CHANGING PATTERNS OF ECONOMIC INTER-DEPENDENCE IN ASIA

— With Special Reference to the Relationships between Developed and Developing Asian Countries —

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I. INTRODUCTION

ALL DEVELOPING Asian countries are confronted today with a number of economic and social problems: some hangovers from pre-independence days, others of postwar origin. In the first category are problems such as the low level and tempo of capital formation, both physical and human, the predominance of primary industries and service sectors, the high commodity concentration in export as well as the high degree of dependence on export in generating gross national product. Also the lack of racial integration, regional imbalance in development, absence of national unity and national feeling among people, and inequalities in income and wealth distribution have persisted since prewar days. Within the latter category are the rapid increase in population caused by higher birth rates coupled with lower death rates, the more acute shortage of food, the higher level of unemployment, the growing incidence of urban crowding, crimes and insecurity, further deterioration in natural and physical environments, the increased threat of inflation, and the widening gap between the haves and have-nots.

It is not implied, however, that the present leadership alone is to blame for the major socioeconomic problems that have emerged in postwar or post-independence days. To be fair to the present leadership in the developing countries of Asia, practically every one of the latter-category problems facing them today has roots in socioeconomic developments during the pre-independence period and is thus inextricably related to those economic and social problems falling in the first category. In fact, it should be more reasonable to define those problems as having emerged from the complex interplay of domestic factors, social and institutional structures and dominant ideologies of the major decision-making units or actors in economic development, i.e., households, enterprises, and governments in the country. To the extent, however, that the present leadership in each developing Asian country could influence, through economic and social development planning, the level and direction of investment spending and the institutional mechanism by which such spending is made, they are definitely responsible for solving all economic and social problems, old and new, that confront their nation.

Economic and social problems in the developing countries of Asia have also been accentuated by changing patterns of economic interdependence between these

countries and the rest of the world, particularly the developed countries. The particular patterns of trade, investment, and aid prevailing under the existing international economic system have affected the range and depth of economic and social problems in these countries as much as under the colonial system. To the extent that patterns of economic interdependence facing developing Asian countries are a result of external economic policies of those developed countries with which they trade and from which they receive investment and aid, these developed countries have been responsible for the range and depth of socioeconomic problems of the developing countries in this region.

The purposes of this paper are twofold. First, to describe the changing patterns of economic interdependence between developing Asian countries and developed countries during the postwar period and, on the basis of certain assumptions, predict the future trend of such patterns. Second, to explain such changing patterns in terms of the economic structures and policies of developed countries in the 1960s and 1970s. In so doing, the writer hopes to clarify the roles of developed countries in the economic and social development of developing countries of Asia. This seems today all the more important, as there is so much confusion both in developing and developed countries over the actual roles being played and the expected roles to be played by advanced countries in the socioeconomic development of developing countries in general.

II. CHANGING PATTERNS OF ECONOMIC INTERDEPENDENCE IN ASIA

There have been notable changes in economic interrelations in Asia during the past quarter of a century. Such changes have been conspicuous not only quantitatively but qualitatively in the flow of goods and services and various productive inputs between Asia and the rest of the world.

A. *Changing Patterns of International Trade*

Of the many changes in the trade pattern the most typical and significant have been: (1) a gradual turnover in major export commodities; (2) a notable decline in consumption imports including food as a proportion of total import, against the increasing shares of both industrial materials and capital goods; (3) a perceptible increase in manufactured exports; (4) a conspicuous decline in the shares of intra-regional trade; (5) further deterioration in merchandise and non-merchandise trade balances. Behind these observed changes, however, basic features have remained throughout the entire postwar period in the patterns of economic interdependence in Asia. Most developing countries in Asia, with the probable exception of China and India, have maintained a relatively high degree of export and import dependence and a high degree of the concentration of exports in primary products subject to high variability in export receipts.

