prime importance to developing ESCAP countries; they are also being extended increasingly to other more sophisticated forms of manufacturing, including electronic goods, ships and steel products.

342. These non-tariff measures are to be deplored because they are more restrictive to the volume of imports than are other more conventional forms of restriction. By circumventing GATT they apply specifically with respect to the source of the goods and inhibit trade with new sources of supply. They lead quickly to cartelization and to other forms of interference with competition and what often commenced as bilateral restrictions cascades into multilateral agreements to restrict trade expressed in such deceptive terms as "organized free trade".

343. An examination of the Multi-Fibre Arrangement (MFA), which came into being in 1977 to "organize free trade", is instructive. First, what was originally seen as a framework of law within which trade might operate has degenerated in practice to making up additional rules as time passes, all of which fail to safeguard the rights of the

developing exporting countries. What was seen as a temporary arrangement to facilitate EEC structural adjustment has acquired characteristics of permanence, which has inexorably allowed for a system which protects the interests of each small subsector. The number of categories restrained by EEC had grown from 60 to 133 by the time of the latest round of negotiations.

344. The system operates especially to penalize new entrants, which are often low-income developing countries. In the ESCAP region Sri Lanka is such a country denied the development of its genuine comparative advantage. Advantage has been taken during the working of MFA to extend the list of so-called "dominant suppliers" in a manner which has further penalized low-income countries such as India. Furthermore, the negotiating structure of OMAs like MFA, in which a larger number of suppliers negotiate bilateral with a major consumer, tends to fragment the bargaining power of the developing country exporters. In practice, the success of one developed country in protecting jobs for its workers is used by vested interests in other developed countries to extract similar favourable discriminatory treatment at the expense often of some of the world's poorest countries. At the same time, virtually nothing is being done to restructure these industries in a manner which is consistent with the welfare of developed and developing countries alike.

⁴³ At its third session, held at Bangkok from 19 to 25 September 1978, the Committee on Industry, Housing and Technology observed that the growing trend towards protectionism was distorting the relationship between trade and industrial development. The plea to exploit fully the opportunities for industrial growth implicit in international trade was a feature of the session.

Table 37. Developing ESCAP countries:
trade barriers to exports of manufacturing

| <i>Product category</i> | <i>Tariffs</i> | <i>Non-tariff barriers</i> |
|--|---|---|
| Industrial raw materials (ores, fibres etc.) | Very low (about 2 per cent); majority enter duty free | Rarely exist except in fuels |
| Relatively unprocessed | Very low to low (3-8 per cent) not counting variable levies | Very common, often high (where food products are non-tropical, competing items) |
| Processed food products | Low (7-10 per cent) | Very high |
| Textiles and clothing | Relatively high (fabrics 18 per cent, clothing 25 per cent) | Numerous, serious and increasing |
| Other LDC manufactured specialities | Intermediate (generally 11-17 per cent) | Increasingly frequent |

Source: International Bank for Reconstruction and Development, *Trade Liberalization and Export Promotion* (June 1977).

345. Other areas in which the developing countries have exhibited their comparative advantage are now increasingly subject to non-tariff measures of protection. The United States signed VERs covering foot-wear with the Republic of Korea in mid-1977 and in late 1977 Canada and Australia imposed quotas. More recently, EEC introduced surveillance licensing and requested east Asian suppliers not to divert more shoes to the Community. There is increased critical comment in the United States and EEC regarding electrical and electronic consumer goods produced in Hong Kong, Malaysia and Singapore. In the United Kingdom, both Singapore and Japan have accepted VERs in these areas.

346. Some developing ESCAP countries such as India, the Republic of Korea and Singapore have developed relatively capital intensive exports. In both the United States and EEC there are ominous indications that these new and desirable growth industries in such areas as shipbuilding, steel products, transport equipment, cars, chemicals and petrochemicals will be subject to protectionist devices.

347. For various technical reasons it is difficult to quantify the adverse impact which these non-tariff measures have had on trade. MFA alone, however, covers some \$US 50,000 million of trade. A rough estimate by GATT suggests that trade of at least equivalent value in other areas is also affected and if urgent steps are not taken to reverse protectionist trends, the potential of the developing countries to generate increases in their manufactured exports will be seriously impaired.

348. The developing ESCAP countries have few reasons to be satisfied with the outcome of the Tokyo Round of tariff negotiations. These failed to address the vexing issue of non-tariff barriers to trade. Quotas on clothing, textiles, foot-wear etc. and the provisions of MFA, which comes up for formal renewal at the end of 1981, remain in force. In addition, there is legitimate concern about the erosion of preference margins under GSP as a result of the over-all 35 per cent reduction in tariff levels. While, on balance, developing ESCAP countries will gain more from the general tariff reduction than they will lose from reduced GSP margins, it is essential that steps be taken to reestablish and extend the scope of GSP.

349. Of special concern are the specific exceptions which the developed countries have made in the agreed tariff-cutting formula. Virtually without exception it is commodities of primary interest to developing countries which have been excepted. Examples of such commodities are textiles and foot-wear. The unfairness of these exceptions is emphasized in that it is these types of commodities

which already have existing tariffs imposed on them well in excess of average tariff levels and it is these types of goods which are the prime target for non-tariff measures of protection.

350. The selectivity clause which the developed industrial countries are insisting be included in the proposed code on safeguards is another area of major concern. With good cause, many of the more successful developing ESCAP countries have reason to believe that they are being singled out for special discriminatory treatment. Finally, there is a genuine apprehension that the surveillance mechanism and sanction powers included in the agreements are poorly defined and that it is the weaker and poorer developing countries which are most likely to suffer as a consequence of violations of the agreement.

351. In the 1980s the developing ESCAP countries have a vital interest in reducing protection in the developed market economies. First, within the context of the recent Tokyo Round the possibilities for further liberalization and expansion of trade need be analysed in detail. The agreement calls for a "regular and systematic review" of recent developments and these reviews should be both frequent and substantive. The persisting and legitimate concerns of developing ESCAP countries and other developing countries require further negotiations both within and outside the framework of the Tokyo Round. Within it there need to be periodic reviews of each code by the signatories. There will be a need also for provisions to delete the "selectivity clause" from the proposed code on safeguards.

352. Secondly, developing ESCAP countries also have a vital interest in the institutional reform of machinery dealing with negotiations on protection. The time has come when questions could be raised about the suitability of GATT as the most appropriate institution for the conduct and regulation of world trade. GATT is non-representative of the world's trading nations. The IMF membership is 131 and that of UNCTAD 158; yet GATT's membership is only 84. In the Tokyo Round, of the nearly 80 developing countries listed as participants, less than 20 actively participated.⁴⁴ There are several reasons for this. GATT is not well served at present to cope with negotiations on non-tariff measures of protection. If the interests of developing countries are to be served, internationally agreed procedures for regulating the whole range of non-tariff barriers including voluntary export restraints, import quotas, orderly marketing arrangements and other devices used to manage trade flows

⁴⁴ T.E. Ibrahim, "Developing countries and the Tokyo Round", *Journal of World Trade Law*, vol. 12, No. 1 (1978), pp. 12-13.

need to be set up. Proper binding working definitions of such terms as "market disruption" need to be established and adequate provision must be made for the monitoring and enforcement of agreed rules and procedures. Moreover, the imposition of discriminatory and unusual protection measures which harm developing countries in the ways outlined above should be accompanied by the payment of compensation by the protection-imposing country to the developing countries concerned. Such compensation schemes have already been mooted. Unless action along these lines is taken to reform GATT — and article XIX in particular — non-tariff measures will continue to be used increasingly and disproportionately against the interests of developing countries in the ESCAP region and beyond. Oliver Long warned recently that:

"if the rich countries refuse to accept for themselves the logic of adjustment and an international division of labour inherent in the present world trading system, they cannot reasonably expect the developing countries to continue to support that system."⁴⁵

This is not to suggest, of course, the abandonment of the intricate machinery GATT has devised to cope with the imposition of tariffs but to urge that additional machinery to deal with the realities of the contemporary world is also required. In the absence of such reforms the developing countries might consider the establishment of a secretariat of their own to assist in negotiations with the developed industrial countries in a new forum.

353. Thirdly, the restructuring of the world economy could be assisted if serious and comprehensive research were done about the costs and benefits of existing and contemplated measures to protect or restructure international trade flows. In the absence of such research and a full dissemination of the results, Governments in developed industrial economies will not be pressed by consumer and producer interests in their own countries which are adversely affected by protectionist actions. They will continue to view the unassessed costs — economic, social and political — of a proper restructuring of their economies as excessive.

