

# Economic Development and Asian Regional Cooperation

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The Seminar on Asian Trade was convened by the Institute of Development Economics, Karachi, to discuss certain economic problems which, to a great or less degree, are common to Asian countries, and to consider possible methods of economic cooperation among them.

There were 25 members from 15 nations, all of which, apart from that of the "Observer", were Asian. Twenty-two papers were presented. The purpose of this preliminary report is to give an account of some of the salient ideas that were put forward. The "Observer" may perhaps be allowed to take this opportunity of recording his impression of the very high quality of the discussions, in respect of their intellectual acumen and brilliance and of the sound grasp of fundamental economic theory manifested by the participants. He does not recall attending any Seminar that out-classed this one in these respects. Thus, the non-Asian countries, which should be seeking a deeper understanding of Asian problems and be giving thought as to how to shape their own policies in the spirit of cooperation, on the basis of the mutual interdependence of prosperity in the world as a whole, may have confidence that, at the top level, there is economic thinking of the highest quality in a number of Asian countries. It does not follow that there is at present a *sufficient* amount of economic competence at any level. Attention will be drawn later to the urgent need for these countries to build up at the quickest possible rate the number of technologists and other professionally well-qualified classes; not less important is the need to increase the number of those competent in economics, especially as the situation urgently requires a greater amount of economic planning, which is in fact in progress, than may be needed in the more advanced countries.

## THE CENTRAL PROBLEMS

Problems of trade were considered in the context of economic growth. The central problem of the Asian countries may be put in fairly simple terms. If present efforts and plans are successful, output and income in these countries may be expected to grow at an expedited rate. Related to this

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*Editor's Note:* During the last week in December, the Institute of Development Economics sponsored a Seminar on Asian Trade for which Sir Roy Harrod, Christ Church, Oxford, served as official Observer. This article, his personal report on the Seminar, and the papers presented will be published in book form later this year.

growth will be an increase in the requirements for imports, and it has to be considered at what rate these imports will grow in relation to the rate of increase of output and income. It seems likely that the requirements for imports will increase at a somewhat greater rate than national income. Requirements for consumer products may have higher import content than before, as economies move further away from a bare subsistence level and consumers seek to satisfy themselves with articles not yet available from home production.

Of greater importance will be the rising need to import capital goods. In most of these countries, the present level of investment is low as a fraction of national income, compared with the more advanced countries. Therefore, it will be necessary, as a permanent measure, to raise expenditures on capital goods as a fraction of total expenditures, merely to make the developing countries conform to the pattern of more advanced countries. If, as is hoped, present plans usher in a transitional period of abnormal growth, the requirements for capital goods will be higher still during that transitional period. Since some countries have little capacity to produce capital goods at all, and few, apart from Japan, have a capacity at all commensurate with requirements, investment expenditures will have an abnormally high import component. Accordingly, it seems likely that import requirements will grow more rapidly than income.

If it cannot be expected that exports will also grow at a greater rate than the increase of output, a balance of payments problem is the inevitable consequence. The growth of exports must depend, in the first instance, on the growth rate of other countries. In recent years, most countries of continental Europe have had satisfactory growth rates. There has been a certain slackening in very recent years and in 1961 a pause. There is no reason to suppose that this is more than a transitional phase; on the other hand, it would be rash to rely on the continued growth of the continental European countries, as an assumed datum in the situation.

The United States and Britain have had poor growth rates in the recent period. The present Administration in the United States is pledged to adopt policies conducive to a higher growth rate, and it would be needlessly pessimistic to assume that these will not be successful. On the other hand, thought has to be given to the possibility that, in case of a country so far advanced in material prosperity as the United States, consumers may prefer to take out a rising proportion of their incomes in the form of expenditures on "services", which are likely to have a smaller import content. British growth has, in recent years, been held back by a considerable number of restrictive policy measures, which have been deemed to be necessitated by her balance-of-payments position, and, to a lesser extent, by the danger that a high level

of demand might increase the tendency to a wage-price spiral. There are certain signs that, in due course, there may be a change in British policy in this regard; and, this could have a very enlivening effect upon the British growth rate. It has not escaped the notice of those who have advocated higher growth rates in the United States and Britain that such higher rates, in addition to being of intrinsic advantage to those two countries, would render help to the poorer countries of the world by enlarging the markets for their exports.

Even if the growth rates of the industrial countries are as high as those which the developing countries seek to have for themselves, it does not follow that the demand by the industrial countries for the exports of developing countries will arise at the same rate, owing to the operation of certain adverse factors.

1. There is reason to suppose that, above a certain level, the income elasticity of demand for primary products is less than one.
2. There has recently been a tendency towards the substitution of primary products by synthetic materials, and research in that direction continues.
3. There are fears that protectionism in the industrial countries may have an increasingly adverse incidence on the potential exports of developing countries to them.

There has been a very great increase in output per head in American agriculture, and a substantial increase in British agriculture also. It is thought that similar improvements are now under way in the countries of continental Europe which will lead to a much higher agricultural output per head in that region also. If these countries are unwilling to arrange for a large-scale transfer of manpower away from agriculture into manufacturing industry, then the ratio of food production to food requirements will move in a direction adverse to purchases of agricultural output from overseas. There is naturally keen interest about whether Britain will be willing to switch over her own food purchases from her traditional overseas sources in order to buy up surpluses generated on the continent of Europe.

