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ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 1983

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1984

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FOREWORD

This is the thirty-seventh annual *Economic and Social Survey of Asia and the Pacific* (until 1974 entitled the *Economic Survey of Asia and the Far East)* and consists of a review and appraisal of the implementation of the International Development Strategy for the Third United Nations Development Decade in the developing ESCAP region. It is presented in two parts. Part One contains a survey of recent economic performance in the context of the world economic situation and Part Two an analysis of major policies and policy instruments relevant to the achievement of goals and objectives of the International Development Strategy in selected sectors.

During the first three years of the Decade, the international economic environment has not been conducive to the rapid growth of the economies of developing countries. The adverse consequences of a sharp decline in the prices of primary commodities produced in developing countries and increased protectionist barriers against their exports of both primary and manufactured products were aggravated by a reduced flow of official development assistance, high interest costs and reduced access to private credit markets. Most developing ESCAP economies suffered from a deterioration in their balance of trade, in spite of cutbacks in imports, an increase in debt-service liabilities and a reduction in growth rates. The least developed countries were affected more severely. The signs of world economic recovery, which appear to have become firmer in recent months, provide room for some optimism. However, there remain well-founded concerns regarding its strength and its eventual beneficial impact upon developing countries.

Against this background, countries of the region have initiated policy measures in many sectors to achieve the goals and objectives of the Strategy. Efforts are being made to increase productivity in agriculture through the wider application of high-yield technology. Industrial policies are being increasingly oriented towards the rationalization of incentive structures and improved efficiency in factor use. The conservation of energy and the increase of domestic production feature prominently as objectives in energy policies. The expansion of transport services is being complemented by measures to improve the efficiency of existing facilities. Incentives have been introduced to diversify the commodity composition of exports. A greater awareness of the problems of poverty, unemployment and inequity is manifest in policies directed towards agrarian reforms, improvements in health, education and housing, and employment promotion.

There, no doubt, remains vast scope for improving the effectiveness of policy interventions. The internal pressures for accelerated growth and the equitable distribution of the fruits of development will impel Governments to keep up the momentum for reform. In the course of the mid-term review of the International Development Strategy for the Third United Nations Development Decade by the General Assembly, the international community will need to devote its attention with renewed vigour to the creation of an environment conducive to the sustained growth of developing countries and to the restructuring of international economic relations.

Like previous *Surveys*, this issue is published on the sole responsibility of the secretariat. The views expressed do not necessarily reflect those of the Commission or of the Governments of its members and associate members.

S.A.M.S. Kibria
Executive Secretary
ESCAP

February 1984

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, Guam, Hong Kong, India, Indonesia, Iran, Japan, Kiribati, the Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Nauru, Nepal, New Zealand, Niue, Pakistan, Papua New Guinea, the Philippines, 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.

Figures relating to national accounts and public finance are on a fiscal year basis and are assigned to the calendar year which covers the major part or second half of the fiscal year.

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 fiscal years, currencies and 1983 exchange rates of the ESCAP countries are listed in the following table:

Country or area	*Fiscal year*	*Currency and abbreviation*	*Mid-point rate of exchange for $US 1 as of June 1983*
Afghanistan	21 March to 20 March	Afghani (Af)	50.600
Australia	1 July to 30 June	Australian dollar ($A)	1.144
Bangladesh	1 July to 30 June	Taka (Tk)	24.500
Bhutan	1 April to 31 March	Ngultrum (Nu)	10.070
Brunei	1 January to 31 December	Brunei dollar ($Br)	2.120[a]
Burma	1 April to 31 March	Kyat (K)	8.038
China	1 January to 31 December	Yuan renminbi (YRMB)	1.984
Cook Islands	1 April to 31 March	New Zealand dollar ($NZ)	1.527
Democratic Kampuchea	1 January to 31 December	Riel (KR)	. . .
Fiji	1 January to 31 December	Fijian dollar ($F)	1.035
Guam	1 October to 30 September	United States dollar ($US)	1.000
Hong Kong	1 April to 31 March	Hong Kong dollar ($HK)	7.200
India	1 April to 31 March	Rupee (Rs)	10.070
Indonesia	1 April to 31 March	Rupiah (Rp)	974.000
Iran	21 March to 20 March	Rial (Rls)	86.337
Japan	1 April to 31 March	Yen (Y)	239.700
Kiribati	1 July to 30 June	Australian dollar ($A)	1.144
Lao People's Democratic Republic	1 July to 30 June	New Kip (NK)	30.000
Malaysia	1 January to 31 December	Ringgit ($M)	2.332
Maldives	1 October to 30 September	Rupee (Mal Rs)	7.050
Mongolia	1 January to 31 December	Tughrik (Tug)	3.200
Nauru	1 July to 30 June	Australian dollar ($A)	1.144
Nepal	16 July to 15 July	Rupee (NRs)	14.500
New Zealand	1 April to 31 March	New Zealand dollar ($NZ)	1.527
Pakistan	1 July to 30 June	Rupee (PRs)	13.170
Papua New Guinea	1 January to 31 December	Kina (K)	0.861
Philippines	1 January to 31 December	Peso (P)	11.001
Republic of Korea	1 January to 31 December	Won (W)	776.700
Samoa	1 January to 31 December	Tala ($WS)	1.618
Singapore	1 April to 31 March	Singapore dollar ($S)	2.132
Solomon Islands	1 January to 31 December	Solomon Islands dollar ($SI)	1.156
Sri Lanka	1 January to 31 December	Rupee (SLRs)	23,030
Thailand	1 October to 30 September	Baht (B)	23.000
Tonga	1 July to 30 June	Pa'anga (P)	1.156
Tuvalu	1 January to 31 December	Australian dollar ($A)	1.144
Vanuatu	1 January to 31 December	Vatu (VT)	99.406
Viet Nam	. . .	Dong	9.757[b]

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

[a] End of August 1983. [b] End of May 1983.

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RECENT ECONOMIC DEVELOPMENTS

I. INTERNATIONAL ECONOMIC DEVELOPMENTS

A. AN OVERVIEW OF THE WORLD ECONOMY

At the end of 1983, the outlook for the world economy was less than bright, despite widespread expectations of an impending recovery, strengthened by continuing favourable trends in the economy of the United States of America for over a year and a considerable increase in its pace during the second half of 1983. The growth impulse provided by the United States economy was, however, not yet strong enough to provide a firm assurance either of its durability in the United States or of the possibility of its spread to other developed countries, especially those in Europe. Critical questions regarding the speed of the recovery of the world economy and the length of the upswing still remained unanswered. Indeed, if a strong recovery were to be delayed much longer, the pessimists' forecasts of the current weak upturn merging into another recession could well be proved right.

The continuing recession in developed countries had already engulfed most of the developing countries by 1981, causing perceptible declines in their growth rates. By 1982 the position of most developing countries had worsened. Even those groups of developing countries that had initially held up well against the recession began to show signs of weakness, and their economies wilted against external pressures. The countries that were relatively insulated from the recession were some of the larger developing countries or where domestic sectors were more important. Exporters of both primary commodities and manufactures suffered considerable declines in growth – the former in the early phase of the recession and the latter in the later stage. Instead of being an engine of growth, increased participation in the international economy, during the current recession, acted as a drag on the progress of many non-oil developing countries.

Declining international trade and disturbances in international financial markets characterized the world economy as the recession deepened in 1982. The volume of world trade declined by 2 per cent in 1982, making 1980-1982 the worst period of sustained decline in trade since the Second World War. In dollar values, world trade declined by 6 per cent to an estimated $ 1,850 billion in 1982. The terms of trade of non-oil developing countries continued to deteriorate in 1981 and 1982 by 3.9 and 2.7 per cent, respectively, while the terms of trade of the low-income developing countries subgroup dropped much more sharply: by 10.3 per cent and 3.2 per cent, respectively, in 1981 and 1982. The incipient economic recovery and the decline in inflation rates in developed countries brought a marginal improvement in the terms of trade of non-oil developing countries in 1983.

The external balances of non-oil developing countries were seriously affected in 1982 by the decline in the net inflow of capital of about $ 35 billion from the 1981 level, three fourths of which was accounted for by the reduced lending of private banks. In spite of the precipitate drop in private bank lending to developing countries in 1982, interest payments in 1982 on private-source medium- and long-term loans by developing countries rose by $ 7.6 billion. This together with the fall in export receipts of $ 11.5 billion caused the debt service ratio to rise to 20.7 per cent in 1982.

The difficulties confronting non-oil developing countries in financing their balance-of-payments deficits, owing to their limited and sharply shrinking access to private capital markets, were compounded by the inadequacy of resources of international financial institutions to cater to the growing liquidity and capital needs of these countries. The 50 per cent increase in International Monetary Fund (IMF) quotas agreed upon at the beginning of 1983 was not effected until the end of 1983 because of legislative delays in developed member countries, particularly the United States. The seventh replenishment of the International Development Association (IDA) faced greater difficulties. Appropriations by donors in early 1984, amounting to $ 9 billion, in contrast with $ 12 billion for IDA-6, dealt a serious blow to the hopes of low-income developing countries, which

had expected a rise in IDA resources.

Such unfavourable developments in the international economic environment facing the developing countries did not prevent many of them from achieving respectable growth rates, mainly because they followed suitable domestic policies and took advantage of their potential comparative advantage in a number of fields. As a whole, the countries of the ESCAP region proved much more resilient than most in coping with the difficulties brought about by the recession. In particular, they were not as seriously affected by the problem of indebtedness to private banks, since only a few member countries had been considered creditworthy by banks and those who did borrow had used the funds in productive and export-oriented ventures.

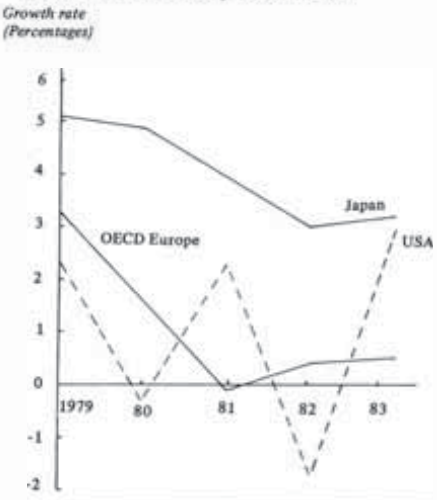
The slow-down in the growth of developing countries was unlikely to help the recovery in the developed world and, instead, could delay and aggravate it further. The interdependence of the world economy has been more in evidence during the current recession than ever before. Unfortunately, this interdependence has often acted asymmetrically to the disadvantage of developing countries. For the incipient recovery in developed countries to become sustained, as well as for the full potential advantage of global interdependence to become a reality, the world economy awaited the removal of weaknesses in and inadequacies of its current institutional structure.

B. MACROECONOMIC TRENDS

1. Prospects of recovery in the developed countries

After experiencing a fall in output in 1982, the developed industrial countries were expected

Figure I.1. Industrial countries. Annual growth rate of GDP, 1979-1983



to have an overall growth rate of a little over 2 per cent in 1983. The growth profile during 1983 differed considerably between the two halves of the year and among different countries. The recovery did not get under way until the first half of 1983, although during the second half of 1982 output grew by half of 1 per cent. During the first half of 1983 real output growth was 1.75 per cent, but considerable acceleration during the second half resulted in an overall growth rate of 2.25 per cent for the whole year. Growth in the second half of 1983 was particularly strong in the United States and Japan, which recorded rates of 7.5 and 4.75 per cent, respectively. However, these high rates did not spread to Europe, where they averaged 1.5 per cent in the second half and only 1.0 per cent for the full year. Neither were they likely to be maintained during 1984; a deceleration was expected after the housing boom had subsided and investment demand had been dampened by continuing high real rates of interest.[1]

The performance of the developed economies during 1983, while providing an encouraging contrast with the bleak results of the immediately preceding years, still lacked the ingredients which would provide firm reassurance of continued future growth. The growth momentum generated during the past year was still largely confined to a few economies of the developed world, especially the United States and Japan, and had yet to become a generalized phenomenon. Growth in the larger European economies had considerably lagged behind that in the United States. In Japan, where gross real output growth in 1982 was the highest in the developed world, output growth remained unchanged in 1983 at 3 per cent because of slow growth in domestic demand. The aggregate output of the four larger European economies (the Federal Republic of Germany, the United Kingdom of Great Britain and Northern Ireland, France and Italy) was expected to be only half of 1 per cent higher in 1983 than in 1982, mainly due to slower growth in France and Italy. The reasons for the slower and more hesitant growth of Western European economies were complex. Uncertainties about changes in the economic performance and policies of the United States and concern about continuing high interest rates and large fiscal deficits, in spite of expectations to the contrary, were two major reasons. The continuing appreciation of the United States dollar vis-à-vis currencies of other developed countries had also raised forebodings in the latter about inflation and adverse capital movements, forcing them to adopt restrictionist fiscal and monetary policies dampening their growth.

An evident weakness of the recent recovery in certain industrial countries was that so far it had been based mainly on the growth of expenditure on private consumption and on private residential

[1] Organisation for Economic Co-operation and Development (OECD), *Economic Outlook*, No. 34 (Paris, December 1983), pp. 14-18.

construction. There had been a decline in the savings rate as a result largely of an increase in households' real balances due to a decline in inflation. This source of growth was likely to dry up by 1984 when households had effected the necessary changes in their asset structure. Since much of the incipient recovery had resulted from the reversal of inventory disinvestment in the earlier phase, a better alignment of inventories with sales would cause investment in inventories to contribute positively to growth. The most sluggish components of aggregate demand in the developed countries had been fixed investment and exports (especially in the United States) on which the prospect of a sustained revival of economic growth seemed to depend critically.[2] Unless appropriate policies were to be adopted by the developed countries to ensure their buoyancy in the coming months, hopes for a strong and sustained recovery were unlikely to be realized.

Continued weakness in aggregate demand, especially of fixed investment, in the developed economies during most of 1983 stemmed largely from the monetary and fiscal policies followed in the United States and other major industrial countries. Although there had been some easing of monetary conditions in the United States in recent months, together with a fall in rates of inflation, the broad stance on monetary and fiscal policies remained unchanged, with only minor variations during the past few years and a slight difference of emphasis among countries. In most developed countries, monetary policies had continued to bear a disproportionate share of the burden of the financial restraint required to contain inflation, which had been considered as a prerequisite for sustained economic expansion.

The continuation of generally tight monetary policies[3] had not, however, been matched by a corresponding degree of fiscal restraint, especially in the United States. In most other countries, substantial budget deficits had arisen mainly because of the continuance of the fiscal stimuli introduced in the mid-1970s to counter the effects of the then prevailing recession. In the United States, the Federal Government budget deficit increased from 0.9 per cent of gross national product (GNP) in 1981 to 3.8 per cent in 1982, mainly as a result of tax reductions legislated in 1981 and 1982. In 1983, the general government deficit in the United States was expected to stabilize around 3.8 per cent of GNP as a result of growth in the economy and an enlarged surplus in state and local government budgets. In contrast, Japan and Europe had continued to adopt a restrictive fiscal stance as part of their deficit reduction strategies.[4]

Fiscal deficits in the developed western economies have generally tended to crowd out private borrowing and to cause a lower rate of total investment in the face of high interest rates. In turn, lower rates of investment have reduced productivity, adversely affected growth of real output and incomes and weakened the international competitiveness of exports, giving rise to increasing protectionist pressures. Much of the expenditure financed out of the rising fiscal deficits has been of a structural, rather than of a cyclical, nature and would continue to grow even after the current recession. However, the tax base has continued to be eroded through public pressures and lobbying for tax exemptions and reductions. In recent years, fiscal deficits have also been fed by large increases in defence expenditure. The strains imposed by defence expenditures on the national budgets of several developed countries have produced profound adverse effects on the flow of resources to developing countries, thereby demonstrating the linkage between the issues of disarmament and development.

The fiscal and monetary policies of the United States have a strong influence not only on the growth of its own economy but also on transmitting growth impulses to other countries. This is further strengthened by the reserve currency role that the United States dollar and other major currencies have played in recent years. The restrictive monetary policies of the United States during 1980-1982, coupled with the large and increasing fiscal deficits since 1982, have tended to raise the real rates of

[2] During 1982, the European Economic Community (EEC) as a whole recorded an estimated rate of decline of 3 per cent in fixed capital formation, while private fixed investment in the United States fell by 5.8 per cent and in Japan by 1 per cent. These declines in fixed investment were accompanied by low levels of capacity utilization in the industrial sector, as well as a larger fall in the output of the industrial sector than in gross domestic product (GDP). The contribution of net exports to the GDP growth in the developed market economy countries fell considerably and became negative in the fourth quarter of 1982. See United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report 1983*, Part I (UNCTAD/TDR/3 (Part I)).

[3] The growth rate of "narrow money" (M_1) was about 6.5 per cent between 1979 and 1981, compared with an average of 10 per cent during 1976-1978. Since 1982, the introduction of major changes in financial regulation and practices in some large developed countries has made the interpretation of "narrow money" comparisons quite difficult. International Monetary Fund, *World Economic Outlook*, Occasional Paper 21 (Washington, D.C., May 1983), pp. 116-117.

[4] OECD, *Economic Outlook*, *op. cit.*, pp. 23-37.

interest in the United States, resulting in the appreciation of the United States dollar against most other currencies. The recent significant reduction in the United States inflation rate, as well as increasing political and economic instability abroad, have also served to increase the attractiveness of the United States dollar. This in turn has reduced the competitiveness of United States exports and increased the pressure on the balance of payments, reinforcing the impact of the fiscal deficit in stimulating imports. Economic expansion in developed countries was thus caught in a serious dilemma between domestic and international objectives – a dilemma not easily resolved by current indecisiveness in facing squarely the basic issues of world development.

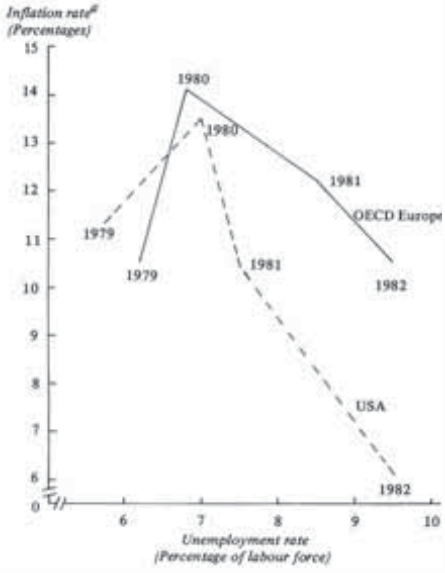
A major achievement of macroeconomic policies pursued in developed countries was the significant decline in the rate of inflation in major industrial countries. The rate of inflation in seven major industrial countries, as measured by their GNP deflator, declined by nearly 40 per cent – from 9 per cent in 1980 to 5.5 per cent – the major fall having occurred during 1982.

While the success in combating inflation was quite remarkable and contributed in considerable measure to restore a climate of economic stability in the developed countries, it had not been achieved without heavy economic and social costs. The principal cost of reducing inflation had, of course, been the substantial and continued increase in unemployment, which by the end of 1982 reached 32 million, reminiscent of the Great Depression half a century earlier. In the world's seven major industrial countries, unemployment as a percentage of labour force rose from 5.0 per cent in 1979 to 8.8 per cent in 1983. Unemployment rates climbed much higher in the six major industrial countries of Europe and North America (e.g. 13.2 per cent in the United Kingdom, 12.2 per cent in Canada and 10.2 per cent in the United States). Japan's unemployment rate, which has always been low (around 2 per cent), rose by less than 1 percentage point during the current recession. Other symptoms of the continuing recession were a growing number of bankruptcies and a decline in capacity utilization, both discouraging new investments.

Declining inflation rates in the developed countries also had a counterpart in the fall in the prices of primary products and, since 1982, of petroleum. Virtually all commodity prices, including that of petroleum, have fallen sharply since the onset of the current recession. Non-fuel commodity prices, for instance, dropped by 15.7 per cent between 1980 and 1981 and again by 15.3 per cent from 1981 to 1982. Crude oil prices, which survived the downward pressure in 1981 due to a temporary interruption of Gulf oil supplies, fell by 5.6 per cent in 1982 and by 15 per cent in 1983. Towards the end of 1982 and during 1983 the prices of a number of primary commodities rose, signalling a possible firming of prices.

A major effect of the monetary and fiscal policies followed in the developed countries had been on the movements in the rate of interest. Although both short- and long-term nominal interest rates, which peaked in 1981 to above 15 per cent, started declining significantly by mid-1982, real rates of interest had risen because of a comparatively faster decline in the inflation rate. Even nominal rates of interest tended to be inflexible downward after early 1983 and subsequently had tended to move upward.

Figure I.2. Industrial countries. Inflation and unemployment rates, 1979-1982



[a] Percentage change in Consumer Price Index.

2. Growth in centrally planned economies

Growth in the centrally planned economies of the Union of Soviet Socialist Republics and Eastern Europe, after slowing down since the 1970s with a variety of constraints, continued at the low rate of 2.5 per cent in 1981 and 1982. Growth in production was below planned annual targets of 3 per cent, which were modest in comparison with historical growth rates. Much of the slowdown had resulted from shortages of factor inputs and imbalances in the components of demand and supply. The recession in the developed countries was also partially responsible for slower growth, especially in Eastern Europe, where some countries faced serious debt servicing and export growth problems similar to those in non-oil developing countries.

A major factor affecting the

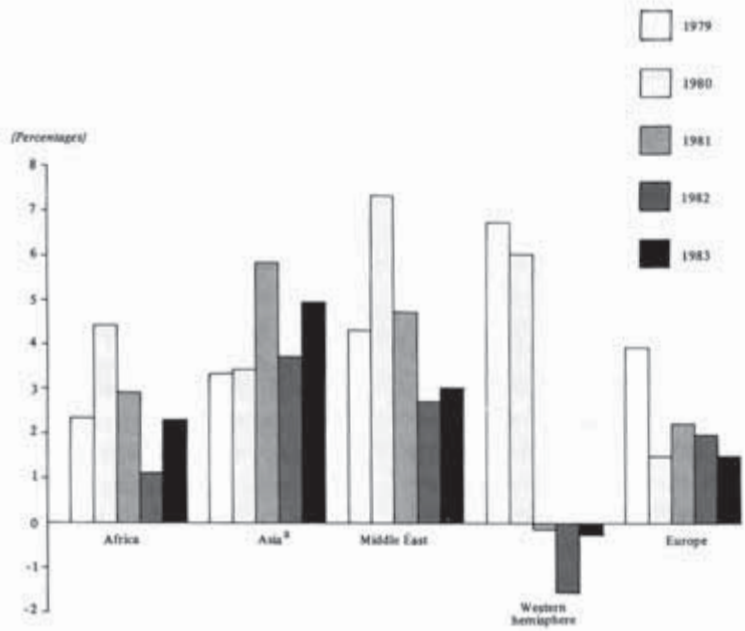
growth of centrally planned economies was the scarcity of essential fuels and raw materials. The overall output of energy products increased by over 3 per cent, mainly through a recovery in coal output in Poland and larger gas production in the USSR, but oil output remained unchanged. There were shortages of other materials such as cement, steel and basic chemicals. Slow development in technology and rigidities in economic management had inhibited both industrial and agricultural growth, though there were several initiatives to overcome these problems. Plans for carrying out structural changes and undertaking long-term investment were not helped by increasing balance-of-payments difficulties, especially in Eastern Europe.

In 1982, the Asian centrally planned economies considerably improved their economic performance, both in industry and agriculture, in spite of shortages of skilled labour and imported raw materials and capital goods. China surpassed its growth target because of good grain and cash crops, resulting from agricultural reforms and successful adjustment to external constraints. The economies of the Lao People's Democratic Republic and Viet Nam also regained substantial growth, especially in the agricultural sector.

3. Effect of the recession on developing countries

Continuing recession in the developed countries adversely affected the economic performance of most developing countries. However, developing countries, which had had a comparatively better growth record, were able slightly to increase their per capita incomes in 1982, despite severe difficulties. For these countries, the most direct impact of the ongoing recession and the accompanying policy stance of developed countries was the weakening of their balance-of-payments situation, as a combined result of falling demand for exports, an increase in protectionism, larger debt-service payments and a reduction in foreign resource inflows.

Figure 1.3. Non-oil developing economies. Change in output, 1979-1983



[a] Excludes China.

The developing countries were also forced to adopt contractionary policies in the face of a declining availability of resources and had to limit imports severely as a result of difficulties in financing their balance-of-payments deficits, which were made more serious by the strains created on the international monetary system. Many of the larger developing countries, with well-developed intersectoral linkages and less vulnerability to external factors, such as China and India in the ESCAP region, were relatively insulated from the worsening international situation. The primary producing countries suffered on account of the steep decline in the prices of their exports. Those worst affected by the recession were the major manufactures exporting countries, the median growth rate of which declined to 0.25 per cent in 1982 compared with 4.25 per cent in 1981. However, the South and East Asian countries of the ESCAP region still continued to achieve gains in per capita output, although their rate of growth slowed down considerably. In contrast, the sharpest decline in GDP growth rates occurred in Latin America, where debt-servicing problems and reduced demand for manufactured exports resulted in declines of per capita income by 3.3 per cent during 1982, after a similar fall in 1981.

The other regions of the developing world, the oil-exporting West Asian countries and the low-income African countries, also shared the continuing decline in world incomes and outputs. The fall in oil prices, partly induced by recession and partly resulting from the changing global configuration of supply and demand for oil, brought down substantially the

growth rate of real income generated in the oil sector of the oil-exporting countries of western Asia during 1982. This was, however, offset considerably by growth in non-oil sectors, which resulted in limiting the decline to about 5 per cent in the total real GDP of these countries. With some likely decline in oil production and improvement in oil prices, real GDP in 1983 was expected to remain unchanged in these countries. However, with the deterioration in the terms of trade in 1982 and more sharply in 1983, there had been a considerable setback to growth in the oil-exporting countries since the spectacular rise in their national income between 1978 and 1981. The rapid decline in their current account surpluses had also changed their economic situation considerably, although their foreign assets remained formidable, providing them with substantial current income to offset some of the fall in oil income.

Economic conditions in many of the low-income countries of Africa were depressed by a fall in the prices of primary commodities, worsened by drought in some countries, stagnating levels of official development assistance and the rising cost of borrowing to finance their growing foreign trade deficits. As a result, most countries suffered from a decline in per capita income, a weakening of the balance of payments and a decline in foreign exchange reserves.

By 1982 most of the non-oil developing countries had to engage in policies simultaneously to reduce their balance-of-payments and fiscal deficits as the effects of the international recession combined with the squeeze in international credit and the slow growth of official development assistance. Many countries devalued their currencies in order to reduce serious balance-of-payments deficits. Many others sought recourse to debt rescheduling and IMF assistance. Almost all non-oil developing countries had to adopt or strengthen restrictive fiscal and monetary policies, while others had to supplement them with trade policy and exchange rate adjustments.

Thus most developing countries had to walk on a tight rope of balancing fiscal budgets and external payments accounts. The recession affected the value of trade and trade-related tax revenue, which often forms the bulk of government receipts. In addition, the export promotion measures and attempts to stabilize incomes of producers of primary commodities, whose prices were falling steeply, increased government expenditure and widened the fiscal imbalance. The recession did, however, provide many developing countries the opportunity to take a closer look at the possibility of mobilizing internal resources and of relying on domestic sources of growth.

Inflationary pressures in most developing countries, with the exception of those in the Western hemisphere, had eased markedly since 1982. In the latter, balance-of-payments difficulties, arising from increasing debt-service burden and poor export performance, forced sharp and sometimes repeated devaluations. This, along with import controls and rising budget deficits, which gave rise to monetary expansion, fuelled inflation. Most of the other developing countries, however, benefited from the decline in oil prices and stable prices of manufactured imports. The continued rise in the value of the dollar did, however, cause an upward pressure on domestic prices.

In spite of their perceptibly better economic performance, the developing ESCAP countries suffered a considerable slow-down in growth, especially in 1982. Although conditions seemed to have improved in 1983, a stronger revival of world trade and an acceleration of capital flows – for which a sustained recovery in the developed countries was only a necessary, and not a sufficient, condition – were soon needed to make feasible a continued improvement in the future growth performance of developing ESCAP countries.

Table I.1. Developing countries. Annual rate of change in the consumer price index, 1976-1982[a]

(Percentages)

Country group	*1976-1980*	*1981*	*1982[b]*
Developing countries	33.5 (11.7)	38.1 (13.8)	45.8 (10.8)
Africa	17.1	22.2	15.4
South and East Asia	9.1	13.6	7.0
Western Asia	15.4	20.2	18.0
Western hemisphere	62.0	65.0	87.4
Others	32.0	37.5	31.0
Memorandum items:			
Net energy-exporting countries	15.4 (11.7)	18.8 (16.2)	28.7 (11.9)
Net energy-importing countries	46.8 (11.6)	51.5 (13.2)	55.8 (9.8)

Source: World Economic Survey 1983 (United Nations publication, Sales No. E.83.II.C.1), p. 71, table III-3.

[a] The group for which data are available includes 19 net energy-exporting and 59 net energy-importing developing countries. Figures in parentheses indicate median values. [b] Preliminary.

C. INTERNATIONAL TRADE AND PAYMENTS

1. Trade

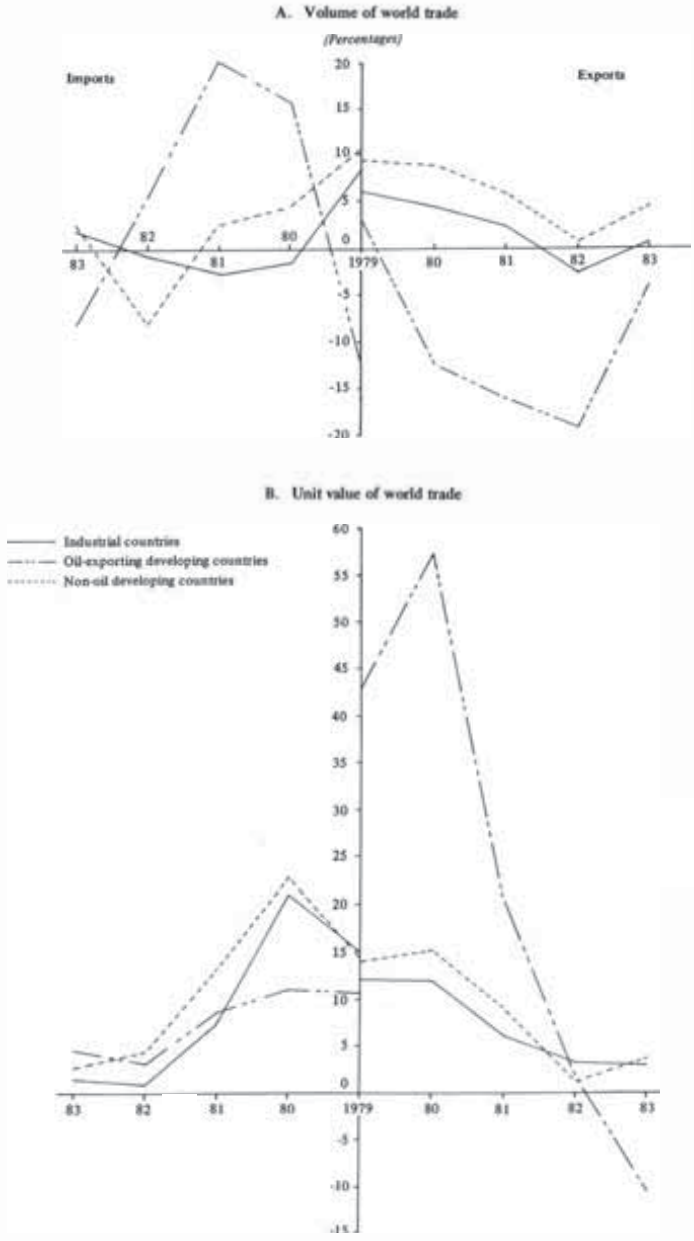
The volume of world trade declined by 2 per cent in 1982, according to estimates of the General Agreement on Tariffs and Trade (GATT).[5] This was the third time since the Second World War that the annual volume of world trade had suffered a decline; although the decline was less severe than in 1975 (3 per cent), the average performance of world trade in the three years since 1980 was the poorest in any comparable period during the last four decades. In dollar values, world trade declined by 6 per cent to an estimated value of $ 1,850 billion in 1982. While much of the 4 per cent decline in dollar unit values was due to the appreciating value of the dollar, the percentage decline in the unit values of primary commodities was larger than the latter.

In spite of the decline in the volume of world trade in 1982, developing countries' merchandise exports volume increased by about 2 per cent. The export volumes of low-income Asian countries rose significantly. For example, India's exports increased by 5 per cent and China's exports were up by about 4 per cent in 1982. However, the exports of primary producing (oil and non-oil) and manufactures exporting countries declined. In the ESCAP region, Indonesia's export volume fell by 17 per cent. In spite of modest increases in export volumes achieved by low-income Asian countries, their export earnings fell by 3 per cent, mainly because of declines in commodity prices.

The oil-exporting developing countries' export volume increased by 3 per cent in 1982, despite a fall in the demand for oil and a glut in the world market. The increase came from the larger high-income oil-exporting countries, especially Saudi Arabia. While Iran's oil production recovered in 1982 after a sharp decline in 1981, a number of oil-exporting developing countries (especially Nigeria, Indonesia and Venezuela) exported less. The overall gains in export volume, however, were largely offset by a decline in oil prices during 1982. Countries whose export volumes declined saw their export earnings reduced considerably; for example, Indonesia's export earnings from oil dropped by 11 per cent.

Those most severely affected by the recession in world trade were the low-income African

Figure I.4. Volume and unit value of world trade, 1979-1983
(Percentage change from preceding year)



[5] GATT, *International Trade 1982/83* (Geneva, October 1983).

developing countries. While their export volumes stagnated, declines in commodity prices reduced their export earnings by more than 14 per cent in 1982.

The reduction in the rate of growth of exports from developing countries was not solely caused by the recession-induced easing of demand in the developed countries. A variety of import restrictions by the latter in a number of sectors, particularly textiles, also impeded export growth. The resurgence of protectionist tendencies in developed countries was reinforced by the recession and by the emergence of high rates of unemployment. For the developing countries, such protectionist tendencies were the worst feature of the current recession and were a serious impediment to their capacity to service their external debt obligations and to maintain reasonable growth rates.

In 1982, the terms of trade of industrialized countries improved while those of oil-importing developing countries deteriorated. In the industrial countries, the decline in import prices in 1982 exceeded that in export prices by 1 to 2 percentage points, while the opposite seemed to have occurred in the oil-importing developing countries. In the period 1978-1982, the terms of trade of oil-importing developing countries were estimated to have worsened by about 25 per cent and only a marginal recovery was expected in 1983.

The terms of trade of non-oil developing countries had steadily declined since the 1970s by about 20 per cent. The 3 per cent decline in 1982 was a combination of cyclical and secular trends. Some countries in the low-income category, especially in Africa, had suffered even more severe declines in their terms of trade as the prices of their primary products fell relative to the prices of both oil and manufactures. Oil-exporting countries underwent a major deterioration in their terms of trade with the continued fall in oil prices in 1981 and 1982. Many other oil-importing countries also benefited from the decline in oil prices, but this was generally offset by a larger fall in the prices of their own primary commodity exports and in the relative stability of export prices of manufactures. By the same token, the terms of trade of industrial countries, whose imports consist largely of oil and other primary commodities, improved by about 2.5 per cent.

2. Balance of payments

A direct consequence of the recession in world trade in 1982 was the disappearance of the current account surplus of oil-exporting developing countries. While the five major oil-exporting countries of western Asia and North Africa[6] continued to generate a substantial current account surplus, it was not large enough to offset the deficit of high absorber oil-exporting countries, mostly outside western Asia (see Table I.2).

While the current account deficit of non-oil developing countries declined substantially (from $ 107.7 billion to $ 86.6 billion), the situation of the industrial countries as a group reportedly worsened, producing a deficit of $ 1.2 billion in 1982 compared with a surplus of $ 600 million in 1981. The centrally planned economies of the USSR and Eastern Europe, however, had a $ 1 billion surplus in contrast to a $ 5 billion deficit in 1981 (not separately shown in Table I.2). The net effect of all these developments was the emergence of a record negative current account balance for the world as a whole, reflecting a discrepancy of $ 89 billion on current account (see Box I.1).

The changes in the balance of payments of the three groups of countries since 1978 had been the consequence of three major factors: (a) oil price increases during the period 1978-1980; (b) recession between 1980-1983 and (c) the oil glut and oil price decreases during 1981-1982. Thus between 1978 and 1980 the balance of payments of both industrial and non-oil developing countries had been affected adversely by the second round of oil price increases, while the oil-exporting countries enjoyed large surpluses in 1979 and 1980 for the same reason. The effect of the oil price increases and the recession were both operative on the balance of

[6] Saudi Arabia, Kuwait, United Arab Emirates (UAE) and Qatar, and the Libyan Arab Jamahiriya.

Table I.2. Summary of balance of payments on current account, 1978-1983[a]

($ billion)

	1978	*1979*	*1980*	*1981*	*1982*	*1983[b]*
Industrial countries	32.7	-5.6	-40.1	0.6	-1.2	16.0
Developing countries	-39.1	7.6	25.3	-42.7	-89.0	-95.0
Oil-exporting countries	2.2	68.6	114.3	65.0	-2.2	-27.0
Non-oil developing countries	-41.3	-61.0	-89.0	-107.7	-86.8	-68.0
Total	-6.4	2.0	-14.8	-42.1	-90.2	-79.0

Source: International Monetary Fund, *World Economic Outlook*, Occasional Paper 21 (Washington, D.C., May 1983) p. 185, table 15.

[a] On goods, services and private transfers. [b] Provisional.

payments of non-oil developing countries in 1980 and 1981, while the two factors were to some extent mitigating the effects of each other on the balance of payments of the oil-exporting and industrial countries in 1981. Since 1982, both the oil price declines and the recession had eroded the substantial balance-of-payments surplus of the oil-exporting countries.

The current account in the balance of payments of developing countries remained under severe pressure, in spite of their attempts to increase exports and reduce imports. The reduction in the combined current account deficit of non-oil developing countries from a peak of $ 108 billion in 1981 to $ 87 billion in 1982 was achieved in the face of severe constraints on import capacity. Many countries had to restrain imports because of a lack of external finance. This together with a weak demand for exports exercised severe contractionary pressure on domestic incomes and output. Between 1981 and 1982, while the exports of non-oil developing countries declined by about $ 15 billion (or 4.2 per cent of their 1981 exports), imports declined much more sharply, i.e. by $ 42 billion (or about 10 per cent of 1981 imports). Since interest payments increased while other components of service income remained unchanged, the balance on trade in invisibles worsened and the reduction in the balance on current account fell considerably short of the reduction in the trade balance (see Table I.3).

The decline in the deficit on current account from $ 107.7 billion in 1981 to $ 86.6 billion

Figure I.5. Non-oil developing economies. Financing of current account deficit, 1979-1983

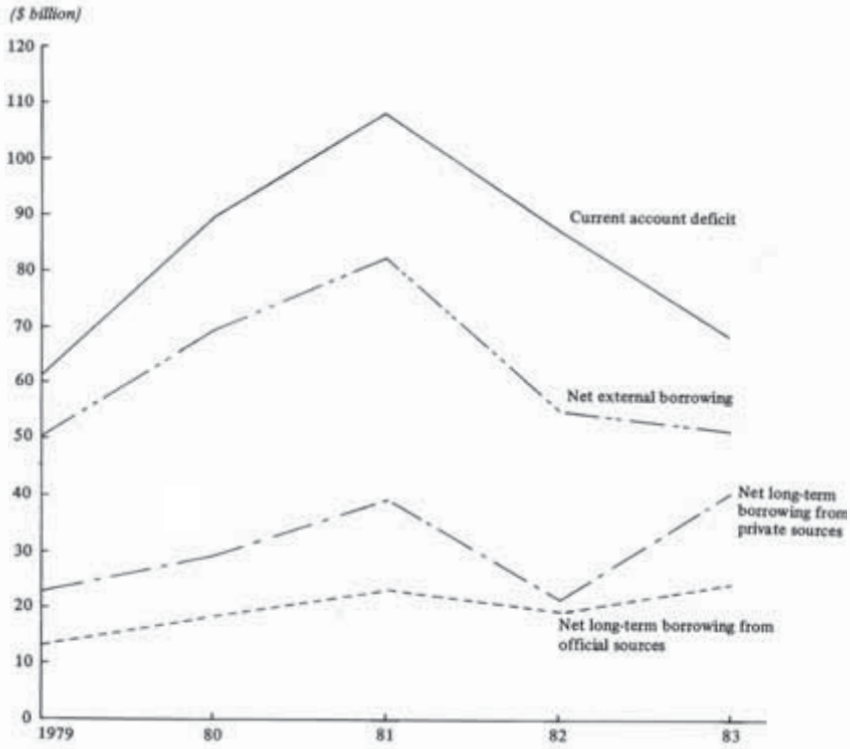


Table I.3. Changes in current account balance between 1981 and 1982

($ billion)

	Changes in			Percentage change			
				1982		1983[a]	
	Trade balance	Service balance	Current account balance	Exports	Imports	Exports	Imports
All non-oil developing countries[b]	27.4	-6.5	20.9	-4.2	-9.9	6.3	2.7
Net oil exporters	9.2	-1.3	7.9	-1.3	-14.6	-0.5	-1.3
Net oil importers	15.2	-5.3	9.9	-5.5	-8.9	8.1	2.5
Major exporters of manufactures	7.1	-3.8	3.3	-6.5	-9.4	8.3	1.1
Low-income	0.4	-0.4	–	-1.4	-1.6	10.0	3.7
Other (middle-income)	7.7	-1.1	6.6	-4.8	-10.8	7.1	4.6
Asia	2.5	0.8	3.4	-1.7	-3.0	6.5	6.5

Source: International Monetary Fund, *World Economic Outlook*, Occasional Paper 21 (Washington, D.C., May 1983), pp. 181-184 and 188-189, tables 13, 14, 19 and 20.

[a] Provisional. [b] China, which is classified both as a low-income country and a net oil-exporter, is included in the total but not in the subgroups.

in 1982 was shared among groups of developing countries, as shown in Table I.3.

Most of the $ 20.9 billion decline in the deficit on current account between 1981 and 1982 was accounted for by net oil exporters and other non-oil (middle-income) countries. On trade account improvements were significant among all developing countries except the low-income countries, which contributed about 2 per cent of the improvement of $ 27.4 billion. The improvement in trade balance in 1982 was brought about, for all subgroups of developing countries, through considerable reductions in imports, since exports declined for all subgroups.

Among the developing countries, the major exporters of manufactures were the worst affected by the slow-down in exports, which declined by 6.5 per cent in 1982. Although in absolute terms the low-income countries have suffered far less than other subgroups, their relative burden and vulnerability are not lower than for other groups because of their poverty and low credit standing.

Box I.1. Rising discrepancies in world current account balance

An intriguing aspect of recent current account balance-of-payments statistics has been the continuing rise in total net deficits for the world. In the absence of errors and omissions in recording balance-of-payments statistics, the sum of current account deficits will equal the sum of current account surpluses, and the algebraic sum of current account surpluses and deficits of all countries will be zero.

For almost a decade now, this sum of balances has shown an almost steady excess of deficits over surpluses, ranging from $4 billion to $16 billion during the second half of the 1970s. The sum increased to some $20 billion in 1980, more than doubled in 1981, and doubled again in 1982 to reach $89 billion – almost equal to the total deficit on current account of non-oil developing countries. The discrepancy has been rising at a much faster rate than gross trade flows.[a]

The asymmetry is much larger in the balance on invisibles trade than that on merchandise trade. Out of the $ 89 billion in 1982, $ 8 billion was on merchandise accounts and $ 81 billion on invisibles. In fact, except in 1982, the sum of balances on merchandise account of all countries has generally been positive during the last decade, while the sum of the invisibles balances has always been negative and large, rendering the sum of current account balances negative.

The asymmetry in balances on merchandise accounts – the sum of surpluses exceeding the sum of deficits or vice versa – is attributed mainly to two factors.[b] The first, arising from the tendency among balance-of-payments statisticians to use, on average, unduly large adjustment factors to convert import data reported on a c.i.f. (cost, insurance and freight) basis to an f.o.b. (free on board) basis, results in an underestimation of imports and an overestimation of service payments. Although lacking in firm statistical basis, this hypothesis is in conformity with the general tendency of a surplus on merchandise account and a deficit on services account at the global level. However, it does not provide an explanation for the asymmetry in the current account balance, since in principle the biases of estimation in the two component balances should cancel one another. Neither does it provide any explanation as to how a trade balance itself could be negative, as it was in 1982.

The second factor, often called timing or transit asymmetry, is perhaps more important and significant. Exports are recorded at the time of departure from the country of origin whereas imports are recorded

Distribution of non-factor receipts and payments, 1980-1982
($ billion)

	1980	*1981*	*1982*
Receipts (exports)			
OECD	318	314	306
OPEC	15	13	13
Non-oil developing countries	71	78	77
Other	16	16	16
Payments (imports)			
OECD	308	308	298
OPEC	61	76	80
Non-oil developing countries	70	77	75
Other	17	18	17

Source: OECD, *Economic Outlook*, No. 34 (Paris, December 1983), p. 140.

Asymmetry in world balance of payments on current account, 1980-1982
($ billion)

	1980	*1981*	*1982*
Total asymmetry	-20	-47	-89
Trade balance asymmetry	25	20	-8
Invisibles balance asymmetry	-45	-67	-81

Source: International Monetary Fund, *World Economic Outlook*, Occasional Paper 21 (Washington, D.C., May 1983), p. 192, table 23.

[a] For an instructive analysis of sources of error in balance-of-payments statistics, see Oskar Morgenstern, *On the Accuracy of Economic Observations* (Princeton University Press, Princeton, New Jersey, 1963), p. 137 ff.

[b] For a more detailed analysis, see International Monetary Fund, *World Economic Outlook, op. cit.*, appendix A, pp. 161-167.

It also is significant that while developing countries in higher income groups have made use of their generally adequate foreign exchange reserves to finance deficits, the low-income developing countries have attempted to build up their foreign exchange reserves, which were severely depleted.

3. Financing balance-of-payments deficits of developing countries

The sources of financing the balance-of-payments deficits of non-oil developing countries underwent substantial changes between 1981 and 1982, as shown in Table I.4. Although external borrowing continued to be the main source, its share declined from 70.5 per cent in 1981 to 50.6 per cent in 1982 as a result of a drop of $ 32 billion in external borrowing. The share of non-debt financing increased because the reduction in absolute terms was small. The major component of the latter, direct investment flows, was $ 2.5 billion lower than its 1981 level of $ 13.9 billion. Official transfers declined by $ 600 million. Neither

of payments

at the time of their arrival at the destination, rather than being recorded simultaneously at the time of change in ownership. This practice leads to a persistent surplus in the trade balance as it leaves a significant fraction of world trade in transit, recorded as exports but not yet entered in the records of imports in the importing country.

It is the change in the value of exports in transit, rather than its level, that determines the size of the discrepancy in the trade balance. In years when total trade is expanding, the discrepancy in the balance on merchandise account increases, while when the value of trade falls, as it did in 1982, the discrepancy falls and may become even negative.

The predominant source of discrepancy lies in the invisibles accounts. On further analysis, it is observed that the discrepancy is of large magnitude in the balance-of-payments accounts of mainly the developed and the major oil-exporting countries. Among these countries, there are two categories of invisibles transactions, non-factor services and investment income, the discrepancies of which account for nearly 90 per cent of the total discrepancy in invisibles accounts. Between 1980 and 1982, the payments for the imports of non-factor services by members of the Organization of Petroleum Exporting Countries (OPEC) increased by about $ 20 billion. Since most of these services must have emanated from OECD countries, it would be reasonable to expect the increase to be reflected in the receipts for exports of these services by the OECD countries. In fact, the receipts of OECD countries for non-factor services declined by $ 12 billion during 1980-1982, which suggests that little of the increase in OPEC expenditure was recorded in the OECD countries balance-of-payments accounts.[c] This partly is attributable to the nature of OPEC expenditure, consisting largely of payments for specialized services (such as construction and engineering), which are poorly captured by current recording practices.

The discrepancy on investment income account comprises about 40 per cent of the discrepancy on invisibles balance. Here too it seems likely that payments were recorded more adequately than receipts. Total investment income flows in 1981 and 1982 were characterized by a substantial increase in payments by the non-oil developing countries and OPEC countries, but the increases were only partially reflected in the invisibles receipts of the OECD and OPEC countries, the main recipients of investment incomes. The rise in the discrepancy may be caused by increasing recourse to tax havens, through which a rising share of total investment income receipts is channelled.

The implications of the increasing discrepancy in the global current account balance are not insignificant. It seems very unlikely that the deficits of non-oil developing countries are seriously and systematically overestimated. Since deficit in the merchandise account comprises 60-70 per cent of the overall current account deficit of these countries and since, as shown above, the estimated global balance on merchandise account usually is biased upward, it is more likely that their current account deficits have been understated. However, since a high proportion of the discrepancy emanates from the invisibles accounts, in which the receipts of the OECD countries and, to a less extent, of the OPEC countries are underestimated, there seems to be a strong likelihood that the current account balance of payments of these countries overstate the deficits or understate the surpluses. Consequently, current estimates of balance of payments may not shed much useful light on important questions relating to the flow of resources and funds in the world economy.

[c] See OECD, *Economic Outlook*, No. 34 (Paris, December 1983), pp. 140-142.

Structure of world invisibles balance asymmetry, 1980-1982
(Percentages)

	1980	*1981*	*1982*
Total invisibles balance	100.0	100.0	100.0
Non-factor service balance	58.7	59.0	51.1
Investment income balance	27.5	31.1	40.8
Private and official transfers' (and "other") balance	13.8	9.9	8.1

Source: OECD, *Economic Outlook*, No. 34 (Paris, December 1983), p. 140.

the industrial countries nor the capital-surplus oil-exporting countries were able to step up aid flows.

Apart from the precipitate decline in private bank credit, discussed below, the most significant change in the financing of the non-oil developing countries balance-of-payments deficit was the intensive use of reserves and reserve-related credit in 1982. This source of financing rose to $ 17.8 billion in 1982 compared with $ 3.8 billion in 1981. In addition to using their own reserves, which fell in 1982 by $ 7.1 billion, in contrast to a net accumulation of $ 2.1 billion in 1981, the non-oil developing countries utilized the lending facilities of IMF and short-term borrowing between monetary authorities.

The reduction in the capital inflows to non-oil developing countries and the consequent draw on reserves had made the reserve position of most developing countries weak. For the group as a whole, the ratio of reserves to imports of goods and services had continually declined from 25.9 per cent in 1978 to 16.3 per cent in 1983. For low-income countries the fall had been more precipitate: from 30.5 per cent in 1978 to 15.4 per cent in 1982. In the ESCAP region, however, the position had been somewhat better and the decline in the ratio of reserves to imports had not been quite as sharp. Many developing countries were likely to use a substantial part of the (reduced) capital inflows in 1983 and 1984 to augment reserves – a factor which in the absence of other favourable developments was likely to cause a further contraction in import capacity.

Table I.4. Non-oil developing countries. Financing current account deficit, 1981 and 1982

($ billion)

	1981	*1982*
Total current account deficit	*107.7*	*86.8*
Financing		
Non-debt financing	*28.0*	*25.1*
1. Official transfers	13.8	13.2
2. SDR allocation	0.3	0.5
3. Direct investment flows, net	13.9	11.4
External borrowing	*75.9*	*43.9*
(Total private bank credit)	(51)	(25)
1. Long term	62.7	41.0
(a) Official sources	23.0	19.5
(b) Private sources	39.7	21.5
(i) Financial institutions	35.7	18.5
(ii) Other lenders	4.0	3.7
2. Short-term borrowing and errors and omissions	13.2	2.9
(a) Exceptional financing	6.7	14.4
(b) Other short-term and errors and omissions	6.4	-11.5
Use of reserves	*3.8*	*17.8*
1. Own reserves	-2.1	7.1
2. Reserve related credit	5.9	10.7
(a) International Monetary Fund	5.6	6.3
(b) Other	0.3	3.4

Source: International Monetary Fund, *World Economic Outlook*, Occasional Paper 21 (Washington, D.C., May 1983), p. 194, table 25.

4. Changes in external debt

The $ 32 billion decline in external borrowing by non-oil developing countries recorded in 1982 was mostly in long-term private borrowing from international banks. The proportion of net short-term borrowing to total net borrowing also declined sharply (from 17.4 per cent to 6.6 per cent) between 1981 and 1982. These changes in the sources of financing the balance of payments represent a considerable reversal of the trend that began in 1973 when recycling of oil-revenue surpluses through commercial banks replaced official borrowings as the most important means of supporting the balance of payments of non-oil developing countries.

The significant changes that took place in the balance-of-payments situation of developing countries during 1982 profoundly influenced and were themselves greatly affected by the changes in the level and composition of their external indebtedness. A major development was the sudden change in the lending behaviour of private banks towards developing countries in mid-1982. Following the repayments difficulties experienced by the principal borrowing countries in Latin America in mid-1982, the international banks attempted drastically to reduce their "exposure" to developing countries. Other sources of international lending, such as official development assistance, direct private investment and bond issues, were also responsible for the sizable reduction in capital inflows to developing countries.

The total amount of external debt outstanding against the non-oil developing countries increased

by $ 57 billion during 1982, rising to a total of $ 612 billion at the end of 1982. This rate of growth of external debt of non-oil developing countries in 1982 was 10 per cent, or less than half the average annual growth rate during the past decade. In spite of this sharp decline in new external debt between 1981 and 1982, the ratio of external debt to exports of goods and services rose from 125 per cent to 143 per cent during the period, reflecting a sharper decline in the non-oil developing countries' exports. For the same reason, the ratio of debt servicing to exports also rose markedly from 16.3 per cent in 1981 to 20.7 per cent in 1982.[7]

The deceleration in the accumulation of external debt, while affecting all regions and analytical subgroups, was more pronounced in Latin America and in major exporters of manufactures – broadly the same group of countries that had been the major recipients of foreign private loans. The low-income non-oil developing countries and the countries of Asia have been affected only moderately, partly because the more volatile components, especially lending by private banks, had been a relatively small proportion of their past debts. However, even though their debt service ratios have been small, the low-income countries of Asia, and more so of Africa, have encountered serious difficulties in servicing their external debt. This arises from the fact that official loans, which form the bulk of external debt of these countries, cannot be easily refinanced through international capital markets in the event of shortfall in export earnings. The difficulty in "rolling over" official debt is linked with the tying of disbursements to actual purchases of imports.[8]

Table I.5. Debt service ratios for developing countries, 1970-1982

Country group	*1970*	*1980*	*1981*	*1982*[a]
All developing countries	13.5	13.6	16.3	20.7
Low-income				
Asia	13.3	7.9	8.4	10.1
Africa	6.5	8.8	11.6	28.3[b]
Middle-income				
Oil importers	14.0	14.9	18.0	23.0
East Asia	6.7	7.0	7.6	8.6
Latin America	13.0	33.3	39.6	53.2
Oil exporters	13.9	13.0	15.7	19.1

Source: World Bank, *World Development Report 1983* (Washington, D.C., 1983), p. 21, table 2.14.

[a] Estimated. [b] The sharp rise in 1982 reflects the accumulation of arrears and does not allow for any rescheduling in 1982.

(a) Private banking flows

A notable feature of the debt situation in 1982 was the change in its structure. During the 1970s, the short-term debt of developing non-oil countries rose much faster than the long-term debt, but since 1981 this trend has been reversed. In 1982 the significant role played by the private banking system in financing the rising deficits generated by the two major rounds of oil price increases changed dramatically. During the second quarter of 1982, private bank lending to non-oil developing countries came to a halt in the aftermath of the Latin America debt crisis. It resumed in the last quarter of 1982 at a much more reduced level, after concerted efforts by the international central banking community (including IMF and Bank for International Settlements) to restore the failing confidence of the private banks in the ability of the major borrowers to restructure their economies in a way that would ensure continuous debt servicing.

Total lending by private banks to non-oil developing countries in 1982 was $ 25 billion, a growth of 7-8 per cent in outstanding private bank credit compared with an increase of 21 per cent in 1981 and an average of about 25 per cent during the preceding six years. The reduction in private bank lending by $ 26 billion closely matched the $ 21 billion reduction in the non-oil developing countries current account deficit between 1981 and 1982. The share of bank lending in financing their current account deficit declined from 47 per cent in 1981 to 29 per cent in 1982. The private international banks also reduced their credit to industrial countries from $ 99 billion in 1981 to $ 57 billion in 1982. The outstanding debt of centrally planned economies to private international banks fell by $ 4 billion in 1982.[9] In the first

[7] This ratio was 53.2 per cent for Latin American countries. During the period 1973-1977 the debt service ratio was stable for non-oil developing countries due to a favourable combination of low interest rates, high inflation and rapid export expansion.

[8] UNCTAD, *Trade and Development Report 1983*, Part I, *op. cit.*

[9] Much of the decline in international bank lending was concentrated in Latin American countries, which after having absorbed $ 11.8 billion of the new credit in the first half of 1982 were unable to borrow any significant amounts of new funds from the banks, despite various rescheduling operations, in the second half of 1982. In contrast, countries in Asia were able to maintain the pace of their borrowings which in 1982 were only slightly smaller than those in 1981 (Bank for International Settlements, *Annual Report 1983* (Basle)).

and second quarters of 1983, non-oil developing countries received $ 1.6 billion and $ 4.5 billion of new loans from private international banks.[10]

The perception of increased risk in lending to developing countries' banks also led to a hardening of terms on which loans were offered. The spread between the London interbank offer rate (LIBOR) and the rate on loans to developing countries widened[11] and periods of maturity declined.[12] Private banks also attempted to cover themselves against risks of losses from variations in interest and exchange rates, which became endemic during the last few years. A related factor had been an assessment of higher costs because of uncertainty about economic prospects. This had been despite the spread of the practice of syndicating loans to spread risk among participating banks and a rise in the quantity and quality of information needed for risk assessment. In 1982, the private banks seemed to have responded to their perception of increased risk more by reducing their participation in syndicated lending than by radically altering the terms of lending.

Nonetheless, the increase in the cost of available lines of credit became one of the most serious strains on the balance of payments of non-oil developing countries. Average rates of interest paid by developing oil-importing countries in international markets rose from 7 per cent in 1979-1980 to almost 10.5 per cent in 1981-1982, while interest charges on floating-rate debts to commercial banks reached in 1981-1982 the unprecedented level of 17 per cent.[13] Interest rates remained high in both real and nominal terms during 1982-1983. These high interest rates led many developing countries to reduce their borrowing from private financial markets, access to which was already limited to a select few. Nevertheless, interest payments in 1982 on private-source medium- and long-term (MLT) loans by developing countries increased by $ 7.6 billion.

The extent of the difficulties faced by non-oil debtor countries had been varied. The countries belonged in all regions and economic subgroupings. The deteriorating international environment in recent years had forced a number of countries to take recourse to rescheduling their debts more frequently. The traditional forum for renegotiating official and officially guaranteed loans had been the Paris Club, while *ad hoc* arrangements developed for renegotiating commercial bank loans. Since 1980, the number of countries seeking such rescheduling had increased to more than 20. In the earlier phase, the countries seeking rescheduling were typically small, primary producing countries that relied heavily on official sources of finance and had been hard hit by declines in commodity prices. Increasingly the larger middle-income countries were affected by high real rates of interest and a falling demand for exports of manufactures.[14] The ESCAP countries that have sought rescheduling negotiation in recent years have included India, Pakistan and the Philippines.

Rescheduling arrangements provided temporary relief to countries facing repayment difficulties. However, they often generated additional problems for debtor countries, including short periods for negotiation and repayment (7 to 10 years for official loans, 5 to 10 years for principals on commercial bank loans), high moratorium interest rates, and loss of export credit insurance during periods of negotiation. In addition, both the Paris Club and commercial banks have required the debtor country to agree on a stabilization programme with the IMF, which has usually required considerable fiscal and financial discipline. In debt renegotiations, there seems to be an over-emphasis on short-run liquidity concerns, at the expense of long-run development problems, including essential capital needs. In the process, debtor countries' credit-worthiness had become further damaged, rather than enhanced.

The experience of the last two years suggested that the capacity of the international financial system to provide short-term solutions to the problems of indebtedness of developing countries may have reached satura-

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[10] *Asian Wall Street Journal*, 24 October 1983. Much of this, however, is likely to have been channelled to the two largest borrowers in Latin America, which were extended new commitments of $ 9.4 billion as part of debt restructuring arrangements in conjunction with IMF-supported programmes.

[11] The spread over LIBOR for non-OECD countries rose from 0.85 per cent in the first quarter of 1982 to 1.26 per cent in the last quarter of 1982, while for the OECD countries it declined from 0.56 to 0.55 per cent. This reflected the increasing concern of private banks about risks in lending to developing countries.

[12] The average maturity of new medium-term credit by private banks has been declining since 1979 and reached 7.5 years in 1982 compared with 7.8 years in 1981 and 9 years in 1979.

[13] The average interest rate on all outstanding debt, including large amounts owed to official creditors and subject to concessional interest rates, rose from 6 per cent during the period 1976-1979 to 9.25 per cent in 1980 and 10.75 per cent in 1981. In 1982, however, the average rate fell back to 10 per cent as lower rates in international credit markets began to affect current obligations under floating rate arrangements (International Monetary Fund, *World Economic Outlook, op. cit.*, p. 67).

[14] For a detailed account of rescheduling negotiations since 1974, see World Bank, *World Development Report 1983* (Washington, D.C., 1983), pp. 22-23.

Box I.2. A South Bank: prospects and problems

Although the idea of a bank for developing countries was first mooted over seven years ago at the Conference of Heads of State and Government of Non-Aligned Countries at Colombo in 1976, the current interest in its revival and in giving it an operational shape arises from the financial difficulties faced by the developing countries since mid-1982 in the wake of the Latin American debt crisis. The UNCTAD secretariat has recently completed an in-depth study on the proposal at the request of the Group of 77.[a] The issue is being subjected to further scrutiny by the UNCTAD Committee on Economic Co-operation among Developing Countries (ECDC). Although the proposal faces considerable hurdles in implementation mainly due to differences among developing countries on the modalities of its operation, it is now being seriously considered by developing countries as an effective way of promoting Financial Co-operation among Developing Countries (FCDC) activities.

The rationale for the establishment of a bank for developing countries (popularly called the South Bank), as pointed out in the UNCTAD study, is that while capital needs of the developing countries are rising "capital is scarce and (is) becoming scarcer". The study points out that all major sources of medium- to long-term capital flows to developing countries, including ODA, private bank lending and multilateral aid, are stagnant or shrinking, when measured in real terms. The objective of establishing the South Bank would be to mobilize resources from international capital markets in addition to those which the capital-importing developing countries themselves obtain from existing channels. A South Bank would undoubtedly become a major landmark in South-South co-operation and would serve to reduce somewhat the vulnerability of developing countries to the political and economic vicissitudes in developed countries.

The UNCTAD study has estimated the approved capital of the South Bank at $ 38 billion. This is less than half the approved capital of the World Bank, presently $ 80 billion. This figure has been arrived at after a detailed investigation of the financial needs of the developing countries in five major fields, viz. joint ventures, development projects, export credit, commodity price stabilization and regional payments support. About 40 per cent of the resources would be devoted to balance-of-payments support.

Two features distinguish the proposed South Bank from the existing Bretton Woods institutions. First, the dichotomy between balance-of-payments assistance and development finance as a basis for separate institutional responsibility is not recognized. The two problems are treated as a continuum and an integrated solution is envisaged. Secondly, considerable emphasis is placed on improving developing countries' competitiveness in international markets by providing export credit as well as on commodity price stabilization.

The immediate question relating to the establishment of a South Bank is to raise the paid-up capital of $ 4.8 billion, equal to 12.7 per cent of the total capital. Both in targeting a high ratio of paid-up capital to total and a low gearing ratio between capital and loans, the UNCTAD study has recommended a policy of caution to establish the credentials of the new institutions. The convertible portion of the paid-up capital of the Bank has been set at $ 1.5 billion, which bears the same proportion to paid-up capital as developing countries' imports in their total GDP.

The main sources of funds for the proposed South Bank's capital are 40 countries, including China and India, all of which account for 93 per cent of the aggregate GNP and an even larger proportion of total reserves of all developing countries. One third of these 40 developing countries enjoyed a high credit rating in international capital markets, being among the 50 most creditworthy nations of the world.[b] A few (e.g. China, Kuwait, Malaysia, Saudi Arabia and Singapore) have a credit rating almost as high as some developed countries.

Various formulae for subscription and voting procedures have been explored in the UNCTAD study. The favoured basis for determining the subscription by each country is a weighted average of four factors: GNP, GNP per capita, value of trade and international reserves. Six weighting schema for each of these factors are proposed along with two schemes for introducing progressiveness. The voting structure suggested gives 75 per cent of the weight to the "proportionality principle" (votes proportional to capital stock subscription) and 25 per cent to the equality principle ("one country, one vote"). Thus, if there were 100,000 votes in total, the 125 developing countries would receive 200 votes each, and 750 votes for each 1 per cent of subscription to capital.

Other sources of finance, including capital markets in developing countries and multilateral institutions, will also be tapped to reduce the burden on member governments. In order to reduce the burden of non-concessionary finance, on which its activities will be based, a number of measures have been suggested. These include: replacement of interest rates by profit sharing in joint ventures, on the lines adopted by certain Islamic financial institutions; concentrating its borrowing in markets where low interest rates prevail, such as the Gulf countries, Japan and Switzerland; establishing a special interest subsidy account to provide concessionary or partly concessionary finance for selected activities and countries.

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[a] See UNCTAD, *The Bank for Developing Countries: Capital and Voting Structures* (UNCTAD/OSG/242) (Geneva); *Trade and Development Report 1983*, Part II (UNCTAD/TDR/3, (Part II)), October 1983, pp. 51-52; *UNCTAD Bulletin*, No. 195 (September 1983) and *South – The Third World Magazine* (July 1983), pp. 12-15.

[b] Based on the ratings in *Institutional Investor* (New York, March 1983).

Table I.6. Developments in international bond markets, 1978-1982
($ billion)

	1978	1979	1980	1981	1982
Net bond market lending	30	33	28	37	58
By category of borrower					
Industrial countries	19	22	20	27	46
Developing countries	4	3	2	3	3
Other (including international organizations)	7	8	6	7	9

Source: International Monetary Fund, *Annual Report 1983* (Washington, D.C., 1983), p. 78, table 19.

tion point.[15] It, therefore, seems necessary for the international community to bend its efforts more in the direction of strengthening institutional structures of the international financial system, which would then be in a position to satisfy the credit and capital needs of developing countries in conformity with the objectives of the International Development Strategy for the Third United Nations Development Decade.

(b) Bond issues

After the slow-down in 1982 of international bank lending to developing countries, there was an upsurge in the volume of finance raised by the issue of bonds. The value of foreign and Eurobond issues in 1982 rose by $ 21 billion, 50 per cent higher than the value of bond issues in 1981. Since only the most creditworthy were able to issue bonds, developing countries did not derive any benefit from this change in the portfolios of international financial institutions. In fact, the developments in the international banking field reacted adversely on modest bond issues of even the most creditworthy developing countries, which had remained at approximately $ 3 billion a year throughout 1979-1982.[16]

D. STRUCTURAL CHANGES IN THE WORLD ECONOMY: CHALLENGES AND PROSPECTS

Although the world economy in 1983 showed considerable signs of improvement, the immediate and medium-term prospects were yet not too reassuring. Two major concerns about future prospects seemed to be widely shared: first, regarding the strength and durability of the current resurgence of economic activity in developed countries and, secondly, whether such a recovery by itself would be able to lend momentum to development in developing countries, which had been held back since the onset of the current recession in developed countries.

The two questions were not unconnected and brought into focus not only the increasing interdependence of the world economy but also the changing nature of that interdependence, especially between developed and developing countries. The world economy seemed to be moving into a new phase in which the structural characteristics of the developed and developing world had changed considerably and the old mechanisms of adjustment did not operate with the effectiveness and automaticity of the past. The institutional framework for mutually supportive growth was showing increasing signs of inadequacy and need for repair.

While the major preoccupation in developed countries was to ensure that the incipient recovery gathered pace and matured into an era of sustained non-inflationary growth, the developing countries were faced with increasing shortages of resources to continue their development efforts because restrictive monetary and fiscal policies followed by developed countries had, directly and indirectly, reduced their export earnings, increased the burden of external debt and caused a reduction in capital inflows. Without the expansion of domestic demand in the developed world, accompanied by a willingness to allow greater access to the exports from developing countries, it was unlikely that the current account deficits and debt burdens of developing countries would be significantly reduced. The domestic adjustment policies of developing countries designed to restrain domestic demand and promote export growth would come to nought without domestic expansion and trade liberalization in developed countries.

The interests of the indebted developing countries and the lending developed countries were

[15] The IMF in co-operation with the Bank for International Settlements has made successful arrangements for several of the largest debtor countries in recent years. The IMF has made particular efforts to ensure that these arrangements do not result in a mere transfer from private to official creditors and that additional new private loans are committed.

[16] The markets for international bonds and those for Eurocurrency credits are closely related. The shifts in portfolio in recent years towards bonds have been prompted by the general decline in nominal interest rates. Banks play a crucial role in determining the levels of investment demand for international bonds both through their own purchases and through the management of their customers' portfolios. Recent developments have also seen a convergence of the terms on international bonds and Eurocurrency credits as a result of an expansion of hybrid financial instruments such as floating rate notes which combine features of bonds and international bank loans.

closely intertwined, and the myopic concern for the economies of their own countries could prove self-defeating. For the only way the developing countries could ever hope to become solvent was by increasing their exports to enable them to repay their debts and to borrow further for continued growth. The policies of the developed countries, which have the purchasing power to buy and provide the markets for exports from developing countries, would have a crucial effect on the success of efforts by developing countries to increase their exports.

In the absence of export surpluses in developing countries in their trade with developed countries, the former would be forced to curtail imports, a high proportion of which comes from the latter. The reduction of imports by developing countries in order to protect their fragile balance-of-payments situation, especially in times of dwindling resources to provide such support, would in turn cause a fall in the exports of the developed countries.[17] This would further reduce sagging aggregate demand and deepen the recession in developed countries. Something very close to what has been caricatured above seemed to have happened during the past two years, demonstrating vividly the nature of the interdependence between the problems of development and recovery in the world economy.[18]

The developed countries showed a keen awareness of the interdependence of the world economic system during the financial crisis in the second half of 1982, which threatened to cripple the international banking system and paralyse world trade. The combined efforts of lender governments and central banks, lending banks, international financial institutions and the debtor countries themselves saved the world from such a threat. However, a necessary complement to the recognition of the interdependence in the world of finance was the need for realization of a similar interdependence in the fields of trade and growth and of the interconnections among them. The annual report of the Bank for International Settlements succinctly pointed out this interdependence in the following words:

> "A debt-ridden world fraught with financial fragility requires not only 'lenders of last resort' but also 'buyers of last resort' – and this imposes on those countries that can afford it a duty to put aside, for the time being, whatever longer-term concern they might harbour about their preferred balance-of-payments position".[19]

The policy challenge that the international community faced was the formulation of a package (or a set of such packages) that would respond to the concerns about sustained non-inflationary growth in the developed world, without sacrificing the legitimate aspirations of developing countries for attaining reasonable standards of living. Mutual suspicions, antagonistic stances and inflexible positions continued to stand in the way of a meaningful dialogue between the developed and developing countries, even though the lessons of interdependence were writ large on the shape of the world economy.[20]

Since longer-term solutions may take a lengthy process of negotiation, the pressing problems of international development must be dealt with in the framework of existing constraints and institutions. Prospects for an increased flow of official development assistance (discussed in more detail in Part Two of the *Survey*) in the immediate future were unlikely to improve substantially because of the current difficulties faced by all groups of official donors. The outlook for new net lending from the private banking system, even at the reduced scale prevailing in 1983, was predicated on the assumption of a world economic recovery and adequate progress in the adjustment programmes of major borrowing countries.[21] The target of the International Development Strategy for providing 0.7 per cent of the GNP of developed countries in aid to developing countries had not been achieved. The target to provide 0.15 per cent of GNP or a doubling of aid to the least developed countries (LDCs) by 1985, agreed upon at the Paris Conference, was also far from being met by most developed countries. The expected increase in official development assistance (ODA) in 1983 and

[17] During the 1970s the interdependence between developed and developing countries increased considerably. Between 1970 and 1980, for example, the share of developing countries in exports to major developed market economy countries increased from 11 to 16 per cent, while the share of exports to developing countries in the total exports of developed countries increased from 30 to 40 per cent. See UNCTAD, *The Current World Economic Crisis and Perspectives for the 1980s* (UNCTAD VI, TD/272), Belgrade, June 1983.

[18] The nature and policy significance of this growing interdependence, in the developed country context, has been analysed in detail in OECD, *Economic Outlook*, No. 33 (Paris, July 1983), pp. 16-23.

[19] Bank for International Settlements, *Annual Report 1983* (Basle), p. 180.

[20] For a perceptive attempt to analyse the causes of the deadlock and for a fresh proposal to break it, see *The North-South Dialogue: Making It Work*, Report by a Commonwealth Group of Experts (London, Commonwealth Secretariat, 1982).

[21] Richard Williams and others, *International Capital Markets, Developments and Prospects, 1983* (Washington, D.C., International Monetary Fund, 1983).

1984 was estimated to be 2-2.5 per cent, lower than the likely rate of growth of developed countries.

This review of the immediate prospects of and the international environment facing developing countries did not give cause for optimism. Much depended on economic recovery in the developed world and measures taken to strengthen international economic and financial institutions. The challenge facing policy makers in both developed and developing

Box I.3. Scenarios of growth for the world economy

In a changing and increasingly uncertain economic environment, it is not easy to make prognostications about the future. Nevertheless, policy-makers and international organizations do need to know the broad outlines of future developments in the world economy in order to make informed judgements regarding factors which affect decisions in their areas of interest. Several leading institutions, both within and outside the United Nations system, make available, on a regular basis, medium- and long-term projections of probable trends in major economic aggregates for the world and different groups of countries.

The projections are generally in the nature of conditional statements arrived at by making explicit assumptions regarding key variables (including specified initial conditions) within a consistent analytical framework. Both the nature of the assumptions and the structure of the models which form the basis of the projections in the accompanying table, vary greatly from one exercise to another.[a] The salient features of the various implicit "scenarios" are discussed below.

The UNCTAD and Project LINK short-term projections are based on the most plausible assumptions concerning short-term economic policies mainly of OECD countries. Consequently, the strength and duration of the economic recovery in the United States and its spread to the European countries strongly conditions the outcome.

Although, there are some grounds for optimism regarding growth rates during 1984/85, especially in the United States and South-East Asian economies, world growth rates will remain low compared with those in the 1960s and early 1970s

Possibilities for renewed rapid growth are explored in DIESA's high growth scenario and the World Bank's high scenario. The "high" scenario of DIESA is based on the assumption that appropriate policies will be applied both in developed and developing countries to achieve progressively the Strategy targets. The World Bank projections rest on assumptions regarding growth of output in industrial countries, the demand for exports of developing countries, lending by developed countries to developing countries and on rates of inflation.[b] The high growth scenario is based broadly on the likelihood of a repetition of the experience of the period 1960-1980.

DIESA's low growth scenario assumes that the trends in the world economy in the latter part of the 1970s will continue and that the recent economic difficulties and slow growth will persist. The medium-growth scenario is based on the experience mainly during the period 1970-1980. Some adjustments have been made to account for the current low investment rates and to eliminate extreme trends.

The World Bank central scenario assumes that GDP growth in industrial countries will average about 3.8 per cent up to 1990 and 3.5 per cent thereafter; given technical progress, per capita output is expected to grow at 2.8 per cent between 1985 and 1995, while the inflation rate is set at 6.4 per cent per year in industrial countries for the period 1982-1995. Real interest rates would remain at an average of 3 per cent. It has been assumed that there will be no increase in present protectionist tendencies. World trade is projected to grow at 5 per cent per annum 1985-1995. In its low scenario the World Bank assumes a per capita output growth of 1.8 per cent per annum in industrial countries. Recovery under this scenario is assumed to be slower.

[a] The projections made by the following institutions are briefly compared and commented upon: the Department of International Economic and Social Affairs (DIESA) of the United Nations secretariat, the World Bank, the UNCTAD secretariat, the International Monetary Fund and Project LINK of the University of Pennsylvania. This is by no means an exhaustive list of organizations providing world-wide economic projections on a regular basis. See for instance, A. Onishi, "Projections of alternative paths of development of the ESCAP countries in the Third United Nations Development Decade, 1981-1990", the *Soka Economic Studies Quarterly*, vol. X, No. 2, pp. 175-227 (March 1981).

[b] See World Bank, *World Development Report 1983, op. cit.*, Technical Appendix, pp. 128-130.

countries was to fashion domestic policies and to reshape international institutions to suit the wide-ranging structural changes that had taken place in their economies and in international economic relations. The near-term prospects of the world economy, especially of the poorer developing countries, would greatly depend on the progress made in meeting this challenge.

In 1981, UNCTAD used a system of regional growth models linked through a trade model to investigate two possible growth scenarios for developing countries. In the slow growth scenario, growth in developed countries is assumed to be restricted by a slow-down in the growth of labour productivity, low growth in the active population, high dependence on external sources for raw materials and restrictive monetary policies. The developing countries are shown to perform poorly with an annual growth rate of 4.2 per cent over the decade. UNCTAD's accelerated growth scenario assumes that measures aimed at sharply accelerating growth in developing countries will be implemented while industrial economies will continue to grow slowly. The scenario is similar to the IDS scenario of DIESA.[c]

Recently, UNCTAD presented a number of simulations with the UNITAD model.[d] Six scenarios were envisaged, of which three are shown in the table overleaf. All scenarios rest on the assumption of increased trade among developing countries. In the low growth scenario, the present structure of international trade is maintained and developed countries are assumed to grow at an average 2.4 per cent for the remainder of the decade. Under these assumptions and given their trade dependence on industrial countries, developing countries will grow at a slow rate of about 3.7 per cent. South-East Asian economies and socialist countries of Asia might be expected to grow at a higher rate than this average. In the medium scenario (UNITAD A-1), trade diversification measures and production strategies are envisaged to boost trade in consumer goods and other manufactured goods among developing countries. Such measures would increase growth in developing countries by about 20 per cent, from 3.7 per cent on the average to about 4.5 per cent. East and South-East Asian countries would particularly benefit from such restructuring, their growth rates reaching 5.5 per cent. Finally, the high scenario (UNITAD B-3) assumes not only a substantial expansion in capital goods industries of developing countries as well as accelerated intraregion trade, but also policies aimed at increasing the growth of the agricultural sector and trade in agricultural products. While growth rates for developing countries are generally higher under this scenario, growth in South Asian countries is especially raised by about two percentage points over the previous scenario.[e]

The other projections presented are more of a medium- to short-term nature. The IMF projections[f] assume that industrial countries will grow at a rate slightly less than 3 per cent per annum for the period 1984-1986 as strict monetarist policies and non-expansionary fiscal policies will continue to be applied. Some efforts at dealing with structural rigidities are, however, assumed. Under these assumptions, average growth of non-oil developing countries will not exceed 4.4 per cent per annum. On the basis of early 1983 Project LINK forecasts, the UNCTAD secretariat[g] obtains nearly identical figures for 1984 with a growth rate of 4.2 per cent for oil importing developing countries. The Project LINK forecast at the end of 1983 makes the assumptions that strong recovery in the United States and Japanese economies and slow growth in European economies will continue during 1984 and 1985,[h] along with a 4 to 5 per cent growth in world trade. With these assumptions the model forecasts growth rates to recover in developing countries, especially in East and South-East Asia.

(See Table overleaf)

[c] For a detailed description of the scenarios and the policy implications, see UNCTAD, *Trade and Development Report 1981*, Part IV (TD/B/863/Rev. 1), chapters 2 and 3 and Annex B.

[d] See UNIDO, *The 1981 Report on the UNITAD System* (UNIDO/IS.337), 7 September 1982.

[e] See UNCTAD, *Trade and Development Report 1983*, Part II, *op. cit.*, chapter IV.

[f] International Monetary Fund, *World Economic Outlook, op. cit.*, chapter II.

[g] UNCTAD, *Trade and Development Report 1983*, Part I, *op. cit.*

[h] "Tsukuba post-meeting forecasts, Project LINK" (Philadelphia, University of Pennsylvania, 23 December 1983) (mimeo.).

Historical performances and alternative projected economic growth possibilities in the 1980s[a] [b]
(Percentages)

	World	*Developed market/ industrial economies*	*Developing economies of Asia and Oceania*	*Low-income Asia[c]*	*Asia*	*East and South-East Asia*	*South Asia*	*Socialist countries of Asia*
Historical estimates								
1960–1970	5.3	4.9	6.2	–	–	6.4	3.7	–
1970–1980	3.7	3.1	5.3	–	–	7.5	3.6	–
1975–1982	–	2.5	–	–	–	7.8	4.1	4.5
1980–1982	–	0.4	–	4.1	–	–	–	–
DIESA								
1980–1990:								
Low growth	3.2	2.6	4.5	–	–	4.9	3.4	–
Medium growth	3.8	3.3	5.3	–	–	6.0	3.7	–
IDS high growth	4.7	4.0	7.0	–	–	7.3	7.0	–
UNCTAD								
UNCTAD model (1981)								
1980–1990:								
Low growth (trend)	–	2.4	–	–	–	–	–	5.0
Accelerated high growth	–	2.4	–	–	–	7.4	6.5	6.0
UNITAD model (1983)								
1982–1990:								
Low growth (trend)	–	2.4	–	–	–	4.1	3.5	6.0
Medium growth (A-1)	–	2.4	–	–	–	5.5	3.9	9.5
High growth (B-3)	–	2.9	–	–	–	6.4	5.7	9.7
Short term								
1983	1.7	2.0	–	–	–	4.7	3.6	–
1984	3.4	3.2	–	–	–	5.8	3.8	–
World Bank								
1982–1985	–	3.0	–	4.5	–	–	–	–
1985–1995:								
Low	–	2.5	–	4.5	–	–	–	–
Central	–	3.7	–	4.9	–	–	–	–
High	–	5.0	–	5.3	–	–	–	–
IMF (central)								
1984–1986	–	2.9	–	–	–	–	–	–
Project LINK								
1984	4.0	4.4	–	–	4.5	–	–	–
1985	3.3	3.3	–	–	5.2	–	–	–
1986	2.7	2.3	–	–	5.5	–	–	–
1983–1988	3.1	3.1	–	–	4.7	–	–	–

Sources: United Nations, "Development and international economic co-operation: long-term trends in economic development", Report of the Secretary-General to the General Assembly (A/37/211), 26 May 1982, annex, Series A, p. 16, table 2.1; UNCTAD, *Trade and Development Report 1981* (TD/B/863/Rev.1), tables 29 and 31 and annex B, table B.1; *Trade and Development Report 1983,* Part I (UNCTAD/TDR/3 (Part I)), annex, table A.1 and *Trade and Development Report 1983,* Part II (UNCTAD/TDR/3 (Part II)), annex C, table I; World Bank, *World Development Report 1983* (Washington, D.C., 1983), table 3.1; International Monetary Fund, *World Economic Outlook,* Occasional Paper 21 (Washington, D.C., May 1983), appendix B, table 38; and Project LINK, *World Outlook,* Part A, World Summary of Economic Activity (Philadelphia, University of Pennsylvania, December 1983) (mimeo.).

Notes: It should be noted that the composition of the regional and economic entities might differ slightly among institutions. Similarly, although broadly compatible, the assumptions underlying the different scenarios are not directly comparable.

[a] Real GDP growth rates. [b] Gross material product. [c] Includes China and India.

II. MACROECONOMIC PERFORMANCE OF THE DEVELOPING ESCAP ECONOMIES

The impact of the recession in the developed countries on the performance of the developing economies of the ESCAP region made itself felt most comprehensively during 1982. Since firm data on most economic variables become available only after about a year's lag, the full significance of the slow-down in the growth momentum of Asian developing countries in 1982 has become clear only recently. With very few exceptions, the most important of which being China, developing ESCAP countries experienced a definite and significant slow-down in their growth rates in 1982. The incipient recovery in the United States and other developed countries since early 1983 has begun to have sufficient effect on some developing ESCAP countries to arrest and reverse the unfavourable trend of 1982. However, as yet, the effect of such a recovery has not been strong and evenly spread over the economies of the region.

The slow-down in growth rates of developing countries of the ESCAP region in 1982 has had both short- and long-term effects on their future development. The short-run consequences in particular are more serious for some of the weaker and poorer economies of South Asia and for the least developed countries generally, where low growth rates easily translate into a fall in per capita incomes, an increase in unemployment, food shortages, reduced public expenditure and an exposure of vulnerable groups to poverty, hunger, malnutrition, exploitation and social abuse. The longer-term consequences are equally serious for all countries of the region as without continued growth, investment in infrastructure and productive resources, which are essential for breaking the vicious circle of underdevelopment and poverty, is not likely to take place.

The effects of the three-year recession in the developed countries continue to be felt by the developing countries, even though trade and external demand are reviving. A revival in financial flows to the developing countries has yet to take place. The low-income developing ESCAP countries, especially the least developed countries, which have depended on official transfers as a major source of development finance, have seen a considerable shrinkage in them. At the same time, the virtual halt in the flow of credit from international banks to developing countries has hurt the newly industrializing countries (NICs) of East and South-East Asia. Whereas these gross flows have decreased, the debt-service burden has increased in most developing ESCAP countries because of high interest rates and shorter repayment periods on the one hand and the reduced value of exports on the other.

The deterioration in the international environment during the last few years has forced many ESCAP countries to look for alternative sources of growth both within their countries and outside the developed world. In some countries, such as Burma, Malaysia and Singapore, high growth rates have been maintained by relying on more efficient use of domestic resources. Others have found trade, investment and labour flows with the West Asian oil-producing countries – though growth in those countries is also falling off – a helpful alternative.

The mobilization of domestic resources is now an objective of high priority in many developing ESCAP countries. In recent years, most developing countries of the ESCAP region, regardless of income and other differences, have taken positive measures to mobilize greater domestic resources and to use these resources in a more efficient manner.

Although the economies of the ESCAP region differ widely in resource endowment, area, income, population and other macroeconomic variables, most of them shared a common growth experience during 1982 and 1983. The economic slow-down in 1982 was, however, more widely shared than the revival in 1983. Because of differences in their characteristics, and of greater homogeneity in countries belonging to a contiguous subregion or institutional pattern, a disaggregated analysis is undertaken below.

A. SOUTH ASIA

The economies of South Asia, with large agricultural sectors and considerable dependence on exports linked with agricultural production, have shown vulnerability to both the vagaries of weather and fluctuations in external demand. The performance of many of these economies also depends considerably on the availability of external assistance to supplement their domestic resources. During the last three years both factors have combined in varying degrees to reduce rates of growth. Bangladesh and India, two of the larger agricultural economies in South Asia, have suffered large declines in their agricultural production due to droughts in 1979/80 and 1981/82. Combined with the unabated recession since 1980, this has created severe economic difficulties for them.