354. Fourthly, because there are many least developed, land-locked and island developing countries in the ESCAP region, a matter of profound concern is the impact of protection on these countries. They are both the least able to bear the cost of the policies of the rich and the least able to mount countervailing action. Their particular interests need to be taken into account by exempting them from the imposition of non-tariff barriers

and in establishing GSP margins. Moreover, because they urgently need to establish manufacturing industries, extra care should be taken not only to prevent them from being harmed by protectionist measures but also to encourage the growth of manufacturing by special discriminatory measures.

355. Fifthly, the better-off developing countries have now to realize that the dismantling of trade barriers is a two-way street. They cannot expect, while maintaining historically high rates of increase in exports, to maintain high levels of protection for their import-competing industries. There are several such countries in the ESCAP region. Reduction in the level of their own trade barriers will increase the trade opportunities of other developing countries, especially those in geographical propinquity in the region, and make it more likely that the developed industrial countries will be prepared to do something about their own levels of protection.

B. Transnational corporations and manufactured exports

356. Transnational corporations have contributed to developing ESCAP countries' industrial development. This influence has been strongest in the economies of east and south-east Asia, where they have affected capital flows, patterns of import substitution and manufactured exports. In this subregion, however, the attitude towards them has been ambivalent. Countries have competed strongly for their attention, but at the same time a general apprehension about the negative aspects of their activities has seen the development of a network of controlling rules and regulations. Impressive, although still inadequate, steps have been taken to build national capacities to negotiate with and manage the activities of these corporations. In the economies of south Asia their role has been relatively less important. Flows of equity capital have generally been of negligible proportions and emphasis has instead been upon securing the technology, know-how, organizational and other services of these corporations. In this subset of countries there has been relatively greater concern about their potential negative impact on the attainment of national objectives. More recently there has been an awakening of interest in the socialist developing countries in their activities, especially with respect to the role of technology transfer and capital imports in the modernization efforts of these countries. In particular, China and Viet Nam are emphasizing the establishment of "turn-key" plants

⁴⁵ Oliver Long, "International trade under threat: a constructive response", *The World Economy*, vol. 1, No. 3 (June 1978), p. 251.

and contracts to secure services and technology in their modern industrial sectors. These developments have not been long under way and their impact on trade and other international economic relations between socialist and market economies in the ESCAP region is as yet difficult to predict.

357. The decade of the 1970s has seen significant changes in the role of transnational corporations in manufacturing in developing ESCAP countries. Attempts to expand control of markets have been made in developing import-substitution and export-oriented manufacturing industries. However, in contrast to the situation involving commodities and natural resource exports, and with the major exception of electronic components, the manufactured goods in which developing ESCAP countries have a pronounced advantage are generally of the least importance as far as intra-firm trade of these corporations is concerned. For instance, in the case of the United States, leather goods, textiles, clothing, foot-wear and food products are all commodities in which intra-firm transactions as a proportion of total imports are very low.

358. To a marked extent the natural desire of oligopolistic transnational corporations to control the environment in which they function has been supplemented by a concern of their Governments also to regulate trade flows. Plagued by "stagflation" and historically high levels of unemployment and alarmed at the penetration of their markets by the manufactured exports of the developing countries, the developed industrial economies have resorted to a wide variety of non-tariff measures to restrict trade. In turn, the developing ESCAP countries, frustrated in their attempts to pursue their genuine comparative advantage, are deflecting their production away from independent production and marketing activities towards products in which control by transnational corporations of production, distribution and marketing tends to be strong. While the problems of entry into the developed industrial nations are eased — as a result of the lobbying activities of these corporations — in the long run it is often at the expense of reduced developing country ownership or control of the industry concerned.

359. The developed industrial countries have further hindered desirable readjustments in the international structure of production and harmed the interests of developing ESCAP exporters by assisting those of their industries in direct competition with the more efficient developing country producers. Assistance has given in the form of

outright subsidy, cheap credit, special tax provisions etc. to such industries of importance to developing ESCAP countries as steel manufacture, shipbuilding and synthetic textiles.

360. Any relocation of industrial activity within the ESCAP region along the lines contemplated in the new international economic order is bound to be affected by the role of the transnational corporations. On the one hand, they can be a strong force for constructive change in accordance with the objectives and desires of the developing countries. On the other hand, because their objectives are not the same as those of the host countries, they can exert a strong negative influence.

361. In import substitution these corporations exercised a negligible influence in the early 1960s. The major factor making for their more extensive role has been the growing purchasing power in developing ESCAP countries' markets and the need to locate production and selling facilities in them if protected markets were not be lost to rivals. A large amount of work remains to be done to assess the impact of this aspect of their activities. Their direct impact on employment creation and income generation in developing ESCAP countries has in most cases not been significant.⁴⁶ Typically, once a firm has begun operations, usually at sub-optimum levels of production, competitors have sought to follow and, even where the economic case for doing so was non-existent, often succeeded as a result of diplomatic and other pressures. Once established, such industries often lobbied for and received increased protection, and private profits for the firm were assured. However, in many cases the outcome from a social benefit/cost point of view was dubious. Foreign exchange savings were often negligible or negative; domestic value added and direct employment effects were not large; substantial misallocation of resources occurred; generally inappropriate technologies with respect to factor endowment were encouraged; and, finally, the products produced often satisfied the demands of a small urban, élite minority.

362. The role of the corporations in establishing export-oriented manufacturing industries in developing ESCAP countries has been confined primarily to the countries of east and south-east Asia. They were motivated mainly by the relatively low wage levels existing in these countries and the preparedness of their Governments to welcome foreign

⁴⁶ S. Lalland and P. Streeton, *Foreign Investment, Transnationals and Developing Countries* (London, MacMillan Press, 1977), and "Transnational corporations and the long-term development objectives of developing countries" (preliminary draft), summary of a paper prepared by the United Nations Centre on Transnational Corporations, February 1979.

direct investment (indeed, to compete in subsidizing it). These countries usually provided a stable social and political environment, reasonable infrastructural facilities, ready remittance of profits and fairly passive disciplined labour movements. Yet, even in this subregion of Asia and the Pacific which has attained record rates of growth in manufactured exports, the role of the transnational corporation should not be over-emphasized. Their share in the manufactured exports of the four economies — Hong Kong, India, Pakistan and the Republic of Korea — ranged from 5 to 15 per cent. Within the developed economies, organizations such as retail and procurement houses with few associations with transnational corporations often were more important in complementing developing ESCAP countries' efforts in exporting manufactures than were the transnational corporations themselves.⁴⁷

363. At the same time, developments are taking place which are likely to dampen the role of transnational corporations in export-oriented activity in the ESCAP region. First, unless steps are taken to reverse or halt the process, the firm entrenchment of these corporations in the import-competing sector of developing ESCAP countries will hinder the expansion of intra-developing ESCAP trade. Secondly, Governments and trade unions in the developed industrial economies are likely to increase their monitoring of the activities of these corporations and protest the export of jobs as long as high levels of unemployment and excess production capacity exists in those economies. Finally, the rising cost of labour in developed economies is encouraging the development and use of labour-saving technologies (for example, in electronic components) which could encourage industries to return or discourage new ones from locating abroad.

364. Evidence suggests that the role of these corporations in the service sectors of developing ESCAP countries is expanding.⁴⁸ To the extent that import-competing and export-oriented manufacturing activities expand, experience has shown that service support by these corporations in the fields of insurance, engineering and consulting, and banking activities will follow.

365. In examining the desirable role for transnational corporations in developing ESCAP countries in the 1980s it is instructive to inquire under what conditions their net impact might be negative. This would be the more likely, the higher the import content in corporations-related industrial expansion, the greater the scope for transfer pricing,

the lower the taxes levied by host Governments, the more inappropriate the technology in relation to factor endowments, the more generous the terms negotiated for access to natural resources, the larger the foreign investment incentives offered, the higher the host country tariffs in the industry concerned or the greater the degree of product differentiation exercised by these corporations in import-competing activities etc.

366. The critical determinant of the outcome will be the political and economic power of the host Government. For the most part, as far as developing ESCAP countries are concerned the power of the State is the only appropriate counter-vailing power with which to confront these corporations. Economically, Governments will be more powerful the greater the flow of expert information available to them about the operations of the corporation concerned, because information is power when it comes to negotiations. Because of the potential benefits, the State needs to develop its ability for sound negotiations. This can be done only on the basis of an adequate flow of expert information and if Governments exercise their planning responsibilities in order to know clearly what their objectives are concerning the participation of these corporations in their economy.

367. Developing countries in the ESCAP region are victims of the paradoxical situation in which strong national States govern economic transactions within their national boundaries but are prepared to sanction anarchic conditions internationally. Modest proposals put forward by UNCTAD and the United Nations to set some rules and regulations for the conduct of the transnational corporations have so far proved unacceptable to developed economies, which would not tolerate existing behaviour by these firms within their national boundaries. It is extremely important that developing ESCAP countries continue to press for international action with respect to standards concerning disclosure, accounting practices and co-operation among national tax authorities and for the establishment of some type of international organization to regulate and supervise the practices of these corporations.