It may well be, however, that the incidence of protection to manufactures in the industrial countries will in the future come to have a more important incidence on the income of the developing countries than the protection of agricultural production. The industrial countries have in general a higher level of protection on manufactured products. This has not hitherto been of much importance to many developing countries, since these were not

interested in manufactured exports; but in the future, as will be explained below, the developing countries will require that a larger production of their exports to the mature countries should consist of manufactured goods. Accordingly, if a higher level of protection is maintained by the industrial countries against manufactured imports, this will have an increasingly adverse effect on the growth rate of exports from the developing countries. Thus, we reach the unhappy conclusion that the import requirements of the developing countries are likely to grow more rapidly than their output and income, while there are circumstances making it likely that their export markets will grow less rapidly. This was the central dilemma that confronted the Asian Seminar.

Some gravely feared that this balance-of-payment problem might be a major obstacle that would prevent the developing countries from raising their living standards substantially above their present distressingly low level and would frustrate their efforts for continuing with the expedited rate of investment that is now proceeding and being planned.

Consideration of the dilemma inevitably gave rise to two thoughts. *First*, some imports are essential for growth programmes, *viz.*, those that constitute balancing requirements for a minimum standard of living, together with certain materials and capital goods that cannot be produced at home. These imports are essential, in the sense that, if these cannot be obtained, the investment and growth programmes cannot proceed. But not all imports belong to this category; and a progressive programme of combing out such imports as are not strictly necessary may be undertaken. *Secondly*, while the first two of the three adverse factors mentioned as operating on primary products, seem to impose an insuperable barrier to the growth of exports of these products at a sufficient rate, attempts may be made to develop the export of manufactures, for which the elasticity of income demand will not necessarily be below one, and which, furthermore, can be taken by the industrial countries in substitution for what they are now producing for themselves. This is subject to what was said above about the protectionism of the industrial countries. It is possible that such protectionism could be modified if arguments in favour of a more liberal importation of the manufactures of developing countries, in the interest of the viability of the free world as a whole, could be presented to them in a persuasive manner. It is of *vital importance* that policy-makers in the mature countries should now be envisaging a state of affairs in the not-too-distant future in which a high proportion of their citizens' demand for "traditional products" are satisfied by supplies from the developing countries overseas. But, whatever the policies of the mature countries, developing countries should aim at expanding their output of exportable manufactures at prices so competitive as to be able to surmount the protective barriers of those countries.

It is the aim that plans in relation to foreign trade policy should be integrated with those for promoting domestic investment along certain lines. There was much discussion about the relative merits of sinking new capital into agricultural development and into industrialization. There was no difference of opinion that a certain measure of industrialization must be steadfastly carried forward. There were differences on the advantage of sinking additional capital in agricultural production. It was argued that in many cases investment directed towards an expansion of agricultural output would require a considerably higher capital-output ratio than industrialization, and would, thus, constitute an undue drain on the all-too-limited supply of capital disposal. It was also argued that endeavours to get the knowledge of better agricultural techniques widely disseminated and utilized would require a gigantic effort of organization, which would be beyond the resources of many of the countries concerned. This was due to the very bad communications, as well as to the low level of literacy, at present prevailing in many areas. Although it seems paradoxical, it was argued that less organizational effort would be required to absorb a given quantum of labour into factory work than would be required to increase agricultural output by an amount of equivalent value.

It is interesting to note a further point in this connection. There was hardly any consideration of "Aid" in the course of the Seminar, although the existence of Aid and dire need of the Asian countries for an increase of Aid were doubtless in the back of the minds of all the participants. In the absence of full discussion, it may be appropriate for the "Observer" to append this further point himself. American Aid has come to take, in substantial proportion, the form of the gift of United States agricultural surpluses. It may be that this is only a transitional phase. On the other hand, it may be more realistic to suppose that farming will not be cut back on a large scale in the United States in the foreseeable future so that there will be growing surpluses of food available for export to the developing countries. It has been suggested above that continental Europe may, before long, be generating agricultural surpluses that have to be disposed of. In the light of this it may be asked whether it is sensible for developing countries, which are so short of capital, to sink much into increasing the production of such commodities as rice. This argument, of course, does not apply against further investment in such primary products as cannot be produced in the United States or Europe.

The case in favour of devoting some proportion of investible funds to increasing agricultural production must next be set out. As incomes in the developing countries rise, it is to be expected that their own requirements for agricultural output will rise also. Thus, there will be some absorption, on a growing scale, of the agricultural production of each country within its

own borders or within the Asian region as a whole. Unless this increase of domestic consumption is matched by higher production, the supply position will be such that the Asian countries will be unable to take advantage of the export markets outside Asia that actually exist. There is reason to suppose that in some cases the decline (or lack of growth) of the exports of primary products that has already occurred has been due to their absorption on the home front. Thus precious foreign exchange has already been lost. It would seem that efforts should be made in the field of agricultural production to enable the countries of Asia to take advantage of opportunities that actually exist for exporting primary products to the non-Asian world. Furthermore, despite what was said above about the difficulties of expanding agricultural output, there may be advantages, on the labour side, of improving the efficiency of the millions of persons in the (agricultural) tasks to which they are already habituated, and in which they have some skills, however rudimentary. It was held that some neglect of agriculture in recent years have been due to "export pessimism", without the rising demand for agricultural output on the home front, present and prospective, being sufficiently appreciated.

