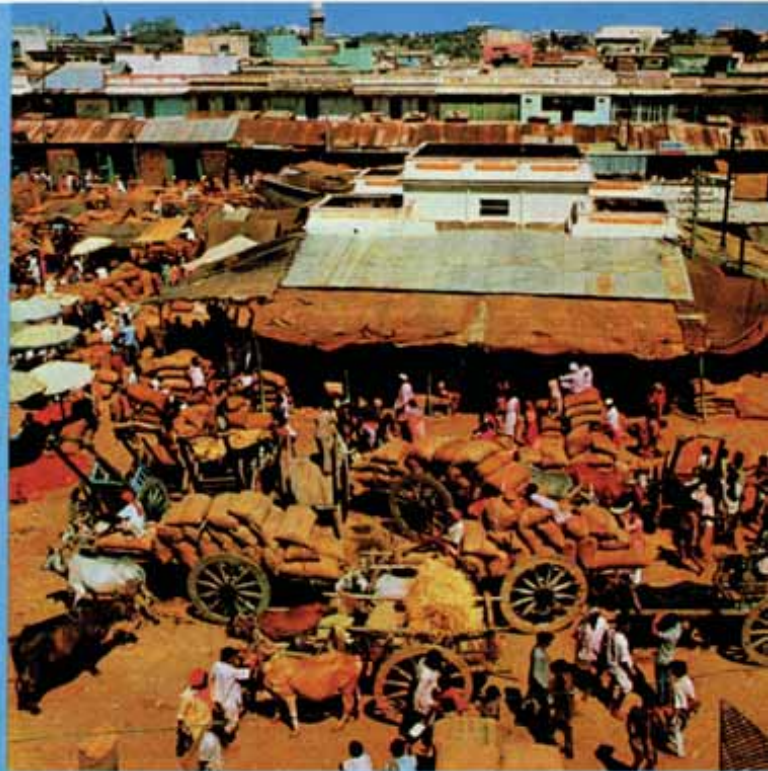




Economic and Social Survey of Asia and the Pacific 1981

United Nations

DEVELOPMENT PLANNING
DIVISION, ESCAP



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UNITED



NATIONS

ECONOMIC AND SOCIAL SURVEY
OF
ASIA AND THE PACIFIC,
1981

Bangkok
1982

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

- 1957: Postwar problems of economic development
 - 1958: Review of postwar industrialization
 - 1959: Foreign trade of ECAFE primary exporting countries
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 - 1979: Regional development strategy for the 1980s
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PREFACE

This *Survey* for 1981 is the thirty-fifth in a series of reports prepared annually by the Economic and Social Commission for Asia and the Pacific (ESCAP). It is wholly devoted to a review of recent economic and social developments and problems in the region, after noticing developments in the world economy which have had a direct effect upon the region's recent progress.

Like previous *Surveys*, it is published on the sole responsibility of the ESCAP secretariat; the views expressed are not, therefore, necessarily those of the Commission or the Governments of its members and associate members.

It differs, however, from previous *Surveys* in having a new format. This involves printing on art paper, using colour for figures, and using text boxes to consider countries for which the secretariat has less complete recent information, or else to consider topics which are relevant to the discussion of a particular chapter or section but not central to that discussion.

Bangkok, February 1982

EXPLANATORY NOTE

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

Values are in United States dollars unless specified otherwise.

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:

<i>Country</i>	<i>Fiscal year</i>	<i>Currency and abbreviation</i>	<i>Mid-point rate of exchange for \$US 1 as of June 1981</i>
Afghanistan	21 March to 20 March	Afghani (Af)	50.08
Australia	1 July to 30 June	Australian dollar (\$A)	0.871
Bangladesh	1 July to 30 June	Taka (Tk)	18.098
Bhutan	1 April to 31 March	Ngultrum (Nu)	8.681
Brunei	1 January to 31 December	Brunei dollar (\$Br)	2.132
Burma	1 October to 30 September	Kyat (K)	7.452
China	1 January to 31 December	Yuan renminbi (YRMB)	1.747
Cook Islands	1 April to 31 March	New Zealand dollar (\$NZ)	1.173
Democratic Kampuchea	1 January to 31 December	Riel (KR)	...
Fiji	1 January to 31 December	Fijian dollar (\$F)	0.869
Hong Kong	1 January to 31 December	Hong Kong dollar (\$HK)	5.521
India	1 April to 31 March	Rupee (Rs)	8.681
Indonesia	1 April to 31 March	Rupiah (Rp)	631.25
Iran	21 March to 20 March	Rial (RIs)	80.29
Japan	1 April to 31 March	Yen (¥)	225.80
Kiribati	1 July to 30 June	Australian dollar (\$A)	0.871
Lao People's Democratic Republic	1 July to 30 June	New kip (NK)	10.000
Malaysia	1 January to 31 December	Ringgit (\$M)	2.316
Maldives	1 October to 30 September	Rupee (Mal Rs)	7.535
Mongolia	1 January to 31 December	Tughrik (Tug)	3.15
Nauru	1 July to 30 June	Australian dollar (\$A)	0.871
Nepal	16 July to 15 July	Rupee (NRs)	12.000
New Zealand	1 April to 31 March	New Zealand dollar (\$NZ)	1.173
Pakistan	1 July to 30 June	Rupee (PRs)	9.900
Papua New Guinea	1 January to 31 December	Kina (K)	0.679
Philippines	1 January to 31 December	Peso (₱)	7.949
Republic of Korea	1 January to 31 December	Won (W)	685.10
Samoa	1 January to 31 December	Tala (\$WS)	0.929 ^a
Singapore	1 April to 31 March	Singapore dollar (\$S)	2.132
Solomon Islands	1 January to 31 December	Solomon Islands dollar (\$SI)	0.830
Sri Lanka	1 January to 31 December	Rupee (SLRs)	18.76
Thailand	1 October to 30 September	Baht (B)	21.00
Tonga	1 July to 30 June	Pa'anga (P)	0.892
Tuvalu	1 January to 31 December	Australian dollar (\$A)	0.871
Vanuatu	1 January to 31 December	Vatu (VT)	92.404
Viet Nam . . . . .	...	Dong	2.315

Sources: United Nations, *Monthly Bulletin of Statistics*, November 1981; International Monetary Fund, *International Financial Statistics*, December 1981; and national sources.

^a December 1980.

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ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of South-East Asian Nations
CMEA	Council for Mutual Economic Assistance
c.i.f.	Cost, insurance and freight
CY	Calendar year
DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD)
EEC	European Economic Community
FAO	Food and Agriculture Organization of the United Nations
FC	Factor costs
f.o.b.	Free on board
FY	Fiscal year
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
GSP	Generalized System of Preferences
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
ILO	International Labour Organisation
IMF	International Monetary Fund
IPC	Integrated Programme for Commodities
LDCs	Least developed countries
LNG	Liquefied natural gas
M1	Sum of currency outside banks plus private sector demand deposits (narrow defraction of money)
M2	M1 plus time, savings and foreign currency deposits of residences (broader definition of money here called "liquidity")
MFA	Multifibre Arrangement
MP	Market prices
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
TNC	Transnational corporation
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
WHO	World Health Organisation

I. THE WORLD ECONOMY

The Third United Nations Development Decade has begun in the unfavourable circumstances of a world depression which shows little sign of improving in 1982. This depression, like the previous one, is characterized by rising unemployment and rising prices in advanced countries. It is also characterized by falling prices for primary commodities, in spite of world inflation, and by reduced demands for manufactured exports. These two features have adversely affected developing countries, although growth rate of real income has declined less for them than it has for advanced countries. Non-oil developing countries have also been badly hit by much higher payments for oil imports, due to big increases in the price of oil, but they are having less difficulty in financing them than was feared because multilateral lending agencies have enlarged their funds and loans have also been available from international capital markets. Inflation has reduced the real burden of their past debts, but the rise of world interest rates to extraordinarily high levels is adding to the real burden of loans raised currently. Very disappointing progress has been made in regard to international commodity agreements, or a Third Arrangement for the Multifibre Agreement which governs most of the world's trade in textiles, in which some developing countries have come to participate substantially.

A. OUTPUT AND PRICES

During 1980 the rate of growth in the world's net output of goods and services — its real gross domestic product (GDP) — fell to 2.2 per cent, about half the average rate for the previous five years. Current indications do not point to any general improvement having occurred in 1981, nor is much expected in 1982; for the projected growth rate in developed market economies is only 2 per cent and that for developing countries is 4.7 per cent, a lower rate than in 1980/81.¹

The dominant influences on the world economy still come from developed market economies, which account for two thirds of its trade flows and by far the greater part of its financial flows. They received a severe check to economic growth in 1980 when

the rate fell to 1.2 per cent, and remained at that level in 1981.² Their average rate of unemployment rose from 6.2 to 7.3 per cent in 1981, and is expected to rise further to 8.0 per cent in 1982. Japan, however, had actual and expected growth rates for output which are at least twice the average for the Organisation for Economic Co-operation and Development (OECD), and much lower unemployment rates. In 1982, its real output is expected to grow by 3.8 per cent and its unemployment rate to be only 2.3 per cent. The United Kingdom of Great Britain and Northern Ireland, at the other extreme, had negative growth rates in 1980 and 1981 with unemployment rising to 10.5 per cent of its labour force; hardly any growth of output is expected in 1982, and the rate of unemployment may reach 12.0 per cent.

Associated estimates made by the United Nations Secretariat indicate a decline also in 1979, continuing into 1980 and 1981, for growth of output in centrally planned economies. The current recession, therefore, is truly a global one. Yet it has affected growth in developing countries less than developed market economies; for, in 1980, their growth rate of output was 3.9 per cent and their estimated growth rate in 1981 is 4 per cent, twice that for developed market economies. An important distinction, however, has to be made between net energy exporters and net energy importers among the developing countries. In 1980 and 1981, the latter had the same growth rates as the averages for all developing countries, but those oil exporters which are not capital surplus countries had rates which were about 50 per cent higher. Capital surplus oil exporters had a low rate of 0.5 per cent in 1980, and could expect little in 1981;

¹ International Monetary Fund (IMF), *IMF Survey*, 12 October 1981, p. 306.

² OECD, *Economic Outlook*, December 1981, pp. 11-21.

the reason is the severe cutback of economic activity in Iran, which has a high weight in the group's aggregates or averages, and the war between it and Iraq, another member of the group.

The causes of the recession are complex. Briefly listed, the main factors seem to have been the rise of oil prices by 80 per cent in

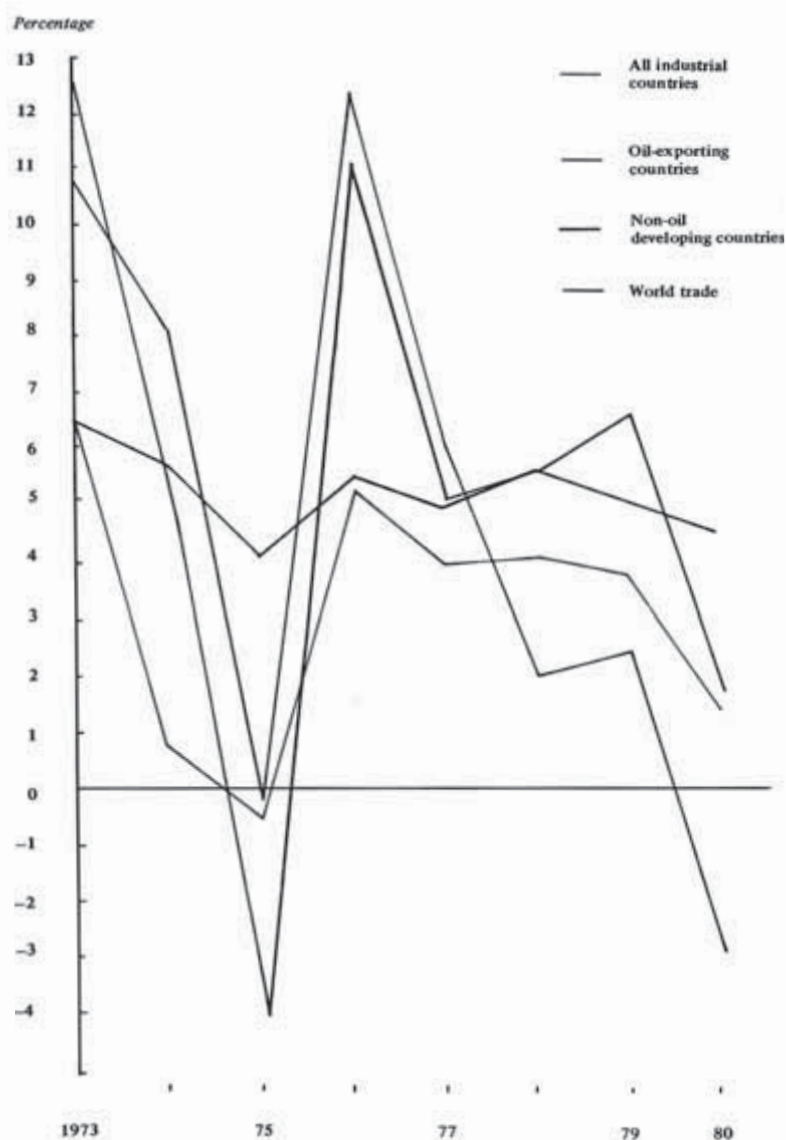
1979-1980, largely self-fulfilling expectations of renewed inflation in a situation of abundant liquidity, resistance by trade unions to reductions of real wages, consequent distortions of relative prices and incomes, and attempts by Governments to apply restrictive fiscal and monetary policies to counteract inflation, which most

regard as the prime target for corrective policy. The GDP deflator, a general measure of price inflation, increased by 9.0 per cent in industrial countries during 1980, as against an average of 8.3 per cent for 1975-1979.³ Oil prices were fairly stable in money terms during 1981, and are even likely to fall in 1982 so that, with continuing serious inflation, their real prices have been falling. That, in itself, means some relief of adverse pressures upon the world economy. Yet, according to the above forecasts, the relief will not have been sufficient to overcome the repercussions of the preceding jump in real oil prices, and other unfavourable influences, before the end of 1982.

These forecasts, of course, rest on estimates and interpretations of current facts, and assumptions about future events. Two favourable facts are the fall in real oil prices in 1981, and the relative buoyancy of business fixed investment expenditures during this recession as compared with 1975. Three optimistic assumptions are that real oil prices will continue to fall throughout 1982, that exchange rates are held constant, and that fiscal and monetary influences will neither change nor fail to have their intended effect of checking inflation and so easing price and income distortions.

Inflation has been, in a variety of ways, a major factor in the recession which spread from the developed market economies to the rest of the world after 1979. In the OECD countries, the average annual percentage increase of private consumption deflators rose from 7.2 per cent in 1979 to 11.3 per cent in 1980, may have slackened to 10 per cent in 1981, and is forecast at 9 per cent in 1982. Only a gradual improvement, therefore, is likely. Japan, yet again with the

Figure 1.1. Annual percentage change in volumes of output and in the volume of world trade, 1973-1980



³ IMF, *Annual Report*, 1981, p. 8.

highest growth rate for output among these countries, and the lowest rate of unemployment, also has the lowest rate of inflation – 5.5 per cent in 1980 and a predicted 4.8 per cent in 1982. These are half the rates for the United Kingdom.

Prices of manufactures entering world trade are strongly influenced by inflation in developed market economies because they dominate world trade in manufactures, and adjust prices largely on a cost-plus basis. Prices of primary commodities depend mostly upon the balance between world demand and world supply, and hence upon demand and, more especially supply, conditions in those countries which are large consumers or producers of primary commodities.

Prices of food and agricultural materials thus depend upon harvest conditions. Harvests were good in 1976-1978 and food prices fell by nearly 3 per cent. They were bad in 1979 and worse in 1980, so that food prices rose steeply as, in 1979, did prices of agricultural raw materials. But good harvests in 1980/81 caused the prices of most agricultural commodities to fall during 1981.

Prices of metals depend mainly upon industrial activity in the developed countries. Such activity was relatively high in 1976-1978 and did not fall seriously in 1979, when world prices of metals rose somewhat more rapidly than those of manufactures. Yet, in 1980, industrial activity markedly fell in developed countries, and the prices of metals rose much less strongly; in 1981, they slumped.

Taking primary commodities as a whole, it appears that their terms of trade against manufactures, after being steady in 1976-1978, rose a little in 1979, fell a little in 1980 and, in the first three quarters of 1981, were falling at a high rate of 14 per cent.

Figure I.2 shows annual rates

of change in consumer prices for major groups of countries since 1973. It confirms the view that inflation increased in developed market economies during 1979 and 1980, and abated somewhat in 1981. Inflation was at about the same level in the oil-exporting

countries until 1978, after which it eased. In the non-oil developing countries, however, rates of inflation were much higher, and were still increasing in the first half of 1981. That was largely due to the influence of those developing countries in Latin America and

Table I.1. World production. Annual growth rates of output, by country group, 1971-1981

(Percentage)

Item and country group	1971-1980	1976-1978	1979	1980 ^a	1981 ^b
Gross domestic product^c					
World	4.3	4.8	3.8	2.2	2.0
Developed market economies	3.5	4.4	3.7	1.5	1.5
Centrally planned economies ^d	5.5	5.5	3.3	3.1	3.5
Developing countries:	5.7	5.3	4.8	3.9	4.0
Net energy-exporting countries of which:	5.8	5.2	5.5	4.0	...
Capital surplus countries	6.1	4.3	4.0	0.5	...
Other countries	5.6	5.9	6.5	6.1	6.5
Net energy-importing countries	5.6	5.4	4.3	3.9	4.0
Agricultural production^e					
World	2.4	3.0	1.0	–	...
Developed market economies	2.0	2.0	2.5	-2.0	...
Centrally planned economies	2.6	3.0	-1.0	1.0	...
Developing countries	2.8	3.5	–	2.5	...
Industrial production^f					
World	4.3	5.6	4.4	1.5	...
Developed market economies	3.3	5.4	5.0	0.4	...
Centrally planned economies ^d	6.6	5.9	4.1	3.8	...
Developing countries	4.6	5.6	2.4	1.8	...

Source: United Nations, *World Economic Survey, 1980-1981*, pp. 12 and 14.

^a Preliminary estimates, based in some cases on data for a period of less than 12 months. Estimates for the developing countries are based on a sample of 70 countries which jointly account for more than 90 per cent of the population and for 95 per cent of the aggregate gross domestic product of the group.

^b Forecasts.

^c Net material product in the case of centrally planned economies.

^d China, Eastern Europe and the USSR only.

^e Based on gross output indexes prepared by FAO. Data for 1980 are estimates as of December 1980. The 10-year growth rates reflect growth trends obtained by fitting regression lines to the data points.

^f Based on indexes of value added, except in the centrally planned economies for which the indexes are based on gross output at constant prices. The coverage is International Standard Industrial Classification categories 2-4, that is, mining, manufacturing, and electricity, gas and water.

Table I.2. OECD countries. Private consumption deflators,^a 1969-1982
(Percentage change, seasonally adjusted at annual rates)

	Average 1969 to 1979	From previous year			From previous half-year				
		1980	1981	1982	1980	1981		1982	
					II	I	II	I	II
United States	6.3	10.2	8 ½	8	9.2	8 ¼	8	8 ¼	7 ½
Japan	8.6	7.0	5 ½	4 ¾	7.2	5	4 ¾	5	4 ¾
Germany	5.0	5.4	5 ½	4	5.5	6	4 ½	3 ¾	3 ½
France ^b	8.5	13.5	12 ¾	11 ½	12.8	13	12 ½	11 ¾	10 ¼
United Kingdom	12.1	15.6	11 ¾	9 ¾	10.8	11 ½	11 ½	9	8 ¼
Italy	13.1	20.3	20 ½	16 ¾	18.6	22 ½	18 ½	17	15
Canada	7.0	10.5	12 ¾	10 ¾	11.7	12 ¾	11 ¾	10 ½	10
Total of above countries	7.4	10.5	9 ¾	8 ¼	9.6	9 ¾	8 ¾	8 ¼	7 ¾
Smaller OECD countries:									
Lower inflation group ^c	...	5.8	6 ¾	5 ½	n.a.	7	6 ½	5 ½	5
Other smaller countries	...	20.9	18 ¾	15 ½	n.a.	18	16 ¾	15 ½	14 ¾
Total OECD	7.7	11.3	10	9	10.6	10 ¼	9 ½	9	8 ½
Four major European countries	8.8	12.2	11 ½	9 ¾	10.9	12 ¾	11	9 ¾	8 ¾
Total OECD less the United States	8.6	11.9	11	9 ½	11.4	11 ½	10 ½	9 ½	8 ¾

Source: *OECD Observer*, No. 111, July 1981, p. 10, table 3.

Note: Fractions appear here instead of decimals so as not to exaggerate the accuracy of estimates.

^a Aggregates were computed on the basis of 1979 values expressed in 1979 US dollars.

^b Consumer price index not seasonally adjusted.

^c Austria, Belgium, Luxembourg, Netherlands and Switzerland.

Europe which have had exceptionally high rates of inflation because of domestic policies and conditions. In the non-oil developing countries of Asia, inflation was much more moderate, in fact, below the rates for industrial countries.

B. TRADE AND PAYMENTS

Divergent price movements for different groups of commodities and countries have naturally led to changes in the terms of trade between exports and imports. Between 1976 and 1979, they had declined only slightly both for developed market economies and the net energy importers among developing countries, while improving appreciably for net energy exporters. In 1979, however, the Organisation of Petroleum Ex-

Table I.3. Annual percentage change in world prices of commodities, 1976-1981

	1976-1978	1979	1980	1981 (9 months)
Food	-2.7	14.1	34.1	-24.9
Beverages	45.8	5.8	-12.2	-25.5
Agricultural raw materials	11.7	22.0	4.1	-11.0
Metals	6.3	29.8	10.6	-13.2
All commodities	9.8	16.4	9.7	-19.4
Manufactures	9.2 ^a	14.4	10.5	-10.0 ^b

Sources: IMF, *International Financial Statistics*, November 1981 and United Nations, *World Economic Survey, 1980-1981*, p. 59.

^a 1975-1980.

^b Forecast for year.

porting Countries (OPEC) made a second large increase of oil prices so that the terms of trade declined for developed market economies by 3 per cent, and by 7 per cent

in 1980. For net energy importing developing countries they declined by 5 per cent in 1979 and by 7 per cent in 1980; a further decline of 5 per cent was expected in 1981.

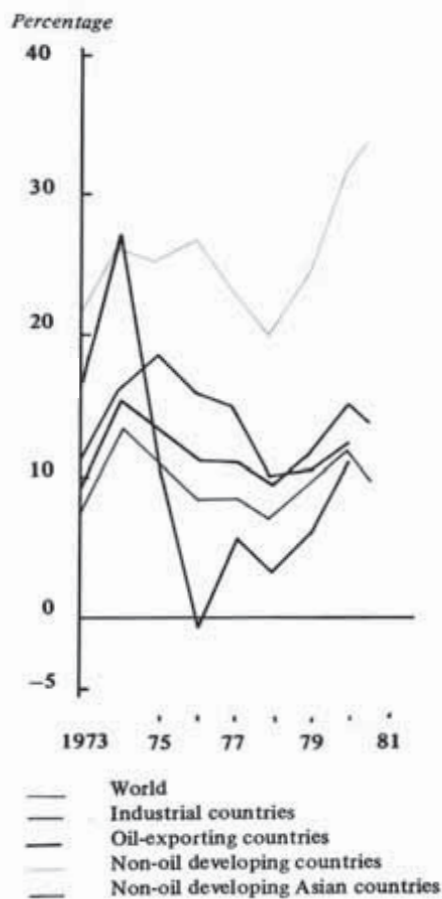
Non-oil developing countries have thus had to suffer, from 1979 to 1980, the depressing effects of a world recession combined with a marked deterioration in the terms of trade for their exports. It was their great misfortune, in 1979/80, when harvests were poor but higher prices for agricultural commodities might have compensated for slower growth of export volume, that oil, which is a large part of their imports, became so much dearer as to prevent any improvement in their terms of trade.

The direct benefit of trade to a country depends, of course, upon the volume of its exports as well as upon its terms of trade; for it is the product of the two which determines the import value of exports. Annual rates of increase in the volume of world exports were a fairly steady 5-6 per cent between 1977 and 1979, as were those of its largest component, the exports of developed market economies. The growth rate for non-oil developing countries was less steady but at the same average level of 7 per cent. That rate also held for the centrally planned economies of Europe. It was less than 2 per cent for capital surplus oil exporters, mainly because of economic disruption in Iran.

After the second major rise of oil prices, the rate of increase for the volume of world exports dropped to 2 per cent in 1980, and rather lower than that in 1981. Paradoxically, the biggest drop was in the oil-exporting countries, partly because of the war between Iran and Iraq, which, for a time, halted their oil exports, partly because conservation measures, developed since 1974, and the onset of world recession reduced demands for oil (see table I.4). To some extent, therefore, the OPEC cartel had misjudged the oil market.

In developed market economies, and also in the centrally

Figure I.2. Annual percentage change in consumer prices, 1973-1981



planned economies of Europe, growth in the volume of exports was halved in 1980 and fell further to about 2 per cent in 1981. A recovery to 5 per cent is predicted, by the United Nations Secretariat, for developed market economies in 1982, but none for the centrally planned economies.

The non-oil developing countries have been less severely affected in this respect. The rate of growth for their volume of exports dropped from 9 to 5 per cent in 1980, and then to 4 per cent in 1981. The implication of this, and of the changes in their terms of trade, is that the import value of their exports, after rising by 4.5

per cent in 1978 and by the lower rate of 2.7 per cent in 1979, then fell by 2.5 per cent in 1980 and by another 1.3 per cent in 1981. Over the last two years there was about the same decline in the import value of exports for developed market economies. These changes indicate a massive transfer of resources to the major oil-exporting countries. The import value of their exports rose by about one third in 1980, and by more than one tenth in 1981, despite reductions in volume.

Yet imports by no means depend wholly upon the volume of exports and the terms of trade. Current transfers and capital flows raise imports above the level of the import value of exports for recipient countries and, of course, depress them below that level for donor countries. Countries, too, may finance part of their imports by drawing upon reserves of foreign exchange or by selling foreign assets. The 1979-1980 increase of oil prices involved considerable changes in international finance as well as in international trade.

Table I.5 shows current balance of payments less official transfers for major groups of countries in recent years; negative figures indicate an excess of imports over exports for goods and services, and positive figures a corresponding excess of exports.⁴ It can be seen that these current balances, after 1978, became negative for developed market economies and still more so for non-oil developing countries. There were corresponding and huge surpluses for the capital-surplus oil exporters. By 1980, the deficit for developed market economies was equal to

⁴ This statement has to be qualified in respect of private transfers, which have become substantial for some Asian countries because of large numbers of their nationals working in other countries, especially those of the Middle East.

nearly 4 per cent of their merchandise exports, and for non-oil developing countries the proportion was 25 per cent. In 1981 the proportion may have fallen to under 3 per cent for developed market economies but probably

rose to over 25 per cent for non-oil developing countries. Trade imbalances had never been greater, nor the problems of recycling "petrodollars" more acute.

It can be seen from table I.6 that the non-oil developing coun-

tries have not had to reduce their reserves of foreign exchange since 1975 and had managed to increase them by appreciable amounts up to 1980, when only a very small addition was possible. Official transfers have also increased but, in

Table I.4. World trade. Annual percentage change in volumes and prices, by country groups, 1976-1982

(Percentage)

	1976-1979	1978	1979	1980 ^a	1981 ^b	1982 ^b
Volume of exports						
World	6.7	5.1	6.0	2	1 ¼	5
Developed market economies	7.0	6.1	6.5	3 ¼	2	5 ½
Developing countries	5.6	2.1	4.5	-2 ¼	1	4 ½
Capital surplus countries	1.8	-3.9	-2.1	-11	-4	...
Other net energy exporters	6.2	3.4	7.8	-2 ½	2	...
Net energy importers	8.9	7.6	8.8	5	4	...
Centrally planned economies ^c	7.0	5.5	5.6	3	2	2
Volume of imports						
World	6.9	5.8	5.6	1 ½	1 ¼	5
Developed market economies	7.4	5.4	7.3	-	-¾	4 ½
Developing countries	6.0	6.3	1.5	6 ½	7 ½	8
Capital surplus countries	12.8	1.3	2.4	12	15	...
Other net energy exporters	5.2	4.4	-3.3	15	15	...
Net energy importers	4.5	8.9	3.3	1	1	...
Centrally planned economies ^c	5.2	8.3	2.1	2 ¼	2	3
Unit value of exports						
Market economies	9.9	10.1	19.2	20 ¼	11 ¼	...
Developed market economies	9.2	13.2	15.5	13 ½	10	...
Developing countries	11.9	2.1	30.4	40 ¼	16 ¼	...
Capital surplus countries	15.0	0.7	48.9	66 ½	25	...
Other net energy exporters	12.9	1.2	36.2	49 ¼	20	...
Net energy importers	8.6	3.6	12.6	13 ¼	6	...
Centrally planned economies ^c	9.7	9.7	18.7	21 ¼	11 ½	...
Developed market economies	9.7	9.9	19.3	22	12	...
Developing countries	9.1	9.0	16.7	18 ¼	10 ¼	...
Capital surplus countries	8.5	12.0	13.6	13 ½	9	...
Other net energy exporters	9.0	11.4	14.9	14	9	...
Net energy importers	9.3	6.9	18.6	23	12	...
Unit value of imports						
Market economies	9.7	9.7	18.7	21 ¼	11 ½	...
Developed market economies	9.7	9.9	19.3	22	12	...
Developing countries	9.1	9.0	16.7	18 ¼	10 ¼	...
Capital surplus countries	8.5	12.0	13.6	13 ½	9	...
Other net energy exporters	9.0	11.4	14.9	14	9	...
Net energy importers	9.3	6.9	18.6	23	12	...
Terms of trade						
Developed market economies	-0.5	3.0	-3.2	-7	-1 ¼	...
Developing countries	2.6	-6.3	11.7	18	5 ½	...
Capital surplus countries	6.0	-10.1	31.1	46 ¼	14 ¼	...
Other net energy exporters	3.6	-9.1	18.6	31 ½	10	...
Net energy importers	-0.7	-3.1	-5.1	-7 ½	-5 ¼	...

Source: United Nations, *World Economic Survey, 1980-1981*, p. 56.

Note: Fractions appear here instead of decimals so as not to exaggerate the accuracy of estimates.

^a Preliminary estimates.

^b Forecast.

^c Centrally planned economies of Europe only.

1980, financed only an eighth of the combined current deficit as against nearly a fifth in 1979. Allocations of Special Drawing Rights (SDR) from IMF also decreased in 1980, when they financed less than 3 per cent of the deficit. Net direct investment in these countries had increased but only up to 1979, when it was a seventh of the deficit; in 1980, it decreased somewhat and financed only a tenth of a much larger deficit. The greater part of the recent deficit had thus to be financed by long-term borrowing; 59 per cent in 1980 as against 78 per cent in 1979, but the proportion had also been around one half in 1975 after the first oil shock. There also appears to have been, in 1980, a sharp increase of short-term borrowing, including transactions between central banks. That was required by a fall in the amount of net long-term borrowing from private financial institutions from \$ 33 billion in 1979 to \$ 27 billion in 1980, notwithstanding an increase of the combined deficit by nearly \$ 25 billion.

Net official long-term lending to non-oil developing countries expanded from \$ 14.5 billion in 1979 to \$ 21.0 billion in 1980. Some of this expansion was due to multilateral agencies. In 1980, the World Bank began a programme of lending for structural adjustments, so that disbursements by it and the affiliated International Development Association (IDA) increased by \$ 1.0 billion to \$ 5.8 billion in 1979/80, and by a further \$ 6.9 billion in 1980/81. IMF increased its stand-by and extended credits and other commitments from \$ 5.4 billion in June 1980 to \$ 11.6 billion in June 1981, all of which went to developing countries. Loan approvals by the Asian Development Bank (ADB) increased from \$ 1.3 billion in 1979 to \$ 1.4 billion in 1980.

There were also substantial

Table I.5. Balance of payments on current account,^a by country groups, 1978-1981

(\$ billion)

	1978	1979	1980 ^b	1981 ^c
Developed market economies	32.8	-7.4	-47.2	-39 ½
Major industrial countries	36.2	3.5	-17.9	-8
Other countries	-3.5	-10.9	-29.3	-31 ½
Developing countries ^d	-30.5	15.4	35.0	37 ½
Capital surplus countries	20.4	70.4	108.5	125
Other net energy exporters	-22.1	-6.8	-1.5	-4
Net energy importers ^d	-28.8	-48.2	-72.0	-83 ½
Centrally planned economies ^e	-5.8	-0.1	3.4	5 ½
China	-0.8	-1.9	-0.6	-½
Eastern Europe	-6.6	-5.1	-3.9	-4
USSR	1.6	7.0	7.9	10
Residual balance ^f	3.5	-7.9	8.8	-3 ½

Source: United Nations, *World Economic Survey, 1980-1981*, p. 54.

Note: Fractions appear here instead of decimals so as not to exaggerate the accuracy of estimates.

^a Excluding government transfers.

^b Preliminary.

^c Forecast.

^d The data presented herein underestimate the deficit due to the exclusion of Cuba and the developing centrally planned economies of Asia where data series on which to base estimates were unavailable through 1980.

^e Trade balances only.

^f Reflects errors, omissions and asymmetries in reported statistics, service balances for the centrally planned economies and the balance of the groups listed with other countries.

increases of net long-term borrowing from governments or official national agencies. Net disbursements of official development assistance increased from \$ 30.2 billion in 1979 to \$ 35.4 billion in 1980. Disbursements by centrally planned economies were small and stationary at \$ 1.8 billion, but those by the Development Assistance Committee (DAC) countries rose from \$ 22.3 billion to \$ 26.6 billion, and those by members of OPEC from \$ 6.1 billion to \$ 7.0 billion.⁵

⁵ World Bank, *Annual Report, 1981*, p. 26.

During 1981, there was, contrary to widely held expectations, some improvement in the ability of developing countries to raise privately financed loans from international banks and money markets. These sources had been strained, but not disrupted, in 1980 by demands for finance to meet big increases of current deficits in balances of payments. A decline in their new loans appeared to indicate that some developing countries had reached limits of commercial credit-worthiness, and that some international financial institutions had reached limits of prudent lending to them.

These fears proved to be

weak, as there was no world shortage of liquidity in 1981. Reserves of foreign exchange (less gold), after increasing by 19 per cent in 1980, increased by another 7 per cent in the first half of 1981. The world volume of money (M1) similarly increased by 10 per cent in 1980 and, in the first quarter of 1981, was increasing at an annual rate of nearly 8 per cent. This surge of liquidity is relevant to the general state of inflation, even if that was moderating. It is also relevant to the availability of commercial credit to non-oil developing countries.

India, Indonesia, Malaysia, the Philippines and the Republic of Korea were all able, in 1981, to secure large new loans in the

Eurocurrency market, and on rather narrower spreads of interest than previously. Developing countries generally increased their borrowings from international capital markets during the first seven months of 1981 by 20 per cent as compared with the first seven months of 1980.⁶ Their bond issues were \$ 2,436 million in 1980 and \$ 1,766 million in the first seven months of 1981; their Eurocurrency credits were \$ 33,326 million in 1980 and \$ 20,226 million in the first seven months of 1981. This unexpectedly favourable development was associated, not only with the growth of world liquidity, but with worsened prospects for

⁶ IMF, *IMF Survey*, 17 August 1981.

investment in industrial countries and participation by new regional banks, notably Arab ones, in Eurocurrency syndications. Short-term commercial credits have also been available — at the price of the higher interest rates ruling in 1981.

There has, then, been less trouble than was expected in arranging immediate finance for the large current deficits caused by the second rise of oil prices. Nevertheless there are grounds for concern about the consequent increase of external indebtedness in non-oil developing countries.

Between 1978 and 1980, the disbursed debt, public and private, of developing countries had increased by nearly a third to reach \$ 416 billion, and that of Asian and Pacific countries by over a fifth to reach \$ 91 billion. For all developing countries debt service rose from \$ 52 billion to \$ 76 billion, equivalent to 9 per cent of export receipts from goods and services for low-income countries and to 10 per cent for middle-income countries.

That, of course, is a heavy drain, particularly when account is taken of the very considerable proportion that oil imports now bear to export receipts in the non-oil countries. One favourable and strong effect of inflation, however, is reduction in the real burden of past debts; borrowers gain at the expense of creditors in respect of previous loans. If, then, dearer oil made for big new debts, inflation meant a substantial real reduction of past debts. For low-income countries,⁷ therefore, debt service fell, as a proportion of exports, from 14 to 9 per cent between 1970 and 1979. Pakistan is the

⁷ Low-income countries are defined by the World Bank as those which had, in 1979, a GNP per capita of less than \$ 370, and middle-income countries as those developing countries which had a GNP per capita above this level.

Table I.6. Non-oil developing countries. Current account financing, 1975-1980

(\$ billion)

	1975	1976	1977	1978	1979	1980	Proportions 1980 (per cent)
Current deficit	46.5	32.9	28.6	37.5	57.6	82.1	100.0
Official transfers	7.3	7.4	8.2	7.8	10.4	10.6	12.9
SDR allocations etc. ^a	-0.7	-0.3	1.0	1.2	3.0	2.1	2.6
Net direct investment etc.	5.3	4.8	5.4	6.2	8.2	7.9	9.6
Net long-term borrowing:							
From official sources	11.7	10.8	12.5	14.3	14.5	21.0	25.6
From private sources	14.9	19.0	21.3	27.0	33.1	27.2	33.1
From residual flows ^b	0.1	-1.6	-6.1	-6.1	-2.9	-0.1	-0.1
Reduction of reserves	2.5	-12.5	-12.1	-15.8	-10.1	-1.2	-1.5
Net short-term borrowing ^c	10.1	8.6	-1.1	1.7	7.8	14.6	17.8
Residual errors	-4.7	-3.3	-0.5	1.2	-6.3		

Source: IMF, *Annual Report*, 1981, p. 32.

^a Includes valuation adjustments and gold monetization.

^b These comprise (1) net changes in long-term external assets of non-oil developing countries; and (2) residuals and discrepancies from mismatching creditor-source data, from debt records, with capital flow data from national balance of payments records.

^c Includes use of reserve-related credit facilities, i.e. use of IMF credit and short-term borrowing by monetary authorities from other monetary authorities.

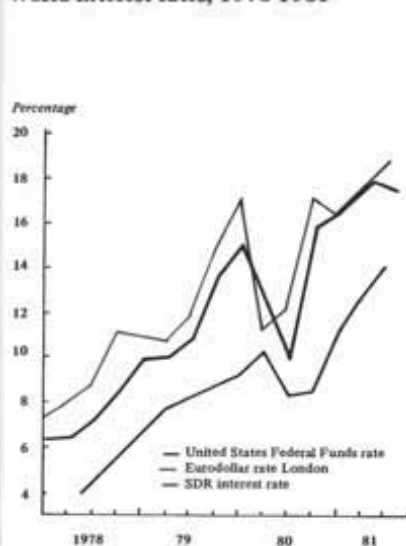
Variable exchange rates

Since 1974, members of the International Monetary Fund (IMF) have no longer been obliged to tie their currencies to the United States dollar or to gold. Some have preferred to keep a fixed tie of their currencies to the United States dollar,^a to some other major currency such as the French franc or pound sterling, to IMF's new Special Drawing Right (SDR),^b or to a "basket" of other currencies.^c European Economic Community (EEC) countries have co-operative arrangements over exchange rates under their European Monetary System. Other countries now have either floating exchange rates or else arrangements which do not fit exactly into any of the above categories.^d

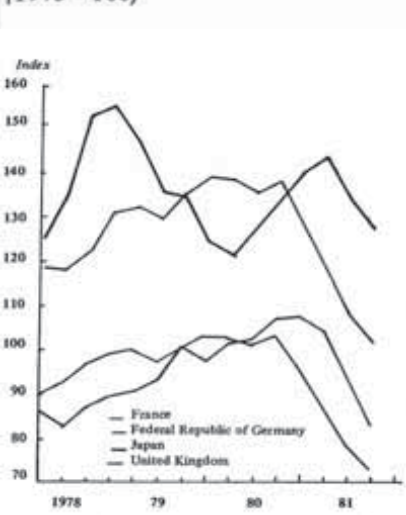
The result has been considerable variations of exchange rates between one currency and another. This variation became stronger from the middle of 1980 under the combined pressures of large shifts in current balances of payments, marked differences in rates of inflation, and wide, volatile movements in differentials between interest rates. The most notable features were a sharp rise of short-term interest rates in the United States, from an average of 5.05 per cent in 1976 to 19.10 per cent in June 1981, and a rapid appreciation of its dollar in terms of other currencies. For the year ended June 1981, this appreciation was 26 per cent against the Deutschmark, although only 4 per cent against the yen.

The rise of American interest rates spread to other countries because they sought to protect their balance of payments or reserves of foreign exchange by raising their own interest rates so as to reduce the initial differential for the American rate. That could have only a depress-

World interest rates, 1978-1981



Indexes of exchange rates in terms of US dollars, 1978-1981 (1975 = 100)



ing effect on investment spending and so on economic activity. The appreciation of the US dollar, and the relative appreciation of the yen, also tended to aggravate world inflation by increasing the cost of imports from Japan and the United States, and also the cost of oil; for the price of oil is fixed in terms of US dollars.

Both changes harmed developing countries. Higher interest rates increased the cost of their external borrowing, and appreciation of the US dollar increased the burden of their service or repayment of external debt. There was thus some reinforcement of the adverse effects of deterioration in these countries' terms of trade. They, too, have had to raise interest rates, with similarly depressing effects on internal investment and economic activity, and investment was further retarded by higher costs for imported capital goods consequent upon the appreciation of the dollar and the yen relative to the currencies of developing countries.

The last two years have also seen an increased volatility of exchange rates. That makes for an uncertainty which is unfavourable to international trade, and particularly in countries which lack adequate facilities for dealings in forward exchange.

For all these reasons doubts have come to be expressed about the merits of the new regime of flexible exchange rates, especially in view of the inflationary developments associated with spending by Governments which now lack the implicit discipline associated with exchange rates that are fixed, or can be adjusted only with difficulty.

^a Including, in the ESCAP region, Lao People's Democratic Republic, Nepal and Pakistan.

^b Including Burma, Iran and Viet Nam.

^c Including Bangladesh, China, Fiji, Malaysia, Papua New Guinea, Singapore and Solomon Islands.

^d Including Afghanistan, Australia, India, Indonesia, Japan, Maldives, New Zealand, the Philippines, the Republic of Korea, Samoa, Sri Lanka and Thailand.

only country in the ESCAP region which has sought debt relief in recent years. India, overcoming some previous reluctance to incur external debt, gained approval, in November 1981, from IMF for a loan of \$ 5.8 billion, the largest single loan which IMF has ever made.

For middle-income countries debt service has risen, over the same period, from 8 to 10 per cent of export receipts, but that develop-

ment is in line with their general economic progress. Their total external debt, at the end of 1979, was estimated at \$ 212 billion, 70 per cent being due to private creditors and only 15 per cent having been obtained on concessional terms from official sources. Malaysia, also in November 1981, raised a \$ 700 million loan from a consortium of international banks, the largest commercial loan ever syndicated for Asia.

C. POLICY ISSUES

January 1981 was the opening month of the Third United Nations Development Decade, one for which an International Development Strategy (IDS) was adopted in the hope of reaching certain goals or targets. Specifically economic targets for developing countries included annual real growth rates of 7 per cent in gross domestic product; 7.5 per cent in exports and 8 per cent in imports, with investment expenditures rising, over the decade, to 28 per cent of gross domestic product. ESCAP adapted the target growth rate for real GDP to 5.7 per cent for south Asia and to 7.5 per cent for east and south-east Asia.

It is evident that the Decade did not begin well. In 1981, as in 1980, the annual real growth rate of gross domestic product was about 4 per cent for non-oil developing countries, higher than in developed market economies or centrally planned economies, but 3 per cent below the target set. The real export growth rate for these countries, in 1981, was also about 4 per cent and their real import growth rate was only 1 per cent far below target. They may have been much nearer to the target for investment as, in 1979, the ratio of gross domestic investment to gross domestic product was 26 per cent, for both low- and middle-income developing countries.⁸

The situation in the ESCAP region, however, was better than the above figures would suggest. In south Asia, the average growth rate of real gross national product was 7.4 per cent in 1980,⁹ well above target, and good harvests in 1980/81 are a strongly favourable, if temporary, influence. In

Table I.7. Imports and international reserves, by country groups, 1976-1981

(Values in billion of SDRs)

	1976-1978	1979	1980	1981 (half year)
Imports				
World	879.1	1 186.8	1 505.5	384.9 ^a
Industrial countries	635.6	867.7	1 073.5	570.0
Developing countries	236.0	308.1	418.3	113.1 ^a
Oil-exporting countries	65.5	74.8	104.6	29.4 ^a
Other	170.5	233.4	313.7	83.7 ^a
Asia	58.1	89.2	117.9	68.5
Reserves less gold				
SDR	8.3	12.5	11.8	16.5
Reserve position in IMF	16.9	11.8	16.8	18.7
Foreign exchange	195.0	247.9	294.8	310.2
World total	220.2	272.1	323.4	345.4
Industrial countries	118.3	153.0	183.8	189.8
Developing countries	100.8	118.0	137.9	152.7
Oil-exporting countries	53.6	55.0	72.2	85.8
Other	47.2	63.0	65.7	66.9
Asia	17.2	22.1	23.8	25.8
Ratio of reserves minus gold to imports (per cent)				
World	25.0	22.9	21.5	87.3 ^a
Industrial countries	18.6	17.6	17.1	33.3
Developing countries	42.7	38.3	38.0	128.2 ^a
Oil-exporting countries	81.8	73.5	69.0	274.1 ^a
Other	27.7	27.0	20.9	76.9 ^a
Asia	29.6	24.8	20.2	37.7
Memorandum items				
Gold (million ounces at SDR 35 per ounce)	1 025.2	943.1	949.2	952.4
\$ per SDR	1.22644	1.31733	1.27541	1.15060

Source: IMF, *International Financial Statistics*, October 1981.

^a First quarter.

⁸ World Bank, *World Development Report 1981*, p. 142.

⁹ World Bank, *Annual Report, 1981*, p. 19; see also pp. 49-50.

east and south-east Asia and the Pacific, the average growth rate of real gross national product was only 3.9 per cent in 1980, but had reached 9.4 per cent in 1978 and 6.6 per cent in 1979. On the other hand, some countries were badly affected by the 1979/80 rise of oil prices; the Republic of Korea, the Philippines and Thailand are thought to have lost 4-6 per cent of their real incomes because of this rise.¹⁰ World recession has made it difficult for them, and other regional exporters of manufactures, to compensate by increasing such exports. Falling prices for copra, vegetable oils, rubber, sugar, timber and tin, all important export commodities for this area, make for still greater difficulties regarding growth of trade and income.

It has become obvious that the targets for this Development Decade cannot be reached unless there is a revival of the world economy. That revival depends upon the success of developed market economies in breaking out of the stagflation of unemployed resources and inflation of prices and incomes which has held most of them in a variable grip since 1973, or earlier. It also depends upon adjustment between countries which export oil and those which import it in regard to the huge discrepancies between surpluses and deficits in current balances of payments.

Unfortunately, there is little prospect of any quick solution of these dual problems. The stagflation of developed market economies has become a general and persistent problem for most of them, associated with institutional or political developments which are not easily reversed or corrected. These developments, which involve both excessive demands and

Table I.8. Developing countries. Public and private debt, 1970-1980
(*\$ million*)

	<i>End 1970</i>	<i>End 1975</i>	<i>End 1978</i>	<i>End 1979</i>	<i>End 1980^a</i>
Disbursed debt outstanding by region					
More advanced Mediterranean countries	9 193	29 114	56 085	69 309	79 000
Africa south of the Sahara	7 028	14 989	27 164	32 326	38 000
North Africa and Middle East	4 263	13 884	35 677	42 202	46 000
East Asia and Pacific	8 836	24 623	45 711	51 920	58 000
South Asia	11 961	20 686	28 895	30 116	33 000
Latin America and Caribbean	21 163	64 843	123 362	143 308	162 000
Total	62 444	168 139	316 894	369 180	416 000
Disbursed debt outstanding					
Official sources	34 877	74 241	122 189	136 177	154 000
Private sources ^b	27 567	93 898	194 705	233 003	262 000
Total	62 444	168 139	316 894	369 180	416 000
	<i>1970</i>	<i>1975</i>	<i>1978</i>	<i>1979</i>	<i>1980^a</i>
Debt service					
Official sources	2 519	5 481	9 168	11 480	14 000
Private sources ^b	5 329	18 712	42 723	55 704	62 000
Total	7 848	24 193	51 891	67 184	76 000
Net disbursements					
Official sources	3 862	12 208	14 711	15 152	18 000
Private sources	4 147	20 445	38 557	38 185	35 000
Total	8 009	32 653	53 268	53 337	53 000

Source: World Bank, *Annual Report, 1981*, p. 24.

Note: Details may not add to totals because of rounding.

^a Estimate.

^b Includes some lending by official sources that is not guaranteed by a public body in the borrowing country.

deficient supplies, have the following general aspects:

(a) High levels of government spending, financed by taxes at high marginal rates, funds diverted from private capital formation, and monetary creation;

(b) Strong resistance by farmers, trade unionists, companies or recipients of social security to decreases of real incomes or employment, although such decreases may be inevitable in a country where real GDP declines,

or in an industry which should contract, as a result of changed economic conditions. Such resistance can lead to subsidies or transfers, which add to government spending, to protectionism which hinders structural adjustment, and to excessive relative or general levels of wages;

(c) Declining growth of productivity due to fiscal disincentives, industrial disputes, structural imbalances, distortions of investment, and dearer energy;

¹⁰ World Bank, *Annual Report, 1981*, p. 43.

The danger of protectionism

In 1980, countries began to put into effect the agreements reached at the Tokyo Round of multilateral trade negotiations held by the General Agreement on Trade and Tariffs (GATT). This was the seventh "round" of such negotiations for liberalizing and stabilizing trade since the inception of GATT in 1947. The first of a series of eight annual tariff cuts was made on 1 January 1980 and the second on 1 January 1981. Some effect has also been given to two arrangements for bovine meats and dairy products as well as to agreements for reducing non-tariff barriers to trade.

A constant difficulty about liberalizing world trade has been that, although tariffs have been substantially reduced by the GATT rounds, recourse to non-tariff barriers has grown. A recent study^a found that, in 1974, about two fifths of all trade conducted by market economies was subject to such barriers and, by 1980, the proportion rose to nearly three fifths. Agricultural products have been constantly subject to quantitative restriction, but the recent increase of non-tariff barriers has been in respect of manufactured goods, especially textiles and clothing, as developed market economies have sought to protect their own industries from import competition, including that from developing countries which have striven to increase their export of manufactures. In many cases, GATT

regulations were circumvented by so-called "voluntary export restraints"¹¹ or other euphemisms for quantitative restrictions.

As world recession set in after 1979, there have been increased pressures in developed countries for protectionism. These pressures have been strongest in regard to the penetration by Japan of markets in north America and western Europe. Restrictive actions have also been taken against manufactured exports from developing countries. During 1980, for example, the United States of America put new countervailing duties on imports from India, Israel, Mexico, Pakistan and the Republic of Korea. In the same year, the EEC increased from 59 to 136 the number of "sensitive" products which are exported by developing countries and subject to tariffs or quotas. It also increased from 136 to 184 the similar number of "semi-sensitive" products which are subject to ceilings under the EEC's General System of Preferences (GSP).

These problems received attention at the Tokyo Round in connection with codes on subsidies, countervailing duties, dumping, technical barriers to trade, import licensing procedures etc. Developing countries were disappointed that no agreement was reached on a proposed text about safeguards against protection. "Voluntary export restraints" etc. can thus continue.

^a S.D.B. Page, *The Management of International Trade* (London, 1979). Quoted in United Nations, *World Economic Survey, 1980-1981*, p. 71.

(d) Consequent development of inflationary expectations, which become self-fulfilling and aggravate stagflation.

Recent experience seems to point to an old need for contractionary fiscal and monetary policies to deal with inflation. Yet it also suggests that such contraction cannot be adequately successful unless progress is simultaneously made in overcoming the varied resistances to changes in real incomes, and in improving productivity by suitable

structural adjustments or by improvements to labour relations.

Developing countries have a strong interest in policies which will get the industrial countries out of stagflation so as to permit steady growth of the world economy, and, more particularly, in successful structural adjustments by industrial countries. For developing countries also face problems of structural adjustment in fostering sound manufacturing industries that have an orientation towards

export growth rather than towards import substitution; and these problems would obviously be eased by complementary adjustments to the structure of industrial economies. World recession, unfortunately, has revived pressures for protectionism, especially against manufactures from developing countries, and, to the extent that such pressures prevail, they limit possibilities of export-oriented growth.

The problem of adjustment in regard to disequilibrium in current balances of payments also involves both short- and long-term considerations. One hopeful aspect has been the surprisingly good performance of the international financial system in recycling "petrodollars"¹¹ to help deficit countries maintain their imports. Another has been the recent success of Saudi Arabia's policy of unifying OPEC oil prices and securing agreement to hold them constant until 1983; that recognizes the need of the rest of the world for some breathing space to recover from the last oil shock. Oil-exporting countries, which now hold large external assets, have a strong self-interest in the health of the world economy.

Oil-importing countries may ease their long-term problems by vigorous measures to conserve energy, to diversify their sources of energy away from oil, and to develop domestic sources of energy. Current efforts in these directions are considered in chapter II, section B. Here it need only be pointed out that measures of conservation, applied since 1974, have already had marked success and still have much scope. Diversification of imported sources of energy, notably a switch from oil to coal,

¹¹ About one half of the \$ 665 billion net external assets acquired by oil-exporting countries in 1979 and 1980 was deposited in banks. See World Bank, *World Economic Survey, 1981*, p. 22.

has also proved useful in a number of countries. Development of domestic sources of energy is necessarily much slower; it takes a decade or more to develop a new oil field or major coal deposit, and hardly less time for a big hydroelectric scheme.

D. COMMODITY AGREEMENTS

An important part of IDS is an Integrated Programme for Commodities, the key instrument for which is to be a Common Fund to finance international commodity agreements. The agreement establishing the Fund was adopted in June 1980 and, by October 1981, had been signed by 58 countries, accounting for 65 per cent of the proposed capital, and ratified by 15 of them, accounting for 15 per cent of the capital. It can become

effective only when signed by 90 countries, accounting for at least 66 per cent of the capital. There seems little likelihood, accordingly, that the Fund will come into operation before 1983.

Two main accounts are envisaged for the Fund. One of \$ 400 million would co-ordinate national stocks within a framework of international commodity agreements so as to stabilize prices. The other of \$ 350 million would seek, through research and development activities, to increase efficiency in producing, processing and marketing commodities.

Operation of the first account depends, therefore, on capital subscriptions, renegotiation of existing commodity agreements and development of new ones. Unfortunately, little progress was made in 1980 or 1981. The most im-

portant development was the first commodity agreement to be associated with the Fund, a new International Natural Rubber Agreement of October 1980 which is to attempt stabilization of prices by operating buffer stocks within an agreed price range.

Two existing agreements were added to the Fund. After earlier attempts had failed, the sixth International Tin Agreement was approved in October 1981 by all 30 members of the International Tin Council but not subsequently ratified by the United States or Bolivia. It raised both the floor and ceiling prices for buffer stock operation by 6.8 per cent, a lower increase than the 12.5 per cent sought by producers. A third International Coffee Agreement had been made in 1976 for a seven-year period, but ceased to

The International Development Strategy and global negotiations

The International Development Strategy adopted by the General Assembly in December 1980 provides the main statement concerning overall development policy about which the international community has reached consensus in recent years. However, although the Strategy specified goals and objectives in quantitative and qualitative form, and set out policy measures required, it did not provide a framework for implementing the Strategy. The negotiations which finally resulted in the adoption of the Strategy also dealt with the launching of a global round of negotiations to implement the international measures which it contained. So far, nothing very much has been achieved in this regard.

At the time the Strategy was adopted, there was disagreement concerning the procedures for negotiations, and the content of the agenda.

Some progress was made in narrowing the differences about procedures. It was, for instance, generally agreed that, in its initial stage, the

global conference should establish objectives and provide guidelines on the agenda items; that these items should then be referred to specialized forums for negotiation or, where such forums do not exist, as in the case of energy, to special *ad hoc* groups. The outcomes of these negotiations would be reported to the global conference which would assemble a package agreement for approval. It is in the last stage that disagreement exists. Potentially, a conflict of views could arise between the specialized body, which would have different membership, procedures and voting arrangements from the global conference, and there was no agreement on how this problem would be resolved.

In the agenda, items not fully agreed upon concerned energy and international money or finance. In the case of energy, there was dispute whether the predictability of supplies and the pricing of oil should be explicit agenda items. Similarly, in the case of money and finance, there was dispute whether the func-

tioning and reform of the international financial system should be listed explicitly.

The long-awaited meeting of 22 Heads of State and Government at Cancun in Mexico in October did little to break the deadlock. The United States of America indicated that it would be prepared to go ahead with global negotiations, but made it clear that this would be on the basis of prior agreement that the outcome of negotiations should not disturb the final decision-making authority of existing institutions, such as the World Bank and the International Monetary Fund. Moreover, other than issuing a bland communiqué and discussing important issues such as energy, food supply and international capital flows, the Cancun meeting had nothing to say about the next steps to be taken towards global negotiations. This, of course, was not surprising because it was not a decision-making body, and had no links with established international forums.

operate when coffee prices rose above the intervention ceiling. Prices fell by one third in 1980, and the Agreement was then reactivated with a new intervention price range of 115/120 to 150/155 cents a pound and a global export quota of about 59 million bags.

Attempts to renegotiate other commodity agreements failed. The International Cocoa Agreement expired in March 1980; a basis for a new agreement had been reached in the preceding November, but the Ivory Coast, a major producer, refused to sign because of dissatisfaction with arrangements for automatic price adjustments. The effectiveness of the International Sugar Agreement, made in 1978, remains doubtful because the European Economic Community (EEC), an important exporter, has still refused to sign it. Release of stocks held under this agreement had little effect on prices during 1979 or 1980.

Discussions have been going on for an international tea agreement

since 1978, but were frustrated by failure to agree on export quotas. The problem is not so much allocations for existing producers, but those for new, often lower-cost, producers. No progress, similarly, can be reported on a proposed international cotton agreement, about which discussions have taken place under the auspices of the United Nations Conference on Trade and Development (UNCTAD).

A very important agreement for ESCAP countries which have developed exports of manufactures is the Multifibre Arrangement (MFA) made under the General Agreement on Trade and Tariffs (GATT); for this Arrangement governs most of the world trade in textiles. A third arrangement was discussed at the GATT Textiles Committee in July 1981 when it was agreed that the scheme should be extended for another four years from the beginning of 1983. But no agreement was then reached about conditions and procedures

for this third arrangement. Developing countries proposed modifications to make the arrangement more liberal; stricter definitions of "market disruption" and "minimum viable production" in developed countries, elimination of a clause about "reasonable departures", special treatment for "new entrants" among developing countries to textile exporting, time limits on a programme for "adjustment measures", and progressive elimination of import restrictions. These proposals were resisted by developed countries which emphasized current depression and unemployment in their own textile industries. At its meeting in November, the Textiles Committee agreed to a new arrangement which gave a general guarantee that each developing country could increase its textile exports by 6 per cent a year, but leaving to bilateral renegotiations arrangements for quotas or limits, and giving EEC countries powers to reduce quotas in respect of "sensitive products".

II. MAJOR CONSTRAINTS ON REGIONAL PROGRESS

Three major constraints on the economic progress of most developing Asian countries have been food supplies, energy resources, and means of paying for necessary imports. Notwithstanding some successes in food production, associated more particularly with the "green revolution", there has been little general improvement in food production per capita over recent years, and that can be halted or reversed by adverse weather conditions. Most countries, however, had a good recovery in 1981 from preceding bad harvests. Non-oil developing countries, still adjusting to the quadrupling of oil prices in 1973-1974, had a further economic shock from the 80 per cent rise of oil prices in 1979-1980. Measures for conserving oil and for switching to alternative fuels helped their situation; and the real price of oil declined somewhat in 1981. Some of these countries, too, have taken vigorous measures to find or exploit new deposits of oil or natural gas, and to develop other sources of energy. Oil-exporting countries, of course, gained from dearer energy, but were concerned about prospective depletion of deposits. The terms of trade for non-oil developing countries of the ESCAP region deteriorated by almost one fifth in 1980, and trading conditions did not improve for most of them in 1981. They had large deficits in their current balances of external payments, caused by the rise of oil prices, falls in the prices of other primary commodities, and depressed markets for exports of manufactures. These deficits were financed by larger drawings upon IMF, bigger loans from the World Bank and ADB, by larger borrowings on international capital markets, and by official flows, mostly from DAC countries. Official financial flows may have declined, in real terms, but there were large increases in the resources of multilateral agencies, and commercial loans were unexpectedly large, although at the cost of much higher interest rates.

A. FOOD

It has become increasingly recognized that agricultural progress is important for general economic progress, and especially in the larger or poorer countries of Asia,¹ where so large a proportion of the labour force is engaged in agriculture. An improving agriculture can provide more work for the labour force as well as more food for rural and urban workers, supply more materials for processing industries, increase export earnings or release foreign exchange for imports of producers' requisites, and expand the domestic

market for local manufactures or services. These considerations are particularly relevant in the early stages of industrialization, as then agriculture employs more than half the labour force, and especially important for large countries where the progress of industrialization has to depend mainly upon growth of the domestic market.

Food accounts for more than four fifths of agricultural production in the world as a whole, and for more than that in the ESCAP region. It is thus overwhelmingly important for agriculture's contribution to economic progress, and not only in a quantitative sense. A basic, long-term view is that adequate nourishment is needed for effective use of human resources and also for their improvement in diet-deficient countries.

A shorter-term view is that deterioration in food supplies can make for the kind of social unrest which disturbs economic life along with that confidence in its future which is necessary for development. This consideration, of course, points to the desirability of a proper allocation of food supplies as well as to an adequate level for them.

In Asia, cereals are by far the greater part of food production, and especially paddy rice, wheat and maize. During the 1970s, total production of cereals per head of population in the developing ESCAP region had a slow upward trend of 1 per cent a year and the region continued to require net imports of grain which, in 1979, were about 5 per cent of its total cereal production, a

¹ World Bank, *World Development Report 1979*, p. 61, and 1981, p. 100 and United Nations ESCAP, *Economic and Social Survey of Asia and the Pacific, 1979*, pp. 83-84.

rather higher proportion than in 1970. More than that, cereal production varied with climatic conditions, decreasing, for example, by 3 per cent in the bad year of 1972 and increasing by 6 per cent in the good year of 1978. Compensating variations in net imports of grain did not do much to steady per capita consumption of cereals against these fluctuations in production; nor did they do much to improve per capita consumption

was at the expense of millet, oats, sorghum and other cereals. Wheat production increased most in China, India, Iran and Pakistan, being associated with those agricultural improvements which have been hailed as a "green revolution". More recently, Bangladesh has begun a similar expansion of its quite small wheat crop. Only in Burma, China and Pakistan, however, did this green revolution lead to significant increases of over-all produc-

70 per cent. But in India and Iran this increase was 2.5 per cent, in Pakistan 11 per cent and Indonesia 16 per cent. Some of these increases, and much of the improvement in yields, were due to irrigation; the proportion of irrigated to arable land did not rise much in Indonesia, Malaysia, the Philippines, Sri Lanka or Thailand, but considerably increased in India, Iran, Nepal, Pakistan, the Republic of Korea and Viet Nam.

Strenuous efforts, then, have been made, and continue, to increase areas of useful land, although Thailand, at least, cannot go much further in that respect. Some success, too, has been had in slowing down the growth of population. China, Fiji, India, the Republic of Korea, Singapore and Sri Lanka brought down their rates of population increase during the 1970s to less than 2 per cent, but Afghanistan, Bangladesh, Iran, Pakistan and the Philippines still have rates above 2.5 per cent. These rates contrast with the trend growth rate of cereal production in the developing ESCAP region of 3.1 per cent a year, about two fifths of which came from expansion of the arable area and three fifths from improvement of yield.

Improvement of per capita food supply cannot be at all rapid in most of Asia. In large, densely populated countries, especially China and India, the most hopeful way is to improve yields by redistributing arable land so as to get more efficient sizes of farms, giving cultivators better incentives and security, improving water supplies and infrastructure, fostering better methods of farming, and increasing the availability of improved seeds, fertilizers or pesticides. Better incentives would include more economically appropriate prices for farming outputs and inputs, and access to rural credit on more reasonable terms.

More short-term measures are

Table II.1. Developing ESCAP countries. Cereal supplies, 1970-1980

	<i>Pro- duction</i>	<i>Exports</i>	<i>Imports</i>	<i>Supply^a</i>	<i>Popula- tion^b</i>	<i>Produc- tion^c per capita</i>	<i>Supply^d per capita</i>
	<i>(million metric tons)</i>				<i>(million)</i>	<i>(kg)</i>	<i>(kg)</i>
1970	449	6.7	23.4	466	1 884	238	247
1971	448	7.2	21.5	462	1 923	233	240
1972	434	7.5	24.2	451	1 963	221	230
1973	480	7.5	30.7	503	2 003	240	251
1974	477	7.8	30.7	500	2 043	233	245
1975	518	6.7	29.8	541	2 085	248	260
1976	521	8.0	27.8	541	2 122	246	255
1977	529	8.3	29.2	550	2 160	245	255
1978	563	8.2	32.8	588	2 196	256	268
1979	570	10.0	36.4	596	2 235	255	267
1980	585	...	...	...	2 285 est.	256 est.	...

Source: ESCAP, *Handbook on Agricultural Statistics for Asia and the Pacific, 1980.*

^a Supply = production - exports + imports.

^b The trend for this variable is: $\text{Ln } y = 7.525 + 0.0190t$.

^c The trend for this variable is: $\text{Ln } y = 5.422 + 0.0117t$.

^d The trend for this variable is: $\text{Ln } y = 5.458 + 0.0127t$.

of cereals, which is about one third higher in the middle-income countries of east and south-east Asia than in the low-income countries of south Asia.

There was, however, a notably more rapid growth, and lesser variability, in wheat production. This was 15 per cent of the region's cereal production in 1970, rising to 19 per cent in 1980. The shares of paddy and maize hardly changed from 60 per cent and 10 per cent so that the relative gain for wheat

of cereals per head of population.

The recognized basic difficulties of improving nutrition in developing Asian countries are high ratios of population to useful land, high rates of population growth, low yields, and considerable annual variation of harvests. Over the past two decades the Philippines, Sri Lanka and Thailand have increased the area of their arable land by 40 per cent or more, and Mongolia by nearly

needed to improve food security by protecting households against bad harvests. These measures include arrangements for building stocks of cereals and other non-perishable

foodstuffs for release in periods of shortage, and/or arrangements for quick import of needed foodstuffs. Both sets of arrangements require effective distribution to households

of supplies released from stocks or coming from imports. In this connection, improvements to transport of farming outputs and inputs are particularly important.

Rice in a Pacific island nation

The techniques of the green revolution are reaching Pacific island countries, at least by way of a pioneer development of rice production in Solomon Islands. There, in 1970, a small harvest of 2,000 tons of rice had supplemented imports of 2,600 tons to give a per capita consumption of 29 kg. The company which was responsible for this harvest had experimented with dry farming, but then switched to irrigated farming and, by 1974, had planted 428 hectares. In that year, its rice farming was taken over by a joint venture of the Government and a United States corporation. The rice area was quadrupled and very modern methods of cultivation were applied. In 1979, production of rice was 8,000 tons, imports 5,000 tons and exports 2,700 tons. The yield reached 3.1 tons per hectare in 1980 — one half above the level for Burma, Sri Lanka or Thailand, and about the same as that for Indonesia.

Rice is a popular food in the Pacific islands and, as it is almost wholly imported, various attempts have been made to promote its local production. These have failed for two main reasons. One is that the "hard" texture of local rice does not appeal to consumers who have become used to the soft and smooth taste of high-quality Australian rice. The other reason is that promotion has been directed to smallholders and upland areas, with the result that yields have been uneconomically low. Effective involvement of smallholders in paddy production would mean substantial changes to traditional lifestyles and work patterns.

The new development in Solomon Islands shows that good quality rice and high yields of paddy can be obtained by large-scale and capital-intensive cultivation requiring controlled irrigation, extensive application of chemical inputs, and mechanized tilling, ploughing and harvesting. Lack of agricultural infrastructures will not make it easy for such methods of rice farming to spread to other island countries.

Figure II.1. Developing ESCAP countries. Annual percentage growth rates in cereal production, 1970-1980

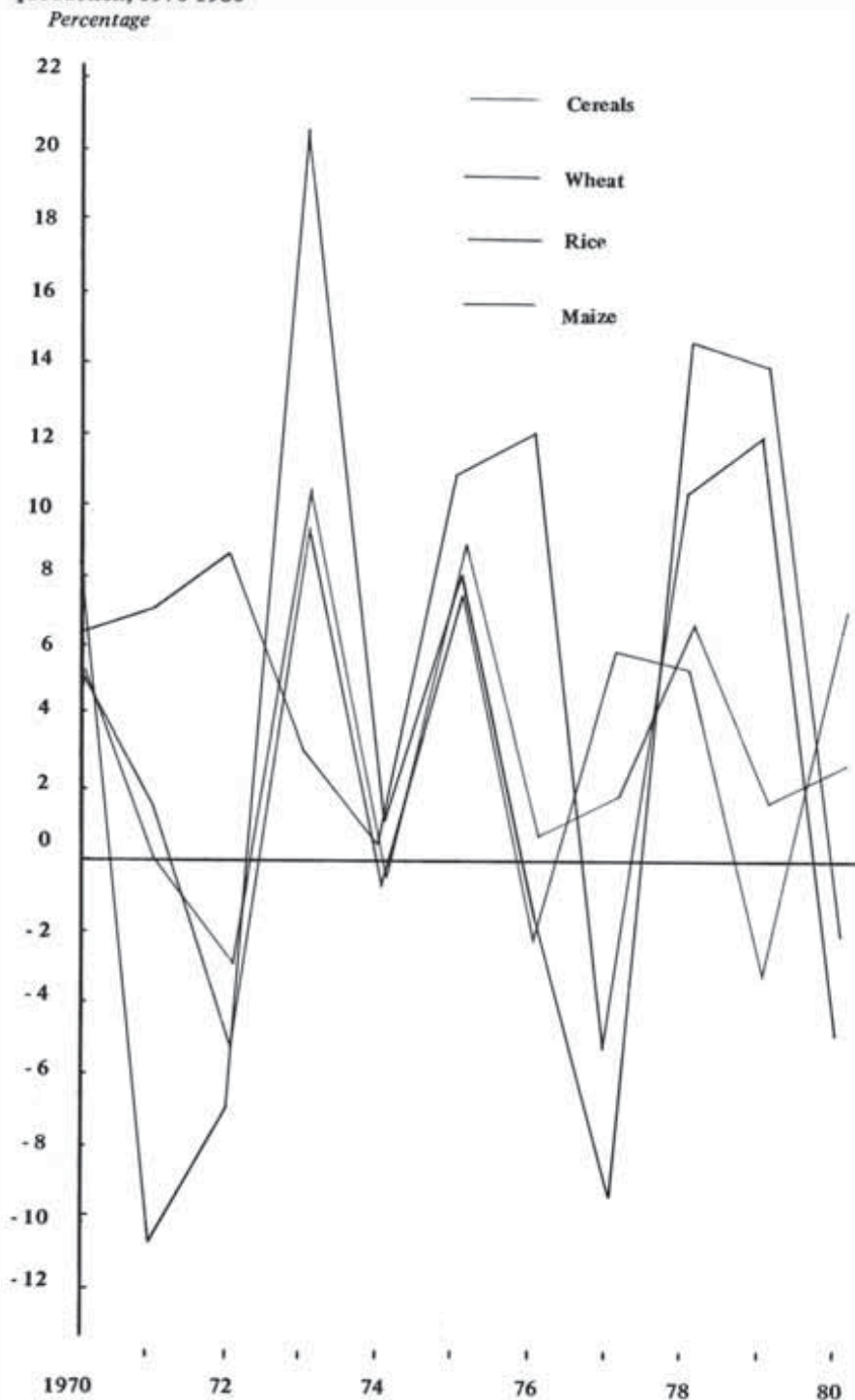
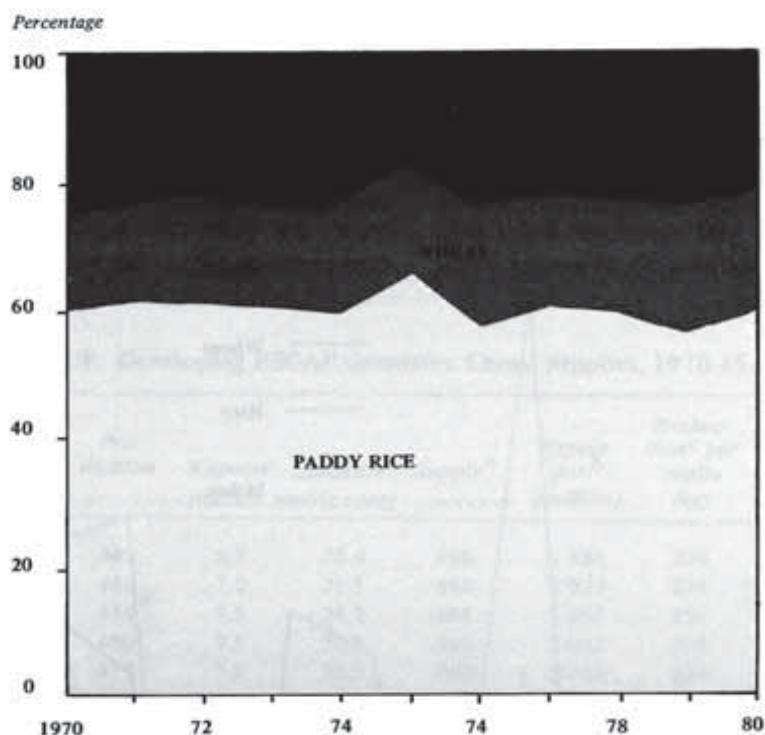


Figure II.2. Developing ESCAP countries. Percentage shares in cereal production, 1970-1980



Government decided to import up to 3 million tons of wheat from the United States because of unsatisfactory procurements from farmers or merchants and a consequent rapid depletion of official stocks. If the 1981/82 harvests are as good as is expected, the Government could recoup much of the foreign exchange cost by exporting rice, or even wheat, especially if better prices are paid to farmers.

Bangladesh has serious problems of food security, arising from extreme weather conditions, switching of farm production between cereals and jute according to their relative price changes, and a rationing system for cereals which has worked adversely for farmers. These problems, moreover, are superimposed on a situation where food shortages are usually acute because of high population density, limited land and poor farming techniques. During the 1970s, imports of cereals had averaged 8 per cent of their supply, much of them being financed by foreign aid.

India is one country which has recently been able to improve food security. Like some others, it had been badly hit by the world food crisis of 1973-1974, and had another bad year in 1979 when its own rice harvest fell by one fifth. Then, however, acute shortages were prevented by releases from grain stocks which the Government had built up by local procurements from the better harvests of 1975-1978 and from considerable imports of wheat. In 1980, wheat production declined by one tenth, but rice production rose by nearly one third so that total production of foodgrains reached a record level. During 1981 wheat recovered and there were good prospects for rice so that production of foodgrains surpassed the 1980 record level. Nevertheless, the

Land shortages in China and India

Scarcity of land is becoming an acute problem in the two largest Asian countries. China's population, in mid-1979, was put at 965 million on an area of 960 million hectares, giving a population density which is three times the world average. Over the past two decades, great areas of arable land have been taken out of cultivation in order to provide homes for peasants and growth for towns. Only constant improvements in agricultural yields prevented a food crisis, but they were not enough to improve per capita food supplies, between 1957 and 1977, for a population which increased by 275 million. Authorities are worried by this shrinkage of farm land and are seeking to halt it.

In India, scarcity of land has been manifested by large and continuous migration of landless, under-

employed people from rural areas to badly overcrowded cities. During the 1970s, the urban population is estimated to have increased by 38 per cent, although nearly three quarters of India's people still live in villages, so that the potential for further urban migration is enormous. The resulting problems for cities such as Bombay and Calcutta are depressingly awesome. Measures to improve economic activity and conditions in the countryside must continue, but it is hard to see how farm employment can keep pace with population growth in a country which has very limited possibilities of increasing arable land. Vigorous measures for renewal of old towns and for development of new ones in rural areas seem necessary - even if that means some further encroachment on arable land.

There was a shortfall of 2 million tons² in 1974. An official target of 1.5 million tons was thus set for government grain stocks, although storage in public silos or godowns was only 1.2 million tons. Another bad year came in 1976/77 when grain output fell by 7.5 per cent; it recovered in the next fiscal year, but there was no appreciable growth until 1980/81. Imports of grain were 2.7 million tons in 1979/80 or 21 per cent of domestic supply. Cereal production, however, increased by one tenth in

² Figures for cereals are given on a net or clean basis as distinct from the gross basis used in the tables.

1980/81 to reach a record level of 15 million tons, and that caused problems of storage and transport. Public storage capacity became fully utilized and, although some use was made of private warehouses, grain had also to be stored in the open. Danger of deterioration led to a repayment of 150,000 tons to India for a 1979 loan, and plans were made to sell grain abroad. Port congestion also led to the commercial re-export of 100,000 tons of fertilizer, to Pakistan and Sri Lanka. Nevertheless, \$ 250 million was spent on grain imports during 1980/81 and continued imports of grain are envisaged, along with aid to finance

them, in order to stabilize supplies and make provision against another harvest failure. The World Bank has recommended that there should be a commitment to supply 1.8 million tons in 1981/82. Recently, the Government began to construct more godowns for storing food, and has a medium-term food production plan for attaining self-sufficiency in foodgrains.

