ECONOMIC and SOCIAL SURVEY of ASIA and the PACIFIC 1977

United Nations

UNITED NATIONS

ECONOMIC AND SOCIAL SURVEY

OF

ASIA AND THE PACIFIC,

1977

THE INTERNATIONAL ECONOMIC CRISES AND DEVELOPING ASIA AND THE PACIFIC

Bangkok

1978

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

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UNITED NATIONS

ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC

1977

ST/ESCAP/60

UNITED NATIONS PUBLICATION

Sales No. E.78.II.F.1

Price: $US 8.00 or equivalent in other currencies

PREFACE

The present *Survey* is the thirty-first 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 the current economic and social situation in the region. Part Two comprises the report of a study of the impacts of the international economic crises of the first half of the 1970s upon selected developing economies in the ESCAP region and the market and policy response thereto. The elements of this international economic turbulence which are principally discussed include the breakdown of the international monetary system; the food crisis; the fluctuations in the international market economy comprising the primary commodities export boom, the associated inflation and the subsequent recession, and, finally, the sharp rise in the price of petroleum. Beyond the preoccupation with questions of short- to medium-term management of the economy under conditions of stress, the study is concerned with the implications of these developments for the longer term, particularly in respect of development potential.

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 member countries.

Bangkok, April 1978

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, the Gilbert Islands, Hong Kong, India, Indonesia, Iran, Japan, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Nauru, Nepal, New Zealand, Pakistan, Papua New Guinea, the Philippines, 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 $US 1 as of December 1977*
Afghanistan	21 March to 20 March	Afghani (Af)	45.00
Australia	1 July to 30 June	Australian dollar ($A)	0.876
Bangladesh	1 July to 30 June	Taka (Tk)	14.396[a]
Bhutan	1 April to 31 March	Ngultrum (Nu)	8.70
Brunei	1 January to 31 December	Brunei dollar ($Br)	2.45
Burma	1 October to 30 September	Kyat (K)	7.087
China (fiscal year only)	1 January to 31 December	Yuan Renminbi (¥RMB)	2.04[b]
Cook Islands	1 April to 31 March	New Zealand dollar ($NZ)	0.981
Democratic Kampuchea	1 January to 31 December	Rial (R)	. . .
Fiji	1 January to 31 December	Fijian dollar ($F)	0.871
Hong Kong	1 January to 31 December	Hong Kong dollar ($HK)	4.62
India	1 April to 31 March	Rupee (Rs)	8.208
Indonesia	1 January to 31 December	Rupiah (Rp)	415.00
Iran	21 March to 20 March	Rial (Rls)	70.48
Japan	1 April to 31 March	Yen (¥)	240.00
Lao People's Democratic Republic	1 July to 30 June	Kip	200.00[c]
Malaysia	1 January to 31 December	Ringgit ($M)	2.37
Maldives	1 October to 30 September	Rupee (Rs)	8.530[d]
Mongolia	1 January to 31 December	Tughrik (T)	3.18
Nauru	1 July to 30 June	Australian dollar ($A)	0.876
Nepal	16 July to 15 July	Rupee (Rs)	12.50
New Zealand	1 April to 31 March	New Zealand dollar ($NZ)	0.981
Pakistan	1 July to 30 June	Rupee (Rs)	9.931
Papua New Guinea	1 July to 30 June	Kina (K)	1.013
Philippines	1 January to 31 December	Peso (₱)	7.38
Republic of Korea	1 January to 31 December	Won (W)	484.00
Samoa	1 January to 31 December	Tala ($WS)	0.749
Singapore	1 January to 31 December	Singapore dollar ($S)	2.33
Solomon Islands	1 January to 31 December	Australian dollar ($A)	0.876
Sri Lanka	1 January to 31 December	Rupee (Rs)	15.560
Thailand	1 October to 30 September	Baht (Bht)	20.40
Tonga	1 July to 30 June	Tongan dollar ($T)	0.730[e]
Viet Nam	[f]	Dong	. . .

Source: United Nations, *Monthly Bulletin of Statistics,* April 1978, Asian Development Bank, *Key Indicators,* and national sources.

Notes: [a] Cross rate based on noon sterling-dollar rates in London.

[b] Basic rate denotes a fixed rate.

[c] As of 30 June 1977, based on International Monetary Fund, *Annual Report 1977.*

[d] October 1977.

[e] 1976 official rate.

[f] Prior to reunification, the Republic of South Vietnam's fiscal year was from 1 January to 31 December.

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
c.i.f.	Cost, insurance and freight
CKD	Completely knocked down: automotive assembly components
DAC	Development Assistance Committee, of the Organisation for Economic Co-operation and Development (OECD)
f.o.b.	Free on board
GDP	Gross domestic product, with variations, e.g., GDPfc: gross domestic product at factor cost; GDPmp: *idem.* at market price; GDPpv: *idem.* at purchasers' value, etc.
GNP	Gross national product, also with variations, e.g., at market price or purchasers' value
GSP	Generalized System of Preferences
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
ISA	International Sugar Agreement
LME	London Metal Exchange
MSA	Countries most seriously affected by the international payments crisis, including: Afghanistan, Bangladesh, Burma, Democratic Kampuchea, India, Lao People's Democratic Republic, Nepal, Pakistan, Samoa and Sri Lanka
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
SDR	Special drawing rights, with the International Monetary Fund
SITC	Standard International Trade Classification

Part One

RECENT ECONOMIC DEVELOPMENTS AND EMERGING POLICY ISSUES IN THE ESCAP REGION, 1976-1977

I. THE INTERNATIONAL SITUATION

1. In 1977 international economic and financial conditions improved considerably over those which prevailed in 1976 and in the period 1973-1975, which had been characterized by widespread inflation, a prolonged and as serious world recession as any experienced since the 1930s and the international oil situation. However, the response of the international economy to these crises, while comparatively healthy, gives cause for concern, particularly when viewed from the viewpoint of a developing country.

2. In the industrial economies, economic growth lags below normal long-term growth rates, unemployment remains unusually high, there is widespread excess capacity in plant utilization, and a marked lack of business confidence and an expectant inflationary psychology remain in many countries.

3. One encouraging sign is the preparedness of many countries to emphasize medium-term objectives even at the expense of sacrificing what might be politically appealing short-term gains. It seems that increased emphasis is being placed on the long-term containment of inflation and the strengthening of over-all balance-of-payments positions in the expectation that such policies will in the longer run make for more satisfactory growth and employment prospects.

4. In the short run, however, this implies that there will be little scope for flexibility in the selection and application of policies. The risk of inflation and of balance-of-payments problems has given rise to a cautious use of monetary and fiscal policies in restimulating activity and to greatly increased emphasis on supplementary policies such as incomes policies which will take a while to have an impact.

5. While the world situation is comparatively unsatisfactory in relation to long-term trends, there are marked differences in the performances of individual countries. Countries such as the United States of America, the Federal Republic of Germany and Japan, which have been most successful in holding down inflation, are now leading the recovery in economic activity, although, and particularly in the case of Japan, with modest growth performances. Other countries, especially the developed primary producing countries, continue to be plagued with balance-of-payments problems and high and persistent inflation. In the case of the non-oil developing countries a wide variety of degrees of success attended stabilization measures and had mostly to do with the timing and usefulness of the adjustment measures adopted to deal with the appearance of recession and inflation in early 1974.

6. Although protectionist viewpoints in the developed industrial countries give cause for concern, there has been a reluctance to adopt significant protectionist measures. Such inward-looking solutions to structural unemployment situations would have had a generally adverse impact on the world economic situation and upon the position of the developing countries in particular. The developing countries supported the strong anti-protection statements made by the Interim Committee of the IMF Board of Governors in Washington in April, by the leaders of seven industrial countries in London in May and by the OECD Ministers in Paris in June 1977.

A. OUTPUT AND PRICES

7. The world economy's industrialized nations suffered a virtual cessation of economic development in 1974, a small decline of approximately 1 per cent of GNP in 1975 and a long-awaited increase in output of 5.5 per cent in 1976. In 1977 it is likely that the over-all rate of growth will decline slightly, to 4.5 per cent. These annual figures, however, fail to reveal some marked divergences in performance. The recession which commenced in late 1973 reached its nadir in early 1975, when in the first half of the year GNP in the industrial countries was declining by an astonishing average annual rate of about 4.0 per cent. This was followed by a strong resurgence in activity with industrial countries as a whole sustaining an average rate of growth of approximately 7.0 per cent from mid-1975 to mid-1976. The failure of gross fixed private investment to continue to pick up saw a further cyclical decline in the second half of 1976 to a 3.5 per cent average annual rate of increase. This fall in private investment was mainly due to uncertainties engendered by inflation and other economic and political problems. Its impact on growth was further assisted by generally cautious fiscal policies in the industrialized countries. Current indications are that GNP grew at around 5.0 per cent in the first half of 1977 and that it will average out to about 4.5 per cent for the whole year.

8. Taken together, the relative depression of 1974 and 1975 and the modest recovery from it have made for some easing of inflation, the average annual rate of inflation in the industrial countries falling to around 6.5 to 7.0 per cent between mid-1976 and mid-1977. This average, however, is too high because it poses severe management problems for the more severely affected industrial countries. From a developing country point of view it has been particularly important that the three developed industrial countries which dominate world economic conditions, namely the United States, Japan and the Federal Republic of Germany, have not only sustained reasonable growth rates but have also been most successful in controlling inflation.

9. Another factor which could have potentially serious consequences for the world's developing countries is the continued levels of high unemployment in the developed industrial economies. These directly threaten prospects for the growth in world trade by decreasing the growth potential of the developed economies and indirectly threaten it further by making for potentially strong protectionist viewpoints in affected industries. Unfortunately, it is precisely in those labour-intensive and long-established industries such as textiles, where the developing countries are rightly making their greatest inroads into developed country markets that protectionist sentiment is strongest. So far, as noted above, protection groups have been held in check. In the long run, however, steps will need to be taken to deal with the structural nature of the problems faced by such industries and allow for a more rational pattern of mutually advantageous trade to emerge between developed and developing countries.

10. The performance of primary producing countries varies significantly in some cases even if these countries are subdivided into major oil exporters, more developed primary producing and non-oil developing countries. Information on output and prices is summarized in tables 1 and 2. It can be seen that, partially as a result of more conservative fiscal policies and partially as a result of direct controls, the major oil exporting countries have to some extent reduced the level of their inflation while, except in 1975, continuing to sustain high rates of growth in output. The impact of a slower rise in output of oil production in 1977, however, will considerably reduce the average rate of growth in output below the high level achieved in 1976.

Table 1. PRIMARY PRODUCING COUNTRIES: GROWTH OF REAL OUTPUT, 1967-1976

(percentage changes in real GNP or GDP)

	Average[a] *1967-1972*	*Change from preceding year* 1973	1974	1975	1976
Major oil exporters[b]	9.0	10.7	8.7	3.0	11.7
Non-oil primary producing countries					
More developed	6.1	6.3	4.3	2.0	3.1
In Europe	6.7	7.3	4.7	2.5	3.3
Australia, New Zealand and South Africa	5.1	4.6	3.3	1.1	2.5
Less developed	6.1	6.7	5.2	3.4	5.1
In Africa	5.1	2.9	5.9	2.2	4.6
In Asia	4.9	7.0	2.6	5.4	6.3
In the Middle East	6.4	4.7	3.1	4.5	4.1
In Latin America and the Caribbean	6.8	7.5	7.2	2.2	4.6

Source: International Monetary Fund, *Annual Report*, 1977 (Washington, D.C., 1977).

Notes: [a] Compound annual rates of change.

[b] Algeria, Indonesia, Iran, Iraq, Kuwait, Lib a (Arab Jamahiriya), Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

Table 2. PRIMARY PRODUCING COUNTRIES: PRICE INCREASES, 1967-1976

(percentage changes in consumer prices)[a]

Groupings	Average[b] 1967-1972	Change from preceding year			
		1973	1974	1975	1976
Major oil exporters	8.0	11.0	16.0	17.5	14.5
Non-oil primary producing countries					
More developed	6.0	11.8	16.7	16.6	15.0
In Europe	6.8	13.5	18.7	18.0	16.0
Australia, New Zealand and South Africa	4.6	9.3	13.6	14.6	13.2
Less developed	10.1	21.7	30.3	30.2	31.3
In Africa	5.0	9.0	19.1	17.8	19.7
In Asia	5.4	14.2	26.5	8.2	—1.9
In the Middle East	4.0	13.7	21.4	18.9	14.5
In Latin America and the Caribbean	15.9	31.6	37.3	53.6	68.4

Source: International Monetary Fund, *Annual Report,* 1977.

Notes: [a] Average inflation rates for groups of countries are calculated from weighted geometric means of country indexes expressed in terms of local currency. Weights are proportional to GDP (in United States dollars) in 1970.

[b] Compound annual rates of change.

11. The more developed primary producing countries can be seen from table 2 to continue to experience both high rates of inflation (probably in excess of 10 per cent in 1977) and low growth rates in over-all economic activity. This is a consequence of their earlier attempts to sustain internal economic activity in the face of falling exports and deteriorating terms of trade by borrowing to maintain the flow of imports. In most cases this required, by late 1976 or during 1977, the adoption of highly restrictive demand policies, which have curtailed the level of economic activity while not yet dealing adequately with domestic inflation.

12. Taken as a whole, the world's non-oil producing developing economies have been less affected by the recession than have the other oil importing primary producers. In looking later at the case of individual countries the reasons for this will become apparent. The average rate of expansion of real output fell from 6.7 per cent in 1973 to 5.2 per cent in 1974 and then to 3.4 per cent in 1975 but recovered to 5.1 per cent in 1976. Indications are that the 1977 figure will exceed 6.0 per cent.

13. Yet these over-all growth rates fail to reveal three important points. First, these countries contain the majority and the poorest of the world's population and the shortfall in recorded performance was a grievous blow to their development hopes. Secondly, within this group of countries the performance of the larger in population and the poorer in *per capita* income terms was often well below the average recorded. Thirdly, the severe drop in the terms of trade of the non-oil developing countries were much worse in 1977 than those experienced in the early 1970s, the implicit loss in export purchasing power being of the order of 1 per cent of their total gross product.

14. Of the subgroups of non-oil developing countries the countries of Asia have generally performed best, as the tables indicate. They have sustained higher average rates of growth in output and the lowest rates of inflation for any major developing area. They have also greatly reduced the external imbalances which they experienced in 1974 and 1975. For the most part they have done this as the result of the adoption of successful stabilization programmes and because these sound policies were accompanied by good harvests which held down internal inflation and reduced the pressure on imports.

B. WORLD TRADE

15. In volume terms, while world trade is growing more slowly than in the initial recovery phase of 1976 (11.5 per cent above 1975), it is growing at a satisfactory rate roughly in line with the average sustained since 1960. The rise in world trade in 1976 was dominated by strong import demand in the case of the developed industrial and oil-exporting countries. Non-oil primary producers' demand for imports lagged cyclically behind the rise in exports

and was also depressed by attempts to restore international reserve positions and curtail domestic demand. Export volume changes from 1975 to 1976, however, were evenly distributed among the different groups of countries. Table 3 summarizes the relevant information concerning world trade movements.

16. The increase in world trade prices, denoted in United States dollar terms, has shown a tendency to decelerate from the highly inflationary rate of 1974. Their unit value rose by only 2 per cent in 1976, compared with 8.5 per cent in 1975. In early 1977 there was some acceleration in this trend as a consequence of the rise in some primary commodity prices which more than compensated for a fall in other primary commodity prices. Three major influences were at work in changing commodity prices. First, there were the oil price increases which took place in early 1977 and ranged between 5.0 and 10.0 per cent. Secondly, there was a rise in raw material prices in early 1977 which followed the brisk recovery of economic activity and trade in 1976. Finally, there was an upsurge in the prices of many tropical foods, such as cocoa, coffee, tea, vegetable oils and oilseeds.

17. The result of these relative price shifts has been some improvement in the terms of trade position of non-oil developing primary producers, as is indicated in table 4. The terms of trade of these countries taken as a group improved by about 4.0 per cent in 1976 and could improve by a greater amount in 1977. This would reduce by about half the disastrous deterioration in their terms of trade suffered in 1974 and 1975.

C. BALANCE-OF-PAYMENTS ADJUSTMENTS IN THE GLOBAL CONTEXT

18. In the period 1973-1976 two major balance-of-payments adjustment problems manifested themselves. First, as table 5 indicates, the aggregate current account surplus of the major oil exporting countries increased from $US 6 to approximately $US 40 billion. While this was well below the record surplus of 1974, it was concentrated in a few major countries whose capacity to expand their imports in relation to their exports is relatively low. Secondly, there was a marked change in the position of the major OECD countries' balance-of-payments situation. Prior to the rise in oil prices they had been in a position of surplus and provided for the

Table 3. WORLD TRADE SUMMARY, 1962-1976

(percentage changes in volume and in unit value of foreign trade)

			1962-1972[a]	Change from preceding year			
				1973	*1974*	*1975*	*1976*
World trade[b]		Volume	9	13	5	—4.5	11.5
		Unit value (US dollar terms)	2.5	23.5	41	8.5	2
		(SDR terms)[c]	2	12.5	40	7.5	7
Volume of trade	Imports	Industrial countries	9.5	12.5	1	—7.5	14.5
		Other developed countries	8.5	16	6	—6.5	3.5
		Major oil exporters	9	21.5	38.5	42.5	18.5
		Other developing countries	5.5	15	8	—6	1.5
	Exports	Industrial countries	9	14	8	—4.5	10.5
		Other developed countries	8	3.5	0.5	1.5	11.5
		Major oil exporters	9	13	—1	—11.5	13
		Other developing countries	6.5	8	4.5	—	13
Unit value of trade in SDR terms[c]	Imports	Industrial countries	2	11.5	39	8	6
		Other developed countries	2	10.5	46.5	9.5	7
		Major oil exporters	2	10	28	9.5	8
		Other developing countries	2	12.5	48.5	9.5	8.5
	Exports	Industrial countries	2	9.5	23.5	11	5.5
		Other developed countries	2	23	25	2	5.5
		Major oil exporters	3	26.5	205	3.5	12
		Other developing countries	1.5	24	36.5	—4	13

Source: International Monetary Fund, *Annual Report*, 1977.

Notes: [a] Compound annual rates of change.

[b] Sum of the groupings shown separately; based on approximate average of growth rates for world exports and world imports.

[c] For years prior to 1970, an imputed value of $US 1.00 has been assigned to the SDR.

Table 4. TERMS OF TRADE, 1962-1976

(percentage changes)

	Annual average 1962-1972[a]	Change from preceding year			
		1973	1974	1975	1976
Industrial countries	—	—2	—11	3	—1
Primary producing countries					
More developed countries	—	10	—14	—6	—2
Major oil exporters	1	14	138	—5	5
Non-oil developing countries	—0.5	10	—8	—13	4

Source: International Monetary Fund, *Annual Report*, 1977.

Note: [a] Compound annual rates of change.

Table 5. GLOBAL STRUCTURE OF CURRENT ACCOUNT BALANCES[a]

(in billions of United States dollars)

Groupings	1967-1972 average	1973	1974	1975	1976	1977 projections	1967-1972 average rescaled to 1977 prices and levels of real output[b]
Major oil exporting countries	0.7	6	67	35	41	37	3
Industrial countries	10.2	12	—10	19	—1	—1	31
Other non-oil countries							
More developed	—1.7	1	—14	—15	—14	—12	—6
Less developed	—8.1	—11	—30	—38	—26	—25	—28
Total[c]	1.1	8	14	—	—	—1	[d]

Source: International Monetary Fund, *Annual Report*, 1977.

Notes: [a] Goods, services and private transfers.

[b] Scale factors for prices are based on a general index of world trade prices; scale factors for growth are based on average rates of increase in real GNP (or GDP) in each of the respective groups of countries.

[c] Reflects errors, omissions and asymmetries in reported balance-of-payments statistics, plus balance of listed groups with other countries.

[d] In rescaled version of 1967-1972 average, this residual figure is primarily a reflection of asymmetries in the treatment of listed groups, and thus does not lend itself to meaningful interpretation.

capital needs of other non-oil producing countries, including developing countries. At first, following the increase in oil prices, they shifted into a clear deficit situation but subsequently, as a consequence of vigorous anti-inflation policies, they eliminated the oil-related deficits in their balance of payments. Finally, there was a group of other oil importing countries (excepting the United States, Japan and the Federal Republic of Germany) the aggregate deficit of which increased from $US 8 billion in 1973 to $US 64 billion and $US 55 billion in 1975 and 1976 respectively.

19. These developments indicate the emergence of the major oil exporters as the principal surplus group and the disappearance of the formerly large current account surplus of the industrialized countries. Yet, although the latter group of countries are no longer a major source of financing to cover the deficit position of other countries, they channel through their financial institutions to the oil deficit countries the large foreign savings provided by the major oil exporters. In effect, the industrialized countries concerned have increased their national savings to pay for their share of the oil deficit and their previous position has now been taken over by the major oil exporters. Because of this net increase in the savings of one group and the decrease in the savings of the other, the current global level of international savings is not unduly high in real terms as compared with pre-1974 experience. This is an important conclusion because it indicates that a flow of funds to the developing countries and other non-oil producing countries can be sustained at previous real levels without undue international disturbance.

20. Because of the high level of aggregation, of course, there will continue to be individual countries experiencing problems of balance-of-payments management. The problems of individual countries are not of concern here, but some comments can be made about the situation of Asian non-oil producing developing countries. As recorded above, these countries have greatly strengthened their balance-of-payments position since 1975: there has been reduced demand for imports as a result of anti-inflation policies; there has been a series of good harvests which has reduced demand for imports; world food prices have also declined in relative terms; and there has been a strong revival in export earnings accompanying the expanded level of economic activity in the industrial countries. For many Asian countries the adjustments required in balance-of-payments positions were achieved by 1976 and these countries are now well situated to implement domestic development programmes that are no longer subject to critical balance-of-payments constraints. Other countries will continue to require moderate or in some cases major policy changes, although in many instances the need for these has been temporarily avoided as a result of favourable harvests or aggressive short-term commercial borrowing.

II. ECONOMIC DEVELOPMENT IN ESCAP DEVELOPING COUNTRIES, 1976-1977[1]

A. GROWTH RATES OF GROSS PRODUCTS

21. Although hard data are not yet available, current indications suggest that 1976 and 1977 have been generally satisfactory years for the countries of the Asia-Pacific region. In South Asia the situation is dominated by the exceptionally good performance of the Indian economy. This has been based on demand management practices which curtailed domestic inflation, on an upsurge in exports and on a particularly gratifying increase in agricultural output. Following upon unsatisfactory growth of only 2.1 per cent in the 1976/77 fiscal year the economy looks as if it will achieve a real growth rate in GNP of around 6.0 per cent in the 1977/78 fiscal year. Given its economic weight in the performance of the region, this will make for a generally sound regional achievement for 1977. Indeed, in the last four years India's average annual growth rate in GNP has approximated 4.0 per cent, which is above the trend rate of 3.5 per cent achieved in the first four five-year plans. The position of the Indian economy in respect of its agriculture remains precarious, however.

22. Solid performances in 1977 vis-à-vis 1976 were also recorded in other South Asian economies. In Pakistan, as a result of both favourable weather conditions and policies adopted in the agricultural sector and a more buoyant climate for private investment, a solid growth rate in GDP of 9.6 per cent is being predicted for the 1977/78 fiscal year. The impact of this performance needs to be juxtaposed against the severe set-back experienced during 1976/77 on account of adverse weather conditions, the international recession in textiles, and political unrest. In that year GDP in real terms rose by only 0.5 per cent and *per capita* incomes declined on average by 1.8 per cent. In the previous fiscal year, 1975/76, GDP had risen by 3.6 per cent.

23. In Bangladesh the recovery of the economy from natural and political disasters is now complete and the situation is stable. In the 1974/75 fiscal year real output increased by 2 per cent. In 1975/76 the economic performance was encouraging and GDP growth in real terms was about 9.7 per cent. In 1976/77, owing to adverse weather conditions, the targeted growth rate of 5 per cent could not be achieved. Foodgrains production declined; as a result total output of the agricultural sector declined by 1.4 per cent and a modest growth of 1.7 per cent in GDP was recorded. On the basis of the actual production in agriculture and industry for the first eight months (July to February), performance in 1977/78 is expected to be considerably better. Foodgrains production is estimated at 13.3 million tons and growth in agriculture is expected to be 8.3 per cent. On this basis the growth in GDP in real terms during 1977/78 is likely to be around 8 per cent. During the first five-year plan of Bangladesh (1973-1978) GDP in real terms has grown by about 6 per cent and *per capita* income by about 3 per cent per annum. A comparison of these two economic indicators gives a contrasting result when compared with 1969/70 — a year assumed to be normal for that time. Compared with 1969/70, GDP declined during the period 1970-1972, at a rate of 10 per cent per year. From 1972/73, GDP began to recover and during the plan period (1973-1978) has been growing at an annual rate of 6.1 per cent. However, for the entire period, 1969-1978, annual growth rate of GDP has averaged 2.1 per cent. *Per capita* income declined drastically (by 11 per cent per year) during the period, 1969-1972; recovery during the plan period (1973-1978) has been at 3.1 per cent per year on average.

24. In Sri Lanka modest rates of growth in GNP of 3.0 per cent in 1975 and of 3.8 per cent in 1976, reflected improved performance by that economy; an over-all growth of 4.5 per cent was being predicted for 1977. This is mainly the result of improved performance in the agricultural sector, particularly in the case of paddy, tea and rubber and of the increase in value added in processing the last two crops.

25. The land-locked state of Nepal continued to be plagued by a poor performance in the agricultural sector, where, according to preliminary estimates, the output of paddy, the country's main staple, is expected to decline by 8.4 per cent in 1976/77 as a result of bad weather. For similar reasons a fall in wheat output of 8.4 per cent is also expected. Given an anticipated slow rate of growth in industrial output, GDP in 1976/77 is unlikely to have exceeded the level attained in 1975/76; with a population growth rate of around 2.0 per cent, *per capita* income would thus have declined.

26. From the above it can be seen how vulnerable are the economies of South Asia with regard to their

[1] Data used in this section have been drawn from as yet unpublished papers prepared for the ESCAP secretariat. The data are based wherever possible on official publications.

agricultural sectors. In contrast to this pattern, in Iran a modest performance in agriculture in the 1977 fiscal year did not prevent aggregate output from growing by 14.0 per cent in real terms owing to a satisfactory expansion of production in the oil, service and manufacturing sectors. This performance compares favourably with the 12.0 per cent growth in GNP in fiscal year 1975/76. Iran is now concentrating on developing a modern industrial sector to lessen its future dependence on oil.

27. In Southeast and East Asia recent economic performance has been generally satisfactory in terms of over-all growth rates achieved. In this case a revived international economy has probably been of more importance than in the case of South Asia, where the agricultural sector is more dominant in terms of the domestic economy. More buoyant conditions in the developed industrial economies have favourably affected these countries by an increased demand for raw materials and as a result of better access to markets for the manufactured exports of the developing countries.

28. Defined to include the ASEAN members together with Hong Kong and the Republic of Korea, this group has achieved annual average increases in *per capita* incomes of 4.0 per cent or more in real terms over the last decade, despite population growth rates which range between 2.0 and 3.0 per cent per year for most of the countries. Data available for 1976 suggest that recent performances match those attained earlier in the decade. In 1976 GDP grew in real terms by 16.2 per cent in Hong Kong, 7.0 per cent in Indonesia, 15.0 per cent in the Republic of Korea, 11.5 per cent in Malaysia, 7.0 per cent in the Philippines, 8.0 per cent in Singapore and 8.2 per cent in Thailand. To date 1977 estimates of GDP growth rates are available only for Malaysia (8.0 per cent), the Philippines (4.5 per cent), Singapore (7.5 per cent) and Thailand (6.2 per cent). In the latter case a severe drought in the northeast of the country was responsible for the lower-than-usual performance. Given a continuing economic recovery in international markets, there is no reason to suspect that equally satisfactory performances in over-all growth have not been attained in the other countries in 1977.

29. It has been encouraging to note the recent satisfactory performance of the Burmese economy. After sustaining quite modest growth rates of 3.6 per cent in fiscal year 1974/75 and of 3.8 per cent in fiscal year 1975/76, the growth rate increased to 6.0 per cent in the recent fiscal year (1976/77). This was a result of a satisfactory growth rate of 4.0 per cent achieved in the agricultural sector and of a 7.0 per cent increase in industrial output. Agriculture continues to be the key sector of the economy and a satisfactory performance will continue to be required if plan targets are to be achieved. Current indications are that adverse weather conditions will call for a downward revision of the targeted rate of growth for GDP of 6.6 per cent in 1977/78.

30. Finally, although estimates concerning GNP are not to hand, it is evident that the developing island countries of the South Pacific have been strongly affected by international developments. This group of countries is influenced particularly by the availability of imports to sustain an adequate flow of goods and services. In one of the largest countries, Fiji, estimates for 1973/74 show that net imports provided 46 per cent of total calories and 73 per cent of total protein.[2] This is also the case in other Pacific island countries and there is emerging evidence that the decline in real imports in 1976 was particularly severe in some of the islands. The worst affected countries were New Caledonia, Samoa, the Solomon Islands and Tonga, with *per capita* declines in real imports of from 21 to 26 per cent. Fiji came next with a decline of around 13 per cent. In all such cases this decline in real imports was due to a combination of one or more of declining export income and/or of real foreign assistance flows. In the likely absence of other offsetting developments in domestic production, it suggests substantive declines in real *per capita* incomes in some of the island economies in 1976.

31. From the foregoing the generally solid performance of the ESCAP region in 1977 can be appreciated; yet the forces making for the success underline the continued vulnerability of the ESCAP region in two respects. First, the poorer countries of the South Asian subcontinent remain precariously dependent on performance in the agricultural sector to sustain existing, let alone adequate, increases in what are deplorably low living standards. It seems that from year to year these countries will continue to encounter adverse weather conditions which will jeopardize their economic performance. In the case of the larger economies, and particularly in the case of India, much is being done to diversify production, but Pakistan, Bangladesh, Nepal, Sri Lanka and Burma remain exceptionally dependent on agriculture. It is unlikely that these countries, including India, can for many years reduce their dependence on the agricultural sector as a source of food for their expanding populations, as a market for expanding domestic industrial output, as a supplier of raw materials and, finally, as the major source of employment opportunities. This will call for the intensification of policies which reduce the depen-

[2] Government of Fiji, *Fiji's Seventh Development Plan, 1976-1980* (Suva, Central Planning Office, 1975), p. 63.

dence of the agricultural sector on erratic weather conditions. In particular, irrigation of a small- and large-scale nature needs be accorded the highest priority and every effort should be made further to expand yields in other than wheat and new variety rice production as well as to increase the output of complementary activities.

32. The other major area of vulnerability which persists and which has been highlighted by the good performance of 1977 is the dependence of many countries, and particularly those of Southeast and East Asia, on the level of performance of the international economy and on access to its markets. Yet it would be wrong to over-emphasize this vulnerability as the recent performance of these countries proved them capable of sustaining high growth rates even during the worst and most prolonged recession experienced by the international economy since the 1930s. The Indian economy was also conspicuous in this regard. For the most part these economies are building a high degree of flexibility into their systems which is intended both to lessen their dependence on agricultural production as a means of generating income and to allow them, by switching their patterns of production, to take full opportunity of shifts within the international market.

B. AGRICULTURAL OUTPUT

33. Tables 6 and 7 provide data concerning agricultural output in the region. In addition, preliminary estimates based on unpublished country papers suggest that there have been substantial increases in paddy output in developing market economies of the region as a group. This performance has followed upon a slight decline in output in 1976 compared with 1975 in the same group of countries.[3] The experience of all Asian and Pacific countries considered as a whole was similar.

34. In India the outlook for economic growth in 1977/78 was influenced mainly by a record *kharif* production and by exceptionally good prospects for the current *rabi* crops following good rains and moisture conditions. While the impact of the recent cyclone in southern states has yet to be fully assessed, foodgrain production in 1977/78 is expected to exceed the previous record of 120.8 million metric tons achieved in 1975/76; it is likely to be around 124 million metric tons. The performance of cash crops is also likely to improve with the production of jute, sugar-cane, ground-nuts and cotton all expected to increase in 1977/78.

35. While the bumper crop in 1977/78 highlights the dependence of the Indian economy on the vagaries of the weather, it should allay to some extent the undue pessimism expressed about agricultural output in the early 1970s. Perhaps of greater cause for concern is the fact that production of rice and wheat continues to show better growth than that of "other cereals" and pulses which are the staple foods of the poor majority of the population. Shortages in the latter were critical in fuelling inflation in 1976. Another problem on which urgent action is required is the acute storage problem of foodgrain stocks, which could increase by the end of the fiscal year 1977/78 to 20 million metric tons. There are already reports that much of this food has been damaged and rendered unfit for human consumption. Another problem concerning foodgrain stocks is their distribution throughout the country, which is strongly urban-biased and hampers public distribution to needy areas.

36. High priority has been given by the new Government to agriculture and rural development and the emerging economic strategy has a pronounced labour-intensive, anti-poverty focus. Much will need to be done, however, to change the existing institutional and organizational framework in the rural areas if the new policies are to prove successful. It is encouraging to note that the widest participation of private and voluntary organizations in area planning is envisaged. Equally important is the need to implement land reforms effectively and to ensure that the weaker sections in rural areas are organized to participate in development.

37. Considerable attention has been paid to Indian agricultural and rural development because of the size of that country's economy in the region and because of new policy developments. The smaller economy of Sri Lanka is one in which agriculture plays an even more important role and in which major policy changes were also introduced in 1977. Generally speaking, the modest rates of growth in GNP in Sri Lanka in the period 1972-1976 can be attributed to the subnormal and erratic performance of the agricultural sector. In 1976 agricultural output declined by 0.9 per cent after an increase of only 1.2 per cent in 1975. These poor performances were in part a result of adverse weather conditions but were also strongly affected by the declining application of fertilizer, the non-availability of price incentives and the poor record of the plantation sector.

38. Production trends in 1977, however, indicate that agricultural output could increase by as much as 9.0 per cent with paddy production expected to reach an all-time high of 82 million bushels. This good performance reflects the beneficial effects of

[3] See Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, vol. VIII, No. 2, October 1977 (Manila, 1977), table 11.

Table 6. PRODUCTION OF PRINCIPAL CROPS IN THE ESCAP REGION, 1970-1977

(in thousands of metric tons)

Crops		*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Wheat	X	65,526	70,077	76,171	76,595	74,575	82,386	90,745	88,334
	Y	8,651	9,370	7,263	12,587	11,837	12,425	12,362	10,210
	Z	74,177	79,447	83,425	89,178	86,412	94,811	103,107	98,544
Rice	X	272,797	277,688	264,250	289,114	288,054	310,556	302,325	315,907
	Y	16,740	14,449	15,699	16,087	16,376	17,489	15,709	17,528
	Z	289,537	292,136	279,950	305,200	304,430	328,045	318,034	333,435
Maize	X	47,881	46,672	45,476	49,050	50,077	53,000	52,604	53,198
	Y	284	338	353	258	250	349	374	425
	Z	48,164	47,010	45,829	49,308	50,327	53,349	52,978	53,623
Sugar (centrifugal, raw)	X	13,068	13,196	12,138	13,682	14,909	15,770	17,047	18,595
	Y	3,206	3,376	3,487	3,181	3,328	3,321	3,843	3,840
	Z	16,274	16,573	15,625	16,863	18,237	19,091	20,890	22,435
Cassava	X	21,681	21,479	24,024	27,096	29,079	28,705	30,672	33,436
	Y								
	Z	21,681	21,479	24,024	27,096	29,079	28,705	30,672	33,436
Tea	X	1,005	1,012	1,080	1,124	1,142	1,154	1,180	1,261
	Y	91	93	95	101	95	105	100	105
	Z	1,096	1,105	1,175	1,225	1,238	1,260	1,280	1,366
Copra	X	3,556	3,479	3,508	3,268	3,463	3,923	4,699	4,082
	Y	—	—	—	—	—	—	—	—
	Z								
Palm oil	X	755	960	1,149	1,290	1,582	1,895	2,038	2,234
	Y	—	—	—	—	—	—	—	—
	Z								
Cotton	X	3,721	4,416	4,277	4,671	4,741	4,302	4,080	4,273
	Y	29	20	44	31	31	33	25	29
	Z	3,749	4,436	4,321	4,702	4,771	4,335	4,105	4,301
Natural rubber	X	2,705	2,781	2,755	3,185	3,155	3,046	3,339	3,340
	Y	—	—	—	—	—	—	—	—
	Z								
Jute and jute-like fibres	X	3,435	3,194	3,817	4,364	3,703	3,709	3,912	4,130
	Y								
	Z	3,435	3,194	3,817	4,364	3,703	3,709	3,912	4,130

Source: Food and Agriculture Organization of the United Nations computer print-out, April 1978.

Notes: X = developing ESCAP countries.

Y = developed ESCAP countries.

Z = all.

[a] Estimates.

Table 7. PRODUCTION OF PRINCIPAL CROPS IN THE ESCAP REGION, 1970-1977

Crops	*1976 (in thousands of metric tons)*	*Annual percentage change*			
		1975	*1976*	*1977*[a]	*Compound rate 1970-1977*
Rice	318,034	7.8	—3.1	4.8	2.0
Wheat	103,107	9.7	8.7	—4.4	4.1
Maize	52,978	6.0	—0.7	1.2	1.5
Sugar	20,890	4.7	9.4	7.4	4.7
Cassava	30,672	—1.2	6.9	9.0	6.4
Tea	1,280	1.8	1.6	6.7	3.2
Copra	4,699	13.3	19.8	—13.1	2.0
Palm oil	2,011	19.8	7.5	9.6	16.8
Cotton	4,105	—9.1	—5.3	4.8	2.0
Natural rubber	3,339	—3.4	9.6	0.0	3.1
Jute and jute-like fibres	3,912	0.2	5.4	5.6	2.7

Source: Table 6.

Note: [a] Figures for 1977 are estimates.

favourable weather conditions, the partial coming into effect of the Maheveli irrigation diversion and the greater use of fertilizer following the introduction of a 50-per cent subsidy in late 1975.

39. Policies directed towards agricultural production by the new Government include the completion of the above diversion scheme within five years instead of 25, the establishment of an export processing zone, an increase in the guaranteed price of paddy from Rs 33 to 40, a further increase in the fertilizer subsidy from 50 to 75 per cent, five years' tax exemption for new companies established in agriculture, and the withdrawal of subsidized rice and sugar rations from families with an income above Rs 3,600 per year. The net effect of these policies should generate substantial increases in food production.

40. The plantation sector continues to give cause for concern; when the export price index was at a record level in 1976, this sector recorded its lowest volume of production for 10 years. Now that the plantations have been absorbed into the public sector, a major task will be to promote efficient management so that the plantations will enhance the stability and productivity of the whole agricultural sector in Sri Lanka.

41. Aggregate economic growth in Pakistan is also highly dependent on agricultural production. The decline in *per capita* income experienced in 1976/77 was primarily due to the fact that value added in the agricultural sector increased only marginally. Another major adverse factor was the floods of August 1976, which reduced the output of cotton, the country's main cash crop, to as low as it had been since 1966. In financial terms this loss was equivalent to some 3.6 per cent of GDP at the current factor cost of 1976-1977.

42. Prospects for 1977/78 agricultural output are good primarily as a result of favourable weather conditions. It is anticipated that cotton output will rise by 20 per cent over that of 1976/77 and, while the rice crop estimate is not yet available, it too is a *kharif* crop and should be favourably affected. There are also good indications that the targeted increases in output of wheat and sugar-cane of 5.5 and 6.8 per cent respectively will be attained.

43. Short- and longer-term measures were announced by the Government in 1977 to stimulate agricultural output and employment. In the agricultural sector the new measures involve the setting of specific targets for the supply of essential inputs. A special monitoring system has been devised to identify problems and adopt prompt remedial measures. Banks have been requested to pay special heed to the credit requirements of farmers and steps have been taken to ensure the better provision of wheat and cotton seeds and to raise sugar-cane output.

44. Steps have also been taken to restore the confidence of the private sector by returning to their former owners in the private sector cotton-ginning, rice-husking and flour-milling factories which were earlier nationalized.

45. The close correlation between rates of growth in GDP and in agricultural output is also fully evident in the case of Bangladesh. The following figures provide estimates of changes in GDP growth rates (with rates of change for agricultural output appearing in parentheses): 1972/73, –5.1 (–3.4); 1973/74, 12.9 (10.4); 1974/75, –1.9 (–5.3); 1975/76, 8.3 (9.3); and 1976/77 (provisional), 3.0 (1.3).

46. Nepal is another South Asian country which is vitally dependent on agricultural output since it currently provides a livelihood to 94 per cent of the population, contributes slightly over 64 per cent of GDP and generates over 80 per cent of total export earnings. Data concerning agricultural output in relation to plan targets are disappointing. In the last five years food output has averaged an increase of only 1.1 per cent per annum and cash crops only 1.0 per cent per annum. During this time also, average yields per hectare have remained stagnant, increases in output having been secured from bringing new land under cultivation. Current prospects for agricultural production are not favourable, with adverse weather and other, longer-term factors expected to reduce the level of agricultural output in 1976/77 and possibly 1977/78.

47. The medium-term problem, if these trends continue, is that with increases in population exceeding food output a serious balance of payments constraint on development could emerge in the early 1980s.

48. Policy measures have been adopted recently in order more fully to involve the bulk of the population in the development process. A new programme of rural co-operatives is being established which is to cover 30 districts. The co-operatives are multipurpose and are to assist with both production and marketing aspects of rural development. Funds collected several years ago under the land reform programme have been given to them. They are to be guided by elected representatives of the village *panchayats* in an endeavour to secure increased participation of the people in development.

49. In another attempt to involve people at the local level an investment and savings scheme known as The *Panchayat* Development and Land Tax is

to be introduced throughout the country within five years. The scheme will allow village-level institutions to invest more effectively; irrigation, forestry, soil and water conservation are being accorded priority treatment.

50. Despite an encouraging increase in output in agriculture in 1976/77, it is too early to predict whether this represents a change in the trend which saw value added in agriculture in Burma growing over the past decade at a rate only slightly in excess of population growth at 2.2 per cent. Current indications for the 1977/78 crop year are uncertain because of an insufficient and short monsoon; it appears unlikely that the targeted rate of increase in GNP of 6.6 per cent can be attained.

51. A number of steps have been taken in Burma to encourage increased agricultural output. One of these has been to increase substantially the price received by the farmer for paddy. Some of the increase in output in the last two years has been in response to this. Subsequently, however, the prices of consumer goods and costs of production have increased and another increase in the price of paddy may be required to stimulate further increases in production. The Government's dilemma is the effect which this could have on wage levels and inflation.

52. Another problem is that the plan to raise the productivity of farmers is lagging behind schedule. The target for introduction of new high-yielding varieties was 3.7 million acres of paddy land by 1977/78, but by 1976/77 only 2.0 million acres had been planted with the new seeds.

53. Greater attention has been paid to recent developments in agriculture in South Asia because of the generally great importance of agriculture in these economies. Complete data are not yet available concerning 1977 developments in agricultural output in the rest of the region. Agricultural and paddy output increased in 1976 over 1975 levels in all ASEAN countries and in the Republic of Korea.[4] In some countries, such as Indonesia, the increases were marginal but in others, such as Malaysia, the Philippines and the Republic of Korea, the increases were substantial. In the case of the Philippines agricultural production appears likely to have increased by only 4.0 per cent in 1977 as a result of natural factors and declining commodity prices for exports.

54. Thailand, a country for which 1977 as well as 1976 data are available, is an interesting case. As in the other larger ASEAN member countries, agriculture continues to play a dominant role in the Thai economy; however, despite an estimated decline in agricultural output of 1.0 per cent in 1977 the estimated rate of increase in GDP remains high at 6.2 per cent. Agricultural output declined because a mid-year drought affected several crops, notably maize.

[4] *Ibid.*, table 18.

55. Of the group of countries under consideration, Indonesia appears to have the most significant problems concerning agriculture. This is in part related to its position as an oil exporter. In one respect, of course, Indonesian experience appears enviable because, at a time of high aggregate growth rates in the economy, dependence on agriculture declined from around 44.0 per cent of GDP in 1971 to 36.0 per cent in 1976. The main reason for this was that agriculture's average annual rate of growth, which at 4.0 per cent was quite high, was less than that of other sectors. The concerns about the relative decline in the share of agriculture are the short-term one of inadequate employment creation in non-agricultural activities and the disturbing tendency for the expansion of rice production to slow down. The increase in paddy harvested in 1976 was marginal and there are signs that rice production in 1977 has also been stagnant. The net effect of this is to make Indonesia increasingly dependent on food imports, which reached nearly 3 million tons in 1976.[5]

56. In the medium term there is no guarantee that Indonesia can continue to rely on cheap rice imports or on having adequate foreign exchange with which to finance them. In the circumstances urgent steps need be taken to channel credit and fertilizers to needy farmers so that domestic production can be increased. Policy measures have been adopted in both these areas with a view to improving the efficiency of the village co-operatives and the range of farmers whom they should service and to arranging for the better extension of credit facilities.

C. INDUSTRIAL OUTPUT

57. It is instructive to look at the shares of major sectors in the GDP of the developing ESCAP countries for the years 1968, 1972 and 1976.[6] Despite wide variation among countries, the dominant pattern is one of a decline in agricultural share and an increase in that of industry, manufacturing in particular. By 1976, several economies were producing more than a seventh of GDP in the manufacturing sector: the Republic of Korea (31 per cent), Hong Kong and the Philippines (25 per cent), Singapore and Thailand (20 per cent), and India, Malaysia

[5] *Bulletin of Indonesian Economic Studies*, vol. XIII, No. 2 (Canberra, Australian National University, July 1977), p. 30.

[6] Data for constant-price shares from Asian Development Bank, *op. cit.*, October 1977, table 7 and country tables.

and Pakistan (15 per cent). Of these only India depends upon agriculture for as much as 40 per cent of GDP. Other countries with a third or more of GDP produced in agriculture in 1975 or 1976 include Afghanistan, Bangladesh and Nepal (more than half), Burma, Indonesia and Pakistan (more than a third), and Sri Lanka (just under a third); all of these except Pakistan had manufacturing shares markedly smaller than India. While primary products exporters, such as the ASEAN countries other than Singapore, have strongly felt the influences of external market fluctuations in recent years, even production and export of manufactures have been heavily influenced by international market fluctuations in most of these countries and in predominantly manufactures exporting economies such as the Republic of Korea, Hong Kong and Singapore. Again, however, while India is the conspicuous exception, having developed manufacturing on a broad domestic base, there is evidence of the increasing importance of domestic markets in all these countries. The significance of subregional groupings could also become important should meaningful developments occur in the ASEAN subgroup of countries. Problems of scale and co-ordination arise from the less advanced manufacturing development in Indonesia, the largest potential market for manufactures in the group. The relative importance of manufacturing to the different countries needs to be borne in mind when discussing individual country situations below.

58. Industrial output prospects in the Indian economy could depress what would be an otherwise high rate of growth in GNP in 1977/78. Industrial growth has been running at an annual rate of about 5 per cent in the first quarter of the current fiscal year and there are indications that for the entire year it may only be 6.0 per cent, which compares most unfavourably with the 10.8 per cent achieved in 1976/77, which was nevertheless the highest recorded for the last decade. Industrial output has been plagued by a variety of problems including industrial unrest, uncertainty on the part of investors about the economic policy directions of the new Government, critical electrical power shortages which will take some time to put right, and even depressed demand conditions in certain industries such as textiles, engineering goods and sugar.