Coming to the trade policy side, it was found that there are two kinds of import restrictions, namely:

1. those on articles not strictly necessary to the economy, and
2. those designed to give protection to newly-started domestic production.

In the case of the former, there is a danger that the restriction of the import of un-needed articles may give rise to their domestic production, which would be as wasteful a use of the resources—and indeed more wasteful than allowing the importation of the articles. This is a point that needs most vigilant attention.

When we come to the protection of domestic industry, a careful selection is required. It is to be stressed that the successful achievement of a growth policy means following a very narrow path indeed. It is assumed that planned investment will produce some increase of output. At the outset that increased output is heavily earmarked. Something must be allowed for increased consumption. It is not humanly possible to mobilize manpower to undertake new tasks, perhaps more difficult tasks, and anyhow tasks different from those to which labour is accustomed, without assigning any incentive of additional reward. Those engaged in new lines of production will have to have some part of the increased output for their own use.

Some part of the increased output must be given for further investment. Whatever foreign capital may be attracted, exclusive reliance on foreign capital for additional investment would lead to hopeless bankruptcy in the long run, owing to the mounting burden of foreign service charges.

Furthermore, some part of the increased output has to be given to supporting the increase of population that may occur. The population problem was not fully discussed, although occasionally referred to, in the Seminar. It may be judged to be the most important of all. The difference between a growth rate of population of 1.5 per cent a year and 2.5 per cent might make all the difference as regards the possibility of achieving a substantial rise of income per head.

With all these heavy pre-determined charges upon any increase of output that occurs, it is clear that *there is no room for waste*. If the importation of a certain article is restricted, to enable the same article to be produced at home, and if the cost of production of the latter is higher than the price that was previously paid for the former, in that respect there is no rise of national income, but, on the contrary, a fall. Thus, industries must be selected for protection with the view that they will not be very high cost (*i.e.*, that the temporary loss on them will not be too heavy), and that the protection will not have to last for too long. So narrow is the path of growth and so little room is there for waste that attention must be concentrated solely on the question of which industries can be brought into being with the minimum of loss, *i.e.*, which require the least protection. In such a situation as this, any application of protection to industries, favoured only for "prestige" reasons, could jeopardize the whole prospect of the success of a development programme.

It was stated above that, in order to get growth without a progressive deterioration in the balance of payments, there would have to be (1) a progressive cutting back of un-needed imports—and this should be accompanied by the refusal of licences for producing similar goods at home and (2) a cultivation of new lines of manufactured exports.

The restriction of needed imports, with a view to protecting home production, should be considered in relation to the project of expanding manufactured exports. It would be probably safe to say that a domestic industry was hardly worth protecting, unless it was possible seriously to entertain the view that it would eventually, after passing through the "infant" state, be able to contribute to the country's manufactured exports. That would be the real criterion of its being worth protecting.

There was a general discussion about the criteria to be used in the

selection of industries for encouragement and protection. In certain cases, a comparative advantage might be clearly seen to arise from the presence in the neighbourhood of the principal raw material. At the other extreme, it was even argued that the choice of one industry rather than another might as well be decided by the toss of a die.

Reference was made to the criterion of comparative advantage: but it had to be admitted that this, in some cases, included imponderables. It may well be that, for the time being, the best that could be done would be to ask men of real judgment whether they could see this particular industry as, in the long run, providing substantial exports that could be sold on a competitive basis in the markets of the mature countries. It is to be remembered that, although the developing countries may be handicapped by the lack of many resources required for efficiency, they will continue to have the advantage of cheap labour. Although, it is to be hoped that this labour will get progressively less cheap, yet, within the lifetime of present men, this advantage, as against wage rates in the mature countries, is bound to remain.

There was considerable discussion, which developed on theoretical lines, about whether a developing country of substantial size would be wise to invest in industries producing capital goods. This would mean taking a long view. It was argued that a country having difficulty with its balance of payments would gain by setting up its own capital goods industries, since this would save foreign exchange in the long run. The choice would be between setting up an industry to provide capital goods to be used in other industries on the one hand, and buying on the other, these capital goods from abroad, as and when required by the other industries.

There appear to be two criteria. The first is that the choice should be determined by the respective costs of the two methods of proceeding. Some held that a second criterion should be applied. Even if the cost of setting up a capital goods industry at home was greater, it was argued that this might be offset by the saving of foreign exchange. This latter saving would be equal to the "value added" in foreign countries in their production of the capital goods. It was counter-argued that whichever was the cheaper way of achieving the task in terms of money cost in the long run would also be cheaper in foreign exchange, since the domestic labour released by the cheaper method could be turned to be doing something else that helped the balance of payments.

I personally believe that it is not invalid to apply the second criterion also, *provided that* the country is, and is likely to continue to be over the whole period foreseen in planning, in balance-of-payments difficulties. In all



this period, the balance of payments may, for structural reasons, be the effective "barrier" to growth; in this case, an economy in drafts upon foreign exchange resources would take priority over the best distribution of domestic factor resources.

In the course of this session, there was discussion whether such a problem can be solved by the method of "comparative statics". I personally believe that this type of problem is not soluable by that method, but has to be handled by quite a different set of tools, which may be known as those of "dynamic" economics. Unfortunately, the tools of this type so far to hand remain very rudimentary.