A steady growth in per capita income and industrial production in developed countries and Japan in particular during the 1950s and 1960s brought with it a huge rise in imports of foodstuffs and raw materials and in recent years of textiles

and other light industry manufactures from developing Asian countries. Developing Asian countries have been major suppliers specially to Japan because of their geographical proximity and other comparative advantages over the rest of the developing world. Some developing countries in Asia have been in a better position to export than others because of their abundant natural resources such as petroleum, mineral ores, and timber, while others have been so because of their relatively low-cost, disciplined labor.

In light of a continuing, heavy dependence on exports particularly in primary commodities, developing Asian countries have been diversifying their agricultural exports, in response to a long-run decline in the prices of major traditional agricultural export commodities such as rice, rubber, copra and coconut oil, tea, and jute.[1] While they still remain the major producers and exporters of these agricultural commodities in the world, they have been diversifying their agricultural production and export into such products as palm oil, maize, pineapple, kenaf, and various root crops (see Tables I and II). Agricultural diversification in these developing

TABLE I
PERCENTAGE SHARE OF THE DEVELOPING ASIAN REGION IN WORLD PRODUCTION AND EXPORTS OF SELECTED PRIMARY COMMODITIES, 1960 AND 1965

Commodities	Production		Export	
	1960	1965	1960	1965
Natural rubber	91	96	92	94
Tea	81	80	81	84
Rice	73	72	66	61
Copra and coconut oil	82	81	69	84
Sugar	12	12	10	11
Jute and allied fibers	88	76	96	89
Raw cotton	11	15	5	7
Crude petroleum	7.5	8.6	n.a.	n.a.
Tin-in-concentrates	64.5	64.8	n.a.	n.a.

Source: United Nations, *Economic Survey of Asia and the Far East, 1966.*

Asian countries has been confronted with five major problems. They have been beset by the difficulty of raising productivity because of land tenure system, the high cost of land development, agricultural credit, fertilizer, and pesticide, the underdevelopment of irrigation and drainage facilities, the lack of research and development efforts, and a lack of agricultural extension services. The second major problem of agricultural diversification has been the low income elasticity of demand in countries importing these agricultural products, which has tended to have adverse price effects as the exporting countries increased their output and export of these

[1] During the last few years, many of these traditional export commodities of developing Asian countries have seen their export prices rising and staying high. This is considered to have been a short-run phenomenon, mainly due to bad crops and speculative deals in commodity markets affected by exceptionally high liquidity available in developed economies in recent years. With inflation still rampant the world over, it is now likely that the prices of these primary commodities may continue to stay high and ever higher for quite some time.

TABLE II
MAIN AGRICULTURAL PRODUCTION IN THE DEVELOPING ASIAN REGION, 1969–71

	Average Annual Production (1,000 Metric Tons)		Average Annual Rate of Growth (%)
	1959/61	1969/71	1959/61–1969/71
All cereals	170,731	230,020	3.0
All pulses	14,041	12,881	– 0.9
Root crops[a]	29,749	38,698	2.7
Oilseeds[b]	11,821	15,143	2.5
Jute and kenaf	2,453	2,892	1.8
Cotton lint	1,341	1,825	3.1
Rubber	1,871	2,746	3.9
Sugar[c]	8,168	19,775[d]	9.2
Beef and veal[e]	994	1,221	2.1
Mutton and lamb[e]	757	842	1.1
Pork[e]	838	1,227	3.9
Milk	34,307	39,477	1.4
Copra	25,849	28,472	1.0
Palm oil	228	649	11.0

Source: United Nations, *Economic Bulletin for Asia and the Far East*, Vol. 21, No. 3 (December 1970).
[a] Potatoes, sweet potatoes, yams, and cassava.
[b] Sesame seed, cottonseed, soybeans, groundnut, linseed, rapeseed, and castor beans.
[c] Non-centrifugal sugar and centrifugal sugar (beet and cane).
[d] 1968–70, split crop year.
[e] 1971 production is for January–November only.