Pakistan has been more fortunate. Its total output of wheat, rice and maize rose by 6.2 per cent in 1979/80 and was expected to rise by about 3 per cent in 1980/81, decreases for rice being outweighed by increases for wheat, the major crop, and maize. If present favour-

Table II.2. Developing ESCAP countries. Arable land and irrigated land, 1961-1965 and 1978
(Thousand hectares)

	Arable land			Irrigated land			Proportion of irrigated land to arable land (per cent)	
	1961-1965	1978	Percentage increase	1961-1965	1978	Percentage increase	1961-1965	1978
South Asia								
Afghanistan	7 740	7 910	2.2	2 208	2 600	17.8	28.5	32.9
Bangladesh	8 719	8 918	2.3	501	1 495	198.4	5.8	16.8
India	157 185	165 470	5.3	25 523	36 690	43.8	16.2	22.2
Iran	15 000	15 330	2.2	4 800	5 850	21.9	32.0	38.2
Nepal	1 823	2 305	26.4	77	210	172.7	4.2	9.1
Pakistan	17 722	19 853	12.0	11 139	14 360	28.9	62.9	72.3
Sri Lanka	709	1 023	44.3	361	536	48.5	50.9	52.4
South-east Asia								
Burma	9 900	9 558	-3.5	681	981	44.1	6.9	10.3
Indonesia	12 240	14 168	15.8	4 100	5 304	29.4	33.5	37.4
Malaysia	2 877	3 150	9.5	233	350	50.2	8.1	11.1
Philippines	4 840	7 050	45.7	710	1 223	72.3	14.7	17.3
Thailand	11 279	16 158	43.3	1 729	2 600	50.4	15.3	16.1
Viet Nam	5 180	5 400	4.2	992	1 500	51.2	19.2	27.8
East Asia								
China	103 940	98 850	-4.9	38 500	48 000	24.7	37.0	48.6
Mongolia	683	1 182	73.0	-	-	-	-	-
Republic of Korea	2 059	2 079	1.0	830	1 122	35.2	40.3	54.0
Pacific islands								
Fiji	146	148	1.4	-	-	-	-	-
Papua New Guinea	15	17	13.3	-	-	-	-	-
Solomon Islands	50	50	0.0	-	-	-	-	-

Sources: ESCAP, *Handbook on Agricultural Statistics for Asia and the Pacific, 1980*, and national source for Mongolia.

Table II.3. Developing ESCAP countries. Production of cereals, 1970-1980

(Thousand metric tons)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
World	1 215 612	1 315 375	1 276 548	1 382 856	1 345 903	1 378 557	1 487 514	1 477 833	1 598 733	1 552 977	1 566 478
ESCAP countries and areas	480 143	497 078	462 025	513 600	510 064	554 305	554 716	561 722	605 691	610 060	615 580
Developing ESCAP	449 000	448 285	434 182	479 516	476 574	518 251	520 560	528 915	562 502	570 435	584 941
Afghanistan	3 503	3 308	3 940	4 265	4 348	4 481	4 624	4 147	4 382	4 220	4 279
Bangladesh	16 905	15 089	15 323	18 022	17 106	19 323	17 908	19 773	19 984	18 950	22 242
Bhutan	363 ^a	370 ^b	378 ^a	388 ^a	397 ^a	405 ^a	410 ^a	412 ^a	429 ^a	437 ^a	445 ^a
Brunei	7	4	4 ^a	6	10	10	7	4	7	7 ^a	7 ^a
Burma	8 328	8 351	7 494	8 767	8 744	9 413	9 472	9 662	10 726	10 816	13 205
China	212 301 ^a	216 105 ^a	209 991 ^a	230 061 ^a	241 350 ^a	253 433 ^a	258 184 ^a	250 477 ^a	270 325 ^a	296 478 ^a	282 121 ^a
Democratic Kampuchea	3 951	2 854	2 007	1 123	705	1 565	1 875	1 880	1 580	920	1 300
Fiji	25	21	22	21	23	29	26	24	23	39	36
Hong Kong	16	11	8	7	3	4	3	1	-	-	-
India	113 910	113 238	108 615	119 648	106 793	127 808	121 625	138 063	143 072	125 828	144 879
Indonesia	22 156	22 664	21 648	25 370	25 669	25 258	25 878	26 495	29 817	29 892	32 284
Iran	6 209	5 808	6 801	6 916	6 951	8 540	9 172	8 237	8 075	7 274	7 442
Lao People's Democratic Republic	928	837	843	910	932	938	890	565	842 ^b	973	1 052
Malaysia	1 698	1 829	1 846	1 995	2 118	2 011	2 021	1 920	1 510	2 111	2 142
Mongolia	285	373	205	455	316	482	374	413	354	330	287 ^a
Nepal	3 556	3 451	3 224	3 709	3 756	3 853	3 733	3 535	3 655	3 171	3 758
Pakistan	12 097	11 336	11 801	12 731	12 516	13 128	14 263	15 115	14 764	16 439	17 260
Papua New Guinea	3	4	3	3	3	4	2	4	7	8 ^a	8 ^a
Philippines	7 351	7 105	6 428	7 425	7 949	8 728	9 223	9 938	10 053	10 403	10 548
Republic of Korea	7 415	7 381	7 357	7 496	7 742	8 383	9 193	9 474	9 863	9 601	7 080
Solomon Islands	2	3	1	1	1	1	4	6	8	8 ^a	9 ^a
Sri Lanka	1 648	1 424	1 343	1 355	1 652	1 213	1 308	1 720	1 933	1 956	1 995 ^a
Thailand	15 344	16 210	13 850	17 403	16 140	18 411	17 895	15 732	20 540	19 322	20 904
Viet Nam	10 999	10 509	11 050	11 439	11 350	10 830	12 470	11 318	10 560	11 252	11 577 ^a

Source: ESCAP, *Handbook on Agriculture Statistics for Asia and the Pacific, 1980*.

^a Estimate by Food and Agriculture Organization (FAO).

^b Data unofficial.

able trends in yield can be maintained, Pakistan should soon reach self-sufficiency in food. In 1979, net imports of cereals were 8 per cent of their production, but there is optimism that Pakistan may, after 30 years, again become an exporter of wheat by 1983.

Iran and Afghanistan have both suffered internal strife, and Iran is still involved in a border war with Iraq. The generally poor performance of Iran's agriculture over the 1970s seems to have worsened. Recorded production of foodgrains peaked at 9.2 million tons in 1976 but was only 7.4 million tons in 1980; cereal imports in 1979 were 2.0 million tons and total food imports were expected to cost \$ 3 billion in 1981, notwithstanding the high priority given to attaining self-sufficiency in food.

In Afghanistan, internal disorders together with the emigration

of thousands of people, many taking cattle with them, must have damaged food production but also reduced consumption demands. Reliable estimates cannot be obtained, but official figures indicate that grain imports rose from a mere 6,000 tons in 1974 to 115,000 tons in 1979 (or to 3 per cent of cereal production), and it was announced that 375,000 tons of wheat would be imported from the Soviet Union in 1980/81.

Grain production made no progress in Nepal during its five-year plan for 1975-1980 and, in 1979/80, a disastrous fall of 16 per cent made necessary an appeal for international emergency food aid. There was more than full recovery in 1980/81, as grain output rose by 20 per cent, but it was still 2 per cent below the 1975/76 level.

Sri Lanka's output of cereals had been rather stagnant up to

1978 when it increased by 12 per cent, but there was no further increase in 1980 or 1981. It is still a food-deficit country, having to import about one third of its requirements of cereals. A 5 per cent increase of paddy output is expected for 1982.

Burma, on the other hand, has a net export of cereals, one that declined for two decades but has recently revived. Its output rose very slowly up to 1977 but, after that, the spread of high-yielding varieties of rice associated with increased application of fertilizer, lifted production by more than one third. Rice exports recovered, although in 1979 they were below the level for 1970. Provisional estimates for 1980/81 point to a 23 per cent increase of cereal production so that there could well be a marked increase of Burma's rice exports. Further progress de-

pends upon extending irrigation, which now covers only 15 per cent of paddy land, and the Government plans to increase this proportion quite substantially.

Preceding high prices for rice and maize have stimulated their production in Thailand. Official expectations were that rice output would increase by 10.6 per cent in 1980/81 and maize output by 7.8 per cent, much above the increases of the previous year which had represented little more than recovery from bad harvests in 1978/79. By mid-1981, it was expected that rice exports would exceed 2.8 million tons, the level of the two previous years.

Between 1976 and 1979, per capita production of cereals fell by one sixth in Viet Nam, by more than one half in Democratic Kampuchea but had recovered from a previous severe setback in the Lao People's Democratic Republic. In 1979, accordingly, Viet Nam had to rely upon imports for 13 per cent of its cereal supply, the Lao People's Democratic Republic for 6 per cent, and Democratic Kampuchea for 2 per cent; but consumption per head in Democratic Kampuchea was at half the level for Viet Nam or one third that for Thailand. In 1980/81 the progress of Viet Nam's rice crop was reported to be going reasonably well, in spite of early cold weather in the north followed later by drought conditions in five provinces; yet, in April, Viet Nam appealed through the United Nations for 384,000 tons of emergency food aid until the current harvests were in, plus 100,000 tons for labourers on irrigation works. The spring rice crop was buoyant and provided an output of 12.5 million tons of paddy. As a result it exceeded the official target for 1981. Democratic Kampuchea is reported to have doubled its 1979 rice area in 1980, and planned to increase it from 1.5 million to 1.7 million hectares in 1981 — about

70 per cent of the 1970 rice area. In the Lao People's Democratic Republic production of cereals had slumped from 938,000 tons in 1975 to 565,000 tons in 1977 but then rose to 1,052,000 tons in 1980, and rice imports were halved to 60,000 tons. At a conference held in April, a plan was proposed for modernizing agriculture in four provinces, including Vientiane, although the areas involved were small.

Indonesia and Malaysia are net importers of foodgrains — rice, wheat and maize — and have had little success in reducing dependence on such imports. From 1970-1972 to 1977-1979, Indonesia increased rice production by 28 per cent, but net imports of rice rose from 3.6 to 7.0 per cent of its total supply. Malaysia's rice production, over the same period, rose by only 3 per cent and net imports of rice from 14 to 15 per cent of total supply. 1980 was a good harvest year for Indonesia as its output of cereals rose by 8 per cent, and that of rice by 9 per cent. In Malaysia, these increases were both less than 2 per cent, although there was more than recovery from the bad harvests of 1978, when cereal production fell by one fifth.

The Philippines, in 1978, changed from a net importer of rice to a small exporter, but continued to rely upon imports for more than 5 per cent of its total supply of cereals. Production of cereals was fairly stationary between 1977 and 1980, as was the area under rice or maize, although extensions were made to irrigation facilities. The rice crop increased by less than 3 per cent in 1980, and there was no compensating gain by other crops. In 1981, higher prices for fertilizers curtailed their use, but no decline of rice production seems to have occurred.

The Republic of Korea, normally self-sufficient in rice although

not in other cereals, had, in 1980, to import one eighth of its requirements for rice and became, next to Indonesia, the region's largest importer of this basic cereal. Its production of cereals fell by 2.7 per cent in 1979 and by 26.3 per cent in 1980, when rice imports became 13 per cent of the rice supply. The cause was exceptionally cold and damp weather, which made harvests the most disappointing ever. Prospects for 1981 did not begin well with poor rainfalls delaying rice planting in some areas, but rice production was expected to have regained normal levels by the end of the year.

China was more badly affected by adverse weather in 1980 and had to appeal to the United Nations for substantial food aid. During the 1970s, its production of foodgrains had kept pace with population growth, and a rationing system prevented different areas from suffering acute food shortages, although per capita consumption does not appear to have regained the 1931-1937 level.³ Harvests were relatively satisfactory between 1977 and 1979 as production of foodgrains, soybean and tubers increased from 283 million tons to 332 million tons, or by 8 per cent a year. However, during 1980, severe drought in the north-east and serious floods in the centre of China brought production of foodgrains down to 318 million tons. The consequence was that perhaps 27 million people suffered serious malnutrition, and \$ 1 billion worth of damage was done to dykes, livestock, farm buildings or equipment and houses. The United Nations estimated that at least 1.6 million tons of foodgrains was needed for relief as well as other assistance amounting to \$ 700 million for seeds, fertilizers, medicines,

³ Vaclav Smil, "China's food", *Food Policy*, May 1981, p. 70.

clothing etc. The Government of China quickly took steps to improve incentives and scope for farmers to produce cash crops, and also to increase investment in agriculture. In 1981, however, recovery of agriculture was threatened by exceptional and repeated floods along the course of the Yellow River. Even in 1979, net imports of cereals had averaged 4 to 5 per cent of cereal production, and had trebled in quantity since 1976; such dependence must have

increased when grain imports reached 11 million tons, and a higher import of 15 million tons was planned for 1981. Nevertheless, the Government decided not to request further food aid.

Foodgrain production in Mongolia declined from a peak of 482,000 tons in 1975 to 330,000 tons in 1979, and was only 287,000 tons in 1980, a level much below the target of 560,000 tons, because of three successive years of poor weather. There was, too, a

5 per cent decrease in the output of potatoes. Mongolia is a regular net importer of cereals, 56,200 tons even in the record year for production, 1975, and 81,300 tons in 1979. As in China and Viet Nam, the Government has taken recent steps to improve rewards to collective farmers and to increase the efficiency of State farms. Virgin land is being brought under cultivation, and mechanized husbandry is being rapidly developed.

The Democratic People's Republic of Korea made good economic progress up to 1977, when it again became a net exporter of grains. According to estimates by the Food and Agriculture Organization of the United Nations (FAO), its production of cereals rose from 6.5 million tons in 1974 to 7.8 million tons in 1977 but, in 1978, there was a slight fall. Under a new seven-year plan (1978-1984), paddy output was to reach 10 million tons and was reported to be 9 million tons for 1979. Preliminary targets have been announced for a subsequent seven-year plan (1984-1990), including a grain target of 15 million tons, which indicates some optimism about agricultural prospects.

The general situation of developing ESCAP countries in regard to food production is summarized in table II.4, which reproduces FAO's per capita indexes of food production, although FAO production data does not exactly coincide with some corresponding national data. It is clear that, in 1979 or 1980, harvests were poor for most of these countries: 1979 for Bangladesh, Burma, India, Indonesia, Nepal and Thailand; 1980 for China; and both years for Afghanistan, Bhutan, Democratic Kampuchea, Iran, Mongolia, the Philippines, the Republic of Korea and Viet Nam. In all cases the causes were climatic. Yet 1980/81 was a much better year for most countries, as the

Table II.4. Developing ESCAP countries. FAO indexes of food production per capita, 1975-1980

(1969-1971 = 100)

	1975	1976	1977	1978	1979	1980
South Asia and Iran						
Afghanistan	103	107	92	96	93	92
Bangladesh	97	89	94	94	88	97
Bhutan	101	100	99	100	100	99
India	102	98	105	106	97	101
Iran	112	120	113	113	110	106
Nepal	99	96	90	91	83	90
Pakistan	99	101	102	99	101	101
Sri Lanka	109	112	113	119	121	128
South-east Asia						
Burma	94	94	95	98	98	106
Democratic Kampuchea	59	61	61	52	33	39
Indonesia	107	104	109	110	110	112
Lao People's Democratic Republic	91	90	75	89	97	103
Malaysia	109	111	110	106	118	124
Philippines	110	117	115	115	114	114
Thailand	117	120	118	138	120	125
Viet Nam	99	106	105	106	109	107
East Asia						
China	109	111	109	114	121	119
Democratic People's Republic of Korea	121	128	134	131	135	135
Mongolia	115	103	93	101	98	95
Republic of Korea	116	125	135	138	139	121
Memorandum items						
Asia	106	105	106	108	109	108
World	104	104	105	107	106	105

Source: FAO, *Monthly Bulletin of Statistics*, July-August, 1981.

preceding discussion has shown, the major exceptions being China, Iran and Mongolia.

On a larger perspective of the previous five years, the picture is not generally encouraging. For Asia as a whole, which, in the FAO classification includes other west Asian countries than Iran, food production per capita was virtually stationary between 1975 and 1980. There would have been a marked improvement in 1981, although the favourable climatic influences of that year in south and south-east Asia were exceptional in regard to food production.

B. ENERGY

During the 1950s and 1960s, the growth of the world economy was exceptional and much assisted by the cheap and abundant energy that resulted from discoveries of new deposits of oil and natural gas, notably in the Middle East. Between 1950 and 1970, therefore, the real price of petroleum⁴ nearly halved, and petroleum displaced, to a considerable extent, coal or other sources of primary energy in providing the power required for modern economic activity. By 1970, the share of petroleum in total consumption of all commercial forms of primary energy had become 70 per cent in developed market economies, 40 per cent in the centrally planned economies of Europe, 58 per cent in non-oil developing countries and 53 per cent in developing Asian countries.

The world energy situation dramatically changed in 1973-1974 when the members of OPEC succeeded in quadrupling the nominal price of oil. That proved excessive as, over the next five years, the real price of oil declined

⁴ Following United Nations usage, petroleum is used to mean crude petroleum plus natural gas.

Table II.5. Commercial primary energy production and consumption, by country group, 1970-1990

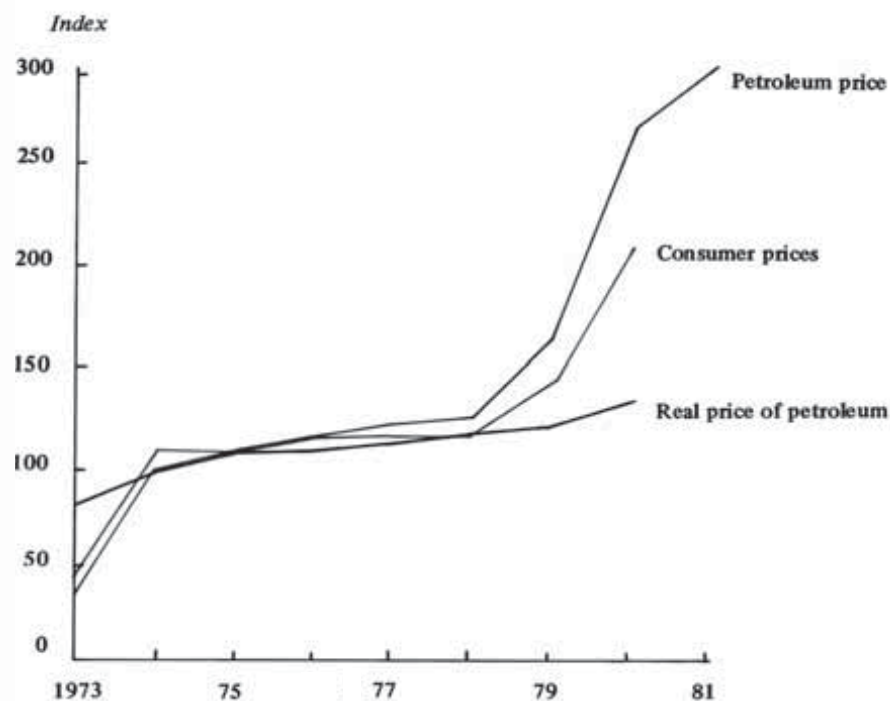
(Millions of barrels a day oil equivalent)

Country group	1970		1980		1990	
	Pro-duction	Con-sumption	Pro-duction	Con-sumption	Pro-duction	Con-sumption
Industrial market economies	43.2	60.6	50.6	72.4	64.3	87.0
Petroleum	12.7	29.9	14.5	35.0	16.4	37.4
Natural gas	13.0	12.8	13.8	15.0	13.2	16.2
Solid fuels	13.0	13.3	13.9	14.0	20.4	19.1
Primary electricity	4.5	4.6	8.4	8.4	14.3	14.3
Non-market industrial economies	28.8	27.6	45.2	43.0	63.4	62.1
Petroleum	8.0	7.2	13.7	13.1	17.9	17.3
Natural gas	3.8	3.8	7.7	7.0	12.6	12.3
Solid fuels	16.1	15.7	21.8	20.9	29.8	29.4
Primary electricity	0.9	0.9	2.0	2.0	3.1	3.1
Capital-surplus oil exporters	12.8	0.3	18.6	0.9	21.7	1.7
Petroleum	12.7	0.2	18.3	0.7	20.4	1.1
Natural gas	0.1	0.1	0.3	0.2	1.3	0.6
Solid fuels	—	—	—	—	—	—
Primary electricity	—	—	—	—	—	—
Developing countries						
Oil exporters	13.7	2.8	16.7	5.5	25.2	10.0
Petroleum	12.7	1.8	14.2	3.6	18.3	5.5
Natural gas	0.7	0.7	2.0	1.4	5.9	3.5
Solid fuels	0.1	0.1	0.1	0.1	0.3	0.3
Primary electricity	0.2	0.2	0.4	0.4	0.7	0.7
Oil importers	4.7	7.8	7.5	13.7	15.1	24.3
Petroleum	1.2	4.2	1.5	7.3	2.8	11.2
Natural gas	0.3	0.3	0.5	-0.7	1.6	1.6
Solid fuels	2.3	2.4	3.5	3.7	5.6	6.4
Primary electricity	0.9	0.9	2.0	2.0	5.1	5.1
Total world	103.2	99.1	138.6	135.5	189.7	185.1
Petroleum	47.3	43.3	62.2	59.7	75.8	72.5
Natural gas	17.9	17.7	24.3	24.3	34.6	34.2
Solid fuels	31.5	31.5	39.3	38.7	56.1	55.2
Primary electricity	6.5	6.6	12.8	12.8	23.2	23.2
Bunkers and others		2.9		3.1		4.6
					<i>Average annual growth rate of world supplies (percentage)</i>	
					1970-1980	1980-1990
Total world					3.0	3.2
Petroleum					2.8	2.0
Natural gas					3.1	3.6
Solid fuels					2.2	3.6
Primary electricity					7.0	6.1

Source: World Bank, *World Development Report 1981*, p. 36. The 1990 projections are the World Bank's "best judgement of the likely levels of energy consumption and production in the country groups".

Note: Total world consumption refers to apparent domestic consumption only. Total world requirements of primary energy equal total world consumption plus bunkers and others. Synthetics from coal are not included in solid fuels.

Figure II.3. Non-oil developing Asian countries. Indexes for nominal and real prices of oil, 1973-1981 (Saudi Arabian oil prices) (1975 = 100)



by about one quarter to keep the output growing by 4 per cent a year. The revolution in Iran then reduced the world supply of oil by 6 per cent, and so enabled OPEC, in 1979-1980, to raise the nominal price of oil by 80 per cent and its real price by 67 per cent. Consumption of oil, in 1980, declined by 7 per cent in developed market economies but by only 3 per cent in the world as a whole, due to a corresponding rise of 5 per cent in developing countries and one of 3 per cent in centrally planned economies. If, in 1980, demand and supply were in equilibrium for oil, the equilibrium was precarious. It depended on world recession, measures of conservation in developed market economies, large external borrowings or aid receipts by non-oil developing countries, and stability of production in oil-exporting countries.

Nominal prices for oil were held nearly constant from January to October 1981, and were then raised by 6.7 per cent in terms of the US dollar. In real terms, and over calendar 1981, they must have declined by about 7 per cent, a welcome, if partial, relief to oil-importing countries. They would have had some further relief from a fall in tanker freights which began in early 1980. No recent figures for such freights in the ESCAP region are available to the secretariat, but European tanker freights fell by about one eighth during 1980 and the fall continued up to mid-1981. If OPEC holds to its decision not to raise oil prices before 1983, the prospect is for a further decline in real prices, perhaps by one tenth, in 1982.

World production of oil fell by 5 per cent during 1980 and that of coal rose by 2 per cent, indi-

cating the substitution effect of the post-1973 jump in the real price of oil. That rise also stimulated heavy investment expenditures in methods of conserving or economizing uses of energy, and in developing alternative supplies of primary energy. Conservation measures were the quickest to have effect; the World Bank estimated that "two-thirds of the adjustment to the slowdown in oil production has taken place through curbing demand growth and only one-third through accelerating production of other energy supplies".⁵ The reason for this disparity is that long lead times are involved in exploiting the important alternative sources of energy — coal, hydropower or nuclear power. The World Bank, however, expects that the share of solid fuels in world supplies of primary energy will increase, between 1980 and 1990, from 28 to 30 per cent, and that of hydro- or nuclear electricity from 9 to 12 per cent, without allowance for any decrease in the 3.1 per cent world growth rate for primary energy consumption.

It may be noted that non-oil developing countries, during the 1970s, had a faster rate of 5.6 per cent, and are expected to keep it up during the 1980s. The consequence has been that their share of world primary energy rose from 8 to 10 per cent over the 1970s, and is expected to rise further to 13 per cent in the 1980s. Some adjustment of a very uneven distribution appears to be under way.

Table II.6 shows the recent position of developing countries in regard to production and consumption of the main sources of commercial primary energy. It gives a necessarily incomplete picture because good estimates are lacking for firewood, dung and other

⁵ World Bank, *World Development Report 1981*, p. 38.

traditional fuels upon which rural populations depend heavily for cooking and heat; the World Bank thinks that such fuels may account for about one quarter of total energy supply in non-oil developing countries. Population growth has long put pressure on forest areas for arable or pasture land, and demands for fuel have added to that pressure. Nepal, among other Asian countries, is facing a serious erosion of hillsides because of rising demands for food and fuel from its predominantly rural and expanding population. For many developing countries, the energy crisis relates more to a growing scarcity of traditional fuels than to high prices for commercial energy.

There is good information only about commercial sources. The table shows that seven developing ESCAP countries have a net surplus of energy from domestic resources. Afghanistan exports more energy to

the USSR as natural gas than it imports as oil. Brunei is a small petroleum-rich country almost wholly dependent on exports of oil and natural gas. Burma exports much less oil than Brunei but two thirds more than it uses domestically. Malaysia has come into a stronger position as it exports over 10 times as much oil as Burma, although only half as much as Brunei, and has no export of natural gas. China is the region's biggest producer of both coal and oil but its domestic energy requirements are also vast; it has been exporting about a third of its oil output and very little of its coal output. Indonesia and Iran came about second equal to China as ESCAP oil producers and export about three quarters of their outputs.

India has long been a big producer of coal, and has recently become a substantial producer of oil; nevertheless, it still has to

import nearly two thirds of its oil requirements. Pakistan has large deposits of natural gas, which supply around three quarters of its needs for commercial energy, but has to import by far the greater part of the oil it uses. The remaining countries of the developing ESCAP region are all highly dependent on imported oil for supplies of commercial energy. Bangladesh has some gas but oil imports account for more than half of its commercial energy. For Nepal, the proportion is four fifths, and in Sri Lanka nearly nine tenths. Democratic Kampuchea, Hong Kong, Lao People's Democratic Republic, the Philippines, Singapore, Thailand and all the Pacific island countries have been almost wholly dependent on oil imports for commercial energy. Mongolia and the Republic of Korea have some coal, but oil imports supply one third of commercial energy in

Figure 11.4. Developing ESCAP countries. Proportions of primary energy sources in energy production and consumption, 1980

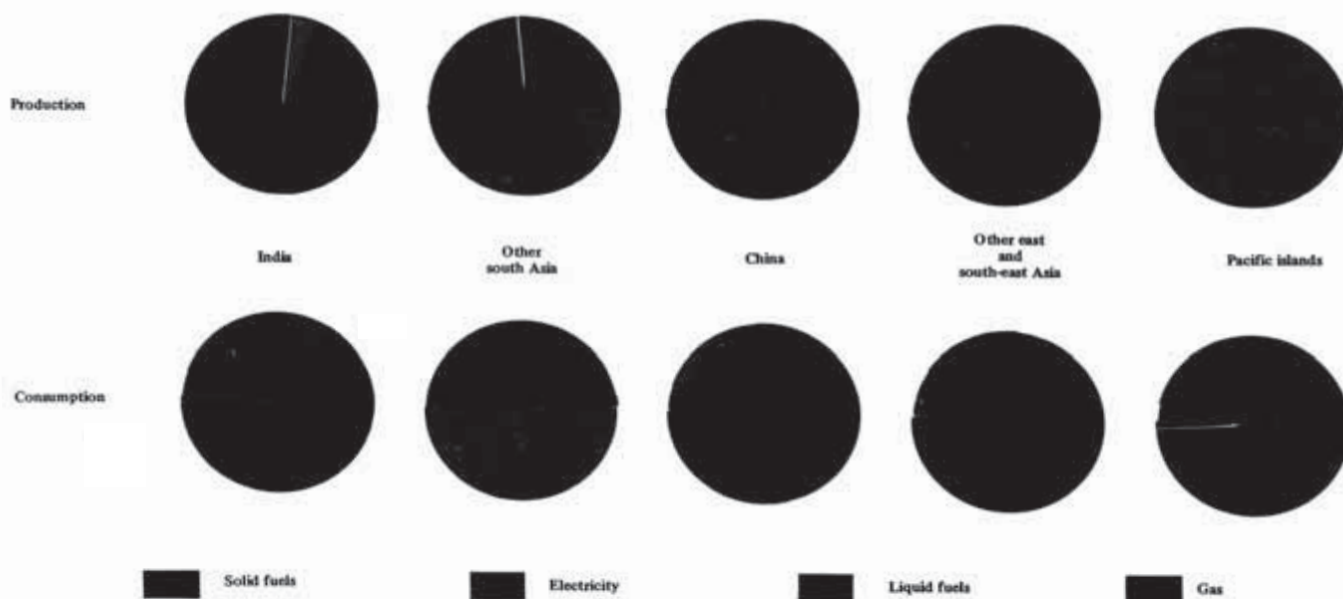


Table II.6. Developing Asian and Pacific island countries. Production and consumption of commercial energy, 1980

	<i>Solids</i>	<i>Liquids</i>	<i>Gas</i>	<i>Electricity^a</i>	<i>Total</i>	<i>Solids</i>	<i>Liquids</i>	<i>Gas</i>	<i>Electricity^a</i>	<i>Total</i>
	<i>(millions of metric tons of coal equivalent)</i>					<i>(percentage)</i>				
South Asia and Iran										
Afghanistan										
Production	0.145	0.002	2.484	0.089	2.720	5.3	0.1	91.3	3.3	100.0
Consumption	0.145	0.492	0.248	0.089	0.974	14.9	50.5	25.5	9.1	100.0
Balance	-	-0.490	2.236	-	1.746	-	-	-	-	-
Bangladesh										
Production	-	0.007	1.692	0.078	1.777	-	0.4	95.2	4.4	100.0
Consumption	0.177	2.113	1.692	0.078	4.060	4.4	52.0	41.7	1.9	100.0
Balance	-0.177	-2.106	-	-	-2.283	-	-	-	-	-
India										
Production	79.431	13.663	1.722	6.132	100.948	78.7	13.5	1.7	6.1	100.0
Consumption	82.101	36.488	1.722	6.128	126.439	64.9	28.9	1.4	4.8	100.0
Balance	-2.670	-22.825	-	0.004	-25.491	-	-	-	-	-
Iran										
Production	0.900	114.666	22.247	0.375	138.188	0.6	83.0	16.1	0.3	100.0
Consumption	0.960	26.153	19.176	0.375	46.664	2.1	56.0	41.1	0.8	100.0
Balance	-0.060	88.513	3.071	-	91.524	-	-	-	-	-
Nepal										
Production	-	-	-	0.020	0.020	-	-	-	100.0	100.0
Consumption	0.009	0.128	-	0.023	0.160	5.6	80.0	-	14.4	100.0
Balance	-0.009	-0.128	-	-0.003	-0.140	-	-	-	-	-
Pakistan										
Production	1.250	0.710	9.065	1.298	12.323	10.1	5.8	73.6	10.5	100.0
Consumption	1.566	6.058	9.065	1.298	17.987	8.7	33.7	50.4	7.2	100.0
Balance	-0.316	-5.348	-	-	-5.664	-	-	-	-	-
Sri Lanka										
Production	-	-	-	0.182	0.182	-	-	-	100.0	100.0
Consumption	0.002	1.360	-	0.182	1.544	0.1	88.1	-	11.8	100.0
Balance	-0.002	-1.360	-	-	-1.362	-	-	-	-	-
Subtotals:										
Production	81.726	129.048	37.210	8.174	256.158	31.9	50.4	14.5	3.2	100.0
Consumption	84.960	72.792	31.903	8.173	197.828	43.0	36.8	16.1	4.1	100.0
Balance	-3.234	56.256	5.307	0.001	58.330	-	-	-	-	-
South-east and east Asia										
Brunei										
Production	-	19.850	13.617	-	33.467	-	59.3	40.7	-	100.0
Consumption	-	0.264	2.766	-	3.030	-	8.7	91.3	-	100.0
Balance	-	19.586	10.851	-	30.437	-	-	-	-	-
Burma										
Production	0.042	2.404	0.408	0.108	2.962	1.4	81.2	13.8	3.6	100.0
Consumption	0.254	1.447	0.408	0.108	2.217	11.4	65.3	18.4	4.9	100.0
Balance	-0.212	0.957	-	-	0.745	-	-	-	-	-
China										
Production	434.296	154.051	18.978	6.839	614.164	70.7	25.1	3.1	1.1	100.0
Consumption	432.654	106.861	18.978	6.877	565.370	76.5	18.9	3.4	1.2	100.0
Balance	1.643	47.190	-	-0.038	48.794	-	-	-	-	-
Democratic Kampuchea										
Production	-	-	-	-	-	-	-	-	-	-
Consumption	-	0.018	-	-	0.018	-	100.0	-	-	100.0
Balance	-	-0.018	-	-	-0.018	-	-	-	-	-
Hong Kong										
Production	-	-	-	-	-	-	-	-	-	-
Consumption	0.008	7.294	-	-0.038	7.264	0.1	100.4	-	-0.5	100.0
Balance	-0.008	-7.294	-	0.038	-7.264	-	-	-	-	-
Indonesia										
Production	0.304	112.891	20.725	0.320	134.240	0.2	84.1	15.5	0.2	100.0
Consumption	0.266	27.360	5.404	0.320	33.350	0.8	82.0	16.2	1.0	100.0
Balance	0.038	85.531	15.321	-	100.890	-	-	-	-	-
Lao People's Democratic Republic										
Production	-	-	-	0.114	0.114	-	-	-	100.0	100.0
Consumption	-	0.195	-	0.034	0.229	-	85.2	-	14.8	100.0
Balance	-	-0.195	-	0.080	-0.115	-	-	-	-	-
Malaysia										
Production	-	19.129	1.635	0.154	20.918	-	91.5	7.8	0.7	100.0
Consumption	0.050	8.566	2.488	0.154	11.258	0.4	76.1	22.1	1.4	100.0
Balance	-0.050	10.563	-0.853	-	9.660	-	-	-	-	-
Mongolia										
Production	1.770	-	-	-	1.770	100.0	-	-	-	100.0
Consumption	1.772	0.858	-	0.043	2.673	66.3	32.1	-	1.6	100.0
Balance	-0.002	-0.858	-	-0.043	-0.903	-	-	-	-	-

Table II.6 (continued)

	Solids	Liquids	Gas	Electricity ^a	Total	Solids	Liquids	Gas	Electricity ^a	Total
	(millions of metric tons of coal equivalent)					(percentage)				
Philippines										
Production	0.224	0.778	—	0.689	1.691	13.2	46.0	—	40.8	100.0
Consumption	0.495	14.090	—	0.689	15.274	3.2	92.3	—	4.5	100.0
Balance	-0.271	-13.312	—	—	-13.583					
Republic of Korea										
Production	14.101	—	—	0.672	14.773	95.5	—	—	4.5	100.0
Consumption	20.901	32.753	—	0.672	54.326	38.5	60.3	—	1.2	100.0
Balance	-6.800	-32.753	—	—	-39.553					
Singapore										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	0.004	10.079	—	—	10.083	—	100.0	—	—	100.0
Balance	-0.004	-10.079	—	—	-10.083					
Thailand										
Production	0.471	0.015	—	0.455	0.941	50.0	1.6	—	48.4	100.0
Consumption	0.565	16.115	—	0.535	17.215	3.3	93.6	—	3.1	100.0
Balance	-0.094	-16.100	—	-0.080	-16.274					
Viet Nam										
Production	6.300	—	—	0.086	6.386	98.7	—	—	1.3	100.0
Consumption	5.967	1.706	—	0.086	7.759	76.9	22.0	—	1.1	100.0
Balance	0.333	-1.706	—	—	-1.373					
Subtotals:										
Production	457.508	309.118	55.363	9.437	831.426	55.0	37.2	6.7	1.1	100.0
Consumption	462.936	227.606	30.044	9.480	730.066	63.4	31.2	4.1	1.3	100.0
Balance	-5.428	81.512	25.319	-0.043	101.360					
Pacific islands										
Cook Islands										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	—	0.018	—	—	0.018	—	100.0	—	—	100.0
Balance	—	-0.018	—	—	-0.018					
Fiji										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	0.021	0.385	—	—	0.406	5.2	94.8	—	—	100.0
Balance	-0.021	-0.385	—	—	-0.406					
Kiribati										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	—	0.018	—	—	0.018	—	100.0	—	—	100.0
Balance	—	-0.018	—	—	-0.018					
Nauru										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	—	0.059	—	—	0.059	—	100.0	—	—	100.0
Balance	—	-0.059	—	—	-0.059					
Papua New Guinea										
Production	—	—	—	0.049	0.049	—	—	—	100.0	100.0
Consumption	—	0.863	—	0.049	0.912	—	94.6	—	5.4	100.0
Balance	—	-0.863	—	—	-0.863					
Samoa										
Production	—	—	—	0.001	0.001	—	—	—	100.0	100.0
Consumption	—	0.044	—	0.001	0.045	—	97.8	—	2.2	100.0
Balance	—	-0.044	—	—	-0.044					
Solomon Islands										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	—	0.050	—	—	0.050	—	100.0	—	—	100.0
Balance	—	-0.050	—	—	-0.050					
Tonga										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	—	0.050	—	—	0.050	—	100.0	—	—	100.0
Balance	—	-0.050	—	—	-0.050					
Trust Territory of the Pacific Islands										
Production	—	—	—	—	—	—	—	—	—	—
Consumption	—	0.073	—	—	0.073	—	100.0	—	—	100.0
Balance	—	-0.073	—	—	-0.073					
Subtotals:										
Production	—	—	—	0.050	0.050	—	—	—	100.0	100.0
Consumption	0.021	1.560	—	0.050	1.631	1.3	95.6	—	3.1	100.0
Balance	-0.021	-1.560	—	—	-1.581					

Source: United Nations, Yearbook of World Energy Statistics, 1980 (forthcoming).

^a Excludes thermal electricity.

Contrasts in energy consumption^a

There was, during 1979, a very wide range in developing Asian countries of per capita use of energy, measured in kilograms of coal equivalent. The figure for Singapore was 6,211 kg and those for Bangladesh, Nepal, Burma and Afghanistan from 14 to 90 kg. But Singapore has become so highly industrialized that it is questionable whether it can still be properly described as a developing country and no country in Asia is as poor as Bangladesh, Burma or Nepal, all predominantly rural and all relying far more on such traditional fuels as firewood, charcoal or dung than on commercial forms of energy.

Yet Hong Kong, which is about as industrialized and prosperous as Singapore, had an average consumption of commercial energy of only 2,401 kg — less than half the Singapore level. The Republic of Korea had an average income of \$ 1,480, nearly a third more than that of the Democratic People's Republic of Korea, yet had an average energy consumption of 1,642 kg as against one of 2,846 kg for its neighbour.

^a The figure for per capita income and energy consumption are from the World Bank's *World Development Report 1981*. The consumption figures are somewhat different in the United Nation's *World Energy Statistics*.

China and India make another contrast. China's average energy consumption was 835 kg, more than three times India's, but its average income, \$ 260, was only one third higher. Sri Lanka, however, had almost the same average income as China but little more than half India's average energy consumption.

Two further contrasts relate to Malaysia and Mongolia. Malaysia has about the same average income as the Republic of Korea but only half its average energy consumption. Mongolia has about the same average energy consumption as the Republic of Korea but its average income is 50 per cent less.

If, as can hardly be doubted, economic progress depends upon energy, the connection is complex rather than simple. Consideration has to be given, among other things, to traditional as well as to commercial sources of primary energy, to the efficiencies of converting primary to secondary energy and of using both for work or heat, to economic structure, to income distribution and to differences in climate and lifestyles.

Mongolia and three fifths in the Republic of Korea. Viet Nam, however, uses domestic resources of coal to keep the contribution of imported oil down to one quarter.

Not all recent difficulties over energy are attributable to dearer oil. Coal provides nearly two thirds of India's commercial energy, and coal-fired stations about the same proportion of its electricity. Hydro-stations provide another quarter of the electricity. Since 1975, there have been shortages of electricity averaging 12 per cent of estimated demands. Admittedly, demands have been inflated by State Governments which have kept the price of electricity to consumers at low, subsidized or capital-intensive levels. Yet there have also

been serious deficiencies on the supply side. Generating stations have been inadequately maintained, thermal stations have lacked adequate and regular deliveries of coal, and hydrostations have been adversely affected by drought conditions, which were acute in 1977. In the near crisis year of 1979/80, energy shortages were largely responsible for a decline of manufacturing production by more than 2 per cent. The output of coal has been adversely affected by labour troubles and, in a feedback way, by shortages of electricity. The main problem for the thermal stations has been the failure of the railways to make adequate and regular deliveries of coal. Reasons for this failure include shortages of wagons, deficiencies of manage-

ment and, again, labour troubles and electricity shortages. The Government has made an investigation of this whole situation with a view to overcoming key deficiencies which threaten the progress of its new Sixth Plan. Already there has been some improvement; in 1980/81, coal output rose by 10 per cent and electricity output by about 6 per cent, due to better rail transport and better rainfalls.

Sri Lanka has also suffered from power shortages and power cuts. There, hydrostations supply 94 per cent of electricity and, in 1981, they were severely affected by drought conditions. In February, public sector industries were to close for one day each week, in March a general five-hour cut was imposed each day and authority was taken to stop supply to major users who failed to reduce their consumption of electricity. Water levels recovered sufficiently for restrictions to be lifted in June, but the Government went ahead with plans for installing thermal plants to cover the dry-season risk of inadequate hydropower. The Central Bank and the World Bank have both warned that demand must be restrained, and conservation encouraged, until 1984 when new hydrostations associated with the great Mahaweli scheme should be completed. Meanwhile, small gas turbine plants are being built, and it is planned that thermal stations will come to provide one fifth of the country's electricity.

Afghanistan, Bhutan and Nepal, being mountainous countries, have great potentials for hydropower but have tapped very little of it. In Nepal, electricity is supplied to only 3 per cent of households and to industrial or commercial enterprises in a few towns; even then oil-fired plants supply one third of this electricity and oil accounts for four fifths of

total commercial energy. Yet commercial energy is perhaps only one seventh of total energy used in Nepal, firewood, dung and crop residues being far more important. Bhutan's position is similar. Afghanistan's large deposits of natural gas yield about nine tenths of its energy supply but, as has been mentioned above, most of it goes to the USSR in exchange for petroleum and other imports. It also has coal deposits but has not made much use of them as only 115,000 tons were produced in 1980/81. There are plans in all three of these countries to tap more of their hydro potentials and, in Afghanistan, to exploit more of the coal deposits.

Bangladesh, India and Pakistan all have substantial deposits of natural gas, but only India has found large deposits of oil. The search for such deposits was naturally intensified as petroleum became much dearer, as did efforts to conserve these sources of primary energy. Bangladesh discovered two new land fields of gas in 1981, and completed a pipeline which is to assist production of fertilizer. It is also to extend its single refinery as much of the present import of crude petroleum is sent to Singapore for refining. Pakistan more than doubled its output of natural gas during the 1970s through discoveries of new fields and greater exploitation of old ones. It also built a nuclear power station with an installed capacity of 125,000 kW and, in 1981, was considering a further one with a bigger capacity of 610,000 kW. Chinese experts had also recommended a thermal station of 30,000 kW using Baluchistan coal.

India already has a nuclear station of 640,000 kW capacity but, in 1979, this supplied less than 4 per cent of generated electricity. After 1974, outputs of both oil and natural gas doubled. The

oil output has 10 times the energy content of the gas output, and together they contribute about one seventh of India's total production of energy. The two State oil companies are conducting further offshore exploration, and 14 foreign companies have also been admitted to the search. Offshore production reached 5.2 million tons in 1980/81 and the Plan contemplates that this might reach 13 million tons by 1984; that would mean an addition of about three fifths to India's production of oil but far from enough to make it self-sufficient in this fuel.

Burma also doubled its output of oil during the 1970s, and quintupled a much smaller output of gas. After 1975, it ceased to import oil and, in 1979, again became a small net exporter of oil. In 1980, however, production slumped by 4 per cent, and stronger domestic economic growth increased local demand for oil. As one step toward coping with this emerging constraint, Burma in 1981 increased its activities in locating and exploiting oil and gas reserves in on-shore and off-shore areas and in the Gulf of Martaban in particular. At present there are two petroleum refineries and a third is being constructed near Mann. This will nearly double present refinery capacity to a level which can cope easily with the present output of crude.

Brunei, Indonesia and, more recently, Malaysia, are net exporters of oil and more than self-sufficient in regard to total sources of energy. They all export most of their outputs of oil, and Brunei and Indonesia most of their substantial outputs of natural gas also. Proven reserves of crude petroleum are about 20 times annual output in Indonesia, and about 15 times annual output in Brunei and Malaysia. Neither Indonesia nor Malaysia make much use of their

considerable potentials for hydro-power, nor Indonesia of its coal deposits. Both, of course, make much use of traditional fuels; Indonesia is thought to derive about half its total energy consumption from them.

There has been concern in Indonesia about a prospective loss of export revenue, to which petroleum and natural gas contribute about two thirds of the total, through gradual declines in the outputs of these fuels went with an annual rise of 12 per cent in their local consumption. Production, however, after decreasing by 6 per cent between 1977 and 1979, appeared to be rising again after the first half of 1980, and the price increases of 1979/80 have greatly stimulated exploration activities. Pertamina, the State petroleum corporation, has hope that output will increase by more than one tenth by 1984. Exports, however, could not increase so much if the policy of heavily subsidizing domestic consumption of petroleum products continued.⁶ The Government, accordingly, has begun to stimulate development of other sources of energy. The third Repelita (five-year plan) allocated 7.5 per cent of development funds to the electric power sector and, in March 1981, the World Bank granted a loan for a hydrostation of 700 MW capacity to be built at Sagaling. Japanese interests are to help expand the Bintang plant for liquefying natural gas, three existing refineries are to be expanded, and a fourth one is to be built near Jakarta. More refining capacity would reduce the need to import large quantities of middle distillates from other countries.

Malaysia's position in regard to oil is somewhat peculiar. Its output of light superior crude is mostly exported and large imports of

⁶ The 1982 budget, announced in January 1982, has decreased subsidies on some petroleum products.

cheaper Middle Eastern crude directly supply about three quarters of domestic needs for energy. The Government, moreover, introduced an oil depletion policy, in 1979, for restricting output from finite resources which might not last very long; output had been 1,122,000 tons in 1979 but was only 1,096,000 tons in 1980. For both reasons, attempts are being made to diversify energy resources so as to reduce dependence on oil. Large deposits of natural gas have been discovered and the Bintulu field is expected to yield, in 1983, 1 billion cubic feet of natural gas per day, and another field off Trengganu to yield even more. The National Electricity Board plans to reduce oil-based generation from 85 per cent of capacity to 38 per cent by 1990 while increasing that capacity from 3,770 MW to 6,090 MW. This is to be done by building two thermal stations operating on either oil or gas, by building a number of others to operate on gas, and by developing six new hydro sites. At the same time, a comprehensive national energy policy is being formulated so as to co-ordinate developments in this field with the objectives of an Outline Perspective Plan (1970-1990). Non-conventional sources of energy are also being considered as Malaysia lacks significant deposits of coal.

Nineteen years ago, Thailand also discovered large offshore deposits of gas and, in August 1981, a pipeline began to move 250 million cubic feet a day. Most of the output is to go to fire thermal electricity plants, although there have been influential arguments for using it as a petrochemical feedstock. This substantial addition to energy resources was particularly welcome in that Thailand has to import nearly all the oil which it uses and, in 1980, that cost 44 per cent of export receipts. Elec-

tricity is also to be boosted by greater use of local lignite and imported coal, as well as by a doubling of hydro capacity.⁷ A pilot plant is under construction to test use of oil shale in generating electric power. Altogether, these developments should add 7,700 MW to present capacity of 3,595 MW. Meanwhile, conservation measures are being attempted to hold down growth of energy consumption to 6 per cent a year,

⁷ In September 1981, the large multipurpose Pattani dam began a contribution of 200 million kWh per year to Thailand's hydroelectricity supply, an addition of about 8 per cent.

The burden of oil imports

In 1973, the developing Asian countries which had to devote the largest proportion of their imports to crude petroleum and petroleum products were the Philippines, Sri Lanka and Thailand, for which it was 11-12 per cent, and India, Pakistan, and the Republic of Korea, for which it was 7-8 per cent. By 1976, after the first large increase of oil prices, the proportion had jumped to 22-25 per cent for India, the Philippines, Sri Lanka and Thailand, and to 18-19 per cent for Pakistan and the Republic of Korea. The second large increase of oil prices, in 1979-1980, raised these proportions further, but its effect is only partly reflected in the available data for 1980. They show rises to 34 per cent for India, to 31 per cent for Thailand, to 28-29 per cent for the Philippines and the Republic of Korea, and to 23 per cent for Pakistan and Sri Lanka. The 1981 proportions are bound to have been higher.

Also seriously affected by much dearer oil were Bangladesh and Pacific island countries. Bangladesh, with little industry, devoted less than 4 per cent of its 1973 imports to petroleum but, by 1980, this proportion had risen to 10 per cent. The corresponding change for Fiji was from 9 to 23 per cent, for Papua New Guinea from 6 to 19 per cent, for Samoa from 4 to 17 per cent, for Solomon Islands 8 to 16 per cent and for Tonga from 6 to 15 per cent.

and an Energy Master Plan is being prepared with help from the United Nations Development Programme and the ADB. One hope is to reduce oil imports from 94 per cent of total energy consumed to 49 per cent by 1989. That hope was strengthened, in November, by the announcement of a promising discovery of oil in an exploratory well in north-east Thailand.

The Philippines is likewise attempting to lessen a heavy dependence on imported oil by developing the alternatives of hydropower, geothermal power and imported coal, but not neglecting experiments with biomass and solar energy. The hope here is to reduce the share of oil in energy consumption from 92 to 41 per cent by 1985. Nuclear power, an option whose consideration has been postponed in Thailand until 1983, is also being examined by the Philippines. Most importance is being given to geothermal stations which already have a capacity of 446 MW and put the Philippines in second rank as a producer of such energy.

Singapore has no indigenous energy resources and so must rely upon diversification and conservation to alleviate its dependence on oil imports. Nuclear power is regarded as too risky in such a small, densely peopled area so that imported coal is the main alternative to oil. Vigorous conservation measures already taken include world pricing of energy, upgrading the system of public lighting, restricting the use of air-conditioners and improving the thermal efficiency of power generation.

Hong Kong is, of course, in a similar energy position to Singapore. It has let a contract for a large, second thermal power station in the New Territories, and is also negotiating with China for a joint venture in nuclear power generation, a likely

site being at Day's Bay, about 30 miles away from Hong Kong. This nuclear proposal would double Guangdong's electricity capacity and leave some over for Hong Kong, but not before 1988.

The Republic of Korea, also highly industrialized, has as its only indigenous sources of primary commercial energy some anthracite, hydroelectricity and nuclear power. In 1979, they could together supply less than two fifths of the country's energy requirements so that it, too, depends heavily upon imported oil. Efforts are being made to reduce this dependence by building more nuclear stations and thermal stations powered by imported coal. Supplies of oil are being diversified away from the Middle East, and offshore drilling operations are under way in conjunction with Japanese interests. In 1980, a large new oil-fired plant and a novel pumped storage hydro-plant came into operation; together with a number of smaller additions, they raised total generating capacity by 16 per cent. Construction was also continuing on four giant coal-fired stations and on six nuclear generators, all due to come into operation by 1987. Much effort, moreover, has been put into a wide range of measures for conserving energy, mainly by improving efficiency of generation, transmission and end utilization of power.

China is the world's third largest user and producer of energy. Commercial energy, in 1980, was estimated at 614 million tons of coal equivalent, and non-commercial energy, mainly firewood, crop residues and animal wastes, at 250 million tons of coal equivalent. Coal supplied 70 per cent of commercial primary energy, oil 25 per cent, natural gas 3 per cent and hydropower a little more than 3 per cent. About 3 per cent of energy was lost in power generation or transmission and 72 per cent of

the remainder went to industry, 5 per cent each to transport and agriculture, and only 14 per cent to commercial and household users. Exports of oil accounted for another 5 per cent. In recent years growth of energy consumption has slowed to 5.6 per cent a year and its production actually fell in 1980: by 2.4 per cent for coal, 0.2 per cent for crude oil and 1.7 per cent for natural gas. The output of electricity, however, rose by 15 per cent.

Known reserves of coal and the potential for hydroelectricity are very large, as may be deposits of oil and gas, but geographical difficulties have limited the development of many energy resources. Oil production has decelerated owing to a low rate of discovery and the backward technology used for known resources. Methods of using energy in industry also appear to be less efficient than in other developing countries, and incentives to conservation have been lacking.

A few years ago it was expected that oil would, besides making a big contribution to China's own needs for energy, provide a substantial part of export income. Its contribution to primary energy consumption did rise from 1.3 per cent in 1952 to 24.1 per cent in 1981, and it also contributed 18 per cent of exports in 1980. Oil output, however, peaked at 106 million tons in 1979 and is projected to be around 100 million tons in 1985. Only 8.1 million tons out of a contracted delivery of 9.5 million tons could be sent to Japan in 1980, and no more would have been sent in 1981. Oil's contribution to export income has been further reduced by a price decline consequent upon the recent world glut. Some oil is produced from China's large deposits of shale but that output dropped from 514,000 tons in 1975 to 315,000 tons in 1979,

and there do not appear to be plans for increasing it. Natural gas has had a steady output but much of it is needed to produce fertilizer.

Coal output also peaked, at 636 million tons, in 1979, dropped by 2 per cent in 1980 and was expected to drop further. It is used, among other purposes, to produce more than half of China's electricity, the output of which has grown at the impressive rate of 14 per cent a year since 1952. Hydropower contributes less than a fifth to electricity output but, in view of the difficulties about oil and coal, it has been decided that hydroelectrical capacity should be rapidly increased over the next decade.

A good deal of attention is also being paid to biogas. By 1979, China had some 7 million digesters supplying household needs for energy in cooking, heating and lighting. The digesters were more efficient and less costly than in most other countries.

It would appear likely that China could become a net importer of oil by 1990, and that slow growth of energy supplies would be the most serious constraint upon the country's growth during the 1980s. Declining oil production and continued growth of demand are the major factors here, although the picture could be brightened by more active exploration for energy resources, more efficient utilization of them for secondary energy, and stronger measures to conserve energy over all its uses.

Pacific island countries have no known resources of fossil fuels to relieve their extremely heavy dependence on imported petroleum products, and only Papua New Guinea is thought to have reasonable prospects of discovering commercially significant deposits of oil or natural gas. The larger high islands have forests, used for firewood, and a potential for hydropower which is little ex-

ploited; attention, however, is now being paid to hydroelectric projects and to replacing oil by wood for thermal generation of electricity. Progress has also been made in using solar collectors for domestic water heating and similar uses of low-grade heat.

In Fiji and Papua New Guinea, most recent attention has been paid to the energy possibilities of biomass. Fiji has a big sugar industry which has long used the waste, bagasse, to generate steampower and electricity, mainly for sugar mills. A feasibility study, made in 1980, has found that ethanol

could be produced, at reasonable cost, from sugarcane juice, and also from cassava, to yield an output of around 20 million litres by 1984; that could replace one fifth of oil imports. Papua New Guinea has an advanced project to farm cassava in the Western Highlands as the major input for an alcohol commercial demonstration plant having a capacity to produce 2 million litres a year. Biogas projects are also being considered in these two countries, and in Cook Islands, Solomon Islands, Tonga and Vanuatu.

Biomass projects are, of course, not confined to Pacific island countries. Indonesia has built an ethanol plant in Java to produce 5 million litres of ethanol a year from manioc and sweet potatoes. The Philippines has a 10-year programme for producing enough ethanol from sugar and other plant materials to replace 30 per cent of its present oil imports. Thailand is considering a similar programme to replace 20 per cent of its annual consumption of gasoline. There are still doubts about the comparative economic costs of producing ethylene, and

The role of manufacturing

Most developing ESCAP countries have seen industrialization as indispensable for their economic progress from low to medium levels of real income per head, and have given it a key emphasis in their plans for national economic development.

Those plans have been successful in a number of countries. By the end of the 1970s, manufacturing had come to contribute 20 per cent of GDP in Malaysia and Thailand, and 25-28 per cent in Hong Kong, the Philippines, the Republic of Korea and Singapore. These proportions compare with 21 per cent in Australia and 30 per cent in Japan.^a The consequence is that their economies are now more susceptible to changes in domestic manufacturing activity, whether induced by local or world conditions. That is particularly the case where growth rates for real manufacturing output are high, and the growth rate averaged, for 1975-1980, 11-12 per cent in Malaysia and Singapore, and nearly 17 per cent in the Republic of Korea. But in the Philippines it averaged only 5 per cent.

India and Pakistan have also raised, although to a lesser extent, the relative contribution of manufacturing to GDP. In 1979, this was 16 per cent for India, and 15 per cent for Pakistan. Average growth rates for manufacturing in 1975-1980 were 4.7 per cent for India, and 5.2

per cent for Pakistan. These two countries may well be entering a phase of accelerating industrial development that will increase the relative economic importance of their manufacturing activities, and gear them better to the opportunities offered by export markets, from which east and south-east Asian countries gained so much during the 1970s.

At the low end of the scale are the least developed countries of the ESCAP region. Manufacturing accounts for 7 per cent of GDP in Bangladesh, and for only 4 per cent in Nepal. Papua New Guinea's share is 1 per cent above that of Bangladesh, as is that of Indonesia, although these two countries, because important mining activities raise their per capita GNPs, are not classed among the least developed countries.

Bad harvests in 1979/80 in some parts of the region, or recession of world export demands, slowed down, or reversed, the expansion of manufacturing real output in India, Malaysia, Thailand and in some other countries, although there was no such check in Pakistan or the Philippines. That has had some effect in reducing optimism about achieving the 9 per cent annual increase of manufacturing activity which the United Nations has called for during the present Development Decade. There has also been some tempering of enthusiasm for

industrialization in view of growing concerns about other aspects of economic development; in particular, the need for spatial dispersion of industry, better links with agriculture, the need to increase employment, and concern about damage to the environment.

More positively, however, there has been a growing recognition of the need to restructure manufacturing away from over-protected and economically costly industries of the import-substitution type, and towards more efficient ones having an export potential.

These matters were discussed in July 1981 at an ESCAP meeting of the *Ad Hoc* Group of Ministers of Industry. They stressed that national plans for industrial development should not be rigid but flexible enough to make continuous adaptations to changing economic circumstances and emerging opportunities. An important element in this approach is to raise sufficient domestic resources for achieving planned targets. Another is to identify promptly the changing pattern of comparative advantage, for both a single country and different subregions, so as to make appropriate changes to industrial projects and programmes. These two elements, it was felt, were not adequately recognized in existing plans.

^a In these two countries, however, the share of manufacturing in GNP is tending to decline but, in the above developing countries, it is increasing.

there are also worries that new, large-scale production of cassava or sugar would reduce land available for more urgently needed supplies of food.

C. FOREIGN RESOURCES

Developing countries need imports to supply machinery and transport equipment and, in Asia, such countries devote one quarter to one third of their import pay-

ments to these capital goods. They are needed for mechanizing agriculture, equipping mining and manufacturing, and improving transport and communications. Oil-deficient Asian countries had, in 1980, to allocate about the same proportions of import payments to crude petroleum or petroleum products because modern methods of production require much commercial energy. Food-deficient countries have to allocate another

substantial proportion of import payments to cereals, although one which naturally varies with their own harvests; in 1978, the proportion ranged from 8 per cent in the Republic of Korea or the Philippines to 30 per cent in Sri Lanka. Much of the remainder of imports comprises raw or semi-finished materials and other producers' requisites. Only a comparatively small proportion goes to consumer goods other than food or

Table II.7. Developing Asian countries. Composition of imports, 1977-1980

	Imports 1980 (\$ million)	Percentage of total imports								
		Oil			Food imports			Machinery and transport equipment		
		1978	1979	1980	1978	1979 ^a	1980 ^a	1978	1979 ^a	1980 ^a
South Asia										
Afghanistan	405	12	15	...	14	...	...	7	...	...
Bangladesh	2 610	15	11	10	21	19	15	18	23	22
India	14 128	26	25	34	16	...	...	19	...	...
Nepal	342	10	8	12	13	10	...	20	20	...
Pakistan	5 350	18	17	23	19	12	7	25	25	25
Sri Lanka	2 018	16	18	23	30	...	...	24	...	...
South-east and east Asia										
Burma	354	...	...	...	...	...	...	...	45	...
China	15 675	...	...	...	17	15	...	18	25	...
Hong Kong	22 438	5	6	7	15	10	9	19	17	15
Indonesia	10 834	9	11	15	18	...	...	36	...	...
Malaysia	10 813	11	12	13	17	12	11	34	35	37
Philippines	8 295	22	23	29	8	5	6	27	26	22
Republic of Korea	22 304	15	17	28	8	7	8	33	30	22
Singapore	23 984	24	25	29	10	7	6	29	30	30
Thailand	9 215	21	22	31	4	3	3	31	26	23
Pacific islands										
Fiji	561	16	18	23	20	16	14	19	22	22
Kiribati	19	11	15	15	27	...	...	19	...	...
Papua New Guinea	742	...	...	18 ^b	...	...	19 ^b	...	...	30 ^b
Samoa	65	7	9	16	22	20	22	26	36	20
Solomon Islands	72	12	13	...	16	13	11	27	37	39
Tonga	33	10	10	15	28	27	23	17	22	17

Sources: ADB, *Key Indicators*, April 1981, table 25; World Bank, *World Development Report 1981*, table 10; and national sources for China and Papua New Guinea.

^a Preliminary data from ESCAP Statistics Division.

^b January-September 1980 only.

Table II.8. Developing Asian countries. Merchandise exports, imports and trade balances, 1973-1980

(\$ billion)

	1973	1974	1975	1976	1977	1978	1979	1980
Imports ^a								
c.i.f.	32.6	49.2	52.5	62.0	67.4	84.3	109.0	141.8
Exports ^a								
f.o.b.	28.1	42.1	41.1	59.6	64.5	75.0	98.9	124.0
Balance	-4.5	-7.1	-11.4	-2.4	-2.9	-9.3	-10.1	-17.8
China								
Imports c.i.f.	...	...	...	...	7.1	11.1	15.7	19.4
Exports f.o.b.	...	...	...	...	7.5	10.0	13.6	18.2
Balance	...	...	...	...	0.4	-1.2	-2.1	-1.2
Memorandum items: ^b								
Unit value of imports	60	93	100	99	102	111	131	170
Unit value of exports	78	107	100	104	117	128	152	169
Terms of trade	130	115	100	105	115	115	116	99

Source: IMF, *International Financial Statistics*, November 1981 and *Yearbook*, 1981.

^a Excluding China.

^b Excluding China and Indonesia.

oil, so that the great bulk of imports are needed, in developing Asian countries, for sustaining and increasing those modern economic activities upon which growth of real incomes depends.

Immediately after the first big increase of oil prices, the volume of imports to developing non-oil countries in Asia and the Pacific became stationary, and a bigger proportion of them had to be devoted to petroleum. But, as the real price of oil fell from its 1974 peak, the volume of imports to these countries rose at the fairly brisk rate of 13 per cent a year. Then in 1980, as the second big increase of oil prices took effect, the volume of imports again became stationary. That cessation of growth in imports, and the associated rise in the proportion devoted to petroleum, was, in itself, a marked check to the

economic growth of developing ESCAP countries.

During the 1970s, merchandise exports from non-oil developing countries in the ESCAP region paid for about nine tenths of their imports. There was thus a substantial import surplus which had to be financed in other ways and, as table II.8 shows, the surplus was highly variable. In 1973, it was 16 per cent of export receipts, rose to 28 per cent in 1975, averaged 8 per cent between 1976 and 1979, and rose to 14 per cent in 1980. The two big rises in the proportion of the import surplus to exports were associated with big deteriorations in the terms of trade: by 23 per cent between 1973 and 1975, and by 15 per cent in 1980.

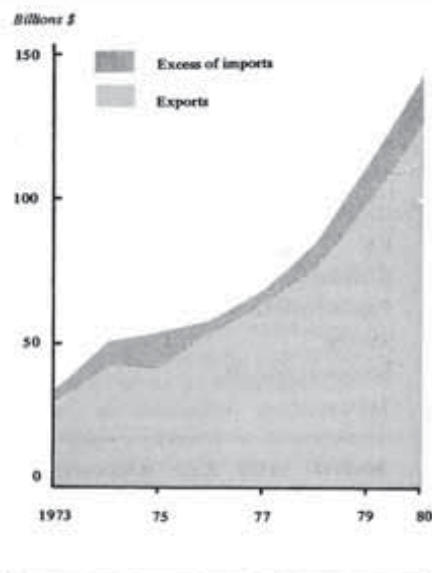
Officially published trade figures for China are not available before 1977. It appears from the

later figures that China has also suffered large trade deficits in recent years. Although its exports rose by 143 per cent between 1977 and 1980, its imports rose by 173 per cent, so that there has been a trade deficit equal to about 7 per cent of export receipts. There was a small trade surplus in 1977, a deficit which was equal to 15 per cent of exports in 1979, falling to 7 per cent in 1980.

For non-oil developing countries of Asia, including China, trading conditions did not improve during the first half of 1981. Unit values of both exports and imports appeared to change little, but that only meant continued depression of the terms of trade by falling prices for primary exports instead of by rising prices for oil. From mid-1980 to mid-1981, oil prices were stable or falling slowly⁸ and world prices of primary commodities, also expressed in US dollars, fell by 14

⁸ IMF, *International Financial Statistics*, November 1981, pp. 46-47.

Figure II.5. Developing Asian countries. Exports, imports and trade balances, 1973-1980



per cent. Above average falls occurred for coffee, rubber and tin; about average falls for coconut oil, timber and copper; and below average falls for copra, palm kernels, tea, jute and plywood. There were, however, rises of 20-30 per cent for rice, maize, hides and manganese.

According to IMF estimates, the combined trading deficit of non-oil developing countries in Asia (including China) was \$ 30 billion in 1980, \$ 14 billion in the first half of that year, and \$ 18 billion in the first half of 1981.⁹ This would seem to be further deterioration in line with an IMF forecast that the combined current external deficits of all non-oil developing countries, after rising from \$ 29 billion in 1977 to \$ 82 billion in 1980, would rise further to \$ 97 billion in 1981.⁹ Results in Asia were rather mixed in the first part of 1981, as table II.9 indicates.

In south Asia, India showed no improvement, as indicated by

⁹ IMF, *IMF Survey*, 20 July 1981, p. 215.

Table II.9. Non-oil developing countries of Asia. Ratio of merchandise trade deficit to merchandise exports, 1980 and 1981

(Percentage)

	India	Malaysia	Pakistan	Philippines	Republic of Korea	Singapore	Sri Lanka	Thailand	All countries
1980	76	-16	104	45	27	24	88	42	28
1981	76 ^a	-2 ^a	64 ^b	38 ^c	25 ^d	33 ^b	102 ^c	40 ^b	28 ^c

Source: IMF, *International Financial Statistics*, October 1981, pp. 46-47.

- ^a First six months.
^b First seven months.
^c First five months.
^d First eight months.

change in the ratio of the trading deficit to exports, Pakistan a considerable improvement, and Sri Lanka some deterioration. In south-east Asia, there was a small improvement for the Philippines, little change for Thailand and an apparent deterioration for Singapore. Malaysia's export surplus decreased relatively from 16 to 2 per cent of exports in the first half of the year. The Republic of Korea's position was little changed. For non-oil developing countries

of Asia as a whole, the ratio hardly changed from 28 per cent in 1980 to 30 per cent in the first five months of 1981.

Net receipts from services and transfers pay for a considerable proportion of the trading deficit. According to IMF estimates¹⁰ for developing Asian countries, including oil-exporting Indonesia but excluding China,

¹⁰ IMF, *World Economic Outlook* (1980), p. 99.

Trade statistics and floating exchange rates

Those who are at all familiar with methods of compiling foreign trade statistics know that these have nothing like the precision of physical measurements. In Asia, and elsewhere, they often do not have a complete coverage of trade transactions because smuggling escapes official recording and dishonest invoicing distorts it. Yet, even if recording were complete, there are conceptual and practical difficulties over valuation, quantification and classification. There are also difficulties in exact matching, within a given accounting period, an export of one country with a corresponding import of another country because of time lags associated with transport and warehousing.

Floating exchange rates have increased the difficulties over valuation,

and in two ways. The first is that there could be a variation of the exchange rate between a national currency and a foreign currency in which an export is invoiced between the times of dispatch and arrival. That would artificially inflate import values of countries whose currencies were depreciating and, to a lesser extent, export values of countries whose exports were appreciating, both values being in terms of the foreign currency. Since 1972, therefore, unit value indexes, whether expressed in US dollars or in national currencies, have become a bit less reliable.

The second complication from variable exchange rates is that the US dollar, which is the most widely used currency for actual trade transactions,

and for intercountry comparisons or aggregates of foreign trade, has fluctuated considerably vis-à-vis other currencies. It depreciated against the new SDR by 14 per cent between 1970 and 1976, appreciated by 11 per cent over the next two years, and then depreciated again by 2 per cent up to the end of 1980. From January to August of 1981, it suddenly appreciated against the SDR by nearly 13 per cent. The result has been that the unit value of world exports appears to have increased, between 1971 and 1980, by 263 per cent if measured in US dollars, but by only 103 per cent if measured in SDRs.

The second complication, however, does not affect ratios of values such as the terms of trade or the import value of total exports.

their trading deficit, on a strictly f.o.b. basis, averaged \$ 8.7 billion a year between 1977 and 1979. Net receipts from services and private transfers averaged \$ 1.6 billion, and net official transfers \$ 1.7 billion, reducing the amount that had to be financed by other means to \$ 5.0 billion. Net borrowing from multilateral agencies, Development Assistance Committee

(DAC) countries, members of OPEC and international financial markets rose from \$ 5.3 billion in 1976 to \$ 15.7 billion in 1979. As these averaged \$ 10.4 billion a year, developing Asian countries had an over-all surplus of \$ 5 billion a year, permitting some handsome additions to their reserves of foreign exchange and notably for Burma, Fiji, Malaysia,

Pakistan, the Philippines and Singapore.

Data available to the secretariat¹¹ about finance of the current deficit in the balance of payments is fragmentary for 1980, and still more fragmentary for 1981. There seems, however, no reason for pessimism about finance

¹¹ In December 1981.

Asian investment and transnational corporations

A transnational corporation (TNC) is a private enterprise which controls assets in more than one country. These corporations have had an important, if somewhat controversial, role in the recent economic development of ESCAP countries by transferring capital, technology and business skills, as well as by helping to open markets for Asian exports.

Up to 1970, TNCs based in the United States and the United Kingdom had been responsible for most of the direct foreign investment in developing Asian countries. Their investments were mainly in such traditional areas as plantations, mines, railways and public utilities but became increasingly directed to petroleum, import-substitute manufacturing and finance. The approach was "micro-economic", being concerned to preserve markets or to obtain enterprise profits in other ways. Nor were the United Kingdom and the United States greatly concerned about investment in Asia; less than a quarter of their direct foreign assets were in developing countries, and only 4 and 9 per cent of them were in Asian developing countries.

During the 1970s, Japanese TNCs became the leading direct foreign investors in Asia, and especially in east and south-east Asia. In contrast to the western countries, Japan's approach has been somewhat "macro-economic", concerned with resource scarcities, domestic labour shortages and huge surpluses of foreign exchange. It has thus tended to invest in developing countries, and 29 per cent of its direct foreign assets are in Asian developing countries. The favoured enterprises, moreover, are those which produce energy, raw materials and labour-intensive manufactures, most of

them export-oriented. This policy, of course, fits a complementary need for developing Asian countries in achieving growth through a break-away from traditional patterns of production and trade.

More recently, there has been a rapidly growing volume of direct investment within the ESCAP region by TNCs based in Hong Kong, the Philippines, the Republic of Korea and Singapore. Together, they now account for more direct foreign investment within the region than either Japan or the United States. Ethnic or ex-patriate Chinese are involved in such TNCs, but they also include TNCs from developed countries using an Asian country as a base because of tax-sheltering or other inducements given by the host country.

Between 1971 and 1977, reported accumulated direct foreign investment in developing Asian countries totalled \$ 13.2 billion, more than four times the corresponding total for 1967-1971. Indonesia had received 32 per cent of this total; Malaysia 14 per cent; Hong Kong, the Republic of Korea and Singapore 8-9 per cent each; and India 6 per cent. South Asia's share has been small, but it is growing more rapidly now that Bangladesh, India and Sri Lanka have begun opening export processing zones, and encouraging joint ventures with TNCs. China, too, has recently opened its economy to TNC participation in some fields.

Transnational corporations' involvement in Asia goes well beyond the direct investment activities just mentioned. This involvement increasingly takes the form of partial and non-equity agreements between a TNC and the Government of a host country,

a State enterprise or a local private enterprise. There are various types of production-sharing agreements: contracts for work; service contracts in the mining and petroleum activities of Indonesia, Malaysia and the Philippines; joint-venture arrangements for manufacturing; non-equity contracts for technology, management or marketing; sub-contracting arrangements in export processing zones; turn-key projects; and compensatory trade agreements or arrangements to buy back products.

One other spectacular development has been the rise of transnational banking (TNB). Because of it, TNC lending to developing countries has jumped from about \$ 5 billion in 1970 to about \$ 36 billion in 1976; and the share of this lending in total capital flows from TNCs to developing countries rose to 28 per cent, as against 12 per cent for direct investment by DAC countries.

It seems unlikely that the current world recession will check the expansion of TNC investment in the developing ESCAP region. Japan, the leading investor, has strong reasons for continuing the virtual export of labour-intensive or polluting industries to the rest of Asia, and also has the economic ability to continue with this policy. Under the present Government of the United States, strong encouragement is being given to the use of private enterprise for promoting economic aid and economic development. Nor are there signs of any slackening of intraregional foreign investment from such middle- to upper-income countries as Hong Kong, Malaysia, the Republic of Korea and Singapore.

of these two deficits. Combined foreign exchange reserves of all developing Asian countries (including China) increased from SDR 24.0 billion in 1979 to SDR 26.4 billion in 1980 and, in July 1981, were SDR 29.6 billion. Drawing by these countries on IMF increased from SDR 356 million in 1979 to SDR 1,587 million in 1980, and were SDR 1,672 million in the first half of 1981. New loans by the World Bank increased from \$ 4.2 billion in 1979 to \$ 4.8 billion in 1980, and were \$ 4.9 billion in the first half of 1981. Eurocurrency credits, after falling from \$ 7.4 billion in 1979 to \$ 4.5 billion in 1980, more than

recovered to \$ 4.7 billion in the first nine months of 1981. These three sources accounted for 53 per cent of net financial flows to developing Asian countries in 1979; their combined gross flows fell by 6 per cent in 1980 but were almost as high in the first half of 1981 as in the whole of 1980.

There are reasons, too, for thinking that DAC official loans, which had provided 45 per cent of net financial flows to developing Asian countries in 1979, increased substantially in both 1980 and 1981. The total of DAC official assistance to developing countries increased from \$ 22.3 billion to \$ 26.6 billion in 1980.¹² There

may have been some decline in this flow in 1981 because of recession in the industrial countries and a more stringent aid policy in the United States; but OPEC and Scandinavian countries have maintained their aid programmes, and Canada, the Federal Republic of Germany, France, Italy, Japan and Switzerland have indicated increases. Even if there was little increase of official and bilateral capital flows during 1981, it seems likely that increased multilateral flows and Eurocurrency credit could have ensured a major addition to total financial flows.

¹² World Bank, *Annual Report, 1981*, p. 26.

III. SOUTH ASIA AND IRAN

Much better harvests, in 1980/81, helped India to make a full recovery from the economic set-back of the previous year, when its real GDP fell by more than 4 per cent. They also gave considerable relief to Bangladesh and helped Nepal to recover from its previous crop failures. Pakistan and Sri Lanka, however, had somewhat slower growth of real GDP, although their rates were still comparatively high. Recovery did not mean progress, as improvement of real incomes per capita is still disappointingly slow in south Asian countries; and five of them – Afghanistan, Bangladesh, Bhutan, the Maldives and Nepal – have been classed as “least developed” countries, needing far more economic aid to break out of low-level economic stagnation. Current difficulties are perhaps most acute with regard to balances of payments. Dear oil and domestic inflations have pushed up import bills, and world recession has impeded export growth. India, late in 1981, obtained a record credit of \$ 5.8 billion from IMF, nearly half of which is to be used for its 1980/81 deficit. Pakistan has had to seek debt relief, and Bangladesh, like India and Pakistan, has had to raise expensive loans on international capital markets. Inflation has not been much worse than in the rest of the world, and has shown signs of abating, but is a further problem because of its effects on external trade, production, and the distribution of incomes. Abundant liquidity has been generated by large demands made on the banking systems by Governments or official entities, and by excessive credits to the private sector in nearly all these countries. Steps, however, are being taken to tighten credit conditions, to rationalize interest rates, and to reduce fiscal deficits, at least in the larger countries.