For most of the South Asian economies, 1982 was one of the

Table I.7. Selected developing South Asian economies and Iran. Growth rates and relative shares of components of GDP[a] at constant prices, 1975-1979 average and 1980-1983

(Percentages)

	Average annual growth rates				*Sectoral shares[b]*		
	Total	*Agriculture*	*Industry*	*Services*	*Agriculture*	*Industry*	*Services*
Bangladesh							
1975-1979	5.8	3.4	13.6	7.4	52.9	13.9	33.1
1980	3.7	0.1	2.5	9.3	49.0	14.1	36.9
1981	5.9	5.5	6.5	6.4	48.8	14.2	37.1
1982	1.1	-0.7	1.1	3.4	47.9	14.2	37.9
1983	2.4	3.4	-3.6	3.4	48.4	13.3	38.3
Burma							
1975-1979	5.6	5.6	7.9	4.9	36.3	14.5	49.2
1980	7.9	10.3	9.2	5.8	37.2	15.2	47.6
1981	6.4	7.9	7.6	4.7	37.7	15.4	46.9
1982	7.1	8.6	10.7	4.7	38.3	15.9	45.8
1983	5.0	3.4	9.8	4.7	37.7	16.6	45.7
India							
1975-1979	4.0	1.5	5.4	6.0	43.5	22.3	34.1
1980	8.0	12.5	2.2	6.0	41.5	22.2	36.2
1981	5.2	3.3[c]	5.5[d]	6.8	41.8[c]	21.2[d]	36.8
1982	2.0	...	...	...	...	...	...
Iran							
1975-1979	-0.4	4.0	7.4	7.7	10.1	50.5	42.4
1980[f]	-15.2	0.0	-49.4	5.0	12.4	21.4	59.9
1981[f]	1.2	-2.0	46.1	4.4	12.1	30.8	61.8
1982[f]	14.5	13.7	26.1	4.7	12.0	34.0	56.6
1983[f]	5.1	22.8	5.1	-1.5	14.0	34.0	53.0
Nepal							
1975-1979	2.6	...[e]	...[e]	...[e]	...[e]	...[e]	...[e]
1980	-2.3	-4.8[e]	-6.7[e]	6.6[e]	62.7[e]	11.7[e]	26.2[e]
1981	5.6	10.4[e]	6.0[e]	3.6[e]	64.2[e]	11.4[e]	25.2[e]
1982	3.8	3.5[e]	14.0[e]	3.3[e]	63.6[e]	12.4[e]	24.9[e]
1983	-1.3	-3.4[e]	...	...	...	...	...
Pakistan							
1975-1979	4.4	2.2	4.7	6.1	32.8	23.3	43.9
1980	7.3	6.7	10.7	5.8	31.4	24.4	44.1
1981	6.4	3.8	8.9	6.9	30.7	25.0	44.3
1982	5.6	3.3	8.9	5.4	30.0	25.8	44.2
1983	5.8	4.8	7.4	5.6	29.7	26.1	44.2
Sri Lanka							
1975-1979	4.9	3.3	6.5	5.1	25.7	23.5	50.8
1980	5.8	3.1	4.0	8.0	24.3	23.7	51.9
1981	5.8	6.9	3.5	6.3	24.6	23.2	52.2
1982[f]	5.1	2.6	3.4	6.9	24.0	22.8	53.1
1983[f]	4.2	3.5	2.7	5.1	23.9	22.5	53.6

Sources: National sources.

[a] GNP for India and Iran. [b] The breakdown might not add up to 100 per cent because imputed bank service charges and import duties are included in GDP. [c] Includes mining. [d] Excludes mining. [e] Estimated.

most depressed years in recent times. Except for Burma and Iran, which lie at the two geographical extremes of the subregion and have structural and institutional characteristics somewhat different from the rest of it, all the countries experienced slower growth rates in 1982 than in 1981 and the average for the last five years. Although weather conditions played a contributory part, much of the slow-down in 1982 was due to adverse external conditions in most countries. The economies of Pakistan and Sri Lanka showed more resilience than others due primarily to their more diversified nature, more irrigated and productive agriculture and the continued favourable impact of remittances from abroad. The least developed countries in South Asia, especially Bangladesh and Nepal, did much worse than other countries and experienced declines in their already low per capita incomes.

Present indications are that this downward trend in GDP growth rates and per capita incomes has been arrested in 1983. Some countries, such as Nepal, continued to be affected by the persistence of drought, which affected agricultural output severely. The upturn in prices of some of the primary commodities and the improvement in external demand for some manufactures seems to have favourably affected the growth performance in several countries. Internal demand management and fiscal discipline have improved under pressure of diminished resources. The rate of inflation has declined generally, thus improving the climate for domestic investment and the competitiveness of exports.

The growth performance of India, Pakistan and Sri Lanka during 1983 is likely to be above the average in South Asia and, except for Sri Lanka, higher than in 1982. The least developed countries as a whole are, however, likely to fare much less well. The two larger of these in the subregion, Bangladesh and Nepal, continue to face serious imbalances and to need massive external assistance. The two smaller least developed economies of Bhutan and Maldives seem to have done much better but, due to their physical isolation, continue to face serious difficulties in transport and communications.

Burma and Iran have followed more inward-oriented policies than most other countries in the subregion. Their links with the rest of Asia and the world, however, have increased in recent years. Both countries fared rather well in 1982. Iran's high growth has been due to a large increase in oil production. Burma's GDP growth rate of 7.1 per cent in 1982 was mainly based on domestic sources – largely through increased efficiency in agriculture and better utilization of industrial capacity. In 1983, the rise in commodity prices is likely to cause a considerable increase in export earnings, and to provide the stimulus for achieving a growth rate above the planned target of 5 per cent.

The economy of Bangladesh faced major growth problems, with its dependence on the vagaries of the weather, a narrow export base and considerable external assistance for resource mobilization. After having realized a relatively impressive growth record in the 1970s – real GDP grew by about 6 per cent during 1975-1979 – the country faced a difficult period in the early 1980s and its bumpy growth has not yet steadied. Owing mainly to a sharp fall in jute prices and the second round of oil price increases, the country's terms of trade deteriorated by 40 per cent during 1980-1982, representing a net loss of resources equivalent to about 4 per cent of GDP per annum during those two years. At the same time the inflow of real external aid declined so as to worsen the resource situation further. The performance of the agriculture sector was adversely affected by two droughts in 1979/80 and 1981/82, of which the latter was more severe. Although agricultural output fell by less than 1 per cent during drought-affected 1981/82, the fall in food-grain output was 3 per cent, necessitating substantial imports on commercial terms.

These unfavourable developments had their effects on the growth of GDP, which, because of the two droughts, make better sense on a two-year average basis. The average growth rate of real GDP decelerated during the 1980 and 1981 fiscal years, to 4.8 per cent compared with an average of 5.8 per cent during 1975-1979. The average growth rate during the 1982 and 1983 fiscal years has been estimated at around 1.8 per cent, implying a decline of 1 per cent in per capita income during the period. Increased financial discipline and an improvement in balance of payments, mainly due to the reversal of the decline in terms of trade, brought about a partial recovery in 1983. While inflationary pressures declined substantially during fiscal 1983, growth has suffered in the non-agricultural sectors, particularly in industry, the real output of which fell by nearly 4 per cent, since the burden of adjustment measures fell largely on these sectors.

The unfavourable developments since 1980, in which a deterioration of the international environment played a major role, have necessitated a reassessment of the country's near- and medium-term growth prospects. In particular, they have led to a downward revision of the targets for the second five-year plan, covering fiscal years 1981 to 1985, which

Box I.4. Effects of declining oil prices

The benchmark prices for Saudi Arabian Ras Tanura crude oil fell to an average of $ 28.55 per barrel during the second and third quarters of 1983, compared with $ 33.35 for the second half of 1982. It is now possible to make some observations on their likely impact on different groups of countries.

In the oil producing or exporting countries of the region, the oil glut has adversely affected the financial feasibility and viability of several development projects, including those in the field of energy. Indonesia was hardest hit by unfavourable world demand conditions during 1982-1983. The prolonged recession reduced the country's merchandise export receipts by over 2.9 billion, or by 11 per cent, in 1982 and the declining trend continued in the first quarter of 1983. Most of the decline in Indonesia's export earnings since 1982 are attributable to lower earnings from petroleum products, which accounted for about four fifths of the total value of merchandise exports in 1982.

As a consequence, the deficit in Indonesia's current account balance widened from $ 2.8 billion in fiscal year 1981/82 to $ 6.7 billion during 1982/83, rising to approximately 8 per cent of GDP. It also resulted in a sharp fall in net foreign exchange and gold reserves, amounting to $ 2.4 billion, between 1982 and May 1983. Total government revenue, including receipts from programme and project aid, grew by 3 per cent in 1982 instead of the budgeted increase of 12 per cent. Corporate taxes on foreign oil companies, which had been forecast to expand by 5.7 per cent, fell by almost 6 per cent during the same year.

Falling oil prices have also reduced the competitiveness of fuel substitutes, such as coal and uranium, in the generation of power, especially in new power plants. They also have unfavourably affected the profitability of planned new and renewable energy sources, resulting in the reconsideration or cancellation of proposed projects in Papua New Guinea and Thailand, among others. The adverse impact on research and development efforts in new and renewable energy fields in developed countries, furthermore, would indirectly hamper progress in energy conservation and substitution in developing countries.

In most non-oil developing countries of the ESCAP region, the oil glut has lightened, to some extent, the financial burden of energy imports and/or of debt servicing, because of lower external financing requirements. Preliminary data indicate a reduction of 2 per cent (or over $ 900 million) in the energy import bill in 1982.[a] This gain, however, has been counterbalanced by some associated unfavourable developments. First, there has been a slow-down in both the amount of workers' remittances and of revenue from construction projects from West Asian countries. Aggregate data reveal that net unrequited private transfers to Bangladesh and Pakistan, for example, expanded by one quarter in 1980/81 but by only 8 per cent a year later.[b] Revenue growth from overseas construction projects receivable in the Republic of Korea decelerated from 28 per cent to 21 per cent during the same years. These earnings have been an important source of foreign exchange in many South and East Asian countries; net unrequited private transfers, for example, were equivalent to 59 per cent and 111 per cent of merchandise exports of Bangladesh and Pakistan, respectively, in 1981-1982. Secondly, the inflow of financial aid from oil-exporting countries has fallen off, at least in real terms.

The rate of inflation has moderated considerably in a large number of energy-importing countries in the region since 1982. The extent to which the fall and stabilization of oil prices has contributed to this moderation is difficult to assess and tends to vary from country to country for several reasons. First, a few countries were under long-term supply contracts with prices fixed at pre-glut levels for a part of their energy imports. Secondly, the currencies of many developing ESCAP countries depreciated in 1982 against the United States dollar, the extent of the depreciation ranging from 16-19 per cent in Bangladesh and Pakistan, to 6-8 per cent as in India, Nepal, the Philippines, the Republic of Korea and Sri Lanka.[c] Thirdly, currency depreciation took place in several countries of the region in 1983. As a result, the retail prices of oil products, particularly gasolene, were adjusted upward in many countries during 1982 and/or 1983, and so was the local currency cost of other imported inputs. Finally, in several other countries – Malaysia, the Republic of Korea and Thailand – retail prices of some petroleum products were reduced by a comparatively small margin after a relatively extended time lag.

Preliminary estimates indicate that the short-run price elasticities of demand for petroleum products are generally much less than unity; the coefficients ranging from −0.01 to −0.6 with a concentration around −0.01 to −0.3.[d] Lower oil prices, if fully passed on to the consumer, *a priori* can be expected to raise energy consumption by weakening further conservation efforts; improvements in energy-use efficiency are unlikely to be reversed. More generally, however, the relationship between fuel prices and consumption is much less clear-cut in practice because other factors, such as government policy, affect the outcome. Much data and research would be needed before any confident evaluation and quantification can be made.

[a] Asian Development Bank, *Asian Development Bank Annual Report 1982* (Manila, 1983), p. 97.

[b] The interpretation of remittance flows, however, requires some caution. For, with the decrease in net emigration (i.e. fresh emigrants minus returning migrants) it is possible that remittances may rise in the short run, as they would include not only current flows but also the accumulated savings of returning workers.

[c] Asian Development Bank, *Asian Development Bank Annual Report 1982, op. cit.*, p. 16.

[d] *Economic and Social Survey of Asia and the Pacific 1980* (United Nations publication, Sales No. E.81.II.F.1), p. 136; B.J. Choe, A. Lambertini and P. Pollack, "Global energy prospects", *World Bank Staff Working Paper 489* (August 1981), p. 25; and W. James, "Energy policy, inflation and economic growth: an analysis of Asian developing countries", a paper presented at the 13th Pacific Trade and Development Conference, Manila, January 1983, p. 151.

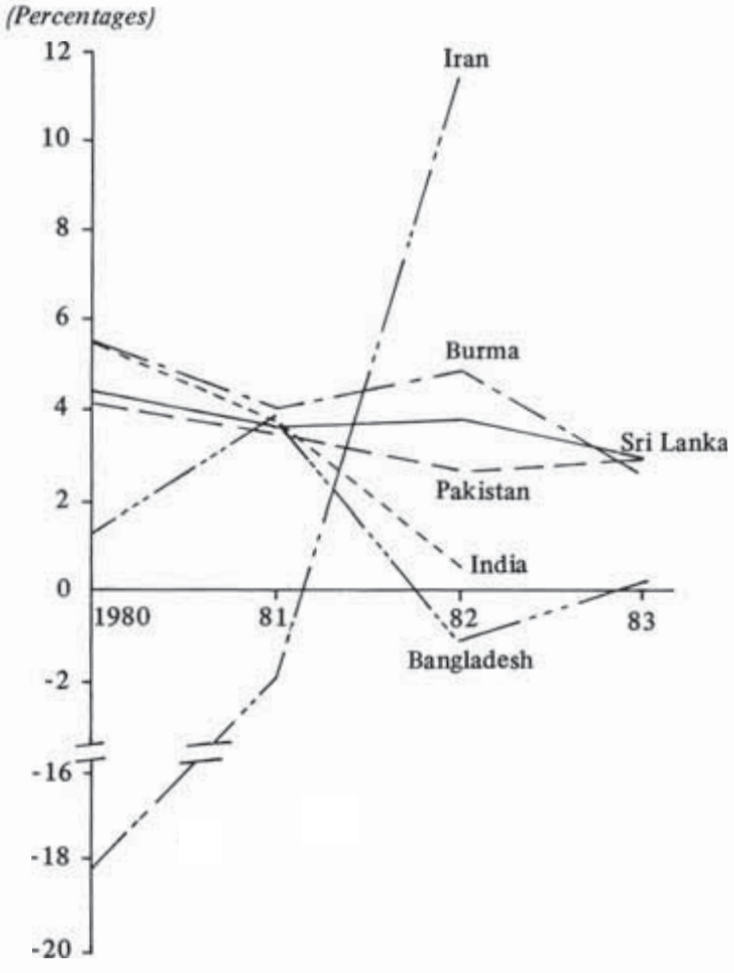
was formulated in a much more favourable international climate. Although the revision has not yet been finalized, it is clear that the plan's 7.2 per cent growth target cannot be achieved. However, the main priorities, particularly self-sufficiency in foodgrains, remain unchanged, though increased emphasis is being given to energy and rural development with a view to improving the balance-of-payments situation and increasing rural employment opportunities.

Bhutan, a land-locked least developed country in the region, well-endowed with natural resources but short of trained manpower, embarked on planned national development in 1961. Even so, the country did not have an organized system of national accounts until 1980/81 to permit a consistent evaluation of growth performance. The Planning Commission, however, estimates that annual real GDP growth averaged about 6 per cent from 1978/79 to 1981/82. The national accounts statement for 1980/81 shows the pre-eminence of agriculture in the economy with a 63.2 per cent share in GDP; mining and manufacturing contributed 4 per cent of GDP. Bhutan's predominantly agricultural economy made it traditionally self-sufficient in foodgrains, even permitting the export of a small surplus. In recent years, as a result of growth in population, emergence of non-farming communities and some increase in per capita consumption, a deficit in food production met by imports has emerged. Of late, Bhutan's economy has become highly trade dependent, with imports accounting for about 40 per cent and exports 17 per cent of GDP in 1981/82. Most of the trade is conducted with India, with which country Bhutan enjoys a virtual free-trade and monetary union.

Burma was able to increase the growth rate of GDP to 7.1 per cent in 1982 from 6.4 per cent the year before. The growth was propelled largely by domestic sources as lower commodity prices decreased merchandise export earnings in 1982. The value of agricultural output, which provided about 38 per cent of real GDP, expanded by almost 9 per cent in 1982. This was attributable largely to a significant improvement in the production of groundnuts, sugarcane, maize, wheat and rice. The processing and manufacturing sector also had been growing at a fast pace since 1980. Its growth rate, at 7.6 per cent in 1982, resulted from higher capacity utilization and the increased availability of local and imported raw materials and spare parts. An important expenditure category, public investment, rose by 27.3 per cent in 1982. However, the decline in export earnings contributed to a shortfall in government revenue in 1982, and public investment was expected to slow down considerably in 1983. The planned growth target for GDP is 5 per cent for 1984.

The Indian economy, having recovered with an 8 per cent real GNP growth in 1980 from about a 5 per cent decline resulting largely from the severe drought of 1979, stabilized to a more normal 5.2 per cent in 1981. In 1982 drought struck again, causing a sharp decline in the growth rate

Figure I.6. Selected South Asian countries and Iran. Annual percentage change in real per capita GDP, 1980-1983



of GDP to 2 per cent through a 3 per cent fall in agricultural production. Per capita income in the country remained stagnant in 1982. The index of industrial production rose by about 4 per cent in 1982, compared with 8.6 per cent in 1981, and is expected to rise by 6 per cent in 1983. With more favourable weather conditions, the economy is expected to perform better in 1983, with GDP growth of more than 6 per cent.

The country's balance-of-payments situation also constrained the increase in the growth rate. The current account deficit of Rs 30 billion in 1982, compared with Rs 26 billion in the previous year, is expected to rise further to about Rs 31 billion in 1983. Although the trade deficit has been reduced somewhat, largely because of reduced payments on energy imports, made possible by a sharp rise in the domestic production of crude oil and lower prices of imported oil, invisible earnings declined from Rs 35 billion in 1981 to Rs 27 billion in 1982 and to a projected Rs 26 billion in 1983. The fall in earnings from invisibles was due to lower earnings from tourism and a tapering off of remittances by Indian nationals working abroad, while the growth of commodity exports was limited by difficult demand conditions abroad.

In addition to these difficulties, the prevailing international economic environment poses some problems to the Indian economy. A major unfavourable development is the substantial decline in appropriations for the seventh replenishment of the IDA. IDA loans have been the main source of concessionary finance for India, although their proportion in total loans from the International Bank for Reconstruction and Development (IBRD) has been declining, from 80 per cent in 1980 to 50 per cent in 1982. Further, India's share of loans from the IDA along with that of other low-income countries, is likely to decline substantially due to the admission of China as a member of the World Bank. This, coupled with the impending end of the Extended Fund Facility (EFF) programme will require India to seek resources in substitution for funds from IMF and IBRD. Substantial payments also will fall due to service the debt owed to the IMF and commercial banks.

However, with an IMF-assisted adjustment programme in place over a three-year period starting in 1981, a number of policy actions have been taken to encourage greater production. The Government also has adopted a series of vigorous measures to mobilize domestic resources on a larger scale and to raise the efficiency of the economy in general. These, together with a considerable easing of the energy problem, should enable the economy to perform well over the medium term, assuming normal weather conditions prevail. With these measures, it is expected that the target growth rate of 5.3 per cent per annum in GDP as envisaged in the sixth five-year plan (1980-1985), will be achieved.

The economy of Iran, a major oil producer, having suffered a decline during the period 1979-1981, rebounded with a 14.5 per cent growth in fiscal 1982, followed by a further 5.1 per cent growth in 1983, according to non-official estimates based mainly on the production and export of oil. The turn-around in economic growth was the result of the successful efforts of the Government to recover Iran's share in OPEC's production of crude oil. Agriculture and manufacturing also recorded high growth rates. Although the growth of the Iranian economy has suffered, because of the diversion of resources to other purposes, the Government has attempted to ensure more equitable development and distribution of output. Details relating to Iran's future growth strategy are likely to be specified in the country's First Economic-Social-Cultural Development Plan, which was not yet released, as the debate on it continued in the Iranian Majlis (Parliament).

In Maldives, an average annual growth rate of 12.2 per cent is estimated to have been achieved during the period 1978-1982, which falls short of the target of doubling its 1979 GDP by 1984. The country's fishing industry, a major sector of the economy contributing 16.3 per cent of GDP in 1982, has been experiencing many hardships – low export prices, high cost of fuel and marketing difficulties for canned fish. The crop sector of agriculture has suffered from damage to coconut and fruit trees by rats and black beetles. The country successfully launched recently its first manufacturing industries, virtually non-existent before, in the form of two export-oriented garment factories on the southern island of Gan. However, the country ran into some major difficulties in 1983 regarding the export of manufactured garments to markets in North America. The country's fishing, tourism, shipping and other sectors hold considerable potential for development.

The economy of Nepal, a major land-locked least developed country of the region, falling in the same broad agro-climatic situation as Bangladesh and India, shared the former's common experience of a drought in 1979/80 from which it revived with nearly 6 per cent real GDP growth in 1981, slowing down again in 1982/83 because of another drought. With a drought-induced 3.4 per cent fall in agricultural output, GDP in 1983 declined by more than 1 per cent, while per capita

income fell by about 4 per cent.[1] The serious setback in agriculture could hardly have been offset by growth in other sectors, which account for a small proportion of GDP. In the event, the manufacturing sector, accounting for 4 per cent of GDP and predominantly oriented toward agro-processing activities, was itself adversely affected by the fall in agricultural production. The fall in agricultural production also affected exports. Rice exports, for instance, had to be stopped in 1982/83 to divert supplies to meet domestic demand.

Nepal's trade balance, chronically in deficit, worsened further in 1983 to exceed NRs 5 billion. As a result the traditionally comfortable current account balance of payments was pushed to a deficit of nearly NRs 1.5 billion, partly due to slower growth of tourist earnings. The trade deficit widened on account of both falling exports and rising imports. Demand for imports, especially for consumer goods, remained high whereas exports suffered both through production shortfalls and external demand constraints.

Despite difficulties in the external sector, Pakistan's economy continued to display its dynamism of recent years with a 5.8 per cent rate of real GDP growth in 1983, compared with 5.6 per cent in 1982. The 1982-1983 growth rates were, however, lower than those achieved in 1980-1981. All sectors of the economy contributed to GDP growth. Particularly encouraging was growth in the agricultural sector, which recorded a (provisionally estimated) 4.8 per cent growth in 1983 compared with 3.8 and 3.3 per cent in 1981 and 1982, mainly due to a 11 per cent advance in wheat output made possible by favourable weather conditions at sowing time, increased area under cultivation and greater fertilizer use.

The performance of the industrial sector was, however, slower than in 1982, the rate of growth declining from 8.9 per cent to 7.4 per cent. Growth in the large-scale manufacturing sector decelerated to 8.7 per cent in 1983 from 13.7 per cent in 1982, mainly due to the re-emergence of the declining trend in mill-made cotton cloth since 1974/75, which was briefly reversed in 1979/80 and in 1981/82, with a remarkable impact on the sector's growth rate in those years. The growth rate of the electricity and gas subsectors, though lower than of manufacturing, increased from 4.6 per cent in 1982 to 6.6 per cent in 1983. The growth rate of the construction subsector accelerated from 2.2 per cent in 1982 to 4.8 per cent in 1983. The rate of growth of the services sector slowed down to around 5.6 per cent during the 1982/83 period, compared with an average of above 6 per cent during the two preceding years.

Pakistan's balance of payments on current account showed considerable improvement in 1982/83 as the deficit was limited to $ 435 million – less than a third of the $ 1.5 billion deficit in 1981/82. The trade deficit of more than $ 3.3 billion in 1981/82 was reduced to $ 2.9 billion in 1982/83. Private unrequited transfers of $ 3.1 billion, showing a growth of 27 per cent, more than offset the trade deficit in the same year. The deficit in the current account arose as a result of a deficit of $ 592 million on services transactions. The improvement in trade and payment balances came about despite further deterioration in the terms of trade.

In Sri Lanka, in addition to the impact of drought conditions on agricultural production and the continued unfavourable external conditions for exports and aid inflows, serious communal disturbances in July 1983, which disrupted economic activity and caused extensive damage, also contributed to a slow-down of economic growth to 4.2 per cent in 1983, compared with 5.1 per cent in 1982 and 5.8 per cent during 1981. The growth rate of agriculture is estimated at 3.5 per cent, compared with 2.6 per cent in 1982. Growth in the agricultural sector has been limited by near stagnation in the export-oriented plantation agriculture, while the growth in the domestic agricultural subsector, though more satisfactory, has also been affected by drought, which has limited production in 1983 in both subsectors. Growth of the industrial sector slowed down considerably to 2.7 per cent in 1983, compared with 4 per cent in 1980 and an average of about 3.5 per cent in 1981-1982. Manufacturing industries in 1983 recorded an estimated 1.3 per cent growth, compared with a 5 per cent growth during the two previous years. A similar slow-down occurred in the services sector, which accounts for more than 50 per cent of GDP. The services sector grew at 5.1 per cent in 1983, compared with a 6-7 per cent average growth during 1980-1982.

The adverse effects of the disturbances of July 1983 seem to have been much less serious than initially feared. A Government-appointed task force estimated the physical damage to be in the region of $ 500 million. The damage was heaviest in the garment-manufacturing and coconut-oil processing industries and implies a severe loss of export earnings. Another source of export earnings badly affected was tourism. A rough estimate of the overall impact of the disturbances is a decline of 0.5 per cent in the growth of GDP in 1983.

[1] A Central Bureau of Statistics estimate put the growth rate in 1981 at 8.9 per cent and in 1982 at 4.8 per cent. The text figures are based on the Finance Ministry's annual *Economic Survey 1982-83.*

B. EAST AND SOUTH-EAST ASIA

1982 constituted perhaps the most difficult year for this subregion in recent times, since most of the East and South-East Asian countries and areas depend heavily on external trade and capital flows. Their economic performance was adversely affected by the deep and prolonged world recession and the persistence of high interest rates. Growth in merchandise exports slowed down considerably in 1982. Export earnings showed only modest gains in nominal terms in Hong Kong, Malaysia, the Republic of Korea and Thailand, but contracted in Indonesia and the Philippines. Other dampening factors in several cases included a lower level of domestic activity in various economic sectors and a restrictive financial environment, due to high rates of interest and a less expansionary public sector. This latter condition arose from the need to reduce the drain on foreign exchange reserves and international public indebtedness (as a result of export and revenue shortfalls), as well as internal demand pressures.

The growth rate of GDP in real terms declined everywhere in the subregion, compared with 1981. They were the lowest in more than a decade for most of

Table I.8. Selected developing East and South-East Asian economies. Growth rates and relative shares of components of GDP at constant prices, 1975-1979 average and 1980-1983

(Percentages)

	Average annual growth rates				*Sectoral shares*		
	Total	*Agriculture*	*Industry*	*Services*	*Agriculture*	*Industry*	*Services*
Hong Kong							
1975-1979	10.9	-2.9	9.1	10.6	1.3[a]	34.7[a]	64.0[a]
1980	11.7	5.7	4.9	10.4	0.9[a]	33.5[a]	65.5[a]
1981	10.9	...	...	...	...	...	...
1982	2.4	...	...	...	...	...	...
Indonesia							
1975-1979	6.9	3.0	9.3	9.0	34.3	29.1	36.8
1980	9.9	5.2	12.4	11.8	30.7	30.9	38.4
1981	7.9	4.9	8.7	9.7	29.8	31.2	39.0
1982	2.2	2.1	-1.4	5.2	29.8	30.1	40.2
Malaysia[b]							
1975-1979	7.2	4.3	9.5	8.0	26.4	28.5	42.4
1980	7.8	3.1	8.4	8.9	23.8	30.0	43.1
1981	7.2	4.2	5.8	10.6	23.2	29.6	44.5
1982	5.2	6.3	5.6	5.6	23.4	29.7	44.6
1983	5.6	2.0	9.5	5.6	22.6	30.8	44.6
Philippines							
1975-1979	6.5	5.3	8.9	5.2	26.4	34.9	38.7
1980	5.8	4.9	6.6	5.5	25.6	36.1	38.3
1981	3.8	3.6	4.7	3.0	25.6	36.5	38.0
1982	2.9	3.8	2.6	3.0	25.7	36.3	38.1
Republic of Korea							
1975-1979	10.1	4.2	15.6	8.7	21.7	37.7	40.5
1980	-3.5	-2.0	-0.8	2.4	15.4	42.3	42.3
1981	7.1	22.0	5.3	3.6	17.5	41.6	40.9
1982	5.3	4.5	6.0	4.8	17.4	41.9	40.7
Singapore[b]							
1975-1979	7.5	3.5	8.1	8.0	1.5	31.0	70.3
1980	10.3	2.0	11.1	12.0	1.2	32.0	71.7
1981	9.9	0.9	11.0	11.3	1.1	32.3	72.6
1982	6.3	-2.8	2.8	9.1	1.0	31.2	74.5
Thailand							
1975-1979	7.8	4.7	11.6	7.6	28.3	27.7	44.0
1980	5.8	1.9	6.6	7.4	24.8	29.9	45.3
1981	6.3	6.8	3.9	7.6	25.0	29.2	45.8
1982	4.2	0.1	4.9	6.0	24.0	29.4	46.6

Sources: National sources.

[a] Current prices. [b] The breakdown might not add up to 100 per cent because imputed bank service charges and import duties are included in GDP.

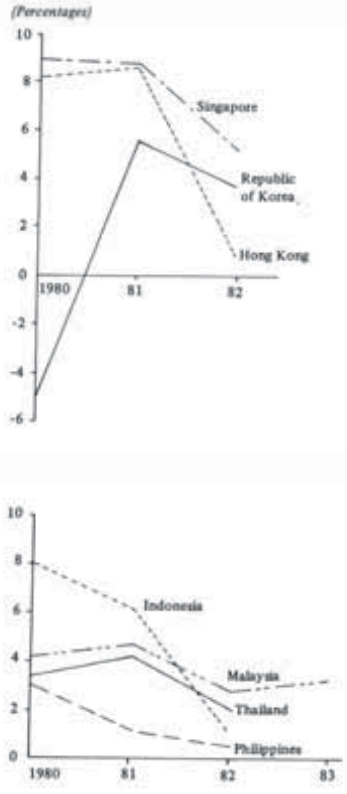
these economies. The slow-down was sharper in Hong Kong and Indonesia, where average real GDP growth rates fell from 9.4 per cent in 1981 to 2.3 per cent in 1982. Modest growth rates were also recorded in several economies. They averaged, for example, only 2.5 per cent for Hong Kong, Indonesia and the Philippines during the same year, making per capita income gains of 0.5 per cent to 0.8 per cent in these three economies.

According to current indications, most East and South-East Asian countries and areas – including Hong Kong, Malaysia, the Republic of Korea, Singapore and Thailand – are likely to achieve improved economic performance and growth in 1983 resulting from the upswing in commodity prices and renewed export demand. The other countries in the subregion, however, were less well placed to benefit quickly from the tentative world recovery, either because of weak demand for their exports or due to adverse internal conditions.

The South-East and East Asian economies had in the last two decades displayed great dynamism and attained exceptionally high growth rates. Three of these, Hong Kong, the Republic of Korea and Singapore, achieved an average growth rate in per capita real GDP of 7 per cent over the 1960-1980 period, by following export-oriented development strategies. The growth of Indonesia and Malaysia has been based more on their rich endowment of natural resources, including oil, enabling them to achieve an average growth rate in per capita real GDP of 4 per cent per year during the last two decades. The Philippines and Thailand, which have large agricultural and service sectors, have also achieved considerable improvement in their per capita incomes (2.8 and 4.6 per cent, respectively) during the last two decades, mainly through agricultural exports and, since the mid-1970s, through high remittances from their workers in the Gulf countries.

The resilience of the South-East and East Asian economies in the face of the recession in the developed countries has varied considerably, and past patterns of development have not been a determining factor. The fact that these economies have experienced sustained high growth rates over two decades has itself helped them withstand the shock better than other developing ESCAP countries. However, these economies have also been more exposed to the changes in the external environment and, consequently, have experienced the ill effects of recession more directly and intensely. Some countries, such as Malaysia and Singapore, have been able to counter the effects of recession by concentrating more on non-traded sectors such as construction and services. Others, like the Philippines, the Republic of Korea and Thailand, have been able to check the fall in their growth rates because of income from construction contracts in and workers' remittances from West Asia. Yet the effects of the recession were pervasive and seriously affected the growth momentum of these countries.

Figure I.7. Selected East and South-East Asian economies. Annual percentage change in real per capita GDP, 1980-1983



The gross domestic product of Hong Kong grew by 2.4 per cent in 1982 in real terms, compared with a growth rate of almost 11 per cent in 1981. The world recession and restrictive import conditions in the developed countries combined to cause a decline of 2.7 per cent in the real value of domestic exports in 1982. In contrast, it had risen by 8 per cent in 1981. The electronic assembly and parts industry was most adversely affected by reduced export demand. This, to some extent, was compensated for by increased earnings from toys and, to a less extent, textiles exports. The export value of watches remained stagnant.

In Hong Kong, the dampening impact of poor export performance was compounded by the collapse of the property market and other factors. The tempo of economic activity picked up in 1983, although political uncertainties were causing some adverse effects. The foreign exchange market went through extreme turbulence, forcing the depreciation of the Hong Kong dollar, and several measures including the imposition of higher interest rates were adopted to stem capital outflows. These unfavourable developments caused both private and public investment expenditure to drop significantly. Nevertheless, real GDP is likely to have increased by 6 per cent in 1983.

The Indonesian economy also

Box I.5. Construction activity softened impact of recession in East and South-East Asia

The construction sector retained its momentum in most of the East and South-East Asian economies in 1982, in the face of continuing economic recession, a less expansionary public sector and restrictive financial conditions, characterized by high rates of interest.

In some of these countries, notably Malaysia, the Republic of Korea and Singapore, construction emerged as the fastest-growing sector and helped to soften the impact of the recession.

In Malaysia, its output grew by 10.8 per cent in 1982, although lower than the 15.1 per cent increase in 1981. The impetus for growth came from public sector activities, which were sustained at a relatively high level for most of the year. However, towards the second half of 1982, the weakening economic situation constrained the Government to reduce its expenditure considerably, dampening construction activity in the public sector. For 1982 as a whole, public investment increased by only 4.6 per cent compared with an increase of 17.4 per cent in 1981. During 1983, construction of infrastructural facilities by the public sector is expected to stagnate at about the 1982 level as a result of further rescheduling of public sector development expenditure. Buoyant demand for private non-residential construction activities also contributed to the growth of the construction sector due mainly to the relatively good demand for offices, hotel rooms and shoplots. A projected shortage of hotel rooms over the next three years stimulated the construction of new hotels and an expansion of existing ones. In addition, loans and advances by commercial banks to hotels, restaurants and boarding houses accelerated again in 1982 to help expand their capacity. The momentum of private non-residential building construction is expected to be maintained during 1983. In contrast, private residential construction activity slackened somewhat in 1982 because of the poor demand for houses due to lower incomes, the high cost of mortgage loans and the persistent relatively high levels of land prices. Private residential construction activities are expected to slow down significantly in 1983 due to moderate growth in disposable income and the continued inability of the house-building industry to cater to the demand for low- and medium-cost houses. However, construction activity as a whole is expected to remain fairly strong in 1983, although its pace has slackened somewhat compared with 1982.

The construction sector in the Republic of Korea recovered strongly in 1982 from its previous slump experienced during 1980-1981. Its exceptionally high growth rate – about 21 per cent – raised this sector's share in GDP from 5.4 per cent to 6.2 per cent, and the volume of private sector construction activity jumped by almost 24 per cent. The main stimulus came from public works and housing construction, while land prices, for both commercial and residential use, soared dramatically in the first half of 1982 after years of stagnation. In 1983, the Government introduced a set of measures to curb speculation in real estate as construction activities continued to expand significantly. These included plans to raise housing supply, an increase in tax rates on income from the sale of real estate in order to reduce speculative demand, strengthening of the regulations on real estate trading and stabilization of the money supply. These measures caused real estate prices to decline slightly up to July 1983. But a new outbreak of speculation prompted new policy measures, including regular monitoring of land prices and real estate transaction trends, coupled with a vigorous programme to encourage enterprises to sell land not currently in use as a means of improving their balance sheets and raising the supply of land in the market.

In Singapore, construction in both the private and public sectors continued to surge forward in 1982, growing phenomenally by over 36 per cent, double the 1981 growth rate. Despite a depressed property market, reflecting the slow-down in the economy, real estate development, especially of condominiums, factories and warehousing, maintained its momentum, sustained by a 44 per cent increase of investment expenditure by the private sector. Public sector construction also stepped up as the Housing and Development Board embarked on a massive public housing programme to complete 140,000 units by 1983. As a result, construction of residential and non-residential buildings increased rapidly in Singapore.

In Hong Kong, total expenditure on building and construction increased by 10 per cent in real terms in 1982, largely due to an increase of 26 per cent in real terms in public sector expenditure devoted to a sustained programme of public works to provide public housing and to construct the Island Line of the Mass Transit Railway. However, expenditure by the private sector declined 1 per cent. The combination of recession and high interest rates brought substantial disturbance to Hong Kong's real estate markets in 1982.

In Indonesia and in the Philippines, the construction sector continued to expand in 1982, though at a slower pace than in 1981.

In Thailand, the construction sector expanded at 1.4 per cent, showing a slight recovery from the decline of 6.5 per cent in 1981. However, expansion remained low due to the economic slow-down, high interest rates, low investment and a large number of unsold units. Yet in the second half of 1982 a number of big construction projects were launched, and there was an increase in credit granted for home building. As a result, the real value of private construction grew by 1 per cent and of public construction by 5.2 per cent in 1982. Preliminary estimates suggest that private sector construction would expand at a rate of 5 per cent in 1983. Investment in the private sector increased during the first half of 1983 when interest rates fell and commercial banks lent more for construction activities. By contrast, public sector construction seemed to slow down because of a decline in government spending on public construction. Therefore, the outlook for the whole construction industry is not overly bright, though the overall growth of this sector was estimated at 4 per cent for 1983. However, construction of residential and office condominiums, commercial complexes and hotels, especially around Bangkok, is much in evidence. Doubts have been raised as to whether these ventures would prove profitable when completed.

experienced a significant slow-down, with GDP rising by 2.2 per cent in real terms in 1982, compared with 7.9 per cent a year earlier. Adverse developments in the oil sector, which accounted in total for about a quarter of GDP and two thirds of government revenue, were the main reasons for the slow-down. On the supply side, oil production fell by 16 per cent of the 1981 output, while gas output remained stagnant in 1982. Growth in agriculture was adversely affected by a severe drought and consequently slowed down to 2.1 per cent, compared with 4.9 per cent in 1981. Industrial output, which provided another 30 per cent of GDP, fell by 1.4 per cent in 1982.

A major economic stimulus in recent years had been government spending, which grew by a total of over 22 per cent during the fiscal years 1980-1982, as a result of higher revenue from oil production. In 1982, however, oil export earnings fell by about $ 3.4 billion and sharply reduced government revenue; this was transmitted to a slow-down in growth in public outlay in 1982, which expanded by over 3 per cent in nominal terms, implying a contraction in real terms.

Economic performance in Indonesia in 1983 is unlikely to have improved significantly over that in 1982. The prospects for increased oil output or revenue during 1983 were small, although some improvement was expected in the second half. Adverse weather conditions reappeared to restrict the rate of agricultural growth in 1983. The combined effect of export earnings and government revenue shortfalls necessitated a reassessment and rescheduling of several major investment projects, as well as other stabilization measures. Private consumption would remain dampened and, in addition, many local industries were facing severe cost pressures emanating from the rupiah devaluation of 27.5 per cent in March 1983. The exchange rate adjustment, however, was expected to help improve the prospects for exports of several agro-based industries.

In Malaysia, real GDP growth of 5.2 per cent in 1982 was below the 7.2 per cent of a year earlier. The current value of gross exports did not increase significantly between 1980 and 1982. Lower prices and volumes reduced significantly export receipts from rubber and tin, but this adverse impact was offset by a strong growth in the export of sawn logs, manufactures – including electrical and electronic goods, transport equipment and other industrial products – and crude and refined petroleum.

Oil has provided Malaysia with a major export commodity since the mid-1970s. Crude oil production increased from a negligible level in 1970 to 283,000 barrels per day in 1979 and then declined for two consecutive years, partly due to the implementation of a policy, introduced in 1980, to prevent its quick depletion. In 1982, production of crude oil, however, increased by over 17 per cent in order to maintain export earnings in the face of falling prices of Malaysia's major primary export commodities. Lately, the production of natural and associated petroleum gas has been stepped up, and exports of liquefied natural gas (LNG) output are expected to increase substantially from 1983 onwards.

The relatively unfavourable export performance and stagnant or lower output of several major agricultural commodities, except palm oil, have served to dampen Malaysia's aggregate growth performance. In real terms, the growth in private investment remained at a comparatively low level while private consumption increased by 0.8 per cent in 1982, down from 7.5 per cent a year before. Public sector spending, however, provided a considerable, although declining, economic stimulus, rising by 8.6 per cent in real terms in 1982, compared with 14.7 per cent the year before.

Tight budgetary constraints necessitated a sharp deceleration in public sector spending during 1983. The impact of this restrictive development was likely to be offset by several improvements in key economic sectors. Gross exports during the first quarter of 1983 expanded at an annual rate of 7.4 per cent, while agriculture and forestry, manufacturing and mining registered significantly strong growth in output. This has come about through an upturn in the prices of a number of commodities exported by Malaysia, as well as through a rise in exports of oil and natural gas. Construction activities, which had remained at a high level in 1982, were expected to rise further in 1983. With rising external demand, except for textiles, industrial output was expected to increase considerably to bring about a 5.6 per cent real growth in Malaysia's GDP in 1983.

The Philippines faced difficult economic conditions in 1982-1983, mainly due to the impact of the world recession on its exports. Expansion in real GDP reached 2.9 per cent in 1982, down from 3.8 per cent the year before, while merchandise export earnings fell by over 15 per cent in 1982. Lower prices and volumes significantly reduced export receipts from the principal commodities, including sugar, coconut, forestry and mineral products. Although manufacture exports as a whole grew by only 1 per cent, the export of electronic parts and equipment recorded an encouraging growth of 20 per cent in value.

The growth of output in the agricultural sector, at 3.8 per cent

in 1982, was marginally higher than the rate of 3.6 per cent in 1981. A decline in the prices of major crops along with lower coconut output contributed to this stagnation. The slow-down in industrial output was more marked. The growth rate of 2.1 per cent in 1982 was about two thirds that achieved in 1981. The construction sector grew relatively faster at 5.1 per cent in 1982. On the expenditure side, private consumption spending grew by 2.8 per cent, while fixed capital formation rose by 3.0 per cent in real terms during 1982. Inventories, however, fell by 13 per cent, reflecting the depressed state of the economy and the effects of prevailing high interest rates. The weakness in private expenditure was reinforced by the deceleration of government spending, whose growth rate increased by 9.4 per cent in 1982, compared with 17 per cent in 1981.

Persistent shortfalls in export earnings and government revenue, rising external financing needs and subsequent debt service requirements, combined with domestic political uncertainties and capital outflows constrained economic growth. During the first half of 1983 serious balance of payments and domestic resource constraints began to emerge in the Philippines. In the second half, the Government's room for manoeuvre was further limited by difficulties in the domestic political situation. These developments have necessitated a rescheduling of major industrial projects, two devaluations of the peso, tighter import controls and a rescheduling of external debt payment. In addition, a severe drought has caused considerable damage to likely agricultural production in 1983/84. However, rising commodity prices and export demand, and a pick up in manufacturing activities in the first half of 1983, were two favourable factors affecting growth prospects in 1983, when the growth in GDP was expected to be about 2 per cent.

In spite of the considerable adverse effects of the recession, the real GDP growth rate of 5.3 per cent in 1982 in the Republic of Korea was barely 2 percentage points lower than in 1981. The higher receipts from overseas construction activities made up for the poor performance of merchandise exports, which grew by 2.5 per cent to boost total foreign exchange earnings growth to 4.8 per cent. This, however, contrasted with a sharp expansion of 17.4 per cent in 1981. The fall was due to substantial declines in the growth rates of merchandise exports and of overseas construction earnings and remittances. Reduced external demand almost halved the mining and manufacturing production growth rate to 3.7 per cent in real terms in 1982. The vigorous expansion of basic and manufactured metal industries was partly offset by lower activities in the textile and clothing, wood and wood products, and paper industries. The growth of agricultural production fell sharply to below 5 per cent, compared with 22 per cent in 1981, due largely to a poor rice harvest.

Reflecting lower export and agricultural growth, aggregate consumption demand in real terms expanded by a modest 3.6 per cent, the same rate as in 1981, while merchandise imports declined by 7.2 per cent in 1982. The main stimulus, however, came from the three policy packages for economic revitalization implemented during the first half of 1982. The principal measures included lower interest and income tax rates, larger credit allocations to small- and medium-sized firms, and increased public works and housing construction. Subsequently, gross fixed investment, which had fallen by over 6 per cent in 1981, rose by about 12 per cent a year later. In particular, the level of private sector construction activity jumped by almost 24 per cent in 1982.

The Republic of Korea was well placed to regain the growth momentum in 1983. Private construction investment jumped by another 53 per cent during the first half. Merchandise exports rose by 7.4 per cent during the same period. Overseas construction earnings, however, are likely to be considerably lower than in 1982 due to the continued slow-down in economic activity in oil-producing countries. There were good harvests and the real value of agricultural output expanded by 5.3 per cent during the first half of 1983, compared with the 1982 growth rate of 3.8 per cent. Industrial output grew by over 11 per cent during the first six months in 1983. The growth rate of real GDP in the first two quarters of 1983 was 9.3 per cent. For 1983 as a whole the growth rate is likely to be about 9 per cent, possibly the highest in the subregion that year.

In Singapore, growth in domestic demand considerably made up for the weakness in external demand factors in 1982 and helped to check the slow-down in the growth rate of GDP. Though low in comparison with growth rates achieved in earlier years, the 6.3 per cent growth in real GDP was the highest in the subregion in 1982. The three major domestic economic stimuli came from construction, transport and communications, and financial and business services. The construction sector grew phenomenally in 1982 by over 36 per cent, double the 1981 growth rate. Many factors, including the implementation of several private sector building projects already committed in 1981, and an accelerated public housing programme in response to strong demand, along with larger receipts

from invisible services, including tourism, and a higher level of offshore and commercial banking activities and real estate transactions, contributed to high growth rates in construction and the other two sectors.

However, manufacturing output recorded a decline of 4.7 per cent in 1982, the first contraction since 1975. Lower export demand, increased competition from other suppliers and restrictive trade practices in industrial countries all contributed to dampen output from a wide range of manufacturing industries – ship and oil rig construction and repair, oil refining, electronic components and electrical goods, and textiles.

Investment demand grew at a fast rate, particularly in the public sector, but private investment in machinery and equipment grew at the modest rate of 8 per cent. These sectors – particularly public and private construction projects, and business and financial services – were expected to continue to provide the principal economic stimuli in Singapore during 1983. The manufacturing sector also was beginning to show more buoyancy as external demand conditions improved, and domestic exports were likely to do better. At the same time, the domestic stimuli were likely to lose some steam. Growth in GDP in real terms will be sustained above the 1982 rate if industrial output and exports continued their growth trends.

The slow-down in Thailand's economic activities in 1982 was comparatively modest; growth in real GDP was down to 4.2 per cent from 6.3 per cent in the year before. Unfavourable weather conditions lowered the output of several major crops, including rice, maize and sugarcane. The value of agricultural production was almost stagnant in 1982, compared with a growth rate of 6.8 per cent the year before. The adverse impact of this production setback was compounded by lower world prices and demand. Merchandise exports, which had grown by about 6 per cent in current terms in 1981, declined by 6.1 per cent in 1982 despite significant increases in the export volume of several major agricultural commodities.

Slow-down in agricultural production and export earnings combined to decelerate the growth of two other major sectors. Manufacturing and domestic trade expanded by an average of 4.4 per cent in real terms in 1982, compared with 6.2 per cent in the previous year. The lower tempo of economic activities was mirrored in the pattern of aggregate expenditure. Growth of current value of domestic consumption fell from 17 per cent in 1981 to 10 per cent in 1982. Private sector investment was reduced by almost 7 per cent, although higher public investment spending on major transport, power (gas pipe-laying) and housing projects helped sustain the value of gross fixed capital formation at the 1981 level. Expenditure on imports of goods and services, which had grown by over 14 per cent in 1981, declined by 7.4 per cent in 1982.

There were several signs of improved economic performance in Thailand during the first half of 1983, despite an expected large increase in the trade deficit. Lower prices and volumes, partly attributable to production setbacks in 1982, reduced merchandise export earnings by over 6 per cent. However, there was some recovery in agriculture, with an expected increase of 4 per cent in rice production. Lower interest rates and high bank liquidity contributed considerably to a pick up in construction activity and in a wide range of manufacturing activities. Remittances from Thai workers overseas were also expected to remain substantial, and government spending continued to provide a modest economic stimulus in 1983. Overall, the growth in GDP was expected to be about 5.7 per cent.

C. SOUTH PACIFIC SUBREGION

The major island economies in the South Pacific subregion continued to be affected by the prolonged world recession, especially by the persistence of high external interest rates. These economies also experienced lower agricultural output and consumer spending. Restrictive fiscal and monetary policies, designed to restrain the drain on foreign exchange reserves, international public indebtedness and to reduce domestic inflationary pressures, further depressed economic conditions.

In real terms, the GDP of several countries declined in 1982. Available real GDP estimates for 1982 indicated a fall of 2 per cent in Fiji and 1.7 per cent in Solomon Islands, while that of Papua New Guinea remained unchanged. Samoa, however, experienced a growth of about 3 per cent

Table I.9. Selected South Pacific island economies. Growth rates of GDP at constant prices, 1978-1982

(Percentages)

	1978	*1979*	*1980*	*1981*	*1982*
Fiji	1.8	12.0	-1.7	4.4	-2.0
Papua New Guinea	8.6	1.8	-1.9	0.7	–
Samoa	...	...	----	-10.0 ----	3.0
Solomon Islands	4.6	21.9	-6.5	2.0	-1.7

Sources: National sources.

in real GDP after a sharp fall of over 10 per cent during 1980-1981.

The prospects for 1983 in the South Pacific islands were generally better, particularly since the economic recovery in the United States continued to gather momentum. Fiji and Tonga, which suffered considerable damage caused by adverse weather conditions during the first half of 1983, however, were likely to face poorer prospects.

Exports, which constitute the backbone of the economies of the South Pacific subregion, were, for most island countries in 1982, lower than, or remained stagnant at, the previous year's level, due to depressed external demand conditions and low commodity prices. In Fiji, the value of domestic exports fell by 6.5 per cent. This was caused mainly by a decline of 5 per cent and 40 per cent in receipts from the export of sugar and fishery. Earnings from coconut oil and timber exports were also lower. In Papua New Guinea domestic exports remained unchanged during 1983, lower receipts for fishery produce, copper, copra and cocoa being compensated for by an increase of almost 9 per cent in gold export value. In Solomon Islands a reduction of about 2 per cent in 1982 export receipts was expected due largely to the sharp fall (of about 37 per cent) in fishery earnings offset by a rise of 43 per cent in the value of forestry exports. In Samoa, after a substantial decline of about one third in export receipts in 1981, merchandise export value picked up by about one quarter in 1982, mainly because exports of coconut produce doubled.

Aggregate output was also affected adversely by low agricultural and manufacturing growth in 1982. In Fiji, the production of sugarcane and other cash crops expanded more slowly or became stagnant in 1982, while there was a decrease in the fish catch. Consequently, the value of agricultural output rose by 2.4 per cent, compared with 12.4 per cent in 1981. The continuing decline in the fishing industry led to the scrapping of plans for a fish cannery in Papua New Guinea. The country started production of sugar in August 1982, and an export surplus was expected in 1983.

Available information indicates that production and investment in other sectors in both Fiji and Papua New Guinea were experiencing varying degrees of slow-down. Despite an increase of 7 per cent in tourist arrivals in Fiji, the manufacturing and distributive (including commerce, hotel and restaurant trades) sectors recorded an absolute decline in their contribution to GDP. This was largely due to a reduction in consumer spending and to the need to dispose of large stocks. These two factors were also responsible for the fall-off in output of several secondary industries in Papua New Guinea, despite the strong positive impact of construction activity at the Ok Tedi and Bougainville mines.

The slow-down in private investment was generally not offset by public expenditure growth, which was budgeted to grow at 6.5 per cent in Fiji in 1982, compared with an increase of 21 per cent in 1981. Revised estimates indicate that government expenditure increased by 8.9 per cent during 1982 in Solomon Islands, compared with 22 per cent in 1981, while the inflation rate fell from 16 to 13 per cent between 1981 and 1982. Fiscal austerity was more severe in Papua New Guinea, with actual spending rising by just 1.3 per cent in the same year. However, capital spending (including maintenance works) fell by 9 per cent. The impact of fiscal restraint on domestic economic activities was reinforced by relatively tight monetary conditions. In particular, commercial bank interest rates remained high in 1982. These averaged 13.5 per cent in Fiji during 1981-1982, up from 12.0 per cent in 1980.

There were several indications of an upturn in the export prices of a wide range of commodities of significant importance to the South Pacific island subregion in late 1982. If the favourable developments in the external environment continue, it would greatly help economic recovery of the subregion in the mid-1980s.

For the present, however, the prospects for any significant economic improvement during 1983 in most Pacific island countries are uncertain. In Fiji, merchandise export earnings during the first half of 1983 rose by almost one third compared with those of the corresponding period in 1982. However, the dominant activity, sugarcane farming, was badly hit by two hurricanes in early 1983 and a drought afterwards, damaging almost half the crop of sugarcane. Fiscal policy for 1983 continued to be restrictive. Capital spending was severely curtailed to one third below the 1982 level, while total expenditure was budgeted to grow by about 2 per cent. However, rehabilitation outlays were estimated to push up 1983 spending by about 3.7 per cent. At the same time, the slow-down in bank loans and advances persisted into the first half of 1983.

Export earnings in Papua New Guinea picked up by one third during the first quarter of 1983 (relative to the first quarter of 1982). This was due largely to higher gold and copper prices and export volumes. The tempo of domestic economic activity, however, remained depressed, despite a significant amount of construction work at the Ok Tedi mine, because of severe fiscal restraint, with only modest total spending growth in 1983 over the actual

1982 level. The economy is likely to show substantial growth in 1983.

D. CENTRALLY PLANNED ECONOMIES

The growth experience of the five centrally planned economies of the ESCAP region, Afghanistan, China, the Lao People's Democratic Republic, Mongolia and Viet Nam, has been somewhat different from that of the rest of the developing ESCAP countries. While growth has slowed down in some of them, notably in Afghanistan and the Lao People's Democratic Republic, the two least developed countries, the reasons for the slow-down have not been related to the recession in developed countries. Their smaller reliance on foreign trade and the relatively small proportion of their foreign trade with developed market economies go to explain much of this difference.

The performance of the Chinese economy has been impressive during the past few years, both in the domestic and external fields, mainly because of a series of reform measures undertaken to improve the efficiency of the economy and to increase production per capita and incomes, especially in rural areas. Measures to increase economic efficiency and output, including those designed to improve the terms of trade in favour of rural producers, have enabled the Lao People's Democratic Republic and Viet Nam to approach self-sufficiency in agriculture. These two countries also recorded significant improvements in their external trade and payments position in 1982. Foreign aid inflows, however, remained an important development resource.

Afghanistan, the only centrally planned economy in South Asia, has faced severe economic difficulties recently, in common with most other least developed countries. Gross domestic product in 1982 was at the same level as in 1980, when it fell by 3.7 per cent and recovered to grow by 2.2 per cent in 1981 and by 0.8 per cent in 1982.

Both the magnitude and the sources of foreign assistance to Afghanistan have changed significantly since 1980. Increased aid from the Council for Mutual Economic Assistance (CMEA) countries has substituted for Western aid resources and helped in keeping up the development momentum to a large extent. Nevertheless, many projects have been halted because of a lack of funds. The disturbed internal situation in Afghanistan since 1980 also contributed to the loss of growth momentum.

In the annual plan for 1983/84 GDP is expected to grow at 6.6 per cent, the agriculture sector at 1.8 per cent and the industries, mining and energy sector at 13.2 per cent. Although agricultural co-operatives and state enterprises are the main vehicles for achieving planned targets in agriculture and industry respectively, encouragement is being given to private enterprise in both sectors. The procurement price of raw cotton and sugar beet, for instance, has been raised by 60 per cent and 40 per cent in 1983 to encourage the production of these crops.

In 1982 the economy of China achieved one of the highest growth rates in the ESCAP region. This rate of growth, at 7.4 per cent per annum, stands out markedly in the recessionary environment of the world economy. The high growth rate in 1982 was in part a product of adjustments that had taken place in the economy during 1980 and 1981, when growth rates were considerably lower. The 1982 performance of the Chinese economy also represented a deliberate shift in favour of agriculture, which had in the past been a lagging sector. In 1982, the growth rates of agriculture and industry were 11.0 per cent and 7.7 per cent, respectively, making the share of the two sectors in the net material product (NMP) almost equal at a little over 40 per cent each. The high rate of growth achieved in 1982 by China is in contrast both to the 3 per cent growth achieved in 1981 and to the 4 per cent target set for 1982. The structural adjustments and economic reforms of the past few years have yielded high rates of growth which, in combination with a low population growth rate (estimated at 1.3 per cent per annum between 1978 and 1981), have led to rapid increases in per capita income, especially in rural areas. During 1982 there was a sharp increase in per capita income, with rural incomes continuing to grow more rapidly than urban.

The effects of the recession in developed countries on China's external trade was reflected mainly in the decline of trade with the EEC countries, exports to which declined in 1982 by 4.2 per cent below the 1981 level. Exports to Japan, the main trading partner, and to the United States increased by 11.9 and 29.4 per cent, respectively. The total export receipts of China grew by 1.7 per cent in 1982, while the total import bill fell by 12.2 per cent, creating a substantial trade surplus for the first time in five years.

A major consequence of China's efforts to improve its balance of payments has been a substantial reduction in foreign borrowing in 1980 and 1981. In 1981 and 1982, China repaid a part of its commercial bank and other foreign loans, and its debt-service ratio fell to 7.8 per cent. There also was a sharp increase in its foreign exchange reserves from $ 5.0 billion (or the equivalent of about three months of imports) to $ 9.4 billion by the end of the third quarter of 1982.

Considerable improvements in the Chinese economy have been achieved during its programme of adjustment, stability and growth, effective since 1979. Inflation and budgetary deficits have been brought down considerably from the high levels prevailing in 1978, and the balance-of-payments deficit on current account amounting to $ 2 billion in 1980 has been converted to an estimated surplus of $ 4.4 billion in 1982. The present situation of current account surplus is likely to prove temporary and may give way to increasing current account deficits, for which substantial capital inflows would be needed during the remainder of the 1980s. A substantial increase in imports is expected in 1983 and 1984 as the improved balance-of-payments position enables China to import more machinery and equipment in pursuit of its modernization programme, especially in the priority sectors of energy and transport.

Since 1979 real output growth in the Lao People's Democratic Republic, a land-locked least developed country, has been very high as a result, mainly, of the improved performance of the agriculture and forestry sector, which contributes about 70 per cent of GDP. Contributions to this growth have mainly come from an expansion in cultivated area, favourable weather conditions and production-oriented policies.

Gross domestic product in real terms is estimated to have increased at the rapid rate of 10 per cent each year during 1979-1980, slowing down to 5 per cent in 1981 – partly due to the disruption of border trade for part of the year. In 1982, the GDP growth rate fell to 1 per cent as a result of the drought that occurred in the second quarter, although production sectors other than agriculture and forestry were unaffected.[2] Performance in the foreign trade sector, for example, improved considerably in 1982; export earnings doubled mainly on account of a threefold rise in electricity sales to Thailand. At the same time, imports rose by 30 per cent as aid inflows and purchases from the non-convertible area increased.

In 1982, as a result of better mobilization of domestic resources, the Lao People's Democratic Republic was able for the first time to cover from domestic revenue all recurrent budget expenditures as well as a small proportion of public investment; the latter was until then wholly financed by foreign assistance. A number of important policy measures since the end of 1979 have helped to improve the Government's budgetary position and stimulate the growth of agricultural output through higher procurement prices and shifts in the terms of trade in favour of rice production and exports. These measures were initially accompanied by high rates of inflation, resulting from substantial adjustments in official prices and sharp increases in free market prices, following the depreciation of kip.

In Mongolia, GDP in 1982, increased by 7.6 per cent compared with the previous year, and the volume of funds allocated by the state for financing social and cultural policies increased by 16 per cent. The real per capita income increased by 4.6 per cent. In 1982, agricultural production grew by 16 per cent and industrial output rose by 10 per cent.

[2] The 1981-1985 development plan had projected a real GDP growth of 7 per cent per annum, with agriculture and industry growing at the annual rates of 4.3 and 17 per cent. Government expenditure was projected to increase at 12 per cent per year and investment growth at the rate of 8 per cent per annum. A rapid expansion of exports and imports has also been planned.

The plan for 1983 envisages a 7.6 per cent increase in the national income. The plan calls for national labour productivity to rise by 5.4 per cent, which will account for about 70 per cent of the increase in the national income.

According to the country's Central Statistical Bureau, the foreign trade turnover increased by 14.6 per cent in 1982, with an 18.7 per cent increase in exports and an 11.9 per cent increase in imports. In 1983, Mongolia's foreign trade turnover is envisaged to grow by 6.2 per cent; exports are expected to grow 6.3 per cent. Trade with CMEA member countries comprises 96 per cent of the country's total trade turnover.

In 1982, Viet Nam continued the process of economic recovery, with GDP increasing by 8 per cent compared with the 5 per cent growth rate recorded in 1981. Agriculture and industry shared the strong growth momentum generated by, among other factors, increased managerial autonomy and greater price and wage flexibility introduced in 1981. The gross output of agriculture rose by 8 per cent, aided by favourable weather and better availability of fertilizer and other inputs. Gross industrial output rose by 14 per cent. Industrial capacity, however, continued to be underutilized due to a shortage of imported raw materials and spare parts, some of which were affected by foreign trade embargoes. Increased supplies contributed, in turn, to the slow-down in inflation in Viet Nam during 1982.

Rural incomes have improved in recent years, mainly as a result of increases in procurement prices and the adoption of the system of "household contracting" which allows farmers to sell a part of their output in the open market. Food production has grown rapidly, and food self-sufficiency has been nearly achieved.

Fiscal deficits as a proportion of GDP doubled between 1979 and 1982, while the proportion of government revenues to GDP remained unchanged. The steeper rise in government expenditure was on account of health, education and subsidies on essential commodities supplied to civil servants consequent upon increased procurement prices of agricultural commodities.

Viet Nam's external balance improved substantially in 1982. The deficit on current account in the balance of payments of about $ 1 billion in 1981 declined by about 20 per cent in 1982. This reduction was brought about by a 27 per cent increase in exports, which had declined in three previous successive years, and by a 3 per cent increase in imports. Net capital inflows decreased by 35 per cent on account of lower inflows from both convertible and non-convertible sources. The deficit in the overall balance of payments was $ 182 million. Three fourths of Viet Nam's outstanding debt at the end of 1982 was owed to the non-convertible area. With increased exports the debt-service ratios on convertible and non-convertible obligations have declined, but have remained at a level high enough to cause arrears in debt servicing to accumulate and add to the debt burden.

Although Viet Nam has achieved a considerable success in reviving its economy during the past two years, continued growth required considerable investment in infrastructure. An improvement in the foreign exchange position would substantially help the growth of the economy. Success in oil exploration could also change the near-term prospects for resource availability and growth.

III. GROWTH IN MAJOR SECTORS

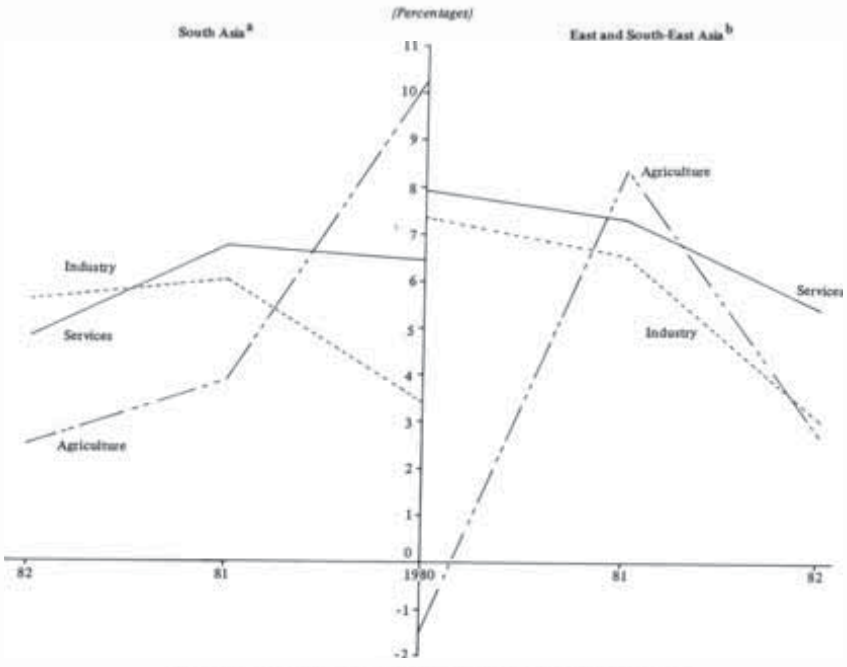
A. AGRICULTURE

Agricultural production is a major determinant of economic well-being in most developing ESCAP countries, and changes in it reflect closely the extent of improvement or otherwise in the welfare of a majority of the population. This situation is changing in many countries as the proportion of income derived from agriculture falls and as the proportion of households that depends on agricultural production alone declines. Thus year-to-year changes in agricultural output have a less unambiguous impact than in the past. However, changes in agricultural production, at least for the major agricultural economies of the ESCAP region, continue to provide fairly reliable indications of changes in welfare in these economies.

Gross agricultural production in the developing ESCAP countries in 1982 grew by 3.2[1] per cent, slightly over 1 per cent above the increase in the population growth rate. The modest growth in 1982 contrasted with 5.1 per cent in 1981 when there was a strong recovery from stagnant per capita agricultural production in 1980.

Severe drought in a number of countries adversely affected agricultural production in 1982. Among the larger agricultural countries, India was seriously affected by a fall in agricultural output of 2.5 per cent in 1982, after a growth of 7.1 per cent in 1981, which itself was a recovery from the drought-affected 1980 crop year. Among other countries affected by adverse weather conditions were Afghanistan (-1.0), Indonesia (-1.4), Samoa (-0.9), Tonga (-10.8) and Vanuatu (-14.2). Burma (8.4), China (8.2), the Lao People's Democratic Republic (4.9), Malaysia (6.5) and Mongolia (9.9) achieved highest agricultural growth rates in the region. Among the South Asian countries, Bangladesh, Nepal and Pakistan had modest growth of 4.3, 3.1 and 2.5 per cent, respectively, which in the cases of Bangladesh and Nepal were largely a recovery from a fall in output in the pre-

Figure I.8. Selected developing ESCAP subregions. Weighted annual average of sectoral growth rates, 1980-1982



[a] Includes Bangladesh, Burma, India (1980 and 1981 only), Pakistan and Sri Lanka.

[b] Includes Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore and Thailand.

[1] Based on Food and Agriculture Organization of the United Nations computer printout dated 30 November 1983.

ceding year. The countries of South-East Asia also recorded modest agricultural growth rates. While the Philippines and Thailand had a growth rate of 3 per cent each, Viet Nam's agricultural growth rate (2.3) was below the average growth rate of the developing ESCAP countries. Some Pacific island countries, especially Papua New Guinea (4.4), recorded high growth rates, while Fiji's high growth (10.4) in 1981 declined to a modest 2.7 per cent in 1982. In the countries that succeeded in achieving high agricultural growth rates, policy measures conducive to the adoption of new technology and raising productive efficiency played an important role and greatly helped to offset the disadvantages of unfavourable weather.

The prospects for growth in agricultural production in the developing ESCAP countries were generally better during 1983, and the average rate of growth was expected to be 3.9 per cent.[2] The rate of growth of agricultural output in India was expected to be 10.2 per cent, having recovered from the drought-affected low output in 1982. However, the Philippines and Sri Lanka are among the countries likely to have shortfalls in agricultural production due to unfavourable weather conditions. In China, the pace of growth of agricultural output, according to preliminary reports, has slowed considerably in 1983 (1.5 per cent) after very high growth in 1982 due to unfavourable weather conditions. Successive bumper crops and the expansion of agriculture in the past have, however, created pressures for building new infrastructure for storage, marketing and distribution. Prospects for 1983 seemed favourable in Burma, Indonesia, the Lao People's Democratic Republic, Nepal, Pakistan, the Republic of Korea, Solomon Islands, Tonga, Vanuatu and Viet Nam, with expected growth in agricultural output of close to 3 per cent or higher, while the output in Fiji, Malaysia, the Philippines and Samoa is likely to be below that in 1982. Afghanistan, Bangladesh, Maldives, Papua New Guinea and Sri Lanka are likely to have achieved less than 2 per cent annual growth.

The changing conditions facing agriculture in the developing ESCAP region required both short-term and long-term policy measures to ensure continued growth. The increased availability of modern inputs, including chemical fertilizers and irrigation facilities, has been an important element in the recent upsurge in agricultural output in China. More emphasis has been laid on increasing the efficiency of such inputs. The widespread adoption of the production responsibility system, which links agricultural earnings with higher output and better utilization of resources, has made cultivators more conscious of the relative costs and benefits of various inputs and crops and has helped to diversify the rural economy, leading to changes in the mix of agricultural production. The contribution of forestry and livestock, which farmers can now engage in with surplus family labour, has greatly increased between 1978 and 1982. The Lao People's Democratic Republic and Viet Nam have also attempted to improve the incentive structure for agricultural production.

In Bangladesh, rapid growth in productivity forms the basic thrust of the growth strategy for the agricultural sector in the second five-year plan, with the aims of attaining self-sufficiency in foodgrains production by 1984/85 and reducing malnutrition. The emphasis on major foodgrains has tended to reduce incentives to the production of crops like jute, oilseeds and pulses. In Pakistan, the upward revision of the price of fertilizer has been accompanied by higher procurement/support prices for wheat, rice, seed-cotton and oilseed crops to encourage profitable farming activities. Other factors that have helped agricultural growth in recent years have been the increase in the availability of interest-free production loans from commercial banks and co-operative societies and substantial increases in fixed investment by the private sector in agriculture. Plantation agriculture in Sri Lanka has suffered from deterioration in the production base in public sector estates during the 1970s, leading to rising costs of production and decline in labour productivity. This is being corrected by implementing a medium-term investment plan to rationalize the use of resources on public sector estates and to raise productivity. Recent droughts in India and Nepal have prompted their Governments to take a number of steps to improve production and reduce dependence on the vagaries of nature. In India, attempts were made to maximize production of the winter (*rabi*) crops and introduce drought-resistant seed varieties, while in Nepal the Government intends to concentrate on minor irrigation development, supply of inputs and credit to prevent and offset the ill effects of drought.

In the Philippines, an Integrated Rural Financing Programme was launched to improve the delivery of credit and to reorient the management of agricultural development. In irrigation, the emphasis is on commercial prices for irrigation, rehabilitation of existing irrigation systems and the cultivation of crops other than rice on irrigated land. A comprehensive package of agricultural

[2] *Ibid.*

policies was introduced in Malaysia with the adoption of the National Agricultural Policy in 1983.

1. Growth of output of major cereal crops

Agricultural production in the developing ESCAP countries is concentrated heavily on cereals, which are the main source of caloric and other nutritional needs of the population. The production of cereals in the developing ESCAP countries in 1982 increased by 3.2 per cent, resulting in a substantial rise in per capita output over the 1981 level. Cereal production suffered a sharp decline of 8 per cent in India – more than agricultural production as a whole – causing a decline of 10 per cent in per capita production.[3] Afghanistan, Indonesia, Iran, Malaysia, Pakistan, the Republic of Korea, Sri Lanka and Thailand suffered declines in per capita cereal production of up to 8.4 per cent, while it stayed unchanged in Bangladesh, Bhutan and Fiji. China, Mongolia and Viet Nam, however, gained remarkable increases in per capita production of cereals. The production of cereals in the developing ESCAP region is expected to increase by 5.7 per cent in 1983. In India, Pakistan and Thailand production has increased remarkably, offsetting the set-back of 1982. During 1982 rice production in the region increased by 3.4 per cent to continue the trend of the previous two years, substantially raising per capita production. The prospects for 1983 are for higher growth in the production of cereals.

Table I.10. Developing ESCAP region. Export of rice, 1980-1982

	Quantity (thousand tons)			*Value ($ million)*		
	1980	*1981*	*1982*	*1980*	*1981*	*1982*
Burma	653	674	701	182.32	216.47	156.17
China	1 377	685	560	510.00	260.72	195.14
India	472	940	600	174.22	370.00	195.00
Pakistan	1 087	1 244	951	422.11	565.76	391.90
Thailand	2 797	3 027	3 818	952.71	1 211.25	976.66
World	13 047	13 101	11 962	5 049.65	5 781.11	4 105.44

Source: Food and Agriculture Organization of the United Nations computer printout dated 30 November 1983.

Foreign exchange earnings from the export of rice by the developing ESCAP countries fell by 28 per cent in 1982, though export volume declined by only 1 per cent. Thailand, which exported about 57 per cent of the total, increased its volume of exports by 26 per cent in 1982, with a decline of about 19 per cent in its export value. In China, India and Pakistan, both the volume and value of rice exports declined, while in Burma, although the volume increased by about 4 per cent, the value declined by about 28 per cent.

Among the major wheat-producing nations of the developing ESCAP region, production in China and India grew by 14.7 per cent and 3.1 per cent, respectively, while production in Pakistan declined by 3.0 per cent. In Afghanistan and Iran, where wheat is the staple crop, per capita wheat production declined significantly. In Bangladesh, where in recent years cultivation has significantly shifted in favour of wheat, production of wheat fell back in 1982 by 11.5 per cent after having doubled in the previous two years. Production in 1983 is likely to go up significantly.

Although coarse grains (of which maize constitutes the bulk) are relatively less important as a source of calories in the developing countries of the region than rice and wheat, they constitute the staple food for the poor in some countries. It is also the major source of animal feed in some. In China, the largest coarse grains producer of the region, production grew by 3.3 per cent, while in India, the second largest producer, it declined by 9.6 per cent in 1982. In most other major coarse grain producing countries of the region, especially Indonesia, Nepal, Pakistan, the Republic of Korea and Thailand, declines in production in 1982 ranged between 0.4 per cent and 29 per cent. The overall decline of coarse grains output in the developing ESCAP countries was 1.6 per cent and for maize 0.9 per cent. 1983 is likely to be a favourable year for coarse grain production, including maize. The production in India and Thailand is likely to go up considerably after significant declines in 1982.

Although the developing ESCAP region is a net importer of maize, China and Thailand have been exporting it for the last few years. The export earnings from maize constitute an important source of foreign exchange for Thailand, whereas in China, a net importer of maize, the export volume as well as earnings sharply declined in 1982. Thailand's foreign exchange earnings from maize declined in 1982 by 5 per cent,

[3] It needs to be emphasized that per capita production is only a partial measure of per capita availability or consumption of cereals. The latter are affected not only by production, generally a large component, but also by imports, drawings from stock and efficiency of distribution. In the case of India, for example, per capita consumption was sustained, to a large extent, by drawing on grain reserves and imports.

in spite of a 17 per cent increase in export volume.

2. Commercial crops

Commercial crops are becoming increasingly important in the agricultural production of the developing ESCAP countries as they provide a main source of increasing foreign exchange availability either through export or through import substitution. During the recession, the world price of many of these commodities has fallen. The production and export volumes of some commodities have had to be raised by providing incentives to farmers through appropriate fiscal and foreign exchange policies in order to maintain foreign exchange receipts. As a result, while the production of some commodities such as tea and jute declined, those of sugarcane, palm oil, cotton and rubber rose. The production of commodities that had a large internal market, such as sugar, palm oil and cotton, increased more steadily than those that depended primarily on external demand.

The developing ESCAP region accounts for 90 per cent of world production and exports of natural rubber, the bulk of which is produced in Indonesia, Malaysia and Thailand. China, India, the Philippines and Sri Lanka together produce less than 15 per cent of the developing ESCAP region's rubber output, which marginally declined in 1982. The growth rate of the region's largest producer, Malaysia, however, was almost negligible, while those of the Philippines and Thailand were 9.7 and 6.3 per cent, respectively. With the exception of Indonesia, where output declined by 8.6 per cent in 1982, the smaller rubber producers were able marginally to improve their market share. As with other commodities, the price of rubber fell during the recession. The effect of declining rubber prices can be illustrated by the case of Indonesia, the region's second largest producer, where the volume of exports declined by 10 per cent, while the value declined by 30 per cent during 1981-1982.[4] The prospects in 1983 for increased production are better because of improved prices following the economic recovery in developed countries which began in early 1983.

Sugar (sugarcane and sugar beet) is an important commercial crop in the developing ESCAP countries for which there is a growing market on account of rising internal demand, import substitution and exports. Whilst there is a secular increase in the demand for sugar in domestic markets in the ESCAP region, quantities demanded are subject to fluctuation on account of prices of competing crops, external prices, export quotas, import policies and industrial policies relating to the expansion and better utilization of existing sugar manufacturing capacity.

Table I.12. Developing ESCAP region. Production of natural rubber, 1979-1982

(Thousand tons)

	1979	*1980*	*1981*	*1982*
China	108	113	128	140
India	147	155	151	166
Indonesia	964	989	963	880
Malaysia	1 617	1 530	1 510	1 517
Philippines	59	68	72	79
Sri Lanka	153	133	124	125
Thailand	534	465	508	540

Source: Food and Agriculture Organization of the United Nations computer printout dated 30 November 1983.

Table I.11. Developing ESCAP region. Selected agricultural commodities' production, 1980-1982

	Production (thousand tons)			*Output growth rate (percentages)*		
	1980	*1981*	*1982*	*1980*	*1981*	*1982*
Natural rubber	3 526	3 521	3 515	-3.6	-0.1	-0.2
Sugarcane	256 800	306 053	358 459	-11.2	19.2	17.1
Centrifugal raw sugar	14 221	17 170	23 655	-19.4	20.7	37.8
Tea	1 283	1 344	1 362	2.6	4.8	1.3
Jute and kenaf	3 859	3 893	3 865	-10.0	1.0	-0.7
Cassava	43 727	48 236	49 384	7.5	10.3	2.4
Cotton lint	4 895	5 249	5 952	9.7	7.2	13.4
Coffee, green	691	705	703	16.3	2.0	-0.3
Palm oil	3 562	3 849	4 668	15.5	8.0	21.3

Source: Food and Agriculture Organization of the United Nations computer printout dated 30 November 1983.

Notes: Production data are allocated to the calendar year in which the major part of the crop is harvested. Figures thus do not always match those published in national sources.

[4] Bank Indonesia, *Report for the Financial Year 1981/1982* (Jakarta, 1982), p. 100.

Box I.6. Rise in production and export of sugar

The sugar-producing crops (cane and beet) are grown in both tropical and temperate climates and are among the most widely produced commodities in the world. While sugarcane is a perennial crop from which a number of successive harvests can be obtained, sugar beet is a rotational crop and, unlike sugarcane, does not require the commitment of the same piece of land for successive years. The share of beet sugar in global production has gone down marginally during the last few years, and it stood at little more than one third in 1982. In the developing ESCAP countries, however, beet sugar contributes less than 10 per cent of total production, and the output of major producers such as India, the Philippines and Thailand consists entirely of cane. The only significant producer of beet sugar in the region is China, while Afghanistan, Pakistan and Viet Nam are marginal producers. The output of beet sugar in China is equal to about 20 per cent of its total sugar output.

The global production of centrifugal sugar has increased during the last three years and exceeded 100 million tons in 1982, while consumption continued to be stable around 91 million tons, resulting in a marked increase in stocks and causing the international price of sugar to decline continuously. The average world price in the first half of 1983 was only little more than one fourth of its average price in 1980. Sugar prices always have been subject to cyclical and volatile behaviour, but the current down-trend in unprecedented. The unusually low prices of sugar have discouraged, considerably, the use of substitutes (particularly of high-fructose sugar in food processing industries), and the demand for sugar is likely to be more firm in the future.

Sugar production, exports and prices in the developing ESCAP countries

	Unit	*1980*	*1981*	*1982*
Production	Thousand tons	14 221	17 170	23 655
Export	Thousand tons	3 927	3 774	5 120
Exports as percentage of production	Percentages	28	22	22
International prices (International Sugar Council "world" daily price, f.o.b.)	US¢ per kg, current prices	63.20	37.40	18.56

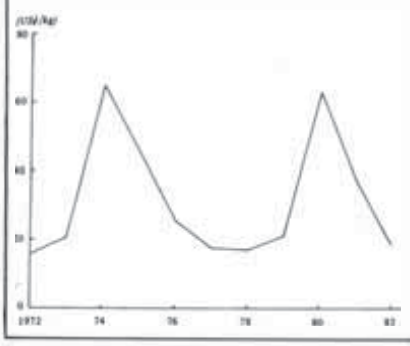
Sources: Food and Agriculture Organization of the United Nations computer printout, November 1983 and World Bank, *Commodity Trade and Price Trends, 1983-84 Edition* (1983).

The production of centrifugal sugar in the developing countries of ESCAP increased by 38 per cent in 1982. India and Thailand increased their production remarkably. India became the world's largest producer with an output of 9.2 million metric tons.[a] The bulk of sugar production in India was either consumed domestically or retained in stock, despite an almost fivefold increase in exports in 1982. Sugarcane production is likely to decline in India in 1983 due to a reduction in sown area in reaction to high production in the last two years. Thailand increased its export by almost 100 per cent and became the largest exporter of the region, out-distancing the Philippines in 1982. However, net receipts from exports increased by only 20 per cent due to depressed international prices. In 1983, the quantity of sugar exported from Thailand is likely to fall. Exports from China, Fiji, India, the Philippines and Thailand together accounted for more than 90 per cent of the total export of sugar from the developing ESCAP region. Similarly, these countries together accounted for 15.42 per cent of global exports, while their share in earnings was 13.35 per cent, indicating lower than average prices for their products. Among the major exporters, India and Thailand increased export receipts despite a substantial decline in unit prices. The average price of Thai sugar in 1982 was Baht 5,862 per ton (25.6 US¢ per kg) compared with Baht 8,557 per ton in 1981 (37.2 US¢ per kg).[b] Prices declined further in early 1983, and the prospect of reversal is still uncertain. Fiji and the Philippines were seriously affected by this volatile condition of the sugar market. Export earnings in current dollar values have been declining for the last three years. Fiji is especially affected, since sugar accounts for 70 per cent (1982) of domestic exports.

Per capita consumption of sugar varies substantially from one country to another. The global average per capita consumption has been about 20 kg per year between 1975 and 1981. Per capita consumption in Asia was 8.4 kgs in 1981, with wide variations among countries. In Bangladesh, the Lao People's Democratic Republic and Nepal, it was 1.7, 1.6 and 1.7 kgs per year, respectively, in 1981. In contrast, consumption in developed countries is about 40 kgs per head per year.

The prospects for sugar prices firming up in the immediate future are not very certain. However, 1984 could be the beginning of another cycle, so familiar during the last two or three decades. Between 1975 and 1979, international sugar prices went down by more than 50 per cent. In 1980 prices tripled to the highest level since 1974. As domestic prices in many countries have become unremunerative, there is likely to be simultaneous reduction in production, which could lead to a substantial upsurge in prices.

Movement of international sugar prices (US¢/kg, world, raw, at current prices)



[a] Food and Agriculture Organization of the United Nations, *Commodity Review and Outlook, 1982-83* (Rome, 1983), p. 27.

[b] Bank of Thailand, *Quarterly Bulletin*, vol. 23, No. 1, p. 64.

Between 1980 and 1982 the output of sugarcane in the developing ESCAP region increased by about 40 per cent and that of raw and centrifugal sugar by about 66 per cent. Although production in 1981 and 1982 has increased in most countries, the highest growth rates were achieved by India, Pakistan and Thailand where production of centrifugal sugar has more than doubled during those two years. These increases were achieved through deliberate policies to foster sugar cultivation and production. The increase in output in India has been used to build buffer stocks and to export, notably to Indonesia. Pakistan has become nearly self-sufficient in sugar. Thailand, along with Fiji and the Philippines, has emerged as a major exporter of sugar in the region. Though the increase in China's sugar output has been quite high in recent years, per capita output remains comparatively low.

The developing ESCAP region produced 5.9 million tons of cotton lint during 1982, 40.0 per cent of the world production, with China, India and Pakistan accounting for 96 per cent of this total. During the period 1980-1982, production increased at a high rate of 10.1 per cent per year for the whole developing ESCAP region. In Pakistan, the growth in production was 5.2 per cent per year. Factors that contributed to this increase were higher domestic prices, favourable weather conditions, effective plant protection measures and better cultural practices. It was estimated that the yield of cotton per hectare in Pakistan increased by 10.1 per cent in 1982/83 and by 4.6 per cent during 1981/82.[5] Pakistan's raw cotton exports declined by 29 per cent in volume and by 44 per cent in value in 1982.

In 1982 the Asia and Pacific region accounted for 96 per cent of the world production of 4.0 million tons and 97 per cent of the exports of jute and jute-like fibres. Bangladesh, which produced one fifth of the world's jute output, accounted for about 70 per cent of the region's exports. Bangladesh, China and India produced about 90 per cent of the regional output, which declined by about 1 per cent between 1981 and 1982. The decline was about 9 per cent in India. While in Bangladesh jute output achieved a remarkably high growth rate of 27 per cent, China's output fell by about 16 per cent. Thailand achieved an impressive 24.5 per cent growth during the year 1982/83. In Thailand, the production of kenaf increased with good rainfall providing a higher yield per hectare in spite of a 7.9 per cent decline in the area planted. The Government continued to guarantee minimum prices to kenaf producers.

Roots and tuber crops are produced in the Pacific countries for local consumption as food. Larger quantities are produced in a few countries of Asia – mainly Thailand, Indonesia, India and China (in order of importance) – partly for local consumption as food and partly for export as livestock feed in developed economies. Production of cassava has steadily increased in the developing ESCAP countries at the rate of 6.3 per cent per annum during the period 1980-1982. Thailand not only accounted for the largest share in the region, 42.5 per cent, but also achieved the highest growth rate, 23.4 per cent per year. Cassava, after rice, is the most important earner of foreign exchange in Thailand. The steady increase in production was mainly due to an increase in the planted area. In China, India and Indonesia, production in 1982 declined by 11, 5 and 6 per cent, respectively.

The production of coconuts in the developing ESCAP countries, increased at a rate of 4.9 per cent per year during the period 1980-1982, while world production increased at 5.0 per cent. Copra and coconut oil are important export commodities for some developing countries in the region. The major producers, Indonesia and the Philippines, accounted for 35.5 per cent and 29.4 per cent, respectively, of the production in the developing ESCAP countries, while their output grew by 8.3 per cent and 1.3 per cent, respectively. Coconut production in Indonesia increased on account of the rejuvenation programme, introduction of high-yielding varieties and improvement in cultivation practices. In Fiji, Papua New Guinea and Samoa, coconut production declined during the period under review.

[5] Pakistan, Finance Division, *Pakistan Economic Survey 1982-1983* (Islamabad, 1983), pp. 103-104.

Table I.13. Developing ESCAP region. Production of centrifugal raw sugar, 1979-1982

(Thousand tons)

	1979	*1980*	*1981*	*1982*
China	3 588	3 650	4 191	4 649
Fiji	473	396	470	487
India	6 367	4 191	5 596	9 150
Indonesia	1 363	1 250	1 247	1 629
Pakistan	610	574	853	1 299
Philippines	2 342	2 343	2 394	2 527
Thailand	1 862	1 098	1 641	2 930

Source: Food and Agriculture Organization of the United Nations computer printout dated 30 November 1983.

Although comparatively small in the volume of production in relation to other export commodities, tea is an important foreign exchange earner for low-income countries such as China, India and Sri Lanka. Its production in the developing ESCAP countries, which account for nearly 70 per cent of world production, increased by 1.3 per cent in 1982. China, India and Sri Lanka contributed 22, 29 and 10 per cent, respectively, to total world production during 1982. World exports of tea declined by 6 per cent, but those of the ESCAP region fell by 10 per cent. The world tea output also grew faster than that of the developing ESCAP region – while the former grew by 4 per cent, the latter remained stagnant. World tea prices did not fall much in 1982. The fall in foreign exchange receipts from tea exceeded the fall in export volumes by less than 8 per cent.