TABLE III
PERCENTAGE DISTRIBUTION OF COMPOSITION OF IMPORTS IN THE DEVELOPING ASIAN REGION BY COMMODITY GROUPS, 1964–80

(%)

Commodity Groups	1964	1966	1968	1975	1980
Consumption goods					
Food	17.24	18.02	15.32	12.0	7.8
Others	12.78	14.43	12.55	8.5	6.1
Materials chiefly for consumption goods	20.73	22.49	24.38		
Materials chiefly for capital goods	7.49	6.83	6.58	31.1	33.2
Capital goods	30.37	29.53	29.97	34.7	39.6
Services	—	—	—	13.7	13.3
Total	100.00	100.00	100.00	100.0	100.0

Sources: United Nations, *Economic Bulletin for Asia and the Far East*, Vol. 21, No. 3 (December 1970), P. 43; and United Nations, *Economic Cooperation for ASEAN* (New York: United Nations, 1972), p. 16, Table 22.
Note: The figures for 1975 and 1980 are only estimates for the ASEAN countries made by the United Nations Team in 1972.

products. Thirdly, such price problems have been worsened by one developing Asian country duplicating another in diversifying agricultural production and export. Fourthly, since they are, as the other traditional agricultural exports, exported in raw form, the value added to the exporting Asian countries has been of a limited nature. Finally, most developed countries have long maintained tariff and non-tariff barriers to imports of agricultural products to protect their own farming population. Price support programs for a variety of farm products in these countries, installed for domestic and international political reasons, have constituted a major barrier to expanded exports of rice and other products from developing Asian countries. The latter has been forced to identify in pursuit of agricultural diversification those commodities which are not protected by developed countries.

On the import side, developing Asian countries have experienced a dramatic change in the commodity composition of imports (see Table III). The growing tempo of industrialization in most of these countries has required an even larger import from developed countries mainly of machinery, equipment, parts, and industrial materials to feed the expanding process of factory production. Japan has obviously been a logical supplier of these commodities. A relatively successful growth performance in most of the industrializing developing countries in the region, for instance, at the average annual rate of 6 per cent in real terms during the 1960s, has also brought about sustained growth in the demand for consumption imports, particularly processed foodstuffs and those high-quality consumer durables for the new rising middle-class and well-to-do segments of the population.

Also, failures in the production of agricultural staple commodities to match with the rapid pace of population growth for various reasons have resulted in expanded imports of rice and wheat in many developing Asian countries which had once been either net exporters or insignificant importers of these products. After a brief spell of bumper crops due to favorable weather and the Green Revolution in the late sixties, a huge demand has once again arisen for the import of rice and wheat, which may continue through the 1970s, though probably in a decreasing order. It is noteworthy that since those countries with a large grain surplus are mostly developed countries, the rising food imports have inevitably contributed to a significant expansion of extra-regional import in this region.

As a corollary to the rapid expansion in import of capital goods, the import of consumer goods as a proportion of the total imports declined dramatically during the 1960s, even registering an absolute decline for some commodities where import substitution nearly eliminated their foreign competition. It is expected that not only this trend will continue, but also the variety and amount of consumer goods exported will increase significantly over a coming decade.

The direction of changes hitherto observed in the commodity composition of imports will continue to prevail in developing Asian countries in the future. It will be quite a long time before a significant portion of industrial input can be supplied by domestic suppliers, resulting in a levelling off of their share in total imports. Horizontal specialization will take a considerable length of time to emerge and replace the current pattern of vertical specialization between the developing coun-

tries of Asia and the developed countries in general and Japan in particular.[2]