59. According to the new industrial policy some 500 items of production have been reserved for exclusive production by very-small-scale, cottage and village industries. Such items have been selected after a careful examination of cost conditions under different techniques of production. The intent is to create employment by bringing about the use of more labour-intensive production methods. The policy also covers such considerations as the geographic location of new large sector units, their access to resources and the role of the public sector.

60. To provide maximum opportunity for review and flexibility, the fifth plan, which is formally to end next year, is to be replaced by another "rolling plan" which will provide for annual plans within a five-year perspective. The new rolling plan is to involve the formulation of 2,000 area plans for as many blocks. This important innovation is certain to place a heavy load on scarce administrative and planning skills.

61. In Pakistan also, industrial output has been affected by such diverse factors as natural calamities, such as the fall in cotton output, by the international recession in textiles, by political and industrial unrest and by stagnant private investment. As a consequence, value added in manufacturing in 1976/77 declined by 0.8 per cent, against the targeted increase of 7.6 per cent. Current indications, however, augur well for a better performance in 1977/78.

62. Among other policy measures specific targets have been set for a number of industries and a special committee has been appointed to monitor progress and assist in removing obstacles. A commission has also been appointed to reappraise the working of public sector industries and recommend measures to improve their efficiency. Other special tax, subsidy and interest rate concessions have been adopted and more liberal imports are to be permitted with regard to capital goods, semi-processed products and raw materials.

63. To promote exports, the scheme to establish free industrial zones is being expedited, the export credit guarantee system has been placed on a permanent footing and a ban on the export of certain items has been removed.

64. To restore private sector confidence some nationalized industries have been transferred to their former owners and private investment and ownership have been allowed in 10 out of 11 basic industries previously set aside for the public sector. Lines of demarcation with respect to the private and public areas of influence have been set. Public utilities have been reserved exclusively for the public sector, while new investment in basic chemicals, cement and hydrogenated vegetable oil industries are reserved exclusively for the private sector. The private sector also has exclusive access to downstream manufacturing in iron and steel, basic metals, heavy mechanical and electrical engineering industries, the assembling and manufacture of motor vehicles, petro-chemical industries etc.

65. In Burma the industrial sector contributes around 10.0 per cent of GDP and provides employment for about 7.0 per cent of the work force, about 80 per cent of whom are employed in privately or co-operatively owned enterprises which are typically small-scale and labour-intensive. Industrial output has grown more rapidly recently as a result of new policy initiatives; value added at constant prices has increased at just under 8.0 per cent per annum during 1974/75 to 1976/77, compared with about 3.0 per cent per annum between 1962 and 1971. This improved performance has been based upon all enterprises being required to run on commercial guidelines and as a consequence of measures which have increased the availability of agricultural inputs and imported raw materials. Products are now to be priced so as to clear markets, and not on a rigidly determined cost-plus basis. Another manifestation of the success of the policies is that excess capacity has been reduced from approximately 50 per cent in 1974/75 to about 35 per cent in 1976/77.

66. Burma has a balanced natural resource base and considerable opportunity exists to promote manufactured exports in such areas as marine products, processed wood products, light engineering goods and handicrafts.

67. The economies of Singapore, Malaysia, the Philippines and Thailand provide interesting contrasts with regard to recent industrial experience. All four economies have been strongly affected by the recovery of the international market. In Thailand manufacturing output rose by around 14 per cent in 1976 and 13.7 in 1977; in Malaysia by 18.0 and 16.0 per cent respectively; in the Philippines by 5.7 and 6.8 per cent respectively; and in Singapore by 9.5 and 9.6 per cent respectively. Significantly, Thailand's growth in industrial output has been more affected by the growth of domestic rather than external demand and the anticipated decline in the rate of increase of Thai manufacturing output in 1978 is likewise expected to result from domestic factors such as excess capacity and shortages of certain raw material supplies, especially in agro-industries.

68. In this group of countries the main policy changes have taken place in Singapore, where policy measures have emphasized the development of industries with higher values added in skill and technology fields. Special assistance is being given to small but technology-oriented concerns which specialize in projects of unique technological benefit to Singapore.

69. One problem which could limit Singapore's growth prospects is its reclassification as a developed country by IBRD and IMF. This could mean the loss of concessionary aid from international agencies, the loss of trade preferences such as GSP, the loss of special incentives which encourage investors in the developed countries to promote LDCs, as well as a change in status from a recipient to a donor country.

70. The recent impressive growth record of the Indonesian economy has not been based on substantial rates of increase in manufacturing output. Conscious of its strong exchange rate position and of the formidable problems of penetrating external markets, Indonesia has until now preferred a policy of import substitution, but there are signs that the limited potential for further development of this strategy, the appearance of excess capacity in several new manufacturing industries, the development of ASEAN and the possibility of penetrating Middle East markets could bring about a shift in industrial strategy.

71. Emerging excess capacity has provided the incentive for efforts to secure export contracts for fertilizer, cement and building steel. In the case of ASEAN it is evident that success will in future depend on member countries' granting substantive concessions with regard to the penetration of their own markets in response to similar and reciprocal concessions from other members. Finally, steps have been taken to establish a high-level committee to launch an export drive in the Middle East and an office is to be established at Jeddah.

D. INTERNATIONAL TRADE AND PAYMENTS[7]

1. Global developments

72. To gain a broader perspective of the changing global trade situation, the rates of growth of exports and imports are compared for various country groupings over the two subperiods, 1970-1973 and 1973-1976.[8] Rates of growth of exports of developed countries declined from an average of 22.4 per cent per annum over the 1970-1973 period to 16.9 per cent per annum in the following three years. The decrease in the growth rate was due largely to the slow-down of the exports of European countries. The relative share of exports of developed countries consequently decreased from 80.3 per cent in 1970 to 78.8 per cent in 1973 and 71.8 per cent

[7] Some of the material in this section draws upon documentation prepared for the recent twenty-first session of the Committee on Trade. In particular, the tables on which the text is based can be found in document E/ESCAP/TRADE.21/9 (tables 1, 2, 6, 7, 9 and 10).

[8] These rates of growth are the average of the year-by-year percentage increases over the period.

in 1976. The rate of growth of the developed Asian countries, in which Japan is the largest component, decreased only slightly, from 24.1 per cent to 23.5 per cent per annum over the two periods, and their share increased from 7.3 to 7.7 per cent of total world exports. The growth of exports of developing countries, however, accelerated. Their rate of growth increased from the average of 26.9 per cent per annum for 1970-1973 to 39.4 per cent per annum in the following three years and their share of exports in the world total increased from 19.7 per cent in 1970 to 21.3 per cent in 1973 and 28.2 per cent in 1976. While the most rapidly rising export value was from the Middle East countries, ESCAP countries also were doing well, the growth rate having increased from 31.4 to 34.0 per cent per annum, which caused their share of the world total to increase from 6.2 per cent to 7.4 and 9.4 per cent.

73. The situation on the import side is similar to but somewhat better than that of exports, the decrease in the rate of growth of imports of developed countries over the two periods 1970-1973 and 1973-1976 being less than that of exports. The growth rate of imports of those countries decreased from 22.3 per cent per annum for the 1970-1973 period to 19.1 per cent per annum for 1973-1976. Europe again accounted for most of the decline. The share of imports of developed countries in the world total also decreased from 80.9 per cent to 76.8 per cent in 1976. The imports of developed Asia, which includes Japan, were also growing at a decelerating rate, from 28.7 per cent per annum in 1970-1973 to 21.7 per cent per annum in 1973-1976, but their share in the world total increased from 6.8 per cent in 1970 to 7.4 per cent in 1976. With respect to the growth of imports of developing countries, the record was not as good as that of exports; their share in the world total increased from 19.1 per cent in 1970 to 23.2 per cent in 1976, as against 19.7 to 28.2 per cent in the case of exports. This is also true for the developing countries of the ESCAP region; the growth of imports is less rapid than that of exports, although the rate of growth increased from 23.3 per cent per annum for 1970-1973 to 26.6 per cent for 1973-1976.

74. The situation of world trade in the recent past therefore appears to be characterized by a slow-down in the growth of exports and imports of the developed countries, while the exports of developing countries are accelerating. Although the growth of imports of developing countries is not as rapid as that of exports, the rate of growth is still substantially higher than that of the developed countries and the rate is not decreasing. The slowing down of the import growth of developed countries is somewhat disturbing, however, when considered in conjunction with the fact that there is a growing protectionist sentiment in those countries.

2. Trends in the trade position in the ESCAP region

75. In the preceding section brief reference has been made to the growth of exports and imports of countries in the ESCAP region; in this section the focus will be on performance of individual countries. When the two subperiods 1970-1973 and 1973-1976 are compared, it is apparent that several countries recorded lower rates of growth during 1973-1976 than in the preceding three years. This group of countries includes all the developed countries of the region and the major trading countries of East and Southeast Asia. The economies that show trade growing at accelerated rates towards 1976, however, are Burma, Fiji, India, Indonesia, Iran and Sri Lanka and Sarawak in Malaysia.

76. Among the largest exporting countries, Japan recorded a rate of growth of 23.8 per cent per annum for 1973-1976 as compared with 24.2 per cent per annum for the period 1970-1973. Iran shows a growth rate of 90 per cent per annum for 1973-1976, a dramatic increase from 34.8 per cent per annum for the preceding three years. For the non-oil producers, the most dynamic trading economy is the Republic of Korea, with an average growth rate over the period 1973-1976 of 47.1 per cent per annum. Others that have attained relatively high growth rates of exports are Hong Kong, Malaysia, Singapore and Thailand.

77. The imports of individual ESCAP countries show less variation among countries than do exports, and relatively fewer recorded lower rates of growth in 1973-1976 when compared with 1970-1973. This is particularly true for Japan, the rate of growth of which increased from 28.9 per cent per annum in 1970-1973 to 55.7 per cent per annum in 1973-1976. It can be noted that the increase in the rate of growth of Iran's imports is considerably lower than that of exports. Fiji, Hong Kong, Indonesia, Malaysia (except Sabah), the Republic of Korea, Samoa and Singapore showed lower rates of growth of imports towards 1976.

78. Tables 8 and 9 add further information about year-to-year rates of change in the demand for imports and supply of exports of ESCAP developing member countries. Particularly noticeable are the share increases in exports which occurred in 1976; the indications are that these carry over into 1977 although full data are not yet available.

Table 8. MERCHANDISE EXPORTS F.O.B., 1973-1977

(percentage rate of change)

	Per capita 1974 ($US)	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Afghanistan[b]	11.8	16.9	54.8	6.2	...	...
Bangladesh	4.6	37.7	—2.8	—6.0	22.6	31.3
Burma	6.5	18.5	37.6	—18.6	17.7	12.0
Fiji	275.0	19.0	63.8	9.7	—39.1	59.3
Hong Kong	1,402.1	47.0	17.5	1.0	41.7	13.5
India	6.7	19.0	34.6	9.5	16.6	23.0
Indonesia	56.2	99.5	143.4	—4.6	20.3	35.4
Malaysia	363.5	76.9	39.0	—9.5	38.2	25.5
Pakistan	16.3	41.1	16.2	—5.8	10.9	1.1
Papua New Guinea	264.9	134.1	36.3	—32.3	20.6	9.7
Philippines	65.7	65.1	48.7	—16.6	11.0	25.5
Republic of Korea	128.6	98.6	38.3	13.9	51.8	31.1
Samoa	83.9	40.0	85.7	—46.2	0.0	200.0
Singapore	2,617.1	67.3	58.4	—7.5	22.5	28.6
Sri Lanka	38.5	21.7	28.5	7.4	0.0	52.3
Thailand	59.9	44.7	56.3	—9.7	35.0	25.2

Source: International Monetary Fund, *International Financial Statistics*, May, November 1977 and March 1978 (Washington, D.C., 1977, 1978).

Notes: [a] First six months of 1977 compared with first six months of 1976.

[b] Years beginning 21 March.

Table 9. MERCHANDISE IMPORTS C.I.F., 1973-1977

(percentage rate of change)

	Per capita 1974 ($US)	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Afghanistan[b]	12.9	4.9	41.3	20.6	...	...
Bangladesh	14.7	59.2	25.9	15.2	—31.7	—5.4
Burma	5.4	—20.3	50.9	—14.4	—14.6	90.0
Fiji	487.5	39.6	23.0	—1.8	—2.6	43.2
Hong Kong	1,592.5	46.3	19.6	0.0	31.3	20.9
India	8.6	43.2	57.2	21.6	—17.0	8.1
Indonesia	29.0	74.7	40.8	24.2	18.9	22.7
Malaysia	355.7	53.0	65.5	—13.2	9.1	19.0
Pakistan	25.4	46.8	77.1	24.2	—1.1	17.7
Papua New Guinea	184.9	5.3	46.3	8.6	—11.1	10.6
Philippines	84.0	31.6	92.9	7.9	5.2	5.1
Republic of Korea	197.5	68.1	61.6	6.2	20.6	29.5
Samoa	167.7	10.5	23.8	30.8	—14.7	28.6
Singapore	3,774.8	51.5	62.8	—2.9	11.5	16.2
Sri Lanka	52.6	17.2	67.6	4.7	—22.4	40.3
Thailand	77.1	38.1	53.4	4.4	8.9	25.8

Source: International Monetary Fund, *International Financial Statistics*, May, November and December 1977.

Notes: [a] First six months of 1977 compared with first six months of 1976.

[b] Years beginning 21 March.

3. Structure of exports of developing countries in the ESCAP region

79. The past decade has been characterized by deliberate efforts on the part of several developing countries to industrialize their economies. The export of manufactured goods is seen as a necessary condition for a successful industrialization programme. It can therefore be expected that the structure of exports and imports of developing ESCAP countries will have undergone some significant changes. For that purpose the growth of exports and imports of those countries by commodity categories and destinations are examined. Regression equations for time trend were estimated for exports of various commodity categories for a group of countries that covers developing ESCAP countries in South and Southeast Asia, with the exception of one or two countries. The period chosen was 1965-1975. From these trend equations the rates of growth of the exports were computed to represent the long-term growth path of the exports which are relatively free from the influence of short-term random elements.

80. Except for mineral fuels, the most rapidly growing exports are those in the categories of machinery and transport equipment (SITC 7), other manufactured goods (SITC 6+8−67−68) and chemical products (SITC 5).[9] The estimated annual rates of growth are 37.5, 22.6 and 20.6 per cent respectively, which are substantially higher than the average for all items, of 18.0 per cent per annum. The traditional items of exports, namely, food and agricultural raw materials, have annual growth rates of only 10.7 and 11.1 per cent respectively.

81. Together with the difference in growth rates as among commodity categories, the relative share of those items in the total value of exports of this group of countries has changed significantly. The share of food items in the total value of exports declined gradually, from 30.4 in 1965 to 25.0 per cent in 1970 and 16.6 per cent in 1975. The figures for agricultural raw materials are 23.3, 12.3 and 8.3 per cent over the same period of time. The exports of manufactured goods, however, have gained a larger share, increasing from 26.2 per cent in 1965 to 37.8 and 39.5 per cent in 1970 and 1975 respectively. By 1975, this category of exports had become the largest of all categories.

82. The distribution of each of the commodity categories by destination has also undergone a significant change. The developed countries have become a relatively less important market for agricultural raw materials exports of this group of developing countries of ESCAP and this position is gradually being taken over by developing countries. At the same time, larger percentages of total value of exports of manufactured goods, iron and steel, machinery and transport equipment are going to developed countries and correspondingly smaller percentages to developing countries. For example, in 1965, 63.3 per cent of exports of agricultural raw materials went to developed countries, whereas in 1974 the percentage was only 58.5, while the share that went to developing countries increased from 16.3 per cent to 25.7 per cent. For manufactured goods, the share of exports that went to developed countries increased from 62.7 per cent in 1965 to 75.3 per cent in 1974.

83. This pattern of shifts indicates that the direction and structure of exports of developing countries in the ESCAP region have substantially changed in 10 years. The current tendency is for agricultural raw materials to be exported to developing countries and for more manufactured goods to be exported to developed countries. This phenomenon may indicate the changing pattern of comparative advantage of the developing ESCAP countries vis-à-vis developed countries and the less developed among the developing countries, and the trends may be expected to continue. The growth of exports of manufactured goods to developed countries, however, would be frustrated if the spreading of protectionist sentiments in developed countries were allowed to grow unchecked.

4. Terms of trade and commodity prices

84. Table 10 indicates changes which have taken place in the terms of trade of ESCAP developing countries between 1968 and 1977. They comprise a very mixed set of experiences but some observations are possible. First, following the commodity boom of 1973 there was a drastic deterioration in the terms of trade of the major countries of South Asia which severely reduced living standards and development prospects. There has been a significant improvement in the last year or two in the terms of trade of India, Pakistan and Sri Lanka, although their relative position is still much worse than it was in 1973/74. Sri Lanka's experience differed from that of the other countries in that the secular deterioration in the terms of trade commenced at a much earlier point in time.

85. Secondly, while the terms of trade of the economies of Malaysia, the Philippines and Thailand, have not fluctuated as severely as did those of the South Asian nations, they exhibit far greater irregularity as a result of the instability in the prices of their staple exports. Although in the cases of Malaysia and Thailand there has been some recent improvement, the situation of all three countries in 1976 was markedly worse than in 1970 or 1973.

[9] Iron and steel is another fast growing item, but it is still relatively small in total.

Table 10. TERMS OF TRADE,[a] 1968-1977

(1970=100)

	1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Bangladesh[b,c]	103.4	118.1	100.0	95.7	...	100.0	63.6	54.4	53.4	53.1
Burma[b]	121.8	133.7	100.0	85.7	71.5	83.8	154.0	117.6	102.3	...
Fiji[d]	91.2	98.2	100.0	92.9	100.0	95.9	132.0	126.2	103.6	...
Hong Kong	98.9	97.9	100.0	103.2	106.3	105.3	96.8	98.9	105.3	103.2[e]
India	96.6	99.3	100.0	103.6	110.7	100.9	80.7	66.8	70.0	82.6[f]
Indonesia[g]	80.0	80.0	100.0	100.0	103.0	138.0	236.0	213.0	212.0	...
Malaysia[h]	91.0	103.0	100.0	86.0	79.0	87.0	83.0	68.0	81.0	89.6[e]
Pakistan[b]	...	...	100.0	90.0	81.9	95.5	109.4	66.9	71.0	83.4
Philippines[i]	94.4	93.8	100.0	85.1	100.0	113.3	114.5	87.8	77.7	...
Republic of Korea	102.9	99.4	100.0	99.2	98.6	93.6	76.2	68.6	78.2	81.9[j]
Singapore	...	...	...	...	100.0	106.0	104.3	102.0	103.7	103.8[k]
Sri Lanka	110.7	104.8	100.0	92.9	89.3	77.4	69.0	54.8	73.8	...
Thailand	107.9	114.0	100.0	91.6	90.2	121.3	110.9	87.8	83.1	...

Source: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, October 1977.

Notes: [a] "Terms of trade" is defined by the United Nations as the percentage unit value index of exports to unit value index of imports.

[b] Data are for fiscal year.

[c] For 1973-1975, base year was shifted to 1973 = 100.

[d] For 1972-1975, base year was shifted to 1972 = 100.

[e] Average of January-May.

[f] Average of January-February.

[g] For 1971-1974, base year was shifted to 1971 = 100.

[h] Peninsular Malaysia.

[i] Starting 1972, base year was shifted to 1972 = 100.

[j] Average of January-March.

[k] Average of January-June.

86. Finally, the significant improvement in the terms of trade of oil exporting Indonesia should be noted together with the quite stable terms of trade position of the primarily manufactures exporting economies of Hong Kong and Singapore.

87. Table 11 sets out information concerning movements in the export prices of selected primary commodities which are of major importance to the ESCAP region. While of importance to all countries in varying degree, because of the high import dependence of the Pacific island countries it is worth-while to examine the significance of two primary commodity price movements, namely, those of copra and sugar, from the point of view of certain selected countries in that area.

88. Copra and other coconut products, in 1975, made up 98 per cent of French Polynesia's domestic exports, 72 per cent of those of Tonga and 58 per cent of those of Samoa. At the western end of the Pacific the corresponding proportion was 41 per cent for the Trust Territory of the Pacific Islands, 41 per cent for the Solomon Islands and 43 per cent for the New Hebrides.

89. The export price of copra (as represented by unit value in Samoa) had risen by 220 per cent in 1974, fallen by 64 per cent in 1975 and recovered by 16 per cent in 1976. This recovery continued strongly in 1977. In the first quarter of the year, a big fall in the Philippines' output and a shortfall of the United States' soyabean crop, pushed the price of copra almost up to its 1974 peak but thereafter it declined. Nevertheless, the Samoan price over the whole of 1977 is expected to be almost double its 1976 level but to fall back to that level in 1978.[10]

90. The steep fall in the price of copra in 1975 led to substantial declines in production for 1976 but recovery is expected to have occurred in 1977. Samoa's export receipts from copra fell from $WS 2.6 million to $WS 1.9 million in 1976 but are expected to reach $WS 5.4 million in 1977. Tonga's export had declined from $T 3.1 million to $T 1.7 million in 1976, and a similar recovery may be expected in 1977. In the Trust Territory of the Pacific Islands the decline was from $3.3 million to $1.6 million, and in the Solomon Islands it was from $A 4.7 million to $A 3.6 million; but in the New Hebrides production gains lifted copra exports from FNH 338 million to FNH 521 million. The Gilbert Islands, however, barely recovered from their low level of $A 905,000 for 1975.

[10] Government of Samoa, *Economic Outlook for 1978* (Apia, 1977), p. 7.

Table 11. EXPORT PRICES OF SELECTED PRIMARY COMMODITIES, 1974-1978

Commodities	Current prices			Price indexes (1970=100)					
	Unit	1970	June 1977	1974	1975	1976	1977 I	1977 II	Forecast 1978
Food									
Wheat	$/MT	62.8	109.1	332	289	237	197	183	239
Rice	$/MT	144.0	264.5	376	252	177	180	179	229
Maize	$/MT	58.4	94.5	226	205	192	188	172	214
Sugar	¢/lb	5.5	7.9	456	372	211	157	161	219
Tea	¢/lb	49.7	146.0	128	126	140	214	328	211
Copra	$/MT	224.9	424.0	294	114	122	190	215	189
Palm oil	$/MT	260.1	609.0	257	167	156	201	245	190
Non-food									
Cotton	¢/lb	30.7	72.8	216	182	258	272	260	246
Jute	$/MT	274.0	300.2	129	135	108	109	110	136
Rubber	¢/lb	21.0	39.1	188	142	189	196	191	210
Logs	$/m^3	36.9	109.3	231	217	297	311	310	333
Metals and minerals									
Copper	¢/lb	64.1	59.5	146	88	99	102	97	125
Tin	¢/lb	166.6	437.2	223	187	206	269	264	264
Lead	¢/lb	13.8	25.7	195	136	147	209	205	210
Petroleum	$/bbl	1.3	12.1	752	825	885	930	930	...

Source: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB,* October 1977.

Notes: Prices in United States dollars or cents. Wheat: Canadian No. 1 Western Red Spring (CWRS), in store Thunder Bay; rice: Thai white, 5 per cent broken, f.o.b. Bangkok; maize: US No. 2 yellow, f.o.b. Gulf Ports; sugar: up to and including 1974, weighted average of United States Preferential, Commonwealth Sugar Agreement and ISA daily price — f.o.b. and stowed Caribbean ports, beginning 1975, ISA daily prices; tea: average all teas, London Auctions; copra: Philippines, bulk, c.i.f. European ports; palm oil: Malayan 5 per cent, c.i.f. European ports; cotton: Mexican, St. Middling 1 - 1 1/6", c.i.f. North Europe; jute: Bangladesh White D, f.o.b. Chittagong-Chalna; rubber: RSS 1 spot New York; logs: hardwood (Niangon) f.o.b. Ivory Coast; copper: LME settlement price; tin: LME settlement price; lead: LME settlement price; petroleum: Saudi Arabian light crude oil 34°, average realized price, f.o.b. Ras Tanura.

91. In Fiji, sugar is by far the most important export, contributing 83 per cent of receipts from domestic exports in 1975. Between 1974 and 1976, however, the world price of sugar slumped by 54 per cent from a very high peak and Fiji's export receipts from this commodity declined, in 1976, from $F 95 million to $F 68 million. The World Bank's forecast is that the price of sugar will fall by 25 per cent in 1977 and then rise by 38 per cent in 1978.

5. Balance of payments

92. As table 12 indicates, the balance of payments and reserve position of ESCAP developing countries considered as a whole has strengthened materially. Although the circumstances of individual countries differ significantly, the reasons are primarily those dealt with in examining the international situation: the successful use of stabilization policies to control inflation; the ready response of many countries to the increased opportunities in the international market; the successful restructuring of domestic markets in response to the energy crisis; and, most important, a series of successful harvests which have assisted in dampening inflation and in avoiding the need for costly food imports. A further factor has been the preparedness of many countries to borrow to supplement already quite strong reserve positions.

93. Comment on the balance-of-payments situations is confined to those countries which have experienced marked and particularly adverse swings in their payments positions or to those countries that have initiated vigorous balance-of-payments policy measures. In the South Asian subcontinent, Pakistan continues to experience balance-of-payments difficulties. In 1976/77 export earnings actually declined as a consequence of the fall in textile exports and a sharp decline in the average export price of rice. In conjunction with capital flows the net effect was a further decline in foreign exchange reserves from Rs 6.1 billion as at June 1976 to the critical level of Rs 4.3 billion one year later.

94. A contrasting experience has been that of India, where the balance of payments has moved strongly into surplus as a result of both the sustained surge in export income, for which reasons have been given above, and the slow response of import demand. While fortuitous factors have no doubt assisted the

Table 12. SELECTED DEVELOPING COUNTRIES IN THE ESCAP REGION: BALANCE-OF-PAYMENTS SUMMARIES

(in millions of United States dollars)

Country/year	Balance of goods, services and private transfers (1)	Central government capital and transfers (2)	Private capital (3)	Short-term capital[a] (4)	Change in reserves[b] (5)	International liquidity as percentage of imports c.i.f. (6)
India						
1970	−462	678	−15	−33	−168	41.8
1971	−721	797	39	−94	−21	49.8
1972	−227	399	−48	−253	130	52.8
1973	−561	543	−38	−55	112	35.5
1974	−818	1,103	70	−373	19	26.3
1975	−222	1,066	−48	−440	−356	22.4
Iran						
1970	−511	332	141	−179	217	12.5
1971	−122	596	158	−280	−352	33.2
1972	−392	529	45	283	−467	39.8
1973	155	521	−38	−572	−66	36.5
1974	12,299	−2,137	−3,006	−132	−7,026	154.3
1975	4,959	−2,909	−941	−998	−110	85.9
1976	4,733	−2,296	−3,182	1,185	−440	68.5
Malaysia						
1970	2	2	99	−90	−13	46.8
1971	−125	148	100	−60	−63	56.3
1972	−255	124	189	−31	−27	58.2
1973	91	49	197	−113	−223	54.1
1974	−286	101	382	−2	−196	39.1
1975	−201	356	220	−313	−63	42.4
1976[c]	649	206	101	−149	−808	63.0
Pakistan						
1970	−705	447	76	64	118	16.5
1971	−596	487	102	−45	52	20.6
1972	−286	222	49	5	11	42.3
1973	−114	219	50	35	−190	49.1
1974	−982	717	53	67	147	26.6
1975	−1,180	723	243	2	212	18.9
1976	−893	800	112	17	−36	25.0
Philippines						
1970	−74	64	172	−116	−46	20.8
1971	−33	100	55	−25	−97	28.9
1972	−29	191	−45	66	−183	40.3
1973	412	135	6	115	−668	58.2
1974	−283	166	500	207	−590	41.7
1975	−990	295	708	−10	−4	36.1
1976	−1,136	738	398	−57	56	41.5
Republic of Korea						
1970	−706	254	416	85	−49	30.7
1971	−911	297	415	152	47	23.8
1972	−420	280	247	53	−159	29.3
1973	−343	302	469	−74	−353	25.8
1974	−1,955	369	853	856	172	15.4
1975	−1,955	373	1,730	224	−368	21.3
1976	−463	828	1,018	−68	−1,314	33.7

Table 12 *(continued)*

Country/year	Balance of goods, services and private transfers (1)	Central government capital and transfers (2)	Private capital (3)	Short-term capital[a] (4)	Change in reserves[b] (5)	International liquidity as percentage of imports c.i.f. (6)
Singapore						
1970	—585	39	114	616	—184	41.1
1971	—735	36	132	886	—320	51.1
1972	—514	71	200	580	—337	51.5
1973	—584	21	471	504	—411	44.6
1974	—1,106	1	672	729	—295	33.6
1975	—605	8	660	343	—407	37.0
1976	—701	39	725	235	—298	37.1
Sri Lanka						
1970	—71.4	43.1	36.7	—4.3	—4.1	11.1
1971	—54.2	85.4	—31.1	—0.2	0.1	14.1
1972	—49.3	65.0	—6.4	10.2	—19.5	16.4
1973	—38.1	64.4	8.9	—6.7	—28.5	20.2
1974	—178.1	114.0	44.0	2.0	18.2	10.9
1975	—186.1	166.4	—5.1	—1.9	26.7	7.9
1976	—64.1	141.8	—22.0	0.0	—55.4	15.9
Thailand						
1970	—296	49	116	49	82	69.8
1971	—212	51	70	73	17	68.1
1972	—80	20	183	73	—197	70.9
1973	—73	59	109	124	—219	63.8
1974	—113	30	440	118	—475	59.1
1975	—632	16	385	180	51	54.1
1976	455	132	341	60	—79	53.0

Source: International Monetary Fund, *International Financial Statistics,* February and June 1978.

Notes: Column (1) 77ad — 77afd; column (2) 77afd + 77bbd; column (3) 77bad + 77bcd + 77cbd; column (4) 77cad + 77dd; column (5) 78bd + 78cd + 79d; column (6) 1d/71 x rf.

[a] Includes errors and omissions.

[b] Minus sign indicates increase.

[c] Source: Bank Negara Malaysia, *Quarterly Economic Bulletin,* XI: 1-2, 1978, table VII: 8.

Indian situation, the major factor has been a maturing of the manufacturing sector, a preparedness to look for export markets to relieve domestic excess capacity and the success of policies which have added flexibility as well as resilience to the Indian economy. Another favourable factor has been the strong inflow of remittances from abroad. As a result, foreign exchange resources doubled between 1974/75 and 1975/76 and nearly doubled again by the end of 1976/77. A further rise by about one quarter occurred in the first eight months of 1977/78. While the situation should level off, the underlying strength of the balance of payments position is much greater than previously.

95. Another country in which the balance of payments situation became very strong in recent years was Iran, with export income rising rapidly. Yet the large surpluses have recently been replaced by more moderate ones and with oil revenues stabilizing themselves it is evident that non-oil exports need to expand much more rapidly than in the past to provide for the rising import demands a growing economy will require. This will be no easy task because non-oil exports are not favoured by the existing exchange rate and industrial policy has in the past favoured the establishment of inefficient import substitution-type industries.

96. Finally, attention needs to be given Sri Lanka, the balance of payments of which has been plagued by a persistent secular deterioration in the terms of trade. The improvement in the balance of payments in 1972-1973 failed to be sustained in the face of sharply rising import prices of foodgrains, fuels and fertilizers. An upturn in export prices and lower prices of imports contributed to a basic balance surplus in 1976, with a further improvement in 1977.

97. Partly because of more buoyant balance-of-payments prospects but partly also on grounds of economic policy the multiple exchange rate system was abolished outright as of 15 November and the now unified rate was allowed to float. At the same time the tariff policy was to be overhauled with a view to simplifying and lowering the tariff structure and all allocation and licensing procedures with respect to foreign exchange were abolished. Public sector monopolies for the import of certain goods were terminated.

98. From table 12 it can be seen that with the exception of Iran and Thailand, the case of which is marginal, the international reserve position of the selected economies strengthened considerably between 1975 and 1976.

6. Exchange rates

99. Table 13 sets out exchange rate movements for ESCAP developing countries. Exchange rate practices among ESCAP developing countries have favoured the pegging of the exchange rate either to another single currency or to a composite basket of other currencies or to SDR.

100. A number of influences have combined to cause developing ESCAP countries to pay greater attention to exchange rate policy. Where they have adopted a unitary peg, changes in the exchange rates between the currency to which they are tied and other major currencies can give rise to unwelcome shifts in the local currency prices of imports and exports. More generally, the breakdown of the par value system has encouraged countries to give active consideration to exchange rate policy when framing over-all macro-economic policies. Another factor has been the world-wide inflation and the disparities in the movements of individual country price levels which it engendered.

101. Many countries, however, have perceived advantages by having a point of reference for their exchange rates as a result of pegging. To some, the advantages of exchange rate stability have been in relation to combating inflation. Others have felt that exchange rate instability might hinder planning efforts or affect the confidence upon which foreign capital inflows depend. Such countries feel that they cannot influence the foreign currency prices of their imports and exports; that the inelastic nature of their demand for imports and, in the short run, supply of exports do not augur well for exchange rate flexibility; that a given external objective provides a reason for the adoption of otherwise unpopular domestic policies etc. While these are sound arguments in varying degree, pegging to a single currency in a world of exchange rate flexibility is quite different from doing so in a world of fixed exchange rates. All of the above arguments can in this case be reversed; in other words, a country's effective exchange rate is not dependent only on a country's own policy. For this reason many small primary producing countries prefer the greater stability obtained by pegging in relation to a composite basket of the currencies of their major trading partners. It is interesting to note that in the ESCAP region Bangladesh, Indonesia, Nepal, Pakistan, the Republic of Korea and Thailand maintain their currencies pegged to one or another major trading currency.

7. Interregional trade co-operation

102. The major regional development has occurred in relation to ASEAN, where steps have been taken to implement the agreement that, as a first step toward regional specialization and trade in industrial products, one major industry would be established in each country which would produce for the whole ASEAN market. So far, only the Indonesian project for a fertilizer plant based on the Arun natural gas field in Aceh has been approved, following a feasibility study, although it is understood that similar feasibility studies have been called for in the case of Thailand (caustic soda), the Philippines (superphosphate) and Singapore (diesel engines). In addition, the ASEAN Governments have requested the Government of Japan, which has agreed in principle, to provide 70 per cent of the capital cost of the projects, the balance to be funded by the ASEAN countries themselves.

103. The ASEAN Preferential Trade Agreement was signed at Manila in early 1977. While it stops far short of proposing an industrial free trade area, it proposed a mutual 10-per cent tariff preference on a limited list of products and at a meeting in June 1977 at Singapore a list of 71 products was agreed upon. None were commodities which would threaten vulnerable local industries. It was, however, a valuable first step, and at a meeting in Thailand in September 1977 it was agreed that at subsequent quarterly meetings each country should put forward a further list of 50 commodities for consideration so as to maintain the impetus towards further trade liberalization.

104. Other ASEAN plans for regional economic co-operation include a commodity price stabilization scheme, a regional payments scheme and collaboration in telecommunication and on ocean freight rates.

Table 13. CHANGES IN FOREIGN EXCHANGE RATES, 1968-1977[a]

(Currency units per United States dollar)

	Currency unit	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 July	Percentage change[b] 1971	1972	1973	1974	1975	1976	1977 July
Afghanistan	Afghani	→	→	→	→	→	→	→	→	45.00	45.00	—	—	—	—	—	—	—
Bangladesh[c]	Taka	...	...	...	7.431	8.078	8.199	8.076	14.826	14.953	15.371	...	8.7	1.1	−1.1	83.6	0.8	2.8
Burma	Kyat	4.810	4.792	4.802	5.469	5.402	4.862	4.810	6.678	6.732	7.396	13.9	−1.2	−10.0	−1.1	38.8	0.8	9.9
Cook Islands	$NZ	...	0.8930	0.8960	0.8367	0.8367	0.7001	0.7602	0.9581	1.0526	1.0255	−6.6	—	−16.3	8.6	26.0	9.9	2.6
Fiji	$F	...	0.870	0.873	0.819	0.843	0.809	0.800	0.863	0.942	0.913	6.2	2.9	−4.0	−1.1	7.9	9.2	−3.0
Gilbert Islands	$A	0.9009	0.8995	0.8969	0.8396	0.7843	0.6720	0.7536	0.7955	0.9205	0.8909	−6.4	−6.6	−14.3	12.1	5.6	15.7	−3.0
Hong Kong	$HK	6.06	→	→	5.58	5.65	5.085	4.930	5.040	4.677	4.685[d]	—	1.3	−10.0	−3.0	2.2	−7.2	0.2[d]
India	Rupee	7.560	7.492	7.509	7.214	8.008	8.130	8.078	8.937	8.881	8.718	−3.9	11.0	1.5	−0.6	10.6	−0.6	−1.8
Indonesia	Rupiah	326	→	378	415	→	→	→	→	415	415	9.8	—	—	—	—	—	—
Lao People's Democratic Republic	Kip	→	→	→	→	600	→	→	1.200	...	...	—	150.0	—	—	100.0	...	...
Malaysia	Ringgit	3.065	3.075	3.078	2.886	2.817	2.452	2.313	2.588	2.535	2.458	−6.2	−2.4	−13.0	−5.7	11.9	−2.1	−3.0
Nepal	Rupee	→	→	→	→	→	10.560	→	12.500	12.500	12.500	—	—	4.3	—	18.4	—	—
Pakistan	Rupee	4.809	4.791	4.803	4.793	11.031	9.931	→	→	→	9.931	−0.2	130.1	−10.0	—	—	—	—
Papua New Guinea[e]	Kina	0.9009	0.8995	0.8969	0.8396	0.7843	0.6720	0.7536	0.7955	0.8121	0.7855[f]	−6.6	−6.6	−14.3	12.1	5.6	0.2	−3.3[f]
Philippines	Peso	3.8981	3.9199	6.4430	→	6.7894	6.7383	7.0737	7.5075	7.4383	7.4043	—	5.4	−0.8	5.0	6.1	−0.9	−0.5
Republic of Korea	Won	281	304	317	373	399	397.5	484	→	→	484	18.0	7.0	−0.3	21.6	—	—	—
Samoa	$WS	0.721	→	→	0.676	0.674	0.607	→	0.767	0.800	0.779	−6.2	−0.3	−9.9	—	26.4	4.3	−2.6
Singapore	$S	3.0790	3.0900	3.0800	2.9000	2.8200	2.4861	2.3120	2.4895	2.4555	2.4393	−5.8	−2.8	−11.8	−7.0	7.7	−1.4	−0.7
Solomon Islands	$A	0.9009	0.8995	0.8969	0.8396	0.7843	0.6720	0.7536	0.7955	0.9205	0.8909	−6.4	−6.6	−14.3	12.1	5.6	15.7	−2.0
Sri Lanka	Rupee	5.9280	→	→	5.9580	6.6980	6.7480	6.6930	7.7130	8.8280	7.2860[d]	—	13.0	0.8	−0.8	15.2	14.5	−17.5[d]
Thailand	Baht	20.778	20.928	→	→	→	20.375	→	20.400	→	20.400	—	—	−2.6	—	0.1	—	—
Tonga (FY)[g]	$T	0.89	→	→	0.85	0.8232	0.695	0.685	0.652	0.73	...	−4.5	−3.2	−15.6	−1.4	−4.8	12.0	...

Source: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, October 1977.

[a] Foreign exchange rates refer to the end-of-period mid-point rates, "Market rate/par or central rate". (See International Monetary Fund, *International Financial Statistics*, lines ae or ag). For currencies not quoted in exchange markets, prevailing parities or central rates are given. Multiple rate systems are described by quotations for rates applicable to settlements of the principal trade transactions.

[b] Minus sign indicates revaluation in exchange rates.

[c] A new currency unit called the "taka" replaced the "rupee" in June 1972.

[d] As of June.

[e] The "kina" was introduced in 19 April 1975 and was kept at par with the Australian dollar until 31 December 1975; since then the kina has been floating.

[f] As of 4 August.

[g] Fiscal year ends 30 June.

E. MONEY AND PRICES

105. In reviewing the international situation attention was drawn (in table 2) to the enviable record of ESCAP developing countries in dealing with excessive inflation, which in the region was running at an average rate of over 20 per cent per annum in 1974. For well-known reasons inflation of this magnitude can lead to the breakdown of the social and economic fabric of societies, so drastic are its effects on living standards, the value of savings and other assets, and on economic incentives and management. The international causes of the inflation were discussed above; it was also fueled within the region by severe harvest failures and, in some cases, lax economic management.

106. Within one year, however, the average rate of inflation was reduced to single-digit numbers and on an aggregate regional basis was reduced further the following year. While the situation varies markedly from country to country, a number of factors were involved in the abatement of the inflationary forces. First, the cost push elements of inflation, which were an essential characteristic in the developed industrial countries, have not been so important in the ESCAP region. As a consequence, once other fundamental causes began to weaken there was little tendency for different income groups to redress or improve their relative income positions.

107. Secondly, the most important, politically sensitive aspect of inflation in the region is the price of staple food products, rice in particular. Cost inflation manifests itself primarily as a consequence of the rise in price of basic foodstuffs because of the dominant role of such goods in determining the cost of living. Money wage rates can be more easily held in check as long as the price of basic cereals can be stabilized. By public distribution systems and by price controls governments to some extent mitigated the effects of the explosive increase in the international price of cereals until 1975 and 1976 brought relief in the form of a series of good harvests and food price increases could be again contained.

108. Thirdly, many governments early undertook structural reforms to deal with the balance-of-payments consequences of the energy crisis. In the short run all governments attempted to curtail oil consumption either by allowing prices to rise and/or by other direct measures of control. Immediate steps were also taken to make better use of existing domestic sources of energy as well as to intensify the search for new or alternative sources of supply. The most effective action, however, concerned the elimination or amelioration of the balance-of-payments problems created by the oil and food situation. Improved harvests were one aspect of this; the other was active and successful efforts by most governments to expand exports or restrain imports with the long-term emphasis being on the former; some governments were able to borrow internationally in order to maintain imports at satisfactory levels. The attempt to increase exports coincided with a revival of economic activity in the industrial nations, but it was also the result of domestic policy measures. Typically, some of the most successful countries were those which had earlier been able to diversify the structure of production within their economies and were as a result best able to adapt to changed international demand and supply conditions.

109. Finally, the ability of the ESCAP developing countries considered as a whole to deal with inflation was enhanced by their generally prudent use of monetary and fiscal policy. Member Governments viewed the control of inflation as the primary immediate objective and even at the cost of short-term growth objectives were prepared to adopt cautious monetary policies. One consequence of this restraint on aggregate demand, assisted incidentally by depressed international demand conditions, was the readiness of countries to recommence export activities when the world economic situation improved.

110. Table 14 sets out information concerning changes in consumer price indexes in individual countries. The evidence with respect to 1977 is as yet incomplete but unofficial information from a number of countries suggests that inflation has not been a serious problem in 1977. In Indonesia the Jakarta cost of living index in the second half of the year was still running at a monthly rate of about 0.8 per cent and there are prospects for single-digit inflation for the first time since 1971. In Burma, the consumer price index appears to have declined between August 1976 and 1977 as a result of a tighter monetary policy. In Iran in 1976/77 the consumer price index rose by 16.6 per cent, mainly as a result of a considerable relaxation of price controls and profit margin ceilings in that year.

111. The problem in measuring price changes in Sri Lanka is that the Colombo consumer price index is very unsatisfactory. Half way through 1977 it indicated that there would be no increase in prices over those experienced in 1976 but it still registered a very low annual rate of increase as recorded in table 14. In Malaysia the increase in prices in 1977 was about double the rate of increase of 1976, which was 2.6 per cent.

Table 14. CHANGES IN CONSUMER PRICES, 1968-1977[a]

(1970=100)

	1968	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*Percentage change* *1970-1973 annual average*	*1974*	*1975*	*1976*	*1977*[b]
Afghanistan[c,d]	100.8	78.6	100.0	118.1	100.9	93.0	105.9	112.7	113.7	...	5.8	13.0	6.5	0.9	...
Bangladesh[c]	91.4	96.0	100.0	105.4	121.5	181.5	252.4	408.0	380.1	382.5	18.6	39.1	61.6	—6.8	0.6
Burma	107.8	104.2	100.0	102.1	109.9	135.7	172.3	226.8	277.6	277.8	6.2	27.0	31.6	22.4	6.0
Cook Islands	92.8	95.8	100.0	111.0	123.2	135.1	152.6	176.4	217.1	243.0[e]	9.0	13.0	15.6	23.1	22.9
Fiji[d,f]	92.6	96.6	100.0	106.5	116.2	129.2	108.6	122.8	136.8	143.7[g]	7.8	8.6	13.1	11.4	3.4
Gilbert Islands	...	...	100.0	107.2	112.9	131.1	148.2	162.2	183.0	...	9.5	13.0	9.4	12.8	...
Hong Kong	90.1	93.4	100.0	103.4	109.7	129.6	148.3	150.0	154.6	173.1[g]	8.7	14.4	1.2	3.1	6.7
India[c,d]	99.1	98.6	100.0	105.1	108.4	116.7	141.4	179.5	176.7	170.1	4.3	21.2	26.9	—1.6	—8.7
Indonesia	75.8	89.1	100.0	104.4	111.1	145.6	204.7	243.8	292.2	315.4[g]	13.5	40.0	19.1	19.8	11.8
Malaysia	98.5	98.1	100.0	101.6	104.8	115.9	136.0	142.2	145.8	152.9[g]	4.3	17.4	4.3	2.6	4.4
Nepal[c,h]	86.8	90.4	100.0	104.9	106.3	100.0	115.8	134.3	139.3	139.3[i]	5.6	15.8	16.0	3.7	4.9
Pakistan[c,d]	...	...	100.0	105.7	110.7	121.4	157.8	200.0	223.3	243.9	6.7	30.0	26.7	11.7	5.2
Papua New Guinea[j]	...	...	...	100.0	105.6	115.2	139.7	154.0	167.2	170.2[g]	7.4[k]	21.3	10.2	8.6	3.0
Philippines	86.1	87.7	100.0	115.1	126.6	144.3	192.7	208.4	221.3	233.0[g]	13.3	33.5	8.1	6.2	7.1
Republic of Korea	80.6	88.7	100.0	112.1	125.5	129.3	160.0	202.0	233.1	250.5[g]	10.0	23.8	26.3	15.4	10.1
Samoa[d,l]	...	...	...	...	108.0	118.4	147.9	160.9	168.9	189.7[g]	9.6	24.9	8.8	5.0	16.4
Singapore	99.9	99.6	100.0	101.9	104.0	124.4	152.2	156.1	153.2	155.7[g]	6.0	22.3	2.6	—1.9	1.1
Solomon Islands	...	...	100.0	104.3	111.6	115.1	136.8	150.6	157.1	163.6[g]	4.8	18.9	10.1	4.3	5.3
Sri Lanka	87.9	94.4	100.0	102.7	109.1	119.7	134.4	143.5	145.2	146.9[g]	6.4	12.4	6.7	1.2	1.3
Thailand	97.2	99.2	100.0	102.0	106.1	118.6	146.2	152.2	159.6	...	4.7	23.3	4.1	4.9	...
Tonga[d]	...	100.7	100.0	102.1	108.7	131.4	150.6	165.7	178.2	...	7.2	14.6	10.1	7.5	...

Source: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, October 1977.

Notes: [a] Unless otherwise indicated, data refer to changes in consumer prices in the capital city.

[b] Changes over the corresponding period of the previous year.

[c] Data are for fiscal year.

[d] Data refer to whole country.

[e] Average of January-March.

[f] Starting 1974, base: January 1974 = 100.

[g] Average of January-June.

[h] Starting 1973, 1973 = 100.

[i] Average of January-May.

[j] Base 1971 = 100.

[k] Average annual growth of 1971-1973.

[l] August 1971/July 1972 = 100.