A. BASIC PROBLEMS

The countries of south Asia – Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka – have serious economic problems which seem to yield only slowly to measures of economic planning. They are among the poorest countries of Asia, with per capita incomes which ranged, in 1979, from \$ 100 in Bangladesh to \$ 270 in Pakistan, and so populous that they contain more than a fifth of the world's people. Poverty is worst in rural areas, and the proportion of people employed in agriculture ranges from 50 per cent in Sri Lanka to 94 per cent in Nepal. In the 1970s, a definition of poverty used by the International Labour Office put the proportion of rural people below the poverty line at 48 per cent in India, 62 per cent in Bangladesh and 74 per cent in Pakistan.¹

Poverty is basically low productivity of labour – low real income per capita. It is aggravated, however, by marked inequality in the distribution of real income between households. The richest fifth of households is thought to receive about 59 per cent of total household income in Nepal, 49 per cent in India and 43 per cent in Sri Lanka; comparable figures for Australia and Japan are 39 and 41 per cent. Or, to look at the other end of the scale, the share of the lowest 40 per cent of the population in GNP, about 1975, has been estimated as 8 per cent for Iran, 16-17 per cent for India and Pakistan, and 19-20 per cent for Bangladesh and Sri Lanka.²

¹ *Asian Development in the 1980s*, p. 9.

² World Bank, *World Development Report 1981*, table 25.

Growth rates for real income per capita are also low in south Asia. During the 1970s, the rate was 0.3 to 0.5 per cent for Bangladesh and Nepal, 1.3 to 1.4 per cent for India and Pakistan, and 1.9 to 2.1 per cent for Afghanistan and Sri Lanka. These rates contrast with averages of 2.6 per cent for all low-income developing countries and of 3.1 per cent for other medium-income, developing countries except the oil exporters.

Poverty and slow growth of real incomes have been associated with widespread and persistent unemployment or underemployment of labour. Firm estimates are hard to come by in these countries as so large a part of the population is in rural areas. Estimates for Sri Lanka put unemployment at 15 per cent of the labour force in 1978, but it had been as high as 24 per cent in

1974. No estimates of total employment have been made in India for some years, and unemployment statistics relate only to urban areas; but an official committee estimated that, in 1971, India had 9 million unemployed and another 24 million working less than 28 hours a week out of a labour force of 180 million. In Pakistan, about half the labour force is thought to be affected by either unemployment or underemployment. The proportion may be even higher in Bangladesh as recent estimates suggest that one third of its labour force has been unemployed or underemployed.

Another common feature of their economic situation is continuous and substantial reliance upon foreign aid in order to finance imports and domestic capital formation. Such aid, in 1979, came to 14 per cent of GNP in Bangladesh, 8 to 9 per cent in Nepal and Sri Lanka, and about 3 per cent in Afghanistan and Pakistan. It came to only 1 per cent in India but that country, because of its size, received about one third of all aid flows to south Asia and that third, on a net basis, came to 15 per cent of its import payments.

Iran is the only ESCAP country which is in west Asia. Up to 1979, it could be ranked as a middle-income and capital-surplus oil-exporting country. However, revolutionary change, continuing civil disturbances and a war with Iraq have greatly worsened Iran's economic conditions. Its per capita income has probably been reduced by one quarter between 1977/78 and 1980/81 to a current level of about \$ 1,900; that level, however, is still well above south Asian average incomes.

Afghanistan has experienced radical political change and strong armed resistance to it. The World Bank puts the decline in Afghanistan's per capita income

at about one tenth between 1977 and 1979 and, notwithstanding guerrilla activity, the Government has claimed a 4 per cent rise of real GDP in 1980/81.

Poverty and population growth make food supply exceptionally important in south Asia, where malnutrition is widespread and mass starvation a recurrent danger which can be avoided, when the monsoons fail, only by large imports of cereals or by drawing down food reserves. Food production has not kept pace with population growth in Afghanistan, Bangladesh or Nepal, and has barely kept pace with it in India or Pakistan. Only in Sri Lanka was there a substantial rise in food production per capita during the 1970s, and this country has still to import a good deal of rice. Afghanistan, Bhutan and Nepal are normally self-sufficient in regard to cereals, but Bangladesh, even in 1979, had to devote one tenth of its imports to cereals. India's need for such imports varies with its harvests; they were 12 per cent of total imports in 1970/71, 25 per cent in 1975/76, 2 per cent in 1977/78, and 12 per cent in 1979/80.

Over-all, ILO has estimated that, in south Asian market economies, the average consumption of calories declined from 2,090 to 1,990 per day between 1960 and 1974, and that of protein from 54 to 49 grams per day. Nor did the dietary position improve in the late 1970s. Yet south Asia is not near to using its full potential for food production. Rice yields are about 2,000 kg/ha in all of them save Pakistan, where the yield is about one fifth higher; but in the Republic of Korea it reached over 6,000 kg/ha between 1977 and 1979. Inadequacies in regard to land reform, irrigation or water control, fertilizer application and use of improved seed and farming techniques are the major impedi-

ments to realizing south Asia's potential for food production.

These, then, are the basic and stubborn problems of economic development in south Asia: poverty, slow growth of real incomes, serious lack of employment, and chronic balance of payments difficulties which are partly connected with inadequate food supplies and, more recently, with energy shortages. The following sections consider information about the ways in which they, and related aspects of south Asian economies, have changed during 1980 and 1981.

B. EMPLOYMENT AND REAL INCOME

India, with 72 per cent of south Asia's population, is much its largest country. It has brought the annual growth of population down to 1.9 per cent a year but still has serious problems over employment. In the organized (non-rural) sector, employment has been growing more rapidly than population, by about 2.5 per cent a year, but this sector employs less than one tenth of the labour force and its growth has not been sufficient to absorb a much more rapid growth of urban unemployment. Registered unemployed, in mid-1980, were 19 million or 7 per cent of the labour force and more than 11 million were chronically unemployed. Under measures of the previous five-year plan, 1978-1983, it had been hoped to stimulate investment so that production would absorb, not only the increase of the labour force, but also a substantial part of the unemployment backlog. Employment in the organized sector did increase by 3.3 per cent in 1978/79 and also in 1979/80, but the target growth rate here is 4.2 per cent a year.

Bhutan and Nepal are also recorded as having brought down annual rates of population growth

Table III.1. South Asian countries and Iran, Population employment and real income, 1976-1980

	Population mid-1980 (million)	Employment mid-1980 (million)	GNP per capita, 1979 (\$)	Annual percentage growth rates					
				Population		Employment		Real GNP	
				1976-1979	1980	1976-1979	1980	1976-1979	1979/80
Afghanistan	15.9	4.1	170	2.6	2.5	...	3.4	2.8	...
Bangladesh	87.7	19.2	100	2.8 ^a	2.8	4.5	...	5.5	4.4
Bhutan	1.2 ^b	...	105 ^b	2.0-2.5	...	...	...	...	6.0 ^c
India	663.6	22.9 ^d	190	2.0	1.9	3.1 ^d	3.1 ^d	6.4	-4.5
Iran	37.5	...	...	2.6	1.4	...	...	4.3 ^e	...
Nepal	14.0	...	130	2.1	2.2	...	...	3.2	-1.4
Pakistan	82.4	23.7	270	3.0	3.0	3.0	3.0	4.7	6.2
Sri Lanka	14.7	1.1 ^f	230	1.7	1.9	8.8 ^f	1.1 ^f	5.4	5.6 ^g
Total	919.0	...	...	...	...	...	...	...	...

Sources: Population: United Nations, *Monthly Bulletin of Statistics*, November 1981; Bhutan country paper.
 Employment: ADB, *Key Indicators*, April 1981.
 Real GNP: ADB, *Key Indicators; 1980 World Bank Atlas*.
 Sri Lanka: National sources.
 Bhutan: United Nations. *Conference on Least Developed Countries, 1981*.

^a The 1981 census establishes an annual growth rate of 2.4 per cent between 1974 and 1981; United Nations, *Monthly Bulletin of Statistics* gives a rate of 2.3 per cent for 1976 to 1979; ADB, *Key Indicators* a rate of 3.0 per cent for 1976 to 1980, and United Nations Secretariat a rate of 2.8 per cent for 1975 to 1980 and also for 1979 to 1980.

^b 1980/81 estimate.

^c Planned rate 1980/81-1985/86.

^d Organized sector only.

^e 1975/76-1977/78.

^f Government and semi-government institutions only.

^g 1980.

to nearly 2 per cent, and Sri Lanka to 1.7 per cent. Little is known about employment in Bhutan, although the Government is planning to reduce the risk of unemployment while increasing the number engaged in non-rural activities. In Nepal, there is considerable unemployment and underemployment in rural areas, but this has not been quantified; steps, however, are being taken to ease a shortage of more skilled urban labour. Sri Lanka had a recorded unemployment rate of 15 per cent in 1978 and, not surprisingly, the Government has declared an aim of creating one million new jobs a year up to 1982. It appears to have had some success in that regard during 1979 and 1980: an official estimate put the unemployment rate for 1980 at 12.8

per cent, and the number of new jobs created since 1978 at 278,000, an increase of employment by 7 per cent. About 50,000 workers had also gone to construction jobs in the Middle East, but this aggravated local shortages of skilled labour.

Bangladesh and Pakistan have high rates of population increase, around 3 per cent a year, and their labour forces appear to be increasing at the same rate. Growth of employment, however, has been at 4.5 per cent in Bangladesh but open and disguised unemployment has been put at over a third of its labour force. In Pakistan, urban unemployment has been officially recorded at 4 per cent of the urban labour force, and underemployment at one sixth of the rural labour force, these

figures seem to be considerable underestimates. Both countries, like India and Sri Lanka, have obtained minor relief by migration of people to work in oil-rich Middle Eastern countries. Pakistan was sending over 118,000 in 1979 and was estimated to have 1.8 million workers there in 1980. Bangladesh expected to send 43,600 each year. The 1978-1980 Two-Year Plan for Bangladesh had emphasized the importance of effectively using the country's vast human resources; and the 1980-1981 Annual Plan for Pakistan had also emphasized development of human skills.

1979/80 was a year of mixed economic fortunes for south Asia. Real GNP declined by 4.5 per cent in India, and by 1.4 per cent in Nepal. Elsewhere it increased but the rate of increase was below

the average for the previous three years in Bangladesh, 4.4 per cent as against 5.5 per cent, and about the same as that average, 5.6 per cent, in Sri Lanka. Only in Pakistan was the 1979/80 rate of increase, 6.2 per cent, above the previous three-year average rate of 4.7 per cent. The position in Afghanistan and Iran is obscure, but declines seem to have been inevitable.

Official indexes of production for Afghanistan show a decline, in 1980, of 13 per cent in industrial production and one of 9 per cent in mineral production. The Government, nevertheless, has announced that economic progress was satisfactory in 1980/81; and especially good in agriculture where prices of key inputs had been reduced. Yet it also announced that 375,000 tons of wheat would be imported from the USSR, equal to about one eighth of the 1978/79 crop, and wheat has not been a normal import for Afghanistan.

Late in March 1981, a presidential statement asserted that Iran's agricultural output had become stationary, and that its industrial output had fallen by at least one third during the past year. Partly because of deliberate policy, the output of crude oil, much the major export, had been reduced from 2,080 million barrels in 1977 to 1,116 million in 1979, then fell to 565 million in 1980, and was 267 million in the first half of 1981. Religious leaders have warned the people to expect austerity over a decade or more. It seems possible that real GNP fell by one tenth in 1980/81, and that it was then about four fifths of the 1977/78 level.

Severe droughts had reduced India's agricultural output by over 15 per cent in 1979/80 and this decline, together with inadequacies of transport, serious industrial troubles and the second jump of oil prices, reduced the annual growth of industrial production

to less than 1 per cent, foodstuffs, fertilizers, textiles, cement, aluminium and steel being particularly affected. Real GDP, accordingly, fell by 4.5 per cent and prices rose by 21.4 per cent. Much better

weather in 1980/81 led to an estimated increase of agricultural production by 19 per cent, and to one of 4 per cent for industrial production, so that real GNP could have risen by 7 per cent

Figure III.1. South Asian countries. Annual percentage change in real GNP per capita, 1976-1980

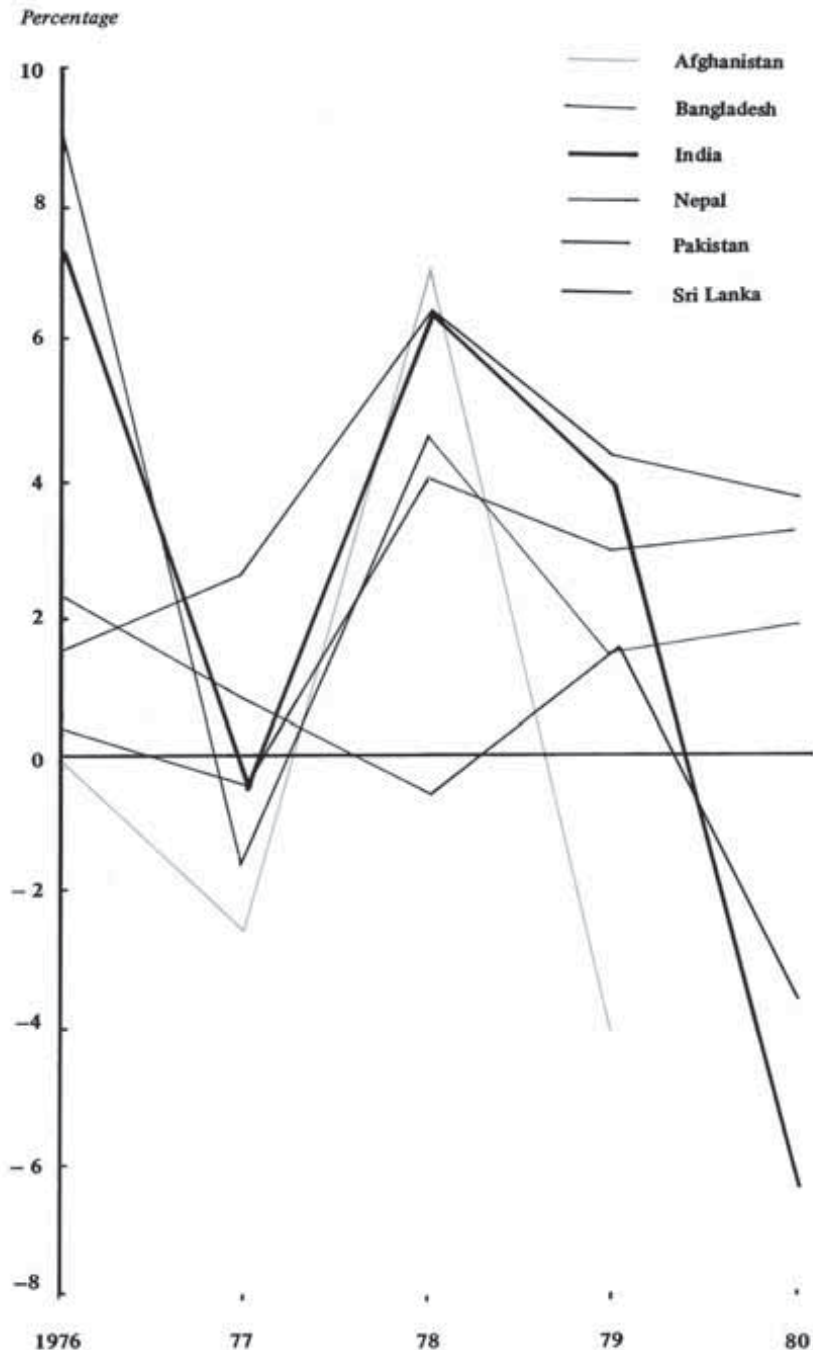


Table III.2. South Asian countries and Iran. Sector contributions to real GDP, 1976-1980
(Percentage)

		Agri- culture etc.	Mining etc.	Manufac- turing, electricity, gas and water	Cons- truction	Trans- port etc.	Trade etc.	Finance (banking, insurance and real estate)	Public adminis- tration and defence	Others
Afghanistan (NI FY 1971/72 MP)	1976-1979 1980	59.2 ...	----- ...	22.0 ...	4.9 ...	4.2 ...	8.2 ...	- -	- -	1.5 ...
Bangladesh (GDP FY 1972/73 MP)	1976-1979 1980	52.6 49.2	----- -----	10.5 10.7	3.3 3.7	6.8 7.1	13.2 14.4	0.8 0.9	2.6 2.8	10.3 11.2
India (NNP FY 1970/71 FC)	1976-1979 1980	43.8 39.6	1.0 1.0	16.3 17.6	5.3 5.1	5.6 5.9	12.3 13.4	5.5 6.0	5.8 6.8	4.4 4.6
Iran (GDP FY 1974/75)	1976-1977	9.6	-----	13.5	5.0	-----71.9 ^a -----				
Nepal (GDP 1974/75 FC)	1976-1978 1979	64.9 61.9	0.1 0.1	4.3 3.5	6.7 8.4	5.6 7.1	3.4 4.0	8.3 8.8	----- -----	6.4 6.2
Pakistan (GDP FY 1959/60 FC)	1976-1979 1980 1981 ^b	32.6 31.5 31.1	0.5 0.5 0.5	17.9 18.6 19.3	5.1 5.3 5.3	6.6 7.0 7.0	13.8 13.9 13.9	2.8 2.6 2.5	10.0 10.2 9.9	10.9 10.5 10.5
Sri Lanka (GDP CY 1979 FC)	1976-1979 1980	25.7 24.3	3.5 3.5	15.7 14.8	4.5 5.5	9.4 9.4	18.9 19.7	1.8 2.0	4.9 4.9	15.8 15.9

Sources: ADB, *Key Indicators*, April 1981; India: *National Accounts Statistics 1970/71 to 1978/79*, January 1981; Iran: Economist Intelligence Unit, *Annual Supplement, 1981*; Nepal: National sources; and Pakistan: *Pakistan Economic Survey 1980/81*.

^a Oil (Iranian share) and services.

^b Estimated.

and inflation did come down to 13 per cent. Even so, real GNP would have been less than 2 per cent above its 1978/79 level, indicating quite inadequate economic progress.

Agriculture has contributed rather more than two fifths to India's net national product and about one third to its exports besides absorbing, in some degree, nearly three quarters of the labour force. There has been a recent trend towards higher and less fluctuating yields because of wider use of fertilizer, better seeds and extension of irrigation systems to cover more than one third of the cultivated area. However, improvement in rice yields has been largely confined to the Punjab, Haryana and Uttar Pradesh, and the improvement in wheat yields appears to have slackened. No great advance has been made in regard to coarse

grains, pulses or oilseeds, and the production of sugarcane has continued to fluctuate because of wide swings of price and variable weather conditions. Over-all, agricultural production has had a trend

rate of growth of only 2.8 per cent from 1967 to 1979, well below the draft Sixth Plan's target of 4 per cent. Attention, therefore, is being given to accelerating improvement of yields for which

Table III.3. South Asian countries and Iran. Annual percentage growth rates for indexes of production, 1976-1980

	Agriculture		Mining		Manufacturing		Electricity	
	1976- 1979	1980	1976- 1979	1980	1976- 1979	1980	1976- 1979	1980
Afghanistan	0.3	0.8	-2.6	-8.6	10.1	-12.6	8.9	6.9
Bangladesh	3.7	2.4	...	...	6.0	17.2	12.6	...
Bhutan	1.9	1.6	...	...	...	...	...	...
India	6.5	-15.5	3.8	-2.6	5.8	0.8	8.8	2.2
Nepal	-0.8	-13.0	...	...	...	...	15.3	19.4
Pakistan	4.1	9.6	...	...	5.1	6.1	6.5	...
Sri Lanka	2.7	1.7	...	4.9	5.0 ^a	8.0	9.2	8.9

Sources: United Nations, *Monthly Bulletin of Statistics*, November 1981; ADB, *Key Indicators*, April 1981 and national source for Sri Lanka.

^a 1978-1979 only.

India's new Sixth Plan

A draft sixth plan had been published in 1978 as a framework for flexible annual plans over the usual five-year period, during which the annual growth rate of real GDP was to be 4.7 per cent. The Planning Commission was reconstituted in April 1980 to prepare a revised sixth plan, and this was presented in February 1981.

It envisages a higher annual growth rate of 5.20 per cent for real GDP, associated with sector rates of 3.83 per cent for agriculture, 11.25 per cent for mining and 7.15 per cent for electricity, gas and water (both reflecting the energy crisis), 6.50 per cent for manufacturing, and 5.10 to 5.46 per cent for construction, transport and other services. Output of food-grains, however, is to rise only from 149 million tons to 154 million tons.

Real export growth^a is put at 9 per cent a year and real import growth at 9.5 per cent a year. Net capital inflows, over the five years, are projected as Rs 120 billion (at 1978/79 prices and gross of an expected loss of Rs 29 billion from further deterioration in the terms of trade). About 49 per cent of these capital inflows would come from net aid, 42 per cent from other official borrowings together with commercial inflows, and the remainder from depletion of foreign reserves.

Total investment expenditures over the plan would be Rs 1,587 billion (at 1979/80 prices) so as to raise the ratio of gross capital formation to GNP from 21.8 per cent to 25.1 per cent. Public saving would finance 21.5 per cent of this investment, private saving 72.7 per cent, and foreign capital inflows the remaining 5.7 per cent. In addition, Rs 135 billion would be spent within the public sector for current development activity.

The basic aims of the plan, as of its predecessors, are to reduce poverty, generate employment and promote technical and economic self-sufficiency. Acceleration of over-all economic growth is regarded as necessary for realizing these aims, but special measures have also to be taken to increase "trickle down" effects by raising the share of poorer people in aggregate

consumption. The urgency of such measures is indicated by estimates that 11 million people between the ages of 15 and 59 years suffer long-term unemployment, and that half the rural population, or more than a third of the urban population, fall below an all-India poverty line.

The two important policies here are an integrated rural development programme and a minimum needs programme. The former is to complete enforcement of legislation for land ceilings, to distribute surplus land to landless families, to provide improved cattle, agricultural inputs and equipment for poor farmers, and to create work opportunities in rural areas. The minimum needs programme will seek to improve elementary education, rural health and water supplies, rural roads, electrification and housing, supplementary nutrition for pregnant women and nursing mothers, and midday meals for school children. The integrated rural development programme is costed at Rs 35 billion and the minimum needs programme at Rs 58 billion. There are other rural development programmes which are to cost Rs 18 billion. Urban poor are also to be helped by employment on works for improving sanitation, slum housing, tree planting and other features of the environment.

Most of the poorer people are in rural areas, and the plan hopes to increase the annual growth rate for agriculture from the 2.8 per cent average achieved between 1967 and 1978 to 3.8 per cent. That would be a substantial acceleration but its realization depends on uncontrollable weather conditions and, given them, is much below technical possibility. There are institutional and cultural obstacles which have been slow to change. Nevertheless, the plan looks to the achievement of self-sufficiency in foodgrains before 1985.

Strong emphasis is given to energy in view of the present strain of oil imports on the balance of payments, and the prospective growth of demands for commercial energy as industrialization proceeds and rural areas make a transition from use of dung and firewood. Efforts will be made to exploit India's considerable reserves of not very good quality coal, a potential for hydropower only one tenth of which has been harnessed, and modest

deposits of oil and natural gas. Demands for oil are to be more strictly controlled, and general conservation of energy promoted. Greater attention is to be paid to new and renewable sources of energy, and research is to be fostered into a whole range of energy technologies. Public outlays on this energy programme over the five years of the plan are put at Rs 265.35 billion or over 27 per cent of their total, Rs 975 billion. India's energy situation, however, is not expected to become at all comfortable by 1985; "maintaining a reasonable balance between energy requirement and energy availability will . . . pose serious challenge in the coming decades".^b It is not expected that the ratio of oil imports to oil consumption will fall more than from 70 to 45 per cent.

Transport has been another bottleneck which has severely affected, at times, distribution of coal, fertilizers, cement and other key commodities. Some Rs 51 billion is to be spent on railways, Rs 46 billion on roads and road transport, nearly Rs 15 billion on ports and shipping, and Rs 8.6 billion on civil aviation.

A main thrust of planning continues to be industrial as 29 per cent of gross investment, public and private, is to be in manufacturing, as against 20 per cent in agriculture. During the early phase of vigorous import substitution, up to 1965, the annual growth rate for industry had averaged a fairly steady 8 per cent. After that the rate fluctuated a good deal, but averaged only 4 per cent during the 1970s. Over one quarter of industry, including key industries, comes under public enterprises, and these have had only meagre profits to finance further industrial investment. The plan calls for improvement to management practices, rationalization of prices, more use of cost guidance, and greater attention to both technology and the quality of outputs. Assuming that there is progress in these respects, and also in the functioning of transport and power facilities, the plan looks to the restoration of an industrial growth rate of 8 per cent a year. High priority is still accorded to steel, non-ferrous metals, capital goods and fertilizers, but the leading roles are assigned to chemicals and electronics.

^b *Sixth Five Year Plan*, p. 229.

^a This to be fostered by allowing 100 per cent export zones with duty-free privileges for imports, to be located anywhere in India. Export production is no longer to have its capacity limited by licensing regulations.

there is a potential acknowledged to be large. A major problem in that regard is to give adequate incentives to farmers; a rise in procurement prices means higher prices for urban consumers or bigger subsidies from government budgets, which are already badly strained.

Foodgrain outputs recovered, in 1980/81, to 130 million tons and, in spite of dry conditions in north-western states, were expected to reach 135 million tons in 1981/82, an increase of only 1.5 per cent. Prospects were better for oilseeds; their output had increased from 8.1 million tons to 10.2 million tons in 1980/81 and was expected to reach over 11 million tons in 1981/82. A large increase was also expected for sugarcane because previously high prices had led to a bigger area planted and there were good rains; the crop may thus increase from 154 million tons to 180 million tons in 1981/82.

Processing of food accounts usually for 8 per cent of industrial production, and the manufacture of textiles for over 17 per cent. Both recovered along with agriculture. These and other industries were also helped by improved supplies of power and transport, as well as by the better labour relations, which reduced the number of man-days lost in strikes from a record 43.9 million in 1979 to 12.9 million in 1980. Industrial production, in the first half of 1981, was nearly 11 per cent above its corresponding level in 1980.

The supply of electricity, both thermal and hydro, began to improve in the second half of 1980 and, in the first half of 1981, was 14 per cent above the level for the same period in 1980. There had been a large addition to generating capacity in 1980/81 but, as most thermal stations were operating well below capacity, the main factor was an improvement in deliveries of coal. The railways had

been able to move so limited a quantity of coal that, by March 1981, the pitheads had stocks of 18 million tons, equal to two months' output. Reasons for this state of affairs included a 23 per cent shortage of wagons below requirements for them, bad labour troubles and deficiencies of management. Hopeful of improvement in these respects, the Government set a target output for coal and lignite of 121 million tons in 1981/82, 13 per cent above the 1979/80 output and, in 1980/81, the output reached 114 million tons. The improvement in coal output went with one in railway freight. After declining from 213 million ton-km in 1976/77 to 193 million ton-km in 1979/80, this might have risen a little to 195 million ton-km in 1980/81; but comparison of the second halves of 1979 and 1980 showed no improvement.

Services other than transport accounted for 31 per cent of India's net national product in 1979/80. The draft Sixth Five-year Plan (1978-1983) had set a target growth rate for them of 6.0 per cent a year. Trade, restaurants and hotels accounted for 44 per cent of these other services in 1979/80, finance and real estate for 19 per cent, and public administration plus defence for 22 per cent. In the first year of the plan, the only major change in respect of these services was a rise in the share of public administration plus defence from 5.8 to 6.8 per cent of net national product.

The National Council of Applied Economic Research (NCAER)³ has recently emphasized the dependence of India's industry and services upon the performance of agriculture. A scenario which assumes normal rainfall, and so an increase of

agricultural production by 4 per cent, leads to the conditional forecast that, in 1981/82, the net output of industry would increase by 7.0 per cent and that of services by 4.9 per cent. But an alternative scenario, which assumes such poor rainfall and power shortages that agricultural output increases by only 1.6 per cent, leads to the conditional forecast that the net output of industry would increase by 5.9 per cent, and that of services by 3.3 per cent. Under the first scenario, therefore, the increase of real GNP in 1981/82 would be 5.2 per cent, and under the second it would be only 3.5 per cent.

Nepal had also suffered from drought conditions in 1979/80 and, as agriculture accounts for about two thirds of GDP, there was a fall of 1.4 per cent in real GDP that year. Manufacturing's contribution is only 4 per cent of GDP and it absorbs about 1 per cent of the labour force. Outputs naturally fell for agro-industries, and especially for those producing jute goods, straw boards and sugar, but most other industries continued to expand their outputs.

The production of cereals more than recovered in 1980/81, although it was less than 4 per cent above the pre-drought 1978/79 level, and 2 per cent below that for 1975/76. Paddy, much the most important crop, increased by one fifth, and there were also substantial gains for maize and wheat. Sugarcane and oilseeds, among the cash crops, both had increases of one quarter, but jute declined by one eighth. During the 1970s, agricultural production had grown by less than 1 per cent a year, and there is little sign of improving yields except in the case of wheat. Greater use is being made of better seeds, commercial fertilizers and irrigation facilities, but on too small a scale as yet to have any marked general effect

³ *The Indian Economy, A Review of 1980/81 and Prospects for 1981-1982.*

on agricultural outputs. Livestock and dairy farming are being encouraged in hilly country which is not suited to crops but, in some areas, forests have been over-exploited for firewood and soil erosion has become a major problem. A forestry development scheme, therefore, was begun in 1980 with help from the United Nations Development Programme, the World Bank and FAO. There is also a new policy to develop production and export of timber, but in a conservationist way.

Manufacturing is mostly small-scale and based on agriculture, with jute goods, leather, sugar, beer, biscuits, tea and soap the most important products. The larger establishments had been started in the public sector but, in March 1981, a new industrial policy was announced for encouraging private and foreign investment in any manufacturing industry.

Bangladesh's Second Five-year Plan began in 1980/81 with a striking recovery from the severe economic strains of the two preceding years, which had made it necessary to import a record 2.8 million tons of cereals in 1979/80. Production of foodgrains increased by 1.4 million tons in 1980/81, or by over one tenth, and there were also big gains for potatoes, sugar and tea. Forward estimates put agriculture's contribution to GDP as rising by 7 per cent to become 55 per cent of GDP. Manufacturing's contribution is also expected to have increased by 9 per cent to reach 8 per cent of GDP, but the contribution of construction would decline by over 5 per cent. The combined effect of these and other changes is to give a projected increase of 5.8 per cent in Bangladesh's real GDP for 1980/81. That would bring it one quarter above the 1975/76 level.

The somewhat paradoxical effects of a bumper cereal harvest

on the food situation have already been discussed (see chapter II, section A). Jute is the major cash crop; raw jute provides about one sixth of export receipts and jute goods over one half. The yield of jute has been fairly constant since 1976, but its acreage has varied according to the relative attraction of growing this crop instead of rice, and, in 1980/81, its output fell by 17 per cent. The acreage under sugarcane, however, had been fairly constant and its yield had been low and declining until the 1980/81 harvest, which brought the yield back to the level of the early 1970s.

Development of agriculture has necessarily had the highest priority

in the Government's policy, which has aimed at expanding irrigation, distributing improved seed and commercial fertilizer, and stabilizing stocks and prices by a system of minimum guaranteed prices. In regard to irrigation, emphasis has been put on short-term methods, especially use of low-lift centrifugal pumps. A wide programme was launched in 1979/80, under presidential leadership, for voluntary labour on a network of canals for irrigation and drainage. Between 1978/79 and 1980/81, irrigation was thus provided for another 2.1 million acres, one tenth of the cultivated area. The new five-year plan hopes to increase the irrigated area to 7.2 million acres by 1985

The Kingdom of Bhutan

Bhutan, a land-locked mountain state, has a small population of 1.2 million and a per capita income around \$ 105. Most of the kingdom is forest or wasteland so that only a tenth of its area is cultivated. About 95 per cent of the people depend on agriculture, animal husbandry or forestry for their livelihood, and these activities provide about 54 per cent of GNP. Manufacturing and mining account for about 10 per cent, Government for 12 per cent and other services for 15 per cent.

Bhutan has a considerable economic potential for improving its agriculture, as well as for developing forestry and hydroelectricity. Yet, although once self-sufficient in food, it has come to import up to 15,000 tons of cereals a year. It uses migrant labour, too, for four fifths of employment in non-agricultural production.

India is Bhutan's major trading partner, and their common frontier is so wide open that trade cannot be properly recorded, and there is virtually an informal monetary union with trade conducted mostly in Indian rupees. It would seem that nearly all of Bhutan's exports are raw materials, as are most of its imports. Other imports, in order of value, are manufactured consumer goods, plant or equipment, and petroleum products.

A fifth plan for 1980/81 to

1986/87 has begun, aiming at better use of human and other indigenous resources so as to increase real GNP by about one half. If that could be achieved, per capita income would grow at the respectable rate of 6 per cent a year. It is hoped to increase the share of manufacturing in real GNP from 10 to 15 per cent, and that of other than government services from 15 to 21 per cent, partly by developing tourism. Agriculture would then grow at a slower rate of 5.5 per cent a year to contribute 46 per cent of real GNP, instead of 54 per cent. Hopefully, Bhutan would again become self-sufficient in foodstuffs. Transport would be extended, and hydroelectrical capacity would be increased from 4.4 MW to about 270 MW and yield an export surplus.

It is recognized that the biggest difficulty in carrying out the plan is the serious lack of technical expertise and skilled labour in a country where the literacy rate is only 22 per cent. Much emphasis, therefore, is to be put on education and vocational training. External financial requirements were put at a modest \$ 68 million, and it was hoped that they would be provided by multilateral agencies or other bilateral donors besides India, previously the only source of external aid and still to be the main one.

The Republic of the Maldives

This country of 1,000 coral islands, 208 of which are inhabited by 150,000 people, has been politically independent since 1965 and a republic since 1968. Its people live mainly by fishing, collecting coconuts and raising millets, tubers or tropical fruits on very limited arable soil. About a quarter of employment, however, is provided by cottage or small-scale industry which makes mats, lacquer ware, cadjan products, etc. The Government employs about 8 per cent of the labour force, and has developed shipping and tourism to diversify the economy, to provide employment and to supplement fishing as a source of foreign exchange.

Income per head was estimated at \$ 158 in 1978, about the same level as in Burma, and was thought to be growing by 6 per cent a year. Contributions to national income and employment are indicated in the following table for 1978.

	Value added		Employment	
	MRs (million)	Percentage	Thousand	Percentage
Fishing	40	20.1	27.2	45.1
Other primary production	39	19.6	6.3	10.5
Secondary production	12	6.0	15.9	26.4
Tourism	23	11.6	0.4	0.7
Government	25	12.6	2.2	3.7
Shipping and other services	60	30.1	7.8	12.8
Total	199	100.0	60.3 ^a	100.0 ^a

Sources: National sources.

^a Including other employment not stated.

By 1980, 27 islands had 1,742 beds for tourists, and the number of tourists had increased from 1,799 in 1972/73 to 36,054 in 1979. From 1978, resorts with more than 20 beds became State controlled.

The Maldives Shipping Line Inc. had 37 ships engaged in inter island and international trade. It used to make substantial contributions to State revenue and had a peak profit of \$ 2.7 million in 1975. After that profits were eroded by high fuel costs, and profit transfers to the State dried up.

The fishing industry has also been

damaged by rising oil prices as, between 1978 and 1981, fuel costs rose from 30 to 65 per cent of gross earnings. An administered exchange rate, moreover, puts an implicit tax of about one half on export receipts from tuna and other fish.

Fish account for over 95 per cent of merchandise exports, most of which go to Japan (70 per cent) and Sri Lanka (20 per cent). Rice, wheat flour and other foodstuffs account for almost half of import payments, and petroleum products for over one tenth. Other producers' requisites accounted for only 4 per cent of imports in 1979.

Tourist earnings of \$ 5.8 million in 1978 had grown large enough to cover the merchandise deficit and add something to reserves of foreign exchange. Net receipts of official aid from market economies averaged \$ 5.1 million between 1976 and 1978. Net external debt service was only \$ 78,000, but was projected to rise

to \$ 1.8 million by 1985 under a first five-year plan (1980-1985).

This plan sets a target growth rate of 8-10 per cent a year, and aims at stimulating agriculture, fishing and industry so as to lessen dependence on imports. It also aims at improving education and health services, and to redress socio-economic imbalance between Male and the other islands. In spite of current difficulties for fishing and shipping, the Maldives' economic potential is considered to be a good one.

in order to reach a food production target of 20 million tons, almost 35 per cent more than in 1980/81. Progress in regard to seed and fertilizer has been slower; distribution of improved seed has increased markedly only for wheat, a minor crop in Bangladesh, and distribution of fertilizer increased from a small base by only 31 per cent between 1977/78 and 1980/81.

The share of manufacturing in GDP has hardly increased over the past decade, and there was little progress in such older industries as jute and cotton textiles, paper, tyres and tubes, cigarettes, safety matches and soft drinks, most of which have excess capacity. The growing manufactures have been cement, iron and steel, fertilizer and industrial chemicals. Bangladesh's first five-year plan had aimed at broadening the industrial base, partly to create more employment, but realizations fell far short of targets, except for sugar. Inadequate transport, power failures, labour troubles and deficient management are thought to be the causes of this disappointing situation.

The second five-year plan, 1980/81-1985/86, has target annual growth rates of 7.2 per cent for real GDP, 6.3 per cent for agriculture and 8.6 per cent for manufacturing. For 1981/82 they have been adjusted to 6.4 per cent for agriculture and to 10.8 per cent for manufacturing. These rates appear to be high relative to the previous performance of the economy, but have been set with a view to increasing real GNP per capita by about 4.5 per cent a year. That would bring real GDP per capita to \$ 125, still much below the 1979 level for any other Asian countries, except Bhutan and Nepal.

Sri Lanka's accounts are on a calendar year basis and had shown fairly strong growth of real GDP in 1978 and 1979, averaging 7.3

per cent a year. In 1980, the rate fell to 5.8 per cent largely because drought conditions had reduced outputs of the important cash crops: tea by 7 per cent, rubber by 13 per cent and coconuts by 15 per cent. Industries processing such products had, accordingly, a decline of 10 per cent in output. The rice crop, however, increased by 11 per cent, sufficiently to raise the general index of agricultural production by 3 per cent. Factory industries other than those engaged in processing had a general expansion of 6 per cent in the public sector, entirely due to expanded capacity of the oil refinery, and one of 4.5 per cent in the private sector. There was some decline of output for cement and fabricated metal products, because of a slowdown of construction activity, and a considerable decline for textiles, because of the effect of previous trade liberalization. There was, however, a 31 per cent increase of output for petroleum products and, notwithstanding power cuts in the second quarter of 1980, substantial increases for garments, wood products, basic metals and rubber products. Output in the mining and quarrying sector rose by 5 per cent. There was also growth in the services sector, ranging from 7 per cent for transport to 15 per cent for banking and other financial services.

Dry weather conditions, continuing in the first half of 1981, badly affected the output of hydroelectricity, and continued to affect rice and rubber outputs. Nevertheless, tea production was expected to increase by 8 per cent and coconuts by 10 per cent. Industrial outputs were badly affected by power shortages in the first half of 1981. For the first four months of the year, public-sector industries had a decline of 13 per cent, largely due to a shutdown of the petroleum

refinery for repairs and maintenance work, and there were also marked declines for food processing, fabricated metal products, wood products and paper. Textiles, clothing and leather goods, however, increased their outputs as did non-metallic mineral products. For 1981 as a whole, the general index of factory production was expected to rise by 10-11 per cent.

Official projections have put Sri Lanka's growth of real GDP at 4.3 per cent in 1981, with sector increases of 4 to 6 per cent for agriculture, 4.2 per cent for mining, 5.3 per cent for manufacturing, 7 per cent for construction, and 6.7 per cent for electricity, gas and water.

Pakistan had the most satisfactory economic performance of any south Asian country in 1979/80, with a growth of 6.2 per cent in real GNP, but a lower rate of 5.7 per cent was forecast for 1980/81. It was expected that the growth rate for agriculture would fall from 6.9 to 4.4 per cent, that for manufacturing from 9.5 to 9.2 per cent, and that for services, other than construction services, would decline from 5.6 to 5.4 per cent.

The five-year plan (1978/1983) had given an annual growth target of 6 per cent for agriculture so that actual performance in 1979/80 was above target, and projected performance in 1980/81 was below it. Wheat is the major crop and its yield has been increasing from 1,316 kg/ha in 1977/78 to 1,563 kg/ha in 1979/80; its output had increased by 8.6 per cent in 1979/80 and was expected to increase by 5 per cent in 1980/81. Rice production, however, declined by nearly 2 per cent in 1979/80, and was expected to decline by over 4 per cent in 1980/81. Wheat production, however, is three times that of rice. Other important crops are sugarcane and cotton, both with very fluctuating outputs.

The output of sugarcane fell by 9.1 per cent in 1978/79, increased by only 0.6 per cent in 1979/80, but was expected to increase by 16.9 per cent in 1980/81. Cotton declined by 17.7 per cent in 1978/79, increased by 53.9 per cent in 1979/80, and was expected to be nearly constant in 1980/81. Its yield has also increased, but that of sugarcane has been fairly constant.

The fairly satisfactory performance of Pakistan's agriculture reflects government policies which give it high priority and effective promotion. Measures have included subsidized distribution of improved seeds and commercial fertilizers, aids to plant protection, extension of irrigation facilities, liberal agricultural credit and firm support prices to give farmers incentives for production. Mechanization has also been encouraged. Between 1976 and 1980, agricultural credit doubled, use of chemical fertilizer per cropped hectare increased by 75 per cent, and availability of water at the farmgate increased by 10 per cent.

In 1979/80 agriculture had contributed 30 per cent to Pakistan's real GDP, and manufacturing 19 per cent. The target growth rate set by the fifth plan for manufacturing was 10 per cent a year; this was exceeded in 1979/80, after a decline to less than 5 per cent in 1978/79 due to the bad harvests of that year. Chemical fertilizers increased by 25 per cent in 1979/80, and there were substantial increases also for cigarettes, cotton yarn, jute goods, cycle tubes, cement, soda ash, and iron or steel outputs, but declines for sugar and paints, and little change for cotton cloth, cycle tyres or paper products. Provisional figures for the first nine months of 1980/81 indicate large increases for sugar, urea fertilizer, bicycles and jute goods, but with a substantial decline for cotton cloth, due to

Plans of the least developed countries in south Asia

The least developed countries (LDCs), numbered at 31, are so classified by criteria which appear, to some extent, arbitrary: low GDP per capita (e.g. less than \$ 125 in 1975), predominance of agriculture at a subsistence level, limited manufacturing activity, low levels of education, extremely limited health services, malnutrition, etc. Five of these poorest countries are located in south Asia: Afghanistan, Bangladesh, Bhutan, the Maldives and Nepal. Although there are big economic, social and territorial disparities between them. They have the same priority objective: to eliminate poverty as soon as possible and, in any case, before 1990. This aim cannot be achieved without considerable help from the whole international community.

In September 1981, a United Nations Conference on the Least Developed Countries was convened with the purpose of finalizing, adopting and supporting a Substantial New Programme of Action for them. The five from south Asia presented individual country reviews, including data on financial requirements for their development plans over the 1980s. These plans appear ambitious, because target growth rates for GDP or GNP were put at 5 per cent for Afghanistan, 7.2 per cent for Bangladesh, 8.5 per cent for Bhutan, 8 per cent for the Maldives, and 4.3 per cent for Nepal. Their corresponding actual growth rates, during the 1970s, were perhaps only 1 per cent a year.

As indicated in the accompanying table, these five LDCs give most importance to the agricultural sector, expenditures on it being from one fourth to one third of total allocations. Most of them emphasize projects for achieving self-sufficiency in agricultural and livestock products: improvement of irrigation, better use of fertilizers and land, other improvements to agricultural productivity, forest rehabilitation and conservation (Bhutan and Nepal), and reorganization of fisheries (the Maldives). It is emphasized that success here requires autonomous rural development and, in the view of the Minister of Finance for Bangladesh, "rural development is the cornerstone of all development strategy".

Although their industrial sectors are, as yet, little developed, these countries have a considerable industrial

potential from natural resources and raw materials which, if well utilized, could allow substantial development of industry. Allocations for industry are thus between 8 and 17 per cent of total outlays, but orientations differ according to each country's potential. Afghanistan, Bhutan and Nepal hope to set up labour-intensive manufac-

turing and small-scale processing plants based on indigenous raw materials. Bangladesh hopes to develop agro-based and agro-support industries, especially in rural areas. All five seek to extend import substitution and to diversify industrial outputs, partly by appropriate transfers of foreign technology through multilateral rather than

Summary of financial requirements by sectors in 1980-1985

	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal
	(percentage)				
1. Agriculture and related activities	24.6	29.1	28.6	28.5	35.1
- Agriculture			14.2	2.7	11.6
- Animal husbandry			3.8	-	-
- Fishing			-	16.8	-
- Forestry			10.6	-	4.4
- Irrigation					14.1
- Land development					5.0
2. Industry and mining		17.1	8.4	-	7.8
3. Trade and tourism	51.9	-	5.0	-	-
4. Energy		11.4	7.5	-	17.5
5. Transport	8.5	14.5	18.9	23.2	17.8
6. Communications		3.3	4.4	-	1.6
7. Social	15.0	19.4	23.8	49.1	17.1
- Education		3.7	10.2	33.5	7.6
- Health and population control		4.8	5.7	4.7	4.9
- Housing, sewage, water supply		8.7	7.9	10.9	4.6
- Social welfare etc.		2.2	-	-	-
8. Others		5.2	4.3	8.2	3.1
Total	100.0	100.0	100.0	100.0	100.0
Total financial requirements (in \$ million)	2 160.0	17 330.0	330.8	121.7	1 812.0
Finances (percentage)					
- Domestic resources	37.0	45.8	16.8	-	37.3
- External aid	63.0	54.2	83.1	100.0	62.7
External assistance (annual average in 1980 \$ per capita)					
- Net flows 1979	9.8	16.0	5.3	43.1	12.0
- Projected net flows 1981-1985	15.5	24.1	39.4	161.3	15.2

Source: United Nations Conference on the Least Developed Countries, September 1981.

bilateral channels.

There is also concern with energy conservation and fuel efficiency. Expenditures allocated to the energy sector represent 10 to 15 per cent of total outlays. Particular emphasis has been put on setting up hydroelectric plants except by the Maldives which envisages construction of a biogas plant. Afghanistan and Bangladesh possess large recoverable reserves of natural gas and, accordingly, seek to develop this source of energy.

Another broad priority is strengthening of physical infrastructure and, for that purpose, about one fourth of total outlays is devoted to transport and communications. The different plans propose better use of existing facilities, a more critical screening and programming of new transport investment, and reducing competition between transport modes. Development of this sector has become very important for countries such as Bhutan and the Maldives because it is a precondition for expanding tourism, one of their more important sources of foreign revenue.

Allocations to the social sector vary between 15 and 45 per cent of total outlays according to particular national needs. Improvements in literacy rates and increase of skilled personnel are common objectives, and even a necessary condition for improving economic balance (Bhutan and the Maldives). Formulation of appropriate population policies is a main concern of Bangladesh; besides efforts to promote family planning, there are proposals for extending primary health care, and for providing housing and related services.

The programmes are by no means extravagant in terms of human needs. Yet there are questions about the capacity of Bangladesh and Nepal to raise domestic resources equal to 46 and 37 per cent of proposed development expenditures, and a doubt, too, about the ability of the Maldives to absorb the foreign aid by which it hopes to finance all of its development expenditures.

The Conference ended without any substantial commitment from potential donors beyond agreement that a larger proportion of aid funds should go to the least developed countries.

trade barriers in developed market countries, and also for electric fans. Many industries have considerable excess capacity, and it has been government policy to improve the situation by liberal provision of credit and imports for modernizing and balancing plant or machinery. Private industrial investment seems to have responded well to these incentives.

C. TRADE AND FINANCIAL FLOWS

Petroleum has been over nine tenths of Iran's exports, and natural gas one fifth of Afghanistan's exports, but other south Asian countries are big net importers of petroleum and have been hard hit by the steep rise in its price. The smaller countries depend on primary products for about nine tenths of their export receipts: timber and cereals in Bhutan, these and jute in Nepal, fish in the Maldives, and tea, rubber and coconut products in Sri Lanka. Bangladesh depends mainly on jute and jute goods, with hides, skins and leather goods as important subsidiary exports; but light manufactures, including jute and leather goods, are almost two thirds of its total exports. A range of primary commodities make up over one quarter of India's exports: tea, spices, coffee, sugar, fish, wheat, nuts and iron ore. But India has developed a strong industrial base, which includes sophisticated heavy industries, so that textiles, clothing, leather goods and other light manufactures make up over a third of its exports, and metal products, machinery, transport equipment and chemical products, about one eighth. In Pakistan, rice, fish, raw cotton and other primary commodities are a third of exports, the remainder being light manufactures in which textiles, clothing and leather goods predominate.

Afghanistan, Bhutan and Nepal have depended a good deal upon their large neighbours, especially the USSR or India, for both export and import markets. But Bangladesh, Pakistan and Sri Lanka send little more than a tenth of their exports to south Asian countries or Iran, and for India the proportion is half of that. Nor do they export much to other developing countries of the ESCAP region. Most exports of Bangladesh, India, Pakistan and Sri Lanka go to advanced countries, so that their export receipts tend to vary with the general conditions of world trade. These four countries also derive 75-85 per cent of their imports from non-Asian sources, as does Afghanistan, and for Iran the proportion is even higher.

After the first oil shock, the volume of world trade had increased by around 5 per cent a year, and its value by around 15 per cent a year, indicating the persistence of world inflation at a high annual rate of over 10 per cent. Oil prices then increased by one third in 1979 and by a further two thirds in 1980, with the result that the unit value of world exports rose by one fifth. Growth in the volume of world exports slowed from 7 to 2 per cent a year, and became negative in early 1981. World recession had supervened upon world inflation as the industrial countries, and some developing ones, became mal-adjusted to changes in the world economy, and as they tried to remedy inflation by measures of fiscal and monetary constraints. The combined effect of recession, the second large jump of oil prices and the bad harvests of 1979/80, was to worsen quite seriously the trading situation of south Asian countries.

In Bangladesh, exports, after rising in US dollar value by 25 per cent in 1978/79 and by 28 per cent in 1979/80, were estimated to

have fallen by 9 per cent in 1980/81. The main cause was a decline, after 1978/79, in the production of raw jute by one quarter, together with a fall in its price by 16 per cent in 1980/81. Hence exports of jute goods, which account for one half of total exports, after doubling in value during 1979/80, were expected to fall by 5 per cent in

1980/81. Good rice harvests decreased the need for cereal imports, but higher prices for oil lifted it from 16 per cent of total imports in 1979/80 to an expected 19 per cent in 1980/81. There was also a sharp increase in imports of machinery and transport equipment. The result was that the import surplus increased from

\$ 1,077 million in 1979 to \$ 1,590 million in 1980, and was expected to be about \$ 1,800 million for 1980/81.

India's trade balance had deteriorated after the first quarter of 1980. Already in 1979/80 world recession had reduced its exports of iron and steel, and, in the second half of that year, there

Table III.4a. South Asian countries and Iran. Network of export trade, 1977-1979 average and 1980

(Values in \$ million; percentages of total exports in brackets)

to Exports of	World	Developing Asia ^a	Afghanistan	Bangladesh	India	Iran	Nepal	Pakistan	Sri Lanka
Afghanistan									
1977-1979	309.0	88.9 (28.8)	—	0.3 (0.1)	38.4 (12.4)	8.7 (2.8)	—	36.4 (11.8)	—
1980	364.7	122.5 (33.6)	—	0.0 (0.0)	62.1 (17.0)	12.3 (3.4)	—	44.6 (12.2)	—
Bangladesh									
1977-1979	547.7	107.0 (19.5)	1.0 (0.2)	—	5.0 (0.9)	15.7 (2.9)	0.1 (—)	39.0 (7.1)	5.1 (0.9)
1980	883.8	185.1 (20.9)	1.0 (0.1)	—	14.1 (1.6)	27.0 (3.1)	0.3 (—)	65.5 (7.4)	2.7 (0.3)
India									
1977-1979	6 959.7	867.0 (12.4)	30.0 (0.4)	51.7 (0.7)	—	168.7 (2.4)	65.3 (0.9)	18.7 (0.3)	91.0 (1.3)
1980	8 984.0	1 128.0 (12.6)	37.0 (0.4)	44.0 (0.5)	—	223.0 (2.5)	84.0 (0.9)	4.0 (—)	88.0 (1.0)
Iran									
1977-1979	21 371.0	1 565.3 (7.3)	18.0 (0.1)	46.0 ^b (0.2)	741.3 (3.5)	—	—	6.3 (—)	50.3 (0.2)
1980	13 278.0	1 349.0 (10.2)	17.0 (0.1)	...	714.0 (5.4)	—	—	2.0 (—)	107.0 (0.8)
Nepal^c									
1977-1979	70.1	43.1 (61.5)	—	7.8 (11.1)	28.9 (41.2)	—	—	2.0 ^d (2.9)	0.1 ^e (0.1)
1980	97.1	59.9 (61.7)	—	6.6 (6.8)	43.8 (45.1)	—	—	3.6 (3.7)	0.4 (0.4)
Pakistan									
1977-1979	1 573.0	368.4 (23.4)	19.9 (1.3)	27.5 (1.7)	25.1 (1.6)	61.3 (3.9)	0.2 (—)	—	35.5 (2.3)
1980	2 617.9	861.3 (32.9)	23.0 (0.9)	54.7 (2.1)	70.7 (2.7)	199.1 (7.6)	0.4 (—)	—	38.8 (1.5)
Sri Lanka									
1977-1979	859.0	169.4 (19.7)	2.3 ^d (0.3)	3.0 (0.3)	6.9 (0.8)	23.6 (2.7)	—	48.9 (5.7)	—
1980	1 039.1	191.4 (18.4)	2.9 (0.3)	4.0 (0.4)	34.3 (3.3)	33.0 (3.2)	—	34.2 (3.3)	—

Source: IMF, *Direction of Trade Yearbook*, 1981.

^a Includes Iran.

^b 1977-1978.

^c These DOT figures are unreliable. Country data give total exports as \$87.2 million and exports to India as 47.6 per cent of this total.

^d 1978-1979.

^e 1979 only.

were large declines for such primary exports as fish, spices and sugar, and for such manufactures as jute and coir products, garments, leather goods, metal products, gems and handicrafts. Some of these declines owed more to internal constraints on supplies than to falling world demands, as in the case of sugar or garments.

A Committee on Export Strategy was, accordingly, set up to make recommendations for the 1980s. Its interim report stressed the need for a growth of real export receipts by 10 per cent a year and, to help achieve that, advocated better incentives and finance to all exporters, actual or potential, and also better access for them to sup-

plies of raw materials and components.

Imports of cereals dropped by one quarter in the second half of 1980 because of the good harvests, while depressed activity in the textile industries ended imports of raw cotton and reduced those of synthetic fibres by one third. But imports of petroleum oil and

Table III.4b. South Asian countries and Iran. Network of import trade, 1977-1979 average and 1980

(Values in \$ million; percentages of total imports)

Imports to \ from	World	Developing Asia ^a	Afghanistan	Bangladesh	India	Iran	Nepal	Pakistan	Sri Lanka
Afghanistan									
1977-1979	571.0	148.9 (26.1)	—	1.1 (0.2)	75.8 (13.3)	19.6 (3.4)	—	21.9 (3.8)	2.5 ^b (0.4)
1980	656.3	251.4 (38.3)	—	1.1 (0.2)	144.0 (21.9)	18.5 (2.8)	—	25.3 (3.9)	3.2 (0.5)
Bangladesh									
1977-1979	1 520.8	254.8 (16.8)	1.0 ^c (0.1)	—	44.2 (2.9)	34.1 (2.2)	4.9 (0.3)	18.4 (1.2)	3.0 (0.2)
1980	2 546.3	643.5 (25.3)	—	—	48.9 (1.9)	0.2 (—)	7.2 (0.3)	53.6 (2.1)	4.0 (0.2)
India									
1977-1979	8 889.7	1 450.3 (16.3)	27.7 (0.3)	6.5 ^d (0.1)	—	823.3 (9.3)	15.5 ^d (0.2)	28.0 (0.3)	10.7 (0.1)
1980	13 581.0	2 114.0 (15.6)	33.0 (0.2)	...	—	795.0 (5.9)	...	78.0 (0.6)	38.0 (0.3)
Iran									
1977-1979	14 643.3	876.3 (6.0)	2.3 (—)	17.3 (0.1)	272.3 (1.9)	—	—	67.3 (0.5)	26.0 (0.2)
1980	11 914.0	1 419.0 (11.9)	2.0 (—)	30.0 (0.3)	416.0 (3.5)	—	—	219.0 (1.8)	36.0 (0.3)
Nepal									
1977-1979	202.2	146.6 (72.5)	—	0.2 (0.1)	130.6 (64.6)	—	—	0.3 ^b (0.2)	—
1980	345.4	258.7 (74.9)	—	0.4 (0.1)	232.7 (67.4)	—	—	0.4 (0.1)	—
Pakistan									
1977-1979	3 266.0	545.6 (16.7)	40.0 (1.2)	41.8 (1.3)	36.0 (1.1)	7.1 (0.2)	1.6 (0.1)	—	52.9 (1.6)
1980	5 349.5	756.3 (14.1)	49.1 (0.9)	75.9 (1.4)	3.9 (0.1)	2.0 (—)	4.0 (0.1)	—	40.0 (0.7)
Sri Lanka									
1977-1979	1 023.0	330.1 (32.3)	—	0.8 (0.1)	91.8 (9.0)	55.5 (5.4)	0.1 (—)	24.2 (2.4)	—
1980	2 035.1	525.3 (25.8)	—	3.0 (0.1)	96.7 (4.8)	112.0 (5.5)	0.4 (—)	29.9 (1.5)	—

Source: IMF, *Direction of Trade Yearbook*, 1981.

^a Includes Iran.

^b 1978-1979.

^c 1977.

^d 1977-1978.

lubricants rose in value by 80 per cent in 1979/80, and by 90 per cent in the second half of that year to become two fifths of India's import payments. There were also large increases for imports of metals, paper, chemicals and fertilizers. The result was that the import surplus leapt from \$ 962 million in 1979 to \$ 4,578 in 1980, equal to about one half of export receipts. It continued to run at high levels in the first half of

1981, and is estimated to have reached \$ 6,944 million in 1980/81 as against \$ 3,192 million in 1979/80. It is projected as \$ 7,386 million for 1981/82.

Nepal's exports decreased by over one quarter in US dollar value during 1980 as a heavy decline of foodstuffs outweighed a substantial increase of light manufactures. Recovery was slow from the severe drought of 1979 and, in some areas, a third year of bad

weather reduced crops of rice, maize and tobacco. Yet the main deterioration in the trade balance came from an increase of imports by over one third. Oil imports, in 1979/80, rose from 8 to 12 per cent of total imports, and there was a big general rise also in other manufactured imports. The import surplus increased, during 1980, from \$ 133 million to \$ 246 million, and showed no sign of coming down in the first half of

Table III.5 South Asian countries and Iran. Imports, exports and US dollar exchange rates, 1975-1981

(\$ million)

		1975	1976	1977	1978	1979	1980	1981
Afghanistan ^a	Imports c.i.f.	350	261	328	395	349	405	...
	f.o.b.	304	227	285	343	...	...	...
	Exports f.o.b.	217	291	306	321	418	611	198 (3)
	Trade balance	- 87	64	21	- 22	...	...	...
	Exchange rate ^b	45.00	45.00	45.00	45.00	42.25	45.85	48.80 (3)
Bangladesh	Imports c.i.f.	1 352	939	1 122	1 550	1 937	2 610	953 (5)
	f.o.b.	1 188	784	1 042	1 403	1 744	2 349	858 (5)
	Exports f.o.b.	307	401	476	549	667	759	354 (5)
	Trade balance	- 881	- 383	- 566	- 854	- 1 077	- 1 590	- 504 (5)
	Exchange rate ^c	12.02	15.35	15.38	15.02	15.55	15.45	16.92 (5)
India	Imports c.i.f.	6 371	5 663	6 629	7 862	9 818	14 128	6 035 (6)
	f.o.b.	5 688	5 056	5 919	7 019	8 766	12 611	5 389 (6)
	Exports f.o.b.	4 345	5 547	6 377	6 662	7 804	8 037	3 418 (6)
	Trade balance	- 1 343	491	458	- 357	- 962	- 4 578	- 1 971 (6)
	Exchange rate ^c	8.38	8.96	8.74	8.19	8.13	7.86	8.26 (6)
Nepal	Imports c.i.f.	171	163	168	221	254	342	197 (6)
	f.o.b.	163	155	160	210	242	326	188 (6)
	Exports f.o.b.	100	98	81	91	109	80	59 (6)
	Trade balance	- 63	- 57	- 79	- 119	- 133	- 246	- 129 (6)
	Exchange rate ^c	11.00	12.50	12.50	12.11	12.00	12.00	12.00 (6)
Pakistan	Imports c.i.f.	2 158	2 181	2 446	3 285	4 056	5 350	2 793 (6)
	f.o.b.	1 971	1 995	2 234	2 981	3 708	4 886	2 551 (6)
	Exports f.o.b.	1 052	1 167	1 188	1 475	2 056	2 618	1 707 (6)
	Trade balance	- 919	- 828	- 1 046	- 1 506	- 1 652	- 2 268	- 844 (6)
	Exchange rate ^b	9.90	9.90	9.90	9.90	9.90	9.90	9.90 (6)
Sri Lanka	Imports c.i.f.	737	579	662	967	1 452	2 018	790 (5)
	f.o.b.	660	519	594	868	1 302	1 786	687 (5)
	Exports f.o.b.	563	572	718	845	982	1 077	390 (5)
	Trade balance	- 97	53	124	- 23	- 320	- 709	- 297 (5)
	Exchange rate ^c	7.05	8.46	9.15	15.61	15.57	16.53	18.22 (5)

Sources: IMF, *International Financial Statistics*, September and November 1981. For Afghanistan, 1979 and 1980, Economist Intelligence Unit, *Quarterly Economic Review of Pakistan, Bangladesh, Afghanistan*, 3rd Quarter, 1981.

Note: Numerals denote number of months for year.

^a Year ending March of following year.

^b End of period.

^c Average of period.

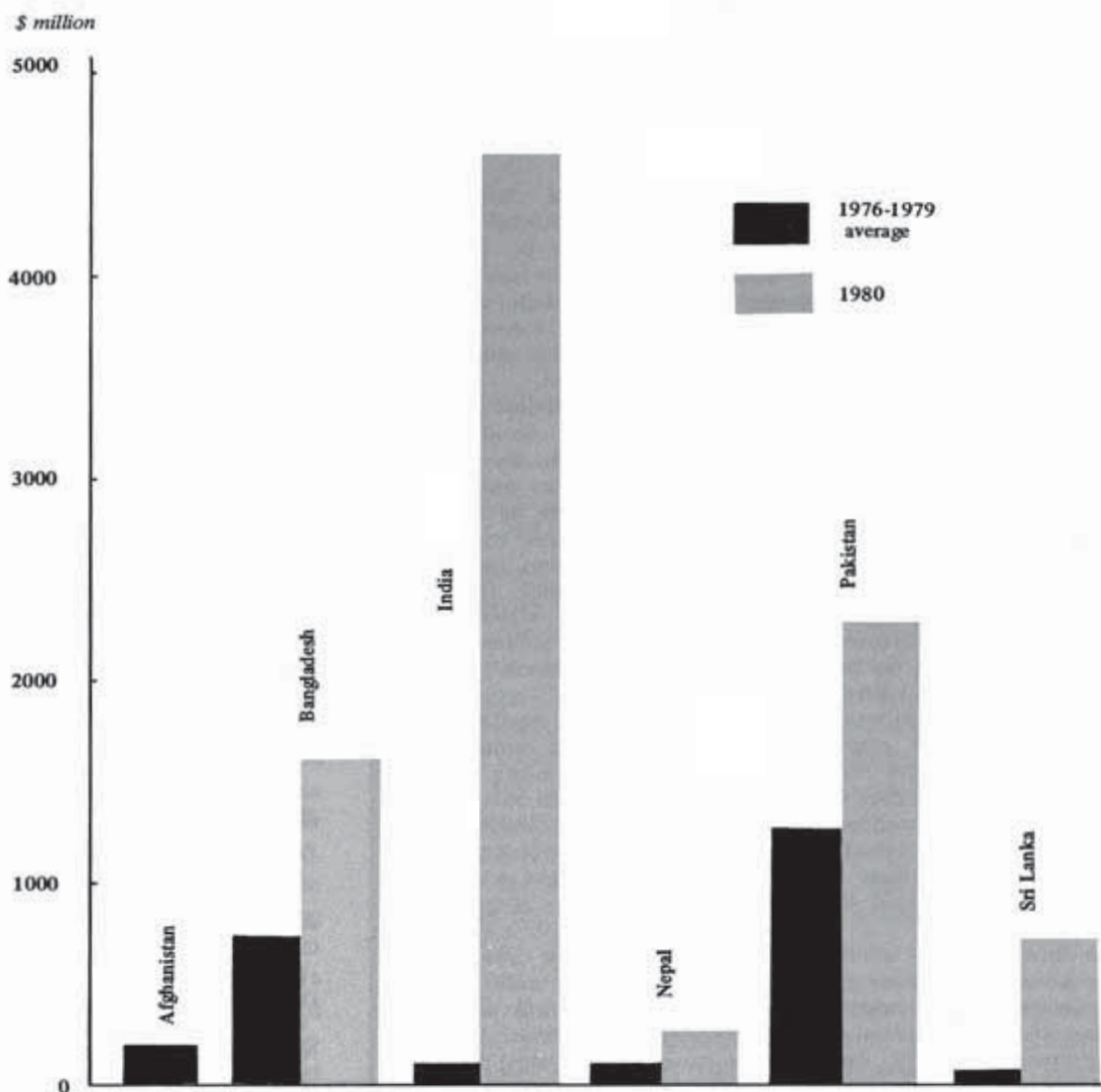
1981. This deterioration may have been connected with a change, made in 1978, to arrangements for trade with countries which, unlike India, have convertible currencies. A previous export bonus scheme was abolished and a two-tier exchange rate was instituted; the rate of Rs 12 = \$ 1 continued to apply to invisible trade and to petroleum products, cement and chemical fertilizers, but a new rate of Rs 16 = \$ 1 applied to all other

trade. Between 1977/78 and 1979/80, accordingly, India's share of Nepal's export trade fell from 48 to 45 per cent, and its share of Nepal's import trade from 62 to 57 per cent.

Pakistan had a less marked rise of its import surplus from \$ 1,652 million in 1979 to \$ 2,268 million in 1980, or to a forecast of \$ 2,230 million for 1980/81. Export performance was better than expected due to a spectacular

increase for raw cotton and substantial increases for rice and fish. In 1980, export receipts thus increased by 27 per cent, and were expected to have increased by 25 per cent in 1980/81. Imports, however, increased more rapidly by 32 per cent in 1980, and their expected increase for 1980/81 was 14 per cent. The biggest increases were for crude petroleum, petroleum products, chemicals, fertilizers and transport equipment.

Figure III.2. South Asian countries. Trade deficits, 1976-1979 average and 1980



Petroleum and its products became 22 per cent of imports in 1979/80, and were expected to become 29 per cent in 1980/81.

Sri Lanka had begun to liberalize imports and to rationalize domestic prices in 1978, thereby giving a dramatic stimulus to investment and production. But it also gave a strong stimulus to imports which reinforced the effect of higher oil prices. The value of imports thus rose from \$ 1,302 million in 1979 to \$ 1,786 million in 1980, and petroleum's share rose from 17 to 24 per cent; it was expected to rise further to 30 per cent in 1981. Food imports, however, were reduced from

28 per cent of total imports in 1978 to 21 per cent in 1979, and to 18 per cent in 1980. Exports rose much more slowly, by only 10 per cent in 1980, mainly because of lagging production of tree crops whose share in the total declined from 62 to 55 per cent. Industrial exports, however, increased in value by nearly one half to become 32 per cent of total exports; the major gains were for textiles, garments and petroleum products. The import surplus rose from \$ 320 million in 1979 to \$ 709 million in 1980, equal to two thirds of export receipts. Measures were being taken to strengthen policies of export pro-

motion, to improve yields of rubber and coconuts, and to adjust import duties. Exports were expected to increase, during 1981, by 12 per cent, gains being strongest for agricultural crops, except rubber, and for textiles. Imports were expected to grow by only 5 per cent, but the trade deficit would not change significantly.

Although India had a very large trade deficit in 1980, it may have had only a small deficit, or even a small surplus, in its current balance of payments. The last published figures for 1978/79 show a trade deficit of \$ 2,300 million being offset by positive items of \$ 843 million for net services (airways, shipping, insurance, tourism and investment income) and of \$ 1,667 million for net transfer payments, of which \$ 1,288 million were remittances from Indians working in oil-exporting countries of the Persian Gulf. The result was a current account surplus of \$ 215 million, but a doubtful one because there was another positive item of \$ 733 million for errors and omissions in the current account. Net invisible receipts are thought to be increasing fairly rapidly, but India's *Economic Survey, 1980-81* warns that net private remittances have levelled off as the Gulf states cannot absorb much more migrant labour.

This *Economic Survey* gives figures for official gross and net inflows of external finance:

(\$ Million)	1978-1979	1979-1980	1980-1981 est.
Authorization	2,844	2,289	3,198
Gross disbursements	1,542	1,682	2,917
Debt servicing	1,074	1,088	1,099
Net disbursements	468	594	1,818

Even with a current surplus and net

A large unrecorded export

India used to have 95 per cent of the world's legal production of opium, but the competition of other countries reduced this share to 50 per cent. The illegal trade in opium and heroin, its more dangerous and expensive derivative, has long been much bigger. In recent years it may have accounted for something like \$ 1.6 billion, on an "f.o.b." basis; and so could represent about 1 per cent of all recorded exports from developing Asian countries.

During the late 1960s, the so-called Golden Triangle of hill country on the borders of Burma, Lao People's Democratic Republic and Thailand is thought to have supplied about 70 per cent of the illegal world trade in heroin but, in the late 1970s, bad weather conditions and aggressive official policies to suppress poppy cultivation and opium traffic cut back output until, in 1980, it would have been around 600 tons. Thailand's share of this was put at only 50 tons but Burma's at 500 tons; there it is mostly controlled by communist forces in areas which are largely beyond the central Government's rule.

The declining output of the Golden Triangle gave a stimulus for that of the Golden Crescent, meaning the bordering areas of Afghanistan, Iran and Pakistan. In 1979 their output was thought to be about 1,500 tons, or more than twice that of

the Golden Triangle. But serious internal troubles in Afghanistan and Iran led to a fall of the Crescent's output to perhaps 700 tons in 1981, and Pakistan's own output may have fallen from 500 to 125 tons in 1980 owing to a bad harvest and stronger measures of suppression.

That increased pressure or inducements for an Indian contribution to the illegal drug trade. Development of synthetic substitutes had reduced sharply the legitimate demands for India's opium, so that experienced cultivators had a strong inducement to raise the crop illegally. The Indian authorities had to attempt both suppression of this production and control of an invasion by drug traffickers.

The favourable weather condition which gave good cereal harvests in 1980/81 also greatly boosted yields of opium in south and south-east Asia, especially in the Golden Triangle area, and the Republic of Korea seems to have suddenly become an important staging post in the flow of opium from south-east Asia to north America and western Europe. New and stronger attempts are being made in most countries, producing and consuming, to suppress a traffic which inflicts so much damage on individual health and social order.

aid, India's reserves of foreign exchange (less gold), after reaching a peak of \$ 7,432 million in 1979, fell to \$ 6,944 million in 1980 and were \$ 5,853 million in June 1981.

Nor were future prospects for the balance of payments regarded as bright. Petroleum, petroleum products and fertilizers bulk large in imports, and their prices were likely to rise more rapidly than those for India's exports, which were being further constrained by world recession and the associated strengthening of protectionism in advanced countries. Policies had thus to be implemented for energy conservation, for substitution of oil imports by domestic sources of energy, for import substitution also in steel, cement, non-ferrous metals and fertilizers, and for export development.

India's external public debt, in 1979, stood at \$ 15,641 million (on a disbursed basis). In 1980, a further loan of \$ 688 million was obtained from IMF and, overcoming previous reluctance to borrow commercially, India raised \$ 61 million on the Eurocurrency credit market. Further loans of \$ 923 million were raised on this market in the first 10 months of 1981, and also further credits of \$ 937 million from IMF. In November, India received a record IMF loan of SDR 5 billion (\$ 5.7 billion) to be spread over three years. It was said that \$ 2,500 million of this would be used to finance a balance of payments deficit incurred in 1980/81, and the remainder for later deficits associated with various development projects under the new Sixth Five-year Plan (1980-1985). This plan foresaw balance of payments problems as being acute, and so as requiring innovative approaches to cope with the gap between external payments and external receipts. The cumulative deficit from 1980 to 1985, at constant 1979/80 prices, was put at Rs 91 billion or more than a

Table III.6. South Asian countries and Iran. Current balances of payments, 1976-1980

(\$ million)

	Merchandise trade		Net services	Net transfers	Current balances
	Exports	Imports			
Afghanistan^a					
1976-1979 average	293	-459	...	...	...
1980	481	-681	...	...	...
Bangladesh					
1976-1979 average	520	-1 129	-170	531	-348
1980	793	-2 323	-263	1 028	-765
India					
1976-1978 average	6 059	-5 781	-140	1 305	1 443
1978/79	6 858	-9 132	803	1 653	214
Iran					
1976-1978 average	20 436	-22 075	4 076	-	2 437
Nepal					
1976-1979 average	96	-198	39	59	4
1980	92	-335	78	108	-57
Pakistan					
1976-1979 average	1 408	-3 047	-400	1 203	-836
1980	2 567	-5 454	-507	2 465	-929
Sri Lanka					
1976-1979 average	783	-856	-69	100	-42
1980	1 062	-1 845	-152	273	-662

Sources: IMF, *International Financial Statistics*, November 1981; ADB, *Key Indicators*, April 1981; and Economist Intelligence Unit, *Iran, Annual Supplement, 1981*.

^a Year ending March of the following year.

fifth of projected export receipts.

Pakistan's large trading deficit did not change much in 1980/81. Merchandise exports rose in US dollar value by one quarter to \$ 2,960 million and merchandise imports by one seventh to \$ 5,404 million. Net invisibles, including higher remittances of \$ 2,284 million from workers abroad, largely offset the deficit for trade and services so that the current-account deficit was reduced to \$ 949 million, one sixth below that for the previous fiscal year. Disbursements of foreign aid, however, were 30 per cent lower. The net capital inflow was \$ 818 million, including a private inflow of about

\$ 455 million, and there was an SDR allocation of \$ 37 million. Official short-term financing and other capital transactions brought the whole account into a small surplus, which permitted addition of \$ 49 million to reserves of foreign exchange — \$ 406 million less than in 1979/80.

Since 1978, Pakistan has had to face a problem of servicing an external public debt which is now about half its GDP. Debt servicing in 1980/81 was \$ 684 million, including estimated relief from agreements already signed. It tried to get more substantial relief by multilateral rescheduling but, in 1981, was able to get agree-

ment only for \$ 232 million of debt relief between January 1981 and July 1982.

Bangladesh's external position continued to be most critical, notwithstanding good harvests. The trade deficit of \$ 1,590 million for 1980, twice export receipts, was expected to become \$ 2,040 million for 1980/81. A small deficit for services would be swamped by private transfers of \$ 228 million from workers in the Gulf states so that the current deficit would be \$ 1,728 million. Net official loans and grants were to provide \$ 1,329 million, IMF another \$ 238 million, and short-term loans plus other capital inflows about \$ 56 million. Reserves would then increase by a very modest \$ 105 million.

In September, it was reported that Saudi Arabia was to make Bangladesh a grant of \$ 100 million for food aid. In the previous month a United Nations conference was informed that Bangladesh was preparing a 10-year action programme, 1980-1990, in an attempt to solve its "overwhelming problems of poverty, unemployment, illiteracy and malnutrition". The plan would cost nearly \$ 56 billion; 46 per cent of this would be met from domestic resources and Bangladesh would hope to obtain the remaining \$ 30 billion from external grants and loans. External financial requirements for 1981-1985 were put at \$ 11 billion which, averaged at \$ 2.2 billion a year, would be about one half above the 1980/81 level of external aid.

Sri Lanka's trade deficit had more than doubled in 1980 because its imports had surged under the pressures of an investment boom, a large budgetary deficit and a much higher price for oil. A small surplus for net services and large private remittances offset \$ 173 million of the trade deficit to make the current deficit \$ 606 million.

This was almost triple the previous current deficit, and a record level. It was financed mainly by an increase of public and private borrowing from abroad. Direct investment and borrowing by the private sector came to \$ 220 million, net long-term official borrowing to \$ 145 million, and drawings from IMF to \$ 14 million. These capital inflows, although large, were not enough to prevent depletion of reserves by \$ 165 million.

One remedial measure was an adjustment of the Sri Lankan rupee. In 1980, it depreciated by 12.8 per cent against the SDR, and by 6.2 per cent against the US dollar; by September 1981, it had appreciated a little against the SDR, but had a further depreciation of 15.3 per cent against the dollar. Multilateral agencies successfully pressed the Government to take associated measures for curtailing development expenditures along with bank finance for them. Domestic and foreign borrowings were also to be restricted.