⁴⁷ L. Hone, "Multinational corporations and multinational buying groups", *World Development*, February 1974.

⁴⁸ For example, United States direct investment in the service sector of countries in Asia and Oceania increased from 14.0 per cent of total United States direct investment in the period 1967-1970 to 21.0 per cent in 1971-1976 (United States Department of Commerce, *Selected Data on U.S. Investment Abroad, 1966-1976, 1977*).

XI. SHIPPING

368. The developing ESCAP region is the largest consumer of cargo shipping services among the developing regions of the world. Not only does the region's seaborne international trade, in terms of tons of cargo, exceed that of the other developing regions, but the average distance over which this cargo is carried is also longer.⁴⁹ During the 1970s the developing ESCAP region accounted for some 17 per cent of the world total of goods loaded and almost 7 per cent of goods unloaded in tonnage terms, and for altogether 11 per cent of the world aggregate of cargo (loaded and unloaded).⁵⁰ The merchant fleets of the developing ESCAP region, however, form less than 4 per cent of total world shipping tonnage.⁵¹ The region is thus a heavy net importer of shipping services and it follows that changes in the price and quality of shipping services have an immediate effect on the region's terms of trade and thus on its income and, of course, its balance of payments.

369. The average value of the goods exported by the region is still relatively low. While the developing ESCAP region accounts for something like 17 per cent of the world total of goods loaded (by weight), its share in the value of world exports is only some 8.5 per cent.⁵² Freight costs thus continue to form a relatively large proportion of the f.o.b. value of exports. There is no similar discrepancy in imports.

370. There are a number of problems concerning shipping, ports and inland waterways which are relevant to development strategies for the 1980s. As far as shipping is concerned, the passing of the Code of Conduct for Liner Conferences has established the right of developing countries to participate in the liner trades, which account for 20 per cent of world cargoes. A critical point will be whether the developing countries attempt to break the restrictive trade practices which plague this part of the industry and which are responsible for rates considerably in excess of competitive norms.

371. Despite their proportionately larger share in liner trade, developing ESCAP countries have a major interest in pressing for similar concessions. The principal bulk cargoes concern dry bulk carriers where the transport of bulk cargoes is concerned, of iron ore, coal, grain, phosphate, bauxite/alumina, and tanker cargoes. At present the developed industrial countries dominate this traffic partially for historical reasons, partially because the complex logistics of the industry demand a range and level of skills available as yet to only a few developing countries and because of the protectionist policies of the developed industrial countries.

372. The developing ESCAP countries are acquiring skills, however, and the increasing difference in real wage levels is slowly shifting the comparative advantage in their favour. Apart from protection, the shipping companies concerned counter by placing their ships on "open registers", which has the effect of securing a range of financial cost concessions, including access to cheap labour in the countries of registry.

373. To gain access to the markets served by bulk carriers, developing ESCAP countries need to develop the required administrative and organizational skills. Initially, they need to start with those cargo movements which offer constant employment rather than that part of the market dominated by irregular sailings. Utilizing their power, developing country Governments could ensure that companies obtaining access to national resources should transport at least a fair proportion of them in national vessels. The same tactic could be used in the import of bulk cargoes such as oil. At the same time within the ESCAP region the scope for carrying additional commodities in bulk is considerable. Recent examples of the exploitation of such possibilities are to be found in the transportation of natural rubber, palm oil and timber. The initiative in this lies mainly with the shippers, who will have to find ways of consolidating their cargoes and with shipowners, who will have to provide the services and whose investment decisions will determine the speed with which things take place. Involved will be the evaluation of new institutions to assemble cargoes, even across national barriers, making this a fertile field for subregional co-operation. Technical knowledge and finance will also be required, in the first instance from outside the region, and this opens up an opportunity for imaginative use of foreign assistance. The net impact on the countries concerned will be to save foreign exchange in what is both an import- and export-oriented activity; to increase the domestic

⁴⁹ United Nations, *Commodity Trade (By Sea) Statistics: Results of a Pilot Study in Maritime Transport for the Years 1966-1968*, Statistical Papers, Series D, vol. XVI-XVIII, No. 2 (New York, 1976).

⁵⁰ United Nations, *Monthly Bulletin of Statistics* (January 1978).

⁵¹ Organisation for Economic Co-operation and Development, *Maritime Transport, 1976* (Paris, 1977); Netherlands Maritime Institute report to ESCAP. The fleet of Singapore is excluded because of the large volume of foreign vessels registered in Singapore and flying its flag.

⁵² United Nations, *Monthly Bulletin of Statistics* (January 1978).

share in value added in the case of certain commodities; to induce the use of more labour-intensive techniques in the shipping industry than at present; and to promote the self-reliance of the countries involved.

374. The management and organization of ports will have to be improved. In the ESCAP region there has been a relatively rapid adoption of containerization for international trade flows and in the 1980s it is likely that both international and domestic trade will be further containerized. Other changes in ship types and in shipping technology generally will require continuing port development and adaptation to modern methods of ship and cargo handling.

XII. INTERNATIONAL RESOURCE TRANSFERS

A. Foreign assistance

376. The record of foreign assistance flows to the ESCAP region has been a very disappointing one. With the vast majority of the world's poor concentrated in this region, the continued inability of the donor countries in total to achieve the target of 0.7 per cent of GDP for ODA remains a sad commentary on the international effort which is being made to resolve the problems of the developed and developing countries alike.

377. Far from demonstrating an increased commitment to the less privileged in the world community, foreign assistance flows in real terms to this region declined by over 10 per cent during the period from 1970 to 1975. This was no doubt also a period of considerable economic difficulties in the donor countries. However, these has continued to be inadequate appreciation of the fact that the problems of "stagflation" and increasing unemployment in the developed countries are not totally divorced from assistance to resolve the pressing problems in the developing countries. Unfortunately, recourse has been sought in short-term and short-sighted palliatives in the developed countries which bid fair to harm the longer-term prospects for growth, stability and equity in the developed and developing countries alike.

378. Foreign assistance is not purely an exercise in altruism. It is clear that it can provide an important stimulus to many of the capital goods industries in the developed countries which have been stagnating for lack of demand. The mutuality of benefits from foreign assistance needs to be underscored to obtain the public support that will be required in the developed countries while, at the same time, donor Governments must be convinced that there is also a mutuality of benefits in longer-

375. Particularly in the least developed countries of the region, extra attention, perhaps from foreign assistance donors, will need to be given to developing innovative and economically sound systems of inland transport. In order that the economies of developing countries may derive the benefit of low-cost transportation by inland waterways, which consumes less energy than other modes of transport, development and expansion of inland water transport systems in the 1980s will be desirable, particularly in view of the increasing costs of energy. This will also meet the needs of rural development. Sustained and intensive effort will be required to remove the weaknesses existing in the administrative organizations and technical knowledge in the field of inland waterways.

term quantitative commitments which will provide a substantial amount of certainty to both partners. In reality, the problem is not one that concerns the international relations between any individual donor country and the developing countries but rather the basic problems which still afflict the international relations between the developed countries themselves.

379. The types of domestic policies which countries have adopted to deal with their own over-all problems in international transactions are at the root of the attitudes to foreign assistance and its terms. This is particularly so in the case of tied assistance, where the inability of domestic policies in the donor country to achieve competitiveness in international transactions is reflected to the disadvantage of recipient countries through the mechanism of tied assistance. To the extent that foreign assistance is in grant form, the tying of such assistance to procurement in the donor country will reduce the real value of the assistance but when in the form of loans the resource flow could well qualify as commercial capital.

380. There is need to increase the flow of concessional resource flows to the developing countries of this region. Apart from the distinct effects that such an increased flow will have on stable and continued growth in the donor countries, such an increased flow will provide essential support to achieve the socio-economic objectives which have been earlier identified in this paper. But, given the new orientations and objectives which will predominate in the 1980s in the developing countries of this region, the quality of foreign assistance will become of greater consequence than the sheer volume of foreign assistance. Programmes for economic growth with social equity are often unlikely to engender the direct commercial returns

or even the direct foreign exchange earnings or savings which will be required to enable repayment of foreign loans. Consequently, if foreign assistance is constructively to support the expressed objectives of the developing countries of this region, it need be mainly in the form of grants or of loans on terms comparable to those of the International Development Association or the Asian Development Fund of the Asian Development Bank.

381. A further consideration in the role of foreign assistance during the 1980s concerns its distribution as between developing countries in this region. In terms of *per capita* receipts of foreign assistance, the lower-income developing countries of this region have clearly fared less well than the higher-income countries. Data for 1977 show that in those developing countries with *per capita* incomes below \$US 200, average *per capita* ODA was just above \$US 3 while, at the other extreme, developing countries with *per capita* incomes of over \$US 500 received ODA *per capita* of almost \$US 13. Sub-regionally, too, there were contrasts. In south Asia average *per capita* ODA receipts in 1977 were \$US 3.4; in east and south-east Asia they were \$US 7.6 and in the South Pacific⁵³ countries they were \$US 77.9.