112. In India wholesale prices rose by only 4 per cent for the 12 months ending in November 1977. The benefits of this low rise in wholesale prices will be felt in 1978; the good crop prospects also augur well for continued price stability.

113. In Pakistan the price situation seems likely to improve in the 1977/78 fiscal year. During the July to mid-November period monetary expansion was substantially lower and there is evidence that a slower rate of increase in prices will hold throughout the year. Current indications suggested that in Thailand the consumer and wholesale price indexes would rise more rapidly in 1977 than in 1976 with consumer prices rising 6.5 per cent in the 12-month period ending October 1977.

114. In Singapore in contrast to 1976 when the consumer price index fell by 1.9 per cent, it increased at an annual rate of 2.6 per cent during the first half of 1977.

F. SOCIAL DEVELOPMENTS

115. All economic endeavour is essentially social in character and the preceding sections, although written in economic terminology, should not obscure the fact that how and what goods and services are produced are materially influenced by social and institutional phenomena as well as by what might be termed narrowly economic factors. Thus, whether goods are produced by labour- or capital-intensive means, or whether a particular institutional reform is successful can affect income distribution and employment as well as unemployment patterns and, hence, what and how goods are produced. Such considerations can also influence how much is produced. Unemployment is not only socially wasteful but also socially unjust and malfunctioning institutions can cause waste in many ways.

116. There is, apart from questions of space, a difficulty in any annual review in monitoring social developments. Social indicators are rarely available or up to date or change meaningfully on an annual basis. For instance, if accurate information about the number of thousands of the population per physician is available, the ratio rarely changes significantly from year to year and the most recent data are typically several years old. Even in respect of unemployment, the extent and characteristics of unemployment in the region, the paucity and accuracy of data, and the comparability of data over time, make it difficult over a period of years to describe what is happening in terms of incidence and character; from the year to year such an analysis is extremely difficult if at all possible.

117. The attempt would scarcely be feasible, and space would not permit, a review of progress at the national level in achieving basic social objectives. Obviously, these vary widely from country to country with regard to the ownership of the means of production, acceptable patterns of income distribution, shares of indigenous or minority groups in wealth, employment and income and the like. Throughout the region, however, there has been increasing commitment to the eradication of poverty, including unemployment. There is now general agreement that such objectives can be achieved within a reasonable time only by the deliberate exercise of governmental power, by focusing more attention on rural areas where the incidence of poverty is greatest, by adopting more labour-intensive as distinct from capital-intensive techniques of production, and by involving the target groups themselves not only in gainful employment but also in the decision-making and implementation of the policies with which they are involved.

118. It can be reported that even in the last year or two there has been heartening evidence that some governments better perceive these problems, are more committed to their solution and are prepared to adopt not only innovative but also sterner measures than in the past to see that well-meant policies are not thwarted by the opposition of vested interests. Yet there is also evidence that what is lacking is consistent policy formulation and implementation which redirects resources to designated priority areas. Too often, in strong contrast to the broad objectives of policy, existing incentive and other policy measures continue to favour capital-intensive techniques rather than labour-intensive ones, even where on grounds of economic efficiency there exists no case for doing so. Too often, small investors are placed at a disadvantage; urban communities are relatively more favourably treated with regard to incentives, infrastructure and amenities. Again, too often the broad objective of dealing with poverty and unemployment becomes urgent only when the problem becomes an urban problem, such as when drought or other natural calamities speed the processes of rural/urban drift.

119. The awareness that the attainment of these broad policy objectives will require substantial administrative reform is a major step forward. The need is to devise bold and innovative means across a broad spectrum of administration and management and to ensure that these are effectively implemented. Without such actual and fundamental changes in institutional framework the policy objectives do not seem feasible.

120. Some evidence is available for a few countries concerning recent developments in unemployment.

In Sri Lanka, one survey[11] estimated unemployment at 18.3 per cent of the labour force, or 0.8 million, while another put the figure at 1 million.[12] The annual increase in the labour force is about 100,000. As a result of various policies concerning co-operatives, collective farms and divisional development projects and of recruitment to government departments and the non-plantation private sector, some 40,000 additional positions were created in 1976. To these must be added new employment provided by the non-institutional private sector, the domestic agricultural sector and the decentralization of the government budget, for which no estimates are available. This could be considerable given the increase in output in such areas and the near doubling of the decentralized budget. It remains questionable, however, whether sufficient new jobs were created to reduce the backlog of unemployed.

121. In Malaysia, the rapid expansion of the economy in 1976 favourably affected employment. Employment grew by 3.5 per cent compared with 1.0 per cent in 1975. Although unemployment declined from 7.0 to 6.8 per cent of the labour force there was no reduction in the number of persons out of work. Early estimates for 1977 suggest that employment and labour force grew at the same rate in that year, which implies an equal rate of growth in the number unemployed.

[11] Central Bank of Ceylon, *The Determinants of Labour Force Participation in Sri Lanka* (Colombo, 1973).

[12] Central Bank of Ceylon, *Survey of Sri Lanka's Consumer Incomes, 1973* (Colombo, 1974), pp. 60-62 and 68.

122. Because of the drought in Thailand in 1977 the incidence of unemployment can be expected to have risen. This tendency could be reinforced by the impact which the anticipated decline in tapioca prices will have on that industry. One effect has been an increase in the number of rural workers seeking employment in urban areas. The problem here is that employment in the manufacturing sector, particularly in agro-businesses such as rice and sugar mills and tapioca-processing businesses, will also be affected by the drought. Taken together, rural and urban unemployment are probably the most critical immediate problem of the Thai economy.

123. In Burma the latest available figures suggest that urban unemployment is running at about 16.0 per cent of the work force, with young educated people being the most seriously affected.

124. In Indonesia there is a lack of reliable data concerning the incidence and magnitude of unemployment, although the latter is believed to be large. While the growth of the manufacturing sector has probably created more employment than is sometimes inferred from direct observation, the general impression among observers is that annual employment creation has had little if any impact on the existing backlog of unemployment.[13] Some light will be shed on this matter when the results of the most recent census of manufacturing and of the first census of construction are published.

[13] *Bulletin of Indonesian Economic Studies*, vol. XIII, No. 3, November 1977.

III. DEVELOPMENTS IN ESCAP DEVELOPED COUNTRIES, 1976-1977

125. Japan's 6.3 per cent increase in GNP in 1976 was mainly due to improved export performance. Domestic demand increased by an annual rate of about 3 per cent in the second half of the year. According to provisional national accounts estimates, real GNP was increasing at an annual rate of 1.0 per cent early in 1977, with the increase in domestic demand approximating 4 per cent. At the same time, industrial production was showing signs of weakening and indicators for shipments, orders, stocks and the labour market suggest a lack of buoyancy in internal demand conditions. As a result of rapid export growth and a slow growth of imports the balance of payments was moving to a strong surplus position in 1977. In the first half of the year the yen appreciated by about 6.5 per cent against the United States dollar. As a result of this and also because of slack internal demand, the increase in wholesale prices slackened. Increases in consumer prices were more marked owing to the rise in food prices and to adjustments in the regulated prices of certain commodities. The increase in consumer prices was running at an annual rate of a little less than 10 per cent.

126. Economic management in 1977 was generally more expansionary, with fiscal policy in particular being used to stimulate the economy and interest rates lowered significantly. In 1977 general government expenditures were expected to rise by around 13 per cent in nominal terms with a marked increase in public works. Personal income taxes were to be reduced by about 0.3 per cent of GNP. Additional measures were used to stimulate housing construction and encourage private plant and equipment investment. The growth in the money supply in 1977 was of an annual rate of about 12 per cent, which was significantly less than in 1976. This was primarily as a result of slack private demand for funds. Both to promote private demand and because of balance-of-payments considerations the official discount rate was reduced to 5 per cent. Together with a reduction in savings deposit rates, this tended to reduce bank lending rates.

127. As a consequence of these expansionary measures there are signs that private consumption, housing and public investment are increasing, although this could be offset because business investment is weak and the low level of business confidence continues. Private plant and equipment investment is not expected to increase significantly. Surveys covering large companies indicate the likelihood of a fall in real investment outlays in manufacturing. In particular, there has been a marked scaling-down of investment in the iron and steel industry. The poor outlook for private investment is due to existing excess capacity and poor expectations about medium-term growth prospects.

128. The ratio of total private inventories to total final demand is very high and stockbuilding will contribute only a small expansionary effect to GNP.

129. The rapid expansion of exports is likely to continue in 1977, but at a reduced rate. Although import demand is rising, it is probable that the 1977 surplus on current account will approximate $US 7 billion. This surplus position should weaken in 1978 as a result of the policy measures mentioned above. However, at the IMF and World Bank annual meetings there was growing criticism of Japan and the Federal Republic of Germany for their large and persistent surplus position. In particular, countries with current account deficits strongly requested Japan to reduce its huge current account surplus through increased imports from those countries rather than by making efforts to attain the pledge of 6.7 per cent growth of its export-dependent economy. Yet a rapid increase in imports is unlikely since raw materials and fuel comprise around 70 per cent of imports and sluggishness prevails in the domestic economy. Nor has the high value of the yen affected imports owing to the low price elasticity of demand for imports. To change the situation materially measures need to be adopted which would ease remaining import restrictions, especially on agricultural goods, increase raw material imports for stockpiling and permit a further appreciation of the yen.

130. In the Australian economy, recovery and the unwinding of inflation have proceeded, although in an uneven pattern, over the last two years. In 1976/77 real non-farm product rose by 3.7 per cent in line with the 1976/77 budget forecast. In the September quarter of 1977 real non-farm product increased by 1.2 per cent — a solid start to the 1977/78 budget forecast growth of more than 4 per cent over the course of the year. In the first half of 1977/78 there was marked improvement in private consumption, business investment and export volumes, accompanied by a pronounced decline in the volume of imports.

131. Increases in the consumer price index (excluding hospital and medical services) and key implicit deflators derived from the national accounts were

four to six percentage points lower in 1976/77 than in 1975/76; over the course of 1976/77 the consumer price index (excluding hospital and medical services) increased by 10.2 per cent. The deceleration in inflation continued in the first half of 1977/78; during this period consumer prices increased at an annual rate of 8.9 per cent. The rate of increase in wages and earnings has also shown a marked downward trend but the deceleration has not been as rapid as in the case of prices.

132. Unfortunately, the growth in product and the deceleration in inflation have not as yet led to any improvement in the labour market. A persistent and marked imbalance between real wages and productivity has hampered labour market responses. In November 1977 total unemployment was estimated to be 5.1 per cent of the labour force, compared with 4.2 per cent a year earlier.

133. In November 1976 the Australian dollar was devalued by 17.5 per cent although subsequent revaluations reduced the extent of the devaluation to about 12.5 per cent by the end of 1976. Despite the devaluation there was an initial deterioration in the current account of the balance of payments. Real exports of goods and services declined by 5.0 per cent (seasonally adjusted) in the first half of 1977 due partly to weaker foreign demand but also to the effects on supplies of industrial action in Australia. Real imports of goods and services increased by 6.2 per cent (seasonally adjusted) in the first half of 1977, reflecting a bunching of import deliveries ordered late in 1976 in anticipation of the devaluation. However, the current account of the balance of payments strengthened considerably in the second half of the year. Real exports of goods and services increased by 5.3 per cent (seasonally adjusted) in the September quarter and it is estimated that there was a further small increase in the December quarter. On the same basis imports of goods and services declined by 6 per cent in the September quarter and are estimated to have declined further in the December quarter.

134. Devaluation had an immediate effect on capital transactions: the private capital outflows of the preceding months were quickly replaced by a very high rate of capital inflow. In view of the size of these inflows and with further large inflows in prospect, action was taken to strengthen controls on overseas borrowing which resulted in a significant moderation in the rate of private capital inflow around the middle of 1977. In the four months to January 1978 there was a small net inflow of private capital. Official reserve assets at the end of January 1978 totalled $A 2,861 million.

135. The 1977/78 budget speech forecast that real gross non-farm product in 1977/78 as a whole would be about 2 per cent higher than in 1976/77 and that between the June quarter 1977 and the June quarter 1978 non-farm product is expected to grow by over 4 per cent; a moderate downtrend in unemployment is expected to get under way in 1978. The rate of inflation over the course of 1978 is expected to be less than the 9 per cent over 1977. Private investment in non-residential building and construction and plant and equipment is expected to grow strongly in 1977/78.

136. The current account deficit in 1977/78 is expected to be about the same as the deficit recorded in 1976/77. Exports will continue to be influenced by modest growth in the world economy. The reduced rate of importing in recent quarters is expected to be roughly maintained for the remainder of the year. The deficit on invisible transactions will be larger than in 1976/77.

137. The New Zealand economy is still struggling to recover from the disastrous effects of the huge current external deficit of 1974/75, which had reached 14.3 per cent of GDP and was associated with an inflation rate of 12.9 per cent in consumer prices. Real GDP per head had increased by less than 1 per cent in 1975/76 and the inflation rate had jumped to 15.7 per cent. Yet results of corrective measures were not apparent in 1976/77 as real GDP per head fell by 2.4 per cent and the inflation rate was 16.0 per cent.

138. The terms of trade recovered a little, by 8 per cent, and the current external deficit was reduced to 6.4 per cent of GDP. Private consumption was also reduced, in real terms, by 2.4 per cent and public spending by 9.6 per cent. More ominously, however, real private investment fell by 8.8 per cent. The consequence was that real GDP fell by 3.9 per cent but the unemployment rate remained very low — 0.8 per cent of the labour force in March 1977. That rate would have been higher but for the restrictions on immigration from Pacific Island countries and considerable emigration from New Zealand.

Part Two

THE INTERNATIONAL ECONOMIC CRISES AND DEVELOPING ASIA AND THE PACIFIC

I. BACKGROUND: THE INTERNATIONAL ECONOMIC CRISES OF THE 1970s

INTRODUCTION

1. The present study is a modest attempt to review major patterns of response among the developing economies of the ESCAP region to the international economic turbulence of the first half of the current decade. The approach is that of a survey of recent economic history and its justification lies in the recognition that the present and the foreseeable future inescapably bear the mark of the recent past. Though the approach is broadly historical, the purpose is to search for identifiable patterns of behaviour, the better to understand the performance of the developing economies of the region under conditions of stress.

2. Behind this orientation lies the defensible assumption that the course of evolution of the international market economy over the next few years will very likely present the developing economies with problems which bear more than a faint resemblance to the experiences of the recent past. In view of the continued difficulties of the developed market economies in finding solutions to their problems of unemployment and excess productive capacity, weak recoveries with recurrent bouts of inflation and disturbances in international trade and finance, this implicit prediction is scarcely hazardous. Moreover, the assumption of continued instability in international market relations is entirely consonant with the continuing efforts to reach consensus regarding the character and the measures necessary to build a New International Economic Order. Not only will considerable time be required to hammer out acceptable compromises but the process of restructuring the international economy inescapably involves a lengthy period of gestation. Equally time consuming will be the requisite structural transformation within both the developing and the developed economies, which must evolve concurrently with the creation of a new framework for international economic relationships.

3. During the possibly protracted period which may be consumed by these complex and often perplexing processes, the economies of the developing third world will be constrained by their residual dependence upon the still highly imperfect international market economy. The abiding problems of food supply, of energy sources and costs, of the underutilization of human resources and of structural transformation and the reduction of poverty will continue to require the maximum concentration of effort from government and private sectors. Though the impetus of externally-generated upswings in the demand for the exports of the developing countries undoubtedly supplies some stimulus to economic expansion, its incidence is notoriously uneven. Moreover, there continue to be ancillary effects of instability which are almost always deleterious. Not only are the commodity export booms characteristically short-lived, in the 1970s the associated inflationary pressures have been both extreme and for many developing countries virtually inescapable. Superimposed upon the more fundamental problems of underdevelopment, the instability syndrome and the increased uncertainty concomitantly exacerbate the problems of economic management and often detract materially from the concerted effort to engender continuous economic and social development. In particular the recurrent recessions which characterize international economic instability may, through their negative effects upon the general level of activity, reduce the potential for further growth by impinging upon the rates of saving and investment.

4. It is appropriate, therefore, to review the experiences of the recent past and to attempt a broad assessment of the impacts of the recent international economic crises and the market and policy responses thereto. From the review of the recent past, lessons may be gleaned for the not-too-distant future during which similar disturbances may with some confidence be expected to occur. True, there will be differences in the patterns of instability and its incidence as both the domestic economies and the international economy evolve. Nevertheless, the empirical foundation of future plans and strategies lies in the experience of the emergent present and the recent past. It is from the implications derived from these experiences that the strategies for the future must be shaped.

A. SCOPE OF THE STUDY

5. The present study does not attempt to be exhaustively comprehensive. Though the term "crises" may seem overly dramatic, it will serve at least to identify the phenomena which have been selected for review. These phenomena are discussed in the present chapter and appear in the familiar sequence of events which transpired during the first half of the 1970s: the breakdown of the international monetary system; the emergence of a world shortage of foodgrains; the cyclical phenomena of the primary

commodities export boom, the associated inflation and the subsequent collapse of the boom into the most serious recession since the Second World War; and, finally, the sharp rise in petroleum prices, 1973-1975, which, concurrently with the escalation of the prices of foodgrains and raw materials, coincides and is interwoven with the upswing of the international cycle and its subsidence.

6. It is evident from any reading of the chronicle of these years that the characteristics of any particular crisis are highly diverse, in impact and incidence, in timing and duration and in degree of seriousness. Moreover, in all these aspects there is a wide spectrum of variation in their influences upon different national economies, or types of economy, depending upon what may for brevity be referred to as differences in structural characteristics. These variables are considered in the second chapter of the study, in which the economies selected for review are presented and the impacts of the crises described. Finally, the third chapter attempts a broad assessment of policy responses to the impacts of the several crises; understandably the empirical base for this exercise is at least equally varied. In connexion with this effort, the attempt is made to discern the broad implications of these recent experiences with the management of the economy under conditions of stress, for development capacity and its enhancement in the future.

7. Much of the significance of any review of highly diverse developments derives from the point of view which is assumed. For the present study the point of view must be that of the developing ESCAP economies which are in greater or less degree enmeshed in the international market economy. Though these economies have in addition many common characteristics, implications for policy, in the varied circumstances of widely diverse economies, can scarcely be drawn with great generality and still remain useful. The present study focuses on a selection of developing economies which, as was intended, constitute a spectrum of widely varied types. Though the attempt to identify similar patterns of behaviour is the primary purpose of this study, the level of abstraction is necessarily modest. The guiding purpose is to generalize with discrimination, the better to appreciate the differences in economic structure and in the constraints on growth and on policy, which underlie the observed differences in behaviour in response to the crises.

8. It is this approach to the occurrences in the international market economy in the 1970s which guides the treatment of the background material presented in the remainder of this chapter. No attempt is made in the following to reproduce a history of the international market economy during the first half of the current decade.[1] Rather, the major elements of the crises are selectively treated on the criterion of relevance to the international environment for the developing market economies of Asia and the Pacific.

B. THE INTERNATIONAL MONETARY CRISIS

9. Mounting strains in the international monetary system during the late 1960s induced speculative capital flows and brought increased pressure to bear upon the United States dollar, culminating in 1971 and 1972 in the collapse of the adjustable peg exchange rate system. Devaluation of the dollar and the realignment of the major trading currencies brought about large changes in exchange rates between May 1970 and March 1973.[2] From the latter date a regime of floating rates was initiated by the major countries of the international market economy while countries less prominent in world trade were left to find their own solutions. Though the salutary effects of floating exchange rates have been widely praised in many of the rich industrial countries which dominate world trade,[3] their positions in the system differ considerably from those of third world economies, in respect of capacity to export, import requirements and the need for stability in exchange rates and access to international liquidity. Whatever the advantages which have accrued to some, if not all the major trading economies, it is not clear that the regime of floating rates has made a signal contribution to the needs of the developing economies; in some cases the consequences have probably been deleterious.

10. It is recognized that the extreme instability following the collapse of the Bretton Woods system reflected large discrepancies which had accumulated over a period of years as the leading countries repeatedly failed to solve their payments problems. Beginning earlier than the period of the general

[1] For a general review of the developments in the world economy during the first half of the 1970s, see *World Economic Survey, 1975* (United Nations publication, Sales No. E.76.II.C.1), and *Supplement to World Economic Survey, 1975* (United Nations publication, Sales No. E.77.II.C.2). See also Organisation for Economic Co-operation and Development, *Economic Outlook* (Paris, semi-annually) for current appraisals of international economic developments.

[2] During this period, the effective exchange rates (between the national currency and a basket of the currencies of their major trading partners) of the Japanese yen and the Deutschemark appreciated by 23 and 28 per cent respectively, while the United States dollar depreciated by 20 per cent and the pound sterling by 13 per cent.

[3] In 1970, the then member countries of the European Economic Community, the United Kingdom, the United States, Canada and Japan accounted for more than two-thirds of the total value of exports from the market economies. By 1974 and 1975, mainly because of the increased share of oil in this total, the share of the same group of countries had declined to just over three-fifths.

currency float, new and renewed turbulence has characterized the international trading and financial scene; the crisis of the monetary system has merged with the stresses brought on by the international inflation and the volatility of the business cycle in the developed market economies. In this rapidly shifting milieu virtually any monetary system would be sorely tested. The likelihood that the lack of a generally agreed system contributed importantly to the turbulence is at least arguable.

11. The accommodation made by countries in the ESCAP region in respect of several aspects of international payments arrangements and exchange-rate conditions is summarized in table 1. While most of the countries listed have opted for the maintenance of some relationship between their currencies and that of a major international trader, a few have chosen to relate to a basket of currencies. With the abandonment of internationally agreed par rates of exchange, multiple exchange rate arrangements have also largely been abandoned. Restrictions on payments in either or both current and capital transactions have been imposed by several countries during this period, while others have continued such practices from an earlier period. Malaysia has abandoned earlier restrictions on capital transactions and Iran has done so for both capital and current payments. In most cases, among the countries included in the table, import surcharges existing in 1970 have been maintained and the same applies to advance deposits for imports. While only one country has abandoned the former type of regulation, India and Iran had imposed import surcharges by 1975 while Pakistan and the Philippines had begun to require such surcharges in 1973.

12. Against the background of a period during which changes in exchange rates were relatively infrequent, the volatility of such rates in the last few years is the more striking. During the regime of managed floating of currencies since 1973 there appear to have been advantages in preserving a degree of flexibility in the relationship between the currency of the developing country and that of one or two of the major trading nations. Such arrangements are for the most part at least a matter of convenience and quite frequently, one of practical necessity. Clearly, a country which does not weigh heavily in international trade, however important that trade may be for its economy, must react to external changes as it lacks the economic power to influence them. It is instructive to compare the shares of the total value of the exports of all market economies contributed by the largest exporters among the ESCAP developing economies with that of the major developed market economies. In 1974, the share of the eight largest was only slightly greater in value than that of France, the fourth in rank among the major exporters in 1974.[4]

13. Table 2 presents the annual percentage changes in the exchange rates of selected ESCAP developing countries in terms of a unit of SDR. Originally equivalent to the value of 35 ounces of gold, since July 1974 the value of the SDR has been based upon a trade-weighted average of the currencies of major trading economies; it thus provides a benchmark more general than that of any individual currency. Consequently, this composite *numeraire* reflects the general movements of the currencies of which it is composed. Perusal of the information given in table 2 indicates that the dominant pattern of change has been one of almost continuous depreciation of the currencies of ESCAP developing countries during a period of rapid and continuous inflation.[5] The exceptions occur mainly in 1975 and 1976 during and after the subsidence of the export boom as rates of inflation quite generally were slackening. While the changes in 1971 and in some cases in 1972 reflect the process of general realignment mentioned earlier, several instances of explicit and relatively large devaluation appear elsewhere in the table as well. For comparative purposes, the changes in the exchange rate of the United States dollar vis-à-vis the SDR unit have been included on the last line of the table. Comparison of the changes in the dollar rate and those of several ESCAP countries shows that a substantial minority have followed this currency with some consistency during this period. Even in this, some degree of independence of action has apparently been possible, though a judgement of its effectiveness is scarcely possible in general terms. Whilst several countries have permitted substantial depreciation of their currencies without apparent reference to the dollar rate, Malaysia and Singapore (and in two years, Iran as well) have found it desirable to permit their currencies to appreciate by floating upwards.

14. An important attribute of the floating exchange-rate regime is the opportunity it provides to make adjustments for differential rates of domestic inflation among trading partners. The indexes shown in table 3 suggest the extent of this adjustment process during the period of general float since 1973 for the five largest contributors to the total exports of all market economies. A comparison of the wholesale price indexes for the major trading countries

[4] See tables 3 and 4. Omission of Malaysia (with 0.6 per cent of the total export value) from table 4 is due to the lack of the pertinent wholesale price index.

[5] It will be noted that a positive change (no sign) indicates a depreciation of the instant currency vis-à-vis the SDR unit while a negative change (minus sign) indicates an appreciation. This follows from the expression of the exchange rate in terms of units of a national currency per unit of SDR.

Table 1. Selected ESCAP economies: exchange rate and payments arrangements, 1970, 1973 and 1975

	Afghanistan			Bangladesh			Burma			Fiji			Hong Kong			India			Indonesia			Iran		
	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75
Exchange rate variations: Agreed par value/applied	x	—	—	...	—	—	...	—	—	...	—	—	x	—	—	x	—	—	—	—	—	x	—	—
Within relative narrow margins in terms of: Single currency	—	x[b]	—	...	x[c]	x[c]	...	x[d]	—	...	x[c]	—	—	x[b]	—	—	x[c]	—	—	x[b]	x[b]	—	x[b]	—
A composite of currencies	—	—	—	...	—	—	...	—	x[e]	...	—	x	—	—	—	—	—	x	—	—	—	—	—	x[e]
Not within narrow margins	—	—	x	...	—	—	...	—	—	...	—	—	—	—	x	—	—	—	—	—	—	—	—	—
Exchange rate arrangements: Special exchange rates — some or all capital transactions and/or some or all invisibles	x	x	x	...	x	—	...	—	—	...	—	—	x	—	—	—	—	—	—	—	—	—	—	x
Import rate(s) differ from export rates	x	x	x	...	—	—	...	x	—	...	—	—	x	—	—	—	—	—	x	x	—	—	—	—
More than one rate for imports	x	x	x	...	—	—	...	x	—	...	—	—	x	—	—	—	—	—	—	—	—	—	—	—
More than one rate for exports	x	x	x	...	—	—	...	x	—	...	—	—	x	—	—	—	—	—	x	x	—	—	—	—
Restrictions on payments: Current transactions	—	—	x	...	x	x	...	x	x	...	—	—	—	—	—	x	x	x	—	—	—	x	x	—
Capital transactions	—	—	x	...	x	x	...	x	x	...	x	x	—	—	—	x	x	x	—	—	—	x	x	—
Import regulations: Import surcharges	—	—	—	...	—	—	...	—	—	...	—	—	—	—	—	—	x	x	x	x	x	—	—	x
Advance import deposits	x	x	x	...	—	—	...	—	—	...	—	—	—	—	—	—	—	—	x	x	x	x	x	x

Table 1 *(continued)*

	Malaysia			Nepal			Pakistan			Philippines			Rep. of Korea			Singapore			Sri Lanka			Thailand		
	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75	'70	'73	'75
Exchange rate variations: Agreed par value/applied	x	—	—	x	—	—	x	—	—	x[a]	—	—	—	—	—	x	—	—	x	—	—	x	—	—
Within relative narrow margins in terms of: Single currency	—	—	—	—	x[d]	x[b]	—	x[b]	x[b]	—	—	—	—	x[b]	x[b]	—	—	—	—	x[c]	x[c]	—	x[b]	x[b]
A composite of currencies	—	—	x	—	—	—	—	—	—	—	—	—	—	—	—	—	—	x	—	—	—	—	—	—
Not within narrow margins	—	x	—	—	—	—	—	—	—	—	x	x	—	—	—	—	x	—	—	—	—	—	—	—
Exchange rate arrangements: Special exchange rates — some or all capital transactions and/or some or all invisibles	—	—	—	—	—	—	x	—	—	—	—	—	—	—	—	—	—	—	x	x	x	—	—	—
Import rate(s) differ from export rates	—	—	—	—	x	x	x	—	—	x	—	—	—	—	—	—	—	—	x	x	x	—	—	—
More than one rate for imports	—	—	—	—	x	x	x	—	—	—	—	—	—	—	—	—	—	—	x	x	x	—	—	—
More than one rate for exports	—	—	—	—	x	x	x	—	—	x	—	—	—	—	—	—	—	—	x	x	x	—	—	—
Restrictions on payments: Current transactions	—	—	—	x	x	x	x	x	x	x	x	x	x	x	x	—	—	—	x	x	x	—	—	—
Capital transactions	x	—	—	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Import regulations: Import surcharges	x	x	x	x	x	x	x	x	x	—	—	—	x	—	x	x	x	x	—	—	—	—	—	—
Advance import deposits	—	—	—	—	—	—	—	x	x	—	x	x	x	x	x	—	—	—	—	—	—	—	—	—

Source: International Monetary Fund, *Annual Report on Exchange Restrictions* (Washington, D.C., 1971, 1974 and 1976 issues).

Notes: x indicates that practice exists.
— indicates that practice does not exist.
... indicates not applicable or information not available.
[a] Agreed par value exists but par value is not applied.
[b] United States dollar.
[c] United Kingdom pound sterling.
[d] United States dollar and United Kingdom pound sterling.
[e] SDR.

Table 2. SELECTED ESCAP DEVELOPING ECONOMIES: CHANGES IN RATES OF EXCHANGE OF NATIONAL CURRENCIES PER SDR UNIT

(end of year)

Country and currency unit	National currency per SDR unit 1970	Percentage change in exchange rate[a]					
		1971	1972	1973	1974	1975	1976
Afghanistan (Afghani)	45.000	8.6	—	11.1	1.5	—4.4	—0.8
Bangladesh (Taka)	8.068[b]	...	8.7	12.8	—	75.5	0.1
Burma (Kyat)	4.802	23.7	—1.2	—	0.4	31.5	—
Fiji (Fiji dollar)	0.873	1.8	2.9	6.6	0.3	3.2	8.3
India (Rupee)	7.509	4.3	11.0	12.8	0.8	5.8	—1.4
Indonesia (Rupiah)	378.000	19.2	—	11.1	1.5	—4.4	—0.8
Iran (Rial)	76.380	8.6	—	—1.6	1.5	—2.0	1.2
Malaysia (Ringgit)	3.078	1.8	—2.4	—3.3	—4.3	7.0	—2.8
Nepal (Rupee)	10.125	8.6	—	15.9	1.5	13.2	—0.8
Pakistan (Rupee)	4.803	8.3	130.1	—	1.5	—4.4	—0.8
Philippines (Peso)	6.443	8.6	5.4	10.3	6.5	1.5	—1.7
Republic of Korea (Won)	316.650	28.0	6.9	10.7	23.6	—4.4	—0.8
Singapore (Singapore dollar)	3.080	2.2	—2.8	—2.0	—5.6	3.0	—2.1
Sri Lanka (Rupee)	5.958	8.6	12.4	11.9	0.7	10.2	13.6
Thailand (Baht)	20.928	8.6	—	8.2	1.5	—4.3	—0.8
(United States)[c] (Dollar)	1.000	8.6	—	11.1	1.5	—4.4	—0.8

Source: International Monetary Fund, *International Financial Statistics,* 1976, 1977, various issues.

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] 1971.

[c] Included for comparison.

among the developed market economies with their respective wholesale price indexes, adjusted according to the changes in their effective exchange rates,[6] reflects the degree to which the float process has accomplished this purpose. As reflected in their wholesale price indexes, the differential rates of domestic inflation among the five leading traders have indeed been considerable during these years. While the adjustment mediated by the float has undoubtedly reduced the differentials among the effective price levels of these countries, marked differences remain.[7]

15. More pertinent to the economies of the ESCAP region, a similar set of comparisons has been compiled for presentation in table 4. Following the pattern of table 3, wholesale prices indexes have been adjusted by deflating them with exchange rate indexes expressed for each currency in terms of the SDR.[8] Quite aside from the deficiencies of the data, the comparisons are less useful than those for the developed economies. Except for the Republic of Korea, exchange rate depreciation by the countries included in the table during the period covered was generally moderate and all seven permitted some appreciation of the value of their currencies in 1975 or 1976. Comparison of country rankings in terms of the adjusted and the unadjusted price series shows relatively little change in positions. Unlike the major developed economies, most of the developing economies included in the table do not compete for markets with a diversified array of commodities. For primary products exports, few of the countries command a sufficient share of the market to permit much influence on price. There are exceptions among the countries included in the table, but they relate mainly to individual commodities rather than to exports in general. Except

[6] The effective exchange rate is expressed as an index relating the national currency of a major trading country to a composite of 20 other major currencies weighted according to their relative importance for changes in the trade balance of the instant country. See International Monetary Fund, *International Financial Statistics,* October 1977, p. 4, or earlier issues.

[7] Changes in relative position have been accomplished by this process, persistently favouring the United Kingdom and, less strongly, the United States, while the Federal Republic of Germany has equally persistently been disfavoured. Japan and France have suffered comparatively only during 1975 and 1976. Despite these relative shifts, Japan and, less consistently, the Federal Republic of Germany have continued to expand their shares of the total exports of the developed market economies while the United Kingdom has continued to lose ground. See United Nations, *Monthly Bulletin of Statistics,* November 1977, table 52.

[8] Though the SDR index has the advantages of a composite index, it differs from the effective exchange rate index used in table 3; thus the data in the two tables are not strictly comparable. In addition, the exchange rates used in table 4 refer to the end of the year, which is less appropriate than an annual average. See notes to table 4.

Table 3. MAJOR ECONOMIES IN INTERNATIONAL TRADE: WHOLESALE PRICE INDEXES ADJUSTED BY EFFECTIVE EXCHANGE RATE,[a] 1972-1976

(annual averages, 1972=100)

Country[b]	*Share of total exports*[c] *1974 (percentage)*		*1973*	*1974*	*1975*	*1976*
United States of America	12.6	(A)	113.1	134.4	146.8	153.7
		(B)	(103.6)	(126.0)	(136.5)	(150.2)
Germany, Federal Republic of	11.6	(A)	106.6	120.9	126.6	131.6
		(B)	(118.8)	(141.7)	(150.8)	(162.5)
Japan	7.2	(A)	115.9	152.2	156.8	165.4
		(B)	(124.7)	(153.4)	(153.0)	(167.1)
France	6.0	(A)	114.7	148.1	139.7	150.1
		(B)	(119.9)	(144.5)	(150.1)	(153.1)
United Kingdom	5.0	(A)	107.3	132.4	164.4	191.3
		(B)	(97.1)	(116.1)	(133.1)	(131.2)

Sources: International Monetary Fund, *International Financial Statistics,* March 1978; United Nations, *Monthly Bulletin of Statistics,* March 1978.

Notes: (A) General wholesale price index.

(B) Adjusted wholesale price index; deflated by effective exchange rate (see note [a]).

[a] Index combining the exchange rates between the currency in question and twenty other major currencies weighted according to their relative importance for changes in the trade balance of the instant country. See International Monetary Fund, *op. cit.,* p. 4.

[b] Countries listed in order of share of total exports of all market economies, 1974.

[c] Aggregate value of exports from all market economies (excludes centrally planned economies).

Table 4. SELECTED ESCAP DEVELOPING ECONOMIES: WHOLESALE PRICE INDEXES ADJUSTED BY SDR EXCHANGE RATE,[a] 1972-1976

(1972=100)

Country[b]	*Share of total exports*[c] *1974 (percentage)*		*1973*	*1974*	*1975*	*1976*
Iran	2.79	(A)	111	130	141	153
		(B)	(113)	(130)	(144)	(155)
Indonesia	0.97	(A)	138	203	216	252
		(B)	(124)	(180)	(200)	(236)
Republic of Korea	0.58	(A)	107	152	192[d]	216
		(B)	(97)	(111)	(147)[d]	(166)
India	0.51	(A)	119	152	154	150
		(B)	(106)	(134)	(128)	(126)
Philippines	0.35	(A)	124	192	198	212
		(B)	(113)	(164)	(166)	(181)
Thailand	0.32	(A)	123	158	164	171
		(B)	(113)	(144)	(156)	(164)
Pakistan	0.14	(A)	120	169	207	214
		(B)	(120)	(166)	(213)	(222)

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

Notes: (A) Wholesale prices, general index (annual averages).

(B) Adjusted wholesale price index; deflated by index of the exchange rate of the national currency per SDR unit.

[a] Exchange rates expressed in terms of national currencies per unit of SDR; end of year figures.

[b] Countries listed in order of share of total exports of all market economies, 1974.

[c] Aggregate value of exports from all market economies (excludes centrally planned economies).

[d] Revised series linked to 1970-base series (United Nations, *Monthly Bulletin of Statistics*) converted to 1972 base.

in instances of relatively great devaluation, it is doubtful whether the salutary effects of exchange depreciation can be specified with sufficient precision to permit more than a rough assessment of actual effects. It would appear that depreciation by the Republic of Korea during these years enhanced the salability of its manufactures exports; it is likely that the more moderate depreciation of the Indian rupee may have been helpful as well. Although not included in the changes shown in the table, the large devaluation of the Pakistan rupee undoubtedly assisted the exports of that country during 1972 and 1973 but the effects of domestic inflation were not materially modified by further exchange-rate adjustments in the succeeding years. The petroleum exporters neither devalued significantly nor did their major export commodity require it. Not entirely dissimilar in respect of relative price changes, the export of Thai rice during these years would not have been materially affected by any feasible depreciation of the currency.

16. While the specific effects of exchange depreciation can be discerned in strong cases, the effects of the variations in exchange rates which occurred during these years are obscured and reduced in importance by the extreme price movements associated with the export boom and the international inflation. The consequences of exchange rate adjustments for domestic inflation will be considered in chapters II and III below. For most of the developing economies of the ESCAP region, variations in their exchange rates were largely dictated by the changes in international markets dominated by the developed economies, rather than subject to significant independent control by individual developing economies.

C. THE FOOD CRISIS

17. During the last years of the 1960s there was a growing sense of optimism concerning the world food situation, not least in the developing countries of Asia. Early successes in increasing yields through the use of high-yielding hybrid seeds in wheat and rice cultivation seemed capable of widespread application. Large stocks of foodgrains had been accumulated in the major exporting areas by the late 1960s. Mainly in North America, wheat stocks were at record levels and elsewhere stocks of rice and coarse grains were also encouragingly large.

18. The onset of unfavourable weather conditions in large areas of the world in 1971 and 1972, and serious harvest shortfalls in several producing areas rapidly changed the world cereal supply situation. As deficient harvest results occurred, import demand expanded sharply both in developing countries and among the developed economies. In consequence world foodgrain stocks were subjected to serious depletion (see table 5). Although world foodgrain harvests improved during the 1973 season, stock depletion continued and, with a recurrence of poor harvests in 1974, fell to levels which had not been seen since the early 1950s. With improved weather conditions and more bountiful harvests in the 1975/76 harvest season, world stocks of cereals have been largely replenished; nevertheless, their size relative to the markedly higher level of world consumption still lies below the proportionate levels of the late 1960s. While the inexorable growth of world population has continued to swell the demand for foodgrains, in the rich countries the continuing shift towards greater consumption of animal protein foods inescapably increases the amount of grain and other feeds required to produce a given nutritional yield.

19. Low levels of foodgrain stocks make annual supplies of grains increasingly dependent upon the current year's production, thus heightening the dependence upon variations in weather conditions, attacks of pests and plant disease and other short-term influences. The precariousness of the food situation in developing ESCAP countries is forcefully suggested by reference to the figures in table 6, showing the already inadequate calorie intake in many countries of the region. Moreover, these aggregative data reveal a deterioration in nutritional standards in recent years for some of the most needy and most populous countries. Though there are more critically deficient countries elsewhere in the world, notably in the Sahelian lands, even the clinical indexes of *per capita* food and cereals production in table 5 indicate that the ESCAP developing countries have been more severely affected by the harvest shortfalls of recent years than has the world at large.

20. Whilst the problems of food and nutrition on a world scale are both intractable and abiding, for present purposes it is necessary only to highlight those aspects of the world food situation which are especially pertinent to the focus of the present study. Briefly stated, it is precisely the dependence upon the outcome of current production, on a world scale as well as on a regional one, and, ultimately, upon the position of the individual economy, which inescapably places the world food crisis in the complex of the international economic crises of the 1970s. The markedly unsatisfactory harvests and the consequent shortfalls in supplies of food in several populous Asian countries in the early 1970s have contributed to problems of both internal and external economic balance.

Table 5. WORLD AND DEVELOPING ESCAP REGION: INDEXES OF FOOD AND CEREALS PRODUCTION, IMPORTS AND PRICES

		1969	1970	1971	1972	1973	1974	1975	1976[a]
Food production indexes[b]									
World	(total)	97	100	104	102	108	110	113	115
	(*per capita*)	99	100	102	99	102	101	103	102
Developing ESCAP economies	(total)	95	100	102	100	107	107	114	115
	(*per capita*)	97	100	100	96	101	99	103	102
Cereals production indexes[b]									
World	(total)	99	100	109	102	114	112	116	126
	(*per capita*)	101	100	107	97	108	104	106	114
Estimated stocks[c]	(percentage)	(...)	(...)	(19)	(14)	(13)	(12)	(13)	(15)
Developing ESCAP economies	(total)	94	100	102	98	106	105	114	113
	(*per capita*)	96	100	99	94	100	96	103	100
Cereals imports quantum indexes[d]									
Developing ESCAP economies[e]		91	100	89	91	130	120	138	...
Centrally planned economies in Asia		76	100	83	117	145	144	95	...
World export price indexes[f]									
Cereals		99	100	102	111	184	262	232	203
Wheat		101	100	104	116	201	290	258	224
Rice		109	100	98	110	192	321	231	168
Maize		92	100	99	100	155	196	191	183
Barley		95	100	106	119	160	210	222	209

Sources and notes:

[a] Provisional.

[b] Food and Agriculture Organization of the United Nations computer print-out, April 1978.

[c] Estimated carry-over stocks as percentage of world cereals consumption. Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture, 1976* (Rome, 1977), table 1-6.

[d] *Ibid.*, annex table 5.

[e] Excludes centrally planned economies, Afghanistan, Iran and Japan.

[f] United Nations, *Monthly Bulletin of Statistics*, September 1976, special table D, September 1977, table 59.

Table 6. ESCAP COUNTRIES: *per capita* DAILY ENERGY SUPPLIES AS PERCENTAGE OF NUTRITIONAL REQUIREMENTS

(averages 1969-1971 and 1972-1974; annual 1970-1974)

	Nutritional requirements: kilocalories per capita per day	*Percentage of requirements*						
		Averages						
		1969-1971	*1972-1974*	*1970*	*1971*	*1972*	*1973*	*1974*
Afghanistan	2,440	80	82	78	77	80	83	83
Bangladesh	2,310	84	84	85	82	82	83	88
Burma	2,160	101	99	101	101	93	100	103
India	2,210	92	89	92	94	93	85	89
Indonesia	2,160	91	94	92	91	88	95	99
Iran	2,410	90	96	90	88	95	97	98
Malaysia	2,248	112	114	114	111	112	116	116
Nepal	2,200	93	92	94	90	87	93	95
Pakistan	2,310	93	92	93	93	93	91	92
Philippines	2,260	86	86	85	85	85	87	87
Republic of Korea	2,350	115	117	114	121	119	117	115
Sri Lanka	2,220	104	94	105	100	95	94	91
Thailand	2,220	103	104	103	104	102	104	107

Source: Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture, 1976* (Rome, 1977), annex table 12.

21. As most of the developing economies in the region, and among them some of the largest populations, are net importers of foodgrains even in good years, the rising demand for food imports has contributed to the world-wide increase in food prices commencing even before the commodities export boom brought general inflationary pressures in its wake from late 1972 onwards. In 1975 the volume of cereals imported by developing ESCAP countries was 7 million tons (55 per cent) greater than it had been four years earlier[9] (see table 5). The effects of food shortages on domestic inflation in several ESCAP developing countries early in the decade were in turn reinforced by the rise in prices of increased quantities of imported cereals and other foodstuffs. Meanwhile the international inflation concomitant with the boom has meant increased costs of imports in general, while prices of manufactured imports had begun to rise importantly by the end of the 1960s. These cost increases have exacerbated the strain on the balance of payments of many developing countries in the ESCAP region and have contributed to domestic inflationary pressures. The increasing costs of agricultural inputs, fertilizers and agricultural chemicals, especially after the sharp rise in the prices of petroleum products at the end of 1973, heightened the difficulties of increasing domestic food output and protecting the real incomes of farmers. Government budgets were given an added burden in the cost of subsidies needed to encourage agricultural production.

22. Although foodgrain supplies in the ESCAP region were enhanced importantly by the more bountiful harvests of 1975/76 and stocks of foodgrains were amply replenished in many countries (among them, India is the most notable example), world foodgrain stocks have apparently been more modestly restored. The easing of international foodgrain prices has had salutary effects in dampening the forces of domestic inflation. Nevertheless, the basic problems of inadequate irrigation and rejuvenated supplies of high-yielding seed must mean that even the enhanced food stocks may not withstand the effects of serious shortfalls in annual crops. In addition to the fundamental lack of adequate nutrition, the great importance of cereals in the consumption pattern of most developing countries in the region makes the threat of recurrent shortages and rekindled inflation very real indeed.

[9] As indexes of world-wide average export prices, the cereals price indexes in table 5 probably understate actual prices in many areas. The price index for rice, for example, implies an increase of very nearly threefold between 1972 and 1974. By contrast, the export price of Thai rice (all grades average unit value) rose from Baht 2,100 per metric ton to Baht 9,500 between 1972 and 1974. (See Bank of Thailand, *Monthly Bulletin*, September 1977 (Bangkok, 1977), table III.9.)

D. THE COMMODITIES EXPORT BOOM, INFLATION AND RECESSION, 1972-1975

23. Dominated by a relatively small number of developed economies the industrial and financial systems of which have grown increasingly interdependent, the international market economy becomes the medium by which fluctuations in economic activity are transmitted and diffused among the participating economies.[10] The developing market economies, though they differ widely as regards the importance of trade to their total output and real income, participate in the international market and consequently are subject to the influence of its performance and the behaviour of the developed market economies. These considerations are discussed at some length in chapter II. Not only differences in economic size but characteristic differences in economic structure and the pattern of trade distinguish the roles played by the two groups in the international market place. Expressed as succinctly as possible, the information in table 7 provides the skeleton of the international market economy and a hint of the nature of the structural changes which have occurred in trade over the past decade or more.

24. Even if the extraordinary expansion of the share of mineral fuels were excluded, the predominance of primary products would remain characteristic of the pattern of exports from the developing to the developed countries.[11] Be that as it may, however, the importance of the persistent increase in the share (as adjusted) of manufactures exports from the developing to the developed areas should not be overlooked, as it reflects structural changes in both production and trade. The familiar pattern of dominance of the exports from developed countries by manufactures is equally fundamental in its implications. To the degree that the latter reflects a continued lack of capacity on the part of the developing world to produce the volume and variety of manufactures required for current and developmental needs, it represents a critical dependence. However, taken together with the increasing value and volume of manufactures exports from

[10] Five leading economies, United States of America, Japan, Federal Republic of Germany, France and the United Kingdom, account for more than three fourths of the combined GDP of OECD (24 members); they provide nearly three fifths of the aggregate value of all exports from developed market economies and rather more than two fifths of the aggregate value of exports from all market economies, developed and developing (1974-1976). United Nations, *Monthly Bulletin of Statistics*, September 1977, table 52 (trade) and OECD, *Main Economic Indicators*, July 1977 (GDP).