An expert analysis concluded that there could be a small improvement in Sri Lanka's current-account deficit in 1981, but increased private and official capital inflows might not be enough to cover more than three fifths of this deficit plus debt repayments. Foreign exchange reserves could thus be further depleted. Nor did it seem likely that external difficulties would lessen much in the next five years because of the gap between levels of imports and exports and the slower rate of growth for exports. Official Sri Lankan projections for 1981 pointed to little change in either the current balance or in reserves of foreign exchange. Substantial increases were expected in private remittances, mostly from Middle Eastern countries, and also in official transfers and external public borrowing.

D. INFLATION AND PUBLIC FINANCE

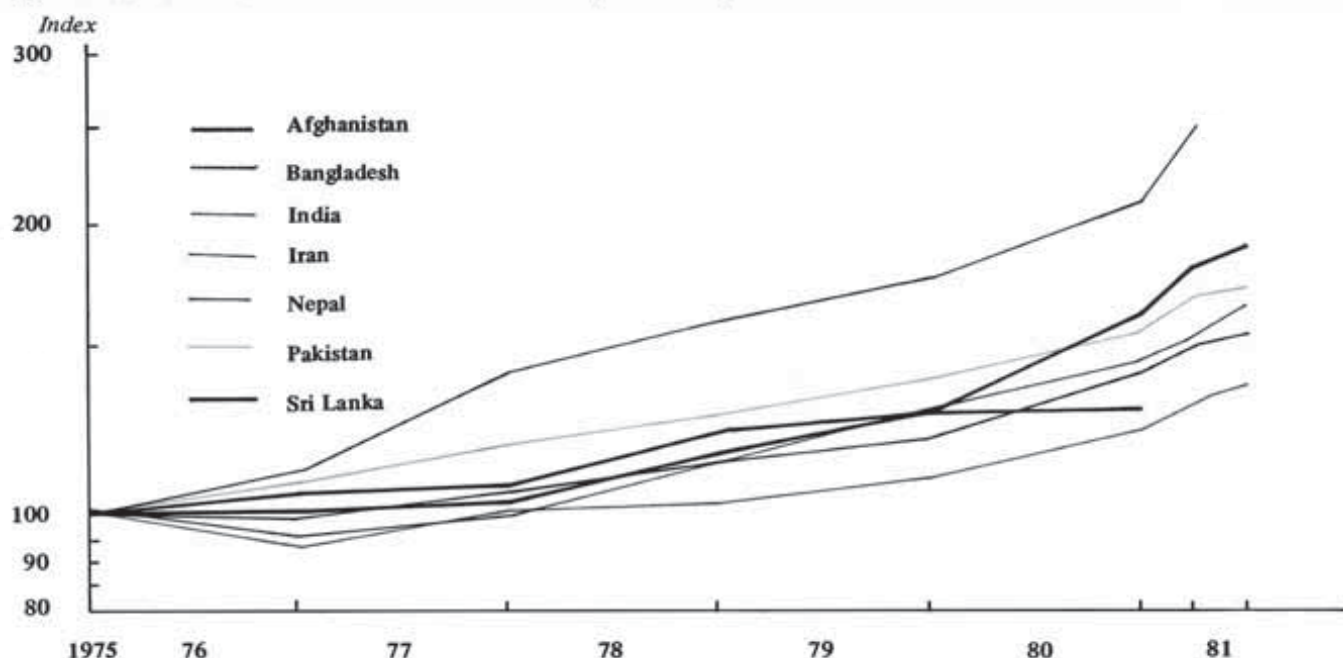
All south Asian countries and Iran had, in 1980, serious problems of inflation continuing into 1981; the highest annual rate of increase in the consumer price index was 26 per cent in Sri Lanka and the lowest 12 per cent in both India and Pakistan. For Bangladesh the rate had been 13 per cent from 1978. It rose, between 1978 and 1980, from 3 to 12 per cent in India, from 12 to 21 per cent in Iran, from 6 to 17 per cent in Nepal, from 7 to 12 per cent in Pakistan, and from 12 to 26 per cent in Sri Lanka. Except in Iran, Nepal and Sri Lanka, these rates do not compare badly with a rise in the annual increase of consumer prices for industrial countries as a whole, from 7 per cent in 1978 to 12 per cent in 1980, but that is only to say that inflation was a serious problem for the world economy.⁴

The consumer price index is, of course, only one indicator of inflation, and a partial one which can be affected by government price controls, subsidies, or adjustments to administered prices. In Iran, wholesale prices moved closely with consumer prices; in India and Sri Lanka they increased more rapidly than consumer prices; and in Bangladesh more slowly. These divergences could be connected, not only with time lags, but with differences between the two indexes in regard to the weights assigned to important commodity groups, especially food and petroleum products.

Such differences might also help to explain the more rapid rise of import prices than of either wholesale or consumer prices in

⁴ In Afghanistan, it is reported that "inflation has not been a serious problem". The official consumer price index for Kabul, after rising by 12 per cent in 1978, and by 5 per cent in 1979, rose by less than 1 per cent in 1980.

Figure III.3. South Asian countries and Iran. Consumer price indexes, 1975 = 100



India, Pakistan and Sri Lanka, although in Bangladesh import prices rose less rapidly than consumer prices. Export prices rose more rapidly than consumer prices in all these countries, except perhaps in Iran where they rose at about the same pace.

The limited indexes of wage rates which are available suggest that these rose more rapidly than consumer prices in all south Asian countries and Iran. This increase of real wages appears to have been greatest in Iran, where they may have doubled between 1975 and 1980. There were also large increases in Sri Lanka between 1977 and 1979, and in Bangladesh for skilled workers during 1978/79; there was a smaller but marked increase in India during the same year.

In Bangladesh, inflation seems to have resulted mainly from changes, not steady or coincident, in food prices, import prices and administered prices. In 1979/80 food prices rose exceptionally because of the drought, but came

down with the good crops of 1980/81. Non-food prices, however, then rose steeply because of increases in import prices for petroleum, fertilizer and materials, and upward adjustments of administered prices, themselves partly the result of dearer imports and higher wages. There was some slackening of consumer price increases during early 1981 until unseasonable rains made some agricultural products scarcer.

The upsurge of prices in India from early 1979 had been a mixed result of agricultural shortages through severe drought, and of excessive liquidity, both aspects of excess demand, reinforced by the cost-push influence of import prices rising by 29 per cent, largely because of the higher cost of petroleum. Wholesale prices increased by 20 per cent in 1980, but the annual rate fell to 15 per cent in the first half of 1981 so that a slower rate could be expected also for consumer prices, which typically lag behind wholesale prices. Restrictive money and

credit policies were being applied to moderate inflation.

Iran also had greater inflation in the first five months of 1981 as the annual rate then rose from 21 per cent for the previous year to 29 per cent. The uncertain state of the economy was such as to endanger any progress towards price stability.

Nepal had a higher annual inflation rate of 13 per cent in the first half of 1981, twice that of 1979; but some improvement might have occurred later as a result of better crops and a reduction of India's inflation.

Pakistan was less affected than other countries by food shortages as it has had a fairly satisfactory growth of agriculture in recent years, but it has, of course, been affected by rising prices for imports of petroleum and other goods. In 1980, the unit value of its imports rose at the steep rate of 33 per cent so that, in the first half of 1981, the annual rate of increase for consumer prices reached 15 per cent. Excess demand conditions,

however, also prevailed owing to deficit financing of public expenditure.

Sri Lanka's case was similar except that, unlike Pakistan, it suffered, in 1980, from bad harvests which sent up the cost of both domestic and imported cereals. The unit value of imports increased by no less than 43 per cent in 1980,

partly because of a devaluation of the Sri Lankan rupee. Wages had risen steeply, by 45 per cent in 1978 and by 25-27 per cent in 1979 and 1980. Administered prices also rose sharply, reflecting efforts to reduce food subsidies and to price petroleum products more in line with world levels. Yet here, too, there was abundant

liquidity from deficit financing to promote inflation. In the first half of 1981, however, fiscal and monetary restraints reduced the annual rate of increase in consumer prices from 24 to 18 per cent.

There are different opinions about the causative role of money in general inflation of prices and incomes, but widespread agreement

Table III.7. South Asian countries and Iran. Indexes of prices and wages, 1976-1981

(1975 = 100)

	1976	1977	1978	1979	1980	1981(I)	1981(II)
Afghanistan							
Consumer prices (Kabul)	106.5	108.1	120.9	126.9	127.4	...	...
Bangladesh							
Consumer prices	90.4	99.8	112.9	127.2	144.0	151.2	161.1
Wholesale prices ^a	100.6	113.5	124.2	139.5	150.0	...	...
Import prices ^{a b}	100.0	111.5	114.5	123.7	136.7 ^c	...	...
Export prices ^{a b}	100.0	112.1	128.4	166.6	159.1 ^c	...	...
Wages ^a	103.3	114.7	141.9	177.4	201.7	...	...
India							
Consumer prices	92.2	100.0	102.5	109.0	121.5	129.6	134.9
Wholesale prices	98.1	105.5	105.2	117.2	141.1	151.8	157.2
Unit value imports	104	93	97	125	...	...	...
Unit value exports	106	121	121	130	...	...	...
Wages ^a	97.1	103.0	105.9	123.0	136.4	...	...
Iran							
Consumer prices	111.3	141.7	158.2	174.8	211.0	244.9	...
Wholesale prices	109.0	127.7	140.6	160.5	210.6	251.0	...
Unit value imports	...	...	...	...	...	...	...
Export prices	106.4	117.1	117.1	176.9	315.3	337.8	337.8
Wages	139.6	181.2	235.7	345.4	470.6	...	...
Nepal							
Consumer prices	98.9	105.8	112.6	119.6	139.3	147.8	152.1
Pakistan							
Consumer prices	107.2	118.0	125.9	137.8	153.9	166.2	170.1
Wholesale prices	108.0	118.0	124.1	135.6	149.8	162.0	168.6
Unit value imports	95.7	99.0	105.3	118.2	157.1	191.6	...
Unit value exports	109.1	130.6	131.4	157.1	174.9	175.8	...
Sri Lanka							
Consumer prices	101.2	102.5	114.9	127.2	160.5	178.5	187.1
Wholesale prices	108.2	130.9	151.5	165.9	222.0	255.0	...
Unit value imports	90	110	204	310	443	...	...
Unit value exports	117	190	345	376	434	...	...
Wages	102.2	128.6	187.0	237.2	295.9	300.9	290.3

Sources: IMF, *International Financial Statistics*, November 1981; United Nations, *Monthly Bulletin of Statistics*, November 1981 and ADB, *Key Indicators*, April 1981; and national source for Bangladesh imports prices, export prices and wages.

^a Years beginning 1 July.

^b Base year 1976/77.

^c Average of first ten months.

^d Minimum monthly wage in cotton mill industry.

^e Minimum rates for agricultural wages only.

that inflation cannot proceed far or last long without increases in the supply of money. Opinions also differ, in this context, about the appropriate definition of money. It seems most convenient, for international comparisons at least, to use the monetary data published by IMF. This distinguishes between "money", defined as currency outside banks plus the private sector's demand deposits, M1, and "quasi-money", defined as time savings and foreign currency deposits of residents. The sum of money and quasi-money is sometimes called "money in the broader sense", M2. Here IMF usage is followed in calling M1 money,

but, for convenience, M2 will be called "liquidity", although this term usually has a wider connotation.

Bangladesh, India, Nepal, Pakistan and Sri Lanka all had marked, continuous rises in the ratio of liquidity to GDP at market prices between 1975 and 1980. In Bangladesh, this ratio more than doubled; in Nepal it rose by three quarters, in Pakistan by two thirds, in India by about one half and in Sri Lanka by more than one fifth. Percentage changes in the ratio of liquidity (M2) to GDP are the resultant of those in liquidity, prices and real GDP for:

Percentage change in the ratio

of liquidity to GDP

- = percentage change in liquidity
- percentage change in prices
- percentage change in real GDP

and there were variations in these components, partly as a result of the inflationary process itself.

In India and Nepal, the annual percentage growth of liquidity slowed down after 1976; in Bangladesh, it rose between 1976 and 1978, fell in 1979 and rose again in 1980; in Pakistan and Sri Lanka it rose irregularly after 1976 but fell in 1980. Generally speaking, there was abundant

Figure III.4. South Asian countries. Annual percentage change in liquidity, 1975-1980

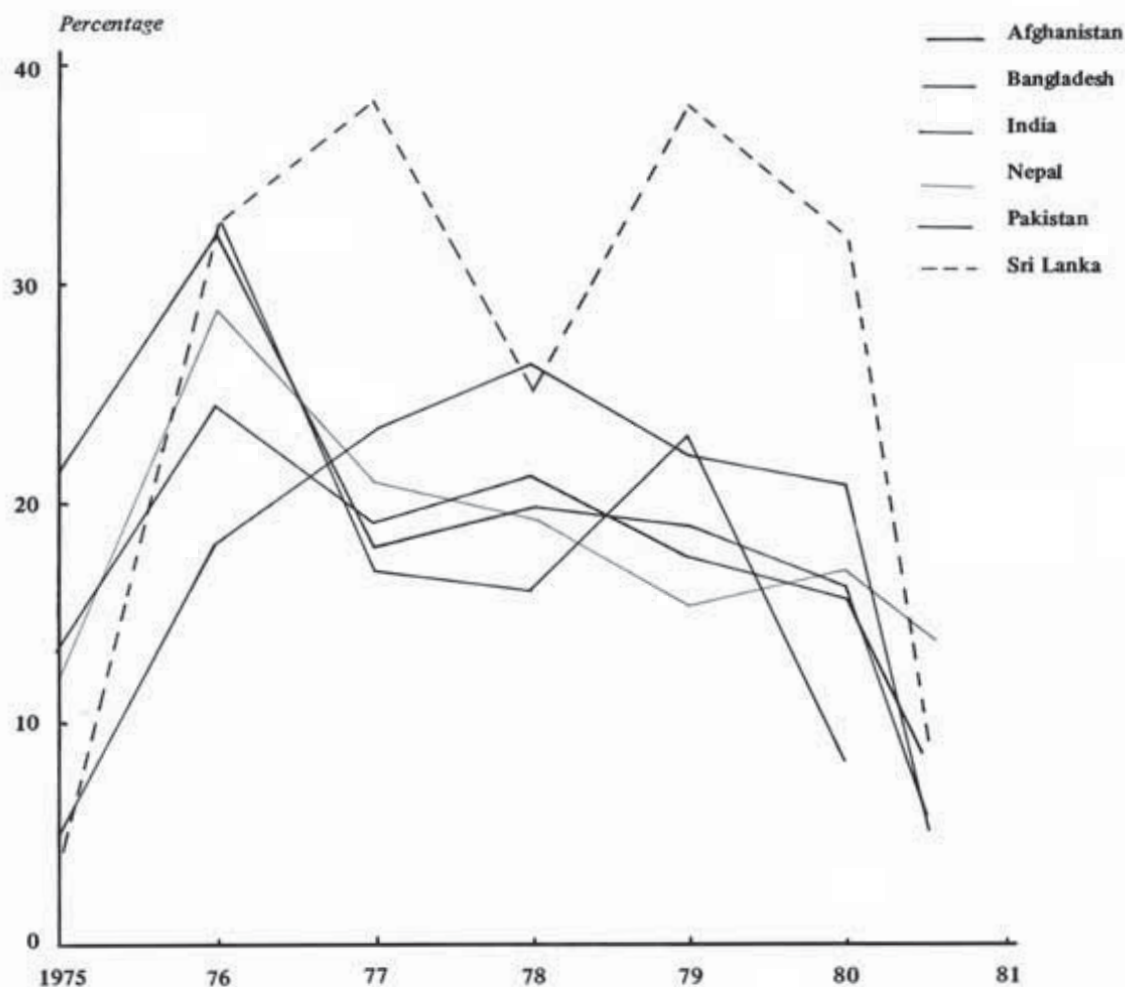


Table III.8. South Asian countries. Money, liquidity and GDP, 1974-1980

(Billion units of national currencies)

	1975	1976	1977	1978	1979	1980	1981 (first half)
Afghanistan							
Money	14.43	19.48	22.93	27.22	34.20	36.34 ^a	...
Quasi-money	3.12	3.90	4.43	4.59	5.12	6.23 ^a	...
Liquidity	17.55	23.38	27.36	31.81	39.32	42.57 ^a	...
Percentage increase	...	33.2	17.0	16.3	23.6	8.3 ^a	...
Bangladesh							
Money	8.28	9.22	11.67	14.64	18.36	20.00	20.79
Quasi-money	6.46	8.26	9.94	12.67	15.05	20.38	21.59
Liquidity	14.74	17.48	21.61	27.31	33.41	40.38	42.38
Percentage increase	5.4	18.6	23.6	26.4	22.3	20.9	5.0
GDP	125.74	107.46	105.36	130.29	144.77	163.32	...
Liquidity/GDP (percentage)	11.7	16.3	20.5	21.0	23.1	24.7	...
India							
Money	122.33	152.77	178.50	217.12	229.75	205.83	224.83 ^b
Quasi-money	84.39	104.58	128.17	154.85	207.59	301.01	324.49 ^b
Liquidity	206.72	257.35	306.67	371.97	437.34	506.84	549.32 ^b
Percentage increase	13.3	24.5	19.2	21.3	17.6	15.9	8.4 ^b
GDP	741.62	805.94	902.13	977.04	1085.46	...	...
Liquidity/GDP (percentage)	27.9	31.9	34.0	38.1	40.3	...	...
Nepal							
Money	1.33	1.64	1.93	2.20	2.53	2.86	3.35 ^b
Quasi-money	0.85	1.17	1.47	1.87	2.18	2.66	2.97 ^b
Liquidity	2.18	2.81	3.40	4.07	4.71	5.52	6.32 ^b
Percentage increase	11.8	28.9	21.0	19.7	15.7	17.2	14.5 ^b
GDP	16.57	17.39	17.28	19.60	21.15	23.87	...
Liquidity/GDP (percentage)	13.2	16.2	19.7	20.8	22.3	23.1	...
Pakistan							
Money	25.62	34.04	39.97	47.19	56.83	66.89	72.73
Quasi-money	12.18	15.92	18.97	23.44	27.29	31.03	31.26
Liquidity	37.80	49.96	58.94	70.63	84.12	97.92	103.99
Percentage increase	21.2	32.2	18.0	19.8	19.1	16.4	6.3
GDP	111.13	132.05	149.45	173.67	195.88	235.53	...
Liquidity/GDP (Percentage)	34.0	37.8	39.4	40.7	42.9	41.6	...
Sri Lanka							
Money	3.06	4.13	5.33	5.90	7.64	9.33	8.99
Quasi-money	1.65	2.12	3.30	4.91	7.31	10.38	12.55
Liquidity	4.71	6.25	8.63	10.81	14.95	19.71	21.54
Percentage increase	4.7	32.7	38.1	25.3	38.3	31.8	9.3
GDP	26.58	30.20	36.41	42.67	52.39	68.53	...
Liquidity/GDP (percentage)	17.7	20.7	23.7	25.3	28.5	28.8	...

Source: IMF, *International Financial Statistics*, November 1981.

^a March to September.

^b First five months.

liquidity in south Asia to support the inflationary developments of the late 1970s and 1980.

Table III.9 throws some light upon annual changes in liquidity for these five countries. In Bangladesh, the major components of liquidity change were bank credits to official entities (State enterprises and local governments) in 1978 and 1979, to the private sector in 1979 and 1980, and to the central Government in 1980. Early in 1981, however, there was a marked tightening of credit to all of them in consequence of an IMF standby arrangement, which put phase ceilings on credit to the public sector and on total domestic credit. The authorities relied upon direct controls over public-sector borrowing and on directives to the commercial banks regarding credit to the private sector, although the discount rate was increased from 8 to 10.5 per cent in October 1980 and other interest rates were simultaneously raised and rationalized to attract savings. Unexpected difficulties associated with higher oil prices, lower jute prices and continued drought had prevented credit from being limited to agreed levels in the second half of 1980. Petroleum prices were then raised to limit losses of the Petroleum Corporation, but the good harvests of 1980/81 led to an increase of liquidity by more than one quarter in this fiscal year.

In India, the major factor in growth of liquidity was a tripling of credit to the government sector between 1978 and 1980, partly offset by loss of foreign exchange reserves in 1980. A major factor here has been a widening gap between public investment expenditures and public savings to finance them due, in large part, to low levels of profitability in public enterprises. In 1980/81, the Government decided to tighten restrictions on credit to the private sector, raised interest rates of

commercial banks and other financial institutions, and also raised prices charged by public enterprises, including prices of coal, steel, fertilizers and railway transportation. The minimum cash ratio of the commercial banks was also raised from 6 to 7 per cent. Previous attempts to reduce excess liquidity were hampered by the availability to traders and companies of "black money", i.e. money which represents tax evasion or illegal transactions, and kept outside ordinary bank accounts. An amnesty has been offered which allows holders of black money to invest it, without penalty, in 10-year bearer bonds; official estimates put black money as equal to nearly 3 per cent of the money supply.

There was, however, no evident slackening of credit expansion in the first half of 1981. The annual rate of credit expansion to the Government did drop from 10.7 per cent in the first half of 1980 to 7.4 per cent in the first half of 1981, but that to the private sector rose from 3.4 to 5.9 per cent. Although, then, reserves of foreign exchange fell heavily, there was no reduction in the rate of increase for liquidity.

In Nepal, the major part of credit expansion went to the private sector. There has also been increased bank finance for the public sector and foreign exchange reserves have increased, so that easy monetary conditions continued to prevail in 1980/81. Cheap credit was being used to promote development of agriculture and small-scale industry, together with the imports needed for that purpose.

Pakistan had incurred large budget deficits up to 1978/79 because of a steep rise in expenditures on defence, debt service and subsidies, and because of a decline in net foreign finance available for budgetary purposes. Bank credit to the public sector, therefore, sharply

increased, as did credit to the private sector. Foreign exchange reserves also increased, and added further to monetary expansion. Steps were taken in the following fiscal year to increase tax revenues and to curb both current and development expenditures, with the result that the over-all deficit fell and, with it, government demands on the banking system. Credit to the private sector was also restricted, but liquidity continued to

have a high, if slower, rate of growth.

Sri Lanka's budgetary situation badly deteriorated in 1980 so that there was a massive increase of bank credit to the government sector. There was also a further considerable increase of credit to the private sector, with the result that total liquidity increased by more than one third in a single year. Foreign exchange reserves fell from \$ 517 million to \$ 246

Table III.9. South Asian countries. Changes in components of money plus quasi-money, 1978-1981

(Billion units of national currencies)

	Foreign assets	Claims on				Others	Money and quasi-money
		Government	Official entities	Private sector	Foreign sector ^a		
Afghanistan							
1980 (year end March)	17.44	-8.13	-0.19	-0.19	-	-2.25	6.68
Bangladesh							
1978	0.92	0.10	2.33	1.61	0.15	0.88 ^b	5.69
1979	0.71	-0.19	2.45	3.57	-0.14	-0.30 ^b	6.10
1980	-2.94	5.04	1.36	4.53	-0.59	-0.43 ^b	6.98
June 1981	-1.71	3.88	0.62	0.64	-0.06	-1.37 ^b	2.00
India							
1978	12.94	18.69	-	34.22	-	-0.55 ^b	65.30
1979	7.54	31.24	-	37.05	-	-10.46 ^b	65.37
1980	-8.42	57.81	-	40.78	-	-20.67 ^b	69.50
May 1981	-1.44	37.20	-	24.53	-	-17.81 ^b	42.48
Nepal							
1978	-0.01	0.11	0.44	0.30	-	-0.17	0.67
1979	0.18	0.22	0.15	0.30	-	-0.21	0.64
1980	0.19	0.16	0.08	0.58	-	-0.20	0.81
May 1981	0.05	-0.19	0.06	0.65	-	0.23	0.80
Pakistan							
1978	1.77	9.64	-	4.60	0.21 ^c	-4.52	11.70
1979	2.82	7.73	-	8.58	-0.41 ^c	-5.23	13.49
1980	4.13	8.61	-	7.12	-0.12 ^c	-5.94	13.80
July 1981	-1.99	2.82	-	2.57	-0.31 ^c	2.52	6.23
Sri Lanka							
1978	0.62	-0.32	-	2.95	-	-1.08	2.17
1979	0.14	2.19	-	3.19	-	-1.37	4.15
1980	-4.20	6.37	-	4.49	-	-1.91	4.75
June 1981	0.98	2.99	-	2.41	-	-2.59	1.83

Source: IMF, *International Financial Statistics*, November 1981.

^a Includes long-term foreign lending (+) or borrowing (-).

^b Includes claims on other financial institutions.

^c Includes counterpart funds.

million, partly because IMF froze further releases from an Extended Fund Facility of SDR 266 million. The facility was restored in March 1981 after agreement on monetary and fiscal changes. These included suspension of new projects, a 10

per cent cut in departmental expenditures, ceilings on domestic and foreign borrowing, a ban on banking credit for public expenditures, and a downward adjustment of the Sri Lankan rupee coupled with the ending of a dual rate

system. The rupee had already depreciated by 11 per cent during 1980 and, up to September 1981, by a further 15 per cent. The government deficit was being held steady, and the proportion financed by the banking system was being reduced from one half to one quarter.

Budgetary conditions in these south Asian countries are broadly indicated in table III.10. Current revenues more than sufficed to finance current expenditures, during 1980/81, except in Sri Lanka where there was a small current deficit. In the other countries, the current budget surplus (government saving) sufficed, again in 1980/81, to cover only a part of development expenditures: about one quarter in Bangladesh and Nepal, and something over one half in India and Pakistan. Bank credit financed around one quarter of the over-all deficit in Bangladesh, Pakistan and Sri Lanka, and nearly one half in India. Foreign resources financed around two thirds of development expenditures in Sri Lanka, over one half of them in Bangladesh and Nepal, but little more than one quarter in Pakistan and a comparatively small 8 per cent in India. Bangladesh, moreover, had 15 per cent less in external financial inflows during 1980/81 than it had anticipated, and so had to cut back proposed development spending from \$ 1.65 billion to \$ 1.45 billion.

Table III.10. South Asian countries. Government finance, 1978/79-1980/81

(Billion units of national currencies)

	Current revenues	Current expenditures	Development expenditures	Over-all deficit	Financed by		
					Domestic non-bank	Banks	Foreign resources
Bangladesh							
1978/79	15.03	12.86	15.18	13.01	0.56	0.06	12.39
1979/80	18.35	14.45	22.80	18.90	0.24	2.92	15.74
1980/81 ^a	22.78	15.53	31.68	24.44	0.08	6.94	17.42
India							
1978/79	200.54	96.98	179.94	76.38	48.79	20.46	7.13
1979/80 ^a	221.24	109.10	206.10	93.96	46.31	38.96	8.69
1980/81 ^a	245.89	127.06	225.05	106.22	39.90	49.00	17.32
Nepal							
1978/79	1.81	1.04	1.98	1.21	0.20	0.02	0.99
1979/80	1.86	1.14	2.40	1.68	0.18	0.14	1.36
1980/81 ^a	2.41	1.45	3.41	2.45	0.25	0.16	2.05
Pakistan							
1978/79	32.40	29.23	20.49	17.32	2.11	8.50	6.71
1979/80	40.81	33.67	21.81	14.66	1.41	6.30	6.95
1980/81 ^a	51.66	37.50	26.77	12.61	0.90	3.83	7.88
Sri Lanka							
1979	11.01	10.89	7.35	7.23	2.86	0.63	3.74
1980	11.15	12.82	12.77	14.44	1.53	7.19	5.72
1981 ^a	15.08	15.76	12.04	12.71	1.33	3.39	7.99

Sources: National sources.

^a Budget estimates.

Islamization of economic life

Islam is a religion which prescribes its own socio-economic values and practices, and attempts have recently been made to apply them more strictly to economic activities. That has been happening in some oil-exporting countries of the Middle East, and also in those predominantly Islamic countries of the ESCAP region which are strengthening cultural and economic ties with the Middle East.

Iran, itself a Middle Eastern country, has become politically transformed into a kind of Islamic state which gives decisive powers to religious leaders. Considering western influences to undermine both Islamic principles and traditional ways of life, they have sought to move the economy towards a self-sufficiency which limits foreign participation and processes of modernization.

Elsewhere, the most notable features of recent Islamization have been levies imposed for charitable purposes (*Zakat*), and replacement of fixed interest payments or charges by arrangements for profit sharing. Some Arab banks have been founded, or changed, in accordance with this idea of profit sharing.

Pakistan began, in 1980, a three-year programme for Islamization of its economy. The first step was to make institutional arrangements for compulsory collection of a 2.5 per cent levy on monetary assets held by people who had transactions with

recognized financial institutions; others were required to make a similar self-assessment. Provision was also made for a 5 per cent levy on agricultural produce (*Ushr*) to come into force on a date which the Government would announce. The proceeds of *Zakat* are distributed among the needy by local committees, which come under provincial committees, and these under a central committee. In the first nine months of the reform, Rs 814 million (\$ 82 million) had been collected and distributed among orphans, widows, disabled or handicapped people, and students.

Interest is regarded as potentially exploitative and so contrary to Islamic principles. In 1979, two steps were taken to reverse its widespread use. Nationalized banks and co-operative societies were required to make interest-free loans to small farmers for seasonal purposes; and, a year later, the requirement was extended to small fishermen. A bigger step was to abolish fixed interest payments or charges made by the National Investment Trust, the House Building Finance Corporation, and the Investment Corporation, and to substitute arrangements for profit sharing.

A further step was taken in the 1980/81 budget. Banks and businesses which replaced interest by profit sharing, and which had been certified by religious authorities as being in accord with Islamic principles, could

be registered as *Modaraba* companies. An associated innovation in regard to corporate finance was the introduction of a "participation term certificate" to replace debentures; it involves investment for a limited term of up to 10 years, security by way of a mortgage over a company's assets, and profit shares instead of interest charges. From January 1981, moreover, special counters were opened in all branches of the nationalized commercial banks to accept interest-free, but profit sharing, deposits. Eventually no other deposits will be accepted from the public.

Malaysia has not gone nearly so far as Pakistan in these respects. *Zakat* is collected in only a few strongly Muslim states like Kedah and Kelantan. Banks still pay interest, but saving in return for dividends has been promoted by a Pilgrim's Fund (*Tabong Haji*) and by a *bumiputra* unit trust (*Pernodalan Nasional*). There have been some pressures in Indonesia for the establishment of Islamic banking, but they have been resisted by officials and disputed by some modernist Muslims.

Arab banks have already established branches in a number of ESCAP countries, but so far, in the Middle East, Islamic banking principles have been applied only in Bahrain, Dubai, Egypt, Jordan, Kuwait and Sudan, and there only in small, pilot institutions.

IV. SOUTH-EAST ASIA, HONG KONG AND THE REPUBLIC OF KOREA

The five ASEAN countries and Burma had strong rates of economic growth during the late 1970s, at least twice the average for advanced countries, and Hong Kong and the Republic of Korea had even stronger growth rates. In 1980 these rates were maintained or improved, except in the Philippines and Thailand where they nevertheless remained high, and in the Republic of Korea, where disastrous harvests and other troubles led to a decline of over 6 per cent in real GDP. Although world recession in 1981 reduced the average growth rate for advanced countries to less than 2 per cent, growth rates in these south-east and east Asian countries and areas ranged from 5 per cent in the Philippines to over 10 per cent in Hong Kong, despite falls in the prices of leading export commodities and greater difficulties in marketing exports of manufactures. Economic conditions also improved in Democratic Kampuchea, Lao People's Democratic Republic and Viet Nam. There were, however, some troubles over the balance of external payments in the Philippines, the Republic of Korea and Thailand, and these last two countries had to devalue their currencies. Indonesia and Malaysia had reduced export surpluses, but not enough to cause serious trouble. Except in Burma, inflation was a problem with rates ranging, in 1980, from 7 to 9 per cent in Malaysia and Singapore to 29 per cent in the Republic of Korea. Nor was there much reduction of inflation in the first half of 1981. There were large increases of liquidity to fuel these inflations, although monetary restraint was being attempted in most of these countries during 1981, together with efforts to reduce large over-all fiscal deficits.

A. GROWING AND OPEN ECONOMIES

The greater part of south-east Asia is comprised by the five member countries of the Association of South-east Asian Nations (ASEAN), the most effective politico-economic group in the ESCAP region. They give trading preferences to one another on a limited range of commodities, have agreement on setting up five joint industrial ventures, two of which are ready for implementation, special arrangements for consultation with GATT and the EEC, and joint contacts with Australia, Canada, Japan, New Zealand and the United States.

Together these five countries had, in 1980, some 259 million people, about a tenth of the ESCAP region's population, and all but Indonesia were classed, in 1979, by the World Bank as middle-income developing countries. Indonesia's

per capita GNP, in 1980, was \$ 428, well above the south Asian level, and grew by 5.3 per cent a year during the 1970s, mainly because of the country's fortunate position as a major oil exporter. Thailand, with a per capita GNP of \$ 682, and the Philippines, with one of \$ 750, were towards the lower end of the ranking for middle-income countries. Yet Thailand's per capita growth rate in the 1970s was 5.3 per cent a year, and that of the Philippines was 3.6 per cent, largely because these countries have begun vigorous industrialization. Manufacturing now contributes a quarter of GDP in the Philippines and has been growing by 7 per cent a year; in Thailand it contributes over a fifth of GDP and has been growing by 11 per cent a year. In Indonesia, by contrast, the proportion for manufacturing is one seventh, but its growth rate has been over 12 per cent.

Malaysia had a considerably higher per capita GNP of \$ 1,669, growing by 5.5 per cent a year. It, like Indonesia, has been helped by discoveries of oil and natural gas, and, like the Philippines and Thailand, is vigorously industrializing. Manufacturing contributes one fifth of its GDP and has been growing by over 12 per cent a year.

Singapore, formerly very reliant on entrepot trade, has rapidly developed manufacturing and a wide range of servicing activities to attain a per capita GNP of \$ 4,323, which has grown by nearly 7 per cent a year. Manufacturing contributes 27 per cent of its GDP, and services 67 per cent, both largely export-oriented. It has, indeed, been so successful economically that it is passing out of the ranks of what can properly be called developing countries. Already its per capita income is almost level with those of Ireland, Israel and Spain, and not very far

below that of Italy; given continuation of recent trends, Singapore should also have a higher per capita income than New Zealand before 1985.

These countries obviously have achieved a remarkable economic dynamism; one that owes much to good agricultural progress and comparatively high rates of saving to GDP, but has also been associated, in varying degrees, with openness to foreign trade and investment, and with a predominantly market organization of economic activities. A crude measure of the openness of their economies is given by the ratio of exports or imports of goods and non-factor services to GNP. In 1980, this export ratio was 20-25 per cent for the Philippines and Thailand, as compared with an average of 18 per cent for all non-oil developing countries in the middle-income

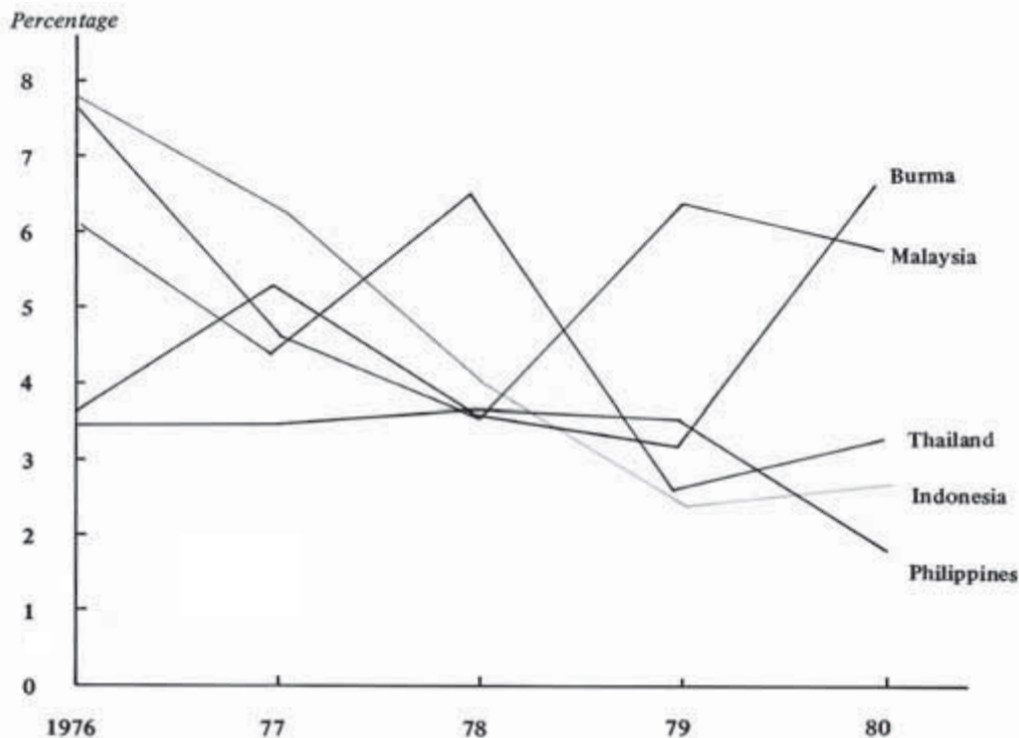
range, 35 per cent for Indonesia and 65 per cent for Malaysia. It was 229 per cent in Singapore and 92 per cent in Hong Kong, but their figures are inflated by the large entrepot trade, which is still an important feature of their economies. Import ratios were somewhat higher because of foreign capital inflows, 26-32 per cent for Indonesia, the Philippines and Thailand, 66 per cent for Malaysia; they were 105 per cent for Hong Kong and 244 per cent for Singapore because of the additional role of entrepot imports.

Openness was closely connected with growth of GDP, for this was largely export-led. Malaysia and the Philippines, during the 1970s, had growth rates for exports about as high as oil-rich Indonesia's 6.5 per cent, and the share of manufactures in their exports rose, between 1960-1978,

from 6 to 21 per cent in Malaysia and from 4 to 34 per cent in the Philippines. Thailand had a faster rate of 12 per cent for export growth, and a rise in the share of manufactures from 2 to 25 per cent. In Singapore, the growth rate for exports was 11 per cent, and the share of manufactures (including re-exports) rose from 27 to 46 per cent.

There is no such quantitative index for degree of market-orientation. But openness to foreign trade and investment, particularly if these grow rapidly, means a considerable degree of market activity and influence on the use and organization of economic resources. *Dirigisme* and *autarkie* tend to go hand in hand. Yet none of these economies allows market forces unfettered sway. They have national economic plans, general controls beyond monetary and

Figure IV.1. South-east Asian countries. Annual percentage change in real GNP/GDP per capita, 1976-1980



fiscal measures over macro-economic activity and investment projects, and some public enterprises beyond public utilities. However, all give wide scope to private enterprise and the search for profit, seeking to harness market forces, within and without their countries, for purposes of economic development.

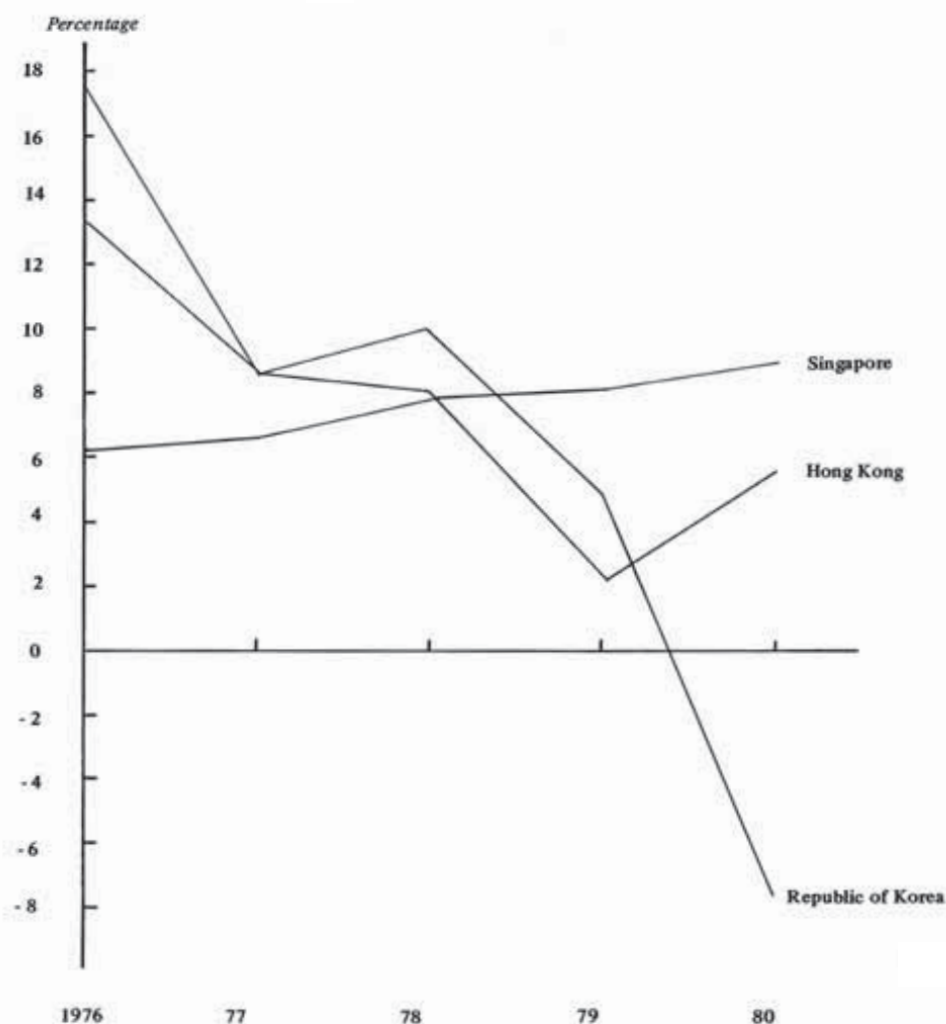
This chapter considers their recent economic fortunes together with those of Burma, Hong Kong and the Republic of Korea. Thailand's neighbour, Burma, is usually considered to be part of

south-east Asia, and has also been a major exporter of rice. It could hardly be described as a dynamic, open and market-based economy. A low per capita GNP of \$ 165, in 1980, had resulted from a slow growth rate of 2.1 per cent during the 1970s; exports were only 8 per cent of GDP in 1980, but above a fairly steady proportion of about 6 per cent during the 1970s. Burma is a socialist economy. The Constitution of Burma provides that all land belongs to the State. Banking and much of industry is State-owned with the re-

mainder of industry being under centralized controls. Quite recently, however, there has been some relaxation of State controls and some encouragement of foreign trade and investment. In 1980, its growth rate of GNP per capita rose to just above 6 per cent, but largely because of a big improvement in the important rice harvest.

Hong Kong, like Singapore, is an urban economy which had earlier made a successful transition from heavy reliance upon entrepot trading, most of it with China, to become an important exporter of

Figure IV.2. Hong Kong, the Republic of Korea and Singapore. Annual percentage change in real GNP/GDP per capita, 1976-1980



manufactures and services. It has much the same level of per capita GNP as Singapore and, during the 1970s, much the same growth rate.

The Republic of Korea also emerged, after 1965, as an industrialized economy and, during the 1970s, its export-led growth of per capita GDP was exceptionally high at nearly 8 per cent a year. That brought its 1980 per capita GNP to \$ 1,509, about the same level as Malaysia's. Exports, in 1979, were one third of GDP, and manufactures 89 per cent of exports; the growth rate for exports, in the 1970s, was 26 per cent a year, and that for manufacturing industry 18 per cent a year.

Except, perhaps, for Burma, these countries have strong economic similarities and strong interests in the world economy, notwithstanding big differences of size in terms of land area or population. Indonesia, with a population of 147 million, in 1980, had three times as many people as the Philippines or Thailand, four times as many as Burma or the Republic of Korea, and eleven times as many as Malaysia. Malaysia has six times as many people as Singapore, or nearly three times as many as Hong Kong. Population densities are also widely different, ranging from 42 persons per square kilometre in Malaysia to 3,973 in Singapore, or 4,320 in Hong Kong.

They have all reduced their rates of population growth, largely through well-developed programmes of family planning. Burma, Indonesia, Malaysia, the Philippines and Thailand now have recorded rates between 2.1 and 2.4 per cent, as have most south Asian countries; the rate for the Republic of Korea is 1.6 per cent and that for Singapore is even lower at 1.2 per cent. Hong Kong's rate averaged a rather high 3.4 per cent between 1976 and 1980, but only because of considerable migrations, illegal

Further ASEAN economic co-operation

During 1980 and 1981, there were a number of important developments for increasing economic co-operation among ASEAN countries.

A basis for co-operation in the newly important field of energy had been laid by the ASEAN Council on Petroleum and Energy formed in 1975. But it was not until September 1980 that a comprehensive programme was worked out by a first meeting of ASEAN energy ministers. This programme involves both short- and long-term arrangements for co-operation in regard to oil, natural gas, coal and power utilities. Short-term measures include emergency arrangements for sharing petroleum, and bilateral assistance in regard to other schemes for petroleum or natural gas.

Five regional industrial projects had been identified for joint government sponsorship in 1976, and Japan had offered \$ 1 billion in soft loans to help finance them. Progress, however, was stalled by unexpected difficulties in regard to feasibility studies and other matters, so that it was not until April 1981 that construction began on the first project - a regional urea fertilizer plant in Indonesia. A few months earlier, arrangements outside the 1976 agreement had been completed for another regional fertilizer plant in east Malaysia. In

January 1982, ASEAN economic ministers agreed to establish three more of these projects; a copper smelter in the Philippines, a motor gear factory in Singapore and a soda ash plant in Thailand, together involving an estimated cost of \$ 780 million, and all to be completed by the end of 1986.

Trade preferences were further extended, in May 1981, by the eleventh meeting of ASEAN economic ministers. The number of items subject to preferential trading arrangements was increased to 6,581, of which 4,508 had import values below \$ 50,000 in 1978. At the same time, the ceiling value was raised to \$ 520,000 for items which automatically received a 20 per cent preference margin (subject to exclusion lists).

Two other developments involved private sector interests. The ASEAN Banking Council decided to form an ASEAN Finance Corporation to help finance ASEAN-based investment projects, and agreed that the banking sectors of the five member countries should have equal participation in this project, on an equity basis. In 1981, private organizations within the automotive industries also agreed to an industrial complementation scheme for automotive parts.

or legal, from China and, to a much lesser extent, from Viet Nam.

Although Indonesia has slowed down population growth, its people are very unevenly distributed over the land area. Two thirds of them are concentrated in Java, which has only 7 per cent of the land area and so a very high density of population. Yet, in the other islands, there are big tracts of land which are lightly peopled or still uncultivated. For decades, the Government has sought to relieve overcrowding and poverty in Java by having people move to these other islands, but organization and financial deficiencies have inhibited success. Recently the oil boom has much increased

public revenues so that Repelita III (the third five-year plan for 1979-1984) has an aim of moving half a million people to 250 new settlements in Sumatra, Sulawesi, Kalimantan or other islands.

Singapore excepted, comparatively high per capita incomes in ASEAN countries do not mean that serious problems of widespread poverty, especially in rural areas, have been solved, or perhaps even much reduced. A recent survey has estimated that 41 per cent of the rural population in the Philippines is below a poverty line of \$ 200 per capita, and 32 per cent of the urban population below a poverty line of \$ 266 per capita. Another recent

survey for Indonesia found that, in Java, 51 per cent of rural people were below a poverty line of \$ 98 per capita, and 28 per cent of urban people were below a line of \$ 119. In Malaysia, it has been estimated that 38 per cent of rural and 13 per cent of urban households are below an official poverty line; and, in Thailand that 34 per cent of rural people were below a line of \$ 110 and 15 per cent of urban people below one of \$ 115.¹

The reason for coexistence of poverty with relatively high average

incomes is, of course, that wealth and incomes are still very unevenly distributed. The latest estimates of income distribution available to the secretariat for these countries puts the poorest 40 per cent of the population as receiving only 15-20 per cent of total household income in Indonesia and the Philippines. The richest 20 per cent received

¹ This data comes from World Bank, *Social Indicators Data Sheets*, May 1981; except for Malaysia for which the *Fourth Malaysia Plan* is the source.

42-44 per cent of total household income in Indonesia and Thailand, and no less than 54-56 per cent in Malaysia and the Philippines.

The position in Singapore is less clear in this respect. A 20 per cent sample of households in the 1980 census revealed that one quarter of them had an annual income below \$ 2,800, about half had less than \$ 5,700, the average household income being \$ 7,100. In the Republic of Korea, income distribution was similar to that of Thailand; the highest 20 per cent received 45 per cent of total household income and the lowest 20 per cent received 6 per cent as against 8 per cent in Thailand. The richest 5 per cent in the Republic of Korea received 16 per cent of the total income as compared with 19 per cent in Indonesia.

These comparisons are necessarily based on incomplete and not very reliable data. Yet they seem to indicate that inequalities of income are very marked in south-east Asia, as in south Asia. Relatively high rates of growth for per capita income do not seem to have had more than a slow trickle-down effect in relieving poverty, and still less in reducing inequalities. For that reason, national economic plans now give greater emphasis to direct corrective measures, especially in regard to the rural areas, which still contain most of the populations in south-east Asian countries, Singapore excepted.

B. EMPLOYMENT AND OUTPUT

Indonesia has about two thirds of its labour force engaged in agriculture and, because of the overcrowded conditions in Java, many of them are landless labourers. Probably about two fifths of the rural labour force is underemployed, a general average in 1975 for developing market economies in

The Sultanate of Brunei

Oil and natural gas give Brunei, a country of only 5,765 square kilometres and 213,000 people, a higher per capita income than Australia or Japan. In 1979, this income was \$ 10,680, and nearly nine tenths of it was derived from outputs of 254,000 barrels of crude oil and over 8 billion cubic metres of natural gas. Some crude is processed in a local refinery, which is being extended, but most of it is sent to two refineries in neighbouring Sarawak. Brunei, however, has the world's largest liquefaction plant for natural gas, capable of producing 6 million tons of liquid gas a year. By far the greater part of its output goes to Japan under a 20-year contract.

Although the petroleum industry provides nine tenths of Brunei's income, and almost all the exports, it employs less than a tenth of the work force. Agriculture does not absorb more, producing only enough rice for about half of domestic requirement, some cassava, sweet potatoes, bananas and a declining output of rubber — only 600 tons in 1979. Manufacturing outside the petroleum industry, is very little developed. Yet imports, in 1980, were only one ninth of exports and the trade surplus was \$ 2,024 million, permitting another large addition to reserves of foreign exchange which had reached \$ 2,830 million in 1979.

Government revenue, similarly, far exceeded government expenditure as much the greater part of revenue

comes from oil and natural gas. In the budget for 1981, it was anticipated that revenues would be \$B 7.6 billion and current expenditures only \$B 1.3 billion, of which one third would go to defence and most of the remainder to education, health, police and public works.

Some attempts are being made to diversify the economy in anticipation of the exhaustion of petroleum resources. The third five-year plan, for 1975-1979, had allocated \$B 760 million for development spending, mainly in education, health, communications and agriculture. Brunei now has a modern seaport, a modern airport and its own airline. There is plenty of scope for agricultural development as only a tenth of the area is cultivated. Attention has thus been given to ways of increasing the production of rice, livestock and food for livestock. In 1979, a Japanese company began a large project for breeding cattle, and a Hong Kong firm has followed with a large fish farm to raise prawns and eels. But a 1,250 acre paddy scheme was set back by bad weather, and another one was also halted.

The fourth plan, for 1980-1984, has increased development spending to \$B 1.7 billion. Most of it has been allocated to facilities for road, sea and air transport, postal services and telecommunications, electricity and water services, schools and hospitals.

Table IV.1. South-east Asian countries, Hong Kong and the Republic of Korea. Population, employment and real income, 1976-1980

	Population mid-1980 (million)	Employment 1980 (million)	GNP per capita 1980 (\$)	Annual percentage growth rates					
				Population		Employment		Real GNP	
				1976-1979	1980	1976-1979	1980	1976-1979	1980
Brunei	0.2	...	10 680 ^a	7.1	...	8.2	...	...	...
Burma	34.1	13.2 ^a	165	2.2	2.2	2.2	...	6.0 ^b	8.3 ^b
Hong Kong	5.1	2.2	4 207	3.3	3.5	4.3	7.5	9.7 ^b	10.1 ^b
Indonesia	147.5	...	428	2.4	2.3	4.6 ^c	...	6.6	8.5
Malaysia	13.6	5.1	1 669	2.8	2.1	4.0	3.4	7.6	8.2
Philippines	47.9	17.0	750	2.4	2.6	4.1	3.7	6.7	4.7
Republic of Korea	38.2	13.7	1 509	1.6	1.6	3.7	0.3	9.4	-6.2
Singapore	2.4	1.1	4 323	1.2	1.2	5.2	5.5	8.4 ^b	10.2 ^b
Thailand	47.2	19.9	682	2.4	2.2	2.2	2.6	7.0	6.3

Sources: United Nations, *Monthly Bulletin of Statistics*, October 1981; World Bank, *1980 World Bank Atlas*; ILO, *Bulletin of Labour Statistics 1981 and Yearbook of Labour Statistics 1980*; ADB, *Key Indicators*, April 1981; and official national sources.

^a 1979.

^b GDP.

^c 1976-1978.

Asia.² It has increased somewhat the area of land under cultivation, and also the proportion of such land which is under irrigation. Any expectation that these developments would increase rural employment have been disappointed partly because of associated use of more labour-saving techniques. There has, in fact, been a discernible increase in the number of landless labourers, and so an increased drift to urban centres.

Recorded unemployment was put at 2.5 per cent of the whole labour force in 1978, but, even if it is correct, the ratio is misleading. General averages, again for the developing market economies of Asia, give urban unemployment at 6.9 per cent and urban underemployment at 23.2 per cent. Much rural unemployment must escape registration and, in any case, underemployment is con-

siderably greater than unemployment, in both villages and towns.

Similar remarks apply, with varying force, to unemployment statistics for Burma, where recorded unemployment was 3.7 per cent in 1979, Malaysia where it was 5.6 per cent, the Philippines where it was 5.2 per cent, and Thailand where it was 5.4 per cent. More believable are the recorded rates of 2.8 per cent for Hong Kong, of 3.8 per cent for the Republic of Korea, and of 3.4 per cent for Singapore in 1980.

In Burma, as in Indonesia, about two thirds of the labour force is in agriculture, and there has been little recent change in the distribution of labour over the various sectors of the economy. Urban unemployment is a serious problem in both countries, especially as it is worst among young people. Burma's third five-year plan for 1980/81-1984/85, however, projects an increase of employment by only 2.3 per cent

a year, which is somewhat lower than the growth rate for its labour force.

Malaysia, on the other hand, has become short of labour for the less well-paid occupations, and Singapore is generally short of labour. In Malaysia, there has been a marked shift in the distribution of labour from agriculture, forestry and fishing to industrial and service industries. A drift of labour from rubber estates, for example, has added to their problems in improving rubber output. Employment in manufacturing has increased by nearly 8 per cent a year in the 1970s, 2.4 per cent more than the corresponding rate of increase for the labour force, and there are labour shortages in the country's export processing zones. Labour shortages have also recently become acute in construction activities, and have been partly filled by migrants from Indonesia.

Migration accounted, in 1980, for more than a tenth of Singapore's

² ILO, *Asian Development in the 1980s*, p. 13.

labour force because of rapid economic growth and a marked decline in the rate of natural increase for its own population. Subsidiary factors were the policy of wage restraint that, after the 1973 world oil crisis, checked growth of real wages and so improvement of labour productivity. A reverse policy was introduced in mid-1979; it provided for accelerated increases of wages over a three-year period in order to reduce excess demands for labour, to encourage growth of productivity, and to promote a redistribution of labour towards skill-intensive or middle technology industries. In 1980, partly as a result of this new wage policy, growth of employment slowed from 6.5 to 5.5 per cent, and productivity improved by 5.0 per cent as against 2.6 per cent in 1979.

In Hong Kong, by contrast, unemployment increased, in 1980, because immigration and other factors raised the annual growth rate of the labour force to nearly 9 per cent a year. In March 1981, unemployment was over 4 per cent of the labour force. More than half of employment is in manufacturing, which had sluggish growth in 1980, and more sluggish growth in 1981, because the world recession adversely affected Hong Kong's export markets. The most rapidly expanding demands for labour have been in finance and business services.

1980 was also a bad year for employment in the Republic of Korea. Poor harvests accelerated a rural-urban drift, but industrial employment did not increase much because of the deterioration of

world markets for its outputs, the poor harvests themselves, and some temporary mismanagement of a dynamic economy. The annual increase of employment dropped from 1.3 to 0.3 per cent, and the unemployment rate reached 5.2 per cent. Conditions improved in 1981 so that, in the first half, the unemployment rate dropped to 4.7 per cent.

The Philippines and Thailand both had similar checks to the growth of employment. Unemployment had been declining in the Philippines during the 1970s, and was recorded as 5.2 per cent of the labour force in 1979, but that decline owed little to labour absorption by manufacturing industries. Their expansion has been checked by the world recession, among other factors, so that

Table IV.2. South-east Asian countries, Hong Kong and the Republic of Korea. Sector contributions to real GDP, 1976-1980

(Percentage)

		Agri- culture	Mining	Manufac- turing, electricity gas and water	Cons- truc- tion	Trans port	Trade	Finance (banking, insurance and real estate)	Public adminis- tration and defence	Others
Burma (Net output FY 1969/70 MP)	1976-1979	36.2	1.2	11.4	2.1	5.3	23.7	2.8	--- 17.3 ---	---
	1980	37.4	1.2	11.5	2.8	5.4	22.0	3.2	--- 16.5 ---	---
Indonesia (GDP CY 1973 MP)	1976-1979	33.7	11.3	12.8	5.3	5.0	16.3	1.7	7.8	6.1
	1980	31.4	9.4	15.0	5.7	5.4	16.3	3.0	8.9	4.9
Malaysia (GDP CY 1970 MP)	1976-1979	25.9	4.8	20.3	4.0	6.2	12.5	8.1	--- 18.2 ^a ---	---
	1980	23.6	4.6	21.7	4.6	6.4	12.5	8.1	--- 18.5 ^a ---	---
Philippines (GDP CY 1972 MP)	1976-1979	26.4	2.2	25.7	7.2	5.3	20.5	-----	12.6	-----
	1980	25.7	2.6	26.4	7.3	5.3	20.6	-----	12.1	-----
Republic of Korea (GDP CY 1975 MP)	1976-1979	20.8	1.3	31.9	5.8	7.0	18.4	3.6	3.2	8.0
	1980	15.4	1.2	34.8	6.4	8.3	18.2	4.2	3.1	8.4
Singapore (GDP CY 1968 MP)	1976-1979	1.5	0.4	25.5	5.3	16.4	25.6	15.6	--- 9.7 ^a ---	---
	1980	1.2	0.4	26.9	4.8	17.8	24.4	16.6	--- 7.9 ^a ---	---
Thailand (GDP CY 1972 MP)	1976-1979	27.6	1.5	22.0	5.0	6.2	17.0	5.1	4.0	11.6
	1980	25.1	1.7	22.8	5.7	6.4	16.0	5.7	4.3	12.3

Sources: Official national sources.

^a Includes imputed bank service charges and import duties.

unemployment increased to 5.4 per cent in 1980, and was worsening in 1981 due to many shutdowns and retrenchments. In Metro Manila, unemployment was especially severe,³ although about 500,000 workers had gone to overseas jobs, mainly in the Middle East.

Thailand has had a recorded rate of unemployment similar to that of the Philippines, 5.7 per cent in 1980, partly because of the bad drought, which made the Government institute a Rural Job Creation Programme to check migration to the towns. Thailand still has 72 per cent of employment in the farming sector.

The annual growth rate for total output (GNP at constant prices) had, between 1976 and 1979, averaged 8.4 to 9.7 per cent for Hong Kong, the Republic of Korea and Singapore, and 6.0 to 7.8 per cent for Burma, Indonesia, Malaysia, the Philippines and Thailand. In 1980, Burma's growth rate improved from 5.4 to 8.3 per cent because of good harvests, Indonesia's from 5.3 to 8.5 per cent because of the big rise in oil prices, and there were smaller improvements for Hong Kong, Malaysia and Singapore. Forward estimates for 1981 pointed to only small falls in the rates for these last three countries.

The Republic of Korea had a sharp fall, in 1980, from a positive growth rate of 7.1 per cent to a negative rate of 6.2 per cent, although it recovered in 1981 to reach 6.5 per cent. Bad harvests were partly to blame for the decline. Thailand had a decline to 6.3 per cent in 1980, and expected a small recovery in 1981 to 7.0 per cent. In the Philippines, there had been continuous decline from the average rate of 6.7 per cent for 1977-1979: that for 1980 was 4.7

³ According to one authoritative estimate the rate reached 26 per cent in the first half of 1981.

per cent and the official estimate for 1981 was 5.0 per cent.

In Burma, agriculture, forestry and fishing provide nearly two fifths of GDP, and two thirds of export receipts have recently come from rice and teak. Economic progress thus depends a good deal on weather conditions. Severe drought in 1979/80 had checked a favourable growth trend that had resulted from a shift of government policy, in 1975, to increase production incentives and the scope for private enterprise. But there was a good monsoon in 1980/81, and real GDP increased by 8.3 per cent. Other favourable influences than the monsoon included extension of the area under high-yielding varieties of rice, an 11 per cent increase of manufacturing's contribution to GDP, increased activity in forestry and some recovery of the neglected mining sector.

The area under high-yielding varieties of rice more than doubled after 1977 to become over two fifths of the total paddy area in 1980, a development which was associated with three major irrigation projects, and with more than a doubling of applications of commercial fertilizer. The expansion of manufacturing activity has also been geared to agricultural progress, especially to industries processing rice, jute and sugar or providing urea fertilizers and other agricultural inputs. Expanding manufactures also include pulp and paper mills, wood processing and furniture factories, and cement factories as well as oil refineries. Manufacturing contributes less than an eighth of GDP, and this relative contribution has hardly changed since 1970.

Forestry has problems in regard to equipment, transportation and processing facilities. These became so serious in 1979/80 that teak exports fell from 180,000 to 103,000 cubic tons. But in 1980/81 forestry production was

expected to maintain the 6 per cent annual rate of growth that had been achieved since 1975. The previously neglected mining sector also began to recover about 1975 and, between then and 1979/80, the output of oil increased by one half and that of natural gas doubled. Other mining outputs include tin, the most important one, antimony, copper, iron, lead, zinc, gems, gold and silver; in 1980/81, they added 15 per cent to export receipts. These outputs have long been adversely affected by unsettled conditions in the remote areas of many mines and by transport difficulties. Some new projects, however, are under way for copper, iron, tin and tungsten.

Indonesia's economic fortunes are also closely bound to agriculture, forestry, fishing and mining as, together, they now yield two fifths of its GDP. Since 1975, paddy production has been fairly steadily increasing by a satisfactory 5 per cent a year because of a continuing spread of improvements associated with the green revolution. The rice crop, in 1980, was over 20 million tons, an increase of more than one half over 1970; it was expected to reach 22 million tons in 1981, another bumper crop leading to storage problems but reducing the need for imports of rice. The output of maize has been rising at about the same rate, and those of coffee, tea and sugar by 7-9 per cent a year, although there have been declines for cassava, soybean and sweet potatoes. The output of palm oil has also increased by 10 per cent a year, but those of copra and rubber by only 3 per cent.

Indonesia has the most extensive concentration of tropical hardwoods of any country, and one of the world's richest fishing grounds. But timber output, after doubling between 1971 and 1978, has since become nearly stationary; only about a quarter of the potential

for inland and offshore fishing, over 7 million tons, has yet been realized.

Oil and natural gas are much the most important of Indonesia's mineral resources. The output of natural gas has more than trebled since 1976, but that of oil reached a peak of 615 million barrels in 1977 and then declined to 577 million barrels in 1980. From June 1980, however, there has been some recovery as the monthly rate

of production rose from 47 million to over 50 million tons in March 1981.

Recent manufacturing progress has been more satisfactory. Repelita III had set a target growth rate of 10 per cent a year for added value from manufacturing, as for mining, and this seems to have been realized up to 1981. The real growth of net manufacturing output averaged more than 10 per cent in 1978 and 1979, and was 21

per cent in 1980. Between 1979/80 and 1980/81, the gross volume of output increased by 35 per cent for refrigerators, by 24 per cent for cement, by 15 per cent for tyres, by 13 per cent for light bulbs, by 9-11 per cent for television sets, radio sets, sewing machines and yarn, but by less than 9 per cent for textiles, paper and fertilizer. Large-scale development projects also stimulated the construction and service sectors, both

Lao People's Democratic Republic

This small land-locked country, with a scattered population of about 3.6 million, took its present political form in 1975, and overcame the last guerrilla resistance to the change two years later. It has had difficult economic problems due to a long war supervening on basic conditions of under-development. They were made worse in 1978 by serious food shortages resulting from widespread and damaging floods. The country, moreover, depends on Thailand for most of its rice imports, which account for about one third of rice consumption, and the border was temporarily closed for two months because of a dispute with Thailand. By 1979, however, paddy output seems to have regained its 1976 level of 858,000 tons, and there were good harvests in 1980/81 which brought the output up to a reported 1,009,000 tons. Gains were also made for the minor outputs of root crops, vegetables, peanuts, sugarcane, tea, coffee and cotton, but none for maize, soybean, mungbean, tobacco or fruit.

The major economic problem is to develop agriculture, which absorbs about four fifths of the population and provides more than two thirds of GNP; in particular, to reduce the long standing dependence on substantial imports of cereals. Industry, by contrast, absorbs only 5 per cent of the labour force, according to ILO estimates, and may not provide more than 3 per cent of GNP. Per capita income is estimated by the World Bank at \$ 100, which would put the republic among the least developed countries.

A major difficulty is a weak foreign trade. Over the triennium

1978-1980, commercial exports averaged only \$ 13.6 million a year, commercial imports \$ 16.8 million a year, and aid imports \$ 43.8 million a year. There is also trade of a barter kind, both official and private, with Viet Nam and Thailand. Official barter trade involved exports of \$ 6.2 million a year, and private barter trade exports of \$ 5.9 million a year; in both cases there were balancing imports. Total exports thus averaged \$ 37.9 million a year, and total imports \$ 40.8 million a year. In the first half of 1981, total exports were \$ 16.7 million and total imports \$ 24.7 million.

Barter exports include scrap iron, rattan goods, handicrafts and medicinal plants. Forestry products, electricity and coffee are the major commercial exports. Tin used to be a major export commodity, but its production shrank because of wartime damage to mine installations, loss of technical and managerial staff, and unsettled conditions in the mining areas. Wood products accounted for \$ 6.3 million, or 26 per cent of commercial exports in 1980, electricity for \$ 5.3 million, and coffee for \$ 1.1 million.

Wood exports, however, have been retarded by serious deficiencies of logging equipment, sawmills and transport facilities. Electricity was a recent export to Thailand from the Nam Ngum dam, constructed on a tributary of the Mekong; its second phase came on stream in 1975 and brought capacity to 110,000 kWh. About 90 per cent of the output was bought by Thailand at an annual cost of \$ 6-8 million. Coffee has become the only important export crop, but producing and processing methods

leave much to be desired so that big improvements are possible in regard to the quantity and quality of output. Export growth, generally, is handicapped by meagre and deteriorated transport facilities. Some foreign exchange is also gained for fees for overflights of Laotian territory by international airlines, but not enough to prevent, in 1979, a net deficit on services amounting to \$ 35 million. This brought the total current deficit to about \$ 84 million, or over twice export receipts.

It was financed by various types of aid. Project aid contributed \$ 26 million, technical assistance \$ 30 million, and commodity aid, mainly for food, \$ 32 million. Modest increases were made to project aid and technical assistance in 1980, and commodity aid increased by one third. It seems that about half the total aid came from centrally planned economies and the other half from international financial institutions, especially the Asian Development Bank, and the International Development Association, Japan, the Netherlands, Sweden and Australia.

The Lao People's Democratic Republic has made only chequered progress towards realizing a socialist and centrally planned economy. In 1976, the Government nationalized various key industries along with the banking and foreign trade sectors, and attempted to promote agricultural co-operatives. Prices were also controlled, and major foods were distributed by State agencies at subsidized prices. Budgetary difficulties associated with these measures led to bottlenecks and imbalances so that

of which have shown strong recent growth.

In Malaysia, agriculture has grown more slowly than real GDP, and mining has actually declined, so that most recent progress is due to manufacturing and construction. The net output of agriculture, livestock, forestry and fishing increased by less than 4 per cent a year between 1974 and 1980 and was only 3.8 per cent in 1980.

policies were revised in order to tighten government spending, liberalize domestic trade, make prices more flexible, and give price incentives to farmers. These revisions were not enough and, in 1979, further changes were made, including payment of higher prices to farmers, halting the establishment of co-operatives, and adjusting administered prices nearer to free market levels. At the same time, the old kip was replaced by a "liberation kip", worth 20 times the old one, and there was a devaluation of 20 per cent to make the liberation kip equal 2.5 US cents. Continuing severe inflation then led to a "new liberation kip" worth 100 of the former one, and to a further 75 per cent devaluation. The new liberation kip became worth 6.7 US cents — a rate which also soon became unrealistic under pressures of inflation, although mounting government deficits were wholly financed by external aid after 1979.

The economy continues to be held back by shortages of skilled labour, limited capacities to plan projects or execute them, scarcity of domestic finance, uncertainty about the foreign aid needed to cover deficits in government finance and in the current balance of payments, and generally unsettled political conditions in the Indo-China area. There were, however, encouraging signs of progress in 1981. Good harvests eased the food situation, large stocks of timber had been accumulated for export, and activity was picking up in a number of other areas. Given reasonably good weather conditions for 1981/82 harvests, the Lao People's Democratic Republic should make further slow progress in 1982.

It was expected to grow by 3.1 per cent in 1981 and by 3.2 per cent in 1982, and the estimate for rice production was an increase of only 2.5 per cent in 1981. An important cause of the slow growth of this sector's net output in 1981 was declining outputs for logs and timber due to the Government's policy of conserving forests. Falling prices for rubber and pepper had the effect of limiting the increase of rubber output to an estimated 0.8 per cent and of decreasing pepper output by one sixth. Tobacco production dropped by 29 per cent because of a crop failure. It was, however, expected that there would be increases of output of 9 per cent for palm oil, of 5 per cent for coconuts, of 22 per cent for cocoa and 4 per cent for sugar.

There were declines of output for oil and tin. Outputs of both tin and oil had fallen by 2-3 per cent in 1980. They were expected to have declined further in 1981: by 2.3 per cent for tin and by 9.1 per cent for oil. Lower prices and rising costs depressed tin output, and the world glut in oil led the Government to reduce Malaysia's output from 276,000 to 250,000 barrels a day. It is expected that oil production will be restored to the previous level in 1982.

Gross manufacturing output, however, increased by 8.9 per cent in 1980 and was expected to increase by over 10 per cent in 1981. The biggest expected increases were for cement (30 per cent), basic metals (16 per cent), processing of agricultural products (15 per cent) and chemicals (9 per cent). The lowest increases were expected for electrical machinery and appliances (1 per cent), textiles and petroleum products (3 per cent), and food (4 per cent). Rapidly increasing investment in infrastructure, housing and business premises gave the construction industry a growth

rate of 14.2 per cent in 1980, and that rate was expected to be 12.5 per cent in 1981. The services sector had expanded by 9 per cent in 1980 and was expected to grow somewhat less rapidly in 1981, mainly because of a slower expansion of government services.

The general result was a slowing of the economy's growth from 8.2 to 6.9 per cent through the effect of the world recession on Malaysia's market for primary exports. The reduction would have been greater but for a deliberate policy of increasing public sector spending to provide a counter-vailing domestic stimulus. The fourth Malaysia Plan for 1981-1985 will continue that policy, as will the 1982 budget, which gives liberal tax concessions and other fiscal incentives to stimulate the private sector, especially in regard to industrial production.

Rubber and tin account for only a fifth of Thailand's exports so that it has been less affected than Malaysia by recent falls in the prices of these two commodities. Rice and cassava are more important, accounting for a quarter of Thailand's exports, and other agricultural products for about a seventh. Weather conditions have made agricultural production vary a good deal in the 1970s; it rose by 11 per cent in 1978, fell by 2 per cent in 1979, rose by 6 per cent in 1980, and is expected to have risen by about 8 per cent in 1981. These fluctuations, of course, affect real GDP as well as the volume of exports. Agriculture's contribution to real GDP declined, in the 1970s, from one third to one quarter, partly because there was little improvement of agricultural productivity but more because of vigorous growth and diversification of manufacturing activities. Their contribution to real GDP rose from 16 to 21 per cent, and import-substituting industries, which had accounted for one third of the

Table IV.3. South-east Asian countries, Hong Kong and the Republic of Korea. Annual percentage growth rates for indexes of production, 1976-1980

	<i>Agriculture</i>		<i>Mining</i>		<i>Manufacturing</i>		<i>Electricity</i>	
	1976-1979	1980	1976-1979	1980	1976-1979	1980	1976-1979	1980
Burma ^a	3.8	10.6	11.3	4.7	5.3	11.8	9.4	10.5
Hong Kong	2.0	37.3	...	...	...	...	11.5	11.1
Indonesia	2.4	4.5	5.2	...	11.8	...	15.7	...
Malaysia	4.0	4.2	-0.4	-2.0	12.2	8.9	10.9	9.9
Philippines	4.3	2.6	6.5	3.1	4.7	5.0	10.0	...
Republic of Korea	6.4	-11.5	2.9	-0.9	22.0	-1.8	15.8	4.4
Singapore	3.5	40.6	...	...	12.0	12.3	11.5	7.6
Thailand	4.3	5.9	...	...	13.6 ^b	6.1 ^b	12.1	5.7

Sources: FAO, *Production Yearbook 1980*; United Nations, *Monthly Bulletin of Statistics*, October 1981; ADB, *Key Indicators*, April 1981; *Report of the Pyithu Hluttaw on the Financial, Economic and Social Conditions of the Socialist Republic of the Union of Burma for 1981/82*; and Singapore, *Yearbook of Statistics 1980/81*.

^a Fiscal year.

^b Industry.

sector's growth in the 1960s, made a negative contribution in the 1970s. That growth became largely export-led, particular success having been scored by textiles, clothing and integrated circuits. The Government gave special incentives for such industries as they are labour-intensive, make considerable use of local materials and are export-oriented. Less successfully, it has also tried to decentralize industries away from Bangkok.

Rubber output has declined because of lower prices and security problems, fishery output because of higher costs and difficulties in marketing, and forestry output because of declining yields and areas. Growth of manufacturing has been adversely affected, since 1980, by the check of world recession to demands for manufactured exports, by high interest rates and tight money encouraging stock decumulation, and by prices falling below expectations for some crops. There were decreases of output in the first half of 1981, for soft drinks, petroleum products, paper and plywood; and below usual increases for textiles, tobacco, canned pineapples and some

products of the iron and electrical industries. Large increases of output, however, occurred for sugar, machinery and transport equipment, cement and artificial flowers. Some improvement was anticipated during the second half of 1981, particularly as an 8.7 per cent devaluation would help manufactured exports. Industry's contribution to real GDP, therefore, was forecast as 7 per cent higher than in 1980.

The Philippines suffered, in 1980, from reduced growth rates for both agriculture and industry. In 1979, coconut products had been 21 per cent of the country's exports, copper 10 per cent, forest products 11 per cent and sugar 5 per cent. From the third quarter of 1980, the prices of these products began falling substantially so that, over the whole year, the terms of trade declined by one eighth. The price of coconuts, indeed, fell so low that some planters did not bother to harvest their crops, and some oil mills, after the suspension of the coconut levy, burned their stocks of copra. Agricultural output was expected to increase by only 4 per cent in

1981, and it was reported that there had been no increase of rice output.

Industrial output increased by 5 per cent in 1980, as compared with over 8 per cent for 1975-1980, and was expected to have increased by over 5 per cent in 1981. Most industries were affected, to some extent, by the higher cost of oil and other forms of energy, higher wages or monetary stringency in 1980. Export industries were also affected by the agricultural situation, or by the reduced demands for manufactured exports.

The slowing down of industrial growth seems to be more a continuation of a declining trend since the first oil crisis. Longstanding government policies of promoting import-substituting industries had fostered high-cost and relatively inefficient manufactures, and their growth inevitably tended to slow down as coverage of local markets became more extensive. That came to be realized in 1980, when the Government, with substantial new aid from the World Bank, began an ambitious programme of structural adjustment in order to im-

prove industrial efficiency and competitiveness, as well as to relieve unemployment, poverty and dependence on imported energy. Reforms made during 1980, in accordance with this programme, included reductions of tariffs, rationalization of tax and other government incentives to industries, and financial aid to those having to adjust to more competitive

conditions. At the same time, a list was drawn up of 11 major projects which would provide some of the infrastructure requirements for more vigorous, and more geographically dispersed, industrialization; but most of them would be delayed because of difficulties over external finance.

The Government of Singapore has also recognized a need for

accelerated structural adjustment, although quite a different one. Vigorous economic development had been based on comparative advantage in labour-intensive activities; but that has become eroded by the labour shortages and the high real wages which have resulted from successful development. Between 1970 and 1980, the share of manufacturing in Singapore's

International development assistance

The recently issued OECD, *Development Co-operation, 1981 Review*, makes it clear that development assistance remains an important catalyst to development and that it is indispensable for poorer developing countries. Yet the mandate for aid is eroding in some DAC countries and there is an urgent need for its reconstruction.

During the decade ended 1980 the total external resource flow to developing countries increased in real terms by about two thirds to \$ 80.2 billion. Concessional flows or ODA increased by around a half to \$ 30.5 billion. There was a relative increase in the importance of non-concessional financing; between 1970 and 1979 its share of flows increased from 58 to 64 per cent.

There were significant compositional shifts in net total resource flows. The contribution of DAC bilateral ODA declined from 30 to 19 per cent between 1970 and 1979; the share of OPEC bilateral ODA increased from 2 per cent in 1970 to 9 per cent in 1975 and then declined to 6 per cent in 1979. In the case of non-concessional flows the share of direct investment declined from 20 to 17 per cent and that of the banking sector increased considerably from 16 to 24 per cent.