It was argued that it is important that developing countries should be content with consumer goods of inferior quality, as being all that they can afford. It was also suggested that they must be content with inferior types of capital goods, presumably for the same reason. It was not clear, however, whether there was a connection between these two types of inferior goods. It may be that the choice of what sort of capital goods to have, whether inferior or up-to-date, should be made by somewhat different criteria, such as the existence of a shortage of maintenance men. It may be that the capital goods most suited for the developing countries are those of a "fool-proof" type. These may not be of inferior quality—quite the contrary.

It was stressed that, where a developing country has a strong comparative advantage through the presence of some natural resources, it might be desirable to use plants embodying the very latest refinements of technology, however expensive these might be, both to exploit to the full the advantage due to the presence of the natural resource, and to be the seeding ground for the training of more technologists.

Most agreed that the choice of industry should not be exclusively, or even mainly, determined by its degree of capital intensity. If the industry was high yielding, or, like infra-structure, had "external economies", or would be an important saver of foreign exchange, it might be desirable to support it, even although it was highly capital intensive.

More important than the question of its capital intensity was the question of its intensity in the use of scarce human factors. It should be part of the science of dynamic economics to throw light on the maximum possible rate of growth of the cadres of qualified persons necessary to man modern industry—production engineers, draughtsmen, accountants, managers, *etc.* The maximum possible rate of increase of these cadres might be more important than the amount of capital-disposal available both (1) in determining the choice of industry and (2) in determining the maximum rate of growth

for which it would be sensible to plan. The "Observer" expressed his belief that, if all the other factors were known to be present in adequate supply (and if markets for the product were known to be available), there would seldom be any difficulty in obtaining the capital-disposal required.

Behind the problem of securing the maximum possible rate of growth of qualified cadres is the problem of education. There seems little doubt that this is the most important problem in the whole range of development economics. It was reported that universal compulsory education was introduced into Japan in 1868, only a few years after the fall of the Shogunate. It may well be thought that this provision was the most important cause of Japan now having such a long lead in economic development over all other Asian countries.

### REGIONAL COOPERATION IN TRADE POLICY

In connection with the viability of projects for industrialization, the question of the size of the market came up for discussion. It was represented that an industrial project in a developing country might not secure sufficiently efficient production to avoid loss, because it could not be operated on a large enough scale owing to the limited size of its market. This was not to be measured mainly by the size of the population of a given country, but by its degree of poverty. Some contended that, in most cases, the domestic market would be sufficient for one unit of production in a given industry. The majority did not accept this view. In this connection, it must be remembered that the industries, that the planners might wish to set up or encourage, should be thought of as industries that would eventually be able to export manufactured goods on a competitive basis into the markets of the mature countries. Therefore, it would be needful that these industries should be on a sufficient scale to utilize the most efficient methods of production. Furthermore, in many cases one industrial unit would not be enough. It was important to stress "external economies" within the industry. These would accrue only if the industry was established on a fairly substantial multi-firm basis. In many cases, some element of competition might be desirable for efficiency. In the early stages, it would not be feasible to rely on the defective size of the local market being made good by substantial exports to the outer world. In the field of manufactured exports, developing countries were handicapped by not having a world-wide network of selling organizations, which it might take much longer to bring into existence than the factories, *etc.*, required for production.

It followed naturally that the question should be raised whether the defective size of national markets for new industrial products might be redressed by the creation of some form of Common Market for the whole Asian group. The desire for a market of larger size was known to have had

its influence in the European Common Market plan, and also, to some extent, in the case of the Latin American plan.

The prevailing view seemed to be that a Common Market was not a practical proposition for the whole Asian region *at the present time*. (But see below for possible sub-regions). This must not be taken to rule out the idea of the eventual establishment of such a Common Market, although there was not complete agreement on the desirability of this.

The following points may be noted in relation to the immediate situation.

1. There would not be the possibility at present on the political plane of gaining acceptance for a plan involving the sacrifice of sovereignty.

2. Some held that such action, if carried out on the Asian side, might run the risk of retaliation, and also encourage the present fashion for the formation of large economic blocs, which would be neither desirable in themselves nor conducive to long-run Asian interests. Some preferred the "universal" approach to the problem of foreign trade.

3. Having regard to the extremely subtle and difficult problem of selecting the right industries for protection and encouragement, it seems evident that all Asian countries will not require the same external tariff or import restrictions. The various countries are in different phases of development and have different problems. It has been pointed out already that there is no room for waste. A common external tariff in the whole region might encourage the formation in certain countries of un-economic and, therefore undesirable, industries. Each country will have its own problems and no single tariff schedule would be likely to be suitable for them all.

4. There was much lively discussion on the subject of trade "diversion" and trade "creation". A Customs Union is held to be bad to the extent that it causes trade "diversions"—but there was not universal agreement on this—and good only to the extent that it is 'trade creating'. Trade creation consists essentially in replacing high-cost producers *within the region* by lower-cost producers.

In the case of the Asian region, there did not seem to be much scope for trade "creation", since much production was governed by the pattern of natural resources, while manufacturing industry was in its early stage, and the scope for eliminating high-cost manufacturers within the region was, therefore, not great. On the other hand, there might be a considerable amount of trade "diversion", *viz.*, replacement of high-cost production within the region for low-cost production outside it. This would be uneconomical and

wasteful. And, as explained above, the developing countries can ill afford of waste.

The question of complementarities was discussed; it was generally felt that the problem of realising potential complementarities should be approached in some other way.