[11] Holding the share of SITC 3 at its 1970 level would result in the following pattern for 1975: foods, 21 per cent; raw materials, 17 per cent; fuels, 34 per cent; and manufactures, 27 per cent.

Table 7. STRUCTURE OF WORLD TRADE: PRECIS,[a] 1965-1975

(percentage shares of total values)

	Exports from developing to developed areas				*Exports from developed to developing areas*			
	Food etc.	*Raw materials*	*Fuels*	*Manufactures*	*Food etc.*	*Raw materials*	*Fuels*	*Manufactures*
SITC[b]	*0 + 1*	*2 + 4*	*3*	*5, 6, 7, 8*	*0 + 1*	*2 + 4*	*3*	*5, 6, 7, 8*
1965	28	24	32	15	13	5	2	77
1970	24	18	34	22	11	5	1	80
1973	19	15	42	24	12	5	1	80
1975[c]	12	9	64	15	10	4	1	82

Source: United Nations, *Monthly Bulletin of Statistics,* June 1977, special table F.

Notes: [a] Current values.

[b] Totals include SITC 9: miscellaneous transactions.

[c] See text, footnote 12.

the developing to the developed,[12] it is symptomatic of a qualitative change in the evolution of this interdependence.

25. Whatever the gains from the intensification of the international division of labour and however imperfect the system, it is apparent that the sensitivity of the developing economies to the performance of the internationally dominant economies has been increasing. For the developing ESCAP economies, despite persistent efforts to diversify markets for their exports, as well as to diversify the commodities exported, dependence for export markets remains heavily concentrated upon the developed market economies. Though the total (and the proportion) going to the industrial economies was slightly reduced during the recession year of 1975, this predominant share of exports from the developing ESCAP economies continued to expand during the first half of the 1970s.[13] Seen in conjunction with the changing commodity composition of these exports, a new pattern of interdependence begins to emerge. Although the available data are imperfect (due to some large unidentified residuals), certain characteristics seem clear. First, it appears from a comparison of table 7 and table 8, that the export of manufactures from developing ESCAP countries has become considerably more important than they are for developing countries in general. Granted that the spectrum of differences among countries will be wider and more varied than the regional averages expressed in aggregated export data, it is important here to draw attention to these differences. Secondly, and more importantly, the characteristics of manufactures exports from developing ESCAP countries seem also to be changing, and changing in broadly discernible ways.

Table 8. DEVELOPING ESCAP REGION: STRUCTURE OF EXPORTS, 1970-1975

(percentage of total value)[a]

	Foods SITC 0 + 1	*Raw materials SITC 2 + 4*	*Fuels SITC 3*	*Manufactures SITC 5-8*
1970	19	26	6	49
1971	20	25	8	47
1972	18	22	8	52
1973	16	22	9	53
1974	17	18	18	47
1975	18	15	19	48

Source: *Statistical Yearbook for Asia and the Pacific, 1976* (United Nations publication, Sales No. E/F.77.II. F.8), p. 12.

Note: [a] Unclassified residuals in 1971, 1974 and 1975 may reduce the apparent accuracy of the percentage shares by as much as 8 per cent in 1971 and 20 per cent in 1974 and 1975.

26. These changes reflect emerging patterns of structural development in the developing ESCAP economies (or at least in some of them) and a corresponding evolution of the interdependence between these developing economies and the industrially developed economies. Briefly stated, this is a shift away from the colonial pattern of provision of raw materials for manufacturing in the metropolitan countries, towards the increasing importance of supplying more highly processed raw materials,

[12] The quantum index for manufactures exports from developing to developed areas doubled between 1968 and 1975 while the total quantum index rose by little more than a third (see United Nations, *Monthly Bulletin of Statistics,* June 1977, special table F.III).

[13] The share of total export values from the developing ESCAP economies going to the major industrial economies (excluding centrally planned economies) rose progressively from about 63 per cent in 1970 to 68 per cent in 1974 but lost less than half a percentage point in 1975. Over this period the shares to industrial economies in Europe and to Australia, Japan and New Zealand in the ESCAP region increased by about three percentage points while the share to Canada and the United States of America declined by a somewhat smaller margin.

semi-manufactures, and manufactured components as inputs mainly for manufacturing industry and construction in developed economies. In most if not all the developing economies of the region, one of the main aims of developmental policy has long been the structural transformation which would make possible such a shift. Further along the spectrum, two other streams are evolving: first, the provision of manufactured consumer goods (notably garments and footwear) and secondly, provision of capital goods. Clearly, the capacity to produce the last of these is limited to a few developing ESCAP economies and to as yet a quite limited range of products.[14]

27. In the present connexion, the significance of these changes, nascent though they may be, lies in the more finely articulated interrelationship between exporting and importing economies. Not only does the greater diversification and degree of fabrication of developing economy exports imply a more intimate linkage with other economies, it rests upon a more highly articulated structure of domestic production and, generally (though not ubiquitously), a more highly integrated national economy.[15] Broadly, two distinguishable influences of these emerging patterns are particularly relevant. The first is that the export-import interrelationship continues to become a more highly integrated one and probably enhances the sensitivity of the developing economies to changes in the levels of activity in the economies of their more highly developed trading partners. Secondly, within the developing economies, the more highly articulated production structure and the correspondingly greater degree of integration of the economy make the influences of external (as well as internal) changes more pervasively felt, their effects being diffused more promptly and completely throughout the domestic economy.

28. The foregoing discussion should provide a general background for the reappearance of the international business cycle and its diffusion among developing economies of the ESCAP region. It is necessary to observe the pattern of change in general levels of activity among the developed market economies in conjunction with related changes in the developing ESCAP economies. These patterns of change in the first half of the 1970s are graphically illustrated in figure 1. Although the series traced in that figure constitute something of a potpourri, they illustrate the point to be made using the available data. It will suffice to comment briefly on the implications of some of the relationships reflected in the graph.

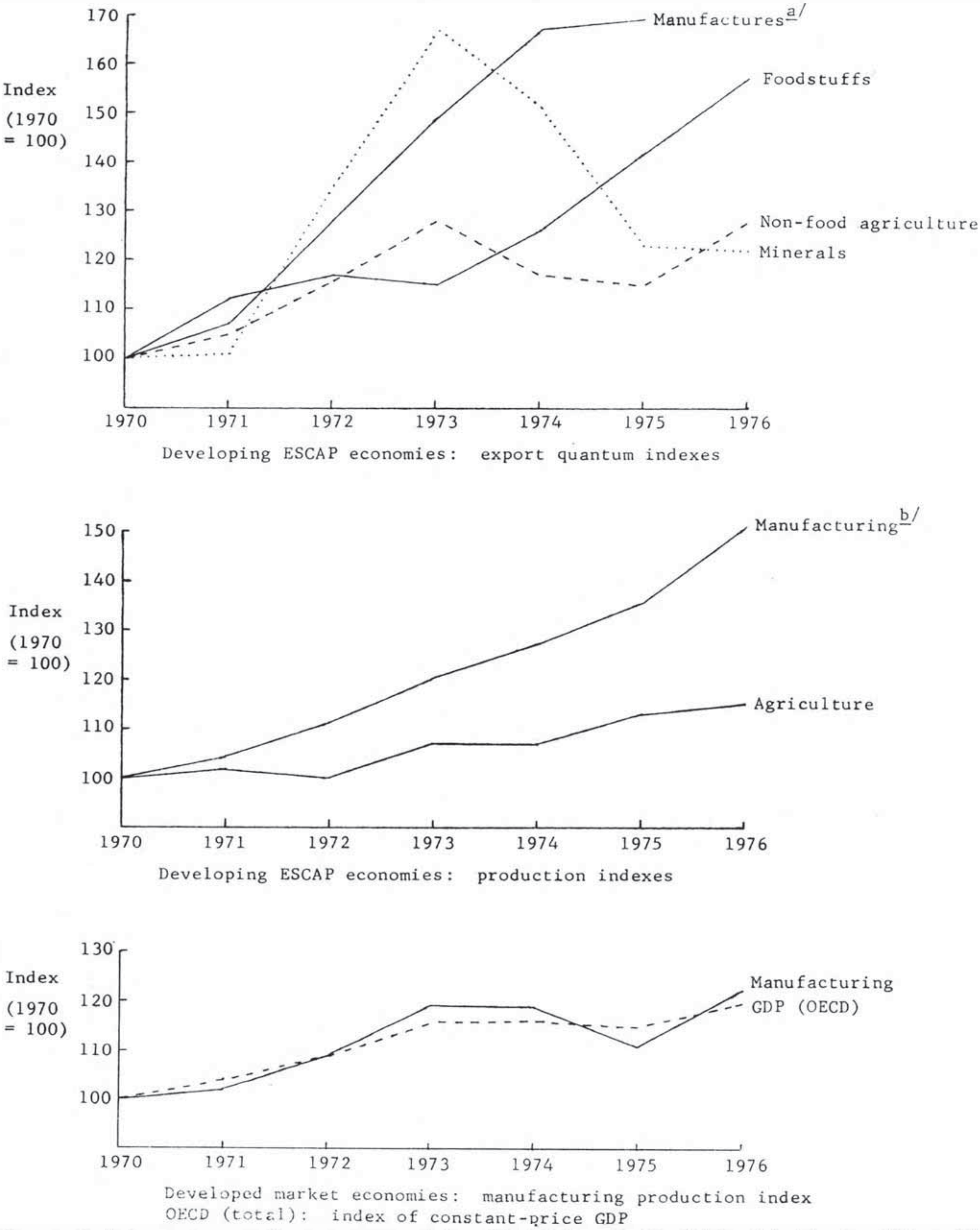
29. Whilst the apparent response of exports of non-food agricultural materials and mineral products reflects a high degree of sensitivity to variation in rates of change in manufacturing production in the developed economies, it is equally apparent that food-stuffs exports respond to quite different stimuli. Reference need only be made to the discussion of the foodgrain crisis in the preceding section and to the rather different constraints upon food production than upon the production of mineral products or non-food agriculture (notably logging and perennial crops). The fact that manufactures exports have continued to expand in quantum terms (though at reduced rates) during the recession suggests the occurrence of changes not immediately visible in the performance of manufacturing in the developed market economies. One element relates to changes in the pattern of markets, especially the emergence of demand for manufactures from countries in the Middle East. A second element seems to reflect differences in the timing of the partial upturn in 1975, particularly to the rapid recovery of the export of garments from a number of countries in the region; the demand for certain wood products seems to have behaved similarly. Thirdly, the expansion of exports of relatively new product groups, notably electronics components and consumer electrical goods, has contributed to the expansion of manufactures exports and to the level of manufacturing activity in several countries.

30. A major concomitant of the commodities export boom is found in the rapid increase in the general level of prices of these exports. As figure 2 shows, world export prices of manufactures had begun to rise at increased rates during the latter half of the 1960s. By 1970 the rise had begun to accelerate and accelerated sharply from the end of 1972, reaching a peak in the second quarter of 1975, approximately coincident with the trough of the industrial recession which had set in at least a year earlier in most of the developed market economies. World export prices of primary commodities, in contrast, had been subject to secular decline for nearly two decades. Intermittant periods of rising primary-commodity prices during this time appear modest in retrospect, in comparison with the precipitous rise which occurred in conjunction with the 1972-1974 commodities boom. In view of the characteristically different structures of the markets in which they are determined, the contrast between the behaviour of primary products prices and those of manufactures is instructive. While manufactures

[14] Yet another strand in this emerging pattern involves the provision by the industrially more advanced developing economies of manufactured consumer goods and investment goods to other developing economies within the region.

[15] The qualification to the generality of this observation is occasioned by the currently popular recourse to "off-shore" processing, component assembly or manufacturing, typically located in export-processing zones purposely insulated from the rest of the economy.

Figure 1. Developing and developed economies: indexes of production and exports, 1970-1976 (1970=100)

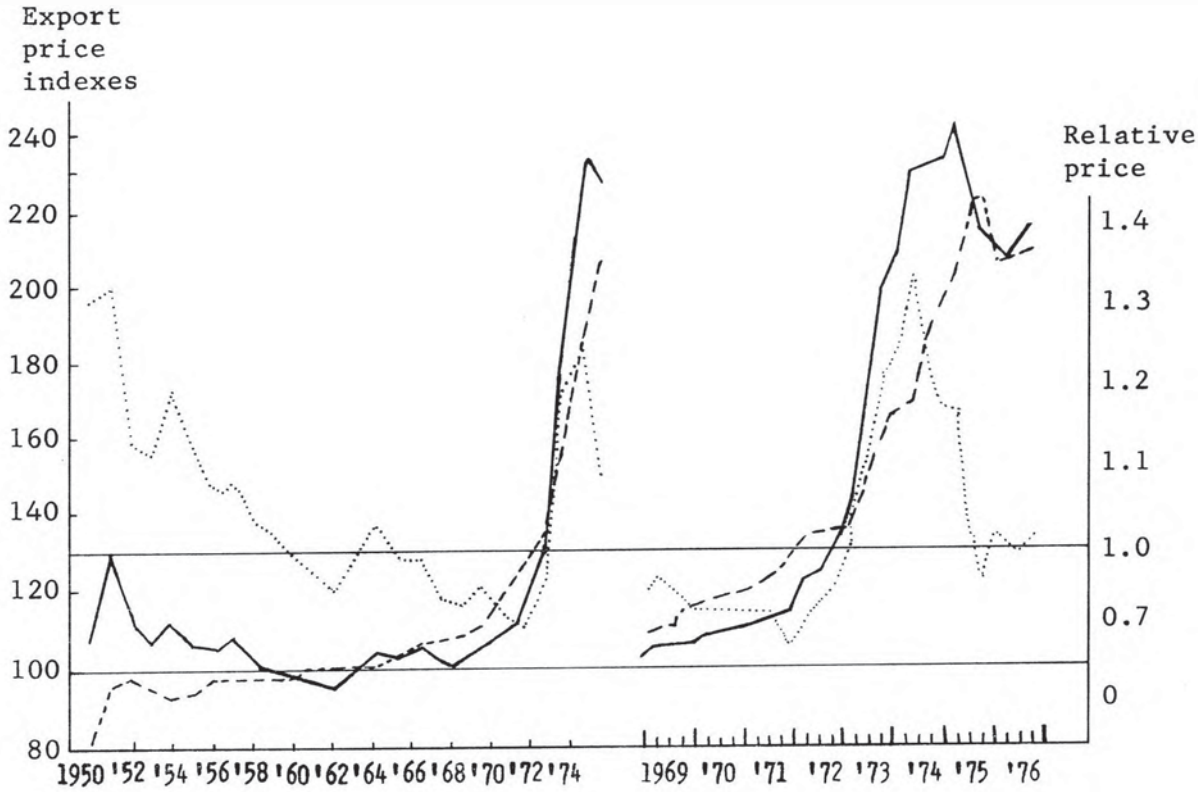


Sources: Developing market economies: export quantum index — United Nations, *Monthly Bulletin of Statistics,* June 1977, special table F; Developing ESCAP economies: production and export quantum indexes — *Statistical Yearbook for Asia and the Pacific, 1976* (United Nations publication, Sales No. E/F.77.II.F.8); Developed market economies: production index (manufacturing) — United Nations, *Monthly Bulletin of Statistics,* November 1977, special table A; OECD: index of constant-price GDP — OECD, *Main Economic Indicators* (Paris), September 1975, October 1976, July 1977.

Notes: [a] Manufactures: developing market economies.
[b] 1976 provisional.

Figure 2. World price indexes: manufactures and primary commodities, 1950s-1970s

(1963=100)



Source: United Nations, *Monthly Bulletin of Statistics,* various issues.

Notes: Primary commodities price index (excluding oil) (solid line).
Manufactures price index (broken line).
Relative price: primary/manufactures (dotted line).

prices continued to rise long after the onset of recession, those of primary products peaked during the fourth quarter of 1974 and reached the lowest point three quarters later. It was into this maelstrom of spiralling prices that the abrupt increase in the price of petroleum was interjected near the end of 1973.

31. Important among the characteristics of a growing functional interdependence among the developed market economies is an increasing degree of synchronization of the movements in levels of economic activity in individual economies. This is well exemplified by the international fluctuations which have occurred during the current decade, not least in the timing of the commodities boom and its eventual subsidence and the common experience of domestic inflation.[16] The re-emergence of the international business cycle concomitant with this evolution has important implications for the developing economies of the ESCAP region and elsewhere. The increasing diversification of production and of trade with the developed market economies makes more pervasive the interdependence of developed and developing economies and implies a growing sensitivity of the latter to international economic fluctuations. That there are wide differences in this regard among the developing ESCAP economies is apparent and constitutes the basis for much of the discussion in the succeeding chapters. Of particular interest here is the contrast reflected in the behaviour of manufacturing and of primary production in the developing economies during the upswing and the recession phases of the cycle, as suggested in figure 1. As some of the evidence discussed in chapter II will show, this contrast is reflected as well in the behaviour of individual economies included in the study.

[16] See, for example, the study of this process in Government of Japan, Economic Planning Agency, *Economic Survey of Japan, 1975/76* (Tokyo, 1976), pp. 58 ff., especially table 55.

1. Inflation

32. It was manifestly the rapid rate of inflation associated with the commodities boom of 1972-1974 which had sufficiently deleterious effects on the developing economies of the ESCAP region to deserve the appellation of crisis; the impetus given to increased economic activity by the upswing in exports, however unevenly felt among individual countries, did not generally have crisis characteristics. Nevertheless, the inflation was obviously part of the boom syndrome and can scarcely be considered in isolation. As the discussion in chapter II will indicate, inflationary pressures generated by the commodities export boom had quite varied impacts on the several economies selected for study. For those with exports which responded significantly to the marked increase in external demand, domestic demand was given an upward thrust sufficient in some cases to have important inflationary effects. Where exports contributed a relatively small share to aggregate expenditure, such multiplier effects were scarcely discernible. In several countries, domestically generated inflation has occurred quite independently of the export boom. In virtually all the economies studied, however, the rising costs of imports — first of manufactures, later of foodgrains and rapidly thereafter the general rise in import prices including those of petroleum and its products — all brought inflationary influences of varying severity.

33. As the causes responsible for inflation varied considerably among the developing ESCAP economies, as well as over time, so also did the timing and rate of price increases. In most countries studied there are identifiable periods in which food prices clearly gave the main impetus to the rise in the general level of prices. There can be little doubt that differential rates of price rise affected consumption patterns and may have brought about changes in patterns of income distribution; but such changes are notoriously difficult to substantiate with empirical evidence. In a few countries there is evidence of declining real incomes during periods of rapid inflation, for example, among wage earners. In contrast, it also appears that some farm incomes may have risen in real terms when food or export crop prices were rising more rapidly than prices-in-general. There are as well some indications that relative price and income shifts which were part of the inflationary process may have induced changes in patterns of consumption and saving. In virtually all the countries studied, inflation had sufficiently serious effects to require action on the part of the government and the central bank. Though effectiveness varied, the urgency of the need for action elicited remedial measures, some of which were new to the particular economy.

2. Recession, 1974-1975

34. The recession which commenced in the industrial countries in 1974 and the collapse of the commodities export boom for the developing economies mark the penultimate phase of the international economic cycle which dominated the first half of the 1970s. The recession in industrial production followed a similar time pattern in most of the major economies, to the detriment of the developing economies and their exports, and reached a trough in mid-1975. While the prices of primary commodities generally declined after 1974, domestic inflation continued in the developed market economies though in several countries at reduced rates. The emergence of excess production capacity and mounting unemployment and, concurrently, the continued rise in price levels reflect the characteristic features of the now familiar phenomenon of stagflation.

35. Following the decline in the value of imports into the industrial countries during the last half of 1974 and the first half of 1975, the value of exports from the developing ESCAP region as a whole fell moderately in 1975, marking the conclusion of the export-stimulated cycle. For the developing ESCAP economies most closely linked with the industrial economies through trade, the decline in exports was substantial. The onset of recession expressed itself chiefly in the fall in export prices while the export quantum declined relatively less and, in the somewhat ambiguous aggregate, not at all. Continued high prices of imports meant that the barter terms of trade also continued to fall. The few countries in the region, in which exports consist mainly of manufactures, typically experienced continued export growth in 1975, though in some cases at reduced rates. Despite marked declines in the output of manufacturing industry in several developing ESCAP economies in 1975, industrial production for the group as a whole registered a continuing rise.

36. In spite of mixed fortunes in industrial production and a general decline in export values, the level of economic activity in the region's developing economies continued to rise in real terms, though not without considerable slackening; in the dozen or more countries for which information is available, real gross product did not decline in 1975, though in several the rate of GDP growth fell below that of population. Domestic prices generally rose at lower rates after 1974 while some inflation continued in most countries. Whilst the advent of recession was abrupt in some countries, it was also relatively brief as exports began to recover during the last half of 1975. In retrospect it appears generally to have been comparatively mild, at least in terms of growth in aggregate real product. Nevertheless, where the recession brought reductions in primary

production and the slackening of industrial growth there were unwanted effects on employment, investment and rates of saving. It will be the task of chapters II and III to assess the implications of the various consequences of the recession.

E. THE OIL CRISIS

37. Not least because of its timing, the sharp rise in petroleum prices in 1973-1974 is appropriately viewed in the context of the international inflation of the early 1970s. Nevertheless, it is the sheer magnitude of the increase in a relatively limited period of time which gives the oil price rise the characteristics of a crisis. Benchmark prices of crude petroleum had risen by more than 80 per cent between 1970 and 1973; marked up by another three-and-a-half-times between 1973 and 1974, prices of crude had risen sixfold in a period of four years.[17] Coming as it did at a time when the prices of other essential imports were also rising rapidly, the rise in oil prices severely exacerbated balance-of-payments problems in many developing ESCAP economies. Given the inelasticity of demand for the major mineral fuel import in virtually all non-oil-producing countries, imports of petroleum and petroleum products were eminently non-compressible even in the medium term, because of the technical difficulty of conversion to alternative energy sources.

38. An impression of the relative size of the changes in costs of imports may be obtained from a review of the pattern of price increases in several major import categories important to the developing economies of the region. A summary of such price changes is presented in table 9 to illustrate the contextual circumstances in which the oil price rise occurred.

Table 9. WORLD EXPORT PRICES: PERCENTAGE CHANGES IN PRICES OF COMMODITIES IMPORTED BY ESCAP DEVELOPING ECONOMIES

(percentage changes during period)[a]

Period	*Cereals*	*Crude fertilizer*	*Crude petroleum*	*Manufactures*
1970-1973 . . .	84	21	96	33
1973-1974 . . .	42	238	227	22
1974-1975 . . .	—11	41	2	12
1975-1976 . . .	—13	—28	5	—[b]

Source: United Nations, *Monthly Bulletin of Statistics*, March 1978, table 59 and special table D.

Notes: [a] Calculated from indexes, 1970 = 100.

[b] Less than 1 per cent increase.

[17] Export prices of Arabian light, 34-34.9° API gravity, f.o.b. Ras Tanura, were $US 1.80 per barrel in 1970, $US 3.27 in 1973 and $US 11.58 in 1974 (United Nations, *Monthly Bulletin of Statistics*, December 1977, table 60, specification 164).

39. To make the relative price relationships more explicit, the prices of the more essential imports — petroleum, fertilizers and foods — may be expressed in terms of the prices of manufactures imports. The realism of such an exercise is enhanced by the fact that imports of manufactures constitute the largest general category of imports for most developing countries and that in times of balance-of-payments stringency, the importation of at least some manufactures can be reduced and the whole category "compressed" as a share of the total import bill. Thus between 1970 and 1973 while manufactures prices had risen by about one third, those of crude petroleum had nearly doubled; the relative price of crude in terms of manufactures was thus nearly 50 per cent greater than it had been in 1970. By 1974 the relative price — and thus the relative cost — of petroleum imports had skyrocketed to nearly four times that of manufactures imports. Correspondingly, the relative cost of fertilizer imports had gone up two-and-a-half times and that of cereals some 60 per cent as compared to the increased cost of manufactures imports.[18]

40. Changes in the relative prices of major import categories admittedly represent only one dimension of the oil price rise. The massive impact of this increase on the import bill of the developing ESCAP countries ultimately has to be seen in terms of the changes experienced by individual countries. To show this briefly, table 10 presents the percentage

Table 10. SELECTED ESCAP DEVELOPING COUNTRIES: SHARES OF MINERAL FUELS (SITC 3) IN THE TOTAL IMPORT BILL, 1970 AND 1973-1975

(percentages)

	1970	*1973*	*1974*	*1975*
Afghanistan[a] . .	6	5	9	8
Bangladesh[b] . . .	...	4	11	13
Fiji	11	9	16	17
India[c]	8	19	26	24
Malaysia (net)[d] . .	8	4	9	10
Pakistan[b] . . .	8	12	16	19
Philippines . . .	11	12	21	22
Republic of Korea .	7	7	15	19
Sri Lanka (net)[e] .	3	6	13	10
Thailand	9	11	20	21

Sources: National publications.

Notes: [a] Year beginning 21 March.

[b] Year beginning July.

[c] Year beginning April.

[d] Net of estimated re-exports (unofficial estimate).

[e] Net of re-exports of petroleum products.

[18] On the base, 1970 = 100, the world price of manufactures stood at index 162 in 1974, while the index for crude petroleum was 641, that for fertilizer was 409 and for cereals 262.

shares of mineral fuels in the total import bill of several countries for 1970 and 1973-1975. The countries listed were all net importers of petroleum and petroleum products during those years.

41. For all the countries shown in the table, nominal import values in total at least doubled and for some countries more than trebled during the five-year period. Differences in the conditions surrounding the changes in import shares render generalization difficult but the over-all pattern is quite clear. It will perhaps suffice to note that in 1970 fuel imports in only two of the countries required more than a tenth of the total import bill. By 1975, however, fuel imports in only three required as little as 10 per cent of the total, while five countries needed close to, or more than 20 per cent of the total import bill to pay for the imports of mineral fuels.[19]

42. Summary data which suggest in broad outline the dimensions of the impact of the increase in petroleum prices on the developing economies of the ESCAP region may be seen in table 11. For the non-oil-exporting group of countries, the massive increase in the deficit on merchandise account in 1974 includes the effect of increased costs of petroleum imports. Judging from the pattern of relative price changes and the increased share of oil in the total import bill, the predominant effect of the oil price rise can scarcely be subject to doubt. With the moderation of import price increases in 1975[20] (including those of oil) the continued rise in the trade deficit stems mainly from the decline in exports from the developing countries of the region in the year of recession. The marked improvement in 1976 derives from the recovery of exports, beginning for most countries in the latter half of 1975.

43. As the current account balance for the non-oil-exporting countries in the region has with few exceptions been negative in these years, the large "other items (net)" entry mainly represents the financing of a current account deficit, for a large part of which oil imports were responsible. Again, it is the magnitude of the deficits and their changes which are impressive. On a world scale (all non-oil developing market economies) the trade deficit exceeded $US 33 billion in 1974 and $US 45 billion in 1976. These totals correspond almost exactly to the estimates of aggregate current account deficits for non-oil developing countries, published by the

[19] Expressed in more general terms, the median value of the fuel share of the import bill was about 8 per cent in 1970 and in 1973. By 1974 the median had risen to 15 per cent and by 1975 to 18 per cent.

[20] With the possible exception of machinery imports.

Table 11. DEVELOPING ECONOMIES IN SOUTH, SOUTHEAST AND EAST ASIA:[a] MERCHANDISE BALANCE AND CHANGES IN INTERNATIONAL RESERVES, 1971 AND 1974-1976

($US million)

	1971	*1974*	*1975*	*1976*[b]
Regional total				
Merchandise balance[c]	—5,646	—8,473	—11,715	—2,121
Other items (net)	6,662	11,352	11,105	8,496
Net change in reserves[d]	1,016	2,879	—610	6,375
Petroleum exporter[e]				
Merchandise balance[c]	96	4,397	3,148	4,029
Other items (net)	—69	—3,712	—4,054	—3,116
Net change in reserves[d]	27	685	—906	913
Non-oil exporters				
Merchandise balance[c]	—5,742	—12,870	—14,863	—6,150
Other items (net)	6,731	15,064	15,159	11,612
Net change in reserves[d]	989	2,194	296	5,462

Source: *World Economic Survey, 1976* (United Nations publication, Sales No. E.77.II.C.1), table 36 (excerpt).

Notes: [a] Approximates ESCAP region but excludes Iran.

[b] Preliminary.

[c] Exports, f.o.b., less imports, c.i.f.

[d] Gold, SDR, convertible foreign exchange and reserve position in International Monetary Fund.

[e] Indonesia.

secretariat of OECD.[21] With total current account deficits, non-oil developed and developing countries together, estimated at $US 57 billion in 1974 and $US 50 billion in 1975, the burden of short-term financing assumed unprecedented proportions. The means by which this financing has been accomplished are better treated elsewhere, as they pertain to the constraints on and the responses of the developing countries of the region to the impact of the oil crisis. Rather, the purpose here has been to provide an impression of the international context in which the developing economies of the region have had to function.

44. In respect of the domestic economy, the rise in the prices of petroleum, petroleum products and their derivatives has generally had palpable effects, though in most countries the impacts seem to have been muted and diffused. In the amelioration of the impact of an externally-generated shock on the economy, governments have typically taken action to absorb the initial blow. While short-term measures have usually been promptly taken and follow-up measures have in turn materialized as the initial shock of the crisis has been accommodated, the formulation of planning strategies for the long-term adaptation to basic shifts in patterns of energy sources and uses understandably requires rather longer gestation.

45. Coincident as it was with inflationary processes already in motion in most if not all developing countries in the region, the impetus given by the sharp rise in prices of fuels to the general inflation is difficult to identify and measure with any degree of precision. That the impact was significant in several respects there can be no doubt, though explicit investigations to determine the magnitude of its effects are surprisingly few. As the major source of power in several production sectors — mining, manufacturing, electricity generation and transport — the effects of the large increase in the price of petroleum products was certainly pervasive, whatever its magnitude. Effects on the prices of derivative products, notably urea fertilizer and a broad spectrum of petro-chemical products have also been discernible. These increases in production costs have in turn contributed to the rise in the cost of living and may have had some influence upon consumption patterns.

46. Increased costs of production due in part to the increased prices of fuels and petroleum-based inputs may also have been responsible for the reduction of output in some sectors at a critical conjuncture in the phasing of the business cycle. As a part of the cost-squeeze which became increasingly onerous in 1974 as the demand for exports began to flag, sharply increased fuel costs may have hastened the decline in activity in manufacturing in several countries; again, explicit evidence to this effect is hard to find. There is some evidence to indicate that increased costs of fertilizers have contributed to reduced fertilizer use and hence to reduced crop yields. On the other side of the ledger, the search for oil, encouraged by the price rise, has given impetus to increased economic activity in several countries. Particularly in Southeast Asia, off-shore prospecting, and a number of strikes followed by exploitation of the newly-found resources, have in turn had spread effects giving momentum to a modest array of ancillary activities.

47. Government budgets have on the whole been adversely affected by the increased burden of subsidies, implicit or explicit, elicited by the rise in fuel prices. Whether these and similar influences have been sufficiently great, and sufficiently difficult to compensate for, to have had effects on over-all performance can scarcely be determined from among the welter of similar shifts that have taken place in costs and prices. What is clear, however, is that in its several facets the oil crisis has dictated conditions to governments which have required new initiatives in the management of the economy; and in the longer-term, governments have been forced to plan in terms of permanently higher prices for fuels and recourse to new patterns of energy utilization.

[21] Organisation for Economic Co-operation and Development, "The adjustment process since the oil crisis", *Economic Outlook*, July, 1977, pp. 86 ff., especially table 33.

II. IMPACTS OF THE CRISES ON DEVELOPING ECONOMIES IN THE ESCAP REGION

INTRODUCTION

1. Focus of the study

48. The experiences of the developing countries of the region in relation to the turbulence of the international economic scene during the first half of the 1970s have been extremely diverse. Some indication of the extent of this diversity has been suggested in chapter I. It is the task of the present chapter to review these experiences and describe the apparent patterns of response. Although the focus has thus far been upon the nature of the specific crises and their broad impacts, the final desideratum must lie in considerations of policy. This follows from the purpose of the study, namely, to gain understanding and insight, however modest, into the behaviour of the economy under conditions of stress, and from this to derive implications for the shaping of future policy.

49. At the level of generality attempted in the introductory chapter, the several international economic crises of the 1970s are readily identifiable and present reasonably distinct characteristics amenable to specification and analysis, even though their occurrence in time has meant that their effects have been experienced concurrently. From the standpoint of the national economy, which has experienced the influence of these externally-generated impulses, the operationally important focus is upon the problems of adjustment created by the impacts of the crises. Although the external causes of the disturbances may remain separate and identifiable, the timing of their occurrence has typically been such as to create a convergence of the effects of multiple causes as perceived by the recipient economy. Moreover, the circumstances prevailing in a particular economy at the time of the occurrence of external disturbances have in turn influenced the capacity to accommodate these impacts. From the standpoint of the recipient economy and its responses to the external impulses, it is the areas of impact and the severity of the disturbance which determine the character of the response and the need for remedial measures.

50. The presentation of the crises in chapter I has suggested that for many countries several crisis elements have operated concurrently, exacerbating the difficulties of accommodation. This appears to have occurred fairly generally with the inflationary effects of food shortages and large increases in the price of food, the abrupt escalation of petroleum prices and the general increase in the cost of imports of manufactures.[22] Conditions within the domestic economy have in some instances rendered a country more vulnerable to external disturbances. Thus, countries in which crops had fallen short at a time when the world-wide crisis in foodgrains had critically reduced world supplies and entailed extreme increases in price, found it difficult to obtain the necessary import quantities and pay the higher prices. In others where domestic food production was adequately maintained, the impact of the food crisis was understandably less severe, although the rise in international prices of food-stuffs had palpable effects on domestic prices in virtually all the economies studied. While consideration of the various conditions pertaining to individual economies is necessary for an understanding of their behaviour in response to external influences, these variations limit the applicability of any generalization.

2. Structural framework

51. For the purposes of the present chapter, the approach has been to observe selected areas of impact using fairly standard measures to assess the influence of the external disturbances on the performance of individual economies. Although the effort has been made generally to identify causes, or at least the apparent causal elements in particular crises, the essential focus rests upon the effects experienced by the selected economies. As a framework for generalization of the diverse patterns of behaviour among the economies selected for study, the concept of economic structure has been a useful point of departure, permitting the observer to differentiate among types of economy with regard to characteristics pertinent to economic performance while avoiding the inflexibility of a narrowly defined typology. As used here, economic structure refers to the shares of the production sectors in total output and employment, and the associated, empirically observable characteristics of functional specialization and sectoral interdependence, relative sectoral productivities and the general level of output per head, patterns of income inequality and of consumption, and the proportion of external trade.[23] Fundamental to the economic structural paradigm is its evolution-

[22] For oil exporting developing countries, the "oil crisis" bore quite different characteristics and served in part to counteract the impact of other externally generated forces.

[23] See Simon Kuznets, *Modern Economic Growth* (New Haven, Yale University Press, 1966), especially chapter 8.

ary character, which provides a conceptual link between short-term or medium-term phenomena and the long-term consideration of secular change. The structural framework thus facilitates consideration of the constraints which bear upon issues of economic management in a business-cycle setting and the implications of these problems for development policy and structural transformation.

52. Morphological conceptions will not alone suffice, however, to deal with questions of market and policy responses to international disturbances of a relatively short-term character. For the purposes of this study it has proved useful to employ a descriptive classification involving considerations of economic size, structural characteristics, the extent of specialization and the extent and character of participation in foreign trade. As the criteria suggest, such a typology is an extension of the structural paradigm.

3. Country coverage and classification

53. In order to obtain a reasonably broad and generally representative spectrum of economic structural characteristics and patterns of behaviour, a dozen developing countries in the Asia and the Pacific region were selected for individual study. Table 12 lists these countries in order of their export/GDP shares and includes basic data pertaining to production structure and economic size.[24] Although reference will be made to other countries' experiences wherever information and relevance permit, it has not been possible to give equally comprehensive treatment to them. Subject always to the availability of adequate statistical and other data, the criteria for inclusion in the special study are based on the structural-functional characteristics discussed in the foregoing. The reasons for the inclusion of most of these countries will presumably be apparent. However, it may be desirable to add a word of additional justification for some instances. Both Afghanistan and Nepal are included as examples of land-locked countries heavily dependent upon agriculture as a source of income and with very limited participation in world trade. The reason for including both is fairly arbitrary, but stems from the existence of rather different patterns of behaviour as well as considerable deficiencies in information. Similarly, both of the main petroleum exporting countries have been included because they differ in production structure and in functional specialization.

[24] Several of the country papers on which this study has drawn will be published in the *Economic Bulletin for Asia and the Pacific.*

Table 12. SELECTED ESCAP DEVELOPING COUNTRIES: PRODUCTION STRUCTURE AND EXPORTS, 1973-1975

Country[a]	*Export share of GDP (percentage)*	*Structure of production (percentage of GDP)*				*Population, 1974 (in millions)*	*GNP per capita, 1974 ($US)*
		Agriculture	*Industry*	*(Manufacturing)*	*Services*		
India	5[b]	43.4	19.5	(13.4)	37.1[b]	595	140
Bangladesh	5	60.6	8.7	(5.1)[c]	30.7	76	100
Nepal	7[b]	68.6	11.4	(9.7)	20.0[b]	12	100
Afghanistan	10[d]	70[d]	—— 30 ——			16	110
Pakistan	14[b]	32.1	20.4	(14.6)	47.5[b]	67	130
Sri Lanka	17	26.8	16.0	(10.2)	57.2	13	130
Philippines	21	28.1	23.3	(18.7)	48.6[e]	41	330
Thailand	21	32.2	23.7	(17.1)	44.1	41	310
Indonesia	24	35.3	31.6	(8.9)	33.1	128	170
Republic of Korea	31	25.0	34.3	(27.3)	40.7[f]	33	480
Iran	40	10.5	53.8	(47.4)[c]	35.7	33	1,250
Fiji	45[g]	21.6	21.4	(11.6)	57.0[f,h]	[i]	840
Malaysia	47[b,g]	30.8	28.1	(15.6)	41.2[b]	12	680

Sources: United Nations, *Monthly Bulletin of Statistics,* January, August and October 1977; International Bank for Reconstruction and Development, *World Bank Atlas,* 1976 (Washington, D.C., 1976) (GNP *per capita*); national sources.

Notes: [a] In order of export share of GDP.

[b] 1972-1974.

[c] Mining and manufacturing. For Iran: oil sector accounts for about 39 per cent.

[d] Crude approximation; unofficial.

[e] Includes consumption of fixed capital.

[f] Includes import duties.

[g] Share of GNP.

[h] 1971-1973.

[i] 0.6 million.

The chief reasons for including Fiji derive from its apparent representativeness of Pacific island economies, including the high degree of specialization in a single major export commodity. In most instances of omission, the lack of accessibility and of adequate information will presumably suffice as an explanation.[25]

54. Whilst a simple classification according to the characteristics of economic structure, degree of participation in international trade, economic size and the level of *per capita* income helps to bring some order into the treatment of highly diverse experiences, it appears that something rather more functional is required for convenient reference. As the subheadings in succeeding tables reflect, such a classification, consisting of four groups, has been employed. These include economies classed as "continental" and three other groups differentiated by broad specialization in exports, distinguishing primary-products, oil and manufactures exporters.

55. Of these groups, the names used for all but the first are presumably self-explanatory, although both the chosen classificatory characteristic and the specific inclusions in the groups may in varying degrees appear ambiguous. The focus on functional characteristics related to participation in external trade needs little justification although the limitations on the applicability of these descriptions must be considered. The term "continental" is intentionally ambivalent, as it has both a geographical reference and economic structural implications. The latter are the more important and are used here to designate large countries, in terms of land area and population, which are largely self-contained in that their participation in international trade is relatively small. Without regard to real income levels, this implies, *inter alia,* that the structure of production and pattern of use of the annual flow of goods and services are broadly co-ordinate. Thus, the differences between these source-and-use patterns which are mediated by external trade are proportionally small, although they may of course be critical. Correspondingly, in a broad spectrum of economies, the structure of production in the large and largely self-contained economy is relatively less specialized, as it must produce a sufficiently wide assortment of goods and services to meet very nearly the entire range of specific demands generated within the economy. That the degree of diversification in production will be greater at higher levels of real income is recognized; while it is of secondary importance for classificatory purposes, this characteristic is of some significance for developmental policy. It is apparent that, at any given level of *per capita* income, the large and largely self-contained economy is likely to be relatively less sensitive to external economic disturbance than a smaller country which is less self-contained. Finally, the attribute of being largely self-contained implies that, while such an economy is relatively little affected by externally generated fluctuations in economic activity, it will likely be more susceptible to internally generated variations in over-all activity, characteristically emanating from the largest production sector, that of agriculture.

56. The inclusion of the Indian economy among those with continental characteristics requires no additional justification, but the inclusion of some of the others immediately raises questions, none of which can be given entirely satisfactory answers. The inclusion of Pakistan may be queried on the ground of a greater degree of participation in foreign trade, as well as its production-structural characteristics. The inclusion of Afghanistan and Nepal may be queried because they are small — in population and aggregate real product.[26] Others with large populations, the Philippines or Thailand, for example, might well have been included but for the fact that in terms of economic structure and functional specialization they are better described and classified as primary-products exporters. Though wanting in size, in this connexion, in terms of production structure and specialization, Afghanistan and Nepal are more appropriately classified as "continental" than, say, as primary-products exporters.

57. The selection of petroleum exporters, however obvious, may not be entirely free of ambiguity, particularly in the case of Indonesia. Given the focus of this study, the category itself requires little justification, as the characteristic has unmistakable influence on the behaviour of the economy. Nevertheless, Indonesia's population size and production structure would not be inappropriately classed as "continental", although the geographical association alone makes the choice unacceptable. Again, Indonesia is an important exporter of primary products other than oil, although it is clear that by the early 1970s the oil exporting characteristic is heavily dominant.[27]

[25] The omission of both Hong Kong and Singapore perhaps requires some explanation as both are easily accessible and their activities quite amply documented. In what follows, frequent reference will be made to selected aspects of their experiences. However, while recognizing the importance that each of these urban economies has in its economic-geographical sphere, it was felt that, as eminently special cases, the possibility of drawing general inferences from their experiences (which in turn are recognized as being significantly different in several important respects) was rather severely limited.

[26] To the extent that it has been possible to make substantive reference to Bangladesh, it is appropriate to include that country in the "continental" category.

[27] By 1976 Malaysia had become a net exporter of crude and partly refined petroleum but during the first half of the decade it was still a net, though decreasing importer.

58. Only one of the selected economies, the Republic of Korea, has been included in the category of manufactures exporters, although Hong Kong and Singapore are frequently cited for comparison. Whilst a case could be made for the inclusion of India or Pakistan in this group on the basis of the large share of manufactures among their exports, in terms of economic structure and behaviour the "large and largely self-contained" characteristic is predominant.

59. Flexibility in the use of these classifications remains the important element even in the choice of countries to be included in any particular group. The usefulness of a classification scheme is found in the extent to which it facilitates exposition. To permit such a scheme to constrain the discussion by the insertion of an *a priori* judgement of the characteristics under observation would clearly subvert its purpose. In the present scheme the categories are intended to be broadly descriptive and none is employed as if it had independent analytical or prescriptive value.

A. GROWTH OF REAL PRODUCT

60. Although for most countries under review patterns of annual change in the level of economic activity — as reflected in growth rates of real GDP or GNP — seem to have been akin to cyclical variations, there is little evidence of a common pattern. Neither the upswing of 1972-1973 nor the recession of 1974-1975 in the developed market economies with which most of the countries in the ESCAP region have their major economic links is uniformly reproduced in the countries reviewed here.

61. For the developing countries of the ESCAP region which received a marked stimulus from the cyclical upswing in the international market economy from mid-1972 throughout 1973 and into 1974, the greatest expansion in real product most commonly occurred in 1973 and was followed by a distinct deceleration in the following year. Judging from the annual growth rates shown in table 13 this pattern was typical of primary-products exporters and for countries strong in the export of manufactures. Of the major oil exporters, Iran grew most rapidly

Table 13. SELECTED ESCAP DEVELOPING ECONOMIES: GROWTH OF REAL PRODUCT,[a] 1970-1976

(annual percentage change)

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*1970-1975 average*
Continental (year begins)[b]							
Afghanistan[c] (21 March)	—3.6	16.2	3.3	9.7	10.1	7.3	7.1
India[d] (1 April)	1.2	—1.1	3.5	0.3	8.5	2.0[e]	2.5
Nepal (16 July)	—0.1	2.0	2.0	6.4	2.5	—	2.6
Pakistan (1 July)	0.2	6.8	4.8	1.4	5.0	1.6	3.6
Primary-products exporters							
Fiji	6.0	7.9	12.7	2.6	0.2	—	5.9
Malaysia	6.4	5.8	13.1	7.0	1.7	16.4	6.8
Philippines	4.9	4.8	8.7	5.3	6.6	7.0	6.1
Sri Lanka[d]	0.4	3.2	3.8	3.0	3.6	3.0	2.8
Thailand	8.1	4.3	10.3	4.6	5.5	6.2	6.6
Oil exporters							
Indonesia	6.6 ‖[f]	9.4	11.3	7.6	5.0	6.9	8.0
Iran[d] (21 March)	13.7	11.9	12.0	9.0	4.8	—	10.3
Manufactures exporters							
Hong Kong	3.2	7.2	14.2	2.2	2.9	17.8	5.9
Republic of Korea	9.8	7.3	16.4	8.8	8.8	14.6	10.2
Singapore	12.5	13.4	11.5	6.3	3.9	6.8	9.5

Sources: National publications except Nepal; International Bank for Reconstruction and Development, national income data.

Notes: [a] GDP at constant market prices except as indicated.

[b] Calendar year beginning January except as indicated.

[c] Basic series approximates gross material product; 1970 and 1971 estimated from indexes of physical output for major sectors.

[d] GNP.

[e] 1975/76: net national product.

[f] Discontinuity; not strictly comparable.

early in the decade while GNP growth rates slackened thereafter, except for 1973. Although the Indonesian pattern was common to that of other primary-products exporters, oil provided an increasing and increasingly predominant stimulus from 1973.

62. As the commodities boom topped out and subsided in 1974 and 1975, boom conditions for primary products exporters gave way to recession of varying degrees of severity. Real growth continued in 1974 but at reduced rates; patterns varied among countries in the downturn. The Philippines experienced its lowest rate of real growth in 1974 while for Fiji and Thailand there was sharp deceleration in that year; real product growth began to recover in both the Philippines and Thailand in 1975. Although Sri Lanka's gross product grew slightly faster in 1973, this indicator does not suggest that the economy experienced a marked stimulus from the commodities export boom.

63. The patterns of growth in gross product among the exporters of manufactures broadly resemble those among primary-products exporters. Where the decline in overseas demand for textiles and garments brought recession to the Hong Kong economy in 1974, recovery had begun in 1975. Growth rates in Singapore were highest in 1972, decelerating thereafter until 1975, a year of recession. For the Republic of Korea, the annual rate of growth in real product was virtually halved between 1973 and 1974 and expansion was maintained at this relatively depressed level in 1975.

64. Except for Pakistan, the cyclical patterns of South Asian economies have shown little similarity to those of the exporters of primary products and manufactures in East and Southeast Asia. With good out-turns of cotton and rice and the capacity to export manufactures, Pakistan in 1972/73 and 1973/74 enjoyed buoyant exports and relatively high rates of real growth, followed by a sharp decline in the growth rate in 1974/75 with little recovery in the subsequent year. Although the Indian economy in 1973 partially recovered from the drought years early in the decade, the nascent recovery was not sustained; substantial improvement was forthcoming only with favourable weather and the consequent bumper crops of foodgrains in the 1975/76 season.