B. INDUSTRY

The pace of industrial development slowed considerably during 1982 in the developing ESCAP countries and did not recover significantly during most of 1983. Although all constituent subsectors were affected, manufacturing bore the brunt of the fall in external demand associated with the recession in the developed countries. Growing protectionism also slowed the growth of manufactured exports from the ESCAP region.

The mining subsector suffered heavily as the demand for metals and minerals underwent the most severe downturn in recent history. For example, in 1982, the price of copper fell to its lowest value in real terms in 50 years. Other major metals like tin, zinc, chromium, lead and tungsten suffered similar price declines. Oil production in the three major oil-producing countries of the region, Indonesia, Iran and Malaysia, increased as a whole in 1982 despite a glut in the oil market and a fall in oil prices. Combined with an increase in oil and gas production in other countries of the region, it checked the rate of decline of this subsector.

Utilities and construction were the two subsectors in which growth rates were less adversely affected. In a number of countries, the construction subsector provided the main cushion that helped sustain the growth momentum of the industrial sector, as well as of the economy as a whole. The high growth rates in utilities, despite the slow-down in manufacturing and mining, reflect the continuing increase in urbanization in developing countries. Table I.14 contains growth rates of the constituent subsectors of the industrial sector during 1978-1982.

Table I.14. Developing ESCAP region.[a] Growth of industrial production, 1978-1982

(Percentages)

	1978	*1979*	*1980*	*1981*	*1982[b]*
Total industry	3.3	-10.5	-6.3	2.9	1.4
Manufacturing	10.5	-2.9	0.8	5.2	2.9
Mining	-7.0	-25.5	-25.3	-8.5	-3.4
Utilities	10.7	8.2	4.8	7.9	5.4

Sources: United Nations, *Quarterly Bulletin of Statistics for Asia and the Pacific*, various issues.

[a] Covers Burma, Democratic Kampuchea, Fiji, Hong Kong, India, Indonesia, Iran, Malaysia, Nauru, Pakistan, the Philippines, the Republic of Korea, Singapore, Sri Lanka and Thailand. [b] First half of 1982 compared with the first half of 1981.

1. Manufacturing

Manufacturing typically accounts for 70-80 per cent of value added in the industrial sector in most economies of the developing ESCAP countries, except for the three oil-producing countries, Indonesia, Iran and Malaysia, where its relative weight is considerably lower because of the corresponding importance of the mining subsector. In the structural transformation of economies, the industrial sector is expected to increase substantially its share in GDP. Growth of manufactures also is the main

Table I.15. Developing ESCAP region.[a] Growth of production in selected subsectors of manufacturing, 1978-1982

(Percentages)

	1978	*1979*	*1980*	*1981*	*1982[b]*
Manufacturing					
Light manufacturing	10.9	-1.5	1.5	3.0	3.3
Heavy manufacturing	10.9	-4.9	0.7	6.6	2.4
Metal products	16.8	–	2.1	7.4	3.5
Textiles	8.2	-0.8	2.5	1.7	-4.2
Wearing apparel, leather and footwear	4.6	-3.5	-1.8	15.7	-1.2
Chemicals, petroleum, coal and rubber products	6.8	-10.6	-1.6	0.8	-1.6
Wood products, furniture	0.8	0.8	0.8	-6.8	5.4

Sources: United Nations, *Quarterly Bulletin of Statistics for Asia and the Pacific*, various issues.

[a] Covers Burma, Democratic Kampuchea, Fiji, Hong Kong, India, Indonesia, Iran, Malaysia, Nauru, Pakistan, the Philippines, the Republic of Korea, Singapore, Sri Lanka and Thailand. [b] First half of 1982 compared with the first half of 1981.

vehicle of technological progress in these countries. Consequently, the target for growth in the manufacturing sector in the developing ESCAP region has been set at 8.9 per cent per annum. The target has been further specified for the two broad subregions: 9.9 per cent for East and South-East Asia and 8.2 per cent for South Asia.[6]

[6] "Regional development strategy for the 1980s", *Economic and Social Survey of Asia and the Pacific 1979* (United Nations publication, Sales No. E.80.II.F.1), p. 101, para. 77.

Viewed against the above perspective, the performance of the manufacturing sector has been dismally poor in most countries of the ESCAP region in the first three years of the current decade. Only Indonesia, Pakistan and Singapore have achieved these targets during the early 1980s. In most countries, in both subregions, growth in the manufacturing subsector had perceptibly slowed in 1982.

A more disaggregated picture of growth in manufactures is provided in Table 1.15. During 1980-1982, light and heavy manufacturing and metal products have shown good average growth rates, while textiles, generally the largest component of the manufacturing subsector in most countries, has performed poorly. Other components also have shown declining trends. In 1982, the growth rates of almost all components of the manufacturing subsector have declined.

In Afghanistan, after declines in manufacturing output in 1980 and 1981, a growth rate of 2 per cent was achieved in 1982. While

Table I.16. Selected developing ESCAP economies. Growth and share in GDP of real industrial value added, 1980-1983
(Percentages)

		Sectoral growth rates					Sectoral shares				
		Total industry	Mining	Manufacturing	Electricity, gas and water	Construction	Total industry	Mining	Manufacturing	Electricity, gas and water	Construction
Afghanistan	1980	-9.4	.....	-6.2	.....	-22.4	25.8	.....	21.4	.....	4.4
	1981	-0.6	.....	-2.1	.....	6.8	25.1	.....	20.5	.....	4.6
	1982	1.6	.....	2.1	.....	-0.6	25.3	.....	20.8	.....	4.5
Bangladesh	1980	2.5	..... 0.2	.....	35.9	6.4	14.1	.... 10.0	.....	0.4	3.7
	1981	6.5	..... 7.7	.....	6.4	3.2	14.2	.... 10.2	.....	0.4	3.6
	1982	1.1	..... 0.3	.....	6.4	2.9	14.2	.... 10.1	.....	0.4	3.6
	1983	-3.6	..... -3.5	.....	13.1	-5.4	13.3	.... 9.5	.....	0.4	3.4
Burma	1980	9.2	-3.3	7.5	14.1	20.6	15.2	1.2	10.0	1.1	2.8
	1981	7.6	2.9	7.8	24.8	2.5	15.4	1.2	10.2	1.3	2.7
	1982	10.7	26.2	7.6	18.6	11.9	15.9	1.4	10.3	1.4	2.8
	1983	9.8	11.9	10.7	9.8	5.8	16.6	1.5	10.8	1.5	2.9
Fiji	1980	1.4	-16.1	-7.9	0.5	17.7	21.7	–	11.9	1.0	8.8
	1981	1.8	24.1	10.1	4.4	-9.9	21.1	0.1	12.5	1.0	7.6
	1982	-5.7	48.0	-2.7	-5.7	-12.2	20.3	0.1	12.4	1.0	6.8
India	1980	2.2	3.3	2.9	5.2	-0.8	22.2	1.0	15.4	1.4	4.4
	1981	5.5[a]	...	...	...	...	21.2	...	...	...	...
Indonesia	1980	12.4	-1.1	22.2	13.0	13.5	30.9	9.3	15.2	0.7	5.7
	1981	8.7	3.3	10.2	15.4	12.7	31.2	8.9	15.6	0.7	6.0
	1982	-1.4	-12.1	1.2	17.8	5.3	30.1	7.6	15.4	0.9	6.2
Iran[b]	1980	-49.4[c]	-11.2[d]	-72.5[e]	...	...	21.4[c]	14.1[d]	7.2[e]	...	...
	1981	46.1	-2.9	141.9	...	...	30.8	13.6	17.3	...	...
	1982	26.1	30.8	22.4	...	...	34.0	15.5	18.5	...	...
	1983	5.1	5.1	5.1	...	...	34.0	15.5	18.5	...	...
Malaysia	1980	8.4	-2.2	9.0	8.6	17.7	30.0	4.5	18.6	2.3	4.6
	1981	5.8	-2.0	4.9	9.9	15.1	29.6	4.1	18.2	2.4	5.0
	1982	5.6	6.3	3.6	8.6	10.8	29.7	4.1	17.9	2.4	5.2
	1983	9.5	20.2	7.4	8.9	8.4	30.8	4.7	18.2	5.4	2.5
Pakistan	1980	10.7	13.1	10.1	12.1	11.5	24.4	0.5	15.6	3.0	5.2
	1981	8.9	13.2	9.9	10.9	4.2	25.0	0.5	16.2	3.2	5.1
	1982	8.9	7.4	11.9	4.6	2.2	25.8	0.5	17.1	3.1	5.0
	1983	7.4	5.9	8.3	6.6	4.8	26.1	0.5	17.5	3.2	4.9
Philippines	1980	6.6	4.8	5.9	8.5	8.8	36.1	2.4	25.0	1.0	7.7
	1981	4.7	1.7	3.4	7.8	9.7	36.5	2.4	24.9	1.0	8.1
	1982	2.6	-4.5	2.1	10.0	5.1	36.3	2.1	24.7	1.1	8.3
Republic of Korea	1980	-0.8	-1.0	-1.1	6.0	-0.8	42.3	1.2	33.2	1.7	6.2
	1981	5.3	8.7	7.1	8.5	-5.9	41.6	1.2	33.2	1.8	5.4
	1982	6.0	-2.6	3.9	6.7	20.7	41.9	1.1	32.8	1.8	6.2
Singapore	1980	11.1	7.7	11.9	7.1	10.1	32.0	0.3	24.1	2.8	4.7
	1981	11.0	30.4	9.8	7.0	17.8	32.3	0.4	24.0	2.8	5.1
	1982	2.8	26.2	-4.7	3.7	36.3	31.2	0.5	21.5	2.7	6.5
Sri Lanka	1980	4.0	4.9	0.8	10.0	11.0	23.7	3.5	13.7	1.1	5.4
	1981	3.5	4.2	5.2	12.0	-3.0	23.2	3.4	13.6	1.1	5.0
	1982	3.4	4.1	4.8	9.9	-2.0	22.8	3.4	13.6	1.2	4.6
	1983	2.7	7.8	1.3	6.6	2.0	22.5	3.5	13.2	1.2	4.6
Thailand	1980	6.6	5.5	4.8	7.4	13.9	29.9	1.6	20.7	1.9	5.7
	1981	3.9	-3.3	6.4	13.8	-6.5	29.2	1.5	20.7	2.0	5.0
	1982	4.9	-0.2	5.8	7.8	1.4	29.4	1.4	21.0	2.1	4.8

Sources: National sources.

[a] Excludes mining. [b] Estimated. [c] Mining, manufacturing and oil only. [d] Mining and manufacturing. [e] Oil only.

the Government adopted a policy of strengthening and expanding public sector enterprises, the private sector was encouraged to participate in the medium- and small-scale industries such as textiles, foodstuffs, chemical industries, pharmaceuticals and non-alcoholic beverages, among others. It was expected that manufacturing output in the private sector would grow by 8 per cent during 1982-1983 compared with 3 per cent during 1981-1982. The public and joint sectors will account for 76.6 per cent of industrial output, leaving 23.4 per cent for the private sector.

Value added in manufacturing in Bangladesh increased by 7.7 per cent in 1981, but this growth momentum has not been sustained. In 1982, it increased by 0.3 per cent and is expected to decline by 3.5 per cent in 1983. Despite considerable improvement in production trends in the late 1970s, a number of industries, such as steel and engineering, paper and edible oil, continued to suffer from low capacity utilization, caused mainly by an irregular supply of raw materials and spare parts. The financial and managerial problems of the major public sector industrial corporations caused concern and induced the Government to transfer a number of small- and medium-scale industrial units to the private sector.

In India, manufacturing, which accounts for about 80 per cent of industrial production, showed a growth of 2.4 per cent in 1982/83 compared with 7.5 per cent in the previous year. In some industries, output grew very little or declined. Textiles, for example, showed a decline of 7.3 per cent, partly on account of the strike in textile factories in Bombay. Deceleration in the growth of output was across the board, including steel, sugar and fertilizer, all of which showed much lower rates of growth than in the previous year. A number of other important industries showed a decline in output: footwear, other wearing apparel (-8.4 per cent), leather and fur products (-13.8 per cent), machinery except electrical machinery (-0.2 per cent), electrical machinery apparatus, appliances and supplies (-4.4 per cent), transport equipment (-2.1 per cent) and miscellaneous manufacturing (-3.0 per cent).

The slow-down in industrial production is expected to continue into 1983/84 because of the lagged effects of the drought on purchasing power behind the demand for industrial output in the domestic market. Industrial production in the first quarter (April-June) of 1983/84 showed a growth of 3.4 per cent, while the index of manufacturing industries rose by 3.3 per cent in the same quarter.

Some changes in industrial policy were made to stimulate industrial growth. A package of measures affecting the electronics industry was introduced in July 1983 to reduce import duties on raw materials and intermediate input into electronics products with a view to stimulating cost-effective production on a large scale. In October 1983, excise duties on selected products, such as trucks and commercial vehicles, tires, storage batteries, refrigerators and deep freezers and household appliances, were reduced. These reductions were implemented in order to reduce prices to consumers and stimulate domestic demand.

According to current estimates, output in the small-scale sector increased by 10 per cent in 1981/82. Efforts to achieve progressive diversification and technological advancement in recent years have significantly contributed to the steady increase in output in this subsector. There was a remarkable growth in output of highly sophisticated electronics products such as television sets, medical electronic instruments and computers.

Investment in the large-scale manufacturing sector increased significantly. Available indicators suggest that buoyancy in the industrial investment climate has continued and that the second half of 1983 will witness further improvement.[7]

In Pakistan, high growth rates averaging 9 per cent throughout the entire fifth plan period (1978-1983) have pulled the manufacturing subsector out of the stagnation it suffered during the middle years of the 1970s. Although the rate of growth of manufacturing in 1983 (8.3 per cent) was less than the exceptionally high rate (11.9 per cent) in 1982, major increases were recorded in the production of fertilizer, synthetic yarn, jute goods, bicycles, mild steel products, cement and basic chemicals. The output of fertilizer rose markedly by 32.1 per cent to 2.6 million tons during 1982/83, mainly due to better utilization of installed capacity. The output of cement increased by 7.7 per cent to 3.9 million tons, mainly on account of the expansion in installed capacity. The production of refined sugar, which had risen sharply by 41.5 per cent in 1981/82, recorded an increase of 4.9 per cent in 1982/83.

The persistent decline in the production of mill-made cotton cloth since 1974/75, which was temporarily reversed in 1979/80 and 1981/82, re-emerged in 1982/83. Output declined by 6.2 per cent to 305 million square metres in 1982/83. The decline is attributable mainly to stiff competition in the international textile market, imposition of tariff and non-tariff barriers by the developed countries and the recession in

[7] India, *Economic Survey 1982-1983* (New Delhi, 1983), p. 28.

a number of developed countries. Despite several supportive measures taken by the Government to cope with the severity of the situation in the textile industries, a large number of looms and spindles remained idle.

The overall production index of public sector industrial enterprises, at constant 1977/78 prices, showed a substantial improvement of 20.1 per cent in 1982/83 as against 12.6 per cent in 1981/82. The highest increase was in automobiles and amounted to 53.2 per cent in 1982/83.

A number of measures were taken by the Government to encourage manufacturing output in the private sector. Several industrial projects were granted exemption from, reduction in or refund of import duties and sales and other taxes. In addition, administrative procedures were eased to facilitate new investment by the private sector. Private sector investment in the manufacturing sector increased by 8.2 per cent in 1982/83 and 10.5 per cent in 1981/82. Investment in the large-scale manufacturing sector increased by 7.8 per cent and in the small-scale manufacturing sector by 9.5 per cent in 1982/83. Their share in total fixed investment fell from 21.7 per cent and 7.4 per cent in 1981/82 to 19.9 per cent and 6.9 per cent, respectively, in 1982/83.

In Sri Lanka, industrial production, which consists largely of manufacturing, grew at 3.4 per cent in 1982, about the same rate as in 1981. Growth in industry was dominated by the private sector, which grew at 18 per cent, while the public sector growth rate was 5 per cent. Industrial growth is expected to have slowed in 1983 as a result of a fall in external demand and civil disturbances in July. Additionally, industrial growth was adversely affected by the high cost of energy and a scarcity of finance. To help offset the handicaps faced by domestic industries, protection was provided to some industries, while import duties on inputs were scaled down. The Free Trade Zone continued to expand and help the growth of exports. The value of textile and garments exports continued to grow, in spite of quota restrictions by the developed countries, and its share in export earnings reached 16 per cent in 1982.[8]

In three of the least developed countries of South Asia, Bhutan, Maldives and Nepal, where the industrial sector is still in its infancy and its contribution to GDP was small, efforts continued to be made to increase the pace of industrial growth. Bhutan's rich forest and other natural resources are being exploited to promote wood-based industries. Maldives has established fish-canning and garment manufacturing industries. In Nepal's sixth plan, the target annual rate of growth of industrial production is 10 per cent. The target was exceeded in 1982.

In Iran, the continuing hostilities with Iraq have caused serious disruption in industrial activity. The country's petrochemical industries have been adversely affected, and the construction of a large unit at Bandar Khomeini in collaboration with a Japanese consortium, although nearly completed, has had to be halted. However, gradual progress has been made in creating new capacity in the iron and steel industry. A 10-year development programme has been launched to raise capacity to 10 million tons per year by expanding the capacity of the Isfahan plant and by setting up a new direct reduction plant in the south at Mobarakeh. Small-scale industries have emerged to fill the gap caused by the disruption of activities in larger units and by the reduction in imports of consumer goods. Private entrepreneurs are playing a significant role in the revival of small-scale industries.

East and South-East Asia suffered a considerable set-back in their industrial growth in 1982, because of the fall in the demand for their exports. Most of these economies rely on external demand for the expansion of their industrial sectors, as domestic demand in many cases is quite small. Hong Kong, the Republic of Korea and Singapore produce primarily for export markets, while the Philippines and Thailand have developed a comparative advantage in certain labour-intensive manufactures. Indonesia and Malaysia have made use of their rich natural resources, including oil, to develop certain resource-based industries principally for export.

In 1982, light manufacturing industries in Hong Kong, which account for about 70 per cent of total domestic exports, had a generally difficult year. The worst affected were textiles, clothing, electronics, watches and clocks. There is some evidence of revival in manufacturing output in the first half of 1983, and exports to developed countries, especially the United States, picked up strongly. The problem of insufficient orders, quite acute in the first quarter, was expected to ease in the second quarter of 1983. Price competition, exchange rate uncertainties and high material prices were expected to be the major problems in these industries during the second quarter of 1983.[9]

The Republic of Korea attained 3.9 per cent growth in manufacturing output in 1982, compared with 7.1 per cent in 1981. Sluggish export demand mainly for products of light industry, especially textiles,

[8] Sri Lanka, Central Bank of Ceylon, *Annual Report 1982* (Colombo, 1983), pp. 80-81.

[9] Hong Kong, *Half-Yearly Economic Report 1983* (August 1983), p. 43.

Box I.7. Third world transnational corporations

Transnational corporations (TNCs) are no longer exclusively of developed country origin. The 1970s witnessed the emergence of third world TNCs as a growing, if yet small, factor in international trade and investment. Many TNCs originate from oil-exporting developing countries and South American countries, such as Argentina, Brazil and Colombia. In the ESCAP region, TNCs have emerged in such countries and territories as Hong Hong, India, Pakistan, the Philippines, the Republic of Korea, Singapore and Taiwan (a province of the People's Republic of China).[a] The volume of investment of third world TNCs is hardly comparable to that associated with the TNCs from the developed countries. Nevertheless, a considerable number of developing country enterprises have developed to a stage where they can, in selected fields, compete with the larger TNCs, through their affiliates abroad.

The "competitive advantages" possessed by developing country enterprises may comprise one or more of the following: (a) capacity to adapt technology to the conditions of developing countries; (b) managerial know-how through experience in operating in similar conditions; (c) less expensive skilled personnel in managerial and technical cadres; (d) specialization in products suitable for third world conditions, especially to meet the needs of particular environmental conditions or cultural habits by simple additions or adaptations.

Most investments in manufacturing by third world TNCs are in "downstream" activities. They are from the more industrialized to the less industrialized developing countries. Having acquired experience in responding to small markets and to the scarcity of materials and components, the innovating firms take their skills to the next tier of countries as industries there begin to encounter similar problems. Indian firms can set up textile plants in Indonesia drawing on their skills at designing plants in roughly similar circumstances. Similarly, a Pakistani firm has designed a paper packaging plant for Zambia suitable to its conditions.[b] Korean TNCs have contracted engineering and construction projects in a number of countries in the region.

In a few cases, developing countries have modified or innovated products in response to their environment. An Indian firm has developed sun-fast dyes which it now produces elsewhere for tropical markets.

A large number of manufacturing TNCs from developing countries do not operate in industries in which they encounter competition from their counterparts from the developed countries. Often they go to industries in which technology has become mature and which are not regarded as profitable by other TNCs. Products such as plastic dishware, aluminium pots and umbrellas produced by third world TNCs may have little appeal to the TNCs of the industrialized world. However, there are some areas in which the two categories of firms compete: cigarettes, flashlights, batteries, textile weaving and radios are examples.

There are still other activities in which TNCs from developed countries and third world TNCs have found it profitable to operate jointly through co-operative arrangements. A Japanese TNC acquired a major interest in a Hong Kong textile firm. This joint venture has undertaken enterprises in the textile industry elsewhere in South-East Asia. The Japanese firm supplies synthetic fibres and its technology. The Hong Kong firm supplies spinning and weaving skills and, especially, garment-making know-how. In third countries, their operations usually started with garment making, but later on included spinning, weaving and fibre manufacture. As such, the Hong Kong and Japanese firms have come to own several textile enterprises with vertically integrated structure.[c]

The policies of governments, both in home and host nations, have been marked by a certain degree of ambivalence towards third world TNCs. The home governments do not relish the idea of the export of the domestic capital unless it promotes exports or facilitates the import of needed raw materials. Only recently some governments have formulated policy guidelines for outward investments.[d] The host nations are usually apprehensive about the capability of these developing country firms and do not seem to favour them over those from the industrialized world when evaluating a project proposal, even when the former's quoted costs are much lower. Success in the last few years has tended to reduce these apprehensions.

Little research has been carried out on the impact of TNCs from developing countries on the economies of home and host countries, which may be significant and different from those of firms based in developed countries. Nevertheless, on the whole, operations abroad of TNCs from developing countries have been useful. Moreover, if the value of associated exports of goods and services is taken into account, their contribution to the home country may be substantial.[e] From the host country point of view, there is some evidence that developing country firms are smaller in size, use more labour-intensive techniques, import fewer inputs and have greater local equity participation. Often, their products are unbranded, less expensive and more suitable to the needs of the consumers in the next tier of countries.

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[a] According to a study to be published later this year by the Paris-based Institute for Research and Information on Multinationals (IRM), up to 50 third world countries have companies with direct overseas investments. Quoted in *The Economist*, 23 July 1983, p. 61.

[b] Louis Wells, Jr., "Third world multinationals", *Multinational Business*, No. 1 (1980), p. 14.

[c] *Ibid.*, p. 16.

[d] In the case of India, its direct investments abroad have depended heavily on indigenous technology and equipment. Indeed, all of them have been in the form of joint ventures with local enterprises, with the Indian contribution being in the form of equipment made in India or capitalized know-how. See Sanjaya Lall, *Developing Countries as Exporters of Technology* (London, Macmillan, 1982), p. 38.

[e] For example, in 1977/78 the value of accumulated Indian foreign investment amounted to Rs 203.6 million. However, dividends comprised a relatively minor part of the foreign exchange contribution of overseas investments. Over twice the accumulated sum of dividends was provided by other repatriations (royalties, technical fees and salaries) while the value of associated export of goods from India was more than twice the value of investments abroad. See *Ibid.*, pp. 38-40.

accounted for a large part of this decline. Production in basic metals and machinery industries increased by 7.3 and 8.0 per cent, respectively. Lately, government efforts have focused on assisting small- and medium-sized industries, which have improved their technology and product quality through increased research and development activities. The export-oriented industries are being provided financial and institutional support to expand investment and improve their technological base in order to strengthen their comparative advantage. Small- and medium-scale industries are being encouraged to move to rural areas in order to raise non-farm incomes. At the same time, sub-contracting between large-scale and medium- and small-scale industries is being further promoted. The 1983 prospects for growth in industry in the Republic of Korea were very promising, and high growth rates were recorded for the manufacturing sector in the first three quarters of the year, reflecting the sector's sensitivity to the recovery in the developed countries.

In Singapore, output of the manufacturing sector fell in 1982 for the first time in seven years. In contrast to a 9.8 per cent growth rate in 1981, output of the manufacturing sector in 1982 declined by 4.7 per cent. The situation did not improve substantially in early 1983. Though all major industries suffered, those most seriously affected were industries with low value added such as textiles and timber. The average capacity utilization rate in these industries fell from 75 per cent in 1981 to 73 per cent in 1982. The main adverse factor was falling external demand, although the shortage of labour contributed to the difficulties of labour-intensive industries. Output of the electrical and electronics industry, which was the largest employer in manufacturing, declined by 11 per cent. Over 80 per cent of the output of these two items is directly exported to developed countries. Output of textiles contracted by 25 per cent, reflecting a fall in external demand and loss of comparative advantage.

Under the economic restructuring programme that commenced in 1979, the manufacturing sector is upgrading itself away from labour-intensive, low-productivity industries towards more skill-, capital- and technology-intensive and higher value-added industries. Enterprises are encouraged by the Government to automate and computerize their undertakings. Apart from capital-intensive projects in the petroleum industry, investment commitments in 1982 were mainly for projects in the fast-growing computer and computer-related industries, fabricated metal products, and machinery and machine component industries. Increased investment in the fabricated metal products industry was induced by the local construction boom, which is expected to continue for some time.[10]

Indonesia's manufacturing sector suffered a sharp deceleration in its expansion in 1982 as the growth rate fell to 1 per cent from 10 and 22 per cent in 1981 and 1980. As the favourable effects of the second oil price increase dissipated and were replaced by the adverse effects of an oil glut, the country's balance-of-payments position deteriorated and constrained its development efforts, especially in the industrial field.

This has led to a comprehensive reassessment of the public investment programme in 1983.[11]

10 Singapore, Ministry of Trade and Industry, *Economic Survey of Singapore 1982* (1983), pp. 21-22.

11 "Overview: Indonesia's economy – the next five years", address by Dr. Ali Wardhana, Co-ordinating Minister for Economic Affairs, to a conference on Indonesia, in Medford, Mass., on 6-8 October 1983 (mimeo.).

While the Government continued its commitment to the development of an industrial base built with the help of its abundant natural resources and labour, it redefined some of its priorities and decided to reduce capital goods imports by postponing a number of major industrial and other projects that have high foreign exchange content. Being the most populous country in South-East Asia and thus having a large potential market for industrial products, Indonesia has adopted a more pronounced import-substituting industrial strategy than other countries in the subregion. Other considerations that have weighed heavily in this direction are the desire to reduce dependence on oil, increase labour absorption and maximize value added in processing agricultural and mining products.

The real output of the manufacturing sector of Malaysia grew by 3.6 per cent in 1982, compared with 4.9 per cent in 1981. Particularly significant was the decline in textile output by 4.8 per cent. However, the output of the manufacturing subsector is expected to expand at a faster pace in 1983 because of a revival in domestic and export demand. High costs of raw materials and labour as well as insufficient orders continued to be cited as key bottle-necks faced by the manufacturing industry. Malaysia is currently engaged in restructuring its manufacturing sector, in line with the New Economic Policy. With a view to promoting the development of export-oriented industries, measures such as the provision of export refinancing and export credit insurance have been implemented.

The growth rate of the manufacturing subsector in the Philippines has been falling steadily since 1980 and was 2.1 per cent in 1982. The general downward trend in the subsector was counteracted to some extent by growth in some indus-

tries, including basic metals, metal products, non-metallic mineral products and miscellaneous manufactures. The paper, textile, chemicals and transport equipment components of the manufacturing subsector suffered a decline in their output.

Although manufacturing activities in Thailand slackened in 1982, compared with 1981, they achieved the highest rate of growth among East and South-East Asian countries, mainly because of buoyancy in domestic demand. The growth rate of the manufacturing subsector in 1982, at 5.8 per cent compared with 6.4 per cent in 1981, was sustained by an upsurge in output in the automobile and tire industries, construction industries such as steel rods and cement, where substantial excess capacity existed, as well as the food and beverage industries. During the first eight months of 1983, construction activity in the private sector greatly picked up as a result of a fall in interest rates and high liquidity in the commercial banking system, both of which contributed to more lending to this industry.

In China, industrial production continued to grow in the wake of readjustments made in 1982, and gross industrial output in 1982 recorded an increase of 7.7 per cent over 1981. Light industry, which grew at an average annual rate of 14 per cent between 1979 and 1981, continued to do well in 1982. The gross output of light industry increased by 8.0 per cent over the 1981 figure, while heavy industry output increased by 9.3 per cent. Among light industries, food processing achieved the highest growth rate of about 9.5 per cent, its share in the gross value of total industrial output rising to 18.6 per cent. Capital investment in light industries also increased by 11.8 per cent in 1982.

The proportion of exports of manufactured goods rose to 55 per cent in 1982 from 53.4 per cent in 1981, and the proportion of primary products slipped to 45 per cent in 1982 from 46.6 per cent in 1981. Among imports, the proportion of manufactured goods declined to 60.4 per cent in 1982 from 63.4 per cent in 1981, while the share of primary products rose to 39.6 per cent in 1982 from 36.4 per cent in 1981.[12] These changes in the structure of foreign trade suggest that China is attempting both export promotion and import substitution. Currently China plans to avoid emphasis on heavy industry and establish an economic structure suitable to its conditions, while achieving the harmonious development of agriculture, light industry, energy, non-metal industry and others.[13] Private initiative is now supported by government policy, but is limited to small-scale enterprises.

In Mongolia, the average rate of growth in industrial output in 1981/82 was 10 per cent, in line with the rate of growth envisaged in the annual plan. In industries such as food, textiles, chemicals and printing, the target was exceeded. The 1983 plan calls for a 10.3 per cent increase in gross industrial output, stipulating higher rates of growth in food, fuel and power, metal-working, construction materials and non-ferrous metallurgy industries.

In Viet Nam, capacity utilization in some industries, which has been very low for some years, has benefited from the increased resource mobilization that followed the 1979/80 reforms. During 1981/82, industrial output registered a marked increase. Contributions to this improvement came from growth in output in food processing, textile yarn, paper handicrafts and light industry, several of which exceeded production targets. A major problem for the industrial sector continued to be the shortage of raw materials, fuel and spare parts.

12 China, State Statistical Bureau, "Communique on fulfilment of China's 1982 National Economic Plan", *Beijing Review*, vol. 26, No. 19 (9 May 1983), p. IX.

13 "Strategy for economic progress and the development of industries in the People's Republic of China", paper presented at the seventh session of the Committee on Industry, Human Settlements, Technology and the Environment, 1983 (mimeo.).

2. Mining

The output of the mining sector in the developing ESCAP region suffered due to substantially reduced demand for metals and minerals during the recession. However, activity in the petroleum industry throughout the region was brisk during 1982, with some potentially important oil and gas discoveries, though their commercial feasibility is yet to be determined.

The production of crude petroleum in 1982 rose in most countries of the developing ESCAP region except Indonesia. The fastest increase in production was in Iran (49 per cent), followed by India (32 per cent), Malaysia (23 per cent) and Pakistan (20 per cent), while production in Burma and China increased marginally. Production in Indonesia declined markedly, by about 16 per cent. The net percentage increase in the production of crude petroleum in the major oil-producing developing ESCAP countries was about 10 per cent between 1981 and 1982. A similar, though less marked, increase was recorded in the production of natural gas, which rose by 3 per cent for the developing ESCAP economies as a whole. The highest percentage increase was again recorded in India (28), followed by Bangladesh (21), Pakistan (9) and Malaysia (7). In Indonesia, natural gas production, like that of crude oil, declined in 1982, but by a marginal 1 per cent.

Table I.17. Developing ESCAP region. Mineral production, 1980-1982

(Thousand tons)

	Coal	*Natural gas*[a]	*Crude petroleum*	*Iron ore (gross weight)*	*Bauxite*	*Tin concentrates*	*Zinc concentrates*
Burma							
1980	–	–	1 336[b]	–	–	1	7
1981	–	–	1 380[b]	–	–	1	7
1982	–	–	1 394[b]	–	–	1	10
Bangladesh							
1980	–	45 456	–	–	–	–	–
1981	–	55 956	–	–	–	–	–
1982	–	67 704	–	–	–	–	–
China							
1980	–	–	105 948	–	–	–	–
1981	–	–	101 004	–	–	–	–
1982	–	–	102 048	–	–	–	–
India							
1980	109 104	56 184	9 396	40 920	1 740	–	32
1981	123 012	77 052	14 928	41 196	1 920	–	31
1982	128 304	99 012	19 728	40 776	1 860	–	31
Indonesia							
1980	300	1 155 696	77 784	74[c]	1 249[d]	32	–
1981	348	1 242 336	78 852	84[c]	1 204[d]	35	–
1982	480	1 229 304	65 988	132[c]	701[d]	34	–
Iran							
1980	–	–	73 776	–	–	–	–
1981	–	–	65 988	–	–	–	–
1982	–	–	98 484	–	–	–	–
Malaysia							
1980	–	4 200[e]	7 752[f]	372[g]	924[g]	61[g]	–
1981	–	4 608[e]	7 188[f]	528[g]	756[g]	60[g]	–
1982	–	4 932[e]	8 832[f]	336[g]	588[g]	53[g]	–
Pakistan							
1980	1 776	295 500	480	–	2	–	–
1981	1 560	325 644	468	–	2	–	–
1982	1 860	354 852	564	–	–	–	–
Philippines							
1980	324	–	–	–	–	–	7
1981	372	–	–	–	–	–	8
1982	552	–	–	–	–	–	6
Republic of Korea							
1980	18 540	–	–	492	–	–	56
1981	19 992	–	–	504	–	–	57
1982	18 384	–	–	552	–	–	59
Thailand							
1980	–	–	–	85	–	46	–
1981	–	–	–	62	–	43	–
1982	–	–	–	26	–	36	–
Total							
1980	130 044	1 557 036	276 472	41 943	3 915	140	102
1981	145 284	1 705 596	269 808	42 374	3 882	139	103
1982	149 580	1 755 804	297 038	41 822	3 153	124	106

Sources: United Nations, *Quarterly Bulletin of Statistics for Asia and the Pacific*, vol. XIII, No. 1, March 1983, table 8 and forthcoming issues.

[a] Terajoules. [b] *Report to the Pyithu Hluttaw on the Financial, Economic and Social Conditions of the Socialist Republic of the Union of Burma for 1983/84*, p. 126. [c] Iron sands. [d] Dried equivalent of crude ore. [e] Sarawak. [f] Sabah and Sarawak. [g] Peninsular Malaysia.

The traditional major coal-producing developing countries of the region increased output during 1982. In India, the yearly total output of coal reached 128.3 million tons in 1982, an increase of about 4 per cent over the previous year. Coal production in China continued to expand and was reported to have reached a record 644 million tons in 1982, compared with 620 million tons in 1981. However, coking coal exports to Japan in 1982 decreased to 1.3 million tons owing to increased domestic demand for coal.

Other coal producers in the developing ESCAP region also significantly increased their output. Total production of coal in Pakistan climbed to 1.86 million tons in 1982, up 19.0 per cent from 1.56 million tons in 1981. Domestic coal was increasingly used for power generation.

There was an increase in coal production in the Philippines of about 48 per cent to 552,000 tons in 1982. However, as a result of delays in implementing the switch over from oil to coal in the cement industry, coal mining companies were left with 50 per cent excess production capacity during the year. Production by the government-owned Coal Corporation accounted for 30 per cent of the total coal output in 1982. Coal production in Indonesia increased 38 per cent in 1982 to 480,000 tons. Indonesia's known coal deposits are estimated at 22.5 billion tons, most of which are yet untapped.

Besides coal, lignite and anthracite are important solid fuels in the developing ESCAP region. The production of lignite rose from 6.0 million tons in 1981 to 6.7 million tons in 1982 in India and from 1.7 million tons to 2.0 million tons in Thailand. The production of anthracite in the Republic of Korea declined from 19.8 million tons in 1981 to 18.4 million tons in 1982.

World demand for iron ore continued to decline in 1982 as production of iron and steel was reduced in most of the industrialized countries. The annual iron ore production of the principal producers in the developing countries of the ESCAP region, China and India, remained unchanged at about 38 million tons and 41 million tons in 1982. While China imported an estimated 2 million tons of iron ore each year, India exported about half of its output, mainly to Eastern Europe and Japan.

Iron ore production in Malaysia declined by 36 per cent in 1982 to about 336,000 tons, after significant gains during the period 1979-1981 when total production doubled. Indonesia continued to make gains in the production of iron sand, totalling 132,000 tons in 1982 compared with 84,000 tons in 1981, still far below the peak production of 311,000 tons in 1977. In 1981, iron ore production in the Philippines was reported as 5.8 million tons.

The ESCAP region is an important producer of tungsten, with total tungsten concentrate production of about 39,000 tons in 1980. China continued to be the largest producer in the world, with a reported production of 18,900 tons in 1980, accounting for about half of the region's total production. The other main producers among the developing countries of the region are the Republic of Korea, with an average annual tungsten concentrate production of about 4,900 tons, and Thailand, where wolframite production declined to about 1,300 tons in 1982 and scheelite to 400 tons. The price of tungsten concentrates declined continually in 1982 and suffered a total decline of 66 per cent by the year's end.

The major tin-producing countries of the region, Indonesia, Malaysia and Thailand, also had to contend with persistently weak prices and rising stocks during most of 1982. To prevent the tin price from falling below the International Tin Agreement's (ITA) floor price, the International Tin Council (ITC) took some unprecedented steps in 1982. Production and export controls were instituted to contain tin surpluses. In Malaysia and Thailand, a significant number of mines were closed, idling thousands of tin miners, especially during the last quarter of 1982 (see Box I.8).

Malaysia, which is the world's leading tin producer, produced about 52,500 tons of tin concentrate in 1982, which is 12 per cent less than in 1981. In Indonesia, output was 3 per cent below that of the record production of 35,238 tons in 1981. Thailand's tin concentrate production continued to decline, with a total mine output of 35,644 tons in 1982, the lowest production in five years, severely affecting Thailand's export earnings, as about 75 per cent of the total value of minerals exported comes from tin.

The principal producers of copper among the developing countries of the region are China, Indonesia, Malaysia, Papua New Guinea and the Philippines. In 1982, output in the Philippines, the leading producer in the region, declined by 7 per cent to about 285,000 tons. Papua New Guinea's total output of copper in 1982 declined to 170,000 tons from 181,500 tons in 1981. However, in Indonesia copper concentrate production increased by 19 per cent in 1982 to about 225,000 tons. The value of copper output declined drastically as its price continued to fall in 1982, reaching the lowest level, in real terms, since the 1930s.

Bauxite production in the developing countries of the region generally declined. Production in China and India, which are also the main producers of aluminium,

however, remained stationary or declined only slightly. China's production of bauxite was last reported as 1.5 million tons in 1980, and it is estimated to have remained at that level subsequently. In India, production marginally declined in 1982 to 1.86 million tons compared with 1.92 million tons in 1981. In Indonesia, bauxite production was reported to have dropped sharply to 701,000 tons in 1982, a decline of 42 per cent, compared with 1.2 million tons in 1981. Malaysian bauxite mine output also declined from 756,000 tons in 1981 to about 588,000 tons in 1982.

Over 40 per cent of the world supplies of antimony is mined in the developing countries of the ESCAP region. Among the region's producers, China ranks as one of the leading producers of antimony in the world, with a reported total production of 10,000 tons in 1980. It is estimated that this level of production was maintained subsequently. In Thailand, the next largest producer in the region, antimony ore production continued to decline, falling to 1,567 tons in 1982, a fifth of the production achieved in 1976.

The production of lead in China, India, the Philippines, the

Box I.8. Tin producers act to prevent falling prices

To strengthen the measures against further deterioration in the price of tin, brought about by a continued fall in demand and over-production, the three major Asian tin-producing countries, Indonesia, Malaysia and Thailand, took the initiative of forming a new producers' organization in June 1983. The Association of Tin Producing Countries (ATPC) will complement the already established International Tin Council (ITC), which represents both tin-producing and tin-consuming countries and administers the International Tin Agreement (ITA).

The three Asian countries account for over 70 per cent of the world output of tin. Four other substantial producers, Australia, Bolivia, Nigeria and Zaire, have agreed to join the new organization. The sponsoring nations also invited the remaining producers – Brazil, Burma, China, Niger and Rwanda – to join the organization. The present seven signatories to the accord produce 92 per cent of the world's tin output.

The purpose of the new organization is to address itself to the longer-term problems facing tin producers, instead of only aiming at short-term price stability and preventing large fluctuations in their incomes. The latter task has been undertaken by the broader organization, ITC, though with decreasing success in the face of secular declines in the demand for tin.

ITC, which runs the buffer stock operations in tin by buying at a fixed floor price, has almost exhausted available financial resources. The production and export controls imposed by ITC in the wake of the sharp fall in prices in 1982 have not been sufficient to prevent over-production and an increase in stocks. Instead of a shortfall in supply expected as a result of drastic production curbs during 1982, world stocks of tin are estimated to have increased by 10,000 tons. The world's commercial stocks of tin are currently estimated at 90,000 tons, half of which are held as ITC's buffer stock. The world tin market continues to be weak. The price of tin in United States dollars has increased only marginally in 1983 as the recovery in developed countries has not had any appreciable effect on the demand for tin.

The major objective of ATPC is to undertake measures to improve the longer-term prospects for tin through provision of better marketing and research facilities, which would stimulate demand, and to arrest the substitution of other metals and materials for tin. ATPC hopes to help the industry by strengthening the institutional framework for conducting research and development in tin mining and product development, expenditure on which is at low levels at present. The London-based International Tin Research Institute (ITRI) receives less than $ 2 million annually from five members of ITC – Indonesia, Malaysia, Nigeria, Thailand and Zaire.[a] ATPC plans to take over the Institute, relocate it in one of the major tin-producing countries, strengthen its finances and make it a more operationally oriented institute. One of the proposed ways of mobilizing more funds for research in tin is by levying a cess for research, as Malaysia has done in the case of rubber, charging 3.85 M¢ per kg of rubber exported.

The major tin-producing nations have emphasized that it is not their intention to form a cartel. In fact, one objective of the new association is "to provide an adequate supply [of tin] at fair and stable prices based on average production costs and having regard to market forces". In any event, the nature of the commodity and the competition it faces from substitutes rule out the possibility of an effective cartel.

The concern behind the formation of ATPC is the threat that the declining world demand for tin poses to incomes and jobs in the tin industry in the major producing countries. In Malaysia, which accounts for a third of world tin output, more than 300 mines have been closed and 10,000 miners put out of work since the imposition of export quotas by ITC in an effort to support falling tin prices.

It is hoped that by stimulating research on the end uses of tin, ATPC will be able to make the metal more widely used, replacing some substitutes. Possibilities exist to increase the use of organo-tin compounds in insecticides and wood preservatives. Improved tin-plating techniques can further its use in the canning and automotive industries. Promotional campaigns in major consumer countries can also help stimulate demand. Improvements in marketing and the development of futures trading in tin can help both producers and users get better returns from the metal.

[a] Research on improving tin mining techniques is also being undertaken at the United Nations Development Programme (UNDP)-assisted intergovernmental Southeast Asia Tin Research and Development Centre (SEATRADC) in Ipoh, Malaysia, with a current annual budget of about $M 600,000.

Republic of Korea and Thailand remained essentially unchanged in 1982; China's output was estimated at about 155,000 tons. Lead concentrate production in India was about 19,000 tons, the same as in 1981. Production of lead ore in Thailand continued to increase, amounting to 43,718 tons in 1982, a gain of about 8 per cent over the previous year. Annual production of zinc in China was estimated to be unchanged at about 160,000 tons, while the Republic of Korea, the next most important producer in the developing ESCAP region, reported a slight gain in the production of zinc in 1982, amounting to about 2,000 tons or 4 per cent above the 1981 output.

C. TRANSPORT AND TOURISM

1. Shipping and port development

The decline in the volume of world trade during 1982 had a recognizable impact on the world shipping situation, and for the third consecutive year the volume of world seaborne dry and liquid trade declined. In 1982, the decline was by 8.4 per cent as compared with 4 per cent in 1981. Moreover, unlike the previous two years when the contraction mainly affected tanker traffic, the 1982 decline affected all fleets. As a consequence, a large part of the tanker and dry bulk fleets were operating at below break-even point, leading inevitably to a further increase in the number of ships laid up or scrapped.[14]

The developing ESCAP countries, however, continued to maintain their 12 per cent share of world cargo. Reflecting the region's weak export performance relative to imports, the rate of growth of loadings generally declined more than that of unloadings. The weight of outward cargo handled in Hong Kong decreased by 1 per cent, while the weight of inward cargo increased by nearly 6 per cent in 1982. Similarly, due to slower growth in their economies and to their subdued export and import activities, there was an overall decline in the revenue of cargo handled in the ports of Malaysia and the Philippines.

The volume of world seaborne trade is likely to revive significantly during 1983. Preliminary data available for the first half of 1983 suggest that in some developing ESCAP countries the volume of cargo handled had started to pick up slowly. Hong Kong, for example, recorded an impressive 21.9 per cent increase in its outward-bound cargo during the first half of 1983 compared with the same period of the previous year. Similarly, the Republic of Korea and Thailand also reported substantial increases in the volume of seaborne trade handled in their ports during the

[14] About 11.3 per cent of the world merchant fleet, a total of some 1,460 ships of 82.9 million deadweight tons (dwt) was laid up as of April 1983, an increase over the same period of 1982 of more than 3.2 times in terms of number of vessels and 2.4 times in terms of tonnage. In 1982 alone, vessels totalling 32.6 million dwt, the majority of them being tankers and combined carriers, were reported broken up or lost, more than twice the figure recorded during the previous year.

Table I.18. Selected developing ESCAP economies. Rate of growth of seaborne trade, 1981-1983
(Percentages)

	Goods loaded				*Goods unloaded*			
	1981	*1982*	*1983[a]*		*1981*	*1982*	*1983[a]*	
			First quarter	*First half*			*First quarter*	*First half*
Bangladesh	...	11.5	30.7	...	...	15.1	-2.9	...
Burma	-6.6	36.2	-46.6	...	59.8	-3.1	-12.5	...
Fiji	-6.6	-8.8	9.5	16.1	8.7	-17.3	17.0	7.3
Hong Kong[b]	2.6	-1.0	20.7	21.9	7.4	6.0	8.0	8.8
Indonesia	-6.8	7.3	...	...	-1.8	9.6	...	...
Malaysia[b c]	0.9	-3.4	16.5	...	-1.7	6.6	18.5	...
Pakistan	8.3	-2.0	-6.7	...	5.0	0.5	-1.6	...
Philippines	-4.4	-3.6	-12.9	...	-12.4	-0.2	-8.7	...
Republic of Korea	15.7	8.9	-13.5	-6.1	6.9	1.2	5.8	4.0
Singapore	4.1	5.7	-14.3	-9.9	10.4	12.0	-0.7	5.1
Sri Lanka[d]	13.1	14.3	2.4	...	-5.8	1.5	70.8	...
Thailand[e]	20.0	28.1	-7.7	...	-9.6	-9.7	23.6	18.7

Sources: United Nations, *Quarterly Bulletin of Statistics for Asia and the Pacific*, September 1983 (forthcoming issues).

[a] Compared to the corresponding period in 1982. [b] Includes transshipments. [c] Peninsular only. [d] Ports of Colombo, Galle and Trincomalee. [e] Port of Bangkok only.

first quarter of 1983 compared with the same period in 1982.

Although the size of the world fleet stagnated over the period mid-1981 to mid-1982, registering an insignificant growth of 1 per cent in gross registered tons (grt), the developing ESCAP country fleets increased during the same period by 8.6 per cent, representing about 3 million additional grt. At the end of June 1982, their share of the world fleet amounted to 9.4 per cent, a substantial improvement from 8.7 per cent recorded at the end of June 1981. Half of the 12 largest developing ESCAP country fleets expanded by more than 200,000 grt, with the highest growth rates of more than 35 per cent being achieved by the fleets of Hong Kong and Malaysia.

Some countries actively pursued a policy of enlarging their fleets in order to carry a larger proportion of cargo generated by their foreign trade. In the Philippines, new legislation was passed to encourage the use of locally owned vessels. The fleet of the Republic of Korea grew by 7.5 per cent during 1982 compared with 18.4 per cent during the previous period, mainly due to difficulties encountered by its shipbuilding industry, the largest in the developing ESCAP region, in maintaining a reasonable level of orders. However, expansion of the domestic fleet is encouraged by the Government in order to achieve the planned target of 9.4 million grt by 1986. In Hong Kong and Singapore, the additions to the fleets consisted mainly of dry bulk carriers, in which Hong Kong already has a 10 per cent share of the world fleet. The expansion in China was rather modest during 1982, increasing by only 5 per cent, in contrast with the rapid growth during the second half of the 1970s. However, with China's entry into the world shipbuilding market in this decade and its demonstrated potential in this field, a rapid expansion of its national fleet of ocean-going ships is to be expected in the years ahead. Despite the recent expansion of the fleets in the developing ESCAP countries, there still exists a considerable gap between the cargo turnover tonnage and the fleet tonnage of these countries. As a result, the developing countries in the region still remain large net importers of shipping services, which accounts for a sizable proportion of their balance-of-payments deficits on services account.

Table I.19. Selected developing ESCAP economies. Maritime fleets,[a] 1981-1982[b]

	1981	*1982*	*Change 1981-1982*	
	Thousand grt		*Thousand grt*	*Percentages*
Bangladesh	401.1	411.3	10.2	2.5
China	7 653.2	8 056.8	403.7	5.3
Hong Kong	2 580.5	3 498.5	918.0	35.6
India	6 019.9	6 213.5	193.6	3.2
Indonesia	1 744.9	1 846.8	101.8	5.8
Iran	1 201.7	1 312.7	111.0	9.2
Malaysia	879.5	1 195.4	315.9	35.9
Pakistan	507.4	597.8	90.4	17.8
Philippines	2 539.3	2 773.9	234.1	9.2
Republic of Korea	5 141.5	5 529.4	387.9	7.5
Singapore	6 888.5	7 183.3	294.8	4.3
Thailand	402.7	441.9	39.2	9.7

Sources: UNCTAD, "Review of maritime transport, 1981" (TD/B/C.4/251), 5 April 1982 and "Review of maritime transport, 1982" (TD/B/C.4/258), 25 May 1983.

[a] Vessels of 100 grt and over. [b] As of 1 July.

Although port development in the developing ESCAP region during 1980-1983 has been inhibited by the effects of a recessionary economy and limitations on the availability of national and international finance, progress in augmenting the capacity at major ports in handling cargo and reducing port congestion continued to be made. In India, besides the measures already taken to expand capacity in existing ports, the Government has approved the construction of a new major port at Naha Sheva near Bombay at a cost of Rs 5.9 billion. Construction of this new port, planned to start in the fourth quarter of 1983 and scheduled to be completed by the end of 1986, would enable the handling of a total traffic of 7.6 million tons, planned to increase to 11.7 million tons by 1991. It will also provide considerable relief to congestion at Bombay, since containers and bulk cargo traffic will be diverted to the new port. In Bangladesh, during 1982/83 Taka 496 million was allocated to several port development projects and dredging operations in order to overcome substantial technological obsolescence in Chittagong and Chalna ports. In addition, a feasibility study for a deep-water port at Chittagong was projected to be undertaken. In Pakistan, while a master plan for the development of the Karachi Port has been prepared, a new port, Mohammad Bin Quasim, with a capacity to handle a composite annual volume of 3.5 million tons of cargo, was being developed and construction was scheduled to be completed by 1985/86. By the end of 1983, China will have put into operation 12 additional deep-water berths

distributed among the ports of Dailui, Qinghuantao, Yenkuo and Huangho. Port expansion has also been undertaken in most of the ASEAN countries, particularly in Indonesia, where plans are afoot for expanding and improving port and ancillary facilities at Surabaya, Belawan and Tanjunk Priok at an estimated cost of $ 100 million. Major improvements were planned at Lae, Papua New Guinea's largest port, which handles an estimated 37 per cent of the country's total seaborne trade, while in Fiji, the two major ports – Suva and Lautoka – were being upgraded with the assistance of the Asian Development Bank (ADB).

Port authorities in the developing ESCAP countries also continued to focus increasing attention on the development of container facilities since containerized traffic has rapidly increased in recent years. In a survey of containerization in selected ESCAP countries conducted in 1982,[15] it was revealed that, among the six developing ESCAP countries covered, Malaysia, the Philippines, Sri Lanka and Thailand had reached the stage of mature containerization. This has already been achieved by Hong Kong, the Republic of Korea and Singapore, while India and Pakistan may be said to have crossed the threshold of this new technology. As a result, in 1981 the rate of growth of container traffic at the ports of the developing ESCAP countries increased by nearly 18 per cent, compared with 8 per cent for the world as a whole. This higher trend in the region is expected to have continued throughout 1982, though at a somewhat slower rate owing to the effects of the slump on trade and shipping.

Table I.20. Selected developing ESCAP economies. Container port traffic, 1980-1981

	1980	*1981*	*Change 1980-1981 (percentages)*
	Thousand TEUs		
Hong Kong	1 464.9	1 559.8	6.4
India	145.7	203.7	39.8
Indonesia	87.1	140.2	60.9
Malaysia	171.7	204.6	19.2
Pakistan	60.2	89.5	48.7
Philippines	437.2	552.5	26.4
Republic of Korea	672.4	802.6	19.4
Singapore	916.9	1 064.5	16.1
Sri Lanka	41.8	59.5	42.3
Thailand	189.4	241.5	27.5
Total of the countries listed	4 187.3	4 918.4	17.5

Source: UNCTAD, "Review of maritime transport, 1982" (TD/B/C.4/258), 25 May 1983, p. 18, table 10.

Note: TEUs: Twenty-foot equivalent units.

2. Inland transport

In most developing ESCAP countries, inland transport is dominated by road transport for both passengers and freight. In Pakistan, 79 per cent of passenger and 65.7 per cent of cargo traffic were carried by road in 1980/81, while the proportions for railways were 19.5 per cent and 28.6 per cent and for air transport 1.5 and 5.7 per cent. A roughly similar pattern exists in Indonesia, Nepal, Papua New Guinea, the Philippines, Sri Lanka and Thailand.

There was significant growth in road traffic in the developing ESCAP countries during the 1970s, although the growth rates varied widely among the countries of the region. Since the beginning of the 1980s, however, the growth has slowed in some developing ESCAP countries, reflecting capacity constraints as well as the general slowdown in the growth rate of their economies.

The impressive growth of regional road networks that the developing ESCAP countries enjoyed during the past decade decelerated somewhat in the past few years. This slow-down was mainly due to forced cuts in expenditure allocated for the purpose. In addition, expenditure on road maintenance in most developing ESCAP countries remained far below the desired level. In Malaysia, new road building amounted to 458 kms in 1981 for a total road network of 30,784 kms. In Bangladesh, emerging resource constraints since the commencement of the second five-year plan have imposed cuts on investment in the overall transport sector, and resources have been spread too thin over many projects, particularly in the road sector. Sri Lanka and Thailand also constructed only short lengths of new road during 1982. In Fiji, where the period 1975-1982 was one of substantial investment for more and better-quality roads, declining amounts are now being allocated for the maintenance of an expanded road system. Similarly, maintenance expenditure in the Philippines has been reduced by

[15] See "Impact of containerization on shipping in selected developing countries of the ESCAP region" (E/ESCAP/STC.6/7), 18 October 1982, for details on shipping; "Impact of containerization on ports in selected developing countries of the ESCAP region" (E/ESCAP/STC.6/8), 27 October 1982, for details on ports, and "Impact of containerization on shippers in selected developing countries of the ESCAP region" (E/ESCAP/STC.6/9), 25 October 1982, for details on shippers.

17.1 per cent in 1982. In many countries of the region this has led to a general deterioration of conditions on many heavily used roads, particularly those of gravel type, and has resulted in increased costs of operating vehicles.

The development of railways in the developing ESCAP region is receiving increasing attention because railways are energy efficient and can use electricity for energy, which can be generated without petroleum. In China and India, in contrast with other countries, rail transport performs a leading role in inland transportation accounting for over half of total freight and passenger traffic by land. In several other countries, including Bangladesh, Burma, Indonesia, Malaysia, Pakistan and Thailand, rail transport is expected to contribute greatly to the development of transport facilities.

The performance of the railways subsector in the developing ESCAP region was somewhat mixed in the last few years. There was expansion in Bangladesh, Burma, China and India and contraction, especially in freight traffic, in most South-East Asian countries. In China, one of the main functions of the railways is to move coal from mines to port for export. In recent years investment in railway development was allocated mainly to improving transport facilities for coal by constructing main lines to major sea ports, and railway traffic has increased significantly. In 1982, the volume of freight carried by the railways increased by 7.1 per cent, and traffic of coal and construction material for mining increased by 6.4 and 16.7 per cent.

Similarly in India, the inability of railways to move bulk freight constituted a severe constraint in 1979/80 and also in the first half of 1980/81. It improved substantially in 1981/82. Improvements stemmed largely from a number of measures to promote the better utilization of capacity and to increase efficiency. Performance continued to be satisfactory in 1982/83. However, the growth in freight traffic over the previous year was 3 per cent as a consequence of a slow-down in the growth of bulk traffic, reflecting the deceleration in industrial growth. After a set-back in 1980/81, both the number of passengers and the volume of freight carried by Bangladesh railways picked up substantially during the following two years. In Burma, the performance in the railways sector continued to be satisfactory, particularly in 1982/83 when freight traffic increased by 16.6 per cent. In contrast, in Pakistan, the persistent problems of old and worn-out equipment, outdated machinery and lack of operational efficiency continued to hamper the railways sector in playing a greater role. Between the period 1977/78 to 1982/83, railway goods traffic declined at an annual average of 4.5 per cent, despite the increasing demand for goods transport services, which was increasingly satisfied by road transport. The overall performance in the railways sector of Sri Lanka was also disappointing in 1982. Passenger traffic showed a 4.5 per cent increase in contrast to a sharp decline experienced during the previous two years. Freight traffic decreased by nearly 1 per cent. In most of the South-East Asian countries, there was a decline in traffic in the railways sector during the period 1981/82. In the Philippines, freight traffic declined in 1982 by roughly 30 per cent. Malaysia and Thailand also experienced substantial declines in 1982. However, Malaysian railways are expected to reverse this downward trend in 1983, as transport of goods and passengers is projected to increase by 2.4 and 4.1 per cent, respectively.

For the majority of the population of the ESCAP region, inland water transport is one of the traditional means of inland communication, particularly in the region's delta areas and river basins. Bangladesh and Thailand have relied much on their rivers, which traverse almost the entire length of their countries from north to south. So have large parts of China and India, where rivers generally run from west to east. This mode of transport is especially appropriate for the movement of bulk commodities such as ores, coal, fertilizer, grain and timber.

The recent growth of inland water transport in the major user countries of the developing ESCAP region was not uniform. In China, during 1982 cargo handled by inland waterways increased by 12 per cent, and in Burma the cargo conveyed during 1982/83 showed an increase of 9.1 per cent. In contrast, the cargo handled in Bangladesh was estimated to have declined by some 4 per cent during 1982/83.

The effective utilization of inland waterways in recent years has suffered from a relative lack of financial and managerial resources and from a continuing neglect owing to rapid advances in the technology and investments in other competing modes of transport. However, of late, it has been recognized as the least energy-intensive mode of transport, with low-cost infrastructure investment. Many developing ESCAP countries, in which waterways account for a large portion of goods and passenger transport, have planned policies for the development of their waterways.

In China, where one fifth of total national freight is transported via inland waterways, the Government has approved a plan to develop selected major inland waterways up to the end of this century. Substantial efforts have

also been made to rehabilitate sections of rivers that had been blocked by navigation-obstructing structures. Modernization and extension of major river ports will also be carried out. By 1990, the volume of traffic handled by inland waterways is expected to double the current 1983 level. In Bangladesh, where inland waterway transport accounts for about 65 per cent of total cargo and 38 per cent of passenger traffic, the amount earmarked to be used by the Bangladesh Inland Water Transport Authority during the fiscal year 1982/83 for development of this sector was 50 per cent larger than the amount allocated during the previous fiscal year. In India, many river systems have been chosen by the Government for development of navigation facilities. Research and development studies for mechanization of existing "country boats" and to prevent silting of river ports have been undertaken. Allocations for 1980-1985 have been considerably stepped up. Burma is currently implementing a four-year plan (1983-1986) to achieve an inland waterways transport target of 360 million ton/km per year and 515 million passenger/km per year by the end of the plan. While Thailand is in the process of developing its main river system through a $ 53 million three-year programme with the assistance of the World Bank, a second five-year programme has been drawn up. This plan includes projects related to the development and improvement of inland water transport facilities.

A significant development during the past few years has been the improvement in cargo traffic operations by airlines in most of the developing ESCAP countries. As a result, significantly high rates of growth were achieved in the countries of the region during the period 1981-1982, and preliminary data suggest that this upward trend is likely to be sustained throughout 1983. In Bangladesh and Burma, cargo traffic on international routes increased by 24.3 and 19.9 per cent, respectively, in 1982/83. In China, available data indicate that air freight grew by 21.4 per cent in 1981 compared with 13.9 per cent in 1980. Hong Kong, where more than half of trade in value terms is carried by air, reported in 1982 a moderate increase of 5 per cent in cargo traffic. However, with the gradual revival in consumer demand in Hong Kong's major markets, freight traffic began to recover in the first half of 1983, showing a sharp increase in outward traffic at a rate of 23 per cent compared with the same period of the previous year. In contrast, in Pakistan, despite a substantial improvement in the utilization of capacity, cargo traffic during the first nine months of the fiscal year 1982/83 declined by a further 4.1 per cent, in addition to the 3.7 per cent fall recorded in 1981/82.

In the Pacific island economies, domestic airlines were confronted with the heavy competition of other international airlines during a period of recession. Fiji's international airline plans to rationalize its fleet by effecting greater fuel efficiency and switching to larger capacity aircrafts.

In spite of the recession, tourist arrivals to and foreign exchange earnings from tourism in the developing ESCAP region continued to grow by 3.5 and 8.6 per cent, respectively, bringing in 18 million tourists and $ 10 billion in foreign exchange earnings in 1982. The continued growth was the more remarkable in the face of a 1.5 per cent decline in worldwide tourist arrivals in 1982. Much of the dynamism of the region has come from East and South-East Asia and the Pacific area, where growth rates were double those of South Asia, which maintained its 12 per cent share in the region's total tourist arrivals during 1982. In South Asia, the number of tourist arrivals in Nepal increased significantly in 1982 by 8.5 per cent, in contrast to a decline of 0.8 per cent in 1981. In Bhutan, where tourism has become the largest earner of foreign exchange, 1981/82 was a year of decline in tourist arrivals, although gross receipts from tourism increased from $ 1.2 million to $ 1.4 million. The opening of direct flights between Calcutta and Paro (Bhutan) in February 1983 is likely to have increased the flow of tourist traffic considerably.

IV. INTERNATIONAL TRADE AND PUBLIC FINANCE

A. INTERNATIONAL TRADE AND BALANCE OF PAYMENTS

Manifestations of the world recession, such as falling commodity prices and declining export markets together with rising protectionism in developed countries, had a direct effect on trade and growth of the developing ESCAP countries. As was discussed in Chapter II, these countries, with a few exceptions such as the large economies of China and India, experienced the full force of the world recession in 1982. Many East and South-East Asian countries, such as Indonesia, Malaysia, the Republic of Korea, the Philippines and Thailand, were severely affected. The small island countries of the South Pacific, with open economies and heavy dependence on the export of a small number of commodities, have suffered particularly from the steep decline in commodity prices and the decline in the demand for services such as tourism. In the South Asian subregion, the pace of growth slackened and balance-of-payments pressures – worsened by weakening terms of trade – continued to cause concern. The impact of the recession was eased, to some extent, by these countries' domestic policies and the continued inflow of foreign assistance.[1]

1. Exports

Export earnings of the developing ESCAP countries suffered a marked decline in 1982, although considerable weakening already was discernible in 1981 when the rate of growth of exports either sharply decelerated or turned negative, in a number of cases.

Exports of Bangladesh declined by 2.8 per cent in 1982 and by a further 0.5 per cent during the first quarter of 1983, in contrast with 4.1 per cent growth in 1981. Provisional estimates for fiscal 1983 show an increase of 4.5 per cent, which would still leave the value of exports of 1983 below the level of 1980, when exports rose sharply as a result of a strong growth in the demand for jute goods. The

Table I.21. Selected developing ESCAP economies. Change in dollar value of exports, 1980-1983

(Percentages)

	1980	1981	1982	1983	
				First quarter	Second quarter
South Asia and Iran					
Bangladesh	17.3	4.1	-2.8	-0.5	...
Burma	20.5	-2.2	-16.5	...	...
India	6.7	-10.3	6.0	...	...
Iran	-28.1	-26.2	67.0	69.8	...
Nepal[a]	-11.3	27.1	-7.3	-36.4	...
Pakistan	25.9	11.3	-11.4	-1.4	...
Sri Lanka	6.2	-2.0	-0.6	...	...
East and South-East Asia					
China	33.8	18.0	1.7	...	...
Hong Kong	30.1	10.2	-3.5	-6.5	8.2
Indonesia	53.6	5.1	-11.4	-17.4	...
Malaysia	19.4	-10.2	...	...	...
Philippines	25.8	-1.1	-15.2	...	...
Republic of Korea	16.3	21.4	2.8	-0.9	...
Singapore	36.1	8.2	-0.9	-0.8	...
Thailand	23.0	6.3	-6.1	-17.3	...
South Pacific					
Fiji	46.7	-17.5	-8.4	12.0	...
Papua New Guinea	17.0	-16.8	-12.3	...	...
Samoa	-5.6	-35.3	...	...	...
Solomon Island	10.6	-9.6	...	...	...
Vanuatu	-25.5	-5.7	...	...	...

Source: United Nations, *Monthly Bulletin of Statistics*, vol. XXXVII, No. 10 (October 1983). In the cases of Nepal and Indonesia, national sources.

[a] Fiscal year.

[1] World Bank, *The World Bank Annual Report 1983* (Washington, D.C., 1983), pp. 77-78.

continued weakening in the demand for jute and jute products, which account for over two thirds of the country's total exports, was mainly responsible for the decline. Burma, Nepal and Pakistan also suffered sharp declines in export earnings in 1982 by 16.5, 7.3 and 11.4 per cent, respectively. All three countries, especially Burma, were affected by a decline in rice exports in 1982. Other major exports, declining rates of growth of which led to the poor performance of exports in these countries, were teak and hardwood in Burma, raw jute in Nepal and cotton in Pakistan. In Nepal, exports were expected to decline steeply by 36.4 per cent in 1983. Pakistan, the least dependent of the three on primary goods exports, was able to contain the decline in exports in 1982 because of higher exports of cotton manufactures, although other manufacturing exports did not do well. India's exports declined by 10.3 per cent in 1981 but showed an increase of 6.0 per cent in 1982. Yet the level of exports in 1982 was considerably below the 1980 level, as the export of engineering goods and a number of other items was adversely affected. Unofficial projections indicated a more than 14 per cent growth in fiscal 1983/84 over the previous fiscal year. India's well-diversified basket of exports was a major factor in sustaining its exports growth. Sri Lanka's export earnings declined by 2 per cent in 1981 and by 0.6 per cent in 1982. Among major exports, tea, accounting for more than 30 per cent of total exports, declined by 10 per cent in 1981 and by 9 per cent in 1982. Rubber and coconut, accounting for more than 15 per cent of total exports, declined by 26 and 8 per cent, respectively, in 1982. Total exports grew by 2.5 per cent during the first half of 1983.

Table I.22. Developing ESCAP countries. Annual percentage change in dollar price per unit of major primary commodity exports, 1980-1983

	1980	*1981*	*1982*	*1983*
Coconut oil (Philippines)	-33.1	-17.1	-15.1	-14.2[a]
Coffee (Papua New Guinea)	-3.1	-25.5	17.0	...
Copper concentrates (Philippines)	13.8	-21.1	-22.0	...
Copra (Philippines)	-36.5	-20.5	-10.9	-0.3[a]
Cotton (India)	30.9	-11.4	-16.6	...
Jute (Bangladesh)	44.1	-16.5	-25.1	7.9[b]
Maize (Thailand)	17.8	-8.0	-14.0	13.7[c]
Palm oil (Malaysia)	-11.4	-1.7	-14.1	-19.9[c]
Petroleum (Saudi Arabia)	66.1	13.4	3.0	-14.7
Rice (Thailand)	29.8	11.3	-39.2	-18.1[c]
Rubber (Malaysia)	11.4	-17.4	-22.9	1.8[c]
Sugar (EEC import prices)	14.5	-14.3	-4.3	-9.1[c]
Tea (Sri Lanka-India)	4.7	-3.2	-2.1	14.4[c]
Tin (Thailand)	12.8	-15.1	-2.0	-40.8[c]
Timber (Malaysia)	8.2	-9.6	1.1	-1.9[c]

Sources: International Monetary Fund, *International Financial Statistics,* vol. XXXVI, No. 10 (October 1983) and national sources.

Notes: The prices used are for the country/countries in parentheses.

[a] First quarter over 1982 annual. [b] Estimates for the fiscal year. [c] Three months over the corresponding period of the previous year.

The export performance of East and South-East Asian countries and areas considerably worsened in 1982. Exporters of both primary products and manufactures were affected. The exports of Hong Kong, Indonesia, the Philippines and Thailand declined sharply. The Philippines' exports declined by more than 15 per cent in 1982 following a 1 per cent decline in 1981. The Philippines peso was devalued twice during 1983 in the face of a deteriorating balance-of-payments situation. Exports of all major primary commodities, including coconut oil, sugar, copper and garments, declined by 25, 26, 27 and 12 per cent, respectively, in 1982. In contrast, exports of electrical equipment rose by 20 per cent. In Hong Kong, weaker export growth was accounted for by a decline in textiles and watch and clock exports. Thailand's first

Box I.9. Official holdings of international reserves of developing ESCAP countries

Countries hold international reserves mainly to finance short-term excesses of imports over exports. The maintenance of substantial reserves is of special importance to many developing ESCAP countries the export earnings of which fluctuate widely whilst imports grow steadily. Limited access to private capital markets and uncertainties and delays associated with official credit lines make these reserves an essential cushion to fall back on.

Traditionally these reserves have been held in the form of foreign exchange. While the United States dollar was freely convertible into gold at a fixed price, reserves were held by most countries predominantly in United States dollars. Gold accounted for a small proportion of the official reserve holdings of developing ESCAP countries.[a] Of the total non-gold reserves held by developing ESCAP countries about 95 per cent is in foreign exchange and the remaining 5 per cent or so is in the form of reserves with the International Monetary Fund including SDR holdings.

With growing deficits on current account in the balance of payments, and inadequate capital inflows to finance them, most developing ESCAP countries since 1980 (see accompanying table) have had to draw on their reserves frequently in sizable amounts. Even China and Pakistan, the two countries which gained reserves during this period, merely succeeded in replenishing their reserves from very low levels in 1980 as measured by the ratio of reserves to imports. As a result of high rates of growth in exports during 1980-1982 and some decline in imports, China made large gains in reserves in 1982. China continued to gain reserves in 1983 but at a much slower rate. Pakistan appears to have built up its reserves up to about the equivalent of four months' imports by September 1983 from one month's import equivalent in 1980. Sri Lanka suffered a serious reserve depletion in 1980 which was replenished to some extent in 1981 and 1982. Singapore and Thailand maintained a steady ratio of reserves to imports.

Most other countries faced serious loss of reserves, specially during 1981 and 1982. Bangladesh, India, Indonesia, Malaysia and Papua New Guinea have begun to build up or to prevent a further fall in reserves in 1983. Other countries such as Afghanistan, Burma, Fiji, Nepal, the Philippines, the Republic of Korea and Sri Lanka have suffered further serious losses of reserves in 1983. For Burma, the Philippines, the Republic of Korea and Sri Lanka, reserve levels at the end of September 1983 were barely sufficient to finance a month's imports, at 1982 levels. These low ratios reflect the seriousness of the balance-of-payments problems faced by these countries over the past several years. For most countries, the need to replenish reserves, which had been eroded during the past few years, will take precedence over additional imports, should any improvement in foreign exchange earnings occur.

[a] As a result, the developing countries failed to benefit substantially from the tremendous rise in gold prices in the 1970s.

International reserves[a] of selected developing ESCAP countries, 1980-1983
($ million)

	Reserves				*Percentage change[b] over end of previous year*			
	1980	*1981*	*1982*	*1983*	*1980*	*1981*	*1982*	*1983*
Afghanistan	371	274	258	220[c]	-15.9	-26.1	-6.0	-14.8
Bangladesh	300 (1.4)	138 (0.6)	183 (1.0)	388[d] ...	-22.4	-53.8	31.9	112.5
Burma	261 (8.8)	229 (7.4)	104 (3.1)	64[d] ...	28.2	-12.1	-54.4	-39.1
China	2 545 (1.5)	5 048 (2.8)	11 339 (7.2)	13 212[e] ...	18.2	98.3	124.6	16.5
Fiji	168 (3.6)	135 (2.6)	127 (3.0)	116[d] ...	22.7	-19.4	-6.0	-8.4
India	6 944 (5.8)	4 693 (4.0)	4 315 (4.3)	5 389[e] ...	-6.6	-32.4	-8.1	24.9
Indonesia	5 392 (6.0)	5 014 (4.5)	3 144 (2.2)	3 506[d] ...	32.7	-7.0	-37.3	11.5
Malaysia	4 387 (4.9)	4 098 (4.2)	3 768 (3.6)	4 244[f] ...	12.0	-6.6	-8.0	12.6
Nepal	183 (6.4)	202 (6.6)	199 (6.0)	128[d] ...	14.8	10.4	-1.3	-35.5
Pakistan	496 (1.1)	721 (1.6)	969 (2.2)	1 858[d] ...	132.9	45.4	34.4	91.7
Papua New Guinea	423 (4.3)	454 (4.3)	345 (3.4)	451[d] ...	-15.9	7.1	-23.8	30.7
Philippines	2 846 (4.1)	2 199 (3.1)	1 720 (2.5)	1 016[d] ...	26.5	-22.7	-21.8	-40.9
Republic of Korea	2 925 (1.6)	2 682 (1.2)	2 807 (1.4)	2 225[d] ...	-1.2	-8.3	4.7	-20.7
Samoa	3 (0.5)	3 (0.6)	3 (0.8)	4[f] ...	-42.5	18.4	6.1	29.6
Singapore	6 567 (3.3)	7 549 (3.3)	8 480 (3.6)	8 838[e] ...	12.9	15.0	12.3	4.2
Sri Lanka	246 (1.4)	327 (2.0)	351 (2.1)	279[d] ...	-52.4	32.9	7.3	-20.5
Thailand	1 560 (2.0)	1 732 (2.1)	1 538 (2.2)	1 735[d] ...	-15.4	11.0	-11.2	12.8

Source: International Monetary Fund, *International Financial Statistics*, vol. XXXVI, No. 11 (November 1983).

Notes: Figures within parentheses are ratios of reserves to annual imports expressed in months.

[a] Non-gold reserves. [b] Percentage change based on figures without rounding. [c] As of July. [d] As of September. [e] As of June. [f] As of August.

quarter data for 1983 indicate a sharp fall in exports after a 6 per cent decline in 1982. Expectations for 1983 as a whole vary between a decline to a growth of one to two percentage points. Low prices for Thailand's major commodity exports in 1982 and 1983 are responsible for the poor growth of export earnings, since export volumes of most commodities have risen steadily. China experienced a 1.7 per cent growth in export earnings in 1982. During the first half of 1983, exports are reported to have increased by 1.9 per cent. These low growth rates in 1982 and 1983 are in sharp contrast to 1980 and 1981 when China's exports grew by 33.8 and 18 per cent. Singapore's exports fell by 0.9 per cent in 1982, in contrast with 8.2 per cent growth in 1981. During the first quarter of 1983, exports declined further but improvement was expected later in the year.

Exports of the island economies of the South Pacific were perhaps the worst affected by the world recession. Fiji's exports fell by 17.5 per cent in 1981 and by a further 8.4 per cent in 1982. Most of the decline was due to lower sugar exports accounting for half the total value of exports. Papua New Guinea's exports fell by 16.8 per cent in 1981 and a further 12.3 per cent in 1982. Papua New Guinea's main mineral exports, gold and copper, had mixed fortunes in 1982. Gold exports, accounting for about 30 per cent, rose by 3.2 per cent. Copper, accounting for 22 per cent, fell by 14 per cent. Samoa and Vanuatu shared a similar experience.

Information on export earnings in 1983 in the developing countries of ESCAP is not yet complete enough to give a clear picture. There was a continued fall in export earnings in many countries during the first quarter of 1983. The modest upturn in commodity prices during the course of the year may improve export earnings for 1983 as a whole. However, the level of earnings in most cases is likely to remain below those of 1980. The losses suffered during 1981 and 1982 are unlikely to be regained in 1983.

The collapse in commodity prices in 1981 and 1982 is primarily responsible for the decline in export earnings of most developing ESCAP countries. Movements in the prices of major primary commodity exports of the developing ESCAP countries are shown in Table I.22. There was an across-the-board decline in prices of primary commodities exported by ESCAP countries during 1980-1982 and the decline continued in most cases into 1983. Among the prices that fell most steeply are those of jute and jute products, rice, tea, timber, rubber, sugar, cotton and petroleum and natural gas.

Later in 1983, prices showed some upward movement. By August-September, prices of most commodities had recovered but their levels remained below those of 1980. The prices of some commodities, notably tin and rubber, did not share in this upward movement and fell further in 1983.

2. Imports

Falling export earnings and other meagre sources of finance restricted the import capacity of many developing economies in the ESCAP region. Growth in imports of oil-importing countries, however, was moderated by the slack in the world oil market since mid-1981.

Dollar values of imports in 1982 declined for a great many countries, as indicated in Table I.23. In South Asia, imports of Bangladesh declined by 14.8 per cent in 1982, compared with a 3.5 per cent growth in 1981. The reduction in imports was main-

Table I.23. Selected developing ESCAP economies. Change in dollar value of imports, 1980-1983

(Percentages)

	1980	*1981*	*1982*	*1983 first quarter*
Bangladesh	68.1	3.5	-14.8	...
Burma	9.3	6.0	9.4	...
China	24.8	10.3	-12.2	...
Fiji	19.6	12.5	-18.5	-7.3
Hong Kong	30.1	23.9	3.3	10.6[a]
India	38.9	-7.1	6.5	...
Indonesia	50.4	22.5	27.0	30.8
Malaysia	36.7	13.7	8.7	15.5[b]
Nepal[a]	20.6	27.2	11.3	28.7
Pakistan	31.9	-0.1	0.7	1.4
Papua New Guinea	29.8	7.9	-7.9	...
Philippines	16.8	2.8	-3.5	...
Republic of Korea	9.6	17.2	-7.2	2.8[a]
Singapore	33.7	17.0	2.0	5.8
Sri Lanka	49.1	5.6	3.8	...
Thailand	31.5	6.1	-14.5	...

Sources: United Nations, *Monthly Bulletin of Statistics,* vol. XXXVII, No. 10 (October 1983) and national sources.

[a] Six months. [b] Provisional for the whole year.

ly in the intermediate goods category. In India, imports increased by 6.5 per cent in 1982, in spite of a reduction in imports of oil, which were partly replaced by higher domestic production. This enabled India to maintain the growth of its capital goods imports in 1982. In 1983, imports, especially of capital and intermediate goods, are likely to increase under the relatively more liberal import policies recently adopted by the country. Pakistan's imports, valued at over $ 5 billion, remained relatively stable in 1981 and 1982. A growth of 1.4 per cent was indicated during the first quarter of 1983. Sri Lanka maintained a positive but lower rate of growth in 1982 (3.8 per cent) compared with 1981 (5.6 per cent), and about 8 per cent growth is expected during the first half of 1983. Nepal maintained high positive rates of growth in 1981 and 1982, mainly due to high growth rates for machinery and equipment.

In East and South-East Asia, imports fell in the Philippines (3.5 per cent) and Thailand (14.5 per cent) in 1982. In both countries, capital and intermediate goods imports declined sharply. Indonesia and Malaysia maintained relatively high rates of growth of imports. Data on East and South-East Asia up to the first half of 1983 indicate positive growth in imports except in Fiji. Fiji experienced an 18.5 per cent fall in imports in 1982 and first-quarter data for 1983 indicate a fall of 7.3 per cent from the corresponding quarter of 1982.

3. Terms of trade

As a result of sharp declines in the prices of primary commodities, which form the bulk of the exports of most developing ESCAP countries, and the relative stability in the prices of manufactures, which predominate among their imports, the barter terms of trade of the developing ESCAP countries began to fall in 1980 and had suffered serious deterioration by 1982. Data on the movement of terms of trade for a number of countries in the region are summarized in Table I.24. Among the countries that have experienced serious deterioration in terms of trade almost continuously since 1980 are Bangladesh, Burma, Malaysia, Pakistan, the Philippines and Thailand. Bangladesh's terms of trade declined by 14.3 per cent in fiscal 1982, after having suffered a 15.0 per cent fall a year earlier. Malaysia's terms of trade fell by 8, 18 and 10 per cent each year from 1980 to 1982; Pakistan's by 11.7, 12.9 and 8.0 per cent; the Philippines' by 20.8, 12.0 and 2.8 per cent and Thailand's by 4.7, 12.6 and 14.4 per cent during the same years. Burma experienced a sharp deterioration of 22 per cent in 1982; Sri Lanka, having suffered a decline of 19 per cent in 1980, made a partial recovery of 9 per cent in 1981 followed by a 5.4 per cent decline in 1982. The Republic of Korea's terms of trade, which declined by

Table I.24. Selected developing ESCAP economies. Change in the terms of trade, 1980-1983

(Percentage change in index)

		1980	*1981*	*1982*	*1983 first quarter*
Bangladesh[a]	(A)	20.2	-15.0	-14.3	...
(1976/77 = 100)	(B)				
Burma[a]	(A)	12.6	2.4	-22.1	...
(1969/70 = 100)	(B)	25.8	-1.7	-14.5	...
Fiji	(A)	10.3	-22.0	...	...
(1975 = 100)	(B)	13.6	-26.7	...	...
Hong Kong	(A)	1.0	-2.2	–	...
(1981 = 100)	(B)	11.9	6.4	-3.0	...
India[a]	(A)	14.5	...	...	...
(1968/69 = 100)	(B)	11.6	...	...	...
Indonesia	(A)	103.8	...	...	...
(1971 = 100	(B)	93.4	...	...	...
Malaysia	(A)	-8.5	-18.2	-10.0	-4.2
(1970 = 100)	(B)	0.6	-27.3	3.5	-3.6
Pakistan[a]	(A)	-11.7	-12.9	-8.0	...
(1975/76 = 100)	(B)	-7.7	-5.5	-1.7	...
Philippines	(A)	-20.8	-12.0	-2.8	...
(1972 = 100)	(B)	-5.1	-11.0	2.7	...
Republic of Korea	(A)	-17.0	-2.2	3.8	0.4
(1975 = 100)	(B)	-8.2	15.7	11.5	9.8
Singapore	(A)	-2.4	...	...	...
(1975 = 100)	(B)	14.3	...	...	...
Sri Lanka	(A)	-19.0	9.3	-5.4	...
(1975 = 100)	(B)	-20.6	12.7	3.9	...
Thailand	(A)	-4.7	-12.6	-14.4	...
(1975 = 100)	(B)	-0.8	0.2	-0.6	...

Sources: United Nations, *Monthly Bulletin of Statistics*, vol. XXXVII, No. 10 (October 1983) and national sources.

Notes: (A) Barter terms of trade index = Export price index ÷ import price index.
(B) Income terms of trade index = (A) x export quantum index.

[a] Fiscal year.

17 and 2 per cent in 1980 and 1981, showed a 3.8 per cent improvement in 1982 (see Table I.24).

All these countries appear to have made considerable effort to compensate for the shortfall in earnings due to deteriorating barter terms of trade by increasing the volume of exports. A rise in the volume of exports, reflected in the change in income terms of trade, also shown in Table I.24, helped to moderate the fall in export earnings that would have otherwise taken place. In some instances, notably the Republic of Korea and Sri Lanka in 1981 and 1982, the income terms of trade improved despite deterioration in the barter index. The increase in the volume of exports more than made up for the deterioration in barter terms of trade to result in larger export receipts. This moderation of the fall in income terms of trade and its improvement in a few instances helped better to sustain the import capacity of the developing ESCAP countries than would have been otherwise possible. In certain instances, however, the fall in the barter terms of trade was compounded by volume declines. Apart from adverse weather and other factors affecting domestic supply, which reduced export surpluses in some cases, growth of export volume was also constrained by restrictions imposed by developed countries on exports from the developing ESCAP countries. Typical examples were the restrictions placed on Thai tapioca exports to the EEC market and on textiles exports by virtually all developed countries under the Multifibre Agreement (MFA).

4. Balance of payments

The balance of payments on current account in most developing ESCAP countries showed some improvement in 1982 over 1980 and 1981 (see Table I.25). In the cases of India, Indonesia, Malaysia and the Philippines, however, the deficit in 1982 was larger than in 1980 and 1981. Improvements in the balance of payments came about through a cutback in imports in the face of falling export earnings and an inability to finance the deficits required to sustain imports at 1980-1981 levels. Countries that were able to maintain their import levels suffered wider deficits, which were increasingly difficult to finance. The trade balance of most developing ESCAP countries showed improvements (reduced deficits) because of a larger reduction in imports than in exports. In Indonesia, Malaysia, Nepal and the Philippines, the deficits widened further in 1982 because their imports continued to rise while exports fell or stagnated.

The movement in the current account balance is generally in the same direction as that of the trade balance, since most developing ESCAP countries traditionally are in deficit on service account. Among the service items, the most important are net payments on shipping and transport, tourism, debt service and payments related to foreign investment, which are generally negative in most developing ESCAP countries. Nepal and Singapore were exceptions. Debt service and foreign investment-related payments have tended to increase, especially in recent years, causing the overall deficits on services account to widen. These deficits have generally added to the trade deficits to make the payments burden larger.

Private remittances have emerged as an important item of balance-of-payments support for most developing ESCAP countries. Remittances from workers abroad have been making an important positive contribution to the balance of payments of Bangladesh, India, Pakistan, the Philippines, the Republic of Korea, Sri Lanka and Thailand since the late 1970s. Inflows on this account appear to have slowed down, even declined, in 1982 except in the cases of Pakistan and Thailand. In the case of Pakistan, remittances covered over 80 per cent of the trade deficit, which rose to $ 3.4 billion in 1982. In other ESCAP countries, workers' remittances were lower both in absolute amount and relative importance. With the slackening of the pace of development activities in the oil-exporting countries of West Asia following the decline in oil prices, remittances showed signs of tapering off in 1982 in some countries.

For countries such as Malaysia, Papua New Guinea and Singapore, net private transfers are negative. The deficit on current account in these countries, as well as in Indonesia, stems largely from negative balances on services and private transfers rather than from merchandise trade, unlike in most other countries where deficits on merchandise account are relatively more important. In these countries, net outflows on services and private transfers accounts have tended to increase since 1980, while a fall in export earnings in 1981 has increased the deficits on merchandise account or, as in Indonesia, reduced the surplus.