It was held that these objections might not hold so strongly against the formation of separate Common Markets in certain "sub-regions". These might be willing to incur some sacrifice of sovereignty, and be able to avoid, by cooperative action, some of the undesirable consequences noted above. They might have more community of interest as regards import restrictions and tariffs in relation to their phase of development.

It might be easier to arrange for a *preferential* system in the whole region. It was pointed out that this would be contrary to the GATT, of which a number of the Asian countries were members. By counter-argument, it was observed that, in relation to so great a question as Asian regionalism, the principles of the GATT could not be regarded as inviolable, and that, if necessary, some more flexibility should be introduced into the principles of the GATT. With that opinion, there was universal agreement. It was pointed out, however, that Asian countries might have much to gain by the strict enforcement of the existing GATT principles, particularly in the all important matter of their access to non-Asian markets. It was pointed out that, however much intra-Asian trade was developed, rising exports to the non-Asian world would continue for long to be a vital necessity, if a high rate of growth in the Asian region was to be achieved.

Accordingly, there did not seem to be much support for the view that a preferential system should be an immediate aim.

Within the general topic of means for liberalizing intra-Asian trade and, thus, broadening the market for Asian industrial products, it was suggested that much could be done at once, which might be more effective than a formal preferential system, *viz.*, the immediate repeal of all straight import restrictions on other Asian products, together with a far-reaching improvement in navigation and ports and in all other means of communication within the region. Reform in respect of import restrictions would rest with the national governments, which could, however, be actuated by plans for mutual bilateral or multi-lateral concessions. Improvements in intra-Asian communications would require the setting-up of an Asian committee to make plans and to recommend agreements for joint action by the national governments.

A session was devoted to the question of the European Common Market and the possible entry of Britain. The feeling was that such a move would damage Asian interests. By counter-argument, it was put forward that if British entry was conducive to a higher rate of growth, this might eventually benefit Asia through a higher rate of growth in the British demand for primary products, and that, to the extent that a higher growth of income in Britain would entail a higher rate of saving, this might make more saving available for investment in the Asian region. Several papers were submitted that pointed out the various ways in which British entry into the Common Market might have ill effects on Asia. The "Observer" made the point that in his opinion these papers paid insufficient attention to dynamic aspects; in his opinion bringing these aspects in made matters appear worse. The British would doubtless insist on securing concessions in relation to existing imports from the Asian region with special reference to agriculture, but the trend of recent thinking and of the discussions of the Seminar itself was that export of manufactures to the industrial countries must gain rising importance in the Asian export pattern, if Asian growth was to be successfully achieved. He feared that concessions gained by Britain under the Treaty of Rome, having regard particularly to the existing pattern of trade and agricultural production, would by no means safeguard the Asian position in future. If that was to be secured, safeguards ("escape clauses") would be required, not merely in respect of existing Anglo-Asian trade, but in respect of that trade that did not now exist, but ought to be developed in future.

The "Observer" drew special attention to the communique issued by the Council of Ministers of the OECD on November 17, 1961. This communique stressed in two places that it was the responsibility of the OECD countries to arrange matters so as to secure rising export markets and rising export revenues for the developing countries. In his opinion, the spirit of this communique was very helpful indeed from the Asian point of view, and entirely contrary to the spirit of the Treaty of Rome. (The signatories of that Treaty were, of course, also members of OECD group). From the point of view of Asian interests, it was important to regard the OECD communique as a sort of charter, and to highlight the difference between it and the Treaty of Rome.

#### REGIONAL COOPERATION IN INVESTMENT POLICY

The Seminar strongly felt that the view that a Common Market or a preferential regional system might not be immediately feasible by no means entailed that there was no scope for economic cooperation on a regional scale. Consideration was given to what was called "sectoral integration". This meant the treatment of the problems of some one industry as a whole on a regional basis, by analogy with the Coal and Steel Community of

Europe. It was felt that the analogy did not apply well to the Asian case, since the policies of the Coal and Steel Community were addressed to the maintenance of a fully competitive system, while in the Asian case such industries might be subject to state planning, varying in degree from one country to another. It did not appear that there is much scope in Asia for sectoral integration—with one possible exception. There might be scope for setting up joint agencies for research into productive techniques, to be related particularly to crops in which Asian countries specialize, about the production of which there might not, at present, be sufficient research proceeding in outside countries. It would be a question of the joint provision of funds required for such research, which might be large, and a joint agreement for the dissemination of the fruits of this research to all the Asian countries concerned.

The thoughts of the Seminar repeatedly reverted to what might be done by a regional approach, and particularly as regards to the size of markets, which has figured so prominently in European Common Market discussions. A certain idea seemed to take shape during the sessions, first conveyed in the expression "investment oriented regionalism" and then in the expression "agreed specialization". The basic idea here was that the advantages of a larger market should be secured, not *ex post* by some tariff manipulation, but *ex ante* by some previous agreement about the directions into which investment should be channeled in each separate country. Thus, the danger of over-lapping and of the production of surpluses in the field of manufactures (e.g., textiles) might be averted. A larger market might be secured for each industry by a more rational direction of investment resources in the first instance. The nations might authorize each other to specialize, by developing in some particular direction, and thus, give each the advantage of the large market afforded by the region as a whole. It was stressed that such an arrangement, in this being unlike a Common Market, need entail no sacrifice of national sovereignty whatsoever.

In the implementation of the idea of "agreed specialization", one could envisage three levels, set out as follows in order of increasing cooperation.