382. In effect, the more populous developing countries of the region have fared less well, in *per capita* terms, than the less populous countries.⁵⁴ This has been the product of many factors, not the least being the political motivations underlying the allocation of bilateral foreign assistance. However, what also needs to be taken into account is that the content of foreign assistance has varied widely from the more directly productive assistance which most of the lower-income countries with a comparatively better developed administrative structure have received to the mainly administrative support assistance that characterizes most of the foreign assistance received particularly by the developing countries of the South Pacific.

383. However, the criterion of *per capita* foreign assistance receipts, though widely and frequently used, is fraught with grave drawbacks for operational purposes. For, while in the case of foreign assistance in the form of food or consumer goods the *per capita* indicator might be meaningful, its utility in evaluating all forms of foreign assistance flows is questionable.

384. The more meaningful economic yardsticks would be the role of foreign assistance flows in (a) increasing the capacity of the recipient country to import more goods and services and (b) increasing the capacity of the recipient country for greater investment.

385. Judged in the light of these criteria, the picture differs widely from that obtained with the use of the criterion of *per capita* receipts. Except in the case of India, foreign assistance amounts to well over 20 per cent of gross capital formation in the countries of south Asia while in the case of the south-east and east Asian countries the proportion is well below 10 per cent, except for Indonesia. A similar picture emerges in a comparison of foreign assistance with imports.

386. Foreign assistance should ideally play a subsidiary role to trade expansion and regional co-operation in the process of economic development in developing ESCAP countries. Nevertheless, in some economies and especially the poorer ones, it has an important role to play in so far as the investment associated with the postulated rate of growth exceeds the rate of domestic savings that can be mobilized. Furthermore, there may be a few investment projects which have a non-substitutable foreign exchange component and this defines the investment programme's minimum requirement of foreign exchange. When all other forms of foreign earnings fall short of even this required minimum, there will come to the surface a critical minimum gap of foreign exchange that has to be met through an additional inflow of foreign assistance.

387. Viewed in these terms, international resource transfers should complement domestic resource mobilization programmes rather than substitute for them. Both aid givers and aid receivers will have failed in their task if aid becomes only a soft option against the full mobilization of domestic savings. In this view, the efficiency criterion for the utilization of aid ultimately depends on its ability to act as a galvanizing factor for developing domestic capabilities in the longer run, rather than perpetuating foreign dependence indefinitely.

388. However, since the development of domestic capabilities has to be a relatively gradual process, it is imperative for the donor countries to take a long-term view on the question of efficient utilization of aid. It follows that a pre-condition for efficient utilization of aid is a firm and long-term commitment by the donors, so that the uncertainty is taken out of aid negotiations and programmes for development of domestic capabilities can be worked out within the required long-term perspective.

⁵³ Fiji and Papua New Guinea only.

⁵⁴ The four most populous countries of the region — Bangladesh, India, Indonesia and Pakistan — received \$US 3.4 *per capita* as against \$US 9.1 *per capita* for the other developing countries of the region.

Unfortunately, past experience, especially in the south Asian countries, tends largely to belie such expectations. Not only have the richer industrialized countries failed in their commitment on the volume of aid, but they have also been unable or unwilling to work out a mechanism of resource transfer on a stable longer-term basis. Aid programmes have continued to be heavily influenced by bilateral diplomacy, typically resulting only in short-term commitments by the donors, so that aid can be switched on and off to bring pressure on the receiver as an additional arm of modern diplomacy. It is essential for the steady economic progress of the poorer developing ESCAP countries that such past mechanisms of discretionary aid are altogether replaced by more efficient and fairer mechanisms of aid transfer based upon a more stable multilateral mechanism which is able to create an environment of longer-term aid commitments.

389. There is perhaps only one area where foreign assistance need not be exclusively linked with the question of generating longer-term economic capabilities in the recipient countries. This is the area of food aid. While the necessity of maintaining a reasonable growth rate of agricultural production, especially in the food-deficit countries, has been argued above, by its very nature agricultural production is subject to seasonal fluctuations, notably in countries like Bangladesh and India. While every effort should be made on the domestic front through institutional and other reforms to maintain a high and stable rate of agricultural growth, inevitable shortfalls of a seasonal nature should not be allowed to impinge on longer-term domestic development programmes owing to the necessity to divert investible resources to importing food. To the extent that food aid can insulate domestic development programmes from such seasonal fluctuations, it creates the environment for pursuing long-term development policies on a more stable and firm basis and can act as a helpful complement to the general strategy of longer aid commitment by the donors. The international development strategy needs fully to explore ways and means of ensuring food security without creating the circumstances wherein the domestic drive for agricultural growth might be relaxed. The food buffer-stock scheme of the ASEAN group of countries is a recent example of subregional initiative in this field. However, an extension and expansion of such a scheme will be predicated not only on the availability of food surpluses but also on the capital resources which would be required to hold adequate stocks.

390. It is necessary in the context of the ESCAP region to argue that what has been said above applies *a priori* to certain countries in south Asia. In the subregion there are countries whose development prospects would be virtually non-existent without foreign assistance and in which the rate of growth will be critically affected by the amount of foreign assistance available. These countries have no hope of becoming reasonably self-reliant in a financial sense without full and firm aid commitments to close the gap between their capacity to mobilize domestic resources and the investment requirements for modest rates of growth. Particularly in such cases, the need for local cost financing will be highlighted. Because these countries are often among the poorest and most geographically disadvantaged, a major plank of the emerging international development strategy must be to provide, on a firm and long-term basis, the foreign assistance package required.

391. There is another group of countries in the South Pacific whose problem is not merely one of access to adequate foreign assistance; rather these countries lack adequate domestic resources to develop. These economies have such severe resource constraints in terms of market size, population, availability of agricultural land and potential for the development of the service industries that the primary function of foreign assistance has to be to support directly higher consumption levels than could otherwise be obtained. Three or four of these economies are in this situation.

392. Unless these countries are prepared to accept a situation involving continued dependence on foreign assistance, alternative remedies need to be contemplated. One possibility is to acknowledge that, in their case, it may be easier to bring people to work, rather than work to people. Internationally, this implies the temporary migration of workers to metropolitan focal points in Australia, New Zealand or North America, where ethnic communities already exist. Remittances, in the form of remuneration for exported factor services, could then sustain a reasonable standard of living in the home country. The proposal has its problems; yet it is in many ways a formal acknowledgement of an already established fact, verifiable by the data on net outward migration and net inward remittances.

393. In pursuing the line of argument of placing foreign assistance in a longer-term perspective of development, it is necessary to recall the earlier discussion which suggests that the average growth rate of the south Asia subregion over the coming decade is unlikely to exceed 5.0 to 6.0 per cent. This raises an important question regarding the

terms and conditions of fresh foreign borrowing. Since ability to repay debt is largely guided by the perspective on growth, it is essential for both the donors and the borrowers to agree on terms which are manageable within the perspective of moderate growth of the region in the coming decade. Tables 38 and 39 considered together identify some of the more vulnerable countries. This implies that both the interest rate and the time structure of repayment should be negotiated in such a manner as to make them compatible with the likely growth perspective and capacity to repay. Broadly speaking, this calls for foreign assistance on softer terms, with a greater component of grant and ODA than has been available in the past. Unfortunately, however, past negotiations on foreign assistance did not pay sufficient attention to the debt servicing and repayment problems of the future, with the result that the servicing and repayment burden in relation to the export earnings of the region have already become prohibitively high. Moreover, it is the short terms of repayment rather than the interest levied which pose the major problem. This issue of renegotiation of past debt — an important item in the new international economic order — assumes special significance in this context for some of the countries in south Asia. Evidently, a phasing-out at least of official debt could be to the benefit of

both the borrower and the lender in the current context. It could release the borrower to a large extent from the debt trap of foreign dependence; it could, as has been argued above, also help the lending industrialized countries. It is only what Keynes once described as the “humbug of high finance” and the old habit of thought of using aid and debt as weapons of diplomacy which prevent such sensible renegotiation of existing debt. A pre-condition of more efficient long-run utilization of foreign assistance is precisely to eliminate such old habits of thought.