65. Some similarity in patterns of annual growth may be seen in the two land-locked countries, Afghanistan and Nepal, but the similarity is not great. For Nepal both the years of decline and the one good year, 1974/75, were mainly the consequence of weather conditions. With two years of serious drought and crop failure in Afghanistan at the beginning of the decade, the sharp increase in real GDP in 1972 constituted little more than a recovery to levels of 1968 or 1969. Substantial growth followed in 1974 and 1975 with improved crops and increased exports of food and other agricultural products and of natural gas (to the USSR).

66. As might well be expected, the countries that gained from the impetus of the export boom were those able to devote a considerable part of their total production capacity to the commodities for which world demand expanded rapidly during 1972-1974; this included manufactures exporters as well as exporters of primary products. Obvious though this statement may be, it serves to emphasize the exceptions. In some countries, for reasons not readily subject to control in the short or medium term, sufficient export capacity was not available to take advantage of the opportunity. In South Asia, this was chiefly the result of unfavourable weather conditions which had reduced production in nearly all sectors through the dominant influence of the agricultural sector. It is noteworthy, however, that an economy as little dependent upon exports as India was able at mid-decade to take advantage of export opportunities for steel and engineering goods which few if any of the others were able to produce for export. While it is to be expected that economies specialized in the production of primary products for export, such as Malaysia or Thailand, would gain from the export boom, it is important to note that others similarly specialized, such as Sri Lanka, were unable to do so.

67. Furthermore, proportionally large participation in export production is not an unmixed blessing. Several of the economies which gained quite fully from the boom were also victims of its collapse. Exports of manufactures expanded during the boom years for most of the countries under review. For only a few, however, were manufactures a major part of total exports. For the three listed as characteristically manufactures exporters (Hong Kong, the Republic of Korea and Singapore), the influence of the boom and particularly the subsequent recession had quite varied effects even in aggregate terms, as reference to table 13 suggests.

68. Assuming a somewhat longer perspective and taking the first half of the 1970s as a whole, it appears that few of the developing economies of the region performed less well than during the latter part of the 1960s.[28] In most cases it appears to have been the expansion of external demand that induced improved performance, although even this

[28] For a comparison of growth performance in these two periods, see United Nations, *Economic and Social Survey of Asia and the Pacific, 1976* (United Nations publication, Sales No. E.77.II.F.1), chapter 1, table 1.

generalization is subject to important qualification. In the first place, the performance of several developing ESCAP economies was predominantly determined by internal conditions, particularly those relating to agriculture, rather than by external ones. Mainly, these economies were the relatively less export-oriented, as reflected by exports as a proportion of GDP (see table 12). However, the more important factor is that agriculture constitutes the largest sector in terms of value added and employment, and agricultural output is a crucial determinant not only of consumption levels but also of the supply of industrial raw materials, and ultimately of production in other sectors. Even these economies, where agricultural output does not depend importantly on external markets, were subject to an important extent to external fluctuations, not least because of dependence upon imports of such inputs as fertilizers at prices which farmers could afford. Still other economies, more heavily dependent on exports also suffered serious set-backs to agriculture in the early part of the decade (notably the Philippines in 1971 and 1972), with important ramifications for the performance of the economy as a whole.

69. During a time when export demand for the manufactured products from many developing ESCAP countries appears to have increased, manufacturing growth was well sustained for the developing ESCAP region as a whole.[29] This observation may be somewhat misleading owing to the aggregation of diverse manufacturing sectors which performed quite differently in terms of cyclical behaviour. It remains of some significance, nevertheless, that the years 1972-1973, the period of upswing in the international business cycle, were in many countries in the region years of accelerating manufacturing growth in which external demand played an important part. The severity of the subsequent slump in several of these manufacturing sectors should not be overlooked, but, to place the downturn in perspective, it has to be seen as the sequel to a very dynamic prelude.

70. There are, however, limited rewards from a generalized overview.The circumstances of individual countries dictated the gains and losses from the external fluctuations and no two experiences were quite alike. The following sections undertake a more detailed scrutiny of the nature of the crises and how they impinged upon individual economies displaying features of both strength and weakness in the face of these external changes.

[29] See table 15.

B. EXPORT EXPANSION

71. The proportion of aggregate expenditure accounted for by export demand varies greatly among developing ESCAP countries (see table 12). However, an *a priori* assumption that the degree of export dependence was the overriding determinant of the impact of export demand on GDP during the period of crises is a considerable oversimplification. The importance of export demand in aggregate economic performance has much to do with the nature and behaviour of the collection of goods that an individual country supplies to the world market; in the second place, the external sector can exert an important influence at the margin, particularly because export demand is much more volatile than domestic demand.

72. Expanding world trade from mid-1972, throughout 1973 and into early 1974 ensured rising demand for the exports of developing ESCAP countries and acted as a stimulus to their economies, while the ensuing depression had a dampening effect. The impact on individual economies, however, often did not closely follow this cyclical pattern. At the level of specific products there were wide variations in the shifts in world demand as reflected in their prices in both the upswing and the downswing. Futhermore, even when global demand for an export product was strong, some countries were unable for various reasons to supply increased quantities to the world market.

1. Primary products

73. Expansion of industrial production in the developed market economies during 1972 and 1973 generated demand of varying strength for non-food primary commodities. Reference has been made in chapter I to the great variation in world prices of primary products. Viewed in terms of individual commodities exported by developing ESCAP countries (for example, commodities shown in table 14), the variations in the magnitude of these changes are impressive. Aside from cereals and petroleum, the range of variation in export unit values for many primary products from the region was extreme, both over time and from country to country, depending upon product specifications, destination and variations in exchange rates.[30] Two aspects of these price changes are of particular importance: the relative size of the change and its timing. For any given export quantum, these variations must determine the level of export earnings in the time period in question.

74. A few examples selected from the table are illustrative. Commodity prices in 1972 were low,

[30] It will be noted that the export unit-value indexes presented in table 14 are based on values stated in national currencies.

Table 14. ESCAP developing countries: selected primary-products exports, price (P), quantum (Q) and value (V) indexes, 1970-1975[a]

(1970=100)

Commodity, Country of origin		*1971*	*1972*	*1973*	*1974*	*1975*
Food-stuffs (SITC 0, 1)						
Maize						
Thailand	P	90	83	158	200	199
	Q	129	127	96	154	145
	V	116	106	151	309	290
Pepper						
Malaysia (Sarawak)[b]	P	102	96	127	156	146
	Q	110	105	92	116	123
	V	112	101	117	181	179
Rice						
Burma	P	91	106	148	472	423
	Q	125	84	23	32	43
	V	114	89	34	151	182
Thailand	P	78	89	179	402	260
	Q	148	199	80	97	89
	V	116	176	143	389	233
Sugar						
Fiji	P	101	129	135	271	396
	Q	102	84	81	78	75
	V	103	108	109	211	297
India	P	120	165	213	615	496
	Q	91	29	73	200	345
	V	109	48	155	1,228	1,711
Philippines	P	117	132	195	376	503
	Q	112	99	119	122	79
	V	131	131	232	459	397
Tea						
India (black)	P	103	104	98	120	189[c]
	V	100	106	95	107	89[c]
	V	103	110	93	128	168[c]
Sri Lanka	P	102	114	114	145	170
	Q	100	91	99	84	102
	V	102	104	113	122	173
Non-food agricultural products (SITC 2, 4)						
Coconut oil						
Philippines[b]	P	92	64	125	324	133
	Q	117	137	126	123	181
	V	108	88	158	398	241
Sri Lanka[b]	P	104	76	72	318	171
	Q	115	170	36	40	107
	V	120	129	26	127	183
Copra						
Philippines[b]	P	91	66	125	292	126
	Q	156	208	165	60	171
	V	142	138	207	175	215
Samoa	P	81	52	83	266	95
	Q	185	195	145	128	201
	V	149	101	120	341	191
Jute						
Bangladesh[d] (raw)	P	102	112	96	93	111
	Q	84	78	96	92	54
	V	86	87	92	86	60
India (fabrics)	P	116	126	119	149	142
	Q	120	104	100	105	93
	V	139	131	119	156	132

Table 14. *(continued)*

Commodity, Country of origin		*1971*	*1972*	*1973*	*1974*	*1975*
Palm oil						
Malaysia	P	101	79	89	183	172
	Q	144	173	198	224	289
	V	144	137	176	411	497
Rubber						
Indonesia	P	88	76	137	178	142
	Q	100	98	113	106	100
	V	88	75	154	189	141
Malaysia	P	82	74	119	144	108
	Q	103	101	122	117	108
	V	85	75	145	168	118
Sri Lanka	P	88	74	135	213	151
	Q	80	81	100	79	99
	V	70	60	135	168	149
Thailand	P	76	72	145	171	129
	Q	112	115	142	132	121
	V	85	83	205	226	156
Timber						
Burma	P	104	117	176	198	258
	Q	115	124	116	107	82
	V	120	145	204	211	211
Indonesia	P	117	118	218	286	256
	Q	134	189	257	248	194
	V	157	223	561	709	497
Malaysia	P	101	90	135	150	109
	Q	98	102	114	107	95
	V	100	92	153	160	104
Mineral fuels (SITC 3)						
Petroleum (crude)						
Indonesia	P	110	156	195	687	741
	Q	105	131	161	166	163
	V	115	204	314	1,140	1,208
Iran	P	125	138	168	607	650
	Q	121	136	160	162	141
	V	151	188	268	984	917
Mineral products (SITC 28 and 68)						
Copper (concentrates)						
Philippines	P	88	93	154	192	113
	Q	129	130	117	130	127
	V	113	121	180	250	144
Tin						
Indonesia	P	147	200	256	414	368
	Q	66	60	68	79	71
	V	97	120	174	327	261
Malaysia	P	95	94	101	162	141
	Q	94	97	89	92	84
	V	89	91	89	150	119
Thailand	P	99	105	123	205	185
	Q	98	98	102	93	75
	V	97	103	126	191	139

Sources: International Monetary Fund, *International Financial Statistics*, November 1976, and national sources, except where otherwise stated.

Notes: [a] Indexes calculated on the basis of national currencies.

[b] Source: ESCAP Statistics Division, from national sources.

[c] Estimate.

[d] Food and Agriculture Organization of the United Nations (FAO), *Trade Yearbook, 1975.*

some as much as 30 per cent below 1970 levels; at its nadir in 1972, the price of natural rubber had fallen to its lowest level since the end of the Second World War. With the boom during 1972-1974, even annual averages show extraordinary increases: nearly 100 per cent for rubber, 150 per cent for palm oil and 250 per cent for coconut oil, and a range from about 70 to over 100 per cent for timber. With the onset of the slump, these prices fell, though by relatively moderate percentages — of the order of 20 per cent for rubber and timber and over 30 per cent for palm oil (1974-1975 averages).

75. The supply response to these variations in demand and price was understandably much less extreme, although in some instances it was quite remarkable nevertheless. Where unforeseen obstacles to output expansion did not appear (such as bad weather conditions or attacks of plant pests and diseases), the export quantum generally expanded at substantial rates, particularly during the first full year of the boom. Between 1972 and 1973 the increase in the export quantum of rubber, for example, was about 15 per cent in Indonesia and 20 per cent in Malaysia and Thailand. In several instances the quantity of some export commodities actually declined as prices rose.

76. The capacity to supply remains an important factor governing the size of realized export demand, for both food and other commodities. The capacity to produce and export primary commodities, and particularly to vary the level of production, may be fairly inflexible in the short term. Physical limitations to capacity are especially apparent in the case of perennials, mainly tree crops, such as rubber, palm oil, copra or tea, in contrast to annuals such as maize or tapioca.[31] Supply response, for example, in rubber may nevertheless provide considerable variation in output from a given stand of trees, especially from the smallholder sector. Year-to-year variation in supply from annuals may be great for individual crops as response to relative price changes induces shifts from one crop to another. Variations in the suitability of the available land and the accessibility of marginal lands are often important for the expansion of specific crops, but for all such crops taken together, limitations on available land are the ultimate constraint.[32]

[31] But generally not rice, in part for reasons of technical specialization through the installation of irrigation facilities and because rice is typically a major, if not the major, cereal for domestic consumption.

[32] Improvements in farming practices, improved seed and increased fertilizer use play an important role, though not frequently on a year-to-year comparison. Of greater importance in the case of a staple food which is also exported is the competition between export and domestic demand. In periods of poor crops, the trade-off between increased export earnings and possible domestic shortages and their consequences sometimes poses difficult policy choices.

77. Variations in the response to increased external demand during these years stemmed from a considerable variety of causes among countries and commodities. For example, Fiji was unable to produce sufficient sugar, virtually its only major export crop, in three successive years from 1973, to take full advantage of the exceptionally high export prices of sugar. In Sri Lanka coconut palms were severely afflicted by pests during the period of strong demand for vegetable oils, thereby frustrating large potential gains from increased exports. Having invested heavily over a period of more than a decade in oil palm plantations, Malaysia was in a position to take full advantage of the exceptionally large rises in palm oil prices. While world demand for foodgrains was driven up by poor harvests in many parts of the world in 1972, rice exports from Burma, Nepal and Thailand fell substantially in the following year owing to their own poor harvests. In Bangladesh, production difficulties led to declines in the export of raw jute during most years between 1971 and 1975.

78. Policy decisions in turn affected export quantities of some commodities. Under the International Tin Agreement, export quotas were in force during 1973 and again in 1975. Exports of logs and lumber from the Philippines were cut back in 1974 as part of the policy to conserve resources and encourage exports of wood products; total volume of timber exports fell by 40 per cent in that year.[33] In an effort to retard the decline in rubber prices, in late 1974 Malaysia imposed restrictions on the frequency of tapping.

79. More commonly associated with exports of manufactures, protectionism also appeared in commodity markets in these years. One of the more striking instances was the cancellation of the United States' sugar agreement with the Philippines in 1974 in a move to protect beet growers. As a result, shipments of centrifugal sugar to the United States (which traditionally absorbed virtually all Philippine sugar exports) fell in 1975 to a quarter of the previous year's total.

80. The upswing of the commodity export cycle from the latter half of 1972 until the first half of 1974 supplied a significant stimulus to activity in primary production sectors in those economies specialized in production of agricultural and mining products for export, although there were exceptions, such as Sri Lanka. The ensuing collapse of the boom just as certainly exerted a depressive effect.

[33] A similar policy has more recently been implemented in Thailand, while Malaysia has used a special export levy to reduce exports of saw logs in favour of sawn timber and other processed wood products as well as to reduce pressure on domestic prices of saw logs.

The magnitude of these influences depended upon the relative importance of export demand to total primary production and to the capacity of supply to respond to the stimulus.[34] Correspondingly, the impact of such increases in activity in primary export sectors upon the rest of the economy depends upon both the relative importance of these sectors in gross product and the degree of integration of export production sectors with the rest of the economy. Broadly viewed, it appears that the integration of primary production for export into the national economy has advanced significantly in several primary-products exporting economies over the past 10 or 15 years or longer. Consequently, the influence of the boom of the early 1970s seems to have been more pervasive in these economies than that of a similar, though less powerful, upswing in the late 1950s. To a significant extent this process of integration of the national economy has been a function of diversification of production, both in exports and in general, and the gradual establishment of supply and marketing linkages among industries and sectors.

2. Manufactures

81. By the end of the 1960s, exports of manufactured goods had become an important source of foreign exchange earnings for only a few of the developing economies in the region. The rapid upswing in economic activity in the developed market economies in 1972 and 1973, which sharply increased the demand for industrial inputs, also brought enlarged opportunities for the exports of semi-fabricated products and components for industrial use. Rising consumer incomes in the developed economies spilled over into demand for imported consumer goods, not only the familiar textiles, garments and footwear but increasingly also products relatively new to the industries of the developing countries, such as household electrical wares, transistor radios and the like. For the developing economies which possessed or were able to establish production capacity, often with the help of capital and know-how from foreign companies, new opportunities for manufactures exports began to expand.[35] Moreover, in the developing economies where the rate of domestic economic activity was rising, frequently as a response to the impulses from the international upswing, domestic demand for manufactures grew more rapidly in these years. Thus, directly and indirectly the general upswing in the international market economy provided a stimulus to the growth of manufacturing in several developing economies in the region.

82. An overview of the performance of the manufacturing industry during the first half of the 1970s is provided in table 15. Although the pattern varies between countries, there does not appear to have been a general improvement in the performance of this sector in the early 1970s over that of the preceding decade. The influence of the international upswing is doubtless the major reason behind the improved performance of manufacturing during the period 1970-1973 and the distinct worsening of performance for several countries in 1974 and 1975 seems clearly to reflect the international downturn. For most of the developing economies in the region, however, the manufacturing sector is insufficiently developed to permit meaningful generalization. For several countries, including some with relatively small manufacturing sectors, production data for individual industry groups reflect movements which parallel the general cyclical pattern. Characteristically, this is most clearly reflected among industries which have important export markets, such as wood products, textiles and garments.

83. An impression of the behaviour of manufactures exports may be gained from the pattern of quantum changes for which estimates are shown in table 16. Clearly, the exports of manufactured goods responded at rapid rates in a number of countries during the period of expansion of the international market economy. It is also apparent that exports of manutures grew more rapidly than total merchandise exports in several countries (Malaysia, the Philippines, Singapore and Thailand in table 16) and thus brought about marked increases in the share of manufactures in total exports. With large shares in the base year, the increase is correspondingly lower for Hong Kong and the Republic of Korea. For India and Pakistan, however, manufactures exports appear to have expanded less rapidly than merchandise exports in general.

84. A clear cyclical pattern appears in the expansion of manufactures exports from the Philippines, Singapore and Thailand, with rapid rates of growth followed by a decline in 1974 for the Philippines and in 1975 for the others. The growth profile for the exports of manufactures is lower for Hong Kong and Pakistan but a comparable pattern emerges. A fall in the overseas demand for garments in 1974 and its recovery in 1975 appear to explain the Hong Kong pattern. Although

[34] The supply elasticity criterion doubtless applies generally where exports of a particular product comprise too small a part of total supply to have a significant effect upon prices. There are, however, important exceptions, such as the export of tin and rubber, in which individual producing countries in Southeast Asia provide a large portion of total supply and, particularly where producers act in concert, they wield an important measure of market power.

[35] By this time governments in developing countries had begun to emphasize strategies of manufacturing development oriented to export markets, as a sequel to an earlier phase of import substitute manufacturing.

Table 15. SELECTED ESCAP DEVELOPING ECONOMIES: GROWTH OF MANUFACTURING PRODUCTION, 1960S AND 1970-1976

(annual percentage change)

	(Weights 1970)[a]	*1960s*	*1970-1975*	*1970-1973*	*1973*	*1974*	*1975*	*1976*
Developing ESCAP economies . . .	(100.0)	6.0	6.4	6.9	9.9	6.6	4.6	13.2
India	(37.7)	5.8	3.0	3.9	1.8	0.9	2.7	11.2
Republic of Korea	(9.4)	16.3	23.4	22.8	35.3	29.3	19.3	35.6
Pakistan	(9.1)	10.8[b]	3.8	6.9	6.1	—1.6	0.0	—2.5
Philippines	(6.4)	5.6	6.8	15.8	27.3	—10.4	—2.9	5.2
Malaysia (Peninsular)	(2.3)	14.0[c]	10.9	13.1	19.9	15.3	0.1	18.9
Singapore	(2.0)	16.1[d]	11.3	18.2	17.0	4.2	—2.3	10.1
Iran[e,f]	(12.3)	11.7	17.5	17.5	17.6	18.3	16.4	14.8
Thailand[e]	(5.5)	10.7[g]	10.6	14.0	13.8	4.2	6.9	7.5
Hong Kong[e,h]	(5.3)	...	1.2	6.5	9.1	—15.6	2.2	...
Indonesia[e]	(4.4)	4.4	11.4	9.5	15.2	16.2	12.3	7.0
Sri Lanka[e]	(1.0)	6.9	1.9	2.2	1.5	—4.3	7.5	1.9

Sources: United Nations, *Yearbook of National Accounts Statistics*, 1975 (United Nations publication, Sales No. E.76. XVII.2, vols 1 and 2); United Nations, *Monthly Bulletin of Statistics*, April 1978 and national sources.

Notes: Grouped data and data for the first six countries calculated from indexes of manufacturing production. Countries listed in each sub-group in descending order of 1970 weights.

[a] Estimated from 1970 value added by manufacturing converted to common currency unit and expressed as percentages of total.

[b] Before 1970 both east and west wings.

[c] 1968-1970.

[d] 1966-1970.

[e] Value added at constant prices.

[f] Mining and manufacturing, excluding oil sector.

[g] 1965-1970.

[h] Deflator for gross domestic product at market prices.

Table 16. SELECTED ESCAP DEVELOPING ECONOMIES: GROWTH IN MANUFACTURES EXPORTS, 1970-1975

	Share of manufactures[a] *in merchandise exports (percentage)*[b]			*Estimated quantum indexes for exports of manufactures*[a] *(1970 = 100)*				
	1970	*1974*	*1975*	*1971*	*1972*	*1973*	*1974*	*1975*
Manufactures exporters								
Hong Kong[c]	95	96	96	106	110	118	115	118
Republic of Korea	76	82	80	129	185	321	379	401
Singapore[c]	28	36	38	146	257	385	452	405
Continental economies								
India	50	49	48	101	113	130	160	179
Pakistan[d]	58	49	54	120	138	141	134	178
Primary-products exporters								
Malaysia[e]	6	12	16	112	148	173	283	353
Philippines	8	11	15	104	148	282	183	198
Thailand[e]	4	13	14	173	321	617	664	616

Sources: National publications.

Notes: [a] SITC sections 6, 7 and 8.

[b] Shares based on current price data.

[c] Excluding re-exports.

[d] Year beginning July.

[e] Excluding tin ingot.

1975 was generally a year of recession, the growth of manufactures exports revived for Pakistan and the Philippines. While no decline occurred in manufactures exports from the Republic of Korea, a cyclical pattern is discernible in the accelerated growth of 1971-1973 and subsequent deceleration in 1974 and 1975. There is little in the continuous increase in manufactures exports from India to suggest a cyclical movement; though at higher rates of expansion and on a much smaller scale, a similar continuously rising pattern appears in the exports of manufactures from Malaysia.

85. Given large shares of manufactured goods in the merchandise exports of Hong Kong, the Republic of Korea and Singapore, as well as large shares of these exports in GDP, the influence of manufactures export growth on the growth of aggregate real product must have been significant in these economies. For the countries which are characteristically primary-products exporters — Malaysia, the Philippines and Thailand — although the manufactures export shares are relatively modest, they have risen rapidly and represent, at least potentially, an important element of diversification in production as well as trade. While a similar importance might be imputed to the role of manufacturing production for export in India and Pakistan, the relatively smaller role of exports in total product places the observation in a quite different context. Particularly in the case of India, the ability to utilize established capacity in a broad industrial base to expand foreign exchange earnings is an important element of increased potential for continued development.

86. Although the data assembled in table 17 imply a relationship between the growth of manufactures exports and that of manufacturing production, the actual proportion of manufacturing output which is exported is lacking. Comparison of the rates of growth of manufactures exports (at constant prices) and that of manufacturing output (based upon production indexes) yields a rough indication of the change in the exported share (in real terms). On this basis, it appears that the exported share of manufacturing output must have approximately doubled for Malaysia and considerably more than doubled for Singapore; for India, Pakistan and the Philippines the share could thus have increased by half and in the Republic of Korea by more than a third. Judging from the recorded shares in 1970 for Peninsular Malaysia and Singapore, these high rates of manufactures export growth probably exaggerate the relative importance of export-oriented production, presumably because of the short-comings in adjusting the data for price changes. While the character of value added data in table 17 do not permit direct imputation of changing shares, the extremely rapid growth of Thailand's manufactures exports implies that the exported share of output in the base year must have been very small indeed.

Table 17. SELECTED ESCAP DEVELOPING COUNTRIES: RATES OF GROWTH OF MANUFACTURING OUTPUT AND MANUFACTURES EXPORTS, 1970-1975

Country or area[a]	*Manufacturing*		*Manufactures exports*[b]
	Value added[b]	*Output*[c]	
Republic of Korea	19	23	32
Malaysia (Peninsular)	11[d]	11	29
Singapore	10	11	32
Philippines	7	7	15
India	3	3	12
Pakistan	3	4	12
Thailand	10	...	44
Hong Kong	1	...	3

Sources: National publications.

Notes: [a] Listed in descending order of growth rates in manufacturing value added for each group.

[b] At constant prices.

[c] Production indexes.

[d] Value added for all Malaysia.

87. The leading edge of the upswing in manufactures exports from several developing ESCAP countries can be conveniently summarized in the selection of commodities and commodity groups shown in table 18; among these are several products which have been increasingly emphasized in recent years as short-gestation manufacturing for which foreign private investment has been available, particularly for countries in East and Southeast Asia. Although few of the products are literally new, many are new to the industry of developing economies of the region. Capacity to produce many of these products increased sharply during the early 1970s.

88. The extremely great differences in the rates of expansion of exports among the commodities in table 18 appear to be a function of two sets of circumstances: a very small base value for some products and some countries (for example, Thailand), and large increments to production capacity in particular lines in others (iron and steel in the Republic of Korea). The existence of a scale factor is thus important to an explanation of wide differences in the export expansion ratios both among countries and among products, notably textile yarns, non-cotton fabrics, non-electrical and electrical machinery. A country-by-country comparison of the median expansion ratios for these products (next-to-last row in table 18) with the index numbers of manufactures exports for 1974 (table 16) shows

Table 18. SELECTED ESCAP ECONOMIES: MANUFACTURES EXPORT EXPANSION, 1970-1974, SELECTED COMMODITY GROUPS: 1974 QUANTUM INDEX NUMBER (1970=100) (A); PERCENTAGE OF TOTAL EXPORT VALUE, 1974 (B)

Commodity group		*Country or area*[a]								*Commodity price deflator*[b] *(1970 = 100)*
		Hong Kong	*Republic of Korea*	*Pakistan*	*India*	*Singapore*	*Thailand*	*Malaysia*	*Philippines*	
Veneer and plywood	(A)	—	114	—	—	273	—	305	77	160
(SITC 631)	(B)	—	(3.8)	—	—	(1.3)	—	(2.1)	(1.8)	
Textile yarn and thread	(A)	279	577	128	62	625	579	—	—	150
(SITC 651)	(B)	(2.1)	(2.6)	(11.2)	(1.3)	(0.6)	(0.6)	—	—	
Cotton fabrics, woven	(A)	136	132	145	154	142	1,021	—	—	157
(SITC 652)	(B)	(6.0)	(1.2)	(12.0)	(6.1)	(0.8)	(0.5)	—	—	
Non-cotton fabrics, woven	(A)	353	498	—	99	112	990	—	—	150
(SITC 653)	(B)	(2.3)	(4.6)	—	(7.2)	(0.6)	(1.3)	—	—	
Cement and kindred products	(A)	—	541	464	—	—	391	—	575	213
(SITC 661)	(B)	—	(1.2)	(2.5)	—	—	(1.4)	—	(1.0)	
Iron and steel	(A)	—	2,319	—	50	413	470	—	—	145
(SITC 67)	(B)	—	(10.1)	—	(2.4)	(1.3)	(0.5)	—	—	
Machinery, non-electric	(A)	266	618	—	167	378	—	334	—	152
(SITC 71)	(B)	(1.4)	(1.7)	—	(2.4)	(6.1)	—	(1.6)	—	
Electrical machinery	(A)	281	1,003	541	254	906	2,836	1,066	—	108[c]
(SITC 72)	(B)	(14.4)	(10.6)	(0.8)	(1.6)	(10.5)	(0.5)	(2.0)	—	
Transport equipment	(A)	—	859	—	103	285	—	—	—	174
(SITC 73)	(B)	—	(2.7)	—	(1.7)	(3.9)	—	—	—	
Foot-wear	(A)	82	694	145	104	—	—	—	—	150
(SITC 85)	(B)	(1.4)	(4.0)	(1.1)	(0.6)	—	—	—	—	
Median value	(A)	273	598	145	104	332	785	334	326[d]	
Aggregate share	(B)	(27.6)	(42.5)	(27.6)	(23.3)	(25.1)	(4.8)	(5.7)	(2.8)	

Sources: United Nations, *Monthly Bulletin of Statistics* July 1977, table 60, and national sources.

Notes: [a] In order of the ratio of manufactures exports to total merchandise exports in 1974.

[b] Standardized deflator. Quantum indexes (deflated values) will not necessarily be identical with the corresponding index for any given country.

[c] Average includes electronics components, for which prices fell by about one fourth between 1970 and 1974.

[d] Arithmetic mean.

the indexes for the product groups to exceed those for all manufactures by an ample margin for most of the countries. This reflects the fact that the products have been selected to represent those generally prominent in the expansion of manufactures exports.[36]

89. Much of the variation in the ability of the several countries to expand exports of manufactures seems to depend upon the selection of items to be produced for export. More than a matter of differential expansion of demand for specific products or product lines, this involves the ability to create new capacity and provide effective means to encourage exporting, essentially by direct or indirect subsidization. Frequently of critical importance to the selection process is the role of private foreign enterprise and its preparedness to contribute capital, know-how and often market access for particular types of product. Although the quest for cheap labour and physical inputs was obviously not initiated by the business boom of 1972-1973, the conjuncture of rapidly increasing demand and sharply rising costs of labour in the industrial countries and of raw materials and other industrial inputs world-wide, gave new impetus to the search for low-cost inputs.

[36] It is instructive to compare the quantum expansion of manufactures exports both by product group and in total, with the quantum indexes for primary products shown in table 14 above. Where the median value for the expansion of the selected manufactures exports is of the order of 330 and that for all manufactures exports in 1974 about 230, the corresponding median for primary products is of the order of 130. Appropriately also, median index values for price increases over the same period were roughly 150 for these manufactured export products and nearly 200 for primary products.

90. The promotion of manufacturing for export has been encouraged by the availability of foreign capital and managerial capacity in several types of manufacturing of current interest to the foreign corporations. Among the products included in the groups in table 18, plywood and veneer (mainly Japan and the United States), textiles and garments (Hong Kong, India and Japan) and electronics components assembly (Canada, Federal Republic of Germany, Japan and the United States) have been prominent in the countries of Southeast Asia and the Republic of Korea. Through joint-venture arrangements, usually sponsored by industrial promotion agencies in the host countries, contracts have often stipulated product marketing arrangements to supply the overseas company with the output of the affiliate. In electronics components assembly the arrangement typically amounts to an international putting-out system based on low-cost labour; material inputs are received from and the assembled components are returned to the parent company.[37] In textile production, though synthetic yarns and often fabrics are destined for finishing by the parent company, most textiles and garments are intended for markets in Europe and North America, where quota arrangements are enforced by the purchasing country.

91. Whilst there are obvious advantages in producing for a captive market, there is seldom a guarantee that production will not be cut back in response to declining sales by the parent company. Quota arrangements for textiles, garments and footwear exist only to set maximum limits to the quantity of products to be admitted to the countries imposing the quotas. As the developed economies went into slump in 1974 and 1975, demand for these and other manufactures exports from the developing economies began to fall and as unemployment grew, the political pressure for protection began to rise in the importing countries.[38] In quantum terms exports of manufactures generally fell in 1974 and 1975 for the developing ESCAP countries; India, the Republic of Korea and Malaysia were able to continue to increase their exports of manufactured goods, though at lower rates of expansion in 1975. A major factor in the continued growth of Indian exports, and to an important extent for the Republic of Korea as well, was the expansion of markets in the Middle East and Iran from 1973 onwards. Engineering goods and cottons from India, cement and machinery from the Republic of Korea and cement from the Philippines all gained from the rapid growth of this market, which helped to sustain the export of manufactures during the recession.

92. Diversification of products for export and flexibility in shifting and adapting to the requirements of new and expanding markets are critical elements in the drive to sustain the growth of manufactures exports. Except for short-gestation manufacturing (such as garments other than knit-wear), raw materials processing and components assembly, which require minimal fixed capital investments, the expansion and diversification of capacity in manufacturing requires periods of gestation rather greater than the upswing and downswing of the recent business cycle. Among the developing economies of the ESCAP region, few other than India and the Republic of Korea have thus far been able to establish the broadly based and well articulated manufacturing sectors which make such flexibility possible.

C. IMPORTS AND THE BALANCE OF PAYMENTS

1. Prices and import composition

93. In eminently pragmatic ways, it is merchandise imports, their prices and the means to pay for them which constitute the most general area of impact of the crises. This may be understood in two or three senses. Whether exports were significantly affected, or were large enough to transmit important effects to the economy as a whole, all the developing market economies in the region felt the impact of import price increases; whilst imports may be small (and perhaps especially when they are small), they are the more likely to consist of critical commodities for consumption, for current production and for the expansion of productive capacity; and, as suggested in chapter I, although the several crises of the period are separately identifiable, their influences in most economies tended to converge in time and in area of impact through their price effects upon imports and the balance of payments.

94. Whilst the material presented in chapter I has indicated in general terms the broad patterns of import price changes associated with the food and oil-price crises, it remains to put these price changes into an appropriate context — the pattern of price changes for all imports. As the data in table 21 suggest, the variation in import prices in the selected developing economies is rather great, although none escaped the general — and very considerable — inflationary movement. The reasons for these variations are apparent; most importantly they stem from the differences in the composition of merchandise imports (which may be taken to subsume differences

[37] Known commercially as "off-shore processing", in reference to free-trade zones in which much of this components assembly and export processing is done.

[38] The Multi-Fibre Arrangement between the European Economic Community and its overseas suppliers of textiles and garments was initiated at the peak of the boom in 1973 and permitted annual growth in exports from the developing countries. Much less favourable terms for these exports were the result of hard bargaining for the renewal of the Arrangement at the end of 1977.

in countries of origin) and from changes in exchange rates for the currencies of the individual countries (see chapter I, table 2).[39]

95. To obtain a comprehensive picture of the patterns of variation in import prices faced by the developing countries of the region during this period, unit value indexes by commodity type would be required; such data are available for very few countries. In lieu of such data for individual countries, table 19 presents index numbers of world export prices for commodities imported by developing economies in general,[40] classified by major commodity groupings according to SITC. In the lower panels of table 19 annual percentage changes in the indexes and indexes of relative prices for 1973, 1974 and 1975 are shown. As the basic data are for exports (f.o.b.), valued in current United States dollars, the depreciation of the dollar over this period will have had an effect on the changes in the indexes. The United States dollar exchange rate against the SDR unit is shown in the extreme right-hand column of the top panel.[41] The valuation of exports at f.o.b. values means that some allowance must be made for freight and insurance costs among destinations. For the rest, there seems to be little reason to prevent treating the figures as f.o.b. import unit value indexes.

96. From the viewpoint of developing economies in Asia for which the composition of imports is not markedly different from that for developing market economies in general,[42] the pattern of price changes shown in table 19 seems entirely appropriate. Relative to the extremely rapid increases in 1973 and 1974, the not inconsiderable rises before 1973 seem moderate, except for food imports and some

[39] Rank correlations for 13 economies (including Hong Kong and Singapore, but excluding Bangladesh and Nepal, for which pertinent data are lacking) show significantly higher coefficients for the association of changes in all import prices with changes in the petroleum share of the import bill, than with changes in the rates of exchange or the share of food in the import bill in 1973 and 1974.

[40] Comparable data for the developing ESCAP region are not available.

[41] As the SDR was valued in terms of gold until July 1974, there is little to choose between the SDR and the dollar until after that date. Although the depreciation of the dollar affects the indexes and the annual percentage changes, it does not affect the relative prices shown in the bottom panel. In the event, the price changes are so great that the difference injected by using the United States dollar valuation has relatively minor effects on the scale of price changes except for 1970/71 and 1972/73.

[42] On the basis of the data available, it appears that the differences among developing ESCAP economies in the composition of imports are far greater than those between the developing ESCAP region and developing market economies in general. In so far as generalization is feasible from the data in table 20, median values indicate that the economies included there typically required a greater part of the total import bill for food imports and allocated somewhat less to machinery and other manufactured goods than did the developing economies as a whole. The proportion required by fuels was approximately the same for both groups. See United Nations, *Monthly Bulletin of Statistics*, June 1977, special table F.

Table 19. UNIT VALUE INDEXES: WORLD EXPORTS TO DEVELOPING AREAS, 1970-1975, BY SITC COMMODITY SECTION

(1970=100)

	Total[a] *(0-9)*	*Food etc. (0 and 1)*	*Raw materials (2 and 4)*	*Fuels etc. (3)*	*Chemicals (5)*	*Machinery (7)*	*Other manufactures (6 and 8)*	*Exchange rate $US/SDR*
1971	108	104	102	124	103	113	102	108.6
1972	117	115	105	131	107	126	110	108.6
1973	146	158	134	179	139	147	135	120.6
1974	205	221	192	529	214	166	177	122.4
1975	223	222	191	566	217	201	190	117.1
			Percentage change from preceding year					
1971	8	4	2	24	3	13	2	9
1972	8	11	3	6	4	12	8	—
1973	25	37	28	37	30	17	23	11
1974	40	40	43	196	54	13	31	1
1975	9	b	b	7	1	21	7	—4
			Relative prices (average = 100)					
1973	100	108	92	123	95	101	92	
1974	100	108	94	258	104	81	86	
1975	100	100	86	254	97	90	85	

Source: United Nations, *Monthly Bulletin of Statistics*, June 1977, special table F.

Notes: The data represent exports, f.o.b., expressed in United States dollar values.

[a] Totals include SITC 9: miscellaneous transactions, not shown separately.

[b] Less than 1 per cent.

manufactures in 1972. The upsurge in 1973, however, brought marked changes in relative prices, of which those of food and fuels advanced most rapidly. Given the poor harvest out-turns in 1972, both within the region and world-wide, and the drastic reduction in food stocks, these price increases reflected serious physical shortages. Even for countries with adequate foreign exchange resources, it was sometimes impossible to obtain the necessary imported quantities.[43]

97. The full impact of the great upward adjustment in petroleum prices late in 1973 was felt over the succeeding months and in annual data appears mainly in 1974. While the character of these indexes reduces the apparent magnitude of the price changes,[44] they show an accelerated rise in 1974 for all groups but machinery. The recorded increase in the prices of mineral fuels was far greater than that of any other group. To obtain a clearer view of the comparative price levels during these years, reference may be made to the lowest panel in table 19. With the all-imports total taken as base, the average prices for each commodity section are shown as index numbers for each of the three years 1973-1975. In this presentation a clear profile of relative prices appears for the given year; the salient position of petroleum prices (SITC 3) is unmistakable in all three years. A minor peak which reflects the higher-than-average relative prices of food disappears in 1975 as the rise in food prices virtually ceased.

98. Against this background of changing patterns of import prices, the changing composition of imports in a representative selection of developing ESCAP economies may be surveyed. Table 20 shows the proportion of the total import bill accounted for by major commodity groups (SITC commodity sections) in each of five years, 1970-1975.[45] As the percentage shares shown in the table are based on current-price data, year-to-year changes in the share for any commodity section do not necessarily imply a corresponding change in the share in terms of physical quantities. Hence, the correspondence between increases in price (for example, of foods or oil) and the share of total imports devoted to the commodities for which relative prices have risen is to be expected.

99. With particular attention to changes in 1973 and 1974, several important patterns are discernible. First, in respect of food imports, the dependence of Sri Lanka is almost unique, although in some years the share of food in the total import bill for Bangladesh was of the same order of magnitude, approaching half of the total. Although there are variations among the countries, there is generally an increase in the food share between 1970 and 1973, and a decline in 1974 and 1975. The share of the import bill claimed by mineral fuels (SITC 3, pre-eminently petroleum and its products) expanded for all countries except the petroleum exporters, on average by something of the order of a doubling. Although the change in the share was modest and there were exceptions, chemical products (SITC 5, which includes manufactured fertilizers) generally expanded as a proportion of the import bill. These three commodity sections taken together embrace the critically important non-compressible imports: food, fuel and fertilizer. With sharply rising prices for these commodities in 1973 and especially in 1974, a massive increase in the outlay for their importation ensued, effectively pre-empting the commitment of a third to two fifths of the also rapidly rising import bill. For Sri Lanka and India, these three commodity sections absorbed well over half the total import bill in 1974. Even the oil exporters experienced a marked increase, owing to the necessity to pay more for food imports, while Thailand felt the squeeze from petroleum products and chemicals. Although Malaysia paid the higher costs of imports suffered by all (with the important though partial exception of the oil exporters), it appears to have been relatively little affected in respect of import patterns and was able to maintain roughly unchanged proportions of import outlays on foods and petroleum and to sustain only a limited increase in the share devoted to chemical products.[46]

100. The effects of the increasing shares of total import outlays required by non-compressible imports are seen in the relative reduction of the remaining groups, mainly manufactured goods in SITC sections 6, 7 and 8. As grouped in table 20, machinery and miscellaneous manufactures were commonly somewhat less reduced in proportion than were the manufactures in SITC 6; the latter are generally manufactured inputs and the cost squeeze on their supply represents an important cost-push element for

[43] A fall by nearly 10 per cent in the paddy harvest in Thailand during the 1972/73 season was followed by a decline by nearly half in rice exports in 1973 (upon the average for the preceding three years) and the inability to fulfil export commitments.

[44] In table 19, the rise in the index for SITC 3 is approximately a doubling, much smaller than the increase reflected in the benchmark series presented in chapter I. This is mainly due to the composition of the mineral fuels group, which includes both crude petroleum and refined products, as well as other mineral fuels.

[45] The year 1971 (or 1970/71) has been omitted for clarity without loss of pertinent information. The more important limitations to the data are described in the notes to table 20. It should be noted that for SITC 3, mineral fuels, gross import shares are shown for Malaysia and Sri Lanka; and that there are large unidentified residuals in the data for Afghanistan.

[46] In the event, the proportion of the import bill paid for mineral fuels actually declined for Malaysia in terms of net imports; for want of precise information it has not been possible to make a satisfactory estimate of the net changes.

Table 20. SELECTED ESCAP DEVELOPING ECONOMIES: COMPOSITION OF IMPORTS, 1970 AND 1972-1975 (BY SITC SECTION)

(percentage)

Country	Food (0)	Raw materials (2 and 4)	Mineral fuels (3)	Chemicals (5)	Manufactures (by material) (6)	Machinery, transport equipment and miscellaneous manufactures (7 and 8)
		Continental				
Afghanistan[a]						
1970/71	18	2	6	7	29	20
1972/73	13	4	4	6	21	13
1973/74	14	4	5	6	24	13
1974/75	19	7	9	10	35	12
1975/76	20	4	8	5	26	13
Bangladesh						
1972[b]	22	26	3	11	21	14
1973/74	46	9	8	8	13	15
1974/75	42	12	11	9	13	12
1975/76	29	18	13	12	12	16
India						
1970/71	17	15	8	12	21	26
1972/73	9	11	11	14	24	30
1973/74	19	8	19	12	18	23
1974/75	19	6	26	16	17	16
1975/76	28	4	24	14	12	18
Pakistan						
1970/71	5	11	8	13	21	42
1972/73	24	11	8	14	19	23
1973/74	18	13	12	15	19	23
1974/75	17	13	16	12	19	23
1975/76	15	12	19	9	16	29
		Manufactures exporter				
Republic of Korea						
1970	16	21	7	8	15	32
1972	14	19	9	9	16	33
1973	13	22	7	8	18	30
1974	12	19	15	9	15	29
1975	13	16	19	11	12	29
		Primary-products exporters				
Fiji						
1970	19	3	11	6	19	36
1972	19	3	10	6	17	39
1973	19	3	9	6	18	38
1974	19	3	16	7	20	32
1975	17	2	17	8	18	33
Malaysia[c]						
1970	18	8	12	7	18	33
1972	17	7	8	8	18	38
1973	18	7	7	9	21	37
1974	16	6	10	9	19	38
1975	16	7	12	8	16	39

Table 20 *(continued)*

Country	Food (0)	Raw materials (2 and 4)	Mineral fuels (3)	Chemicals (5)	Manufactures (by material) (6)	Machinery, transport equipment and miscellaneous manufactures (7 and 8)
			Primary-products exporters (continued)			
Philippines						
1970	9	6	11	12	22	39
1972	14	6	12	12	17	37
1973	13	6	12	14	19	32
1974	10	5	21	16	17	27
1975	9	4	22	11	13	34
Sri Lanka[d]						
1970	46	3	3	8	18	19
1972	47	4	2	9	18	16
1973	48	3	11	10	12	13
1974	46	3	20	11	11	7
1975	51	3	17	8	10	10
Thailand						
1970	4	5	9	13	24	40
1972	4	7	10	15	21	38
1973	3	9	11	16	21	38
1974	3	7	20	15	19	35
1975	3	6	21	14	16	38
			Petroleum exporters			
Indonesia						
1970	14	2	2	13	31	38
1972	9	2	3	13	28	45
1973	20	2	2	12	25	39
1974	14	3	5	15	24	38
1975	12	3	5	17	23	39
Iran						
1970	4	7	1	9	35	44
1972	8	7	—	9	29	46
1973	9	7	—	10	33	41
1974	15	9	—	9	32	35
1975	13	6	—	7	28	45

Sources: *Statistical Yearbook for Asia and the Pacific, 1976* and national sources.

Notes: Rows do not necessarily total 100 per cent owing to omission of SITC 1: Beverages and tobacco, and SITC 9: Miscellaneous transactions. Both of these are typically small, seldom exceeding 2 per cent of totals. Loss of detail through consolidation of SITC 2 and 4 and of SITC 7 and 8 is minor. In all the selected countries, SITC 2 is much larger than SITC 4. SITC 7 is much larger than SITC 8 except for Fiji, where SITC 7 averaged about three fifths of the combined total.

[a] Discrepancy arises from loan-and-grant-financed imports, which accounted for 17 per cent, 39 per cent, 30 per cent, 8 per cent and 23 per cent of the total in 1970/71 and in the four succeeding years respectively.

[b] Calendar year. All years exclude land-borne trade. Relief goods not classifiable by SITC section are excluded from 1972 total.

[c] Import shares of SITC 3 for Malaysia are shown gross owing to inadequate information to permit calculation of satisfactory net estimates for use here (see chapter 1, table 10).

[d] Composition estimated from grouped data; see Central Bank of Ceylon, *Annual Report, 1974* (Colombo, 1975), table II(K)21 and *Review of the Economy, 1976* (Colombo, 1977), table II(J)7. SITC 2 and 4, 6 and 8 include residuals. Mineral fuels (SITC 3) are shown gross; net figures are: 1972 (2 per cent), 1973 (6), 1974 (13) and 1975 (10).

manufacturing and construction.[47] The combined sections, SITC 7 and 8, are composed of final products and, for all the countries except Fiji, machinery and transport equipment are predominant. Although considerable import substitution was taking place in transport equipment assembly in several countries during these years, it is doubtful whether this had a discernible effect on the share of the import bill. Moreover, a large, and in some countries the larger, part of transport equipment imports (including CKD vehicles to be assembled locally) consists of passenger vehicles for private use, thus consumer durables. Nevertheless, it is apparent that machinery and commercial vehicles — investment goods — also felt the cost squeeze during these years.

101. The impacts of these changes in prices and proportions gave rise in not a few instances to physical shortages and these in turn had deleterious effects, some of which are scarcely measurable in terms of money costs. Physical shortages of petroleum products occurred during the brief period following upon the embargo at the end of 1973; rationing was resorted to as an interim measure in some countries. In the adaptation to the new, higher prices, many governments at least implicitly subsidized some users and attempted by means of differential price changes, to protect both the users and the operators of public transport and the large majority in rural areas who depend upon kerosene for cooking and lighting. Almost inevitably, however, it was often the small operators in fishing, mining and transport who suffered most through both physical shortages and the great rise in the prices of fuels. Except in instances where governments were uncommonly successful in overcoming real shortages, much the same pertained to the availability of fertilizer in 1974 and 1975.