It is noteworthy, however, that major inroads have been made by many developing Asian countries into the markets of developed countries with manufactured exports, in spite of tariffs and non-tariff barriers erected by the latter against such imports. It is true that the application by many developed countries of the scheme of generalized tariff preferences to the import from developing countries facilitated these inroads to some extent. Much, however, has been due to shifts in comparative advantages between developed and developing countries, particularly from the rising labor shortage in the former. The major products involved in the expansion of manufactured exports are thus labor-intensive ones, such as processed foodstuffs, textiles, leather and leather products, footwear, plastics, wood products, and certain electrical home appliances. In some partially industrialized developing countries where factor endowments are more favorable, there has been an encouragement of both production and exports in recent years to a reorientation towards relatively capital-intensive goods requiring more skills and more sophisticated production methods. Examples of these would be telecommunication equipment, switchgears, machine tools, accounting machines, typewriters, railway and motor vehicles, and metal and metal products. Table IV indicates the growing importance of manufactured exports in the developing Asian region.

TABLE IV
DISTRIBUTION OF EXPORTS IN THE DEVELOPING ASIAN REGION BY COMMODITY GROUP, 1964–68

(%)

Commodity Groups	1964	1966	1968
Food, Beverage and tobacco	25.03	21.58	18.66
Cereals	5.64	4.79	3.06
Mineral fuels and related materials	5.44	5.78	6.42
Crude materials, excluding fuels, oils, and fats	28.89	28.36	24.63
Textile fibers	4.45	3.97	3.29
Metaliferous ores and metal scrap	3.76	3.75	3.21
Chemicals	1.48	1.63	1.53
Machinery and transport equipment	1.98	2.94	3.56
Other manufacturing goods	23.44	26.82	29.68
Textile yarn and fabrics	9.89	9.39	9.33
Base metals	3.25	3.86	3.63

Source: United Nations, *Economic Bulletin for Asia and the Far East*, Vol. 21, No. 3 (December 1970), p. 43.

[2] Long-range prospects for a reduced oil supply from the Arab countries and increased prices of crude oil and petroleum products triggered by the current world oil crisis may speed the on-going process of horizontal specialization between developing and developed countries by transferring petroleum refining and petrochemical industries from oil-deficient developed countries such as Japan, West Germany, Italy, France, and the Netherlands to oil-rich developing countries as Indonesia, Iran, and the Arab states. The same can be said of those developing countries rich in other mineral resources.

It has not been without difficulty that inroads by manufactured exports were seen in the 1960s from developing countries of Asia into the expanding markets of developed countries. Over-valued exchange rates in many countries in the region had a braking effect on such export expansion. As mentioned earlier, quantitative restrictions and escalated tariff structures imposed by many developed countries have also been a significant impediment. Inroads of manufactured exports have frightened some segments of the population in importing countries. The "voluntary" quota imposed by the United States on the export of synthetic and chemical textiles from developed and developing countries is a case in point. The quota was introduced to relieve the adverse impact on marginal domestic producers and their employees resulting apparently from an extremely rapid acceleration of foreign imports. With respect to cotton textiles, an international agreement has already been in effect on a long-term basis to regulate exports to major markets, mainly the United States. Furthermore, tariff and nontariff barriers imposed by developing Asian countries against the imports from developed countries now impede the expansion of manufactured exports coming from other developing countries.

Table V shows the changing pattern of geographical distribution of exports and imports for the developing Asian countries. A notable decline has been observed in the share of intra-regional trade as compared to the rapid increases between them

TABLE V
DISTRIBUTION OF IMPORTS AND EXPORTS IN THE DEVELOPING ASIAN REGION BY DIRECTION OF TRADE, 1964–68

(%)

	1964	1966	1968
Imports from:			
ECAFE countries	37.14	43.21	43.81
Developing ECAFE countries	21.52	22.51	19.15
Western Europe (including U.K.)	25.43	25.78	24.45
U.K.	10.16	9.24	7.45
USSR and Eastern Europe	4.25	3.61	3.56
North America	23.89	23.65	23.66
U.S.	22.48	21.76	21.78
South America	0.31	0.40	0.43
Middle East and Africa	3.88	3.81	4.61
Exports to:			
ECAFE countries	40.90	42.31	41.93
Developing ECAFE countries	24.81	24.90	21.75
Western Europe (including U.K.)	26.28	24.93	22.79
U.K.	11.38	9.59	9.87
USSR and Eastern Europe	5.20	5.64	4.77
North America	17.11	19.17	21.92
U.S.	15.26	16.71	19.70
South America	0.94	0.79	0.54
Middle East and Africa	6.25	6.31	6.00