394. The productive and effective role of foreign assistance in the 1980s will also be determined crucially by the extent to which donor countries can provide the requisite volume of assistance in forms which can enable the recipient country to use the assistance to the best effect in attaining the socio-economic objectives of the country concerned. This suggests that greater consideration will need to be given not only to the untying of foreign assistance by country of purchase but also to an untying of foreign assistance by and use — the traditional dichotomy between “project” assistance and “programme” assistance. The process of identifying and developing specific projects is inevitably long-drawn-out and so is the process of the disbursement

Table 38. Selected developing ESCAP countries: external public debt outstanding, end of 1977

| | Total ^a (\$US millions) | Bilateral official (percentage) | Multilateral (percentage) | Suppliers (percentage) | Financial institutions (percentage) | Others (percentage) | Disbursed (percentage of total debt) | Expansion ratio 1971-1977 ^b |
|---|---------------------------------------|---------------------------------------|------------------------------|---------------------------|---|------------------------|--|--|
| <i>South Asia</i> | | | | | | | | |
| Afghanistan | 1 891.0 | 88.3 | 10.2 | 1.5 | — | — | 60.0 | 2.6 |
| Bangladesh | 3 491.2 | 60.0 | 34.8 | 4.3 | 0.8 | — | 65.6 | — |
| Burma | 1 187.1 | 55.6 | 28.2 | 8.6 | 7.6 | — | 42.1 | — |
| India | 18 759.7 | 64.1 | 33.9 | 1.5 | 0.5 | 0.01 | 77.5 | 1.9 |
| Nepal | 299.4 | 19.9 | 79.8 | 0.2 | — | — | 23.7 | — |
| Pakistan | 8 763.8 | 74.3 | 20.8 | 2.3 | 2.6 | — | 77.3 | 1.9 |
| Sri Lanka | 1 229.8 | 69.8 | 23.1 | 7.1 | — | — | 64.0 | 2.0 |
| Total | 35 622.0 | 67.1 | 29.3 | 2.4 | 1.3 | — | 73.0 | |
| <i>East and south-east Asia and Pacific</i> | | | | | | | | |
| Fiji | 101.8 | 37.1 | 42.3 | 6.5 | 9.8 | 4.3 | 80.6 | — |
| Indonesia | 15 903.9 | 52.1 | 15.6 | 9.7 | 21.2 | 1.3 | 71.7 | 3.6 |
| Malaysia | 3 559.3 | 20.2 | 31.0 | 1.0 | 44.3 | 3.6 | 57.7 | 4.6 |
| Papua New Guinea | 413.3 | 3.1 | 40.3 | 0.8 | 20.9 | 34.9 | 81.7 | — |
| Philippines | 5 627.3 | 26.5 | 31.5 | 4.7 | 28.1 | 9.3 | 53.1 | 5.9 |
| Republic of Korea | 13 483.9 | 28.4 | 17.6 | 20.8 | 32.0 | 1.2 | 62.8 | 4.5 |
| Singapore | 1 188.5 | 18.5 | 19.4 | 22.7 | 7.0 | 32.4 | 83.6 | 3.9 |
| Thailand | 2 263.0 | 26.9 | 52.2 | 0.6 | 20.3 | — | 46.4 | 4.2 |
| Total | 42 540.9 | 35.7 | 22.0 | 11.6 | 27.0 | 3.7 | 64.4 | |

Source: World Bank, *Annual Report, 1973 and 1979* (Washington), annex tables 4 and 5.

Notes: ^a Including undisbursed debt.

^b Ratio of total debt at end of 1977 to total debt at end of 1971.

Table 39. Selected developing ESCAP countries: debt service^a as a percentage of exports of goods and services, 1970 and 1977

| | 1970 | 1977 |
|-----------------------------|------|------|
| Bangladesh | — | 11.7 |
| India | 22.0 | 10.5 |
| Indonesia | 6.4 | 11.9 |
| Iran | 12.2 | 3.2 |
| Malaysia | 3.6 | 6.5 |
| Nepal | 10.9 | 1.4 |
| Pakistan | 21.6 | 13.6 |
| Papua New Guinea | — | 4.3 |
| Philippines | 7.5 | 6.4 |
| Republic of Korea | 18.9 | 8.7 |
| Singapore | 0.6 | 0.8 |
| Sri Lanka | 10.3 | 14.6 |
| Thailand | 3.3 | 3.0 |

Source: World Bank, *World Development Report*, 1979.

Note: ^a Debt service is the sum of interest payments and repayments of principal on external public and publicly guaranteed debt (private debt is excluded).

of the funds.⁵⁵ Where project financing also brings in the technical skills that the recipient country needs, the case for project assistance might be partly justified. However, with the growing technical and administrative capacity of the developing countries and the fungibility of available resources, the insistence on specific project financing not only slows down the disbursement of urgently required resources but also becomes an unnecessary irritant by suggesting a lender-client relationship in a commercial sense.

395. This issue will have increasing relevance in the 1980s. With the emphasis on a more explicit allocation of resources to benefit the poorer and the less privileged in society the questions arise whether international development assistance can be structured and managed in such a way that the resources provided directly benefit the target groups and whether there are elements in the poverty eradication schemes of States which suggest possibilities of massive injections of foreign assistance on a preferential basis.

396. There is already evidence of aid agencies and multilateral development banks orienting their policies with an eye to improving the incomes and consumption of the less privileged sections in recipient countries. For instance, programmes meant to increase the productivity of small and marginal farmers in the rural areas and to rehabilitate slum-dwellers in towns have qualified for special support of late. Likewise the United Nations system is currently in the process of recasting its technical assistance activities towards a clearer anti-poverty focus.

397. It may be tempting to argue that during the next decade international development assistance should be earmarked, more or less exclusively, for direct poverty redressal. An objective examination of the connected issues and problems, however, suggests that such a rule-of-thumb approach would be both inappropriate and undesirable. The causes of poverty in the developing countries are deeply imbedded in their socio-economic systems. Their abolition calls for basic reforms in institutional structures and property relations. The impulse for undertaking such reforms has to emerge internally and cannot be imposed from outside. External efforts to force the pace, however well-intentioned, are seldom effective. At best, they give an illusion of success by strengthening isolated initiatives that, instead of encouraging well thoughtout integrated long-term strategies, only attack the symptoms, in the process relegating to the background the more fundamental reforms required. Such superficial interventions, moreover, are likely to become bogged down sooner or later in a welter of conflicting interests if attempted on a broad scale, to run into bottle-necks and eventually to reduce the flow of assistance even to areas where it can produce beneficial results.

398. This is not necessarily to imply, however, that external assistance will have to await ideal conditions before it can alleviate the suffering of millions in the developing ESCAP countries. On the negative side, the one safeguard that aid agencies might wish to apply to their operations is to make sure that these do not directly or indirectly result in a pronounced further skewing of the benefits of development in the recipient countries. More positively, it may be noted that given a national commitment that is reflected in action to tackle poverty, imaginatively designed assistance which concentrates on certain key areas, instead of spreading itself thin on a wide range of problems, can do much to supplement and strengthen national initiatives that fit into a long-term equity-oriented development strategy. The value of such assistance would be enhanced by a programme-support approach, rather than the frustrating project-support approach. Efforts could be made to strengthen existing national institutions or to encourage the establishment of new national institutions that are able to address themselves to the problems of the poor and enhance national capabilities for monitoring and evaluating the impact of development programmes on the living conditions of the poor. Some of the developing countries in

⁵⁵ It is to be noted that disbursements lag considerably behind commitments, particularly in project assistance. Consequently, even a considerable increase in foreign assistance in project form in the early years of the 1980s will not have an impact on either the foreign gap or the savings gap for a number of years.

the region are already in receipt of direct consumption aid to benefit low-income groups in the form of foodgrains under "food-for-work" programmes, and of nutritional supplements, medicines and educational accessories for use by vulnerable groups. Such assistance can be particularly valuable in the context of an employment-maximizing and basic-needs approach to development, provided it is linked to effective national programmes to improve access by the poor to economic assets and social services within their communities and thereby make them self-reliant.

399. There are perhaps other avenues which donor and recipient agencies could jointly explore for the progressive improvement of living standards in backward areas and of low-income groups. Examples are assistance, both technical and financial, in speedily undertaking surveys and in preparing land records as a prelude to land reforms, in research for improved production of crops and other items that figure in the diet of the poor, in devising better technologies for birth control, in designing and fabricating low-cost housing and community facilities.

400. Furthermore, as pointed out in earlier sections, the pressing need to develop non-oil energy sources in the developing ESCAP countries can be supported by appropriate foreign assistance not merely to develop hydroelectric potential but, possibly more important, to support extensive schemes of reforestation, development of village- or community-level renewable sources of fuelwood and to increase facilities for the breeding and distribution of draught animals. While reforestation occasionally finds a place in existing multilateral and bilateral "area" assistance projects, the latter two objectives will require a fundamental change in the orientation and purposes of foreign assistance in the future. This is equally true of foreign assistance directed specifically towards the control of soil erosion, degradation and desertification.