1. Many Asian countries now have development "plans". Cases were pointed out in the Seminar where these were not mutually consistent. For example, there were plans containing larger requirements for iron ore and cotton than other countries were proposing, in their plans, to produce, although they could well do so. It was proposed that an Asian agency should be set up for the coordination of these plans. The title "Regional Planning Board" was suggested, but rejected on the ground that this would seem to imply a Board responsible for planning the whole Asian region, which would by no means be the case. It might be entitled "Committee for the

**Regional Coordination of Plans**". It was hoped that such a committee, which would be merely consultative and advisory in character, would not give rise to any political objections. On the other hand, it was pointed out that the proposal would, by no means, be easy to achieve. It would be necessary for the Coordinating Committee to have a strong body of economic experts of the highest quality, who could analyze the plans thoroughly and trace out their mutual implications in regard to global production targets and the pattern of intra-Asian trade. Furthermore, the Committee would be quite useless unless there was an elaborate process by which the plans moved to and fro as between the International Coordinating Committee and the National Planning Agencies, so that the latter could make modifications in their plans in the light of the inconsistencies found by the Coordinating Committee. It was objected that perhaps such a project was somewhat optimistic, on the ground that so far only two Asian countries have developed plans that could properly be regarded as "models". Other plans were of a vaguer and looser character, in varying degree. It would be difficult for the Coordinating Committee to do serious work on integrating plans, when some of these might represent no more than the day-dreams of workers in a planning office. By counter-argument, it was observed that, all the time, these various plans were in the process of getting better articulated. The project for a Coordinating Committee might stimulate the various nations to take their own plans more seriously and to put more work into them.

2. To carry "agreed specialization" one stage further, the nations might be asked to submit in advance to the Coordinating Committee, their proposals for establishing new industries. If it seemed that there was a concentration of endeavour on some particular industries, while others were being neglected, nations might agree to modify their plans. Some nations might agree to hold over the development of certain industries that they had previously had in mind, while diverting their energies to other things, thus giving other nations the opportunity of having wider markets in the whole of the Asian region for the products of those industries. All this process might go forward by mutual agreement. No nation would be under the obligation to hold back in regard to a particular industry unless it had previously agreed to do so. Such an agreement about what each nation should specialize in would merely involve some goodwill, the application of common sense, and mutual give-and-take in the region as a whole.

3. Such a plan for "agreed specialization" might be reinforced by long-term contracts for bulk purchases of the products of the new industries, as agreed upon. Such bulk purchase arrangements would be applicable to manufactures of a standardized kind. Thus, an Asian country setting up a new industry would be fortified by the assurance that there would not be an excessive amount of competition coming from other Asian countries, and that

it would be able to sell its products in bulk over a term of years. Some held that it was important that a terminal date should be applied to such contracts, so that the nations affected should realise that at the end of a certain term they would have to get their industries fully competitive and able to stand on their own feet without the protective device of the bulk purchases contract. Such a target date for the termination of the bulk purchase arrangement seems all the more essential, when it is remembered that the ultimate goal in the case of all the new industries is that they should eventually be in a position to supply exports to the markets of the mature non-Asian countries.

The question was raised whether such bulk purchase agreements would necessitate some counterpart in the monetary sphere, such as payments agreements. Attention was drawn to the highly undesirable effects of anything in the nature of bilateral payments agreements, which had such disastrous effects in Europe after the war. The possibility was mooted of a multi-lateral "Asian Payments Union", comparable to the "European Payments Union", but the transitional character of the latter was emphasized, together with the fact that certain problems that it generated were never in fact solved. This question was not sufficiently explored in the Seminar for anything to be reported thereon.

It seems that there was a substantial amount of agreement among members that it would be worth placing strong emphasis on the general idea of "agreed specialization". This might be put forward to those concerned, as a proposal urgently requiring study.

#### PROBLEM OF PRIMARY PRODUCT PRICES

The opinion was expressed in the Seminar, and also in some of the papers, that the long-run trend in the terms of trade is adverse to primary producers and to Asian countries in particular. But some felt that the techniques so far used were not adequate to establish this as a fact.

One member suggested that the Asian countries should get together, in order, by collective action, to secure better terms. It was felt that such a proceeding would be fraught with danger. It might merely lead to non-Asian countries that produce similar commodities capturing part of the custom now enjoyed by the Asian countries. And, it might stimulate an intensification of the research related to the production of substitutes for primary products.

It was accordingly recognized that it was possible that Asian countries may have to carry the further burden constituted by a deterioration in their terms of trade, at least in respect of primary products. This would aggravate the balance-of-payments problems caused, as explained in the foregoing



paragraphs, by an insufficient expansion of the *volume* of their exports. This would make the path towards successful development still narrower.

One member suggested the recipe of a general devaluation of Asian currencies. This did not find support and was not much taken up in the discussion. It may accordingly be in place for the "Observer" to make some observations upon the devaluation question, which he believes to be in general conformity with the views of the Seminar on related topics.

Devaluation may be right and necessary when costs and prices in a country have got out of line with the world level, but is an inappropriate remedy for a continuous and progressive structural maladjustment of the kind described in the foregoing paragraphs.