ODA flows provide over 80 per cent of the external financing of low-income countries. In real terms there has been a decline in this type of assistance between 1974 and 1979. Low-income countries recording a decline or stagnation in real ODA receipts included India, Indonesia and Viet Nam in the ESCAP region.

There is evidence of a recent effort to increase ODA flows to LDCs. Between 1977 and 1980 ODA assist-

ance in current price terms to LDC countries increased by two thirds. Within the ESCAP region the increase was 50 per cent to \$ 1,505 million but the real increase would have been much smaller.

Prospects for ODA

In 1980 ODA provided to developing countries and multilateral institutions increased by 17 per cent in nominal and 7 per cent in real terms. However the share of ODA from DAC members, at 0.37 per cent of their combined GNPs in 1980 and averaging just over 0.35 per cent during 1975-1980, was considerably lower than the United Nations target of 0.7 per cent. The prospects for continued growth in ODA are not encouraging. The OECD report anticipates a growth in real terms of ODA from DAC countries (which provide some 75 per cent of total ODA) of between 3 to 4 per cent per annum, which is starkly below that achieved in 1980 and well below the 4 to 5 per cent rate of growth attained in the second half of the 1970s.

The actual outcome in DAC countries will be heavily influenced by the performance of the United States. Current indications point to a future decline in real terms in ODA from this country which accounted for 27 per cent of the DAC ODA contributions in 1980. However, it is anticipated that France, the Federal Republic of Germany and Japan will continue to increase their relative aid efforts in real terms over the medium term and these countries account for over 40 per cent of the DAC total. There is evidence, however, of donors switching increasingly from commodity to project aid and the disbursement period is typically much longer in the latter case.

The outlook is bleak concerning the agreed \$ 12.5 billion replenishment of IDA funding for the period 1980-1983. The contribution of the United States in 1981 and 1982 was markedly less than anticipated and other contributors reduced their contributions proportionately also in 1982. It is likely, therefore, that the replenishment will take place over a four or five year time period.

Prospects for ODA flows will be further affected by recent and expected developments in the price of oil. At the time of writing it appears that the real and nominal prices of oil could continue to decline through to the middle 1980s and this will inevitably affect the ODA contributions of the OPEC countries which accounted for about one fifth of total ODA in 1980.

If the slower rate of growth in ODA materializes, it will be increasingly difficult for aid donors to respond to new needs and priorities, such as those of the LDCs, of food and energy production, or to maintain the momentum of expansion of multilateral programmes.

Particular problems can be expected in the funding of multilateral agencies. Given the current over-all aid policies of two major multilateral donors - the United Kingdom and United States - and the position of some countries that their shares in financing multilateral agencies are too large, it is unlikely that the requirements of the agencies to expand activities in real terms at 5 per cent per annum will be funded. This could have serious implications for the funding of activities in agriculture and the LDCs which have received particular emphasis in multilateral programmes.

GDP rose from 20 to 24 per cent, and manufacturing production grew at an average rate of 11 per cent a year. In 1980, that rate was nearly 12 per cent. Major industries include food and beverages, textiles and clothing, paper products and printing, wood products and furniture, petroleum refining, chemical

products, electrical and electronic products, aircraft servicing, ship-repairing, shipbuilding and oil-rig building. Early growth of manufacturing had depended mostly on import substitution, the limits of which were soon reached in a small domestic market. The Economic Development Board then fostered

export-oriented and labour-intensive activities such as textiles, clothing and electronic products as well as petroleum refining. Later it encouraged, and market conditions favoured, a shift of manufacturing activities to medium technology and skill-intensive industries such as shipbuilding, oil-rig

The Socialist Republic of Viet Nam

Since the political reunification of Viet Nam in 1976, steps have been taken, within the broad framework of a transformation to a system of State control and planning, to promote agricultural collectives, to transform private industry, to redeploy labour from overcrowded cities to "new economic zones" in lightly settled areas, and to co-ordinate the economic activities of the more industrialized and the more agricultural regions of the country.

In 1980, the northern part of the country was hit by typhoons, and the central area encountered exceptional drought conditions. Part of the rice deficit was met by such dry crops as maize, wheat, manioc and sweet potatoes, the production of which had been encouraged as a means of agricultural diversification. Shortages of boats and equipment caused a reduction in the fishing catch.

A variety of measures were introduced to improve the food situation. Acreage of dry crops was increased, and family farming was encouraged. The new system of contract farming involves:

- (a) Allocating plots of land for two to three years to labourers in return for a specified amount of produce supplied to the State;
- (b) Performance by work teams of soil preparation, supply of seed and fertilizer, irrigation, drainage and crop protection;
- (c) Contracts to individual workers for transplanting, cultivation, crop tending and harvesting;
- (d) Allocation of that part of the harvest which meets the quota set according to work

points on the previous collective system;

- (e) Distribution of the remainder of the harvest to contract workers on a percentage basis (often 100 per cent).

Associated steps include replacement of the progressive tax on co-operatives by a fixed one, stabilization of State purchases of farm products up to 1985, and provision of greater autonomy to collectives.

Favourable results have been reported, primarily because of an increased area of cultivation, a return of workers to agricultural activities, and the new incentives to higher productivity. In spite of continuing shortages of such inputs as fertilizers, insecticides, and fuel, the new policies combined with good weather conditions in 1981 to increase agricultural output by 4 per cent in value terms. The spring rice crop provided an output of 12.5 million tons of paddy, exceeding the official target for 1981. Total food output for the year reached an all-time high of 15 million tons; this permitted the State to purchase a record of 2.5 million tons of food. The number of both domestic animals and fowls has increased; in particular, the number of pigs was up by 4.5 per cent, that of buffaloes by 2.7 per cent, and cows and oxen by 6.3 per cent.

Industrial production for 1981 in the aggregate met its target, which was a little higher than the level achieved in 1980. Output of local and small industries and handicrafts increased by 7 per cent. Output of electricity rose by 4.4 per cent, coal by 11.7 per cent, transport barges by 18.2 per cent, launches and tugboats by 31.5 per cent, sugar by 33 per cent, tinned food by 23 per cent and cigarettes by 41.8 per

cent. In the construction sector a number of large-scale industrial projects were being accelerated. Shortfalls below targeted levels were experienced, however, in some industrial products, export goods, transport and capital construction.

Viet Nam's major export is coal. Its production has, however, been adversely affected by a shortage of miners and deterioration of mine equipment. Coal output appears to have fallen from 6.2 million tons in 1977 to 5.3 million tons in 1980, followed by an estimated increase to 5.9 million tons in 1981. Assistance from the Soviet Union helped to expand mines in four areas during 1981, improving output and export prospects.

The Government has introduced various economic reforms in the industrial sector. These include payment of higher procurement prices to increase supplies of raw materials, and more autonomy for enterprises with regard to planning and financial control. As in the agricultural sector, productivity is being encouraged by the introduction of piece-rate wages and bonuses.

Substantial quantities of aid have been provided to Viet Nam in recent years by the Soviet Union and other CMEA countries. Other significant aid suppliers have included Sweden, Finland and France. Though the World Bank in 1981 undertook no new lending to Viet Nam, the International Monetary Fund's allocation of special drawing rights (SDRs) was increased from \$ 12 million to \$ 28 million.

In a report presented to the Vietnamese National Assembly in late 1981, the Chairman of the State Planning Commission indicated that among the fundamental tasks of the 1982 State plan would be the development

building, the manufacture of precision instruments, portable electrical tools and computer peripherals. By 1975, high added-value industries were absorbing more than half the manufacturing work force and contributing nearly three quarters of total added value in the manufacturing sector. By 1979,

of agriculture and consumer goods production to meet domestic demand; satisfaction of the people's basic needs for food, clothing, education, medical treatment, and transportation; readjustment of production, capital construction, and communication and transport; and continuation of the socialist transformation.

Agriculture continued to be recognized as the sector requiring the greatest emphasis, not only as the means of satisfying the people's essential food and clothing needs but also as a major source of supply to the consumer goods industries and export markets. A target of 16 million tons of starch food was set one million tons (or 6.7 per cent) higher than the previous peak year of 1981. Among other major agricultural activities, pig raising was to be increased by 6 per cent and cattle raising by 4 per cent. Fish output and timber exploitation were each targeted for 5 per cent growth over 1981.

In industry, emphasis was to be placed on consumer goods production, especially necessities such as textiles, paper, and medicines. Priority was to be given to key industries such as electricity, coal and fertilizer. Textile output was to be increased by 62 per cent over 1981, paper by 31 per cent, electricity and coal by 6 per cent each, and cement by 77 per cent.

In the social field, the State plan provided for an increase in universal school enrolment to 12.3 million during the 1982/83 academic year and an increase in the number of students in complementary education by 5 per cent to reach 50,000. It was planned to build 11,430 medical establishments and sanatoria containing nearly 200,000 beds, a 3.7 per cent increase over 1981.

moreover, export sales were two thirds of the sector's total sales. In that year, the Government announced a programme for big increases of wages so as to discourage inefficient or wasteful use of labour, and to encourage development of high added-value industries.

World recession, and increasing competition by other developing countries (including ASEAN members) in exporting labour-intensive manufactures to advanced countries, have slowed down the expansion of manufacturing production from 15 to 12 per cent in 1980, and there was no improvement up to mid-1981. The garment and sawmilling industries contracted and also petroleum refining; the garment industry because of rising labour costs and market restrictions in OECD countries, sawmilling because of lower demands for its outputs and supply difficulties over inputs, and petroleum refining because of the oil glut caused by lower demands for petroleum.

Entrepot trade is still important enough to make the contribution of the wholesale and retail trade sector to GDP a high 25 per cent, twice the proportion in Malaysia. The financial sector has also become important due to a rapid expansion of banks and finance companies servicing international as well as local clients, an expansion which has been helped by Singapore's development of an Asian dollar market. There has been a similar expansion of other business and consultancy services.

In Hong Kong, manufacturing accounted for one quarter of GDP in 1978, construction for 7 per cent, trade and finance each for one fifth, and transport for 6 per cent. Most manufacturing is for export markets, the major industry being clothing but watches or clocks, electrical and electronic

appliances or components, and textiles are also important. The growth of real domestic exports slowed from 18 per cent in the first half of 1980 to 5 per cent in the second half; and a recovery to only 7 per cent was expected for 1981. World recession and increasing protectionism in advanced countries are the major causes of slower growth for Hong Kong's manufacturing industries. Some stimulus, however, was expected from a construction boom which was to begin late in 1981 with the start of work on the Mass Transit Railway's Island Line, involving an expenditure of \$ 1.4 billion over three to four years.

Rapid economic growth of the Republic of Korea had begun in the early 1960s, was not much affected by the oil shock of 1973-1974, and was particularly impressive between 1976 and 1978. Its main feature had been successful export drives and restructuring of productive activities towards heavy industries, metallurgical and chemical. Serious inflation developed and that, combined with a fixed exchange rate, undermined the competitiveness of exports. From 1977 exports weakened markedly and, in 1979, declined by nearly 4 per cent in real terms. Then came the second oil shock, which doubled the import bill for oil, political and social unrest following the assassination of President Park, and a disastrous harvest in 1980. The net result was that real GNP fell by over 6 per cent, and inflation greatly worsened.

Remedial measures involved depreciation of the won, monetary restriction and wage restraint. In January 1980, the won was devalued by 16.5 per cent and thereafter left to float against the US dollar. At the same time, interest rates were raised by 5-6 per cent, and attempts were made to slow the expansion of liquidity. They

were not really successful as the money supply rose by 27 per cent during 1980, as it had in 1979, notwithstanding a larger deficit in the balance of payments. Wage increases did slow down only from 29 per cent in 1979 to 23 per cent in 1980; they may have risen by 18 per cent in 1981.

Other measures, taken in 1981, were aimed at increasing industrial efficiency and improving allocations of investment by strengthening market forces. Nearly 400 items were removed from the import restriction list, and direct foreign investment was allowed in half the country's industries. A Fair Trade and Anti-Monopoly Act,

passed in December 1980, was intended to promote competition and also to minimize direct State controls over prices. An Industrial Review Board has also been established to assess major investment decisions, before their execution, in industries which significantly benefit from tariff or other protection against imports. Priorities will be given to those investments which can contribute to international competitiveness and develop efficiency in the use of energy. Steps were also taken to liberalize and diversify the money market.

Normal harvests in 1980/81, and a considerable recovery of real

exports in the first half of 1981, were expected to restore growth of real GDP to 6.5 per cent over the whole year. Rates of 8 per cent are projected for 1982 and 1983, with exports increasing by 20 per cent a year. Already in the first half of 1981, growth rates of 3.3 per cent were recorded for agriculture, 5.2 per cent for mining and manufacturing, 21 per cent for exports and 2.7 per cent for GDP.

C. TRADE AND FINANCIAL FLOWS

Hong Kong and the Republic of Korea have a very different commodity structure of exports than the ASEAN countries. Their exports are largely manufactured goods, and machinery or transport equipment forms a considerable part of their manufactured exports. In 1980, 96 per cent of Hong Kong's exports were manufactures, and 18 per cent were machinery or transport equipment. For the Republic of Korea the two proportions were 90 per cent and 20 per cent.

In Singapore, petroleum products were 45 per cent of domestic exports, machinery or transport equipment 25 per cent, and other manufactures 15 per cent. Malaysia, the Philippines and Thailand have a much lower proportion of manufactures in their exports, and a much smaller proportion of machinery or transport equipment in manufactured exports. The proportion of manufactures was 35-36 per cent for the Philippines and Thailand, and 28 per cent for Malaysia. Yet these proportions were much higher than the 3 per cent which held for Burma or the 9 per cent which held for Indonesia, and more than half of Indonesia's manufactured exports were petroleum products.

Indonesia is a special case among this group of countries in that over two thirds of its exports

Table IV.4. South-east Asian countries, Hong Kong and the Republic of Korea. Direction of export trade, 1976-1980

	\$ million			Percentage distribution		
	1976-1979 average	1979	1980	1976-1979 average	1979	1980
World	61 062.45	84 071.22	108 560.17	100.0	100.0	100.0
Industrial countries	41 238.65	55 691.38	68 148.39	67.5	66.2	62.8
USA	14 235.49	17 793.75	21 580.17	23.3	21.2	19.9
Japan	13 847.78	19 820.79	25 045.78	22.7	23.6	23.1
EEC	9 579.46	13 430.61	15 699.63	15.7	16.0	14.5
Developing countries	17 935.52	25 709.73	36 232.50	29.4	30.6	33.4
Oil-exporting countries	3 303.26	4 475.17	6 803.62	5.4	5.3	6.3
Non-oil developing countries	14 632.26	21 234.56	29 428.88	24.0	25.3	27.1
Intra-subregional	10 059.20	14 004.86	20 341.44	16.5	16.7	18.7
Brunei	190.27	258.20	324.10	0.3	0.3	0.3
Burma	64.40	69.70	103.90	0.1	0.1	0.1
Hong Kong	1 554.18	2 230.79	3 224.66	2.5	2.7	3.0
Indonesia	650.87	879.50	1 516.39	1.1	1.0	1.4
Malaysia	1 888.44	2 689.54	3 744.79	3.1	3.2	3.4
Philippines	628.16	952.05	1 213.42	1.0	1.1	1.1
Republic of Korea	791.99	1 227.34	1 418.80	1.3	1.5	1.3
Singapore	3 576.17	4 544.89	7 152.56	5.9	5.4	6.6
Thailand	714.72	1 152.85	1 642.82	1.2	1.4	1.5
ASEAN	7 458.36	10 218.83	15 269.98	12.2	12.1	14.0
USSR and Eastern Europe	649.71	985.10	1 400.48	1.1	1.2	1.3

Source: IMF, *Direction of Trade Statistics Yearbook*, 1981.

Note: Subtotals do not add to 100 per cent because of deficiencies of allocation.

are crude petroleum or petroleum products. Such products also constitute over a quarter of Singapore's total exports, because it has developed the biggest refining capacity in south-east Asia. Malaysia also exports crude oil or petroleum products, and they are one third of its exports.

Other exports in this group of countries comprise primary commodities from agriculture, fishing, forestry and mining. Tin, iron ore and other minerals excluding petroleum are 9-14 per cent of exports in Malaysia, the Philippines and Thailand, but only 1 per cent in Indonesia. The agricultural or forestry exports include rice, maize, coconut oil, copra, coffee, palm oil, rubber, sugar and timber. These are about 90 per cent of Burma's exports, and the proportion is 60 per cent for Thailand, 47 per cent for Malaysia, 35 per cent for the Philippines, and 21 per cent for Indonesia.

Food exports are doubly dependent upon climatic conditions; their supply is affected by weather in the exporting country and the demand for them in the importing countries. Other agricultural exports, mainly industrial raw materials, are also affected by climatic conditions but much more by demand conditions in the industrial countries, which are the biggest importers of these materials. Mineral exports are still more dependent on demands in the industrial countries.

Machinery and transport equipment is the largest category of imports, the proportion ranging from one fifth in Hong Kong to about one third in Indonesia, Malaysia, the Republic of Korea and Thailand, but nearly one half in Burma. Chemicals, including fertilizers, are also important, forming 10-14 per cent of imports in all these economies except Hong Kong and Singapore where the proportion is 6-8 per cent.

Mineral fuels, mostly petroleum or natural gas, have also become important; even before the 1979-1980 rise in oil prices, they were more than a fifth of imports in the Philippines and Thailand, more than a sixth in the Republic of Korea, and about one eighth in Indonesia and Malaysia, which export most of their own outputs of superior crude and import more sulphurous Middle Eastern crude for domestic requirements. Imports of other minerals ranged, as a proportion of total imports, from 5 per cent in Hong Kong and Singapore to 12 per cent in the Republic of Korea or Thailand. Food is a major category of im-

ports in Indonesia and Malaysia, being one sixth of total imports, and also in Hong Kong where the proportion is more than one eighth.

Tables IV.4 and IV.5 give a partial view of the direction of trade for these countries as a whole, partial because published statistics omit most of the trade between Indonesia and Singapore, and also oil exports by Brunei for contract refining in Sarawak, Malaysia. The tables indicate that, in 1980, 63 per cent of the combined exports of this group of countries went to industrial countries, and 57 per cent of their combined imports were drawn from

Table IV.5. South-east Asian countries, Hong Kong and the Republic of Korea. Direction of import trade, 1976-1980

	\$ million			Percentage distribution		
	1976-1979 average	1979	1980	1976-1979 average	1979	1980
World	61 603.12	85 021.97	110 825.94	100.0	100.0	100.0
Industrial countries	37 979.06	52 217.65	63 163.19	61.6	61.4	57.0
USA	9 783.58	14 156.09	17 581.78	15.9	16.6	15.9
Japan	16 001.96	21 077.24	25 641.02	26.0	24.8	23.1
EEC	7 946.23	11 168.70	12 783.19	12.9	13.1	11.5
Developing countries	21 215.21	29 377.57	42 836.83	34.4	34.6	38.7
Oil-exporting countries	7 726.14	10 634.16	16 256.62	12.5	12.5	14.7
Non-oil developing countries	13 489.07	18 743.41	26 580.21	21.9	22.0	24.0
Intra-subregional	8 280.49	11 707.59	16 905.73	13.4	13.8	15.2
Brunei	202.82	324.20	446.50	0.3	0.4	0.4
Burma	156.92	198.80	233.70	0.2	0.2	0.2
Hong Kong	709.53	949.36	1 622.62	1.2	1.1	1.5
Indonesia	685.95	998.93	943.38	1.1	1.2	0.8
Malaysia	2 288.64	3 329.08	4 434.68	3.7	3.9	4.0
Philippines	299.24	506.22	830.25	0.5	0.6	0.7
Republic of Korea	802.20	1 151.04	1 952.38	1.3	1.4	1.8
Singapore	2 088.57	2 890.45	4 772.16	3.4	3.4	4.3
Thailand	1 046.42	1 359.51	1 670.06	1.7	1.6	1.5
ASEAN	6 409.02	9 084.19	12 650.53	10.4	10.7	11.4
USSR and Eastern Europe	316.52	372.62	496.00	0.5	0.4	0.4

Source: IMF, *Direction of Trade Statistics Yearbook*, 1981.

Note: Subtotals do not add to 100 per cent because of deficiencies of allocation.

Table IV.6. South-east Asian countries, Hong Kong and the Republic of Korea. Imports, exports and trade balance and exchange rates, 1975-1981

(\$ million)

	1975	1976	1977	1978	1979	1980	1981 ^a
Burma							
Imports c.i.f.	250	194	273	326	318	354	201
Imports f.o.b.	227	176	248	297	289	322	182
Exports f.o.b.	158	193	207	234	383	472	230
Trade balance	-69	17	-41	-63	94	150	48
Exchange rate ^b	6.4542	6.7697	7.1356	6.8651	6.6506	6.6087	7.1334
Hong Kong							
Imports	6 777	8 828	10 446	13 459	17 157	22 438	10 664
Exports	6 040	8 474	9 617	11 507	15 178	19 743	10 396
Trade balance	- 737	- 354	- 829	- 1 952	- 1 979	- 2 695	- 268
Exchange rate ^b	4.939	4.904	4.662	4.685	5.003	4.976	5.307
Indonesia							
Imports c.i.f.	4 770	5 673	6 230	6 690	7 202	10 834	...
Imports f.o.b.	4 210	5 020	5 484	5 910	6 425	9 674	...
Exports f.o.b.	7 102	8 547	10 853	11 643	15 590	21 908	...
Trade balance	2 892	3 527	5 369	5 733	9 165	12 234	...
Exchange rate ^b	415.0	415.0	415.0	442.05	623.05	627.00	629.04
Malaysia							
Imports c.i.f.	3 552	3 825	4 536	5 911	7 842	10 813	5 583
Imports f.o.b.	3 250	3 462	4 094	5 335	7 058	9 741	5 030
Exports f.o.b.	3 844	5 289	6 078	7 381	11 067	12 955	5 703
Trade balance	594	1 827	1 984	2 046	4 009	3 214	673
Exchange rate ^b	2.4016	2.5416	2.4613	2.3160	2.1884	2.1769	2.2941
Philippines							
Imports c.i.f.	3 776	3 953	4 270	5 143	6 613	8 295	2 025 ^c
Imports f.o.b.	3 459	3 633	3 965	4 732	6 142	7 727	1 892 ^c
Exports f.o.b.	2 267	2 572	3 150	3 424	4 533	5 744	1 575 ^c
Trade balance	-1 192	-1 061	-815	-1 308	-1 609	-1 983	-317 ^c
Exchange rate ^b	7.2479	7.4403	7.4028	7.3658	7.3776	7.5114	7.6767 ^c
Republic of Korea							
Imports c.i.f.	7 274	8 774	10 811	14 972	20 339	22 304	12 818
Imports f.o.b.	6 748	8 238	10 132	13 992	18 850	20 671	11 879
Exports f.o.b.	5 081	7 715	10 047	12 718	15 055	17 511	10 155
Trade balance	-1 667	-523	-85	-1 274	-3 795	-3 160	-1 724
Exchange rate ^b	484.00	484.00	484.00	484.00	484.00	607.43	674.06
Singapore							
Imports c.i.f.	8 126	9 068	10 462	13 030	17 636	23 984	13 604
Imports f.o.b.	7 602	8 506	9 833	12 235	16 560	22 521	12 774
Exports f.o.b.	5 380	6 583	8 236	10 108	14 234	19 362	10 316
Trade balance	-2 222	-1 923	-1 597	-2 127	-2 326	-3 159	-2 458
Exchange rate ^b	2.3713	2.4708	2.4394	2.2740	2.1746	2.1412	2.1114
Thailand							
Imports c.i.f.	3 280	3 572	4 617	5 355	7 158	9 215	5 182
Imports f.o.b.	2 955	3 218	4 159	4 824	6 449	8 302	4 669
Exports f.o.b.	2 208	2 980	3 490	4 085	5 298	6 505	3 714
Trade balance	-747	-238	-669	-739	-1 151	-1 797	-955
Exchange rate ^b	20.379	20.400	20.400	20.336	20.419	20.476	20.784

Sources: IMF, *International Financial Statistics*, November 1981, and Hong Kong, *Monthly Digest of Statistics*, August 1981.

^a First half of 1981 unless otherwise stated.

^b Units of national currency per \$.

^c First quarter.

them. Japan was easily the largest supplier of imports, and has recently surpassed the United States to become the largest buyer of exports. The rises of petroleum prices have made imports from oil-exporting countries increase to 15 per cent of the group's imports, but these countries take only 6 per cent of the group's exports. There is little trade, in either direction, with the USSR or East European countries. Exports to non-oil developing countries were recorded as more than a quarter of the group's total exports, and imports from them as a somewhat smaller proportion of the group's total imports.

Table IV.6 shows changes in merchandise trade for individual countries.

Burma, after more than a decade of declining real exports, resumed a growth of trade which doubled the volume of exports between 1975 and 1980 and trebled export receipts. This growth, however, was fluctuating because rice is about one third of Burma's exports, and teak about one quarter. Trading results were good in 1980 as exports rose by 23 per cent. Prospects for 1981 seemed good as, in the first half of the year, exports remained at a high level.

Indonesia's exports rose by 40 per cent in 1980, largely because of higher prices for oil, and an increase of natural gas exports, but would grow more slowly in 1981 because of stable prices for oil. Other primary exports did not do well, as world prices fell for rubber, coffee and timber, and because timber exports were restricted in order to help the local wood processing industries. Manufactured exports, however, increased considerably to become one fifth of non-oil exports; there were particularly strong increases for textiles, clothing and electronic parts. Results were poorer in the first

half of 1981. Little increase was expected for oil or natural gas, export receipts from tea and coffee fell drastically, and those from rubber and tin were moderately lower.

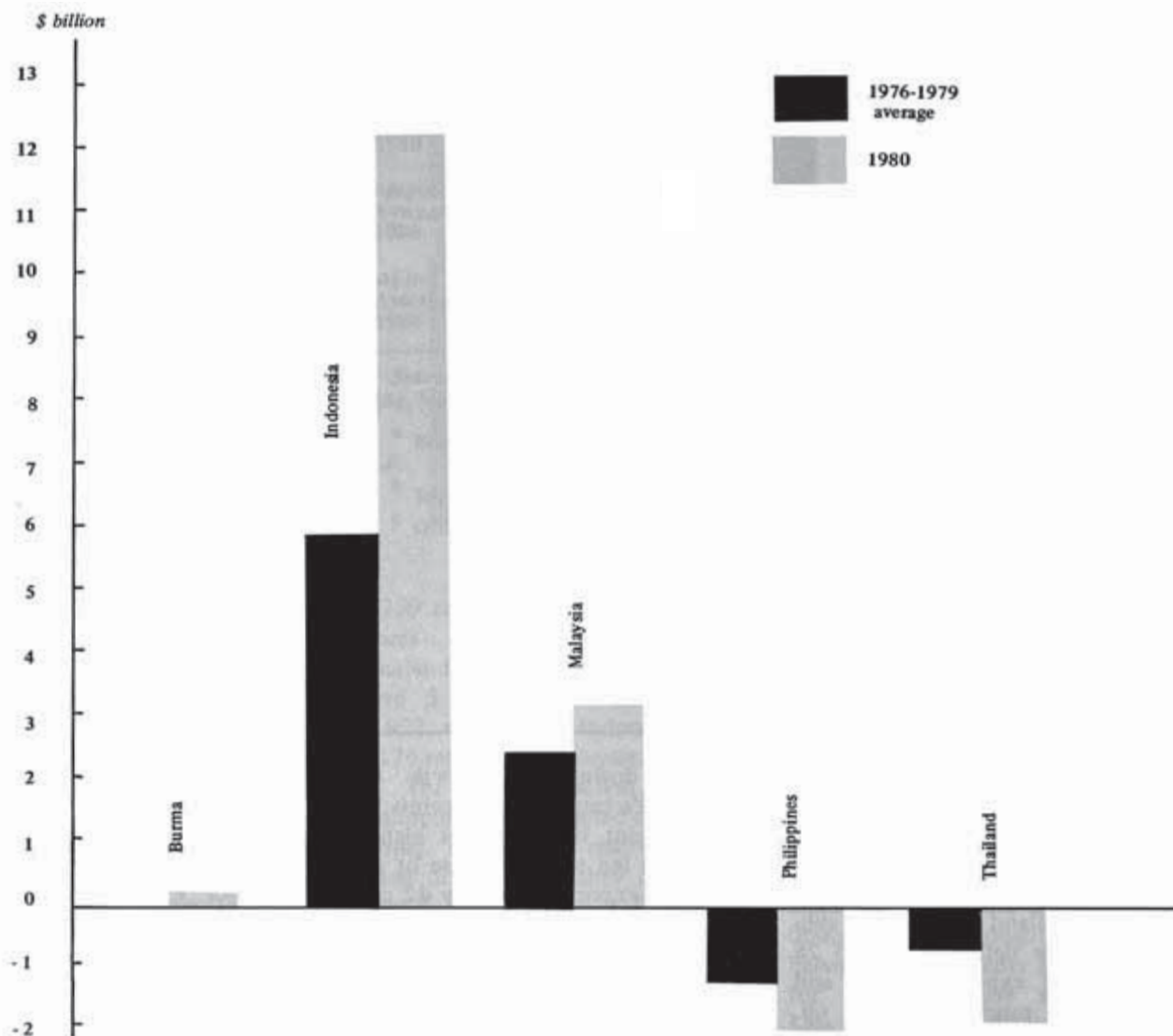
Growth of Malaysia's export receipts by 17 per cent in 1980 was largely due to price increases for oil, tin, rubber and timber, although there were decreases for vegetable oils. Imports increased twice as rapidly, but there was a

trade surplus equal to one quarter of export receipts. Malaysia's exports in 1981 were affected by falling commodity prices as well as by decreases in volume for all major primary commodities except rubber and palm oil. Manufactured exports had grown by 24 per cent in 1980, but the rate slowed down to 7 per cent in 1981.

Rising commodity prices and an increased quantity of manufactured exports led to a 27 per

cent increase in the Philippines' export receipts during 1980. Receipts from sugar trebled and those from copper increased by one quarter, offsetting declines for coconut products and timber. Manufactured exports grew by one third, mainly clothing, furniture, electrical and electronic goods. But, since 1974, the Philippines has had adverse balances of trade, and that for 1980 was a record at \$ 1,983 million, equal to more than

Figure IV.3. South-east Asian countries. Balances of trade, 1976-1979 average and 1980



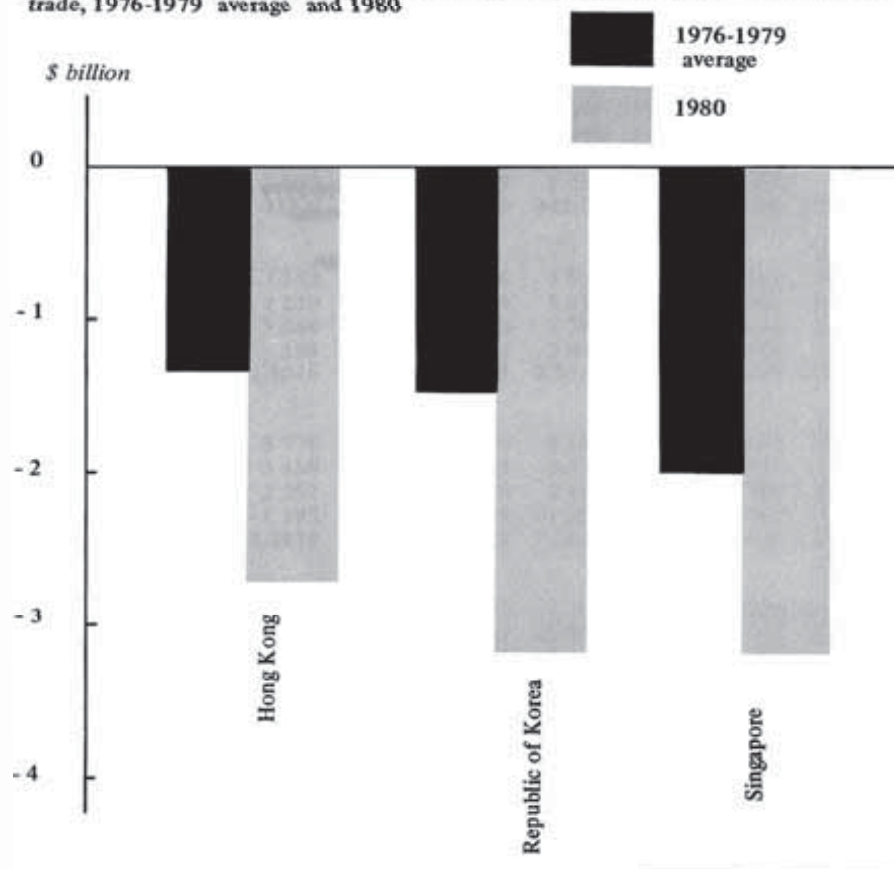
a third of export receipts and partly due to the rise of oil prices. In 1981, the growth of exports was projected to decline to 7 per cent because of lower prices for sugar, copper and timber, and the effect of world recession on demands for manufactures.

Thailand's export receipts also rose sharply in 1980, by 23 per cent, because of higher prices for rice, maize, rubber and tin, and

for rice, sugar, maize and cassava. Manufactured exports were also expected to be helped by an 8.7 per cent devaluation of the baht in July 1981; they had reached nearly a quarter of exports in 1980. For 1981 as a whole, exports and imports both increased by 14 per cent so that the trade deficit widened from \$ 1,797 million to \$ 3,070 million.

Falling commodity prices

Figure IV.4. Hong Kong, the Republic of Korea and Singapore. Balances of trade, 1976-1979 average and 1980



a bigger quantity of cassava exports, although the volume of rubber exports dropped by an eighth and that of sugar exports by more than one half. Nevertheless, Thailand also had a substantial trade deficit, equal to 28 per cent of export receipts, and also owing much to dearer oil. In the first half of 1981, export receipts increased by 15 per cent, partly because of better harvests

slowed down the growth of Singapore's total export receipts to 23 per cent in 1980, but higher oil prices led to an increase of its domestic export receipts by 42 per cent. Excluding petroleum products, however, domestic exports grew by 26 per cent, a slower rate than the 35 per cent achieved in 1979. World recession had the effect of considerably slowing down the growth of both entrepot

and domestic exports in 1981; in the first half, exports grew by less than 8 per cent, and only ship-repairing and oil-rig construction appeared to have buoyant export demands. Appreciation of the Singapore dollar against the US dollar and other currencies, and higher wages both reduced the competitiveness of domestic exports.

Hong Kong's domestic exports grew at an annual real rate of 18 per cent in the first half of 1980, and most rapidly for electrical or electronic goods and components, for metal manufactures and for clocks and watches. It has, indeed, become the world's largest exporter of time-pieces. But, in the second half of 1980, world recession slowed down the real growth of domestic exports to 5 per cent and, although the Hong Kong dollar was depreciating, it was not expected that domestic exports would increase by more than 7 per cent over 1981. Re-exports, however, were expected to grow by about one third.

The Republic of Korea's exports grew by 16 per cent in 1980, more slowly than in 1979. The biggest increases were for heavy industrial exports, which grew by 25 per cent as against a rate of 11 per cent for light industrial exports. The trade deficit was reduced from \$ 3.8 billion in 1979 to \$ 3.2 billion, but was still nearly a fifth of export receipts. Better results were expected for 1981 with a target growth rate for exports of 20 per cent. In the first seven months of the year, exports were increasing at an equivalent annual rate of nearly 26 per cent, and all major exports participated in this growth. Devaluation and depreciation of the won helped to produce the good result.

All these countries, in 1980, had deficits in their current balances of payments, except Indonesia for which the rise of

oil prices substantially increased a small current surplus realized in 1979. Malaysia had a previous substantial surplus turned into a small deficit. In the Philippines, the Republic of Korea and Thailand the current deficits would have been considerably larger but for remittances from workers in Middle Eastern and other foreign countries. Capital inflows, however, were more than sufficient to cover current deficits as all countries, except Thailand, were able to make substantial additions to their reserves of foreign exchange, especially Indonesia, Malaysia, the Republic of Korea and Singapore.

For some of them, much of the inflow of capital was from private sources and connected with investment opportunities in their dynamic and open economies. Over the triennium 1976-1979, about one half of net capital inflows into the Philippines and the Republic of Korea was privately financed, and the proportion for Singapore was nearly four fifths; for Thailand it was rather less than one quarter and for Malaysia about one fifth. Indonesia relied heavily upon official loans from multilateral agencies and DAC countries, as did Burma, although there privately financed loans were one fifth of total capital inflows during the triennium.

Nevertheless, the Philippines and Thailand were in serious trouble over their balances of payments from 1977, and the Republic of Korea came into such trouble during 1980. In the Philippines, the current deficit, as a proportion of export receipts, was 34 per cent in 1976-1979 rising to 36 per cent in 1980. In Thailand, the rise was from 31 to 36 per cent, and in the Republic of Korea from 12 to 31 per cent. Net loans from multilateral agencies and DAC countries thus averaged, between 1976 and 1979, \$ 439 million a year for the Philippines,

Table IV.7. South-east Asian countries, Hong Kong and the Republic of Korea. Current balances of payments, 1976-1980

(\$ million)

	Merchandise trade ^a		Net services	Net transfer	Current balances
	Exports	Imports			
Burma					
Average 1976-1979	254	-437	-21	28	-176
1980	401	-741	-23 ^b	81 ^c	-282
Hong Kong					
Average 1976-1979	11 194	-12 473	...	...	...
1980	19 743	-22 438	...	...	...
Indonesia					
Average 1976-1979	11 391	-7 981	-3 779	21	-348
1980	21 748	-12 608	-6 331	54	2 863
Malaysia					
Average 1976-1979	7 396	-5 443	-1 354	-46	553
1980	12 896	-10 553	-2 704	-109	-470
Philippines					
Average 1976-1979	3 406	-4 605	-263	298	-1 164
1980	5 784	-7 727	-547	436	-2 054
Republic of Korea					
Average 1976-1979	11 320	-13 132	55	373	-1 348
1980	17 215	-21 599	-1 375	455	-5 304
Singapore					
Average 1976-1979	9 196	-11 667	1 901	-42	-612
1980	18 070	-22 392	2 793	-50	-1 579
Thailand					
Average 1976-1979	3 923	-4 785	-377	42	-1 197
1980	6 449	-8 364	-584	210	-2 289

Sources: IMF, *International Financial Statistics*, November 1981, and Hong Kong, *Monthly Digest of Statistics*, August 1981.

^a Balance of payments used here is not coincident with trade data given in table IV.6.

^b Includes private transfers.

^c Official grants.

\$ 759 million for the Republic of Korea and \$ 362 million for Thailand. Corresponding averages were \$ 203 million for Burma, \$ 922 million for Indonesia, and \$ 176 million for Malaysia.

The current deficit of the Philippines was expected to worsen during 1981, and reserves were being drawn upon; they decreased from \$ 2,846 million in December 1980 to \$ 2,010 million in September 1981, although by then \$ 947 million had been borrowed in the Eurocurrency credit market, and SDR 200 million drawn from IMF. Other official grants and

loans were also increasing. The peso was softening against the dollar, although by no means sufficiently to express fully the country's difficulties over foreign exchange transactions.

Thailand benefited, in 1980, from a remarkable surge of capital inflows; direct investment inflows nearly trebled, and both long-term loans and short-term credits nearly doubled. These brought the over-all balance of payments into surplus for the first time since 1975. Less favourable results, however, were expected for 1981; in the first half of the year there was an

over-all deficit of \$ 230 million as contrasted with a surplus of \$ 533 million for the same period in 1980. From mid-1980 to mid-1981, foreign exchange reserves (net of gold) decreased from \$ 2,203 million to \$ 1,422 million and, in September, had fallen to \$ 1,393 million, because private capital inflows also decreased and by more than an increase of public sector external borrowing. In the second half of 1981, however, private capital inflows increased after the devaluation and other measures taken to encourage foreign investment in Thailand.

Indonesia's current balance of payments moved into deficit during 1981 and, for FY 1980/81, was forecast as \$ 1.5 billion or about 6 per cent of export receipts. The main cause was a sharp decline in earnings from non-oil exports, particularly coffee, palm oil, rubber and timber. Yet, in September 1981, official reserves of foreign exchange were \$ 6.7 billion and it had no difficulties over raising external loans. Nevertheless, at the end of the year, the Government announced a scheme for tying contracts for projects to purchases of traditional exports by those gaining contracts.

The massive current deficit for the Republic of Korea in 1980 resulted from a large trade gap and the sudden transformation of a surplus for services to a deficit of \$ 1,378 million. One major cause of this transformation was an additional outflow of \$ 1 billion for payments of interest and dividends on previous huge borrowings and direct investments. Another was a sudden loss of profitability on overseas construction contracts, most of which were in the Middle East, due to the competition of other countries. Profits from these contracts had been a major source of service receipts but, in 1980, some construction companies incurred heavy

losses and some were bankrupted. Long-term capital inflows also decreased by over \$ 1 billion in 1980, in spite of larger public borrowings, so that short-term borrowings, both private and official, had to increase sharply to cover a rise of the "basic" deficit from \$ 1.5 billion to \$ 4.1 billion. No improvement was projected for the 1981 current deficit. In the first seven months, this deficit reached \$ 3.3 billion, and foreign exchange reserves fell from \$ 6.6 billion in December 1980 to \$ 5.6 billion in July, indicating net capital inflows of about \$ 3.7 billion, as against \$ 5.7 billion for the whole of 1980.

Malaysia's trade balance has been in persistent surplus, reaching a peak of \$ 3.4 billion in 1979, but falling to \$ 2.3 billion in 1980 and expected to turn into a small deficit during 1981. A substantial trade surplus is needed to finance heavy net service payments for transport, insurance etc., and to cover external payments of interest and dividends. In 1981, the current account was expected to have a deficit of about \$ 2.5 billion. Capital inflows, however, have been strong, including much direct investment, and they appeared to be increasing in 1981 by more than enough to meet the current deficit. Concern, nevertheless, was felt about reserves of foreign exchange which, in July, sufficed for about two months' imports.

Singapore's balance of payments characteristically has large trade deficits covered by large service surpluses and smaller net inflows of capital, mainly in the form of direct investments. The current deficit increased by 70 per cent in 1980 but did not change, as a proportion of exports, from the 7 per cent for 1976-1979. It was more than covered by net capital inflows so that reserves of foreign exchange increased by \$ 749 million. They increased

further during 1981, reaching \$ 6.7 billion in June, as compared with \$ 6.2 billion a year earlier, and the Singapore dollar remained a comparatively strong currency.

Burma's current account deficit, in 1980, reached \$ 291 million, equal to three quarters of its exports and almost entirely due to a deficit of merchandise trade. Official grants came to only \$ 80 million, and net long-term borrowing to \$ 352 million, so that there was an over-all balance of \$ 92 million to increase reserves of foreign exchange. Prospects seemed good for growth of exports, especially in regard to rice, timber and minerals. Borrowing has increased fairly rapidly so that external debt reached \$ 1.8 billion in 1980, when debt service absorbed 29 per cent of export receipts. It is, therefore, a matter of urgency to develop Burma's undoubted and considerable potential for export production.

D. INFLATION AND PUBLIC FINANCE

Balance of payments problems went with inflation, and there have been diverse changes in the rate of inflation, as indicated by annual percentage change in the consumer price index. During 1980, this had reached 29 per cent in the Republic of Korea, 16-21 per cent in Hong Kong, Indonesia, the Philippines and Thailand, 7-9 per cent in Malaysia and Singapore, and had fallen from 5.7 to 0.6 per cent in Burma. In the first half of 1981, inflation was moderating somewhat in Hong Kong, Indonesia, the Philippines and Thailand, although rates ranged from 12 per cent in Thailand to 26 per cent in the Republic of Korea. Burma had a virtually stationary price level. In Malaysia the rate increased from 6.7 to 11.3 per cent, and in Singapore was steady at 8.5 per cent.

These rates were generally much higher than those which had prevailed in the late 1960s and early 1970s, and were strongly associated with adjustments to the big increase of oil prices. For these are open economies, and oil absorbs a considerable part of their import payments, in 1980, the proportion was 28-31 per cent for the Philippines, the Republic of Korea, Singapore and Thailand, and the full effects of higher oil prices had not then been completely felt. In the two oil-producing countries, Indonesia and Malaysia, domestic oil prices were also adjusted towards world levels.

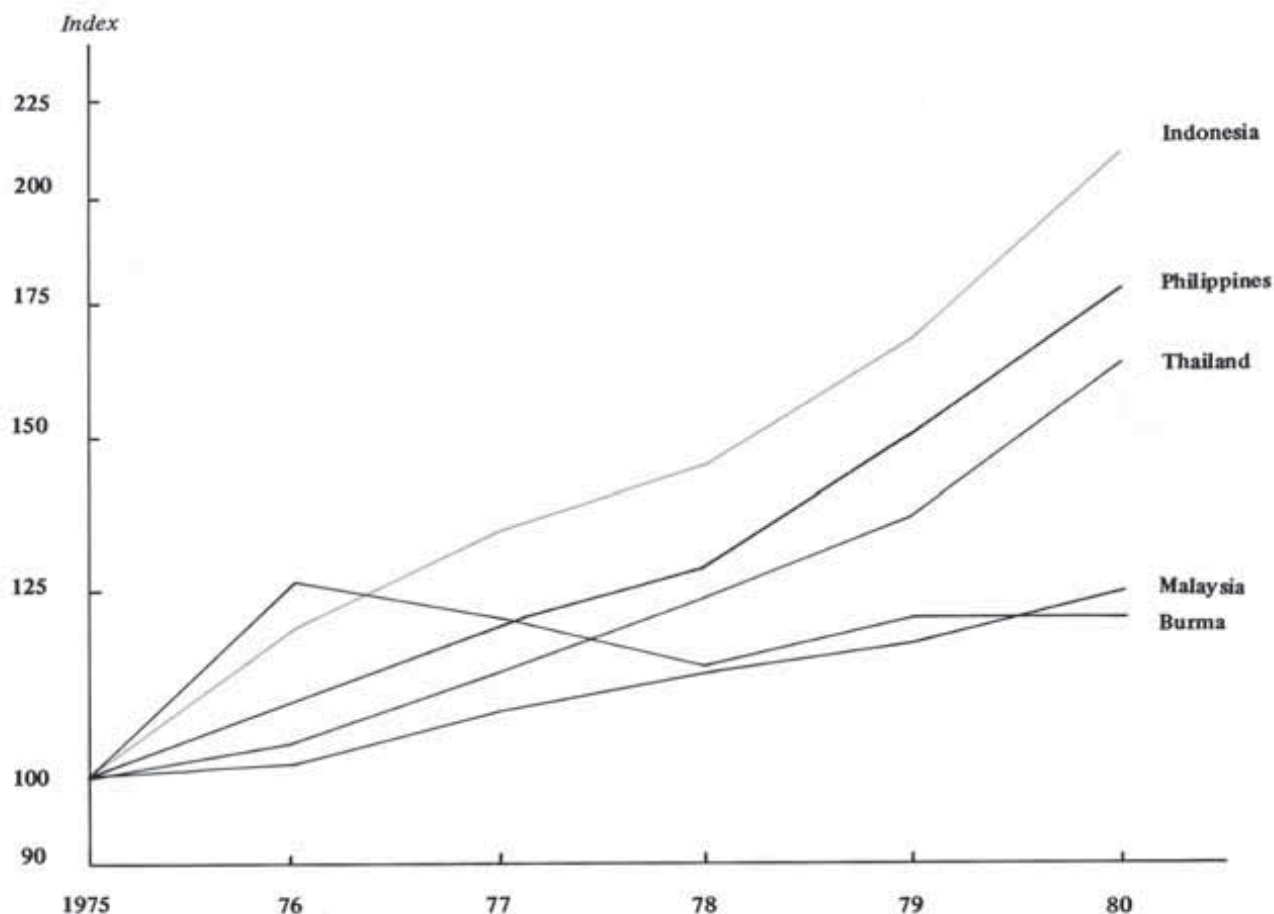
There were rises, too, in the prices of other imports, largely

because of inflation in the advanced countries. In 1980, there was an exceptional rise of 60 per cent in the unit value of imports in the Republic of Korea; although much of this was due to a devaluation of the won by 16.5 per cent against the US dollar and to later depreciation of the won. The Philippines and Thailand had rises of 26-27 per cent, Malaysia and Singapore rises of 17-20 per cent, Hong Kong a rise of 9 per cent and Burma one of only 3 per cent. In the first half of 1981, however, this rate came down to 8 per cent for the Republic of Korea and to 10 per cent for Thailand, although it rose to 25 per cent for the Philippines.

Wage data are partial in

coverage and not available for every country. Hong Kong, Malaysia and Singapore had wage increases of 10-15 per cent in 1980, and there were bigger ones of 23-24 per cent in the Republic of Korea and Thailand. Dearer oil, the devaluation of the won and big wage increases were strong cost-push influences in the Republic of Korea's high rate of inflation, and rising import prices for oil and other commodities, together with large wage increases, were important also for the inflation of prices in Hong Kong, Singapore and Thailand. Real wages, in 1980, were almost stationary in Hong Kong and Thailand, but increased by 4 per cent in Singapore. In

Figure IV.5. South-east Asian countries. Consumer price indexes, 1975 = 100



the Philippines, there was a rise of only 5 per cent in 1980 for the index of daily wage rates of unskilled labourers in Manila's industries; but effective minimum wages (which include the basic minimum wage, monthly emergency allowance and 13th month pay) were reported as having risen by 25-32 per cent for agricultural and non-agricultural labour in general. Since then minimum wages were frozen, and real wages have declined; that decline, together with increasing unemployment, has added to social tensions.

As in south Asia, abundant liquidity permitted and stimulated inflationary developments. There were rapid increases, during 1980, in both the money supply (M1) and liquidity (M2). The biggest

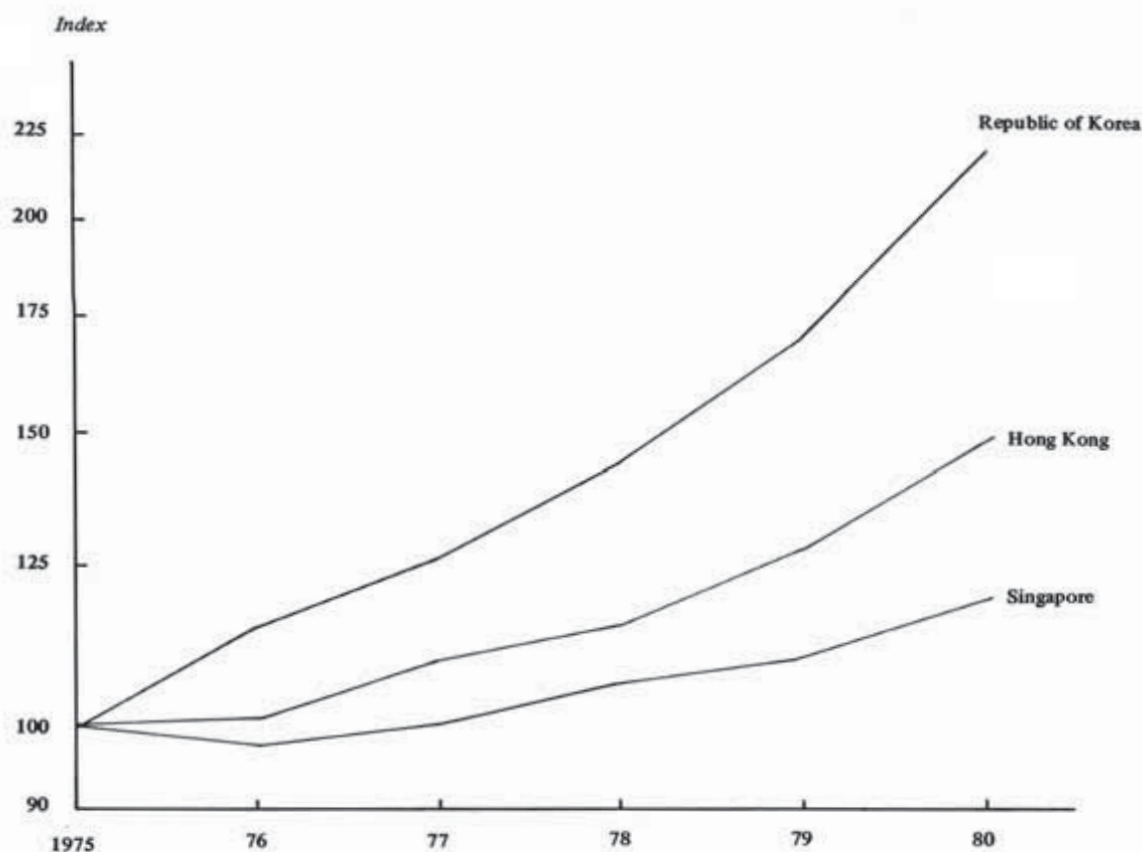
increase of liquidity was Indonesia's 54 per cent, well above large increases of 22-29 per cent for Hong Kong, Malaysia, the Philippines, the Republic of Korea, Singapore and Thailand. In the third quarter of 1980, Burma had a similar annual increase of 15 per cent.

Generally, in these predominantly market economies, the major component of changes in liquidity (M2) was expansion of bank credit to the private sector. That is particularly true of Hong Kong and Singapore. During 1979 and 1980, such credit expansion was more than sufficient to account for increases of their liquidity, although the position in Hong Kong was moderated, in 1980, by a small loss of foreign exchange,

partly induced by the attraction of funds to developed countries offering higher rates of interest. Increases of commercial credit were very substantial, the pace being set in Hong Kong by new foreign banks competing vigorously for business with established banks, and helping to fuel an excessive property boom. Steps were being considered to widen controls over banks' interest rates. In Singapore, credit expansion was associated with vigorous growth of deposits, domestic and foreign, but some moderation of credit expansion was evident in the first part of 1981.

Credit expansion to the private sector was also the main factor in growth of liquidity in Malaysia, the Philippines and Thailand. The Government of the Philippines

Figure IV.6. Hong Kong, the Republic of Korea and Singapore. Consumer price indexes, 1975 = 100



from the banking system had reinforced the more powerful effect of lending to the private sector in increasing liquidity; and, in 1980, there was a further strong reinforcement from an increase of net foreign assets, due to large capital inflows. Liquidity thus increased by 23 per cent in 1980. But, in the first three months of 1981, liquidity was increasing at a somewhat slower annual rate of 19 per cent a year.

Liquidity growth in the Republic of Korea owed something to government borrowing from the banks, but much more to huge increases of credit to the private sector. In spite of substantial decreases in net foreign assets, liquidity rose by 27 per cent in both 1979 and 1980. The Government had intended to tighten

liquidity, partly in order to force business to depend less on bank loans and more on equity capital. As recession deepened, however, the target growth for money supply in 1980 was raised from 15 to 20 per cent, interest rates were lowered and credits were allowed to be extended selectively for stimulation of investment. There was no reduction, in the first half of 1981, in liquidity growth, notwithstanding a much larger decrease in net foreign assets.

Indonesia's case was exceptional, both because it had the highest rate of increase for liquidity and because that rise came largely from big surpluses in its over-all balance of payments. The 1979-1981 rises of oil prices increased both the country's trading surplus and its budget surplus; the former

tended to increase liquidity, but the latter was used to reduce government indebtedness to the banking system and so liquidity. Loans to the private sector increased by about as much as government indebtedness was reduced, so that liquidity expanded by over one third in 1979, and by over one half in 1980. There was a marked slow-down in the first half of 1981, due to a small surplus in the balance of payments and to continuing repayment of government debt to the banking system.

The Burmese Government has regarded tight control of monetary conditions as necessary for price stability. Liquidity, therefore, grew at the comparatively moderate rate of 15 per cent a year between 1978 and 1980. The main components of that growth were small

The Fourth Malaysia Plan for 1981-1985

This new plan was announced in 1981, beginning the second decade of an outline Perspective Plan, 1971-1990, within which the objectives of a New Economic Policy are to be realized. These objectives are the eradication of poverty and the restructuring of Malaysian society so as to give the *bumiputras* a bigger share of wealth and economic activities. Eradication of poverty is being pursued through land development schemes, government assistance in replanting, shifting employment from low productivity rural work to higher productivity industrial and service activities, subsidizing agricultural inputs, and increased provision of public facilities and amenities, including low-cost public housing. Restructuring society means giving more employment to *bumiputras* in the modern sector, and especially in higher-level jobs. It also means increasing, through various measures, *bumiputra* ownership of commercial and industrial enterprises until, by 1990, this reaches 30 per cent of total corporate equity. Enterprises receiving investment incentives are required to set aside at least 30 per cent of share capital for *bumiputras*;

and the Government, through various institutions, holds equity capital in trust for *bumiputras* until the shares can be divested to them.

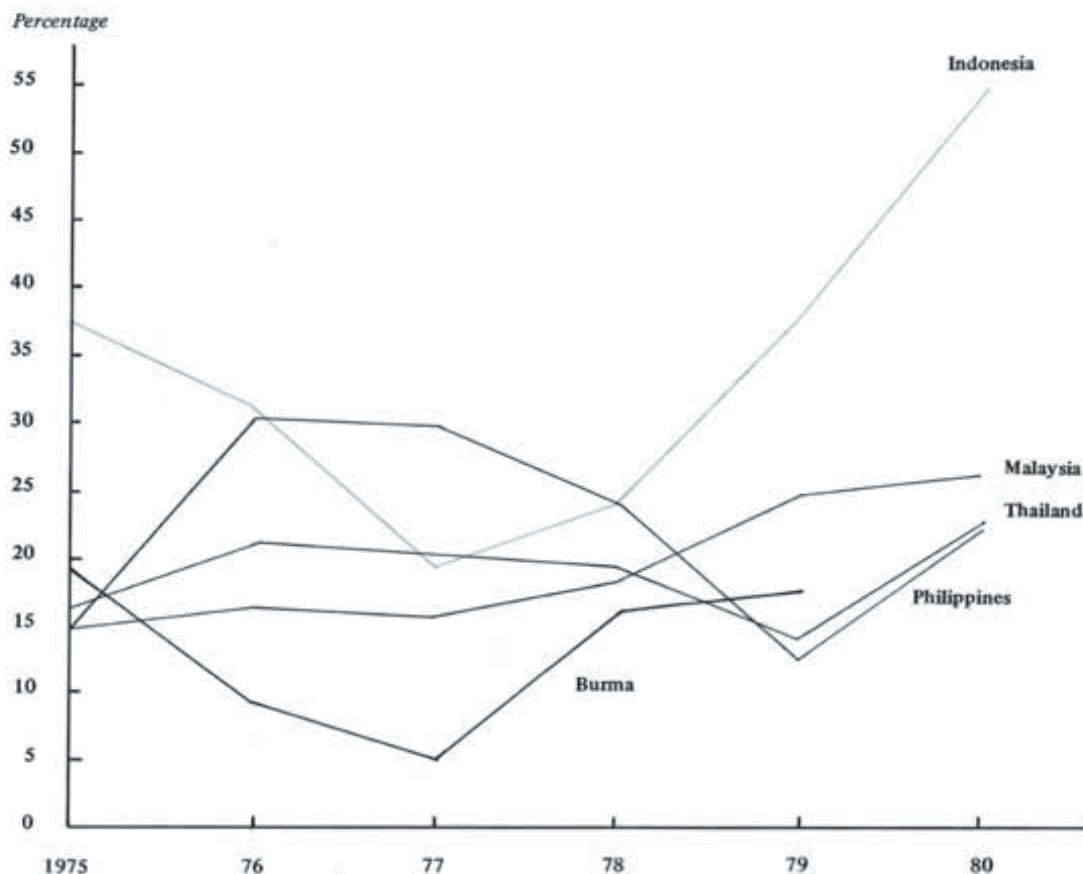
The Fourth Malaysia Plan (FMP) aims at a real growth of GDP averaging 7.6 per cent a year, somewhat lower than the 8.6 per cent achieved under the Third Malaysia Plan (TMP). Nonetheless, it would mean a growth of per capita GDP by 5.0 per cent a year in real terms, and that is ambitious in the light of prospective constraints. Growth performance in 1976-1980 had benefited from both the oil bonanza and improvement in the terms of trade for other commodities. Present prospects are for slower growth until 1983, and slow improvement after that as the world economy recovers from recession.

The agricultural and mining sectors will grow more slowly than real GNP, and manufacturing, construction and services more rapidly. On the demand side, the major stimuli of growth are to come from exports, private investment and public consumption, with respective average annual real growth rates of 9.7 per

cent, 8.0 per cent and 9.2 per cent. Exports of goods and non-factor services are projected to grow more rapidly than in 1976-1980, but the terms of trade are expected to decline marginally by 0.2 per cent a year. The most rapidly growing export would be LNG and manufactured goods, especially textiles and electronics.

Total investment under the FMP is projected as \$M 102.6 billion, of which \$M 74.1 billion would be private and \$M 28.5 billion public. Greater emphasis is placed on private investment, particularly in manufacturing, as a source of growth; its share of total investment is to rise from 63.2 per cent to 72.2 per cent. Public investment, after growing by real rates of 16.0 per cent a year in 1971-1975, and by 9.3 per cent a year in 1976-1980, is projected to decline by 1.4 per cent a year during 1981-1985, reflecting both a previous high rate of infrastructure development and the current emphasis on private sector investment. The bulk of public sector investment is to go towards achieving the objectives of the New Economic Policy, and expanding social facilities.

Figure IV.7. South-east Asian countries. Annual percentage change in liquidity, 1975-1980



increases of net foreign assets and loans made to State enterprises or organizations.

Burma, Indonesia and Singapore have maintained large surpluses in their current government budgets in order to finance development expenditures made within the budget and part of capital expenditures made outside it. Indonesia, in 1980/81, had a current surplus which was equal to one half of its current revenues, and almost all of this went to finance development expenditures within the budget. In the same year, Burma's current surplus was one third of its current revenues, financed all development expenditures within the budget, and left an over-all surplus equal to 14 per cent of current revenues.

Similarly, Singapore had a current surplus equal to 44 per cent of current revenues, and an over-all surplus.

Malaysia, the Philippines and Thailand have had large over-all deficits, although they also had current surpluses. The current surplus was relatively small in Malaysia and Thailand being, in 1980, 7 per cent of current revenue in Malaysia and 1 per cent in Thailand. The Philippines had a substantial current surplus equal to 23 per cent of current revenues, about three quarters of which was used to meet current development expenditures. The Republic of Korea has run small current deficits and large over-all deficits but, in 1980, the over-all deficit rose from 12 to

15 per cent of current revenues. The 1981 budget plans to reduce this deficit to 7 per cent of current revenues.

Fiscal conditions in Burma had deteriorated until taxation was restructured in 1976 to ensure bigger receipts, including contributions from State enterprises which came to provide about a third of current revenues. That led to an increase of government expenditures, especially for development purposes, but still left handsome over-all surpluses, which were used, together with increasing foreign loans, to finance development expenditures.

Indonesia's current revenues have, as often mentioned, been boosted by higher prices for oil.

The almost equal rise in its current expenditures is due to the massive and rising cost of subsidies for rice, wheat, sugar, kerosene, automotive diesel fuel and fertilizers. Nevertheless, the 1980/81 budget planned to increase current expenditures and current revenues by 43-45 per cent, and to increase development expenditures by 47 per cent. The over-all deficit would, however, then still be a negligible proportion of current revenues.⁴

Malaysia's fiscal policy has become deliberately expansive as a Keynesian counter to recession. The 1980 and 1981 budgets gave liberal tax concessions to stimulate private sector demands, and also fiscal incentives to stimulate investment and production. The 1982 budget exempted processed palm oil from export duty, and raw materials or intermediate goods from import duties; it also removed or reduced tariffs on a wide range of consumer goods, partly to counteract smuggling. The 1981 budget, nevertheless, had increased

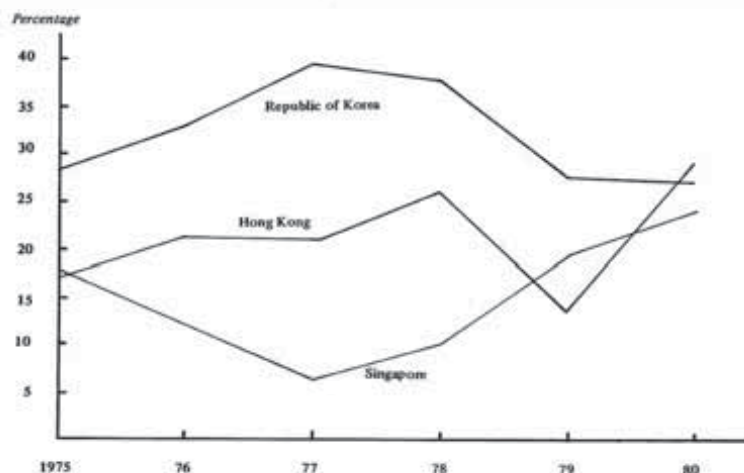
⁴ The 1982/83 budget drastically cut subsidies on fuel oil and food so as to increase both projected expenditures and revenues by one eighth.

Table IV.9. South-east Asian countries, Hong Kong and the Republic of Korea. Money, liquidity and GDP

(Billion units of national currencies)

	1976	1977	1978	1979	1980	1981
Burma						
Money	5.4	5.6	6.3	7.0	7.8 ^a	...
Quasi-money	0.6	0.7	1.0	1.5	2.0 ^a	...
Liquidity ^b	6.0	6.3	7.3	8.5	9.8 ^a	...
Percentage increase	9.1	5.0	15.9	16.4	14.1 ^a	...
GDP ^c	27.4	29.6	31.7	34.1	37.1	...
Liquidity/GDP (percentage)	21.9	21.3	23.0	24.9	...	...
Hong Kong						
Money ^d	14.1	18.1	20.1	20.9	24.1	22.4 ^e
Quasi-money ^d	34.3	40.3	46.4	54.4	72.8	83.2 ^e
Liquidity ^{b d}	48.4	58.4	66.5	75.3	96.9	106.6 ^e
Percentage increase	21.0	20.7	13.9	13.2	28.7	10.0 ^e
GDP	52.0	59.6	69.5	86.1	106.8	...
Liquidity/GDP (percentage)	93.1	98.0	95.7	87.4	90.7	...
Indonesia						
Money	1 600.9	2 006.4	2 488.4	3 316.1	5 011.3	5 598.6 ^f
Quasi-money	1 063.9	1 169.2	1 440.8	2 074.0	3 281.4	3 700.0 ^f
Liquidity ^b	2 664.8	3 175.6	3 929.2	5 390.1	8 292.7	9 298.6 ^f
Percentage increase	30.7	19.2	23.7	37.2	53.9	12.1 ^f
GDP	15 466.7	19 010.7	22 458.0	31 023.0	43 765.0	...
Liquidity/GDP (percentage)	17.2	16.7	17.5	17.4	18.9	...
Malaysia						
Money	5.3	6.1	7.2	8.5	9.8	10.5 ^f
Quasi-money	7.5	8.7	10.3	13.3	17.7	18.7 ^f
Liquidity ^b	12.8	14.8	17.5	21.8	27.5	29.2 ^f
Percentage increase	28.0	15.6	18.2	24.6	26.1	6.2 ^f
GDP	28.2	32.3	36.4	44.5	51.6	...
Liquidity/GDP (percentage)	45.4	45.8	48.1	49.0	53.3	...

Figure IV.8. Hong Kong, the Republic of Korea and Singapore. Annual percentage change in liquidity, 1975-1980



current revenues by 16 per cent, current expenditures by 10 per cent and development expenditures by 27 per cent. The over-all deficit thus rose, as a proportion of current revenues, from an already large proportion of 51 per cent to 59 per cent.

In the Philippines, fiscal operations have been expansive over a longer period, and the 1980 over-all deficit was 7 per cent of current revenues. These increased by 16 per cent in that year, current expenditures by 25 per cent and budgetary development expenditures by 31 per cent. The 1981 budget was still more expansionary as it projected

Table IV.9 (continued)

	1976	1977	1978	1979	1980	1981
Philippines						
Money	12.1	14.9	16.9	18.8	22.5	21.0 ^e
Quasi-money	13.0	17.6	23.4	26.6	32.9	34.3 ^e
Liquidity ^b	25.1	32.5	40.3	45.4	55.4	55.3 ^e
Percentage increase	30.7	29.5	24.0	12.7	22.0	-0.2 ^e
GDP	133.9	155.6	178.6	219.1	266.5	...
Liquidity/GDP (percentage)	18.7	20.9	22.6	20.7	20.8	...
Republic of Korea						
Money	1 544	2 173	2 714	3 275	3 807	3 272 ^g
Quasi-money	2 588	3 582	5 037	6 603	8 728	10 521 ^g
Liquidity ^b	4 132	5 755	7 751	9 878	12 535	13 793 ^g
Percentage increase	32.6	39.3	34.7	27.4	26.9	10.0 ^g
GDP	13 356.5	17 122.7	23 030.3	29 357.1	35 958.0	...
Liquidity/GDP (percentage)	30.9	33.6	33.7	33.6	34.9	...
Singapore						
Money	4.0	4.4	4.9	5.7	6.1	6.6 ^f
Quasi-money	5.2	5.4	5.9	7.2	9.9	10.9 ^f
Liquidity ^b	9.2	9.8	10.8	12.9	16.0	17.5 ^f
Percentage increase	12.2	6.5	10.2	19.4	24.0	10.9 ^f
GDP	14.6	16.0	17.6	19.7	22.4	...
Liquidity/GDP (percentage)	63.0	61.3	61.4	65.5	71.4	...
Thailand						
Money	40.6	44.3	52.9	61.4	69.8	73.2 ^h
Quasi-money	84.3	105.4	125.7	142.1	180.3	191.8 ^h
Liquidity ^b	124.9	149.7	178.6	203.5	250.1	265.0 ^h
Percentage increase	21.0	19.9	19.3	14.0	22.9	6.0 ^h
GDP	337.6	393.0	470.0	556.2	673.7	...
Liquidity/GDP (percentage)	37.0	38.1	38.0	36.6	37.1	...

Sources: IMF, *International Financial Statistics*, November 1981; and official national sources.

^a January-September 1980. ^b Liquidity refers to M2. ^c Fiscal year beginning 1 April of the year stated. ^d Data have been revised after 1978. ^e January-July 1981. ^f January-June 1981. ^g January-August 1981. ^h January-April 1981.

an increase of planned expenditures by 36 per cent, and a rise of the over-all deficit from P 2.5 billion to P 9.8 billion. There have been, and continue to be, great difficulties in financing capital expenditures for development purposes, in spite of considerably increased foreign aid.

Fiscal conditions in Thailand deteriorated in 1980 owing to a surge of expenditures. Ordinary current expenditures rose by 30 per cent, development expenditures

by 38 per cent but current revenues by only 22 per cent. The over-all deficit nearly doubled to become one quarter of current revenues. Main factors in the rise of current spending were increased provision for defence, increased salaries or wages for government employees, a programme for increasing rural employment, and transfers to cover losses of State enterprises. There were also bigger investments in education, agriculture and communications. In 1981, the over-all

Thailand's Development Plan for 1982-1986

This development plan was prepared in circumstances of disturbing change. The second oil crisis was forcing difficult economic adjustments, conflicts in neighbouring countries were adding to burdens of defence and imposing new burdens of caring for refugees, and internal imbalances were heightening social problems and tensions. Those imbalances were partly the result of the concentration of previous plans on economic growth. The present plan gives greater emphasis to fuller employment of the labour force and to a better distribution of income.

The six major aims of the plan are:

- Accelerated reduction of rural poverty, especially in the poorest areas, by fostering schemes for local development through co-operatives or self-help arrangements;
- Strong fiscal and monetary discipline in order to promote economic and financial security;
- Restructuring major economic sectors so as to improve productivity in agriculture and industry;
- Providing a wider and more equitable distribution of social services, including further opportunities to poor people for education and employment;
- Co-ordinating national security activities with national economic development;
- Improving economic management and development administration.

Real GDP has a target growth rate of 6.5 per cent a year, which would mean a doubling of per capita income by 1991. This target may seem modest because per capita income has increased by 7.4 per cent a year from 1974 to 1981. But that previous growth went with rising budget deficits and rising balance of payments deficits. The stronger financial measures now contemplated would reduce fiscal deficits from 2.7 per cent of GDP to 1.1 per cent. Trade deficits, similarly, would fall from 7.6 per cent of GDP to 5.7 per cent.

Growth of government spending is to be held down to 20 per cent a year, and revenue is to rise from 14 per cent of GNP to 18 per cent, with the consequence that borrowing will finance only 6.5 per cent of govern-

(Continued overleaf)

Thailand's Development Plan for 1981-1985

(continued from previous page)

ment spending, instead of 11 per cent in 1981.

The most important type of spending is to be that which is directed against rural poverty. Structural adjustments should raise the growth of agricultural productivity from the previous annual rate of 3.9 per cent to 4.7 per cent, and so bring this productivity above subsistence requirements. In the 246 poorest districts, provision is made for basic socio-economic resources not now generally available. All social services are to be made more widespread and equitably distributed, especially primary and adult education, water, sanitation, nutrition and health care. Population growth, which has declined to 2.1 per cent a year, is expected to decline further and reach 1.5 per cent by 1986. In all programmes, creation of employment is to be a main consideration.

Exports are projected to rise by 22 per cent a year, and imports at the high, but lesser, rate of 18 per cent. A considerable part of export growth is to come from manufactures for which the export target is a real growth rate of 15 per cent, a little higher than in 1980. Manufacturing as a whole is to grow by 7.6 per cent a year, a reduction from the actual real growth rate of 9.5 per cent in the previous five years. Mining outputs, mainly tin, are to grow by over 16 per

cent a year, and they also contribute to exports.

Security is a major problem, and efforts will be made to reduce its real cost by co-ordinating various aspects with the promotion of economic development. There is to be greater domestic production of military supplies, and also promotion of strategic export industries such as those producing small communications equipment, medical supplies and preserved foods. Some 4,000 self-defence villages are also to be established and, generally, rural development is to have a self-defence aspect.

Implementation of planning is to be improved by various administrative reforms. These include an Economic Policy Steering Committee to co-ordinate policies, better co-ordination of financial and manpower aspects of policies, and improvements to budgeting and programming of projects. More stress, too, is put on decentralization of authority for local execution of planning measures.

Joint investment projects with the private sector are to receive special encouragement, mainly in the fields of modern agriculture in irrigated areas, conservation of energy in the industrial sector, promotion and marketing of exports or tourism, and quality control over agriculture exports.

deficit showed signs of decreasing, mainly because of higher revenue receipts.

In the Republic of Korea, fiscal operations have decisive

effects on the flow of finance, the level of economic activity and the structure of investment. These operations have been decidedly expansionary as, between 1978 and

1980, expenditures increased by 72 per cent, and the over-all deficit became 15 per cent of current revenue. The 1980 budget had assumed continued growth of the economy and, as it became clear that there was recession, changes were made, late in the year, in the hope of stimulating the economy. Tax rates were reduced and some additions were made to budgetary expenditures so that these were expected to be 35 per cent above the 1980 level. The 1981 budget was further expansionary; current plus development expenditures were to rise by 70 per cent, but the over-all deficit would be reduced to 7 per cent of current revenues because projected revenues would rise by 26 per cent.

Singapore has pursued an opposite policy of achieving budget surpluses. In 1980, however, the over-all surplus declined from 7 per cent of current revenue to 5 per cent. Expenditures rose because of increases for debt service, public service wages and construction of public works and public housing. An actual deficit was expected for 1980/81.

Hong Kong has also had a series of budget surpluses — and, in 1980/81, a record one which was 31 per cent of current revenues. Government expenditures concentrate on community and social services; economic services take only 7 per cent of the total. The 1981/82 budget gave considerable tax reductions to corporations and individuals so that the surplus may well be reduced.

Table IV.10. South-east Asian countries, Hong Kong and the Republic of Korea. Changes in components of money plus quasi-money, 1978-1981

(Billion units of national currencies)

	Net foreign assets	Claims on				Others	Money and quasi-money
		Government sector	Official entities	Private sector	Foreign sector ^a		
Burma							
1978	-0.14	-0.19	1.07	0.62	-0.16	-0.23	0.97
1979	0.62	-2.03	4.28	-0.35	-0.85	-0.46	1.21
January-September 1980	0.44	-1.43	2.14	0.17	-0.47	0.38	1.23
Hong Kong							
1979	11.27	-	-	11.58 ^b	-	-	22.85 ^c
1980	-3.31	-	-	43.12 ^b	-	-	39.81 ^c
January-June 1981	-	-	-	-	-	-	19.09 ^c
Indonesia							
1978	561.1	-118.4	58.8	1 429.0	-	-1 176.8 ^d	753.6
1979	1 881.6	-739.8	14.0	1 036.8	-	-731.8 ^d	1 460.9
1980	3 087.9	-1 567.0	263.4	1 280.9	-	-162.7 ^d	2 902.6
January-June 1981	219.8	-530.4	1.8	889.5	-	425.2 ^d	1 005.9
Malaysia							
1978	0.39	-0.20	-	2.66	-	-0.19	2.66
1979	2.44	-1.72	-	3.01	-	0.48	4.22
1980	0.24	1.25	-	7.19 ^b	-	-2.98	5.70
January-June 1981	-0.21	0.11	-	2.12 ^b	-	-0.26	1.76
Philippines							
1978	-6.65	0.60	0.31	11.79 ^b	-	1.76 ^e	7.81
1979	-7.43	0.15	0.89	15.37 ^b	-	-3.91 ^e	5.07
1980	-6.75	1.41	1.18	15.07 ^b	-	-0.89 ^e	10.03
January-July 1981	-1.72	3.42	0.48	3.15 ^b	-	-6.16 ^e	0.83
Republic of Korea							
1978	-254	206	30	2 603	-	-589 ^f	1 996
1979	-479	76	0	3 409	-	-879 ^f	2 127
1980	-811	521	30	4 555	-	-1 638 ^f	2 657
January-August 1981	-1 296	493	100	2 476	-	-575 ^f	1 258
Singapore							
1978	1.76	-0.70	-	1.52	-	-1.53	1.06
1979	1.58	-1.13	-	2.62	-	-1.03	2.04
1980	0.72	-0.47	-	4.17	-	-1.26	3.17
January-June 1981	0.65	-0.56	-	2.17	-	-0.96	1.50
Thailand							
1978	-10.05	7.50	-	36.05	-	-4.64 ^g	28.86
1979	0.73	10.06	-	35.17	-	-21.11 ^g	24.85
1980	20.06	18.10	-	23.97	-	-16.00 ^g	46.13
January-April 1981	-3.91	6.16	-	25.62	-	-12.93 ^g	14.94

Sources: IMF, *International Financial Statistics*, November 1981; and Hong Kong, *The 1981-82 Budget: Economic Background*, January 1981.