Most of the developing ESCAP countries, with the exceptions of Malaysia and Singapore, rely on official capital in the form of both grants and loans for financing the deficit on current account in the balance of payments. The inflow of such capital, as indicated in Table I.25, has not shown any appreciable increase since 1980. In these circumstances, the choice was between reducing imports to contain the payments deficits or finding other means of financing, neither of which was generally feasible. A few countries, such as Malaysia and Singapore and to a lesser extent Indonesia, the Philippines and Thailand were, however

Table I.25. Selected developing ESCAP countries. Balance of payments, 1980-1983

($ million)

	Trade balance	Other goods and services	Private transfers	Current account balance	Official capital and transfers	Private long-term capital	Basic balance	Short-term capital	Errors and omissions	Overall balance	Change in reserves (-:increase)
Afghanistan											
1980	-126.0	-15.0	–	-141.0	333.0	–	192.0	–	–	–	–
1981	-312.0	22.0	–	-290.0	234.0	–	-56.0	–	–	–	–
1982	-235.0	25.0	–	-210.0	139.0	–	-71.0	–	–	–	–
1983	...	...	–	...	...	...	...	...	...	...	...
Bangladesh											
1980	-1 559.6	-263.1	300.8	-1 521.9	1 243.5	–	-278.4	-24.0	174.6	-127.8	127.9
1981	-1 644.3	-307.8	401.6	-1 550.5	1 036.9	–	-513.6	210.8	95.3	-207.5	207.6
1982	-1 411.2	-332.8	348.1	-1 395.9	1 334.0	–	-61.9	-129.4	146.3	-45.0	45.1
1983[a]	-304.9	-63.7	166.3	-202.3	330.3	1.3	129.3	-60.1	-2.2	67.0	-66.9
Burma											
1980	-357.9	-67.9	7.4	-418.4	442.5	–	24.1	-0.3	67.4	91.2	-91.0
1981	-329.3	-67.7	4.9	-392.1	391.9	–	-0.2	3.7	-54.7	-51.2	51.1
1982	...	...	...	...	...	...	...	...	...	...	...
1983	...	...	...	...	...	...	...	...	...	...	...
Fiji											
1980	-164.8	91.9	-2.3	-75.2	75.1	31.3	31.2	-0.9	11.1	41.4	-41.3
1981	-280.2	73.9	-8.8	-215.1	130.8	36.9	-47.4	-1.1	14.2	-34.3	34.2
1982	-205.5	...	-3.0	...	72.8	34.5	...	8.4	...	...	22.6
1983	...	...	...	...	...	...	...	...	...	...	...
India[b]											
1980	-7 460.0	------4 841.0------		-2 619.0	1 084.0	–	-1 535.0	1 164.0	-274.0	-645.0	645.0
1981	-6 443.0	------3 695.0------		-2 748.0	1 405.0	–	-1 343.0	670.0	-1 030.0	-1 703.0	1 703.0
1982	-5 700.0	------2 700.0------		-3 000.0	1 600.0	–	-1 400.0	1 893.0	266.0	759.0	-759.0
1983	-5 625.0	------2 550.0------		-3 075.0	1 653.0	–	-1 422.0	1 330.0	392.0	300.0	-300.0
Indonesia											
1980	9 171.0	-6 361.0	...	2 810.0	1 982.0	229.0	5 021.0	-820.0	-2 272.0	1 929.0	-1 929.0
1981	6 773.0	-7 577.0	...	-804.0	2 092.0	180.0	1 468.0	-289.0	-1 758.0	-579.0	579.0
1982[a]	879.0	-2 018.0	...	-1 139.0	969.0	37.0	-133.0	519.0	-165.0	221.0	-221.0
Malaysia											
1980	2 255.0	-2 337.0	-132.0	-214.0	121.0	923.0	830.0	414.0	-766.0	478.0	-477.0
1981	-15.0	-2 121.0	-171.0	-2 307.0	194.0	2 254.0	141.0	188.0	-844.0	-515.0	515.0
1982	-666.0	-2 623.0	-177.0	-3 466.0	248.0	3 113.0	-105.0	400.0	-683.0	-388.0	388.0
Nepal											
1980	-225.9	78.9	33.6	-113.4	115.9	...	2.5	-19.2	27.2	10.5	-10.6
1981	-217.8	72.4	38.2	-107.2	149.4	...	42.2	-0.5	-19.6	22.1	-22.1
1982	-322.0	89.5	39.0	-193.5	169.5	...	-24.0	14.1	14.3	4.4	-4.2
1983[a]	-100.1	25.5	9.9	-64.7	31.7	...	-33.0	42.1	-30.5	-21.4	21.5
Pakistan											
1980	-2 876.0	-500.0	2 218.0	-1 158.0	852.0	59.0	-247.0	-4.0	682.0	431.0	-433.0
1981	-2 926.0	-542.0	2 195.0	-1 273.0	820.0	107.0	-346.0	173.0	-16.0	-189.0	190.0
1982	-3 389.0	-571	2 778.0	-1 182.0	833.0	66.0	-283.0	47.0	67.0	-169.0	169.0
1983	...	...	...	...	...	...	...	...	...	...	...
Papua New Guinea											
1980	-34.4	-437.5	-105.7	-577.6	307.2	59.8	-210.6	-4.4	144.1	-70.9	70.7
1981	-256.6	-419.1	-126.1	-801.8	588.8	84.0	-129.0	25.2	89.5	-14.3	14.3
1982	-252.2	-374.1	-122.6	-748.9	658.0	84.1	-6.8	-1.7	-95.5	-104.0	104.1
1983	...	...	...	...	...	...	...	...	...	...	...
Philippines											
1980	-1 938.0	-542.0	299.0	-2 181.0	1 070.0	44.0	-1 067.0	2 290.0	-87.0	1 136.0	-1 135.0
1981	-2 223.0	-576.0	325.0	-2 474.0	1 257.0	407.0	-810.0	842.0	144.0	176.0	-177.0
1982	-2 646.0	-1 196.0	322.0	-3 520.0	1 700.0	253.0	-1 567.0	2 442.0	-434.0	441.0	-442.0
1983[a]	-672.0	-229.0	82.0	-819.0	295.0	86.0	-438.0	90.0	-176.0	-524.0	525.0
Republic of Korea											
1980	-4 384.0	-1 386.0	399.0	-5 371.0	2 004.0	33.0	-3 334.0	3 983.0	-300.0	349.0	-350.0
1981	-3 628.0	-1 519.0	422.0	-4 725.0	3 596.0	120.0	-1 009.0	1 090.0	-325.0	-244.0	244.0
1982	-2 594.0	-555.0	447.0	-2 702.0	1 910.0	-61.0	-853.0	2 159.0	-1 233.0	73.0	-74.0
1983[a]	-971.0	-204.0	159.0	-1 016.0	339.0	11.0	-666.0	-102.0	-186.0	-954.0	953.0
Singapore											
1980	-4 229.0	2 716.0	-46.0	-1 559.0	-111.0	1 656.0	-14.0	136.0	626.0	748.0	-748.0
1981	-6 180.0	4 859.0	-50.0	-1 371.0	-105.0	1 905.0	429.0	471.0	82.0	982.0	-982.0
1982	-6 972.0	5 779.0	-73.0	-1 266.0	-191.0	2 073.0	616.0	335.0	-20.0	931.0	-931.0
1983	...	...	...	...	...	...	...	...	...	...	...
Sri Lanka											
1980	-783.5	-152.3	136.2	-799.6	301.4	43.0	-455.2	116.2	107.2	-231.8	231.8
1981	-631.9	-174.9	202.9	-603.9	484.8	49.3	-69.8	7.1	10.1	-52.6	52.6
1982	-780.4	-217.4	263.8	-734.0	619.9	63.6	-50.5	-21.4	123.1	51.2	-51.2
1983	...	...	...	...	...	...	..	...	...	...	...
Thailand											
1980	-1 903.0	-760.0	451.0	-2 212.0	1 966.0	283.0	37.0	-63.0	-143.0	-169.0	170.0
1981	-2 029.0	-1 185.0	526.0	-2 688.0	2 147.0	332.0	-209.0	117.0	46.0	-46.0	46.0
1982	-831.0	-1 085.0	687.0	-1 229.0	1 479.0	210.0	460.0	-180.0	-402.0	-122.0	120.0
1983[a]	-525.0	-218.0	318.0	-425.0	159.0	75.0	-191.0	-40.0	126.0	-105.0	104.0

Source: International Monetary Fund, *International Financial Statistics*, vol. XXXVI, No. 11 (November 1983).

[a] January-March. [b] The year 1980 refers to the fiscal year 1980/81, and so on. 1982 figures are provisional estimates and 1983 are unofficial estimates. Errors and omissions include flows other than those specified. 1982 and 1983 entries under this head are residuals. Short-term capital is IMF credit under the EFF arrangement. National currency values are converted at rates of Rs 8 in 1980, Rs 9.50 in 1981 and Rs 10 in 1982 and 1983 per US dollar.

able to generate significant amounts of long-term finance from private capital markets to bridge the gap.

Other countries were forced to drawing down reserves and to seeking short-term finance from such sources as IMF and the private market, including suppliers. Data on short-term capital movements are often inadequate. Some movements of such capital may be subsumed in the "error and omissions" term, entries under which are quite large in some countries. The last column of Table I.25 indicates change in the reserves position of the developing ESCAP countries. Loss of reserves, indicated by the positive entries, has been very substantial in most instances.

For 1983, data on the trade and balance of payments of the developing ESCAP countries are not

Box I.10. Debt service problems of developing ESCAP countries

Payments for external debt service in developing countries of the ESCAP region have risen continuously during the last few years. The rise was 82 per cent in Bangladesh and 73 per cent in Sri Lanka between 1978 and 1983. In Pakistan, the Philippines and the Republic of Korea payments in 1983 were more than double those in 1978. Thailand's debt service payments rose from $ 188 million in 1978 to $ 939.7 million in 1983. India and Indonesia also have faced a substantial rise in debt service payments during these years.

Debt service payments comprise two parts: interest and repayment of capital. The recent escalation in debt service payments of developing ESCAP countries is mainly due to a rapid growth in interest payments. Interest rates on all types of credit have risen in recent years. Further, in these years, at the same time, developing ESCAP countries have borrowed more from private sources than earlier, and rates of interest on their loans are higher than on loans from official sources. The shift is specially marked in East and South-East Asian countries, where the average rate of interest on new public debt committed from all sources increased from 5.6 per cent in 1972 to 8.1 per cent in 1978 and to 11.1 per cent in 1981. Interest rates on private credit rose from an average of 8.0 in 1972 to 13.2 per cent in 1981 and on official credit from 4.4 to 7.8 per cent. For the South Asian countries, which rely more on official credit, the average rate on all credit rose from 2.1 to 3.9 per cent, on private credit from 5.2 to 12.8 per cent and on official credit from 1.8 to 3.2 per cent between 1972 and 1981.[a]

Despite growing volumes of absolute payments, debt service payments as a proportion of exports of goods and services have not reached critical proportions in the developing ESCAP region. In 1982, when the recession reached its lowest ebb, the proportion rose to above 10 per cent for a number of countries, mainly as a result of the decline or stagnation in export proceeds. Even so, these proportions compare very favourably with those for developing countries in other regions, in some of which they rose to above 30 per cent (see chapter I, p. 13).

The relatively low debt service ratios for developing ESCAP countries reported here have to be viewed with some caution and do not warrant undue complacency. First, data presented here are only for public and publicly-guaranteed debt of individual countries. They exclude all debt of less than a year's maturity, IMF loans, except Trust Fund Loans, and foreign loans contracted in local currency. Secondly, the majority of countries in the table received a high inflow of remittances from emigrant workers. These remittances have been included in the exports of goods and services, which forms the denominator in these ratios. The ratios would have been much higher if export earnings did not include remittances. On present indications, growth in remittances is unlikely to be sustained at current rates over the longer term. Thirdly, the recent rise in credit from private sources and elsewhere, despite their low incidence in many developing ESCAP countries, will further increase repayment obligations in the years ahead. Fourthly, when drawing comparisons with Latin American countries, it is worth recalling that the high rates of growth of Latin American economies in the 1970s were achieved with investments financed partly from funds borrowed from foreign private banks.

Unless export earnings grow fast, debt service problems of developing ESCAP countries are likely to worsen in the next few years. Projections to 1985 indicate a 45 per cent increase over 1981 in debt service obligations in East and South-East Asian countries. In the South Asian countries the projected rise is 51 per cent between the two years.[b] The extent to which developing ESCAP countries can be expected to avoid some of these unfavourable consequences, depends partly on improvements in terms on which finance will be made available to them.

[a] World Bank, *World Debt Tables, 1982-83 Edition* (Washington, D.C., 1983).

[b] *Ibid.*

yet available. There are signs of exports having revived somewhat during the year. Commodity prices have picked up from the bottom they had reached in 1982, with better export earnings for a number of countries during the early part of the year. Further improvement is contingent on sustained economic recovery in the developed countries. Any probable recovery in exports is bound to be more than offset by the need for more imports to sustain the growth momentum of most of the developing ESCAP economies. Therefore, the balance-of-payments deficits are unlikely to improve in the next year or so, and the financial needs of these countries will continue to persist.

B. PUBLIC FINANCE

The impact of generally poorer

Selected developing ESCAP countries. Debt service payments, 1978-1983
($ million)

	1978	*1979*	*1980*	*1981*	*1982*[a]	*1983*[a]
Bangladesh						
Total debt service payments	94.2	84.0	76.1	97.9	135.5	171.5
Interest	41.6	41.4	35.7	46.3	64.4	73.3
Repayment of principal	52.6	42.5	40.3	51.6	71.1	98.1
Debt service ratio	11.8	8.4	5.6	6.9	9.9	...
India						
Total debt service payments	937.1	1 015.1	998.8	1 000.1	1 198.9	1 318.4
Interest	342.0	375.5	362.7	393.9	485.9	543.6
Repayment of principal	595.0	639.7	636.1	606.2	713.0	774.8
Debt service ratio	9.7	8.6	6.6	6.9	15.7[b]	...
Indonesia						
Total debt service payments	2 062.1	2 099.6	1 771.9	1 973.7	2 462.3	2 717.4
Interest	513.8	770.9	819.2	972.7	1 090.2	1 180.5
Repayment of principal	1 548.3	1 328.7	952.7	1 001.0	1 372.1	1 536.9
Debt service ratio	18.2	13.5	8.0	8.3	11.0[b]	...
Malaysia						
Total debt service payments	842.3	548.8	325.8	401.7	829.5	884.6
Interest	144.5	176.9	207.6	264.0	497.5	508.8
Repayment of principal	697.8	371.9	118.3	137.7	332.0	375.8
Debt service ratio	10.0	4.4	2.2	3.1	5.9	...
Pakistan						
Total debt service payments	383.6	511.1	591.8	529.0	610.4	745.3
Interest	179.2	213.2	247.1	197.5	234.1	255.2
Repayment of principal	204.4	298.0	344.7	331.5	376.3	490.1
Debt service ratio	12.2	12.7	11.1	9.6	10.1	...
Philippines						
Total debt service payments	644.7	806.7	581.8	874.5	1 219.8	1 417.4
Interest	170.5	302.9	364.1	507.3	728.5	801.1
Repayment of principal	474.2	503.8	217.7	367.2	491.3	616.3
Debt service ratio	13.3	12.7	7.2	10.3	15.1	...
Republic of Korea						
Total debt service payments	1 824.5	2 577.6	2 761.9	3 597.4	3 971.2	4 225.6
Interest	656.9	890.3	1 310.0	1 776.9	2 057.8	2 061.6
Repayment of principal	1 167.6	1 687.3	1 451.9	1 820.4	1 913.4	2 164.3
Debt service ratio	10.7	13.2	12.2	13.0	13.8	...
Sri Lanka						
Total debt service payments	89.0	76.3	81.5	90.9	147.9	154.5
Interest	24.8	28.2	32.4	48.7	74.0	80.9
Repayment of principal	64.1	48.1	49.1	42.2	73.9	73.6
Debt service ratio	8.8	6.2	5.5	5.7	9.2	...
Thailand						
Total debt service payments	188.1	313.8	434.3	620.8	833.8	939.7
Interest	93.7	160.0	268.1	394.8	501.1	521.6
Repayment of principal	94.4	153.8	166.1	226.0	332.7	418.1
Debt service ratio	3.7	4.7	5.1	6.7	8.8	...

Source: World Bank, *World Debt Tables, 1982-83 Edition* (Washington, D.C., 1983).

[a] 1982 and 1983 figures are projections. [b] Based on merchandise exports only from the United Nations, *Monthly Bulletin of Statistics*, vol. XXXVII, No. 9 (September 1983).

export performance on domestic economic policies was felt mainly in the area of public finance[2] in the developing ESCAP economies during 1982 and 1983. The rate of growth of government revenue of the large majority of these economies declined considerably in 1982. In China, the Lao People's Democratic Republic, the Philippines and Samoa, however, public revenues rose at varying rates (see Table I.26). The erosion in the revenue base due to declining foreign trade activity was only partially offset through alternative measures. The rates of growth in total public receipts budgeted by most Governments in the region for 1983 were relatively modest.

As a consequence, rates of expansion in public expenditure during 1982 and 1983 underwent sharp curtailment in a majority of the region's developing economies. A number of countries, including Bangladesh, Nepal, Pakistan and Sri Lanka, were, however, able to arrest a decline in the rates of expansion of public expenditure (see Table I.26). Many economies of the region adopted cautious policies, in spite of the expected improvement in government receipts in 1983. Consequently, the ratio of budget deficit to total expenditure fell or remained largely unchanged in most of the developing ESCAP economies.

[2] In what follows, unless otherwise stated, foreign grants are not treated as part of government revenue and net lending is excluded from total government spending.

1. Government revenues

The growth of government revenue suffered a considerable setback in most developing ESCAP countries in 1982. Few countries

Table I.26. Selected developing ESCAP economies. Percentage change in public revenue and expenditure, 1981-1983

	Total revenue			*Total expenditure*			*Development expenditure*		
	1981	*1982*	*1983*	*1981*	*1982*	*1983*	*1981*	*1982*	*1983*
Afghanistan[a]	14.0	4.7	...	8.0	5.1	...	-10.8	3.7	...
Bangladesh[b c]	28.1	15.3	6.3	5.0	19.4	2.7	1.9	16.2	-2.0
Bhutan	22.3	18.9	...	34.5	7.6	...	67.0	2.0	...
Burma[d]	12.5	5.7	...	21.3	6.2	...	43.0	5.4	...
China	-3.7	3.6	9.4	-10.1	5.8	9.4	-23.6[e]	-3.6[e]	17.0[e]
Fiji[f]	18.9	-3.3	8.1	20.9	6.5	2.4	34.0	-4.7	-33.4
Hong Kong	11.0	-8.0	4.7	36.2	29.7	2.0	35.4	32.9	-16.7
India[g]	20.9	15.3	...	15.1	9.2	...	21.3	9.4	...
Indonesia	19.4	1.7	11.3	18.8	3.1	15.4	17.3	6.0	26.2
Lao People's Democratic Republic	32.2	178.5	...	10.1	179.9	...	23.8	246.7	...
Malaysia[h f]	13.5	4.4	9.8	28.0	-2.1	6.4	67.9	-28.1	4.1
Nepal	28.7	10.7	14.0	17.9	31.0	29.6	18.3	36.5	29.0
Pakistan[i]	22.1	9.8	22.2	11.4	12.9	20.2	19.4	3.1	18.5
Papua New Guinea[j]	12.2	0.4	5.0	10.2	1.3	8.3	-4.8	-8.6	4.8
Philippines[f]	-3.6	6.3	...	17.2	9.4	...	...	...	...
Republic of Korea	25.7	16.1	14.7	30.4	10.7	11.0	19.8	19.0	7.4
Samoa	-4.8	13.1	...	-0.6	11.4	...	-9.5	13.7	...
Singapore[k]	33.2	-2.8	16.1	34.5[l]	-0.5[l]	16.1[l]	16.5	59.7	...
Solomon Islands[f]	34.2	7.2	23.2	21.9	8.9	31.5	-5.3	18.5	137.5
Sri Lanka	15.4	9.7	44.5	2.2	20.3	23.8	-4.8	38.2	10.4
Thailand	17.2	3.6	22.6[m]	10.0	17.7	6.0[m]	...	...	...

Sources: National sources.

[a] Revenue includes capital revenue from public enterprises. [b] Revenue includes net capital receipts, and issues of debentures and self-financing by autonomous bodies. [c] Development expenditure includes food-for-work programme. [d] Comprises Union Government, local authorities and state economic enterprise. [e] Capital construction. [f] Total expenditure includes net lending. [g] Expenditure includes net lending and special bearer bonds, loans and deposits from various provident and reserve funds but excludes Rs 5,882 million and Rs 1,612 million on account of subscription payable to International Monetary Fund in the form of securities and special drawing rights for 1980/81 and 1981/82, respectively. [h] Revenue includes foreign grants. [i] Expenditure includes transfers to provinces. [j] Development expenditure comprises capital and maintenance works. [k] Development expenditure excludes loans to statutory boards and enterprises. [l] Government main expenditure. [m] January-June 1983 relative to January-June 1982.

could sustain growth at a high level. Many experienced a decline or slow growth in government receipts, while others were able to maintain high but declining growth rates nonetheless. The slow-down in the rate of growth of revenue in Afghanistan to 4.7 per cent in 1982 from 14.0 per cent in 1981 was largely due to decreases in indirect tax receipts, particularly those on imports and exports, and in non-tax revenue (excluding capital revenue). Income from public enterprises fell by over 50 per cent. The decrease in total revenue would have been greater but for significant increase in capital revenue and in personal income taxes. In Burma, the rate of growth of revenue fell from 12.5 to 5.7 per cent in 1982, mainly as a result of a decline in cash-financed imports, to which higher rates of duty applied in 1982. In addition, the contribution from profits of state economic enterprises is expected to have fallen due to poor export performance.

Government revenue in 1982 fell by over 3 per cent in Fiji because of a fall of almost 18 per cent in indirect tax receipts, related to fiscal concessions accorded to the agricultural sector to soften the impact of declining commodity prices and to the construction sector to overcome sluggish demand conditions. In Hong Kong, a decrease of 8 per cent in total revenue occurred in 1982 and was accounted for by a decline of 47 per cent in receipts from stamp duties and land sales, because of the depression in the property market and a fall in indirect tax receipts. These declines were mitigated to some extent by an increase of 13 per cent in direct tax receipts. In almost parallel developments in Singapore, the levelling off of property prices and sales of government property, reinforced by the slow-down in domestic economic growth and the sharp decline in inflation, caused a decrease of almost 9 per cent in indirect tax and non-tax revenue. Despite a modest rise in direct tax receipts, total government receipts declined by 3 per cent in 1982. In Thailand, direct tax revenue rose by 10 per cent, consequent upon a rise in pay in the public sector and some private businesses and due to other favourable factors. However, the reduction in corporate income tax rates, poor export performance and the economic slow-down caused a decrease of over 8 per cent in corporate income tax receipts and of almost 14 per cent in import and export tax receipts. In sum, total revenue increased by 3.6 per cent in 1982, compared with 17.2 per cent in 1981.

The fall in the rate of expansion of government revenue in 1982 in Indonesia, Malaysia, Papua New Guinea and Solomon Islands was larger than anticipated by their Governments. Projections in Indonesia and Malaysia had forecast a rise of 11 per cent and 13 per cent in total receipts in 1982. The revised estimates for 1982 were 1.7 per cent and 4.4 per cent. The main forces responsible for the shortfall included the prolonged depression in commodity prices and lower export volume, especially of crude oil in Indonesia. In addition, there was an erosion in the tax base as a result of the domestic economic slow-down and fiscal relief granted to export producers. Similar adverse factors and tax concessions considerably offset the positive impact from a variety of revenue-raising measures, along with more intensified efforts to collect taxes and tax arrears, especially in the Pacific island economies.

Among the countries continuing to enjoy high, though falling, rates of public revenue growth in 1982 was Bangladesh, where total public receipts had been projected to rise by up to 25 per cent. However, aid inflows, imports and domestic economic activity did not rise as expected, and this reduced both the volume of dutiable imports and the amount of profits from public sector enterprises and financial institutions. Consequently, government revenue was estimated to rise by just over 15 per cent in 1982. Government efforts to widen and deepen the tax base in Bhutan – especially through higher royalties and duty on liquor, and the levy of a 30 per cent net profit tax on nine important public sector undertakings falling outside the budget – were the main factors behind the high rate of revenue growth in Bhutan in 1982.

India was able to sustain a high rate of increase in government receipts of 15 per cent in 1982, though this was about 5 percentage points lower than in the previous year. Receipts from indirect taxes showed the largest rise, in both absolute terms and relative to the growth in direct and non-tax revenue sources. This was due to a variety of new tax measures and higher tax rates on most imports, and the withdrawal of import tax and excise duty concessions on some imported iron and steel products and on cigarettes. Moreover, tax collection and administration efforts were intensified in order to offset the sluggish collections of excise duties (due to the textile strike in Bombay and legal disputes which hampered tax collection). In the Republic of Korea, significant reforms of the tax system introduced in 1981 for structural adjustment purposes helped achieve, during 1981-1983, an average of 19 per cent annual increase in government revenue. In 1982, sweeping tax changes were implemented both in order to raise revenue and to improve allocative efficiency. All major tax and non-tax revenue receipts increased in 1982 at rates ranging from 13.5 to 16.6 per cent.

Among the economies which provided exceptions to the general-

ly bleak profile of revenue growth in 1982 were the two least developed countries, the Lao People's Democratic Republic and Samoa. In the Lao People's Democratic Republic, the phenomenal growth by 178 per cent was largely the result of two policy decisions which increased non-tax receipts by over 233 per cent. These were the devaluation of the kip and the tripling of the export price of electricity to Thailand, both of which led to a substantial increase in transfers from operating surpluses of public enterprises. An expansion in private sector activities and imports also contributed to the doubling of both direct and indirect tax receipts in 1982. In Samoa, a strong improvement in overall performance of the economy, including exports and general improvement in the tax administration machinery, seem to have contributed to the revival of growth of public revenue from a 5 per cent decline in 1981 to a 13 per cent increase in 1982.

Pakistan and Sri Lanka were among the few countries which provided for a substantial increase in domestic resource mobilization through the government sector. The rate of revenue growth between 1982 and 1983 was expected to double in Pakistan, while in Sri Lanka, a fourfold rise was expected during the same period. Receipts from indirect taxes provided the bulk of the increase in 1982 in both countries. Receipts from new and higher import duties on several major items contributed almost one third of the increase of 29 per cent (or about PRs 9 billion) in indirect tax receipts in Pakistan. Other revenue-raising measures included new and higher excise rates on a variety of consumer items (including non-alcoholic beverages), and a levy of 5 per cent on domestic crude oil production. Direct taxes showed little change due to lower profits from commodity export enterprises and to tax incentives introduced in the 1982 and 1983 budgets. In Sri Lanka, almost three quarters of the extra revenue (SLRs 7.9 billion) were from indirect taxes. The doubling of the business turnover tax was expected to contribute almost one half of this amount. There were several new tax measures, including a levy of an import duty of 5 per cent on previously duty-free imports of rice and flour, and higher duties on many other imports.

2. Expenditure and deficit financing

Total spending in the large majority of the developing ESCAP economies grew more slowly and, in a few cases, declined in 1982 when compared with 1981. With few exceptions, the burden of adjustment fell largely on capital expenditure. Such restrictions were unavoidable, given the need to contain the budget deficit in order to minimize inflationary effects and to reduce high-cost external financing lest future debt servicing problems become insurmountable. However, it was disruptive to development planning as well as detrimental to domestic growth performance. A number of developing countries did manage to expand public expenditure, especially development expenditure, and to continue their development efforts.

Bhutan, Burma, Fiji, Indonesia, Malaysia and Papua New Guinea experienced sharp restraints in public spending in 1982, particularly in development expenditure. The sharp drop in growth in government outlay in Bhutan from 34.5 per cent in 1981 to about 8 per cent in 1982 forced the Government to discontinue work on a number of projects as additional external aid was not available. Over the years 1980-1982, external aid supported about two thirds of total public expenditure in Bhutan. In Burma, government spending growth declined to 6 per cent in 1982, from 21 per cent in 1981, mainly affecting capital outlays, especially those undertaken by state economic enterprises. The policy of restraint helped reduce growth in the fiscal deficit which was financed largely from domestic sources, as foreign loans declined by 11 per cent.

In Indonesia, government expenditure grew by 3 per cent in 1982. Development expenditure rose by 6 per cent. Current outlays were restrained with a sharp rise (of about 60 per cent) in domestic oil prices which helped to reduce by 30 per cent the expenditure on the petroleum subsidy. The petroleum subsidy was expected to absorb 13 per cent of current spending in 1982, compared with 19 per cent in 1981. There was also a wage freeze on salaries for civil servants and the military. In the 1983 budget, development spending was projected to rise by 26 per cent, compared with a rise of 4 per cent in routine expenditure. However, mainly due to the deteriorating world oil market, it was necessary to rephase several large-scale, capital-intensive development projects in May 1983. The budget deficit, which rose by 14 per cent in 1982, was expected to rise by 41 per cent in 1983 and was equivalent to 16 and 20 per cent of total revenue during the respective years.[3]

In Fiji, Malaysia and Papua New Guinea, fiscal restraint mainly affected capital spending, which fell by an average of 14 per cent in 1982, compared with a growth rate of over 32 per cent in 1981. Recurrent expenditure in 1982 grew by an average of 5.3 per

[3] A large proportion of the budget deficit was financed externally. Outstanding public sector debt increased by 5 per cent in 1981, to an equivalent of about 18 per cent of GDP.

cent in these countries. During 1983, development outlay decreased by 33 per cent in Fiji. It expanded by an average of 4.5 per cent, which was less than half of the growth rate in current spending, in Malaysia and Papua New Guinea. The reduction in capital expenditure in Fiji was consequent upon the completion of a large-scale regional water supply project. In Malaysia, lower transfer payments to private and semi-public sectors, and reduced outlays on economic programmes in agriculture, commerce, industry, and on project feasibility studies helped to reduce total public expenditure. Capital spending on public works programmes, and transfers to provincial governments suffered a further decline in Papua New Guinea in 1982. The modest rise of 4.8 per cent in government expenditure during 1983 was principally on account of government equity investment in the Ok Tedi mine and in related infrastructure.

There was a substantial increase in finance from domestic

Box I.11. Recent fiscal and financial reforms in China

There has been a series of far-reaching changes in fiscal administration in China. These reforms, designed to provide more efficient services, involved an appreciable decentralization of fiscal authority and resources. The major components of the reforms were the delegation of greater authority regarding the budget to provincial and local governments and the provision of greater incentives to mobilize tax revenue and to reduce expenditure. In 1980, a scheme was implemented for sharing resources among provinces in order to finance expenditure in revenue deficit provinces with surpluses from revenue surplus provinces. However, there remained substantial deficits in provincial governments which had to be financed by the central Government whilst some provincial governments enjoyed surpluses. These imbalances were gradually worked out and became fairly small in 1982.

Under the reforms, state enterprises were permitted to retain some funds which would earlier have been remitted to the Government. In mid-1980, a number of enterprises were brought under an experimental scheme of base and incremental profit retention. These accounted for about 44 per cent of state industrial output and 57 per cent of profits. By the beginning of 1982, about four fifths of all state industrial enterprises had come to operate under various forms of "economic responsibility system". There was a rapid growth of retained profits which amounted to over 28 billion yuan during 1979-1981 and reached 17 billion yuan in 1982. The enterprises used these funds to initiate more capital projects than deemed appropriate by the Government. Investment in capital construction in 1982, at 55.5 billion yuan, exceeded the planned target by 25 per cent.

Enterprises used retained funds and bank loans to finance these activities. In the composition of investment, there was a relative neglect of planned projects in key sectors such as energy and agriculture. In consequence, the supply of financial and material resources, including energy and transport capacity, was under considerable strain. In addition, there were some unplanned increases in the prices of essential construction materials, such as iron, cement and timber, by state enterprises. The Government decided to reduce investment in construction by about 10 per cent in 1983, and to levy a tax on some retained funds to raise revenue for key energy and transport projects. This tax was expected to raise 12 billion yuan over 1983-1985. Yet capital outlays during the first half of 1983 were 17 per cent higher than in the same period of the previous year.[a] This necessitated a reassessment of planned investment projects as well as a halt to all capital construction projects which had not been included in the state plan for screening.[b]

Money and credit have assumed an increasingly important role in China's economic system in recent years. There have been innovations such as financing of fixed investment by credit and profit retention schemes, while interest rates have been used as a means to mobilize financial resources and influence economic decision-making. As part of the stabilization programme, the annual rate of growth of credit extended to non-government sectors declined from 16.5 per cent during 1980-1981 to 5 per cent during the 18 months ending July 1983. The volume of credit extended to Government remained unchanged between January 1980 and June 1983.[c] Restrictions on increases in liquid assets contributed to an appreciable decline in both components of the money supply. The rate of growth of currency in circulation fell to an average of 8.5 per cent per annum between January 1981 and June 1983, from an annual rate of 27.8 per cent during 1979-1980. At the same time, however, there was a significant increase in quasi-money and government deposits, averaging 18.5 per cent per annum over 1981-1982. The increase was largely due to changes in the interest rate policy, with the largest rise in interest rates being in respect of long-term deposits by individuals. Further, enterprises and organizations were permitted, for the first time, to hold time deposits, which earned higher interest in 1982. Interest on bank credit was also raised from 5.04 per cent per year to 7.2 per cent in January 1982 for loans to finance circulating capital.

Other changes in financial institutions included greater decentralization of banking functions and the institution of a "responsibility system" for bank branches. Bank branches at the provincial level or below were permitted to extend a larger amount of credit than planned if they could mobilize deposits above the planned level or economize on planned loans. There also was provision for bonuses to bank employees on the basis of branch profitability. These latter innovations became significant as the adjustments in interest rates raised substantially the potential for profitability in banking activities.

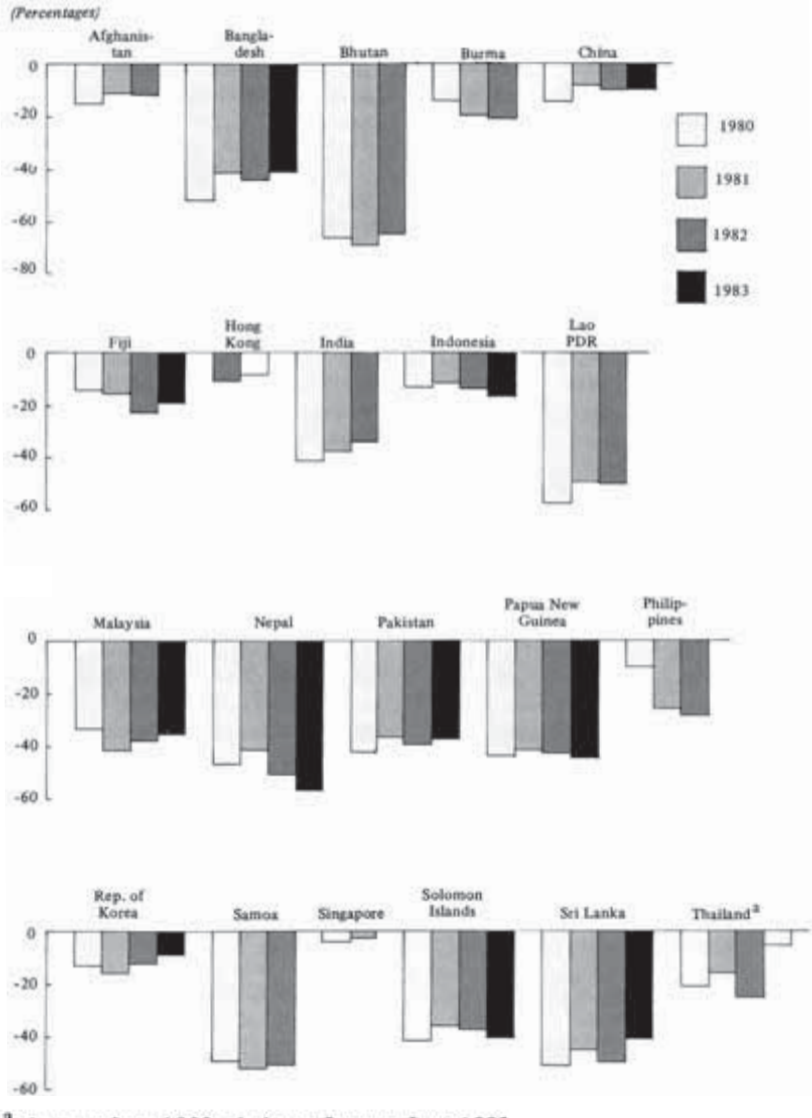
[a] "China – events and trends", *Beijing Review*, vol. 26, No. 33 (15 August 1983), p. 7.

[b] *Ibid.*

[c] International Monetary Fund, *International Financial Statistics*, vol. XXXVI, No. 11 (November 1983), pp. 124-125.

sources to cover a budget deficit of $F 31.5 million in 1982 in Fiji, compared with a net repayment of $F 1.5 million in 1981. Reliance on external borrowings fell by one quarter to $F 23.6 million in 1982 and a further one half to $F 11.8 million in 1983. Consequently, the external public debt service burden was below the estimate in 1982, despite a rise of 60 per cent in the amount of budget deficit. In contrast, there was heavy reliance on external sources for financing the deficit in Malaysia and Papua New Guinea. Net foreign borrowing was equivalent to 4.4 per cent of Malaysia's budget deficit in 1980 and 53 per cent in 1983. The corresponding ratios for Papua New Guinea were 19 per cent and 32 per cent. As a result, the total burden of external debt service, relative to the export value of goods and services in Malaysia, rose from 2.6 per cent in 1981 to 4.5 per cent a year later. For Papua New Guinea, the service burden of external public debt doubled to 9.9 per cent in 1982.

Figure I.9. Selected developing ESCAP economies. Ratios of overall budget deficit to total government expenditure, 1980-1983



[a] January-June 1983 relative to January-June 1982.

Government spending in Nepal, Pakistan and Sri Lanka expanded rapidly in 1982 and 1983. Development spending in Nepal, which accounted for about 68 per cent of total government expenditure, almost doubled between 1981 and 1983. Because of shortfalls in domestic resource mobilization, the budget deficit expanded by 133 per cent during the same period. In 1982, the deficit was financed largely from domestic sources: loans and drawdown of cash balances. The 1983 deficit was financed principally by an increase of 40 per cent in external grants and of 101 per cent in external loans.

A similar pattern of financing rising budget deficits (i.e. largely from internal sources in 1982 and external sources in 1983) occurred in Pakistan and Sri Lanka. Total spending in Pakistan grew by an average of 12 per cent per year during 1981-1982 and was budgeted to rise by 20 per cent in 1983. In Sri Lanka, expenditure grew by 22 per cent per year during 1982-1983. Capital outlays and higher public sector wages and larger interest payments accounted for the bulk of the higher expenditure. The shortfall in revenue in 1982 raised the deficit by 18 per cent in Pakistan and by one third in Sri Lanka. The deficits were financed by borrowing in the domestic market and the use of cash balances. Foreign grants and loans, however, were expected to underwrite a large part of the rise in the budget deficit in both Pakistan and Sri Lanka in 1983.

In Bangladesh, there was an increase of over 19 per cent in total government expenditure in 1982. There were considerable difficulties in budget implementation because both domestic revenues and external financing fell short of budget estimates. Significant cutbacks in outlay on the development programme were made in mid-year and

adversely affected agriculture, communications and education while planned expenditure in areas such as power and industry were left intact. A large part of the increase in the budget deficit was financed by drawing on food stocks. In the Lao People's Democratic Republic, the budget deficit, which almost doubled in 1982, was funded largely from external sources. External sources also underwrote the modest rise of 11 per cent in Samoa's government spending in 1982.

3. Inflation

The restoration of price stability in a large majority of the developing ESCAP economies was a notable achievement in 1982. The decline in rates of inflation or the maintenance of low rates in most developing ESCAP economies was expected to continue during 1983 and the immediately succeeding years. The rise in consumer prices in the developing ESCAP region (see Figure I.10) averaged 14.4 per cent in 1981 and 10.1 per cent in 1982. The rise in prices was significantly below 10 per cent in most of the countries of the region during the first half of 1983; on an annual basis, the average rate of price increases was 7.2 per cent for the first half of the year. Iran was a notable exception. Price increases, although smaller during 1982, remained at a high level. They were attributable partly to significant imbalances between aggregate supply and demand, resulting from the large expenditure on military requirements and disruption in supplies from abroad.

Inflation abated in many developing economies of the region in 1982. In Bangladesh, the inflation rate dropped by 30 per cent to 9.3 per cent in 1982. Prices of imports fell 5 per cent and real wages remained unchanged. Inflationary pressures in Bangladesh remained moderate during the first half of 1983, several policy-induced increases in the prices of public utilities and rationed foodgrain items, notwithstanding.

The decline in the rate of inflation in India, to 7.9 per cent in 1982 from 13 per cent in the previous year, was notable in that it was achieved in spite of 1982/83 being a drought year. A substantial fall in the price of sugar, as a result of good harvests, and only moderate increases in the prices of other main consumer items, were responsible for containing inflation. Inflationary pressures, however, became stronger during the first half of 1983, partly because of fears about a failure of rain. Nevertheless, the bumper *kharif* crop, good output of oilseeds and sugarcane, and large stocks and imports of foodgrains and edible oils are expected to help contain the rate of price rises during the second half of 1983.

In Malaysia, the rate of inflation fell from 9.7 to 5.8 per cent (by 40 per cent) in 1982, and continued downward during the first half of 1983. A lower level of economic activity, lower rates of expansion in public sector demand as well as in the money supply, moderation in the rise of import prices and tax reduction in the 1982 budget constituted the main inflation-restraining forces. In addition, there were only moderate increases in nominal wages in the private sector, in the range of 5 to 7 per cent, because corporate profits from export earnings and internal demand were weaker. Public sector remuneration remained unchanged during 1982. In spite of a rise in demand expected in Malaysia in 1983, inflationary pressures are likely to be low as several wage agreements concluded recently, provided for comparatively moderate increases in private sector money wages. Fairly stable import prices and restraint on public sector spending are likely to continue.

The drop in the rate of inflation in Pakistan, to about 7 per cent in 1982, without a significant fall in the rate of increase of GDP was a notable achievement of the tighter domestic demand management policies implemented over 1980-1982. These policies were designed to counter inflationary pressures arising from the build-up of excess liquidity and to strengthen the balance of payments. The annual rate of price increase, which averaged 4.8 per cent for the three quarters ending March 1983, began to move upwards during the second half of 1983. The higher rate carried the lagged impact of increases in the administered prices of several consumer goods, higher import prices due to the appreciation of the United States dollar, and sharp expansion of 20 per cent in the 1982 money supply. However, the rate of price increase during the first half of 1983 was still appreciably below the annual rate of inflation of 10.2 per cent prevailing during the first half of 1982. It appears likely that inflation in Pakistan would remain low for the remainder of 1983, though some domestic supply bottle-necks were exercising an unfavourable effect.

The Republic of Korea experienced the steepest fall in inflation among the developing ESCAP countries during 1982. The rate of price increases was down to 7.3 per cent, compared with 21.3 per cent in 1981. The major factors behind this improvement were the lower cost of imported raw materials, particularly oil, and improved domestic food supplies. Wholesale prices of food and hydrocarbon products rose by 4.3 per cent and 6.2 per cent respectively in 1982. The corresponding ratios were 23.4 per cent and 29.7 per cent the year before. Other stabilizing forces included signifi-

cant productivity increases, which effectively offset a sizable but decelerated increase of 15 per cent in nominal wages, along with lower rates of interest and a moderate slow-down in public sector demand. These price stabilizing forces continued to operate in 1983; the annualized inflation rate for the first half of 1983 was 4.4 per cent. With good harvests and stable food prices, a lower rate of government-recommended guide-line wage increase of 10 per cent, stabilization in the effective exchange rate, and demand management measures through less expansionary public spending and money supply, inflation in the Republic of Korea in 1983 could be expected to remain below the 1982 level, in spite of pressures from acceleration in the growth rate.

In 1982, Singapore enjoyed the lowest rate of price increases among the market economies of the developing ESCAP region and, perhaps, among all the developing countries of the world. It declined to 3.9 per cent, a sharp reduction from the already comparatively low rate of 8.2 per cent in 1981, mainly due to lower prices of imported commodities, particularly oil, and the appreciation of the Singapore dollar relative to the currencies of major trading partners. Most of the rise in consumer prices in 1982 was attributable to an increase in food prices; the price increase in other expenditure categories remaining modest. Increases in wages, after the (accelerated) wage correction policy in June 1981, were moderate, representing a return to "normal" wage adjustments where the major determinants are productivity improvement and export competitiveness. The National Wages Council's recommendation for lower wage increases in 1983/84 than in 1982/83 took into account both the uncertainties of economic recovery and the low rate of inflation expected for 1983 and the first half of 1984.

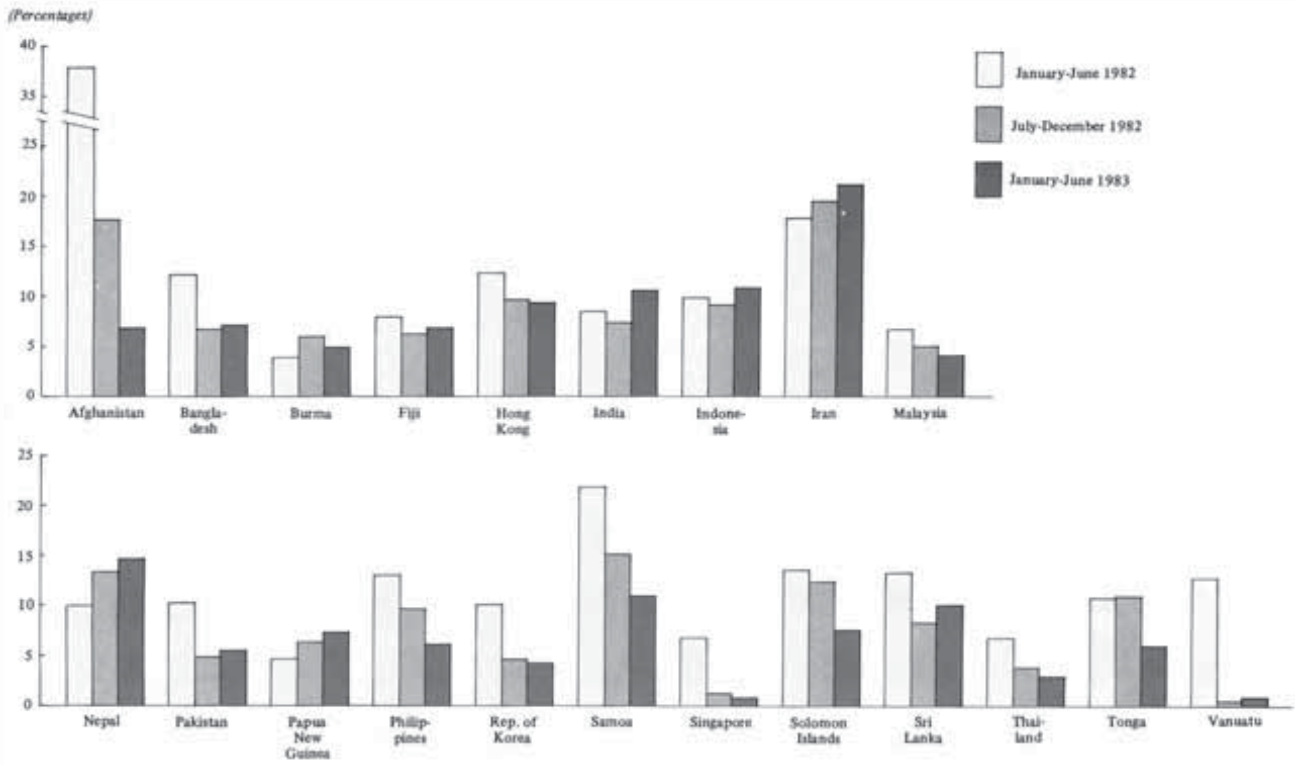
Sri Lanka was another country in which the rate of inflation dropped, from 18.0 to 10.8 per cent in 1982. This sharp deceleration was the result of lower prices for major food items, especially rice and sugar, and stable prices for wheat flour during the first 10 months of the year. The average retail price of rice, for example, rose by only 5 per cent in 1982, compared with an increase of about one third during the previous year. In addition, the cost of imported consumer items declined by 2 per cent, while the increase in textile and footwear prices was 5 per cent in 1982. One source of cost push related to wage adjustments. Real wages of workers in agriculture, commerce and industry went up by between 1.5 per cent and 2 per cent in 1982, partly compensating for a decrease in real earnings of between 5 per cent and 16 per cent during the previous year. Government sector employees also received in 1982 increases in wages of up to 18 per cent in real terms, the highest adjustment in five years. During the first half of 1983, domestic inflation was on a rising trend and averaged an annual rate of 10.1 per cent, compared with 8.4 per cent for the second half of 1982. The acceleration in inflation was caused by upward movements in the prices of food, kerosene and transport. The main impetus, however, came from the imposition of an import duty (of 5 per cent) on previously tax-free rice and flour imports as well as higher duties on other imported consumer goods. The depreciation of the rupee by almost 7.6 per cent against the United States dollar in mid-January 1983 caused further increases in prices of import. The release of large stocks of major consumer goods helped to contain the inflationary effects generated by the temporary disruption of economic activities during the civil disturbances of July 1983.

Thailand was able to reduce the rate of inflation by more than one half in 1982 (from 12.7 per cent in 1981 to 5.2 per cent). This sharp drop was due to reduced demand pressure, and relatively restrained fiscal and monetary policies. The prices of imported capital goods and raw materials were by and large stable, partly on account of the appreciation of the baht against the currencies of Thailand's major trading partners. Lower prices for agricultural exports resulted in a fall in their domestic prices. In the contrary direction, there was a 15.5 per cent rise in minimum wage rates in October 1981. The upward adjustment of 5 per cent in these rates from October 1982 was expected to have only a negligible impact on price levels in 1983. Increases in consumer prices remained moderate during the first half of 1983, averaging, on an annual basis, only 3.0 per cent. With improved agricultural production, a firm effective exchange rate and non-expansionary fiscal and monetary policies, the rate of inflation in Thailand in 1983 was estimated to be very low.

The Pacific island economies also scored substantial gains against inflation. In Vanuatu, the rate of inflation declined to 6.2 per cent in 1982 from 27.5 per cent in 1981. The high rate of inflation in 1981 was largely due to the depreciation of the exchange rate by about 31 per cent and the delayed impact of more expensive crude oil on public utility prices. Stability in the rate of exchange and the cost of imported hydrocarbons in 1982 and the first quarter of 1983, lower inflation in Vanuatu's major trading partners, plus easier conditions in food supply contributed significantly to the sharp moderation in the increase in consumer prices.

Afghanistan, Burma and Nepal were three developing ESCAP coun-

Figure I.10. Selected developing ESCAP economies. Movements in consumer prices, January-June 1982 - January-June 1983
(Percentage change from the corresponding period of the previous year)



tries where the pace of inflation remained high. While the rate of price increases in Afghanistan and Burma accelerated in 1982, in Nepal, it remained largely unchanged at a high level during 1981-1982 and picked up during the first half of 1983. Inflation in Afghanistan rose to 26.8 per cent in 1982, compared with a rate of just over 18 per cent in 1981, largely due to rapid growth in domestic liquidity. The money supply expanded by an average of 17 per cent during 1979-1981. Lower or stagnant domestic production of both agricultural and industrial consumer goods also caused prices to rise. Higher costs of transport of rural produce to centres of demand also contributed to rising inflation. The depreciation of the afghani, by 66 per cent against the United States dollar between March 1981 and March 1983, significantly raised the local currency cost of imports. Large-scale foodgrain imports from the USSR during 1981-1983, and a marked rise in rates of subsidy, helped to reduce inflationary pressures considerably during the first half of 1983.

Through a variety of regulatory measures, Burma had achieved a remarkable degree of price stability and inflation was, for all practical purposes, negligible between March 1979 and March 1981. The rate of price increase, however, accelerated in 1982 although, at 5 per cent, it was among the lowest in the developing ESCAP region. The main factors behind this upsurge included higher prices of some food items due to a poor harvest of non-rice crops. Prices of several non-food items also rose – averaging 28 per cent in fuel and light items, and 8 per cent each in clothing and housing categories during 1981/82. The rate of price increase is expected to remain at a low level in 1983.

Among the causes of the high and rising level of inflation in Nepal during 1981 through the first half of 1983 was a shortfall in domestic production. Adverse weather brought about lower production in 1980 and 1982, and then contributed to the price rises in the following years. The price increases would have been higher in the absence of considerably lower prices for sugar and sweets, due to good harvests of sugarcane in India and Nepal over 1981/82-1982/83. Higher commodity prices

in India also generated some upward pressures on prices in Nepal during 1981, and the subsequent deceleration in inflation in India helped moderate the rate of price increases in Nepal, especially during the first quarter of 1982. Significant increases in nominal as well as real wages also contributed to inflationary pressure. Basic pay in the public sector increased by 20 per cent in 1982 after having risen between 12 and 66 per cent in 1981/82. There were several increases in the prices of goods and services provided by public enterprises.

Part Two

IMPLEMENTING THE INTERNATIONAL DEVELOPMENT STRATEGY: MAJOR ISSUES FACING THE DEVELOPING ESCAP REGION

I. FOOD AND AGRICULTURE

Agricultural and rural development and the eradication of hunger and malnutrition are among the chief aims of the International Development Strategy for the Third United Nations Development Decade. The achievement of national and collective self-sufficiency in food as early as possible by developing countries is another major goal. Agricultural output was targeted to grow on average at 4 per cent per annum.[1] Instruments of policy aimed at achieving these objectives include price incentives, credit distribution, improvement of storage and transport facilities, reduction of post-harvest losses, agrarian reforms, wider access to water resources and other ingredients of improved technology, development of forests, fisheries and agro-industries, better integration of women in all stages of production processes and the establishment of agricultural co-operatives.

These domestic measures are sought to be complemented by action by the international community which, in addition to providing increased financial and technical support to expand production, include the conclusion of a new international grain agreement, augmentation of the resources of the International Fund for Agricultural Development (IFAD) and of the World Food Programme, implementation of the Food Security Assistance Scheme of the Food and Agriculture Organization of the United Nations (FAO) and strengthening the food aid convention and the International Emergency Food Reserve. This chapter contains a review of the implementation of some of these policy instruments in the region and achievements in reaching some of the targets, focusing mainly on cereals, which provide over three fifths of dietary energy in most developing countries of the region.

[1] Many developing countries of the region in their recent development plans aim at close to or above 4 per cent per annum increase in their agricultural output or in major food crops.

A. NATIONAL POLICY MEASURES

The principal objectives in food and agriculture in most developing countries of the ESCAP region are to increase production and secure a more even distribution of food supplies. Self-sufficiency in staple food supplies is important to many countries, mainly on account of pressure on import capacity. Another important consideration in seeking self-sufficiency is to provide secure food supplies in the face of uncertainties associated with import dependence. These uncertainties arise partly from the oligopolistic control of world grain markets and partly from the role that political considerations play in determining the volume of food exports.

Governments in the region intervene in the market for agricultural commodities for several purposes: to establish floor prices that are high enough to provide incentives to production, especially immediately after harvest when market prices tend to sag; to procure supplies to feed a public distribution system, and to divert supplies to the domestic market from external markets. Governments also subsidize the prices of fertilizer and chemicals, water, credit, research and extension services and transport in order to secure a wider spread of new technology in agriculture and a more intensive cultivation of the land. Investment in infrastructure for agricultural development, including irrigation facilities, transport and communications services and research, is the other major area of government policy.

1. Price intervention

In spite of wide variations within the ESCAP region in some key variables such as the land/man ratio, land tenure systems, agricultural productivity and dependence on imports, price intervention by Governments in the markets for major agricultural products and inputs has been pervasive.

The primary objective of the Government of Bangladesh in the procurement of rice and wheat is to meet the needs of the subsidized public distribution system. Purchases at the minimum price also provide support to post-harvest prices, which may otherwise drop to unremunerative levels. Procurement prices for both rice and wheat

were raised by about 30 per cent in the fiscal year 1982/83 over that of 1979/80.[2] Simultaneously, the policy of subsidizing the prices of chemical fertilizer as well as irrigation water continues. At the beginning of the fiscal year 1982/83, the level of subsidy on chemical fertilizer stood at 30 per cent of actual cost.[3] In India, the cost of the subsidy on fertilizer is estimated to be about Rs 6,500 million in 1982/83.[4] The procurement prices of some 15 agricultural products steadily rose through the late 1970s and early 1980s. Similar policies combining output price support and input subsidy have been followed in most other countries of South Asia, notably Nepal, Pakistan and Sri Lanka. The major foodgrain-exporting country in South Asia, Burma, has not revised the procurement prices of some varieties of paddy since 1975 and of others since 1978. In consequence, the ratio of unit price of export to that of internal procurement for rice rose from 1.25 in 1971 to 1.9 in 1976 and to 2.64 in 1981.[5] Input to agriculture continued to be subsidized throughout this period.

Price intervention policies also have been pursued actively in countries of South-East and East Asia. In Indonesia, massive government intervention in rice trading constitutes an important policy tool. The objective is to guarantee minimum purchase prices to cultivators. In 1982, the floor prices for unhusked and milled rice were raised by 14 per cent and 10 per cent, respectively.[6] A price subsidy scheme for farmers, implemented through the National Paddy and Rice Authority (LPN), also prevails in Malaysia.[7] Rice and corn are covered by price support in the Philippines whereas some inputs, notably fertilizer, were subsidized until recently.[8] In Thailand, the major rice-exporting country of South-East Asia, price intervention mainly assumes the form of variations in the government-guaranteed price for rice and in the rice premium.[9]

In China, compulsory purchase prices for a number of agricultural products, including grain, oil seeds and cotton, were increased by an average of about 25 per cent in 1979 simultaneously with reductions in the prices of some key agricultural inputs by 10 to 15 per cent.[10] The Republic of Korea intermittently raised procurement prices of food crops, including rice, barley and wheat.[11]

In most Pacific countries, commodity price stabilization measures through the manipulation of export levies/bounties in order to maintain floor prices provide the principal vehicle for price support. A number of agricultural crops of export significance to the subregion, such as banana, cocoa, coffee and coconut, are covered under these policies.[12]

Several countries in the region have of late increased agricultural input prices, mainly to reduce pressures on the budget deficit. It is not clear to what extent, if at all, price interventions in the product and input markets, together with control over international trade in food items, have yielded a net subsidy for the producer. On the simplistic assumption that international prices reflect true opportunity costs, estimates of net subsidy would require product by product comparison of domestic prices with international prices confronting each country. However, a recent study based on a sample of developing ESCAP countries (Bangladesh, India, Indonesia, Malaysia, Nepal, the Philippines, Sri Lanka, Thailand and Viet Nam) somewhat qualitatively concluded that price intervention policies played a positive, though limited role in increasing production and as insurance against distress sales of output.[13] Some of the factors accounting for the limited impact are delays in announcing prices, inadequate development of market infrastructure, lack of effective measures to counter monopoly practices of private trade, inadequate finances and poor coordination among various implementing agencies. These problems need to be resolved for price intervention policies to be more effective.

A fundamental problem in administering price support schemes relates to the basis of

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2 Bangladesh, Ministry of Finance and Planning, *Economic Survey 1982-83* (Dhaka, 1983), table 23.

3 Bangladesh, Ministry of Finance and Planning, *Budget Speech (1982-83), Part I* (Dhaka, 1982), p. 11.

4 India, *Economic Survey 1982-83* (New Delhi, 1983), p. 8, table 2.4.

5 National official source.

6 Gonzalo M. Jurado and Emmanuel S. de Dios, "Policy responses to the IDS in ASEAN" (mimeo.) (September 1983), p. 27.

7 *Ibid.*, p. 30.

8 *Ibid.*, p. 29.

9 *Ibid.*, p. 30.

10 C.H. Chai, "Policy response to the IDS in China" (mimeo.) (September 1983), p. 24.

11 ESCAP, "The international economic crisis of the 1970s: country responses", in *Economic Bulletin for Asia and the Pacific*, vol. XXIX, No. 1 (June 1978), p. 22.

12 *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1) p. 186.

13 Centre for Integrated Rural Development for Asia and the Pacific, "Report on regional workshop on agriculture price support and procurement of selected agricultural commodities in Asia and the Pacific" (mimeo.) (May 1983).

price fixation. At a general level, efficiency considerations require prices to be determined by marginal cost unless deviations are justified by considerations of external economies and diseconomies. Even where such externalities can be identified *a priori*, quantitative estimation of the level of support justified by their presence is no easy task. In the least, a periodic in-depth review of support measures is essential. Unless dictated by the compulsions of budgetary burden, such review is rarely undertaken.

2. Agricultural credit

The Strategy recognizes agricultural credit as an important policy tool to augment food production. High-yield varieties (HYV) technology is material input intensive and requires the outlay of substantial cash precisely at times when farmers are relatively cash deficient. There also is the objective of substituting credit from banks and similar other institutions for credit from moneylenders.

Although the impact of agricultural credit on production varies from one category of farmers to another, its volume is an indicator of the resources devoted to agricultural production.[14] The available information clearly suggests that in most countries of South Asia, there have been significant increases in the disbursement of agricultural credit over the period 1976-1982. Bangladesh, for example, recorded almost a ninefold increase during the period. A notable feature in these countries is the growing involvement of commercial banks in agricultural credit. In India, the share of credit to the agricultural sector in the public sector bank's total credit increased from 5.4 per cent in 1969 to 13.7 per cent in 1979 and to 16.2 per cent in 1981.[15] In Pakistan, the comparable share increased to 48 per cent in 1981/82 from 28 per cent in 1972/73.[16]

Table II.1. Selected developing South Asian countries. Agricultural credit disbursement, 1976-1982

(In millions of national currencies)

	1976	*1980*	*1981*	*1982*
Bangladesh	902	4 594	6 541	8 910
Burma	824[a]	845	826	11 176[b]
India[b]	–	–	33 030	22 540[c]
Nepal	250[a]	173	166	314
Pakistan	1 458	3 016	4 028	5 102
Sri Lanka	115	82	105	–

Sources: National development plans and other official sources.

[a] 1979. [b] Provisional. [c] Including co-operative credit only.

Policies for stepping up the flow of credit to the agricultural sector are also pursued in other countries of the region. The outstanding balance of credit advanced by village and rural banks in Indonesia increased more than two and a half times between 1976 and 1980.[17] The Bank for Agriculture and Agricultural Co-operatives in Thailand, the principal institution for agricultural finance, expanded its outstanding loans by more than 132 per cent from 1976 to 1982. A steady though modest increase has been recorded in Samoa over the period 1977-1981.[18]

The increase in the volume of credit is quite impressive. A number of issues nevertheless merit the urgent attention of policy makers. Most studies of agricultural credit in the developing ESCAP region, as also in Africa and Latin America, inevitably point to the dominance of bigger farmers in access to institutional sources. This tends to exacerbate the gap between the well-off and the poor in the rural areas. The main problem here is to reconcile the need to provide adequate credit at reasonable prices to small farmers with the high cost of administering a large number of small loans. Relevant to this issue are subsidies on agricultural credit disbursed through institutional channels. Though the exact magnitude of subsidy cannot be quantified, most countries of the region provide varying levels of subsidy. Because of the limited access to these sources by small farmers, the benefits of the subsidy are appropriated by the larger farmers. Moreover, there is evidence to suggest that the rate of default in repayment of loans is higher among the latter. Relatively large loans are given to keep the unit cost down. However, the higher rate of default among these borrowers does not contribute to the financial viability of credit institutions. A credit policy that more closely takes into account opportunity cost, may help to ease the problem somewhat. This may ensure the financial viability of credit institutions, while permitting better availability of credit to small farmers by easing out demand from bigger farmers for purposes with low rates of return.

[14] In the absence of appropriate deflators, the discussion on credit is in nominal terms.

[15] India, *Economic Survey 1982-83, op. cit.*, p. 121, appendix table 4.6.

[16] Pakistan, Finance Division, *Pakistan Economic Survey, 1982-83* (Islamabad, 1983), statistical annex, p. 34, table 7.

[17] Biro Pusat Statistik, *Monthly Statistical Bulletin* (June 1983), table 3.5.

[18] Development Bank of Western Samoa, *Annual Report 1981* (Apia), p.7.

3. Public investment

The share of public investment allocated to agriculture and allied sectors in many developing countries of the region is an indication of the high priority being assigned to its development. The main areas for such investment are research on new technology, extension services and the installation and maintenance of irrigation facilities. Although percentages between countries are not strictly comparable, owing to heterogeneity in the activities included within this broad sector, these provide a rough basis for looking at the time profile of investment as well as for comparison among countries.

There is no discernible trend in the allocation of investment over the last few years. It has fluctuated marginally in almost all the countries, while the overall share has remained between one fifth and one third of total public investment. Bangladesh and Nepal have accorded consistently high priority to the agricultural sector as reflected in the allocations in successive plans to reach the large proportion of people dependent on this sector for their livelihood. The overall policies in India and Pakistan have not changed, but the emphasis within the sector has shifted towards the construction and maintenance of irrigation systems. The dramatic increase in Sri Lanka in its latest investment plan is attributable to the inclusion of the Mahaweli irrigation project. The decline in the share of the agricultural sector in the Repubic of Korea is a reflection of more rapid development in other sectors and its reduced dependence on agriculture.

In countries with significant public investment in the agricultural sector, two issues require special mention. First, as with other investments, a careful analysis of costs and benefits with full regard for externalities (especially likely for agricultural and rural development projects) is essential. Secondly, it is of great importance to determine who is likely to benefit from investment funded by public resources. If the objective of agricultural development is to be not merely increased production but elimination of hunger and malnutrition as well, conscious integration of distributional aspects into project formulation deserves greater attention than usually given until now.

Table II.2. Selected developing ESCAP countries. Share of agriculture and irrigation in public investment, various periods

(Percentages)

	Plan period	*Agriculture and allied sectors*	*Irrigation and flood control*
Bangladesh	1973-1978	18.0	13.3
	1978-1980	------- 27.0	------
	1980-1985	17.4	14.9
Fiji	1971-1975	13.9	...
	1976-1980	15.4	...
	1981-1985		
India	1966-1969	16.7	7.1
	1969-1974	14.7	8.6
	1974-1979	12.1	8.7
	1980-1985	11.3	12.5
Indonesia	1969-1974	------- 30.1	-------
	1974-1979	------- 19.1	-------
	1979-1984	------- 14.0	-------
Malaysia	1966-1970	18.2	8.1
	1971-1975	21.2	2.9
	1976-1980	19.4	2.6
	1981-1985	19.1	2.2
Nepal	1965-1970	------- 22.4	-------
	1971-1975	15.7	10.1
	1975-1980	18.4	11.4
	1980-1985	------- 27.0	-------
Pakistan	1973-1977	11.2	...
	1978-1983	10.1	...
	1983-1988	4.8	10.8
Philippines	1967-1970	...	7.8
	1971-1974	...	17.1
	1974-1977	20.0	...
	1978-1982	21.4	...
Republic of Korea	1967-1971	18.9	6.9
	1972-1976	25.2	...
	1977-1981	17.1	...
Sri Lanka	1972-1976	28.1	...
	1981-1985	44.6	...
Thailand	1967-1971	------- 19.8	-------
	1972-1976	------- 11.8	-------
	1977-1981	------- 15.8	-------

Sources: National sources.

B. INTERNATIONAL MEASURES

The Strategy urges donor countries as well as international financial institutions to increase

the flow of financial resources to developing countries in support of national measures to increase substantially investment in agriculture.[19] Implicitly the Strategy also recognizes that these measures will not succeed in eliminating the need for food aid during the decade. It, therefore, proposes specific measures to augment the resources of the international institutions concerned with investment in food and agriculture as well as with food aid and food security.

1. International finance in agriculture

A large number of agencies provide financial and technical assistance to developing countries to achieve their objectives in the agricultural sector, and there is a dearth of information regarding them. Hardly any information is available concerning the sectoral distribution of bilateral assistance received by developing ESCAP countries. Consequently, this section contains a brief review of three important multilateral institutions concerned with financing agricultural development – the Asian Development Bank (ADB), the International Fund for Agricultural Development (IFAD) and the World Bank (IBRD).

(a) Asian Development Bank

ADB, being the major multilateral financial institution in the ESCAP region, has played an important role in the past and is expected to play a more effective role during the 1980s, in making available financial and technical assistance to developing countries of the region. ADB has from the beginning (1968) accorded the agriculture sector high priority in its activities. From the time of its establishment the share of agriculture in overall lending has gradually gone up: it now comprises one third of the total. However, the loan approvals made by ADB do not reflect appropriately the actual assistance provided to the countries due to substantial gaps between approved amounts and actual disbursements. Although the ratio of disbursement to approvals has gradually risen over the last few years, it had not reached 50 per cent even in 1982. The delay in disbursements adversely affects project implementation schedules, and Governments may face substantial cost overruns. The disbursements are especially delayed in special funding resources (SFR) lending, which affect adversely the poorer member countries.

Table II.3. ADB loan approvals to the agriculture sector, 1968-1982
($US million)

Year	*Ordinary capital resources*	*Special funding resources*	*Total*	*Percentage of total lending*
1968-1975	306.5	304.8	611.3	23.6
1976	90.4	110.5	200.9	25.9
1977	105.5	156.5	262.0	29.6
1978	108.6	202.1	310.7	26.8
1979	158.6	253.0	411.6	32.9
1980	197.9	270.0	467.9	32.6
1981	276.6	265.0	541.6	32.3
1982	297.3	324.0	621.3	35.9
1976-1982	1 234.9	1 581.1	2 816.0	31.6

Source: Adapted from ADB, *Key Indicators of Developing Member Countries of ADB*, vol. XIV (Manila, April 1983).

(b) International Fund for Agricultural Development

IFAD is the only international financial institution established exclusively to assist agriculture and agriculture-related projects in developing countries. Although it was established only recently, the efforts made by it for providing resources to developing countries during its first five years deserve attention. The total cumulative approvals for the five-year period (1978-1982) reached $US 1,415 million in loans and $US 59 million in technical assistance grants.[20] In 1982, a total of $US 321 million was approved, of which 33.85 per cent was for developing countries of the ESCAP region. The share of Asia, which forms a major part of the ESCAP

Table II.4. IFAD, approved loans and actual disbursement, 1978-1982
($US million)

	Total (percentages)	*ESCAP region (percentages)*
Approval	1 415 (100.0)	608 (100.0)
Disbursement	200 (14.1)	108 (17.8)
Undisbursed portion	872 (61.6)	417 (68.6)
Non-effective loan	343 (24.2)	83 (13.6)

Source: IFAD, *Annual Report, 1982* (Rome, 1983).

[19] General Assembly resolution 35/56, annex, para. 83.

[20] International Fund for Agricultural Development, *Annual Report, 1982* (Rome, 1983), pp. 64-65.

region, went down during 1981-1982 from the average of the previous three years.[21]

The gap between disbursement and approval is even wider in this case than in the case of ADB. Disbursements until the end of 1982 were less than $US 200 million, less than one seventh of total commitments. The delay in disbursement severely reduces the effectiveness of IFAD assistance.

The total resources made available to IFAD so far through capital contributions and the first replenishment is $US 1,875 million, of which $US 529 million (28 per cent) remained in time deposits at the end of 1982.[22] The target for the first replenishment was $US 1,100 million within a period of three years (1981-1983) of which only about $US 700 million was pledged by the end of 1982.

(c) The World Bank

The agricultural sector of the developing ESCAP region has been a beneficiary of World Bank lending, especially from its soft loan window, the International Development Association (IDA). At the global level, the share of the agriculture and rural development sector in IDA commitments rose from 32 per cent in 1971-1976 to 42 per cent in 1977-1982.[23] However, the share notably declined in later years to 39 per cent in 1981 and 33.4 per cent in 1982. A part of the explanation lies in the pronounced shift in IDA lending policy in favour of the energy sector in South Asia. This subregion, in fact, experienced an absolute decline in World Bank lending for agriculture and rural development.[24] However, the proportion of its disbursement in commitment of loans to South Asia increased to about 70 per cent in 1982. This marks a significant improvement over the period 1978-1980 during which the ratio varied between 37 to 38 per cent.[25]

The above review, indicates that the performance of multilateral agencies is at best mixed. The impact of the recession from which the developed countries are slowly recovering and the uncertainties of multilateral aid resulting from an increased accent on bilateralism do not augur well for the realization of substantially increased resources for investment in the agricultural sector, as envisaged in the Strategy. The poor disbursement performance is sometimes cited as the justification for limiting the flow of funds to multilateral institutions. The solution lies in identifying the bottle-necks and removing them and not in cutting off the supply of funds to them. Developing countries, especially poorer ones, prefer multilateral assistance for a variety of reasons, including their vulnerability to pressures in bilateral negotiations.

2. Food aid and food security

The production-oriented national and international actions discussed earlier are of the first importance to raise levels of consumption, as most of the world's food is consumed where it is produced.[26] Even under the most favourable conditions, these policies cannot be realistically expected to close the gap between domestic production and demand in all countries. Hence the concern of the Third International Development Strategy for measures regarding food aid and food security.

To contribute to food security, world cereal stocks have been maintained at 17 or 18 per cent of annual world consumption for several years now. However, the share of developing countries has persistently remained less than two fifths, implying that control over a high proportion of the global stock rests with developed countries. There has been little progress towards concluding a new international grain agreement aimed at evolving an internationally coordinated system of nationally held food reserves.

In order to provide food aid even on a minimum scale, the

21 *Ibid.*, p. 7.

22 *Ibid.*, pp. 50-51.

23 World Bank, *IDA in Restrospect* (Washington, D.C., 1982), table 4.1.

24 World Bank, *The World Bank Annual Report 1983* (Washington, D.C., 1983).

25 Based on World Bank, *IDA in Restrospect, op. cit.*, statistical annex tables 5 and 6.

26 Food and Agriculture Organization of the United Nations, *Agriculture Toward 2000* (Rome, 1979), pp. 4-6.

Table II.5. Cereal stock indicators

Year	*World cereal stock (million tons)*	*Developing countries (percentages)*	*Developed countries (percentages)*	*Stocks as percentage of world cereal consumption (percentages)*
1976/77	224	40	60	18
1977/78	238	38	62	17
1978/79	274	35	65	19
1979/80	253	38	62	17
1980/81	229	42	58	15
1981/82	275	35	65	18

Source: Committee on World Food Security, eighth session, Rome, 13-20 April 1983 (CFS: 83/4, December 1982).

Strategy sought a minimum target of 10 million tons of food under a new food aid convention in 1981. The target was expected to be revised upwards to about 18 million tons of food to meet requirements by 1985. At the global level, food aid for 1981/82 was estimated at 9.4 million metric tons.[27] Countries of the ESCAP region received about 2 million metric tons per annum in 1981 and 1982.[28] Although world cereal stocks increased by 46 million metric tons from 1980/81 to 1981/82, the net increase in food aid was less than 1 million metric tons during the same period.[29] The share of food aid in total food imports declined from 28 to 19 per cent during the six years, 1976/77-1981/82, indicating increased imports financed with other resources. Should this trend continue, the ability of low-income food deficit countries to supply food to their population may be seriously jeopardized. However, the food aid convention has been extended for a further period of three years until 30 June 1986, and it has been urged that the annual food aid target of 10 million tons of cereal should be reached. A review of food aid requirements was to be undertaken in 1983, presumably to consider, among other matters, revision of the target.

The International Emergency Food Reserve (IEFR), since its inception in 1976, has been assisting developing countries to meet extraordinary contingencies caused by natural disasters or other calamities. The modest minimum annual target of 500,000 metric tons of food was achieved for the first time in 1981. Considering the unpredictability of demands on IEFR, a pledging meeting for 1983/84 was held in March 1982. Despite a strong plea in the International Development Strategy to maintain the reserve at 500,000 tons and to strengthen it if possible, through a legally binding convention, contributions amounted to about one third of the minimum target.

Regional co-operation is an important element in attaining global food security. Some developing countries of the ESCAP region (e.g. the member countries of the Association of South-East Asian Nations) have arrangements for this purpose, and some more co-operative work at the subregional as well as regional level is in progress. ESCAP has studied various aspects of this important problem and these studies have been made available to FAO, which has recently established a Regional Commission on Food Security for Asia and the Pacific to deal with problems arising out of food scarcity in the region.

The World Food Programme (WFP) is an important source of food assistance for the developing countries of the region. The Third International Development Strategy urged that its resources be augmented to the minimum target of $US 1 billion for the biennium 1981-1982. Contributions reached $US 837.8 million, of which cash constituted 18.6 per cent. Pledges as a proportion of biennium targets of WFP have been going down since the biennium 1975-1976. The proposed target for the biennium 1985-1986 is $US 1,500 million, of which only $US 1,245 million might be received if the current rate of pledging continues.

C. PERFORMANCE ASSESSMENT

The ultimate test of effectiveness of various policy measures adopted nationally and internationally lies in the performance of the sector. Sectoral performance can be evaluated on the basis of a variety of measurable criteria. A few selected indicators are used in this section to assess the performance of the agricultural sector in the developing ESCAP region.

1. Production

A number of natural disasters and cyclical behaviour of production notwithstanding, developing countries of the ESCAP region were able to achieve an annual growth of 3.2 per cent in cereal production during the decade of the 1970s.[30] During this period world production grew at 2.6 per cent per annum, while the achievement in Africa was 1.5 per cent per annum. All other regions, except North and Central America,[31] had lower growth rates than the ESCAP region. As the annual growth of population during the period was around 2 per cent, there was a modest increase in the per capita availability of cereals in the developing countries of the region.

An annual growth rate of 3.2 per cent over a decade in the ESCAP region is undoubtedly a laudable achievement. Disaggregated production data, however, reveal a number of causes for concern. The regional average masks wide inter-country differences and is largely the result of outstanding performance in a few

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27 Committee on World Food Security, eighth session, Rome, 13-20 April 1983 (CFS: 83/4, December 1982).

28 Food and Agriculture Organization of the United Nations, "Review of existing food security situation and medium-term prospects in Asia and the Pacific" (APCFS/83/2), report to the first session of Regional Commission on Food Security for Asia and the Pacific, Bangkok, 16-19 August 1983.

29 Committee on World Food Security, *op. cit.*

30 Food and Agriculture Organization of the United Nations, "Review of existing food security situation and medium-term prospects in Asia and the Pacific", *op. cit.*

31 *Ibid.*

Table II.6. Selected developing ESCAP countries. Compound annual growth rate of cereal production, 1971-1981 and 1980-1982

(Percentages)

Country	*Compound annual growth rates between triennium ending in 1971 and 1981*	*Compound annual growth rate between 1980 and 1982*
Bangladesh	2.3	0.5
Bhutan	2.4	1.6
Burma	4.4	2.5
China	3.8	3.0
Democratic Kampuchea	-8.5	0.8
Fiji	0.4	-1.4
India	2.2	-1.6
Indonesia	4.5	4.1
Lao People's Democratic Republic	1.7	4.0
Malaysia	2.1	-0.1
Mongolia	1.4	9.9
Nepal	0.1	-2.6
Pakistan	3.9	2.2
Papua New Guinea	–	-9.3
Philippines	4.5	2.4
Republic of Korea	0.7	9.0
Sri Lanka	3.6	0.2
Thailand	2.7	0.2
Viet Nam	1.8	5.7
Developing ESCAP	3.2	1.8

Sources: Food and Agriculture Organization of the United Nations, "Review of existing food security situation and medium-term prospects in Asia and the Pacific" (APCFS/83/2), report to the first session of Regional Commission on Food and Security for Asia and the Pacific, Bangkok, 16-19 August 1983 and computer printout dated 5 November 1983.

countries, notably Burma, China, Indonesia and the Philippines. Quite apart from the unusual case of Democratic Kampuchea, which experienced a large absolute decline during the decade, the growth rate of cereal production in a number of countries fell short of population growth. Most countries of the region recorded lower growth rates during the period 1980-1982 than during the 1970s, substantially below the Strategy target of 4 per cent per annum.

2. Self-sufficiency

Consistent with the Strategy, the achievement of self-sufficiency in meeting food requirements remains an avowed goal of national policies in many countries of the region. Quite apart from the purely economic consideration of pressure on foreign exchange that dependence on imports for food generates, self-sufficiency is sought for other reasons as well.[32] Import dependence renders a country vulnerable to the capricious behaviour of international trade, in which two North American countries dominate as exporters of foodgrains, and to oligopolistic control, especially in wheat trade.[33] Import dependence may make a country amenable to external political pressures.

An examination of imports in the total availability (defined as import plus domestic production) of cereals suggests that most of the food-importing countries of the region are far from their cherished goal (see Table II.7). In the Pacific countries, domestic production remains a small proportion of total consumption. In the case of Papua New Guinea, for example, import dependence persistently remained well over 90 per cent, reflecting partly the country's topographical constraint. Another discouraging aspect is that even those countries that have posted relatively high growth rates of food production have not succeeded in decreasing import dependence on any sustained basis. The combined forces of population growth and probable high income elasticity have intensified import demand.

3. Nutrition

The criterion of production increase or of self-sufficiency fails to take into account per capita requirements. From this point of view, a better performance indicator is the per capita dietary energy availability in relation to requirement.

In many low-income developing countries of the region, the supply of food was lower than the minimum requirement of daily per capita calories in 1980 (see Figure II.1). In some countries, there was no improvement in supply between the periods 1969-1971 and 1978-1980. Most countries

[32] From a comparative advantage point of view, it may not be appropriate for some countries in the region to aim at self-sufficiency in food.

[33] Karl P. Sauvant, "The NIEO programme: reasons, proposals and progress", in Karl P. Sauvant, ed., *Changing Priorities in the International Agencies* (1981), pp. 130-132.

Table II.7. Selected developing ESCAP countries. Share of imports in the supply of cereals, 1976-1981

(Percentages)

Country	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
Afghanistan	1.1	2.1	3.4	3.7	0.4	2.0
Bangladesh	7.5	4.0	7.6	5.6	10.4	4.8
Bhutan	19.8	20.5	20.6	21.1	20.8	21.9
Brunei	65.9	82.4	83.4	81.5	77.8	75.3
China	2.0	4.1	4.3	5.2	5.9	5.7
Democratic Kampuchea	–	–	–	17.9	19.2	10.6
Fiji	71.1	73.3	75.9	76.8	76.6	79.1
India	5.6	0.8	0.3	0.3	0.3	1.0
Indonesia	8.3	9.5	8.4	8.6	9.5	5.0
Iran	12.0	24.4	19.8	23.7	28.3	25.4
Lao PDR	12.0	15.4	12.6	7.2	4.7	4.0
Malaysia	31.8	39.4	45.5	36.2	34.7	37.2
Mongolia	11.8	17.8	10.2	30.1	21.4	35.2
Nepal	–	–	–	0.1	0.1	0.4
Pakistan	7.7	3.2	6.7	12.1	3.5	1.7
Papua New Guinea	96.3	96.0	95.7	97.8	97.3	98.1
Philippines	8.7	8.0	7.3	6.7	8.7	8.6
Republic of Korea	24.4	28.4	26.6	33.4	44.6	48.3
Sri Lanka	37.9	41.2	31.8	33.9	29.8	22.7
Viet Nam	9.0	10.0	11.8	15.2	8.3	8.1

Sources: Computed by the ESCAP secretariat from Food and Agriculture Organization of the United Nations, computer printouts dated 11 and 22 May 1983; *Trade Yearbook 1975* and *1981*; and *Production Yearbook 1975*.

of South-East and East Asia succeeded in providing more than the minimum requirements indicating marked achievements in food supply during the last decade. One noteworthy improvement is that while seven countries in the region succeeded in meeting per capita energy requirements during the period 1975-1977, the number increased to 12 in the period 1978-1980.

In the context of availability of dietary energy, a few facts deserve special mention. First, cereals constitute the primary source of dietary energy in many countries, especially the low-income countries, highlighting the need for greater efforts to increase the production of cereals. Secondly, if food deficit in developing countries is estimated on the criterion

Box II.1. Post-harvest losses

While the emphasis in national development strategies on increased production of foodgrains is commendable, the problem of post-harvest losses in developing countries deserves far greater attention than it has received. These losses occur mainly in three sets of operations: farm operations, market operations and off-farm operations. The losses during farm operations are due to inadequate and inappropriate means for threshing, drying and storing; off-farm losses are the result of, among other things, low recovery in milling. Marketing operations entail transport of agricultural produce a number of times by primitive modes, resulting in quantitative losses due to improper handling and qualitative losses caused by mixing superior and inferior varieties. Nearly half the loss takes place during on-farm storage.[a]

It is estimated that post-harvest losses of rice at various stages of handling before it reaches ultimate consumers can reach up to 30 per cent of the production in any single year. Approximately 100 million metric tons of the 1982 world rice production were lost on this account. This is more than the combined annual production of Afghanistan, Bhutan, India, Nepal, Pakistan and Sri Lanka and is an enormous loss by any standard.

A number of improvements in pest-control methods and physical storage facilities are being effected in several countries of the region to reduce these losses. Fumigation and other measures to control insects, fungi and rodents are being increasingly practised. Much of the storing facilities on farms is made of mud or split bamboo. These are being gradually replaced by metal bins, structures of burnt bricks plastered with cement, welded wire-mesh bins and other structures. Outdoor bins are constructed of metal and brick and appear as flat- and hopper-bottomed metal bins, composite bins and reinforced brick bins.[b]

One major problem in the wider application of measures designed to reduce post-harvest losses is high cost. For instance, an estimate made in India (1979) indicated that the storage cost per metric ton of grain was $US 50 for conventional godowns, $US 150 for inland bulk-storage structures and $US 300 for high-turnover port facilities.[c] Another problem lies in educating millions of farmers regarding improved techniques.

Therefore, future research in this area should concentrate on the development of cost-effective technology tailored to the needs of small farmers. As these low-cost techniques become available, emphasis will have to be placed on training farmers in their use, possibly through the establishment of mobile demonstration units. Technical co-operation among developing countries and the exchange of information through expert consultations can facilitate improvements in technology to reduce post-harvest losses of food resources.

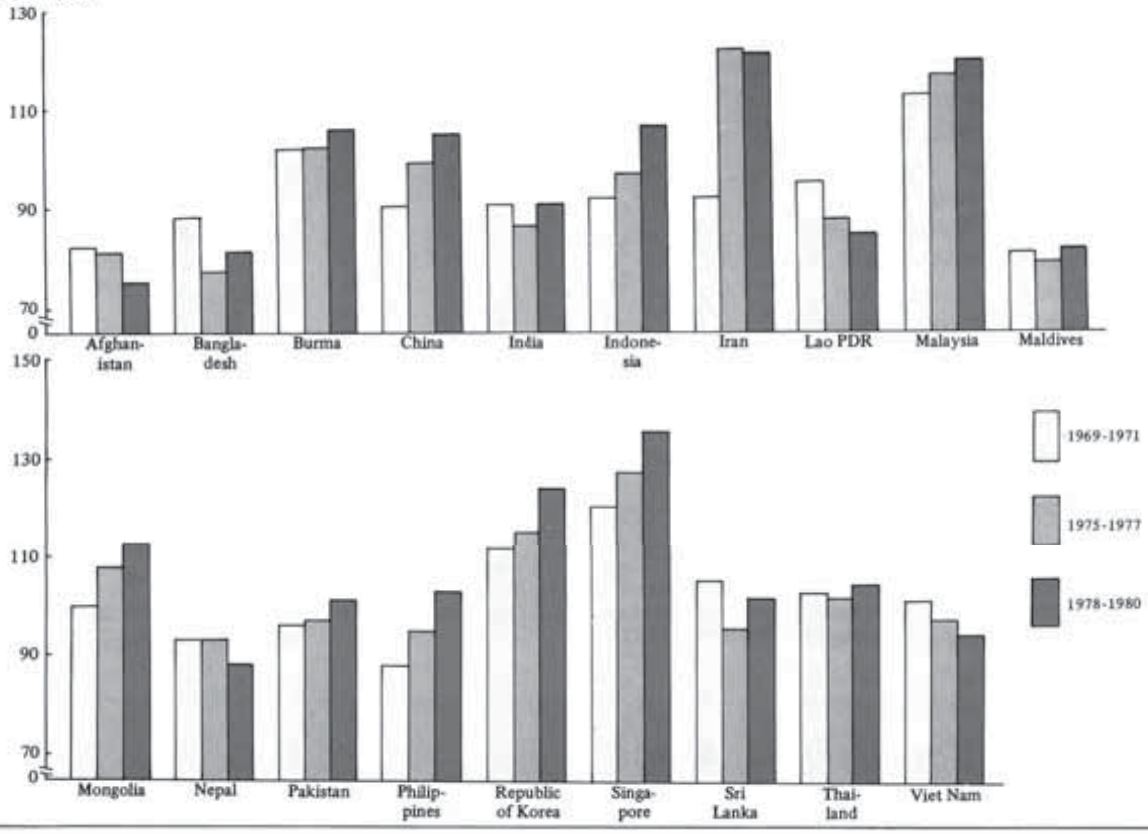
There is little systematic information on losses in market operations and off-farm operations. More research into these subjects may bring in high returns.