401. The role of bilateral and multilateral foreign assistance to the fisheries sector could also be re-examined. The thrust hitherto has been on the exploitive aspects of the industry. Clearly very much more needs to be done in the development of resources and conservation, inland fisheries and integrated agro-fishery farm systems as an integral part of what hitherto were purely agricultural projects.

402. The need for external assistance for such purposes is not equally pressing for all developing countries in this region. On the whole, it would seem that countries in south Asia have a greater need than those in south-east and east Asia. Possibilities for collaboration, particularly at the

technical level, among the developing countries themselves will need to be constantly explored and encouraged in this context. Indeed, in some cases, the techniques may be available only in some of the developing countries: primary health care in rural areas involving the local community is a case in point.

403. It needs to be stressed finally that aid tailored to discrete poverty alleviation purposes is no substitute for the massive and sustained assistance that the process of modernization of the developing world necessarily entails. Greater food production, to take but one example, requires fertilizers, irrigation, implements, transport, communications, processing facilities and the like, none of which come cheaply, whether the production is by small or larger farmers. There is no substitute, therefore, to assisting adequately in the provision of such infrastructure if sustained development is to be achieved. This is particularly true of the resource-starved, least developed countries in the region.

404. Over-all, the picture clearly is that the implementation of policies of growth aimed at the eradication of poverty and reduction in income disparities will require not only a concerted domestic effort but also significant assistance from the world community. Unless this assistance becomes available not so much in terms of the quantity required as in the quality of the assistance, there will be grave doubts about the prospects of achieving the objectives set by the developing countries of this region.

405. In the light of the disappointing response of the world community in past decades and the largely negative responses which have characterized the positions of the developed countries in recent international negotiations, the strategies of the developing countries of this region will have to develop the alternatives that would become necessary if the support of the world community were to fall significantly short of what is required. To the extent that this occurs, developing ESCAP countries will inexorably find themselves pushed into drastic reforms in social and political structures which could enable the achievement of their socio-economic objectives, although at lower levels of resource availability and incomes, and into a progressive withdrawal from reliance on international relations as a supportive factor in the achievement of national objectives.

406. The world community has accepted a target of concessional resource transfers from the developed countries of 0.7 per cent of GDP, a target which is observed largely in its non-realization. And even this inadequate concessional resource flow is further

reduced, in real terms, by the tying of procurement to the donor country concerned on the grounds mainly that many donor countries will otherwise face added balance-of-payments pressures. Such a situation is symptomatic of the inability of the existing international economic system even to provide a stable base for the relationships between the developed countries. In any event, the balance-of-payments pressures that might be generated for some donor countries through the grant of concessional and non-tied assistance is only a short- to medium-term problem which will be resolved through the adjustments which will be required to improve their over-all competitiveness in trade.

407. At least during the period in which the new international economic order is being realized, the world community will need to ensure that adequate resource transfers to the developing countries are realized. The transfer of an agreed percentage of donor countries' GNP on fully concessional and untied terms will need to be at the heart of this effort. However, a supplementary requirement will need to be that any donor country which achieves a surplus on the transactions arising out of freely usable foreign assistance will be committed to increase its foreign assistance flow in the following period by the amount of the surplus. In this manner, the developing countries could be assured of a continuing and increasing flow of untied assistance while the developed countries would be assured of a steady stimulus to their own economies which, at least in the medium term, could be expected, on balance, not to be a continuing drain on their balance of payments.

408. Other proposals to provide an increasing flow of concessional flows have included suggestions that (a) donor countries should provide assistance (additional to the basic quota target) based on their rate of growth and (b) donor countries should increase concessional flows by a larger-than-target proportion out of increases in GDP. While there is considerable merit in such proposals, they are linked only to growth in the GDP of the donor countries and, thereby, tend to underplay the stimulative role that foreign assistance flows could exert in stabilizing and encouraging growth in the developed economies.

B. Private capital flows

409. The admittedly very tentative quantitative modelling exercises conducted on the required magnitudes of capital flows to the developing countries of this region yield staggering *ex ante* requirements. In a scenario for the region where the medium-income developing countries of the region continue their growth trend of the 1970s and where the poorer developing countries plan to

double *per capita* incomes by the year 2000, the foreign exchange gap in 1990 will be around \$US 54 billion (in 1974 terms), which will be over 20 times the actual inflow in 1975. However, while real GDP would also have increased from \$US 269 billion in 1975 to \$US 674 billion by 1990, such a transfer of resources seems hardly practicable and, consequently, suggests that the policy alternatives consist of either reducing capital/output ratios and/or increasing domestic savings and exports and/or reducing imports. These policy alternatives are all the more feasible to the extent that policies of income and asset redistribution and the encouragement of production patterns geared to the needs of the vast majority of the people rather than to the wants of the urban-based élites will also be import saving.

410. However, except in a very few developing countries of this region where ODA will need to continue to provide almost the entirety of the capital flows required, the developing countries will need, to a greater or lesser extent, to attract also private commercial and other non-concessional capital flows.

411. In this region, the countries of east and south-east Asia have had the greatest access to commercial and non-concessional flows. The major reason has been that they have provided a more congenial operating environment for private foreign capital and have generally been more "credit-worthy" in the evaluation of foreign private lenders.

412. The 1980s present two challenges in this respect: developing countries of this region will need to exercise careful management of commercial debt to avoid serious strains on their balance of payments since such debt is invariably on terms which are distinctly more unfavourable than that under ODA, and institutional mechanisms will have to be developed to enable low-income developing countries in the region to improve also their access to such capital sources.

413. This is equally true of equity and loan capital from private foreign investment and of access to the money markets as such. But "credit-worthiness" notwithstanding, there is reason to believe that some developing countries have had recourse to more expensive private capital sources since they were less onerous in their conditions and demands than alternative multilateral sources and provided capital in untied form.

414. Trends in the 1970s suggest that the role of transnational corporations as providers of equity investment (private direct investment) has been weakening while their role as providers of technological and management expertise has been increasing. With the likelihood that this trend will

intensify in the 1980s, the money markets of the developed countries will assume greater importance as providers of capital flows supplementary to the available ODA. The importance of access to the money markets will increase to the extent that bilateral and multilateral assistance emphasizes project assistance or that tied bilateral project assistance becomes as expensive as borrowing on the money markets.

415. The problem is most acute in the case of the low-income developing countries of the region and particularly those countries where private foreign capital has not played a significant role in the economy nor is expected to play any such role.

416. Providing such developing countries access to the money markets of the developed world (or to those of the oil-surplus countries) is a matter of ensuring that multilateral guarantee mechanisms exist. A promising avenue is for placements through the Asian Development Bank. With the backing of its "callable" capital, the Bank could provide a conduit for access by its low-income, developing member countries to the money markets of the developed world. This would not be the same as its providing additional capital to these countries in the course of its normal lending operations because, unless it decided to provide programme assistance, the guarantee operation would provide a source of capital without the encumbrances of project assistance. Such an approach commends itself because it will allow "threshold" countries to develop to a stage where they could after some time operate in bond markets on the basis of their record and without any such multilateral guarantees. Further possibilities will include the government of the

home, developed country itself guaranteeing the bond issue, of subsidizing the interest rate payable or instituting a scheme of insurance comparable to that currently widely applicable to foreign private investment.

417. One of the major possibilities has already been experimented with by the Asian Development Bank—that of co-financing major projects along with private lenders. This approach could be fruitfully expanded as it not only increases resource availability but also improves the contact and knowledge that private financing organizations have about the country concerned.

418. These are among the institutional devices and practices which will become necessary to ensure that the petro-dollars and other surplus funds can be harnessed to support the development efforts in this region. The tapping of such sources will also provide alternatives to other developing countries in the region which have found existing sources of bilateral or multilateral capital onerous or unacceptable in their terms and conditions.

419. A largely unrecognized and underestimated source of private capital has been that of intraregional origin. Particularly among the countries of east and south-east Asia there has already been a significant volume of private investment of regional origin and the expectation is that such transfers will grow during the 1980s. This is equally true of countries in south Asia which have reached the stage of technological maturity where they can begin to export capital and skills. This and other issues will be discussed in the following section on intraregional co-operation.

XIII. INTRAREGIONAL CO-OPERATION

420. As revealed in their development plans, the four major policy objectives of developing ESCAP countries would appear to be the achievement of high rates of growth in the output of goods and services, the eradication of poverty and a more egalitarian distribution of assets and incomes, a stable, steady pattern of development and financial, technological and intellectual self-reliance. Within the region there is vast scope for hastening the attainment of these national objectives by mutual co-operation among the developing economies in the fields of trade, production, finance and the transfer of technology. A similar potential exists in the case of co-operation between the developing countries of the region and the developing countries of the rest of the world.