Source: United Nations, *Economic Bulletin for Asia and tke Far East*, Vol. 21, No. 3 (December 1970), p. 43.

and the developed countries; particularly Japan in imports and Japan and the United States in exports. Traditionally, Asian countries under the colonial regime maintained closer economic ties with their respective metropolitan countries, but since independence they have been diversifying their trade on the basis of comparative advantage. Nevertheless, long after gaining political independence, the foreign trade of these countries is still oriented toward major developed countries rather than neighbors. A more rapid rise in per capita income and consumption and a higher level and rate of increase in manufacturing productivity in developed countries have been responsible for the conspicuous increase in their share of both exports and imports of the developing Asian countries. Higher costs of production due to higher wages in developed countries has encouraged both consumers and producers alike to increase their imports particularly import of labor-intensive products from developing countries.

On the developing Asian country side, both the absolute level and the rate of increase in per capita income and consumption are far below those obtained in developed countries. Also, except in the case of certain natural resources such as petroleum, comparative advantages of any developing Asian country vis-à-vis others in the region have naturally been limited, since factor endowments among them are quite similar. On top of this, most developing Asian countries have begun to industrialize their respective economies independent of the other and have failed in integrating their domestic markets into one larger, regional, or subregional market where intra-regional trade would inevitably expand. Instead, they have raised, as mentioned earlier, tariff and nontariff barriers to the import of manufactures, thus in effect retarding the growth of intra-regional trade with fellow developing countries.

However, differing rates and stages of industrial and economic growth that have emerged more conspicuously since mid-sixties among countries in the developing Asian region have already begun in some measure, and will undoubtedly continue, to strengthen the forces of expansion in the flow of goods and services between these countries. Hong Kong and Singapore seem to be emerging as regional centers of developing Asia, as Japan has been for many years, in expanding intra-regional trade. Furthermore, as the developing Asian countries successfully promote some sort of regional cooperative schemes in the seventies in both agricultural and manufacturing development, intra-regional trade will expand much more rapidly.

A rapid expansion in import demand resulting from a relatively high rate of industrialization and lagging food production has obviously contributed to increased deficits in merchandise trade balance in nearly all developing Asian countries. The slow tempo of export expansion of primary commodities, for reasons mentioned earlier, has accelerated the worsening of these trade imbalances. On top of all this, the deteriorating terms of trade throughout the 1960s has in some cases dealt a fatal blow to import demand (see Table VI). Only since 1970 have certain developing Asian countries rich in petroleum and mineral and timber resources begun to show some bargaining strength in a situation of tightening markets and worldwide inflation, and begun to decelerate the deteriorating trend hitherto observed in the balance of merchandise trade. Non-merchandise trade balance even in some trade

TABLE VI
TERMS OF TRADE FOR SELECTED DEVELOPING ASIAN COUNTRIES, 1962–72

(1963=100)

Countries	1962	1964	1966	1968	1970	1971	1972
Bangladesh	122	112	120	140	136	130	—
Burma	111	104	99	111	79	78	—
Fiji	81	102	84	73	101	94	107
Hong Kong	—	—	—	100	104	109	112
India	103	98	104	103	106	109	123
Indonesia	95	95	84	79	99	—	—
Korea (Republic of)	—	101	115	124	120	119	119
Malaysia[a]	102	101	101	86	94	81	74
Pakistan	101	88	104	118	109	112	121
Papua New Guinea	95	103	107	112	106	107	—
Philippines	101	98	98	103	109	93	77
Sri Lanka	110	81	84	72	65	61	59
Thailand	101	101	107	112	104	94	97
Viet-Nam (Republic of)	89	106	134	78	114	59	—

Source: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, Vol. 4, No. 2 (July 1973), p. 18, Table 16.
Note: As defined by ECAFE, terms of trade is the percentage unit value index of exports to unit value index of imports.
[a] West Malaysia only.

surplus countries, however, has been in deficit for a long time, since shipping, insurance, and other services required in expanding export and import activities have for the most part been rendered by developed countries. As with conference rates in trans-oceanic shipping services, monopolistic pricing and discriminatory practices have placed many developing countries in a competitive disadvantage.