[a] Food and Agriculture Organization of the United Nations, "Prevention of food losses – role in food security" (APCFS/83/5), May 1983.

[b] United Nations Industrial Development Organization, *Appropriate Industrial Technology for Food Storage and Processing* (Vienna, 1979), p. 4.

[c] *Ibid.*, p. 5.

Figure II.1. Selected developing ESCAP countries. Per capita dietary energy supplies as a percentage of nutritional requirements, 1969-1980 *(Percentages)*



of standard nutritional requirements in terms of calories, their need for cereals will be far greater than if the criterion were per capita availability in a particular base year or cereal consumption per day. One projection is that food supply in Asia in 1985 will still fall short of requirements by 3 per cent, and the figure is likely to be as much as 5 per cent for the low-income countries.[34] Thirdly, there appears to exist considerable interaction between per capita food availability and growth performance even in the short run.[35] Failure to increase food availability in low-income countries may thwart their growth performance, mainly because labour is the dominant input into agriculture and food is essential for labour efficiency. Finally, from a nutritional point of view, one key question is how changes in aggregate output of nutrients affect consumption by the malnourished households.[36] Aggregate supplies of food more than sufficient to satisfy minimum nutritional requirements may be quite consistent with malnutrition for a large and even increasing number. This has probably been the case in some countries of the region. This aspect raises questions of distribution of income and wealth as well as of institutional reforms with bearings on access of the poor to the fruits of development.

D. MAJOR ADDITIONAL ISSUES DURING THE 1980s

The brief survey of progress in selected areas demonstrates that the prevailing policy packages have not succeeded in achieving some major objectives of the Third International Development Strategy. With a few notable exceptions, the output growth in most countries has been below the Strategy target, and in a few cases output has declined. Import dependence is large in several countries and in some cases has increased. In all the least developed countries of the region, the aggregate availability of dietary energy falls short of minimum requirements. There are signs of increasing pauperization of small and marginal farmers even in some countries with relatively high output growth. Against this backdrop, an attempt is made in the following section to identify some of the

[34] J.D. Gavan and others, *Recent and Prospective Developments in Food Consumption: Some Policy Issues* (Washington, D.C., International Food Policy Research Institute, 1977), p. 14.

[35] "Food supply and distribution in Asia and the Pacific: medium-term outlook and regional co-operation" (E/ESCAP/246), 1 February 1982.

[36] P. Pinstrup-Anderson, "Nutritional consequences of agricultural projects", *World Bank Staff Working Paper 456* (May 1981).

major issues in agricultural development that may contribute to the achievement of the Strategy's goals.

1. Efficiency in input use

Progress in agricultural production in the ESCAP region will depend in large measure upon the efficient utilization of improved technology by farmers. Technology will have greater importance for growth during the 1980s because the available land will have to be used more intensively and efficiently. The margin of extensive cultivation has been already reached in many countries. About 79 per cent of total potential farmland was being farmed in Asia in 1980 against 25 per cent in Latin America.[37] Only Burma, Indonesia, the Lao People's Democratic Republic, Malaysia, Samoa, Sri Lanka and Viet Nam have some scope for expanding production by bringing new land under cultivation.

The extension of cultivation to new lands made significant contributions to agricultural production in some countries in the past. In Thailand, for instance, productivity increase made little contribution and the major increase in agricultural output came about through the expansion of the cultivated area at 4 per cent per annum in the past decade.[38] In a number of countries of the region, irreparable ecological damage has been done by indiscriminate logging of forest to bring marginal lands under cultivation. With the closing of the land frontier in most developing countries and the growing pressure of population, agricultural research will have to focus greater attention on the intensive use of agricultural land. Changes in this direction are already taking place in some countries. A recent study revealed that in 1981 the area under cereals increased by 0.9 per cent in developing countries of the region while the yield increased by 3.7 per cent. The Republic of Korea recorded the highest gain in yield, i.e. 26.8 per cent, while it declined in Bangladesh, Malaysia, Nepal and the Philippines.[39]

Besides significant increases in yield due to the use of improved seed, fertilizer, pesticides and machinery, there is great potential to raise the cropping intensity of land use. For this purpose, it is necessary to increase the area under irrigation and make more efficient use of existing irrigation systems. Irrigation systems in Thailand cover only 10 per cent of the agricultural area.[40] The cropping intensity in India in 1979/80 was estimated at 1.20. It is planned to raise it to 1.25 by 1984/85 by bringing about 14 million hectares under irrigation.[41] In most countries, the capacities of the water distribution systems have not been fully utilized due to, among other factors, poor design, incomplete construction of the tertiary water channels, inefficient operation and management, inappropriate pricing policies and waterlogging and salinity. Waterlogging and salinity are especially serious in China, northern India and Pakistan and are mainly due to poor drainage. In India, about 22 per cent of the additional major/medium irrigation potential created during the period 1950/51 to 1979/80 remains unutilized.[42] It has been estimated that an additional 20 million tons of rice, enough to provide the minimum food requirements of 90 million people, could be produced every year in South and South-East Asia with inexpensive improvements in water distribution.[43] There is a heavy loss of water in the distribution system before it reaches the farms. The benefits of corrective measures can be gauged from the fact that a crash programme for the improvement and clearing of water courses undertaken in Pakistan was expected to increase water availability at the farm gate by 4 per cent during 1982/83. In Maharashtra (India), the public irrigation system traditionally consisted of unlined tertiary canals serving 40-hectare blocks. Where these were replaced by lined tertiary canals serving 8-hectare blocks, water availability at the field level increased by 40 per cent and the net return on investment by about 160 per cent.

The supply and efficient utilization of irrigation water supported by adequate drainage not only helps to increase agricultural production but also provides a measure of stability to production as it acts as insurance against unfavourable weather conditions, especially where the rainfall is inadequate and erratic in distribution. A relatively high proportion of public development expenditure in agriculture was allotted in the past to major and medium irrigation projects. The return on such investment generally has been low. The improvement of productivity per unit of water in the areas already covered by these irrigation systems can raise these returns substantially. This requires location-

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[37] ESCAP, "Food and agriculture in Asia and the Pacific" (E/ESCAP/AD.5/1), August 1983.

[38] Thailand, National Economic and Social Development Board, *The Fifth National Economic and Social Development Plan (1982-1986)* (Bangkok, 1982), pp. 44-45.

[39] ESCAP, "Developments in food and agriculture" (October 1982), p. 15.

[40] Thailand, National Economic and Social Development Board, *The Fifth National Economic and Social Development Plan (1982-1986), op. cit.*, p. 82.

[41] India, Planning Commission, *Sixth Five Year Plan 1980-85* (New Delhi, 1981), p. 105, table 9.1.

[42] India, *Economic Survey 1982-83, op. cit.*, p. 9.

[43] World Bank, *World Development Report 1983* (Washington, D.C., 1983), p. 45.

Box II. 2. Environmental concerns in agricultural development

As the margin of extensive cultivation is research in most developing countries of the ESCAP region, increases in agricultural production will come principally from the more productive use of land. To raise productivity, it will be necessary to expand the area under irrigation and adopt intensive cultivation practices, including the increased use of chemical inputs such as fertilizer, pesticide and herbicide. The extension of irrigation and increased use of chemicals are fraught with certain consequences upon the environment, and these merit somewhat more attention than given hitherto.

Poor design and management of irrigation projects lead to waterlogging and the emergence of alkaline and saline soils. Although no systematic data are available on the effect of irrigation on these processes in the region, there are grounds to believe that these problems are serious in several countries of the region. It has been estimated that 8 per cent of the land area in the ESCAP region is subject to salinization.[a] Man-made lakes and other water development projects create favourable habitat for the carrier hosts to agents causing dangerous and epidemic diseases such as malaria and schistomiasis. The construction of large dams to impound massive volumes of water in several countries of the region has caused sizeable areas of farm and forest lands and even urban settlements, in some instances, to be submerged. The costs of resettling displaced persons is no small part of the consequences of these works. The ecological balance has also been disturbed in the process.

Particularly worrisome are the effects of agro-chemicals on the environment and human health. A survey in Indonesia indicated that in some areas the level of pesticide deposits in surface water is sufficient to have serious effects on aquatic ecology, stream fish and human health. Many deaths due to pesticide poisoning have been reported in Malaysia, the Philippines and Thailand. High levels of chemical pollutants in Laguna de Bay adjacent to Manila have been attributed to agro-chemicals used in surrounding irrigated rice fields.[b]

The recognition of these problems consequent upon the wide use of modern methods of agriculture, so vitally necessary to improve agricultural productivity, is an essential step for the adoption of appropriate preventive and corrective measures. Measures to reduce or even eliminate environmental hazards from the use of pesticides may include (a) mechanical and biological control of pests; (b) reduction of human exposure to pesticides by using safety devices such as the use of face masks when handling and applying them and (c) minimizing residues with the careful planning of time and method of application. The design and proper maintenance of irrigation facilities, especially drainage channels, will not only reduce damage to soils but also contribute to the more efficient use of water for cultivation.

[a] I. Szabolcs, "Review of research and salt affected soils", *Natural Resources Research XV* (Paris, UNESCO, 1979).

[b] Ramon Binamira, "Green revolution and ecological change in the rural areas", paper presented at ASEAN Seminar on Special Problems Resulting from Rapid Social Change, Jakarta, Indonesia, 17-22 January 1977, pp. 4-5.

specific research to improve crop-soil-water management practices.

A large potential area of research is the development of appropriate technology for rainfed/dry farming. While irrigation has many advantages, the fact remains that rainfed areas constitute 80 per cent of the world's farmland. These account, for example, for 75 per cent of the cropped area in India, but their contribution amounts to only 42 per cent to the total food-grain production. Optimum use of the available moisture in the soil has to be the cornerstone on which to build technological advances in these areas.

2. Agrarian reforms

A more equitable access to land resources still remains a cherished goal in many developing countries of the region. Despite recurrent policy declarations at the national level and repeated calls in international forums, the problems of landlessness and concentration of landownership remain acute and have contributed to restricting the pace of agricultural development, quite apart from their destabilizing impact on the social fabric.

The estimates of landlessness among rural households range from 53 per cent in India to as high as 85 per cent in Java, Indonesia. The concentration of landownership also prevails in several countries of the region. In Bangladesh, despite a preponderance of very small holdings, distribution of landownership is quite skewed. In India, although inequality has been reduced over time, it still remains considerable. In Pakistan the concentration of large amounts of land in large and very large holdings, i.e. over 20 hectares, is a salient feature of landownership in spite of progressive reforms. The size distribution of landholdings in the Philippines is similar to that of Pakistan. In Thailand, owners of farm sizes of 20 rais or less, who constitute 68 per cent of the total, own only 28 per cent of the total land.[44]

While land reform commands enough justification simply on grounds of equity and security for a large number, it is also likely to have a beneficial impact on agricultural production. "The small-farm sector makes better use of its available land than does the large-farm sector, largely through

[44] For further details see, Food and Agriculture Organization of the United Nations, "An analysis of the present land tenure situation in some countries of Asia" (GC-AP/WCARRD/83/9(b)) (mimeo.), Bangkok (May 1983).

applying higher levels of labour inputs (family labour) per unit of land".[45] The diffusion of ownership of land resources could have a direct impact on increased production. Also, should the present structure of landownership continue, the share of the national income accruing to the lowest 40 per cent of income receivers is likely to go down by the turn of the century in many developing countries of the region that are predominantly dependent on the agricultural sector.[46]

Agrarian reforms have been undertaken in a number of countries with two main objectives: removal of such impediments to agricultural production as arise from the character of the agrarian structure so as to create conditions for evolving an agrarian economy with high levels of efficiency and productivity, and improved access to income-earning assets by a vast number with limited or no opportunities to earn income. Land reforms constitute an important and integral component of such agrarian reforms. Intermediate rent-receiving interests in Bangladesh were abolished by 1956, and measures imposing a ceiling on landownership at 33 acres were introduced. Security of rights of share-croppers is also receiving the attention of policy makers.

Bhutan had embarked upon the distribution of land to landless peasants from the preceding (fourth plan) plan period by acquiring surplus land from landowners. It will be continued and is expected to cover all districts during the current plan period (1981-1987).[47]

In India, where land reform is handled by the state governments, achievement has varied from one state to another, depending largely on local conditions. However, policies laid out in the current sixth five-year plan (1980-1985) are designed to achieve several objectives within specified periods. The major thrusts are on the implementation of programmes for taking possession of land above a ceiling and distributing these within 1982-1983 and consolidation of uneconomic holdings within 10 years in general and within three to five years in the command areas of irrigation projects. In addition, the compilation and updating of land records and the distribution of land for housing sites are expected to be completed by the end of the current plan period.[48]

The major elements of agrarian reform in the Philippines during the 1980s will be: promotion of co-operative cultivation, owner cultivation and the creation of economic family-size farms.[49]

For the Republic of Korea, agrarian reform signifies basically land consolidation to expand the production base. As compared with other developing countries of the region, the role of the agricultural sector is rather modest (its share in GDP declined from 38.7 per cent in 1960 to 16.9 per cent in 1980), and the problems of agrarian reform are productivity-oriented issues rather than ownership-oriented. By the end of the current five-year plan (1982-1986), 90 per cent of the total area planned for consolidation will be consolidated.[50]

The reduction of the concentration of landownership is a primary goal of the current fifth plan of Thailand (1982-1986). A number of steps, including a revision of land tax to make it more progressive, more rigorous enforcement of rent legislation and limitation of land holding will be taken. Besides, additional capital will be made available to the Bank for Agriculture and Agricultural Co-operatives to enable it to lend to farmers for the redemption of their lands.

In the Pacific countries, the problems of land reforms are somewhat different in character. In many of these countries, a significant proportion of land is held in community ownership which, it is often argued, acts as a disincentive to introduce productivity-raising measures. However, it is also argued that communal ownership guarantees access to land by all members of the community. Increasing attention is being paid to the resolution of this dilemma. Samoa, for example, has introduced a programme for the development of village agriculture.

The preceding discussion covers a small sample of initiatives for land reform in the region. Many of these initiatives suffer from limited effectiveness on account of complicated legal procedure, inadequate land records, evasive tactics on the part of landowners, insufficient administrative skills and political commitment. These require urgent attention. Effective implementation of land reform measures would additionally require formation of potential beneficiaries' associations to act as friends and guides as well as lobbies for members who are ill equipped indi-

[45] R.A. Berry and W.R. Cline, *Agrarian Structure and Productivity in Developing Countries* (Baltimore, The Johns Hopkins University Press, 1979), pp. 131-134.

[46] Ahluwalia, Carter and Chenery, "Growth and poverty in developing countries" *World Bank Staff Working Paper 309* (December 1978), quoted from draft study of ESCAP, "The role of people's organizations in agrarian reforms" (IRD/FIARM/1), April 1983.

[47] Bhutan, Planning Commission, *Fifth Plan 1981-1987, Part II* (Thimphu, 1981), p. 8.

[48] India, Planning Commission, *Sixth Five Year Plan 1980-85, op. cit.*, pp. 114-116.

[49] Philippines, National Economic and Development Authority, *Five-Year Philippine Development Plan, 1983-1987, Technical Annex* (Manila, 1982), p. 49.

[50] Republic of Korea, *The Fifth Five-Year Economic and Social Development Plan 1982-1986* (Seoul, 1982), pp. 56-57.

Box II. 3. Household responsibility system in Chinese agriculture

The introduction of the agricultural responsibility system (ARS) in China in 1978 marked the beginning of a major change in agrarian relations. This system is an attempt at reconciling collective ownership of the principal means of agricultural production, land, with private incentives for increased output, within the broad socialist framework. The need to reduce the burden of the state levy on the agricultural sector and to deregulate peasant farming practices with a view to increasing agricultural production appear to have been key considerations behind the innovation.

Among the wide varieties of ARS, the most prevalent at present is the household responsibility system (HRS). It is reported that this system had been adopted by 93 per cent of China's production teams in the countryside as of early 1983.[a] Under HRS, a household is assigned responsibility for cultivating a fixed area of land and is allowed to enjoy its produce. The household, in turn, undertakes to meet certain obligatory deliveries to the state and the collective. These deliveries are the sum of three elements: (a) a mutually agreed quota of produce (say grain) to be turned over by the family to the production team at a predetermined price, (b) an agricultural tax at 2 per cent of gross produce, and (c) a levy to provide collective welfare services of the team. In some cases, a fourth element is added as "administrative" or "supervision" charges. Penalties are imposed if targets are not met.

Production inputs such as fertilizers, pesticides and seeds are supplied by the team. Where tractors are used, production brigades hire them out to the households. Households have the right to dispose of surplus produce over and above the quota in the free market at a price that is often higher than the price fixed by the state.

The ownership of property assigned to households rests with production teams. Farm households have gained substantially increased decision-making power in matters relating to the choice of crops, phasing of agricultural work, deployment of labour and the application of other inputs. Besides, the eligibility to retain produce in excess of obligatory deliveries has increased the claim of households on the income generated from the property assigned. In fact, the relative share of the household in both gross and net income derived from the collective properties has risen sharply under HRS.

HRS appears to have generated a great deal of enthusiasm among peasant households and played a key role in the significant increase in production in China during the period 1978-1982. A notable feature was the rapid expansion of acreage under cash crops from 9.6 per cent of sown acreage in 1978 to 12.1 per cent in 1981, at the expense of some land under grain (80.3 to 79.2 per cent) and a relatively large area under green manure (6.1 to 4.6 per cent).[b] On the whole the rate of growth of agricultural output during 1978-1982 was 7.5 per cent per annum, more than double the 3.5 per cent from 1953 to 1981. It is also claimed that due to HRS it was possible to reduce the number of manhours expended in cultivation without a comparable reduction in work accomplished and that this labour was diverted to ancillary activities, such as housebuilding and commerce.

It is envisaged in the sixth five-year plan of China that various forms of the production responsibility system in the countryside will be stabilized and gradually perfected on the basis of the experience of the masses. In this process HRS is expected to play an increasingly important role.

[a] C.H. Chai, "Policy response to the IDS in China" (mimeo.) (September 1983).

[b] T.B. Wiens, "Price adjustment, the responsibility system, and agricultural productivity", *American Economic Review*, vol. 73, No. 2 (May 1983), p. 323.

vidually to cope with various constraints. Simultaneously, attention should be given to the reorganization of delivery services so that farmers acquiring new rights in land can successfully perform their role as production agents. Failure to do so often generates apprehensions against output loss and slows down implementation of reform measures.[51]

3. Target group orientation

The problem of absolute poverty remains acute in the developing ESCAP region. Quite apart from the least developed countries, some of the middle-income countries contain a large number of the absolute poor and the number is believed to be increasing.

Despite growing concern about this monumental problem, there exists inadequate information about the composition and characteristics of the absolute poor. By all accounts, a disproportionate number of the absolute poor live in the rural areas. In India, Indonesia, Malaysia and the Philippines, 50 per cent or more of the rural population live below the poverty line. In Bangladesh, the proportion could be well over three fourths.[52] Within the rural community, the small and landless farmers constitute the bulk of the poor. A study on Bangladesh indicates that small farmers constitute 61.1 per cent of the rural poor followed by the landless (32.4 per cent) and other

[51] For details see, B.S. Khanna, "An overview paper on integrated rural development in some Asian countries", *CIRDAP Study Series No. 26* (August 1982), pp. 59-68.

[52] For more detailed information see "Poverty and development of human resources: regional perspectives, 1980", *World Bank Staff Working Paper 406* (July 1980), and Food and Agriculture Organization of the United Nations, *The Case of Food and Agriculture, 1981* and *Agriculture Toward 2000*, country case studies (mimeo.).

farmers (6.6 per cent).[53] The landless and near landless peasants in India constituted approximately 42.7 per cent of the rural poor in 1975, while the small (including marginal) and other farmers were 37.4 per cent and 19.9 per cent, respectively.[54]

Rural development programmes often tend to be land centred. Clearly, farmers with small or negligible land cannot significantly benefit from such programmes. Moreover, the institutional arrangements for service delivery often lead to the appropriation of benefits of other rural development programmes by the rural elite. Experience with the conventional credit co-operatives illustrates the dominance of large landowners in the economic and social scene of the rural areas.[55]

In response to this situation, several countries have introduced programmes specifically targeted towards the rural poor. The basic thrust of such programmes is to make available inputs (including credit) of direct relevance to the target groups through organizations of their own. The critical element in this process is the strength of target group organizations, which can ensure, on the one hand, use of inputs made available to the members and on the other , improve the bargaining strength of the members in their day-to-day transactions with the rural elites. The Village Bank Project (Grameen Bank Prakalpa) and a non-governmental programme known as "Proshika" in Bangladesh are some of the better-known programmes directed towards meeting the needs of specific target groups. The Small Farmer Development Project (SFDP) implemented in selected areas of Bangladesh, Nepal and the Philippines, the Agricultural Credit Project in Uttar Pradesh, India, and "Operation Barga" in West Bengal, India, aimed at giving effect to the legal rights of sharecroppers through group action among potential beneficiaries, are also designed with the same ends. While most of these projects are still at an experimental stage, preliminary evaluations suggest encouraging results. One review of SFDP, for example, indicates that it has yielded substantial benefits, such as improved access to publicly provided inputs and services and significant income increases to the group members. In addition, it has succeeded in generating a spirit of group self-reliance and a new sense of confidence.[56]

Whatever the modalities, a major redirection of resources to meet the specific needs of the rural poor is called for during the remainder of the decade. However, such measures can only complement structural changes involving the redistribution of rural assets and reform of institutional arrangements in any determined effort to alleviate the condition of the absolute poor.

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[53] M. Alamgir, "Income distribution and nutritional status of the agricultural population: a case study of Bangladesh in the year 2000" (mimeo.) (1980).

[54] Ifzal Ali, B.M. Desai, Radha Krishna and Vyas, "India 2000: agricultural production strategies and rural income distribution" (mimeo.) (1980), pp. 37-38.

[55] Haque, Mehta, Rahman and Wignaraja, "Towards a theory of rural development", *Development Dialogue* (Uppsala, Sweden, 1977).

[56] ESCAP, "350 million rural poor – where do we start?" (ST/ESCAP/125).

II. INDUSTRIALIZATION

The targets of the International Development Strategy for the Third United Nations Development Decade pertaining to industry are expressed mainly in terms of manufacturing. The Strategy, in line with the Lima Declaration, calls for an expansion of manufacturing output at an average annual rate of 9 per cent so as to lay the basis for developing countries to produce 25 per cent of world output of manufactures by the year 2000. Other objectives include satisfaction of domestic demand, provision of employment, diversification of output and an increase in the share of developing countries in world exports of manufactured goods. In spite of differences in emphasis between countries, these largely reflect the aspirations of many developing ESCAP countries as revealed in their development plans. In this chapter, the focus is on certain aspects of policy measures adopted in developing ESCAP countries to achieve these objectives. A brief review of global measures has also been undertaken.

A. DOMESTIC POLICY MEASURES

In order to achieve several objectives, Governments of the developing ESCAP region have intervened actively in the product as well as factor markets to promote industrialization. These interventions assume diverse forms such as investment licensing, regulation of output levels, price controls, quantitative restrictions on competing imports, differential tariffs and taxes, export subsidies, control over ownership in selected activities and so on. There are many underlying motives for such interventions. One central element is the search for markets, whether by import substitution or export promotion. Another fundamental consideration has been the selection of industrial output mixes and production techniques to promote employment of a rapidly growing labour force. The extent to which foreign investment valued for various reasons can be allowed access to the national economies is another important component of industrial policies in the region. For analytical convenience, these issues are treated separately in the chapter while recognizing that there exist considerable interactions among them.[1]

1. Import substitution and export promotion

A wide variety of control instruments used in the pursuit of multiple goals renders it extremely difficult to evaluate the consequences of industrial policies. One way of doing this is to investigate the effect on incentives for domestic production relative to production for exports. It should be pointed out that neither import substitution nor export promotion policies are desirable *per se*. Inefficiencies may arise in implementing either strategy. The economic benefits in terms of the Strategy's objectives will critically depend on the extent to which planned industrialization promotes an optimum use of available resources taking into account a country's endowment of natural resources, the composition of its labour force, the availability of special trading opportunities abroad, the size of domestic market etc.

Though simple categorization is not always appropriate, the thrust of industrialization policies in developing countries has frequently been described as being oriented towards either import substitution and/or export diversification.[2] The principal theoretical justification for an import substitution strategy is well established under the "infant industry argument". The basis of the argument is that economies will realize dynamic external gains through

[1] There may be other motivations as well behind government interventions, e.g. consumer welfare, containing deficit in balance of trade, raising government revenues etc. In each case, the relevant question to ask is whether there exists a better alternative means of achieving the objective. For example, direct income subsidy under most circumstances may be a better instrument than price control for ensuring welfare of the poor.

[2] For various meanings and implications of these terms, see Ulrich Hiemenz, "Industrial growth and employment in developing Asian countries: issues and perspectives for the coming decade", *Asian Development Bank Economic Staff Paper No. 7* (March 1982).

"learning by doing". However, the promotion of import substituting activities raises output, prices and factor absorption in the industries so promoted. This policy often amounts to simultaneous discrimination against export-oriented industries through reduced availability of factors of production (especially of those with inelastic supply conditions) and higher prices of inputs produced by import substituting industries. If export promotion policies are implemented simultaneously, export industries receive compensation for the discrimination resulting from the preferential treatment granted to import substitutes. There are only rare cases of export promotion policies in the sense that exports are granted higher net subsidies than production for domestic markets.[3]

A favourite policy package implemented in developing ESCAP countries has been the protection of selected domestic activities against foreign competition.[4] Import tariffs, import surcharges and quantitative import controls are policy instruments commonly used for this purpose. The impact of the two latter measures is difficult to assess, since they are often introduced on an *ad hoc* basis and vary considerably over time. It is generally agreed that these instruments bring about a cascading structure of protection with the highest protection granted to finished goods and the lowest to raw materials.[5]

This cascading structure of protection has several effects. It discriminates against agricultural and mining activities by shifting the internal terms of trade in favour of manufacturing. Secondly, producers of finished goods enjoy a higher effective protection than expressed by the nominal rate of protection.[6] Thirdly, export-oriented industries, in particular those using highly protected inputs, are discriminated against. Fourthly, loss of consumer welfare occurs through higher prices of import competing products.

The protection of import substitutes is quite pervasive in the developing ESCAP region. The experience in Bangladesh, India and Sri Lanka has been commented upon recently.[7] In Indonesia, domestic market-oriented industries receive much higher effective rates of protection than export industries.[8] The protection of non-durable and durable consumer goods as well as transport equipment prevails in Malaysia, the Philippines and Thailand as well. In Thailand, the average rates of effective protection for these three industries rose from 57.4 per cent, 93.2 per cent and 146.5 per cent in 1971 to 212.4 per cent, 495.6 per cent and 417.2 per cent respectively in 1978.[9] Also, in general, high preference was granted to production for domestic markets over production for exports. In the case of Samoa, effective rates of protection range from less than 50 per cent for several activities involving the processing of locally grown food or scrap metal to approximately 140 per cent for import substitutes such as garments, biscuits and cakes.[10]

In contrast, in the Republic of Korea the effective rate of protection for total manufacturing amounted to about 5 per cent in 1978.[11] Within the manufacturing sector there were some high cost industries, such as iron and steel, receiving heavy protection, while some others that were efficient foreign exchange savers (or earners in the case of exporting industries, such as plastics, plywood and cement) were being penalized.[12] Nevertheless, on the whole the incentive structure left little room for excess profits and inefficiencies. This feature facilitated the spillover of production from domestic to

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[3] L.E. Westphal, "The Republic of Korea's experience with export-led development", *World Development*, vol. 6, No. 3 (March 1978), p. 356.

[4] There is no reason to believe that prices in international markets are free from distortions. The oligopolistic nature of international markets for manufactures, often controlled by transnational corporations based in developed countries, in fact, induces the belief that there may be large deviations from free market prices. Government support in developed countries to industries which have lost comparative advantage add to these distortions.

[5] Besides, such measures give rise to opportunities for illegal transactions, favouritism and corruption. See, Jagdish Bhagwati, *Foreign Trade Regimes and Economic Development: Anatomy and Consequences of Exchange Control Regimes*, a Special Conference Series on Foreign Trade Regimes and Economic Development, vol. XI (New York, National Bureau of Economic Research, 1978).

[6] Effective rates of protection deviate from nominal rates in that the former take into account not only the protective effect on output but also the protection afforded by the tariff structure to the inputs used to produce the output. The effective as distinct from nominal degree of protection afforded by tariffs thus depends on the differential tariff rates between inputs and their associated output, and on the proportion of domestic value added in the total value of the final output. It should be added that though frequently used as an indicator of resource pull, the concept of effective rate of protection is not free from limitations. For a brief note on effective rates of protection, see *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II. F.1), p. 138.

[7] ESCAP, *The Integration of Tax Planning into Development Planning* (forthcoming).

[8] Greshon Feder, "On exports and economic growth", *World Bank Staff Working Paper 508* (February 1982).

[9] Ulrich Hiemenz, *loc. cit.*, p. 39.

[10] J.L. Enos, "The design of a development-oriented system of customs tariffs for Western Samoa" (mimeo.) (January 1981), p. 86.

[11] Ulrich Hiemenz, *loc. cit., p. 58.*

[12] Dong Ho Lee, "Domestic resource cost of major industries in Korea", *Asian Economies*, No. 41 (June 1982), pp. 5-23.

export markets.

Many countries of the region seem to demonstrate increased awareness of the adverse implications of the existing structure of protection. It is being accepted generally that the rationalization of tariff structures is vitally necessary to promote industrial efficiency. For example, Bangladesh reduced import duty slabs from 23 to 12 in the 1982/83 budget and to seven in the 1983/84 budget.[13] In India, customs duties on some electronic items have been drastically reduced in recent times.[14] Following a large devaluation in November 1977, Sri Lanka has substantially liberalized its import regime. The Philippines and Thailand have also considerably scaled down their tariff structures recently.[15]

An outstanding feature of the policy instruments used in industrial development in newly industrializing countries (NICs), like the Republic of Korea and Singapore and other entities, is their non-discriminatory nature. After going through the first phase of import substitution in the 1950s, a major policy change in these economies in the early 1960s provided relatively equal opportunities for the expansion of all economic activities. Export production was on average not discriminated against since incentives for export compensated for the slight overvaluation of the national currencies.[16] Compared with production for domestic markets, the adverse effective protection on exports resulting from import barriers was balanced by a subsidy scheme (mostly tax and credit preferences) so that export remained as profitable as domestic sale. These domestic policy instruments were effectively supported by access to the markets of major trading partners of these economies.

Inefficiencies generated by protecting import substituting industries, the exhaustion of easy import substitution possibilities and the need for increased foreign exchange earnings from diversified sources have induced many other countries of the region to undertake specific export promotion policies while simultaneously attempting to reduce and rationalize the import tariff structure. Policy instruments for export promotion, though diverse, commonly take the form of higher domestic prices for foreign exchange earned from non-traditional exports (Bangladesh),[17] partial exemption of income so earned from domestic taxation (Papua New Guinea),[18] provision of subsidized credit (Malaysia)[19] and the creation of export processing zones (China, India, the Philippines and Sri Lanka).[20] Duty drawback on imported input and preferential duty on imports of machinery required for export production are also prevalent (Fiji and Tonga).[21]

Cited above are a few illustrations of a vast array of incentives provided to selected activities in the countries of the region. To what extent these incentives have promoted more efficient use of factors of production cannot be assessed without fuller studies. However, there are indications that this objective has not received adequate consideration in the determination of incentive structures.[22] Concerns have also been expressed about relatively large-scale and capital-intensive firms availing themselves of these incentives to the detriment of employment and distributive goals of industrialization policy.

In addition to the design of an appropriate incentive structure to promote productive efficiency, there also appears to exist, especially for the larger developing economies of the region, an enormous potential for the development of domestic markets through the creation of appropriate linkages between and within sectors. Indeed for the larger economies, strategies for the development of the manufacturing sector are interwoven with the balanced development of sectors and branches of all economic activity because such balanced growth provides at the same time purchasing power to create markets and intermediate inputs from one activity to another. In these economies, strategies for the creation of markets for manufacturing need to be discussed in the context of their development strategies as a whole.[23]

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13 Bangladesh, Ministry of Finance and Planning, *Budget Speech (1983-84) Part II* (Dhaka, 1983), p. 2.

14 A. Bagchi, "Policy responses to the IDS in India" (mimeo.) (September 1983), p. 21.

15 Gonzalo M. Jurado and Emmanuel S. de Dios, "Policy responses to the IDS in ASEAN" (mimeo.) (September 1983), p. 20.

16 For information on the structure of net incentives in the economy of the Republic of Korea in the late 1960s, see Larry E. Westphal and Kwang Suk Kim, "Industrial policy and development in Korea", *World Bank Staff Working Paper 263* (August 1977), pp. 3-60 and 3-70.

17 Bangladesh, Ministry of Finance and Planning, *Economic Survey 1982-83* (Dhaka, 1983), p. 214.

18 Papua New Guinea, *Budget Speech 1983* (Port Moresby, 1982), p. 39.

19 Malaysia, Ministry of Finance, *Economic Report 1981/82* (Kuala Lumpur, 1981), p. 96.

20 For further details on export processing zones, see *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, p. 150.

21 Fiji, Economic Development Board, *Fiji Investment Guide* (January, 1982), p. 11; and Tonga, *Industrial Investment Guide* (undated), p. 1.

22 See G. Ranis, "Prospective south-east Asian development strategies in changing international environment" in *New Directions of Asia's Development Strategies* (Proceedings and Papers of a symposium held at the Institute of Developing Economies on 13-16 March 1979) (Tokyo, Institute of Developing Economies, 1980), p. 6.

23 For a further discussion, see ESCAP, "Development strategies for the 1980s in south Asia", *Development Papers No. 1* (United Nations publication, Sales No. E.81.II.F.16).

2. Public enterprises

Quite apart from the centrally planned economies, where the level and composition of industrial output are determined largely by government decisions, developing mixed economies of the region are marked by various forms of public intervention in industrial development. In addition to the indirect macroeconomic policy instruments, like the exchange rate, monetary, fiscal and wage rate policies, and various forms of direct government intervention mentioned earlier, the public sector directly engages in manufacturing production. The ostensible rationale for such intervention arises from the need for satisfying basic economic needs or developing key industries or from the inability or unwillingness of the private sector to undertake lumpy investment in important activities with uncertain profitability or from national security considerations.

The importance of public sector enterprises may be judged by a number of criteria, such as their contribution to GDP, foreign exchange earnings, and employment. However, comparable data for these indicators are not available for meaningful intercountry comparison. The available indirect evidence, such as the share of public investment allocated to industry, indicates that the public sector plays a much larger role in the mixed economies of South Asia than in those of South-East or East Asia and the Pacific.[24] In Bangladesh, India, Pakistan and Sri Lanka, industrial development in the modern sector is for the most part spearheaded by public enterprises. For these countries, as well as others with significant public sector involvement in manufacturing, operational efficiency of public enterprises is a key determinant of more effective factor use. Judged by the criterion of capacity utilization, performance of public enterprises in several countries has been less than satisfactory.

Much concern to improve the efficiency of public enterprises is evident in the countries of the region. Plagued by the problems of low capacity utilization and continued financial losses, Bangladesh has adopted a policy of divesting public enterprises and as of the beginning of the 1983/84 fiscal year, 38 jute mills and 26 cotton mills were divested.[25] In India, though half the manufacturing enterprises in the public sector still function at less than 75 per cent of their installed capacity, a number of fiscal and other measures adopted led to sustained increase in public sector industrial production in the years 1980-1982.[26] Similarly, public sector industries in Pakistan have shown improvements in production and profitability since 1978/79 after a prolonged decline in earlier years.[27] Burma's decision to decentralize to provide greater managerial autonomy and flexibility was rewarded with a steady increase in capacity utilization in state enterprises from 66.7 per cent in 1978/79 to 73.6 per cent in 1981/82.[28]

There is an increasing acceptance of the view that public enterprises, specially manufacturing ones, should generate a financial surplus. This has assumed greater importance in the current climate of resources constraint facing all developing countries. To generate surpluses, public enterprises need sufficient managerial autonomy, adequate incentives, reasonable discretion in setting prices, and appropriate criteria for assessing performance.

As more and more managerial discretion is accorded, there arises greater need for providing an efficiently functioning co-ordinating mechanism so that various public enterprises do not operate with conflicting purposes. Some developing countries have installed institutional mechanisms to overcome difficulties of co-ordination and control in the public industrial sector. For instance, Malaysia has set up a separate ministry of public enterprises, in order to place under one ministry a wide range of functions, such as investment and pricing policies for industry, appointment of board members, setting of financial and other objectives, approving capital structures and borrowing arrangements, and undertaking efficiency audits. Other developing countries have created advisory-cum-supervisory bodies to provide various services, to achieve better policy formulation and co-ordination and to increase overall efficiency. For example, India has established the Bureau of Public Enterprises and Nepal the Corporation Co-ordination Council.[29] Success with these institutional mechanisms has not been unequivocal so far. Much still needs to be done to bring about an appropriate balance between managerial autonomy and central control.

Public enterprises often suffer from redundancy of personnel at lower level and high turnover and shortages at the managerial and professional levels. While the resolution

[24] *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, table II.12.

[25] Bangladesh, Ministry of Finance and Planning, *Budget Speech (1983-84) Part I* (Dhaka, 1983), p. 4.

[26] A. Bagchi, "Policy responses to the IDS in India", *op. cit.*, pp. 22-23.

[27] Pakistan, Finance Division, *Pakistan Economic Survey, 1981/82* (Islamabad, 1982), p. 44.

[28] Burma, Ministry of Finance and Planning, *Report to the Pyithu Hluttaw on the Financial, Economic and Social Conditions of the Socialist Republic of the Union of Burma for 1982/83* (1982), pp. 139-140.

[29] *World Industry Since 1960: Progress and Prospects* (United Nations publication, Sales No. E.79.II.B.3), p. 328.

of the former problem is essentially a matter of political and administrative will, the solution of the latter requires adequate levels of compensation. Current ceilings on salaries and other renumerations may require upward revision to retain the services of able high level professionals. Simultaneous with the provision of salary incentives, other problems, such as obsolete and unsuitable equipment, inappropriate plant location and poor infrastructure services, need to be solved.

A dilemma that faces developing countries in the selection of appropriate indicators for measuring the performance of public industrial enterprises is the need to reconcile social and commercial considerations. For the private industrial sector, profitability is a ready indicator of performance. For the public industrial sector, however, there is a clear need to adopt a multidimensional approach in evaluating performance, since a single indicator or even a set of purely economic indicators would not take into account the social objectives that form part of the rationale for the sector. Each country needs to develop clearly defined performance criteria, keeping in view its socio-economic priorities.

3. Employment promotion

In developing ESCAP countries, there is low employment elasticity with respect to value added in the manufacturing sector.[30] This situation is partly the product of industrial development policies based on protective tariffs, subsidized interest and various other forms of investment incentives[31] which tend to cheapen the price of capital. The strategy generally has been biased towards raising investment on the assumption that employment promotion through factor pricing is pre-empted by the lack of alternative techniques. This assumption is fallacious because even where fixed-coefficient single technique prevails *ex ante*, there may exist substantial scope for raising the amount of labour used in operating a plant. It can be demonstrated that extremely stringent conditions need be satisfied to render factor prices irrelevant in determining employment levels.[32] Various field studies also suggest that substitution of labour for capital is feasible without adverse effects on profits even in the large-scale manufacturing sectors of South-East and South Asia.[33] A recent study lists over 100 industrial techniques offering substitution possibilities between capital, labour and materials developed in developing countries.[34]

Fast growth in the labour force, consequent upon rapid population growth and inadequate growth in employment in the manufacturing sector (see Table II.8), have induced many countries to pay increased attention to employment promotion in industrial development. On the one hand, encouragement has been offered to labour-intensive small and cottage industries. On the other hand, incentives have been provided for increased labour absorption in the modern industrial sector. China has re-oriented its public expenditure programme to give increased priority to light industries. The share of light industry in the industrial output increased from 42.7 per cent in 1978 to 50.2 per cent in 1982.[35] In India, handloom textiles are encouraged through ceilings imposed on the weaving capacity of the mills. This policy has been complemented by certain fiscal measures, including the exemptions of handloom cloth and yarn used in handloom from excise duties. Household enterprises registered with the National Cottage Development Authority in the Philippines enjoy institutional credit, assistance in marketing and exemption from minimum wage legislation.[36] Industrial policies in most Pacific countries accord high priority to the processing of agricultural products partly because of their employment potential.[37]

Similarly there are many instances of incentives provided for the employment of more labour in modern industry. In India, the tax system provides for faster depreciation of the construction cost of workers' houses. Indonesia grants an additional year of tax holiday if the new investment creates more than 2,000 jobs. The Philippines allows one half of the expenses on labour training subject to a limit to be deducted from taxable income. In Sri Lanka, employment potential is assuming greater importance in the approval of foreign investment projects by

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30 See Rashid Amjad, ed., *The Development of Labour Intensive Industry in ASEAN Countries* (Bangkok, ILO/ARTEP, 1981), p. 14.

31 *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, p. 137, table II.13.

32 For a theoretical demonstration see Gordon C. Winston, "Factor substitution, ex ante and expost" in *Journal of Development Economics*, vol. 1 (1974).

33 Howard Pack, "Macroeconomic implications of factor substitution in industrial processes", *World Bank Staff Working Paper 377* (March 1980), p. 51.

34 See United Nations Industrial Development Organization, "Technologies from developing countries", *Development and Transfer of Technology Series No. 7* (ID/208).

35 C.H. Chai, "Policy response to the IDS in China" (mimeo.) (September 1983), p. 15.

36 For details of fiscal incentives provided to traditional and small industries in several ESCAP countries, see *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, pp. 147-148.

37 Benjamin Higgins and Mahendra Sukhdeo, "Policy response to the International Development Strategy in the developing Pacific countries of the ESCAP region" (mimeo.) (September 1983), p. 28.

both the Greater Colombo Economic Commission and the Foreign Investment Advisory Committee.

The piecemeal and sector- and product-specific nature of employment incentives makes it difficult to evaluate their effectiveness. Available evidence suggests that the incentives provided are both inadequate and inefficient.[38] Some small-scale industries use outdated production techniques which require not only more labour but also more capital per unit of output than modern techniques. The promotion of these firms is clearly unwarranted. Efficiency also can be reduced by lack of managerial skills, technical know-how, marketing experience and similar factors which cannot be easily acquired by small enterprises. Thus, while any across-the-board promotion of small-scale industries is not desirable solely to increase employment, policies should aim at the elimination of bias against small-scale manufacturing and the provision of technical and managerial assistance together with improvements in infrastructure and in credit markets.

[38] For details, see *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, pp. 148-151.

Table II.8. Selected developing ESCAP economies. Growth rates in total and manufacturing employment, 1971-1980

(Percentages)

	Average annual growth	
	1971-1975	*1976-1980*
Bangladesh		
Total employment	...	7.7
Manufacturing employment	...	7.8
Burma		
Total employment	...	2.5
Manufacturing employment	...	4.0
Fiji		
Total employment	6.3	7.5
Manufacturing employment	7.2	4.4
Hong Kong		
Total employment	2.7[a]	8.2
Manufacturing employment	4.4	6.1
India		
Total employment	...	2.6
Manufacturing employment	2.1	2.8
Indonesia		
Total employment	...	-1.0
Manufacturing employment	...	5.7
Malaysia		
Total employment	3.8	3.8
Manufacturing employment	8.3	7.5
Pakistan		
Total employment	3.2	2.6
Manufacturing employment	9.4[b]	2.6
Philippines		
Total employment	4.5	4.1[c]
Manufacturing employment	2.8	4.2[d]
Republic of Korea		
Total employment	4.0	3.0
Manufacturing employment	14.6	6.5
Singapore		
Total employment	7.6	5.3
Manufacturing employment	14.7	8.3
Sri Lanka		
Total employment	0.6[e]	2.5[f]
Manufacturing employment	-1.5[e]	1.8[f]
Thailand		
Total employment	2.3[b]	4.5
Manufacturing employment	6.0[b]	6.4

Sources: International Labour Organisation, *Year Book of Labour Statistics, 1978, 1980* and *1982* and *Bulletin of Labour Statistics*, second quarter, 1983; and national sources.

[a] 1971-1974. [b] 1973-1975. [c] 1975-1979. [d] 1975-1978. [e] 1972-1975. [f] 1976-1979.

4. Transnational corporations

Broadly speaking, the policies of the developing ESCAP countries and areas towards transnational corporations (TNCs) flow from the nature of their overall economic strategies. Hong Kong, Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore and Thailand have adopted a comparatively more liberal policy towards foreign capital and have actively promoted investment through a variety of fiscal and other incentives. For example, the 1982-1986 Economic Development Plan of the Republic of Korea envisages foreign direct investment inflows of $US 2.5 billion during the plan period, with a target of $US 300 million in 1982 and an annual increase of $US 100 million in each succeeding year. This is a sharp increase over current levels of foreign direct investment. Recent liberalization of guidelines for foreign investment is expected to contribute to the realization of the target.[39]

[39] ESCAP, "Transnational corporations in Asia and the Pacific" in Proceedings of the *Ad Hoc* Intergovernmental Meeting on Transnational Corporations, April 1983 (CTC/ESCAP/IMTC/4), p. 57.

Bangladesh, India and Pakistan have until recent years pursued relatively less open door policies towards TNCs. However, a fairly large number of TNCs had been established in these countries before their independence and several more came to be established in the 1950s and 1960s. In recent years, there has been a distinct trend among most of the developing countries of the ESCAP region to promote and encourage foreign investment, particularly when it is directed towards areas of high priority or when it brings with it advanced technology or wider export possibilities. For example, the policies initiated by Sri Lanka since 1978 are in many ways similar to those of the member countries of the Association of South-East Asian Nations.[40] Between 1978 and March 1982, the Foreign Investment Advisory Committee of Sri Lanka approved 460 projects involving a total investment of over 14 billion Sri Lanka rupees, of which the foreign capital investment was nearly 8.5 billion rupees. These approvals were in addition to the projects approved for operating in the export promotion zones.[41] Similar changes are evident in the policies of Bangladesh, India and Pakistan also in sectors and activities involving technology acquisition and export promotion considered important for national economic development. An important development which has attracted a great deal of attention is the policy of China to seek foreign investment and technology that would accelerate its "modernization programmes".[42] Tonga offers liberal fiscal and other incentives to foreign investors in projects meeting certain criteria.[43]

Box II.4. The impact of

Transnational corporations (TNCs) are welcomed usually on the grounds of their contribution to output, capital, technology, exports and employment. They are also subjected to severe criticism. This relates commonly to excessive repatriation of profits and transfer pricing. They are even viewed as instruments of neocolonialism and of distorted development.

Available information regarding the operations of TNCs in the developing ESCAP region is not adequate for any systematic evaluation of their impact. However, certain features can be noted. Five ESCAP economies namely, Hong Kong, Indonesia, Malaysia, the Republic of Korea and Singapore together with Taiwan (a province of the People's Republic of China) accounted for more than four fifths of the increase in the stock of foreign direct investments which took place in South, South-East and East Asia during the 1971-1977 period. Indonesia alone accounted for close to one third of the total increase in the reported foreign investment during this period.[a]

An important development in the ESCAP region is the growing trend for firms and investors originating in developing ESCAP countries to invest in the region. The extent of intraregional foreign direct investment has been greater here than in other regions. It is estimated that the stock of intraregional investments in the ESCAP region grew from about $US 1 billion in the early 1970s to $US 2 billion in 1978. Countries that are net recipients of intraregional investments include Indonesia, Malaysia, Sri Lanka and Thailand, while economies such as India, Hong Kong, the Philippines, the Republic of Korea and Singapore constitute the principal sources of such investment. About 14 per cent of the combined total foreign direct investment in 10 developing economies of South and East Asia was accounted for by investments originating in other developing countries of the region.[b]

The inflow of foreign direct investment from developed countries has also increased immensely; the average flow of net direct investment from OECD countries to developing Asia-Pacific countries rose from $US 517 million during 1971-1973 to $US 2,775 million during 1979-1981.[c] The share of the region in the total foreign direct investment stock of developing countries rose from 17.4 per cent in 1971 to 26.3 per cent in 1978.[d] Another indicator of the growing importance of TNCs is the proliferation of joint ventures and a variety of arrangements whereby the technology, management and marketing expertise of TNCs is being sought to be acquired by developing Asia-Pacific countries for attaining their national developmental goals.

A cross classification of aggregate investment statistics among home and host economies during the 1970s indicate that Japan represented among the developed economies, the most significant foreign investor in the two host countries which received the largest

[a] Constantine V. Vaitsos, "Transnational corporations in the Asia-Pacific region: development or maldevelopment?" in ESCAP, "Transnational corporations and their impact on economic development in Asia and the Pacific" (ST/ESCAP/207), October 1982, p. 60.

[b] The economies include Hong Kong, India, Indonesia, Malaysia, Pakistan, the Philippines, the Republic of Korea, Singapore, Sri Lanka and Thailand.

[c] On the basis of data compiled by the United Nations Centre on Transnational Corporations (UNCTC), *Transnational Corporations in World Development, Third Survey* (New York, 1983), pp. 307-309.

[d] UNCTC, *Salient Features and Trends in Foreign Direct Investment* (United Nations publication, Sales No. E.83.II.A.8), p. 57.

[40] For an analysis of the recent economic policies of Sri Lanka, see, W.A. Wiswa Warnapala, "Sri Lanka 1979: new stresses in the economy and the policy", *Asian Survey*, vol. XX, No. 2 (February 1980), pp. 206-216.

[41] ESCAP, "Transnational corporations in Asia and the Pacific", *op. cit.*, p. 58.

[42] Regarding laws and regulations pertaining to TNCs in China, India, Malaysia, the Philippines, the Republic of Korea and Viet Nam, see UNCTC, "National legislation and regulations relating to transnational corporations" (ST/CTC/26; and "Supplement to national legislation and regulations relating to transnational corporations" (ST/CTC/6/Add.1).

[43] Tonga, Ministry of Labour, Commerce and Industries, *Investment in Tonga* (1 November 1981), p. 8.

volume of foreign direct investment, namely Indonesia and Malaysia in that order. It also enjoyed a commanding position in the Republic of Korea. Japan accounted for 36 per cent (in 1978) of the total stock of foreign direct investments reported for Indonesia and 24 per cent (in 1977) for Malaysia. In contrast, the United States was the relatively most important investor in Hong Kong, Pakistan, the Philippines and Singapore.[e]

Among developing ESCAP countries with investments by TNCs, the actual extent of involvement and the direct contribution of TNCs to various macroeconomic aggregates differ considerably. In the later half of the 1970s, in Malaysia the proportion of equity held by foreign owned or affiliated enterprises accounted for 38 per cent of total equity in manufacturing industry, and their contribution to value added in manufacturing production amounted to 44 per cent of the total;[f] in Singapore, majority-owned foreign affiliates accounted for 79 per cent of fixed assets in the manufacturing sector and 86 per cent of the value added.[g] At the same time, it is significant that a high level of industrialization and large TNC presence do not always go together: in the Republic of Korea, with one of the highest rates of growth in the 1970s among developing countries, TNCs accounted for 23 per cent of equity and 11 per cent of the value of output in manufacturing in 1975, and in India, which ranks fourth in the developing world in the absolute size of its manufacturing output, TNCs accounted for 13 per cent of manufacturing sales in 1977.[h]

The share of manufacturing exports by TNCs in the corresponding total by each economy varies widely in the ESCAP region. The highest level is recorded for Singapore where the share was around 70 per cent in the mid-1970s.[i] The figure for the Republic of Korea was slightly above 40 per cent,[j] for Hong Kong it was 10 per cent,[k] while for India it was 5 per cent or less.[l] The share in the total exports of manufactures in the mid-1970s by foreign-owned affilates in developing ESCAP countries has been "guesstimated" at 20 per cent.[m] TNCs, proportionally, play a much smaller role in the export of manufactures from developing ESCAP countries than from practically any other major region of the world. Nonetheless, foreign firms have played an undoubtedly crucial role in the export performance of Singapore and to a much less extent, of the Republic of Korea and in some specific sectors, such as in selected operations of electronics. It is believed that this export drive has been accompanied by a correspondingly heavy developing country dependence (a) on imported technology, and (b) on securing access to foreign markets through inter-affiliate trade which is wholly controlled from decision-making centres abroad.[n] Furthermore, the net benefits of such exports are significantly diminished in view of the very high import content involved in such activities. For example, it has been estimated that in some selected foreign firms in the Republic of Korea imported input is as high as 80 per cent of the value of gross output.[o]

As far as the direct employment effects of the activities of TNCs are concerned, the figures differ among countries. The Republic of Korea stands out also in this respect. In the mid-1970s, 1.3 million people in the Republic of Korea were employed in manufacturing. Of these, 12.2 per cent worked for TNCs. If one adds the indirect effects on employment through local procurement and related effects, then the total impact was estimated to be slightly less than 20 per cent of those employed in industry.[p]

Except for the special case of the Republic of Korea and possibly Singapore, in others – like Bangladesh, India, Indonesia, Pakistan and Thailand – the overall employment effects of TNCs often barely reached one or two percentage points of the labour force. In terms of their own employment needs, the presence of TNCs hardly scratches the surface of the problems that they confront.

[e] Constantine V. Vaitsos, *loc. cit.*, p. 62.

[f] Tan Siew Ee and M. Kulasingam, "New forms of international investment: the Malaysian experience" (Paris, OECD Development Centre, March 1982), cited in UNCTC, *Transnational Corporations in World Development, Third Survey, op. cit.*, p. 136. Figures on equity are for 1976 and on value added, for 1978.

[g] On the basis of data from *Report on the Census of Industrial Production* (Singapore, 1978).

[h] Data compiled by UNCTC, *Transnational Corporations in World Development, Third Survey, op. cit.*, p. 136.

[i] ESCAP, "Transnational corporations and their impact on economic development in Asia and the Pacific", *op. cit.*, p. 89.

[j] Sung-Hwan Jo, "The impact of multinational firms on employment and incomes: the case study of South Korea", *ILO Working Paper No. 2-28/12* (Geneva, December 1976), p. 22.

[k] Deepak Nayyar, "Transnational corporations and manufactured exports from poor countries", *Economic Journal*, vol. 88, No. 349 (March 1978), p. 7.

[l] See Reserve Bank of India, *Foreign Collaboration in Indian Industry* (Bombay, 1974).

[m] Constantine V. Vaitsos, *loc. cit.*, p. 89.

[n] *Ibid.*, p. 96.

[o] See Sung-Hwan Jo, *loc. cit.*, p. 48.

[p] *Ibid.*, p. 51.

Fiscal incentives occupy a prominent position in the policies of most developing ESCAP countries to stimulate both domestic and foreign investment. There often has been competition among developing countries to expand the range and magnitude of their investment incentives, especially their tax and tariff incentives, in the expectation that the incentives will improve their attraction to foreign investment. *Prima facie* there appears to exist an association between fiscal incentives and the inflow of foreign investment. Taxes in South-East Asia generally are lower than in South Asian countries. The inflow of foreign investment in South-East Asia is relatively higher than in South Asia. Corporate tax in India

is between 55 and 65 per cent, in Iran between 30 and 53 per cent and in Pakistan 60 per cent. In contrast, in the South-East Asian countries it lies between 15 and 20 per cent. India and Iran impose the highest rate on royalties at 50 to 60 per cent, while in the other group of countries the range is between 15 and 20 per cent. Taxes on interest payments made abroad are highest in India, Pakistan and Iran, being 70, 60 and 50 to 60 per cent respectively, while in the South-East Asian countries the range lies between 15 and 25 per cent. However, investment decisions of TNCs are believed to be influenced by political stability, ideological orientation, historical connections with the host countries, size of internal markets for their products, wage rates, the availability of a competent work force, access to raw materials, infrastructural and banking facilities, exchange rate and repatriation regulations etc.[44] Tax incentives therefore, can be expected to exert only a marginal influence. Furthermore, income taxes foregone by host countries do not necessarily accrue to the benefit of the foreign investors who may be taxed by the home country on the basis of their global income.

There is an urgent need for the developing ESCAP countries to harmonize incentives for foreign investment. Co-ordination of tax policies would contribute not merely to minimize revenue losses and raise government revenue but also to draw foreign investment into activities in which the countries enjoy comparative advantage.

B. GLOBAL DEVELOPMENTS

The capacity of developing ESCAP countries to sustain or improve their performance in the manufacturing sector, though largely dependent on their own efforts and policies, is significantly affected by the policies pursued by the rest of the world. In the current international economic order developing countries can hardly influence international developments by their own actions. In this section, the implications of certain global developments for performance in the manufacturing sector of the developing ESCAP region are examined.

1. Industrial restructuring

The International Development Strategy calls upon developed countries especially to encourage continued reallocation of resources from internationally less competitive to more viable lines of production, accompanied to the maximum possible extent, by the provision of increased access to their markets of manufactures of developing countries.[45]

In the course of structural change, developed countries are losing comparative advantage in relatively labour-intensive manufactured products. Vigorous government intervention commonly in response to demands from trade unions hampers the process of the required adjustment. A wave of new protectionism, characterized by non-tariff restrictions on trade, by government assistance to domestic industry and by "voluntary export restraints" imposed on developing countries, has swept over most developed countries.[46] This contrasts with the "old protectionism", which relied primarily on tariffs. The Multifibre Arrangement is one of the best known non-tariff trade measure. It is the successor to the Long Term Arrangement on Cotton Textiles which was established to regulate trade in the 1960s. The current Arrangement includes wool and synthetic textiles as well as cotton textiles. Marketing agreements have been established for other products such as television sets and footwear, prompting demands for protectionist controls on electronic products, railroad equipment, bicycle tyres and tubes, etc. New protectionist measures are also being introduced for steel.[47]

Government aid to industry has become more common in the developed countries since the 1974-1975 recession. These take the form of direct subsidies or preferential taxes and credit terms, amounting to indirect protection to domestic industry. Many of these subsidies involve employment schemes which, although not specific to given branches, benefit labour-intensive activities that have higher than average rates of unemployment. For example, the Federal Republic of Germany provides 75 to 90 per cent of the difference between the full-time wage and wages earned by workers who are shifted to part-time work because of unfavourable business conditions. Weaker industries tend to benefit the most since these have proportionately more part-time workers. In 1977, about one half of the benefits of the British Temporary Employment Subsidy Schemes went to the textile,[48] clothing and footwear branches. These are precisely the industries in which developing countries are considered to have the best opportunities for export and in which they have had success in recent years.

An argument often cited to justify these protectionist measures

[44] Brij Soin, "The business view", *Fiscal Policy and Tax Structures in the Pacific Region* (Rotterdam, International Fiscal Association, 1981), pp. 37-53.

[45] General Assembly resolution 35/56, annex, para. 73.

[46] Implications of non-tariff barriers for manufactured exports of some developing ESCAP economies are discussed in Chapter VI on International Trade.

[47] *World Industry Since 1960: Progress and Prospects, op. cit.*, p.19.

[48] *Ibid.*

is the probable negative effect of imports from developing countries on employment in the developed countries. Calculations based on past import flows of the developed countries and on the assumption that there will be considerable increases in future imports demonstrate that the resultant job losses are not significant compared with jobs lost because of technological change or fluctuations in other components of final demand. Studies on the Federal Republic of Germany, France, the Netherlands, the United Kingdom and the United States confirm that the net loss of jobs owing to imports from developing countries is negligible.[49]

Therefore, restructuring the world economy deserves much higher priority than is accorded by the world community presently. The long-term interests of both developed and developing countries would be better served by avoiding efforts to freeze the existing patterns of production and trade through protectionist policies.

The two prime forces behind the restructuring process – the internal dynamics of national growth and the spread of technology – are often governed by unco-ordinated forces, including *ad hoc* government decisions and market dicta. These are not likely to resolve the problems of the inequitable distribution of the international benefits of industrial growth or to maximize world growth. UNIDO has initiated a System of Consultations on industrial sectors in order to contribute to the development of an international framework for the restructuring process. Consultations are envisaged on general topics, e.g. industrial financing and industrial training in addition to those on sectors. To date, consultations have been held on leather and leather products, vegetable oils and fats, fertilizers, petrochemicals and iron and steel. Preparations are under way for consultations in the following fields: agro-based industries, agricultural machinery, capital goods and pharmaceuticals.[50]

Traditionally, industrial restructuring has been regarded as a normal part of the evolution of domestic industries in response to market forces.[51] No deliberate intervention has been considered necessary on the assumption that market forces would achieve allocative efficiency in a world in which free market dicta were pervasive. However, in practice, other objectives have frequently taken precedence over the objective of allocative efficiency in both developed and developing countries. Examples include government intervention in the development of new technology, increased government ownership of industry, preference for national ownership over foreign ownership, and the desire to protect sensitive industries from the threat of foreign competition. Given these regimes of market interventions to achieve diverse national goals, it is evident that an orderly restructuring would call for an effective international mechanism to co-ordinate national action.

At the project or enterprise level, decision-makers tend to focus their attention on internal conditions. Their reluctance to take external conditions into account may be rooted in various problems: (a) the pattern and development of external demand and supply is uncertain and uncontrollable by domestic means; (b) the available domestic industrial potential may not be fully utilized; and (c) the fear that external suppliers may impose constraints on domestic development by cutting deliveries or raising prices. Yet, the internationalization of industrial production and distribution is a long-term need calling for multilateral efforts rather than any unilateral national decision.

The continuous non-disruptive process of international restructuring of industrial production, for economic, social and political reasons, requires an institutional arrangement of regular consultations between the partners in development. The UNIDO System of Consultations can gradually expand to assume responsibility for this function. The System of Consultations could provide a forum for an exchange of views and information among countries on the gradual restructuring of world industrial production, thereby helping to concentrate the attention of the actors on the long-term nature of restructuring. It should help clarify the impact of different national objectives, recognize conflicts and co-ordinate world development in the industrial sector.

2. International financing

The International Development Strategy calls for a substantial increase in the transfer of financial resources including official development assistance to the developing countries in order to support and reinforce their industrialization programmes. In recent years, a little

[49] For a survey of the studies on this subject carried out by the United Nations Conference on Trade and Development (UNCTAD), the International Labour Organisation (ILO), the Organization for Economic Co-operation and Development (OECD), and individual economists, see UNIDO, "The impact of trade with developing countries on employment in developed countries" (UNIDO/ICIS.85), Working Paper No. 3.

[50] See UNIDO, "Establishment of a system of consultation in the field of industry: progress made between April 1977 and March 1978 and the experience thus acquired" (ID/B/204).

[51] For a summary of the views held by developing countries, developed market economies and centrally planned economies on the question of redeployment which is regarded as one aspect of industrial restructuring, see UNIDO, "Redeployment of industries from developed to developing countries: studies undertaken by UNIDO" (ID/B/199).

over 5 per cent of official development assistance went to this sector in a period of stagnating or even declining absolute levels.

During the period 1967-1982 loans approved by the Asian Development Bank (ADB) for industry and the non-fuel minerals sector in the ESCAP region worth $US 391.4 million, accounted for 3.4 per cent of its total loans to the region; for 1981 and 1982, the comparable figure is less than 1 per cent. As for technical assistance loans to this sector, for the period 1967-1982, the allocation by ADB was 3.3 per cent of total loans to the region, compared with 1.6 per cent in 1982.[52] The annual average World Bank lending to developing ESCAP countries during the period 1973 to 1977 was $US 2,053.4 million, out of which 8.1 per cent was allocated to industry. During the period 1978-1982, the share of industry in the total World Bank lending to the region fluctuated widely from 0.3 per cent in 1978 to 10.1 per cent in 1982.[53]

As a supplement to other multilateral sources of finance for the industrial sector, the United Nations Industrial Development Fund (UNIDF) was set up by General Assembly resolution 31/202, and it started functioning in 1978. The Third International Development Strategy calls for the strengthening and enlargement of UNIDF. During the period 1978-1980 the total value of approved projects in the ESCAP region for UNIDF financing equalled $US 4.6 million in convertible currencies and $US 0.6 million in non-convertible currencies. In addition, in the same period UNIDF financing approved for ESCAP regional projects, amounted to $US 3.0 million in convertible currencies and $US 28,000 in non-convertible currencies.[54]

For the period 1978-1980, total contributions to UNIDF amounted to $US 37.4 million (an average of $US 12.48 million per annum).[55] For 1983, 63 countries have pledged a sum of $US 11.3 million for UNIDF, compared with $US 9.3 million in 1982. Since other countries are still expected to announce their pledges for 1983, it is likely that the total for 1983 pledges will exceed those for 1982, even in real terms. Nevertheless, the funding level of $US 50 million per annum continues to be a distant goal despite emphatic appeals made over the years by all concerned.[56]

These developments in the multilateral aid forums do not augur well for the financial and technical support envisaged in the Strategy for the developing countries of this region or elsewhere. Nor are there visible signs for notable improvement in the near future. The outlook is rendered the bleaker by the current uncertain climate for commercial capital flows and their high costs. Moreover, such flows tend to be highly tilted in favour of relatively more successful countries which enjoy better credit rating in private financial markets.

C. ACHIEVEMENTS AND PROSPECTS

1. Review of achievements

During the last two decades, the rate of growth of manufacturing output in the developing ESCAP region (excluding the centrally planned economies) was higher than in other parts of the world. The developing ESCAP region's share in world manufacturing production increased from 2.1 per cent in 1960 to 3.1 per cent in 1980 and 3.4 per cent in 1982. As a manifestation of this progress, the average percentage of this sector in GDP in the developing ESCAP region increased considerably from 11 per cent in 1960 to 19 per cent in 1980. Moreover, manufacturing production in the developing part of the ESCAP region grew (at a rate of 7.8 per annum) faster than in its developed part (7.4 per cent).

These trends showing marked progress in industrialization in developing ESCAP countries should not be viewed without qualification. First, per capita manufacturing production remains quite low ($US 51 in 1980), and lagged far behind the level attained in developed ESCAP countries ($US 1,616 in 1980). Secondly, the growth of manufacturing production in the region was accompanied by increasing intercountry disparities. A high degree of concentration of manufacturing development in a few countries of the region persists; the top two producer countries, India and the Republic of Korea continue to account for a high share of value added in manufacturing in the region. Thirdly, largely due to the adverse international climate of the late 1970s and early 1980s, even the relatively successful countries such as Indonesia, Malaysia, the Republic of Korea and Thailand experienced a marked drop in rates of growth of output in 1981 and 1982. Furthermore, the Pacific island economies are only just beginning their industrialization efforts under difficult conditions inherent in their remote location and small population.

Some progress was achieved in diversifying industrial output as measured by the change in share of

[52] Asian Development Bank, *Asian Development Bank Annual Report 1982* (Manila, 1983), pp. 42-43 and 50.

[53] World Bank, *The World Bank Annual Report 1982* (Washington, D.C., 1982), pp. 74 and 80.

[54] UNIDO, "Three years of the United Nations Industrial Development Fund, 1978-1980" (ID/B/266), p. 5.

[55] *Ibid.*, p. 3.

[56] UNIDO, "Annual report of the Executive Director, 1982" (ID/B/300), p. 20.

seven major groups of manufacturing commodities in aggregate manufacturing output over the years 1970-1979 (see Table II.10). Nevertheless, the relatively low share of sophisticated product categories persists. The Republic of Korea and Singapore represent two notable exceptions.

While during the period 1976-1980, in general, the average rate of growth of manufacturing employment outstripped that of total employment, differences in overall growth of manufacturing employment among developing countries of the ESCAP region were pronounced. The average growth of employment in the manufacturing sector varied between 8.3 per cent in Singapore and 1.8 per cent in Sri Lanka. Moreover, the rate of industrialization measured by the share of manufacturing employment in total employment remained practically unchanged for Bangladesh, India, Pakistan and the Philippines and declined in Sri Lanka (see Table II.8).

2. Prospects

This review of achievements viewed against the backdrop of the domestic policy scenario and international developments, described in the preceding sections, leads to the inescapable conclusion that the Strategy's goals in the field of industrialization are unlikely to be achieved, given a continuation of the current policies and the international environment. This proposition appears to hold whether one looks at the prospects for overall growth in the manufactures sector or its contribution to employment and exports.

Many developing ESCAP countries will need to bring about major policy reforms to improve efficiency in resources use and increase international competitiveness of their manufacturing industries. In principle, they need (a) to make better use of current and prospective comparative advantage in industrial production, (b) promote a more even regional dispersion of industries and the development of suitable small-scale industries, (c) improve internal resource mobilization and allocate more resources to education, on-the-job training and the development of entrepreneurial skills, and (d) substantially improve the efficiency of policy instruments for intervention in the industrial sector.

What is appropriate will differ widely between the large countries with well-established industrial sectors, such as India, and least developed economies, such as Bangladesh. However, in general, there exists scope for a more efficient use of available domestic resources. One area of special concern is the noticeable tendency toward a decline in value added per unit of output in several countries (see Figure II.2). This needs to be arrested. Generally, the elements of policy reform will include an adjustment of price structures to reflect relative factor scarcities, reform of trade policies in consonance with comparative advantage and review of investment incentives to eliminate unintended consequences.

To facilitate these reforms, the international community needs to make fresh efforts to arrest the growth of a new protectionism. Notwithstanding the economic recession of 1975-1976 and protectionist practices, imports of manufactured goods from developing countries into developed countries rose at a rapid rate during the period following the first oil crisis, averaging 10.2 per cent a year in real terms between 1973 and 1978.[57] The elasticity of demand for these imports with respect to GDP growth increased from 3.6 in 1963-1974 to 4.1 in

Table II.9. Selected developing ESCAP economies. Realized and planned annual growth rates in manufacturing value added in real terms

	Realized 1976-1980 (per cent)	*Planned*	
		Period	*Per cent*
Afghanistan	0.7	1976–1982	9.0
Bangladesh	4.9	1980–1985	8.6
Bhutan	...	1981–1987	15.1
China	...	1981–1985	4.0[a]
Fiji	9.0	1981–1985	5.8
India	5.6	1980–1985	6.5
Indonesia	15.1	1979–1984	11.0[a]
Malaysia	11.4	1981–1985	11.0
Nepal	...	1980–1985	10.0[a]
Pakistan	5.2	1983–1988	9.3
Philippines	7.1	1983–1987	7.6
Republic of Korea	13.3	1982–1986	11.0
Samoa	...	1980–1984	12.0
Sri Lanka	3.5	1982–1986	6.0
Thailand	10.6	1982–1986	7.6

Sources: National sources.

[a] Industry.

[57] B. Balassa, "Prospects for trade in manufactured goods between industrial and developing countries, 1978-1990", *Journal of Policy Modelling*, vol. 2, No. 3 (September 1980), pp. 437-455.

Table II.10. Selected developing ESCAP countries. Composition of manufacturing output, 1970-1979

(Percentages)

	Group[a]	1970	1975	1979
Afghanistan	1	...	25.4[b]	32.6
	2	...	56.1[b]	39.7
	3	...	5.5[b]	5.2
	4	...	3.1[b]	8.2
	5	...	2.4[b]	3.3
	6	...	...	...
	7	...	7.5[b]	11.0
	Total	...	100.0[b]	100.0
Bangladesh	1	21.1	13.2	13.5
	2	38.2	36.5	32.1
	3	3.4	2.2	5.6
	4	8.2	11.9	12.1
	5	6.4	8.0	11.0
	6	2.1	2.1	3.8
	7	20.6	26.1	21.9
	Total	100.0	100.0	100.0
Fiji	1	74.9	79.4	72.7
	2	0.9	1.4	1.4
	3	0.2	0.2	0.1
	4	2.4	2.1	3.2
	5	5.0	3.8	5.6
	6	1.8	2.3	3.1
	7	14.8	10.8	13.9
	Total	100.0	100.0	100.0
India	1	21.7	18.3	17.3[c]
	2	19.7	17.8	18.2[c]
	3	0.8	0.7	1.1[c]
	4	10.9	13.7	14.0[c]
	5	13.2	14.2	14.4[c]
	6	12.0	11.3	11.0[c]
	7	21.7	24.0	24.0[c]
	Total	100.0	100.0	100.0[c]
Indonesia	1	36.9	24.0	18.5
	2	10.6	19.0	13.8
	3	0.8	1.6	1.1
	4	5.0	8.9	9.0
	5	2.0	4.7	5.6
	6	1.1	6.0	10.1
	7	43.6	35.8	41.9
	Total	100.0	100.0	100.0
Papua New Guinea	1	28.8	34.3	50.8
	2	0.5	0.7	0.6
	3	...	...	...
	4	10.5	11.4	3.0
	5	4.1	7.3	9.2
	6	19.1	18.4	4.1
	7	37.0	27.9	32.3
	Total	100.0	100.0	100.0
Philippines	1	29.7	33.5	31.8[d]
	2	8.8	7.2	9.5[d]
	3	0.2	0.3	0.3[d]
	4	13.7	8.6	9.5[d]
	5	8.9	7.5	7.0[d]
	6	7.2	6.5	8.6[d]
	7	31.5	36.4	33.3[d]
	Total	100.0	100.0	100.0[d]
Republic of Korea	1	16.9	13.6	10.9
	2	18.3	20.7	16.7
	3	0.5	1.6	1.6
	4	9.2	9.8	8.5
	5	8.3	8.4	11.9
	6	9.6	10.7	15.7
	7	37.2	35.2	34.7
	Total	100.0	100.0	100.0
Singapore	1	13.4	7.4	6.4
	2	3.7	4.1	4.4
	3	0.7	0.4	0.4
	4	2.4	3.2	2.6
	5	6.4	5.1	5.2
	6	13.3	21.4	23.8
	7	60.1	58.4	57.2
	Total	100.0	100.0	100.0

Sources: United Nations, *Yearbook of Industrial Statistics, 1975, 1978, 1979* and *1980*; and *Statistical Yearbook of Asia and the Pacific, 1981.*

[a] Group 1 = Food product and beverages (ISIC 311, 313)
2 = Textile and wearing apparel (ISIC 321, 322)
3 = Leather and footwear (ISIC 323, 324)
4 = Chemical products (ISIC 351, 352)
5 = Iron and steel, non-ferrous metal and metal products (ISIC 371, 372, 381)
6 = Electrical machinery and transport equipment (ISIC 383, 384)
7 = Miscellaneous
Total = Total manufacturing output (ISIC 3).

[b] 1974. [c] 1978. [d] 1977.

1973-1978.[58] However, the situation of developing countries has deteriorated since 1978 in the wake of further protectionist measures adopted by developed countries and prolonged world recession. The new protectionism has consequences for future exports of manufactures from developing ESCAP countries. The countries affected by protectionist measures can attempt to circumvent barriers to their exports by diversification into other commodities. Detailed analyses of protection and market penetration suggest that diversification into such labour-intensive consumer goods as china, glassware and furniture offers prospects for trade with developed countries as promising as trade in a large number of intermediate goods and components.[59]

Simultaneously, determined efforts have to be directed toward restructuring national productive capacities so as to achieve a better balance between production for the domestic market and for export. In this context, it will continue to remain important for the newly industrializing countries of the region to increase their ability to satisfy domestic demand for capital goods and more research-intensive goods. For these purposes, it will be necessary to upgrade and restructure their research and development efforts. Other countries may find it useful to reduce import content in export production while strengthening economic links between export industries and other branches of the national economy.[60]

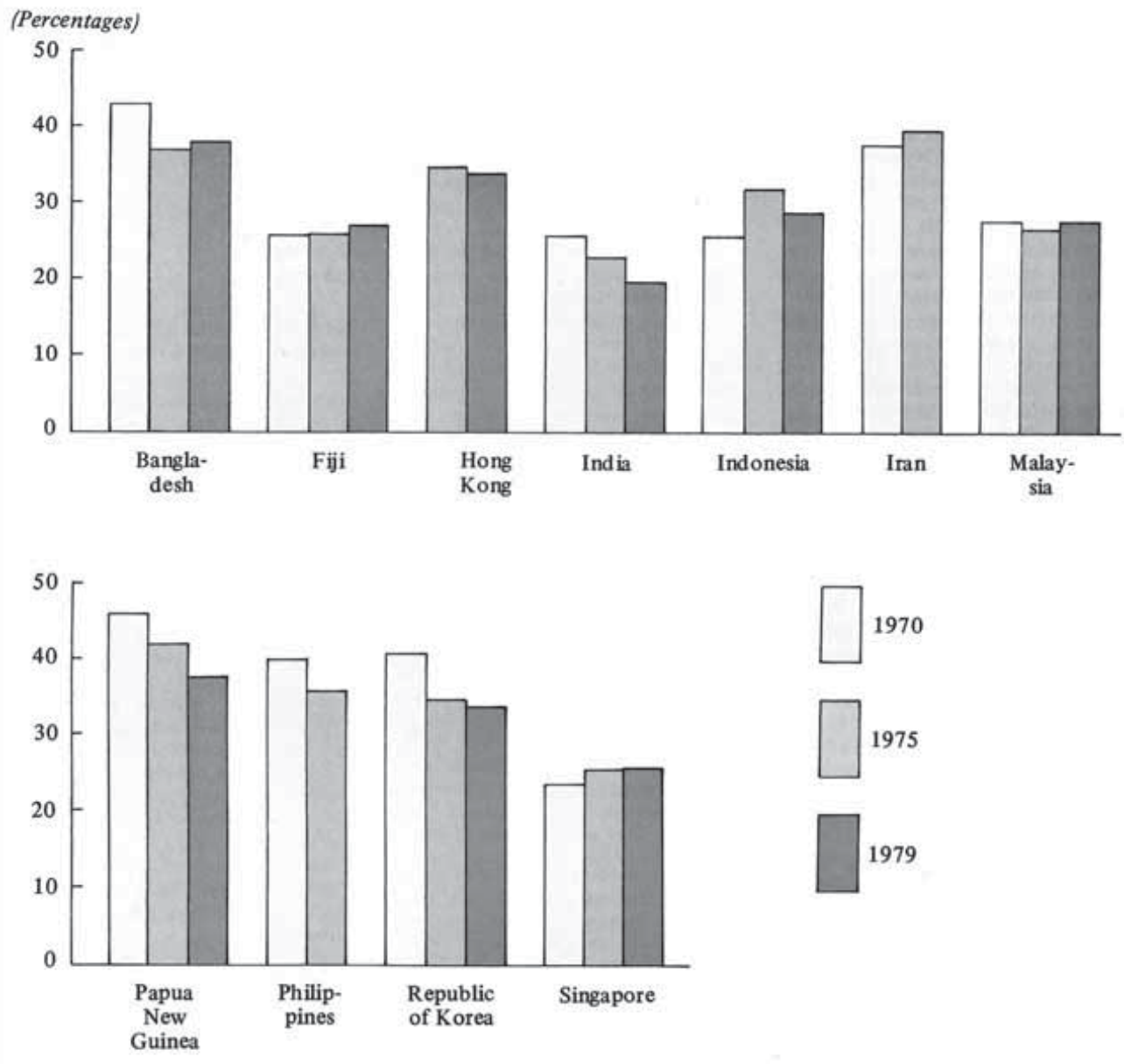
A third area of concern for

[58] *Ibid.*

[59] H. Hughes and J. Waelbroeck, "Can developing-country exports keep growing in the 1980s?", *The World Economy*, vol. 4, No. 2 (June 1981), pp. 127-147.

[60] For a more detailed analysis, see "Review and appraisal of the implementation of the International Development Strategy" (E/ESCAP/296), February 1983, pp. 9-21.

Figure II.2. Selected developing ESCAP economies. Percentage of value added in manufacturing gross output, 1970, 1975 and 1979



future development in manufactures is the availability of financial capital. Structural adjustment to higher oil prices and changing patterns of world trade will require substantial investment not only in new lines of industrial production and in the rehabilitation of existing firms, but also in infrastructure. The prospects for future availability of concessional capital are not bright. It is likely that there will be at least a decline of concessional lending in real terms and that competition for these funds among developing countries will stiffen. Many countries may have to borrow more in private capital markets, make additional efforts to attract direct foreign investment, and improve domestic resource mobilization.

Even a partial realization of the Strategy's goals for industrialization will require that national policy changes be effectively supported by international action in the form of accelerated financial and technical assistance. Perhaps more important, the trade regimes of the developed countries need to accommodate more exports of manufactures from developing countries. Failing such support various positive measures introduced in ESCAP countries may not achieve their full potential.

Box II.5. Women in industry

The Third International Development Strategy specifies that industrialization policies should have as one of their aims integration and equal participation of women in industrial development programmes. An analysis of employment patterns and working conditions of women workers in the ESCAP countries indicates considerable scope for the promotion of greater equality of employment opportunities and working conditions for women.

In the countries of the ESCAP region, the participation of women in industry ranges from 12 per cent of the industrial labour force in India and Nepal,[a] to around 50 per cent in the Philippines. There are some countries in which a high proportion of women participate in the manufacturing sector. However, this proportion has remained virtually stagnant throughout the decade, Singapore being a noteworthy exception.

There are common features which characterize women's employment in the manufacturing sector. Employment of female labour is concentrated in a fairly narrow range of industries, namely, textiles, garment, leather goods, food and beverage processing etc. These occupations are associated with the female domestic role. More recently, the demand for female labour has come from new sophisticated technology industries, the electronics industry, in particular. Within any given industry, they are commonly employed in jobs requiring low levels of skill. They are also paid lower wages than men in equivalent jobs. The wage differential holds in the case of developed economies as well and in some cases, the disparity is greater than in developing economies. For example, in 1976 for the occupation of machine-sewing bookbinders, women's earnings were lower than men's by 15.2 per cent in Australia and 12.9 per cent in Hong Kong. In the same year, for the occupation of sewing machine operators, the disparity in earnings between the two sexes in favour of men was 10.6 per cent and 7.7 per cent in New Zealand and Pakistan respectively.[b] The disparity in treatment between men and women workers is also reflected in fewer and poorer welfare facilities, more limited opportunities for education and vocational training to upgrade their skill and in a virtual absence of career advancement for women.[c]

While various economic, cultural, sociological and religious factors determine intercountry differences in the rate of participation of women in industries, the reasons for discriminatory treatment lie largely in male-dominated management policies and restrictive labour practices with respect to recruitment and dismissal. The female work force consists predominantly of young, inexperienced and unmarried employees. They are often employed on a part-time basis, or as casual workers or on long periods of probation with little or no access to trade unions to defend their rights.

It is being increasingly recognized in the region that measures are needed to promote equality of opportunity and treatment of men and women in employment. In 1978, Sri Lanka established a Women's Bureau.[d] Similarly, in 1978 the Government in Indonesia appointed an Associate Minister for the Role of Women with a view to monitoring and co-ordinating programmes on women. In Thailand, the administrative unit responsible for women workers is the Women and Child Labour Division established within the Department of Labour, Ministry of Interior in 1979. In spite of these measures, a long distance remains to be traversed to ensure a meaningful role for women in industry and, indeed, in economic life generally in the region.

Selected ESCAP economies. Proportion of female to total workers in manufacturing sector, 1970 and 1980
(Percentages)

	1970	*1980*
Indonesia	48.2	49.8
Japan	35.8	36.3
Philippines	54.4	47.7
Singapore	33.6	46.3
Thailand	42.4	42.1

Source: Compiled by the secretariat from various national and international sources.

[a] Myrna Blake, *A Case Study on Women in Industry* (Asian and Pacific Centre for Women and Development, April 1980), p. 5.

[b] See "Results of the ILO 1976 October Inquiry", *Bulletin of Labour Statistics*, Geneva, 2nd Quarter, 1977.

[c] See, Malinee Wongphanich and others, *A Comparative Study of Socio-economic Impact on the Working Life Conditions of Industrial Women Workers in Textile Industries: Japan and Thailand* (Bangkok, 1982), p. 44.

[d] Els Postel and Joke Schrijvers, eds., *A Woman's Mind is Longer than a Kitchen Spoon*, Report on Women in Sri Lanka (Leiden, Research Project, Women and Development, 1980), p. 17.

III. ENERGY

A long-term solution to the energy problem is among the objectives and goals of the International Development Strategy for the Third United Nations Development Decade.[1] To that end, it is recommended, *inter alia*, that efforts for the development and expansion of all energy resources be intensified; that the economies now primarily based on hydrocarbons for energy rely increasingly on new and renewable sources of energy; and that measures for the conservation of hydrocarbons be urgently adopted. The Strategy recognizes the increasing requirements of energy in developing countries and calls for promoting the exploration, development and expansion of all energy resources of developing countries. It urges the international community to devote financial and technical resources adequate for these purposes.

Common policy objectives of Governments in the ESCAP countries in the energy sector have been to: (a) conserve energy resources by restraining consumption; (b) promote substitution between fuels in a search for cheaper and domestically available sources of energy; and (c) augment the domestic production of energy.

[1] General Assembly resolution 35/56, annex, paras. 34, 35 and 126.

A. DEMAND MANAGEMENT ISSUES

At the aggregate level, economic growth in the large majority of the developing ESCAP countries was accompanied by a relatively high degree of total primary energy and, in particular, liquid energy consumption over the 1970s.This is reflected in income elasticity estimates, defined as change in energy consumption in response to change in gross domestic product (GDP).[2]

On the basis of statistically significant coefficients, it is clear that income elasticities are well above unity in most cases, implying that the growth of GDP is accompanied by a more than proportionate increase in the consumption of energy. The estimates fall within the range of 1.2 to 1.9. This is an expected result because as economies modernize, structural change of GDP usually results from faster growth of relatively more energy-intensive sectors. The majority of developing countries in the region have been able to reduce the intensity of primary energy requirement per unit of aggregate output over time. The reduction is small: the average income elasticity was 1.24 for the period 1970-1981 compared with 1.35 over 1970-1977. Papua New Guinea, Singapore, Solomon Islands and Thailand were able to lower energy intensity significantly, by between 17 per cent and 27 per cent. Finally, there is a positive correlation between the use of overall and of liquid fuels. Countries that have achieved a fall in total energy use per unit of aggregate output also tend to achieve a decrease in liquid fuel consumption.

The relatively modest decline in the intensity of total and especially liquid energy consumption in many developing ESCAP countries suggests that policy measures implemented for energy conservation and substitution have not been as effective as desired. This is due, in part, to the complex nature of several major constraints acting on the processes by which energy consumption is adjusted to price changes. Major policy initiatives to increase conservation and substitution in the developing ESCAP region and constraints faced in implementing them were recently reviewed by the secretariat.[3] Some of the important points are briefly recapitulated below.

The transport, industrial and, in several countries of the region, household sectors are the principal

[2] Income elasticity is estimated by means of a log linear regression with total or liquid energy consumption as the dependent variable and GDP at constant 1975 United States dollar as the independent variable. The reported results are based on current-year regressions. Estimates with one year lag did not yield significantly different results.

[3] *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1), pp. 64-79.

consumers of imported mineral energy (both directly and through thermal power generation).[4] However, these consumers are by no means a homogeneous group. This lack of homogeneity has given rise to a series of discriminatory policy responses by Governments to take account of differences at sectoral and subsectoral level. Low tariffs for electricity to foster industrialization, and subsidized diesel and kerosene prices to lower the cost of energy for poorer urban and rural consumers, are familiar cases in point. In countries with high energy resource endowments and less urgency for energy conservation and substitution, there has been a considerable lag in the adoption of price and other measures designed to divert fuel supplies to more economically desirable uses. At the same time, it is clear that energy consumption, particularly of the liquid types, is also determined by several factors largely outside direct policy and regulatory influences.