Restrictions on un-needed imports, which are really tantamount to sumptuary legislation, may require some value judgment; it cannot be assumed that devaluation, by making all imports more expensive, would necessarily secure a cut in these that are less needed in this sense. *Laissez-faire* economists might hold that sumptuary aspects should be looked after by progressive taxation on the rich. This would not always be feasible in developing countries, especially having regard to the high level of personal savings required to balance the projected high level of investment.

As regards imports restricted in order to protect new industries, here again it is not clear that the process of selecting new industries should be left to be automatically determined by a devaluation; enough has already been said, especially when agreed regional specialization is taken into account, to suggest that this would be a very unsatisfactory method of seeking to obtain the required results.

On the side of exports, it is not reasonable to think that devaluation would secure an increase in the *volume* of world requirements of primary products. Its main effect, especially if it prompted competitive devaluation by other developing countries outside the Asian region, might be, at least in a short period, to turn the terms of trade still further against the Asian countries, and thus, add to their burdens.

On the side of manufactured exports, the required increase in the volume of those could be gained only by the slow process of building up a world-wide market network for sales promotion. An attempt to encourage manufactured exports by devaluation would be pre-mature and without any major effect.

On the other side, devaluation would be likely to provoke inflation,

which would be very harmful to growth. The high profits of exporters would enlarge their demand for consumer goods, which would both have a direct adverse effect on the balance of payments, and also lead to rising prices. Although the Asian countries are not subject to a cost-push inflation of kind experienced in the mature countries, the increase of industrialization may be expected to widen the sphere in which a cost-push inflation could be caused from the wages end, especially if arbitration procedures are set up, as has already been happening, containing escalator clauses. Price inflation can do severe damage to the course of growth in the developing countries, by eroding the value of amortization funds, which become increasingly more important as industrialization proceeds. This erosion syphons off personal savings, which, in any case, will be all too scanty, into the provision of replacements, when they ought to go into new net investments.

Quite separate from the problem of the long-run trend in the terms of trade is that of the oscillation of primary products prices. The presence of large oscillation was stressed in many papers, along with their harmful character, not only by causing temporary hardships, but by creating an insecurity in domestic markets most hostile to growth plans.

A recession of primary product prices has a wide effect on the income structure in the countries concerned, and temporarily weakens the demand for goods all along the line. The prospect of recurrent slumps of purchasing power in the domestic market is by no means helpful to projects for new investments, which should be able to look to a steady level (or growth) of demand in the years immediately ahead. It was stressed that the problem of curing this oscillation should be kept quite distinct from the problem of dealing with a long-run downward tendency in primary product prices.

Various possible remedies were discussed.

*First*, mention may be made of the part that the International Monetary Fund might play, by means of compensatory finance, in years of low prices. Attention was drawn to the Report on "International Compensation for Fluctuations in Commodity Trade" (UN, 1961), which deals with this subject. The view is there expressed that the International Monetary Fund might play a more significant role, and the report appeared to suggest that the I.M.F. might be willing to do so. In the Seminar, stress was laid on the point that the I.M.F. requirement for a review of the national fiscal and economic policies of countries asking for a drawing generated an element of uncertainty in regard to the future, both because some nations might prefer not to apply for a drawing rather than submit to the review, and also because the application might not be granted. It was agreed that it is precisely this uncertainty as regards the future that has a bad effect on investment in these countries.

At present, it is understood that a country will be allowed to draw up to 25 per cent of its quota, without questions being asked. It was suggested that a larger automatic drawing, such as one up to 50 per cent of the quota, might be allowed without questions, in the event of imbalance of payments being due to a proved fall of export earnings.

The "Observer", who had been associated with the late Lord Keynes in his work of drawing up a plan for a *Clearing Union* and had advised him in subsequent negotiations concerned with the inception of International Monetary Fund, at this point stated that, right up to his death, it had been in the mind of Keynes that all drawing rights would be automatically available. His idea had been that the I.M.F. should serve to increase the quantum of liquid assets available to countries for international settlement, and that it could not be held that an asset could be regarded as liquid in the full sense if it were available only subject to negotiations. The hesitation of some of the developing countries about applying for drawings proved that Keynes was right in this idea. However, that was a matter of past history.

Under the existing regime, the International Monetary Fund regarded it important to retain a discretionary element in permitting drawings. Tribute is due to the valuable work done by the International Monetary Fund in the course of consultations, both on the occasions of drawings and otherwise.

The point was, however, made that a distinction could be drawn between the need for drawings arising out of a general balance-of-payments difficulty, whatever its cause might be, and the special case of an imbalance which could be proved to be due to a fall in export earnings, by comparison with a previous run of years. The point could be made even more precise if the decline in the export earnings could be proved to be associated with a decline in the prices, as quoted in world markets, of commodities forming a substantial part of the exports of the countries in question. Thus, it would be possible for the Fund to retain its general rule of requiring a review in the case of drawings above 25 per cent, while allowing a larger drawing, e.g., 50 per cent or even more, in cases where the balance-of-payments difficulties could be proved to be due to the loss of export earnings.

The Seminar held that there was a strong case for making this distinction. This point was not granted in the main body of the U.N. report, referred to, but it was stressed in a valuable appendix.

The question was discussed whether the provision of long-term capital by various international or foreign national agencies could be dovetailed in a compensatory manner in relation to the oscillation of primary product prices.

The "Observer" reported that at a very early stage he had had a conversation with Mr. Harry White, who agreed that such compensatory finance ought to be carried out by the agency that was eventually to become the I.B.R.D. On the other hand, as soon as that agency began work, it became absolutely clear that any such compensatory policy would fit in very ill, both with the nature of the work that it had to carry out in developing countries and with its task of maintaining confidence in world capital markets.