The world oil crisis resulted from the scheduled reduction in crude oil supply by Arab states in November 1973. It began in response to the Israeli occupation of Arab territories, and has already had a serious impact not only on the overall growth of both advanced and developing countries of Asia and elsewhere, but also on the trade terms for the latter countries, not endowed with rich petroleum resources. In every country not only have the prices of oil and petroleum-based commodities such as fertilizer and chemical fibers gone up sharply in recent months, but also the prices have sharply increased of those manufactures and services such as iron, steel, aluminum, and shipping requiring a large input of either fuel oil or thermoelectricity. In spite of, and possibly because of rising prices, the continued availability in sufficient quantity and liberal use of these resources have, for the time being, become rather difficult both in developed and developing countries. But the impact of the short supply and skyrocketing prices of these commodities appears to be more pronounced in the developing world, as developed countries have increasingly been concerned with meeting their domestic requirements first and been inclined to pass on any price increases to the former.

It is difficult to predict if the trends of quantitative restrictions and skyrocketing prices both in developed and developing Asian countries will continue indefinitely,

because of the degree of unpredictability of the world oil crisis. It is likely, however, that the high prices in these countries, once reached in the crisis, will tend to stay put and even increase more, reflecting persistent worldwide inflation. It would then be an added burden to the developing countries in this region, most of which are not endowed with an abundance of valuable resources. But it is noteworthy that the terms of trade for the few developing Asian countries exporting crude oil in large quantities have improved perceptively in recent years, in spite of inflationary price increases of the manufactured commodities they import from developed countries. With the policy of natural resources conservation becoming increasingly accepted in both developed and developing countries, it will not be too far from valid to predict that those developing Asian countries rich in natural resources will possibly improve their balance of trade and payments a great deal and that there will be a wider gap in overall economic growth rates and per capita income growth rates between the resource-rich and the resource-poor developing countries of Asia.

Whatever the changes in the patterns of international trade for the developing Asian countries, it is quite notable that their total exports grew from U.S.$7.8 billion to U.S.$16.6 billion during the period 1960–71, while their total imports increased from U.S.$10.1 billion to U.S.$21.6 billion during the same period. No doubt, had it not been for rapid economic, industrial and per capita income growth in the developed countries, such an enormous increase in exports would have been impossible to achieve. By the same token, had it not been for rapid increases in private investment including suppliers' credits and official bilateral and multilateral assistance from the advanced countries, or had it not been for such enormous flows of external resources which enabled the developing Asian countries to enhance their purchasing power and derive necessary foreign exchange, the high rate of import expansion would have been extremely difficult to achieve, and avoidance of huge trade deficits year after year would have been impossible in these countries. Thus, the increased volume and changing patterns of international trade for the developing Asian countries are inextricably interwoven with the increased volume and changing patterns of foreign private investment and official assistance coming from the developed countries of this region. It may be no exaggeration to say that in the postwar period the former has been influenced in large measure by the latter which in turn has been determined by changing economic structures and policies of the industrialized countries in Asia, Europe, and North America. We shall come back to this point later in Section III.