Several developing countries in the region have achieved considerable energy conservation within the transport sector through increases in engine efficiency and fiscal measures and administrative regulations relating to the prices of fuel for transport, to the desirable sizes and movements of motor vehicles and to improvements in public transport services. Bangladesh and Thailand, among others, are exploring the possibilities of greater use of locally available gas in transport. The replacement of hydrocarbons with renewable fuels such as ethanol has not made any noticeable headway, however. Widespread interfuel substitution within the transport sector appears to be a long-term process because of both the structure of the capital stock and technology. Large-scale energy saving in the transport sector involves the design and implementation of an integrated spatial and transport framework focusing, in particular, on the construction and utilization of more energy-efficient and high-load mass transport. The shifting of traffic to more efficient carriers can be implemented only in stages in order to avoid massive capital outlays within a short period. The whole process, however, necessitates much economic planning and administrative controls.[5] In this connection, rational pricing of public transport services is of great significance.

In the industrial sector, reduction of consumption and interfuel substitution would be of little importance so long as fuel constitutes a minor component of total cost. The same observation applies when costlier energy inputs are fully recovered through higher prices without loss of market share, or are compensated for by larger incomes or subsidies. This is typical of many of the energy-intensive industries – such as steel, cement and fertilizers in several developing countries that follow a policy of cost-plus pricing.[6] Besides, there are enterprises that are simply unaware of technical options available for using energy more efficiently or for interfuel substitution. Considerable skepticism has also resulted from, and is reinforced by, several "false starts" and abandoned proposals due to unrealistic or over-optimistic projections made in the immediate aftermath of the energy crises. Furthermore, the potential for energy saving by small- or even medium-sized industrial users, although considerable, is unlikely to be achievable quickly. The payback period of such conservation outlays as retrofitting, replacement of existing plant or additions to facilities (including waste heat recovery, and combined heat and power generation etc.) is estimated to be between two and five years.[7] Besides, capital shortages and imperfections in the financial markets in several countries of the region have rendered it difficult to obtain finance and foreign exchange even for economically attractive conservation and substitution proposals, particularly those that would improve the efficiency of energy use but would not expand overall capacity. The need to facilitate and improve the flow of information on techniques and incentives available for energy conservation and substitution is of crucial importance.

With respect to the electricity generating subsector, the rapid growth of electricity demand and the very low proportion of installed hydropower capacity relative to potential in the region (about 11 per cent in 1981) implies much opportunity for interfuel substitution. Nevertheless, the share of hydroelectricity, although rising considerably in absolute value, accounted for only 23 per cent of total primary and secondary power production in the developing ESCAP region in 1981, compared with 28 per cent during 1973. The major constraints against a faster rate of exploitation include long lead time, massive capital outlays and, in several countries, difficulty of access to sites. The highly uneven distribution of water re-

[4] *Economic and Social Survey of Asia and the Pacific 1980* (United Nations publication, Sales No. E.81.II.F.1), p. 72; D.H. Kim and G.J. Abbott, "Changes in consumption and imports and exports of oil since 1973: a preliminary survey of the developing member countries of the Asian Development Bank", *Asian Development Bank Economic Staff Paper No. 3* (September 1981), p. 16; and Asian Development Bank, *Asian Energy Problems* (Singapore, Federal Publications, 1982), p. 319.

[5] J. Bharier, "Energy demand management", *Natural Resources Forum*, vol. 6, No. 1 (January 1982), pp. 11-12.

[6] World Bank, *The Energy Transition in Developing Countries* (Washington, D.C., 1983), p. 17.

[7] *Ibid.*, pp. 18-19.

sources relative to energy need, moreover, means that subregional co-operation in energy trading arrangements becomes an important prerequisite for the profitable exploitation of potential. Lastly, large dams may cause significant ecological dislocation, submerge large areas and induce climatic changes. Objections from conservationist groups, in fact, have led to a reassessment of or delay in several major hydroelectricity projects in some countries of South-East Asia as well as in developed countries such as Australia.

In the household sector, there appears to be relatively less scope for conservation. On the one hand, the cost of kerosene, cooking gas, electricity and locally produced coal and charcoal tend to be held down on social welfare grounds. In urban areas, storability and transportability are also important considerations to energy-consuming households. Experience has indicated, on the other hand, that it is considerably more difficult than originally envisaged to design household appliances, especially cooking stoves, that are simultaneously cheap, more efficient and made of materials that can be produced and maintained locally. Another equally formidable barrier is the observed reluctance to change cooking, heating or lighting habits, especially when interfuel substitution does not produce significant savings, or requires bothersome operations and maintenance. In rural areas, furthermore, new-technology stoves may not be widely adopted if they do not provide such important ancillary benefits as space heating, lighting and protection against insects.[8] Generally, however, biogas and solar devices hold considerable potential as substitute energy sources to satisfy rural household needs in the long term.

B. DOMESTIC PRODUCTION

Various constraints to conservation and substitution, together with the increasing energy requirements arising out of accelerated development efforts, clearly suggest that the energy gap in net energy-importing developing countries cannot be met by concentrating on the demand side alone. In recognition of this fact, many countries of the region have initiated measures

[8] *Ibid.*, p. 21.

Box II.6. Potential for regional co-operation among oil importers

Regional co-operation and co-ordination can play a vital role in the rational formulation and effective management of energy policies. Several areas for possible co-operation exist. The continuing dominance of imported liquid fuels in total commercial energy requirements of the developing ESCAP region, for instance, points to the great importance of intra- and interregional co-operation in the development, processing and distribution of fossil fuels.

A means of minimizing disruption to oil supplies could be agreement among importing countries regarding minimum oil stocks that should be held in reserve and an emergency sharing scheme. The ancillary costs of oil imports – particularly storage, transport and insurance – could be compressed through such arrangements. Alternatively, participating countries could investigate the possibilities of owning and operating bulk carriers and of setting up regional distribution centres.[a] This latter infrastructure would facilitate, among others, the balancing of supply and demand for various types of crude and refined petroleum distillates among participating countries.

There is much potential for regional and subregional co-operation in the pooling and dissemination of information, and in research and training relating to conventional, new and renewable energy sources. ASEAN has proved to be a valuable vehicle for co-operative efforts focusing on the exchange of experience on common as well as specialized energy problems (e.g. solar air-conditioning and refrigeration); on various research activities (e.g. the ASEAN Coal Development Project jointly funded by ESCAP and the Asian Development Bank) as well as on the building up of research capability; and on the formation of joint approaches and working groups in dealing with third parties. National oil companies in ASEAN (i.e. Pertamina of Indonesia, Petronas of Malaysia, Philippine National Oil Company of the Philippines, Singapore National Oil Company of Singapore and the Petroleum Authority of Thailand) have actively participated in the training of their staff through joint short-term workshops and training programmes. Fourteen programmes on aspects of energy production management, among others, were scheduled to be held in 1983.

Instances of joint financing of energy development projects are already there. Pooling of financial resources could also help induce international investment in the development of energy resources. There is a growing body of evidence that international oil companies and commercial banks tend to prefer local institutions in the host countries to participate in financing energy projects to bearing the whole burden themselves.[b]

Difficulties in putting together workable arrangements acceptable to all concerned are formidable. Nevertheless, the very discussion of areas and opportunities for mutually beneficial co-operation may heighten national awareness which, in turn, could lead to concrete proposals and follow-up studies.

[a] Asian Development Bank, *Asian Energy Problems* (Singapore, Federal Publications, 1982), p. 234.

[b] World Bank, *The Energy Transition in Developing Countries* (Washington, D.C., 1983), p. 85.

to augment domestic production of both exhaustible and renewable energy. Major initiatives to promote use and/or increase production of coal, natural gas, large-scale hydropower, solar energy, windpower and certain forms of biomass fuel were discussed last year.[9] The following discussion focuses on other selected forms of renewable energy.

1. Small-scale hydropower

This type of water-based energy, as typified in the simplest form by water wheels, has been utilized for centuries. After years of neglect, small-scale hydropower[10] has recently found wider acceptability in both developed and developing countries. Small-scale hydropower produces little or no adverse environmental impact. It can also be designed to serve other purposes (e.g. the provision of water supply, flood control, irrigation and recreation). It is, moreover, particularly suitable for rural and/or less accessible areas, where electricity demand is low, due to its relatively low initial investment requirements and the short time lag between planning and construction. Over 80 per cent of the population of the developing ESCAP countries live in rural areas and many of these countries – including Afghanistan, Burma, Malaysia, Nepal, Papua New Guinea, the Philippines and Sri Lanka – contain large isolated areas, making it extremely difficult and expensive to implement rural electrification programmes through a conventional national transmission and distribution grid.

Furthermore, small-scale hydropower technology does not require complex civil structural work, and a large part of construction can be accomplished through local participation and the use of locally available materials. Another important advantage is that, despite the high investment outlay per unit of output, the cost of small-scale hydropower compares favourably with those associated with electricity generation by other energy sources.[11] A recent development that improves measurably the economics of small-scale hydropower relates to the introduction of standard pre-engineered low-geared turbines with a maximum output of up to 6 MW. These plants cost about one half of the custom-designed units of comparable capacity and efficiency.

China appears to have carried out successful programmes in the provision of electricity from small-scale hydropower. About 88,000 generating units had been built entirely within the country with a combined installed capacity reaching 6.9 million kW in 1980. This amount of electricity constituted about 30 per cent of the total hydropower generation in China in 1980.[12] The developing ESCAP region possesses the world's greatest hydropower potential. The development of small-scale hydropower has generally been neglected until the recent escalation in oil prices and, consequently, a reliable and detailed assessment of small-scale hydropower potential is not yet available for many developing countries of the region. It has been "guesstimated" that up to one tenth of the total hydropower potential will be suitable for small-scale exploitation.[13] The contribution of this type of renewable resource to satisfy the energy needs of the region can be immense.

In the development of small-scale hydropower as an important source of energy, government regulation and direction will be required at various levels and stages.[14] The exploitation of small-scale hydropower must necessarily form an integral part of rural development planning. There exists, in addition, the need for governmental assistance in design and equipment standardization and the provision of an adequate supply of expertise and skilled manpower. Experience has revealed, moreover, several legal and institutional constraints requiring government intervention in small-scale hydropower exploitation. Legal problems may relate, for example, to the liability of the designer, builder, owner and distributor of small-scale hydropower generation and distribution in case of system failure, property damage and personal injury. The fixing of an electricity tariff, moreover, constitutes a difficult problem.

2. Fuelwood

Wood is by far the most important source of biomass; forests and woodlands cover approximately 30 per cent of the world land area. Fuelwood and other organic materials provide the predominant fuel for over 2,000 million people, of whom about one half reside in the Asia-Pacific region.[15] Recent studies have confirmed earlier evidence on the magnitude and severity of the fuelwood crisis, both globally and within the developing ESCAP region. Acute fuelwood scarcity is estimated to have been borne by over 170 million people, mostly in major urban centres in South and South-East Asia in 1980. Another 250 million suffered

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[9] *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, pp. 64-79.

[10] Plants with capacity up to 10,000 kW.

[11] ESCAP, "Renewable sources of energy – volume IV: small hydropower development" (ST/ESCAP/208), 1982, p. 4.

[12] *Ibid.*, p. 44.

[13] *Ibid.*, p. 9.

[14] *Ibid.*, pp. 38-39.

[15] *Proceedings of the ESCAP/FAO/UNEP Expert Group Meeting on Fuelwood and Charcoal* (United Nations publication, Sales No. E.82.II.F.10), p. 17.

from varying degrees of fuelwood deficit. The population so affected is expected to be almost 1.3 billion by the year 2000.[16]

Approximately one half of the wood consumed for energy purposes in the rural sector is used for cooking; another 30 per cent is required for lighting and space heating.[17] On the demand side, significant savings can be made through improved stove designs. While traditional cooking stoves have an efficiency of only 6 to 10 per cent, better designed stoves are already available. The Singer type stove in Indonesia has an efficiency level of about 27 per cent, while the Indian Junagadh stove and the new Nepali Chulo, 30 per cent and 20 per cent, respectively. At these efficiency levels, the amount of fuelwood requirements could be reduced by at least one half.

[16] *Ibid.*, pp. 22 and 39-40.

[17] *Ibid.*, p. 25.

The widespread introduction of these new appliances has been constrained by the socio-cultural needs and preferences of stove users. As indicated previously, fire-making in rural households is not intended solely for cooking. Another issue relates to the increase in harmful pollutants emitted by more efficient stoves. Such emissions could cause respiratory and other diseases, and this issue deserves careful assessment.[18]

Wood has also been converted into useful fuels by pirolysis (i.e. heating in the absence of air to produce complex hydrocarbons, including a residual commonly known as charcoal). Charcoal is, by and large, a better energy source than wood. Apart from the ease of transport and storage, lower pollution and greater resistance to insects and fungi, it has a calorific value two to three times higher than that of wood. However, the bulk of the world's charcoal production is produced by rather inefficient techniques.[19] The substantial potential for energy savings is well illustrated in the more modern processes, which require just about half of dried wood to obtain one ton of charcoal compared with traditional processes. Several traditional charcoal-producing and consuming countries, including those in East Asia, have directed significant efforts to improve conversion efficiency in recent years. Besides, interest in charcoal for domestic use has been revived in Fiji and is being actively promoted in Papua New Guinea and Sri Lanka, among others.

[18] *Ibid.*, p. 42.

Regarding supply aspects, much atention has been focused on the potential of large-scale tree plantations; these can store energy over long periods in readily available forms and can be operated at flexible scales with a variety of products. Leucaena – also known as ipil-ipil, the Hawaiian giant or kao hoale – is one of several tropical trees that are especially promising as a candidate for agro-forest projects. A leucaena plantation can provide up to 50 tons of bone-dry wood per hectare a year. An energy farm of about 10,000 hectares is being established in the Philippines. Another 5,000 hectares of leucaena are also being cultivated to provide charcoal as fuel for a steel foundry. Large fuelwood forests and plantations are being developed or are under consideration in many other countries of the region – including Bangladesh, China, Fiji, Malaysia, Pakistan, Sri Lanka and Viet Nam.

As a result of various socio-economic and institutional constraints, experience in tree-planting and reforestation programmes in several developing countries of the region has not always been en-

[19] Estimates of world charcoal production differ widely. See *ibid.*, p. 43.

Table II.11. Selected developing ESCAP countries. Availability and relative importance of fuelwood in commercial energy consumption

Availability	*Relative importance*[a]		
	Over 75 per cent	*Between 75 and 25 per cent*	*Less than 25 per cent*
Acute scarcity[b]	Nepal	Afghanistan (71) and India (34)	
Deficit[c]		Bangladesh (45), Pakistan (29) and Sri Lanka (57)	
Prospective deficit[d]	Burma and Viet Nam	Indonesia (69), Philippines (33) and Thailand (38)	
Satisfactory	Democratic Kampuchea and Lao PDR	Papua New Guinea (66), Samoa (43) and Solomon Islands (62)	Brunei, Fiji, Malaysia, Mongolia and Vanuatu

Source: Proceedings of the ESCAP/FAO/UNEP Expert Group Meeting on Fuelwood and Charcoal (United Nations publication, Sales No. E.82.II.F.10), pp. 17 and 21-24.

[a] Figures in brackets denote the share of fuelwood in total commercial energy consumption. [b] The wood energy balance is markedly negative, and the use of fuelwood, even through overcutting, is below levels needed to meet minimum energy needs. [c] Minimum fuelwood needs are being met only by a rate of cutting in excess of sustainable supply. [d] Fuelwood supplies still exceed demand in 1980 but if present trends continue, they will be inadequate to meet expected energy needs by the year 2000.

couraging.[20] Energy farming, in particular, would require large land areas and much water input. Plantation establishment could also disturb and even cause irreplaceable changes to the natural habitat, while the continuous removal of trees for fuel will necessitate much chemical input to restore soil fertility. Furthermore, people are highly reluctant to devote land to purposes other than food production, especially in areas with high population density. Such reluctance may be weakened through demonstrated feasibility of inter-cropping.

3. Other biomass fuels

Given suitable conditions, liquid and gaseous fuels can be obtained from biomass at a cost that has become remarkably favourable, compared with those associated with hydrocarbons. There are also other significant advantages – including the possibilities of small-scale and/or decentralized operations, little and biodegradable pollution, and valuable fertilizer by-products. Yields of biomass systems, moreover, are higher in sub-tropical or tropical regions, and biomass production technologies tend to be relatively labour-intensive. The importance of biomass energy cannot be overemphasized. Residual waste materials recoverable from grain fields in the ESCAP region, for example, would have been sufficient to distil 120 million tons of methanol in 1977. When blended with gasolene, this could have substituted for 170 million tons of oil equivalent or approximately 16 per cent of commercial energy consumption of the region.[21]

(a) Alcohol

Ethyl alcohol has long been produced by many developing ESCAP countries from agro-products. Engine trials on blends of between 15 per cent and 20 per cent of ethanol in gasolene have been made in several countries. The experimental programme in the Philippines, which has been in operation for several years, is the most advanced in this regard. A 15 per cent blend is used in all the gasolene on Negros Occidental. The alcogas, however, is subsidized so that it can be sold at par with pure gasolene.[22] The programme is estimated to have displaced 0.6 per cent of gasolene demand; the planned target is 14 per cent in 1986.

There are still several barriers to overcome before any large-scale adoption of gasohol is possible. Recent experience has confirmed that the economics of alcohol production is highly site-specific. Financial viability is much enhanced where there is a significant surplus of biomass materials or wastes and of local manpower, with few attractive alternative uses or employment opportunities. Alternatively, there must exist a large area of surplus land that is not suitable for food cropping. These conditions are only met in varying degrees, and the overall costs of ethanol plants outside Brazil have tended to be higher than initially forecast. Another adverse factor has been the softening of oil prices, which has resulted in a reassessment of proposed projects in several countries of the region.

To be successful, moreover, alcohol projects require careful integration of various activities in agriculture, industry, transport and energy. However, few developing countries yet possess such integrated intersectoral linkages.[23] The use of gasohol, although in many ways an attractive proposition, is by and large not necessarily more economical than the use of pure gasolene under current cost, price and technological conditions.[24]

(b) Biogas

This gaseous fuel is produced when plant or animal wastes decay in the absence of air. Biogas contains 50 per cent to 70 per cent methane and several percentage points of hydrogen sulphide, the two combustible components. It has numerous advantages as a source of rural family or village energy, particularly for cooking, lighting and heating purposes. The collection and fermentation of animal and human wastes also add considerable benefits to public health; the anaerobic process destroys disease-carrying pathogens and parasites. The fermented residue, moreover, makes an excellent fertilizer.

In many developing ESCAP countries, particularly China and India, the use of biogas for cooking and lighting is already widespread, although largely on the family or commune scale.[25] One of the largest commercial integrated biogas establishments is located in the Philippines. The feedstock in this complex comes from about 15,000 pigs. The gas generated from 48 batch units supplies energy for a canteen, a meat processing plant,

[20] *Ibid.*, p. 41.

[21] ESCAP, "Study on the production and use of ethanol, methanol and methane from biomass (alternative fuels)" (ST/ESCAP/195), May 1982, p. 7.

[22] S. Koide, R.B. Brooks and T. Vicharangsan, *Regional Study on Production of Fuel Ethanol from Agro-products* (Bangkok, ESCAP, June 1982), p. 68.

[23] World Bank, *The Energy Transition in Developing Countries, op. cit.*, p. 51.

[24] ESCAP, "Study on the production and use of ethanol, methanol and methane from biomass (alternative fuels)", *op. cit.*, p. 86.

[25] For relevant details, see *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, p. 78.

Box II.7. Draught animal power

Draught animals have contributed significantly to rural economies for thousands of years; upwards of 85 per cent of farmers in Asia and Africa depend heavily and necessarily on animal draught power for cultivation and transport. As much as 250 million hectares, out of a total of 470 million hectates of crop land in the developing world, are cultivated with draught animal power as the principal energy input. Tractors are used on 104 million hectares and the rest are prepared with manual labour. Draught animals also provide several useful products including fuel, fertilizer, milk, meat, skin and bones.

The amount of energy which an animal is capable of generating depends on a variety of factors, but the majority of draught animals can produce between 0.4 and 0.8 horsepower on a sustained basis. Taking the conservative estimate of 0.5 horsepower per draught animal, the total power available from the estimated population of 300 million working head in the developing world is about 150 million horsepower. The replacement of this energy by other means may require $US 250 billion, an amount the developing countries can ill afford.[a] The several important roles that draught animals have played are thus unlikely to be diminished for many more generations to come.

Regarding the developing ESCAP region, the contribution of draught animals as a power source in agriculture varies from less than one fifth of total power input, as in India and Iran, to about one half, as in the Philippines, Thailand and Viet Nam. The contribution reaches 70 per cent in Pakistan.[b] Generally, however, draught animal power is a very important energy input in agriculture in the large majority of the developing ESCAP countries. Estimates by the Food and Agriculture Organization of the United Nations indicate that the rate of expansion of the draught animal population is unlikely to be adequate to provide the required agricultural power input by the year 2000. The most immediate planning issues and remedial actions relate to the identification of socio-economic factors responsible for the slow growth in the number of draught animals, and to the education and training of farmers and extension workers in the relevant aspects of modern animal husbandry. Consideration may also be given to the feasibility and desirability of financial incentives – such as subsidies, credit and insurance facilities for draught animal power development and the provision of effective animal husbandry infrastructures (e.g. breeding improvement programmes and animal health care services, improvements in forage cropping etc.).

There is also a pressing need to increase the efficiency in the utilization of draught animals. In most developing countries, there exists plentiful scope for improved design of cultivation and transport equipment that use animal power. Several countries in the developing ESCAP region have considerably improved animal-powered machinery used in cultivation and transport. These successful initiatives deserve to be widely disseminated and improvements in technology and knowledge made available to interested countries. More workshops and study tours (some already organized by ESCAP) could help this process.

[a] *Proceedings of the Committee on Natural Resources, Eighth Session, and of the Regional Expert Group Meeting on the Follow-up of the Nairobi Programme of Action on New and Renewable Sources of Energy* (United Nations publication, Sales No. E.83.II. F.8), p. 166.

[b] *Ibid.*, p. 167.

a soup cannery and electrical generators required in husbandry and management. Several other integrated, closed cycle biogas energy systems are being designed and tested in other developing ESCAP countries, including Sri Lanka and Thailand.

Despite its obvious appeal, large-scale implementation of biogas systems has been handicapped by several factors.[26] The most urgent requirement concerns the establishment of an accurate inventory of the available resource base at the local level. Equally important is the need to improve the technology of biogas – especially regarding gas yields, the use of local materials and of multiple feedstocks, operation under cold weather conditions, and better end-use facilities and appliances. Careful surveys, furthermore, will have to be carried out to assess socio-cultural acceptability; these can, at the same time, be supplemented by concerted official efforts to provide the relevant information, demonstration projects and technical support, as well as the needed financial incentives.

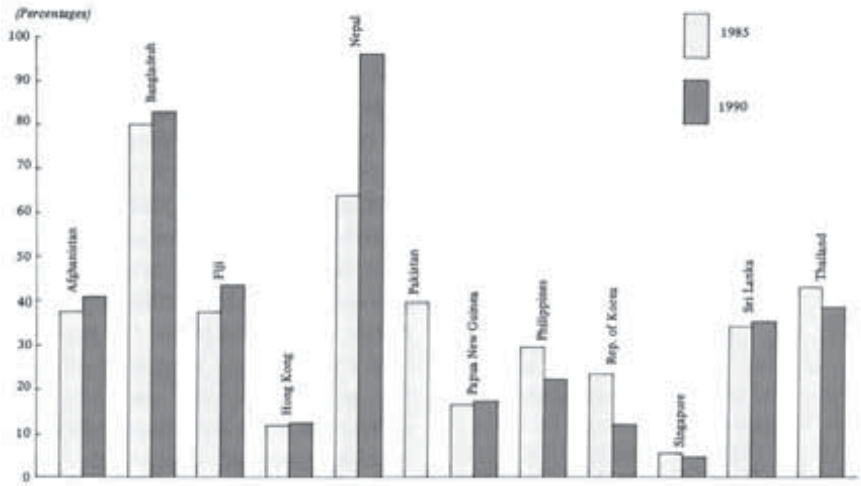
C. IMPORT, INVESTMENT AND MANPOWER NEEDS

1. Import burden

It was noted earlier that economic growth in a large number of the developing ESCAP countries has been energy intensive, a slight decline in recent years notwithstanding. Up to a certain growth threshold, the income elasticity of energy demand can be expected to remain well above unity. Clearly, increased energy consumption

[26] *Proceedings of the Committee on Natural Resources, Eighth Session, and of the Regional Expert Group Meeting on the Follow-up of the Nairobi Programme of Action on New and Renewable Sources of Energy, op. cit.*, p. 163.

Figure II.3. Selected developing ESCAP economies. Projected expenditure on energy imports as percentage of merchandise exports, 1985 and 1990



would have implications for continued import dependence for many countries of the region.

A recent study has produced the most detailed estimate of the financial burden of oil imports relative to the projected merchandise export earnings in a majority of the developing ESCAP countries for 1985 and 1990.[27] Assuming that oil prices would remain at the 1980 level in real terms, these projections indicate that many of these economies will have to remain heavily dependent on imported hydrocarbons to meet their energy needs throughout the decade. Of significant concern is that such dependence might be increasing for several countries in the region. Two of the least developed countries, Bangladesh and Nepal, will have to spend well over four fifths of their merchandise export earnings to finance energy import. These projections also assume that the process of domestic and international adjustment to increased oil prices observed during the period 1973-1978 would continue during the 1980s. If this favourable assumption does not hold, import needs may be even greater.

The above scenario clearly highlights the continued need for vigorous demand management policies. From this point of view, one cannot over-emphasize the urgent need for improved understanding of the principal characteristics of energy demand at the micro, subsectoral and individual fuel product level. The related requirement of careful assembly and detailed analysis of information relating to energy demand should receive the adequate attention of energy planners in the region. At the same time, an institutional framework needs to be developed to provide information especially to small-scale users and to carry out educational campaigns and promote practical research on energy savings. These requirements, if met, would contribute significantly to a more rational and effective design and implementation of price and non-price conservation measures within the energy sector.

2. Investment requirement

The above projections of import demand further assume development of domestic energy resources on a scale that will require massive investment. The estimated energy investment required by 15 developing ESCAP countries reaches $US 197 billion for the period from 1978 to 1990. The bulk of this amount is concentrated in the conventional energy sector, particularly in electricity generation and infrastructure, and in a few countries, namely Indonesia, Pakistan, the Philippines, the Republic of Korea and Thailand. With few exceptions, the investment needs constitute from around 6 per cent to 15 per cent of gross domestic investment for the same period.

A more important consideration relates to the very high foreign exchange component, which averages almost $US 126 billion or about 64 per cent of the total. Additionally, many energy-deficit developing ESCAP countries may not be able to secure the required domestic resources for investment financing. The amount of resources required from abroad may thus be considerably higher than indicated by the foreign exchange component. Yet the volume of external resource flows for energy development to the developing countries as a whole is unlikely to exceed $US 25 billion in 1982, compared with a projected annual requirement of $US 64 billion over the 1982-1992 period.[28]

The mobilization of adequate foreign resources would appear to be especially difficult for the energy-poor, low- and even some middle-income countries of the

[27] Asian Development Bank, *Asian Energy Problems, op. cit.*, pp. 338-339.

[28] World Bank, *The Energy Transition in Developing Countries, op. cit.*, p. 74.

region. To begin with, the availability of concessional funds itself has been constrained recently. At the same time, the supply of official or commercial credit to these countries may also be constrained by considerations of overall debt service capability and creditworthiness.

Any major success in closing the energy gap of the developing countries of the region will require that capital surplus countries play a more active role in overcoming the foreign exchange constraint likely to be faced by developing countries. Commercial banks, furthermore, could perhaps evaluate a country's creditworthiness in a longer-term perspective. The international oil companies must also be induced to allocate a greater share of their financial and technical resources to the developing countries. Lastly, continuing efforts must be made by developing countries to improve the management of their energy sector.[29]

In this context, the crucial importance of good pre-investment studies deserves to be emphasized. Major proposals concerning energy investment and pricing need to be analysed in terms of sectoral and national implications rather than in an unco-ordinated, unintegrated manner as has happened often in the past.[30] It follows that energy sector planning should properly form part of the overall national development planning framework.

3. Manpower needs

The financial dimension of the energy development effort required, as discussed previously, is very large. And so is the dimension of the required manpower, although its crucial importance in the implementation of energy resource development and management programmes has been recognized only recently.[31] The training needs are undoubtedly complex due to the highly diversified nature of the energy resources and the relevant technologies themselves. Furthermore, energy sector management tends to involve social and political considerations as well.

The most pressing issue regarding energy development, particularly among the oil-importing countries, is perhaps to secure a substantial increase of technologists to help discover, assess and exploit conventional sources of energy. There exist in many developing countries usable quantities of oil, gas or coal. However, these deposits may be insufficient or of a quality too poor for export markets, making it difficult to attract foreign companies for exploration and development. Given the necessary resource injection, universities and technical institutes in the developing countries could increase the supply of specialists in hydrocarbon technology. Delays and shortages, nevertheless, appear unavoidable in the 1980s.

The training of technologists in the development of non-conventional fuel resources poses difficult problems. Among other reasons, there are at least 14 new and renewable energy sources identified at the Nairobi Conference. The technologies involved range from simple sun drying to the relatively sophisticated direct conversion of solar energy. The variety of training requirements in these fields, moreover, do not fit easily to the standard curricula found in most conven-

[29] *Ibid.*, p. 76.

[30] *Ibid.*, p. 64.

[31] International Labour Organisation, *Report of the Expert Group Meeting on Assessment of Manpower Training Needs for the Energy Sector* (Bangkok, 8-10 December 1982), p. 27.

Table II.12. Selected developing ESCAP economies. Estimated investment needs in the energy sector, 1978-1990
($US million)

	Conventional energy	*Non-conventional energy*	*Total*	
			Amount	*Foreign exchange component*
Afghanistan	182	4	186	132
Bangladesh	5 175	323	5 498	3 767
Burma	1 730	38	1 768	1 356
Fiji	620	44	664	384
Hong Kong	5 754	455	6 209	3 585
Indonesia	41 269	1 924	43 193	33 465
Malaysia	8 760	378	9 138	6 126
Nepal	920	456	1 376	795
Pakistan	29 673	1 076	30 749	23 191
Papua New Guinea	1 463	160	1 623	904
Philippines	26 156	1 336	27 492	18 189
Republic of Korea	39 495	2 838	42 333	17 747
Singapore	5 782	436	6 218	3 591
Sri Lanka	1 880	270	2 150	1 152
Thailand	17 405	778	18 183	11 430
Total	186 264	10 516	196 780	125 814

Source: Asian Development Bank, *Asian Energy Problems* (Singapore, Federal Publications, 1982), pp. 352-359.

Box II.8. The paradox of fuel oil surplus[a]

Against the backdrop of continued heavy dependence on imported energy, the threat of an emerging surplus in respect of residual oil looms large in the ESCAP region. The volume of the surplus projected for the period 1990-1995 at just under 1 million barrels per day in Asian countries (including Japan but excluding Afghanistan and Iran is large enough to create financial and logistic difficulties.

To a large extent, the problem arises from a mismatch between refining capacity and the structure of demand for fuel oil. Special cracking facilities are required to convert (heavy) residual fuel oil to light or middle distillates (e.g. gasolene, or diesel oil and kerosene). Many refineries, therefore, produce a fuel mix that does not balance well with internal demand. Bangladesh and Pakistan refineries, for example, generate a large surplus of naphtha and fuel oil that have to be disposed of overseas; meanwhile, large quantities of kerosene and diesel oil are imported.

Prospects of disposal of the emerging residual oil surplus in markets outside Asia are not bright. Hence, countries of the region will be required to pursue policies to promote increased domestic absorption of residual oil with due regard to the economics of alternative sources of energy. Another way to reduce the burden of surplus is to co-ordinate national policies in the creation and preferably in upgrading of refining capacity.

Most of the existing refineries in the region are poorly placed in respect of cracking facilities to balance supply with demand at the regional level. A number of countries could jointly buy and upgrade a refining centre to produce middle distillates (i.e. kerosene, jet fuel and diesel/gas oil), the demand for which is expected to grow. These countries can then avail themselves of this refinery to have the heavy end of their oil imports cracked into higher-quality products. In this way, the advantages of economies of scale and advances in processing technology will be fully reaped. Upgrading is a highly expensive process and is unlikely to be economic if many refiners simultaneously decide to install similar equipment. Another possible option is a joint processing or leasing arrangement with a refinery that already possesses sophisticated cracking capacity. The practice of third-party processing is not new in the region although it has tended to take place on an *ad hoc* basis.

International co-operation in this area would necessitate the choice of a location on the basis of existing refinery structure and availability of port and transportation facilities. It would also require pooling of the limited technical expertise available in the region for upgrading operations and providing support services.

[a] Based on Fereidun Fesharaki and David T. Isaak, "Fuel oil availability in the ESCAP region" (mimeo.) (November 1983), pp. 49-58.

tional engineering and technical schools in the developing countries.[32] New and innovative teaching capacity will have to be developed and adapted, and this process certainly takes considerable time for implementation and institutionalization.

An important requirement in terms of energy manpower development is perhaps to evolve a national capacity for the evaluation of manpower availability and requirements indicated by the planned programmes and projects within the energy sector. As a start, statistical coverage of the energy subsectors that are accorded high priorities in national development plans and energy programmes should expand. From such data manpower requirements can be assessed, for example, in terms of the categories of skill requirements associated with the various stages of exploration, development, production, conversion and distribution of the relevant energy subsectors. The balance or imbalance in manpower demand and supply can then be derived and corrective efforts initiated at the local, national, regional and international levels.

[32] T.O. Carroll, "Energy management training for developing countries in the 1980s" in P. Auer, ed., *Energy and the Developing Nations* (New York, Pergamon Press, 1981), p. 464.

IV. TRANSPORT

The International Development Strategy for the Third United Nations Development Decade envisages development of roads and railways as part of the expansion of physical infrastructure to support fully the expansion of the economy as a whole. In addition, the Strategy calls upon the international community to take the steps necessary to enable developing countries to reach as close as possible to 20 per cent of the deadweight tonnage of the world merchant fleet by 1990 as well as to make major advances in air transport, particularly in air cargo transport.[1]

A. AN OVERVIEW

A discussion of policy responses pertaining to the transport sector in the developing ESCAP region is difficult for several reasons. The sector comprises a number of subsectors which vary in capital intensity, technological sophistication, the degree of government involvement in ownership and regulation, and in other respects. These subsectoral characteristics also vary between countries. Moreover, the information available regarding various subsectors is sketchy. In many development plans, there is insufficient disaggregation by subsectors and in consequence, it is difficult to discern directions of policy in respect of each.

[1] General Assembly resolution 35/56, annex, paras. 30, 128 and 130.

The importance of the transport sector in development arises from a number of factors. The transport sector directly contributes to economic growth by establishing links between production and market centres.[2] It provides an incentive for increased output by permitting access to inputs and markets and contributes to consumer welfare by smoothing out localized gluts and scarcities. It also assists optimum industrial location. Besides, "key social issues such as the amelioration of rural poverty and low productivity, urban crowding and pollution, access to education and health facilities, and opportunities for horizontal and vertical social mobility are immediately bound up with the availability of adequate transport and communications facilities".[3]

Whilst it is difficult to be categorical, there is evidence to suggest that the transport sector in the developing ESCAP region has not received as much emphasis as it deserves in the process of development. One indication is the relatively low share of public investment allocated to the transport

[2] Based on a sample of the developing ESCAP countries (Afghanistan, Bangladesh, Burma, Fiji, India, Indonesia, Malaysia, Nepal, Pakistan, the Philippines, the Republic of Korea, Singapore, Sri Lanka and Thailand), it is found that rank correlation between share of transport in GDP and per capita GDP is +0.64.

[3] ESCAP, "Status report on transport and communications development in the ESCAP region" (TRANS/PTCD/(2)/1), December 1983 (mimeo.).

Table II.13. Selected developing ESCAP countries. Ratio of annual growth of GDP to that of value added in the transport sector, 1975-1982

	1975-1979	*1980*	*1981*	*1982*
Afghanistan	0.38	...	...	0.17
Bangladesh	1.05	1.68	2.11	0.73
Burma	1.12	1.13	0.56	0.95
Fiji	0.68	...	1.10	...
India	0.64	1.33	0.93[a]	...
Indonesia	0.48	1.12	0.70	0.37
Malaysia	0.69	0.48	0.58	0.55
Pakistan	0.75	1.09	0.80	0.88
Philippines	0.68	1.26	0.86	0.72
Singapore	0.54	0.75	0.71	0.68
Sri Lanka	1.44	0.82	0.89	0.82
Thailand	0.99	0.89	0.85	0.49

Sources: National sources.

[a] Including trade.

sector. An analysis of the latest development plans of 13 developing ESCAP countries[4] shows that allocation to this sector in most cases is well under 20 per cent. This contrasts sharply with Japan where 36 per cent of public sector investment during the period 1979-1985 is allocated for the transport sector. Another instructive comparison is between the rate of growth of the transport sector and of GDP. A comparison of the annual growth rate of GDP to that of value added in the transport sector of 12 developing ESCAP countries (see Table II.13) brings out two important facts. In general, over the period 1975-1982, value added in the transport sector grew somewhat faster than GDP. However, the rate of growth of the transport sector consistently exceeded that of GDP only in four countries (Afghanistan, Malaysia, Singapore and Thailand). Since initial conditions in most countries of the region were characterized by shortages of transport services, it is probable that there has been no significant alleviation of the transport problems. Overcrowded trains with passengers on the roofs, buses with passengers precariously clinging to door handles and piles of goods in railway godowns are evidence of a prevailing excess demand for transport services.

Table II.14. Selected developing ESCAP countries. Density of total and paved roads, late 1970s

	Total roads (metre/ population)	*Paved roads (metre/ population)*	*Share of paved to total road (percentages)*
Afghanistan	1.44	0.21	15
Bangladesh	0.08	0.04	51
Burma	0.70	0.25	37
India	2.23	0.88	39
Indonesia	0.73	0.37	50
Lao People's Democratic Republic	2.27	0.19	8
Malaysia	2.22	1.76	80
Nepal	0.34	0.14	41
Pakistan	0.49	0.31	64
Philippines	1.40	0.39	28
Thailand	2.91	0.46	16

Sources: National sources.

B. LAND TRANSPORT

1. Road

There was considerable expansion in road networks during the decade of the 1970s.[5] Yet, the road system remains grossly inadequate whether in terms of coverage of land surface area or population. A selected sample shows that road length per capita ranges from 0.08 metres (Bangladesh) to 2.91 (Thailand) against 10 in some developed countries. The share of paved roads in total road length in ESCAP developing countries ranges from 8 to 80 per cent. Moreover, the coverage of rural areas is scanty. A large number of villages in several countries remain unconnected by roads of any kind. In general, in countries where the provision of roads is most inadequate, the share of paved surface in the total tends to be high. Since paved roads tend to serve mostly urban areas, even poor quality roads may not be available in some parts of these countries.

The problem of inadequate road development is further compounded by the poor quality of road surfaces. Many of the paved roads have surfacing which is not strong enough to withstand the volume and the weight of traffic. In most countries, there is a preference for constructing new roads rather than maintaining old roads in good order. On the average, maintenance expenditure as a proportion of construction expenditure has been of the order of 20 per cent.[6] There is much evidence that maintenance projects yield higher benefit-cost ratios than new construction.[7]

Improper designing, poor shoulders, inadequate drainage, absence of wayside amenities and traffic-control devices, ribbon development along roadways and various other shortcomings make road systems in much of the developing ESCAP region inefficient and unsafe. Road accidents have become a serious problem throughout the region. The number of persons killed on roads almost doubled during the decade of the 1970s in several countries of the region.[8]

[4] The countries are Afghanistan, Bangladesh, Fiji, India, Indonesia, Malaysia, Nepal, Pakistan, the Republic of Korea, Samoa, Solomon Islands, Thailand and Tonga.

[5] *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1), p. 37.

[6] ESCAP, "Trends in the development of the Asian Highway and other roads and road transport in the region" (E/ESCAP/STC.7/1), 7 October 1983 (mimeo.), p. 31, table 11.

[7] World Bank, *The Highway Maintenance Problem* (Washington, D.C., 16 April 1979), p. 8.

[8] ESCAP, "Consideration of current issues relating to road traffic safety" (TRANS/IMHE(2)/9), 31 January 1983 (mimeo.).

An important issue in road transport relates to the management of fleets. In most developing ESCAP countries, trucking is generally privately owned. Many of the vehicles used are poorly maintained because of a shortage of spare parts, which are not imported in adequate quantities to fit the wide variety of makes of trucks in use. The inadequacy of safety features in trucks is another major issue. The existing regulation and control systems could be made more effective instruments in the development of road transport. In many developing ESCAP countries, road passenger transport services are provided by government-owned fleets. Because of the scarcity of spare parts and trained personnel, unremunerative fares, services on unprofitable routes and adherence to unrealistic schedules, most of these undertakings function at low levels of efficiency. The net losses of some public road transport corporations in the region have doubled or trebled over the past decade. The total loss likely to be incurred during 1980-1985 by 48 state road transport undertakings in India, which together own over 62,000

Box II.9. Potential of non-motorized transport

The ESCAP region contains more than half of the world's population, about 80 per cent of whom live in the countryside. Many people do not have any access to all-weather roads. In the most populous countries of the region – Bangladesh, China, India and Indonesia – well over 50 per cent of villages remain unconnected by paved roads. A vast number of people living in such villages, estimated to be over 1 billion, depend on non-motorized means to satisfy their transport needs.

The size of the non-motorized transport sector in the region is large. Some 25 million animal-drawn carts are estimated to ply in the region. In Bangladesh, it has been estimated that 250,000 pedal tricycles, 150,000 bullock carts and, because of the riverine nature of the country, 300,000 country boats are in operation. In terms of ton-kilometres, non-motorized forms of transport carry almost twice as much freight as motorized forms. It is estimated that in India there are over 15 million animal-drawn carts. These provide about 70 per cent of transport services for rural households. In 1982, Indian bullock carts hauled about 40 million tons of paddy, 23 million tons of wheat and 17 million tons of coarse grains. In Viet Nam, the quantity of goods moved by specialized transport co-operatives using animal-drawn vehicles amounted to 60 million ton-kilometres of cargo and 250 million passenger-kilometres annually. In China, although supplanted by motor vehicles in some areas, non-motorized vehicles continue to play an important role as a means of rural transport.

Several factors have contributed to heightened concern for the improvement of non-motorized transport in the region. As development strategies focus increasingly upon equity aspects, the need for improved efficiency of widely available rural means of transport receives greater recognition. The strengthening of the non-motorized transport sector is viewed as a means of moderating further aggravation of unemployment problems in rural areas. The potential for commercial energy saving is also an important consideration, in addition to the inherent suitability of non-motorized transport in the movement of small loads over short distances along narrow and often winding tracks.

Several countries of the region are active in bringing about technical innovations to increase operational efficiency and dependability of non-motorized transport. In the case of bullock-carts, for instance, major improvements have been effected in Bangladesh, India and Sri Lanka, among others. The improved carts, on the average, require 45 to 66 per cent less energy for draft and achieve speeds 20 to 30 per cent higher than traditional carts. The improved carts are, however, 25 to 50 per cent more expensive than the traditional version. Even so, one improved version developed in Sri Lanka, which has higher performance efficiency than the traditional cart, costs 20 per cent less. In China, different harnessing systems have been developed. The double-piece yoke arrangement is used for all carts drawn by single animals, including bullocks, buffaloes, horses and donkeys. This arrangement is considered to be more effective and efficient for the animals than the neck yoke used in other parts of the region. For carts drawn by more than one animal, the double-piece yoke system is retained for one of these animals. Each of the other animals has a harness at the neck, which is attached directly to the cart by draught traces. This system, known as double-piece yoke and independent hitching, has several advantages.

In the case of tricycles (rickshaws), Bangladesh has pioneered major improvements. Tests undertaken on the improved rickshaws in Bangladesh show that it is easier to ride than the standard version, and reduces the energy required from the rider. In particular, it allows the rider to start from rest and climb gradients without getting off and pushing the vehicle. Another important feature is that the improved version has two gear ratios. Passengers find the improved body more comfortable. The improved rickshaw is 16 per cent more expensive than the existing version.

Considerable efforts have already been made by several other countries of the region to improve the various types of non-motorized transport to increase their load capacity, speed of travel, energy efficiency and safety, to adapt them to particular local conditions and to reduce the strain imposed on humans and animals. Most of the research on improvements is being undertaken simultaneously by different countries in isolation. Considerable potential exists for the transfer of non-motorized transport technology within the region. There is a need to exchange expertise and information on existing technology, research and development work in progress, the direction of future research and the impact of government policies and measures on non-motorized transport.

buses, is Rs 14,330 million at 1979-1980 fares.[9] Some Governments recently have modified their policies in order to allow public corporations to run on a commercial basis, providing them greater flexibility in decision-making and autonomy and at the same time making them more accountable for the efficiency of operations. The direction of policy in India has been that priority be placed on consolidation and that any future nationalization will have to be decided on the basis of well-formulated plans.[10] In Bangladesh and certain other countries, it has been decided to allow the private sector a greater role in road passenger transport.[11]

2. Railways

Though road transport remains dominant in goods and passenger transport in the region, railway transport is assuming greater importance in many countries because of increased energy costs. Over the period 1970-1978, passenger traffic in a group of countries (Bangladesh, Burma, Indonesia, Iran, Malaysia, Pakistan, the Philippines, Sri Lanka and Thailand) increased by about 44 per cent and in India by about 60 per cent. Railway freight traffic appears to have grown much more slowly.

The countries in the region employ broad-gauge, standard-gauge and metre-gauge track, as well as some narrow-gauge track. This diversity of gauges creates considerable difficulties with regard to rolling stock and traffic facilitation. In China, India, Japan, Pakistan and the Republic of Korea, more than 10 per cent of the track length is double-track.[12] Nine railways operate electrified rail transport, and most others have plans for eventual electrification. Electrified track length remains less than 10 per cent of total route length in all countries and areas except Hong Kong, Japan and the Republic of Korea.[13]

Many developing ESCAP countries are undertaking the modernization of equipment to increase the efficiency of railway operations. With such major changes, it is essential to consider the total system's operation and improve all operations together to achieve maximum benefit. The efficiency achieved by the introduction of unit freight trains for long hauls on electrified sections equipped with improved track and modernized telecommunications infrastructure may be nullified by, for example, inefficient handling of freight at either end. Training of technical and other personnel, economy in the use of each category of staff, and better management of personnel are required to raise operating efficiency and reduce cost.

Productivity of freight transport in the region, in general, is at low levels. Track utilization for freight traffic showed a decrease of 44 per cent between 1970 and 1978. Productivity per unit of different items of equipment has also declined in some countries of the region. Wagon turn-round time in Burma, which was 10.6 days in 1971/72, increased to 16.8 days in 1977/78. In many countries of the region, this performance indicator is around 15 days. In China, it is 3.[14]

Only a few of the railways in the developing ESCAP region operate at a profit. The operating ratio (i.e. the ratio between operating expenditure and operating revenue) ranges from 0.76 in Iran to 1.57 in Sri Lanka. The composition of costs and revenues varies widely from country to country, though certain regularities can be observed. The major reasons for the operating losses encountered by railways in the region are a freeze on railway fares by Governments, operation of unprofitable routes for reasons other than commercial viability, an uncompensated rise in operating costs, and the diversion of traffic to other modes of transport.

In the sixth five-year plan of India, several changes have been proposed to: (a) increase the output of existing assets, (b) give priority to freight traffic, (c) leave non-bulk medium-load traffic to road transport, (d) discourage short-distance movement by rail, except in dense corridors, and (e) rationalize the railway fare structure.[15] In Pakistan, besides other recommendations, certain improvements in performance have been recommended: (a) reduction of turn-round time from 18 to 14 days, (b) increase in engine km per day by 15 per cent, (c) increase in net tonnage per freight train by 15 per cent, from 578 to 650 tons, (d) increase in system loading from 1,700 to 2,100 wagons per day, (e) reduction in percentage of ineffective locomotives from 15 to 10 per cent, and (f) increase in the number of coaches per passenger train from 12 to 16.[16]

In the Republic of Korea, both passenger and freight traffic by rail

[9] India, Planning Commission, *Sixth Five Year Plan 1980-85* (New Delhi, 1981), p. 304.

[10] India, *Report of the National Transport Policy Committee* (New Delhi, May 1980), p. 201.

[11] Bangladesh, Planning Commission, *Second Five Year Plan 1980-85* (Dacca, 1980), p. 237.

[12] ESCAP, "Re-evaluation of the role of railways in the ESCAP region in the context of global energy crisis" (TRANS/MMRR/1), 20 December 1982, table 13.

[13] *Ibid.*, table 13.

[14] *Ibid.*, p. 12.

[15] India, Planning Commission, *Sixth Five Year Plan 1980-85, op. cit.*, pp. 300-301.

[16] Pakistan, Planning Commission, *Sixth Five-Year Plan 1983-88* (Islamabad, 1983), chapter 12.

are to be streamlined to help compensate for losses caused by below-cost fares and to promote the more rational operation of the country's deficit-prone railways.[17] In Sri Lanka, priority is being given to rehabilitation, maintenance and management improvement.

C. WATER TRANSPORT

1. Shipping

The developing ESCAP region is a major user of cargo shipping services. Imports of these services to countries in the region increased from 36.7 per cent of world trade in 1970 to 38 per cent in 1980. Exports rose from 31.5 per cent to 36.8 per cent. The developing ESCAP countries' exports rose from 19.7 to 21.2 per cent and imports from 14.2 to 19.8 per cent.

The prolonged recession in shipping, a direct result of the global economic slow-down, has resulted in increased competition and over-capacity and has put pressure on the tariff structure and reduced the load factor on many liner routes serving the ESCAP region. Some traditional liner operators on both European and trans-Pacific services have been forced to discontinue operation. In East European trade, the introduction of the trans-Siberian land bridge and a China/Europe container service have further increased competition. The net result has been a weakening of the financial position of national shipping lines. To ease the situation, some ESCAP countries have introduced radical measures. Thailand has launched a five-year promotion plan to boost its merchant marine industry.[18] In the Philippines, a scrap-and-build promotional plan for replacement of the inter-island fleet has been proposed.[19]

Despite the decline in cargo volume and shrinkage of world tonnage, the merchant fleets of the developing ESCAP countries have grown steadily in recent years, both in the number of vessels and deadweight capacity. Growth per size of fleet unit (increase in gross registered tons (grt)/increase in units) has also been substantial for the developing countries of the region.

Between 1974 and 1982, the number of oil tankers owned by developing ESCAP countries increased from 5.2 to 11.8 per cent of the world total and their grt rose from 2.0 to 5.4 per cent of the world total. The average size of a tanker owned by the developing ESCAP countries increased by 42 per cent over this period against a world average increase of 6 per cent. The number of bulk carriers owned by developing ESCAP countries rose from 4.6 to 13.1 per cent of the world total between 1974 and 1982, and their grt rose from 4.4 to 12.2 per cent of the world total. The number of fully cellular container vessels owned by developing ESCAP countries grew from 3.1 to 15.1 per cent of the world total between 1974 and 1982, and their grt rose from 1.3 to 13.3 per cent of the world total. While the average size of a fully cellular container vessel owned by the developing ESCAP countries in 1974 stood at approximately 6,000 grt, the average size eight years later had grown to almost 16,000. The world averages for these two years were 15,000 and 18,000 grt.

[17] Republic of Korea, *The Fifth Five-Year Economic and Social Development Plan 1982-1986* (Seoul, 1982), p. 79.

[18] Thailand, National Economic and Social Development Board, *The Fifth National Economic and Social Development Plan 1982-1986* (Bangkok, 1982), pp. 91-92.

[19] Philippines, National Economic and Development Authority, *Five-Year Philippine Development Plan 1978-1982* (Manila, 1977), p. 265.

Table II.15. ESCAP region. Share of merchant fleets in world total, 1974-1982

(Percentages)

Year	*Number of vessels*			*Gross registered tonnage*			*Deadweight capacity*		
	ESCAP	*Developed*[a]	*Developing*	*ESCAP*	*Developed*[a]	*Developing*	*ESCAP*	*Developed*[a]	*Developing*
1974	24.0	17.1	6.9	17.8	12.9	4.9	17.3	12.9	4.4
1975	24.5	16.7	7.8	17.2	12.0	5.2	16.8	12.0	4.8
1976	24.0	15.6	8.4	17.5	11.5	6.0	17.2	11.6	5.6
1977	24.1	15.0	9.1	17.3	10.6	6.7	16.8	10.5	6.3
1978	24.1	14.3	9.8	17.4	10.1	7.3	16.8	10.0	6.8
1979	25.2	14.8	10.4	18.4	10.2	8.2	17.8	10.1	7.7
1980	25.8	15.1	10.7	18.7	10.2	8.5	18.1	10.1	8.0
1981	26.3	15.0	11.3	19.4	10.2	9.2	18.7	10.1	8.6
1982	26.8	15.1	11.7	20.2	10.3	9.9	19.6	10.2	9.4

Source: Lloyds Register of Shipping.

[a] Australia, Japan and New Zealand.

Box II.10. Containerization[a]

Containerization represents a revolutionary change in the technology of the sea transport of cargo, with a far-reaching impact on shipping, ports and shippers. The new capital-intensive technology was introduced in the 1960s by shipping companies of the developed countries as a solution to their persistent problems of high labour and other operating costs. Standard metal container boxes were designed, wherein the cargo could be packed for highly mechanized transport aboard specially designed ships and specialized land carriers. The unitization of cargoes in container boxes or vans also required capital-intensive changes in port infrastructure and equipment, among other things. The economic circumstances of developed countries required and enabled them to provide the requisite port and inland transport infrastructure and organizational mechanisms, causing the "container revolution" to spread fast and wide.

To assure adequate returns on their substantial investments in sophisticated container vessels and equipment, the shipping lines had to adopt measures that would enable them to utilize fully their container capacity. It was necessary to maintain or increase their load factor in the round voyage to attain economies of scale. While in its early years containerization was confined to trade between the highly industrialized countries, the container ship operators later concentrated on penetrating other routes.

As a result of increased pressure, not only from the container carriers but also from the buyers of developing countries' export products and suppliers of their imported capital and consumer goods, containerization was introduced into a number of developing countries in the ESCAP region in the early 1970s.

To begin with, these countries' imports were being increasingly moved in containers. The suppliers abroad would sell their goods only in containerized shipments. The consignees had hardly any choice. The port authorities could not refuse to accept the containerized cargo unloaded at their terminals even though they were not equipped to handle such cargo. While vessels were able to reduce their turnaround time substantially with the faster discharge of boxed cargoes, the cargo and empty containers piled up in ports, especially in peak seasons. In some ports the container jam became so serious that the ports were compelled to increase storage charges, and some conferences threatened to impose port congestion surcharges, although neither the port authorities nor the consignees were responsible for this situation, which had developed for reasons beyond their control. That the local port authorities were able eventually to ease the congestion with their inadequate and inappropriate equipment is a tribute to their resourcefulness. But in the meantime, economies suffered from delayed delivery of imported goods. Exports, which moved in break-bulk, also suffered from delayed shipments through congested ports.

Subsequently, developing countries began to feel pressure from buyers abroad to containerize an increasing number of their major export products such as jute, coffee, tea, seafood, cotton yarn, garments, handicrafts, electronic goods and rubber. They could not afford to ignore the challenges posed by containerization, which now affected their foreign exchange earnings and their ability to maintain and possibly expand their exports into the increasingly competitive markets in the developed countries.

The annual growth rates of container traffic through the South Asian ports have been dramatic during the period 1978-1981. These rates have decelerated in the South-East Asian ports, relative to 1975-1978 period, indicating that they may be reaching their peak, but the growth of their container volume in absolute terms remains impressive. Manila and Bangkok were ranked twenty-fifth and fifty-first, respectively, among the world's 250 container ports in terms of total twenty-foot equivalent units (TEUs) handled in 1980.

Such rapid growth of containerization had major implications for upgrading and redesign of shipping fleets, port equipment and infrastructure for inland transport. In addition, changes were required in the legal framework of sea freight and port charges as well as customs regulations and clearance procedures.

An important issue that is assuming added importance in developing countries of the region is whether or not to containerize inland transport in the face of the ever-increasing containerization of sea-borne trade. Containerization is a capital-intensive process, and would provide less employment than the generally prevailing system in which containers are stuffed and stripped at the ports. However, containerization may yield benefits in terms of reduced transport cost per unit of merchandise and less breakage and pilferage, among others. Based on a methodology developed in ESCAP, pilot studies in Nepal appear to indicate higher net positive benefits in economic terms from containerization of inland transport relative to current practice, whereas in Malaysia and Thailand, the diffference appears to be marginal.[b] Considering that containerization is expected to continue in sea-borne trade in the years ahead, more in-depth studies of the economics of containerizing inland transport may be highly rewarding.

Selected ports in the ESCAP region. Annual growth of container traffic in TEUs, 1975-1981 *(Percentages)*

Port	Period	
	1975-1978	*1978-1981*
Bangkok	115.3	26.2
Bombay	86.5	50.4
Calcutta	77.4[a]	159.0
Cochin	20.6[a]	–
Karachi	–	111.1
Kelang	20.2	14.5
Manila	30.0	7.2
Penang	30.0[a]	32.9

[a] 1976-1978.

[a] Based on ESCAP, "Containerization of shipping services in the developing ESCAP region: progress, problems and issues", in *Economic Bulletin for Asia and the Pacific* (forthcoming).

[b] ESCAP, "The inland transport of containers" (mimeo.). Main report and annexes A (p. 50), B (p. 57) and C (p. 4).

In many developing ESCAP countries, there was rapid development. Bangladesh National Line plans to increase its existing fleet capacity of 367,000 dwt to 457,000 dwt by 1985.[20] The sixth five-year plan of India provides for an increase in fleet capacity from 5.3 million grt to 7.3 million grt.[21] Indonesia has expanded its national fleet by ordering new specialized vessels. Sri Lanka has received a number of cellular container vessels for feeder operation in the Bay of Bengal. In 1982, Thailand's fleet had a capacity of 669,160 dwt, up by 18.1 per cent from 1981. There are 86 commercial vessels accounting for 412,000 dwt and 70 tankers of 257,000 dwt.

China's shipping capacity expanded tenfold during the 1970s, from 70 ships (750,000 dwt) in 1970 to 431 ships (7,222,000 dwt) in 1980 and about 10 million dwt in 1982.[22] In 1982, China's shipyards built 300 ships, half the tonnage for export. In the Republic of Korea, fleet expansion has been largely in bulk carriers. The shipbuilding industry in the Republic of Korea has also increased its range of orders for export, having under construction full container ships, parcel tankers and bulk carriers.

Within a relatively short period the shipping industries in ESCAP countries have had to deal with bigger and more sophisticated vessels requiring increased levels of skills and competence. In addition to the increased numbers, larger sizes, specialized vessels and advances in technology have brought in the use of sophisticated propulsive machinery, communication equipment and nautical sciences, and increased the use of electronics, computers and automation. Officers and crew as well as managers have been under strain to cope with these innovations. The development of manpower to consider and report suitable performance indicators, such as return on capital, ship turn-round time, equipment utilization, labour efficiency and cargo handling throughput, is one area where skills need further improvements. Other main problems troubling the maritime shipping industry of the developing ESCAP countries may be identified as insufficient financing, inadequate ship repairing capacity and low competitiveness.

2. Inland water transport

For much of the population, especially in rural areas in some countries of the region, inland waterways provide the traditional means of transport and communications. Wherever navigable waterways exist, this mode can provide immediate accessibility without the need for investment in line haul capacity, as in other modes of transport. Moreover, inland water transport is one of the most efficient modes of transport from the point of view of commercial energy consumption. Apart from these benefits, inland waterways provide unique opportunities for the development of tourism.

Bangladesh has 5,200 miles of navigable waterways during the monsoon and 3,200 miles during the dry season.[23] Moreover, one third of the country is under water, mostly in the southern region, during the monsoon. Despite these features conducive to inland waterways development, the length of waterways with 6 feet draft decreased from 2,270 miles in 1973 to 840 in 1981. The Bangladesh Inland Water Transport Authority, which among other activities carries out the maintenance of inland waterways, faces serious problems due to rapid siltation, inadequate channel markings and substandard berthing facilities. To counter these problems, a five-year plan has been drawn up, and it includes projects for the excavation of waterways, the construction of jetties, the improvement of the cargo-handling facilities of existing ports, the development of additional ports and landing stations, the replacement of old pontoons and vessels, aids to navigation and the establishment of a telecommunications network.

In Burma, the Irrawaddy River together with its major tributary, the Chindwin, provides 5,000 miles of navigable waterways in the wet season and 3,600 miles in the dry season. Low depths in the dry season, rapid changes in river course and inadequate maintenance of river channels are among the main problems. Inland water transport accounted for about 38 per cent of total freight in 1976/77. The Government has given autonomy and flexibility to the Inland Water Transport Corporation to enable it to operate on a commercial basis. Inland water freight and passenger traffic are planned to increase by 16.7 per cent and 20.4 per cent, respectively, by 1986.

In China, the total length of navigable inland waterways amounted to nearly 108,000 km, according to a 1980 survey. In 1980, freight traffic accounted for 330 million tons and passengers numbered 260 million, an increase of 4 and 17.5 per cent over the respective volumes in 1977. Due to insufficient attention to the comprehensive development of water

[20] Bangladesh, Planning Commission, *Second Five Year Plan 1980-85, op. cit.*, p. 244, table 13.13.

[21] India, Planning Commission, *Sixth Five Year Plan 1980-85, op. cit.*, p. 307.

[22] ESCAP, "Status report on transport and communications development in the ESCAP region", *op. cit.*, pp. 23-24.

[23] Information regarding Bangladesh as well as other countries in this section is based on ESCAP, "Status report on transport and communications development in the ESCAP region", *op. cit.*, pp. 16-18.

resources in the planning, designing and construction of water retention and/or hydropower development projects in recent years, navigation on many tributaries has been blocked, and the total length of navigable channels has decreased considerably. Development of inland water transport is currently regarded by the Government as strategically important. A long-term plan to develop selected major inland waterways was recently approved and includes projects to upgrade links along the Yangtze River and the Grand Canal in the east and the Xi River in the south. By 1990, the traffic volume is expected to be twice the current level.

In India, the total navigable length of inland waterways is nearly 14,500 km. About 5,600 km are suitable for navigation by mechanized craft, of which about 2,000 km is used. Many stretches of waterways have been recommended and accepted in principle by the Government for declaration as national waterways. A sum of Rs 450 million has been earmarked during 1980-1985 for the development of inland waterways, and the Government has also introduced an interest subsidy scheme to assist inland waterways enterpreneurs.

Indonesia has a potential of about 2,000 km of navigable waterways in Sumatra and 3,300 km in Kalimantan, and the development of these waterways has been underway since 1977. In Pakistan, the Indus River will, upon its full development, be able to provide cargo carriage of about 3,000 million ton miles. In the Philippines, efforts are under way to provide passenger services along the Pasig River for 32,000 passengers daily. In Sri Lanka, the development of the waterway from Colombo to Puttalam has been taken up. In Thailand, the inland waterways system of the Central Plains alone covers approximately one third of the national territory. With the improvements currently being undertaken, the Chao Phraya River is expected to carry 2.1 million tons by 1985 as against its current freight traffic of about 600,000 tons.

There is much potential for developing inland water transport on the extensive river and canal systems in the region, which has not been exploited for a long time. The contribution that inland water transport can make to the development of rural areas and the concern for energy conservation has stimulated greater interest in the potential of inland waterways as a means of transport. Improvements in infrastructure, in waterways conservation and maintenance, in management and operational skills and in the maintenance of mechanized equipment are likely to bring in high returns.

D. AIR TRANSPORT

Air transport facilities vary widely among developing ESCAP countries. The variations are particularly striking in air transport infrastructure and ground handling facilities. During the period 1969-1978, the growth of air passenger traffic (in terms of passenger km) in a group of developing ESCAP countries, consisting of Bangladesh, Indonesia, Iran, Malaysia, Pakistan, the Philippines, Sri Lanka and Thailand, was 174.3 per cent and 32.5 per cent for freight traffic (in terms of net cargo tonne-km). The corresponding figures for India were 140 and 196 per cent, respectively.[24] Data on total international tonne-km at the global level during the period 1973-1982 show that the highest annual rate of growth was recorded by the airlines of Asia and the Pacific, with 9 per cent as against the world average of 6.9 per cent. The airlines of Asia and the Pacific also showed the highest average weight load factor of 64 per cent. In the case of international tourist arrivals, this region experienced an average annual rate of increase of 3.2 per cent.

Domestic air traffic is growing steadily; in many countries of the region the annual rate of growth is around 10 per cent. In land-locked and island developing countries, this mode of transport is gaining particular importance. In some countries, programmes are under way to extend air transport services through the operation of short-haul light passenger aircraft between primary and secondary airports. However, due to the inadequacy of infrastructure and aircraft fleets, most developing countries have not yet been able to derive substantial benefits from this mode of transport domestically.

The developing countries of the region also face a variety of problems and constraints in the expansion of their international airborne trade. Important among these are inadequacies of infrastructure and handling facilities, directional imbalances and the slow pace of technological transformation to containerization and unitization. Inadequate training for air cargo management, insufficient co-ordination among agencies concerned with airfreighting and the low level of awareness among shippers of the advantages of air cargo transport are other major problems in the development of this activity.

E. SOME MAJOR ISSUES

The foregoing account reveals many problems that hinder the development of transport services in the developing ESCAP region. Some of the major common issues are briefly highlighted in this section.

1. Planning and co-ordination

The development of transport

[24] *Ibid.*, p. 24.

and communications is closely linked to the structure and growth of the economic system as a whole. As transport is a prerequisite for development in other sectors and influences its pattern substantially, transport planning should form an integral part of a macroeconomic planning process. The choice and scale of each transport mode must be determined on the basis of the requirements of the various sectors and relevant costs. A plan should not only integrate land use with transport facilities to optimize the use of available resources over space but also evolve an intermodal distribution of traffic so as to maximize benefits from investments in transport.

2. Energy

The transport sector consumes a large proportion of total commercial energy. Its share in the developing countries averages around 32 per cent, as against 15-25 per cent in the industrially advanced countries. Motorized road transport accounts for 70-85 per cent of the energy directly consumed in the transport sector, and rail and air transport consumes most of the remainder. Except in the few developing countries where railways are fuelled by coal or are electrified, the transport sector depends almost entirely on petroleum, and it consumes about one half of the total supply of petroleum products.[25] The importance of saving on energy consumption for all purposes, including transport, has been highlighted in Chapter III on Energy.

One important way to reduce energy consumption or slow down its rate of growth is to shift traffic from less to more efficient types of carriers, depending on such factors as type of commodity, comparative costs for alternatives, and consumer's choice. Coastal and riverine shipping and rail systems are more energy-efficient than road vehicles as bulk carriers. Better spatial planning of human settlements and of the location of industries can also contribute significantly to making transport more energy-efficient. These measures are being introduced in some countries of the region.

3. Pricing

For a variety of reasons, costs of transport and communications services are often high in terms of real resources consumed. However, transport prices (freight rates and passenger fares) are often kept low because of government policies to subsidize the users. These policies often result in the application of uniform prices over a wide range of services, irrespective of unit cost, quality of service and distances covered. These interventions generally provide little room for flexibility and are seldom reviewed and adjusted to cope with changing demand and supply conditions. Fare structures are revised upward occasionally; in most cases, these revisions fail to keep pace with increases in operation and maintenance costs caused by persistently upward movement in wages and material cost.

These policies have several undesirable consequences. Since the public sector plays a significant role in the provision of transport services, subsidization policies impose heavy burdens on the public exchequer. A part of the explanation for the slow expansion of the transport sector probably is that additional services imply larger fiscal burdens. Insufficient revenue generated by the sector also partly explains generally poor maintenance. Efforts to regulate the prices for services provided by the private sector become either ineffective or an unintended source of disincentive to the expansion of services.

A comprehensive review and appraisal of pricing policies in the transport sector can be very rewarding in many countries. Rational prices are a source of generating resources for the sector and an instrument for rationing the supply of services from the several modes of transport. It may not be necessary that the total costs of transport should be borne by the users themselves. Considerations of equity, externalities and other development objectives play a role in transport pricing. In any such review, three important considerations come to the fore. First, subsidy schemes should be carefully examined from the point of view of efficiency, in comparison with alternatives available to achieve the same objective. Secondly, the scope for cost reduction through improved operational and administrative efficiency should be diligently investigated in order to avoid unwarranted price increases. Thirdly, the public, who may oppose price increases, should be made aware of the facts that justify price increases.

[25] *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, p. 72.

V. SOCIAL CONDITIONS

The International Development Strategy for the Third United Nations Development Decade provides a set of recommendations addressed to various aspects of social development. It is recognized in the Strategy "that close to 850 million people in the developing world live at the margin of existence – enduring hunger, sickness, homelessness and absence of meaningful employment", that great numbers remain underemployed or unemployed; that many millions are illiterate; and that high infant mortality rates, poor housing and environmental degradation in urban slums and depressed rural areas continue to afflict the people of the developing countries.[1] The reduction and elimination of poverty and a fair distribution of the benefits of development, therefore, are regarded as primary objectives of the international community during the Decade. These are further specified in time-bound targets to be reached as closely as possible by the year 2000. Universal primary enrolment, health for all, attainment of life expectancy of 60 years in the minimum and reduction of infant mortality rates to 50 per 1,000 live births are among these targets. The Strategy also highlights the need for ameliorating the conditions of the disadvantaged groups (e.g. the disabled, children, youth and women).

The Strategy sees the problems of deprivation and inequity as consequences of a complex process in which social, institutional and economic factors interact. It, therefore, envisages action on a broad front encompassing increased employment, accelerated economic growth, institutional and agrarian reforms and formulation of national development plans on the basis of a unified approach to economic and social development.

In most societies the process of social transformation is long and arduous. The post-independence history of developing countries in the region is not very long, barely exceeding 30 years in most cases. Periods of sustained attention to social development fall within this span. It, therefore, would be unrealistic to expect any dramatic improvements in the various indicators of social conditions. There are certain distinct improvements, nevertheless. Most countries of the region have been able to sustain growth in per capita real income over the last two decades, although at different rates among countries and over time. More important, there is an increasing awareness throughout the region that sustained growth is by no means adequate to provide relief to prevailing social maladies. Concerns of welfare and equity have emerged as major objectives in the development strategies of most developing countries of the region. This is clearly reflected in the development plans, especially those formulated during the last decade.[2]

Life expectancy has increased; so has literacy. The gap between male and female population groups in respect of literacy rates and primary school enrolment ratios has declined. Infant mortality rates as well as crude death rates have gone down. The coverage of the population provided with medical services appears to have expanded.

Despite these achievements, the region has a long distance to travel in the realization of social goals. The problems of hunger, malnutrition and absolute poverty remain real for large sections of the population in many countries of the region. Indeed, among developing countries, the developing ESCAP region contains the largest number of the world's absolute poor. Moreover, the region lags behind even in respect of indicators in which there have been noteworthy achievements.

The factors responsible for the prevailing conditions are varied and complex. In consequence, policy responses to alleviate social maladies are also divergent. This chapter contains a brief analysis of the problems and policy responses pertaining to certain aspects of social conditions.

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[1] General Assembly resolution 35/56, annex, paras. 3 and 43.

[2] *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1), pp. 154-156.

A. EDUCATION

Education is good in itself. In addition, productive capacity is severely constrained by illiteracy. The effects of illiteracy become even more pronounced as the level of technology in production increases. Illiteracy and low productivity become mutually reinforcing. The developing countries of the region have directed their policies toward the eradication or considerable reduction of illiteracy. One component of national educational policies of developing ESCAP countries is the provision of primary education, in some cases compulsory, with virtually all costs borne by government. Primary level education is seen as the principal means of eradicating illiteracy and is supplemented by adult literacy programmes.

Fiji, Hong Kong, Mongolia, the Philippines, the Republic of Korea, Singapore and Viet Nam had achieved universal enrolment at primary level (the age range approximately 6-11 years) by 1970. By 1980 high enrolment ratios were achieved in Burma, Indonesia, Iran, the Lao People's Democratic Republic, Malaysia, Sri Lanka and Thailand. In other developing ESCAP countries, enrolment ratios were well below 100 per cent particularly in South Asia with the lowest rates in Afghanistan and Bhutan. However, lower enrolment ratios for females persist in virtually all countries, except the first group, though the gap is narrowing. There yet prevail certain social factors and attitudes regarding the education of women that stand in the way of their access to education.

Even though the meaning of literacy and how one measures it is not unequivocal, there are data indicating that during the past decade substantial progress had been made in many countries of the region (see Figure II.4). Literacy rates in the Philippines, the Republic of Korea, Singapore, Sri Lanka, Thailand and Viet Nam had reached over 80 per cent by the mid-1970s and, with high levels of school enrolment in the 1970s, literacy rates in these countries were about 90 per cent in 1980. However, other developing ESCAP countries, mainly in the South Asia subregion, continued to lag behind. Afghanistan, Bangladesh, India, Nepal and Pakistan are some of the countries with relatively low literacy rates. However, in all these countries, there was some improvement in 1980 relative to the situation in the early 1970s. A variety of reasons have been adduced for both the marked contrast with other ESCAP countries and for the slow improvement. Differences in rates of economic growth undoubtedly play a role. A part of the explanation may lie in the decision by Governments to allocate resources to levels of education other than primary, at the latter's expense.

In those countries that have achieved high literacy rates, the focus of policy has shifted from the eradication of illiteracy to the improvement of the quality of education and to ensuring a better distribution of facilities as well as greater equity between social and economic classes and between males and females. For example, policies in South-East and East Asia are mainly concerned with

Table II.16. Selected developing ESCAP countries and areas. Gross enrolment ratios at primary level, 1970-1980

(Percentages)

Country	Male			Female		
	1970	*1975*	*1980*	*1970*	*1975*	*1980*
Afghanistan	39.6	43.9	50.1	6.8	8.0	10.7
Bangladesh	68.0	91.4	77.8	34.1	50.1	48.3
Bhutan	12.3	14.0	19.5	0.7	4.7	9.5
Burma	91.8	85.5	87.0	82.5	80.0	82.5
Fiji	102.4	110.9	108.9	99.4	109.9	109.0
Hong Kong	118.5	121.8	112.8	114.9	117.3	108.7
India	89.5	91.5	91.7	56.0	60.2	63.0
Indonesia	83.0	89.8	105.7	71.0	75.8	94.7
Iran	93.6	116.4	119.7	53.0	72.7	85.9
Lao People's Democratic Republic	79.4	83.6	105.3	47.6	60.8	89.5
Malaysia	91.0	92.9	93.1	83.7	89.2	90.2
Mongolia	115.4	111.0	106.9	115.6	105.0	103.2
Nepal	59.2	84.3	124.6	11.6	16.3	50.5
Pakistan	57.4	62.1	82.9	22.1	27.9	31.2
Papua New Guinea	63.5	67.6	71.9	39.3	43.1	53.9
Philippines	109.4	105.0	103.9	107.1	110.8	109.7
Republic of Korea	103.9	106.6	109.7	102.9	107.2	107.7
Singapore	110.1	113.6	107.5	101.6	107.4	104.2
Sri Lanka	103.6	80.9	102.6	94.3	73.9	96.9
Thailand	94.5	93.3	98.9	86.9	87.3	92.6
Viet Nam	137.6	124.5	122.2	114.2	113.7	109.5

Source: UNESCO, *Trends and Projections of Enrolment by Level of Education and by Age, 1960-2000* (as assessed in 1982), March 1983, table VIII.

Note: Gross enrolment ratio is derived by dividing the total enrolment at a given level regardless of age by the population that according to national regulations should be enrolled at this level.

upgrading the quality of education and the adaptation to changing needs without sacrificing the expansion of successful literacy programmes. In Malaysia, a large number of classrooms will be built to replace sub-standard ones and to reduce the number in each classroom, while a new primary curriculum is being developed to give increased emphasis to basic skills. Second level and university education will also be upgraded and vocational training will be substantially expanded to meet the demand of its expanding manufacturing sector.[3] The Philippines is attempting to improve retention rates and the quality of primary education, particularly in disadvantaged regions. The Republic of Korea envisages a variety of qualitative improvements, such as emphasis on science and technology, upgrading of curricula and teacher training.[4]

In contrast, in those countries for which literacy rates are still low, particularly in South Asia, there is greater concern with the expansion of educational facilities. In Pakistan, efforts are being made to involve the local authorities and the private sector in increasing school facilities.[5] Bangladesh is undertaking a large expansion of its primary school system.

One aspect of the qualitative improvement in education relates to high drop-out rates and high "repeater" rates at the primary level (roughly 5-11 or 12 years of age). In Burma, in 1977, 37 per cent of children at the first level were in the first grade and 11 per cent in the fifth grade. In Bangladesh, the gap between the two rates widened to 41 per cent and 9 per cent in 1981 from 38 per cent and 11 per cent in 1970. Great care is needed in interpreting this kind of data because a recent large gap can be the result of an intensification of efforts to increase first level enrolment. Yet the differences point to a general problem: in many countries a large proportion of children do not proceed beyond a year or two of primary school. They often drop out before basic skills in literacy and numeracy have been acquired, and for them attendance at school is effectively of no consequence.

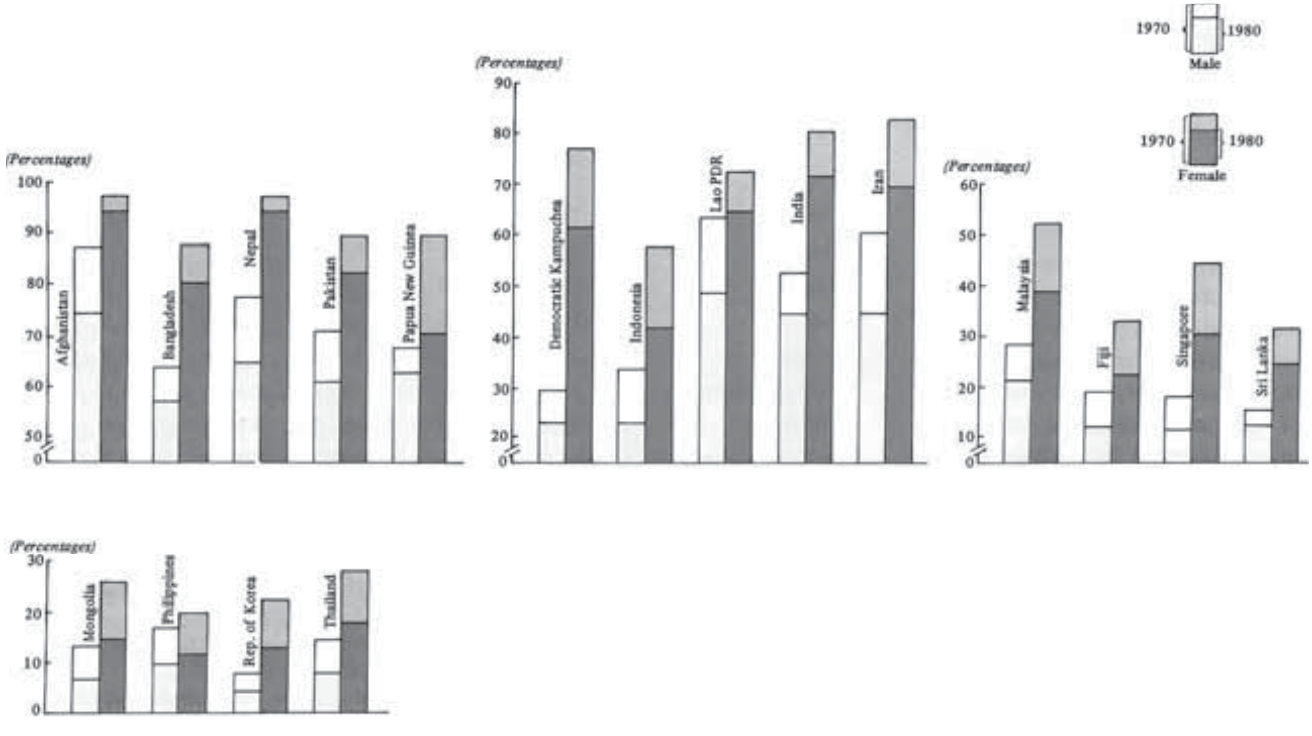
A second major problem in education policy relates to continuing imbalances within educational systems in the allocation of resources among various levels of education. On the one hand, as economies modernize, pressures build up for secondary and higher

[3] Malaysia, Economic Planning Unit, *Fourth Malaysia Plan, 1981-1985* (Kuala Lumpur, 1981), pp. 354-356.

[4] Republic of Korea, *Fifth Five-Year Economic and Social Development Plan, 1982-1986* (Seoul, 1982), pp. 104-106

[5] Pakistan, Planning Commission, *The Sixth Five Year Plan, 1983-1988* (Islamabad, 1983), pp. 318-319.

Figure II.4. Selected developing ESCAP countries. Illiteracy rates by sex, 1970 and 1980



levels of education to satisfy the growing needs of industry and commerce, public administration, planning and implementation of development programmes and other diverse skills. On the other, higher unit costs of post-primary education, especially university education, which is necessary to satisfy these needs, may siphon off resources that would otherwise be available to the primary level. The ease with which this dilemma can be resolved, of course, depends partly on the total amount of resources that a country can afford or chooses to devote to education. However, problems of severe unemployment among persons with high levels of education in several countries of the region suggest that there may be considerable scope for reallocation of resources for primary education without causing severe shortfalls for other levels. A related question is the relevance of the output of the educational system to the structure of demand for skills generated by an economy's growth pattern. Planning for education cannot be pursued in isolation from overall human resource planning.

Many countries in the region show a heightened awareness of these problems.This can be seen in continuing efforts to improve curriculum for various levels of schooling, to involve the private sector in educational development, and in increased emphasis on vocational and technical education.

To sum up, the state of education has improved in the region, but much remains to be done. Both literacy rates and enrolment rates at all levels have increased a great deal. However, a large number of people are still illiterate. Women remain severely disadvantaged, both in literacy and in enrolment. The improvement of the quality of education remains a great concern for most ESCAP countries.

B. HEALTH

Improvements in conditions of health can have strikingly rapid effects on the productivity and incomes of the poor.[6] The salutary effects of the allocation of considerable resources in several economies of the region, including China, Sri Lanka, Viet Nam and some states in India, can be seen in unusually high indicators of health conditions with per capita incomes not substantially above those in other neighbouring countries. In the region as a whole, there has been a notable improvement in indicators such as the crude death rate, infant mortality rates and the average expectancy of life at birth.[7] Some measure of the increase in resources allocated to health services can be seen in the reduction in the number of persons per doctor in most countries in the region. There also has been a reduction in the number of persons per hospital bed, although the improvement here is less than in the earlier number (see Table II.18). However, considering the rapid population increase in the last three decades, these improvements are by no means insignificant.

This progress notwithstanding, morbidity rates of a number of communicable diseases remain very high. Enterocolitis (dysentery, amebiasis, typhoid and unspecified diarrhoea) is a major instance of such illness. In some other cases, such as malaria, prevention is made the more difficult by the requirements of equipment and personnel and the resistance of the vector to cheaply available insecticides. Other effects of such chemicals as DDT and malatheon have prevented

[6] See World Bank, *World Development Report 1981* (Washington, D.C., August 1981), p. 97.

[7] For details on life-expectancy see *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, p. 92, table I.41.

Table II.17. Selected developing ESCAP countries. Crude death rate and infant mortality rate, 1970-1980

(Per thousand population)

	Crude death rate			*Infant mortality rate*		
	1970	*1975*	*1980*	*1970*	*1975*	*1980*
Afghanistan	26.4	21.0	23.2	190	–	185
Bangladesh	23	20.5	10.8	149	153	140
Burma	10.8	10.5	9.9	139	53.8	49.8
China	9.4	9.4	7.0	69.2	–	53.9
Democratic Kampuchea	15.6	17	17.4	127	–	128.7
India	17.0	13.9	14.4	125	122	109
Indonesia	19.4	17.2	15.4	140	110	110
Iran	5.7	4.5	12.7	120.8	120	100
Malaysia	7.3	6.4	7.4	39	35	31
Mongolia	12.3	10	7.8	73.4	60.0	57.4
Nepal	22.9	22.2	19.8	162	200	150
Pakistan	18	15	13	–	113	105
Papua New Guinea	16.6	16.1	14.6	187	96	79
Philippines	6.4	8.8	8.1	68	72	66
Republic of Korea	8.5	6.5	6.2	41	38	34
Sri Lanka	8.0	8.5	7.4	50.3	45.1	38
Thailand	6.5	5.6	4.9	53	36.7	36.1
Viet Nam	8.1	–	7.0	37	–	34.7

Source: ESCAP, WHO and UNICEF, "Health and development proceedings of an intergovernmental meeting in Asia and the Pacific" (ST/ESCAP/248) (Bangkok, October 1983), p. 75, table 7.

Governments from using them for eradicating the vector carrying the agents of the disease. Unsatisfactory agricultural techniques, including stagnant irrigation water, have facilitated the breeding of the malaria mosquito and increased the exposure of the population to infection.

Maternal mortality rates also remain very high in a number of countries. Although information in this regard is incomplete, in Afghanistan, Bangladesh and India, for every 100 mothers subject to the risk of child birth, one to three will not survive the event. An acceptable risk of no more than 0.1 maternal deaths per hundred live births has been already reached in Burma, Malaysia, Sri Lanka, Thailand and Viet Nam. The rates in Hong Kong, the Republic of Korea and Singapore are outstandingly low. As regards the infant mortality rate, in seven countries it remained above the level of 100 deaths per thousand newborn in 1980. Moreover, in several countries infant mortality has not shown any significant improvement between 1970 and 1980.

In spite of the increase in absolute amount over the last decade, public expenditure on health services in seven countries in 1980 was about $US 1 per capita, while in another five it was between $US 1 and $US 5. Four countries spent over $US 10 per capita on health services in the public sector. When such expenditure is compared with the GDP, the proportion is consistently less than 1 per cent. The constraint on the availability of resources for health in developing ESCAP countries seems severe. However, there is significant scope for improved allocation. The experience of low-income countries such as China, India, Sri Lanka and Viet Nam point to the effectiveness of policies of government intervention, which can bring about excellent results from even low levels of expenditure. Partly in recognition of these considerations and in consonance with the Strategy's objectives, there has been a distinct shift in health policies of the region towards increased emphasis on primary health care (PHC).

Community involvement, appropriate technology, intersectoral co-operation and adequate referral are major ingredients of the PHC approach to health services. PHC is intended to counter the urban-oriented and hospital-based health care characteristic of many developing countries. Among the activities to be undertaken under PHC are immunization against common infectious diseases, prenatal care, attendance at birth by skilled personnel, care of newborn and infant children, control of endemic, vector-borne diseases, treatment of injuries and health education. PHC encompasses also non-medical activities, such as nutrition education, food fortification, improvement of storage and distribution of foods, safety education and development of safe water supplies and sanitation.[8] Most of the developing ESCAP countries in their current development plans have adopted the concept of PHC in order to reach the goal of "Health for all by the year 2000". This reorientation to primary health care has several facets, most of which are reflected in health policies in several countries. In South Asia, even Sri Lanka, where health indicators are reasonably high, has adopted this policy package. The family health worker training programme has been reoriented to the provision of primary health care. There is to be one worker based in

Table II.18. Selected developing ESCAP countries. Availability of doctors and hospital beds, 1970-1980

	Thousand people/ medical doctor			*Thousand people/ hospital bed*		
	1970	*1975*	*1980*	*1970*	*1975*	*1980*
Afghanistan	20.4	28.3	28.3	6.9	6.6	6.6
Bangladesh	8.8	15.1	8.0	5.9	5.6	4.4
Burma	9.0	7.1	4.6	1.2	0.7	1.4
China	5.1	1.1	–	–	–	–
Democratic Kampuchea	15.3	–	–	0.9	–	–
India	4.7	3.9	3.6	2.0	1.4	1.3
Indonesia	27.7	20.0	12.6	1.7	1.7	1.4
Iran	3.3	2.6	–	0.8	–	–
Malaysia	3.9	7.6	3.4	0.3	0.4	–
Mongolia	0.6	0.5	0.5	0.1	0.1	0.1
Nepal	50.8	36.0	26.1	7.0	5.7	5.2
Pakistan	9.0	3.8	3.6	4.0	1.9	1.9
Papua New Guinea	11.9	11.7	11.8	0.3	–	0.2
Philippines	1.1	2.8	0.7	0.8	0.6	0.7
Republic of Korea	1.9	1.8	1.6	1.8	1.5	1.1
Sri Lanka	3.9	6.3	7.2	0.3	0.3	0.3
Thailand	6.2	8.5	7.2	0.9	0.8	0.8
Viet Nam	8.3	5.2	4.2	0.5	0.4	0.4

Source: Same as Table II.17, p. 78, table 10.