^a Includes long-term foreign lending (+) or borrowing (-).

^b Includes other financial institutions.

^c Includes deposits with deposit-taking companies.

^d Includes import deposits.

^e Includes bonds.

^f Includes bonds, import deposits and government lending funds.

^g Residuals.

Table IV.11. South-east Asian countries, Hong Kong and the Republic of Korea. Government finance, 1978-1981

(Billion units of national currencies)

	Current revenue	Current expenditure	Development expenditures	Over-all surplus/deficit(-)	Financed by		
					Domestic non-bank	Banks	Foreign resources
Burma							
1978/79	5.15 ^a	3.48	0.68	0.98	...	...	...
1979/80	6.24 ^a	3.72	0.95	1.57	...	...	...
1980/81	6.39 ^a	4.22	1.30	0.87	...	...	...
Hong Kong							
1978/79	12.56	-----	11.09	1.47	...	...	...
1979/80	16.80 ^b	-----	13.87 ^b	2.92	...	...	...
1980/81	18.33 ^b	-----	12.70 ^b	5.63	...	...	...
Indonesia							
1978/79	5 301.6	2 743.7	2 555.6	2.3	...	...	...
1979/80	8 077.9	4 061.8	4 014.2	1.9	...	...	...
1980/81	11 720.9	5 800.0	5 916.1	4.7	...	...	...
Malaysia							
1978	10.7 ^c	9.0	4.7	-3.0	----- 2.4 ^d -----	-----	0.6
1979	13.3 ^c	11.4	5.7	-3.8	----- 2.8 ^d -----	-----	1.0
1980	16.7 ^c	15.6	9.6	-8.5	----- 6.9 ^d -----	-----	1.6
1981 ^d	18.4 ^c	17.1	12.2	-10.9	----- 7.8 ^d -----	-----	3.1
Philippines							
1978	24.07	19.23 ^e	6.73	-1.89	...	...	...
1979	31.40	23.31 ^e	8.35	-0.26	...	...	...
1980	36.63	28.17 ^e	10.96	-2.50	...	...	...
Republic of Korea							
1978	3 963.1	3 878.5 ^e	530.5	-445.9	102.3	-120.2	463.8
1979	5 307.2	5 203.1 ^e	727.7	-623.6	239.0	265.9	118.7
1980	6 610.8	6 735.3 ^e	854.8	-979.3	643.7	355.8	-20.2
1981 ^f	8 308.6	7 272.2 ^e	1 603.1	-566.7	120.9	578.3	-132.5
Singapore							
1978/79	4.35	2.75	1.41	0.19	----- 1.62 -----	-----	-1.81
1979/80	5.23	3.18	1.69	0.36	----- 1.66 -----	-----	-2.02
1980/81	6.62	3.74	2.57	0.31	----- 2.37 -----	-----	-2.68
1981 (April-June)	1.77	0.86	0.64	0.26	----- 0.52 -----	-----	-0.78
Thailand							
1978	65.19	58.92 ^g	18.99	-12.72	1.26	12.64	-1.18
1979	78.67	72.53 ^g	19.29	-13.15	0.99	11.90	0.27
1980	95.42	94.60 ^g	26.60	-25.78	1.96	24.46	-0.64
1981 (January-June)	61.57	50.60 ^g	12.17	-1.20	0.06	3.74	-2.60

Sources: Official national sources.

^a Includes grants and foreign loans.

^b Three quarters only.

^c Includes public authorities current surplus.

^d Includes special receipts and change in assets.

^e Includes net lendings.

^f Budget estimate.

^g Includes extrabudgetary.

New development plans of the Republic of Korea and Singapore

The Republic of Korea has finalized its Fifth Five Year Economic and Social Development Plan for 1982-1986. The objectives are promotion of industrial efficiency, price stability and social development. Significant features include a scaling down of growth targets, greater reliance on markets for allocating resources, and more emphasis on social development. Vigorous promotion of industry, emphasizing heavy and chemical industries, contributed to overheating the economy in recent years, with consequent inflationary pressures. Export competitiveness was thus undermined, and duplicative overinvestment resulted in a low utilization of capacity in some heavy or chemical industries.

The new plan has targets for real growth of GNP at 7.5 per cent a year and for real per capita growth at 5.9 per cent a year. Per capita GNP would then rise from an estimated level of \$ 1,701 in 1981 to \$ 3,354, at current prices, in 1986.

During the previous plan, for 1977-1981, the targeted growth rate was 9.2 per cent a year, but the actual rate was only 4.5 per cent, because of sharply negative growth in 1980. The lower target growth rate is intended to restrain inflation, protect export competitiveness, and direct more resources to social development. Growth will continue to be export-led, with emphasis on industrial and chemical products, but it is also hoped to achieve a more balanced development of large-, medium- and small-scale industry.

Singapore faces, in the 1980s, the problem of all newly industrializing countries which lack indigenous resources; a need to restructure its economy from labour-intensive industrial exports because of growing domestic and external constraints. But its industrial restructuring is in a different direction from that of the Republic of Korea owing to different resource and market constraints. The new economic plan for the 1980s, unveiled in March 1981, indicates that Singapore will move

towards those more sophisticated industries which are not intensive users of land, energy or raw materials, but rather skill-intensive at a medium level of technology. It will also seek to develop higher value-added services by capitalizing on a strategic location and relatively well-developed resources.

Unlike the Republic of Korea, which had boldly tried to restructure its economy during the international oil crisis and world recession of the mid-1970s, Singapore had held back then, continuing on a path of labour-intensive development. Since 1979, however, there has been a concerted effort to make up for lost time. Singapore now aims at a higher growth rate for the 1980s: 8-10 per cent a year as against 6-8 per cent in the second half of the 1970s. As in the past, new developments are to depend heavily on foreign enterprise and resources. But it is likely to become difficult to attract skill-intensive, middle-technology industries to Singapore than it was to attract the labour-intensive industries which made it prosper.

V. CHINA AND ITS NORTHERN NEIGHBOURS

In 1980, China had a population approaching 1 billion and a per capita GDP of approximately \$ 260. Real output grew by 6.9 per cent despite adverse weather conditions reducing growth in gross agricultural output to 2.7 per cent. Industrial output rose by 8.7 per cent. In 1981, it was expected that real output would grow by only 1.7 per cent, with gross industrial and agricultural outputs increasing by about 3.0 per cent. Energy output declined by 1.3 per cent in 1980, and a number of problems was affecting energy output prospects. International trade grew rapidly in 1980 but at a slower rate in 1981. Exports grew by 29 per cent in 1980 and by 13.2 per cent in 1981. Deficits in the balance of payments have been covered by increased foreign borrowing in 1980 and 1981. Strenuous and apparently successful moves have been made to reduce the size of budget deficits, to limit inflation and to attain restructuring objectives, including an increase in the share of consumption in output and increased emphasis in production in light industrial goods. Major fiscal problems, however, are reduced revenues due to the decline in State enterprise profits and the large increase in subsidies resulting from higher agricultural procurement prices since 1979.

INTRODUCTION

While China, with a population of approximately 1 billion and a per capita GDP of around \$ 260, is the most populous country in the world and still in an early developing stage, its economic achievements have been impressive. Until recently two major objectives have guided economic performance: the substantial reduction of poverty and a rapid process of industrialization, with emphasis upon the development of heavy industry. Between 1952 and 1980, real per capita income approximately doubled. The basic needs of its population have been provided for, and the current share of industrial activity in total output is about two fifths.

These results were achieved by a variety of policy measures, including widespread institutional and social reform, the reduction of population growth to a rate of 1.2 per cent in 1980, full employment of the labour force, and a very high mobilization of domestic savings

for investment purposes.

While these results were most encouraging, serious constraints to development appeared and resulted in major changes in development objectives and strategy from 1979. The constraints included dissatisfaction about a high level of savings and investment and a relatively slow rate of growth in real per capita consumption of around 1.3 per cent per annum between 1957 and 1977; small scope to increase the quantity of arable land; inefficient use of resources including, in particular, raw materials and energy in the industrial sector; a severe shortage of skilled manpower; an increasingly outdated technological base; and a generally poor level of economic planning, which resulted in uneconomic investment decision making and serious imbalances between supply and demand.

Superimposed upon the growth in output that took place from 1952 were marked fluctuations in economic policy, partly due to a concern about economic efficiency

and partly to political concerns about equity and ideological rigour. At different times and to varying degrees, each of these gained ascendancy with marked impact upon the pace and nature of development.

As a result of concern about the above problems and of political change, there were intensive discussions about possible alternative approaches to development during 1978 and, in December of that year, a new development strategy was adopted by the Government.¹ The revised strategy stressed the need for increases in consumption and improvements in economic efficiency. It involved a major realignment in sectoral targets, and the adoption of a set of new policy measures which included: changing the pattern and organization of agricultural production to raise food output, reduce grain deficits and increase the supply of agricultural raw materials; revising the

¹ Third Plenary Session of the 11th Party Central Committee, December 1978.

structure of industrial output by enlarging the share of light (consumer-oriented) industry and agricultural supplies and by reducing the share of heavy industry, improving the system of planning and management by decentralizing responsibility, making a greater use of incentives and the role of the price mechanism; enlarging the role of the private sector in small-scale production and services; and expanding the role of the international sector by increasing foreign trade, capital inflows and technical co-operation in order to stimulate growth in key branches of the economy, particularly industry.

Implementing the reforms proved partly successful, but a number of unexpected problems has also emerged. During the period 1978-1980, net material product (NMP)² increased by about 29 per cent, agricultural output by 22 per cent and light industrial output by 44 per cent. Between 1977 and 1979, real consumption per capita rose by more than 17 per cent and increased considerably again in 1980.

The latter was partly the result of the increases in output; partly also the result of expanding rural incomes as a result of higher procurement prices and higher wages in the industrial sector. However, while in 1980 there was a sharp reduction of funds allocated for industrial investment in the national budget, capital construction actually expanded because of an unplanned increase in capital construction expenditure by enterprises which could then use bank loans. At the same time, and inevitably, the easing of some controls on prices, together with more liberal monetary and fiscal policies, brought about an inflation

² See the box on p. 100 for a discussion of the relationship of net material product to the United Nations System of National Accounts.

which, though modest by international standards, was a new phenomenon in recent Chinese history. Finally, the new policies gave rise to the unusual situation of deficits, for 1979 and 1980, in both the State budget and the current account of the balance of payments.

Increasing concern about these adverse aspects of the reforms led to a revision of the 1981 annual economic plan. These revisions emphasized short-term economic stabilization measures, the process of continuing structural adjustment and improving economic efficiency. The aims of these revisions were to balance the national budget, to reduce and control the use of bank credit for the financing of investment, to establish equilibrium in the balance of payments, and to control inflation. One of the major policy measures was to have been a severe reduction of investment, particularly in heavy industry. However, further consideration of the probable adverse consequences of this reduction of investment flows upon current output and employment, and on future potential for growth, appears to have resulted in a decision to sustain investment at a higher level than announced earlier, by seeking foreign loans. The net result expected from a tentative review of developments in 1981 was that national income would increase by about 3.0 per cent, without fiscal, monetary and balance of payments objectives being severely compromised.

A. POPULATION, EMPLOYMENT AND OUTPUT

The average annual rate of growth of China's population from 1949 to 1980 was 2.0 per cent, but it declined from as high as 2.9 in 1965 to as low as 1.2 per cent in 1980.³ This reduction was due to the birth rate declining

much more rapidly than the death rate. Between 1965 and 1979, it fell by more than 50 per cent because of a rapid decline in infant mortality, an increase in the number of women with primary education and a vigorously implemented family planning programme, which has relied upon economic incentives and disincentives as well as moral persuasion. Given China's extremely precarious agricultural position, as illustrated by the very low ratio of cultivated area to agricultural population, 0.12 ha per capita in 1979,⁴ the country's success in slowing population growth has been critical to its development effort. The Government's intention is to reduce the growth rate of population to an average rate of 1 per cent between 1980 and 2000. This will require vigorous efforts, given the already low birth rate and the forthcoming increase in the number of women of child-bearing age as a consequence of previously very high birth rates.

The dramatic demographic changes occurring recently have markedly improved development prospects. The proportion of the population under 15 years of age is unusually low for a less developed country. Hence, the proportion of the population of working age (15-64 years) is high, estimated at 64 per cent in 1980.⁵ Moreover, nearly two thirds of this working-age population is in the labour force. The reduced proportion of the school-age population in total population will improve educational opportunities, capital-labour ratios will increase more rapidly and the food supply prob-

³ China, State Statistical Bureau and the Bureau's "Communique on fulfilment of China's 1980 National Economic Plan", 29 April 1981.

⁴ China, State Statistical Bureau; Ministry of Agriculture.

⁵ China, State Statistical Bureau.

lem will become more manageable.

The distribution of population reflects the country's complex geography. Some 95 per cent of the people reside in the great river plains constituting the eastern coastal belt, where most of the country's arable land (about 11 per cent of total land area) is to be found. The urban share of the total population, however, has been successfully held to less than 14 per cent as the result of policies to decentralize industrial development and to control rural/urban migration.⁶

In 1979, the labour force was 405.8 million, and was three fourths agricultural. Industry (including mining, manufacturing and power), and services (including construction, transport, commerce and non-material services) absorbed the remaining quarter in equal proportions. This distribution of the labour force among sectors is characteristic of a less developed country, but the sectoral distribution of production, in which industry accounts for two fifths of output and agriculture for only one third, is not. Average outputs per worker in industry and agriculture are thus considerably different. Approximately three quarters of the labour force in 1979 were employed on communes,⁷ and the remaining quarter were workers or staff in State organizations (including State farms) or urban collectives.⁸

⁶ China, State Statistical Bureau.

⁷ China, State Statistical Bureau.

⁸ Though small relative to the employment problem, the entry of China into the labour export market is an interesting recent development. Fourteen Chinese enterprises are engaged in supplying labour on contract services abroad. Over the first three quarters of 1981, some 282 overseas employment contracts, worth \$ 460 million, were made. These provided employment for 13,000 Chinese engineers, technicians, seamen and cooks. Monthly wages for those employed averaged \$ 300-450. *China News Service*, October 1981.

Between 1977 and 1979, employment grew by 6.3 per cent, which is approximately the same as the rate of growth in the labour force. However, while the allocation of labour continues to be heavily controlled, there have been a number of developments causing an employment problem in urban areas. Population drift from rural to urban areas has been one factor. Since 1976 there has been a relaxation of former policies that sent youths to the countryside and enforced strict control over their return to home towns. As a result, there was, in the late 1970s, an increase in the number of "returned home" youths, reaching 20 million by 1979. The State planned to create jobs for this labour force over a three-year period; 8 million were to be absorbed in 1979, 7 million in 1980⁹ and 6 million in 1981. One aspect of this programme has been the granting of permission to establish individual or collective small-scale service undertakings. In 1980, more than 810,000 people were operating individual businesses in urban areas, a rise of more than 160 per cent over the previous year.¹⁰

Unemployment of a frictional nature has also appeared as a result of recent policy reforms. The shift in priority from heavy to light industries, introduced in 1979 and accelerated by the investment cut-back of 1981, entailed structural adjustments. Similarly, the drive to improve industrial efficiency has involved curtailment of employment in many enterprises. The joint effect of these two policies caused the closure of 533 large- and medium-sized factories in 1980, and of over 300 more in 1981; in

⁹ A total of 9 million people were provided with jobs in 1980 and included those "waiting for jobs" as well as new entrants into the labour force. China, State Statistical Bureau, "Communiqué . . .", *op. cit.*, p. 56.

¹⁰ *Ibid.*

addition, thousands of small factories were also closed down during this two-year period.¹¹

Because of previously very high birth rates, the rate of growth in the labour force will continue at nearly 2 per cent a year in the 1980s, and a major problem will be to provide socially beneficial employment. The scope for expanding employment in agriculture is small, given already high labour-land ratios. However, while the present proportion of employment in industry is low, this will increase as the share of industry in output expands and as the share in industrial output of relatively more labour-intensive light industry increases. The very low share of services in total output also can be expected to grow.

Between 1978 and 1980, China's economy expanded rapidly. Because of exceptionally good harvests in 1978 and 1979, NMP increased at an average annual real rate of 9.7 per cent. In 1980, it grew by 6.9 per cent.¹² These rates compare favourably with the average annual real growth rate of 5.4 per cent from 1957 to 1979. Between 1978 and 1979, per capita NMP increased by 16.4 per cent and in 1980 by 5.7 per cent.

The growth rate of NMP, however, fell significantly in 1981. The planned rate of growth of gross industrial and agricultural output¹³ had been set at 5.5 per cent (equivalent to 5.8 per cent in terms of

¹¹ "China's angry unemployed", *Asiaweek*, 8 May 1981, citing *Liberation Army Daily*.

¹² China, State Statistical Bureau, "Communiqué . . .", *op. cit.*, p. 33.

¹³ Gross industrial output exceeds value added in the industrial sector because of the inclusion of inputs. Gross agricultural output exceeds value added in agriculture because of the inclusion of inputs and the addition of the gross industrial output of brigade enterprises.

NMP),¹⁴ but actual results appear to be substantially lower, the preliminary estimate being 3 per cent¹⁵ or perhaps higher. This would give a growth rate in NMP of about 1.7 per cent and only a marginal increase in real per capita incomes. The plan for 1982 calls for gross industrial and agricultural output to rise by 4 per cent.

The details of net material product and expenditure most recently available are for 1979, when net material product was 335 billion yuan.¹⁶ Of total NMP in 1979, 38 per cent originated in agriculture, 46 per cent in industry (heavy industry alone contributing 26 per cent), 4 per cent each in construction and transport, and 8 per cent in commerce. The most striking feature is the unusually high share for industry.

Gross domestic product (GDP) has been estimated at 391 billion yuan for 1979 and, as net factor income from abroad was only 0.1 billion yuan, GNP was virtually equivalent to GDP. Making adjustments for the relative over-pricing of industrial products and for accounting conventions in China, the structure of GDP in 1979 showed two fifths originating in industry, one third in agriculture and approximately one quarter in services. The contribution of industry to output in China is about the same as that for middle-income countries, but the share of agriculture is more than double. The residual share of services appears very low, whether by comparison with low- or middle-income developing countries. One reason is the inclusion of services in other

sectors; another is the small size of the personal services sector.

The ratio of total investment to net material expenditure (NME) increased to as high as 37 per cent in 1978. In terms of GDP, the ratio was approximately 32 per cent in 1979, although this would have been less if allowance were made for the over-pricing of industrial products. Nevertheless, it is high in comparison with other low-income countries. One objective of the changed development strategy already described was to reduce the share of investment in NME, and a combination of policy

measures has seen it reduced from 37 per cent in 1978 to 34 per cent in 1979 and further to 30 per cent in 1980, although this reduction was less than targeted. Actual investment exceeded planned investment by 3.9 billion yuan in 1980 because of the unexpected use by State enterprises of bank loans to sustain investment demand. The Government's announced objective is to further reduce the ratio of investment to NMP to around 25 per cent. Preliminary information suggests that, while the absolute fall in investment expenditure will not be as

Table V.1. China. Net material product and expenditure at current market prices, 1977-1980

(Billion yuan and percentage)

	1977	1978	1979	1980
Net material product by sector of origin:				
Agriculture	98.4 (37.0)	108.4 (36.0)	128.1 (38.0)	138.0 (38.0)
Industry	119.7 (45.0)	138.5 (46.0)	155.0 (46.0)	167.0 (46.0)
Construction	10.6 (4.0)	12.0 (4.0)	13.5 (4.0)	14.5 (4.0)
Transport	10.6 (4.0)	12.0 (4.0)	13.5 (4.0)	14.0 (4.0)
Commerce	26.6 (10.0)	30.1 (10.0)	27.0 (8.0)	29.0 (8.0)
Total	265.9 (100.0)	301.1 (100.0)	337.0 ^a (100.0)	363.0 ^b (100.0)
Net material expenditure by type:				
Total investment	83.2 (31.3)	108.7 (36.1)	111.3 (33.0)	108.9 (30.0)
Fixed investment	64.9 (24.4)	78.2 (26.0)	84.6 (25.1)	...
Inventory accumulation	18.3 (6.9)	30.4 (10.1)	26.7 (7.9)	...
Material consumption	174.1 (65.4)	189.0 (62.8)	219.9 (65.2)	...
Investment plus consumption	257.3 (96.7)	297.7 (98.9)	331.1 (98.2)	...
Material foreign trade (net)	1.5 (0.6)	-1.8 (-0.6)	-3.5 (-1.0)	...
Residual error	7.2 (2.7)	5.2 (1.7)	9.4 (2.8)	...
Total	265.9 (100.0)	301.1 (100.0)	337.0 ^a (100.0)	363.0 ^b (100.0)

Sources: China, State Statistical Bureau; Ministry of Foreign Trade; and Bank of China.

^a Revised to 335.0 billion yuan in State Statistical Bureau, "Communique ...", *op. cit.*, p. 34.

^b *Beijing Review*, No. 32, 1981.

¹⁴ 1981 National Plan, as announced in August 1980.

¹⁵ Statement of Prime Minister Zhao Ziyang to the National People's Congress in late November 1981.

¹⁶ The yuan/dollar exchange rate has moved from 1.5193 yuan per dollar in late 1979 to 1.7605 in June 1981.

large as announced in early 1981, the level of investment spending will fall.

Unlike most developing countries, China has financed its relatively high investment in relation to GDP from domestic savings, the share of total investment funds from domestic sources being approximately 97 per cent in 1979. It appears, however, that considerably greater use has been made of foreign capital in 1981.¹⁷

The allocation of investment funds in the past has favoured industry at the expense of agriculture and, within industry, the heavy industry sector. During 1977-1979, agriculture received one fifth of fixed investment and industry

Table V.2. China. Allocation of fixed investment, 1977-1979 average (Percentage)

	<i>Agriculture</i>	<i>Industry</i>	<i>Other</i>	<i>Total</i>
State capital construction	2.8	29.9	12.8	45.5
Commune investment	12.8	5.3	3.2	21.3
Remainder	5.0	21.6	6.6	33.2
Total	20.6	56.8	22.6	100.0

Sources: China, State Statistical Bureau; Ministry of Foreign Trade; and the Bank of China.

nearly three fifths. The share of heavy industry in total fixed investment during 1977-1979 was nearly 50 per cent. In keeping with new policy initiatives, the share of investment allocated to light industry and to the production of agricultural supplies will increase in 1981.

From 1977 to 1979, 44 per cent of total investments were financed from the State budget. Grants for fixed and working capital formation from the State budget have financed the majority of investment in industry, commerce and infrastructure and for a large amount in agriculture. Other sources included the after-tax profits of collective and State enterprises, the revenues of brigades and communes, and the extrabudgetary incomes of local governments. From 1979, however, State enterprises could finance much of their investment by bank loans, so that the shares of localities and of State enterprises in the finance of State capital construction sharply increased.

B. AGRICULTURE

In China, the agricultural sector accounts for approximately one third of GDP and employs nearly three quarters of the labour force. Although it has only 7 per cent of the world's arable land, China has become an important world producer of many crops. It is the world's largest producer of rice, with an output which is four times that of India, the next largest grower. It produces about one sixth of the world's grain, one quarter of its tuber crops and approximately a tenth of its combined output of maize, sorghum, soybean, cotton, groundnuts, rapeseed and tea. China also has the

¹⁷ See p. 114.

NMP and GDP

The concept of national income used in China is based on the Material Product System. Net material product (NMP) differs from the concept of GDP, as defined in the United Nations System of National Accounts, in that it excludes depreciation and most non-material services, including housing.

In China, material product includes the outputs of agriculture, industry, construction, commerce, and transport and communications; non-material production includes the services of party organizations, government, defence, education, banking and finance, culture, health and management. Calculation of NMP varies between sectors: in agriculture, it is the difference between gross agricultural output and intermediate inputs; in the other sectors, value added is the sum of wages, contributions to welfare funds and to enterprise funds, interest payments, taxes and profits.

In 1979, non-material services (excluding rent of housing) were approximately 6.5 per cent of GDP. This is lower than for most other socialist economies because of frequent inclusion of such non-material factors as education, health and culture in NMP, because of the under-developed

state of the non-material sector; and because many services are subsidized or have small profits and pay low wages. Housing services, including imputed rent of owner-occupied housing, average around 3 per cent of GDP in developing countries. Thus the total value of non-material services amounts to approximately 10 per cent of GDP.

The value of depreciation is estimated at around 6.5 per cent of NMP, and this is also low by comparison with other countries. It is due, in part, to the practice of assuming long life spans for buildings and machinery and to the omission of depreciation charges on urban residential buildings.

To compare China's relative sectoral outputs with those of other countries, two adjustments would need to be made to the GDP estimate described above. First, conformity with conventional national income accounting definitions requires reallocation of the output of brigade industry from agriculture to industry, and of education, health and social services provided by production units to the non-material services sector. Secondly, the relative prices of Chinese industrial goods are unusually high and inflate the share attributed to industry.

Table V.3. China. Comparative data on agricultural inputs, 1978

	<i>China</i>	<i>Other developing countries</i>	<i>Developed countries</i>
Proportion of arable land irrigated (percentage)	45	17	8
Chemical fertilizers application (kg per arable ha)	90	25	110
Tractor mechanization (arable ha per tractor)	180	40	270

Sources: China, Ministry of Agriculture and other sources; other countries from FAO.

world's largest stock of goats and the second largest of sheep, as well as two fifths of the pigs.

These achievements have been made possible by highly intensive use of land, high concentration of labour, triple and double cropping, and heavy use of both irrigation and fertilizers. Nearly half of China's arable land is irrigated, double the average proportion for other developing countries. Fertilizer application is three times above the average for other developing countries, and four fifths that of developed countries. There is one tractor per 200 ha of arable land, compared to one per 300 ha for developed countries and one per 50 ha for developing countries. China's crop yields are thus well above those of developing countries and, in certain instances (cereals as a whole, rice, sorghum and groundnuts) are 30-70 per cent higher than average world yields.

During 1977 to 1979, gross agricultural output grew by about 19 per cent with grain output in 1979 reaching a record level of production of 332 million tons. This impressive performance was due to favourable weather conditions and to agricultural reforms. In 1980, however, adverse weather conditions reduced growth in output to 2.7 per cent.

Droughts in winter adversely affected some 13 million hectares in the north, and unusually wet weather resulted in widespread

flooding in the central and southern regions. Grain output fell by 4 per cent to 318 million tons as the result both of climatic conditions and a reduction in grain acreage. Some 1.5 million hectares of rice, wheat and corn land were diverted to the production of cash crops. As a consequence of growth in the latter and in livestock production, the reduced impact of the grain harvest on over-all agricultural production was more than offset. Output of cotton rose by 23 per cent, sugarbeet by 103 per cent, oil-bearing crops by 20 per cent and meat by 14 per cent. Had it not been for its highly developed agricultural infrastructure, including expanded irrigation facilities, the impact of the adverse weather on agricultural output would have been much more severe.

After the shortfalls in grain production in 1980, plans were made to raise output to 343 million tons or by 7.6 per cent in 1981, and the gross value of agricultural output was targeted to increase by 4 per cent. Current indications are that, despite continuing adverse weather conditions in early 1981, the gross value of agricultural output grew by about 3 per cent in 1981 and that grain output again reached the record level of 1979 of 332 million tons.¹⁸

Although there was a diversion of some acreage to cash crops, the early rice crop was reported at around 50 million tons which was an increase of 2 per cent over the 1979 harvest. Other estimates suggest that the 1981/82 wheat crop could reach 56 million tons as compared with 54 million tons in 1980/81; that coarse grain output for 1981/82 could be 82 million tons and that cotton production could be equal to the 1980 record level of 2.8 million tons. Output of sugar in 1980/81 is likely to approximate 3 million tons and this is 20 per cent above output in 1979/80. Most of the increase in

¹⁸ Statement of Prime Minister Zhao Ziyang to the National People's Congress, in late November 1981.

Table V.4. China. Comparative data regarding crop yields, 1977-1979 average

	<i>China</i>	<i>World</i>	<i>Developed countries</i>	<i>Developing countries</i>
(Tons/ha)				
All cereals ^a	2.65	2.03	2.62	1.46
Rice	3.95	2.25	5.54	2.10
Wheat	1.82	1.85	2.08	1.39
Corn	2.76	3.12	5.09	1.39
Sorghum	2.26	1.33	3.37	0.95
Soybean	1.05	1.85	2.02	1.42
Cotton	0.45	0.41	0.68	0.28
Groundnuts	1.29	0.96	2.42	0.88
Rapeseed	0.71	0.98	1.48	0.53

Sources: China, official estimates; FAO, *Production Yearbooks*.

^a Excludes soybean and tubers.

Table V.5. China. Foodgrain and cash crop production, 1977-1980

(Million tons)

	1977	1978	1979	1980	1980 output as percentage of world output
Foodgrain					
Rice (paddy)	128.5	137.0	143.8	142.3	35.6
Wheat	40.1	53.8	62.8	54.2	12.2
Corn	49.4	56.0	60.1	59.7	15.2
Sorghum	7.7	8.1	7.7	7.7	13.2
Soybean	7.3	7.6	7.5	7.9	9.5
Millet	6.2	6.6	6.2	6.0 ^a	20.1
Tubers	29.7	31.8	28.5	27.8	21.4 ^a
Other	13.9	3.9	15.5	15.9	...
Total foodgrains	282.8	304.8	332.1	318.2	...
Cash crops					
Cotton	2.1	2.2	2.2	2.7	18.9
Jute	0.9	1.1	1.1	1.1	27.5
Mulberry	0.2	0.2	0.2	...	...
Tussah	—	0.1	0.1	...	...
Tea	0.3	0.3	0.3	0.3	15.8
Sugarcane	17.8	21.1	21.5	22.8	3.1
Sugarbeet	2.5	2.7	3.1	6.3	2.3
Fruits	5.7	6.6	7.0	7.2	...
Vegetables	3.3	3.3	3.2	...	...

Sources: China, Ministry of Agriculture; and FAO, *Production Yearbook, 1980*.

^a Roots and tubers.

output is due to the growing of sugarbeet.

Agricultural output and food production in China are dominated by population growth and climatic conditions. Between 1957 and 1977, agricultural production per capita in China increased negligibly by about one fifth of 1 per cent per annum. Only in the last three years has there been any appreciable change: output per capita growing by 6.7 per cent per annum during 1977-1979 and by 1.5 per cent in 1980. Grain production per capita, after also growing rapidly by 7.1 per cent annum in 1977-1979 to 274 kilograms per capita per annum fell by 5.1 per cent in 1980. The imbalance between domestic supply and demand for grain has been handled by the rationing of scarce supplies or by imports which have been small, however, in relation to domestic production. From 1957, grain imports have averaged around 2 per cent of domestic consumption, with this figure rising

to around 4 per cent in 1980.¹⁹

Policy measures are nearly as important as weather in influencing fluctuations in the volume and composition of agricultural output. Policy changes, since 1977, have emphasized an acceleration in the rate of growth of agricultural output and a more diversified pattern of production. New agricultural lands have been opened up and institutional reforms made to increase grain output by relating rewards more directly to work performance. From 1977, the system of distribution in agricultural production units based on the principle of an equal per capita

¹⁹ The net figure is small, but obscures the fact that substantial exports of certain grains from some regions were more than matched by imports of basic consumer grains by other regions. Despite the small net grain deficit, China continues to suffer from chronic shortages of foodgrains in some regions. The value of imports of grain, moreover, are important in relation to the availability of foreign exchange and the size of the international grain market.

sharing of output was sharply criticized and, in order to meet the objectives of the new economic strategy, changes have been initiated for the organization of communes and their management. Communes have been allowed to choose, on an individual basis, a specific form of internal organization and distribution; and the basic "accounting unit" has been reduced to the level of the working team, the effect of which is to give the individual peasant household full responsibility for its production performance. A system of subcontract work has also been adopted so that households, or small teams, can retain for their own use output in excess of production quotas. Plots of land have been allocated to individuals for household agricultural activities, and side-line occupations have been encouraged to make fuller use of such plots. The limit on private plots has been raised to 15 per cent from 7 per cent of the total cultivated area.

Collectives have been encouraged to distribute more of their output according to work points and less on a per capita basis. Restrictions on the sale of surplus output in the free market have been removed for a large number of commodities, including grains. Furthermore, powerful output incentives have been created with an upward adjustment of agricultural procurement prices. Higher State purchase prices, for instance, helped to expand meat production by almost 12 per cent in 1978-1980; this performance was assisted by a greater supply of animal feed grains in response to more flexible price policy. Such measures were expected to increase the marketed supply of grains (without adversely affecting the volume of other cash and industrial crops), and to reduce the relative scale of non-marketed agricultural production (which in 1980 was still more than 50 per cent, and for grain more than 75

per cent).²⁰

Agricultural decentralization has meant giving production teams and brigades greater power of decision over their production plans, and also encouraging communes and State farms to make more use of credit and so less use of State grants for financing operations. All these changes are bringing about more efficient use of capital, including working capital. To this

²⁰ H.E. Gianzhang, "Newly emerging economic forms", *Beijing Review*, No. 21, 25 May 1980, p. 18.

end, the Agricultural Bank was reactivated in 1979 and underwent considerable expansion in 1980; there are plans for doubling its loan portfolio by 1985.

The agricultural sector received only about a fifth of the nation's total fixed investment in recent years, a very small proportion compared to its share in employment and total output, and over three fifths of this has been financed by the communes' own resources. However, because of the recently announced policy of ex-

tending the period of readjustment of the economy until 1985,²¹ it appears likely that increases in the share of agriculture in State capital construction expenditures, and of agriculture support services in total State expenditures could continue over the next few years.

Agricultural policy reforms since 1980 have also concerned themselves with cereal supply. Regional specialization in various

²¹ Statement of Prime Minister Zhao Ziyang to the National People's Congress, in late November 1981.

The Mongolian People's Republic

The Mongolian People's Republic is the oldest centrally planned economy in the ESCAP region or, for that matter, in the world outside the USSR. From its inception, in 1924, it has developed a socialist system with assistance from the USSR, and retains strong links with it. It has had much land, a small population, and a basically pastoral economy. In 1980, the population was 1.7 million. The traditional economy is being transformed by the development of agriculture and industry.

Agriculture has been developed to produce fodder, wheat, maize, other cereals, potatoes and vegetables, although less than 1 per cent of the total land area has come under cultivation. During the 1976-1980 plan, 277,000 ha of virgin land was developed but animal husbandry is still the dominant farming activity, and sheep are its mainstay. In the 1981-1985 plan period, however, it is planned to build new virgin land State farms and to repair irrigation systems covering some 15,000 to 17,000 ha which will help to expand sowing areas.

Agricultural output increased by 1.2 per cent in 1980. Grain output was about 287,000 tons, according to FAO estimates, bad weather bringing it 13 per cent below 1979 output. The livestock population was greatly reduced in 1978 due to bad weather. The loss of 2.6 million animals was made up by a natural addition of 9.3 million in 1979, but later cold weather in early 1980 reduced the natural

increase to 8.5 million. The target for 1981 is for a 9.1 million increase, giving a 600,000 increase in net terms over 1980 livestock population. A rate of growth in agricultural output in excess of 4 per cent was projected for 1981.

Farming is dominated by large State farms, using mechanized techniques, and by herding co-operatives. There were over 60 State farms and "fodder farms" in 1980, and 255 herding co-operatives, some of which had jointly set up 17 production co-operatives specializing in farm-related outputs. A typical State farm might have some 16,000 ha of arable land and use about 240 tractors of 15 hp, 36 grain harvesters and 39 trucks; a typical co-operative might have 36 tractors and 15 trucks.

Mongolia's exports are largely from farming and, more recently, mining. It has long produced some coal, gold and fluor spar, and is now building successive stages of a large mining and ore concentration plant for copper and molybdenum. This is a joint Mongolian-Soviet project. The output of coal and lignite was 4.1 million tons in 1980, and that of fluor spar 0.5 million tons.

Most industry is concentrated around large towns. Their factories produce bricks, sawn timber, cement, leather goods, woollen cloth and other textiles, bakery goods and butter. Gross industrial output rose by 9.4

per cent in 1980, a considerable increase but below the target rate of 11.3 per cent.

During the sixth five-year plan, 1976-1980, output increases resulted in per capita supplies increasing by 68 per cent for electricity, 40 per cent for coal, 8 per cent for leather footwear, and 7 per cent for bakery goods. There were also gains for textiles, other leather goods, and non-ferrous metals. Several large modern industrial establishments were built and began operating.

During the same period, meat production rose by 52,000 tons to give an annual per capita consumption of 98 kg. Milk production rose by 16 million litres, but the productivity of livestock, and the yields of crops, did not much improve.

Considerable attention was paid to transport. New railway tracks were built and put into operation. Air services increased by 6 per cent and were extended to cover three fifths of all local administrative units.

Mongolia's per capita income was \$ 780 in 1979, which put it into the World Bank's group of middle-income developing countries. Its real GNP had grown at an average annual rate of 7 per cent between 1976 and 1980, and 44 per cent of that growth came from industry. According to the seventh five-year plan for 1981-1985, a growth of 41 to 45 per cent in GNP is projected. The projected rate of growth for industry in 1981-1985 is 10.4 to 11.6 per cent per annum.

types of crops, combined with more effective concentration of investment outlays, has been selected as one way of reducing the grain deficit. Accordingly, a decree issued by the State Council in July 1980, designated the extensive plains in the north-eastern provinces of Hailongjiang, Jilin and Liaoning for development as a major "grain base". Because of the region's short growing season and severe winters, its vast agricultural potential can be utilized only by considerable mechanization. It was thus planned to mechanize more than 70 per cent of the region's cultivated area by 1985.²² Fulfilment of this plan will depend on the country's capacity to increase its imports of farm machinery and also on its ability to expand the domestic industry for agricultural machinery. Such expansion has been planned, despite the general cut in the heavy industry sector.

Notwithstanding recent developments, the agricultural sector continues to face problems, many related to a shortage of trained manpower. There is a shortage of personnel to plan and evaluate investment projects, and of ex-

²² *Asia Research Bulletin*, June 1981.

perienced technical personnel for engineering. Managerial skills are also lacking. Some critical inputs such as agricultural machinery have been found to have excessive production costs and/or inferior quality. Others, such as chemical fertilizers, have often been used inefficiently. In addition, physical problems related to land development, such as soil erosion, siltation and salinity, remain unresolved.

C. INDUSTRY

China's industry in 1979 contributed 40 per cent to GDP and 46 per cent to NMP. Its industrial output per capita was very high compared with other low-income countries, but low by comparison with middle-income countries and very low by comparison with the developed economies. Because of its vast size, however, China ranks among the world's largest producers in several industrial products. It is the largest producer of cotton yarn and fabric and among the top 10 in the output of cement, coal, tungsten, sulphuric acid, steel and electricity. In 1981, it was the second largest producer of radio sets.

There has been a remarkable transformation in China's indus-

trial output. First, an entire structure of modern industries has been established so that China has achieved a high degree of self-sufficiency in the production of industrial goods. Secondly, there has been an intensive and successful effort to decentralize the location of industry to poorer regions and to rural areas.

The rapid growth of industry, the increased level of self-sufficiency and the successful policy of dispersion have been the result of a central command over resources, the allocation of a large share of domestic savings to industry and a preparedness to use whatever technologies were available when access could not be had to more efficient technologies.

As a result of these policies, the growth in output secured has been due overwhelmingly to the increased use of capital and labour rather than to their more efficient use. Between 1957 and 1979, when the ratio of investment to GDP fluctuated between 25 and 30 per cent, over 50 per cent of these resources were allocated to industry. In 1979, about three fifths of the sector's 935,000 enterprises belonged to production brigades, one fifth to communes, one tenth to urban collectives and the remaining tenth to the State. State enterprises, however, predominate in terms of their contribution to industrial output, employment and capital. The average State enterprise employs 371 workers, has gross fixed assets of about 4 million yuan, and produces goods worth 4.4 million yuan per year. The average annual wage in State enterprises is about 1.5 times more than in urban collectives, and this reflects higher capital-labour ratios. All principal factories are State enterprises.

The majority of enterprises are light industries, but are far less capital-intensive than those in the heavy industry sector, and account

Table V.6. China. Characteristics of industrial enterprises, by ownership type, 1979

	Enterprises			
	State-owned	Urban collectives	Rural communes	Brigades
Number (thousand units)	84	100	171	580
Per enterprise				
Gross output (million yuan) ^a	4.4	0.6	0.1	—
Net output (million yuan) ^b	1.5	0.2	0.1	—
Employment (number)	371.0	133.0	52.0	17.0

Source: China, State Economic Commission.

^a At 1970 prices.

^b At 1979 prices.

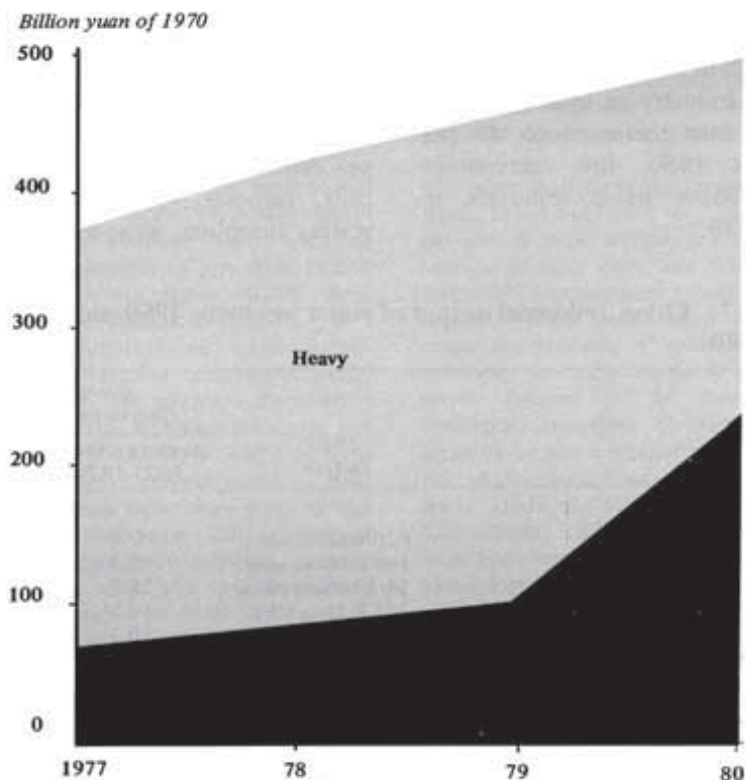
for only two fifths of industrial output and employment. Because of earlier concentration on achieving self-sufficiency, China has a large sector producing machinery and metal products, and this contributed 27 per cent to total industrial output in 1979, a percentage which is about twice as large as India's, and three quarters that of Japan.

Between 1952 and 1978, net industrial output grew at an average annual rate of around 10 per cent. Heavy industry, however, expanded 27 times and light industry only nine times. Heavy industry comprises mainly capital goods, while light industry comprises household consumer durables and hand tools. The over-all performance in industry was exceeded during this period by only a few developing countries, including the Republic of Korea in the ESCAP region.

In 1980, the over-all rate of industrial growth was 8.7 per cent, exceeding the planned growth rate of 5.6 per cent. Although capital expenditure covered by the State budget decreased by nearly 25 per cent, total capital spending rose by 7.8 per cent. The reason was partly that State enterprises were permitted access to bank credit to finance investment plans. This impact of bank lending on industrial activity in 1980 was reinforced by the positive effects on output of various micro-economic measures discussed below.

Initial reaction in early 1981 to the unintended solid performance of the industrial sector was to revise the plan for 1981 by scheduling a large decrease in total investment of 40 per cent, mostly to be concentrated on heavy industry. The revised growth target for industrial output was only 0.8 per cent, in contrast with the 6.0 per cent originally planned.²³ It appears, however, that this drastic cut in planned investment was further reviewed following concern

Figure V.1. China. Industrial output, 1977-1980



about the idle capacity it would create in the capital goods sector, and the long-term impact it might have on capacity constraints to growth in certain industries. As a result, investment appears to have been sustained at a much higher level than the revised plan originally intended, as a result of foreign borrowings. Thus, it is likely that growth of gross industrial output, in 1981, will exceed the revised plan target of 0.8 per cent.²⁴

²³ Yao Yilin, "Report on the readjustment of the 1981 national economic plan and State revenue and expenditure", *Beijing Review*, No. 11, 16 March 1981.

²⁴ In the first three quarters of 1981 gross industrial output grew by 1.1 per cent in comparison with the same period in 1980, light industry output rising by 12.1 per cent and heavy industry declining by 7.4 per cent. However, there were expectations that, in the fourth quarter, there will be a considerable increase of industrial activity. See New China News Agency, 5 October 1981.

From 1979, greater emphasis was given to developing light industry, and industry supplying the agricultural sector. This change in emphasis was to be at the expense of heavy industry in general, and of the machine-building sector in particular.²⁵ The new policy guidelines provided for increased allocations on a priority basis of fixed and working capital, and of foreign exchange, to light industry and producers of agricultural inputs. They also receive priority in allocations of materials, fuel and power. As a result of these revised priorities and of measures taken to improve efficiency, the growth rate

²⁵ During the period 1952-1978 heavy industry, which includes most producer goods, mining and electric power expanded 27 times; light industry, which includes manufactured consumer goods and some producer goods expanded, by only nine times.

of gross light industrial output was 9.6 per cent in 1979 and 18.4 per cent in 1980, far exceeding growth rates for heavy industry of 7.7 and 1.4 per cent respectively. The share of light industry in total industrial output thus increased to 47 per cent in 1980, four percentage points above its contribution in 1975-1979.

The impact of these policy changes, and of various measures adopted to improve efficiency, is reflected in the performance of different groups of industry. In the area of consumer durables, output of radio sets, in 1980, rose by 118 per cent, television sets by 88 per cent, cameras 57 per cent, and sewing machines, wrist-watches and

bicycles each by approximately 30 per cent. These growth rates were all far in excess of those for 1975-1979. By contrast, except for motor vehicles and railway passenger wagons, outputs of major machinery and transport equipment, and of mining and power-generating equipment, railway freight wagons and hand tractors, declined markedly below their output levels in earlier years.

In the energy sector, a number of problems affected production. Coal output, which contributes 70 per cent of total commercial energy, grew by 12 per cent in 1978, by 3 per cent in 1979, and declined by 2.4 per cent in 1980. Immediate problems are the need to develop new mines and to generally improve technologies and facilities to transport coal. Output of electricity continued to rise at an annual average rate of about 10 per cent, but shortages have given rise to excess capacity in many industries.

Oil production increased by only 2 per cent in 1979, to a little over 2.0 million barrels per day. There was a slight decline in output during 1980. The problem is that existing fields are being fully exploited and other proven resources require substantial investment, with considerable gestation lags. Both oil and coal production are being partly tapped for export, and this has exacerbated domestic shortages.

Production of chemical fertilizer has grown rapidly as a result of several large complexes, built in 1973-1974, coming fully into operation. However, some factories are still too small to capture fully economies of scale, and there are continuing problems of matching supplies with demands, so that production of nitrogenous fertilizer is too high and that of potash too little.

Together with sectoral restructuring through the investment proc-

Table V.7. China. Industrial output of major products, 1980 and growth 1975-1980

	1980 output	Growth rate (percentage change)	
		Average annual 1975-1979	1980
Heavy industry			
Crude coal	620 million tons	7.1	-2.4
Crude Oil	106 million tons	8.3	-0.2
Natural gas	14.3 billion cu m	20.6	-1.7
Electricity	301 billion kWh	9.5	6.6
Pig iron	38 million tons	10.7	3.5
Steel	37 million tons	9.6	7.7
Rolled steel	27 million tons	11.4	8.8
Coke	34 million tons	5.2	1.5
Cement	80 million tons	12.4	8.1
Plate glass	28 million cases	12.5	18.9
Timber	54 million cu m	4.1	-1.5
Sulphuric acid	7.6 million tons	9.6	9.1
Soda ash	1.6 million tons	4.6	8.5
Caustic soda	1.9 million tons	9.1	5.3
Chemical fertilizer	12.3 million tons	19.4	15.7
Chemical insecticides	0.5 million tons	6.2	0.0
Plastics	0.9 million tons	24.5	13.2
Ethylene	0.5 million tons	60.8	12.6
Calcium carbide	1.5 million tons	9.4	8.0
Rubber tires	11.5 million	13.7	-2.0
Power generating equipment	4 193 MW	5.8	-32.5
Mining equipment	0.2 million tons	7.7	-38.3
Machine tools	1.3 million	-5.5	-4.3
Motor vehicles	0.2 million	7.4	19.4
Tractors	0.1 million	12.5	-22.2
Hand tractors	0.2 million	11.0	-31.4
Internal combustion engines	25.4 million hp	5.5	-12.7
Locomotives	512	2.2	-10.6
Railway passenger wagons	1 002	1.6	17.1
Railway freight wagons	10 600	0.5	-34.1
Steel ships (civilian use)	0.8 million tons	-	1.1
Light industry			
Cotton yarn	2.9 million tons	5.7	11.4
Cotton cloth	13.5 billion metres	6.6	10.9
Gunny bags	433 million	15.8	25.9
Chemical fibres	0.5 million tons	20.5	38.0
Television sets	2.5 million	65.3	87.5
Radios	30 million	10.2	117.5
Cameras	0.4 million	6.5	56.7
Bicycles	13 million	12.8	29.0
Sewing machines	7.7 million	13.3	30.8
Wrist watches	22 million	21.5	29.8
Synthetic detergents	0.4 million tons	15.5	-1.0
Light bulbs	950 million	13.1	11.8
Sugar	2.6 million tons	9.5	2.8
Salt	17.3 million tons	-0.1	17.0

Source: China, State Statistical Bureau.

ess, the Government's aim of raising industrial efficiency in State enterprises was pursued by giving local units more executive authority.

Once production targets have been fulfilled, operation units have been permitted to produce in accord with market conditions. Various types of companies have been set up as specialists in the production and sale of narrow ranges of products, to promote quality and cost efficiency, and to help reduce redundancy in investment. In addition, enterprises have been provided with expanded opportunities to market their own outputs, and there has been a reduction in the range of goods required to be distributed through the State purchasing and supply apparatus.

Of particular importance is the major departure from former procedures for financing investment. Virtually all capital acquisitions had previously been financed by enterprises through State budgetary appropriations. From 1979, loanable funds became available to industrial enterprises through the banking system, individual enterprises being allowed to finance their capital acquisitions on credit terms. As investment funds became available on a cost basis, enterprises have been induced to become increasingly cost-conscious, thereby improving the efficiency of using capital, including working capital. At the same time a profit retention scheme was introduced, whereby some profits of enterprises can be retained to finance investment expenditures.²⁶

Some 6,000 enterprises (out of a total of about 400,000), accounting for 45 per cent of the nation's gross industrial output (GIO), had, by the close of 1980, localized their decision-making pro-

²⁶ *Beijing Review*, No. 11, 1981, p. 20.

More attention to hydropower

China's hydroelectric potential has been estimated at 370 million kW, of which nearly one fifth relate to small-scale generation and are found mainly in the south and east. To date, only 5.4 per cent of this potential has been tapped. One third of the total output of 20 million kW in 1980 was generated by small stations, each with an installed capacity of less than 12,000 kW. There are about 90,000 small hydropower stations in China.

Development of small hydropower stations has occurred, not only because of the scattered distribution and small size of water resources, but also by the country's policy of local (county-level) self-sufficiency. Most hydrostations have been built by the peasants themselves for agricultural and light industrial activities, and for household uses. The less demanding requirements of small hydropower stations in terms of manpower, financial inputs and technological know-how have made it possible for small rural communities to build their own stations.

Government policies, too, have helped the construction of small stations. By directing that power stations be owned and managed by the people who build them, a vested interest was introduced into the development of hydroelectric power. To promote this development, a regional training centre for small hydropower stations has been established in Hangzhou to promote technical exchanges and co-operation with other countries.

The availability of hydroelectric power has, especially in the moun-

tainous regions, fostered agricultural mechanization and the development of local small industry. Small stations have been assessed as more cost-efficient than large stations in China; generation is about 25 per cent less expensive than from the larger operations. Investment cost of \$ 0.12-0.20 per kWh in small stations is almost the same as in large ones, and thus easily meets the internationally recommended feasible cut-off point of \$ 0.40. A major shortcoming of small stations, however, is their unstable output levels. Because of the absence of regulation reservoirs to serve most small hydropower stations, the generation of electricity fluctuates with water levels. Under the influence of seasonal fluctuations, especially in the monsoon belt, supply thus frequently fails to meet demand.

In view of increasing pressure on other energy sources (through depletion of domestic reserves and rising prices on foreign markets), China could well utilize more fully its hydropower potential. In fact, it is paying growing attention to development of hydroelectric power and, in particular, the construction of larger stations. The new hydropower stations in 1980 had a total capacity of about 430,000 kW, and most of them a capacity of at least 35,000 kW. Future plans include an additional supply of 1 million kW of hydroelectric power in 1981, an annual increase of 1.5 million kW for the rest of the decade, and 2 million kW through the rest of the century. At this rate, China's hydropower capacity would expand sixfold between 1979 and 2000.

cedures and taken responsibility for their own finances.²⁷ This process increased managerial flexibility at the operating level, and permitted local adjustments to incentives for achieving increased efficiency.²⁸ One result was that the volume of

²⁷ *Beijing Review*, No. 12, 1981, p. 24.

²⁸ Recent improvements in the performance of industrial enterprises in Sichuan Province are reported on in the *Beijing Review*, No. 14, 1981.

their market sales rose, as a share of total retail sales, to 35 per cent.

Industrial expansion faces a number of constraints. The outlook for energy output is one problem. Oil output has recently declined, and increases in output up to 1985 may be difficult to achieve. Coal is also beset with problems, and it is unlikely that the annual growth in primal energy until 1985 will greatly exceed 2.0 per cent. Electricity generation, given

the existing situation and production gestation periods, can grow by only about 5 per cent per annum up to 1985. These rates of growth in energy output are well under half of those achieved in the period 1952-1980. Beyond 1985, prospects for increased energy supply are better but will depend upon increased capital outlays now, and the energy sector already receives two fifths of industrial investment. Vital investment in other sectors will, therefore, be compromised.

In these circumstances, the thrust of policies must be to increase supply and to conserve energy use. Fortunately, there is much scope for this. The pricing of energy in the past has encouraged excessive use. Relatively inexpensive adaptation to existing equipment could effect substantial economies, and there is need for the greater use of coal in heavy industry. The shift to light industry from energy-intensive heavy industry is already having a marked impact on energy use, although a time will come when both need to expand in step and when the development of new technologies in light industry could be more energy intensive.

Another constraint concerns the availability of capital. A more efficient use of capital than in the past is essential, given a reduced share of investment in total expenditure and an increased share of investment in non-productive sectors. The increased emphasis given light industry will tend to reduce capital-output ratios, but other reforms relating to primary and inventory management are also vitally important if excess capacity is to be reduced.

Light industrial expansion is constrained already by shortages of agricultural and industrial raw materials. To some extent, the shortage of industrial raw materials can be eased by expansion of the

metallurgical and petro-chemical industries and by the greater use of coal. Capacity constraints in agriculture will prove less tractable; however, other remedial steps are increasingly to adopt measures which economize on the use of raw materials, to expand industries such as electronics, which are less intensive in the use of raw materials, and to continue the elimination of inefficient plants.

Industrial output has also encountered severe problems as a result of often backward technology, poor product design and quality control. Remedial measures already adopted include the provision of incentives for innovation and for greater access to foreign technology.

Telecommunications are a problem area because of serious shortages of telex and telephone facilities in major cities. Within China, long-distance communications rely upon surface lines and telephone exchanges in large- and medium-sized cities are in need of expansion and modernization.

Rail transport is a vital part of China's over-all transportation system. Despite the impressive expansion of alternative transport facilities, it continues to provide for nearly 50 per cent of commercial freight movements. It is easily the most important manner in which bulk transport is carried out over medium- to long-term distances, especially from north to south where there are no natural waterway facilities. In 1980, new track construction was approximately 900 km, increasing total track to more than 51,000 km. At the moment, only 2,000 km are electrified, with 600 km having been added in 1980 and with a further 3,000 km under construction or scheduled for construction.

While the utilization of railroad capacity is efficient, capacity output is far below demand. Since 1952, the volume of traffic has

increased more than ten times. Length of railway tracks has only slightly more than doubled. Moreover, the building of goods tracks has until recently concentrated on relatively under-serviced areas. Since 1979, track construction has concentrated around densely populated east-coast areas, which provide for around 80-90 per cent of total transport demand. A further problem is due to an excess of short-haul traffic because of inadequate and relatively expensive road transport facilities.

New regulations for the rail-roading of goods were brought into effect in April 1981 in an attempt to further facilitate rail transport. Containerization in rail transport is also expanding rapidly, with the freight volume in 1980 exceeding 2 million tons and doubling the 1979 figure.

China is now emphasizing the importance of water transport as an alternative to rail and road transport. Navigable waterways are twice as long as the rail network. Over the last three years, waterborne transport has been growing in volume terms by more than 20 per cent a year, and it now accounts for 40 per cent of total freight shipment, with inland waterway shipping accounting for approximately 7 per cent and coastal shipping 10 per cent of over-all domestic freight movements on a km/ton basis.

Inland waterway transport has decided economic advantages in construction at the margin over other forms of transport, and is also highly energy-efficient on a tonnage basis once construction of the facility has taken place. In the past, inadequate co-ordination between different administrations has required a great deal of transshipping, but these problems are now being tackled by the Ministry of Communications. Improved facilities are also being provided at major inland ports.

Ocean shipping has increased considerably. Over the last 20 years, the China Ocean Shipping Company fleet increased from 20 vessels in 1961 to over 500 in 1980. The freight capacity of its fleet in 1980 was approximately 43 million tons. Bulk cargoes dominate shipping traffic, with ore and grain accounting for 34 per cent,

cement and coal and fertilizers 12 per cent and petroleum for 18 per cent. In part this is due to the highly competitive rates offered by Chinese shippers and, in part, to relatively under-developed container services. The latter problem is being addressed, and regular container services are now being expanded. At the same time con-

tainer facilities at Chinese ports are being improved. The lack of deep-water berths is still a critical problem, which has made for considerable congestion at existing deep-water facilities. Congestion problems have also been aggravated by inadequate management and operational techniques.

The Democratic People's Republic of Korea

This country occupies the mountainous northern half of the Korean peninsula. Arable land is limited to less than a fifth of its total area, but the country is rich in minerals — bauxite, coal, graphite, iron, lead, magnesite, tungsten and zinc. It has a relatively small population, 17.5 million in 1979, and one third of its labour force is engaged in industrial activities which, however, contribute two thirds of its GNP.

The State is ruled by the central committee of a single party, the Korean Workers' Party, under the principle of *Juche*, or national self-reliance. The economy is largely nationalized and centrally planned to achieve self-sufficiency and growth. That has meant a build-up of heavy industry, and one third of industrial output now comes from the engineering industries which, it is reported, had achieved for the economy 98 per cent of self-sufficiency in machinery by 1978.

During the 1970s, industrial output expanded at an average annual rate of 16 per cent, and a little more rapidly in 1980. This rate was 2.5 times the corresponding average growth rate for real GNP, which indicates that the economy's dynamism derives mainly from industrialization. State capital expenditures for 1980 were to increase by 11.3 per cent, but those for industry by 16.6 per cent.

More than half the production of consumer goods comes from small- to medium-sized factories. Recently,

more attention has been paid to consumer goods with the establishment of a new Ministry of Food and Daily Necessities.

There has also been some relaxation of the principle of *Juche*. Export industries have been actively promoted, and encouragement has been given to joint ventures with foreign enterprises, mostly western.

Agriculture has grown much less rapidly than industry. Its average annual growth rate during the 1970s was 6.1 per cent, and this fell to 2.4 per cent with the bad climatic conditions of 1980 in north-east Asia. Food production grew more slowly still, by only 3 per cent a year in the 1970s. According to FAO estimates, 8.5 million tons of grains were produced in 1980, the main crops being rice and maize. In 1980, some 350,000 tons of rice and 210,000 tons of maize were exported, and 550,000 tons of wheat were imported.

The limited arable area, and a harsh climate which usually permits the production of only one crop a year, have made it difficult to attain self-sufficiency in food. Since 1959, peasant farming has been replaced by collective farms using 8-10 tractors per 100 hectares. Rice production is largely mechanized on some collective farms. Irrigation has also been developed to the point of covering nearly half the cultivated area, a higher proportion than the average for Asia. Increasing size of farms has been counterbalanced by decreasing size of groups working the farms. These

groups work on a subteam contract system, which allows the award of productivity bonuses to a team rather than to individuals.

Current development plans for agriculture stress fruit production and fishing. Orchards occupy 2.5 per cent of the total land area. Fish-pond farming has already developed to yield about 3 million tons of this major protein food. Deep-sea fishing provides much less than that, but it was allocated the largest rate of increase, 70 per cent, of State investment expenditures under the 1980 budget.

Most of the country's trade is with CMEA countries, but a recent expansion of trade with non-communist countries, notably Japan, has increased their proportion of trade with the DPRK to two fifths. In 1979, total merchandise exports were probably about \$ 1,500 million and merchandise imports about \$ 1,600 million. Minerals and metals were nearly one third of exports, as were other primary commodities; textiles and clothing, machinery and transport equipment were each 5 per cent, and other manufactures the remaining 30 per cent. About one third of imports are capital goods, one fifth raw materials, one tenth petroleum and the remaining third consumer goods of various kinds. Shortage of foreign exchange has been a major constraint on economic growth, and this problem has been intensified by difficulties in servicing or repaying foreign loans which, in 1981, were estimated to have reached \$ 2.1 billion.

D. FOREIGN TRADE AND PAYMENTS

China's trade²⁹ has grown quite spectacularly since the calculated "opening up" of the economy in 1977. Between then and 1980, exports almost doubled and imports (f.o.b.) slightly more than doubled in current value terms.³⁰ Measured as the difference between exports and imports (f.o.b.), the balance of trade shifted from a surplus of 1.8 billion yuan in 1977 to deficits of 0.4 billion yuan and 1.2 billion yuan in 1978 and 1979, and then to a surplus of 0.56 billion yuan in 1980. The balance, when in deficit, never exceeded 6.0 per cent of exports in any one year,

²⁹ Data sources include China's State Statistical Bureau, Ministry of Foreign Trade, and IMF's *International Financial Statistics*, November 1981. Unfortunately, complete trade data are not yet available in China. The Customs Administration recommenced data collection in 1980 but encountered processing problems. Data are collected by the People's Bank of China on the basis of payments transactions, and by the Ministry of Foreign Trade on the basis of reports by foreign trade corporations. Discrepancies occur, among other reasons, because some payments, notably in the case of Hong Kong, are not made through the People's Bank of China, because trade data exceeds payments data due to the loss of perishable exports, and because of timing difficulties. On the import side, discrepancies also exist between People's Bank of China reporting and that of the Ministry of Foreign Trade. Payments generally are much in excess of imports reported by foreign trade corporations to the Ministry of Foreign Trade because of imports by bodies not required to report to the Ministry of Foreign Trade.

³⁰ The trade statistics have not been deflated to allow for price changes. In the context of world inflation rates of over 14 per cent in 1979, and of over 12 per cent in 1980 and 1981, accompanied by significant increases in prices of Chinese exports in the wake of domestic price liberalization, the quantum rate of increase of trade would, of course, be significantly lower. Nevertheless, as compared with recent trade experience in other developing countries (facing the same world inflationary situation), China's record is impressive.

and over 1977-1980 was in slight surplus.

As in most large continental countries, the contribution of trade to GDP is relatively minor, although increasing rapidly from a low initial base. The magnitude of trade, however, must not be assessed in terms of its direct impact on income generation, but rather in terms of the access which it increasingly provides to sorely needed technology, of the competitive stimulus which it provides to the domestic economy, and of the access to food, raw materials, semi-processed commodities and capital equipment of vital importance to the development needs of the Chinese economy. The importance attached to the expansion of trade is reflected in the freer availability of trade permits and in the increased access to the foreign exchange reserves of local and central agencies. There has also been greater decentralization of trade authority to provinces and cities, which has eliminated previous bottlenecks, although creating in some cases confusion for potential foreign trading partners.

In 1980, exports expanded by 29 per cent to a level of 27.2 billion yuan, but preliminary data suggest a decline in the rate of increase for exports during 1981 as exports, in the first three quarters of the year, expanded by only 13.2 per cent compared with the same period in the previous year.

Rapid over-all growth was accompanied by considerable changes in the composition of both exports and imports. On the export side, rising energy prices and China's need for foreign exchange caused the share of crude oil, petroleum products and coal to rise from one fifth to over one quarter of total exports between 1979 and 1980. Stagnating prices for other primary products, however, reduced the share of food and other raw material exports. The proportion of minerals and heavy industry products rose, in 1980, to 52 per cent as against 44 per cent in 1979. The export share of light industrial products was only slightly lower, with important contributions from handicrafts, cotton and silk thread, fabrics and garments.

The composition of imports in 1979 had reflected China's growing interest in upgrading its industrial technology to world standards, as the share of imports for machinery and equipment rose to one quarter; that for consumer goods was held down to less than one fifth, cereals accounting for half of them. In 1980, however, the share of consumer goods increased from 19 to 21 per cent, and that of raw materials for light industry from 17 to 24.3 per cent, reflecting the Government's altered development priorities.

There were no significant shifts in China's terms of trade in 1979.

Table V.8. China. International trade, 1977-1980

(Billion yuan)

	1977	1978	1979	1980
Exports	13.97	16.76	21.17	27.24
Imports (f.o.b.)	12.18	17.19	22.38	26.68
Balance of trade	1.79	-0.43	-1.21	0.56
Balance of trade as percentage of exports	12.9	2.6	5.7	2.1

Source: IMF, *International Financial Statistics*, November 1981.

Although the increase in the price of oil raised over-all export prices by 19 per cent, this was more than offset by a 20 per cent rise in import prices. There was probably an improvement in 1980, as the continued rise of oil prices more than offset increases in import prices.

Rapid expansion of trade after 1977, and an associated change in the composition of imports and exports, affected the direction of trade.

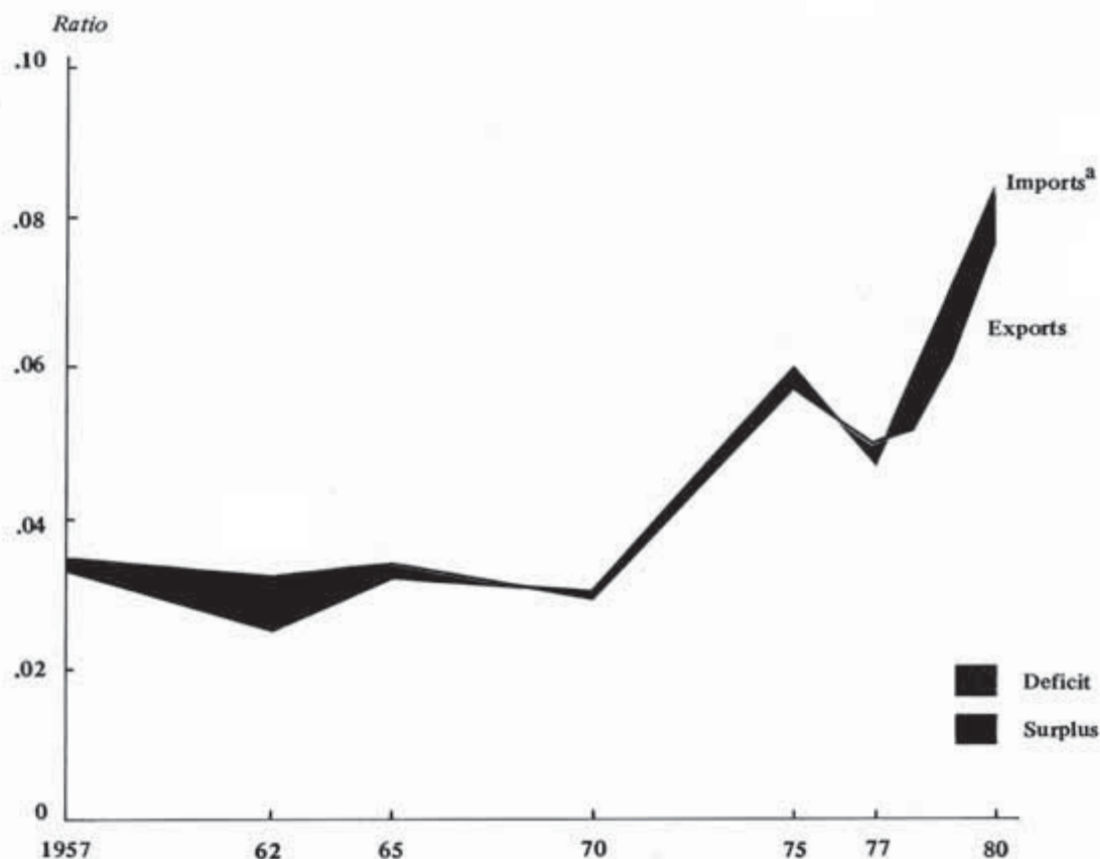
There have been pronounced shifts in the direction of trade since 1977, resulting primarily from the increased use of trade to upgrade industrial technology. The share in total exports of the market economies increased from 83.7 to

Table V.9. China. Composition of international trade, 1977-1980
(Percentage)

	1977	1978	1979	1980
Imports				
Producer goods				
Machinery and equipment	17.7	17.5	25.2	26.5
Raw materials for:				
heavy industry	32.0	38.2	32.9	20.7
light industry	19.6	19.4	17.3	24.3
agriculture	6.8	6.3	5.9	7.3
Consumer goods	23.9	18.6	18.6	21.2
Total	100.0	100.0	100.0	100.0
Exports				
Primary products				
Mineral fuels, lubricants and related raw materials	14.1	13.8	19.5	26.5
Food	24.7	23.8	19.8	30.5
Other	15.8	15.9	14.3	
Industrial products				
Heavy and chemical industry products	11.2	10.4	10.9	10.0
Light industry and textile products	35.2	36.1	35.5	33.0
Total	100.0	100.0	100.0	100.0

Sources: China, State Statistical Bureau and Ministry of Foreign Trade.

Figure V.2. Ratios of exports and imports to net material product, 1957-1980



^a Imports are valued at c.i.f. while elsewhere they are on f.o.b. basis.

86.7 per cent between 1977 and 1979, and within the market economies there were marked changes. From 1977 to 1979, the share of the industrial countries in China's exports increased from 36.9 to 42.3 per cent, and the share of the developing countries declined from 46.8 to 44.4 per cent. The share of Hong Kong in export trade between 1977 and 1980³¹ declined from 25.4 to 23.4 per cent. Between 1977 and 1980, the share in total exports of the United States more than doubled from 2.4 to 5.5 per cent; that of Japan increased from 18.0 to 22.5 per cent; and of the United Kingdom from 0.4 to 3.1 per cent. The share of the centrally planned economies in China's total exports declined from 16.3 per cent to 13.3 per cent between 1977 and 1979.

On the import side, shifts in the composition of trade were

³¹ References to 1980 trade are based on the data for January-September only.

even more pronounced. The share of the market economies in China's imports increased from 84.0 to 86.8 per cent between 1977 and 1979, the share of the industrial countries increased from 66.9 per cent to 72.9 per cent and that of the developing countries declined from 17.1 to 13.9 per cent during the same time period. Strikingly, the share of the United States in total imports increased from 1.6 per cent in 1977 to 18.3 per cent in 1980.

These shifts in the direction of trade have brought about corresponding shifts in trade balances. Between 1977 and 1979, China's balance of trade, with the market and centrally directed economies considered separately, moved from positions of surplus to deficit. Within the market economy group, a net deficit position with the industrial economies increased, and the surplus position with the developing countries remained the same in proportionate terms. As

far as individual countries are concerned, there was a marked shift from a surplus position with the United States in 1977 to a deficit position in 1979.

Unfortunately, there are no official balance of payments data available for China. Receipts from the activities of its merchant fleet and from harbour dues have been increasing rapidly. Tourism has also developed vigorously since the opening of the country to foreigners in 1978. Another contributory factor has been the activities of the People's Bank of China and of Chinese-owned banks abroad. Finally, on the receipts side, remittances from overseas Chinese have been a large and growing item among invisible transactions. On the debt side, there have been rising expenditures as a result of the increased number of Chinese residents travelling or studying in foreign countries.

It appears that China has had a deficit on invisible transactions

Table V.10. China. Direction of trade, 1977-1980
(Percentage)

	Exports			Imports			Trade balance to exports	
	1977	1979	1980 ^a	1977	1979	1980 ^a	1977	1979
Market economies of which:	83.7	86.7	...	84.0	86.8	...	4.7	-14.8
Industrial countries of which:	36.9	42.3	...	66.9	72.9	...	-72.3	-97.8
Australia	1.3	1.1	1.0	7.2	6.3	6.6	-413.3	-531.1
Canada	1.1	1.1	0.8	6.4	4.0	4.6	-475.8	-328.9
Japan	18.0	20.2	22.5	29.2	25.2	24.0	-55.4	-42.7
France	1.9	1.7	1.9	3.9	2.6	1.6	-97.3	-73.6
Federal Republic of Germany	3.5	3.4	4.0	7.3	11.1	7.1	-103.1	-278.8
United Kingdom	0.4	3.5	3.1	3.9	3.2	3.3	-11.4	-4.7
United States	2.4	4.4	5.5	1.6	11.8	18.3	36.2	-212.0
Developing countries and territories of which:	46.8	44.4	...	17.1	13.9	...	65.4	64.2
Hong Kong	25.4	17.0	23.4	1.9	1.4	2.6	92.9	93.6
Indonesia	-	-	-	-	-	0.1	-	-
Malaysia	12.5	1.3	1.0	1.5	1.2	0.9	-11.5	-10.3
Pakistan	0.8	0.9	0.7	0.1	0.2	1.0	86.7	75.2
Philippines	0.8	1.0	1.4	0.5	0.3	0.3	45.4	65.0
Singapore	2.7	2.2	2.0	1.1	0.7	1.1	62.3	64.7
Centrally planned economies of which:	16.3	13.3	...	16.0	13.2	...	6.4	-14.5
Democratic People's Republic of Korea	3.0	2.3	2.5	2.0	2.1	1.7	35.2	-4.2
German Democratic Republic	1.6	1.4	1.0	1.8	1.3	1.7	-8.8	0.2
Romania	3.4	3.6	2.8	3.8	3.9	2.6	-7.3	-23.2
USSR	2.3	1.8	1.1	2.1	1.6	1.2	13.5	-3.4

Source: China, Ministry of Foreign Trade.

^a January-September.

New forms of private foreign investment

In order to speed up its modernization programme, China began, in late 1979, to promote inflows of foreign capital. By the end of 1980, nearly 1,200 industrial agreements had been signed, with capital commitments of \$ 1.4 billion. The agreements cover several new forms of foreign participation: equity joint ventures, contractual joint ventures, compensation trade agreements and processing or assembly contract agreements.

The most common type of foreign involvement in China's industrial activities is the processing or assembly contract arrangement. Under it, China receives a fee for processing or assembling imported inputs supplied by the foreign contractor. This involves short-term capital flows, but not equity investment. Four special economic zones (SEZ) have been set up near the borders with Hong Kong and Macau to accommodate enterprises working under these contracts. Three (Shenzhen, Zhuhai and Shantou) are in Guangdong Province, and the fourth (Xiamen) is in Fujian Province. In addition, within Shenzhen SEZ, is the Shekou Industrial Area, set up in mid-1979 (before Shenzhen SEZ) and managed by China Merchants' Steam Navigation on a 25-year lease. The company is a Chinese enterprise, established and based in Hong Kong over a hundred years ago to attract foreign investment and promote trade. Shekou currently has 17 foreign investment projects with a combined capital of \$ 95.2 million. By the end of 1980, nearly 6,400 orders for processing and assembly work, valued at \$ 990 million, had been entered in Guangdong's SEZs. Outputs were produced with imported equipment costing \$ 67 million. The bulk of these contracts are with Hong Kong and Macau (70 per cent) and Japan (20 per cent). A total of 470 export processing agreements, with capital commitments of \$ 380 million, had been entered into in the SEZs by the end of 1980.

The second most common form of foreign investment is the compensation trade agreement, by which the foreign partner supplies equipment and technical assistance and is repaid with part of the annual output. The Chinese partner retains 100 per cent ownership and control. By the end of

1980, a total of 362 agreements, involving \$ 254 million capital, had been signed. Most projects are again undertaken with Hong Kong and Macau (60 per cent) and Japan (35 per cent).

The most common type of foreign participation, in terms of capital commitments, is the contractual joint venture, in the form of either co-operative production or joint operation. Under the co-operative production agreement, the foreign partner provides technical assistance and capital equipment, has no equity share, and is repaid with a specified amount of output. The enterprise initially undertakes production at the later stages of the manufacturing process, importing most raw materials, and gradually extends its activities backwards until the whole product is made from local inputs. One of the major co-operative production projects is the manufacture of toys, and another is in petro-chemicals. Joint operation projects are a variation of the co-operative production arrangement, whereby the foreign partner supplies the equipment and the Chinese counterpart manages the enterprise. Profits are divided, but not necessarily in proportion to equity shares, and the foreign capital is repaid within ten years.