102. There can be no doubt, however, that the most severe shortages, if judged by their consequences in human suffering, were those of foods. The experiences of several countries of the subcontinent are well known. Neither were these experiences strictly limited to the most seriously affected nor was their incidence less a function of the distribution of income than it was elsewhere. In any event, there is no special reason for recounting the evidence here. It seems a fair general appraisal, nevertheless, that when physical shortages and the cost squeeze reduce production as well as profits, the poor have no alternative but to do without.

2. Terms of trade and the current account

103. The familiar patterns of export and import price movements can now be drawn together for a cursory survey of the terms of trade; this will provide a background for a review of changes in the current account of the balance of payments. Table 21 presents indexes of merchandise export and import prices and two measures of the terms of trade. In addition to the conventional barter terms of trade, which reflect only the changes in the relative prices of exports and imports, the table also shows the income terms of trade. Defined as the barter terms of trade multiplied by the quantum of exports, the income terms provide a measure of changes in export earnings. Thus, the income terms of trade provide a further dimension, in addition to the relative price measure of the conventional barter terms.[48]

104. As the preceding discussion has emphasized, import prices rose persistently during the first half of the 1970s; this is reflected in the series for every country shown in table 21, although in several cases these prices declined slightly in 1976. Export prices rose less consistently and on the whole less rapidly, thus leading to deterioration of the barter terms of trade for every country, including the petroleum exporters. For most countries the deterioration came in 1975 but for several it began in 1974 or earlier. Cyclical variations in the barter terms are most apparent for the primary-products exporters with a trough in 1972, a peak in 1973 and a deeper trough in 1975. As might well be expected, countries which permitted their currencies to depreciate recorded the more persistently declining barter terms (for example, India and Pakistan among the continental group, the Republic of Korea and among primary-products exporters, Sri Lanka and, less markedly, Thailand).

105. More important were the changes in the income terms of trade. Indian export volumes expanded persistently over the period, though not sufficiently to offset completely the unfavourable movement in the relative prices of exports and imports. As noted earlier, expanding external sales of manufactures were instrumental in sustaining export earnings at

[47] For most of these countries, imported inputs constitute a large part of the costs of materials in many manufacturing industries. Some illustrative data from Sri Lanka show the following proportions of imports to total material input costs in 1974 for certain manufacturing industries: food, beverages, tobacco: 49 per cent; textiles, wearing apparel, leather: 88 per cent; paper and paper products: 55 per cent; chemicals, petroleum, coal, rubber and plastic products: 89 per cent; basic metal products: 100 per cent; fabricated metal products, machinery, transport equipment: 72 per cent (Central Bank of Ceylon, *Annual Report 1974*).

[48] An apt analogy is found in the distinction between an index of real wage rates, thus the price of an hour's labour (an "export") in terms of what it would buy (consumer goods' prices), and real earnings, which have the added dimension of the number of hours worked. The applicability of the analogy is limited in that the terms of trade relate only to that part of total income earned by external trade.

Table 21. EXPORT AND IMPORT PRICES AND TERMS OF TRADE FOR SELECTED ESCAP COUNTRIES, 1970-1976
(1970=100)

Country	*Indexes*[a]	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*
	Continental						
Afghanistan	Export prices	105	115	147	176	173	200
	Import prices[b]	109	114	137	174	184	193
	Barter terms of trade	96	101	107	101	94	104
	Income terms of trade	99	99	100	123	107	143
India	Export prices	102	113	138	173	186	198
	Import prices	93	97	138	239	280	278
	Barter terms of trade	110	116	100	72	66	72
	Income terms of trade	111	131	118	90	92	118
Pakistan[c]	Export prices	107	129	273	439	410	411
	Import prices	120	156	285	413	614	583
	Barter terms of trade	89	83	96	106	67	71
	Income terms of trade	108	136	199	192	121	148
	Manufactures exporter						
Republic of Korea	Export prices	99	100	126	160	148	166
	Import prices	100	101	135	210	216	212
	Barter terms of trade	99	99	93	76	69	78
	Income terms of trade	128	193	285	253	275	434
	Primary-products exporters						
Fiji	Export prices	99	118	136	265	269	253
	Import prices	106	111	135	190	202	231
	Barter terms of trade	93	106	101	139	133	110
	Income terms of trade	90	89	85	108	121	84
Malaysia (Peninsular)	Export prices	92	88	113	152	132	159
	Import prices	107	112	130	184	195	198
	Barter terms of trade	86	79	87	83	68	80
	Income terms of trade	88	86	110	110	92	123
Philippines	Export prices	93	83	124	232	168	137
	Import prices	109	117	122	239	258	257
	Barter terms of trade	85	71	102	97	65	53
	Income terms of trade	98	89	137	106	86	93
Sri Lanka	Export prices	99	100	116	181	169	203
	Import prices	107	113	149	264	309	274
	Barter terms of trade	93	88	78	69	55	74
	Income terms of trade	90	84	75	57	55	70
Thailand	Export prices	96	100	157	233	205	205
	Import prices	105	111	130	210	234	229
	Barter terms of trade	91	90	121	111	88	90
	Income terms of trade	111	137	168	161	130	181
	Petroleum exporters						
Indonesia	General:						
	Export prices	107	120	178	375	381	
	Import prices	104	112	129	153	172	
	Barter terms of trade	103	107	138	245	222	
	Income terms of trade	107	142	224	433	372	
	Non-petroleum:						
	Export prices	101	104	160	221	202	
	Import prices	103	113	128	148	165	
	Barter terms of trade	97	92	125	149	122	
	Income terms of trade	109	115	185	213	159	
Iran	General:						
	Export prices	131	143	323	797	845	
	Import prices	105	114	124	176	194	
	Barter terms of trade	124	126	261	453	436	
	Income terms of trade	142	111	236	391	334	
	Non-petroleum:						
	Export prices	106	123	169	183	185	
	Import prices	105	114	124	176	194	
	Barter terms of trade	101	108	137	104	95	
	Income terms of trade	126	135	160	102	95	

Sources: United Nations, *Monthly Bulletin of Statistics,* July 1977, table 53, and national sources.

Notes: Barter terms of trade: ratio of export to import prices.

Income terms of trade: barter terms of trade times export quantum index (not shown).

[a] Export and import prices are merchandise unit values.

[b] Import price index is deflator for merchandise and non-factor service imports; from International Bank for Reconstruction and Development, national accounts data sheets.

[c] 1969/70 = 100; years ending June of year stated.

mid-decade. Pakistan's income terms of trade stagnated in 1973/74 and 1974/75 as production shortfalls restricted export capacity.

106. The ability to increase the volume of manufactures exports permitted the Republic of Korea to improve its income terms of trade despite the deterioration in export/import price ratios. Whilst primary-products exporters such as Malaysia and Thailand were generally able at least moderately to augment export volumes, assisted by small but increasing volumes of manufactures, the contrast between the expansion capacity of manufactures exports and those of primary products is noteworthy.[49]

107. Deterioration in the barter terms of trade in 1975 affected even the oil-exporting countries, Indonesia and Iran, both for general exports and for non-oil exports, although the latter are relatively insignificant for Iran. With a declining volume of non-oil exports in 1975, Indonesian earnings from these exports fell while earnings from petroleum exports continued to rise. The contrasting price and income changes for oil and non-oil exports had begun to pose problems for exchange-rate policy.

108. Primary-products exporting countries characteristically improved their current account positions as a result of the massive upswing of the commodities export boom in 1973, although the improvement was slight for Sri Lanka. Thailand had gained more markedly a year earlier and the limited availability of rice for export as well as a sharp increase in imports undermined the potential gains in 1973. Manufactures exporters gained substantially in both 1972 and 1973, while among the continental economies Pakistan's current account appears to have improved through the combination of rising export demand and the large devaluation of 1972. Recovery of production after the extended drought of 1970 and 1971 and improved external demand spelled improvement for Afghanistan as well. While the Indian current payments position improved in 1972, the movement was not sustained in the following year. Non-oil exports from Indonesia bourgeoned in 1973 and petroleum exports expanded rapidly as well, but the great improvement in current payments for both Indonesia and Iran blossomed in 1974 following the rise in oil prices.

109. The great increases in the costs of key imports described in earlier sections took their toll, especially in 1974, when the impact of the oil price rise was most severe. Current account positions deteriorated sharply for virtually all countries but the petroleum exporters in that year. The dilemma posed by exceptionally large increases in import costs was only partly offset by the rapid rise in export earnings for many of the developing countries in the region. The necessity to increase expenditures on imports was dictated by the need for inputs for agriculture, manufacturing and construction as well as fuel for transport and power generation. For countries with high and rising export earnings, sharply increased material input costs may have seemed less obviously a problem — apart from the particular disabilities associated with the great rise in the cost of mineral fuels.[50] The necessity to shoulder a mushrooming import bill was often the lesser evil, for without critical imports production and exports would have stagnated. Inflation, too, would have been fed not only by the cost push of rising import prices, but by the supply shortages and consequent price increases for domestically produced materials.

110. As export prices for primary products began to slip, however, the cost squeeze began to grow unmanageable. By 1975 and in some instances as early as 1974, the crucial consideration for several countries had become the ability to borrow in order to maintain critical imports. Although 1975 brought a distinct worsening on current account for primary-products exporters such as the Philippines and Thailand, and for Pakistan as well, several countries managed to improve their positions at least relatively, either through sharply reduced imports, as in Malaysia, or more bountiful receipts on invisibles account. Whilst the oil exporters were subject to less onerous constraints, even they saw deterioration in their current payments in 1975, the net result of bourgeoning imports and stagnation or slight declines in export values.

111. The merchandise accounts for several countries are perennially bolstered by net inflows of foreign exchange on invisibles account and of these tourism is an important element for Fiji, Nepal, the Philippines, Sri Lanka and Thailand. Several countries experienced a distinct slackening in tourist expenditures during the height of the oil price crisis as travel costs escalated and incomes in the rich countries stagnated or fell. Declining receipts from foreign governments from about 1974 were reflected in the invisibles accounts of the Republic of Korea, the Philippines and Thailand. Typically subject to fluctuations which reflect the level of activity and profits in the host country, investment income pay-

[49] Examples of this contrast appear both within and between countries. Instances of economies unable to expand export volumes amply and continuously to take advantage of rising export prices — such as Fiji (predominantly sugar) and Sri Lanka — have been cited earlier.

[50] Afghanistan and Malaysia are noteworthy exceptions. By 1975 Malaysia was approximately balancing its oil imports with exports of crude. Afghanistan supplied the USSR with natural gas in exchange for petroleum products, for which prices were raised only at the end of 1974.

Table 22. CURRENT EXTERNAL ACCOUNTS OF SELECTED ESCAP DEVELOPING COUNTRIES, 1970-1976

Country	*Units (millions)*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*[a]
			Continental					
Afghanistan[b]								
Merchandise (net)	$US	—29	—41	—37	—13	—25	—32	
Exports		82	104	121	159	217	229	
Imports		—111	—145	—158	—172	—242	—261	
Services and transfers (net)		—4	—7	—5	—9	—13	—9	
Current account		—33	—48	—42	—22	—38	—41	
India								
Merchandise (net)	$US	—131	—375	68	—191	—625	—288	
Exports		1,879	1,973	2,360	2,886	3,636	4,666	
Imports		—2,010	—2,348	—2,292	—3,077	—4,261	—4,954	
Services and transfers (net)		—261	—267	—222	—339	1,831	141	
Current account		—392	—642	—154	—530	1,206	—147	
Pakistan								
Merchandise (net)	$US	—538	—420	—234	—103	—888	—1,160	—1,070
Exports		672	661	626	936	1,014	1,047	1,150
Imports		—1,210	—1,081	—860	—1,039	—1,902	—2,207	—2,220
Services and transfers (net)		—129	—63	—7	—34	—28	108	60
Current account		—667	—483	—241	—69	—916	—1,052	—1,010
Nepal[c]								
Merchandise (net)	NRs						—724	—928
Exports							1,210	1,208
Imports							—1,934	—2,136
Services and transfers (net)							873	1,088
Current account							149	160
			Manufactures exporter					
Republic of Korea								
Merchandise (net)	$US	—922	—1,044	—575	—565	—1,938	—1,671	—589
Exports		882	1,133	1,676	3,284	4,516	5,003	7,818
Imports		—1,804	—2,177	—2,251	—3,849	—6,454	—6,674	—8,407
Services and transfers (net)		299	196	203	259	—89	—216	282
Current account		—623	—848	—372	—306	—2,026	—1,887	—307
			Primary-products exporters					
Fiji								
Merchandise (net)	$F	—20	—43	—56	—87	—74	—59	—91
Exports		54	54	59	66	115	131	112
Imports		—74	—97	—115	—153	—189	—190	—203
Services and transfers (net)		7	19	30	43	50	54	47
Current account		—12	—24	—26	—44	—24	—5	—44
Malaysia								
Merchandise (net)	Ringgit	1,078	705	380	1,599	726	946	3,725
Exports		5,020	4,884	4,736	7,263	9,991	9,042	13,265
Imports		—3,942	—4,179	—4,356	—5,664	—9,265	—8,096	—9,540
Services and transfers (net)		—1,053	—1,034	—1,078	—1,353	—1,507	—1,355	—1,990
Current account		25	—329	—698	246	—781	—409	1,735
Philippines								
Merchandise (net)	$US	—26	—50	—125	276	—450	—1,196	—1,116
Exports		1,064	1,136	1,136	1,872	2,694	2,263	2,517
Imports		—1,090	—1,186	—1,261	—1,596	—3,144	—3,459	—3,633
Services and transfers (net)		—22	47	131	199	243	273	12
Current account		—48	—3	6	475	—207	—923	—1,104

Table 22 *(continued)*

Country	*Units (millions)*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*[a]
Sri Lanka								
Merchandise (net)	SRs	—316	—287	—255	—298	—1,263	—1,421	—710
Exports		2,016	1,931	1,898	2,346	3,400	3,913	4,707
Imports		—2,332	—2,218	—2,153	—2,644	—4,663	—5,334	—5,417
Services and transfers (net)		—34	71	59	137	356	649	660
Current account		—350	—216	—196	—161	—907	—772	—50
Thailand								
Merchandise (net)	Baht	—12,137	—9,914	—8,885	—10,802	—14,303	—20,161	—11,085
Exports		14,270	16,692	21,750	31,253	49,002	44,365	60,361
Imports		—26,407	—26,606	—30,635	—42,055	—63,305	—64,526	—71,446
Services and transfers (net)		5,928	5,377	6,583	6,836	7,601	6,161	1,643
Current account		—6,209	—4,537	—2,302	—3,966	—6,702	—14,000	—9,442
		Petroleum exporters						
Indonesia[d]								
Merchandise (net)	$US	—242	—261	—288	—392	330	—79	—212
Exports		896	988	1,373	2,546	4,671	5,011	6,202
Imports		—1,138	—1,249	—1,661	—2,938	—4,341	—5,090	—6,414
Services and transfers (net)		—146	—187	—269	—364	—468	—775	—1,208
Current account		—388	—448	—557	—756	—138	—854	—1,420
Iran								
Merchandise (net)	$US	759	1,655	1,375	2,137	14,099	7,300	8,624
Exports		2,417	3,724	3,966	6,122	21,356	20,432	23,695
Imports		—1,658	—2,069	—2,591	—3,985	—7,257	—13,132	—15,071
Services and transfers (net)		—1,266	—1,773	—1,764	—1,982	—1,832	—2,592	—3,559
Current account		—507	—118	—389	155	12,267	4,708	5,065

Sources: International Monetary Fund, *International Financial Statistics,* February and April 1978, and national publications.

Notes: [a] Preliminary estimates.

[b] Year beginning 21 March.

[c] Year beginning 16 July of year indicated.

[d] Exports include net export flows related to oil, which comprise some service payments.

ments abroad constitute a large outpayment for several of the primary-products exporters and for the Republic of Korea.

112. Special circumstances were involved in the apparent windfall reaped by India in 1974; the freer convertibility of the rupee and the authorization of external foreign currency accounts held by individuals at the Reserve Bank prompted a once-for-all repatriation of funds which transformed the current account position during that year. In the two oil exporting countries and in Pakistan, recent years have witnessed a steady deterioration on invisibles account. Repatriated profits of foreign companies have figured prominently in all three, and in the case of Indonesia, repayment of current debts owed by Pertamina, the national oil organization, are in part reflected in the increase in invisibles payments in 1975.

D. INFLATION

113. Virtually none of the market economies, developed or developing, has escaped the contagion of the international inflation during the current decade. The developing economies of the ESCAP region are no exception, although the incidence of world inflation upon them has been highly varied in genesis and extent if not in general pattern. While the incidence of inflationary phenomena over the course of time has not been entirely uniform, a broadly cyclical pattern is unmistakable and has been common to most developing economies in the region. This time pattern reflects the temporal coincidence of the food crisis, the commodities boom and the oil price rise. Inflationary pressures abated to some degree with the collapse of primary commodities prices in 1974 and 1975 but there has been no general fall in international prices. Moreover, since the beginning of a mild recovery in the developed

market economies from the latter part of 1975, halting and hesitant though it has been, recurrent inflationary tendencies have appeared in these economies and in a number of the developing economies as well.

114. Although the inflation in the international market economy has influenced almost all the developing ESCAP countries, these influences were not unique as sources of general increases in the price level. To some degree in all economies, domestic inflation may be generated without, or largely without, serious inflationary pressure from abroad. In recent years such inflationary processes have been generated by serious shortfalls in harvests, most commonly owing to extended periods of drought. Examples are found during the early years of the decade in Afghanistan and in India. In both countries, agricultural production declined in two consecutive years, reducing the supply of food-stuffs and, of particular importance to the Indian economy, industrial raw materials, such as fibres and oil-seeds as well. The consequent decline in farm incomes reduced consumer demand for industrial products at a time when raw materials costs were rising owing to supply shortages. The necessity to provide relief and to maintain other public expenditures added to the pressures of demand upon available resources. As bank credit continued to expand and supply the needs for funds, domestic inflation was further stimulated.

115. Superimposed upon this inflationary situation in India, the rapidly increasing world price of cereals beginning in 1972 provided additional inflationary impetus which increased food import requirements made inescapable. Agricultural output failed to improve markedly until the 1975/76 crop year, when bumper crops of cereals provided the basis for increased consumption and stock accumulation and for reduction of import requirements, at least in quantum terms. Improvement in materials supply and power generation, which had suffered from water shortages, permitted recovery of industrial production; expanding export opportunities coincided with the renewed capability to expand production in both agriculture and industry, despite increases in world prices of fuel and fertilizer. Thus, in India, the genesis of inflation during the 1970s was essentially a domestic phenomenon, although the situation was much exacerbated by the incidence of external inflationary influences. By mid-decade, both domestic and external conditions emerged which were conducive to bringing inflationary forces under control.

116. For smaller, less self-contained economies, vulnerability to external forces of an inflationary character is often far greater than in the Indian economy. Nevertheless, domestically generated inflationary forces following upon shortfalls in food-crop production during the early 1970s had serious inflationary effects in the Philippines and Indonesia. In the latter, domestic inflation erupted in 1972 after three years of relative price stability which had been the hallmark of success in overcoming the rampant inflation of the 1960s. As both the Philippine and the Indonesian economies produce primary products for export and participate to a significantly greater extent in international trade than does the Indian economy, the influence of the commodities export boom of 1972-1974 was considerably more pervasive for them. Although Indonesia, as a petroleum exporter, experienced the rise in world prices of petroleum products in more salutary ways than did the Philippines, they shared most of the major influences of this episode of inflation. In both countries, the onset of the commodities boom occurred at a time when deficiencies in food production had initiated a process of domestically generated inflation.

117. For most developing countries in the ESCAP region which have an appreciable degree of dependence on international trade, the inflationary impacts of the increase in world prices appear in two distinguishable and essentially different ways. Depending upon the structural characteristics of production and the pattern of exports and import requirements, these influences affect such economies with differing degrees of severity and in rather less widely variable time sequences. With the onset of the commodities export boom in the latter part of 1972 came also an accelerated rise in the prices of imports — of foods, raw and semi-fabricated materials for use in manufacturing and construction and, even before the great increase of late 1973 and 1974, in mineral fuels. Although these price rises occurred concurrently with the bourgeoning demand and rising prices of primary-products exports, the income-generating effects of the expansion of export production were less rapidly perceptible in their multiplier effects upon other sectors of these economies. In retrospect it is scarcely surprising that the diagnosis of the causes of the sudden spurt in the prices of a broad spectrum of domestic as well as imported goods was to attribute them to "imported inflation".

118. Imported inflation as experienced during this period is a species of cost-push inflationary pressure. Given the capacity to earn foreign exchange sufficient to pay for imports — and this capacity was rapidly being enhanced by the rising demand for both primary and manufactured exports — the importation of merchandise at increasing prices quite obviously carried with it an element of increased cost to the final user. For consumer goods the incidence is fairly directly upon the final consumer; because most

of the developing economies in the region are net importers of foodgrains, the accelerating rise in prices of imported cereals from 1972 to 1974 typically had a forceful impact upon consumer prices.[51] Imported raw materials and partially finished inputs as well as finished goods for industrial use created a cost-push effect in manufacturing and construction as prices of these imports rose. These increased costs were uncommonly great for many individual items in 1973 and often in 1974 and were most often passed on to consumers in the form of higher prices for the finished products. Investment goods prices also advanced in this period, raising the cost of establishing new production capacity which would, after varying periods of gestation, provide increased output for domestic use and for export. Thus, although the impact on prices of the increased output was delayed, the cost of investment in new capacity was promptly affected. At a later phase in the cycle as cost increases continued while the demand for exports had begun to flag, a cost and profits squeeze emerged which contributed to the reduction of domestic production as the upswing topped out and recession ensued.[52]

119. Another major aspect of the inflationary influences generated by the expansion of external demand and the accompanying rise in export prices appears as a form of demand-pull, or export-induced inflation. In the main, rapid increases in the demand for exports are accompanied by marked rises in export prices and have similar aggregate effects on the economy, although the supply response may differ considerably from commodity to commodity. In several places in earlier parts of this study, differences in supply response have been cited, particularly those which characterize manufacturing in contrast to agricultural production. Concern here, however, is mainly with broad, aggregative effects of these developments, in the generation and diffusion of incomes in the process of production for export. Depending upon the production structure of the economy and the degree of integration of the export sectors with sectors which produce mainly for domestic use, the consequences of this expansion come to be felt more or less pervasively throughout the economy. As incomes generated in the expansion of export production are spent by the recipients — outlays by firms to buy inputs, and investment of their profits for expansion of capacity, expenditures by workers for consumer goods and services and so on — economic activity is stimulated in domestic production sectors. As these newly created incomes cascade over the economy, physical output increases on a broad front, employment expands and domestic prices also begin to rise. If the dimensions of this growth are sufficiently large and sustained, production capacity becomes more fully utilized and production costs begin to rise. When, as occurred during the recent upswing, costs of imports have also begun to rise with rapidity, cost-push influences emanate from both domestic and external sources. As the inflationary effects of these pressures mount, a cumulative process of rising costs and prices evolves in which cost-push and demand-pull elements become inextricably interwoven. Rising consumer prices elicit increases in wages as long as employment is expanding, even in the absence of strong labour unions.

120. Whilst it is possible to retard this process of cumulative inflationary cost and price increases by restricting credit and employing other anti-inflationary measures, governments are loath to act so strenuously as to risk choking off the boom and bringing on recessionary consequences. As long as external demand proceeds unabated it continues to fuel the expansion; moderately effective monetary and fiscal measures serve to ameliorate some of the less desirable impacts of domestic inflation but its force begins to wane when the combination of rising costs and slackening demand begin seriously to encroach upon profits and depress the incentive to increase production and incomes.

121. Especially in economies which depend importantly upon imports for part of the supply of inputs for production and often critical items for consumption, an appreciable component of increasing aggregate demand spills over into a demand for imports. Because pressure on available physical resources is seen to generate cost-push forces, governments have taken recourse to easing quantitative restrictions on imports, as well as reducing import duties. As imports expand, a part of the excess aggregate demand is leaked out of the domestic economy; thus, increased expenditure on imports reduces inflationary pressures, relative to what they would otherwise have been. The augmentation of the supply of physical commodities serves thus to absorb some part of excess monetary demand. Hypothetically, excess demand-induced inflation could be overcome if sufficiently large quantities of goods could be imported at lower prices than those prevailing in the domestic economy. For this it is necessary to assume that foreign exchange resources are ample and that the physical capacity of harbours

[51] Inspection of the relative rate of increase in food prices vis-à-vis that of all items in the consumer price indexes of the countries in this study shows that in 1972, 1973 and 1974, food prices increased more rapidly than prices in general in practically all of the dozen countries studied. Only in 1975 does the pattern change such that the all-items index rises more rapidly than the food index, with few exceptions. See United Nations, *Monthly Bulletin of Statistics*, December 1977, table 61.

[52] The anti-inflationary influence of expenditure on imports is considered below, following the discussion of export-induced inflation.

and transportation and distribution systems does not give rise to markedly increased costs. In the event, however, such a coincidence of salutary conditions is scarcely likely to occur in a period of domestic and international inflation and expansion.[53]

122. Although the increase in imports occurred, as it did for many countries in the region in response to the boom, at especially rapid rates in 1974, the prices of imported goods continued to rise. In consequence, potentially inflationary excess demand was indeed withdrawn from the domestic income stream, but the higher-cost imports brought little discernible respite from inflation. The physical quantity of increased imports did of course supply production and consumption demand, which would otherwise have gone unfilled — with continued inflationary consequences. In effect, the demand-pull force was offset only by substituting for it a cost-push force which, even if the two were in some measurable sense equivalent, would not reduce prices and the level of inflation, though the effective rate of price rise was undoubtedly retarded.

123. In want of the foreign exchange to permit a massive increase in imports to be sustained, the alternative to such a process in the reality faced by many countries during this period, was the necessity to restrict imports of all but essential items — food, fuel and fertilizers — and sometimes to repress the demand even for some of these, with dire consequences for both production and consumption, in short, to do without.

124. Viewed in terms of annual percentage changes, the price series shown in table 23 display for almost all the countries listed, a common pattern of accelerating price rises from 1971 through 1974 and a deceleration thereafter, and in a few instances an actual decline in 1976. This pattern is characteristic of the import price series and appears quite consistent with the pattern of world export prices to developing economies as a group, presented in table 19, above. Whilst the occurrence of the greatest percentage increase in 1974 (over the 1973 level) suggests the possibility that the oil price increase might have been the major cause, the fact remains that all other commodity sections except machinery also recorded their greatest percentage increases in that year. Moreover, import prices in Iran also showed their largest percentage increases in 1974, although Iran does not import petroleum.[54]

125. Although there are what appear to be relatively minor variations in this sineclinal pattern in wholesale price changes among the countries for which this series is available, their significance can scarcely be judged from the time-series data alone. A broadly similar wave-like pattern in annual percentage changes also appears in most of the consumer price series. Variations in timing and in the direction of change may be important in some instances. The maximum rate of increase in consumer prices in all but four cases occurred in 1974.[55] This coincidence suggests the likely predominance of food price increases as the main reason. The importance of foods in consumer budgets determines that food prices constitute between two fifths and three fifths of the total weight allocated to the various items in consumer price indexes in most countries for which data are shown in the table. This appraisal is supported as well by the relatively greater increase in food prices than consumer prices in general in 1974.

126. In Hong Kong and Singapore the main thrust of the upswing in activity came rather earlier than in most of the economies in which production was strongly affected by the 1972-1974 boom. Although the greatest annual increase in their import prices occurred in 1974, consumer prices rose most rapidly in 1973 in both of these economies. In the Republic of Korea consumer prices increased at diminishing annual rates from 1971 through 1973 but then escalated sharply in 1974 and 1975. This increase in the pace of consumer price inflation appears to have been associated with more rapidly rising wages relative to the growth in industrial productivity and increasing pressure on production costs as well as sharply increased retail prices of government-procured cereals.

127. In the general deceleration of domestic inflation in 1975 and 1976 a relatively minor decline in import prices may have played a part in some instances. It is to be noted, however, that consumer prices were actually reduced in 1976 in only two of the countries shown in the table: India and Singapore. The contrast between the large and largely self-

[53] Throughout the 1960s, when world market prices rose at less explosive rates than during the 1970s, it was possible for some economies which were able to earn relatively ample flows of foreign exchange to keep down the rise of consumer prices to rates which averaged only 1 or 2 per cent a year by means of importing a broad array of consumer goods, intermediates and investment goods from the least expensive international sources. The experience of Singapore and Malaysia in the 1960s well illustrates this development.

[54] Indonesia imports a substantial amount of petroleum products (while remaining a net exporter by an overwhelming margin): the rate of increase in all import prices was also highest in 1974 in the Indonesian series.

[55] The exceptions include Afghanistan, for which the pattern of consumer price change differs markedly from the rest. The drought-induced inflation is reflected in the high rate of price increase in 1971/72, which was followed by two years of falling prices as agricultural production recovered. In 1974/75 and the following year prices rose by about 10 per cent but advanced hardly at all in 1976/77 (years beginning 21 March).

Table 23. PRICE INDEXES FOR SELECTED ESCAP DEVELOPING ECONOMIES, 1970-1976

Country or area	*Index (1970 = 100)*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*
	Continental						
Afghanistan	Consumer prices (Kabul)	126	110	99	110	121	122
Bangladesh	Consumer prices (Dacca)	112	145 ||	145	224	279	252
India	Import prices	93	97	138	239	280	272
	Wholesale prices	109	118	141	179	182	177
	Consumer prices	103	110	128	165	175	161
Nepal	Consumer prices (Kathmandu)[a]	100	106	117	137	153	150
Pakistan	Import prices[b]	120	156	285	413	614	583
	Wholesale prices[b]	104	114	136	192	235	243
	Consumer prices[a]	100	105	127	164	198	212
	Manufactures exporters						
Hong Kong	Import prices	102	105	127	166	157	164
	Consumer prices[c]	103	109	129	148 ||	108	112
Republic of Korea . .	Import prices	100	101	135	210	216	212
	Wholesale prices	109	124	132	188	238	267
	Consumer prices	113	127	131	163	204	235
Singapore	Import prices	...	100	116	167	167	175
	Consumer prices	102	104	131	161	165	162
	Primary products exporters						
Fiji	Import prices	106	111	135	190	202	231
	Consumer prices	107	116	129	148	167	186
Malaysia (Peninsular) .	Import prices	107	112	130	184	195	198
	Consumer prices	102	105	116	136	142	146
Philippines	Import prices	109	117	122	239	258	...
	Wholesale prices (Manila)	116	117	159	245	252	270
	Consumer prices[d]	...	100	117	156	167	182
Sri Lanka	Import prices	107	113	149	264	309	274
	Consumer prices (Colombo)	103	109	120	134	144	145
Thailand	Import prices	105	111	130	210	234	229
	Wholesale prices	100	108	133	171	178	185
	Consumer prices (Bangkok Metropolis)	102	106	119	146	152	160
	Petroleum exporters						
Indonesia	Import prices	104	112	129	153	172	...
	Wholesale prices[a]	100	114	157	231	245	286
	Consumer prices (Jakarta)	104	111	146	205	244	292
Iran	Import prices	105	114	124	176	194	...
	Wholesale prices[e]	107	113	124	144	154	169
	Consumer prices	104	111	122	139	157	175

Sources: United Nations, *Monthly Bulletin of Statistics,* March 1978, and national sources.

Notes: For import price index, see table 21.

[a] 1971 = 100.

[b] Years ending 30 June. July 1969-June 1970 = 100.

[c] New series beginning 1975; July 1973-June 1974 = 100.

[d] 1972 = 100.

[e] Years beginning 21 March.

|| Discontinuous series.

contained economy and the quintessential open economy of the city-state could scarcely be greater even with regard to the circumstances which determine the effectiveness of counter-inflationary policy.

128. An overview of the patterns of price change according to economy type is hampered by the limited number of countries in each group and the considerable variation among them. Not unexpectedly, the apparent influence of devaluation is discernible in the relatively greater rises in import prices for such countries as Pakistan, Sri Lanka, India and the Republic of Korea (in the order listed). This impression cannot be definitive, however, without proper specification of all the main influences on import prices, in particular, differences in the composition of imports. Further, it is apparent that this influence has not been directly and uniformly transmitted to the expansion of consumer prices; the comparatively low rate of price rises in consumer goods in Sri Lanka is a case in point. Consideration of selected aspects of the effects of domestic inflation appears in the final section of this chapter.

E. SAVING AND INVESTMENT BEHAVIOUR

129. The behaviour of domestic saving and capital formation constitutes a critical link between short- and medium-term variations in economic activity and the longer-term prospects for growth and structural change. Consequently, an investigation of patterns of response in savings and investment behaviour to the influences of the international crises assumes considerable importance. This importance may be diminished, however, if the effects of a few years of turbulence in the international market economy prove to have been transitory. For the purposes of the present study, the attempt has been to identify such impacts as have occurred and to suggest their implications for the longer term. The main emphasis has been laid upon cyclical influences in so far as they are reflected in national income estimates of the pertinent variables. Because of the limitations of annual series, the degree of precision, particularly in respect of timing, must be fairly modest. In a pragmatic sense, however, the identification of variations sufficiently gross to be discernible provides its own justification. Equally pragmatic is the recognition that the annual time series available scarcely permit more sophisticated methods.

130. A review of the data presented in table 24 permits a comparison of the magnitudes shown for each country with the structural characteristics presented earlier. Despite the considerable variations in year-to-year changes in the rates of growth in real product and the frequent tendency of saving and investment ratios either to rise or to decline over the first half of the 1970s, there are broad similarities in the patterns of these variables among the economies in each of the four groups. The continental-type economies display low average growth rates in real product and generally lower ratios of saving and investment to gross product than the others. The primary products exporters take an intermediate position with growth rates around 6 per cent, saving ratios of about 20 per cent of GDP and investment ratios rather higher and typically rising. There are exceptions, which may be explained in terms of the particular features of the individual economy. The manufactures exporters and oil exporters display higher growth rates than the rest but typically not higher savings or investment ratios; rather, the salient difference consists in the tendency of both saving and investment ratios to rise quite markedly over these few years. Again, there are exceptions which are not fully explicable in broad structural terms. The patterns revealed by the Indonesian economy illustrate the intermediate position it holds as an exporter of primary products and of petroleum; moreover, the economy is clearly both large and largely self-contained.

1. Behaviour of savings and investment ratios

131. Not unexpectedly, the petroleum exporting economies are a class apart, even in terms of saving and investment behaviour. In neither economy does an unmistakable cyclical pattern appear in the behaviour of the ratios although the Indonesian GDP displays a peak rate of growth in 1973 and a relatively low growth rate in 1975. Savings ratios for both Indonesia and Iran trace strongly rising patterns over this period and the highest ratios coincide with the great increase in petroleum prices in 1974. As might well be anticipated, investment ratios changed much more moderately and are recorded as having declined for both economies in 1973 and 1974, although both rose again in the following year, quite sharply in Iran.

132. As noted earlier, the national income aggregates for the Indian economy do not reflect the pattern of the international cycle although evidence of domestically generated fluctuations appears. Ratios of both savings and investment are characterized by their year-to-year stability and the annual changes do not suggest a direct relationship with changes in the rate of growth of real product. For Pakistan, annual changes in these aggregates suggest at least a relatively weak relationship between savings ratios and the annual growth in real product but there is also a persistent tendency for the rate of

Table 24. SELECTED ESCAP DEVELOPING ECONOMIES: SAVINGS AND INVESTMENT RATES AND GROWTH IN REAL PRODUCT,[a] 1970-1976

		1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*
		Continental						
India	ΔY	5.6	1.1	—1.0	5.3	3.0	...	...
	S/Y	16.3	15.8	17.1	16.1	17.0	...	...
	I/Y	17.6	17.4	18.1	17.2	18.8	...	...
Pakistan	ΔY	—2.4	0.5	7.1	4.9	1.2	6.2	0.9
	S/Y	12.9	12.7	13.5	9.7	6.8	8.8	8.0
	I/Y	15.7	14.2	13.0	13.4	15.8	15.2	19.2
		Primary-products exporters						
Fiji[b]	ΔY	—	6.0	7.9	12.7	2.6	0.1	2.5
	S/Y	21.1	16.0	16.4	10.2	13.7	16.0	13.5
	I/Y	22.2	24.8	24.0	22.2	18.9	16.7	18.4
Malaysia[c]	ΔY	—	7.0	6.1	11.9	8.4	2.2	15.1
	S/Y	22.0	17.6	18.2	25.3	25.5	22.5	30.5
	I/Y	20.3	19.1	22.2	23.1	28.6	23.8	23.5
Philippines	ΔY	4.4	4.6	5.7	8.7	4.8	6.6	7.0
	S/Y	21.1	20.2	19.7	24.8	23.7	24.2	24.6
	I/Y	21.5	20.9	20.6	21.5	26.9	30.9	31.1
Sri Lanka[b]	ΔY	4.3	0.2	3.1	3.6	2.8	3.6	3.0
	S/Y	17.8	16.3	15.0	14.9	9.8	11.2	14.3
	I/Y	20.0	17.7	15.4	15.7	14.5	16.2	15.9
Thailand	ΔY	7.3	8.1	4.3	10.3	4.6	5.5	6.2
	S/Y	20.6	19.7	22.2	26.4	24.9	22.0	21.1
	I/Y	26.2	24.1	20.4	23.9	24.6	26.8	26.5
		Oil exporters						
Indonesia[d]	ΔY	7.6	6.6	9.4	11.3	7.6	5.0	6.9
	S/Y	9.2	13.6	16.4	18.5	24.4	20.9	22.0
	I/Y	13.8	15.8	18.8	17.9	16.8	20.3	20.7
Iran[c]	ΔY	12.0	13.7	11.9	12.0	9.0	4.8	13.4
	S/Y	16.8	22.7	23.2	32.9	42.1	37.9	40.7
	I/Y	21.0	22.5	23.4	19.9	17.9	29.8	29.9
		Manufactures exporters						
Hong Kong	ΔY	6.2	3.2	7.2	14.2	2.2	2.9	17.8
	S/Y	19.0	17.9	21.8	19.3	17.7	16.2	23.5
	I/Y	19.1	22.7	22.1	22.0	22.8	21.3	22.0
Republic of Korea	ΔY	8.6	9.8	7.3	16.4	8.8	8.8	14.6
	S/Y	15.9	14.6	15.3	22.7	20.1	19.4	22.2
	I/Y	27.3	25.5	20.8	26.1	30.9	26.8	24.7
Singapore	ΔY	13.7	12.5	13.4	11.5	6.3	3.9	6.8
	S/Y	18.4	18.5	23.7	27.4	26.5	27.3	29.5
	I/Y	38.7	40.2	41.1	39.2	45.3	38.9	41.2

Sources: United Nations, *Monthly Bulletin of Statistics*, April 1978; *Statistical Yearbook for Asia and the Pacific, 1976* and national publications.

Key: ΔY: Annual percentage change in GDP at constant market prices.
S/Y: Gross domestic savings on GDP (percentage), at current prices.
I/Y: Gross domestic capital formation on GDP (percentage), at current prices.

Notes: [a] Gross domestic product at constant market prices.
[b] Gross domestic product at constant factor cost.
[c] Gross national product at constant market prices.
[d] Discontinous series.

savings (as a proportion of GDP) to decline from 1972/73 onwards. Investment ratios declined gradually until 1972/73 and began to rise irregularly from 1973/74. The apparently cyclical features consist in a relatively mild upswing in GDP in 1972/73 and 1973/74, succeeded by a much lower growth rate in 1974/75; the savings ratio reached its highest point in the former year and its lowest in the latter. All of this is quite consistent with earlier observations of the economy's behaviour. It is likely, as will be noted anon, that the behaviour of savings and investment were associated with the changes in institutional arrangements that were initiated in 1973.

133. Of the five economies designated as primary-products exporters, Malaysia, the Philippines and Thailand clearly reflect the boom and decline in the growth profile of gross product. The behaviour of savings ratios reflects the upswing and peak in all three, although the timing varies among them. In the Philippines and Thailand the savings ratio rose to its highest level in 1973, the year of most rapid expansion in real gross product, while in Malaysia the rate of savings continued to rise in 1974. This parallels in all three the timing of the upswing; the boom subsided in early 1975 in Malaysia, while the downturn had come in the preceding year for the others. While the rate of saving fell slightly in the Philippines, it moved more steeply downwards in Thailand and quite abruptly in Malaysia in 1975 rather than 1974. The patterns traced by investment ratios in all three countries appear to move with a lag. The appearance of such a lag is undoubtedly affected by the use of annual data but is quite distinct in both Malaysia and the Philippines. Whilst the investment ratio fell abruptly in 1975 in the Malaysian economy, in both the Philippines and Thailand, where the decline in 1974 was relatively mild, the ratio rose and continued to rise in the following year.

134. The patterns traced by these ratios in neither Fiji nor Sri Lanka appear to have responded to the commodities boom, nor did gross product in Sri Lanka. Rates of savings and investment both drifted downward in Sri Lanka throughout 1974 and rose only moderately in 1975. In Fiji savings ratios tended downwards throughout 1973, then rose quite rapidly during the next two years without apparent connexion with the rapid deceleration in the growth of real product. Investment ratios meanwhile drifted persistently downwards. The indifferent behaviour of investment rates is symptomatic of the difficulties both economies faced and failed to overcome during these years in maintaining production levels of major exportables. It is apparent that the determinants of saving in such economies are not to be found exclusively and perhaps not even importantly in the growth of real product, at least not in the medium term.

135. The three manufactures exporters differ fundamentally one from the other in respect of production structure and economic size; nevertheless, their common experience in the rapid growth of manufacturing for export has exposed them to similar exogenous influences borne by the upswing and the subsequent decline in the international economy. Gross product growth in these economies responded to the changing opportunities for sale of manufactured exports. In ways which differ among the three, gross product responded predictably to the fluctuations in external demand. In the Republic of Korea the recorded variations in savings and investment ratios describe a recognizable cyclical pattern. Consistent with the rapid rate of real growth and the retardation of that growth in 1974 and 1975, the savings ratio shows a rising tendency over the period, despite the decline in this proportion in the two years of lower growth rates. This rising tendency stands in marked contrast to the behaviour of the investment ratio. Capital formation as a share of gross product reached a peak in 1974, after the rate of growth had begun to slacken, but declined quite markedly thereafter. By 1975 the investment ratio had receded to the level of 1970 and by 1976 had fallen below it. At a level of 25 per cent of GDP this is perhaps not critical.

136. The data for Hong Kong and Singapore have been included mainly for comparative purposes as generalizations from the experience of these highly urbanized and trade-oriented economies have little direct applicability to the developing economies in the region. Particularly with regard to their industrial sectors, which dominate commodity production and exports, there are contrasts between them which may be instructive. In terms of the aggregates under review both economies quite obviously responded to the international cycle. The pattern of real GDP growth in Hong Kong shows a distinct peak in 1973, followed by very low rates of growth in 1974 and 1975; savings ratios declined from 1972 to 1975 while the share of investment in GDP varied only slightly throughout, with a marginal rise in 1974 and a slight fall in 1975. In Singapore growth rates were highest during the first years of the decade and declined gradually from 1972 to 1975; much of this represents the scale effect of growth rates well above 10 per cent per annum from 1970 to 1973. Nevertheless, 1974 and 1975 were clearly years of recession. Savings ratios rose sharply to 1973 and after only a slight decline in 1974, resumed their rise. Investment ratios, at uncommonly high levels of about 40 per cent of GDP, rose in 1974, after recessionary tendencies had set in, by another

5 percentage points. In 1975, the ratio dropped to just under 40 per cent but rose again the following year.

137. These contrasts are instructive because they reflect marked differences in the structure of production and exports in the two economies. Although the specific patterns will not be duplicated elsewhere, the character of the differences is of broader significance. Manufacturing and exports from Hong Kong are highly concentrated in textiles and garments. Given the inescapable dependence of such an economy on exports, the pattern of the expansion of demand during the 1970s boom did not especially favour the types of commodities Hong Kong was capable of exporting. Moreover, restrictions on exports of textiles and garments to the developed economies have imposed serious limitations upon export expansion and industrial growth. Although diversification has taken place in recent years, for example, into the production of plastic products and machinery for this production, and into transistorized electrical equipment and electronics components, the decidedly sluggish performance of the economy is reflected even in the broad aggregates considered here.

138. The Singapore economy was more favourably placed to take advantage of the export boom of the 1970s, as the figures in table 16 quite clearly indicate. In some part the diversification of production and exports of the Singapore economy resulted from an advantageous geographical location which favoured the establishment of petroleum refining capacity and the provision of equipment and ancillary services to off-shore oil prospecting activities in adjacent areas. The structure of manufacturing production and exports has shifted strongly towards machinery and transport equipment and the rise in petroleum prices has enhanced the share of refined products in total domestic exports. That these changes have had salutary effects on the rate of growth and the patterns of saving and investment is quite evident from the data presented in table 24.

2. Finance and composition of capital formation

139. Most of the foregoing description of patterns of change in savings and investment ratios is only symptomatic of more fundamental changes, some of which have been subject to influence by the variations in the international economy during this period. To penetrate the maze of interrelationships of financial flows and physical investment requires data of a kind which is available for very few economies in the region and some of the available information is not sufficiently current to provide much insight into the period under review.

140. While patterns of financial accumulation and the allocation of investment can be traced for the Indian economy until 1973/74, information is not available which would permit observation of these patterns during the years in which the international crises impinged most seriously on the economy. In longer-term perspective, however, investment patterns in the late 1960s and early 1970s help to explain a gradually increasing trend in savings and investment ratios from 1968/69 to 1973/74. Particularly since the beginning of the 1970s, the share of investment in manufacturing in total gross capital formation has shown a rising tendency, as has that of infrastructural investment. The apparent enhancement of the share of government and the public corporate sector in total investible resources has presumably provided an important basis for this pattern. While the patterns of change which seem to be of a cyclical character may be transitory, they may also foreshadow similar changes under comparable circumstances. Thus, during the relatively favourable year, 1973/74, the public corporate sector and government shares of gross accumulation increased markedly, as did the proportion of machinery and transport equipment in gross fixed capital formation. Doubtless, the impact of the food and oil-price crises, which was felt during the following year, had strong negative effects on aggregate saving and investment. There have been some indications that the marked improvements in agricultural and industrial production in 1975/76, coupled with the greatly improved external payments situation, have permitted a significant increase in government and public sector saving and investment. However salutary such an improvement as a base for recovery and further development, reflection on the circumstances of the crisis years and the convergence of external and domestic stresses suggests that even a large and largely self-contained economy such as that of India retains a vulnerability to external forces which can be extremely serious.

141. The patterns of change in saving and investment behaviour in Pakistan since 1972/73, which can be traced in the data shown in table 24, mainly reflect the influence of the change in ownership patterns following the nationalizations beginning in 1973. The share of the public sector in gross fixed capital formation increased from less than half the total in 1972/73 to about 70 per cent by 1974/75 as the total expanded (at constant prices) by more than a third. As savings ratios generally fell during these years, the savings-investment gap widened. These developments took place during the worst years of the international crises and are reflected in uncommonly large increases in the current account deficit of the balance of payments. As a matter of policy, investment has been allocated increasingly

to infrastructure and capital-intensive manufacturing. Although little of this development relates to the international economic crises, the new patterns of investment allocation have important implications for future development.