421. The concept of collective self-reliance does not imply autarky as far as the international

economic relations of developing countries with the developed industrial countries are concerned. Essentially, collective self-reliance should be seen as the co-operative endeavour of developing countries to achieve the objectives of the new international economic order and, thereby, at the national level to attain a much greater degree of autonomy in taking decisions affecting their political, social, economic and cultural life. The international counterpart of this is their fuller participation in collective decisions in an increasingly interdependent world.

422. There are compelling reasons why the developed countries should strongly support the co-operative efforts of the developing countries. First, while the need for structural changes in the developed economies would not be reduced by developing country co-operation, immediate

pressures on sensitive markets would be reduced. Secondly, by expanding incomes in developing countries, economic co-operation would indirectly increase the demand for the exports of the developed economies. This effect would be further strengthened by increased trade flows arising, on the one hand, from the greater specialization in production associated with increased economies of scale and, on the other hand, from improved standardization in production and marketing and from the greater harmonization of regulations relating to trade and capital flows.

423. While trade in recent years has expanded substantially in both real and nominal terms among developing ESCAP countries, there are some marked subregional differences. On the one hand, in south Asia, between 1968-1970 and 1974/75, the share of trade with other ESCAP countries in total trade expanded markedly. On the other hand, in east and south-east Asia there was a perceptible decline in the relative importance of trade with other developing ESCAP countries. In both subregions, however, the share of trade with other developing countries in total trade increased considerably.

424. The expansion in trade between developing ESCAP countries has been mainly a result of the rapid shifts in comparative advantage among them; to a lesser extent, it has been the result of conscious efforts by these countries to expand such trade. These consist of a number of institutional developments, including the formation of ASEAN and the associated Swap Arrangement participated in by Indonesia, Malaysia, the Philippines, Singapore and Thailand; the Asian Clearing Union involving most of the countries of south Asia, and the Bangkok Agreement, under which a number of countries have offered preferential reductions in tariff rates.

425. In the 1980s the growth in intra-developing ESCAP country trade and other forms of co-operation could be assisted by planned co-operative efforts. Trade flows among the developing countries of the region suggest that there is considerable scope for trade expansion among subregional groups provided that barriers to trade are reduced and appropriate complementary action are taken by the national Governments concerned and by the international community.

426. A variety of existing and potential possibilities suggest themselves: the south Asian economies and the OPEC group of countries could explore planned co-operation based on the exchange of surplus capital and manpower; in south Asia planned co-operation could investigate the potential for a mutual expansion of trade and investment; in

ASEAN the task is to continue to build on the base already established; in east Asia there is scope for an EEC type of regional co-operation among the newly industrialized economies; for the developing ESCAP region as a whole there is scope to explore arrangements with China and the other centrally-planned economies of the region; and in the small South Pacific island economies there are opportunities for co-operative endeavours among themselves.

427. There are two reasons to argue for a planned approach to regional co-operation in south Asia. First, what was little more than 30 years ago a vast free-trade area has become a series of independent States which from time to time have severed all economic transactions with one another. A pre-condition for successful economic co-operation must be a relaxation of mutual suspicions and planned co-operation to avoid sensitive reactions. Secondly, the great difference in economic size and in the level and sophistication of industrial development requires that co-operation in trade and investment be planned in such a way that all parties can be assured of benefits.

428. Experience accumulated in other subregional co-operation ventures suggests some guidelines for the reduction in trade barriers. First, it is essential that all countries participating be seen to benefit in an *ex ante* sense. Given the widely varying stages of development and differences in economic size, this means that special discriminatory measures need to be introduced to ensure that in entering into agreements the least developed and the smaller economies are assured of net benefits. Secondly, experience suggests that the reduction of tariffs and non-tariff barriers to trade is best accomplished by a time-bound agreement which nevertheless allows ample time for adjustments in production structures. In the case of tariffs, an agreement to an across-the-board linear cut is far superior to a series of *ad hoc* item-by-item cuts. Where non-tariff barriers, such as quantitative and exchange restrictions, are concerned, a multilateral framework for negotiations needs to be established. Discussions concerning preferential treatment in public procurement, trade involving State enterprises and compensatory deals could also take place within this framework. The interests of the least developed and smaller member countries could be protected by allowing them time in which to conform to the negotiated agreements, while still aiming at eventual equal multilateral treatment of all member countries.

429. In entering into such arrangements, countries generally are motivated by expectations of accelerated industrial development and technological progress, of the expansion of trade and the better

use of existing productive capacity, of an increased ability to negotiate with third parties and of improved political relations among member States. Of these four expected sources of benefits, the first is usually the strongest. Restructuring of production and future growth in production arising from the mutual reduction of barriers to trade could involve diversion of trade away from third parties: such a process is not undesirable in itself provided that it is economically or otherwise beneficial to the sub-regional group concerned.

430. In discussing the role of shipping in the 1980s, particular reference was made to the potential for regional co-operation in a service sector of vital importance to a restructuring of production and increased trade flows. Other important aspects of infrastructure are an improved flow of information concerning trade opportunities, provision of financial support for export credit and export credit guarantee schemes and for export insurance and reinsurance schemes; the promotion and facilitation of capital flows; co-operation in the transfer of technology; and the establishment of multinational marketing and production enterprises.

431. Timely access to trade information is a high priority. National and international trade information systems need to be established and equipped to supply data on trade barriers and trade, including information about supply, market, transport, credit, price and related aspects.

432. Planned expansions of intraregional trade would require adequate financing facilities. In the case of ASEAN, the Swap Agreement provides a limited base which could be substantially expanded. What is required is financing arrangement which are geared to the expansion of intra-ASEAN trade and are in the control of the developing countries concerned. The careful development of suitable credit and clearing arrangements is a necessary complementary step to the reduction of trade barriers.

433. In discussing trade strategies it was pointed out that transnational corporations dominate the distribution and marketing in the markets of the developed countries of a range of products which in some cases are of traditional and in others of increasing interest to some developing ESCAP countries. Attempts by developing countries to enter such markets with their own products would not only be fiercely resisted by these corporations but, because of the large economies of scale involved, are generally not feasible from the viewpoint of individual developing countries. There is scope, therefore, for co-operation in establishing multinational marketing enterprises which, in combining the endeavours of national concerns, would increase their market power and capture the con-

siderable economies of scale which exist in various phases of marketing as contrasted with the usual optimum size of the production units in developing ESCAP countries. As a result, access to financial markets would become available on more favourable terms and it would become easier to engage in downstream activities, extending in some cases even to the retail stage.

434. The results of a comprehensive survey and of extended interviews with concerned parties suggest that in the ESCAP region there are many products for which potential exists to develop co-operative marketing enterprises.⁵⁶ A sample of such products includes both agricultural and raw materials and a wide range of manufactured goods: fish and fish preparations, fruits and nuts, coffee, tea, spices, oil seeds and vegetable oils, rubber and rubber products, jute and jute products, steel and steel products, tin, tungsten, automobile components, electronic goods etc.

435. Such multinational marketing enterprises would need to mobilize, standardize and adapt products for the world market; establish common trademarks and designs; develop trade intelligence networks; encourage research and product innovation; enter into reciprocal trade arrangements with developing and developed countries; and, possibly, purchase in bulk the inputs and capital goods required by the production units.

436. Multinational production enterprises could also be established on a co-operative basis where economies of scale rule out development at the national level. Such co-operative endeavours could be assisted by intergovernmental efforts to identify and evaluate project proposals and to create an appropriate legal framework. Priority might be given to projects facilitating the downstream processing of natural resources or to the development of basic industries, including capital goods industries and engineering products. Control of these enterprises needs to remain in the hands of the developing countries concerned.

437. The potential for intraregional co-operation is nowhere more dramatically evident than in the large river systems in the region. One such river system — the Mekong — has already been partially developed to the mutual advantage of its riparian countries. Very much more needs to be done in the Mekong system but the results already achieved are indicative of the benefits that can accrue to all the riparian countries if the political will to co-operate can be generated.

⁵⁶ United Nations Conference on Trade and Development, "Economic co-operation among developing countries: supplementary material and considerations relating to priority areas for action" (TD/244/Supp. I), pp. 35-38.

438. Similar possibilities are to be found in the surplus hydropower of the Mahaweli system in Sri Lanka, which supplies a significant part of the demand for electricity in south India; in tapping the enormous potential of the Karnali River in Nepal to meet the needs of north India; in harnessing the Brahmaputra River for the benefit of east India and Bangladesh; and in better utilizing the hydro potential of the Indus River to the mutual advantage of India and Pakistan.

439. While the co-operative and speedy development of the hydro potential in the region has assumed a greater urgency with increasing prices for petroleum products, the multipurpose benefits in terms of flood control, irrigation, fishing, navigation and control of soil erosion further underscore the value of such projects.

440. Projects such as these provide further possibilities for foreign assistance to energise both national and multi-country development.