Discussion proceeded to the possibility of forming international buffer stocks of primary products. On the ideal plane, this would be the most perfect solution of the problem of commodity price oscillation. But there were very heavy practical problems involved in the inception of such a scheme. Ever since Keynes put forward a plan in Washington in 1943, the idea of Buffer Stocks had been in the forum of international discussion; but the practical difficulties, both technical and political, were so enormous, that it seemed unlikely that any such scheme would be put into operation in the near future.

It is of the nature of a Buffer Stock Scheme that international cooperation on a world-wide scale is needed. National or regional Buffer Stocks in the true sense would not be practicable, since these would be inundated by offerings of the commodities at the bottom support prices from outside the nation or the region.

At this point, the question of Buffer Funds came into the discussion. Although, this remedy is not so satisfactory in some respects as Buffer Stocks, they have the great advantage that they can be operated on a national scale. Attention was called to the success of the Buffer Funds operated by Britain on behalf of the West African territories, where the funds have not only had success in maintaining incomes when prices receded, but have also provided something for development expenditures.

For the success of any Buffer Fund Scheme, stern discipline is needed in two respects. *First*, it has to be initiated in a period of prosperity, in order that a fund may be built up, and be available to be paid out later to supplement the incomes of primary producers in the bad years. But in period of prosperity, most people are apt to forget the need for any such arrangement, and thus, it may be difficult to get agreement to starting up the scheme at such a time. *Secondly*, it is important that the fund should not be "raided". It is possible for needs for governmental expenditures that seem to have top priority to rise, at a time when an increase of governmental revenues cannot be secured, so that the government concerned may be under strong pressure to raid any available fund.

It accordingly appeared that the inception of Buffer Funds might give scope for regional cooperation. It was suggested that there might be a regional Buffer Fund, covering a number of commodities of interest to Asian countries and applying to the whole Asian region. The contribution by each country would, of course, be earmarked in the long run for that country. But in the short run the country would only be able to claim back, in accordance with agreed upon formulae, to the extent that its own exportable commodities had fallen in price. There would be a distinct advantage in having the Buffer Fund on a regional, rather than on a national, basis since that would broaden its coverage and spread its risks. Furthermore, although the terms of contribution and benefit would be strictly and precisely defined at the time of the inception of the Fund, nonetheless, its management would require personnel of the highest quality, which some particular Asian countries might be unable to spare for the management of purely national Buffer Funds. It is to be noted that in the long run any durable Buffer Fund scheme would require changes in "parity prices" from time to time, in accordance with some agreed upon formula. Furthermore, the existence of a regional agency would guard the Fund from any possibility of its being raided by the governments of the various countries concerned, however urgent their needs. An alternative idea was that such highly-trusted international institutions as the I.M.F. or the I.B.R.D. might be requested to act as trustees. But it would be preferable to have the Fund administered by an Asian agency, which might be a symbol of the willingness of the Asian countries to cooperate on economic matters, and a stimulus to further regional experiments in cooperation.

#### FISCAL POLICY

It is to be stressed that the discussions of the Seminar centred upon questions of foreign trade within the context of policies for economic growth. It was present in the minds of participants that in the background was a most vital problem, which was, however, beyond the terms of reference of the Seminar, namely, how nations are to mobilize the savings required for the high levels of investment needed for growth.

There was no time to have an extended discussion on this central question, although it has a very direct bearing on the balance-of-payments problem. If, in any country, investment exceeds savings, and if this excess is not covered by capital from abroad, then it will be associated with an adverse balance of payments, and that in its turn will be bound to check growth for the time being, and to frustrate policies for development at a steady rate. The problem of mobilizing domestic savings requires most urgent study.

One related aspect of fiscal policy, however, was fairly fully discussed.

Many developing countries depend heavily, for their governmental revenues, upon taxes on imports and exports. Attention was drawn to the possibility that revenue from taxes on the export of primary products might not grow as quickly as governmental expenditures, if the exports of primary products did not grow, as it seemed likely that they would not, as quickly as national income. Furthermore, revenues from imports of manufactures might fall, in so far as local production was substituted for such imports, while the imports that took their place, being imports of capital goods, would not be appropriate for taxation.

Thus, it was thought that, in many cases, the shift in the pattern of external trade consequent upon a policy of internal growth would be likely to produce an automatic decline in the ratio of governmental revenues to governmental expenditures, even if the latter were held in proper check. This means that governments will be hard put to it to find alternative sources of revenue for balancing their budgets, even before they begin to embark upon the wider task of increasing revenues still further, in order to provide the additional funds required for a higher rate of internal investment expenditures. Thus, the fiscal problem is clearly central to the whole problem of economic development policies.

### CONCLUSION

The discussions of the Seminar seemed to suggest that the following topics, all implying some measure of regional cooperation, call for immediate consideration by national governments and agencies concerned with development plans:—

- 1) Methods for implementing the idea of "agreed specialization" in the Asian region.
- 2) An Asian Buffer Fund for steadying the incomes of primary producers, in the face of oscillations in the world prices of primary products.
- 3) Development of research in relation to the production of commodities which are of special importance in the Asian economy and are not attracting sufficient research in institutions outside Asia.
- 4) An Asian Regional Committee on methods of improving intra-Asian communications.