[8] For details of the primary health care approach see Frederick Golladay and Bernard Liese, "Health problems and policies in the developing countries", *World Bank Staff Working Paper 412* (August, 1980), pp. 26-27.

PHC units for every 3,000 persons. Emphasis is also to be given to preventive measures by para-professional personnel.

Countries in South-East Asia have also accepted the goal of "Health for all by the year 2000". Their policies vary in accordance with the nature of their health problems and programmes existing at the beginning of the 1980s. The Philippines and Thailand emphasize the improvement of coverage of health services and prevention through PHC. Indonesia gives relatively more emphasis to increasing the availability of basic health and nutrition service. The Republic of Korea aims at the establishment of a health care system that will minimize the demand for curative services. Low demand for curative services facilitates the realization of equity by keeping costs down, and by making it possible to rely on lower-level skills. Paramedical personnel are to be trained to staff rural public health centres. All rural people are to have access to government doctors by the end of 1984, and fees are to be decreased.[9]

Health policy in China focuses on improving the quality of care, and increasing its cost effectiveness. Five measures have been introduced in recent years.[10] First, county hospitals and commune health centres in a group of 300 counties were reorganized and improved during 1980-1983. Another group of 400 counties is scheduled for the same process during 1983-1985. Secondly, "barefoot doctors" are receiving additional training in follow-up courses and are then tested. Those who pass the examinations are awarded a "village doctor" certificate, which allows them to practise medical care in rural areas. At the same time, the salary of a qualified "barefoot doctor" has been raised. Thirdly, where possible, rural health care institutions have been made responsible for self-financing to cut down the amount of subsidies, and to provide financial incentives for improving the quality of their services. Fourthly, medical services are no longer provided entirely free of charge. Except in special cases, patients are now required to pay for at least a part of the medical services provided by health clinics operated at the production brigade level. Finally, to increase the variety of medical services, private doctors are allowed to practise in both urban and rural areas.

In the Pacific countries, health conditions tend to be generally good. Infant mortality rates are low (Papua New Guinea is an exception), life expectancy is high, and medical facilities are well developed. There are, however, three emerging problems in health care. These are low levels of nutrient supply, chronic degenerative diseases, and care for the elderly. The first two are related to increased use of imported food of low quality, and all three to rapid changes in life styles. Policy responses are yet to be clearly articulated. There are some efforts to place increased reliance on para-professionals and indigenous medicine, for example in Fiji, Papua New Guinea and Solomon Islands. And there is increased emphasis on prevention. PHC is receiving greater attention. For instance, the core of Fiji's health policy is PHC. Village health workers are the implementing agents of primary care. They are trained and supervised by higher-level professionals. The programme is based in village institutions. A high level of local participation is expected.

Wider access to health services in developing countries of the region will remain a major problem for some time. The inadequacy of resources, especially in the public sector, may thwart the achievement of the objective of "Health for all by the year 2000"

C. HOUSING

In most developing countries of the region, housing conditions remain far from satisfactory despite many attempts made by Governments to improve them. Compounded by rapid population growth and increased urbanization, housing requirements are growing very rapidly. For example, in Pakistan the backlog of housing needs increased from 1.2 million units in 1978 to 1.4 million in 1983.[11]

Although the countries of the region are predominantly rural in character, they are undergoing steady urbanization due to both natural rates of increase and high rural-to-urban migration. During the period 1950 to 2000, the urban population in the ESCAP region is projected to increase by more than 5.25 times, compared with a growth of about 4 times for the world urban population. There is also a large backlog of needs for housing by the poorest in urban settlements who live in squatter and slum dwellings. In the Philippines, for example, an estimated 4 million live in urban squatter and slum dwellings with very limited access to water and sanitation facilities.[12] Even in Hong Kong, where public housing programmes have been an important component of public

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[9] Republic of Korea, *Fifth Five-Year Economic and Social Development Plan, 1982-1986, op. cit.*, pp. 94-96.

[10] C.H. Chai, "Policy responses to the IDS in China" (mimeo.) (September 1983).

[11] Pakistan, Planning Commission, *The Sixth Five Year Plan, 1983-1988, op. cit.*, pp. 388-389.

[12] Jorge E. Hardoy and David Satterthwaite, *Shelter: Need and Response* (New York, John Wiley & Son, 1981), p. 204.

policy, at the end of 1982 there were 158,500 families registered on the waiting list and an estimated 125,000 families living in squatter areas. While in China in 1979 35 per cent of the urban households had inadequate housing, more than half of the houses in urban areas were poorly maintained. Five per cent of them were considered hazardous.

In providing housing facilities, especially in urban areas, Governments face a number of constraints. Public housing programmes emphasize direct construction of houses, unit costs of which are generally too high for low-income households to afford. In order to compensate for the inability of the poor, Governments usually provide subsidies. But effectiveness of these policies becomes limited both on account of administrative difficulties and resource limitations. As a result, in many cases a relatively few poor households have been able to benefit from public housing programmes. Often official standards in public construction are not appropriate to local needs. Much of the building material used has to be imported, resulting in escalating housing costs as prices of materials rise. In addition, land prices have been rising, generally faster than the average price level. In the Republic of Korea, for instance, the price of residential land increased at a rate seven times faster than the consumer price index during the period 1965 to 1977. During 1974-1978, land prices in Dhaka rose 60 to 90 per cent faster than consumer prices. This was partly caused by the demand generated by remittances from Bangladesh workers overseas. In the Pacific islands also, problems of housing in urban areas are compounded by high land prices, fed in part by speculative purchases.

Confronted with these problems, the developing ESCAP countries have adopted a wide range of approaches and instruments to solve housing problems. The main reorientation of their policies is toward lowering cost and toward participation by beneficiaries in providing the facilities. In the sixth plan (1980-1985) in India, there is added stress on self-help housing schemes.[13] In Pakistan, while Government continues to assume a major responsibility for low-income housing, the poor will be allowed to build houses according to their own needs and with their own labour, with minimal interference from authorities regulating building construction. In addition, the Government will provide construction material at reasonable prices to house builders from low-income groups.[14] Similarly, in Sri Lanka, since its housing programmes and urban development had been affected both by budgetary constraints and cost overruns, the emphasis in 1982 was on low-cost housing through aided self-help programmes which relied heavily on local raw materials and family labour.

China recently adopted several measures to tackle its housing problems. State investment in housing construction was sharply increased: the share of housing construction in total capital construction has soared from 7.8 per cent in 1978 to 25.4 per cent in 1982. In urban areas, enterprises were encouraged to raise their own capital to construct housing for their staff, in order to soften the burden on the State. Individuals in the urban and rural areas were encouraged to buy or build their own houses with guaranteed ownership rights. In 1982, 11 per cent of all newly completed housing space in urban areas were constructed by private individuals. In rural areas, housing space built during 1978-1981 exceeded that built during the preceding 28 years. In rural areas, housing space grew at an average rate of 37.3 per cent in recent years. One disquieting aspect relates to the quality of housing, which appears inadequate, especially in rural areas.

The major problem faced in urban areas in the Pacific islands is how to provide cheap housing to people who are accustomed to circular migration and communal living. Several island nations have attempted to provide low-cost housing schemes.

Measures have been initiated in some countries to control speculation in land prices. In the Republic of Korea, the tax rates will increase from 25 per cent to 40 per cent for real estate sold after two years of purchase and from 35 per cent to 50 per cent if traded within two years of purchase. The legal residence requirement for tax exemption for families owning a single house was raised to one year from six months and the legal possession period to three years from two.

Increased attention also is being paid to the simplification of procedures for land acquisition by public authorities for housing construction. Legal acquisition procedures in many instances are extremely complex and time-consuming. In the Philippines, for example, land suitable for housing will be made available through expropriation for housing projects.[15] However, implementation of land policies is not always easy, because there are several major problems in this area that have not been adequately addressed.[16]

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13 India, Planning Commission, *Sixth Five Year Plan, 1980-85* (New Delhi, 1981), p. 391.

14 Pakistan, Planning Commission, *The Sixth Five Year Plan, 1983-1988, op. cit.*, pp. 390-391.

15 Philippines, National Economic and Development Authority, *Five-Year Philippine Development Plan, 1983-1987*, Technical Annex (Manila, 1982), p. 114.

16 In this connection see, "Urban land policies: focus on land for housing the poor" (E/ESCAP/IHT.7/10).

In low-cost housing programmes, in order to reduce construction costs, utilization of cheaper local building materials is being sought. In the urban areas, provision of "sites and services" and schemes for upgrading squatter and slum dwellings are approaches pursued toward the improvement of urban housing conditions. This is in sharp contrast with earlier policies of demolishing squatter dwellings and relocating the inhabitants, which was recognized as being ineffective and costly in fiscal and social terms.[17] For example, in the Philippines, under the Metro Manila Zone Improvement Programme it is expected to upgrade sites and provide basic services to an initial 25 slum areas in Metro Manila; the Flexihomes Model Programme is addressed to bringing down housing costs through the use of simple prefabrication and standardization.

D. EMPLOYMENT

Employment features as an important element in the Strategy. Even if the principal components of basic needs are available in some loosely defined sense of abundance, these have to be acquired by consumers generally at some positive market price. Employment provides the means for acquiring purchasing power necessary to get command over these basic needs.

Though precise estimates and even definitions of unemployment and underemployment are not available, there is ample indirect evidence to indicate that the problem is quite serious in a number of developing countries of the region. Accordingly, Governments have initiated action on both the supply and demand sides of the labour market to alleviate the problems of unemployment and underemployment. On the supply side, active family planning programmes are pursued in many countries to stem the tide of a growing future labour force. These policies have succeeded in modestly slowing down the rate of population growth, but their impact on the growth of the labour force has been less pronounced, partly due to the changing age composition of the populations. It has been estimated that the rate of growth of the labour force will exceed that of the population in 13 developing ESCAP countries over the period 1980-2000, compared with only five during 1970-1980.[18] In addition, efforts have been directed towards matching the supply of skills through educational policies to emerging demand patterns. However, the major thrust of employment promotion policies has been to increase the demand for labour through public expenditure on labour-intensive agricultural and rural development projects and through various incentives for increased labour absorption in the industrial sector.

The nature of employment policies varies widely within the region because of divergence between countries in the dimension as well as the nature of the problems. Major policy responses in the region to promote employment were reviewed last year.[19] Employment policies in the industrial sector are discussed in the chapter on industrialization. In this section, there is a brief discussion of highly selective country experiences to indicate the broad thrust of policies.

Unemployment and low-productivity employment are pervasive in rural areas in nearly all of South Asia, the agricultural sector acting as a sort of employer of last resort. In India, for instance, during the sixth plan period (1980-1985) a total of 42.6 million jobs would be required to accommodate the backlog of 11.3 million unemployed in 1980 and 31.3 million who will enter the labour force between 1980 and 1985. Only 4 to 5 million new jobs can be expected in the organized sector. The rest have to find places in agriculture, small-scale enterprises and other activities.[20]

India has an explicit and comprehensive set of policies for providing greater opportunity for employment. Efforts are being made to control the mechanization of agriculture so as to maximize labour intensity in the sector. In irrigation expansion, special attention is to be given to small farms, and to labour-intensive double-cropping. Where there are clear alternatives, small-scale labour-intensive enterprises are to be given preference.[21]

The Integrated Rural Development Programme (IRDP) in India has as its goal the development of the productive resources of the poor. Under five-year district-level development profiles, the poorest households are identified and linked to feasible projects by providing access to inputs, extension services and productive assets. Assistance is directed to households rather than individuals. Beneficiaries are represented in the implementation process at the district, block and village levels. Education and health activities also are to be integrated in this process. The target is to provide assistance to 3,000 families in each block, or 15 million families. Rs 3,500,000 per block has been allocated.[22] The

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17 *Report on the World Social Situation* (United Nations publication, Sales No. E.82.IV.2), chapter X, p. 148.

18 World Bank, *World Development Report 1982* (Washington, D.C., 1982), tables 17 and 19.

19 *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*, pp. 141-153.

20 India, Planning Commission, *Sixth Five Year Plan, 1980-85, op. cit.*, pp. 205-206.

21 *Ibid.*, p. 207.

22 *Ibid.*, pp. 170-171.

National Rural Employment Programme (NREP) aimed at the poorest is a supplement to IRDP. It is essentially a food for work programme, one in which internal food surpluses will be used to implement rural works projects. Emphasis is on the creation of community assets, especially those that benefit the most disadvantaged. NREP is expected to generate 300-400 million mandays of work per year. Rs 9.8 billion has been allocated by the Central Government with an equivalent amount being provided by state governments.[23]

A number of these elements are common to policies throughout the South Asian subregion. Labour absorption in agricultural production receives high priority, with policies intended to strike a balance between employment and productivity goals. Rural works and basic needs programmes are intended to provide at least temporary employment to the poor and to develop infrastructure, which later is expected to generate employment on a sustained basis. Food for

[23] *Ibid.*, pp. 174-175.

Box II.11. Youth employment

While problems of unemployment and underemployment will remain major concerns for planners in the developing ESCAP region throughout the 1980s, adequate provision of employment for youth[a] merits special attention for several reasons. The proportion of economically active youth in the total active population is quite high, around 30 per cent in many countries. The percentage of economically active youth population in relation to total youth population is very high, indeed, ranging from 65 per cent to 80 per cent in most countries for males. However, active participation of females differs widely, ranging from 4 per cent in Bangladesh (1979) to over 60 per cent in Hong Kong and Singapore (1980).[b]

The dimension of the problem of youth unemployment can be seen from the fact that a large proportion of the total unemployed labour force consists of the youth, exceeding in most cases their share in the total economically active population. This fact indicates that youth get fewer opportunities for employment relative to other groups.

Failure to provide gainful employment to a large number of able-bodied youth has a number of negative socio-economic consequences. It implies a colossal waste of human resources. Unemployment and the attendant sense of frustration among the youth population may lead to increased incidence of crime. Given some organization, youth can become a source of violent action against Governments, as happened in Sri Lanka in 1971.[c] In families, unemployed youth often becomes a source of friction, disharmony and disruption.

In recognition of such negative consequences, several developing ESCAP countries have launched employment programmes specially targeted towards youth. The sixth five-year plan of India (1980-1985) emphasizes self-employment for youth. Under the National Scheme of Training Rural Youth for Self-employment, an estimated 200,000 rural youth will be trained every year to equip them for self-employment and will be helped to set up their own ventures.[d] Malaysia, during the fourth plan (1981-1985) envisages the implementation of 1,200 projects under the farm youth programme and another 2,000 projects under the youth-in-business programme.[e] Similarly, Indonesia has launched special projects aimed at expanding employment opportunities for university graduates and school drop-outs.[f]

The effect of such programmes on the employment and well-being of the youth depends, among other things, on their size. So far most of the programmes have not been large enough to have a significant impact.

Selected developing ESCAP economies. Unemployed youth
(Thousands)

	Year	*Total youth unemployed*	*Total unemployed*	*Youth unemployed as a percentage of total unemployed*
Guam	1981	1.2	2.3	52.2
Hong Kong	1981	43.9	93.7	46.8
India	1980	10 564.0	16 200.0	65.2
Philippines	1978	381.4	694.3	54.9
Republic of Korea	1981	309.0	661.0	46.7
Singapore	1981	18.9	33.2	56.9
Thailand	1980	123.3	204.1	60.4

Source: International Labour Organisation, *Year Book of Labour Statistics, 1982* (Geneva, 1982).

[a] "Youth" is defined as the cohort 15-24 years of age.

[b] For details, see *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1), p. 85, table I.36.

[c] See A.C. Alles, *Insurgency 1971* (Colombo, The Colombo Apothecaries Co. Ltd., 1976), especially pp. 256-281.

[d] India, Planning Commission, *Sixth Five Year Plan 1980-85* (New Delhi, 1981), p. 208.

[e] Malaysia, Economic Planning Unit, *Fourth Malaysia Plan 1981-1985* (Kuala Lumpur, 1981), p. 389.

[f] Indonesia, Department of Information, *The Third Five Year Development Plan 1979-84 (Summary)* (Jakarta, 1980), p. 25.

work programmes continue in South Asia.

Employment policies in South-East Asia are somewhat different in character in that these must, on the one hand, deal with rural poverty and, on the other, provide the skills required for rapidly growing modern sectors. The latter is of dominant concern in Malaysia and Singapore. In Malaysia, it is expected that 31 per cent of new employment during 1981-1985 will come in manufacturing.[24] There is currently a shortage of female workers in some categories and in certain areas, rural labour. There also appears to exist excess demand for university graduates and technical personnel. As a consequence, policies emphasize increases in the output of degree, diploma and certificate holders in scientific, technical and managerial education. Industrial enterprises are expected to expand vocational training and apprenticeship programmes. A Manpower Development Board has been established to encourage greater private sector participation and to co-ordinate training efforts.[25]

In the Philippines, where rural poverty continues to be a major problem, two complementary sets of measures are being used to generate employment and to reduce regional disparities. These are the Kilusang Kabuhayan at Kaunlaran (KKK) and the Integrated Area Development (IAD) Program. KKK is intended to generate employment and income, and IAD to provide a supportive framework for KKK. KKK provides several kinds of support to income-generating activities by selected target groups. These target groups include: landless labour, urban slum dwellers, subsistence fishermen, ethnic minorities, out-of-school youth, and disabled persons. Assistance is of five kinds: management and organization expertise, production technology assistance, production inputs, infrastructure support, and social services and facilities.[26] Under the IAD, areas are selected for development on the basis of the

[24] Malaysia, Economic Planning Unit, *Fourth Malaysia Plan, 1981-1985, op. cit.*, p. 227, table 12-8.

[25] *Ibid.*, pp. 232-233 and 236.

[26] Philippines, National Economic and Development Authority, *Five-Year Philippine Development Plan, 1983-1987, op. cit.*, pp. 20-25.

Box II.12. Urban unemployment in China[a]

The natural rate of population growth combined with a progressive increase in migration from rural to urban areas has exacerbated the problem of urban unemployment in many countries of the developing ESCAP region. In China, urban unemployment, considered "very high" in 1979, was predicted to rise further during the period 1980 to 1985.

A number of factors have been responsible for increased urban unemployment in China. The rate of population growth averaging more than 2 per cent during the period 1964-1979 is perhaps the most important. The strategy of growth followed during this period is another. During these years investments in heavy industry far exceeded that in light industry. The ratio of investments in heavy to light industries, which was 8:1 during the country's first five-year plan, increased to 14:1 during its second five-year plan. It was not until 1979 that the ratio was brought down to 8.3:1. There was very little investment in non-material production including commerce, service trades and public utilities, which could have generated much more employment per unit of investment than heavy industry. The policy of promoting state-owned enterprises at the expense of collectively owned enterprises also caused slow growth of employment. It has been observed that collective enterprises could create four times more jobs than state enterprises with the same amount of investment. Finally, the introduction of a centralized labour management system, under which all jobs were assigned by the State, tended to aggravate the unemployment problem. Under this system, no enterprise or institution was permitted to recruit, nor were people out of jobs allowed to seek employment on their own.

In recognition of the growing unemployment problem, a nationwide conference on labour and employment was held in August 1980. A series of concrete policies and measures were worked out at that meeting. As a result, state enterprises and institutions now have the right to select their own staff and workers according to need. Educated youth are encouraged to set up agricultural, forestry and animal farming enterprises and also agricultural-industry-commerce combines. Non-exploitative individual business is promoted. An individual business operator is now considered as a member of the working class; his seniority is calculated from the day he is granted a business licence, and the period of employment includes the entire period of actual operation. Priorities have changed in favour of more employment-creating light industry, service trades and collectively owned enterprises. Many service companies have been established to run short-term training courses, co-ordinate job placement and organize production groups. These measures have already yielded significant beneficial results and are hoped to contribute more to the resolution of the urban unemployment problem in China in the years ahead.

[a] Based on Feng Lanrui and Zhao Lukuan, "Urban unemployment in China", *Social Sciences in China*, No. 1 (1982).

degree of underdevelopment, low income, potential for rapid development, and high potential returns to investment. Activities undertaken include agricultural support facilities and services, irrigation, flood control and drainage, transport and health, education and water supply facilities. Nineteen projects are under way, and seven more are being developed.[27]

In China, two distinct policy approaches have been developed to deal with large-scale urban and rural unemployment. In urban areas, the unemployed are encouraged to use their own initiative to establish enterprises. Preference is accorded to light industry and the services and to labour-intensive technology. In rural areas, a variety of activities peripheral to or supportive of mainstream production are encouraged. Households are encouraged to undertake on their own initiative such activities as livestock production, forestry, handicrafts, trade, and other services.

Major concerns of employment policy in the Republic of Korea are, among others, increased supply of high-quality manpower, upgrading of the labour force through technical and vocational education, and improved employment security. Policy instruments used include the expansion of educational facilities, incentives for postgraduate education and facilities for education overseas. A Vocational Training Management Agency has been established to help balance the supply of specific skills with the demand for them. More than 200 employment service offices are being established. They will administer aptitude tests, provide guidance, match individuals to jobs, and assist women and the aged particularly.

The general response to employment problems in the Pacific island countries, where the open unemployment problem is as yet of less severe dimensions, has been to stress the need for employment-generating agro-industries. There are also efforts to strengthen the rural sector, partly through expanding and improving rural infrastructure and facilities. Considering the problems of distance from major world market centres and associated transport costs, a general paucity of natural resources and the small size of domestic markets, future increases in the labour force in these countries will have to be absorbed mainly in agriculture, agro-based industries and service sectors.

Although these employment policies appear to respond closely to actual problems, countries in the region have a long way to go in resolving their unemployment and underemployment problems. A long-term solution to the unemployment problems clearly depends on sustained growth and appropriate policies for employment promotion. Employment promotion is contingent upon sound macroeconomic policies that accelerate growth, taking into consideration a country's natural endowments, potentials for skill development, the size of the domestic market, access to external markets and resources and other relevant factors.

[27] *Ibid.*, pp. 26-46; and Philippines, National Economic and Development Authority, *Five-Year Philippine Development Plan, 1978-1982* (Manila, 1977), pp. 31-33.

VI. INTERNATIONAL TRADE

The International Development Strategy for the Third United Nations Development Decade calls for a rapid expansion and diversification of the international trade of developing countries and an improvement in their terms of trade. The target annual growth rates of their exports and imports are 7.5 per cent and 8 per cent, respectively. To attain these objectives, the Strategy envisages a variety of measures which include, *inter alia*, improved access to markets in developed countries by extending to them, where necessary and appropriate, preferential and non-reciprocal treatment, agreement on a multilateral safeguard system, full and effective operation of the Common Fund and the Integrated Programme for Commodities, adoption of special measures by developed countries to reduce trade barriers facing developing countries and expanded trade among developing countries. Only selected aspects of the various trade policy issues raised in the Strategy will be dealt with in this chapter.

A. TRENDS IN INTERNATIONAL TRADE FOR THE ESCAP REGION

1. Trade situation of developing ESCAP economies

The deep economic recession since 1980 has led to a dramatic deceleration in the growth of international trade. Having recovered from the first oil price crisis with an average real export growth rate of 6.0 per cent for the period 1975-1980, growth in world trade decelerated sharply in 1980 and came to a standstill in 1981.

All major groups of countries shared in the deceleration of growth in world trade. While growth in the volume of exports of developed market economies remained positive in 1980 and 1981, and became negative only in 1982, the rate of change of their real imports was negative over the entire period from 1980 to 1982. The trend in real imports of major oil-exporting developing countries also reversed in 1982. Imports, in real terms, of oil-exporting developing countries grew at the annual rate of 6 per cent from 1977 to 1981 and then fell by 1.0 per cent in 1982.[1] The fall in the demand for imports in developed countries and oil-exporting developing countries caused a heavy erosion of developing ESCAP countries' actual and potential export markets.

The effects of the stagnation in international trade have increasingly been felt by the countries of the Asia and the Pacific region since 1980. However, in both volume and value terms the export performance of the developing ESCAP countries compared favourably with the performance of the rest of the world, allowing them to capture a marginally larger share of world exports in 1981 and 1982.

Most countries of the region experienced relatively satisfactory growth rates of real and nominal exports over the decade of the 1970s. A simple time trend analysis of total exports of selected countries of the region shows that their real exports grew at rates between 5 and 10 per cent per annum over the period. The performance of the Republic of Korea is remarkable, with real and nominal annual export growth rates of 24 and 33 per cent, respectively.

In 1981, developing ESCAP countries experienced the first important reduction in the growth rate of their nominal exports.[2] While rates remained positive in most countries, in some (Burma, Fiji, Malaysia, Papua New Guinea and the Philippines) nominal exports fell dramatically in 1981. The reversal was mainly the result of a fall in prices of major commodities exports of these countries. A notable exception among the countries of the region was the Republic of Korea which, after a successful restructuring in the period 1979-1980, increased export earnings substantially in 1981. The growth rate of exports of the Republic of Korea fell from an average of about 28 per cent between 1977 and 1978 to about 16 per cent between 1979 and 1980 and rose to more than 21 per cent in 1981. In

[1] United Nations Conference on Trade and Development (UNCTAD), "Trade and development report, 1983" (UNCTAD/TDR/3 (Part I)), September 1983.

[2] United Nations, *Monthly Bulletin of Statistics*, various issues.

Indonesia, the rate of growth of nominal exports fell from 40.1 per cent in 1980 to 1.6 per cent in 1981 due to stagnation in oil prices and the fall in demand for oil in developed countries.

The set-back to export growth in 1981 in developing ESCAP economies was mild when compared with that in 1982. Export earnings fell in nearly all ESCAP countries in 1982. Prices for most commodities continued depressed in 1982. In addition, quantities exported fell because of a fall in demand in developed countries. In the case of manufactured goods exports, the widespread resort to protectionist measures in industrial countries seriously impeded the growth of exports from ESCAP economies with large manufactures exports. Some signs of a revival in market prices of primary commodities in 1983 notwithstanding, export growth prospects for most developing countries of the ESCAP region remain uncertain.

That these developments have adversely affected growth prospects of developing ESCAP countries is also reflected in the pattern of their import growth rates. After having experienced relatively rapid growth in imports in the 1970s, most ESCAP countries had to curtail imports sharply in 1981 and 1982. The volume of imports fell in most ESCAP countries in 1982 and no significant revival can be anticipated in 1983 and perhaps in 1984.

2. Direction and composition of trade

In calling for the rapid expansion of the international trade of developing countries, the Strategy lays emphasis on measures to improve and broaden their access to markets as well as to diversify commodity trade patterns.

An examination of imports by origin and exports by destination of the developing ESCAP countries for 1970 and 1980 reveals the heavy dependence on three main markets: Japan, North America and Western Europe (see Tables II.19 and II.20). Both in the case of imports and exports, each of these markets accounts for about 20-25 per cent of the trade of the region. Another important observation is that trade among developing ESCAP countries represents a substantial portion of total ESCAP trade. Intraregional exports among developing ESCAP countries has increased from 19.7 per cent in 1970 to 21.4 per cent in 1980, while the share of imports originating in developing ESCAP countries grew faster from 14.2 per cent in 1970 to 19.8 per cent in 1980. For the developing ESCAP region as a whole, there has been only a slight change in the direction of trade. The share of exports to North America and Western Europe fell marginally between 1970 and 1980, while the share of exports to Japan increased by about 2 per cent. The expansion of trade with oil-exporting countries was an im-

Table II.19. Percentage of total imports of countries or areas in the ESCAP region by origin, 1970 and 1980

From / To	ESCAP		Developing ESCAP		Japan		Australia		North America		Western Europe		Eastern Europe		Energy-exporting countries[a]	
	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980
ESCAP total	31.5	36.8	14.3	21.4	10.9	10.8	5.4	3.8	27.8	18.3	19.9	14.2	4.5	1.7	7.4	21.5
Developing ESCAP	39.8	43.2	14.2	19.8	22.1	20.2	3.1	2.6	21.1	15.1	24.1	18.9	3.7	2.0	4.2	13.9
Afghanistan	33.3	53.0	15.8	35.5	17.4	17.5	0.1	–	4.3	2.0	17.5	14.6	35.1	24.8	2.6	4.6
Bangladesh	–	42.5	–	25.3	–	14.8	–	2.3	–	15.3	–	20.5	–	3.0	–	13.1
Brunei	85.6	73.8	57.6	57.8	13.7	15.3	14.3	0.6	–	12.1	10.1	13.1	–	–	–	–
Burma	51.2	59.5	22.4	23.6	26.2	33.8	2.6	2.0	8.1	5.0	27.9	30.5	6.8	0.8	0.2	–
Fiji	64.6	76.8	13.8	17.4	15.2	14.2	23.7	30.5	5.6	7.4	22.4	11.3	0.2	0.3	4.6	–
Hong Kong	40.8	60.8	14.4	35.9	23.8	23.0	2.4	1.5	13.9	12.5	21.8	15.4	0.7	0.4	1.4	0.3
India	9.7	18.9	2.7	9.7	4.6	7.5	2.3	1.6	36.5	16.1	19.7	29.4	14.0	11.0	7.1	17.6
Indonesia	49.7	55.1	17.5	20.6	29.4	30.9	2.8	2.9	17.8	14.1	21.6	16.3	2.3	1.0	–	7.3
Iran	16.6	30.4	4.1	11.9	11.3	14.2	1.1	2.6	21.0	0.5	50.4	51.9	4.8	4.5	0.6	3.9
Lao People's Democratic Republic	59.9	76.7	45.1	64.0	14.2	12.1	0.6	0.7	24.1	0.3	14.3	20.8	0.8	–	–	–
Malaysia	53.5	52.9	29.5	23.7	17.5	22.8	5.7	5.5	9.7	16.1	25.0	17.9	2.2	0.6	2.9	8.1
Pakistan	17.2	25.7	4.5	14.1	10.9	10.3	1.6	1.0	32.6	14.9	32.4	23.6	–	2.5	–	28.4
Philippines	43.9	37.9	7.9	14.0	30.6	19.9	4.7	3.0	31.1	24.6	17.7	12.3	–	0.5	5.9	19.2
Republic of Korea	52.1	37.3	10.3	7.7	41.0	26.3	0.7	3.1	30.7	23.6	10.8	8.2	–	0.1	5.5	24.1
Samoa	70.2	83.9	11.2	22.8	10.5	8.1	16.4	19.0	15.7	8.1	11.9	6.9	0.8	–	0.8	–
Singapore	52.8	44.7	28.4	24.1	19.4	18.0	4.5	2.3	11.4	14.7	17.6	13.4	1.4	0.4	8.2	21.0
Sri Lanka	36.2	35.4	22.1	20.3	8.4	12.7	4.8	2.0	8.6	5.5	27.4	24.7	5.9	0.9	0.8	23.1
Thailand	49.3	45.5	8.3	21.1	37.4	22.2	3.2	1.8	15.6	16.0	26.3	16.3	1.4	0.7	3.7	16.0
Australia	22.2	33.9	7.1	13.4	12.7	17.1	–	–	29.4	24.6	39.5	26.4	0.6	0.5	3.0	8.5
Japan	25.6	30.1	16.7	24.6	–	–	8.0	5.0	34.4	20.8	10.2	7.3	6.5	1.7	11.6	31.8
New Zealand	36.3	47.2	6.7	14.4	9.8	14.3	19.8	18.5	17.5	16.5	38.0	22.6	0.4	0.5	3.9	9.2

Source: ESCAP, "Development in trade and trade policies: issues and problems" (E/ESCAP/Trade. 24/10/Add.1), 20 September 1982.

[a] Countries outside the ESCAP region.

Table II.20. Percentage of total exports of countries or areas in the ESCAP region by destination, 1970 and 1980

From \ To	ESCAP		Developing ESCAP		Japan		Australia		North America		Western Europe		Eastern Europe		Energy-exporting countries[a]	
	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980	1970	1980
ESCAP total	36.7	38.0	22.0	22.5	11.1	12.4	2.5	2.3	26.2	21.3	18.5	17.5	3.3	3.0	2.7	8.1
Developing ESCAP	42.8	45.9	19.7	21.4	20.5	22.1	2.0	1.9	19.9	17.9	22.1	19.3	4.7	2.4	2.3	5.4
Afghanistan	23.4	30.9	23.2	30.2	0.2	0.4	–	0.3	2.7	1.7	29.8	39.6	39.7	24.6	0.8	5.3
Bangladesh	–	25.6	–	17.9	–	3.8	–	3.1	–	10.8	–	29.8	–	10.8	–	5.9
Brunei	99.5	88.0	83.7	9.3	0.5	78.2	11.7	–	–	7.0	0.4	0.1	–	–	–	–
Burma	63.1	73.6	55.3	57.7	7.6	14.6	0.2	1.3	0.3	1.8	24.0	12.4	3.7	1.0	0.2	0.8
Fiji	29.2	47.9	9.2	22.3	4.2	7.7	8.8	7.3	27.3	17.4	32.2	25.8	–	–	–	–
Hong Kong	25.5	28.7	14.9	21.3	7.1	4.6	2.8	2.4	38.4	28.1	25.5	26.7	0.1	0.6	2.7	5.9
India	26.1	22.2	10.1	10.1	13.9	10.3	1.7	1.5	15.3	13.1	19.7	27.3	19.4	16.7	6.2	13.3
Indonesia	68.6	67.3	24.2	16.1	40.8	48.9	3.6	1.8	13.0	20.5	14.9	6.9	2.4	0.6	–	0.4
Iran	50.4	39.1	11.5	10.2	37.7	28.2	0.5	0.6	3.7	2.5	36.7	36.7	–	–	1.3	0.7
Lao People's Democratic Republic	71.1	66.0	70.9	40.3	0.2	25.5	–	0.1	24.2	4.4	3.0	6.1	–	–	–	9.1
Malaysia	53.0	56.2	32.0	31.6	18.3	22.8	2.2	1.4	14.9	16.8	20.9	18.0	5.4	3.3	1.3	1.8
Pakistan	22.1	33.8	13.0	25.3	5.9	7.8	2.7	0.6	13.1	5.9	25.9	22.1	10.6	3.5	6.5	22.6
Philippines	48.6	43.4	8.0	15.1	40.2	26.5	0.5	1.7	41.9	28.8	8.6	18.1	–	3.6	–	2.1
Republic of Korea	37.7	32.5	9.1	13.6	28.2	17.4	0.4	1.3	49.5	26.8	8.6	17.0	–	0.1	1.5	10.8
Samoa	53.3	51.2	4.44	19.3	–	3.1	–	2.6	6.7	6.6	40.0	42.2	–	–	–	–
Singapore	54.5	55.5	43.1	41.6	7.6	8.1	3.4	4.0	12.3	13.2	17.5	13.2	4.3	1.8	1.3	6.9
Sri Lanka	16.3	20.2	7.6	15.2	3.3	3.2	3.6	1.1	9.8	12.6	33.3	22.0	7.5	4.2	2.7	13.9
Thailand	59.6	44.4	33.5	27.8	25.5	15.5	0.5	1.1	13.6	12.8	19.9	28.2	0.3	2.2	2.8	7.1
Australia	49.3	52.2	17.7	20.9	26.2	26.6	–	–	15.6	13.8	21.8	14.6	2.4	6.1	1.4	5.1
Japan	29.5	27.3	25.9	24.2	–	–	3.1	2.6	34.1	26.3	13.0	15.9	2.5	3.1	3.4	11.6
New Zealand	24.6	42.3	5.9	16.5	9.9	12.6	8.7	13.2	20.6	15.5	44.9	23.1	2.0	4.9	–	5.9

Source: Same as Table II.19.

[a] Countries outside the ESCAP region.

portant development during the 1970s for several countries. Exports of these ESCAP countries may be adversely affected by recent developments in the world demand for oil, with implications for the capacity of oil-exporting countries to sustain high levels of imports.

Excluding changes in the value of oil in total exports from the developing ESCAP countries, the Western European market has been more buoyant than the North American or even the Japanese market for the majority of countries. A number of countries (Afghanistan, India, the Philippines, the Republic of Korea and Thailand) substantially increased their share of exports to Western Europe. The importance of the North American market generally fell except for Malaysia and Sri Lanka. For some (Burma, Fiji, the Lao People's Democratic Republic, Malaysia and Pakistan), the share of exports to Japan became relatively more important. The share of exports from developing ESCAP countries going to Australia was low except in the case of Fiji. For Fiji, Australia is a very important market both for imports and exports.

Quite a few economies (such as Hong Kong, Indonesia, Iran, the Lao People's Democratic Republic, Pakistan, the Philippines, Samoa and Thailand) increased imports from the region to an important degree, mainly at the expense of imports from North America and Western Europe. In Malaysia, imports from Japan and North America replaced those from Europe.

Although the geographical distribution of trade is partly a reflection of the underlying commodity structure of exports and imports, it is necessary to look at the detailed commodity composition to assess progress towards the Strategy's goal of diversification. On the basis of the composition of exports, developing countries and areas of the region can be classified into four broad groups. First, there are countries (Brunei, Indonesia and Iran), in which petroleum dominates exports. Secondly, there are others, in particular the Pacific island countries, which specialize in non-fuel primary commodity exports. The third group of countries (such as India, Malaysia, Pakistan, Sri Lanka and Thailand) have a diversified exports structure based on both primary commodities and manufactures. Finally, there are few economies (the Republic of Korea and Hong Kong), where exports of manufactures represent more than 95 per cent and 80 per cent, respectively, of total exports.

In general, the structure of exports in most developing ESCAP countries remained more or less stable between 1970 and 1981 (see Table II.21). There are, however, a number of countries that managed to diversify their exports substantially by increasing the number of commodities exported. In

Table II.21. Exports of selected ESCAP countries or areas. Percentage of selected commodity groups, 1970, 1975 and 1981

Exporting country or area	All food items (SITC 0+1+22+4)			Agricultural raw materials (SITC 2-22-27-28)			Ores and metals (SITC 27+28+67+68)			Fuels (SITC 3)			Manufactured goods (SITC 5+6+7+8-67-68)		
	1970	1975	1981	1970	1975	1981	1970	1975	1981	1970	1975	1981	1970	1975	1981
Afghanistan	36.1	36.4	36.1[a]	35.8	33.7	36.8[a]	–	–	0.6[a]	17.0	20.3	12.5[a]	10.9	9.6	13.9[a]
Bangladesh	–	7.2	12.7[b]	–	24.6	21.2[b]	–	–	0.1[b]	–	0.1	–[b]	–	67.8	64.5[b]
Brunei	0.3	0.1	–	0.3	–	–	0.1	–	–	99.2	99.9	100.0	0.1	–	–
Burma	65.8	58.9	...	25.8	30.2	...	5.7	6.8	...	1.2	1.0	...	1.5	3.1	...
Democratic Kampuchea	72.2	57.4[c]	...	24.4	33.6[c]	...	0.1	2.8[c]	...	1.7	–	...	1.6	6.1[c]	...
Fiji	95.6	96.9	94.6	1.0	0.7	1.4	1.3	0.2	0.2	–	–	–	1.8	2.0	3.0
Hong Kong	2.0	1.8	1.6[d]	0.6	0.4	0.4[d]	1.9	0.8	0.9[d]	–	–	0.1[d]	95.2	96.7	96.2[d]
India	29.7	37.8	30.8[b]	5.6	4.0	3.7[b]	18.5	15.0	8.9[b]	0.8	0.9	0.3[b]	45.1	42.2	56.1[b]
Indonesia	19.6	8.1	5.1	34.8	12.3	8.2	11.4	3.5	3.7	32.8	74.9	79.8	1.2	1.2	3.0
Iran	2.6	0.6	0.7[a]	3.6	1.0	0.6[a]	1.2	0.2	0.3[a]	88.6	97.0	97.6[a]	4.0	1.2	0.8[a]
Kiribati	14.1	3.4	15.2[b]	–	–	0.1[b]	85.8	96.4	84.6[b]	–	–	–	0.1	0.1	–
Malaysia	12.6	23.2	16.9	50.0	34.1	27.4	22.8	14.0	9.1	7.4	10.9	26.6	6.3	17.1	19.5
Nepal	...	25.7[e]	21.4[f]	...	38.3[e]	48.0[f]	–	0.1[e]	0.1[f]	...	–[e]	–[f]	...	35.9[e]	30.5[f]
Niue	91.5	89.3	...	–	0.1	...	–	–	...	–	–	...	8.5	10.6	...
Pakistan	10.6	24.7	26.8	30.2	18.8	13.6	0.7	0.5	0.5	1.2	1.1	6.6	57.2	54.3	51.1
Papua New Guinea	83.7	35.2	46.7[b]	10.7	3.6	5.2[b]	0.9	59.4	46.1[b]	–	–	–[b]	4.6	1.8	1.6[b]
Philippines	44.0	57.4	34.6	25.8	10.0	4.8	22.1	13.3	15.7	1.6	1.7	0.7	6.4	11.6	22.8
Republic of Korea	9.6	13.2	6.9	7.1	1.8	0.9	7.3	5.9	9.6	1.1	2.0	0.8	74.9	76.8	81.3
Samoa	92.4	90.6	92.0[f]	1.0	3.7	5.9[f]	–	0.6	0.2[f]	–	0.3	–[f]	1.3	4.8	1.9[f]
Singapore	16.4	9.5	7.7[d]	28.3	12.5	5.6[d]	2.4	2.6	3.8[d]	23.2	33.6	27.5[d]	26.7	39.9	46.9[d]
Solomon Islands	54.0	64.5	70.9[f]	41.4	28.2	26.8[f]	1.6	0.2	0.1[f]	–	–	–[f]	–	0.4	–[f]
Sri Lanka	72.6	63.8	47.5	25.3	19.5	17.1	0.7	5.3	0.8	–	0.1	12.9	1.4	3.8	21.5
Thailand	52.3	62.8	55.5	24.7	12.3	9.0	14.9	7.7	8.6	0.3	0.6	–	4.4	14.4	25.1
Vanuatu	88.3	88.7	98.9[f]	6.2	1.5	0.5[f]	4.0	8.6	0.4[f]	–	–	–[f]	1.5	0.2	0.1[f]

Source: *Handbook of International Trade and Development Statistics, 1983* (United Nations publication, Sales No. E/F.83.II.D.2), pp. 148-171, table 4.1.

[a] 1977. [b] 1979. [c] 1972. [d] 1982. [e] 1974. [f] 1980.

Table II.22. Imports of selected ESCAP countries or areas. Percentage of selected commodity groups, 1970, 1975 and 1981

Importing country or area	All food items (SITC 0+1+22+4)			Agricultural raw materials (SITC 2-22-27-28)			Ores and metals (SITC 27+28+67+68)			Fuels (SITC 3)			Manufactured goods (SITC 5+6+7+8-67-68)		
	1970	1975	1981	1970	1975	1981	1970	1975	1981	1970	1975	1981	1970	1975	1981
Afghanistan	20.5	24.4	15.4[a]	1.5	1.6	1.3[a]	1.5	1.2	1.5[a]	6.1	7.7	8.9[a]	52.9	45.7	45.1[a]
Bangladesh	–	52.6	25.3[b]	–	6.6	5.3[b]	–	4.9	9.4[b]	–	7.6	11.5[b]	–	26.6	48.3[b]
Brunei	17.2	13.9	17.8	0.3	0.2	0.2	17.2	24.5	14.1	2.2	1.5	1.4	61.2	59.4	64.3
Burma	7.0	7.4	9.2[a]	1.5	0.7	0.9[a]	9.2	15.1	10.1	6.0	7.7	2.5[a]	76.1	68.8	76.8[a]
Democratic Kampuchea	10.1	31.2[c]	...	1.4	2.3[c]	...	13.4	2.8[c]	...	7.0	1.7[c]	...	68.1	62.0[c]	...
Fiji	22.1	20.4	16.3	1.2	0.6	0.3	4.5	3.4	5.1	11.0	17.4	25.7	57.5	55.3	49.4
Hong Kong	19.9	20.8	13.5[d]	6.7	7.0	3.4[d]	4.7	4.0	4.6[d]	2.9	6.4	8.0[d]	65.5	61.6	70.0[d]
India	20.9	25.8	8.9[b]	9.2	2.1	3.5[b]	17.9	11.1	15.2[b]	7.7	22.6	33.2[b]	41.4	38.3	38.8[b]
Indonesia	9.4[e]	12.5	11.0	1.7[e]	2.8	3.2	10.9[e]	12.2	11.6	2.6[e]	5.4	13.3	75.2[e]	67.1	60.4
Iran	6.6	16.3	12.7[a]	5.7	2.8	2.6[a]	17.4	17.3	12.0[a]	0.2	0.2	0.3[a]	70.1	63.4	72.3[a]
Lao People's Democratic Republic	23.8	31.7[f]	...	0.5	0.4[f]	...	4.2	6.5[f]	...	22.7	11.2[f]	...	48.8	50.3[f]	...
Malaysia	21.5	18.2	12.9	2.2	2.1	1.7	10.3	10.2	9.0	12.1	12.0	17.2	52.4	56.7	58.6
Maldives	28.8	27.2	22.7[g]	4.1	2.2	1.1[g]	5.5	5.9	4.1[g]	8.9	10.5	18.6[g]	51.5	54.1	53.5[g]
Nepal	...	2.9	4.3[h]	...	–	0.6[h]	–	2.6	4.2	...	0.9	17.7[h]	...	93.4	70.1[h]
Pakistan	20.9	23.6	14.0	3.6	3.5	4.4	11.8	12.6	8.8	6.5	17.9	27.8	57.1	42.4	45.0
Papua New Guinea	20.2	21.8	...	0.3	0.3	...	4.4	3.6	...	3.3	10.7	...	67.4	59.9	...
Philippines	11.2	10.5	8.5	5.0	3.1	2.2	13.7	7.1	5.6	12.0	21.2	30.1	57.8	52.6	40.7
Republic of Korea	17.2	14.2	12.0	15.4	11.4	9.3	10.3	9.4	9.3	6.9	19.1	29.8	50.2	45.9	39.4
Samoa	29.0	34.6	24.8[h]	4.7	0.6	1.1[h]	3.8	4.4	4.3[h]	3.8	8.3	16.5[h]	54.5	49.8	53.3[h]
Singapore	16.4	10.8	7.8[d]	10.3	5.6	3.2[d]	5.7	8.0	5.5[d]	13.5	24.6	33.6[d]	52.0	49.7	48.9[d]
Solomon Islands	27.2	19.6	14.4[h]	0.3	0.3	0.7[h]	3.2	3.3	–	5.6	9.9	16.0[h]	62.6	65.8	68.6[h]
Sri Lanka	47.0	50.5	19.4	2.1	2.4	1.6	4.4	3.1	4.8	2.7	16.7	25.0	43.8	26.7	48.9
Thailand	5.4	4.3	4.4	3.4	4.0	4.0	10.6	9.0	9.6	8.8	21.6	29.8	67.8	59.0	48.2
Tuvalu	...	39.3[a]	35.1	...	6.8[a]	2.5	...	1.3[a]	0.7	...	5.4[a]	16.2	...	45.6[a]	43.7
Vanuatu	29.1	25.0	29.5[h]	1.4	1.7	1.9[h]	3.3	2.8	2.2[h]	6.1	10.1	15.8[h]	55.9	60.4	50.5[h]

Source: Same as Table II.21, pp. 172-195, table 4.2.

[a] 1977. [b] 1979. [c] 1972. [d] 1982. [e] 1971. [f] 1974. [g] 1978. [h] 1980.

Sri Lanka and Thailand, the share of manufactures in total exports rose from below 5 per cent in 1970 to over 20 per cent in 1981. Other countries that have greatly increased exports of manufactures are India, Malaysia and the Philippines. Papua New Guinea, however, experienced an important shift away from food products to the export of ores and metal, and Indonesia's exports came to rely more heavily on oil.

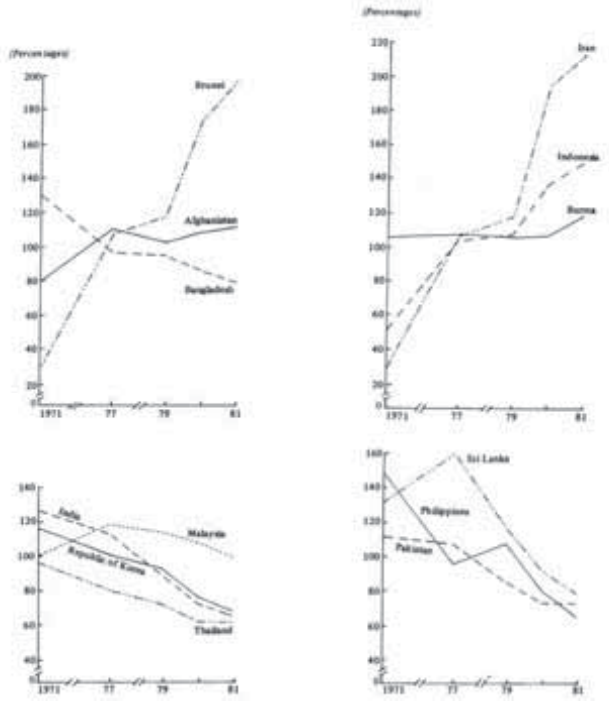
Some important features can also be observed in the import structure (see Table II.22). For a few countries, the share of food in total imports has decreased significantly over the past decade while, as might be expected, expenditure on fuel imports has risen sharply. For countries like Fiji, India, Pakistan, the Republic of Korea, Singapore, Sri Lanka and Thailand, fuel imports represented more than 25 per cent of total imports in 1980. There is a significant decline in the share of manufactures in total imports in Indonesia, the Philippines, the Republic of Korea and Thailand.

In line with the objectives of the International Development Strategy, several countries of the region have been successful in diversifying exports and in increasing the share of manufactures in total exports.[3] Several countries (India, Malaysia, the Philippines, the Republic of Korea, Singapore, Sri Lanka and Thailand) have considerably decreased the degree of commodity concentration of their exports between 1970 and 1980. Most other ESCAP countries remain dependent on a few commodities, in particular primary commodities, for the bulk of their export earnings. This latter group of countries remains vulnerable to fluctuations in commodity markets

[3] For indexes of commodity concentration and diversification, see, *Handbook of International Trade and Development Statistics, 1983* (United Nations publication, Sales No. E/F.83.II.D.2).

Figure II.5. Selected developing ESCAP countries. Indexes of terms of trade,[a] 1971-1981

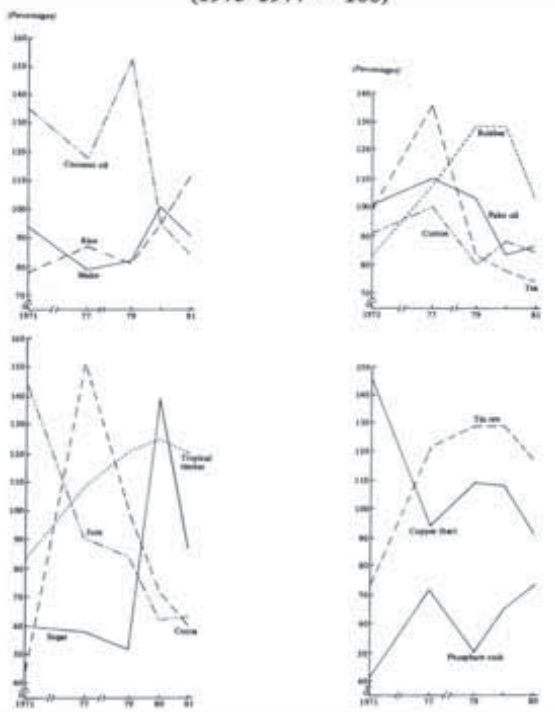
(1975 = 100)



[a] "Net barter" terms of trade defined as the ratio of the export unit value index to the import unit value index.

Figure II.6. Index of terms of trade for selected commodities[a]

(1975-1977 = 100)



[a] Indexes of free-market prices deflated by the United Nations index of export unit value of manufactured goods.

as experienced since 1980.

Since the beginning of the Third Development Decade, the purchasing power of exports of most developing ESCAP countries has markedly declined (see Figures II.5 and II.6). This is reflected in the deterioration in their terms of trade. All indications are that the terms of trade have further continued to fall in 1982 and 1983. In these circumstances, prospects for the countries of the region to achieve the Strategy's objectives of improved terms of trade and more stable export earnings are not bright.

B. TRADE POLICY ISSUES IN THE DEVELOPING ESCAP ECONOMIES

1. Market access, protectionism and the multilateral trading system

The brief review in the preceding section is indicative of the potential dynamism of the developing ESCAP region in world trade. Without minimizing the role of domestic policies, its success in this area is critically dependent on the global environment. Unfortunately, in recent times, a rapid proliferation of protectionist measures imposed by the developed countries has threatened the very existence of an open and free international trade system.[4] As a consequence, the participation of developing countries in world trade has been particularly affected. Since the start of the Third Development Decade, developing countries have faced an ever increasing number of complex trade barriers against not only competitive manufactures but also their more traditional agricultural exports such as sugar and cotton. The developing countries of the ESCAP region have particularly felt the effects of resurgent protectionism in developed economies. Their dynamism in world trade over the last decade and their success in acquiring a comparative advantage in several manufacturing sectors will be in jeopardy if concerted international measures are not taken promptly.

The Multilateral Trade Negotiations (MTN) concluded in 1979, popularly known as the Tokyo Round, were an important step taken by the international community to open further the world trading system.[5] Despite the success in lowering tariffs substantially, MTN did not live up to the expectations of developing countries.

In the first instance, the tariff cuts under the most-favoured-nation (MFN) rule appear lower on products of special or potential interest to developing countries. In a recent study[6] it was found that the average MFN tariff on imports to developed market economy countries is 9.2 per cent when originating from developing countries, 8.2 per cent from developed market economy countries, and 7.8 per cent from the socialist countries of Eastern Europe.[7] Thus there yet exists discrimination against imports originating in developing countries. Besides, relatively high tariffs continued to impede exports of special interest to developing ESCAP countries, for instance, textiles, clothing, footwear and other labour-intensive manufactures.

One important aspect of tariff protection of concern to developing ESCAP countries is a tariff structure where rates increase with the stage of processing of the product.[8] For agricultural products, for instance, the average tariffs in the European Economic Community (EEC) after the Tokyo negotiations are 8 per cent on raw products and 20 per cent on processed products. The corresponding rates in the United States and in Japan are 3.9 per cent and 5.9 per cent, and 11.5 and 22.3 per cent, respectively. In the case of jute, an export product important for several ESCAP countries, the average MFN tariff is zero on the raw product and increases to 8.9 per cent on jute fabrics exported to EEC and 20 per cent on exports to Japan. This kind of cascading tariff structure increases the effective rate of protection against exports of processed products from developing countries.

Another important concern of developing countries following the Tokyo Round of negotiations relates to the paring of margins of preference under the generalized system of preferences (GSP). Against the gains in trade resulting from the lowering of MTN tariffs on non-GSP products, there have been losses resulting from reduced margins of preference.

It is a matter of further concern that GSP remains a non-binding commitment. GSP schemes have been put into effect by 20 market economy countries and six socialist countries of Eastern Europe. In 1980, GSP covered 48.8 per cent of total dutiable imports of countries belonging to the Organisation for Economic Co-operation and Development (OECD) from developing countries. However, only 21.3 per cent of these imports were subject to preferential tariffs.

[4] UNCTAD, "Protectionism, trade relations and structural adjustments" (TD/274), January 1983.

[5] Bela Balassa, "The Tokyo round and the developing countries", *World Bank Staff Working Paper 370* (February 1980). Also see Isaiah Frank, "Trade policy issues for the developing countries in the 1980's", *World Bank Staff Working Paper 478* (August 1981).

[6] UNCTAD, "Protectionism, trade relations and structural adjustments", *op. cit.*, p. 99.

[7] A similar tariff structure but with much higher average rates is found in the case of exports to developing countries. See UNCTAD, *ibid.*

[8] UNCTAD, "The influence of protectionism on trade in primary and processed commodities: the results of the multilateral trade negotiations and areas for further international co-operative action" (TD/B/C.1/207/Add.2), August 1980.

Indeed, several factors hinder or preclude developing countries from fully utilizing the schemes.[9] The inclusion of a safeguard clause in the schemes of several developed countries and the application of the graduation principle by the United States have resulted in the withdrawal of preferential tariff concessions and in the imposition of quota limits in respect of several developing countries and products where developing countries had acquired a comparative advantage.

For the 1980/81 period, Australia excluded Malaysia, Singapore and Thailand from preferential treatment on a number of products in the textiles, clothing and footwear category on the grounds that they had exceeded a predetermined share of total imports to Australia of these products from all countries benefiting under the scheme. In 1982, EEC added three products to the list of products subject to *a priori* limits. Among 16 developing economies affected, nine were from the ESCAP region (China, Hong Kong, India, Indonesia, Malaysia, Pakistan, the Philippines, the Republic of Korea and Singapore). From April 1981, Japan also adopted a policy of differential application of preferential treatment. Under the scheme, if a product from a beneficiary is judged sufficiently competitive or when Japan's domestic industries are expected to be seriously affected, the product can be excluded from preferential tariffs. In the case of the United States, from 1981 onwards, the application of the graduation principle and the competitive need criteria has resulted in the exclusion from preferential treatment of a substantial amount of exports from developing countries and areas. Manufactures from Hong Kong and the Republic of Korea were especially affected.

Although in recent years, preference-giving countries have in general improved their schemes by adding beneficiaries, expanding product coverage and extending larger tariff cuts, these changes have been marginal and the fundamental arbitrariness of GSP remains a subject of great concern to developing ESCAP countries.[10] Taking into account both MTN and GSP tariffs, the average of trade-weighted tariffs facing labour-intensive imports into the United States originating from the Republic of Korea, Singapore and the Philippines were respectively 23.8 per cent, 25.0 per cent and 22.6 per cent in 1982.[11] In all cases these tariffs are much above the average for imports into the United States from the rest of the world. Labour-intensive imports into EEC from the Republic of Korea and India face tariff rates of 14.4 per cent and 11.4 per cent, respectively, both of which are much higher than the EEC's average for imports of this category of products from the rest of the world.

In recent years, resort to non-tariff barriers to trade has accelerated sharply and has become a threat to the world trading system. The Tokyo Round of negotiations led to the adoption of several codes of conduct concerning the use of non-tariff measures.[12] There were special provisions in favour of developing countries in such areas as subsidies to non-agricultural products and import licensing. They also were entitled to non-reciprocal treatment in trade preferences. Despite these improvements, several loopholes that can be used to circumvent the General Agreement on Tariffs and Trade (GATT) rules remain in the system. The principle of graduation used by the United States against imports from several ESCAP countries such as the Republic of Korea and Singapore and the customs valuation rules used by Australia against several imports from India in 1978-1979,[13] are striking examples.

Perhaps more important are the various issues that were not solved at the Tokyo Round. Little or no progress was achieved regarding quantitative restrictions (QRs), voluntary export restraints and orderly marketing agreements. These issues are closely associated with the failure to negotiate a "safeguard code" that would clearly delimit and define conditions and procedures under which an importing country may resort to the restrictive "escape clause" to prevent "market disruption" or "serious injury" and to counteract subsidies and dumping practices by an exporting country. In recent years, the number of instances when developed market economy countries have resorted to these non-tariff barriers (NTBs) has increased enormously, seriously affecting the trade prospects of developing countries. These assume many forms such as restrictions or prohibitions based on health and other standards, import authorization, anti-dumping and countervailing duties, control of the minimum price level, and price investigation and surveillance.

The most striking case of non-tariff protection is in the textile

[9] UNCTAD, "Seventh general report on the implementation of the generalized system of preferences" (TD/B/C. 5/81), February 1982.

[10] *Ibid.*

[11] *Protectionism and Structural Adjustment in the World Economy* (United Nations publication, Sales No. E.82.II. D.14).

[12] Isaiah Frank, *op. cit.*

[13] Benjamin Higgins, H.M. Gunasekra, Sitiveni Halapua and Vinod Kumar, "A study of the tariff and non-tariff measures affecting products of export interest of Chogrm countries and a detailed report on positive adjustment policies adopted by countries of the region which will facilitate the redeployment of industries on the basis of comparative advantage within the Chogrm region", paper submitted to the Commonwealth Regional Consultative Group on Trade (Suva, Centre for Applied Studies in Development, University of the South Pacific, undated).

sector, in which 44.6 per cent of products are affected by NTBs in developed countries. In the case of EEC, a major trading partner for the region, 79.9 per cent of textile products are subject to NTBs. EEC has negotiated a system that practically legitimizes the imposition of restrictions on textile exports of developing countries. This system, well known as the Multi-Fibre Arrangement (MFA), allocates bilaterally negotiated quotas to developing countries according to the "sensitiveness" of the products. MFA, renegotiated in December 1981, has become consistently more restrictive in recent years. Successful exporters have seen their quotas cut in favour of new suppliers. Provisions have been made to stop imports even when the quotas have not been reached in case of "palpable damage" or "significant difficulties" in domestic industries. Quota-free goods may be brought under a quota when there are signs of "disruptions" in the market. Following the MFA example, other countries such as Austria, Canada, Finland and Sweden have bilaterally negotiated textile agreements with exporting ESCAP countries. Sweden, for instance, recently negotiated an agreement with Thailand under which the exports of eight Thai textile products subject to quota can grow between 1983 and 1987 at rates between 0.1 per cent and 2 per cent per annum. Similarly, the United States has negotiated textile agreements with China, Hong Kong and the Republic of Korea. Under these agreements, exports of textile products to the United States would increase at sharply reduced rates.

MFA, which applies only to exports from developing countries, is the most evident example of the protectionist measures that have dominated international trade relations in the first three years of the current International Development Strategy. For developed countries, quantitative restrictions such as those imposed under MFA – in contrast with tariffs – have the advantage of providing domestic producers with a secure market. Such security, it is claimed, is necessary to encourage investment and structural adjustments in the developed countries. Continued trade liberalization may become possible thereafter. However, little progress towards genuine structural adjustments seems to have been achieved, and, very often, the restrictive measures have been applied to protect inefficient traditional industries in developed countries.[14]

In addition to these direct measures, a variety of other instruments are used by the developed countries to protect domestic economic activity. These include production or employment subsidies, administrative measures such as the imposition of arbitrary quality standards and retaliatory actions on suspicion of unfair export promotion practices by trading partners.

Although protectionism in the form of NTBs is not a new phenomenon, the recently imposed NTBs share some characteristics that indicate a definite change in the world trading climate. Most QRs, especially those affecting agricultural products and "sensitive" products, such as textiles, clothing and footwear, have been negotiated bilaterally. As a result of this increased bilateralism, trade negotiations and commercial policies have lost transparency and have become the outcome of threats and counter-threats. Secondly, with increased reliance on non-tariff measures, trade policies of developed economies have become inextricably linked with their domestic agricultural and industrial policies tending to serve the interests of domestic pressure groups, irrespective of implications for global welfare. QRs tend greatly to increase the degree of uncertainty in world trade. In the present system, exporters from developing countries can no longer properly assess their competitive position as their success is likely to be penalized by quota changes and other administered restrictions. Further, QRs might threaten the competitive nature of markets in both exporting and importing countries.[15] In the exporting country, existing producers may cartelize to share the quota, barring the entry of new producers.[16] In an importing country, producers may cartelize to press Governments for protectionist measures.

It was recently remarked that "if the MFA heralds the managed trade arrangements of the future, a number of countries should seriously re-evaluate their perception of the trading system as an engine for development".[17] In the present context of deteriorating international trade relations and lack of a consensus between developed and developing countries regarding structural adjustment policies to reflect shifts in comparative advantage, developing ESCAP countries may wish to investigate the possibility of adopting a regional approach to trade problems in order to establish common bargaining positions and to resist the spread of bilateralism in trade relations. Ways should also be

[14] H. Johnson, ed., *The New Mercantilism* (New York, St. Martin's Press, 1983).

[15] The elimination of QRs, though necessary, is not sufficient for a freely functioning, competitive world market to prevail. The distortions caused by market disruptive practices adopted by transnational corporations also need to be corrected.

[16] H. Shibata, "A note on the equivalence of tariffs and quotas", *American Economic Review*, vol. 58, No. 1 (March 1968).

[17] *Protectionism and Structural Adjustment in the World Economy*, *op. cit.*, p. 53.

found to educate the public in developed countries regarding the harmful consequences of protectionism for consumer welfare and for the long-term productive efficiency of their economies.

2. Deterioration in commodity markets

The problems created by barriers to market access have been further compounded by the collapse of markets for primary commodities of major interest to many developing ESCAP countries. The extent of the crisis in commodity markets can be assessed in terms of the fall in prices, which in many instances are now lower in real terms than half a century ago. The long-term trends in prices are particularly disturbing for some of the commodities for which ESCAP countries are large exporters: jute, cotton, copper, tea, rice, maize, palm oil and kernels, and sugar.

Most prices appear to have recovered slightly in the first half of 1983. The United Nations Conference on Trade and Development (UNCTAD) combined price index in SDRs has increased by about 6 per cent since January 1983. The upward movement seemed to have weakened by the middle of the year, with prices stabilizing or actually decreasing slightly. It is still difficult to foresee any renewed vigorous upward trend in commodity prices.

The collapse in commodity prices has been accompanied since 1980 by a stagnation or a decrease in export volumes, aggravating the fall in earnings from commodity exports. For example, despite considerable efforts at export promotion and the depreciation of its exchange rate against the United States dollar, the volume of traditional exports from Sri Lanka, comprising mainly tea, rubber and coconut products, declined by over 2 per cent in 1981-1982.[18] Malaysia posted for the first time in a decade a balance-of-payments deficit in 1981, mainly due to falling export prices and volumes of its main non-oil primary commodities: tin, rubber and palm oil.[19]

The developing ESCAP countries most affected by the commodity crisis were the Pacific island countries, the economies of which depend mainly on the exports of only one or two commodities.[20] For instance, Fiji depends on sugar for 70 per cent of exports receipts. In Tonga and Vanuatu, copra and coconut products account for 70 per cent of exports. Copper accounts for 50 per cent of Papua New Guinea's exports. Samoa and Solomon Islands depend mainly on copra, coconut products and cocoa, while Kiribati depends on exports of phosphate for nearly 90 per cent of its export earnings.

All the Pacific island countries saw their export revenues plunge after 1980. In Papua New Guinea,

[18] W.N.A. Fernando, "Policy responses to IDS in Sri Lanka" (mimeo.) (September 1983).

[19] Gonzalo M. Jurado and E.S. de Dios, "Policy responses to the IDS in ASEAN" (mimeo.) (September 1983).

[20] B. Higgins and M. Sukhdeo, "Policy responses to IDS in the developing Pacific countries of the ESCAP region" (mimeo.) (September 1983).

Table II.23. Changes in real prices of the principal primary commodities exported by developing ESCAP countries: the first half of 1982 compared with earlier years

	Real prices[a] in the first half of 1982 compared with:					
	1953	*1963*	*1973*	*1979*	*1980*	*1981*
	(Percentage change)					
Food:						
Cereals: Maize	-46	-28	40	-9	-26	-19
Rice	-48	-30	-56	-10	-23	-34
Sugar[b]	-13	-61	-47	-9	-62	-39
Tropical beverages:						
Coffee	-34	+24	+9	-29	-12	+9
Cocoa	-20	+7	-20	-46	-24	-10
Tea	-50	-53	-11	-15	-8	-4
Vegetable oilseeds and oils:						
Soya beans[c]	-38	-26	-56	-17	-7	-10
Copra	-58	-42	-53	-52	-21	-11
Palm oil	-34	-26	-34	-26	-8	-11
Palm kernels[c]	-21	-41	-46	-45	-12	-9
Agricultural raw materials:						
Cotton	-44	-21	-28	-10	-18	-14
Jute	-71	-67	-48	-27	-1	-3
Natural rubber	32	-31	-20	-16	-16	-21
Tropical timber	–	+46	-4	-3	-6	-2
Minerals, ores and metals:						
Copper[d]	-34	-26	-59	-28	-27	-13
Bauxite/alumina[e]	-3	-7	+20	-9	-18	-11
Iron ore	–	-26	-23	+3	-2	+5
Manganese ore	-38	-22	+6	+17	+7	-3
Tin[d]	+92	+70	+37	-16	-15	-4
Phosphate rock	–	+15	+28	+7	-17	-19

Source: UNCTAD, "Commodity issues: a review and proposals for further action" (TD/273), 11 January 1983, annex table 2.

[a] Nominal prices deflated by United Nations index of unit values of exports of manufactures from developed market economy countries. [b] Free market price. [c] Including processed products. [d] Ore and refined metal. [e] Price relates to aluminium.

the economy of which is based on a broader range of commodities including coffee and cocoa in addition to copper, export receipts fell by nearly 18 per cent in 1981. This trend continued in 1983, with a further fall of about 30 per cent.

The situation in the Pacific island countries is symptomatic of the role of primary commodity exports in the development process of a large number of developing ESCAP countries.[21] In most countries, commodity exports are more than 80 per cent of total exports. Many commodity-dependent ESCAP countries have initiated export diversification policies in recent years. It takes considerable time for these policies to bear fruit. Moreover, it has been increasingly difficult to pursue these policies of diversification because of falling exports receipts from existing commodity exports. The deterioration of the purchasing power of exports and the deteriorating balance of payments position of most of the commodity-dependent ESCAP countries have severely restricted their efforts at export diversification.

Before examining policy measures aimed at resolving or at least attenuating the present commodity crisis, it is useful to review briefly its main causes. In the short term, two main factors can be identified on the demand side.[22] First, the considerable slow-down in economic activity in all commodity-importing developed countries has depressed the demand for primary commodities since 1980. This has affected not only raw materials used as intermediate input, but also other primary commodities including some food and beverage products. The second factor lies in the high cost of credit in recent years. High interest rates have induced enterprises in consuming countries to decrease their levels of stocks, further weakening the demand for commodities and leaving the burden of adjustment to producer countries. The fall in demand for commodities was reinforced by a number of supply-side factors. In 1981 and 1982, there were bumper harvests in most countries, due partly to generally favourable weather conditions and partly to the expansion of planted areas as in the case of coffee, sugar and cocoa. In commodities such as sugar, the increase in output was in response to high domestic support price policies in "protected" markets like the EEC. These domestic agricultural policies played a major role in the creation of a world excess supply of sugar and in the consequent collapse of prices in 1981-1982. The drop in prices has severely affected major sugar exporters such as Fiji and the Philippines. Given the long gestation periods of investments in crops such as cocoa, coffee, tea, rubber, oil palm and coconuts, supply is likely to remain high and keep their market prices at relatively depressed levels in the next few years.[23]

Although it is difficult to identify the relative influence of short-term and long-term factors on the working of commodity markets, the latter set of factors played a major role in the evolution of the markets for a large number of commodities during the past decade. Technological changes particularly after the first oil price crisis, the competition of new substitutes as well as declining income elasticities of demand for several primary commodities are some main long-term factors affecting the equilibrium of commodity markets. In the category of food and beverages, commodities such as tea, coffee, cocoa, groundnut and groundnut oils as well as sugar all exhibit very low income elasticities of demand in developed countries. Their long-term growth prospects are thus low. In the case of industrial raw materials such as rubber, copper and cotton, technological changes are adversely affecting demand in the long term, as their content per unit of output declines. In the case of rubber, cotton and jute, the competition of synthetic substitutes has been fierce and has considerably eroded the demand for the natural product. The stagnation of oil prices is likely to sharpen further the competitive edge of synthetics. Finally, the inward-looking policies of many developed countries with respect to food supply might have a non-negligible influence on the markets for some commodities from developing ESCAP countries.

From this review of the market forces, it transpires that commodity-dependent developing ESCAP countries will need to redouble their efforts to diversify exports towards primary commodities with a secular growth in demand as well as processed commodities and manufactures. Renewed efforts to increase commodity trade with other developing countries is a further avenue to pursue. A prolonged period of extremely low prices might result in large cuts in production capacity in many developing countries. If demand in industrial countries improves, low supply responses will increase the price instability of the markets. Furthermore, a prolonged crisis in commodity markets will affect the import capacity of developing countries and therefore the export markets of developed countries. Concerted actions by consumer and producing countries are thus required to alleviate, in the short term, the burden of the commodity crisis on developing countries, and to create, in the long term, fair and stable market conditions.

[21] See Table II.21.

[22] UNCTAD, "Commodity issues: a review and proposals for further action" (TD/273), 11 January 1983.

[23] *Ibid.*

Box II.13. Compensatory schemes for stabilization of commodity export earnings: STABEX

In the absence of effective international price stabilization schemes, commodity price fluctuations lead to instability in producers' incomes as well as erratic movements in exporting countries' foreign exchange earnings. Domestic price stabilization programmes are often implemented to attenuate the risks borne by producers. Such policies have been followed by several ESCAP countries.[a] The problem of commodity price stabilization is then reflected in the fiscal budget and in fluctuations in foreign exchange earnings.

To help developing countries cope with these difficulties, the International Monetary Fund (IMF) has created a Compensatory Financing Facility (CFF)[b] which, despite some well-known shortcomings and limitations of coverage,[c] has helped developing countries to partially offset shortfalls in export earnings. CFF is, however, not wholly concerned with fluctuations in primary commodity earnings. Besides the IMF system, EEC, under its Lomé I and II conventions, has set up a scheme, known as STABEX, which is exclusively commodity related and aimed at providing developing countries that are parties to the conventions with compensatory payments for shortfalls in earnings from commodity exports to EEC.

All ACP[d] countries involved in the Lomé conventions can benefit from STABEX when faced with export earnings difficulties originating in their trade with EEC in 46 commodities or products.[e] From the ESCAP region, only the Pacific island countries participate in the scheme. Minerals and three important agricultural products (sugar, tobacco and beef) are not covered.[f]

STABEX is characterized by some interesting features. First, the compensatory transfers are calculated on a product by product basis. The shortfall in export earnings for a product is calculated by comparing current year receipts with the average annual value of exports to EEC over the previous four years.[g] Account is taken of possible trade diversification to non-EEC countries by the exporting country as well as of variations in domestic final and intermediate demand. For each product, the claiming country's exports have to fulfil certain dependency and fluctuation thresholds.[h] These criteria vary depending on the country being classified as least developed, land-locked or island.[i]

Secondly, the transfers are made as interest-free loans repayable once exports earnings have recovered. Although there exists the possibility of obtaining advances, transfers are usually made in the year following the shortfall in export earnings. This delay might be sometimes long and in some cases payments have been made after earnings had recovered. A particularly important feature of STABEX is that some developing countries are not required to reimburse their transfers. Thus, for about half the participating countries, the funds are received as outright grants. Several ESCAP countries benefit from this rule, e.g. Kiribati, Samoa, Tonga and Tuvalu.

Finally, unlike most other development assistance schemes or financing facilities, STABEX transfers are not tied to any specific uses or conditional upon the adoption of prescribed economic policies. While this is a great advantage to the recipient country as it can use the STABEX funds for broader diversification policies or other pressing development needs, it also implies that the long-term supply problems of commodities entitled to STABEX transfers might not be attended to.

The STABEX scheme worked satisfactorily under the Lomé I convention but ran into severe financial problems in 1981 (Lomé II convention).[j] Because of the extent of the current commodity crisis, claims could only be met up to 53 per cent in 1981 and 31.5 per cent in 1982. Unless extra revenues are urgently raised, the effectiveness of the STABEX scheme and its role of maintaining a stable level of export earnings for beneficiary countries could be put in jeopardy.[k]

In spite of its financial limitations, and a number of other shortcomings such as limited geographical and commodity coverage and transfer-triggering conditions, the STABEX scheme has played a useful role in stabilizing the export earnings of beneficiary countries. Several developing ESCAP countries in the Pacific region have substantially benefited from the scheme over the past eight years. STABEX could be taken as a basis for establishing a more comprehensive world-wide commodity-related financing facility.

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[a] See ESCAP, "Domestic stabilization of international trade instability in the South Pacific" (ST/ESCAP/222), Bangkok 1982.

[b] L.M. Goreaux, *Compensatory Financing Facility*, IMF pamphlet series No. 34 (Washington, D.C., 1980).

[c] UNCTAD, "Action on export earnings stabilization and developmental aspects of commodity policy" (TD/229/Supp. 1 and Corr. 1).

[d] Sixty-four African, Caribbean and Pacific countries. Some of them do not, however, fulfil the criteria to benefit from STABEX.

[e] For the list of commodities, see EEC, Lomé I and II conventions. At the time of writing this chapter, negotiations for a new convention to come into force on 1 March 1985 were in progress.

[f] Sugar and beef are covered by separate EEC preferential arrangements. Iron ore is covered by STABEX until 1984.

[g] Except for 13 countries for which exports to all destinations are taken into account.

[h] See UNCTAD, "Complementary facility for commodity-related shortfalls in export earnings" (TD/B/C.1/237), November 1982.

[i] The EEC's definition of least developed countries is different from that of the United Nations and covers 35 countries.

[j] UNCTAD, "Complementary facility for commodity-related shortfalls in export earnings", *op. cit.*

[k] UNCTAD, "Commodity issues: a review and proposals for further action" (TD/273), 11 January 1983.

Since the middle of the 1970s, the main efforts of the international community to solve the commodity problems have revolved round the implementation of the Integrated Programme for Commodities (IPC) adopted by the fourth general conference of UNCTAD in 1976. The programme relates in the first instance to 18 commodities, of which 10, mainly exported by developing countries, have been earmarked as core commodities and suitable for stock-piling.[24]

IPC responds to a number of essential issues relating to the com-

[24] UNCTAD, "An integrated programme for commodities" (TD/B/C.1/116), Trade and Development Board, Committee on Commodities (Geneva, 1974).

Box II.14. Trade in non-factor services

Although a relatively neglected area in trade theory as well as in trade negotiations, trade in non-factor services has in the past decade assumed an increasingly important role in the external transactions of developing countries.[a] The Strategy recognizes the importance of trade in services by calling for a "more balanced international distribution of service industries", in particular transport and insurance services. Internationally traded non-factor services include cargo and passenger transport, port services, banking, insurance and tourism.

The ratio of non-factor service exports to merchandise exports in 1980 was, for the world as a whole 22 per cent, for non-oil exporting developing countries 27.5 per cent and for developed market economies 25 per cent. The ratio of non-factor service imports to merchandise imports for each was 25 per cent. In the ESCAP region, the corresponding ratios for exports were 22 per cent for South and South-East Asia, and 51.4 per cent for Pacific island countries, comparable figures in respect of imports being 19 and 32 per cent.[b] For several ESCAP countries (e.g. Fiji, Nepal, the Philippines, Samoa, Singapore and Tonga) non-factor services represent a substantial fraction of or even exceed merchandise trade. For most developing ESCAP countries, tourist expenditure accounts for a significant proportion of non-factor service exports.

There has been a deceleration in trade in non-factor services since 1980, though to a less extent than in trade in goods. However, the performance of developing ESCAP countries remained satisfactory in 1981. Though the growth rates in 1981 were lower than during the period 1975-1980, the export of non-factor services from South and South-East Asian countries grew on an average at 14 per cent. The corresponding rate for the Pacific countries was 20 per cent. The growth rate of non-factor service exports averaged 16 per cent for all developing countries and -8 per cent for developed market economies in 1981.

So far, trade in services has only received minor attention in international negotiations and agreements. The Tokyo Round of negotiations included some provisions regarding trade in services. In general, however, multilateral trade negotiations and GATT continue to focus primarily on trade in goods. This does not imply that the current surge in protectionism has not affected trade in services. On the contrary, as in the case of goods, barriers to trade and market access are the main current issues in trade in non-factor services.

Protectionism in international trade in services takes a multitude of forms that "defy neat categorization"[c] and render their analysis extremely difficult. These barriers include such diverse measures as outright prohibition of some service imports, cartels and market sharing agreements in maritime and air transport, differential taxation of foreign service enterprises, travel taxes and limitations on the scope of operation of foreign banks, insurance and reinsurance companies. Finally, trade in services is in general a prime target of foreign exchange controls and limitations. Such controls have affected service exports of several ESCAP developing countries, especially tourism.

In recent years the international community, in forums such as UNCTAD, GATT and OECD, has been searching for means to reduce distortions in service trade.[d] UNCTAD initiated a series of meetings on the phasing out of "flags of convenience" and on larger participation by developing countries in world shipping and air transport.[e] OECD initiated efforts at reducing restrictions on trade in services through the adoption of its "code of liberalization of current invisibles operations".

The elimination of protectionist barriers to service exports in which the developing countries appear to be acquiring a comparative advantage (e.g. maritime and air transport) should figure more prominently in international negotiations in future. The principle of non-reciprocal and differential treatment for developing countries, recognized in the International Development Strategy, should be implemented so as to allow them to develop service sectors and participate more effectively in trade in non-factor services.

[a] For a definition of non-factor services, see International Monetary Fund, *Balance of Payments Manual*, fourth edition (Washington, D.C., 1977).

[b] ESCAP secretariat calculations based on *Handbook of International Trade and Development Statistics, 1983* (United Nations publication, Sales No. E/F.83.II.D.2).

[c] Isaiah Frank, "Trade policy issues for the developing countries in the 1980's", *World Bank Staff Working Paper 478* (August 1981), p. 45.

[d] See UNCTAD, "Protectionism, trade relations and structural adjustments" (TD/274), January 1983; and R.J. Krommenacker, "Trade related services and GATT", *Journal of World Trade Law*, November-December 1979.

[e] UNCTAD, "The effects of discriminatory and unfair civil aviation practices on the growth of air transportation in developing countries" (TD/B/860).

modity trade of developing countries. It recognizes the need to establish commodity price stabilization schemes by means of buffer stock operations. It stresses the adoption of supply management measures, including the permanent use of export quotas and/or production controls in order to bring long-term solutions to supply problems. IPC also covers several other aspects relating to commodities, such as an improvement of compensatory financing facilities to offset shortfall in export earnings from commodities and an improvement in market access for commodity exports of developing countries in both raw and processed forms.[25] The major integrating element covering the main aspects of IPC is the Common Fund, the purposes of which are to finance buffer stock operations under price-stabilizing international commodity agreements and to provide, under its second account, finance for longer-term development, such as diversification in commodity-producing countries.[26] The Common Fund has not yet been ratified by a sufficient number of countries to start functioning. Besides the doubts raised on its financial viability, to which UNCTAD has provided several solutions, there are differences of opinion concerning the central feature of the Common Fund: price stabilization. These differences relate to the implications of price stabilization schemes for income stability as distinct from price stability, for the distribution of gains between producing and consuming countries and between producers and other groups within producing countries and for allocative efficiency.[27]

In most ESCAP countries, commodity price variability strongly affects foreign exchange earnings, and when these drop the process of development is arrested. While it is generally recognized that perfect stabilization is neither feasible nor desirable, stabilization schemes have been demonstrated to reduce fall in prices significantly.[28] The tin and coffee agreements have been successful in recent years in preventing the total collapse of prices of these commodities through the use of buffer stocks and export quotas. The cocoa, rubber and sugar agreements have attenuated the extent of the fall in prices. But for the inadequacy of financial resources, these agreements could have functioned more effectively.[29] IPC and the ratification of the Common Fund could have played a major role in alleviating the burden of the present commodity crisis on the developing ESCAP countries.

3. Trade among developing countries

The Strategy calls for the expansion of trade among developing countries in accordance with the Arusha Programme.[30] The deterioration of the international trading system has provided a renewed stimulus for movement in this direction.

Trade links among developing countries for long have been very weak.[31] Several factors contributed to this weakness. Historical links promoted the continuation of trade with former metropolitan countries. In addition, there was no adequate contractual framework for trade among developing countries, and financial facilities to support such trade are still in the early stages of development. Another limitation to trade among developing countries has undoubtedly been the high tariff and non-tariff barriers affecting imports to these countries. This, for instance, is reflected in the high share of import duties in central government revenue for most countries of the region.[32] Quantity controls are also widely used in developing countries.

Despite these obstacles, several developing ESCAP countries have been able to increase substantially their trade with other developing countries both within and outside the region. Exports to the region from developing countries grew faster than both the average rate for world exports and for exports to the region from developed market economy countries. However, in 1981-1982, exports from developing countries, excluding oil-exporting countries, to the ESCAP

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[25] UNCTAD, "Commodity issues: a review and proposals for further action", *op. cit.*

[26] UNCTAD, "Action on commodities including decisions on an integrated programme, in the light of the need for change in the world commodity economy" (TD/184), May 1976, para. 11.

[27] There is a large body of literature on the subject. See for instance, D.M.G. Newbery and Joseph E. Stiglitz, *The Theory of Commodity Price Stabilization* (Oxford, Clarendon Press, 1981), chapter 3; D.M.G. Newbery, "Stochastic limit pricing", *Bell Journal of Economics*, vol. 9 (1978), pp. 260-269; and R. Stern, "World market instability in primary commodities", *Banca Nazionale del Lavoro: Quarterly Review*, No. 117 (June 1976), p. 180.

[28] S.J. Turnovsky, "Stabilization rules and the benefits from price stabilization", *Journal of Public Economics*, vol. 9, No. 1 (February 1978), pp. 37-57.

[29] Arjun Sengupta, ed., *Commodities, Finance and Trade: Issues in North-South Negotiation*, various articles (London, Frances Printer, 1980).

[30] *Proceedings of the United Nations Conference on Trade and Development: Fifth Session*, vol. I, report and annexes (United Nations publication, Sales No. E.79.II.D.14), annex IV.

[31] O. Havrylyshyn and M. Wolf, "Trade among developing countries: theory, policy issues and principal trends", *World Bank Staff Working Paper 479* (August 1981.)

[32] *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1).

region declined faster than world and developed country exports. The ESCAP intraregional trade, however, grew at remarkably high rates of about 9.4 per cent in 1981 and 3.4 per cent in 1982, when world trade and trade among developing countries were declining. As a result, the share of trade among ESCAP countries as a proportion of world trade increased marginally in 1982. ESCAP countries increased their share of total exports to other main developing regions. While ESCAP countries have acquired a share of about 6-7 per cent in total imports of Africa and West Asia, the share in imports of Latin America remained very low. There has been a remarkable growth in trade of some developing ESCAP countries with oil-exporting countries. The increase of exports from India and Pakistan to this group of countries is particularly striking. For the period 1965-1980, their exports to oil-exporting countries grew by about 9 per cent per annum.[33] The Republic of Korea, Singapore, Sri Lanka and Thailand also expanded substantially their trade with oil exporters.

Trade with centrally planned economies of Asia, and in particular China, has become more significant. After an extraordinarily high average annual growth rate of 46 per cent over the period 1975-1980, exports to centrally planned economies of Asia continued to grow at rates of 11.7 per cent in 1981 and 1.0 per cent in 1982. The share of the ESCAP region in trade of this group of countries has grown from 11.9 per cent in 1980 to 15.4 per cent in 1982.

Experience among countries has varied depending on the commodity composition of their exports as well as the strength of their geographical, political and historical ties. Fiji, Hong Kong, Pakistan, the Philippines, the Republic of Korea, Samoa and Sri Lanka have substantially increased their share of exports to other developing ESCAP countries.

In trade with developing countries, the ESCAP region increased the share of manufactured products in total non-fuel exports to developing countries from 41.3 per cent in 1970 to 56.3 per cent in 1980.[34] Among exports of manufactured goods, the share of textiles declined while that of machinery and equipment and other manufactured products increased. The share of food and agricultural raw materials in ESCAP trade with developing countries decreased steadily during the 1970s. Some important bilateral commodity flows occurred within the region between pairs of countries from among Indonesia, Malaysia, the Republic of Korea and Singapore. Thailand also substantially expanded its rice exports to several countries of the region.[35]

[33] A. Parikh, "A quantitative analysis on patterns of trade and price competitiveness for selected Asian developing countries" (DP/RICMS(2)/5), September 1983. Also see Table II.20.