142. Not only do the aggregates of savings and investment reveal cyclical patterns among the three primary-products exporters, Malaysia, the Philippines and Thailand, but structural aspects of saving and capital formation also change in ways related to fluctuations in the general level of activity. Characteristically corporate-sector saving tends to rise in periods of increasing general economic activity and decline as markets become less favourable. Such was the pattern in the Philippines during the export boom of the 1970s. For Thailand, the recorded savings of the corporate sector are a relatively small proportion of total savings, but together with all private savings their share rose in the good years and declined as recessionary tendencies appeared. Government contribution to total savings seems to have moved anti-cyclically in these years. Detailed information for Malaysia is not available but the government share of aggregate saving appears to have increased fairly persistently during 1972-1974 and to have fallen in 1975. In the Philippines, government saving reached its highest percentage share of the total in 1973 and maintained it in 1974; the following year saw the share decline.[56]

143. Variations in patterns of fixed capital formation over the swings of the cycle are discernible in the economies of Malaysia, the Philippines and Thailand in terms of the standard types of capital formation. Investment in buildings and construction has generally been pro-cyclical, rising to a maximum during the peak year of the boom or, as in Peninsular Malaysia, in 1973, the year of most rapid expansion in business activity. Construction activities were particularly affected by increased costs as import and domestic prices rose in that country and capacity limitations also operated to retard investment in construction, particularly in 1974. In the Philippines, government-financed construction in 1974 and 1975, the former at least a year of recession, generated a construction boom; evidence of this appears in a rise in the share of investment in non-residential construction in both years. However, the share of all construction in total investment declined during these years, making the general pattern of construction investment essentially pro-cyclical. Although the rate of investment in Sri Lanka was relatively little affected by cyclical changes, 1973 was a year of relatively rapid growth; construction investment rose as a share of total in that year as did investment in machinery and equipment. Investment in machinery and equipment showed clear pro-cyclical characteristics in the other three economies in this group as well. Investment in transport equipment, however, behaved in rather different ways, rising to its highest share at the peak of the boom in Thailand in 1973, while in the Philippines this form of investment was larger in 1974 when the high point of the boom had passed. In Peninsular Malaysia investment in transport equipment is seen to have reached its maximum share in 1973 and to have declined fairly markedly in 1974 (estimates for 1975, a year of recession in Malaysia, are not available). This category of investment is ambiguous in so far as distinction is not made between private and commercial vehicles. While the impact of the oil crisis in 1974 doubtless affected transport equipment investment in these countries, the implications for the formation of capital which provides increased productive capacity remain unclear.

144. On the whole, however, it is apparent that the swings of the cycle affected both the level of capital formation and its composition. To the extent that the upswing in economic activity encouraged investment in new capacity, this may generally be regarded as salutary. Changes in the composition of gross domestic capital formation, to the extent that infrastructural investment and expansion of plant and equipment are stimulated, would seem to suggest a positive contribution to the potential for further growth. Nevertheless, the standard typology for fixed capital formation is not sufficiently detailed to permit a complete assessment of this contribution. Without information showing the sectoral allocation of fixed investment, very little can be said about the increase in production capacity in industries which will make a fundamental contribution to further growth.

145. In addition, the recurrence of recession and the attendant decrease in production and in the level of utilization of productive capacity defeat the essential purpose of investment to expand that capacity. While it is often a useful exercise to attempt an estimate of the net loss of potential output due to production at less than normal levels of utilization, there is no yardstick to measure the potential loss sustained by the failure to invest in additional capacity during a period of recession. Although the economy may return in due course to the trend path of growth, the opportunity foregone cannot in substance be recouped. No future recovery of the level of production and the rate of capital formation can provide goods and services to meet current needs.

[56] Cyclical variations in the contribution made by the deficit in the current account of the balance of payments to the financing of gross accumulation were of varying importance in these economies (see table 22).

146. Of the three economies designated as exporters of manufactures, a breakdown of the sources of the financing of gross accumulation is available only for the Republic of Korea. Given the cyclical characteristics of the variations in levels of saving and investment, it might be expected that corresponding variations would appear among the sources of savings as well. There is relatively minor variation in the proportion of total finance provided by capital consumption allowances and a more marked cyclical pattern in total private savings, but the latter is a residual figure which is not necessarily indicative. Private corporate savings constitute a relatively small share but show very large cyclically identifiable changes. Government savings have generally declined as a share of total finance during the 1970s, the decline having begun in the late 1960s. The external deficit, which had accounted for roughly one fourth of total financing in the late 1960s, was reduced in the current decade to a minimum of one tenth in 1973. In 1974, however, because of the great increase in the cost of petroleum imports, the deficit on current account rose sharply and remained high in 1975, but was much reduced in 1976 (see table 22).

147. Only for the Republic of Korea among the manufactures exporters are there data which show the composition of capital formation by production sector. Viewed in conjunction with the composition by type of capital goods, a clear pattern emerges. Cyclical variation is found in investment in the manufacturing sector, where the cyclical peak in the share occurs during 1973, the year of most rapid growth in the economy. Investments in commercial construction and in machinery and equipment show correspondingly high levels in the same year, while investment in transport equipment reached a peak in 1974. Capital formation in infrastructure — utilities, construction and transportation — has a generally counter-cyclical character; correspondingly, the public sector component of fixed investment is also counter-cyclical.

148. Changes in the composition of fixed capital formation in Hong Kong do not appear to have strong cyclical characteristics, except possibly investment in transport equipment. Building and construction appear to have a mildly counter-cyclical pattern, while the share of investment in machinery has generally declined. In view of the relatively slight variation in the rate of investment in Hong Kong during the 1970s, these apparently moderate changes are perhaps not surprising. With a consistently high and generally rising investment ratio in the Singapore economy, the compositional changes in fixed capital formation might be expected to show relatively little cyclical variation, except perhaps in connexion with the spurt in investment which occurred in 1974. Capital formation in machinery shows little variation in its share, nor does construction, except for a fairly sharp rise in 1972, a year of very rapid growth in gross product. Only a pronounced rise in the share of investment in transport equipment in 1974, which was sustained the following year, helps to explain the sharp rise in total capital formation in 1974.[57]

149. Although some of the detail in the foregoing may seem ambiguous, the broad patterns that emerge for the economies which depend heavily on exports of manufactures and primary products other than oil emphasize the pervasiveness of the cyclical influences experienced by these economies. It should be apparent that the structural shifts in investment patterns in particular may have further implications for future growth. The central concern remains the enhancement of productive capacity. The processes of saving and capital accumulation in these economies are clearly influenced by externally-generated impulses in respect of both magnitude and composition. These characteristics have important implications for the evolving pattern of production and for the pace of economic growth. Consequently, they are the concern of policy-makers in connexion not only with the prospects for over-all development but also with the quality of resilience towards the influence of future turbulence in the international economy.

F. RESOURCE AVAILABILITY AND CONSUMPTION

150. Neither GNP nor GDP is entirely adequate as a measure of the total annual flow of resources available for domestic consumption and investment; year-to-year changes in these measures do not accurately reflect the volume of resource flows in and out of the economy (real imports and exports). Emphasis in this section is placed on the measure of total "resources for domestic use", as an alternative superior to the more conventional measures. It will become evident that, during the crisis years under investigation, terms of trade changes have contributed to important differences between the rate of growth of GNP (or GDP) and that of domestically available resources.

151. Calculations of total "domestic use" resources are convenient indicators of the real impact on an economy of changes in purchasing power on the world market and are of significance in so far as

[57] A large external deficit has regularly provided finance for an important share of domestic capital accumulation in Singapore. During the 1970s the proportion generally declined and was less than a third of the total by 1975. The deficit had risen sharply during 1974 in conjunction with the rise in petroleum prices.

they indicate the outcome of the trade-off in developing ESCAP countries suffering from worsening terms of trade between restraining volumes of imported goods on one hand, and permitting a deterioration in the external current balance on the other.

152. Table 25, which presents resource balances and their changes for 10 developing countries in the region, displays the widely divergent behaviour of changes in GNP, GDP and domestic use resources. This formulation demonstrates well the volatility of economic conditions that have prevailed during the present decade and the need for great caution in interpreting the implications of changes in standard economic aggregates. No single indicator (such as GNP) can be depended upon as an unambiguous bellwether of changing economic circumstances. It is important to examine more closely why and how the marked divergences have arisen.

153. First, it is necessary to point out how the three magnitudes, GNP, GDP and domestic use resources (DUR), expressed in real terms, are conceptually different. Gross domestic product is the basic measure of total resources produced annually within national boundaries; gross national product is essentially an income measure and incorporates an adjustment for the external flows of resources arising from factors of production located in the domestic economy but foreign-owned and domestically-owned factors located in foreign economies. In most developing ESCAP countries (although not consistently in all) "net factor incomes from abroad" is a negative item. A high degree of year-to-year variation in this item for Pakistan, the Philippines and Thailand, has created quite wide divergences between changes in GNP and in GDP. The magnitude, DUR, is derived directly from gross domestic product at constant prices (real GDP) by the addition of imports and the subtraction of exports. Clearly, annual percentage changes in GDP and DUR will only be identical when the two aggregates are identical, that is, when the real (constant-price) exports and imports are equal in consecutive years. Although this possibility creates no conceptual problem, as a realistic possibility it appears highly unlikely, even if the many problems of valuation are ignored. In practice, even the size of changes in export volumes from one year to the next differ considerably from changing volumes of imports. Under circumstances in which a country exactly maintains the status of its external current account from one year to another expressed in current values (whether the account is in surplus or in deficit), then changes in barter terms of trade will be precisely reflected in changes in volumes of imports and exports. When there is a deterioration in the barter terms of trade, the percentage increase in DUR will be smaller (or the decrease larger) than for GDP. Where there is an improvement in barter terms of trade, the reverse will be the case.

154. Obviously, the assumption of an unchanged balance on the external current account is wholly artificial. Where terms of trade worsen, the relatively poorer performance of DUR (compared with GDP) need not occur, or the difference will be less, if a deterioration is permitted on external current account. This is the typical pattern in the case of the non-oil exporting developing ESCAP countries, but as table 25 makes plain, it did not prevent quite marked divergences between $\triangle$GDP and $\triangle$DUR, particularly in the years of the most serious deterioration in barter terms of trade.

155. In non-oil exporting countries in which foreign trade bulks relatively large, such as Fiji, Malaysia,[58] Pakistan, the Philippines, the Republic of Korea, Sri Lanka and Thailand, the divergences are particularly striking in certain years, when poor performance of DUR sometimes contrasts with respectable growth in GDP. Sri Lanka provides a good example. The seriousness of its barter terms of trade situation and critical import financing circumstances led in 1975 to a decline in DUR, against growth of GDP by over 3 per cent; in 1974 DUR increased faster than GDP but this mainly reflected stagnation in export volumes in that year. A contrast is provided by Fiji, which enjoyed more satisfactory barter terms of trade during the first half of the decade accompanied by quite buoyant growth of DUR, in each year more rapid then rises in GDP. Despite a very sharp decline in terms of trade, the Republic of Korea successfully increased DUR by more than 10 per cent in 1974, at the expense of its external current account; the same was not true of the following year when a higher proportion of domestically produced resources were diverted to foreign markets. An approximately similar pattern applied to Malaysia and the Philippines in these years. Thailand was slightly unusual in that its growth of real exports was very modest in 1973. But assisted by a considerable improvement in barter terms of trade there was a large increase in import volume, and quite a small deterioration in the current balance. In 1973, DUR grew by over 14 per cent, faster than GDP, but in the ensuing two years the growth was much more modest as the volume of imports fell. In Pakistan, substantial fluctuations in volumes of imports were partly responsible for the very erratic behaviour of DUR, which actually fell in 1972, but grew quite rapidly during 1974 and 1975. The huge increase in real imports in 1975 is particularly remarkable in view of the very rapid rise in import prices and the serious consequences for the balance on current account.

[58] Malaysia is also an "oil exporting country" but became a net exporter of mineral fuels (SITC 3) only in 1976.

Table 25. BALANCE AND GROWTH OF RESOURCES, 1971-1976

	1971	1972	1973	1974	1975	1976	Average 1970-1975
			A. Fiji				
		(million Fijian dollars at constant 1960 market prices)					
GNP	172.3	186.9	213.3	220.9	221.1		
	(6.9)	(8.5)	(14.1)	(3.6)	(0.1)		(6.6)
Factor income from abroad	—7.9	—6.8	—2.9	—0.9	—2.4		
GDP	180.2	193.7	216.2	221.8	223.5		
	(6.9)	(7.5)	(11.6)	(2.6)	(0.8)		(5.9)
Imports	104.6	116.5	135.1	135.7	133.1		
Total resources	284.8	310.2	351.3	357.5	356.6		
Exports	87.3	94.3	104.9	99.5	91.2		
Domestic use resources	197.5	215.9	246.4	258.0	265.4		
	(9.8)	(9.3)	(14.1)	(4.7)	(2.9)		(8.2)
Consumption use	156.4	169.7	196.7	213.4	220.8		
	(9.1)	(8.5)	(15.9)	(8.5)	(2.3)		(8.9)
Private	129.7	139.6	166.4	181.6	185.8		
	(9.4)	(7.6)	(19.2)	(9.1)	(2.3)		(9.5)
Government	26.7	30.1	30.3	31.8	35.0		
	(7.7)	(12.7)	(0.7)	(5.0)	(10.1)		(7.2)
Gross domestic capital formation	41.1	46.2	49.7	44.6	44.6		
	(12.9)	(12.4)	(7.6)	(—10.3)	(0.0)		(4.5)
Current account	—25.2	—29.0	—33.1	—37.1	—44.3		
Gross national savings	15.9	17.2	16.6	7.5	0.3		
	(—10.7)	(8.2)	(—3.5)	(—54.8)	(—96.0)		(—31.4)
			B. India				
		(billion rupees at constant 1960 market prices)					
GNP	228.1	226.4	236.3	238.6	247.5		
	(2.5)	(—0.7)	(4.4)	(1.0)	(3.7)		(2.2)
Factor income from abroad	—1.9	—1.9	—1.5	—1.1	—1.0		
GDP	230.0	228.3	237.8	239.7	248.5		
	(2.5)	(—0.7)	(4.2)	(0.8)	(3.7)		(2.1)
Imports	14.7	14.8	13.1	13.2	10.5		
Total resources	244.7	243.1	250.9	252.9	259.0		
Exports	11.1	11.7	12.0	12.3	11.1		
Domestic use resources	233.6	231.4	238.9	240.6	247.9		
	(3.1)	(—0.9)	(3.2)	(0.7)	(3.0)		(1.8)
Consumption use	188.9	182.9	191.6	191.9	200.7		
	(3.0)	(—3.2)	(4.8)	(0.2)	(4.6)		(1.9)
Private	173.2	170.8	180.4	177.0	185.1		
	(1.9)	(—1.4)	(5.6)	(—1.9)	(4.6)		(1.8)
Government	15.7	12.0	11.2	14.9	15.6		
	(17.2)	(—23.6)	(—6.7)	(33.0)	(4.7)		(4.9)
Gross domestic capital formation	44.7	48.6	47.3	48.7	47.2		
	(3.5)	(8.7)	(—2.7)	(3.0)	(3.1)		(3.1)
Current account	—5.5	—5.0	—2.6	—2.0	—0.4		
Gross national savings	39.2	43.6	44.7	46.7	46.8		
	(0.0)	(11.2)	(2.5)	(4.5)	(0.2)		(3.7)

Table 25 *(continued)*

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*Average 1970-1975*
			C. Indonesia				
			(billion rupiah at constant 1973 market prices)				
GNP	5,465.0	5,896.2	6,507.7	6,900.0	7,270.5	7,789.8	
	...	(7.9)	(10.4)	(6.0)	(5.4)	(7.1)	(7.4)[a]
Factor income from abroad	—79.7	—171.0	—245.7	—369.0	—360.3	—366.5	
GDP	5,544.7	6,067.2	6,753.4	7,269.0	7,630.8	8,156.3	
	...	(9.4)	(11.3)	(7.6)	(5.0)	(6.9)	(8.3)[a]
Imports	729.7	925.3	1,315.6	1,669.0	1,800.6	1,946.4	
Total resources	6,274.4	6,992.5	8,069.0	8,938.0	9,431.4	10,102.7	
Exports	890.8	1,123.4	1,354.3	1,403.4	1,266.8	1,425.2	
Domestic use resources	5,383.6	5,869.1	6,714.7	7,534.6	8,164.6	8,677.5	
	...	(9.0)	(14.4)	(12.2)	(8.4)	(6.3)	(11.0)[a]
Consumption use	4,516.7	4,837.1	5,506.7	6,094.6	6,514.4	6,928.3	
	...	(7.1)	(13.8)	(10.7)	(6.9)	(6.4)	(9.6)[a]
Private	3,998.4	4,276.2	4,790.7	5,453.6	5,678.9	6,031.6	
	...	(6.9)	(12.0)	(13.8)	(4.1)	(6.2)	(9.2)[a]
Government	518.3	560.9	716.0	641.0	835.5	896.7	
	...	(8.2)	(27.7)	(—10.5)	(30.3)	(7.3)	(13.9)[a]
Gross domestic capital formation	866.9	1,032.0	1,208.0	1,440.0	1,650.2	1,749.2	
	...	(19.0)	(17.1)	(19.2)	(14.6)	(6.0)	(17.5)[a]
Current account	81.4	27.1	—207.0	—634.6	—894.1	—887.7	
Gross national savings	948.3	1,059.1	1,001.0	805.4	756.1	861.5	
	...	(11.7)	(—5.5)	(—19.5)	(—6.1)	(13.9)	(—4.8)[a]
			D. Iran				
			(billion rial at 1974 market prices)				
GNP	2,305.3	2,580.0	2,889.8	3,150.9	3,301.3		
	(13.7)	(11.9)	(12.0)	(9.0)	(4.8)		(10.3)
Factor income from abroad	—650.5	—182.6	—82.4	—10.6	—13.0		
GDP	2,955.8	2,762.6	2,972.2	3,161.5	3,314.3		
	(11.8)	(—6.5)	(7.6)	(6.4)	(4.8)		(4.8)
Imports	332.7	387.1	491.6	673.6	1,022.9		
Total resources	3,288.5	3,149.8	3,463.7	3,835.1	4,337.2		
Exports	1,889.7	1,468.7	1,505.9	1,448.2	1,296.0		
Domestic use resources	1,398.8	1,681.0	1,957.8	2,386.9	3,041.2		
	(10.3)	(20.2)	(16.5)	(21.9)	(27.4)		(19.3)
Consumption use	1,066.7	1,269.7	1,500.8	1,823.8	2,071.6		
	(6.0)	(19.0)	(18.2)	(21.5)	(13.6)		(15.7)
Private	789.6	905.5	1,072.9	1,242.6	1,392.7		
	(—1.0)	(14.7)	(18.5)	(15.8)	(12.1)		(12.0)
Government	277.1	364.2	427.9	581.2	678.9		
	(28.2)	(31.4)	(17.5)	(35.8)	(16.8)		(25.9)
Gross domestic capital formation	332.1	411.4	457.0	563.1	969.6		
	(26.8)	(23.8)	(11.1)	(23.2)	(72.2)		(31.4)
Current account	906.5	899.0	932.0	764.0	260.1		
Gross national savings	1,238.6	1,310.3	1,389.0	1,327.1	1,229.7		
	(21.4)	(5.8)	(6.0)	(—4.5)	(—7.3)		(4.3)

Table 25 *(continued)*

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*Average 1970-1975*
			E. Malaysia				
			(million ringgit at 1970 prices)				
GNP	13,005	13,793	15,437	16,734	17,102	19,692	
	(7.0)	(6.1)	(11.9)	(8.4)	(2.2)	(15.1)	(7.1)
Net factor income from abroad	—307	—292	—490	—301	—229	—477	
GDP	13,312	14,085	15,927	17,035	17,331	20,169	
	(6.4)	(5.8)	(13.1)	(7.0)	(1.7)	(16.4)	(6.8)
Imports	4,756	4,735	5,240	6,053	5,064	5,717	
Total resources	18,068	18,820	21,167	23,088	22,395	25,886	
Exports	5,630	5,750	6,854	7,054	7,109	9,074	
Domestic use resources	12,438	13,070	14,313	16,034	15,286	16,812	
	(4.1)	(5.1)	(9.5)	(12.0)	(—4.7)	(10.0)	(5.2)
Consumption use	10,087	10,361	11,198	11,941	12,106	13,096	
	(6.4)	(2.7)	(8.1)	(6.6)	(1.4)	(8.2)	(5.0)
Private	7,870	7,998	8,664	9,250	9,036	9,802	
	(5.1)	(1.6)	(8.3)	(6.8)	(—2.3)	(8.5)	(3.9)
Government	2,217	2,363	2,534	2,691	3,070	3,294	
	(11.0)	(6.6)	(7.2)	(6.2)	(14.1)	(7.3)	(9.0)
Gross domestic capital formation	2,351	2,709	3,115	4,093	3,180	3,716	
	(—4.7)	(15.2)	(15.0)	(31.4)	(—22.3)	(16.9)	(6.9)
Current account	567	723	1,124	700	1,816	2,880	
Gross national savings	2,918	3,432	4,239	4,793	4,996	6,596	
	(9.2)	(17.6)	(23.5)	(13.1)	(4.2)	(32.0)	(13.5)
			F. Pakistan				
			(million rupees at constant 1960 market prices)				
GNP	35,780	35,997	38,534	40,022	41,303		
	(0.3)	(0.6)	(7.0)	(3.9)	(3.2)		(3.0)
Factor income from abroad	—72	71	181	188	193		
GDP	35,852	35,926	38,353	39,834	41,110		
	(0.5)	(0.2)	(6.8)	(3.9)	(3.2)		(2.9)
Imports	4,126	3,402	3,651	4,767	5,640		
Total resources	39,978	39,328	42,004	44,601	46,750		
Exports	3,370	2,897	4,040	3,647	3,286		
Domestic use resources	36,608	36,431	37,964	40,954	43,464		
	(0.9)	(—0.5)	(4.2)	(7.9)	(6.1)		(4.4)
Consumption use	31,505	31,641	33,006	35,512	36,106		
	(1.3)	(0.4)	(4.3)	(7.6)	(1.7)		(3.1)
Private	27,667	27,504	29,038	31,646	31,972		
	(0.9)	(—0.6)	(5.6)	(9.0)	(1.0)		(3.2)
Government	3,838	4,137	3,968	3,866	4,134		
	(4.7)	(7.8)	(—4.1)	(—2.6)	(6.9)		(2.5)
Gross domestic capital formation	5,103	4,790	4,958	5,442	7,358		
	(—1.9)	(—6.1)	(3.5)	(9.8)	(35.2)		(8.1)
Current account	—828	—434	570	—932	—2,161		
Gross national savings	4,275	4,356	5,528	4,510	5,197		
	(—6.9)	(1.9)	(26.9)	(—18.4)	(15.2)		(3.7)

Table 25 *(continued)*

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*Average 1970-1975*
			G. Philippines				
			(million pesos at constant 1972 market prices)				
GNP	52,921 (5.8)	55,526 (4.9)	60,881 (9.6)	64,739 (6.3)	68,543 (5.9)	72,918 (6.4)	(6.5)
Net factor income from abroad	—605	—549	—50	600	169	—244	
Statistical discrepancy	265	—223	—273	347	—471	—724	
GDP	53,261 (4.6)	56,298 (5.7)	61,204 (8.7)	63,792 (4.2)	68,845 (7.9)	73,886 (7.3)	(6.2)
Imports	10,015	10,334	10,800	12,883	13,505	13,679	
Total resources	63,276	66,632	72,004	76,675	82,048	87,565	
Exports	8,997	9,877	11,312	9,980	9,951	11,829	
Domestic use resources	54,279 (4.1)	56,755 (4.6)	60,692 (6.9)	66,695 (9.9)	72,399 (8.6)	75,736 (4.6)	(6.8)
Consumption use	43,053 (4.2)	45,182 (4.9)	48,152 (6.6)	51,044 (6.0)	53,415 (4.6)	55,505 (3.9)	(5.3)
Private	38,499 (3.8)	39,922 (3.7)	42,317 (6.0)	44,385 (4.9)	46,160 (4.0)	47,868 (3.7)	(4.5)
Government	4,554 (7.7)	5,260 (15.5)	5,835 (10.9)	6,659 (14.1)	7,255 (9.0)	7,637 (5.3)	(11.4)
Gross domestic capital formation	11,226 (3.6)	11,573 (3.1)	12,540 (8.4)	15,651 (24.8)	18,984 (21.3)	20,231 (6.6)	(12.2)
Current account	—1,623	—1,006	462	—2,303	—3,385	—2,094	
Gross national savings	9,603 (11.5)	10,567 (10.0)	13,002 (23.0)	13,348 (2.7)	15,599 (16.9)	18,137 (16.3)	(12.8)
			H. Republic of Korea				
			(billion won at constant 1970 market prices)				
GNP	2,826.8 (9.2)	3,023.6 (7.0)	3,507.5 (16.0)	3,811.3 (8.7)	4,129.3 (8.3)	4,757.7 (15.2)	(9.8)
Factor income from abroad	—2.0	—12.1	—26.7	—32.8	—53.8	—38.2	
GDP	2,828.8 (9.8)	3,035.7 (7.3)	3,534.2 (16.4)	3,844.1 (8.8)	4,183.1 (8.8)	4,795.8 (14.6)	(10.2)
Imports	773.6	801.2	1,087.0	1,120.4	1,134.1	1,397.8	
Total resources	3,602.4	3,837.9	4,621.2	4,964.5	5,317.2	6,193.6	
Exports	459.4	643.3	1,034.3	1,010.7	1,174.2	1,645.9	
Domestic use resources	3,143.0 (10.7)	3,193.6 (1.6)	3,586.9 (12.3)	3,953.8 (10.2)	4,143.0 (4.8)	4,547.7 (9.8)	(7.9)
Consumption use	2,394.2 (12.2)	2,525.7 (5.5)	2,667.2 (5.6)	2,863.2 (7.3)	3,041.6 (6.2)	3,259.5 (7.2)	(7.4)
Private	2,082.3 (12.4)	2,200.1 (5.6)	2,330.6 (5.9)	2,476.1 (6.2)	2,631.9 (6.3)	2,785.5 (5.8)	(7.3)
Government	311.9 (10.7)	325.6 (4.4)	336.6 (3.4)	387.1 (15.0)	409.7 (5.8)	474.0 (15.7)	(7.9)
Gross domestic capital formation	748.8 (6.3)	667.9 (—10.8)	919.7 (37.7)	1,090.6 (18.6)	1,101.4 (1.0)	1,288.3 (17.0)	(10.6)
Current account	—316.2	—170.0	—79.4	—142.5	—13.7	209.9	
Gross national savings	432.6 (—5.0)	497.9 (15.1)	840.3 (68.7)	948.1 (12.8)	1,087.7 (14.7)	1,498.2 (37.7)	(21.3)

Table 25 *(continued)*

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*Average 1970-1975*
			I. Sri Lanka				
			(million rupees at constant 1960 market prices)				
GNP	10,496	10,803	11,518	11,615	11,986		
	(—1.1)	(2.9)	(6.6)	(0.8)	(3.2)		(2.5)
Factor income from abroad	—67	—72	—44	—25	—27		
GDP	10,563	10,875	11,562	11,640	12,013		
	(—1.2)	(3.0)	(6.3)	(0.7)	(3.2)		(2.4)
Imports	1,335	1,311	1,132	1,080	1,079		
Total resources	11,898	12,186	12,694	12,720	13,092		
Exports	2,326	2,378	2,419	2,167	2,715		
Domestic use resources	9,572	9,808	10,275	10,553	10,377		
	(—3.0)	(2.5)	(4.8)	(2.7)	(—1.7)		(1.1)
Consumption use	7,837	8,241	8,596	8,960	8,731		
	(—0.4)	(5.2)	(4.3)	(4.2)	(—2.6)		(2.1)
Private	6,535	6,903	7,379	7,675	7,697		
	(—1.5)	(5.6)	(6.9)	(4.0)	(0.3)		(3.1)
Government	1,302	1,338	1,217	1,285	1,034		
	(5.8)	(2.8)	(—9.0)	(5.6)	(—19.5)		(—2.9)
Gross domestic capital formation	1,735	1,567	1,679	1,593	1,646		
	(—13.3)	(—9.7)	(7.1)	(—5.1)	(3.3)		(—3.5)
Current account	924	995	1,243	1,062	1,609		
Gross national savings	2,659	2,562	2,922	2,655	3,255		
	(—3.1)	(—3.6)	(14.1)	(—9.1)	(22.6)		(—4.2)
			J. Thailand				
			(million baht at constant 1960 market prices)				
GNP	129.6	134.9	148.7	156.0	164.7		
	(7.8)	(4.1)	(10.2)	(4.9)	(5.6)		(6.5)
Factor income from abroad	0.0	—0.3	—0.4	0.0	0.1		
GDP	129.6	135.2	149.1	156.0	164.6		
	(8.1)	(4.3)	(10.3)	(4.6)	(5.5)		(6.6)
Imports	28.9	30.9	36.9	35.9	34.8		
Total resources	158.5	166.1	186.0	191.9	199.4		
Exports	24.3	29.0	29.3	30.7	28.8		
Domestic use resources	134.2	137.1	156.7	161.2	170.6		
	(4.0)	(2.2)	(14.3)	(2.9)	(5.8)		(5.8)
Consumption use	102.3	109.5	121.5	124.1	129.1		
	(5.7)	(7.0)	(11.0)	(2.1)	(4.0)		(6.0)
Private	87.5	94.5	105.0	107.6	110.5		
	(5.0)	(8.0)	(11.1)	(2.5)	(2.7)		(5.9)
Government	14.8	15.0	16.5	16.5	18.6		
	(9.6)	(1.4)	(10.0)	(0.0)	(12.7)		(6.7)
Gross domestic capital formation	31.9	27.6	35.2	37.1	41.5		
	(—1.2)	(—13.5)	(27.5)	(5.4)	(11.8)		(6.0)
Current account	—4.6	—2.2	—8.0	—5.2	—5.9		
Gross national savings	27.3	25.4	27.2	31.9	35.6		
	(16.7)	(—7.0)	(7.1)	(17.3)	(11.6)		(9.1)

Sources: Fiji: International Bank for Reconstruction and Development, Economic data sheet I — National Accounts and Prices; India: *ibid.;* Indonesia: Central Bureau of Statistics, September 1977; Iran: Plan and Budget Organization, *Economic Trends of Iran,* ed. 4, March 1977; Republic of Korea: The Bank of Korea, *Economic Statistics Yearbook 1977,* p. 259; Malaysia: Bank Negara Malaysia, *Quarterly Economic Bulletin,* X: 1/2, and Ministry of Finance, *Economic Report, 1976/77,* appendix table 1.1 (deflators); Pakistan: International Bank for Reconstruction and Development, *op. cit.;* Philippines: Philippines National Accounts Statistics, Revised LINK SERIES 23 December 1976 and estimates of 30 May 1977; Sri Lanka: International Bank for Reconstruction and Development, *op. cit.;* Thailand: *ibid.*

Notes: 1. Figures in parentheses are growth rates (percentages).

2. Exports and imports are merchandise and non-factor services.

[a] 1971-1975.

156. As might be expected, the less externally dependent economy of India experienced rather smaller divergences of GDP and DUR. However, DUR grew at a persistently lower rate than GDP during the period 1972-1975 as imports fell in volume. The contrasting experiences of the oil exporting countries are of particular interest. Indonesia's DUR grew considerably faster than GDP during the three years 1973-1975 as oil earnings facilitated increased import purchases. The case of Iran is much more striking, however; whilst real GDP grew at an average annual rate of about 5 per cent,[59] DUR grew at an average annual rate of 19 per cent during 1970-1975.

157. The observation that may be made on the basis of selected country experiences is that the divergences of DUR growth from that of GDP (and GNP) were frequently large during the period under review. As a quantification of the real effects of shifts in the terms of trade, changes in DUR are significant for their bearing on the scope for real consumption and investment behaviour. In some instances, the divergence has been cumulatively large. Of the seven countries in table 25 that suffered a serious deterioration in barter terms of trade, Malaysia, the Republic of Korea and Sri Lanka were subject to average growth of DUR at a markedly slower rate than GDP during the first half of the decade partly as a consequence of import restraint. Thus, countries such as Malaysia and the Republic of Korea which were highly successful in achieving rapid real GDP and export growth, were constrained by a significantly slower growth of resources for consumption and investment. This situation stemmed from the fall in the terms of trade and occurred despite the deterioration on external current account. In the case of Sri Lanka, the volume of domestically available resources apparently grew by only 8.4 per cent over-all between 1970 and 1975, against total GDP growth of nearly 14 per cent. In the other four countries, the cumulative divergence was not as great, but the annual changes in resources for domestic use were erratic and did not closely reflect the movements in real GDP. For the three countries benefiting from more favourable barter terms of trade (Fiji, Indonesia and Iran), GDP performance is again an extremely poor guide to consumption and investment capacities. In Iran, the real amount of DUR rose by almost 140 per cent between 1970 and 1975.

158. The implications of the foregoing discussion may be illustrated by two extreme cases. Taking account of resource availability, consumption and investment in Sri Lanka were seriously constrained during the crisis years (although precise data are not available), while in Iran consumption and investment were enabled to grow at a considerably faster pace than GDP. Between these two extremes a highly varied pattern of consumption and investment use emerges from the data of table 25. Quite generally the countries that enjoyed faster growth of DUR during the first half of the 1970s were those which allocated a growing proportion of these resources to investment. In Iran real gross domestic capital formation grew at an average rate that was approximately twice as fast as that of total consumption during 1970-1975. By contrast, in Fiji the increase in investment aggregated less than 9 per cent during the same period, while consumption rose by over 40 per cent.

159. Among the more slowly growing economies of South Asia, there was substantial expansion of capital formation in Pakistan during this five-year period. In India, real gross capital formation expanded at about the same pace as DUR while in Sri Lanka there appears to have been a decline in capital formation by about 5 per cent. Within the period, the changes were highly erratic. In Pakistan the expansion of capital formation accelerated throughout the period, rising by over 35 per cent in 1975; in India, and even more noticeably in Sri Lanka, the progression was much more uneven. The corollary of these short-term movements in capital formation is the behaviour of consumption. Sri Lanka succeeded in raising total real consumption by over 11 per cent up to 1975, rather more than the over-all growth in DUR (and GNP). In Pakistan, consumption growth was slower than the increase in resources. In the more rapidly growing countries also, consumption tended to lag behind resource growth. The fuller implications of these patterns merit attention. For the present, it must suffice to emphasize only a few points of a more general nature.

G. LIVING STANDARDS

160. Despite the indications provided by aggregate economic data that growth (particularly outside the South Asian subcontinent) was reasonably well sustained through the crisis years, there is considerable though scattered evidence that in many countries the living standards of the poorer sections of the population were adversely affected. In this respect, trends in aggregated data can be highly misleading owing to dynamic redistribution of resources, which, as historical observation makes clear, means that over-all growth is often accompanied by a widening income and consumption gap, particularly in the absence of compensatory measures.

[59] Real GNP grew at about 10 per cent on average, bolstered by the income effects of nationalization in 1972. It may be noted that the great divergence between real GNP and GDP growth in 1972 is in part due to the shift in weights consequent upon the use of 1974 as base year.

161. Viewed in terms of income distribution, growth of production, especially in inflationary circumstances, has tended to favour property incomes rather than wages.[60] Looked at from the point of view of consumption, when circumstances combine to reduce the over-all availability of essential goods, as occurred during the years of crisis, the greater sacrifice is always made by those who spend proportionately more of their incomes on them. Primary among essential goods, food has been in short supply at different times in most developing ESCAP countries and human life has hung in the balance. Data for India reveal that the *per capita* availability of cereals in 1973/74 and 1975/76 was below the levels prevailing at the beginning of the decade and availability of pulses appeared to fall steadily between 1970/71 and 1975/76.[61] In Sri Lanka, where total resource availability was especially volatile, the average allocation of cereals in 1972 was only about 70 per cent of the 1970 level, and in 1974 estimated sugar consumption fell to a level only one fourth that of the beginning of the decade. During the worst years of the decade in Bangladesh, the situation in respect of food availability was measured by the number of malnutrition-related deaths.

162. Partly out of concern for rural-urban income disparities, and partly with the intention of stimulating agricultural production, several governments have adopted policies of price support for food production. The domestic terms of trade for agriculture appear to have improved steadily during the 1970s in the Philippines and the Republic of Korea as a result of higher procurement prices and the subsidization of farm inputs such as fertilizers. In Thailand, higher world market prices for commodities have improved farm incomes, while government subsidies for petroleum products, electricity and water have on balance tended to favour the urban population. Even where the internal terms of trade appear to move in favour of the agricultural sector, the main beneficiaries are typically the larger farmers, who are both the main suppliers to commercial markets and the main buyers of subsidized inputs. Small farmers and landless peasants remain on the margin, consuming a higher proportion of their own production and using less-productive farming methods. They are less well placed to gain from improved terms of trade between farm products and the products they must purchase. Additionally, poor farmers have been more vulnerable in recent years to adverse weather conditions. Thus, improved domestic terms of trade for agriculture are frequently accompanied by increasing poverty and income disparities within the rural sector.[62]

163. For urban areas as well, indicators of living standards are sketchy and imperfect. Despite their partial coverage, available indicators of wages and employment give cause for serious concern. Wages in developing ESCAP countries have been subject to erosion by domestic price inflation with very few exceptions; little or no protection has been forthcoming from labour organizations. Measures taken by governments to ameliorate the effects of inflation on real wages in urban areas have taken different forms; increased cost-of-living allowances and minimum wages have been common. However, owing to the delays in implementation and the fear of adding to inflationary pressures, the effects have often been too little and too late to afford effective protection. When price inflation is rapid, as it commonly was during 1973-1975, the erosion of real earnings can be equally rapid if wages are not increased promptly to compensate. Data are available for the Philippines and the Republic of Korea which indicate that total employee compensation fell as a share of national income during the years of accelerating inflation, 1971-1974, although recovery appears to have occurred in the following year. Though broadly indicative, such an aggregate measure says little about real earnings.

164. Some information concerning real wages and earnings does exist, however, which is more pertinent, although coverage is not comprehensive. Available data show that real wage earnings in manufacturing declined in Malaysia and the Philippines after 1972, although regular employees in the Republic of Korea continued to make gains. The data base is often small, however, and may be unrepresentative even of the organized sector, but the results may be indicative. For Malaysia, where the statistical coverage is not fully comprehensive, considerable variation appears among industry groups and rapidly increasing employment in low-wage activities inserts a strong downward bias into the general average. When the low-wage industry groups are excluded from the total, the index of real monthly earnings

[60] "... the decline in the living standards of the rural poor has taken place despite rapid over-all growth of the rural economy. Output of agricultural goods per head increased rapidly until the beginning of the present decade [1970s]. The value of agricultural output per employed worker, although subject to fluctuations due to such factors as short-term changes in the terms of trade, also shows a clear tendency to increase over the long-term. None of these phenomena is reflected in a corresponding movement of real wages. The inevitable conclusion is that the factor share of labour has tended to decline while that of land has tended to increase." A. R. Khan, "Growth and inequality in the rural Philippines", in International Labour Office, *Poverty and Landlessness in Rural Asia* (World Employment Programme Study), (Geneva, International Labour Organisation, 1977), pp. 247-248.

[61] This deterioration has occurred at low levels of consumption, which may be taken to represent absolute deficiencies in terms of physiological requirements (see table 6).

[62] See *Economic and Social Survey of Asia and the Pacific, 1976* (United Nations publication, Sales No. E.77.II.F.1), chapter III.

in manufacturing shows a small but persistent decline from 1971 through 1974, with some improvement in 1975.[63] In the Philippines real monthly earnings of workers in manufacturing had fallen by 20 per cent from 1972 to 1974 but gained 5 percentage points over the next two years. In the Republic of Korea real incomes of urban workers declined slightly in 1973 and 1974, after having risen to nearly 10 per cent above 1970 levels in 1972.

165. Real earnings in the rural sectors in these countries displayed quite different patterns. From the beginning of inflation in 1973, plantation workers in peninsular Malaysia enjoyed substantial increases in real monthly earnings, totalling more than 20 per cent by 1974 (1970=100). But the fall in primary products prices was reflected in a sharp decline in both nominal and real earnings in 1975.[64] Real incomes of farm workers in the Republic of Korea were well sustained. In the Philippines the average monthly earnings index for wage earners in agriculture had shrunk by 1974 to only two thirds of its 1972 level; however, increased money wages brought the real wage figure up to index 80 by 1976.

166. Quite apart from the limitations to which these indexes are subject, the decline in real earnings may be understated by the application of the consumer price index as deflator. Some of the consumer items that figure comparatively more prominently in the expenditures of the poorer sections of the population — most notably food — rose most rapidly in price, as has been noted earlier.

167. Whilst the limited evidence from three countries can scarcely be claimed to represent more than the area covered by the data, the patterns of change are indicative of the degree of variation possible in comparable circumstances; in the event, rapid inflation of consumer prices was not a phenomenon restricted to these countries. With but few exceptions, strong trade unions capable of securing wage increases sufficient to compensate for price increases have not evolved; in some countries, such an evolution has been actively discouraged. Public policy in many countries has favoured keeping wages low in order to encourage foreign investment. Yet it must be recognized that in some countries rapid and sustained inflation was not a familiar phenomenon; governments in such circumstances were understandably slow to recognize the depredation wrought by rapid and sustained price increases on real incomes. Elsewhere, longer experience with rapid inflation has required the development of means by which rising prices might be accommodated. There is ample evidence that the recent experience has encouraged the establishment of institutional means to cope with these problems; this evidence includes the establishment (or sometimes the reactivation) of wage boards, minimum-wage legislation, adoption of cost-of-living allowances, dearness allowances, and the like, and indeed even the encouragement of trade union organization on occasion.

168. Action on wages, it must be granted, is only part of the spectrum of measures on the part of governments directed towards amelioration of the deleterious effects of inflation upon living standards. Even in urban areas, where, together with plantation agriculture and a large segment of mining activity, most of the employment is wage employment, there remains a large component of non-wage employment in the informal sector, outside the relatively large-scale enterprises of the organized sector. Wage employment does not widely prevail in the informal sectors; hence, the stipulation of wage minima and prescribed allowances to accommodate rising living costs is largely ineffective. Rather, the effective protection of real levels of living in such circumstances calls for programmes of subsidization and the control of prices of critical consumer items, of which food items are, and in this recent period have been, of primary importance. The establishment of government institutions designed to administer price controls and supplies of designated items has also taken place; in some countries, the responsibilities of existing institutions have been extended to deal with these activities. All of this requires time and experience before consistently effective action can be expected. Consequently, there have been delays and ineffectiveness in providing protection to living standards.

169. In the countries of South Asia, well-established public distribution systems have been effective in cushioning the impact of price inflation on living standards through the control of basic food items. In several other countries, government boards responsible for the control of supply and prices of foodgrains have operated with varied degrees of effectiveness in holding down the cost to the final consumer of these staples.[65] Nevertheless, the extent to which cereals and other food prices have risen in this period has made complete protection of real incomes a practical impossibility.

[63] Peninsular Malaysia: index of average monthly earnings (June figures) of full-time wage and salary employees in manufacturing deflated by the consumer price index. With 1970 = 100, the real earnings index stood at 89 in 1974 (June) and 92 in 1975 (June). Manufacturing groups excluded: food products; textiles, garments and foot-wear; wood and paper products; electrical machinery; and transport equipment. See Government of Malaysia, *Monthly Statistical Bulletin of West Malaysia* (Kuala Lumpur, Department of Statistics), various issues.

[64] Wage rates in most rubber and oil-palm plantations are determined by collective bargaining agreements on sliding scales related to product prices.

[65] Examples include Indonesia, Malaysia, the Philippines and the Republic of Korea. In Iran price control boards have attempted to cope with a comprehensive array of consumer items.

170. Consideration of living standards cannot omit some reference to levels of employment in relation to the variations in levels of over-all economic activity which occurred in direct or indirect response to the external fluctuations during the period under review. However great the burden of rising living costs and reduced availability of basic necessities upon families with one or more income-earner, the burden upon the unemployed can only have been far greater. Understandably, there is little or no information concerning the employment changes in the agricultural sectors of developing countries in the region which would permit an assessment of the influence of changes in levels of total activity. There is scattered evidence that employment in plantations producing export crops expanded during the two years of the boom, 1973 and 1974, and receded again in 1975. Undoubtedly some reduction of underemployment among smallholders producing export crops also took place but direct evidence is lacking. For the great mass of rural workers, few of whom are employed for wages, there is simply no information which would serve present purposes.

171. In the urban sectors of economies in which a significant influence of the boom and recession was felt, there is evidence that total employment expanded in the upswing and declined as the boom subsided. Even so, the data are not comprehensive and little is known of the employment behaviour of the informal sector. Moreover, the employment response, where it was appreciable, occurred in economies in which manufacturing expanded in response to the shifts of the business cycle. Changes in the levels of employment and unemployment were not limited to the manufacturing sector nor to export-oriented manufacturing; the upswing in several countries initially at least encouraged the expansion of construction activities and levels of employment in construction. In the processing of export products and in ancillary activities, such as transport, employment expansion accompanied the increased pace of export activity and generally subsided in 1974 and 1975.

172. Reasonably comprehensive annual data for urban-sector employment are available for only a few economies in which activity was stimulated by the expansion of exports: India, the Philippines, the Republic of Korea, Malaysia, Hong Kong and Singapore. Although it is patently impossible to generalize from this limited selection, the patterns of change may at least be indicative of more general experience. Little affected by the international upswing, the response of productive activity and employment in the organized sector in India understandably reflects domestically determined movements. Recorded employment (March figures, public and private sectors) there shows annual increases of 4 or 5 per cent in 1970/71 and 1971/72; thereafter the annual rates of increase are little over 2 per cent. Employment in manufacturing appears to have grown more slowly than total employment and to have declined in 1975. Presumably in part a response to the increase in manufactures exports, manufacturing employment in the organized sector recovered and grew by more than 2 per cent in 1975/76.

173. In the other economies for which manufactures exports are especially important, Hong Kong, the Republic of Korea and Singapore, both manufacturing and total employment reflect the influence of the export boom and subsequent slump. Employment in manufacturing expanded more rapidly than total employment in all three over the period 1970-1975 and, except in the Republic of Korea, declined during the recession. Although the rate of unemployment (as a percentage of total labour force) increased in Hong Kong it declined in both of the others, comparing 1975 with 1970. Primary-products exporters, Malaysia and the Philippines, both experienced employment expansion in conjunction with the export boom and both appear to have suffered an increase in unemployment during the downturn. Manufacturing employment in the Philippines appears to have expanded much more slowly than total employment during these years. For Malaysia, where annual data for employment are available only for manufacturing, plantations and tin mines, estimates of total employment for 1970 and 1975 indicate that employment in manufacturing grew at about double the rate of total. Because the work force in manufacturing constituted only a tenth of the total, however, the influence on the expansion of the total was limited. The rate of unemployment was reduced during the boom and was estimated to be slightly lower in 1975 than it had been in 1970, despite a decrease in manufacturing employment in 1975.

174. To the degree that this sketchy evidence indicates anything of significance concerning the incidence of the international fluctuations it must be that the stimulation provided by the boom had very modest effects on total employment. Even the effects on manufacturing employment and employment in that segment of agriculture producing for export were generally quite modest.[66] However, several of these economies suffered declining employment in manufacturing in conjunction with the downturn. With little gain in good times and an outright loss in the bad, there remains little to recommend the stimulation of an export-generated

[66] The Republic of Korea and Singapore are clearly exceptional in this respect.

boom from the standpoint of employment creation. The implications for living standards would seem almost equally unprepossessing.