441. With the proclamation of the 200-mile exclusive economic zones the imperative for at least subregional co-operation for the rational exploitation of pelagic fish resources and other marine and mineral resources within overlapping zones has been heightened: also the need for consultative or collaborative action to ensure that the developing countries possessing the resources obtain the maximum benefits from their exploitation.

442. Furthermore, as briefly referred to in an earlier section, there has been an increasing flow of technology and capital among the developing countries of this region. Shifting patterns of comparative advantage and technological advancement have combined with the ability to export minimal amounts of capital to produce this phenomenon. The next decade could very well see an acceleration of this trend provided that the political and institutional climate is conducive. On the institutional side, developing countries will need to consider carefully, in the light of their own particular needs and circumstances, whether the existing banking, financial and other institutions which have developed to service a basically developed to developing country pattern of external economic relationships will be adequate and appropriate for the emerging pattern of economic and financial interchanges between developing countries. This will be true not only in relation to private flows of capital and technology but also in the event that the political will enables the investment of part of surplus foreign exchange reserves of the developing ESCAP countries within the region itself.

443. A further dimension to intraregional co-operation could also be the development of regional institutions to undertake the processes of adaptation of available technology and the development of appropriate technology to meet common regional needs rather than to have a costly duplication of national facilities for these purposes. A logical extension of this approach would also be to have groups of interested developing countries negotiate the purchase of foreign technology.

444. The potential for interregional co-operation should also be pursued as an integral part of the process of greater intraregional co-operation. The developing collaboration between the surplus capital of some of the Middle East countries and the surplus labour and technological expertise of this region is a case in point. While the migration of labour and expertise has greatly stimulated the construction industry in the Middle East, the massive flow of remittances back to this region has strengthened, in some cases considerably, the balances of payments of some countries in this region.

445. Such developments have not been without attendant or incipient problems. For, while India, the Philippines and the Republic of Korea can sustain a temporary exodus of skilled labour, development efforts in Bangladesh, Pakistan and Sri Lanka could be affected by the emigration of essential skills. Furthermore, the growing reliance on remittances in the balances of payments of these countries introduces a further disequilibrating force in their exchange relationships if these remittances were to fluctuate strongly. These benefits are also unevenly spread among the countries of this region, as is the increased flow of ODA from the Middle East. The longer-term prospect of the depletion of oil reserves and a consequent fall in ODA from the Middle East are further factors which argue for better planned co-operation between all the countries concerned to alleviate present and future problems and make for more stable and satisfactory long-term development relationships. Such planned co-operation could, *inter alia*, include linking the surplus capital of the Middle East with the surplus labour in this region to satisfy import demands in the burgeoning economies of the Middle East or to direct part of ODA flows from the Middle East to develop greater supplies of skilled labour in Bangladesh, Pakistan and Sri Lanka so that the needs of the Middle East could be met without ill-effects on these countries. Such collaborative efforts could also be an important way for the capital-surplus countries of the Middle East to diversify their structure of asset-holding better and, thereby, insulate themselves better against the vicissitudes in their traditional investment avenues.

ANNEX

**LIST OF PAPERS PREPARED IN CONNEXION WITH WORK
ON DEVELOPMENT STRATEGIES FOR THE 1980s**

A. COUNTRY PAPERS AND RELATED MATERIAL

| Topic | Name of consultant(s) |
|---|------------------------------|
| 1. The ASEAN economies: the need for another development | J. Wong |
| 2. Economic perspectives for Australia, New Zealand and Papua New Guinea in the 1980s | C. G. F. Simkin |
| 3. Problems and prospects of economic development of Bangladesh in the 1980s | A. Hashem |
| 4. Development patterns in Bangladesh ^a | W. Haque |
| 5. Indian economy performance and prospects | A. Vaidyanathan |
| 6. The Indonesian economy in the 1980s | D. S. Paauw |
| 7. Growth and development patterns of developing countries: a case study on Indonesia: economic growth and industrial development — past, present and future ^a | S. Sediono |
| 8. The growth and development patterns of Iran ^a | C. A. Mejloumian |
| 9. Korean economic development: recent performance and future prospects ^a | H. Y. Song and Y. B. Kim |
| 10. A report on Malaysia for ESCAP's work on development strategies for the 1980s | D. Lim |
| 11. Nepal's economy in the 1980s | P. C. Lohani |
| 12. Pakistan's development experience: problems and prospects | M. Baqai |
| 13. New patterns and strategies of development: Sri Lanka | B. Hewavitharana |
| 14. South Pacific island countries: patterns and strategies of economic development, 1975-1990 | C. G. F. Simkin |
| 15. The Thai economy: current development, future prospects and alternative strategies for the 1980s | N. Akrasanee |
| 16. International economic relations within south Asia: prospects for regional co-operation | R. Sobhan |

^a Country papers which were not prepared by the ESCAP secretariat or for it but by other organizations.

B. SOUTH ASIAN PAPERS

| Topic | Name of consultant(s) |
|--|--------------------------------|
| 17. Envelop paper | A. Vaidyanathan |
| 18. The third world as an engine of world growth | L. Jayawardena |
| 19. Trade policy for the subregion — Pakistan, India, Bangladesh, Sri Lanka and Nepal — during the 1980s | S. N. H. Naqvi |
| 20. The role of commodities and raw materials in the economies of south Asia | S. Ahmed |
| 21. Public enterprise as an instrument of policy in anti-poverty strategies in south Asia | R. Sobhan |
| 22. A comparative study of land reform in south Asia | A. Bhaduri |
| 23. Strategy for industrialization and equity: an approach for south Asian countries | M. Ahmad |
| 24. Some reflections on income distribution and poverty in some Asian countries | S. K. Rao |
| 25. The role of TNCs in south Asia during the 1980s | F. Khilji |
| 26. Approach to rural development | M. Datta-Chaudhuri |
| 27. An unfinished saga: rural development in five Asian countries | A. Z. M. Obaidullah Khan |
| 28. Agriculture as a constraint in development in the 1980s: the problems of food deficit countries | Indian Institute of Management |

C. SOUTH-EAST AND EAST ASIAN PAPERS

| Topic | Name of consultant(s) |
|--|------------------------------|
| 29. Public enterprise in the east and south-east Asian region — a comparative study | R. Thillainathan |
| 30. Public policy, income distribution and level of welfare in the Philippines | E. A. Tan |
| 31. Population and development in south-east Asia and the Far East: strategies for the 1980s | A. Herrin |
| 32. Industrialization prospects and strategies in the 1980s (for south-east Asia) | M. Sadli |
| 33. Trade prospects and strategies of ASEAN countries for the 1980s | M. Ariff |
| 34. The impact of public policies on income distribution in peninsular Malaysia | I. Shari |
| 35. The distributive impact of the Government's policies: an assessment of the situations in Thailand | M. Krongkaew |
| 36. The role of private enterprise in selected south-east Asian and east Asian countries | A. H. H. Tan |
| 37. Perspective planning for improved equity in the ASEAN region, Hong Kong and the Republic of Korea: the role of quantitative targeting and monitoring | M. Mangahas |

**D. THE ENVIRONMENT AND DEVELOPMENT IN
THE ESCAP REGION**

| Topic | Name of consultant(s) |
|---|--|
| 38. Foreign investment in the subregion, problems, prospects and strategies | Chia Siow Yue |
| 39. An empirical overview of environment and development: Asia and the Pacific | Asian and Pacific Development Institute |
| 40. Environment and development | R. Kothari |
| 41. Interrelations among population, resources, environment and development in the ESCAP region, with special reference to Indonesia | O. Soemarwoto |
| 42. Approaches to land management in the ESCAP region | B. B. Vohra |
| 43. Environmental problems and the organization of development in the arid lands of south-west Asia | B. Spooner |
| 44. Integrated approaches to water resources management in rural areas in the ESCAP region | A. Maheswaran |
| 45. A case study of the Pa Mong project (Thailand): environmental aspects | V. R. Pantulu |
| 46. Economics and sociology of alternative energy sources | A. Makhijani |
| 47. Programmes of environmental improvement at the community level: Bangladesh, Indonesia and the Republic of Korea | M. Alamgir |
| 48. Industrial development strategies and rural-urban imbalances in Asia: selected case studies and an overview | K. Mera |
| 49. Problems of shelter, water supply, sanitation and transportation in large urban areas in the ESCAP region | R. S. Mehta |
| 50. Environmental improvement of marginal urban settlements, with special reference to Indonesia and the Philippines | C. Shubert |
| 51. The impact of environmental policy in developed countries on the trade of developing countries in the ESCAP region | B. Smith and A. Ulph |
| 52. The environment and development planning: methodological and institutional aspects | O. Godard |
| 53. Environment and development planning in Thailand | K. Snidvongs and K. Panpiemras |
| 54. The incorporation of environmental considerations in planning in Papua New Guinea | J. E. Low |

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