In mid-1981, there were 58 equity joint ventures, of which 22 had operations in China. (The remaining 36, with capital commitments of \$ 83 million, were mostly trading corporations located abroad and handling Chinese products.) The partners share equity and management. The capital committed in the 22 projects totalled \$ 217 million, of which 83 per cent was foreign capital. Most projects are in tourism and light or handicraft industries. A majority of the foreign partners are overseas Chinese. One joint venture, considered to be an exemplary case of co-operation with foreign industrialists, is an elevator company in which China holds 75 per cent of the equity; 20-30 per cent of the output is exported.

Yet another new form of industrial arrangement with foreign corporations is exemplified by an agreement recently concluded with an American company to work as partner in the manufacture of eight product groups,

ranging from diesel engines to road-building machines and buses. The American company will supply the technology, via a third partner, distribute the products, and also provide foreign finance if that is necessary. Two other such agreements have been signed, involving railway undercarriages and aircraft parts and frames. In effect, these are trilateral arrangements whereby China has charge of the manufacturing process, and technology is transferred from a western enterprise, identified by the American partner, who takes care of marketing.

Preliminary evaluation of these various schemes of foreign investment indicates that most of the foreign participation is from overseas Chinese. Few large multinationals, which could effect significant transfers of technology, have been attracted to China. China is thus considering how to improve incentives for foreign investment, and to give greater protection to foreign interests. For instance, rules liberalizing industrial activities in the SEZs may be enacted and would probably allow foreign investors duty-free imports of raw materials, reduce by 50 per cent current taxes on cigarettes and liquor, lower the rate of tax on profits, or grant longer tax holidays. Administrative procedures would be simplified, multi-entry visas would be issued, and foreign currencies might be permitted for special transactions, although the renminbi would remain the dominant currency. China-affiliated banks in Hong Kong and Macau would be permitted to establish branches, and the SEZs would probably be given full autonomy to conduct foreign trade. In addition, foreigners might be permitted to invest also in commercial enterprises. Foreign employers could also be given the right to dismiss workers, and there are plans to alleviate labour shortages by bringing skilled workers from other regions to the SEZs. There are discussions, too, about making Shenzhen an arbitration centre for settling disputes between local and foreign industrialists.

Uncertainty over China's treatment of foreign earnings was reduced, in late 1981, by the adoption of an income tax law for foreign companies,

(Continued overleaf)

designed generally to attract more foreign investment. Though the law imposes an unexpectedly high maximum tax rate of 40 per cent, together with a 10 per cent local tax, the effective rates would be much lower with tax exemptions. Reduced tax payments were also provided for firms investing in industries with low profit ratios but designated as operating in priority fields. Moreover, some companies would be able to write off their tax payments against home government tax credits, a provision that has been seen as paving the way for American oil companies to participate in offshore oil exploration. Others could set up representative offices which would then be taxed at the lower rate of 20 per cent, establish joint ventures, or locate in SEZs to qualify for an even lower 15 per cent rate.

in recent years and that this, together with the balance of merchandise trade, resulted in current account deficits of increasing magnitude from 1978 to 1980. The deficit in 1980 was probably around \$ 1,200 million, or about 6.6 per cent of export receipts in that year. The balance on invisible transactions appears to be determined by rapidly increasing expenditures on freight and insurance for imports, offset partly by increases in service income from shipping, tourism, bank interest and charges, and remittances from overseas Chinese.

Fragmentary information suggests that, although China has exercised caution as a long-term borrower, it has made active use of short-term facilities provided by the People's Bank of China abroad and by Chinese banks in Hong Kong. There were modest short-term borrowings in 1978, and more extensive borrowings in 1979 and 1980 to finance the growing current-account deficit in those years and to finance repayments. In recent years, there have also been marked changes in the use of long-

term capital. As usual, in 1977 and 1978 there were net long-term capital outflows to finance foreign assistance abroad but in 1979, for the first time, there were net long-term borrowings. These were \$ 2.5 billion, of which \$ 1.3 billion was Eurocurrency borrowings and the balance mostly funding under compensation agreements. Long-term borrowings in 1980 were around \$ 2.0 billion, with the share of Eurocurrency loans falling markedly. Of particular note, however, has been an increased recourse to long-term borrowing in 1981 for sustaining growth and maintaining external financial equilibrium. In 1981, foreign borrowings reached a record level of 8.0 billion yuan, which is approximately equivalent to \$ 5.3 billion.

From IMF China withdrew SDR 218 million from its reserve tranche in late 1980. Then in early 1981, it took out the balance of SDR 150 million, in addition to using the SDR 450 million standby credit facility and borrowing SDR 309.5 million from the Trust Fund.

There are not much data available concerning China's external debt. Given that there was no long-term borrowing before 1979, and that repayments to date have probably been small, the gross inflow of long-term capital of about \$ 12.5 billion is a rough measure of such debt outstanding at the end of 1981. This would be equivalent to around 60 per cent of exports in 1981 (assuming an export growth rate of 15 per cent for that year), and is roughly double a similar estimate for 1980. The debt service ratio, of course, would be only a small fraction of this figure.

The international reserve position appeared sound, the ratio of reserves to imports being 0.5 in mid-1981. Total reserves (foreign exchange holdings, SDRs, and gold at national valuation) increased from \$ 2,141 million in 1978, to

\$ 3,116 million in 1980, before rising to \$ 4,337 million in the second quarter of 1981 as foreign currency was accumulated in order to liquidate trade debts.³² Gold holdings have remained constant since 1979 at 12.8 million ounces. The official foreign exchange rate has fluctuated only mildly, moving from 1.5550 yuan per \$ in 1979 to 1.5487 as of January 1981, followed by a decline to 1.7605 in June 1981.³³

E. PUBLIC FINANCE AND MONEY

In China, the public sector is made up of local, provincial and central governments and numerous State-owned enterprises. The State budget consolidates the budgets of the public sector, and approval by the central Government of all budgets included within the State budget is mandatory. At the ministerial level, the budget of each ministry incorporates those of all departments and other entities under its jurisdiction.

Until 1979, China generally maintained budgets which were close to balancing. In that year, however, and in 1980, there were considerable deficits. A surplus of about 1 billion yuan in 1978 was followed in 1979 by an unplanned deficit of 17 billion yuan. In 1980, the Government planned to run an 8 billion yuan deficit, but it incurred an actual deficit of 12.8 billion yuan. These two deficits were equal to approximately 5 and 3 per cent of GDP. Concern about this situation led the Government, in its revised 1981 plan, to take steps to balance the State budget at around

³² IMF, *International Financial Statistics*, November 1981.

³³ For domestic enterprises using accumulated profits on deposit with the Bank of China for import purposes, however, the official exchange rate in late 1981 was 2.8 yuan per \$, with the rate rising as high as 3.2 yuan on the open market.

106 billion yuan and, towards the close of the year, it appeared that this objective would come close to being met.

The 1980 budget deficit was partly the result of a variety of policy measures affecting both revenues and expenditures. On the revenue side, profit remittances from State enterprises were reduced because of policies which generally raised wage levels. Revenue was also affected by the relatively slower pace of the economy's development in 1979 and 1980, and by the profit retention scheme making for greater financial autonomy at local and enterprise levels. These conditions, which are policy induced, are likely to continue and emphasize the importance of improving the system of tax collection if budgets are to be balanced. On the expenditure side, the deficit was affected by tax-relief programmes to aid poverty-stricken areas and by increased procurement prices for agricultural products. The gross deficit of 13.8 billion yuan in 1980 was financed by a 12.8 billion yuan overdraft from the People's Bank of China, and by 1.0 billion yuan of foreign borrowing (net of repayments).

Concerned about the appearance of inflation, and the substantial budget deficits of 1979 and 1980, the Government, in early February 1981,³⁴ announced a revised budget which reduced overall expenditure from 120.5 billion yuan to 105.5 billion yuan. Most of the reduction was in expenditures on capital construction, which were to be reduced from 55 billion yuan to 30 billion yuan.

More recently, a revised final budget for 1981 was announced.³⁵ There was to be a small deficit of

2.7 billion yuan, and expenditure on capital construction was increased from 30 to 38 billion yuan. Increased expenditure was to be matched by 8 billion yuan of foreign borrowing. In addition, the announcement indicated that reductions of military expenditures had been much greater than was originally contemplated. Current indications are that these budget targets will be realized. Of particular note in the 1981 budget has been the use for the first time of open market operations to finance the budget. Domestic bond sales were 4.9 billion yuan.

Paradoxically, China's harvest in 1981, which appears to be equal to the record harvest in 1979, has created problems for the State budget. The increase in procurement prices for farm products in 1979 has meant that when the volume of grain production increases, the State is bound to buy whatever the peasants wish to

sell, including the paying of a premium for above-quota production. When the grain is resold, however, it is at a subsidized price, to minimize increases in the cost of living. At the recently concluded National People's Congress, it was disclosed that government price subsidies for 28 items are expected to reach the equivalent of 32 billion yuan compared with 20.8 billion yuan in 1980, 14.6 billion yuan in 1979 and 7.8 billion yuan in 1978. This uncontrolled growth of subsidies has limited expenditure options in other areas.

While the State budget deficit in 1981 has been reduced to less than one quarter of the size of the previous year's deficit by a reduction in spending, if further small budget deficits are to be attained, consideration will need be given to either reducing the range of products to be subsidized, raising production targets so that farmers will find it more difficult to pro-

Table V.11. China. State budget, 1978-1981
(Billion yuan)

	1978	1979	1980	1981
Revenue	112.1	110.3	108.5	105.9
Domestic	111.9	106.8	105.3	97.9
Taxes	51.9	53.8	54.5	60.9
State enterprise profits	60.0	52.9	48.2	34.7
Other	0.0	0.0	2.6	2.3
Foreign loans	0.2	3.5	3.2	8.0
Expenditures	111.1	127.4	121.3	108.6
Capital construction	45.2	51.5	53.9	38.0
Agricultural support	7.7	9.0	7.7	8.4 ^a
Education, culture, health and services	13.6	14.6	15.6	17.0
Defence ^b	16.8	22.3	19.4	16.9
Other	27.8	30.0	24.7	28.3
Surplus/deficit				
Official (net of foreign loans)	1.0	-17.0	-12.8	-2.7
Gross (foreign loans as financing item)	0.8	-20.5	-13.8	-9.7
Financing (minus indicates credit)				
Domestic bank deposits drawn	-1.0	8.0	0.0	-2.2
Domestic bank overdrafts	0.0	9.0	12.8	0.0
Domestic bond sales	0.0	0.0	0.0	4.9
Foreign loans (net) ^c	0.2	3.5	1.0	7.0

Sources: For 1978-1979, from China, Ministry of Finance and *Beijing Review*, No. 32, 1981. For 1980-1981, from Report of Minister of Finance at fourth session, Fifth National People's Congress, 1 December, quoted in *Far Eastern Economic Review*, 11 December 1981.

^a Includes drought and flood payments of 1.1 billion yuan.

^b Not including most weapon procurement.

^c Includes loans from and repayments to the Bank of China.

³⁴ Announcement at National People's Congress Standing Committee in February 1981.

³⁵ Final budget announced at fourth session, Fifth National People's Congress, 1 December 1981.

duce above quota, or setting ceilings on subsidies.

At the same time the State budget has also been affected on the revenue side. Historically, the largest share of revenue has been derived from enterprise profits and these have recently declined, among other reasons, because enterprises have been required to pay the increased prices for agricultural raw materials, but have not been permitted to pass these higher costs along in terms of increased output prices. As a result, enterprise profits fell by 8 per cent in 1980, contributing to the 4 per cent decline in total State budget revenue. Six months' figures for 1981 indicate enterprise profits will fall by a further 12.3 per cent over the same time period in 1980.

On the expenditure side, capital construction increased to 44 per cent of total expenditure in 1980, but in 1981 this share was expected to fall significantly as a result of the cancellation of a large number of industrial projects in 1980. Industry has been the largest recipient of State expenditures on capital construction, with a share of over 60 per cent in both 1977 and 1978, and of 58 per cent in 1979.

Local governments collected about 85 per cent of the total revenues for the State budget in the late 1970s, but disbursed only about 50 per cent of its expenditures. In line with the State's distribution principles, less-developed and poorer provinces contributed a smaller share of their revenue to the State budget than richer and industrialized provinces. Negative contributions were allocated to the poorest provinces. Not only does the central Government control the levels of provincial expenditures, it also restricts their composition. Even during recent periods of decentralization, local governments have had only limited discretionary power over their expenditures. The central Government has yet to find a means of providing incentives for better local utilization of funds while retaining sufficient control to ensure co-ordination between individual spending units and State policy.

Unlike market economies, China has had a neutral monetary policy in the sense that its financial policies are designed to accommodate production sectors, rather than to exercise a primary influence on

the level of economic activity. The major function of monetary policy has been to supply an amount of liquidity consistent with planned objectives and stable prices. Emphasis has been on controlling the amount of currency in circulation rather than the supply of money, as conventionally defined, or the structure of interest rates.

The banking system is dominated by the People's Bank of China, which acts as the focal point for collecting and disbursing budgetary funds, receives deposits at interest from individuals and institutions, and makes loans to trading and producing organizations to augment their budgetary allocations.

Although centralized control and monitoring of financial transactions is a key element in economic management, there are flows of money which are not directly controlled. These include flows from the household sector; surcharges, levied by counties, which are not surrendered to the central authorities; and some funds retained by State enterprises for their own use, such as depreciation and welfare funds and a small proportion of the profits of State enterprises (on average 10 per cent).

Total loans extended by the banking system at the end of 1980 were 242 billion yuan, an increase of 18.4 per cent over 1979. This rise was far in excess of increases of 11.2 and 10.3 per cent in 1978 and 1979. Loans to commerce accounted for 60 per cent of the total, those to industry for 33 per cent, and those to agriculture for 7 per cent; the proportions were fairly constant between 1977 and 1980.

Commercial enterprises rely more on loan facilities than do industrial enterprises; loans finance most of their working capital but, because there are only short time lapses between obtaining and

Table V.12. China. Loans, credit to Government, deposits and currency in circulation, 1977-1980

(Billion yuan, end of period)

	1977	1978	1979	1980 ^a
Total loans	166.3	185.0	204.0	241.5
Industry	56.8	61.7	67.1	80.2
Commerce	99.7	111.8	123.2	143.7
Agriculture	9.8	11.5	13.7	17.6
Gross credit to Government	0.0	0.0	9.0	19.0
Total deposits	106.4	113.4	134.0	165.9
State ^b	40.1	45.7	46.5	56.3
Enterprises	38.5	36.8	46.9	57.3
Individuals ^c	27.8	30.9	40.6	52.3
Currency in circulation	19.5	21.2	26.8	34.6

Source: China, the People's Bank of China.

^a *Beijing Review*, 20 July 1981, p. 21.

^b Budget surpluses, budgetary appropriations for investment by enterprises, deposits of government organizations.

^c Private savings deposits.

selling supplies, these loans are of considerably shorter maturity than are those to the industrial sector. Approximately 60 per cent of industrial loans went to heavy industry, but this proportion can be expected to decrease in keeping with restructuring priorities. Similarly, although the share of agriculture in total loans in 1980 remained about the same, this share should increase in future because of the higher priority given to the agricultural sector.

Credit extended to the Government has an important influence on liquidity in China. In 1977 and 1978, the State budget was in surplus but part of the budget deficits of 1979 and 1980 were financed by loans from the People's Bank of China. In 1979, 9.0 billion yuan of the 17.0 billion yuan deficit was financed by loans and, in 1980, it appeared that the 12.8 billion yuan deficit was financed in this manner.

The capacity of the central bank to lend depends on its role in mobilizing the idle funds of Government and individuals. At the end of 1980, total deposits with the bank were 165.9 billion yuan, of which public deposits accounted for approximately 68 per cent.

Because the People's Bank of China controls the majority of financial transactions other than private ones, measures for controlling liquidity are different from those used in market economies. The main instrument is extensive control over currency. All State enterprises and institutions are permitted to have on hand only a limited amount of cash for working purposes. State enterprises cannot normally extend credit; transactions other than those involving wages and purchases of consumer goods are overwhelmingly financed by bank transfers; and the two most important infusions of cash into the economy – wage payments and State purchases of farm products – are determined by setting

Table V.13. China. Growth of monetary aggregates, 1978-1980
(Percentage change)

	1978	1979	1980 ^a
Currency in circulation (outside banks)	8.7	26.4	29.3
Currency in circulation plus deposits of individuals	10.2	29.3	29.0
Total loans	11.2	10.2	18.4
Industry	8.6	8.7	19.5
Commerce	12.1	10.2	16.6
Agriculture	17.3	19.1	28.6
Total credit ^b	11.2	16.3	26.1
Total deposits	6.6	18.2	23.8
State	14.0	1.8	21.1
Enterprises	-14.4	27.4	22.2
Individuals	11.2	31.4	28.7

Source: China, the People's Bank of China.

^a *Beijing Review*, 20 July 1981, p. 21.

^b Defined as total loans plus overdraft from the People's Bank of China to the Ministry of Finance.

wage rates and procurement prices. The savings of individuals can be affected by manipulating interest rates which, although low, have been real. Finally, currency can be recovered by sales from the inventories of State enterprises, by receipts from the provision of public goods and services, by tax receipts and, very recently, by open market operations.

In controlling the amount of currency in circulation, the normal target appears to be to achieve a rate of growth of currency in circulation slightly less than the rate of growth for gross industrial and agricultural output. By this criterion, 1979 and 1980 were years in which the currency in circulation was excessive. Adding currency in circulation to the bank deposits of individuals gives similar results. In 1978 and 1979, currency in circulation and the deposits of individuals expanded much more rapidly than did gross industrial and agricultural output.

Strong influences on the growth in currency in circulation, in 1980, were the excess of actual over planned investment, resulting

in part from bank loans and, in part, from the rise in both procurement prices and nominal wages. The latter were also a major determinant of a 29 per cent increase in savings deposits during 1979 and 1980.

One important aspect of the control of currency is that it makes also for an effective monitoring of the implementation of the financial part of the national plan, by limiting transactions which are inconsistent with it.

The role of interest rate policy in this monetary environment is to guide the savings habits of the community and, more recently and increasingly, to encourage enterprises to use capital efficiently and to adopt efficient management of inventories and work in progress.

The People's Bank of China has recently announced increases in interest rates and expanded services in accordance with the Government's over-all policies for economic reform. Interest rates on fixed-term deposits and on loans are to be increased by 1 April 1982. The increase in the deposit rates

is of approximately 15 per cent, depending upon the term of the deposit. The increase in rates, at slightly more favourable terms, is also available to overseas Chinese who place their savings on fixed-term deposit with the bank in yuan. Loan rates to industry, commerce and agriculture and to individual peasants are also to be increased. The interest rate increases are intended to encourage accumulation and the more efficient use of funds and to decrease the amount of cash in circulation. The bank will also, for the first time, permit its industrial plants to hold fixed-term deposits and, in their case, is prepared to offer a wider choice of rates and of time periods.

F. PRICES, WAGES AND INCOMES

In China, there are two general categories of prices: those fixed by the State, normally on the basis of production costs plus profits; and those set by the producing entity or by negotiation between vendor and purchaser. Although recent reforms have increased the importance of the second category, which

more closely approximates market conditions, the price structure in China remains predominantly controlled. Commodities whose prices are controlled by the State include railroad, transportation, coal, basic chemical materials, steel, iron ore, grain, edible oils, cotton and cotton cloth, and comprise around 70 per cent of the total value of all goods produced.

The influence of the State on price determination is particularly strong in the industrial sector although recent reforms, which emphasize profits as the key target for enterprises, have encouraged price consciousness on the part of enterprise managers in selecting combinations of productive factors and techniques. Prices in the industrial sectors are fixed at the ex-factory, wholesale and retail levels and are generally high in relation to production costs to facilitate revenue collection by ensuring high profits for transfer to the central budget. Shifts in the pricing structure are intended to guide particular enterprises or industries, to generally clear markets, or to promote distributional objectives. In markets not intended to be cleared by price setting, as in the

case of essential commodities such as grain, edible oil, kerosene, fish, eggs, sugar, soap, wrist-watches, sewing machines, cotton and cotton cloth, commodities are rationed. In other markets, prices are set with a view to clearing markets. Sometimes, when this does not occur, the usual phenomena appear: deviations from the official price, queuing, stockpiling, longer waiting times, non-fulfilment of plan targets, and larger than usual increases of money in circulation.

The role of the market in determining prices is more important in the agricultural than the industrial sector. Because of difficulties in calculating costs of production, the procurement price of grain has been set on the basis of past prices and prices of other cash crops have been adjusted to it. Prices for goods produced in excess of quotas are generally higher than procurement prices. Finally, there is the rapidly growing private market in village fairs for goods produced on private plots.

In China, there are several major price indexes, the most important indicators of general price movements being the cost of living index and the index of

Table V.14. China. Prices, 1978-1980
(Percentage change)

	Cost of living ^a (1)	Retail prices ^b (2)	State commercial prices (3)	Rural fair prices (4)	Services (5)	State purchase prices for agricultural products (6)	Ratio of exchange of all industrial products for agricultural products (7)
1978	-2.9	-2.6	0.2	-32.3	-0.4	3.9	-3.8
1979	1.7	1.9	1.5	-4.5	0.4	22.1	-18.6
1980 ^c	7.5 ^d	6.0	5.0	2.6	0.6	...	...

Source: China, State Statistical Bureau.

^a A weighted average of the retail price index for State-owned commercial enterprises (column 3) and the price index for service trade (column 5). The respective weights are 90 per cent and 10 per cent.

^b A weighted average of the retail price index for State-owned enterprises (column 3) and the index of rural fair prices (column 4).

^c Through end September.

^d "Communiqué . . .", *op. cit.*

State purchase prices for agricultural products.

Prices in China from 1950 to 1979 were very stable. The cost-of-living index increased during this period at an average annual rate of around 1 per cent. In 1980, however, the cost-of-living index and the retail price index rose by 8 per cent and 6 per cent respectively, which, although modest by international standards, was socially disruptive in China. The rise in the cost-of-living index was a result partly of the raising of the procurement prices of agricultural products; partly of the increase in administered prices by up to 40 per cent, and of increases in the cost of eight major foods (vegetables, eggs, poultry, aquatic products, milk, mutton, beef and pork); and partly a result of the larger amount of currency in circulation already discussed.

It is probable that these official figures understate the degree of inflation because there have been unauthorized increases in administered prices, which prompted the authorities to strengthen price controls in December 1980. Among other things, the measures aimed at stricter controls over credit and currency in circulation, and at a general tightening of the administration of price controls.

There are two other observations to be made about recent

price movements. First, the steady historical improvement in the rural/urban terms of trade has been greatly accelerated by the increase in procurement prices noted above, as well as by reduced prices for farm inputs, including insecticides, farm machinery and chemical fertilizers. Since 1950, agricultural prices have increased about twice as rapidly as industrial prices and, from 1977 to 1979, the rural/urban terms of trade improved by over 21 per cent.

Secondly, the steep fall in rural fair prices during 1977-1979 probably reflects the increased quantities of goods sold from private plots in these competitive markets.

In China, over-all basic wages are determined by government decisions about the size of the total wage fund. There are two categories of wages — one for factory workers and the other for professionals — and, in addition to basic wages, there are bonuses, fringe benefits or subsidies.

During the Cultural Revolution, wages stagnated and it has been government policy since 1977 to increase them so as to stimulate production and to increase the share of consumption in total output. Between 1977 and 1979, wages in State-owned and collective enterprises increased by about 15 per cent. The effect of the decision

made in 1979, to increase further the wages of these workers, had an impact on wages in 1980, when the increase probably exceeded 13 per cent. These increases in nominal wages were still very substantial in real terms, given inflation rates.

Rural incomes in China are derived from collective income, distributed to commune members on a workpoint basis, and from produce raised on private plots of land. In 1979, the latter accounted for 27 per cent of rural income and its share is increasing rapidly. At the same time, rural incomes have also grown rapidly; between 1977 and 1979, the average per capita collective income of commune workers increased by around 13 per cent. Total annual average per capita income in rural areas was about 160 yuan in 1979. This was well below the average annual per capita income in the cities which, in 1979, was 336 yuan. The gap is due to increasing differences in capital/labour ratios in rural and urban areas. Rural/urban income differentials manifest themselves also in regional income differentials. In 1979, average national per capita GNP was \$ 256; it exceeded \$ 1,000 in Shanghai and was less than \$ 200 in Sichuan.³⁶

³⁶ *Xinhua News*, Beijing, 6 September 1980.

VI. SOUTH PACIFIC ISLAND COUNTRIES

Pacific island countries had come into economic difficulties during 1980. World prices fell for their major export commodities with the exception of sugar and, in that year, bad weather severely damaged the sugar crop upon which Fiji depends very heavily for its export receipts. There was some recovery in Fiji during 1981 due to increases of production, and in Papua New Guinea due to bigger outputs from the Bougainville mine and investment activities connected with the new Ok Tedi mine. Commodity prices continued to fall to the detriment of export receipts in all Pacific island countries, and Kiribati suffered a big loss with the exhaustion of the phosphate deposit on Banaba island. Higher prices for oil and other imports added to difficulties over balances of payments, as did the stimulus to imports of consumer goods from high rates of inflation. Samoa, despite a previous large devaluation, lost its free reserves of foreign exchange, and Solomon Islands had to devalue its currency. Except in Fiji and Papua New Guinea, inflation was associated with the financing of budgetary deficits and ranged, during 1980, from 11 per cent in Papua New Guinea to 23-30 per cent in Samoa and Tonga. Inflation moderated in 1981 in Fiji, Papua New Guinea, Samoa and Tonga, but accelerated in Cook Islands, Solomon Islands and Vanuatu. Conditions for the smaller island economies have deteriorated, and Samoa has appealed for aid to the United Nations Conference on Least Developed Countries, although some other island countries have no better economic prospects.

A. OPEN AND VULNERABLE ECONOMIES

The 13 island countries and territories of the South Pacific which are members or associate members of ESCAP are more vulnerable to external economic conditions than most other developing countries within the region. For their economies are very small and open, they have almost no manufacturing activities except in Fiji and Papua New Guinea, which do not have much, and they are not self-sufficient, on present standards of living, even in food. They have, moreover, the handicap of long distances separating them from one another and, more important, from their principal markets for both exports and imports. Lacking fossil fuels, they are extremely dependent on petroleum imports for their supplies of commercial energy.

Papua New Guinea, much the

largest Pacific island nation, has abundant forests and a large hydro-power potential, a big copper mine and another one being developed, some other minerals which have yet to be properly exploited, and a few light industries which employ less than 2 per cent of an economically active population numbering about 1.3 million. Yet, on the whole, it is a traditional economy with most of its people working on subsistence farms or cultivating, as smallholders, coffee, cocoa, coconuts and a few minor cash crops like tea, rubber and palm oil.

Fiji has a population of 630,000, about one fifth of Papua New Guinea's total. It is considerably more developed, as manufacturing contributed 12 per cent to its GDP in 1980, but a single agricultural commodity, sugar, accounts for over half its exports or about a third of its GDP. Coconut products are the next most

important category of exports.

Solomon Islands and Vanuatu occupy high islands that are densely forested and well watered. They are more dependent on subsistence farming than Papua New Guinea. About 90 per cent of Solomon Islands' population of 230,000 depends on subsistence agriculture and fishing. Copra contributes about one quarter of exports, and three fifths of it comes from smallholders. Fishing, mainly commercial, contributes nearly another quarter to exports, as does timber. Vanuatu has about half the population of Solomon Islands, and most of its people live by subsistence farming. But there are considerable plantations producing copra, beef and small quantities of cocoa and coffee. Copra, fish and timber are the main exports.

Kiribati and Tuvalu have very small populations of 60,000 and 8,000, respectively, scattered over many atolls. Kiribati used to

derive most of its export income from the phosphate deposits on Banaba (formerly Ocean) Island, but these have been exhausted so that copra is now the main export, supplemented by a little fish. Tuvalu depends wholly on copra for export receipts, and its people are almost all subsistence farmers and fishermen. Nauru's sole basic resource is its rich deposit of guano, which is expected to last

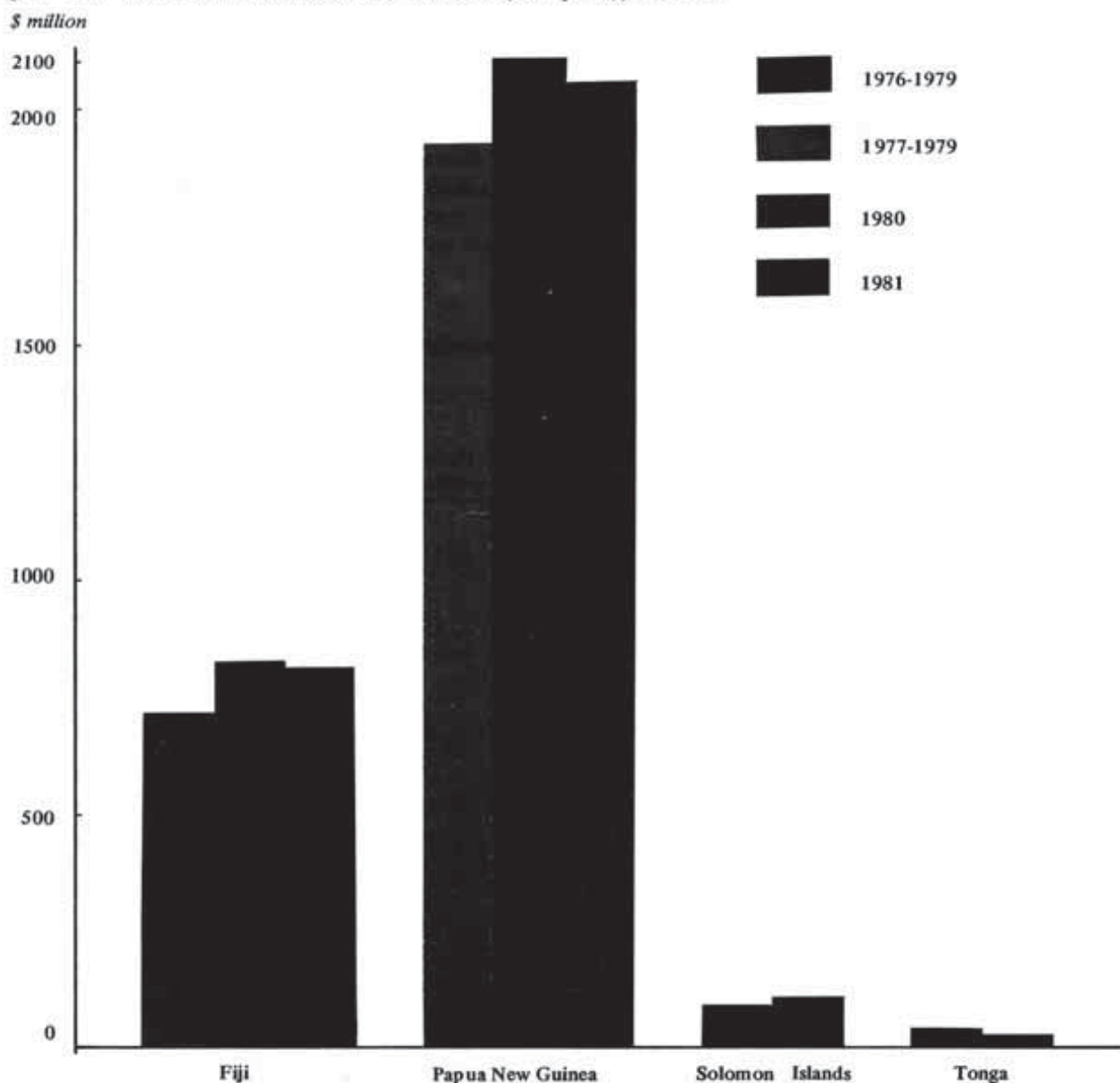
until 1995, but income from that has enabled it to have an extensive welfare system for a population of only 7,300, to buy real estate in Australia, and to acquire both a shipping line and an airline.

Tonga, with 100,000 people, and Samoa, with 160,000, both depend largely on subsistence farming, with coconut products, bananas and tropical root crops as major exports. Samoa also has

government plantations which grow cocoa for export. Neither has more than 11 per cent of its workforce engaged in any form of manufacturing or construction, and both have had considerable migration of labour to New Zealand or Australia.

These island countries are exceptionally dependent on exports as, over 1978-1980, the proportion of domestic exports to GDP was about one half in Kiribati and

Figure VI.1. South Pacific island countries. Real GDP (1977 prices), 1976-1981



Solomon Islands, around two fifths in Papua New Guinea, about one quarter in Fiji and about one sixth in Samoa and Tonga. Some are even more dependent on imports, as the ratio of import payments to GDP was 35 per cent in Papua New Guinea, 44 per cent in Kiribati and Solomon Islands, 52 per cent in Fiji, 65 per cent in Tonga and 75 per cent in Samoa. In Fiji, Samoa and Tonga receipts from tourist covered a considerable part of the trade gap, but they, and other countries with large import surpluses, also depended heavily on official aid flows.

Nevertheless, these countries appear to be within the World Bank's category of middle-income developing countries with per capita GDP, in 1979, exceeding \$ 370. Fiji led with \$ 1,518, fol-

lowed by Papua New Guinea with \$ 752. There are estimates for only six other Pacific island countries: Kiribati with \$ 650, Samoa with \$ 595, Solomon Islands with \$ 589, Tonga with \$ 461, Tuvalu with \$ 409 and Vanuatu with \$ 590. Papua New Guinea's average income would be somewhat inflated by the very much higher incomes of the relatively small number of ex-patriates residing in the country; and Kiribati's average income would have dropped sharply with the exhaustion of phosphate deposits on Banaba Island. Kiribati's average income, moreover, and those of Samoa, Tonga and Tuvalu include a substantial contribution from remittances sent by workers in other countries. Samoa, too, has sought special United Nations

assistance as a "least developed" country, criteria for which include, besides poverty, heavy dependence on subsistence agriculture, little industry, very low rates of economic growth and poor development of exports. Other island countries could also be put into this category.

B. EMPLOYMENT AND OUTPUT

Demographic statistics for Pacific island countries have serious imperfections, but it would seem that population has recently been growing by over 3 per cent a year in Solomon Islands and Vanuatu, by around 2 per cent a year in Fiji, Kiribati and Papua New Guinea, but by only about 1 per cent in Samoa and Tonga.

Table VI.1. South Pacific island countries. Distribution of non-agricultural sector employment, 1976-1980
(Percentage)

	Mining	Manufacturing and utilities	Building and construction	Transport etc.	Trade etc.	Finance and other business services	Government, community and personal services	Others	Total (thousand)
Cook Islands									
March 1979	0.4	16.3	8.1	14.6	19.7	1.8	39.2	...	2.8
Fiji									
1976-1979	1.5	22.1	12.0	10.6	17.4	5.7	30.2	...	70.7
September 1980	1.2	21.5	11.7	10.3	17.8	5.7	31.8	...	76.8
Papua New Guinea									
June 1976	4.3	10.9	7.1	7.9	-----	22.3	45.3	...	167.4
Samoa									
1976	—	7.9	12.2	13.8	16.2	2.2	47.7	...	14.9
Solomon Islands									
1976-1979	0.2	14.4	11.5	11.0	14.3	1.4	45.4	...	12.9
Tonga									
1976	...	7.1	...	...	...	...	29.7	63.2	9.6
1980	...	10.4	...	...	...	...	28.7	61.0	11.6
Vanuatu									
1976	...	3.8	6.3	5.0	18.8	3.8	50.0	12.5	8.4

Sources: Official national sources.

A reason for the low growth rate in these last two countries is that many of their people have gone abroad to work, mostly in Australia or New Zealand, and such migration has also pulled down Fiji's rate of population growth. Natural rates of increase have been recorded as 2.4 per cent in Fiji and, less certainly, as 2 per cent or less in the other countries mentioned here.

Employment statistics are not much better. Their chief defect is in regard to subsistence agriculture, which wholly or substantially absorbs much the greater part of the economically active population. Some subsistence farmers grow cash crops or engage in casual labour or marketing activities; demarcating them from purely subsistence farmers is not easy, and lines are not drawn uniformly by different countries. Table VI.1, therefore, for

the distribution of sector employment, excludes agriculture and so, regrettably, gives only a partial view of employment in such Pacific island countries as have relevant statistics. An indication of its partialness, and an indirect one of the subsistence sector's importance, is the proportion of non-agricultural labour to the total population. This was about 6 per cent in Papua New Guinea and Solomon Islands, and 9-14 per cent in the other island countries.

Industrial activities are little developed outside Fiji. There, manufacturing provides more than a fifth of non-agricultural employment, but in the other countries 4-14 per cent, except in Cook Islands where canning activities raised it to 16 per cent of a very small non-agricultural labour force. Mining absorbs over 4 per cent in Papua New Guinea only because of

a single great mine at Bougainville producing copper and gold. Fiji has some gold, too, but the mines there absorb little more than 1 per cent of the non-agricultural labour force. The proportion for building and construction is more uniform, ranging from 6-7 per cent in Papua New Guinea and Vanuatu to 12 per cent in Fiji.

Most of the non-agricultural employment in Pacific island countries is provided within the services sector, and more especially by the Government. Proportions range from 5 to 14 per cent for transport and communications, from 14 to 20 per cent for trade, hotels and restaurants, from 2 to 6 per cent for finance and other business services, and from 30 to 50 per cent for government and personal services.

National account statistics also have their defects in these island

Table VI.2. South Pacific island countries. Sector contributions to real GDP, 1976-1981
(Percentage)

		<i>Agriculture etc.</i>	<i>Mining</i>	<i>Manufacturing and utilities</i>	<i>Building and construction</i>	<i>Transport etc.</i>	<i>Trade etc.</i>	<i>Finance and other business services</i>	<i>Government, community and personal services</i>
Cook Islands									
(MP, CY)	1976-1977	16.3	—	5.5	3.5	8.6	19.4	15.9	30.9
Fiji									
(FC at 1977 prices CY)	1977-1979	21.9	—	12.7	7.5	9.3	18.2	10.4	20.0
	1980 (prov.)	21.2	—	12.7	6.7	9.2	20.7	10.2	19.4
	1981 (est.)	21.6	—	12.9	6.5	9.2	20.1	9.9	19.8
Kiribati									
(FC, CY)	1977	19.7	45.3	1.9	8.4	2.7	...	0.5	21.6 ^a
Papua New Guinea									
(MP, FY ending in June)	1976-1977	31.3	10.5	8.7	7.9	6.5	8.5	3.9	22.9
Samoa									
(FC, CY)	1978 (prov.)	51.7	—	2.8	6.7	5.3	9.6	6.1	17.8
Tonga									
(FC, FY ending in June)	1976-1979	42.7	0.5	10.3	4.2	5.2	13.0	7.4	16.7
	1980	40.5	0.7	8.6	6.4	6.6	14.3	7.1	15.8

Sources: Official national sources.

^a Includes wholesale and retail trade.

The new Republic of Vanuatu

New Hebrides became the Republic of Vanuatu on 30 July 1980. The country consists of about 70 inhabited islands in the south-west Pacific. Its land surface of 12,189 square kilometres supports a population of 112,596 (1979), approximately 92 per cent of whom are Ni-Vanuatu and 2 per cent of European origin. Population growth was quite high, averaging 3.2 per cent a year between 1967 and 1979.

About 80 per cent of the population is within the subsistence sector. Formal wage employment, totalling 10,500 persons in 1976, was divided between the public service (30 per cent), agriculture (20 per cent), commerce (10 per cent), transport and construction (9 per cent), manufacturing (3 per cent), banking (3 per cent) and household services (10 per cent). Wage employment is confined largely to the two urban centres of Port Vila and Luganville. There is an acute shortage of professional and skilled labour in both the public and private sectors.

GNP per capita was \$ 530 in 1978, and was estimated as \$ 590 in 1979. The growth rate of real income per head averaged 1.9 per cent over 1970-1978. As in most other South

Pacific island countries, export activities dominate the economy. Copra, plus a small amount of coconut oil, provided half of exports in 1976-1980 and frozen fish two fifths. Beef and veal contributed another 5 per cent, and cocoa about the same proportion. Between 1976 and 1979, commodity exports grew at an average rate of 30 per cent a year. However, the price downturn of 1980, among other factors, cut merchandise exports by nearly one third.

France took most of Vanuatu's exports (64 per cent in 1980), followed by New Caledonia (7 per cent) and Japan (4 per cent). Merchandise imports came largely from Australia (35 per cent), France and Japan (11 per cent each), and Fiji and New Zealand (10 per cent each). The relatively large share of food, beverages and tobacco in total import spending, about 29 per cent in 1979, reflected rapid urbanization as well as indigenous preferences for imported staples. Fuels, machinery and transport equipment accounted for another 33 per cent of imports.

The trade and service balances of Vanuatu were in deficit to varying extents during 1976-1979; but they were more than offset by compen-

sating official transfers, so that reserves of foreign exchange increased by \$ 30 million, or just over one fifth of merchandise exports.

The budget, similarly, had large over-all surpluses from 1976 to 1980; they totalled 751 million vatu or about 4 per cent of expenditure. Over the same period, public spending grew at an average annual rate of 6.5 per cent, against 7 per cent for government revenue. Foreign aid provided 80 per cent of total fiscal receipts in 1976, and 70 per cent in 1980. British legislation had created a "tax haven" status for Vanuatu, so over 96 per cent of domestic tax revenue is derived from international transactions.

A steady increase in government tax receipts reflected, by and large, the expansion of trade. Domestic inflation, which increased from an annual rate of 5.5 per cent during 1976-1979 (table VI.6) to 18 per cent in 1980, resulted from tariff increases on a wide range of imports. The second oil price shock, and a depreciation of the New Hebrides franc (NHF), were also factors in the inflation.

The NHF and the Australian dollar had been legal tender, but the Central Bank of Vanuatu, set up in the latter half of 1980, assumed issue powers at the beginning of 1981. The NHF and the official currency, the vatu, used to be pegged to the French franc at a fixed rate of one vatu equals 0.061875 franc. This link was severed on 9 September 1981, since when the vatu has been tied to the SDR at the rate of 106.20 vatu to one SDR.

The Vanuatu authorities have adopted tight monetary measures to counter domestic inflation and loss of foreign exchange. The rate of interest was thus raised to 18 per cent in September 1981.

There is an offshore banking centre, the development of which was strongly encouraged in the early 1970s. Its business is conducted by financial institutions and service offices. An associated new development is the formation of a maritime services company, which has established a register in New York to enable shipping to operate under the Vanuatu flag.

Vanuatu. Balance of payments, 1976-1979

(Million SDRs)

	1976	1977	1978	1979
Exports, f.o.b.	14.0	27.4	30.5	33.3
Imports, f.o.b.	-22.5	-27.2	-34.0	-39.6
Services (net) of which	-4.5	-15.4	-9.3	-5.6
Freights and insurance	-5.6	-6.8	-8.5	-9.9
Time charters	-0.4	-1.2	-0.8	-1.1
Private transfers (net)	0.2	0.2	0.2	0.2
Official transfers (net)	24.5	24.5	28.5	31.1
Current account balance	11.7	9.4	15.9	19.4
Capital flows and errors and omissions (net)	-10.4	0.1	-11.2	-13.4
Balance for financing ^a	1.3	9.5	4.7	6.0
Conversion rates (vatu per SDR)	93.3	92.4	88.0	85.6

Source: IMF Survey, 23 November 1981, p. 372.

^a Balance financed by commercial banks and official foreign assets.

countries, but give a better idea of economic structure than do the employment statistics. Table VI.2 displays what are available. The contribution of agriculture and fishing to GDP is large in Samoa and Tonga, 41 to 52 per cent, and that range probably holds also for other islands not included in the table. The proportion is around one third in Papua New Guinea and

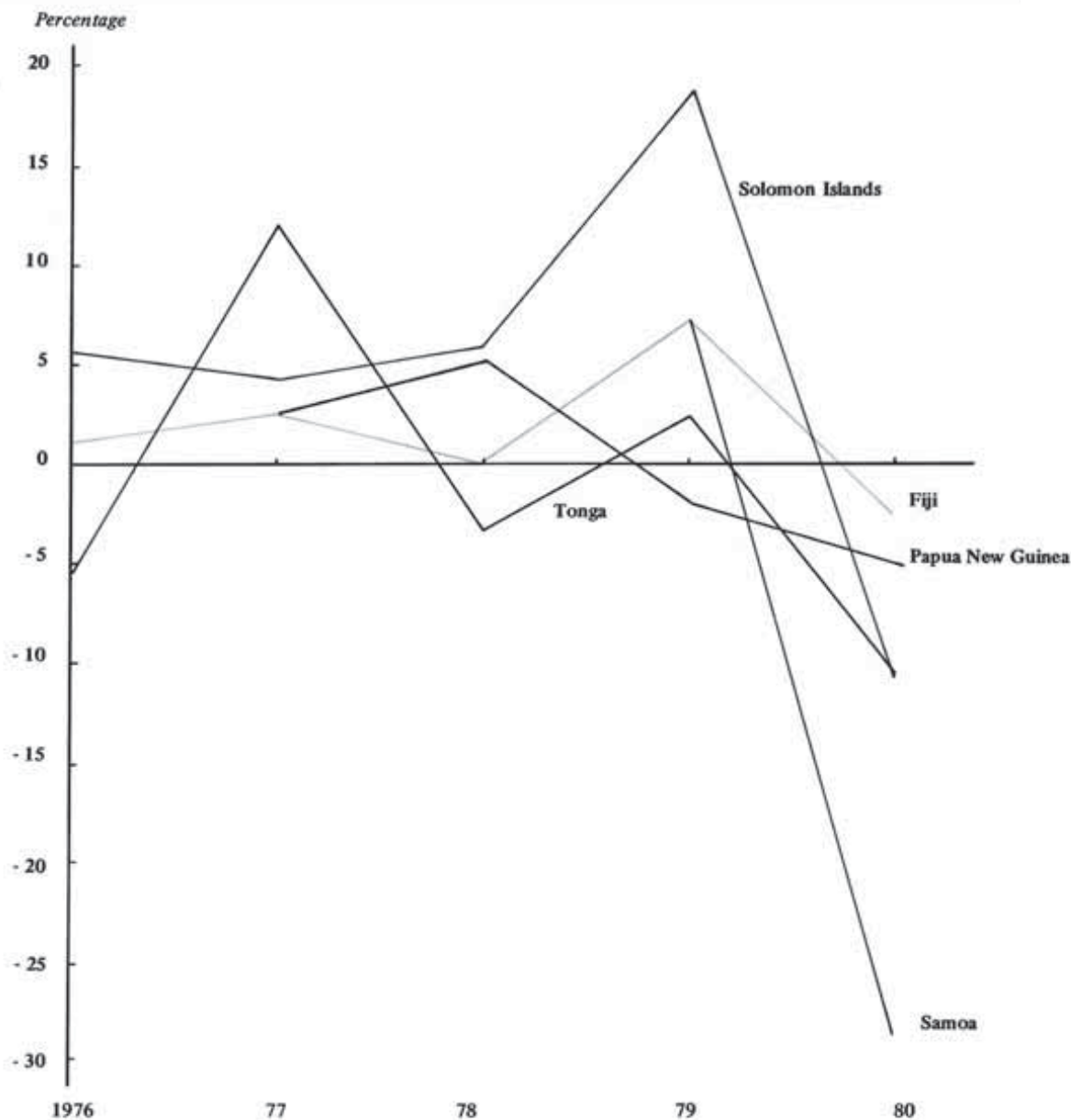
about a fifth in Fiji. In 1977, Kiribati appeared to have the same proportion as Fiji but only because of the mining of large phosphate deposits, now exhausted.

Manufacturing contributes about an eighth of GDP in Fiji, and about a twelfth in Papua New Guinea and Tonga, but only 2-3 per cent in Kiribati and Samoa. In the smaller island countries,

building and construction is more important, contributing 6-8 per cent of GDP, as in Fiji and Papua New Guinea.

The service sectors are again more important with transport and communications accounting for 3-9 per cent of GDP, trade for 9-21 per cent, finance for 1-16 per cent, and government, community and personal services for

Figure VI.2. South Pacific island countries. Annual percentage change in real GDP per capita, 1976-1980



The need to strengthen subsistence agriculture

The widespread popularity of imported white rice has led to several attempts to promote local production of this cereal in the South Pacific island region. These efforts, however, have by and large been less successful than was expected, except in the case of Solomon Islands. Success there depended on large-scale and capital-intensive production which could be too expensive for other island countries lacking agricultural infrastructures and short of development funds. These funds might well be better used for increasing outputs of traditional foods, especially roots and tubers, which are comparatively much less demanding of land, labour and other inputs, and are evidently much easier to grow and harvest.

Average yields of sweet potato (*Ipomoea batatas*) in subsistence gardens of Papua New Guinea, for example, are between 15 and 20 tons per hectare of land cropped. On the basis of milled rice equivalent, three tons of sweet potatoes would yield the same energy as one ton of milled rice or wheat flour. This root crop, which is a traditional staple in several South Pacific islands, thus gives much higher returns to productive inputs than rice. Average yields per hectare of other local roots and tubers, in subsistence gardens, and of wild or cultivated sago palms are also quite high; they are up to 10 tons for local taro (*Colocasia esculenta*) and Chinese taro (*Xanthosoma sagittifolium*), about 12 tons for greater and lesser yam (*Dioscorea esculenta* and *D. alata*), over 20 tons for cassava (*Manihot esculenta*), and up to 10 tons of starch for sago palm (*Metroxylon xagu*).^a

Another important advantage is that the required farming skills and knowledge for traditional staples, which have been accumulated by the indigenous people over centuries,

^a J.M. Macewan, "Subsistence agriculture" in D.J.R. Densley and others (eds.), *Agriculture in the Economy - A Series of Review Papers* (Port Moresby, Department of Primary Industry, 1978), pp.49-50; R.M. Bourke, "Growing food at institutions in the lowlands", *Harvest*, vol. 4, No. 3, Third Quarter 1978, p. 141; and *Pacific Islands Monthly*, vol. 52, No.2, February 1981, p. 62.

already exist. There is also evidence, in Papua New Guinea and in other larger South Pacific islands, that the amount of roots and tubers required for complete replacement of imported rice, wheat and wheat flour could be produced competitively, even within the labour-intensive smallholding system.

The feasibility of increasing production of staple food in urban and peri-urban areas deserves greater attention; people in them consume large amounts of imported foodstuffs. Higher food outputs in these areas could be readily provided by present productive resources, and without much extra public investment in transport and distribution facilities.

A final consideration is that import substitution, through greater smallholder production of roots and tubers, would generate considerable demand for labour and so help rural development. Indeed, the need to encourage greater production of traditional staples is made more pressing by some adverse developments at village level. The ready availability of imported foodstuffs has lessened reliance on locally grown food crops and vegetables, and that, in turn, has blunted and diluted gardening skills and knowledge. Permanent tree crops, moreover, are planted on the best gardening sites near to villages or in the wake of moving food gardens when these are left fallow. Soil fertility is seriously depleted because the following cycle is broken or because crop rotation is prevented. There has, accordingly, been a reduction in the size or quality of food gardens and often a progressive and complete disintegration of the village subsistence system.^b

^b See, for example, B.R. Finney, "Economic change and dietary consequences among the Tahitians", *Micronesica*, vol. 2, No. 1, June 1965, pp. 6-7; D.D. Michell II, *Land and Agriculture in Nagovisi Papua New Guinea*. Institute of Applied Social and Economic Research Monograph No. 3 (Port Moresby, IASER, 1976), pp. 121-127; and M.A. Bathgate, "The structure of rural supply to the Honiara Market in the Solomon Islands", *Development Studies Centre Occasional Paper No. 11* (Canberra, Development Studies Centre, 1978), pp. 61-63.

16-23 per cent but in Cook Islands for over 30 per cent.

Figure VI.2 also shows recent changes in real GDP for Fiji, Papua New Guinea, Samoa, Solomon Islands and Tonga. 1980 was a bad year for all of them. In Papua New Guinea, the decline of real GDP was nearly 3 per cent because of falling prices and quantities for exports of copper and gold. Fiji had a decline of about 1 per cent because bad weather damaged the important sugar crop. A decline of nearly 8 per cent in Solomon Islands was caused mainly by a fall in copra prices and quantities.

There was an improvement, in 1981, for Fiji and Papua New Guinea. Fiji had some recovery of the sugar harvests, and increases of production in the fishing and timber industries; real GDP was expected to increase by about 2 per cent in 1981. In Papua New Guinea, there was some recovery of outputs from the Bougainville mine, and a stimulus from initial investment in the Ok Tedi mining project. These are expected to reduce the decline of real GDP to about 2 per cent in 1981. Prospects for 1982 were better for Papua New Guinea, but not for Fiji. Papua New Guinea expected to gain from both spending on the Ok Tedi project and from some recovery of world prices for its exports. Fiji expected a decline of construction because of reduced government spending, and some contraction of agricultural production, in spite of continued high levels of activity in fishing and forestry activities.

The recession of 1980 and 1981 has, of course, had its effect on employment opportunities. Even before, there was a growing problem of urban, and more particularly, youth employment. In Fiji, for example, the annual net addition to the labour force is over 9,000 but, between March 1979 and February 1980, the number

of regular, paid jobs increased by less than 1,200; and, for the year ending September 1980, this increase was only 664. As has been mentioned, people have migrated to Australia or New Zealand in search of jobs, not only from Fiji but also in considerable numbers from Cook Islands, Niue, Samoa and Tonga, all of which have problems of employment. External migration has relieved these problems, although recently the host countries have tightened conditions for entry. There is, however, the traditional "circular" migration of unemployed from urban centres back to their villages, where they may resume subsistence farming, es-

pecially in the bigger islands which still have adequate arable land.

Vanishing job opportunities in Papua New Guinea have been found to slow down markedly previously high rates of migration to the towns; and a similar effect must prevail in other island countries. That finding strengthens the case for Governments to promote rural development programmes. They would serve a double purpose of creating useful employment in rural areas and of reducing excessive demands for public spending on urban infrastructure and facilities. Some South Pacific island Governments have, therefore, made rural development a major objective

of their economic policies or plans.

C. TRADE AND FINANCIAL FLOWS

It is evident from table VI.3 that Fiji is heavily dependent for merchandise export receipts on sugar, although its relative contribution is highly variable owing mainly to fluctuations of the world price. Papua New Guinea is similarly dependent on copper and gold, both from a single mine, but with substantial contributions also from coffee and cocoa. Solomon Islands is about equally dependent on copra, fish and timber; Samoa is mainly dependent on copra and

Table VI.3. South Pacific island countries. Composition and value of exports, 1976-1981

(Percentage)

	Coconut products	Palm oil	Fisheries ^a	Logs and timber	Cocoa	Sugar	Coffee	Copper	Gold	Others	Total value ^b (\$ million)
Fiji											
1976-1979	5.4	—	4.2	0.7	—	58.1	—	—	3.8	27.8	181.7
1980	2.3	—	5.3	2.0	—	58.0	—	—	4.0	28.4	339.2
1981 (January to June)	3.4	—	...	...	—	23.6	—	—	6.8	...	105.1
Papua New Guinea											
1976-1979	6.7 ^c	1.7	2.7	2.3	10.6	—	20.3	23.8	17.3	14.5 ^d	802.9
1980	5.6 ^c	1.9	3.7	4.5	6.4	—	16.9	19.8	24.6	16.6 ^d	1 048.1
1981 (January to June)	5.2 ^c	1.8	2.8	5.1	3.3	—	10.6	25.7	30.0	15.5 ^d	426.3
Samoa											
1976-1979	44.9	—	1.3	—	32.1	—	—	—	—	21.7	12.8
1980	53.2	—	2.8	—	19.0	—	—	—	—	25.0	17.2
Solomon Islands											
1976-1979	26.1	10.1	23.7	25.4	—	—	—	—	—	14.7	40.5
1980	17.3	10.9	32.6	24.5	—	—	—	—	—	14.6	73.0
Tonga											
1976-1979	72.5 ^e	—	—	—	—	—	—	—	—	27.4 ^f	6.0
1980	67.5 ^e	—	—	—	—	—	—	—	—	32.5 ^f	7.0

Sources: ESCAP, *Statistical Indicators for Asia and the Pacific*, various issues, and official national sources.

^a Includes a small amount of earnings from exports of dried and smoked fish.

^b Includes re-exports.

^c Data are on a date of shipment basis and are supplied by the relevant industries.

^d Includes tea.

^e Includes copra, coconut oil and desiccated coconut.

^f Includes bananas.

cocoa, and has developed some exports of tropical vegetables to neighbouring countries. Tonga's major exports were copra and desiccated coconut, but copra is being largely replaced by coconut oil, and an export of bananas to New Zealand is being revived.

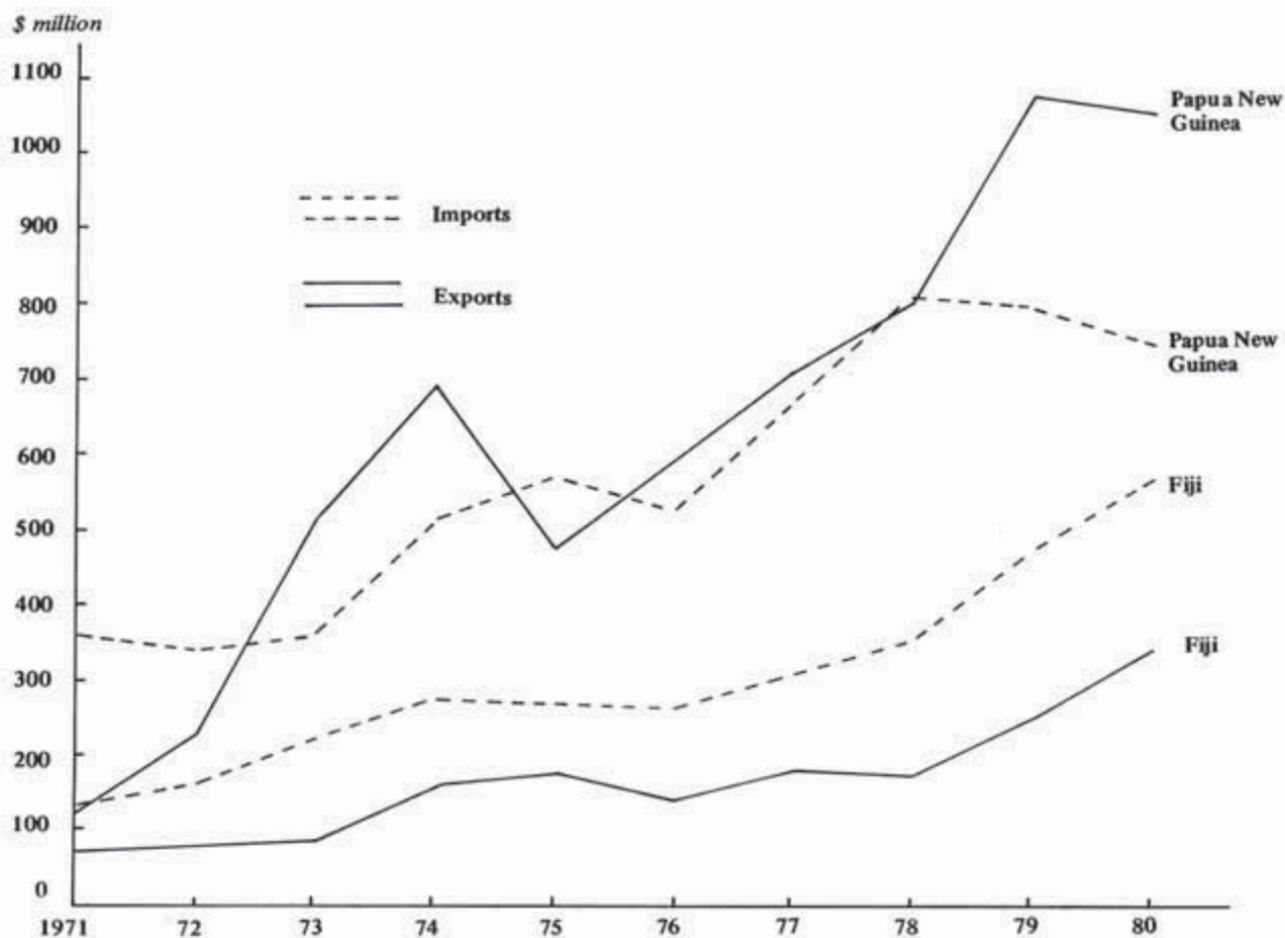
World prices for most tropical products were satisfactory until the first quarter of 1980. After that, up to the second quarter of 1981, there were heavy falls in most of these prices: 9 per cent for copra, 12 per cent for coconut oil, 30 per cent for logs, 40 per cent for sugar, 36 per cent for coffee, and 29 per cent for cocoa. Copper prices also fell by 14 per cent, and the price of gold by 12 per cent.

Papua New Guinea's exports, in 1980, fell in dollar value by 2 per cent, and in kina value by 8 per cent. A near doubling of the world price of gold was offset by a 30 per cent fall in its volume, and a 10 per cent rise in the world price of copper by a 17 per cent fall in its volume. There was an 11 per cent fall in the price of coffee and only a 3 per cent increase in its volume. Falling prices for most export commodities, in 1981, reduced the dollar value of export receipts by 16 per cent in the first half of the year, as compared with the first half of 1980, and no improvement was expected in the remainder of 1981. There were increases of output for copper

and gold, but by no means enough to compensate for falls in their prices. Coffee receipts were affected both by falling prices and by the imposition of a new quota, set by the International Coffee Organization, which cut back its export by one quarter of the 1980 level.

Fiji's export receipts had boomed in 1980 with world prices for sugar and gold; receipts from coconut oil fell but that is a minor export. In the first half of 1981, however, sugar exports declined in volume by 50 per cent, and in value by 46 per cent, as compared with the first half of 1980. Since then sugar prices have also fallen. There was also a first half year

Figure VL3a. Fiji and Papua New Guinea. Merchandise trade, 1971-1980



decline of one third for coconut oil, and a 15 per cent decline for gold.

Samoa had gained from higher cocoa prices in 1980, and they raised the dollar value of this export by 30 per cent. However, the more important copra export declined so that there was a fall of 6 per cent in the dollar value of Samoa's total export receipts. Prospects for 1981 were not

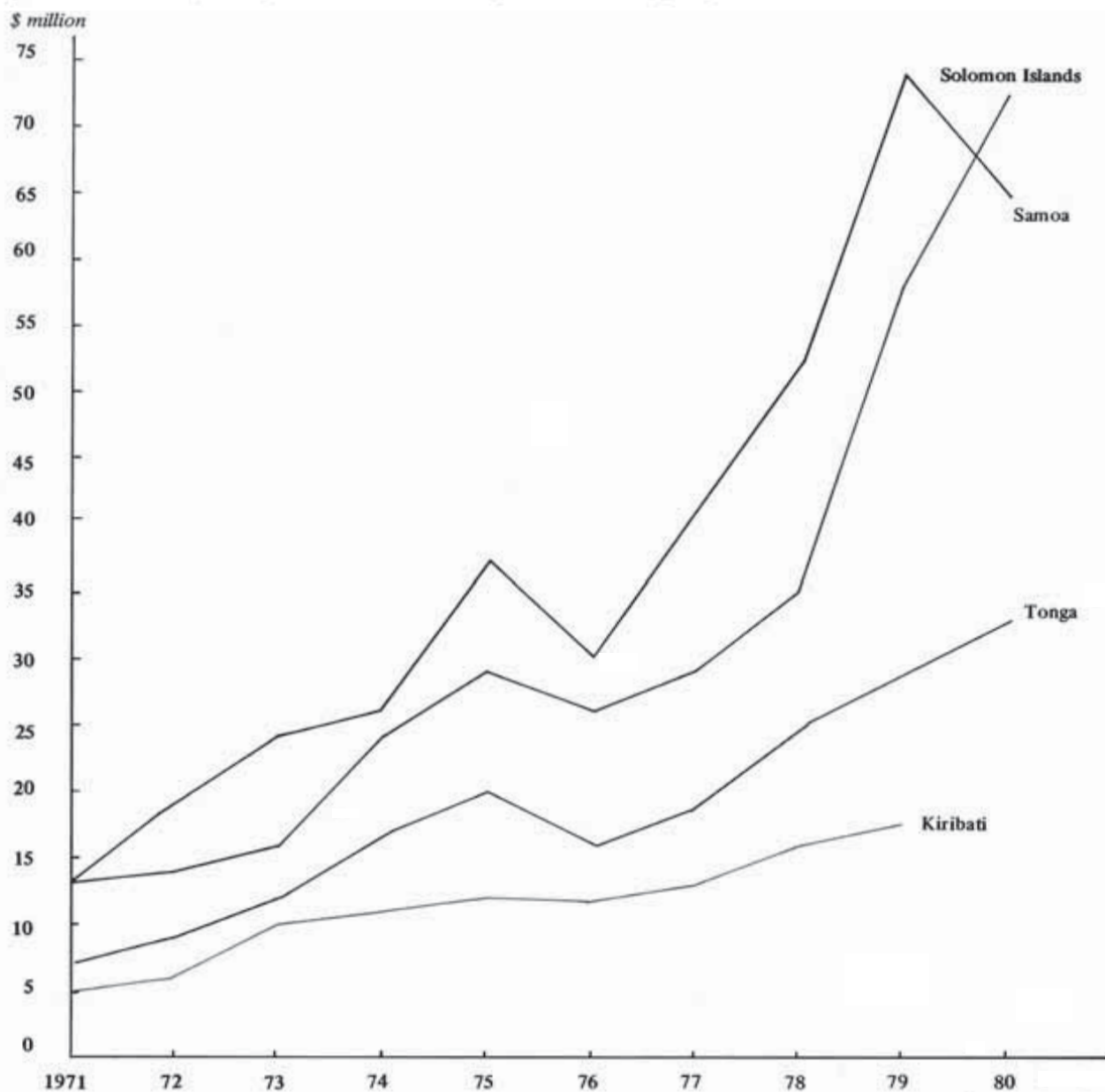
good; prices were falling, and there was a big decline in the quantity of copra exports in the first half of the year. That could have been partly a result of a 12-week strike of public servants, which also affected shipments of other commodities.

There were mixed changes in the exports of Solomon Islands during 1980, and these had the net effect of keeping the dollar value

of its exports almost constant. Falling prices for copra went with a big drop in its quantity, timber exports were stable in both value and quantity, fish exports declined in quantity but rose by more than one third in value, and palm oil increased in quantity but fell by more than one quarter in value.

Tonga's exports were also stationary in 1980, because lower prices for copra were compensated

Figure VI.3b. Kiribati, Samoa, Solomon Islands and Tonga. Merchandise imports, 1971-1980



for by the opening of a coconut oil mill, which gave higher added value to the copra output by processing it into oil.

The check to export receipts has hardly affected imports of these countries, with the exception of Samoa. Their dollar value rose, in 1980, by 19 per cent in Fiji,

27 per cent in Papua New Guinea, 24 per cent in Solomon Islands and 16 per cent in Tonga. Fiji and Papua New Guinea expected a further rise of one seventh in 1981, but no estimates were available for the other countries.

Food and beverages account for a high proportion of imports,

although this proportion has recently been declining. In 1980, it was 15 per cent in Fiji, 21 per cent in Papua New Guinea, about 24 per cent in Samoa, 14 per cent in Solomon Islands and 30 per cent in Tonga. Mineral fuels, almost all petroleum products, have, of course, become a bigger proportion

The problem of aging trees

One of the most pressing agricultural problems in South Pacific island economies relates to the very large number of senile and uneconomic coconut palms, and other perennial trees or plants such as cocoa or coffee.^a The problem of falling productivity can be somewhat overcome, in the short-run, by better maintenance and/or harvest practices, especially in rural smallholdings. Agronomists have estimated that, in Papua New Guinea, improved husbandry could raise the outputs of export crops – such as coconuts, cocoa and coffee beans – by between one fifth and one third. But that improvement would require, among other changes, a substantial increase in extension and supervisory efforts at a grass-root level; and, unfortunately, Governments have not adequately provided them.

In the longer-run, large-scale replanting with improved and/or superior varieties, would have to be carried out. These varieties, which could treble productivity, might help growers to ride out comfortably downswing phases of the commodity-export cycle. A systematic, ongoing renewal programme would, however, be expensive and in most cases, would involve a drop in output during the initial (gestation) stages. That is not the only constraint. Stocks of improved and superior cultivars are either insufficient or unavailable in most island countries. Nurseries could be set up to provide improved budding materials within the relatively short

time of a few years, but production of the superior hybrid and clonal stocks which are most suitable to local climatic and physiographic conditions would require several years of research and development, and so very substantial outlays.

There appears to be considerable scope for regional co-operation in this respect. For such co-operation would not only help lower the costs to be underwritten by each participating country, but would possibly reduce serious administrative delays and other difficulties in recruiting ex-patriate personnel having the required skills and technical qualifications.

Another binding constraint is that replanting and redevelopment on expatriate plantations have been retarded by uncertainties over tenure. This is a particularly acute problem in Papua New Guinea, where the Government has tried various measures to deal with it. The Plantation Redistribution Scheme^b has, for all practical purposes, been suspended since March 1980, after a review of its operation. In September 1981, moreover, the Prime Minister announced the re-issue and guarantee of agricultural leases to

^b The Land Acquisition Act and the Plantation Redistribution Scheme of 1974 were originally designed to take over ex-patriate-owned agricultural holdings in land-short areas, and return them to customary land-owning groups. This would be done through negotiation, or through compulsory acquisition with financial compensation. However, strong internal pressures at grass-root level, together with privately initiated and voluntary sales/purchases of ex-patriate estates by communal groups throughout Papua New Guinea, have, in effect, widened the Scheme to include all agricultural plantations under non-indigenous ownership.

such ex-patriates as made a commitment to redevelop their plantations.^c

A major difficulty over village replanting is the extreme reluctance of indigenous smallholders to cut down and replace perennial trees which are still bearing fruit, and hence yielding cash incomes. Such resistance, which is due largely to socio-cultural factors, might be overcome through concerted extension services. As already noted, however, government resources and manpower for such services appear, so far, to have been insufficient. Furthermore, renewal activities would involve severe financial sacrifices for cultivators as, regrettably, assistance to smallholders from domestic financial institutions and agencies has usually not been available. When it has been, it was often very costly and exacting, in terms of interest, service charges, and requirements for repayment or collateral. Nor has it been adequate to meet all renewal expenses, and/or to replace income losses during the gestation period. Cocoa redevelopment in Papua New Guinea has been held back by such constraints, notwithstanding an attractive "financial package" initiated, and put together, by the Bank of Papua New Guinea in 1980.

^c In comparison, all alienated land in Solomon Islands was converted to 75-year fixed term leases at the end of 1977. The lease period was to ensure financial viability through planting three cycles of perennial tree crops. Alienated land will also be returned to customary ownership in Vanuatu. However, current occupiers will have first right to apply for leases, or to enter into joint venture with local people. In Fiji, the minimum period of agricultural leases was extended from 10 years in 1977, with guaranteed compensation for improvements.

^a For example, had the cocoa industry in Papua New Guinea been able to sustain output and exports at the 1975 volume, growers would have received an extra \$75 million over the booming period from 1976 to 1979.

of imports with the big increases of oil prices: 23 per cent in Fiji, 18 per cent in Papua New Guinea, and 14-17 per cent in the other three countries. Crude materials are a very small proportion in view of limited manufacturing activities, and chemicals are also a small proportion in view of limited use of fertilizer in largely subsistence agriculture. Imports of machinery and transport equipment are considerable: 23 per cent of the total in Fiji, 29 per cent in Papua New Guinea, 38 per cent in Solomon Islands and 17-20 per cent in Samoa and Tonga.

Fiji, for some years, has had a large deficit in merchandise trade,

which has been partly offset by a surplus for services arising mainly from tourism, and by net transfers, which include remittances from workers overseas as well as official grants. During the 1970s, services and activities connected with tourism are thought to have accounted for about two fifths of Fiji's GDP. From 1977 to 1979, the surpluses for services and transfers covered about 70 per cent of Fiji's large trade deficit, and the remainder had to be covered by capital inflows. In 1980, they covered less than half of a trade deficit which had increased by one third, and became equal to three fifths of export

receipts. Net capital inflows, accordingly, rose from \$ 34 million to \$ 81 million, about two fifths of which was direct investment.

Papua New Guinea normally has a large trade surplus because there are large payments to be made to overseas shareholders in the Bougainville copper mine and other companies, and to the considerable number of expatriates employed by Government or engaged in business activities, including plantations. Large transfers, however, have also been needed, by far their biggest component being budgetary grants made regularly by the Australian Government. The export surplus

Table VI.4. South Pacific island countries. Composition and value of imports, 1976-1981

(Percentage)

	<i>Food and live animals</i>	<i>Beverages and tobacco</i>	<i>Crude materials (excl. fuels)</i>	<i>Mineral fuels and lubricants</i>	<i>Animal, oil and fats</i>	<i>Chemicals etc.</i>	<i>Basic manufactures</i>	<i>Machinery and trans. equip.</i>	<i>Misc. manufactures</i>	<i>Other imports</i>	<i>Total value (\$ million)</i>
Cook Islands											
1976-1979	20.8	4.1	---	8.6	0.3	5.7	16.6	16.5	9.1	18.2	17.3
Fiji^a											
1976-1979	18.1	1.4	0.9	17.5	1.4	7.0	18.7	20.4	11.4	3.2	348.8
1980 (prov.)	14.2	0.8	0.7	23.0	1.1	6.7	18.7	22.6	8.6	3.6	561.0
1981 (est.)	13.4	0.9	1.0	24.3	1.1	7.0	18.1	22.3	8.3	3.6	637.6
Papua New Guinea											
1976 ^b	21.1	1.7	0.3	13.6	0.2	3.2	7.6	31.5	8.1	12.7	437.2
1980 ^c	19.3	1.3	0.3	18.3	0.3	5.3	13.1	29.9	7.4	4.8	741.5
Samoa											
1976-1979	23.3	3.5	1.2	8.5	0.5	3.3	19.6	27.6	5.3	7.2	49.2
1980 (prov.) ^d	20.1	...	...	16.7	...	...	21.7	20.1	...	21.4	65.1
Solomon Islands											
1976-1979	14.3	4.2	0.6	12.3	0.9	7.3	17.4	30.8	8.3	3.9	38.5
1980	11.0	3.0	0.7	16.4	0.7	5.3	17.0	37.7	7.8	0.4	72.1
Tonga											
1976-1979	27.3	6.8	5.1	10.3	0.1	5.9	19.0	17.4	7.7	0.4	22.2
1980 (prov.)	23.5	6.6	6.1	14.2	0.1	6.0	18.6	16.9	7.1	0.9	33.3

Sources: As for table VI.3.

^a Includes re-exports.

^b Fiscal year ending in June. Data are not available for the period from July 1976 to December 1979 due to the lack of computer facilities for processing relevant import trade statistics.

^c First three quarters only.

^d Estimates on the basis of data from January to September 1980.

Table VI.5. South Pacific island countries. Balances of trade^a and payments, and exchange rates,^b 1976-1980

(\$ million)

	1976	1977	1978	1979	1980
Fiji					
Trade balance	-89.5	-87.4	-105.0	-154.6	-199.5
Services (net)	50.2	68.9	79.9	98.9	95.4
Goods and services balance	-39.3	-18.5	-25.0	-55.8	-104.1
Transfers (net)	-3.5	-1.0	-2.0	4.7	9.2
Current account balance	-42.9	-19.5	-27.0	-51.1	-94.9
Non-monetary capital (net)	12.8	28.8	8.8	34.2	81.4
Errors and omissions	3.3	7.3	9.8	22.5	43.7
Over-all balance	-26.9	16.6	-8.4	5.6	30.2
Exchange rate	1.111	1.090	1.181	1.197	1.223
Papua New Guinea					
Trade balance	122.4	135.2	84.3	228.3	-2.7
Services (net)	-161.5	-173.2	-239.5	-309.1	-404.5
Goods and services balance	-39.1	-69.5	-155.2	-80.8	-407.2
Transfers (net)	84.6	171.9	166.5	157.4	150.8
Current account balance	45.4	102.4	11.3	76.6	-256.3
Non-monetary capital (net)	30.3	19.0	16.2	37.6	101.0
Errors and omissions	-31.5	19.0	-30.1	-5.2	74.1
Over-all balance	44.2	139.0	-2.5	109.0	-81.2
Exchange rate	1.262	1.264	1.412	1.405	1.492
Samoa					
Trade balance	-22.9	-26.1	-41.3	-56.1	-47.9
Services (net)	1.8	2.8	1.4	1.3	...
Goods and services balance	-21.2	-23.3	-39.9	-54.7	...
Transfers (net) ^c	11.1	14.9	26.4	33.4	...
Current account balance	-10.1	-8.4	-13.6	-21.3	...
Non-monetary capital (net) ^c	9.0	14.4	11.5	14.6	...
Errors and omissions	1.4	-0.1	-5.7	4.8	...
Over-all balance	-2.5	5.8	-7.7	-1.8	-1.5 ^d
Exchange rate	1.255	1.271	1.359	1.220	1.088
Solomon Islands					
Trade balance	-1.5	4.2	-0.3	11.4	-1.0
Services (net)	-9.9	-11.4	-15.6	-19.9	-31.2
Goods and services balance	-11.4	-7.2	-15.9	-8.5	-32.2
Transfers (net)	13.1	13.0	19.2	20.1	19.8
Current account balance	1.7	5.8	3.3	11.6	-12.4
Non-monetary capital (net)	4.9	7.3	6.2	3.5	3.1
Errors and omissions	-4.8	5.3	5.7	7.6	-0.6
Over-all balance	1.8	6.9	15.2	7.5	-9.8
Exchange rate	1.225	1.109	1.145	1.150	1.201
Tonga^e					
Trade balance	-12.7	-10.6	-10.8	-16.3	-16.7
Services (net)	2.4	2.0	1.6	3.7	4.0
Goods and services balance	-10.2	-8.5	-9.1	-12.5	-12.7
Transfers (net)	8.1	6.6	8.4	10.2	11.3
Current account balance	-2.2	-1.9	-0.7	-2.3	-1.4
Non-monetary capital (net)	0.8	4.1	3.9	3.0	5.1
Over-all balance	1.5	2.2	3.2	0.7	3.7
Exchange rate ^f	1.370	1.091	1.117	1.094	1.105

Sources: Official national sources.