175. There is little evidence to gainsay the observation that the influence of the international economic crises of the 1970s had largely deleterious effects on the living standards of poorer sections of the population, rural and urban, in most of the countries included in the study. Doubtless, the most serious negative influences resulted from the great rise in prices of essential commodities, foods in particular, which were only in part offset by increased incomes and even less by increased employment opportunities. The efforts of governments to cushion the blows dealt by inflation, shortages and intermittent increases in unemployment generated initially by the international crises, although the effectiveness of government action varied widely over time and among countries, were on the whole inadequate to prevent serious and sometimes critical erosion of standards. It must also be apparent that this relative ineffectiveness was far more the consequence of the magnitude and pervasiveness of the several elements of crisis, operating in convergence, than it was the immediate short-comings of government policies. That the vulnerability to such influences might have been less and the constraints on government action fewer and less powerful is a consideration which goes beyond the present concern with short- and medium-term problems of management of the economy under conditions of stress. It is nevertheless a consideration which has important implications for future economic and social development and for the strategies — national and international — which must be designed to transform economic structures and find ways to modify, if not eliminate, the causes of such crises.

III. POLICY RESPONSES TO THE CRISES AND THEIR IMPLICATIONS

INTRODUCTION

176. None of the discussion in the preceding chapters has in fact eschewed consideration of matters relating to policy. The character of the events associated with the international economic crises and their impacts is such that market and policy responses have of necessity been treated together. In the foregoing, however, the focus has been upon selected areas of impact and these have served as a framework for the discussion. The approach in the present chapter involves a shift of focus, such that two broad areas of policy provide the framework: these comprise policies relating to problems of external balance and those relating to problems of internal balance. Some of the implications of the policy responses to the crises for future development are considered in the third section. In conclusion, there is a brief discussion of the relevance of the experience in this period to the larger objectives of a new international economic order.

177. As the economic crises of the 1970s began to descend upon the developing economies of the region, several were already suffering the dislocations of internal disturbances. The countries of South Asia all suffered severely from the drought that affected most of Asia, in the early years of the decade, while the Philippines suffered extensive damage from typhoons. The three large countries of South Asia bore the burdens of war in 1971 with the consequent displacement of populations and destruction of productive wealth and the disorganization of administrative systems. Several others bore the financial and organizational burdens of insurgency and internal dissension. To varying degrees these natural and social disturbances took their toll: on resources and production, government finances and administrative capacity.

178. In a more conventionally economic sense, other disabilities prevailed in many countries, ranging from chronic unemployment and even more prevalent underemployment of human resources to chronic deficits in the balance of payments and low levels of international reserves. As the earlier discussion has indicated, the inherited structure of production, with low levels of productivity, particularly in agriculture, the lack of adequate irrigation facilities, and the lack of sufficient productive capacity to supply essential inputs to agriculture and other sectors, together with limitations of administrative and financial capacity, all contributed and still contribute to a degree of vulnerability which in the best of times is onerous and in times of crisis can become critical. Although many of these conditions belong to the familiar syndrome of under-development, it is important to emphasize that they also constitute formidable constraints which bear on policy and hamper the attempts, however well-founded, to act effectively in response to crisis.

179. Also early in the decade, three governments in South Asia had taken long and clear steps to redraw the boundaries between public and private property. The newly established state of Bangladesh nationalized a large number of industrial enterprises and became the dominant owner and manager of property in the large-scale manufacturing sector. In Pakistan, many large financial institutions and other enterprises were nationalized in 1973 under the Government formed after the war which separated its eastern wing. In Sri Lanka the thorough-going land reforms in 1972 and 1975, the acquisition of industrial and commercial enterprises by the State and legislation to control the ownership of houses had made the State a large owner of the means of production and distribution. The consequences for policy formulation were such that in the longer term the governments would have greater control over the day-to-day functioning of the economy, both directly through the ownership of production capacity and indirectly through the financial institutions. However, in the medium term which coincides with the period of the crises, the need for reorganization and the creation of alternative institutional arrangements to maintain production may well have contributed to a decline in efficiency and material output.

180. The economic phenomena that comprised the crises were an amalgam of the consequences of transitory events and prevailing circumstances of the kind suggested above and the impact of the international crises on the several economies. There were thus two sets of forces to be countered: those largely emanating from within the economy and those largely from the rest of the world.

181. The central concerns of policy were those of moderating the pace of domestic inflation and modifying its more serious consequences as well as easing the constraints upon production in the short-to-medium term without substantial deviation from the commitment to development in the long term. In important respects the commitment to development itself posed constraints on policy with regard

to both the control of inflation and the ability to cope with problems of external balance. While the emergence of excess demand called for reduction of government outlays, the necessity to maintain levels of development expenditure, substantially in constant-price terms, for the implementation of projects already under way and scheduled projects which were central to planned programmes, set narrow limits to the degree of flexibility in budgetary management. The dependence upon external sources of capital equipment for public investment programmes added significant burdens to the dwindling purchasing power of foreign reserves eroded by international inflation. Moreover, the maintenance of public services in economic administration, health and education remained a pre-condition for the efficient implementation of on-going programmes and the expansion of future capacity to support the development process.

182. Balance-of-payments policies were crucial to these efforts, for international markets provided a source of supply of commodities to ease pressure on domestic prices as well as to provide intermediate goods to raise output in domestic industries. These aspects of balance-of-payments policy were more important for the export-dependent economies than they were for the continental economies. In the latter, and especially in a large and complex economy such as that of India, internal structural linkages prescribed much greater attention to policies for regulating endogenous fluctuations in demand and supply. In the export of manufactures, exchange-rate policy was important in responding to market opportunities created by varied rates of domestic price increase and those in the economies of competitors.

A. POLICIES RELATED TO THE BALANCE OF PAYMENTS

183. The primary-products exporters used the balance of payments as a safety-valve for domestic demand and as a source of supply for commodities needed in the domestic economy (see table 22), whilst attempting to maintain high rates of growth in gross product. Sri Lanka ran heavy current account deficits in the balance of payments but failed to achieve an acceptable growth rate in output over the years. It was not feasible for the Sri Lankan economy to gain from the boom in commodity prices as both natural disasters and earlier policy changes had adverse consequences for the output of the major export commodities. Of the two oil exporting countries, Iran maintained a very high rate of growth of output and quickly transformed its current account in the balance of payments from deficit to a large surplus. In contrast, Indonesia has, after some improvement in 1974, tended to increase the deficit on current account. Admittedly the earnings from oil exports are smaller for Indonesia than for Iran, both in quantity and as a proportion of total export value. But the Indonesian balance-of-payments picture is not complete without a reckoning which includes at least the broad outline of the financial operations on behalf of Pertamina, the national petroleum organization.

184. Of the economies designated by the international agencies as those "most seriously affected" by the balance-of-payments crisis consequent upon the sharp escalation of food and petroleum prices in 1973 and 1974, India, Pakistan and Sri Lanka have been included in the present study and occasional reference has been made to Bangladesh. Earlier references to these and other countries' experiences have implied an inelasticity of demand for petroleum products which requires further investigation. Policy related to balance-of-payments difficulties may be taken to embrace a fairly broad array of measures, including efforts to reduce imports as well as to increase export earnings and, more narrowly conceived, to find external financial sources to cover the deficit. It may be worth noting, before considering the means by which the deficits of 1974 and 1975 were financed, that there was considerable variation in the ability of different countries to reduce the volume of petroleum imports during the crisis. Expressed more accurately, the ability to do without a part of the customary supply of petroleum products was in considerable part a reflection of technical considerations relating to the use of petroleum in production, transport, power generation and direct use by consumers for heat and light.

185. The increased outlays for imports of petroleum and its products in India was almost entirely due to the increase in price. In 1971/72 India imported 13 million metric tons of crude and refined products and 14.5 million metric tons in 1974/75. For Sri Lanka the corresponding figures were 1.6 million metric tons in 1971 and 1.5 million in 1975. Similar restraint is reflected in the figures for crude imports into the Philippines: 66.7 million barrels in 1971, 61.8 million in 1974 and 66.5 million in 1975. For Thailand a rather different pattern appears: imports of crude plus net imports of refined products amounted to 45.7 million barrels in 1971; by 1973 the figure had risen to nearly 60 million barrels but was reduced to 56 million in 1974 and to 55 million in 1975. In the Republic of Korea the dependence of a rapidly growing industrial sector, the generation of electrical power and the provision of transport services made the physical reduction of petroleum use practically unfeasible except at the

risk of seriously retarding industrial growth. The degree of dependence on petroleum is reflected in an increase of one third in the volume of crude and refined products between 1971 and 1975, from 11.5 million metric tons to 15.4 million metric tons. Under rather less pressing payments circumstances in 1976, a volume of 18.3 million metric tons was imported, nearly 60 per cent above the figure five years earlier.

186. Given the abrupt increase in petroleum prices near the end of 1973, at a time when the boom-induced demand for primary-products exports was approaching its peak, there was little recourse for most countries other than to borrow in order to meet the deficits which appeared in 1974. With the collapse of the commodities export boom in that year and the slackening of demand for manufactures exports, most developing countries were faced with serious payments problems. The provision of oil facility drawing arrangements by IMF served at least in part to bridge the gap for several developing ESCAP economies including the MSA countries, Bangladesh, India, Pakistan and Sri Lanka. Relatively smaller oil facility drawings were made by the Republic of Korea, the Philippines and Thailand. Development assistance from Middle Eastern members of OPEC to Bangladesh, India and Pakistan included a substantial portion of balance-of-payments support funds during 1974-1976.

187. Of greater significance for the long term are the increased borrowings of virtually all developing ESCAP countries during the years of the crises. Although not all of this borrowing was in direct response to the crises, the period 1971-1975 shows uncommonly large increases in external indebtedness which have arisen directly or indirectly from the influence of the international inflation on the prices of imports necessary to the functioning and continued growth of these economies. A summary statement of the expansion of external indebtedness among selected developing ESCAP economies is given in table 26. In addition to the totals outstanding in 1971 and 1975 in United States dollar values (including undisbursed amounts) the increase in the external public debt over the period 1971-1975 is shown as a ratio for each country. Changes in the composition of the debt are shown by the presentation of percentage shares for 1971 and 1975, distinguishing official and private credit.

188. The greatest relative expansion in total external public debt was attributable to Malaysia, a country for which the balance of payments scarcely presented serious problems. Although the current account deficit had mounted sharply in 1974, owing chiefly to a massive increase in imports, both foreign exchange earnings and expenditures on imports fell in 1975 and the current deficit was halved. Malaysia's borrowing in 1974 and 1975 nearly trebled its external public debt and raised the debt service ratio from 2 per cent to slightly over 3 per cent of exports of goods and non-factor services, among the lowest for countries shown in table 27. During this period, most of Malaysian borrowing was in the form of market loans. Eurocurrency loans were available mainly to the more affluent middle-income developing countries, Malaysia, the Philippines and the Republic of Korea. Indonesia also borrowed heavily from international banks, especially in 1975, when funds were urgently needed to cope with the financial collapse of the national petroleum organization, Pertamina.[67] Iran, for quite obvious reasons, behaved differently from the rest, and was able to reduce its external public debt slightly in 1974 and to permit only a limited increase in 1975.

189. The growth ratios of external indebtedness shown in table 26 are to a degree misleading, in that there is a pervasive scale factor at work. The countries which show the largest increases in their external public debt are mainly those which had small debts in 1971. This element accounts in large part for the association which may be seen (see tables 26 and 27) between high rates of growth of indebtedness and low levels of the debt-service ratio. It will also be noticed that the countries with relatively low rates of increase in debt and relatively high debt-service ratios borrowed mainly through official rather than private channels, although Thailand appears to be an exception and the Philippines is seen to have increased the proportion of its total debt from official borrowings. To some degree the higher cost of borrowing from the market acts as a filter or rationing device; doubtless there is a process of mutual selection involved. With access for some countries to concessionary funds from members of OPEC, the alternatives now available to many poor countries have probably improved the quality of choice.

190. Recourse to suppliers' credits has been important for several countries. In the Republic of Korea the Government has for some years discouraged this form of borrowing, the better to control the total; during 1971-1975, although the amount continued to rise, suppliers' credits expanded at a lower rate than did total private borrowing. Both Indonesia and Sri Lanka recorded increased use of suppliers' credits during this period.

[67] Press reports indicate that the aggregate debt incurred by Pertamina was of the order of $US 10,000 million. This was substantially reduced by renegotiation and court action, mainly in connexion with commercially dubious charter-purchase arrangements for super-tankers. The gross amount was roughly equivalent to two years' development budget.

Table 26. SELECTED ESCAP DEVELOPING COUNTRIES: GROWTH AND COMPOSITION OF EXTERNAL PUBLIC DEBT, 1971-1975[a]

(percentage distribution)

	End of year	Total outstanding[a] ($US million)	Official			Private			
			Total	Bilateral	Multilateral	Total	Suppliers	Banks	Other
			Continental						
Afghanistan	1975	1,564	99.8	93.0	6.8	0.1	0.1	—	—
	1971[b]	742	98.6	95.8	2.8	1.4	1.1	0.3	—
	(ratio)	(2.10)							
Bangladesh	1975	2,582	93.1	62.9	30.2	6.9	6.3	0.6	—
India	1975	14,580	96.9	62.2	34.7	3.1	2.4	0.7	—
	1971[b]	9,959	95.2	73.5	21.7	4.8	4.1	0.7	—
		(1.46)							
Pakistan	1975	6,328	96.1	75.6	20.5	3.9	2.3	1.6	—
	1971[c]	4,614	91.4	70.6	20.8	8.6	6.9	1.7	—
		(1.37)							
			Primary-products exporters						
Fiji	1975	80	82.0	44.8	37.2	17.9	0.9	—	17.0
Malaysia	1975	3,021	44.8	17.1	27.7	55.1	1.2	51.7	2.2
	1971	772	71.7	29.9	41.8	28.3	3.2	14.9	10.2
		(3.91)							
Philippines	1975	2,567	70.4	32.1	38.3	29.6	4.2	22.3	3.1
	1971	960	66.6	39.0	27.6	33.4	6.0	26.3	1.1
		(2.67)							
Sri Lanka	1975	997	86.5	66.7	19.8	13.5	13.4	—	—
	1971	615	88.9	71.9	17.0	11.1	8.3	1.7	1.1
		(1.62)							
Thailand	1975	1,293	94.7	32.2	62.5	5.2	1.7	3.5	—
	1971	538	90.1	31.2	58.9	9.9	8.3	1.6	—
		(2.40)							
			Petroleum exporters						
Indonesia	1975	11,764	60.6	49.6	11.0	39.4	14.7	21.4	3.3
	1971	4,404	88.7	82.4	6.3	11.3	7.0	—	4.3
		(2.67)							
Iran	1975	7,126	61.3	48.5	12.8	38.7	22.6	14.7	1.4
	1971	5,090	53.4	43.1	10.3	46.6	24.1	13.9	8.6
		(1.40)							
			Manufactures exporter						
Republic of Korea	1975	6,996	52.6	32.6	20.0	47.4	25.4	19.7	2.3
	1971	3,019	50.0	37.2	12.8	50.0	38.5	5.8	5.7
		(2.32)							

Source: International Bank for Reconstruction and Development, *Annual Report*, 1973 and 1977.

Notes: [a] Includes undisbursed; excludes loans of less than one year's maturity and their extensions.

[b] March 1972.

[c] Includes debt contracted by Bangladesh prior to January 1971.

Table 27. SELECTED ESCAP DEVELOPING COUNTRIES: DEBT SERVICE RATIOS, 1971-1975[a]

	1971	1972	1973	1974	1975
Continental					
Afghanistan	24.2	18.0	19.1	17.3	9.5
Bangladesh	...	...	2.2	6.0	17.9
India	24.1	22.8	19.9	17.5	16.3
Pakistan	19.6	23.7	16.9	15.8	19.1
Primary-products exporters					
Fiji	0.8	0.9	0.9	1.7	1.6
Malaysia	2.7	2.7	2.0	2.3	3.2
Philippines	6.6	8.8	8.8	5.1	7.6
Sri Lanka	10.7	13.6	12.9	12.1	20.3
Thailand	3.3	2.8	2.7	2.0	2.6
Petroleum exporters					
Indonesia	7.1	6.5	6.6	3.8	7.1
Iran	12.6	18.6	16.5[b]	5.2	4.4
Manufactures exporter					
Republic of Korea	24.6	19.7	12.2	11.6	11.6

Source: International Bank for Reconstruction and Development, *Annual Report*, 1977.

Notes: [a] Service payments on external public debt as percentage of exports of goods and non-factor services.

[b] Includes pre-payment.

191. Debt service ratios were high and rising, especially in 1973-1975, for several of the poorer countries. Expressed in terms of current export values (merchandise and non-factor services), the debt service ratio serves well as an indicator of the draught upon foreign exchange earnings imposed by outstanding debt obligations. There is no reason to de-emphasize the constraint upon imports constituted by the current debt servicing obligations of Bangladesh, Pakistan or Sri Lanka, which have been unable to raise substantially their capacity to import through expansion of export earnings. But for most if not all of the others, increased export earnings have been sufficient during these difficult years at least to prevent debt service ratios from rising inordinately. Much depends, as it has been a major purpose of this study to document, upon conditions largely beyond the control of individual governments, or indeed even groups of governments of countries in the region.[68] Nevertheless, there remain measures and policies which have demonstrably been successful in expanding the volume of foreign exchange earnings over time, and in real as well as nominal terms. An example is provided by the experience of the Republic of Korea. Some of the country's principal creditors in 1974 and 1975 were emphatic in warning Republic of Korea policy-makers of the dangers involved in permitting the burden of adjustment to the collapse of the export boom to fall primarily upon the balance of payments while continuing to stimulate domestic economic activity. As it transpired, however, the unimpaired capacity of the country's economy for continued rapid growth and expansion of exports led rapidly to a substantial improvement in the current account and enhanced the ability to repay the external debt.

192. It must be added at once that the constraints which bear upon other developing economies in the region are not the same as those which apply to the economy of the Republic of Korea. Not only are there wide differences in the structure of production and composition of output but there is also an inescapable scale factor to consider. Policies which are viable for a medium-sized economy with a moderately developed industrial base are likely to prove inapplicable to a smaller economy with a less developed industrial sector and to prove entirely ineffective in a continental-type economy much larger in most pertinent dimensions than that of the Republic of Korea. Whilst there are wide differences not only in scale but also in respect of political institutions and long-term social goals, it is encouraging to note the undoubted success of the Indian economy since 1975/76 in overcoming balance-of-payments constraints and expanding industrial exports. The Indian situation differs from that of the Republic of Korea in terms of economic structure and vulnerability to exogenous as well as endogenous stress. The fact remains nevertheless that, based upon available productive capacity, both have been able to overcome external financial constraints to find vent for reproducible surplus, which in turn has contributed to substantial improvement in the balance of payments.

193. Within the broad framework of policy related to the balance of payments, consideration of exchange-rate policy is necessary to supplement the mainly descriptive material presented in chapter I. In contrast to the major primary-products exporters, which made little use of the exchange rate as an instrument of policy, countries seeking to increase the demand for their manufactured products in overseas markets frequently found it an effective instrument. The substantial devaluation of the won in 1971 and 1974 (table 2) was certainly a contributory factor in the continued expansion of exports of manufactures in the Republic of Korea (table 16). The massive devaluation of the rupee in Pakistan in 1972 undoubtedly aided the expansion of Pakistan's exports in that and the following

[68] Clearly, expectations concerning the evaluation of world economic conditions in the medium-term future bear heavily upon policy decisions in the present, for both private sector decision-takers and government policy-makers. A prognosis of chronic inflation over the next several years has far-reaching implications for decisions about the level of external indebtedness which an enterprise, or a national economy, can sustain.

years, as long as production capacity remained sufficient to exploit the opportunities for export. The smaller but repeated devaluations of the Indian rupee contributed as well to the expansion of Indian manufactures exports, though with delayed effect in part because of the constraints which operated on production during the years immediately following the devaluation of 1973.

194. Since the beginning of the period of generally floating exchange rates in 1973, the option ostensibly left open to developing countries to alter the terms on which their goods are exchanged in world markets has apparently facilitated the process of depreciation of the value of national currencies when this has seemed to promise advantages in exporting. As noted earlier, however, much of this apparent freedom of action must have been viewed as illusory in a world of competitive devaluations. It is apparent that a decision to permit a national currency to depreciate was most often dictated by the movements of the exchange rates of major trading partners. Given the concentration of markets for most of the developing economies in the region in the developed market economies, the dependence of regional currencies upon those of the industrial economies remains on the whole difficult to avoid. Except in cases of an explicit decision to break out of the common pattern, most devaluations appear to have been reactions to externally determined changes rather than national initiatives.

195. In spite of the advantages which might be achieved, particularly in an effort to counter the forces of imported inflation, there were few governments among the developing countries of the region which took the decision to permit the appreciation of their currency prior to a rather general spate of such upward revisions in 1975 and 1976, when the most rapid price inflation had given way to more moderate price rises. Malaysia and Singapore permitted relatively minor revaluations of their currencies in 1972, 1973 and 1974 without apparent effect on the salability of their exports. The limited size of these devaluations (of the order of 10 per cent against the SDR unit over three years (see table 2)) apparently had no discernible influence on the pace of domestic inflation.

196. A three- to fourfold increase in Indonesian foreign exchange reserves since 1975 has prompted the suggestion that conditions are appropriate for a substantial upward revaluation of the rupiah. If these reserves were permitted to accumulate, the expansion of the monetary base would make control of domestic inflation much more difficult. Continued domestic inflation has raised costs of production both for traditional primary-products exports and for manufactures produced for domestic markets. Competition from imports has squeezed profits for producers of import-competing products. Consequently, demands have also been raised for a devaluation of the rupiah. It is apparent that an appreciation of the rupiah would encourage imports by reducing their rupiah prices to the consumer, ease the cost pressure of imported inputs on domestic producers and thus help to reduce inflationary pressures.

197. The effects of such an appreciation on traditional exports and the incomes of producers of export products would undoubtedly be severe. Production costs would remain almost entirely unaffected because imported inputs are negligible in the production of these commodities. As the prices of their products are determined in world markets, Indonesian exports of primary products would either be sold at current international prices or suffer a drastic decline in realized demand. At the higher value of the rupiah in terms of foreign currencies, the sale of these products at current world prices would simply mean a reduction of rupiah earnings per unit of exported commodity, in the same proportion as the revaluation. At prevailing levels of production costs this would mean a direct reduction in the rupiah incomes of producers. While the reduction in the rupiah-equivalent earnings from petroleum exports, the prices of which are approximately determined by OPEC, could presumably be absorbed by the petroleum sector, the reduction of government revenues in terms of rupiah would have to be considered as a contribution to the Government's effort to reduce inflation.

198. Although the structural contrasts in respect of production costs and incomes are perhaps extreme in such an example, the conflicting interests in the event of a currency appreciation in economies whose product prices are effectively determined in world markets differ only in degree, given the assumption that the proposed upward revaluation should be substantial. Despite the anticipated gains to the whole community through reduction of inflationary import costs, it is situations of this description which militate against currency revaluations in most developing economies in the region.

199. Attention to considerations of a short- to medium-term nature has meant that discussion has been focused on the current account and on borrowing mainly to offset current deficits and to replenish reserves. However, an assessment of the influence of the international crises cannot omit some reference to foreign aid and direct foreign investment.[69]

[69] For a comprehensive review of these flows during the first half of the 1970s, see *Economic and Social Survey of Asia and the Pacific, 1976* (United Nations publication, Sales No. E/F.77.II.F.1), especially pp. 33-40.

Private foreign investment predictably reflects the fluctuations of business activity and the changes in profit expectations which these fluctuations engender. A compilation of private foreign investment by firms in DAC countries in developing ESCAP countries amply confirms this observation. Whether stated in current values or in values deflated by an appropriate index (such as an aggregated unit value index for exports from developed to developing countries), a cyclical pattern emerges with a distinct peak in 1973 and a sharp decrease in 1974.[70] Although comparable coverage for 1975 has not been possible, partial information strongly suggests that relatively limited recovery in long-term private foreign capital inflows occurred in 1975.

200. Apart from political considerations involved in the flow of development assistance, the recession in the developed market economies and the added burden to their payments balances occasioned by the rise in petroleum and other import prices provide sufficient reason to anticipate stagnation in ODA flows to developing countries on a world-wide basis. In the event, a slowdown in ODA flows to developing ESCAP countries on a whole appears as early as 1972, but total development assistance flows registered a marked rise in 1973 and an even sharper increase in 1974; in the following year the total flow expanded by a relatively small percentage.[71] All the cited changes relate to aggregates in United States dollars and are stated in current terms. Adjusted for price increases,[72] the value of these flows in constant prices of 1970 shows a quite different pattern, with declines in 1972, 1973 and 1975 interrupted by a marginal increase in 1974.

B. FISCAL AND MONETARY POLICIES

201. Over the period of the commodities export boom and its collapse into serious recession, the gamut of problems presented to policy-makers in many developing countries ranged from excess demand and general inflation to slack demand and rising unemployment. Although prices did not generally fall (except for export prices of primary products), inflationary pressures from excess demand were clearly subsiding during the course of 1975. This was the situation in broad terms for the countries which were substantially involved in foreign trade and included manufactures exporters as well as primary-products exporters. Under conditions which differed between them but which in degree, if not in kind, differentiated their situation from the non-oil exporting countries, Indonesia and Iran faced problems of excess demand and inflation, followed by relatively slack demand, hence fairly nearly the full array of circumstances accompanying the classic business cycle. In Afghanistan and India inflationary impulses coupled with reduced levels of general economic activity emanated from domestic sources — prolonged periods of drought and accompanying decreases in agricultural production. As another example of a continental-type economy, Pakistan experienced inflationary and recessionary shifts which had both external and domestic origins; the influences from conditions of war in 1971, although they affected India as well, were perhaps especially severe in their impact on the Pakistan economy.[73]

202. Not only were there wide variations in the circumstances which elicited monetary and fiscal policy measures but the policy responses were also conditioned by widely varied institutional and historical conditions. These in turn have meant that policy instruments employed to manage the economy have varied in type and effectiveness in different economies. Although several countries had previously experienced serious inflationary pressures and had made some considerable progress in formulating and implementing policies to cope with inflationary phenomena, others had been spared the ravages of inflation for extended periods. The Government and the Reserve Bank in India had evolved relatively effective institutions and techniques of control through years of experience with domestic inflation; much the same applies to Pakistan and the Republic of Korea. Others, such as Malaysia and Thailand, experienced serious and sustained inflationary pressure during this period for the first time since the early 1950s.

203. As noted earlier, the nature and extent of inflationary pressures were such that the monetary authorities characteristically refrained from attempting to choke off demand during the export boom by stringent monetary actions. Rather, the effort was typically directed towards moderation of the rate of inflation and guidance of the flow of credit into channels which would best serve the expansion of production in priority sectors, such as food and agriculture. Methods addressed to the latter purpose frequently were used in conjunction with administrative measures to limit the over-all expansion of credit; in large part through directives to

[70] *Ibid.*, p. 34, table 16.

[71] *Ibid.*, p. 37, table 18. Totals represent net ODA receipts from DAC countries and multilateral agencies and include concessional flows; the data are not comprehensive but represent 65 to 70 per cent of the total flows.

[72] *Ibid.* To the extent that such assistance is denominated in United States dollars, further deflation to allow for depreciation of the dollar might be appropriate.

[73] Conditions of economic turbulence as a result of the Pakistan war were most severe in the east wing which became Bangladesh. The degree of disorganization and destruction was such that no attempt can be made here to treat the Bangladesh case.

the commercial banks, central bank authorities set quantitative limits to the expansion of bank credit and issued guidelines for the allocation of credit by type of activity. The effectiveness of such administrative controls depended essentially on two factors: first, a fairly high level of development of commercial banking and its penetration into most sectors of the economy and, secondly, effective monetary controls over the commercial banks. Thus, the efforts in many countries over periods of more than a decade to encourage the extension of the commercial banking system into the smaller cities and towns was prerequisite to the channelling of credit into agricultural activities at a time of general credit stringency.

204. The possibility of effective employment of the bank rate (or discount rate) to govern the rate of expansion of bank credit, depended upon the need for the banks to rely on the central bank as lender of last resort. Manipulation of reserve ratios was generally relied upon to ensure that commercial banks were sufficiently dependent upon the central bank for credit to provide the necessary leverage. Moreover, the mechanisms through which this leverage could be applied had to have reached a sufficient level of development for effective functioning. In Malaysia, for example, the development of a treasury-bill market was still in process when inflationary pressures began to become serious. Continued expansion of holdings of treasury bills by the banking system during the period of inflation, given the limitations placed upon bank liquidity, provided the means by which effective control of the expansion of money supply could be accomplished.

205. In India, the monetary measures employed as a part of the anti-inflationary effort included a high interest rate and a relatively restrictive rediscount policy. Raising the cost of credit was effective in discouraging speculative accumulation of stocks of agricultural products. Together with fiscal measures which served to contain the expansion of disposable income in the hands of the public, these measures made possible a reduction of the price level in 1976. The striking aspect of Indian credit policy in 1974/75 was the emergence of the interest rate as an important instrument of monetary management. Nevertheless, although the Indian experience is perhaps not unique, it remains true that effective monetary policy is possible only under facilitating circumstances. In addition to the prerequisite development of the banking system and the spread of commercialization of economic activities, the circumstances of a large and largely self-contained economy, once the problem of external balance has been brought under tolerable control, permit the effective use of monetary measures in ways which are much less likely in more export-dependent economies. Not only do the influences from the balance of payments assume far greater importance in the expansion of the monetary base; in economies which permit the relatively uninhibited in- and outflow of private capital, the possibility of independent control of the interest rate for purposes mainly aimed at domestic inflation is much more limited. The experience of Iran is a case in point during the period from about 1973 onwards.

206. By the 1970s, several of the economies which were highly sensitive to variations in external demand for their exports had begun to use fiscal policy for purposes of maintaining levels of economic activity during periods of stagnant or falling exports. During the upswing in domestic activity engendered by the commodities export boom, the feasibility of using fiscal means to reduce levels of aggregate demand was severely limited. The constraint imposed by the commitment to economic development was noted earlier on. The practical feasibility of reducing expenditures on capital projects already under construction was in most cases negligible; moreover, increasing costs of materials and rising wages (at rates which typically did not quite keep pace with the cost of living, and hence were less important in terms of total costs) generally meant that total outlays were greater than had been planned. Even the postponement of new planned projects in infrastructural development was difficult to justify as delays in their completion could hold back further development of directly productive capacity. Current expenditures in the public services, such as education and health, could seldom be reduced; even the decision to freeze budgets at existing levels was equivalent to a reduction in real terms. Although such budget stringency may well have had salutary effects initially by forcing administrators to eliminate unnecessary expenditures, continued inflation and the sustained rise in the costs of materials, maintenance and other services spelled rapid erosion of the quality of many public services. Governments, as large employers both in general administration and in educational and public health systems, were constrained by rising living costs to make upward adjustments in wages and salaries. Although these adjustments were most often rather too little and too late to prevent the reduction of real incomes among government servants, school teachers and employees in other public services, they constituted large increments to the national wage bill. Moreover, the example set by the government as the largest single employer in many countries almost inescapably set the pattern for wage adjustments in the private sector. Although the typical lag in such adjustments behind the rapid rise in living

costs may have dampened the rise in consumer prices, when the adjustments finally came they were large in aggregate and often served to offset the economies in expenditure achieved in other budgetary items.

207. Prompted by the great increases in prices of commodities which were critically needed for production — of which fuels and fertilizers are the supreme example — governments in many countries found it necessary to subsidize these items to ensure the maintenance of output levels. Subsidization of fertilizers generally meant an added drain on government budgets. The Malaysian scheme for subsidizing urea fertilizer for distribution to paddy farmers at about two thirds of the actual cost added some $M 50 million (or roughly 1 per cent) to current budget outlays in 1974/75. The pattern in respect of petroleum products is not entirely clear, as many countries were able, often with a time lag, to pass on most of the increase to users. In Thailand, however, the cost of the government subsidy on petroleum in 1976 amounted to approximately 100 million baht per month (almost exactly 2 per cent of total government budget expenditure in 1976). The pricing of petroleum products has had important implications for industrial costs and the cost of living for the rural poor. In several countries it is apparent that by adjusting the large tax element in the price of petroleum products to final users, differential changes in the prices of different products served to shift the relative burden of the general price increases. In some cases, fuel oil and diesel for industrial and transport use were adjusted upwards by a smaller proportion than automotive petrol; typically the price of kerosene was raised by a lesser proportion to protect consumers in rural areas, where kerosene is the major source of both heat and light. Where an outright subsidy was not paid by the government, an implicit cost was incurred to the extent that the tax bite on petroleum products was reduced in order to allow a smaller increase in the price to the user.

208. Food subsidies varied widely in form and importance among the developing countries of the region. Direct subsidies provided by sales at prices below the cost of procurement in the Republic of Korea were reflected in the steady rise in the debt of the Grain Management Fund, which well exceeded the won equivalent of $US 1,400 million by 1977. The cost of all government subsidies in the Republic of Korea increased tenfold in a single year, 1973 to 1974. In Sri Lanka, where food subsidies had been in force for more than 30 years, the steep rise in prices of imported rice, sugar and wheat, despite reductions in rations and increased prices to consumers, drove the costs of these subsidies to new heights. By 1975, food subsidies absorbed 23 per cent of the Government's current budget expenditures. Indirectly as well, both direct subsidies to farmers for inputs such as fertilizer and the implicit subsidy provided by government-financed irrigation constituted subsidies to the consumer for food.

209. On the revenue side of the balance sheet, uncommonly large increases in ordinary tax revenue accrued during the period of economic buoyancy. The revenue harvest from export duties in countries which participated importantly in the export boom was in several cases enhanced by additional imposts intended to siphon off excess earnings from particularly buoyant export commodities. Although revenues from import duties generally increased moderately as import values rose, several governments were able to impose surcharges on imports apparently without retarding the expansion of import expenditures. Revenues from imports were sacrificed in many instances, however, when the pressures of domestic demand on critical consumption and intermediate goods prompted the reduction or elimination of import taxes in order to reduce cost-push effects. Revenues from personal and corporate income taxes increased in greater than average proportion during the period of boom as personal incomes for those in higher tax brackets than most of the urban working classes automatically moved up the scale of taxable incomes; in addition, significant increases in the number of persons liable to income taxation occurred in many countries and an additional effort was made by some governments to enforce a greater degree of compliance with tax legislation. Examples of these efforts are many and include India, Indonesia and the Philippines.

210. Somewhat unconventional methods were employed by the Indian authorities to reduce disposable income in the hands of the public; impounding half of all dearness allowances and nearly all of wage and salary increments, ceilings on the distribution of corporate earnings and compulsory savings for taxpayers in the higher income brackets mopped up purchasing power amounting to Rs 7,600 millions in 1975/76, an amount equivalent to more than half of total income tax receipts and more than 13 per cent of total tax revenues.

211. Broadly viewed, government revenue receipts in most countries expanded considerably more rapidly than the rise in the general price level. Thus, the revenues of governments in the period of inflation typically expanded in real as well as nominal terms. Although total expenditures increased at rates comparable to those of receipts, development budgets expanded as well, leading to budgetary deficits on total government operations. Domestic indebtedness

expanded as a consequence, in some countries very considerably. In spite of efforts to finance these deficits in a manner which would minimize their inflationary impact, the absorption of government debt by the banking system, including the central bank, undoubtedly led to the expansion of the monetary base, thus exacerbating in some measure the burden on the monetary authorities.

C. SOME LONG-TERM IMPLICATIONS

212. There would appear to be at least two senses in which the experience of the crises might have important longer-term implications, and these are interrelated. First, there are lessons to be learned from the experience of meeting and coping with the stresses, largely imposed from without but almost without exception converging in their impact upon internal, structural and institutional short-comings. At the very least the crises have provided a testing ground for the viability of institutions and policies. In this sense there will have been a lasting impact, even if crises of the same scale and character do not recur. Secondly, and more importantly, the crises and the measures employed to deal with them appear to have worked changes in economic and social relationships, in patterns of production and consumption, and in economic structure and institutions. Whether these changes will prove to be of an abiding character cannot be known with certainty.

213. The state of world food production and the dependence of most modern economic activity upon oil reflect conditions which lay at the root of the crises. Whether either will become the source of future crises, while not immaterial, is undoubtedly less important than the recognition of the far-reaching implications of the state of food and fuel. The effects, some of them only dimly seen, of other aspects of the crises may indeed be transitory or they may be reversible under the impact of co-ordinated policy determined by the nations of the world in concert and consensus.

214. There can be little doubt about either the seriousness or the long-term implications of the food crisis. The narrow margin between sufficiency and serious shortage in the world supply of cereals means that a season or two of deficient harvests over widespread areas could set health and life itself in jeopardy for large populations. The vulnerability of large developing countries in Asia to shortages of basic food-stuffs in a world of food shortages has been amply demonstrated. The convergence of effects of the world-wide shortage and those of domestic deficiency has dramatized the need for self-reliance in basic foods. At the levels of cereals imports required by a country the size of Indonesia, so large a portion of the traded supply of rice is at stake that a substantial increase in import requirements would affect not only world prices but also total availability.[74]

215. Marked increases in the yield of small grains are possible with the application of currently available technology but the resource costs of the irrigation facilities which are indispensable for achievement of higher yields are extremely high. Administrative and organizational constraints make the effort to reach self-sufficiency in small grains an endeavour of grandiose proportions in a populous country with little more than adequate resources.

216. In certain respects the lessons of the oil crisis are similar to those of food, in that long-term solutions will require large, perhaps extremely large commitments of resources. So heavily are modern industry and transport dependent upon petroleum and its products that the restructuring of even the relatively limited industrial base in developing economies will require massive applications of new capital, financial and physical. The search for new energy sources and the intensified search for petroleum and other conventional sources of energy as well as the organized effort to increase the efficiency of energy utilization are endeavours which to be effective must be undertaken co-operatively on a world scale. Recognition of the fact that a viable solution to the problem of energy requires international action presumably presupposes action at the national and regional levels.

217. Some countries have already taken positive steps to reduce dependence on imported petroleum and its products; examples include the more vigorous efforts to exploit alternative indigenous energy sources (such as Bombay High Oil in India, and geothermal power generation in the Philippines). However, the scope for making significant adjustments in the short term is strictly limited. Most countries, recognizing the "cheap oil" orientation of their industrialization policies of the 1950s and 1960s, have built into their longer-term strategies a reduced dependence on imported sources of energy, envisaging in several cases the steady expansion of nuclear power generation and renewed interest in the expansion of traditional energy sources such as coal. However, there are other developing countries in the region that have failed to lay down even broadly indicative long-term energy plans.[75] It would appear that the "solutions" to the severe short-term problems occasioned by the oil crisis may have come too easily.

[74] In 1976 Indonesian imports of rice were equivalent to about one third of the total quantity traded in the world.

[75] For this, the world's largest industrial nation provides the leading example.

218. To assert that the experience of the crises had measurably contributed to the expansion of the role of government in the economy in most developing countries in the region would undoubtedly be an overstatement. Yet it remains true that governments quite generally were prompted to take action in areas which previously had not given great cause for concern. Generally this occurred in connexion with amelioration of the effects of inflation, in the control of commodities and their prices, provision of subsidies and the like. While some governments were able to extend the scope of existing bodies and institutions in order to manage additional tasks, there are many cases in which new institutions were established. Viewed more broadly, these new and additional functions became one part of a larger process already under way, of growing involvement of government in economic affairs. The increasing role of government, including the expanding share of government expenditure in GNP, has been a natural outgrowth of the acceptance of responsibility for the performance of the economy both in respect of development in the long term and, increasingly during and since the crises, in respect of the short-term management of the economy.

219. The character of the crises, however, was such that it had implications for the very long term as well, mainly in respect of planning for the provision of energy. Although, as has been noted, not all governments have been equally concerned, for several the energy crisis occurred at a time when other imperatives had required the formulation of perspective plans. As the development of infrastructural systems requires gestation periods of at least 15 or 20 years, such plans are a necessary concomitant and extension of medium-term planning. Embracing periods long enough to accommodate significant structural change, perspective plans provide the necessary framework for restructuring the energy resource and utilization systems of a national economy. Because such changes involve massive shifts in resource use, long-term planning has virtually inescapable implications for neighbouring countries and their planning efforts. Consequently, the concern of governments with perspective planning adds a further dimension to the potential for subregional co-operation.

220. Inflation and shortages, particularly shortages of cereals and other foods, have characteristically had their most serious impacts on the poorer sections of the population. The price of foods rose higher than that of any other consumer item; given the greater proportion of income spent on food by low-income families, the incidence of inflation was especially severe on those at the lower end of the income scale. During the commodities export boom incomes earned by agricultural producers generally rose. Such was the case for smallholders producing export crops; the evidence that farm-gate prices failed to rise proportionately is insufficient to support an argument one way or the other. In the typical situation in which the farmer sells his product to a private-sector middleman, in the absence of a floor, or guaranteed, price stipulated and enforced by government, earlier evidence suggests that the full increase in price was not passed on to the farmer. Much the same situation appears in paddy farming except that a floor price, usually a guaranteed price stipulated by government (or direct government procurement at fixed prices) ensures that a greater share of the increase will go to the producer. Subsidized inputs, chiefly fertilizer, help to raise and maintain farm incomes in the production of food crops. But the poorer farmers, those with smaller amounts of land and lower incomes, typically lack access to cheaper inputs, to information concerning improved techniques and to credit to finance the higher input costs which are required for the cultivation of high-yielding varieties.

221. In the modern sector wages have usually lagged behind price increases, in some instances quite drastically. Prices have generally not fallen when activity and levels of employment declined, as occurred during the post-boom recession. Employment generally increased during the period of rising demand, in export agriculture and in industry, especially in manufacturing, but for several countries in construction activity as well and in tertiary (service) employments. But the increase was relatively small, with few exceptions (mainly manufactures exporters) and the influence on the rate of unemployment was small; there is no reason to expect that significant decreases in underemployment of labour in agriculture or the informal urban sectors occurred. Incomes of the underemployed undoubtedly suffered additionally because of inflation. When the boom collapsed, employment fell but prices did not.

222. The foregoing observations have clear implications for income distribution which it is possible neither to confirm nor refute on the basis of available data. In the countries which participated in the export boom and experienced a considerable degree of inflation, there are many indications that the distribution of real as well as money income was becoming more heavily skewed towards the higher levels. This phenomenon is predictable from similar changes elsewhere; in boom times, profit and property incomes tend to rise relative to incomes from work. The pattern in slack times is less clear but the increase in unemployment (and underemployment) can only strengthen the bias in the distribution

against the low income levels. The welfare implications of these movements in general scarcely require elaboration.

223. Relationships between changes in income distribution and changes in savings are difficult to specify even when appropriate data are available. The available information concerning savings during the period of boom and recession suggests only the obvious, namely that savings in the aggregate have typically risen in boom times and declined as activity slackened. While the apparent shifts in income distribution are entirely consistent with the observed changes in aggregate saving, little additional information can be derived from the comparison. The indicators of patterns of investment behaviour and their changes are only slightly better; together with changes observable in production patterns over the cycle they permit some observations (see chapter II, E.2). As far as aggregate investment and output are concerned, the observation made in the earlier section will have to suffice. Whilst there is no yardstick to measure the loss attributable to investment forgone, it is not in substance possible to recover the loss of output from forgone production.

224. Patterns of production performance and the ability to expand production to take advantage of export opportunities have been noted in a number of instances. Diversification of production for export has been observed often to provide advantages in maintaining export earnings. Broadly interpreted, the process of diversification of production, including the accretion of capacity to produce manufactures, becomes an expression equivalent to the transformation of the structure of production. As a means to reduce the instability of export earnings and the general instability engendered by dependence upon external markets, the diversification of production is generally necessary but seldom sufficient. The fact remains that a considerable measure of dependence on external markets seems unavoidable and may be expected to increase. Whilst diversification of exports may reduce the vulnerability of dependence on the behaviour of one or a few products, vulnerability to external fluctuations in general appears to be inescapable for most developing economies in the region. Moreover, the diversification of production within the individual economy implies a greater degree of integration and thus more pervasive influences throughout the economy in the event of fluctuations in demand for exports and other externally generated disturbances. Limitations of markets and of resources in the smaller economies ensure a continued high degree of external dependence even with greater diversification of production. While some of these limitations can be overcome through co-operation in production on a subregional basis, the opportunities for such co-operation have only begun to be exploited. Although market limitations may be overcome by means of such co-operation, limitations to resources for investment and industrial development will continue to require dependence on external sources, at least for the foreseeable future.

225. On the assumption that the process of diversification will continue, perhaps increasingly in co-ordination among neighbouring countries, the gradual structural transformation of the economy will create a new basis for the implementation of policy in response to external influences. The larger and more diversified the domestic or subregional market, the greater will be the potential for counter-cyclical measures to maintain the general level of economic activity and the level of employment. Although a greater total dependence upon external trade may well have evolved, a greater degree of diversification of products and markets should permit some offsetting changes and thus the dispersion of the impact of external shocks. A more highly articulated inter-industry structure, although it implies more pervasive transmission of changes initially affecting heavily export-oriented activities, also offers greater scope for remedial and countervailing measures, hence increased resilience in response to external disturbances. Clearly, the opportunities for such a development are far greater in co-ordination with neighbouring economies.

D. INTERNATIONAL CO-OPERATION

226. The international economic crises of the 1970s served to heighten the awareness among developing countries of the region, of the strengths and weaknesses that arise from their participation in the international market economy. The joint action of the members of OPEC has made a lasting impression, and has demonstrated the possibilities offered by co-ordinated action on the part of primary-products exporting countries to improve their bargaining position in world markets. While co-operation among producers of other primary commodities has less dramatic possibilities, progress in co-ordination of activities has been made in several other commodities, for example, rubber, coconut products and pepper.

227. The Conference on International Economic Co-operation, despite long discussions on co-operation between developed and developing countries, has not as yet found satisfactory solutions to major problems which have been brought into sharp focus during the years of crises. One of the more abiding of these problems is the increased access to markets in developed countries for exports of manufactures

from the developing countries of the region. Although the prospects for further co-operation at the subregional level are promising, the necessity of effective co-operation at the international level has been emphasized by the experience of the crises. In addition to the issue of access to markets for manufactured exports, it is apparent that solutions to the problems of energy and food can be found only at the international level. The problems of access to and the sharing of productive resources are inescapably international in scope. Their solution will be fundamental to the structuring of the new international economic order.

228. The experience of the crises also raises issues pertinent to the question of self-reliance. In any operational sense, the implications of this concept have not been carefully specified; the vagueness which results from this lack of specification is especially noticeable at levels higher than the national (that is, subregional or region-wide), at which the concept becomes one of "collective self-reliance." While it has often been pointed out that self-reliance is not synonymous with autarky, it nevertheless implies some hierarchy of countries external to the individual country and corresponding preferences in economic relations. The present study has shown the paramount importance of international exchange, particularly the trading of essential commodities in a world in which total self-reliance in all key commodities in all individual countries is unattainable.[76] Apart from the greater security that restructuring can bring about through a new international economic order, developing ESCAP countries can already begin to take the necessary steps to ensure the greater security of supply of key resources amongst themselves and possibly on an ESCAP region-wide basis. This is not the abnegation, but rather the extension, of existing subregional groupings. What it does imply in operational terms for each individual developing ESCAP country, however, is a new system of priorities away from industrialized, and in favour of ESCAP developing, partners.

[76] In the longer term it may be hoped that viable solutions will be found to bring a high degree of national self-sufficiency in food and energy resources nearer for all countries.

Printed in Hong Kong
November 1978—1,925

Price: $US 8.00 or equivalent in other currencies

United Nations Publication
Sales No.: E.78.II.F.1
ST/ESCAP/60