Figure II.7. Annual average growth rate of imports into ESCAP countries by origin, 1970-1982

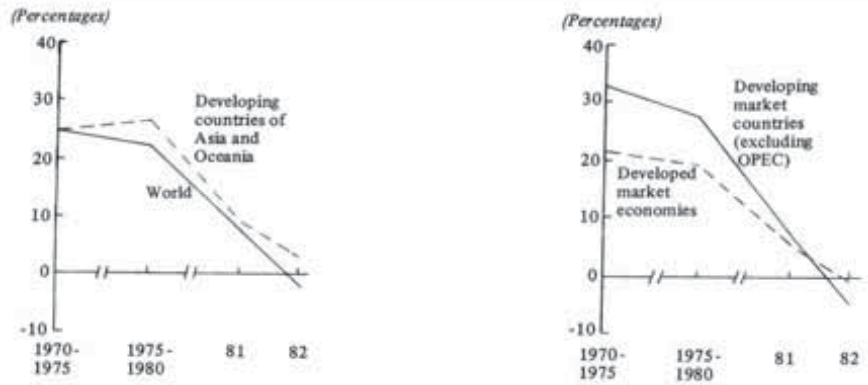
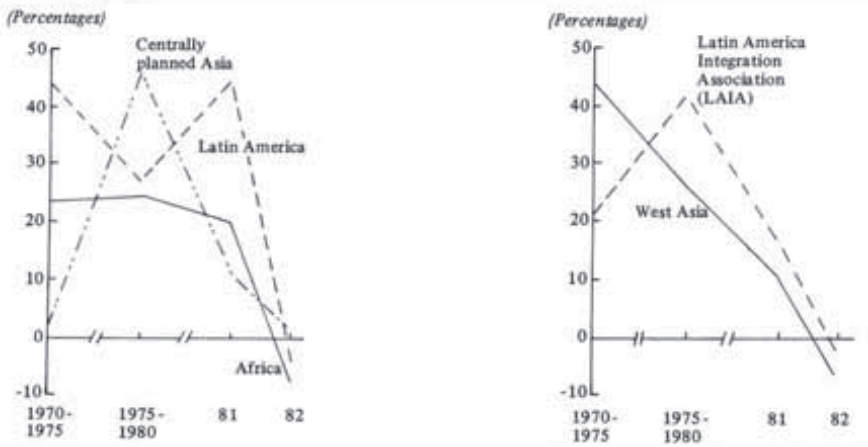


Figure II.8. Annual average growth rate of exports from ESCAP countries to main developing regions, 1970-1982



[34] Comprising manufactured goods, machinery and equipment, and textiles i.e. SITC 6+7+8-67-68.

[35] O. Havrylyshyn and M. Wolf, "Trade among developing countries: theory, policy issues and principal trends", *op. cit.*

Table II.24. Commodity composition of non-fuel trade of ESCAP countries with developing countries and territories, 1970, 1975 and 1980

(Percentages)

SITC group / Year	Food (SITC 0+1+22+4)	Agricultural raw materials (SITC 2-22-27-28)	Crude fertilizers and mineral ores (SITC 27+28)	Chemicals (SITC 5)	Iron and steel (SITC 67)	Non-ferrous metals (SITC 68)	Manufactured goods [SITC (6+8)-(67+68)]	Machinery and equipment (SITC 7)	Of which textile fibres, textile yarns and fabrics (SITC 26+65+84)
1970	26.1	19.3	3.6	4.5	3.6	1.3	31.4	9.9	20.2
1975	28.0	12.8	1.5	4.9	3.2	0.7	33.2	15.5	18.1
1980	19.5	11.6	1.3	5.4	4.1	1.5	35.3	21.0	17.5

Source: ESCAP secretariat computations based on *Handbook of International Trade and Development Statistics, 1983* (United Nations publication, Sales No. E/F.83.II.D.2), annex A.

The export-led development strategies adopted by an increasing number of countries of the region contributed to the dynamism of the trade of the developing ESCAP countries with other developing countries. Several ESCAP countries adopted more liberal and open trading policies by substantially scaling down the degree of protection accorded to domestic industries.[36]

In spite of these changes, protectionist measures, tariffs and customs duties remain important barriers to trade among all developing countries of the region. This follows a pattern common to most developing countries and to some extent can be justified on grounds other than trade policy, for instance, to raise government revenue, the protection of infant industry and balance-of-payments constraints.[37] Nevertheless, there exists much scope for developing ESCAP countries to reform systems of import protection, by the reduction of tariffs, the rationalization of tariff structures and by the replacement of QRs by tariffs in the interest of promoting trade among developing countries.[38]

Besides trade liberalization, vigorous export promotion in the markets of the developing countries of other regions can assist the developing ESCAP countries to diversify their exports. For newly industrializing countries of the region and those where the manufacturing sector is expanding rapidly and represents a substantial part of aggregate production, as in India, opportunities for expanding trade, perhaps through preferential agreements and technology transfer arrangements with the developing countries of Africa, West Asia and Latin America, are substantial.

Within the ESCAP region, efforts to expand the coverage of and improve preferential treatment in existing regional and subregional trade arrangements are likely to be rewarding. The performance of the two main regional trade arrangements, i.e. the Association of South-East Asian Nations (ASEAN) and the Bangkok Agreement,[39] indicates substantial scope for changes of this nature. The average annual rate of growth of intra-ASEAN exports has been higher than the rate of growth of total ASEAN exports during the 1970s. It is difficult to identify how much of this excess is due to ASEAN's Preferential Trading Arrangements as distinct from economic growth in ASEAN member countries. The share of intra-ASEAN trade in total ASEAN exports has increased from 13.9 per cent in 1976 to 18.9 per cent in 1981, while the share of

[36] *Economic and Social Survey of Asia and the Pacific 1982, op. cit.*

[37] *Ibid.*

[38] Bela Balassa and the World Bank, "Structural adjustment policies in developing economies", *World Bank Staff Working Paper 464* (July 1981).

[39] Includes Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka.

Table II.25. Exports of main trade groups in the ESCAP region, 1970-1981

	Export to developing countries as percentage of total group exports					*Intra-exports of groups as percentage of total exports of each group*				
	1970	*1976*	*1979*	*1980*	*1981*	*1970*	*1976*	*1979*	*1980*	*1981*
ASEAN	31.7	30.3	33.6	35.6	33.3	14.7	13.9	17.0	17.8	18.9
Bangkok Agreement	20.4	25.7	27.5	31.7	32.3	1.5	1.0	1.8	1.8	1.9

Source: Same as Table II.24, p. 51, table I.14.

ASEAN trade with developing countries has remained nearly stable over the last decade. Trade among countries in the Bangkok Agreement has remained stagnant during the period 1979-1981, while their share of exports to all developing countries has persistently increased. Both within ASEAN and the Bangkok Agreement, a greater expansion of trade can occur through further liberalization of intra-group trade by extending preferential treatment and lowering tariff and non-tariff barriers. However, in expanding and strengthening the subregional trade arrangements, there is a danger of trading off intraregional trade liberalization against higher protection in respect of imports from outside the region.

VII. INTERNATIONAL FINANCIAL RESOURCE TRANSFER

As part of continuing efforts by the international community to increase the flow of financial resources to developing countries, the International Development Strategy for the Third United Nations Development Decade envisaged that "a rapid and substantial increase will be made in official development assistance by all developed countries, with a view to reaching and, where possible, surpassing the agreed international target of 0.7 per cent of the gross national product (GNP) of developed countries. To this end, developed countries which have not yet reached the target should exert their best efforts to reach it by 1985, and in any case not later than in the second half of the decade. The target of 1 per cent should be reached as soon as possible thereafter".[1] The Strategy recommended that "international financial flows, particularly public flows, should be improved and adapted, consistent with the needs of developing countries as regards volume, composition, quality, forms and distribution of flows".[2] The Strategy also assigned an important role to non-concessionary flows as a source of development finance for many developing countries. Further, it showed a great deal of concern with reforms in the international monetary and financial system with a view to making it more responsive to the needs of developing countries.

These major concerns of the Strategy became increasingly more relevant as the balance-of-payments problems, and the need for resources for development, became increasingly severe in developing countries of the ESCAP region.

The need for adjusting levels of economic activity to limits imposed by balance-of-payments constraints and the consequent changes in priorities, policies and programmes of development threw into sharp focus the high cost of such adjustments for the longer-term development of economies in the region. This chapter contains analyses of selected aspects of the international transfer of resources in the context of these considerations in developing economies of the region.

A. VOLUME OF OFFICIAL DEVELOPMENT ASSISTANCE

1. Aid flows

The target of 0.7 per cent of GNP of developed countries official development assistance (ODA) to the developing countries was expected to be reached by 1980 under the Strategy for the Second United Nations Development Decade. In 1980, the ODA/GNP ratio of the Development Assistance Committee (DAC) countries, which have been contributing about 70 per cent of global ODA flows in recent years, increased to 0.38 per cent, a very small improvement upon 0.34 per cent in 1970. The Organization of Petroleum Exporting Countries (OPEC) and the Council for Mutual Economic Assistance (CMEA) countries between them have contributed about 30 per cent of the total ODA flows in recent years. ODA from OPEC countries rose from 1.18 per cent of their GNP in 1970 to a maximum of 2.92 in 1975, falling thereafter to 1.46 in 1982. The CMEA countries' contributions, at 0.13 per cent of their GNP in 1982, remained more or less unchanged during the decade, except in 1975 when they fell drastically to 0.07 per cent.

Some rise in the ratio in 1982 for a number of DAC countries, including the United States, overfulfilment of 0.7 per cent target by some countries (Denmark, the Netherlands, Norway, Sweden and OPEC countries) and expressed intentions of several countries to increase their aid/GNP ratio notwithstanding, it is extremely unlikely that the target of 0.7 per cent will be achieved by the end of the decade. The gap between the target and achievement as of 1982 remains large. Many of the important donors (Australia, the Federal Republic of Germany, Japan, New Zealand and the United Kingdom) do not have any time bound programme for reaching the target. The United States, the principal aid donor, does not accept the target. Much improved understanding of the mutuality of in-

[1] General Assembly resolution 35/56, annex, para. 98.

[2] *Ibid.*, para. 96. Further detailed recommendations in these respects are contained in paras. 99-109.

Table II.26. ODA, percentage of GNP, 1970-1982 (net disbursements)

	1970	*1975*[a]	*1979*[b]	*1980*[b]	*1981*[b]	*1982*
DAC countries						
Netherlands	0.61	0.75	0.98	1.03	1.08	1.08
Norway	0.32	0.66	0.93	0.85	0.82	1.01
Sweden	0.38	0.82	0.97	0.79	0.83	1.02
Denmark	0.38	0.58	0.76	0.74	0.73	0.77
France (excluding DOM/TOM)	0.42	0.38	0.35	0.38	0.46	0.48
Belgium	0.46	0.59	0.57	0.50	0.59	0.59
Federal Republic of Germany	0.32	0.40	0.45	0.44	0.47	0.48
United Kingdom	0.39	0.39	0.52	0.35	0.44	0.38
Canada	0.41	0.54	0.48	0.43	0.43	0.42
Australia	0.62	0.65	0.53	0.48	0.41	0.57
Austria	0.07	0.21	0.19	0.23	0.48	0.54
New Zealand	0.23	0.52	0.33	0.33	0.29	0.28
Japan	0.23	0.23	0.27	0.32	0.28	0.29
Finland	0.06	0.18	0.22	0.22	0.28	0.30
Switzerland	0.15	0.19	0.21	0.24	0.24	0.25
United States[c]	0.32	0.27	0.20	0.27	0.20	0.27
Italy	0.16	0.11	0.08	0.17	0.19	0.24
Total DAC	0.34	0.36	0.35	0.38	0.35	0.39
OPEC countries	1.18	2.92	1.88	1.74	1.46	1.46
CMEA countries	0.14	0.07	0.12	0.14	0.14	0.13

Sources: OECD, *Development Co-operation, 1982 Review* (Paris, November 1982), appendix table I.6; and *The OECD Observer*, No. 123 (July 1983).

[a] Excluding administrative costs identified as such. [b] Including administrative costs. [c] Administrative costs are included in the United States data for years shown.

terests of aid donors and aid recipients in an interdependent world will be required for any significant progress towards the realization of the Strategy target in respect of ODA flow.[3]

2. Multilateral ODA

The Strategy calls for the expansion of resources of international and regional development finance institutions in real terms in order to meet the growing needs of developing countries. However, the share of DAC flows, by far the largest contributor to the multilateral agencies, has tended to decline. The DAC member countries paid 22.6 per cent of their total ODA contributions to the multilateral agencies in 1981 as against 31.7 per cent in 1978. DAC contribution to multilateral ODA declined by an annual average of 2.9 per cent during 1978-1981 in current price terms, compared with a growth of 24.2 per cent during 1970-1979. The rate of growth of DAC contributions to multilateral agencies in 1981 dollar terms was 1.1 per cent during 1978-1981, compared with 3.2 per cent per annum in total DAC contribution to ODA.[4] The deceleration of growth in multilateral ODA from DAC sources has been rapid.

The OPEC member countries' contributions to the broad based multilateral agencies generally represent less than 5 per cent of their global aid. The International Development Association (IDA), the International Fund for Agricultural Development (IFAD) and, to a less extent, the African Development Bank and African Development Fund have been the major recipients of these contributions.

The CMEA countries' contributions to multilateral agencies amount to no more than 1 per cent of their total global aid. The contributions are generally in non-convertible currencies and paid principally to UNDP, UNICEF and UNIDO.

The reduced flow of resources to the multilateral agencies has resulted in lower commitments and disbursements by these agencies in recent years. Commitments by IDA, which received about a third of DAC multilateral contribution in 1980, went down from $US 3.8 billion in 1980 to about $US 3.5 billion in 1981 and to $US 2.7 billion in 1982. The level of disbursement, however, continued to increase, albeit more slowly. Disbursement in 1981 rose by 33 per cent to $US 1.9 billion from $US 1.4 billion in 1980. The 1982 increase was 10 per cent in nominal terms and amounted to $US 2.1 billion.[5]

The Asian Development Bank set a target of $US 4.1 billion for the third replenishment (1983-1986) of its special funds called the Asian Development Fund (ADF), compared with $US 2.1 billion authorized for the second replenishment (1978-1982). The size of the third replenishment, agreed upon in

[3] The Brandt Commission argued for a massive increase in aid flow to the developing countries on the ground, among others, of its feedback effects on developed countries' exports as a stimulant to those countries' own economic growth and prosperity. In a recent speech, the World Bank President Mr. A.W. Clausen expressed similar views. A.W. Clausen, "Third World debt and global recovery". The 1983 Jodidi Lecture at the Centre for International Affairs, Harvard University, 24 February 1983.

[4] OECD, *Development Co-operation, 1982 Review* (Paris, November 1982), tables VI-2, VIII-1 and appendix table 1.3.

[5] Despite lower commitment levels disbursements could continue to grow because of undisbursed pipelines from previous commitments. Generally there is no necessary correlation between a year's commitments and disbursements.

1982, had to be restricted to $US 3.2 billion in view of the donor's difficulties in meeting the original target.[6] UNDP, the central funding agency of the United Nations system for technical assistance world-wide, relies on voluntary contributions, which under an agreement reached in 1976, were to increase annually by 14 per cent up to the end of 1986. During the 1970s, real growth in UNDP's resources was limited to 1 per cent a year. In 1983, UNDP received contributions totalling $US 689 million compared with $US 716 million in 1980, reflecting a sharp decline in real terms.

The augmented ODA flow from the DAC countries in 1982, which included the release of funds already committed to multilateral agencies, may raise disbursements in 1983 and, perhaps, in 1984. The longer-term prospect, however, remains uncertain, as indicated by the continuing lack of agreement, on the size of IDA's seventh replenishment. The World Bank has indicated a minimum of $US 16 billion for this replenishment, compared with $US 12 billion for the sixth one. After the recent discussions on the matter, some of the major donors are reported to have been unwilling to endorse a replenishment of more than $US 9 billion.

3. ODA flows to the developing ESCAP countries

The developing ESCAP region received some 25.9 per cent of total ODA in 1979/80, excluding ODA from CMEA sources. This percentage was 34.9 in 1974/75. The decline in the region's share reflects two factors: a drastic fall in aid to the Indo-Chinese countries following the political changes in those countries; and the phasing out of ODA, such as IDA credit, to countries of the region as they "graduated" from the qualifying range of per capita income. These factors do not explain the entire fall in the region's share of ODA. Most countries of the region received a lower share of total ODA in 1979/80 than in 1974/75.[7] In the absence of a substantial increase in the total aid volume, the decline in the region's share implied a fall in the volume of aid flows in real terms to the region.

The flow of aid to individual countries of the region continue to show fluctuations, reflecting political and other uncertainties associated with aid distribution. Among the low-income countries of the region, aid flows to Burma increased in 1978, to two to three times the level of 1977. Since 1979, however, the flow has tended to decline. In 1981, aid per capita

[6] Asian Development Bank, *Asian Development Bank Annual Report 1982* (Manila, 1983), p. 81.

[7] OECD, *Development Co-operation, 1982 Review, op. cit.*, table VII-1.

Table II.27. Aid flows to developing ESCAP region, 1978-1981 (excluding CMEA aid)

($US million)

	1978	*1979*	*1980*	*1981*
South Asia	3 766.1	4 074.4	5 604.0	4 643.1
Afghanistan	101.1	107.8	32.3	23.2
Bangladesh	989.6	1 156.0	1 262.4	1 095.8
Bhutan	3.2	5.8	8.3	9.8
Burma	273.8	363.7	308.7	283.6
India	1 338.6	1 370.1	2 256.2	1 902.4
Maldives	8.2	6.6	21.4	12.9
Nepal	96.8	136.8	163.1	180.6
Pakistan	650.9	604.9	1 109.0	768.2
Sri Lanka	323.9	322.7	442.6	366.6
East and South-East Asia	1 840.1	2 172.9	2 587.9	3 147.0
Brunei	0.1	0.1	–	0.2
China	–	16.9	66.1	477.0
Democratic Kampuchea	0.3	108.2	281.2	130.0
Hong Kong	2.3	11.9	10.9	9.5
Indonesia	635.3	720.8	949.5	975.4
Lao People's Democratic Republic	71.8	54.1	40.9	35.0
Malaysia	80.2	125.1	135.0	142.0
Philippines	249.3	267.4	300.0	376.5
Republic of Korea	164.3	133.8	139.0	330.6
Singapore	6.7	5.5	14.0	21.8
Thailand	260.2	392.6	418.4	406.6
Viet Nam	369.6	336.4	228.5	242.4
Asia total	5 606.2	6 247.3	8 191.9	7 790.1
South Pacific	422.7	460.0	531.1	516.3
Cook Islands	7.0	7.8	10.7	10.5
Fiji	26.5	31.0	36.1	40.5
Kiribati	10.7	9.1	19.2	15.3
Nauru	–	–	–	–
Niue	4.2	5.0	3.7	4.2
Papua New Guinea	296.2	284.3	325.9	335.9
Samoa	20.2	29.9	25.7	25.0
Solomon Islands	26.6	26.5	44.5	31.1
Tonga	9.6	23.9	16.4	18.0
Tuvalu	2.9	4.1	4.9	5.4
Vanuatu	18.8	38.4	44.0	30.4
ESCAP countries[a]	6 156.9	6 713.2	8 753.9	8 315.3

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries, 1978/1981* (Paris, 1982).

[a] Including Iran.

amounted to about $US 7.8.

Aid to India rose to $US 2.2 billion in 1980, before falling off to $US 1.9 billion in 1981. The 1980 bulge was created by the receipt of $US 684 million of the International Monetary Fund (IMF) Trust Fund disbursements. In its absence in 1981, multilateral aid flows fell to two thirds of the level of 1980 and caused a 14 per cent decline in total aid flow to India. Though the largest recipient of aid in absolute terms in the region, India continues to be a low recipient in per capita terms.

Aid flows to Pakistan from traditional bilateral and multilateral sources in recent years has been about half the level of 1975-1976. The aggregate flow reached $US 1,109.0 million in 1980 and $US 768.2 million in 1981. These sums include substantial amounts of aid related to the rehabilitation of refugees.

Aid flows to Sri Lanka in 1978 increased to about twice the level of 1976-1977. There has been little growth since 1978, if drawing on the IMF Trust Fund is excluded.

Among East and South-East Asian countries, Indonesia, the Philippines and Thailand have received somewhat higher amounts of aid than in earlier years. Indonesia received $US 975.4 million in 1981 compared with $US 949.5 million in 1980, an increase of 2.7 per cent. The Philippines received $US 376.5 million in 1981, compared with $US 300.0 million in 1980. Aid to Thailand rose to an average of about $US 400 million during 1979-1981, compared with $US 260 million in 1978. These sums include disbursements of about $US 31 million annually during 1978-1980 and $US 24.4 million in 1981 from UNHCR. Somewhat larger flows of bilateral aid also were, perhaps, related to refugee rehabilitation programmes which Thailand has had to undertake during these years.

Non-CMEA aid to Viet Nam declined from an average level of $US 353 million during 1978-1979 to $US 235.4 million during 1980-1981. CMEA assistance, however, rose from $US 669.8 million in 1978 to $US 901.4 million in 1981.

Among the South Pacific island countries, Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga and Vanuatu have received considerably higher aid disbursements since 1979, although in some cases the disbursements in 1981 were lower than in 1980. Their per capita aid receipts are much higher than those of the countries in mainland Asia. This is largely because they have small populations. The small island economies depend on aid for balance-of-payments and budgetary support to a very large extent.

About a fifth of the total aid disbursed globally is channelled through multilateral agencies. The dependence of many developing countries of the region on multilateral aid is much higher than this global proportion. Among the countries of the region so dependent on multilateral aid are Bangladesh, India, Nepal, Pakistan, and to a certain extent, the Philippines and Thailand. Slow growth in multilateral aid flows in recent years is a cause for concern among these countries. China, with more than a billion people and relatively low per capita income, has recently joined as a qualified member of Asian aid recipients. It has so far received a token of $US 477 million assistance in 1981, mostly from the IMF Trust Fund. If China's demands on multilateral resources are to be effectively met without having to reduce the flow to other countries, the size of total multilateral resources must increase substantially in the coming years.

The Strategy and subsequently the Substantial New Programme of Action (SNPA) for the Least Developed Countries (LDCs) for the 1980s adopted in 1981, urged that within the context of substantially increased aid flows to developing countries, an increasingly greater proportion should be directed to the LDCs so that by 1985 such aid would be twice the average during 1976-1980. Developed countries were expected to allocate 0.15 per cent of their GNP in aid to the LDCs for the purpose.

Among the LDCs, aid to Afghanistan and the Lao People's Democratic Republic has in recent years undergone a substantial change in composition. Non-CMEA aid to Afghanistan declined from an average of $US 104 million in 1978-1979 to about $US 28 million in 1980-1981. Aid from CMEA sources rose from an average of $US 41 million to $US 312 million between the two periods. Similarly, non-CMEA aid to the Lao People's Democratic Republic, already running at low levels since 1975, further declined to $US 35 million in 1981 from $US 71.8 million in 1978, following fresh political complications in Indo-China in 1979. At the same time, CMEA aid to the Lao People's Democratic Republic rose from $US 47 million in 1978 to $US 105 million in 1981.

In current prices, Bangladesh received 16 per cent more aid in

Table II.28. ODA flow to least developed ESCAP countries, 1976-1981 (excluding CMEA aid)

($US million)

	1976-1980 average	*1981*
Afghanistan	84.1	23.2
Bangladesh	941.1	1 095.8
Bhutan	4.7	9.8
Lao People's Democratic Republic	45.5	35.0
Maldives	8.6	12.9
Nepal	101.4	180.6
Samoa	21.6	25.0

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries, 1978/1981* (Paris, 1982).

1981 than the average during 1976-1980. Given this rate of growth, it looks as if the target of raising by 1985 the flow of aid to Bangladesh to twice the average for 1976-1980 can be reached at least in nominal terms. However, the 1976-1980 average contains the unusually low inflow of aid to Bangladesh in 1976 when it declined to $US 532.1 million from $US 1,017.5 million in 1975. The low 1976 figure depressed the 1976-1980 base to produce a high rate of growth for 1981. The 1981 inflow, in fact, was about 4 per cent lower than the average for 1978-1980.

Aid flows to the other four LDCs of the region have shown some improvement, although receipts per capita for Bhutan and Nepal are still very low. Per capita receipts in all ESCAP LDCs is about half the level of per capita receipts in all LDCs. Bangladesh and Nepal, the per capita receipts of which dominate the regional average, received about $US 12 per capita in 1981. Bhutan received about $US 10 and the Lao People's Democratic Republic $US 9. Maldives and Samoa received $US 80 and $US 156 respectively. Per capita aid receipts of several LDCs declined in 1981 compared with 1980.

B. ODA TERMS

In order to increase the effectiveness of ODA in meeting the needs of developing countries, the Strategy recommends, among other measures, an increase in the share of programme assistance and an increase in the average rate of concessionality. It also calls for improvements in aid-giving procedures to promote accelerated aid disbursement and effective use of aid.

The absolute amount of non-project aid in real terms has declined over the last decade. DAC bilateral non-project aid (in 1979 prices), which is the principal source for non-project assistance to developing countries declined to $US 6.7 billion in 1981 from $US 10.5 billion in 1971.[8] Forty-five per cent of DAC bilateral assistance during 1979-1980 was in the form of non-project aid. The proportion remained marginally reduced at 44.5 per cent in 1981. For several countries of the region, the share of non-project assistance in the total from DAC sources, exceeds this overall DAC average. These include Bangladesh, Indonesia, Papua New Guinea, the Philippines and Thailand. However, some of the low-income, least-developed and small island countries of the region, such as Afghanistan, Bhutan, Maldives, Niue, Samoa and Tonga, received less than 20 per cent of their DAC bilateral assistance in non-project form.[9] The recent tendency for the flow of non-project assistance to decline has been cause for concern even among large countries, as their needs for non-project aid, especially for emergency and general maintenance purposes, have tended to increase, and as almost the whole of multilateral assistance come in the form of project-aid.

Aid concessionality has not in general shown much improvement in recent years, the total concessionality element of DAC flows staying about 90 per cent between 1975 and 1981.

Official development assistance to the LDCs of the region has been generally on highly concessional terms. The grant element in ODA flows to Bangladesh has been about 90 per cent recently, for the Lao People's Democratic Republic 100 per cent, for Nepal 100 per cent (98 per cent in 1981), and for Samoa 100 per cent. Afghanistan's aid receipts also had a concessionality element of 99 per cent (non-CMEA aid).

The concessionality element in aid to other low-income countries of the region has tended to decline. For India, the concessionality element declined from 93 per cent in 1979 to 83 per cent in 1981, and for Pakistan, it has stayed about 80 per cent. For Sri Lanka, the concessionality element declined from 93 per cent in 1979 to 82 per cent in 1981. For Indonesia, the Philippines and Thailand, the concessionality element in ODA flows has been in the range of 70-75 per cent.

Though the Strategy envisages that ODA should, as a general rule, be untied, aid-tying is a continuing widespread practice. In 1981, over one half of DAC grants were wholly or partially tied. The tied proportion of loans was about two thirds. The tied element was considerably higher for some countries in both the grant and loan components of ODA.

Aid has been increasingly used to promote bilateral commerce. Most of the major donor countries now set aside a portion of their aid budget to subsidize their national firms which export to developing countries. The names under which this is done vary from country to country: *"credit mixtes"* in France, "mixed financing transactions" in the Federal Republic of Germany, "concessionary credits" in Sweden and the "aid trade provision" in the United Kingdom, are examples.

The ratio of ODA disbursement to commitments to developing countries from all sources improved from 76 per cent in 1975 to 81 per cent in 1981. Similarly, DAC disbursement to commitment ratio improved from 77 per cent to 80 per cent. Disbursements ratios from multilateral agencies, however, continue to be much lower despite recent improvements. The ratio in IDA, the main arm of the World Bank in administering con-

[8] *Ibid.*, table IX-1.

[9] *Ibid.*, table IX-5.

cessional assistance, declined from 65 per cent in 1975 to 54 per cent in 1981. In 1982, the ratio improved to 77 per cent, largely due to a fall in commitments. The ratio of disbursements from ADF, counterpart of IDA in the Asian Development Bank, has been particularly discouraging. The average ratio for the period 1967-1982 has been 30 per cent, the 1981 and 1982 ratios being 28 and 32 per cent. This low ratio of disbursements to commitments by multilateral agencies puts into sharp focus the need for paying closer attention to the Strategy's call for a dialogue with beneficiary countries to improve aid-giving procedures.

C. NON-CONCESSIONAL FLOWS

Non-concessional flows accounted for 65.9 per cent of net external financial receipts for developing countries in 1981 as against 57.5 per cent in 1970. Flows from multilateral agencies, excluding net purchases from IMF, accounted for 4.8 per cent, direct investments for 14.1 per cent, banks for 24 per cent, private export credit for 10.2 per cent, official export credit for 2.7 per cent, and sale of bonds for 2.4 per cent of the 1981 flows.[10]

Since 1974, there has been a rapid build up of indebtedness of the developing countries to the international banking system. Until the 1973 oil price increases, non-oil developing countries had financed their relatively modest deficits on current account mainly through official capital transfers, direct investments and other sources. The combination of sharply increased oil import bills and a fall in export earnings raised the aggregate current account deficits of non-OPEC developing countries from an average of about $US 7 billion a year during 1970-1973 to an average of $US 70 billion during 1980-1982.[11] The developing countries, in the absence of a corresponding increase in official capital flows, had much greater recourse to international bank credit to cover their increased external financing needs. The international banks in the main industrialized countries, faced with a combination of very large inflows of funds from OPEC countries and relatively modest credit demand from domestic customers, were both able and willing to meet the demands of many developing countries (although not those of the poorest countries). Moreover, the economically more advanced non-OPEC developing countries continued to prefer covering their external payment deficits through bank credit rather than take recourse to IMF, partly because bank credit was made available free from economic policy conditions. Consequently, non-OPEC developing countries' liabilities to international banks rose to $US 247 billion at the end of 1982.[12]

The experiences of the ESCAP region is broadly similar. Faced with growing deficits on current account in the balance of payments and declining ODA, countries have resorted increasingly to private sources of credit.

In 1975, ODA accounted for more than 60 per cent of total net resource flow to the developing countries of the ESCAP region. In 1981, the percentage was 41. There are variations between subregions. Gross disbursement of external credit to the East, South-East Asian and Pacific countries, rose from $US 3.3 billion in 1972 to $US 17.7 billion in 1981.[13] In 1981, 36 per cent of gross disbursement was from official sources as against 55 per cent in 1972. Among the 64 per cent share from private sources in 1981, 58 per cent was from financial markets. The corresponding percentages in 1972 were 45 and 21.

Gross disbursements to the South Asian countries increased from $US 1.3 billion in 1972 to $US 4.3 billion in 1981. Eighty-two per cent of the gross disbursements to South Asia in 1981 were from official sources, 44 per cent being from multilateral sources. The share of private credit in gross disbursement rose from 9 per cent in 1972 to 18 per cent in 1981 but the share of market borrowing rose from 1 to 15 per cent, indicating growing dependence of the low-income South Asian countries as well as on market borrowing.

As in the case of other developing countries throughout the world, one implicaton of the changing structure of resource flow to the developing countries of the ESCAP region, has been to transform rapidly the structure of their external liabilities with increasingly higher debt service burdens imposed on their balance of payments. The rising proportion of non-concessional flows has brought about a shorter maturity structure of loans and lower grace periods, higher average rates of interest payable and lower grant elements in loans contracted. The average maturity period of new debt commitments to the East, South-East Asian and Pacific countries fell from 20.3 years in 1972 to 14.5. The average interest rates rose to 11.1 per cent in 1981 from 5.6 per cent in 1972. Between 1972 and 1981, official credit disbursements increased about fourfold; those from private sources, mainly financial markets, increased sixteenfold. As a result of shorter maturity and higher interest rates, the debt service payments rose much faster

[10] *Ibid.*, appendix table 1.3.

[11] The Bank for International Settlements, *Fifty-third Annual Report 1982-83* (Basle, 1983), p. 94.

[12] *Ibid.*, p. 120.

[13] See note to Figure II.9 for the list of countries included.

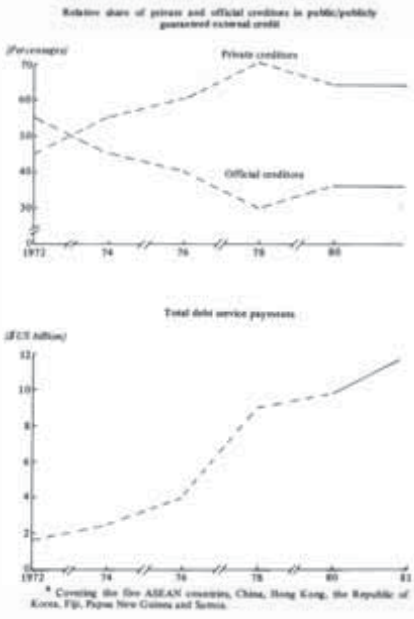
than the rates of disbursements and the ratio of net resource transfer to gross disbursements declined from 63 per cent in 1972 to 42 per cent in 1981.

Official credit predominates in external credit to the South Asian countries. The average maturity period exceeding 30 years and the grace period exceeding 7 years remained largely unchanged over the past decade. The grant element in new loan commitments have also remained more or less unchanged, showing some year to year fluctuations. The average interest rates have moved upward, rising to about 4 per cent in 1980-1981 from about 2 per cent in 1972. Their debt service liability has more than doubled over the decade from $US 898 million in 1972 to $US 1,935 million in 1981. The ratio of net transfers to gross disbursement declined from 62 per cent in 1974 to 54 per cent in 1981, because the rate of growth of gross disbursements has not been as fast as the growth in debt service liability.

Despite this rapid growth in external debts in recent years, the situation of the developing ESCAP region has not so far generally been as critical as for developing countries in some other regions. The debt-GNP ratio for the East, South-East Asian and Pacific countries as a group has remained stable around 23 per cent throughout the latter half of 1970s and early 1980s. However, Malaysia's debt/GNP ratio rose from 16.6 per cent in 1978 to 19.6 per cent in 1981, the Republic of Korea's from 24 to 31.5 per cent and Thailand's from 8 to 14.4 per cent.

For South Asian countries, the debt/GNP ratio fluctuated between 16 and 18 per cent between 1972 and 1981. Although, quite a few countries of the subregion (Bangladesh, Burma, Pakistan and Sri Lanka) have recorded notably higher debt/GNP ratios during the last four to five years, a modest

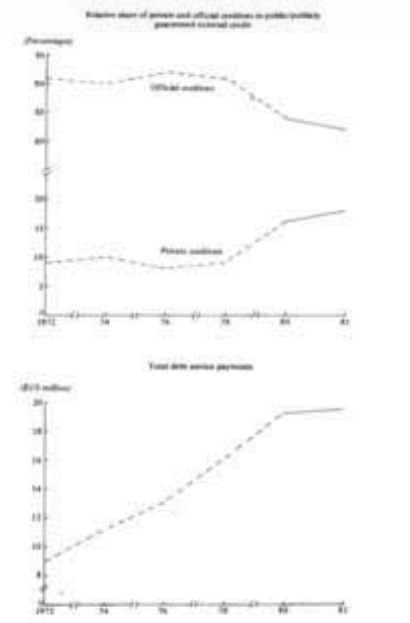
Figure II.9. External credit flows to East, South-East Asia and the Pacific,[a] 1972-1981



[a] Covering the five ASEAN countries, China, Hong Kong, the Republic of Korea, Fiji, Papua New Guinea and Samoa.

decline in India's debt/GNP ratio has pulled down the average ratio for the subregion (from 17.6 per cent in 1972 to 15.8 per cent in 1981) because more than 50 per cent of the total debt of South

Figure II.10. External credit flows to South Asia, 1972-1981



Asian countries is owed by India. The debt/GNP ratios for some individual countries are quite high by international standards. For example, Bangladesh had a debt/GNP ratio of 31.2 per cent in 1981, and Sri Lanka one of 36.3 per cent.

Debt service payments as a percentage of exports of goods and services stood at 11.5 per cent for the East, South-East Asian and Pacific group of countries in 1980, compared with 14.4 per cent in 1978. For some individual countries, such as the Philippines and the Republic of Korea, the debt service ratio is reported to have reached or exceeded 20 per cent in 1982 owing to a sharp increase in payment obligations and slow growth in export earnings: in the Philippines 19.4 per cent in 1982 and an estimate of 19.6 per cent in 1983;[14] in the Republic of Korea unofficially estimated at 20.6 per cent in 1981 and 20.9 per cent in 1982. In other countries of South-East and East Asia, debt service ratios have tended to move up without reaching as high levels. In the South Asian countries, the debt service ratio was about 10 per cent in 1980. However, there are indications that debt service liabilities for both subregions are likely to grow by 45 to 50 per cent over the next four to five years. This would require matching export growth if debt service ratios are not to increase.

D. REFORMS IN INTERNATIONAL MONETARY AND FINANCIAL INSTITUTIONS

The Strategy recommended several measures to reform international monetary institutions. These include, *inter alia*, improvements in conditionality attached to assis-

[14] Philippines, Central Bank of the Philippines, *Economic and Financial Developments* (January-March 1983).

tance to developing countries, equitable and effective participation of developing countries in decision-making in these institutions, the development of the special drawing rights (SDRs) as the principal reserve asset of the international monetary system and the establishment of a link between SDRs and development assistance as and when the SDRs are created according to the needs of international liquidity.

1. Conditionality

Following the first oil price rise, IMF made a sustained effort to provide increased balance-of-payments support. The Fund instituted the Oil Facility (June 1974 and April 1975) designed to help countries overcome large balance-of-payments deficits, generated by oil price rises. Loans under the Oil Facility attracted low conditionality, on the ground that unless countries were helped to weather the externally induced deficits, it might result in restrictive policies causing an unnecessary slump in world economic activity. In contrast, however, efforts made to boost IMF lending under low conditionality, following the second oil price rise in 1979, were rather weak. A Trust Fund had been established in 1976 for the benefit of low-income countries under which balance-of-payments support was provided on low conditionality. Direct balance-of-payments support under the Trust Fund was terminated in April 1981, precisely at the time when the balance-of-payments problems of the developing countries were getting worse. The Compensatory Financing Facility (CFF) was reformed in 1975 and 1979 to extend the limit to borrowing by members to 100 per cent of quotas. In May 1981, provision was made to cover excess costs of cereal imports, with a combined borrowing limit of 125 per cent of quota under CFF. The establishment of the Trust Fund (terminated in 1981) and the liberalization of CFF were undoubtedly measures which increased access to the Fund on low conditionality. However, the funds made so available are quantitatively not significant enough to provide low conditionality finance on the necessary scale. The Supplementary Financing Facility was established in February 1979. Resources under this facility are funds borrowed by the Fund and made available only in connection with standby and extended arrangements, both of which carried heavy conditionality.

Box II.15. Decision-making process

In the decision-making process of the international monetary and financial institutions, the participation of the developing countries remains very limited. The decision-making power in these institutions is essentially distributed on the basis of subscription to resources, which tilts it heavily – even decisively – in favour of developed countries.

(a) *International Monetary Fund*

The number of votes a member may cast is made up of two parts: (a) basic votes, and (b) votes which are in proportion to the quota of each country in the Fund. All members have 250 basic votes each. In addition, each member receives one vote for SDR 100,000 of quota. With 146 members in the Fund, and the sum of quotas at SDR 61.1 billion, the proportion of basic votes – which are distributed equally – in the total votes constitute no more than 5.6 per cent. The rest (94.4 per cent) is distributed in proportion to quotas. When the Eighth General Review of Quotas comes into effect, the proportion of basic votes in the total will shrink further to 3.9 per cent. One feature in the evolution of the IMF is that as the total quotas expanded from SDR 7.1 billion to the current SDR 61 billion (and later to a proposed SDR 90 billion), the number of basic votes have remained constant and the proportion of votes based on the principle of equality in the total has shrunk progressively.

As currently constituted the developed countries as a group have 58.59 per cent of total votes. The United States alone has 19.53 per cent. The Eighth General Review of Quotas, when implemented, will provide a slightly larger share of voting power to the developed countries. The Federal Republic of Germany, France, Japan, the United Kingdom and the United States will share among them a 40.9 per cent in comparison with the current 39.7 per cent of voting power. Further, as most significant decisions of the Fund require 85 per cent of votes for approval, the United States, with over 19 per cent of votes enjoys an effective veto power over decisions of this nature in the Fund.

(b) *World Bank, regional development banks and others*

The voting structure of the World Bank is similar to that of the Fund: each member has 250 basic votes plus one vote for each share of $US 100,000. As of June 1983, five developed countries (The Federal Republic of Germany, France, Japan, the United Kingdom and the United States) had 42.7 per cent of the total votes in the International Bank for Reconstruction and Development (IBRD) and 44 per cent of the total votes in IDA. Votes in IDA are based upon cumulative subscriptions by member countries. The distribution of voting power does not correspond to current shares in subscriptions to the IDA. This may be considered anomalous by countries which wish to step up their contributions.

In the regional development banks, the weight given to basic votes – i.e. those distributed on the basis of the equality principle – has been larger. In respect of IFAD, the votes are divided equally between three groups of countries – developing non-OPEC countries, industrialized countries and OPEC – even though the share of each group in capital subscription differs.

Effective participation in decision-making by the developing countries in the World Bank and IMF still remain a matter for the future. Increased participation by them may have a beneficial effect in the way the conditionality of loans is looked upon: at the moment, it is seen very much as an imposition, even if similar measures may have been adopted in any case.

In sum lending by the IMF was subject to more severe conditions following the 1979 oil price rise than after the 1973-1974 oil price rise. Disbursements under high conditionality to developing countries by the Fund constituted, on average, nearly two thirds of total disbursements in 1980-1982, compared with about one fifth in 1974-1976.

From 1979, the World Bank offered Structural Adjustment Loans (SALs) the purpose of which is to help borrowers tide over the transitional costs of adjustment while the country undergoes structural change to reduce its current account deficits. The Bank had set a limit of 10 per cent for the share of SALs in its total lending and 30 per cent in a country's borrowing from the Bank. The Special Action Programme initiated in February 1983 envisages these limits to be relaxed as SALs, unlike project lending by the Bank, provide a financial resource to support the balance of payments of a country in much the same way as IMF does. SALs also carry conditionality regarding macroeconomic as well as sectoral policies. The experience of three countries of the ESCAP region (the Philippines, the Republic of Korea and Thailand) illustrates the nature of the conditions attached to SALs.

Table II.29. Key elements in conditions attached to structural adjustment loans of World Bank in selected ESCAP countries

	Philippines	*Republic of Korea*	*Thailand*
I. Trade policy:			
Exchange rate policy			
Tariff reforms and import liberalization	x		
Export incentives and improved institutional support	x	x	x
II. Sector policies:			
Energy:			
Pricing policy		x	x
Conservation measures		x	x
Developing indigenous sources		x	
Agriculture:			
Pricing policy		x	x
Improved institutional support (marketing etc.)			x
Industry:			
Incentive system	x	x	x
Institutional improvements	x	x	
Subsector programmes			
III. Public investment programme:			
Revision and review of structural priorities		x	x
Strengthening of institutional capacity to formulate and implement public investment programme			
IV. Public sector enterprises:			
Financial performance		x	x
Institutional efficiency		x	
V. Resource mobilization:			
Budget policy		x	x
Interest rate policy		x	
VI. Debt management:			
Strengthening of institutional capacity to manage external borrowing			

Source: Ernest Stern, "World Bank financing of structural adjustment", paper prepared for the conference on IMF conditionality, Institute of International Economics, Virginia, 24-26 March 1982.

2. SDR as an international reserve asset

Since the United States dollar forms the main international reserve currency the growth of world liquidity has been largely determined by the outcome of the United States balance of payments and, since 1971, the overseas lending activities of commercial banks in developed countries. Indeed, when a shortage of liquidity was feared in the late 1960s because of an expected improvement in the United States balance-of-payments position, there was support for the creation and allocation of SDRs. The first allocation of SDR took place in 1970-1972, the second in 1979-1981. The proportion of SDRs in the total non-gold reserves of the world declined from 6.7 per cent in 1971 to 5.2 per cent in 1982.

SDRs as a reserve asset has several advantages. Its creation and destruction are not dependent on the incidence of balance-of-payments deficits in countries from which the reserve currency originates, the production and sales of gold and the lending policies of transnational banking companies. The acquisition of SDRs, unlike reserve currencies and gold, is not at the expense of real resources of acquiring countries which they need to provide to reserve currency countries in exchange for currency. The main objection is that the issue of a fiduciary international reserve asset would provide opportunities for creating excess demand on a world scale.

The Strategy recommended the development of SDR as the principal reserve asset of the international monetary system. The wider use of SDR in international transactions is an essential step in this process. At present, outside the Fund, there are 13 authorized holders of SDRs.[15] While the Fund's authorization is not necessary for the use of SDR as a unit of account, its use in the invoicing of traded goods has not expanded. This may be due largely to the lack of facilities for direct payments in SDRs. As noted in a recent study, "whenever SDRs are used they must be converted into a vehicle currency first. Authorization for private holding of SDRs, the creation of SDR clearing arrangements and the fostering of an interbank market in SDRs would make their use more attractive" [16] The Fund has taken steps to make holdings of SDRs attractive by

[15] Commonwealth Study Group, *Towards a New Bretton Woods* (London, Commonwealth Secretariat, September 1983), paras. 6.34-6.39.

[16] *Ibid.*, para. 4.38.

Box II.16. SDR and the link with development finance

An important issue relating to the creation of special drawing rights (SDRs), which has generated considerable controversy, is their allocation among countries. As part of the agreement to create SDRs, it was decided that they would be distributed to individual countries in proportion to their quotas in the IMF, which were considered to be in the same proportion as the countries' long-term demand for reserves. The distribution of SDRs in this manner rested on the view that the international monetary system should play a "neutral" role in the creation and distribution of international reserves vis-à-vis resource transfer.

The developing countries held the view that a larger proportion of SDRs be allocated in their favour than would be justified by their quotas. Such a "non-neutral" allocation formula designed to promote the flow of development finance constitutes the essence of the concept of a link. Maxwell Stamp is credited with making the first proposal for an explicit link between the creation of international reserve assets and development aid but the germ of the idea existed in Keynes' plan for an international clearing union.[a]

There are two principal ways, among various alternatives proposed, in which the link between the creation of SDRs and development aid can be effected. IMF would issue some part of SDRs to multilateral aid agencies (IBRD, IDA and regional development banks) which would allocate them to developing countries to finance development. Developed countries would earn SDRs by exporting goods and services to developing countries in exchange for SDRs. In the alternative, developed countries would contribute a part of the SDRs allocated to them to aid agencies who would allocate them as under the first alternative. Whatever the form, developed countries under these schemes would part with real resources to developing countries in exchange for reserve assets in contrast to the current practice of developing countries earning reserve currency with unrequited exports.

A link between SDR and development finance would increase the flow of assistance to developing countries. Moreover, inefficiencies resulting from tying aid, administrative delays in negotiations and much of the argument about undue influence in domestic policies of economies would be substantially reduced. Objections to a link between SDR allocation and development assistance rest on apprehensions, among others, that this is potentially inflationary and that this might prejudice confidence in SDR as a reserve asset.[b]

The Group of 24 on International Monetary Affairs have repeatedly called for the establishment of a link between SDR allocation and development finance.[c] However the Interim Committee of the Fund's Board of Governors on the International Monetary System recognized "a wide divergence of views regarding the advisability as well as the form of the link"[d] and in their latest Communique requested the Executive Board of the Fund to seek proposals for a new SDR allocation, which would command broad support among members of the Fund.[e]

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[a] Geoffrey Maynard, "Special drawing rights and development aid", *The Journal of Development Studies*, vol. 9, No. 4 (July 1973), pp. 518 *et seq.*

[b] For, an elucidation of various arguments in favour of and against link, see Geoffrey Maynard, "Special drawing rights and development aid", *Ibid.*, and John Williamson, "SDRs: the link" in Jagdish N. Bhagwati, ed., *The New International Economic Order: The North South Debate* (Cambridge, the MIT Press, 1977).

[c] "Group of 24 Communiqué", *IMF Survey*, vol. 12, No. 4 (21 February 1983).

[d] "Libreville meetings", *IMF Survey*, vol. 10, No. 11 (8 June 1981), p. 166.

[e] "Interim Committee Communiqué", *IMF Survey*, vol. 12, No. 4 (21 February 1983), p. 51.

offering rates of interest on SDR deposits, calculated weekly on the basis of short-term rates prevailing in the five SDR basket-currency countries. In addition, by merging the General Account with its SDR Account, this objective could be promoted further. "Such a consolidation of IMF credit provision would greatly simplify lending, avoid the need for national currencies in IMF operations, and open the way to its playing a role more like that of a central bank, with the capacity to create liquidity as required".[17]

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[17] *Ibid.*, para. 4.39.

VIII. REGIONAL AND SUBREGIONAL CO-OPERATION

The Declaration and the Programme of Action on the Establishment of a New International Economic Order of May 1974[1] viewed co-operation among developing countries at the regional, subregional and interregional levels as a means of strengthening their role in a new international economic order. Attention since the mid-1970s has been largely focused on the potential for a realignment of economic relationships between North and South. These sentiments were carried forward into the International Development Strategy for the 1980s, which calls upon member countries of the United Nations "to fulfil their commitment to establish a new international economic order based on justice and equity".[2] However, the Strategy also views economic and technical co-operation among developing countries (ECDC and TCDC) based on collective self-reliance as "a dynamic and vital component of an effective restructuring of international economic relations".[3] In conformity with the Strategy, this chapter concentrates on ECDC and TCDC aspects in the developing ESCAP region rather than on regional co-operation in its wider sense.

[1] General Assembly resolutions 3201 (S-VI) and 3202 (S-VI).

[2] General Assembly resolution 35/56, annex, para. 16.

[3] *Ibid.*, para. 40.

A. THE RATIONALE FOR COLLECTIVE SELF-RELIANCE

The concept of collective self-reliance is by no means new. Its virtues have been extolled in numerous international forums, especially since the mid-1950s. However, events of the last few years have provided added impetus to the urge for ECDC and TCDC.

Broadly speaking, both on the political and economic fronts, the last few years have brought disillusionment to aspirations for global restructuring in some codified form and given commensurately greater prominence to increased "South-South" co-operation. Inauspicious political developments have played an important part in the lack of progress towards realistic global dialogue. But they are linked, and perhaps subordinate to, the economic ones that are of primary concern in this *Survey*.

A rationale for greater collective self-reliance in the South derives from perceptions that global economic interdependence is not quite as beneficial a relationship as it may have seemed in the past. It may once have been assumed that the relative buoyancy of one hemisphere could transmit itself to the other through international trade. Multidimensional global interdependence has indeed grown in recent times, but the recent economic recession has also demonstrated the vulnerability of the developing world emanating from such interdependence. More important, however, is the fact that in the aftermath of recession, the industrialized countries cannot be relied on to exert the same "locomotive" effects as have occurred in previous cyclical upturns.[4]

Up until the mid-1970s the volume of world trade expanded at a faster rate than global economic growth, and until 1979 showed buoyant expansion, with a marked slow-down occurring only since that year.[5] All throughout this period, the export volume of non-oil developing countries has grown rapidly. Following the sustained growth in volume, the exports of developing countries may be approaching a point of relative saturation in the penetration of developed country markets, especially in the face of increasing protectionism in the developed countries. In any case, it seems unlikely that the industrial economies will resume the levels of growth that were achieved for much of the period after the Second World War, for reasons to do with long-term structural changes. Furthermore, there are increasing concerns that marginal import propensities within developed countries are likely to be affected by gradually more significant shifts in demand patterns towards the kind of goods (e.g. in the tertiary sector) that

[4] See S.J. Burki, "Prospect recovery 1983: end of the locomotive age", *South* (London), August 1983, pp. 35-39.

[5] *Economic and Social Survey of Asia and the Pacific 1982* (United Nations publication, Sales No. E.83.II.F.1).

Table II.30. Major events related to economic and technical co-operation among developing countries

Year	*United Nations*	*Group of Seventy-seven*	*Non-aligned movement*
1955			Bandung Declaration (Asian-African Conference)
1962			Cairo Declaration (Conference on the Problems of Economic Development)
1963			
1964	UNCTAD I – Geneva		Second Summit Conference – Cairo
1965			
1966			
1967			
1968	UNCTAD II – New Delhi		
1969			
1970	International Development Strategy for the Second United Nations Development Decade		Third Summit Conference – Lusaka
1971		Second Ministerial Meeting – Lima	
1972	UNCTAD III – Santiago		Third Conference of Ministers of Foreign Affairs – Georgetown
1973			Fourth Summit Conference – Algiers
1974	Declaration and Programme of Action for a New International Economic Order		
	Charter of Economic Rights and Duties of States		
1975	Lima Declaration (UNIDO)		Fifth Conference of Ministers of Foreign Affairs – Lima
	Development and International Economic Co-operation (Resolution of the Seventh Special Session of the General Assembly)		
1976	UNCTAD IV – Nairobi	Third Ministerial Meeting – Manila	Fifth Summit Conference – Colombo
	HABITAT: United Nations Conference on Human Settlements – Vancouver	Conference on Economic Co-operation among Developing Countries – Mexico	
1977	Kuwait Declaration (in preparation for the TCDC Conference)		
1978	United Nations Conference on Technical Co-operation among Developing Countries – Buenos Aires		Seventh Conference of Ministers for Foreign Affairs – Belgrade
1979	UNCTAD V – Manila	Fourth Ministerial Meeting – Arusha	Sixth Summit Conference – Havana
	United Nations Conference on Science and Technology for Development – Vienna		
	World Conference on Agrarian Reform and Rural Development – Rome		
1980	International Development Strategy for the Third United Nations Development Decade		
	New Delhi Declaration (UNIDO)		
	High-Level Meeting on the Review of TCDC		
1981	United Nations Conference on New and Renewable Sources of Energy – Nairobi	High-Level Conference on Economic Co-operation among Developing Countries – Caracas	
	High-Level Committee on the Review of TCDC		
1982			
1983	UNCTAD VI – Belgrade		Seventh Summit Conference – New Delhi
	High-level Committee on the Review of TCDC		

Source: Compiled by secretariat from various sources.

they can most readily supply to each other. In other words, not only will the locomotive be travelling slower in the future, but the couplings are becoming distinctly weaker. These are what might be termed the "involuntary" factors behind efforts to strengthen economic links among the developing countries themselves.

A part of the positive rationale for increased co-operation stems from the traditional customs union theory.[6] An essential feature of a customs union is that members of the union apply common tariff rates against imports from non-members. In a summarized form, the consequences of customs unions are defined in terms of trade creation and trade diversion. Trade creation or diversion is said to result where one of the union partners, previously producing a good behind its own tariff walls, becomes, after formation of the union, the sole supplier of that good to all partners. Trade creation has then occurred if that sole supplier is producing at a lower cost than the member countries' previous suppliers. Trade diversion results when the sole supplier is inefficient relative to suppliers outside the union. Net welfare is determined by the extent to which a customs union results in an excess of trade creation over trade diversion. but the utility of such an approach is limited by constraining assumptions of both time and space, i.e. benefits are determined by static assumptions of global welfare and have to be considered with respect to trade groupings of finite size. ECDC realities are different since development considerations are anything but static, and there has to be an essential open-endedness about such arrangements.

There have been certain interesting refinements of this approach in order to try to adapt the theory to the situation of developing countries.[7] It is argued that even trade diversionary consequences that fail the static welfare test may have a certain beneficial impact. A trade diverting activity within a grouping may utilize hitherto unused resources, be a key determinant in economic growth, or result in foreign exchange savings,[8] all of which may be positively evaluated with respect to individual developing countries. Benefits also accrue from the future market opportunities that are opened up.[9] This point about market size is of particular significance to developing countries. Factor efficiency benefits of larger markets in terms of optimum technology use and economies of scale can be significant.[10]

Yet even the more refined versions of customs union theories are inadequate in providing the rationale for expanded co-operation among developing countries. The restricted membership that is a necessary assumption in customs union theories is an inappropriate basis for assessing the benefits. The concept of functional economic co-operation, which is much more flexible, aims at identifying and taking advantage of mutuality of interests between different groups of two or more developing countries with respect to trade preferences and agreements, financial arrangements, industrial co-operation, technology transfer, natural resources exploitation and a whole host of other potential areas. Such open-ended arrangements can potentially reap the benefits of trade creation while avoiding or substantially reducing the costs of trade diversion. It has been estimated that on the assumption of an annual growth rate of 2.4 per cent for the developed market economies during the remainder of the decade and continuation of the current trade structure, the growth rate of developing countries would be no higher than 3.7 per cent per year. Significant reorientations in the developing countries' imports through expanded intra-trade could increase the growth rate to 4.8 per cent per annum.[11] Besides, ECDC arrangements can contribute to the bargaining strength of developing countries through forging political unity, pooling resources and developing common perceptions on key international issues.

B. THE SCOPE OF REGIONAL CO-OPERATION IN ASIA AND THE PACIFIC

Geographical and political delimitations of any region or subregion do not necessarily hold special logic in economic terms. Bearing this fact in mind, no attempt is made to define rigorously the frontiers of co-operation among the developing countries of Asia and the Pacific. Some easily identifiable features likely to promote co-operation are briefly mentioned.

[6] J. Viner, *The Customs Union Issue* (New York, Carnegie Endowment for International Peace, 1950).

[7] Among them, H. Kitamura, "Economic theory and the economic integration of underdeveloped regions", in M.S. Wionczek, ed., *Latin American Economic Integration* (London, Praeger, 1966).

[8] F. Kahnert, *et al., Economic Integration Among Developing Countries* (Paris, OECD, 1969); F. Andic, *et al., A Theory of Economic Integration for Developing Countries* (London, George Allen and Unwin, 1971).

[9] R.F. Mikesell, "The theory of common markets as applied to regional arrangements among developing countries", in R. Harrod and D. Hague, eds., *International Trade Theory in a Developing World* (London , 1963).

[10] F. Kahnert, *et al., Economic Integration Among Developing Countries, op. cit.*, pp. 18-24.

[11] UNCTAD, *UNCTAD Bulletin*, No. 196 (October 1983).

Co-operation depends heavily on close contact and on an infrastructure of communications between partners. Although Asia and the Pacific is geographically a very fragmented region compared with the continents of Africa or Latin America, relative physical proximity of countries is, if not a sufficient, at least a desirable prerequisite for economic and technical co-operation. Moreover, subregions share common identities of culture, language and life-style, and these characteristics contribute to mutual understanding. There is, therefore, in the pursuit of enhanced economic and technical co-operation among developing countries a compelling "logic of regionalism".[12]

Individually, the countries of Asia comprise some very large and very old nation-states – including the world's largest (demographically) and oldest. Although most of them came under colonial domination, the Asian countries enjoy more definitive "natural" (e.g. historical and geographical) frontiers, in sharp contrast to Africa, for example. The resultant sense of national identity and security may be a positive element in promoting co-operation.

Certain common historical links of culture, religion and even international commerce existed among the countries of Asia and the Pacific even during the pre-colonial era. All the same, the countries of Asia provide a rich diversity from many points of view. Levels of economic advancement, political systems, geographical configurations, resource endowments, infrastructural and technological developments, administrative capabilities, and simply size are all sources of great diversity. It has been described as part of the "litany of obstacles" to co-operation in Asia[13] but diversity can be turned to advantage when it is recognized that co-operation depends on complementarities and the search for a more efficient international division of labour. Though some of these features are less significant for the Pacific subregion, shared traditions, smallness and isolation have prompted co-operative action in meeting common odds.

These factors largely explain the phenomenal growth of co-operative ventures in Asia and the Pacific. Though there exists no "head organization" of the type identified for some major areas of the world, such as the Organization of American States, the Organization of African Unity, the European Economic Community (EEC), the Council for Mutual Economic Co-operation (CMEA) etc., the number of co-operative arrangements in the region – including institutions, agreements and projects encompassing two or more countries – has grown rapidly. At the end of the 1950s there were barely 10, at the end of the 1960s the number was approaching 100, and by 1982 it was over 300.[14]

A breakdown of this total is quite instructive. Out of the total of 322 "arrangements", 95 are under United Nations auspices or sponsorship, predominantly of ESCAP and the United Nations Educational, Scientific and Cultural Organization (UNESCO). Of the rest, 41 are intergovernmental, and 99 are non-governmental regional arrangements, while a further 87 are, strictly speaking, not regional entities but national ones that provide TCDC facilities. Some arrangements are region-wide and a clear division by subregion is not possible. However, approximately one fifth of the co-operative arrangements are in the Pacific (65) and the remainder are almost equally divided between South-East and East Asia on the one hand and South and West Asia on the other.

The numerical record of co-operative efforts in Asia and the Pacific, as mentioned in the preceding section, is clearly impressive. The scope of the present *Survey* does not permit any comprehensive assessment of the numerous attempts at co-operation in the region. Selected major initiatives are briefly reviewed in the following sections.

1. South-East Asia

The Association of South-East Asian Nations (ASEAN) is the most visible example of regional co-operation in Asia and the Pacific, and the only serious attempt at some form of regional integration. The five member countries – Indonesia, Malaysia, the Philippines, Singapore and Thailand – cannot be simply categorized as either "diverse" or "similar" in key economic aspects. However, in the rather crucial area of politico-strategic outlook, the ASEAN countries display an important degree of harmony. While economic co-operation has been a major concern, it is strategic factors that have remained the most significant binding force of ASEAN since its inception in 1967. It is significant moreover that ASEAN was conceived as "open for participation to all States in the South-East Asia Region"

There have been three broad phases in ASEAN's 16-year exist-

[12] Michael Hudson, "The logic of regionalism in history and today", in D. Nicol, L. Echeverria, A. Peccei, eds., *Regionalism and the New International Economic Order* (New York, Pergamon Press, 1981), pp. 13-29.

[13] R. Gregg, "International regionalism: UN regional economic commissions", in Joseph Nye, ed., *International Regionalism: Readings* (Boston, Little, Brown and Company, 1968), p. 318.

[14] *Institutional Arrangements for ECDC-TCDC in Asia and the Pacific* (ST/ESCAP/225), 1982.

Box. II.17. ASEAN landmarks

Like any other regional grouping, ASEAN has not been immune to internal stresses and strains. Its history is, nevertheless, distinguished by eventful growth over a brief period. Some of the major landmarks of this continuing growth process are schematically presented below. These are grouped under three distinctly identifiable phases in the evolution of ASEAN.[a]

First phase

1961 – Formation of Association of South-East Asia (ASA), comprising Malaya, the Philippines and Thailand

1967 – Bangkok Declaration establishing ASEAN-

1969 – Establishment of ASEAN Joint Fund

Second phase

1971 – Kuala Lumpur Declaration on a Zone of Peace, Freedom and Neutrality in South-east Asia (ZOPFAN)

– Formation of Federation of ASEAN Chambers of Commerce and Industry (ASEAN-CCI)

1973 – Sixth meeting of ASEAN Foreign Ministers initiating implementation of recommendations of United Nations feasibility study on regional co-operation

1975 – Formation of ASEAN Council on Petroleum (ASCOPE)

Third phase

1976 – First meeting of ASEAN Heads of Government; Declaration of ASEAN Concord; Treaty of Amity and Co-operation in South-east Asia; agreement to establish ASEAN industrial projects (AIP); establishment of central secretariat in Jakarta

1977 – Second meeting of ASEAN Heads of Government, attended by Prime Ministers of Australia, Japan and New Zealand

– Agreement on ASEAN Preferential Trading Arrangement (PTA)

– Memorandum of Understanding on ASEAN swap arrangements

1979 – Agreement on ASEAN Food Security Reserve

1980 – Basic Agreement on ASEAN Industrial Projects

– ASEAN–EEC Co-operation agreement

– First meeting of ASEAN energy ministers

1981 – Basic Agreement on ASEAN Industrial Complementation

1983 – Basic Agreement on ASEAN Industrial Joint Ventures

1983 – Signing of ASEAN Customs Code

[a] These "phases" have been suggested by, among others, J. Nishikawa, *ASEAN and the United Nations* (New York, UNITAR, 1983).

ence. During the first few years, when the memories of certain frictions among individual member countries were still fresh, the predominant task was one of familiarization. Although Malaysia's and Singapore's histories had been closely linked, those of the other countries had belonged to different spheres of colonial or metropolitan influence. In 1972, Singapore's Prime Minister was to state that ASEAN's "most important contribution" has been the "understanding and goodwill of the member states in solving frictions among them".[15]

The next phase unfolded against the backdrop of the wider conflict in the Indo-China subregion. The Kuala Lumpur meeting of Foreign Ministers was concerned with strengthening "national resilience" on the part of each member, and the concept of a zone of peace, freedom and neutrality (ZOPFAN) in South-East Asia was born there. But the early 1970s also saw some small progress on the economic front. In 1972, ASEAN began to speak with a single voice in trade bargaining with EEC. The grouping also succeeded in extracting concessions from Japan on the export of synthetic rubber. The following year, the ASEAN Foreign Ministers accepted the recommendations of a United Nations study completed in 1972 and sought ways to strengthen economic co-operation.[16]

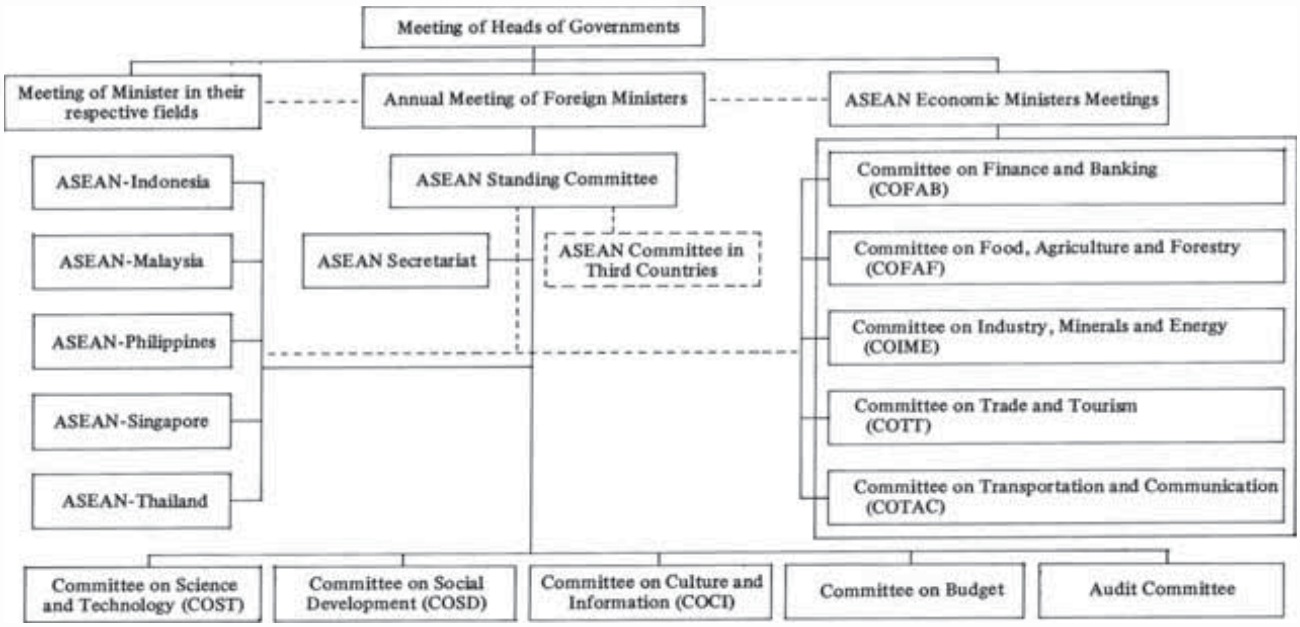
The third and current phase began in 1976 with the first of only two meetings of ASEAN Heads of Government in Bali, Indonesia. Again, the outcome of that meeting reveals the very close link perceived by ASEAN members between regional co-operation and their concerns for peace and stability. Most significant of all, however, was the initiation in this new phase of measures towards economic integration. ASEAN is very far away from a customs union, but some concrete arrangements are in operation or in progress.

The Preferential Trading Arrangement (PTA) began in 1977, and its most important feature was the reduction in trade tariffs among members. By the evidence of intra-ASEAN trade trends, the overall impact of PTA has so far been minor. As yet the preferential tariff reductions have been small, have been bilateral rather than multilateral and have pertained to traded items that, although numerous, are of relatively minor overall importance. With

[15] Quoted in M. Gonzalez and G.C. Guerrero, "ASEAN: a case study of regionalism in South-east Asia", in D. Nicol, *et al.*, *Regionalism and the New International Economic Order, op. cit.*

[16] United Nations, "Economic co-operation among member countries of the Association of South-East Asian Nations" (ST/ESA/3), published subsequently in *Journal of Development Planning*, No. 7 (E.74.11.A.3).

Figure II.11. Official structure of ASEAN



effect from 1983, automatic tariff cuts of 20-25 per cent are being extended to all items the individual import values of which were up to $US 2.5 million in 1978. The ceiling was recently raised to $US 10 million. Other items are to benefit from tariff cuts of up to 50 per cent. These new measures are of potential importance in trade liberalization.

Progress with the programme of ASEAN Industrial Projects (AIP) has been less encouraging. This programme was also advocated by the Bali meeting, on the basis of the United Nations recommendations: each country was to undertake a major project to provide an essential product for the whole ASEAN market. Ownership of the project was to be shared by all ASEAN partners, while Japan promised financial support of up to $US1,000 million in capital costs. Even after seven years, only two projects are within sight of fruition. Both are urea plants – in Aceh, Indonesia, and in Bintulu, Sarawak, Malaysia – and both were conceived even before the AIP programme. Thailand's AIP project is a rocksalt-soda ash plant, which is encountering delays over the choice of a suitable site. The Philippines has yet to make a definite choice of project, having considered at different times an ammonium sulphate fertilizer plant, a copper fabrication complex and a pulp and paper plant. Singapore opted out of AIP as early as 1978, when it went ahead with its own choice of plant – for the manufacture of diesel engines – without ASEAN co-ownership. It has not indicated an alternative project. As far as AIP is concerned, considerable leeway needs to be made up in the the subordination of self-reliance of individual member countries to wider subregional interests, even where there might be a demonstrable economic rationale.

A number of other initiatives are in progress. One is the programme of ASEAN Industrial Complementation (AIC) by which certain products of an industry are allocated to individual countries, which receive tariff preferences for them. The other members may not expand existing production facilities for two years after preferences have been assigned, or establish new facilities within four years. The other programme involves ASEAN Industrial Joint Ventures (AIJV), approved at the end of 1982 under which 51 per cent ownership is permitted by nationals from two or more ASEAN members in projects that can then benefit from trading and other preferences within the ASEAN market.

ASEAN has established a co-operative arrangement in respect of food, with 50,000 tons of rice being permanently maintained to cover emergency requirements. A telecommunications network is in the process of being established

among all members, eventually to comprise more than 4,000 nautical miles of submarine cable. The third of four stages – linking Malaysia, Singapore and Thailand – was completed in mid-1983. In shipping, a Federation of ASEAN Shippers' Councils (FASC) has been formed. In the field of finance, the central banks of the five countries agreed in 1977 to establish foreign currency swap facilities amongst themselves. Private banks formed the ASEAN Banking Council in 1976 from which came the promising idea of the ASEAN Finance Corporation (AFC), founded in 1981. AFC has begun in a small way to co-finance promising investments in ASEAN member countries and could be a vital prop for AIJV projects, if these materialize. An elaborate structure of communication links both as between member Governments and of Governments with the private sector have been developed.

If judgement must remain somewhat equivocal about concrete forms of ASEAN's progress towards regional co-operation, it cannot be denied that a solid foundation has already been laid. Significant scope for expanded co-operation remains.[17] A Task Force of Experts is already working on proposals for promoting closer economic co-operation among ASEAN countries. In this exercise it will be important to examine closely the costs, both in human and material resources, and benefits.

2. South Asia

A potentially important recent co-operative endeavour in the Asia-Pacific region has been the efforts in South Asia, initiated by the late President of Bangladesh, to develop an institutional framework for subregional co-operation. The first visible success, however, came with the meeting of the foreign secretaries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka in Colombo in April 1981. The foreign secretaries have met several times since and in August 1983 the seven foreign ministers put their seal to the New Delhi Declaration and on an Integrated Programme of Action under the auspices of South Asian Regional Co-operation (SARC). That meeting also helped prepare the way for a possible Heads of Government summit later.

Thus far, SARC essentially envisages only the preparation of feasibility studies, and committees have been established to determine the potentialities for co-operation in the fields of agriculture, rural development, telecommunications, meteorology, health, science and technology, arts, culture and sport. Its early development has been hedged with caution, however. In New Delhi, the Foreign Minister of Bangladesh spoke of "an evolutionary policy" according to which co-operation would grow at a deliberately measured pace. The terms of reference of the various studies, moreover, appear to be addressed to an enhancement of national development capabilities rather than schemes aimed at subregional integration, at least at this stage.[18] This places SARC apart from the aspirations of African and Latin American regional initiatives, or even those of ASEAN.

Development of SARC can be assisted by a network of academic institutions in Bangladesh, India, Iran, Maldives, Nepal, Pakistan and Sri Lanka, which are members of the Committee on Studies for Co-operation in Development (CSCD) in South Asia. Under CSCD auspices, some notable studies have already been undertaken on a wide range of themes.[19] The first phase of this series of detailed examinations – comprising 21 separate reports – was due to be completed in 1983.[20] These studies can provide valuable inputs for future government deliberations in SARC.

The eventual success of SARC will be significantly determined by the role played by India. India's gross domestic product and its population are more than three times the size of all the other six countries together. India is also the dominant trade partner of Nepal, Bhutan and Maldives, although its trade with Pakistan is relatively limited. So far, trade among India, Pakistan and Bangladesh (the three largest members of SARC) and Sri Lanka has not been large. Moreover, as in ASEAN, trade within this subregion has grown more slowly than trade among developing countries in general. SARC does not yet have the ambitions of ASEAN, which for all its "open-endedness" still provides a solid configuration of an economic grouping in Asia.

The countries of South Asia also subscribe to other co-operative schemes of specific functional nature. For example, the seven members of SARC, with the addition of Afghanistan and Iran, have formed the South Asian Co-operative Environment Programme

[17] ASEAN's progress in economic co-operation, and the further options available to the grouping, were discussed at the Tenth Pacific Trade and Development Conference in Canberra, Australia, in March 1979. See Ross Garnaut, *ASEAN in a Changing Pacific and World Economy* (Canberra, Australian National University Press, 1980).

[18] J. Nishikawa, "Subregional co-operation in the ESCAP region: part I: South Asia" (New York, UNITAR, 1983) (mimeo.).

[19] Including an important basic study by M.L. Qureshi, *Introductory Survey of the Economy, Resources and Prospects of South Asia* (Colombo, Marga Institute, 1981).

[20] Committee on Studies for Co-operation in Development in South Asia, *Scheme of Studies and Review, 1978-1983; Information Note* (CSCD, 1983).

(SACEP), which went into formal effect in 1982 with the assistance of the United Nations Environment Programme (UNEP). Finally, there are within South Asia various important bilateral agreements covering a range of economic matters. A number of bilateral economic commissions involving Afghanistan, Bangladesh, India and Iran, among others, are in operation.

3. The Pacific

There are several shared characteristics that have impelled the countries of the Pacific subregion to come together in fostering ECDC initiatives. With the exception of Papua New Guinea, all the developing islands of the Pacific are demographically and economically small and, with a few exceptions, they are resource-poor. They are also very widely dispersed across huge expanses of ocean and share problems created by inadequate development of transport and communications infrastructure.

The best-developed regional arrangement in the Pacific, the South Pacific Bureau for Economic Co-operation (SPEC), set up by the South Pacific Forum in 1973, includes two developed countries – Australia and New Zealand – as active members. SPEC, which acts as the secretariat of the Forum, administers several important co-operative activities. The South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), which came into effect in 1981, provides for tariff concessions for 10 Pacific island exports to Australia and New Zealand. Most of these countries are also participants in the Pacific Forum Line, a regional shipping line, the Forum Fisheries Agency, which co-ordinates fishing policies, and the South Pacific Regional Environment Programme, set up with the assistance of ESCAP and UNEP.

All members of SPEC, as well

Table II.31. Participation in Pacific island regional groupings

	South Pacific Forum				*South Pacific Commission*[a]	*University of the South Pacific*
	SPEC	*SPARTECA*	*Pacific Forum Line*	*Forum Fisheries Agency*		
Cook Islands	x	x	x	x	x	x
Fiji	x	x	x	x	x	x
Kiribati	x	x	x	x	x	x
Nauru	x	x	x	x	x	x
Niue	x	x		x	x	
Papua New Guinea	x	x	x	x	x	
Samoa	x	x			x	x
Solomon Islands	x	x	x	x	x	x
Tonga	x	x	x	x	x	x
Tuvalu	x	x		x	x	x
Vanuatu	x			x	x	x
Australia	x	x		x	x	x
France					x	
Netherlands					x	
New Zealand	x	x	x	x	x	x
United Kingdom					x	
United States					x	

Source: See footnote 21.

[a] Other members are: American Samoa, French Polynesia, Federated States of Micronesia, Guam, Marshall Islands, New Caledonia, Palau, Pitcairn Island, Tokelau, Wallis and Futuna.

as a number of non-regional developed countries and their dependencies, belong to the South Pacific Commission (SPC). The SPC was created in 1947 by six metropolitan powers (Australia, France, the Netherlands, New Zealand, the United Kingdom and the United States) in order to co-ordinate their colonial policies in the region. It is therefore not a regional grouping in the normally accepted sense, although its character has changed considerably as more Pacific island countries have gained independence. With continuing growth and potential for overlap of SPC and SPEC activities, serious consideration is being given to the possible merger of the two bodies into a single organization.[21]

The United Nations Development Advisory Team for the Pacific has also contributed towards strengthening co-operative efforts in this subregion. Meetings and exchange visits have been used as vehicles for exchange of experiences among Pacific countries regarding development problems in the fields of public administration and planning for economic and social development, among others.

Finally, mention should be made of the University of the South Pacific (USP), which is supported by a number of developed countries and to which 11 Pacific island countries in the English-speaking sphere send students for higher education.[22]

As can be noted from these brief descriptions of regional Pacific organizations, there are varying degrees of developed country involvement. To the extent such involvement is essentially facilitating in character through financial and technical support, it may be beneficial for economic and technical co-operation among developing countries of the subregion. Certain initiatives under the umbrella of the South Pacific Forum and SPC are of this type.

4. Regional co-operative arrangements

In addition to the various co-operative arrangements mainly or exclusively within major subregions, there are in Asia and the Pacific quite a large number of more broad-based co-operative agreements. Indeed, while the region may not boast of astounding success in terms of formal regional and subregional integration schemes, it can claim significant performance in terms of the many specialized networks of co-operation that it has spawned.

Three countries of South Asia (Bangladesh, India and Sri Lanka) belong with the Republic of Korea and the Lao People's Democratic Republic to the Bangkok Agreement on Trade Expansion. The Agreement was also signed, but not ratified, by two ASEAN members, the Philippines and Thailand. The Agreement, which entered into force in 1976, aims at product by product negotiation of trade concessions among the partners. But intra-trade accounts for an insignificant portion of the total trade of the member countries.[23] New initiatives to deepen and broaden the scope of the Bangkok Agreement are under consideration.

The Asian Clearing Union (ACU) was founded in 1973 under ESCAP auspices. The amount of funds channelled through ACU amounted in 1981 to the equivalent of only $US 228 million (transactions are denominated in Asian Monetary Units which are equivalent to Special Drawing Rights), and the Union excludes transactions between India and Nepal, and Iran and Pakistan.

The Asia-Pacific Telecommunity, which began operations in 1979, has 21 member and associate member countries including Japan, but none of them is from the Pacific islands. The Pacific countries are establishing their own network under SPEC auspices with assistance from the International Telecommunications Union (ITU). Similarly, the Asian Highway project, and the Trans-Asian Railway Network have had the participation of a relatively large number of Asia. In certain other sectors, particularly natural resources technology and energy, there are various regional undertakings. The Regional Mineral Resources Development Centre (RMRDC) in Bundung, Indonesia, provides technical advisory services to individual countries of the region and under its auspices intercountry exploration projects are undertaken and training and research facilities are shared. The Southeast Asia Tin Research and Development Centre (SEATRADC), located at Ipoh, Malaysia, co-ordinates regional efforts in the exploration, production and processing of tin, mainly among Malaysia, Indonesia and Thailand, the world's three largest producers. There are two standing committees for the co-ordination of joint prospecting for mineral resources in offshore areas, one active in the East Asian subregion (CCOP) and the other in the South Pacific (CCOP/SOPAC). There are also two major projects in the region designed to promote and co-ordinate efforts to minimize damage caused by typhoons and

[21] J. Nishikawa, "Subregional co-operation in the ESCAP area: part II: the Pacific area" (New York, UNITAR, 1983) (mimeo.).

[22] G. Fry, "South Pacific regionalism: the development of an indigenous commitment", unpublished M.A. thesis (Canberra, Australian National University, 1979), cited in J. Nishikawa, *ibid.*

[23] UNCTAD, "Economic co-operation and integration among developing countries: a review of recent developments in subregional, regional and interregional organizations and arrangements", vol. III (TD/B/C.7/51), Part III (18 May 1983) (mimeo.).

tropical cyclones: respectively, the Typhoon Committee and the Panel on Tropical Cyclones. Both these projects have been established with the co-operation of the World Meteorological Organization. Technology institutions in the region include the Regional Network for Agricultural Machinery (RNAM) in Los Bonos, Philippines, and the Regional Centre for Technology Transfer (RCTT) in Bangalore, India. Under United Nations auspices, there are two major energy development projects ongoing, one in Asia and the other in the Pacific. These are both co-operative ventures to the extent that they help to promote exchange of expertise and experience among participating developing countries. The Asian and Pacific Development Centre (APDC) with its broad-based membership has been established at Kuala Lumpur for policy research and training relating to development.

The Asian Reinsurance Corporation (ARC), which also has a broadly-based membership including China, is one of the best examples of regional ECDC in the financial field. The Bangkok-based ARC, which began underwriting business in 1980, leads directly to a reduction in the leakages of foreign exchange from the region in the form of insurance and reinsurance premiums. Also in operation are several commodity agreements and associations, which provide further examples of ECDC in the region. The Association of Natural Rubber Producing Countries (ANRPC) has eight members in Asia and the Pacific and accounts for over 80 per cent of world production. The Asian and Pacific Coconut Community (with 11 member countries from throughout the region) is another vehicle for strengthening producers' hands in the promotion and marketing of exports. ESCAP, with other United Nations bodies and agencies, is assisting interested countries to form new associations in the region for jute, tropical timber and silk.

Finally, there are throughout the region a large and growing number of examples of TCDC assistance, of which it is sufficient only to mention a few representative recent examples. In the area of marine transportation, India has assisted Viet Nam in undertaking surveys of coastal shipping, ports and inland waterways, and is extending assistance to Maldives in dredging. Malaysia has provided the Philippines with help in port management. China has sent experts to assist several countries of the region to develop their inland waterways. In the field of natural resources, Indonesia has provided advice to Burma on the drawing up of production-sharing contracts. In the field of social development, the Philippines has provided training to Nepalese officials in the management of social services programmes, and the nationals of several countries have received training from specialized institutes in India. In the technology field, the Republic of Korea receives a large number of trainees each year from the developing countries of the region.

With a wealth of expertise and range of experience, especially in such large countries as China and India, the further potential for TCDC in the region is very considerable. Serious attempts are now being made by Asian and Pacific countries to draw up "inventories" of the expertise they have to offer and the needs they are seeking to satisfy. This theme was actively pursued in a recent regional intergovernmental consultations held in China. During these consultations, a series of bilateral meetings were also held between participating countries and China to identify specific activities for technical co-operation.

C. AN ASSESSMENT

A vast heterogeneity among countries in the Asia-Pacific region makes it unrealistic to expect the emergence of a harmonious picture of co-operation in the near future. The logic of regional co-operation is nevertheless compelling as re-orientations in patterns of dependence are dictated by changes in global economic relations. That appeal is reinforcing the perceptible moves within the region towards collective self-reliance, of which only some examples have been mentioned.

An increasing number of countries are showing a positive inclination to reorient their trade and development patterns more towards the region. China, as it steadily expands its role in the international community, is looking to strengthen its participation in regional co-operative arrangements. At the subregional level, the emergence of SARC, the continuing evolution of ASEAN and the growing solidarity of the South Pacific all provide further evidence of a heightened perception of the advantages of co-operation.

Certain important and rather unique features of co-operation in Asia and the Pacific give reason to believe that its continuing expansion is assured. The subregional groupings have been deliberately conceived as open-ended and are not likely to lead to exclusive economic unions that would discriminate against non-members. This is likely to soften any opposition to these groupings. Outside the recognized subregions, the existence of numerous functional groups of Asian and Pacific countries, each with different memberships, reflects common concerns for a sharing of resources and experience in specific fields.

Yet while the interstices of co-operation in the region are complex and varied, there are still

important gaps. For example, the Mekong project has made slow progress in recent years. The full potentials of the Asian Highway concept are yet to be realized. Both the Bangkok Agreement and ACU have remained small, and their impact on trade patterns in the region has been negligible.

The future evolution of regional co-operation in Asia and the Pacific will depend on the determination with which the countries of the region seek to resolve a number of constraints. While some of these can be resolved through their own efforts, others will require action at the international level.

Throughout the post-colonial period, Asia has been the main theatre of international rivalry between major world powers. The consequence is that in each major subregion of Asia – South, South-East and East – countries fall along different alignments, determined in no small degree by powers outside the region. The divisions are not simple or clear-cut and the results a complex web of strategic, military and ideological interests that are so juxtaposed as to result in divisions within subregions and between pairs of neighbouring countries, which throw up obstacles to co-operation. The acceleration in world armaments spending that has, somewhat paradoxically, accompanied the worst economic recession since the Second World War has been subscribed to by several countries in the ESCAP region.[24] It goes without saying that whatever alleged benefits may result in terms of individual security, increased arms spending may threaten aspirations of collective self-reliance in the region as a whole.

A second problem concerns the fragility of some of the existing co-operative arrangements. Not all have been conceived and entered into with a clear idea of how the necessary basic financial and infrastructural requirements are to be met in the longer term. Some of the initiatives with precarious futures are those that began with generous external sponsorship but that have failed to elicit firm financial commitments from participating countries as external sponsorship is withdrawn. Both sponsors and partners need to be aware of the depth of the collective commitment to a new and promising initiative before embarking on it. A careful analysis of potential costs and benefits could help clarify perceptions and promote deeper commitment based on objective evaluation.

A third constraining factor relates to the absence of an adequate regional infrastructure, which is a legacy of the colonial period. Even today, the transport and communications links of all the developing countries of the region – including those that were not formally colonized – reflect historical links with metropolitan countries. Continental Asia boasts no comprehensive road or rail network serving all the major countries and acting as a significant channel of international exchange of goods. Maritime transport shows a similar metropolitan bias. Air transport and telecommunications are only belatedly beginning to develop along more regional lines. However, the infrastructural devices can be viewed both as a cause and a consequence of expanded regional co-operation. As the demand for these services grows with increased transactions, a positive supply response can be anticipated.

The extent of regional co-operation will also depend on the willingness of the countries to reconcile the urge for national self-sufficiency with the economic rationale of mutually beneficial division of labour under co-operative arrangements. In the case of ASEAN, for example, concerns have been expressed that national decisions prompted by self-sufficiency considerations may thwart some subregional projects.[25]

The progress of regional co-operation will also be affected by the role of the developed countries. In spite of the untimely arms build-up and the reinforcement of political alignments, there is a readiness in the region for enhanced co-operation. This needs to be reinforced by selective technical and financial support, which will continue to be necessary to build and strengthen the many and varied bridges of common functional interests that are found throughout the region.

[24] *Economic and Social Survey of Asia and the Pacific 1981* (United Nations publication, Sales No. E.82.II.F.1), pp. 150-151.

[25] Gonzalo M. Jurado and Emmanuel S. de Dios, "Policy responses to the IDS in ASEAN" (mimeo.) (September 1983).

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