^a Trade balances are not strictly comparable with commodity export and import data due to time lags in actual dates of shipments or arrivals of the relevant goods, relative to those on customs warrants or letters of credit, etc.

^b Period averages of US dollars per local currency units. The rates for Cook Islands are 0.996 for 1976, 0.971 for 1977, 1.038 for 1978, 1.023 for 1979 and 0.973 for 1980.

^c Estimates only. ^d Unofficial report. ^e Fiscal years ending June. ^f Includes errors and omissions. ^g End of period rate.

and net transfers had been sufficient to yield considerable current account surpluses until 1980, but there was then a large current deficit of \$ 256 million consequent upon the disappearance of the trade surplus. Private capital inflows increased to \$ 45 million, mainly because of the Ok Tedi project, and official capital flows increased to \$ 66 million, mainly through borrowing from private sources. Nevertheless, Papua New Guinea's reserves of foreign exchange were depleted by \$ 81 million and reduced to a level which covered half a year's imports.

Official estimates for 1981 forecast a large increase in the trade deficit to \$ 267 million, as exports were expected to decrease by 14 per cent and imports to rise by 13 per cent. Little change was expected in the deficit for services or in net transfers, so that the current balance would have a deficit of \$ 520 million, twice the previous level. A big increase was expected in private capital inflows, from \$ 39 million to \$ 256 million, because of Ok Tedi and projects for timber and fishing, and official capital flows would increase from \$ 7 million to \$ 128 million, including \$ 60 million of compensatory finance from IMF. Reserves, however, would again decrease, perhaps by \$ 121 million. Prospects for 1982 were a similar over-all deficit of \$ 82 million, after a further government borrowing abroad for \$ 97 million, and a reduction of reserves to a level which would cover less than two months' imports of goods and services.

Samoa has had very high ratios of trade deficits to exports: 3.7 in 1978, 3.1 in 1979 and 2.8 in 1980. The balance for net services is small, but net transfers have covered an increasing proportion of the trade deficit: one third in 1978, one half in 1979 and three quarters in 1980. The biggest part of

transfers has been official grants, mainly from Australia and New Zealand, with some recently from the Federal Republic of Germany, and the Economic Development Fund of EEC, totalling \$ 19 million in 1979. Private remittances, in that year, mainly from workers in Australia or New Zealand, were about \$ 8 million, equal to one tenth of import payments. Soft loans from ADB, IDA and other sources came to \$ 7.6 million, and other loans to \$ 7 million. A small decline of foreign exchange reserves covered the balance.

The large and persistent current deficits led Samoa to devalue its currency, in 1979, by 15 per cent against the New Zealand dollar, which itself depreciated against the US dollar, so that Samoa's effective devaluation against the US dollar was 21.5 per cent over 1979. At the same time tariffs were raised on some non-food items, quantitative restrictions were imposed on other imports, and also imposed on outward remittances. Imports, therefore, decreased by about one sixth in 1980, but exports also fell due to world recession, so that there was little change in the trade deficit. Not much change was expected in net services, so that transfers and non-monetary capital and other items would have been around \$ 45 million, not much below their previous level. Grants for capital projects were expected to be \$ 11.6 million, soft loans \$ 5.8 million and other foreign loans \$ 3.8 million. Foreign exchange reserves, in the first quarter of 1980, had fallen to the alarmingly low figure of \$ 1.6 million and, if foreign liabilities are deducted, to a negative figure of \$ 8 million. This, of course, indicates a serious, not to say desperate position, in regard to Samoa's external accounts. No later figures were published for 1980 or 1981.

Solomon Islands had compara-

tively large over-all surpluses in its balance of payments, between 1977 and 1979, mostly because of official grants and direct private investment. The trade surplus was large only in 1979, but even then sufficient to cover little more than half of a deficit of \$ 20 million for services; freight and insurance charges came to \$ 12 million, charter of a fishing fleet to \$ 7 million, and profit or dividend payments to \$ 4 million. Transfers, mostly official grants from the United Kingdom, were sufficient to pay for the service deficit in 1979,

and capital inflows were small. Nearly \$ 8 million were added to reserves of foreign exchange.

In 1980, the trade balance became slightly negative, wholly because of an increase of imports by one fifth. The services deficit increased by one half, and there was a total current deficit of \$ 32 million, equal to one sixth of imports. There was little change in transfers or in the small inflow of capital, so that reserves of foreign exchange declined from \$ 34 million to \$ 24 million. The Solomon Islands dollar, according-

Ok Tedi: a lode of gold

The economic hope for Papua New Guinea during the 1980s will be the huge Ok Tedi project. This high-grade mine is located in Mount Fubilan, which stands within a highly inaccessible part of the Western Province. It contains an estimated 34 million tons of gold deposits yielding 2.9 grams of gold per ton. Below this reserve are another 376 million tons of ores bearing 0.7 per cent of copper, 0.6 grams of gold and about 0.14 grams of silver per ton. An agreement to develop this great project was signed, in March 1981, between the Government, which will take up a 20 per cent equity, and a locally incorporated company, owned by companies in Australia, the Federal Republic of Germany and the United States.

The mine will be designed and built by a joint venture formed between two groups of companies, one of which, in another joint venture had completed, in April 1972, pre-production and development works for the Bougainville copper/gold mine ahead of schedule, and within the estimated budget. Construction works at Ok Tedi include overland and river transport facilities to shift the ores from the mine to the coast, which is some 800 kilometres away. A township for 3,000 people, and a hydroelectric plant of 46,000 kW, have also to be built. The construction phase will require up to 3,500 workers, one fifth of whom would be ex-patriates. The project is expected to be completed by April

1984 at a total cost of \$ 1.1 billion at 1981 prices and wages. Gold ores will be mined first, and copper deposits two years later. The mining workforce would be around 2,000.

The Ok Tedi gold/copper projects resembles the Bougainville project of the early 1970s in several ways. Both are large-scale, capital-intensive ventures, and, just as Bougainville dominated Papua New Guinea's economy during the 1970s, so will Ok Tedi during the 1980s. Although no direct revenue would accrue to the Government until at least 1985, the construction phase and the provision of ancillary services are expected to raise the growth of real GDP by more than 4 per cent. Under its present mining policy, the Government does not insist on majority ownership, and its official equity participation in Ok Tedi is at the same level as in Bougainville. Instead, the Government hopes to optimize its revenue through the imposition of excess profits tax. This levy carries a marginal rate of 70 per cent (inclusive of the standard corporate tax) and operates when the internal rate of return exceeds a threshold level of 20 per cent, or 10 per cent plus the annual percentage rate of interest on domestic corporate borrowings rated AAA in the United States. The choice of threshold level has to be made and specified by the operating company in advance of operations.

Lessening dependence on imported fish

Most island countries have also spent a great deal of foreign exchange on fish and imports of canned and frozen beef, frozen pork and mutton. The larger island countries have recently achieved near self-sufficiency for poultry products and, in lesser and varying degrees, for pork and beef; but, although they now export much high-value frozen and canned tuna, they still spend heavily on imports of canned mackerel pike. This spending could be reduced by appropriate technological practices and policy measures.

For example, up to one third of the fresh tuna tends to be wasted in the canning process, which thus involves substantial loss of a valuable protein food, especially the dark flesh on the sides of fish. This flesh, although perfectly wholesome and nutritious, commands low (export)

market prices, and is usually turned into pet food. In Solomon Islands and, to a lesser degree, in Fiji, part of this flesh is canned and marketed internally as "flake tuna", a product which has become extremely popular and replaced about 75 per cent of the tinned mackerel pike imported into Solomon Islands.

Substitution of canned flake tuna has potential value for Papua New Guinea, which is to set up a tuna cannery in New Ireland. Another potential relates to wasteful disposal of low-value "trash fish" caught, along with prawns, in trawling operations. In Papua New Guinea, 12,000 to 15,000 tons of trash fish are discarded annually but, with proper processing technologies, this valuable source of protein could also be made suitable, and available, for human consumption.

ly, was devalued by 6 per cent in March 1981, and several other measures were introduced to curtail imports of goods which were produced locally, or which were regarded as non-essential.

Tonga has had persistent trade deficits which, between 1977 and 1979, averaged twice the value of exports; in 1980, the deficit was 2.4 times export receipts. There have also been surpluses for services, equal to about one fifth of the trade deficit. Transfers, two thirds of which came from workers' remittances, met most of the combined deficit for goods and services, so that there were only small deficits on current account. Inflows of capital, formerly mostly official but lately dominated by inter-bank transfers, have thus been used to build up reserves of foreign exchange. These rose from \$ 7.1 million in 1978 to \$ 11.0 million in 1980 when they would have covered nearly five months' imports. During the first

half of 1981, both exports and imports were running at the same rates as in 1980.

D. INFLATION AND PUBLIC FINANCE

Rates of inflation, as measured by changes in index numbers of consumer prices, have not been uniform in those Pacific island countries which construct such index numbers. From 1975, after the first oil shock, to 1979, on the eve of the second oil shock, the rise was from 22 to 40 per cent in Fiji, Papua New Guinea, Solomon Islands and Vanuatu, but 52 to 81 per cent in Cook Islands, Samoa and Tonga. During 1980, consumer prices rose by 11 per cent in Papua New Guinea, by 15-18 per cent in Cook Islands, Fiji, Solomon Islands and Vanuatu, and by 23-30 per cent in Samoa and Tonga. In the first half of 1981, there was deceleration in Fiji, Samoa and Tonga, no change in Papua New Guinea, and acceleration in Cook

Islands, Solomon Islands and Vanuatu; prices, in this last country, were rising then by 33 per cent a year.

This inflation was a mixed result of increases of import prices, notably those of petroleum products, and of internal monetary changes, including devaluations of some local currencies. Annual changes were also affected by seasonal variation in local food crops.

In 1980, import prices rose by 20 per cent in Fiji and by 22 per cent in Tonga; there was little appreciation of their currencies in that year against the US dollar. Oil was then 23 per cent of their imports, and the rise of its world price by about 70 per cent is estimated to have accounted directly for one fifth of the rise in Fiji's consumer price index (15.3 per cent). The prices of imported food rose by 12 per cent in Fiji during 1981, and all food and beverages, local as well as imported, have a weight of 40 per cent in its consumer price index. During 1980, the prices of all foods in Fiji rose by 16 per cent. In Papua New Guinea, imported food alone has a weight of 23 per cent in the consumer price index, and the prices of the main food imports — rice, flour, sugar, fish and meat — rose by 11-16 per cent. Drought conditions also raised by 17 per cent the prices of local foodstuffs, which have a weight of 18 per cent in Papua New Guinea's consumer price index.

The rise of oil prices would obviously have affected inflation in other island countries; in Kiribati, Samoa and Solomon Islands oil accounted for about 16 per cent of total imports in 1980. Food items would have at least as great a weight in their consumer price indexes. In 1980, food prices, imported and local, rose by 14-16 per cent in Cook Islands and Vanuatu, by 21-25 per cent in

Samoa and Solomon Islands and by 30 per cent in Tonga. Two depreciations of the Samoan dollar, by 10 per cent in 1979 and by 11 per cent in 1980, contributed a good deal to inflation of other prices besides food.

Wage adjustments followed price rises and reinforced them, directly or indirectly, although they were not usually sufficient to maintain real wages, especially for the better-paid workers. Papua New Guinea raised wages generally by 7.4 per cent in March 1980, by 4.8 per cent in the following September and by 5.8 per cent in March 1981.

It has also had a policy of revaluing the kina in the hope of insulating the economy from ex-

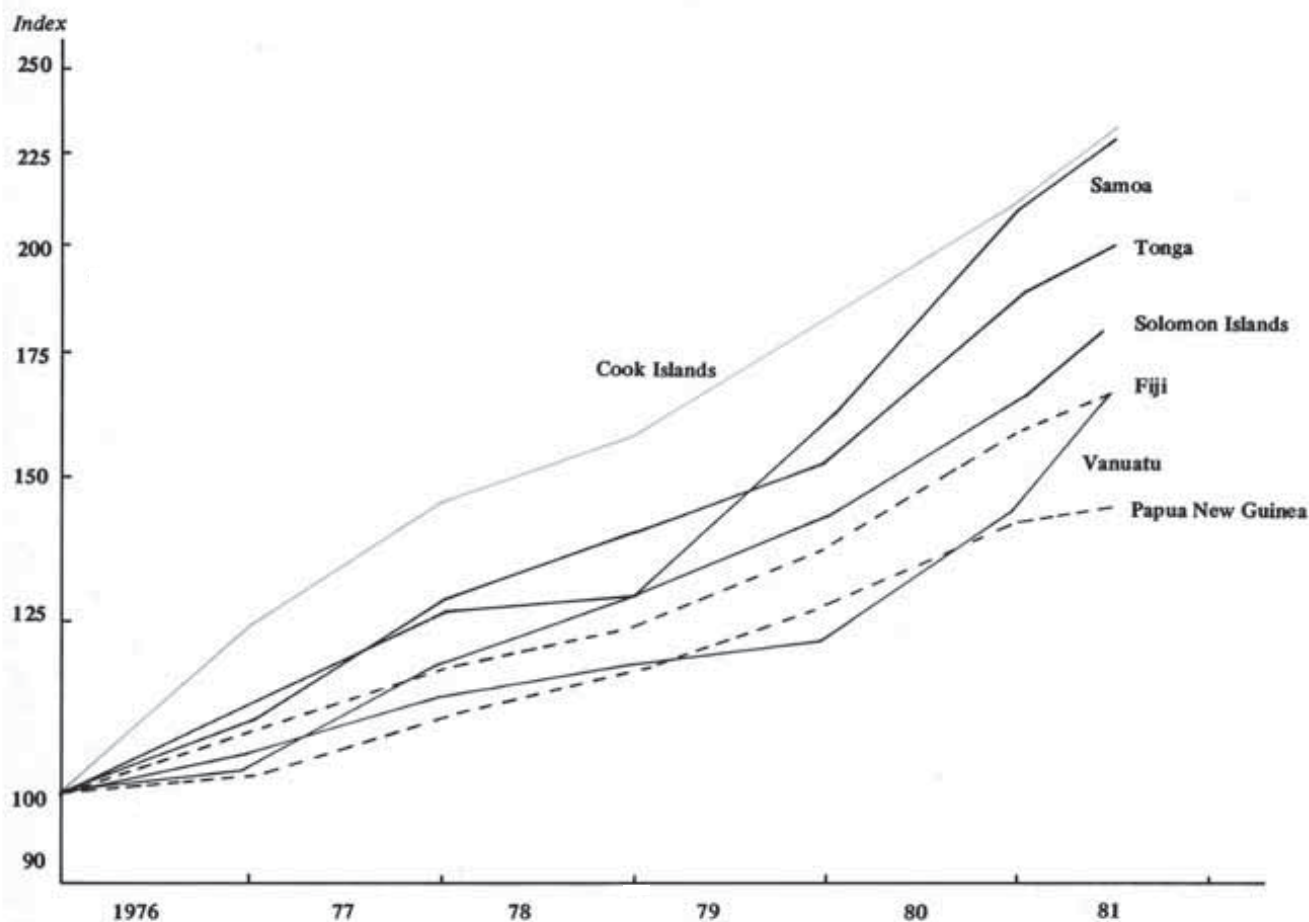
ternal inflation. Some research studies, however, find little relation between the revaluations and local retail prices of imported goods, partly because there is an oligopolistic structure in regard to the distribution of imported goods, and partly because the revaluations have had considerably adverse effects on the export sector and on local industries which produce substitutes for imports. Such considerations have led to a revision of the policy; no further revaluations were made in 1980 although there were then renewed inflationary pressures, external as well as internal. The revised policy was associated with no greater rise than 3 per cent in the consumer

price index over the first three quarters of 1981.

A 12-week strike by public servants in Samoa, early in 1981, was settled by salary increases ranging from 5 to 36 per cent. Tonga granted its civil servants similar rises of 10 to 33 per cent, and Solomon Islands granted its civil servants more moderate rises of 8 to 12 per cent. No doubt these increases spread from the public to the private sector.

Monetary data are available in a useful form for only four of these island countries: Fiji, Papua New Guinea, Samoa and Solomon Islands. In the former and two largest countries, monetary expansion, in recent years, has been

Figure VI.4. South Pacific island countries. Consumer price indexes, 1976-1981
(Fourth quarter 1975 = 100)



comparatively moderate, but considerably greater in the latter two smaller countries.

Fiji's long succession of adverse trade balances was broken in 1980 by the sugar boom and, in that year, nearly \$F 25 million was added to the country's net foreign assets, as compared with \$F 4 million in 1979. Yet, at the same time, there were reductions of \$F 13 million in bank loans to the Government and to official entities, instead of a combined increase of

\$F 12 million in 1979. There had, however, been an increase of \$F 41 million in bank loans to the private sector during 1979, mainly to finance booming exports of sugar, and this was reduced to an increase of \$F 21 million during 1980, when the sugar crop was damaged by two cyclones and then by drought. The net result was that money plus quasi-money increased by rather more than one third between 1978 and 1980.

The authorities decided that

this expansion was excessive and took steps to reduce it. In August 1980, the statutory reserve deposit ratio was raised from 5 to 7 per cent, and banks were asked to restrict loans to a maximum ratio of 65 per cent of their deposits. The commercial rate of interest was also raised from 10.5 to 12 per cent. These measures were only partly successful in checking expansion of credit to the private sector; this had increased by \$F 40 million in 1979 and by \$F 21 million in 1980 but by \$F 28 million in the year ended June 1981.

There was, however, a dramatic change in Fiji's balance of payments during the first half of 1981, when net foreign assets decreased by \$F 45 million. Government borrowing from the banking system also decreased, by the small amount of \$F 3 million, but credit to official entities increased by \$F 19 million, mainly due to three major projects – a water supply scheme, a new highway and a hydroelectric scheme. Increasing expenditures on facilities for tourism had also stimulated bank lending to the private sector, in spite of official restraints. The net result, for the year ending June 1981, was an increase of money plus quasi-money of nearly 11 per cent, as compared with 19 per cent for the year ending June 1980, but the main factor was the heavy fall in net foreign assets.

Monetary policy in Papua New Guinea had been quite relaxed in 1979 and early 1980 because of optimism about export receipts and government revenues, largely derived from them. Prices for copper and gold were then at record levels, and a substantial trade surplus had helped net foreign assets to increase by 90 million kina. At the same time, a reduction of bank debt by export stabilization funds about offset an expansion of bank credit to the Government by 21 million kina. All this

Table VI.6. South Pacific island countries. Consumer price indexes, 1976-1981

(Fourth quarter 1975 = 100)^a

	1976 (Dec.)	1977 (Dec.)	1978 (Dec.)	1979 (Dec.)	1980 (Dec.)	1981 (June)
Cook Islands						
Consumer price index	124	144	157	181	209	230
Food price index	124	146	152	175	203	225
Fiji						
Consumer price index	109	118	124	137	158	166
Food price index	100	110	126	138	160	168
Papua New Guinea						
Consumer price index	104	111	117	127	141	144
Food price index	104	111	113	124	144	147
Samoa						
Consumer price index	113	126	129	160	208	227
Food price index	105	125	125	165	207	228
Solomon Islands						
Consumer price index	103	118	128	140	163	178
Food price index	101	118	128	141	171	188
Tonga						
Consumer price index	110	128	135	152	187	198
Food price index	108	128	137	147	191	204
Vanuatu (March 1976 = 100)^b						
Consumer price index ^c	106	114	118	122	144	166
Food price index ^c	107	110	119	121	149	177

Sources: ESCAP, *Statistical Indicators for Asia and the Pacific*, various issues; South Pacific Commission, *Retail Price Indexes, 1979*; and Vanuatu, *Statistical Bulletin*, various issues.

^a Approximate equivalents derived by chaining to the preceding indexes where applicable.

^b The earlier indicator, the retail price index based on the 1971 consumption patterns at Port Vila, was discontinued after June 1975 because its validity was significantly affected by the imposition of selective price controls. No attempt was thus made to link the present index to the old one.

^c Low-income group only.

led to an expansion of money plus quasi-money of more than one quarter in 1979. Continuing optimism about immediate prospects led the authorities, in April 1980 to reduce the minimum liquid assets ratio from 25 to 20 per cent, and to set up a facility for last resort lending in order to ensure continuity of loans or advances during transient periods of tight liquidity.

The situation quickly changed for the worse. The balance of payments suddenly swung from a huge surplus to a huge deficit so that, in 1980, net foreign assets fell by 78 million kina. The Government was also repaying 20 million kina of debt to the banking system, but credit to the private sector rose by almost as much as the big reduction of net foreign assets. Although the volume of money and quasi-money was now decreasing, some restrictive measures were taken; interest rates were lifted by 2 per cent at the end of August 1980, and directives were issued to the banks about loans and investments. For 1981, the target expansion of the broad money supply was set at 9-11 per cent, as compared with an expected decline of real GDP by almost 2 per cent. After taking account of budget requirements and the projected deficit in the balance of payments, non-seasonal credit from commercial banks was given a limit of 45 million kina.

As 1981 progressed, it became apparent that the deficit in the balance of payments would be larger than had been anticipated, owing to further falls in the world prices of Papua New Guinea's export commodities and the rise of world interest rates to record high levels. Within the country, too, bank lending, mostly for purposes of consumption, was still rising. In March, local interest rates were raised by 1 percentage point, and by a further 2 percent-

age points in June. The liquidity ratio, however, was reduced by 2 per cent in July to assist finance of exports, although the ceiling of 45 million kina on other lending still applied.

For the year ended June 1981, bank lending to the private sector increased by only 7 per cent, as against a rise of 33 per cent in the previous June year. There was, however, a big increase of bank lending to the Government: 61 million kina in the first half of 1981 as against 9 million kina in the first half of 1980. Net foreign assets declined by 111 million kina, and that change swamped expansionary influences to reduce the volume of money and quasi-money by nearly 25 million kina. Tight credit conditions were to

continue throughout 1981 because of the need to check imports and reduce inflation.

In Samoa, where published financial data are somewhat sketchy, it appears that monetary expansion became rapid after 1977 as, between then and June 1980, the volume of money increased by 79 per cent, as against 45 per cent for Fiji and 29 per cent for Papua New Guinea. In spite of substantial losses of net foreign exchange, expansion of bank credit to both the Government and the private sector made for annual increases of money plus quasi-money of 19 per cent in 1978, 43 per cent in 1979 and 24 per cent in the year ended June 1980. Most of the bank lending to Government was for finance of

Table VI.7. South Pacific island countries. Changes in components of money plus quasi-money, 1978-1981

(Million units of national currencies)

	Net foreign assets	Claims on			Other	Money and quasi- money
		Government sector	Private sector	Official entities		
Fiji						
1978	-7.6	17.7	7.7	6.0	-4.5	19.3
1979	4.3	5.7	40.7	5.5	-5.7	50.5
1980	24.9	-8.3	20.8	-4.9	-4.4	36.9
January-June 1981	-45.3	-3.2	14.8	19.0	0.6	-14.1
Papua New Guinea						
1978	-48.0	10.2	49.1	7.8 ^a	0.8	20.6
1979	89.9	21.4	43.1	-9.4 ^a	-22.3	122.7
1980	-77.6	-20.0	75.6	-1.2 ^a	4.6	-18.6
January-June 1981	-110.9	60.8	30.5	0.0 ^a	-5.1	-24.6
Samoa						
1978	-5.1	3.2	4.0	...	-0.3	1.8
1979	-2.3	4.0	3.8	...	-0.5	5.0
1980 ^b	-3.5	2.8	0.9	...	0.7	0.9
Solomon Islands						
1978	13.7	-2.2	0.2	...	-3.4	8.3
1979	6.6	2.6	7.7	...	-2.8	14.1
1980 ^b	-5.7	2.3	2.9	...	-2.3	-2.8

Sources: IMF, *International Financial Statistics*, November 1981, and official national sources.

^a Financial institutions.

^b As at June.

public works. Ultimately, the ability of the banking system in an open economy is constrained by its reserves of foreign exchange, and Samoa's net foreign reserves fell from 3.6 million tala in 1977 to -7.3 million tala in June 1980, so that external debt was incurred to IMF and other agencies in respect of this negative level.

Solomon Islands had even more excessive monetary expansion than Samoa as, between 1977 and 1980, its volume of money plus quasi-money increased by 96 per cent. The increase was 41 per cent in 1978 and 49 per cent in 1979. The main reason was large net increases of net foreign assets in 1978, and a lesser increase in 1979 augmented by a big expansion of bank credit to the private sector amounting to \$SI 7.7 million. At the same time, government borrowing from the banks amounted to \$SI 2.6 million whereas debt had been repaid in 1978. In the first half of 1980, there was a large trade deficit which reduced net foreign assets by \$SI 5.7 million, not completely offset in monetary effect by new loans of \$SI 2.3 million to the Government and \$SI 2.9 million to the private sector, so that the supply of money plus quasi-money now declined by \$SI 2.8 million.

The Government's response was to devalue the Solomon Islands dollar by 6 per cent against the basket of foreign currencies to which it is adjusted. Import duties have also been raised, some to penalty levels, and bank lending was made more restrictive and expensive.

Fiji's current domestic revenues, plus small amounts from foreign grants covered, on average between 1976 and 1980, 85 per cent of its current and capital government expenditures. External loans financed, on average, less than two fifths of the deficit, and the remainder came from internal loans

raised from the public or from the banking system. The 1981 budget forecast a rise of the over-all deficit from \$F 31 million to \$F 54 million mainly because of a rise in current expenditures, and proposed to finance more than three quarters of this bigger deficit from official sources plus some direct private investment. In 1977 and 1979, credit had been raised in the Eurocurrency market, totalling \$F 46 million, but higher interest rates and other difficulties in servicing this debt led the Government to reduce further borrowing from international capital markets.

Papua New Guinea had relied upon Australian budgetary grants for 35 per cent of its current and capital budgetary expenditures between 1976 and 1980, but this is to be reduced, in real terms, by 5 per cent between 1981 and 1986. Domestic current revenues depend heavily upon export receipts. Over-all budgetary deficits were small up to 1979, when they reached 13 per cent of current revenues. When small, they had been financed mostly from domestic loans, but, in 1979 and 1980, foreign loans financed more than half the over-all deficit. The 1981 budget envisaged a 15 per cent increase of tax receipts, a small increase of the Australian grant, a 5 per cent increase of current expenditures, a 10 per cent increase of capital expenditures, and a trebling of net loans and investments. That meant an over-all deficit of about the same size as in 1980, equal to one eighth of current receipts, and with external loans financing only one quarter of it. Domestic loans would have to increase from 31 million kina to 57 million kina, and that could put more strain on the monetary sector.

In Samoa, between 1976 and 1980, tax receipts and other domestic revenues both nearly doubled, and foreign grants de-

clined to less than 1 per cent of current revenue. Current expenditures also doubled, but capital expenditures trebled. The over-all deficit, already at a high average of 72 per cent of current revenues in 1976-1977, rose to 105 per cent in 1978-1979, and to 111 per cent in 1980. Most of the increase of development spending went to a Rural Development Programme, and to improvements of infrastructure. Multilateral agencies, providing such loans, have insisted more strongly that their aid will depend upon proper local identification of projects and evidence that these are financially viable and of national importance. Because of deficiencies of manpower for this purpose, it is likely that Samoa will receive less concessionary loans during the period of its Fourth Plan, 1980-1984.

Current expenditure trebled in Solomon Islands between 1976 and 1980, and capital expenditure fell from two fifths of total budget expenditure to little more than one third. Tax revenues also trebled, and the over-all deficit fell a little from 73 per cent of current receipts to 70 per cent. Most of this was financed by development grants from the United Kingdom, but the proportion dropped from 88 per cent in 1976-1977 to 53 per cent in 1979-1980. The gap was met by loans from Australia, Japan and New Zealand, and also from internal sources, especially banks. In 1980, these domestic sources were lending the Government almost half as much as the United Kingdom was providing in development grants, and almost as much as the other three countries were lending bilaterally. The 1981 budget envisaged a doubling of capital expenditures, mostly for infrastructure purposes, and the over-all deficit would almost double to \$SI 70 million. It was now to be mostly financed by loans from other sources than the United

Kingdom, whose development grants would increase very little to \$SI 10 million. Local sources would provide another \$SI 4 million.

Table VI.8 includes data for Tonga, but they are not complete in respect of development expenditures because those which are made overseas for purchases of equipment, aid-in-kind and services are not included in the budget tables. Receipts and expenditures both nearly doubled between 1976 and 1980, and the apparent over-all deficit was quite small, less than 1 per cent of receipts in 1980. Inflows of foreign capital were recorded as \$T 15.9 million for bilateral aid and \$T 3.1 million for multilateral aid, together greater than recorded expenditure by two fifths. These aid flows have increased very rapidly, from \$T 2.6 million in 1976 to \$T 7.0 million in 1978, and to \$T 19.1 million in 1980. Since 1975, the ranks of donors have expanded from only the United Kingdom and New Zealand to Australia, the Federal Republic of Germany, EEC and ADB.

A final reflection on public finance in these Pacific island countries is that, although there has been a relative shift of spending from current to capital purposes, this shift has not given them a strong impetus for economic growth. Except in Solomon Islands, current government spending has not increased as rapidly as inflation, and so has declined in real terms. Growing populations, accordingly, are getting less, or poorer quality, public services in most areas. (An example is the recent suspension of a programme for controlling malaria in Papua New Guinea.) In regard to capital expenditures, greater care in planning and control would seem to be needed if they are to enhance productive capacities sufficiently for attaining growth of average real incomes and greater economic self-reliance.

Table VI.8. South Pacific island countries. Public finance, 1976-1981
(Million units of national currencies)

	1976	1977	1978	1979	1980	1981 budget
Fiji						
Receipts	123	134	157	194	222	240
Tax revenue	104	114	133	156	180	202
Non-tax revenue	17	18	20	31	34	32
Foreign grants	2	2	4	6	8	6
Expenditure	147	169	188	221	253	294
Current expenditure	108	119	140	165	193	215
Capital expenditure	39	41	36	38	49	58
Net lending		8	11	17	11	22
Balance (- deficit)	-24	-35	-31	-27	-31	-54
Domestic financing	16	16	33	19	7	12
External financing	10	19	-2	8	23	42
Papua New Guinea						
Receipts	393	390	445	460	519	580
Tax revenue	240	216	274	283	344	396
Foreign grants	152	175	172	176	175	184
Expenditure	415	409	461	524	597	655
Current expenditure	370	363	414	481	528	553
Capital expenditure	45	46	41	33	56	65
Net lending and investment	...	...	6	10	13	37
Balance (- deficit)	-23	-19	-16	-64	-78	-75
Domestic financing	9	10	13	37	31	57
Overseas	14	9	3	27	47	18
Samoa						
Receipts	12.22	17.71	18.25	22.19	26.02	30.29
Tax revenue	8.70	12.19	14.64	16.63	18.70	21.53
Non-tax revenue	3.52	3.22	3.57	4.44	6.77	8.61
Foreign grants	0.25	2.29	0.03	1.07	0.15	0.15
Expenditure	22.11	28.67	37.24	44.63	54.94	58.19
Current expenditure	10.61	13.01	14.29	16.85	19.07	21.46
Capital expenditure	11.50	15.68	22.95	27.78	35.87	36.73
Balance (- deficit)	-9.89	-10.98	-18.99	-22.44	-28.92	-27.90
Overseas financing:						
Project aid	4.27	5.90	8.56	12.26	15.08	16.42
Soft term loans	2.63	3.30	6.13	6.20	11.65	11.48
Other	2.99	1.78	4.30	3.98	2.19	0.57
Solomon Islands						
Receipts	10.23	13.93	17.18	23.89	28.00	35.00
Tax revenue	9.31	11.09	15.21	22.45	27.50	35.00
United Kingdom budget grants	0.92	1.84	1.97	1.44	0.50	-
Expenditure	17.74	21.79	31.61	37.30	47.57	70.48
Current expenditure	10.70	14.10	17.18	22.22	30.50	35.50
Capital expenditure	7.04	7.69	13.43	15.08	17.07	34.98
Balance (- deficit)	-7.51	-7.86	-14.43	-13.41	-19.57	-35.48
United Kingdom development aid (grant)	7.20	6.36	10.39	7.93	9.56	9.94
Other foreign aid	0.13	0.35	1.61	3.62	5.49	21.66
Internal sources	0.18	1.15	2.43	1.86	4.52	3.88
Tonga						
Receipts	6.21	7.98	10.47	12.07	13.29	...
Expenditure	7.31	8.18	10.40	11.58	13.42	...
Balance (- deficit)	-0.90	-0.20	0.07	0.51	-0.13	...
Aid inflows:						
Bilateral	2.08	3.50	5.09	11.55	15.93	...
Multilateral	0.52	0.81	1.95	2.30	3.05	...

Sources: Official national sources.

VII. SOME HUMAN PROBLEMS

The Survey concludes with brief, current reviews of major social problems in developing ESCAP countries. Population pressures are still heavy in most parts of the region, although there has been much recent progress in reducing them, especially by measures of family planning. Health problems, however, are not decreasing, and are strongly related to poverty through widespread malnutrition, and also through lack of access by poor people and rural people to adequate medical care. There is a need to reorganize health services so as to put more emphasis on preventive measures, and so as to make curative measures more widely and readily available in rural areas. Attention has also to be given, in this connection, to measures for arresting deterioration of the physical and the social environment. Although Asian countries have legislation against economic exploitation of children, this continues to be widespread and reprehensible – a dark aspect of industrialization and urbanization. Economic modernization is also damaging the extended family system, which has traditionally cared for old and disabled people, and the old are a rising proportion of the population. Alternative care of the old and disabled will increasingly require provision of appropriate measures of social security. There has been recent progress in reducing socio-economic handicaps traditionally imposed on women, but much remains to be done in this respect. Refugees have become another problem, serious for those directly concerned and an economic burden on the countries which have first to receive them. If political tensions could be relieved, so would be these problems; for expenditures on defence and armaments might then be diverted to improving socio-economic conditions.

A. POPULATION PRESSURE AND GROWTH

The ESCAP region embraces 39 member and associate member countries and areas which vary in size of population from less than 8,000 in Tuvalu to over 980 million in China. In 1980, the population of the whole region has been estimated at 2,485 million, or well over half the world's population. Six large countries, however, have 85 per cent of the region's people – China, India, Indonesia, Japan, Bangladesh and Pakistan. For demographic, as for other, purposes it is convenient to break the enormously varied ESCAP region into four major subregions, as in table VII.1.

As well as being very populous, if unevenly so, the ESCAP region has rates of growth which are among the highest in the world. Notwithstanding recent declines of

fertility, the average annual growth over 1975-1980 was 1.79 per cent as against 0.94 per cent for north America, 0.40 per cent for western Europe and 0.94 per cent for the USSR. A disturbing demographic feature is that the most populous countries had higher than average growth rates over this quinquennium; only 1.3 per cent in China, but 2.0 per cent in India, 2.2 per cent in Indonesia, 2.5 per cent in the Philippines, 2.8 per cent in Bangladesh and 3.0 per cent in Pakistan. Future annual additions to the region's population are bound to be very large. Projections based on current trends in fertility and morbidity put this population at 2.9 billion in 1990, and at nearly 3.4 billion in 2000.

Yet good measures of fertility are lacking. Only Japan and four small countries or areas – Hong Kong, Singapore, Sri Lanka and

Peninsular Malaysia – have satisfactory statistics for registration of births. Estimates for the region's other countries and areas are based on the best available data (sample surveys, for example), and those for the Pacific island countries are mostly speculative because of incomplete registration of births and fluctuations in considerable migration streams.

It would appear, from such evidence as is available, that, in the 1960s and 1970s, fertility rates significantly declined in several countries of the region; and in China, the Republic of Korea, Thailand and Viet Nam that the decline exceeded one fifth. Between 1965 and 1975, recorded birth rates fell by between one fifth and two fifths in Fiji, Hong Kong, Singapore and Sri Lanka; by one tenth to one fifth in India, Indonesia and the Philippines; but

hardly at all in Bangladesh, Burma, Iran and Pakistan.

East Asia (with the exception of Mongolia) has the lowest birth rates in the developing ESCAP region. Gross reproduction rates in Hong Kong, the Republic of Korea and Singapore are at a similar level to those for the more developed countries in other regions. Many conditions have helped to lower fertility in east Asia, including the spread of education and effective official programmes for reducing birth rates.¹

The highest fertility rates, around 45 per thousand, are in the poor Muslim countries of south Asia — Afghanistan, Bangladesh and Pakistan. India has a fertility rate which is closer to that for east Asia than to that of its Muslim neighbours.

¹ China's crude birth rate has been estimated at 18 per thousand for 1980, and it is official policy to reduce the natural rate of increase in population to 5 per thousand by 1985, partly through a one-child family policy, which provides both financial incentives and penalties for achieving this aim.

In the small Pacific island countries, data about fertility trends are even more lacking than for population growth. Recent estimates, however, point to some decline, which might be explained by a relatively high age at marriage, and by a loss of vigorous males through sex-selective migration.

There was, from 1950, a general decline of mortality with variation of this trend between countries. In some, it continued almost unchecked until the position was reached that expectation of life at birth exceeded 65 years. In others, the trend slowed considerably during the 1970s and, in a few cases, appears to have become stationary. In Bangladesh and India, this slowing has occurred at high levels of mortality, and in the Philippines, Sri Lanka and Thailand at intermediate levels.

East Asia has the lowest mortality rates, and these are fairly uniform over all its countries. South Asia has the highest rates, with the notable exception of Sri Lanka. In such countries as

Afghanistan, Bhutan, Lao People's Democratic Republic and Nepal, crude death rates have been steady at a high 20 or more per thousand.

Good data on infant or child mortality are limited to relatively few countries of the region, but many have, in recent years, published estimates of varying reliability; they range from a low of 10 per thousand live births in Japan to a high of 140 or more in Afghanistan, Bangladesh, Lao People's Democratic Republic, Nepal and Pakistan. Infant mortality is lower for girls than for boys in China, Indonesia, Malaysia, the Philippines, Sri Lanka and Thailand, but the reverse holds for India.

The rate of maternal mortality is reported by most countries as exceeding 500 per 100,000 live births. A survey made of a rural area in Bangladesh found this rate to be 570 per 100,000 live births and, for the youngest group of mothers, it was as high as 1,770 per 100,000. Another survey made in Afghanistan put maternal mor-

Table VII.1. Selected demographic indicators for the ESCAP region

Area	Estimated 1980 population (in thousands)	Average annual growth rate		Crude birth rate		Crude death rate		Expectation of life at birth	
		1970-1975	1975-1980	1970-1975	1975-1980	1970-1975	1975-1980	1970-1975	1975-1980
ESCAP region	2 485 400	2.22	1.79	35.2	29.4	13.5	11.3	55.2	58.4
East Asia ^a	1 156 600	2.01	1.37	29.7	21.0	9.7	7.3	62.2	67.6
South-east Asia ^b	362 300	2.31	2.13	39.1	35.2	15.9	13.4	41.3	52.7
South Asia ^c	944 100	2.47	2.21	40.9	37.6	17.5	15.5	48.1	49.2
Oceania ^d	22 400	1.83	1.47	24.9	21.8	9.3	9.0	68.2	69.0

Source: Provisional projections of the United Nations Population Division/ISEA 1980.

^a East Asia includes China, Hong Kong, Japan, Mongolia and the Republic of Korea.

^b South-east Asia includes Brunei, Burma, Democratic Kampuchea, Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

^c South Asia includes Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan and Sri Lanka.

^d Oceania includes Australia, Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Trust Territory of the Pacific Islands, Tuvalu and Vanuatu.

tality at 700 per 100,000 live births. This mortality rate, like other ones, is highest among the poor, and it is also greater for very young or very old mothers. Poor health associated with low nutritional levels is a basic factor here, although the main direct causes of death for younger mothers are complications of pregnancy, child birth and puerperium. The role of illegal abortions is well recognized but difficult to estimate, even approximately, because of the secrecy with which they are conducted.

The most general, and a fairly sensitive, indicator of health conditions is the average expectation of life from birth. In east Asia, this expectation has risen to 64 years in China, and to 65 years in Mongolia, but their rates are still well below Japan's 76 years. In south-east Asia, Malaysia and Singapore have similarly high expectations of life, and the expectation has risen to above 60 years in other south-east Asian countries, with the important exceptions of Burma and Indonesia. Their expectations of life are close to the fairly uniform 50 years reported in south Asian countries, and this level is only marginally higher than that prevailing in south Asia during the early 1970s.

It has also to be recognized that life expectancies vary considerably within a country, unless it is sufficiently small and homogeneous to avoid that. Mortality rates are higher in rural than in urban areas for most developing ESCAP countries. In many, too, infants and old people have more sickness and hospitalization, and infant mortality remains their most important determinant of life expectancy.

One area in which progress has been made is family planning. By 1978, 25 of ESCAP's 39 regional member and associate member countries had official popula-

tion or family planning policies. These 25 countries and areas, together with another four which support or permit unofficial activities for family planning, contain almost 98 per cent of the region's people. In Hong Kong, the Republic of Korea and Singapore, at least 40 per cent of eligible couples practise family planning methods; in Malaysia, the Philippines, Sri Lanka and Thailand this proportion is at least 30 per cent; and in India, Indonesia and Iran it is about 20 per cent.

Nevertheless, there is a wide gap between current fertility levels and those recommended for 1985 by ESCAP regional consultative meetings, held in relation to the World Population Conference of 1974. Government commitment to family planning has increased markedly year by year, but more substantial budget expenditures are urgently required for this area, and stronger political and administrative support given to it, if progress is to continue at the desired accelerating pace.

B. HEALTH, POVERTY AND THE ENVIRONMENT

Information about the incidence and causes of morbidity is deficient. Within the developing ESCAP region, there appears to have been little recent general progress in reducing the incidence or prevalence of many diseases that have long affected its people. Respiratory and diarrhoeal diseases have been reduced in some countries but not in others; they, with malaria, continue to have a leading role in morbidity trends and appear to be again increasing in south Asian countries. The eradication of smallpox was the major improvement during the 1970s, a brilliant achievement but one that cannot be generalized because the disease has a very specific etiology. There

has been no lessening of the incidence of such other common diseases as malaria, filariasis, cholera, leprosy or tuberculosis, all of which may have increased; as have food-borne and sexually transmitted diseases.

Health problems of mothers and children, and high levels of morbidity and mortality, are largely due to synergistic effects of malnutrition, infection and uncontrolled fertility, themselves consequences of poor environmental and socio-economic conditions — including lack of health care. In the more developed countries, malnutrition and infection, parasitic and respiratory diseases have been largely eliminated; but they are still the main sources of suffering, debility and death in the less developed countries.

It is of paramount importance to recognize the debilitating and often fatal consequences of widespread malnutrition affecting the health of children and women of child-bearing age in most developing ESCAP countries. A rural nutritional survey made in Bangladesh during 1975/76 found that 70 per cent of rural people were anaemic; for children younger than 5 years the figure was 82 per cent, and for pregnant or lactating women it was 70 per cent, as against 62 per cent for men. In Thailand, protein deficiencies were recently found to affect 53 per cent of newly born children. In all countries, chronic malnutrition and anaemia are closely linked with such acute infections as malaria, infectious hepatitis, urinary tract infections and pulmonary tuberculosis.

It has, indeed, to be recognized that health depends very much on nutrition. Estimates for Asian countries put the proportion of children under 5 years of age who suffer from malnutrition, severe or moderate, at 15 to 80 per cent, and totalling about 70 million over

all these countries. An FAO survey, published in 1977, found that almost 300 million people in 11 Asian countries² had an insufficient consumption of calories.

Increases in the production or import of foodstuffs have not been sufficient in nine Asian countries³ to provide, even on average, enough calories for their people. But the situation is worsened by marked inequality in the distribution of household incomes. Studies made in India have indicated that the 70 per cent of households at the lowest end of the income scale get only 75 per cent of the minimal daily requirement of calories (2,200), in contrast to the 4 per cent of households at the top end of the income scale who get 177 per cent of the requirement. Similar findings have been made in some other developing countries, the general result being that the poorest 20 per cent of households have about half the per capita intake of calories consumed by the top 10 per cent.

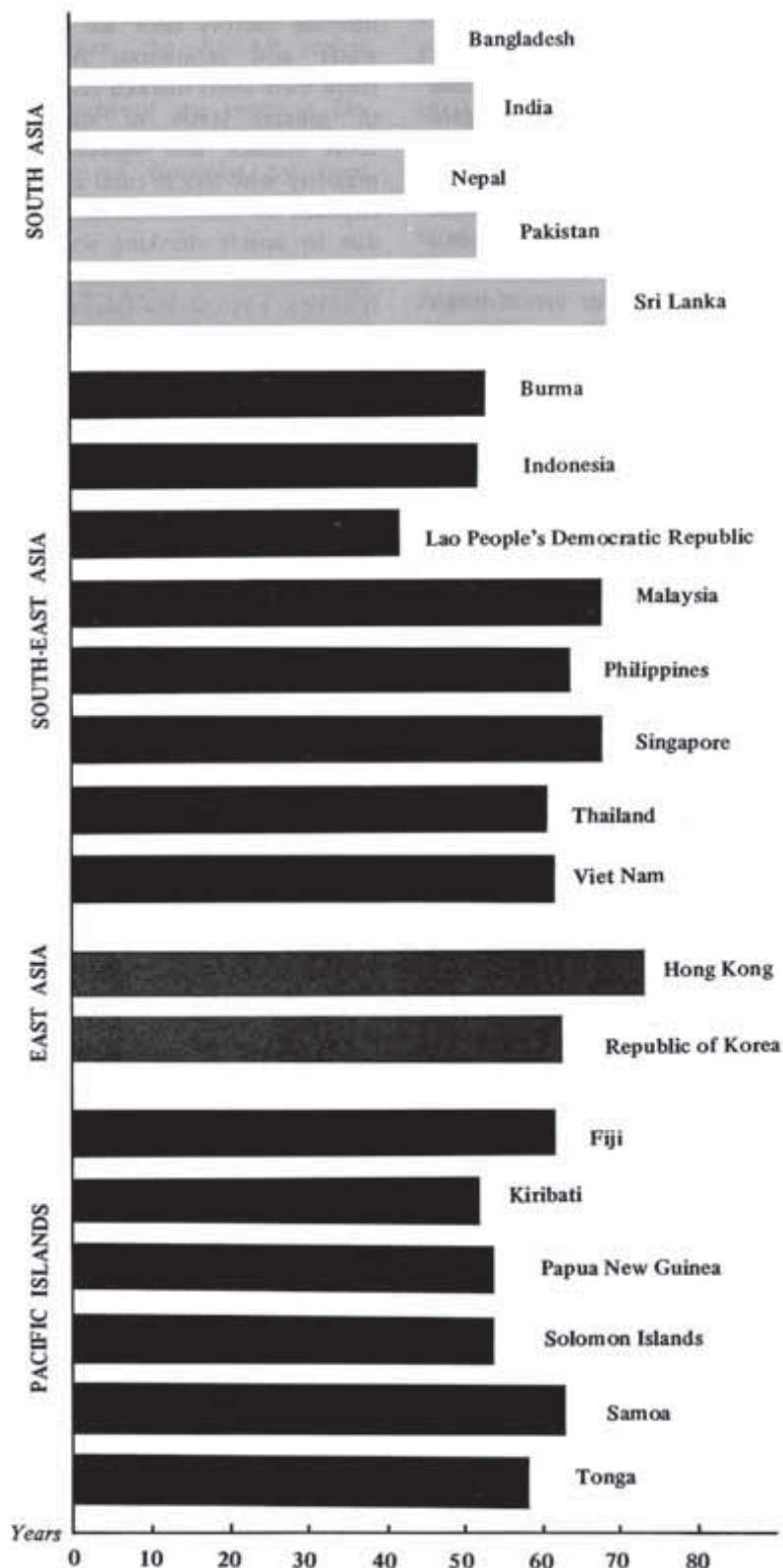
Malnutrition, or under-nutrition, is seldom recorded as a cause of death; but an inter-American study has found that about half of the deaths of children under 5 years of age are directly, or indirectly, associated with malnutrition.

The situation regarding protein is somewhat different from that for calories. In spite of a declining recent trend in the per capita availability of protein in big countries, like Bangladesh and India, even the poorest countries in Asia have sufficient supplies of protein for their people – if these supplies were evenly distributed. They are

² Afghanistan, Bangladesh, Burma, India, Indonesia, Iran, Nepal, Pakistan, the Philippines, the Republic of Korea and Thailand.

³ Those listed in ², except the Republic of Korea and Thailand.

Figure VII.1. Developing ESCAP countries. Expectations of life, 1976-1980



not, of course, anything like equally distributed, so that protein deficiencies are suffered by the lower-income households in most Asian countries.

There are other nutritional deficiencies, particularly in regard to vitamins and mineral trace elements, and these induce widespread conditions such as anaemia or blindness. To some extent, they are related to the core nutritional deficiencies or are of lesser

urgency, but are serious enough.

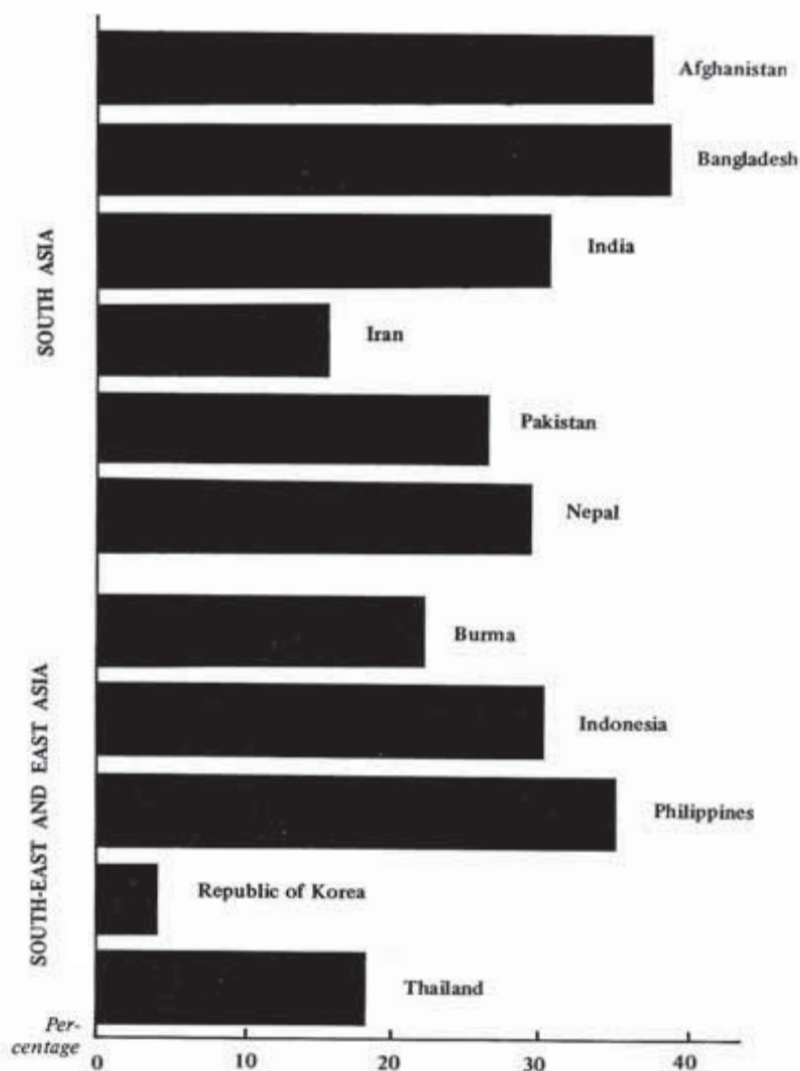
Environment also plays a big role in health conditions. The most obvious factors here are potable water and sanitation. Although there have been marked reductions in general levels of mortality, most Asians, and especially the majority who live in rural areas, are exposed to communicable diseases due to unsafe drinking water and an almost complete lack of sanitary facilities. Even in Sri Lanka, which

has a relatively low death rate, safe drinking water has been available to only a quarter of the people. In most developing ESCAP countries, adequate sewerage does not exist, even in small- or medium-sized towns.

One important aspect of the connection between environment and health is the doubling of malaria cases, between 1970 and 1975, in 21 Asian countries, and especially in India, which had close to 4 million cases. In this large sample of countries, nine had a worsening trend of malaria prevalence, four had a stationary trend, and four an improving trend. A conference sponsored by the World Health Organization, held in 1976, linked the transmission of malaria by mosquitoes to the maintenance of primitive techniques of rice farming. These favour the multiplication of mosquitoes, and the practice of sleeping by paddy fields their role as vectors of the clinical parasite. There are pesticide sprays to reduce the problem, and they were successfully applied, on a large scale, during the 1950s. Today, their use has diminished owing to financial and such operational constraints as lack of trained personnel and equipment.

The environmental conditions just discussed are important aspects of what has come to be called primary health care, generally accepted as an element of national economic plans by Asian countries. Other aspects of the problem relate to pollution of air, water or soil due to municipal, industrial and agricultural effluents or activities. Mortality and morbidity rates are especially high in Bangladesh, India, Pakistan, Sri Lanka and Viet Nam because of water- and soil-borne diseases. Air pollution, due to motor traffic, chemical works and industrial fuels, is also becoming a health hazard in the larger cities, such as Bangkok, Bombay and

Figure VII.2. Developing ESCAP countries. Percentage of population undernourished, 1972-1974



Seoul. There has also been a marked deterioration of inland waterways and coastal waters.

Less direct, or more long-term, aspects of environmental deterioration have also to be noticed. Asia is losing its forests, and at an alarming rate in Indonesia, Malaysia, Nepal, the Philippines,

Sri Lanka and Thailand. If present trends went unchecked, these countries could lose their entire forests within two decades. Or, to widen the picture, the ESCAP region could lose 70 per cent of its forests by the turn of the century. Deforestation has various causes: collection of firewood by rural

households, conversion of forests to arable farms, shifting cultivation of the "slash and burn" type, commercial logging and illegal logging. Its consequences are accelerated erosion of agricultural land, siltation of rivers and coastal waters and shortages of water in dry seasons.

Another serious problem in large areas of China, India and Iran, and in some parts of Afghanistan and Pakistan, is "desertification", a name for a human or natural process which reduces the productivity of land. This occurs in arid or semi-arid areas which have been over-exploited for grazing livestock or for growing crops that exhaust the soil. It has been estimated that this deterioration threatens nearly 380 million people over an area of 21 million square kilometres within the ESCAP region. That threat has obvious implications for food production and nutrition, and so for health. During the late 1970s, measures were taken to deal with it, but the scale of necessary action, and the lengthy time required for results, mean that no quick reversal can be hoped for.

Notice has also to be taken of a fundamental aspect of what can be called the "social environment". That environment depends upon the maintenance of law and order for the protection of citizens, long regarded as a basic function of the State. Yet, in some developing ESCAP countries, traffic accidents and murders have become leading causes of death, and increasingly so. Firearms are far too easily obtained, and motorcycles are giving Asian criminals unprecedented mobility to escape detection. The main requirements here would seem to be strengthening the forces of law and order, improving dedication to their basic social role, and gaining wider public co-operation for their work.

Imbalances of health services

Existing health services are very unevenly distributed between the larger urban areas and the rest of a country, so that most rural people have very limited access to them. In India, for example, it has been estimated, that about 80 per cent of hospital beds and over 30 per cent of physicians are located in urban areas. In Thailand, to take another example, there is one doctor per 1,000 people in the capital, but only one doctor per 30,000-50,000 people outside it. This kind of discrepancy is wider still for nurses, pharmacists, dentists and other health workers.

Uneven distribution of health services is bound up with an undue emphasis on curative medicine at the expense of preventive medicine and protective health care. The core of institutional health services, and a good deal of private ones, too, has been the hospital. The result is a highly centralized system with decision making, personnel and financial managements located in a ministry, which is almost always in the capital, and with operational facilities concentrated in a hospital network, which is readily available only to a minority of people. Experience has shown that institutional services provided by well-trained professionals is a very expensive, and grossly inequitable, solution to the problem of health care. It is also wasteful, in that many of the doctors and nurses trained to good professional standards, at considerable public cost, find it easy and advantageous to migrate to advanced countries where their services are much better remunerated.

The alternative is well known but lacks practical recognition. If the great majority of Asians are to have anything like effective medical care, large numbers of people have to be

quickly trained in basic and technologically simple health skills, and chosen for that training on the basis of cultural kinship with rural communities. Such a system has been successfully developed in China and Viet Nam, and similar, much more limited, experiments have been tried in India, Iran, Indonesia, Singapore and Thailand with encouraging success.

There is, accordingly, a developing new concept of medical care as being grouped around, not a hospital, but a health centre which emphasizes widespread distribution of health services, and their accessibility; it would also be concerned with a preventive as much as with a curative approach by way of ambulatory services. This kind of health centre should be the core of institutional health services, at least in the rural areas of Asia.

The World Health Organization and the United Nations Children's Fund (UNICEF) have thus evolved a recommended approach to health services, which has been labelled primary health care. It means extending more or less specialized health services to people, especially rural people, through outposts manned or managed by professionals, but more or less peripheral to the central administration of health services. The basic idea is that health workers should be at the centre of a rural community's life, and part of it. This seems to be the only practical approach which is likely to provide adequate coverage of health services in developing Asian countries; but it has many difficulties to overcome — financial, bureaucratic and professional. The western approach to health services has great merits and great advantages to those who practise it, or receive it, but it is grossly inadequate for most Asian countries at their present stage of development.

C. DISADVANTAGED PEOPLE

Poverty is the underlying factor in most of Asia's social problems, but these have other aspects connected with such circumstances as age, sex and physical or mental disabilities. In some countries, too, they are connected with race, or with loss of citizenship and residence through people becoming refugees from their own countries.

1. Exploited children

A conspicuous problem is the unscrupulous abuse of child labour, widely practised in the poorer countries of south and south-east Asia, as well as in other large areas of the developing world. Many thousands of children, some

as young as 6 years, are virtually sold into annual or lifetime work in farms, homes, factories or brothels. They are often forced to live under infamous conditions regarding diet, accommodation, work and pay. Those consigned to factories may be kept in unhygienic work places, made to handle dangerous machinery, chemicals or polluted materials, to work long hours with very few holidays, to sleep on factory floors, or to eat unwholesome and scanty food. Those sold to brothels may be brutalized into prostitution, and deprived of liberty along with self-respect.

In 1981, the Economic and Social Council of the United Nations received a report⁴ on this problem which contained some illustrative material.

● In some parts of Bombay, one quarter of children had begun working between the ages of 6 and 9 years, and nearly half between 10 and 12.

● In Pakistan, there were 1.5 million children employed in carpet weaving, many of them from the age of 6 years. They worked 11-12 hours a day for a monthly wage of \$ 8 – \$ 12. These figures related only to those urban factories which are subject to government inspection.

● In the Republic of Korea, there were girls, barely 12 or 13

⁴ A. Bouhdiba, *Exploitation of Child Labour*, paper presented to the United Nations, Economic and Social Council, Commission on Human Rights, Sub-Commission on Prevention of Discrimination and Protection of Minorities (E/CN.4/Sub.2/479), 8 July 1981.

Table VII.2. ESCAP countries. Population by age, sex and urban/rural residence, 1970s
(Percentage)

	Year	Age group				Year	Urban		Rural	
		0-14	15-24	25-64	65+		Male	Female	Male	Female
South Asia										
Bangladesh	1978	42.2	20.6	34.5	2.7	1974	3.6	3.4	47.9	45.1
India	1979	39.9	19.8	36.9	3.4	1977	11.0	10.2	40.8	38.0
Iran	1976	44.4	19.1	33.0	3.5	1976	24.6	22.4	26.9	26.1
Maldives	1974	44.9	17.3	35.6	2.2	...	...	...	...	...
Nepal	1971	40.5	17.4	39.0	3.1	1971	2.2	1.8	48.2	47.8
Pakistan	...	...	...	...	...	1972	...	25.5	...	74.5
Sri Lanka	1978	39.0	20.7	36.1	4.2	1971	11.9	10.5	39.5	38.0
East and south-east Asia										
Burma	1977	40.5	18.4	37.6	3.5	...	...	...	...	...
Hong Kong	1979	26.5	24.0	43.5	6.0	...	...	...	...	...
Indonesia	1971	44.0	16.4	37.2	2.5	1971	8.6	8.7	40.7	42.0
Malaysia	1977	40.2 ^a	22.1 ^a	34.1 ^a	3.6 ^a	1970	13.8	13.5	36.6	36.1
Philippines	1976	42.9	21.3	32.9	2.9	1970	15.5	16.4	34.3	33.9
Republic of Korea	1975	38.1	21.0	37.5	3.5	1975	24.1	24.2	26.2	25.5
Singapore	1979	28.5	23.9	42.9	4.6	1979	50.9	49.1	—	—
Thailand	1979	41.7	20.5	34.5	3.3	1970	6.6	6.7	43.2	43.5
Pacific islands										
Fiji	1976	41.1	22.1	34.3	2.3	1976	18.6	18.6	31.9	30.9
Kiribati	1973	43.8	18.3	33.8	4.1	1973	14.9	14.9	34.1	36.1
Papua New Guinea	1976	43.8	18.4	34.0	3.8	1976	7.9	5.2	43.7	43.1
Samoa	1977	48.2	20.7	28.2	2.9	1977	10.8	10.4	40.9	37.9
Solomon Islands	1978	48.4	17.5	30.8	3.3	1972	5.5	3.3	47.3	43.9
Tonga	1976	44.4	20.0	32.2	3.3	...	...	...	...	...

Source: United Nations, *Demographic Yearbook 1979*.

^a Peninsular Malaysia only.

years old, who machined shirt collars and cuffs for a few cents an hour, seated all day long on hard slats in poorly lit hovels.

A number of studies have been made. It is estimated that in some countries as many as one fourth of children under sixteen years have to work, many of these in factories, which are often unlicensed. A considerable proportion of these children suffer from malnutrition or from hazards related to their work. Even in licensed factories, working and living conditions are often poor, in spite of the existence of laws to protect child workers.

Principle 9 of the United Nations Declaration of the Rights of the Child states:

"The child shall be protected against all forms of neglect, cruelty or exploitation. He shall not be the subject of traffic, in any form. The child shall not be admitted to employment before an appropriate minimum age, he shall in no case be caused or permitted to engage in any occupation or employment which would prejudice his health or education, or interfere with his physical, mental or moral development".

Most countries have laws conforming to this principle, and labour inspectorates for monitoring their observance. Yet, in 1975, there were, according to a United Nations estimate, nearly 42 million children under the age of 15 years working in south and south-east Asian countries. The demand side of the problem is that child labour, although unskilled, is appallingly cheap, and uneducated children make a more easily controlled labour force than adult workers. The supply side is the poverty of parents, and the blandishments, often dishonest, of procurers of child labour from rural areas. There

Youth policies

One fifth of the ESCAP region's people are within the age group of 15 to 24 years. It is a particularly important age group. Its members have often been active in forcing political changes or in supporting those who seek them. More fundamentally, it is members of this group who receive higher education, academic or technical, and so will soon become the educated or skilled personnel needed for modern economic progress.

Education has thus become a high priority for most Governments. There is, however, concern about its effectiveness. Rural areas have been disadvantaged in regard to the provision of educational, as well as health, services because of over-concentration of expenditures on urban centres. Curricula, moreover, have neglected courses suited to rural needs and over-emphasized those which lead to white-collar employment. There has, accordingly, been a neglect of the

important needs of agriculture, an inadequate gearing of education to available and emerging job opportunities, and a good deal of white-collar unemployment. Another consequence has been a growing migration of young people to cities, attracted not only by the hope of better-paid jobs but by the facilities which cities offer for recreation, sport and social life.

In recent years, various forms of national youth councils have been set up to reflect government recognition of the social needs of young people, and their role in national development. These councils, however, often lack sufficiently comprehensive appreciation of the needs of youth in regard to education, employment and recreation, or effective co-ordination for this purpose between ministries, agencies and voluntary organizations. In particular, more focus is needed on the provision of youth services in country areas, including the provision of sporting and recreational facilities.

are also the formidable difficulties of enforcing labour laws by limited inspectorates, handicapped by inadequate training or information, and restricted by various modes of self-interest.

2. Neglected old people

Falling rates of natural increase and rising expectations of life are leading to a more rapid growth of people aged over 60 years than of any other age group in Asian populations. This means that the proportion of old people in the population will increase quite rapidly, especially in east or south-east Asia where average expectation of life has risen more than in south Asia. It has been estimated that, by the end of this century, the population which is 60 years or over will double in south-east Asia, and increase by about four fifths in south Asia. Over the same two decades, the whole population

of Asia would increase by one half.

As people age, they usually become less fit for work, and have increasing difficulties in retaining or finding employment. Their health also becomes at greater risk, and so their need for medical care. In Asian societies, care of the aged was traditionally accepted as a responsibility by younger, economically active members of an extended family. Yet, just as the proportion of the population which needs such care increases, the extended family system is weakening through the physical separation of relatives that comes with economic modernization and associated personal mobility. In some villages of Malaysia, the Philippines and Thailand, so many younger people have gone that the old are left almost alone with little support. Asian societies have some ambivalence about caring for old people, traditional values place this responsibility on their families, but

economic change is making that less usual or less comprehensive.

Social care for the old has been slow to develop. Most aged people are in rural areas and belong to the poorer social groups. They have had little hope of accumulating savings, from low or irregular incomes, to meet their needs in old age. Unless they have been public servants, they do not receive pensions. Nor, as most medical and hospital services are concentrated in cities, can they expect much in the way of public health care for the ills that increase with age.

Most old people in urban areas have similar problems over income, and perhaps worse problems over housing. Not many developing countries have extensive schemes of public housing, and even in Hong Kong or Singapore many elderly people do not qualify for such housing. Residential or nursing homes for the elderly are even less widespread.

Much more attention will, in the next decades, have to be paid by developing ESCAP countries to the worsening plight of the increasing number and proportion of their people who are passing beyond working age. That must put a strain upon their resources, which could be relieved only by achieving adequate and equitable economic growth.

3. Underprivileged women

More attention has been paid to the long tradition of women's socio-economic inferiority, and some progress has been made in reversing it. In recent years, women's participation in the labour force of ESCAP countries has been increasing, both as a proportion of the female population and as a proportion of the labour force. There is also a promising trend in the growth of female enrolments at all levels of formal education in

most ESCAP countries. The United Nations Decade for Women has had some effect in accelerating various official measures for improving the status and participation of women in socio-economic life. Ministries or bureaus have been established by many Governments in order to promote women's welfare or to deal with women's affairs.

Nevertheless, such organizations have had a low priority, and very much remains to be done. In regard to employment, about half of the economically active women in Asia are in agriculture, one quarter in industry, and one quarter in services of various kinds. The organized or modern sector thus absorbs a minority of women workers, and those within it encounter discrimination in regard to the range of jobs available to them, and the terms upon which they can work or be remunerated. Women have so far obtained only a small share of managerial or professional jobs, and tend to concentrate in a limited number of occupations, demanding little education or skill, and involving routine work at low wages. Such discrimination is becoming less tolerable now that increasing conjugal separation is making for more households headed by women, and that the extended family system, which cared for divorced or bereaved women, is becoming weaker.

In regard to education, there is a bigger proportion of drop-outs from formal courses for women than for men, and women have a much lower rate of participation in adult education programmes, including those which offer vocational and technical courses. That, of course, has some effect in keeping them in lower-paid jobs.

Although most ESCAP countries have laws which give women equal opportunities with men in regard to employment, education and politics, women are far from full achievement of such oppor-

tunities. Reasons for this state of affairs lie in economic constraints and traditional values relating to women. These constraints and values have been slow to change, partly because they are widely accepted by women themselves.

4. Disabled people

Perhaps one in 10 of the ESCAP region's people is disabled, suffering from blindness, loss of one or more limbs, some form of paralysis, or a chronic and disabling disease. Beggars are a too common sight in Asia, and, in some countries, children are purposely maimed in a horrible way so that they may contribute to the family income by begging. Often begging is the only way genuinely disabled people can support themselves.

Most disabled people, however, live in rural areas where the extended family system gives them more support. They are usually extremely poor, and almost cut off from medical services which could prevent their disability, at an early enough stage of diagnosis, or prevent it from becoming progressively worse. Nor can they obtain much help for the sort of rehabilitation that would enable them to live more comfortably, or even earn some income to support life in a self-respecting way.

Effective help for the disabled has three main facets. The first requirement is extension of health services in rural areas, desirable on a number of grounds, but needing, in this respect, medical personnel and facilities for early detection of conditions leading to a disability, care or arrest of these conditions, if that is possible, and, if not, help to minimize the physical and mental consequences of the disability.

An associated requirement is

the identification or creation of work opportunities within the potential of a disabled person, and training to realize such a potential. Special types of vocational training, that is, should be provided as well as rehabilitative medical care.

Another requirement, perhaps less essential, is provision of accommodation and work places adapted to the physical limitations of the disabled so as to help them live or work more safely and comfortably. This has been particularly stressed by the 1976 United Nations Conference on Human Settlements, which paid special attention to the needs of the disabled. It showed that much could be done, especially in rural areas, without great cost.

Few would quarrel with the three-pronged programme just described — on other than economic grounds. There is no doubt that it would involve considerable cost, as would the provision of better health care in rural areas and decent provision for the aged. All of these should be regarded as constituting an important aspect of redistributing income to relieve poverty. It would then become an important question how far redistribution could go without checking economic growth to the point where less actual resources were available for relieving of poverty — and the various kinds of suffering which it entails.

5. Refugees

At the end of 1980, the United Nations High Commissioner for Refugees (UNHCR) was helping, in Asia, over 2 million people who had fled from their homelands to neighbouring countries because of political troubles or persecution. Pakistan was sheltering about 1,400,000 refugees from Afghanistan.⁵ Thailand had over 261,000 refugees, of whom 105,000 were from Lao People's Democratic Republic, 147,000 from Democratic Kampuchea and 9,000 from Viet Nam. There were also refugees from Viet Nam in other developing ESCAP countries and areas: 263,000 in China, 30,000 in Hong Kong, over 8,000 in Indonesia, 11,000 in Malaysia, nearly 4,000 in the Philippines, and about 1,000 in Singapore. Lao People's Democratic Republic had, itself, over 10,000 refugees from Democratic Kampuchea, and Viet Nam about 38,000 of them. Papua New Guinea had about 1,000 refugees from Indonesia's Irian Jaya.

These counts relate only to refugees remaining in the countries first receiving them at the end of 1980. Many had left for permanent settlement in third countries, or had returned to their own coun-

⁵ Report of the United Nations High Commissioner for Refugees, General Assembly, Official Records; Thirty-sixth session, Supplement No. 12 (A/36/12).

tries. By this date, 187,000 people who had fled from Burma to Bangladesh were back in Burma again. Some 310,000 Kampuchians had also, by this date, returned to their own country, as had 73,000 Lao. About 157,000 Vietnamese were also settled in third countries during 1980. Many more, of course, had been resettled in previous years.

In co-operation with Governments and charitable organizations, UNHCR has done much to assist these people; to help maintain them in the countries to which they fled, to train them for a new life abroad, and to find permanent settlement for them in third countries. In 1980, it spent \$ 268 million for these purposes.

It cannot be doubted that refugees, even if generously assisted, face many hardships and frustrations before being resettled or repatriated. Nor can it be doubted that many who were resettled in advanced countries would sooner or later have better economic conditions than they had left. Yet, separation from a native country, relatives, friends, and a customary way of life and work is usually a lasting hardship, not measurable in economic terms. It is a serious defect of our socio-political systems that millions of people, in other continents as well as Asia, have been, and are being, exposed to such hardship and disruption.

Armaments and development

The thirty-sixth session of the United Nations General Assembly received a report from the secretariat on the relation between disarmament and development. The report found that "it would be virtually impossible to dispute the desirability of reversing the arms race in order to speed up the process of socio-economic development"

Two striking comparisons are made to emphasize this point. For many years, total world military spending has exceeded the combined national incomes of all countries in Africa and Latin America. These expenditures, too, are about 19 times as large as all the official development assistance from OECD countries to poorer countries. Or, to take a micro-illustration, the World Health Organization spent less than \$ 100 million over 10 years to eradicate smallpox, about the same sum and period that one country spent on improving a small air-to-air missile.

So much secrecy attaches to military spending that it is impossible to reach accurate estimates of its cost. But the report, after careful study, thought that \$ 500 billion would not be an underestimate of world military spending in 1980. That sum would be about 6 per cent of world GNP, equal to \$ 110 for every person on earth, and roughly equal to the combined expenditures by all developing countries on their own gross capital formation. Global expenditures on research and development for military purposes is at least six times greater

Defence expenditures, health and education expenditures, and foreign aid, 1973-1981^a

(Percentages of GDP at current factor cost)^b

	1973-1975 average	1976-1978 average	1979	1980	1981
SOUTH ASIA AND IRAN					
Bangladesh					
Defence	0.6	1.5	1.5	1.5	1.3
Health and education	1.1	1.3	1.6	1.5	1.5
Foreign aid	5.6 ^c	8.9	10.3	12.1	10.0
India					
Defence	3.6	3.5	3.3	3.4	3.1 ^d
Health and education	0.4	0.6	0.6	0.6	0.5 ^d
Foreign aid ^e	0.8	1.1	0.4	0.5	1.3 ^d
Iran					
Defence	16.0	13.4	...	...	...
Health and education	6.3	6.6	...	...	...
Nepal					
Defence	0.6	0.9	0.9	...	...
Health and education	1.4	2.1	2.2	...	...
Foreign aid	2.3	3.5	4.7	5.7	...
Pakistan					
Defence	6.6	6.3	5.7	5.9	5.8
Health and education	0.1	0.1	0.2	0.3	0.3
Foreign aid	4.6	4.6	2.5	2.7	1.4
Sri Lanka					
Defence	1.4	1.4	1.7	1.6	...
Health and education	4.0	3.9	3.6	3.5	...
Foreign aid	2.8	6.0	9.1	9.4	...
SOUTH-EAST ASIA AND REPUBLIC OF KOREA					
Burma					
Defence	3.7 ^f	3.6	3.5	...	...
Health and education	3.0 ^f	2.5	2.6	2.5	2.6
Foreign aid	2.1 ^f	2.1	6.9	8.5	...
Indonesia					
Defence	2.5	3.9	4.4	5.5 ^g	...
Health and education	1.0 ^c	1.4	1.6	2.0 ^g	...
Foreign aid	1.3 ^h	0.7	0.3	...	...

	1973-1975 average	1976-1978 average	1979	1980	1981
Malaysia					
Defence	4.8	4.5	4.1	4.1	...
Health and education	6.2	6.4	5.7	6.1	...
Foreign aid	1.9	1.6	1.6	0.7	...
Philippines					
Defence	2.5	2.7	1.7	1.6	...
Health and education	2.6	2.6	2.8	2.3	...
Foreign aid	1.7	1.0	0.9	0.6	...
Republic of Korea					
Defence	4.6	6.7	6.1	7.2	...
Health and education	2.6	3.3	3.6	4.1	...
Foreign aid	1.7	1.8	1.0	0.7	...
Singapore					
Defence	5.6	6.4	5.8	6.3	...
Health and education	3.7	3.6	3.8	4.2	...
Thailand					
Defence	3.8	4.5	5.5	5.0	...
Health and education	2.0	2.6	2.7	2.8	...
Foreign aid	0.3	0.9	1.9	1.5	...

Sources: World Bank, *World Development Report 1981*; IMF, *Government Finance Statistics Yearbook 1981* and national sources.

^a Years and end of fiscal years except for Sri Lanka, Indonesia, Malaysia, Philippines, and Singapore where years are calendar. Expenditures include only disbursements by the Central Government. Foreign aid here means *net* disbursement of grants and loans made on concessionary financial terms by multilateral agencies, members of the Development Assistance Committee of the OECD and members of the Organization of Petroleum Exporting Countries.

^b GDP at current market prices for Burma, Indonesia, Malaysia and the Philippines. ^c 1974-1975 average. ^d The 1980-1981 GDP in current prices has been estimated by applying a 20 per cent growth factor, calculated by the National Council of Applied Economic Research, to the previous level. ^e For 1980-1981, including Rs 5,410 million from IMF Trust Fund. ^f Fiscal year 1974/75 only. ^g The 1980 GDP in current prices has been estimated from data about changes in price and real GDP. ^h 1975 only.

than all research and development expenditures in developing countries.

Asian countries, in 1980, had about a 6 per cent share in global military spending, but this share had risen from less than 2 per cent in 1955, or from 2.5 per cent in 1970. For all developing countries, military spending rose, as a proportion of GNP, from 3.2 to 4.2 per cent. The share of developing countries in world trade in armaments, moreover, has been around three quarters during the 1970s, mainly because they lack industries for producing the most expensive types of armaments.

The accompanying table gives some necessarily imperfect indications of the relative importance of military spending in 13 developing ESCAP countries. It appears, from this data, that the proportion of military spending to GNP is not far from the world average of 6 per cent in Indonesia, Pakistan, the Republic of Korea, Singapore and Thailand. It also appears that military spending much exceeds receipts from foreign aid in these countries, as it does in India, Malaysia and the Philippines. Nor are the comparisons generally favourable against central government expenditures on health and education.

It would seem that, if measures for disarmament became practicable, even within the ESCAP region alone, much could be done to meet the urgent economic and social needs discussed in this final chapter of the *Survey*.

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