B. *Changing Patterns of Foreign Private Investment*

On the investment side, numerous changes have taken place in the postwar period. First, rapid increases have been observed since around 1960 in the inflow of long-term private capital from abroad; quite a contrast to the picture during the late-1940s and 1950s. Secondly, unlike the prewar situation, the flow of direct investment has been much larger than that of portfolio investment from abroad. Thirdly, the sources of supply of foreign capital and technology into Asia have been more diversified than in the prewar period when they tended very much to be

limited to colonial powers. The predominance of direct foreign investment in mining and manufacturing rather than in the primary and infrastructural sectors has been the fourth major change from the prewar pattern of overseas investment flows to the region. Fifthly, an increasingly significant part of foreign private investment in production facilities in Asia has been in the form of joint-venture undertakings with local partners rather than wholly-owned foreign subsidiaries, with multilateral and bilateral ownership increasing steadily. Behind all these observed changes, however, there has been one unchanging basic feature in the pattern of foreign investment in Asia: a continued high visibility of foreign enterprises, particularly in the modern, high-growth sectors. The fear among different segments of the population in developing Asian countries of possible foreign domination of their national economies has persisted ever since prewar days, though in a varying degree from country to country and in different periods.

In 1972 the flow of private capital to the developing Asian countries is estimated to have reached more than U.S.$1.4 billion and it is expected to grow steadily during the 1970s.[3] It has been estimated that by the end of this decade Japan's overseas investment in this region alone will reach the figure that all developing Asian countries combined received from abroad last year. The rapid pace of inflowing private capital from overseas became conspicuous in the region in the early 1960s, more so in the mid-sixties. In 1961 the annual flow of private capital to the developing Asian countries totaled only U.S.$131 million, or less than one-tenth of the figure for 1972 (see Table VII). It rose to over one-half of U.S.$1 billion in 1965 after a three-year period of a steady flow of about U.S.$300 million per annum. Since 1967 it has been rising by approximately U.S.$200 million a year. The total net flow of private capital to the developing Asian countries reached U.S.$5 billion for the period 1960–69, quadrupling for the 1970 decade.

The above picture of foreign private investment in developing Asian countries since the early 1960s is quite a contrast to the preceding postwar era when the annual flow never reached even U.S.$100 million. Several reasons can be advanced for such a drastic change in the picture. Except in a few countries, the national zeal for political independence and the right to self-determination swept the region immediately after the War. In an effort to minimize any possible influences of foreign colonial powers, most developing Asian countries attempted to keep off any new inflow of foreign private investment and rely heavily upon official bilateral and multilateral flows for their infrastructural and other development. Some countries even adopted the policy of nationalization of foreign private enterprises operating in various important sectors of their economies. Thus, the net outflow rather than inflow of private capital was a common feature during those days. Also,

[3] The flow of private capital consists of those of private financial resources in the form of foreign private investment and export credits supplied by the private sector. Foreign private investment takes the following forms: direct investment and indirect investment. Direct investment is equity investment, while indirect investment is composed of long-term loan investment and portfolio investment. Export credits with maturity of one year or more alone are included in the flows of private capital. Export credits supplied by government and semi-government financial institutions are classified under "other official flows" in the DAC statistics.

TABLE VII
NET FLOWS OF LONG-TERM FINANCIAL RESOURCES TO DEVELOPING ASIAN COUNTRIES, 1960–68

(U.S.$ million)

Year	Total	Official Bilateral[a]	Multi-lateral[a]	Private[b]	Percentage Shares		
					Official	Multi-lateral	Private
1960	2,154	1,916	73	165	7.7	3.4	88.9
1961	2,086	1,867	88	131	6.3	4.2	89.5
1962	2,421	1,971	137	313	12.9	5.7	81.4
1963	2,760	2,311	153	296	10.7	5.6	83.7
1964	2,885	2,421	163	301	10.4	5.7	83.9
1965	3,447	2,540	341	566	16.4	9.9	73.7
1966	3,409	2,638	295	476	14.0	8.7	77.3
1967	4,187	3,100	365	722	17.2	8.7	74.1
1968	—	—	—	914	—	—	—
Total 1960–67	23,347	18,764	1,615	2,970	12.7	6.9	80.4
Total 1960–68				3,884			

Source: United Nations, *Economic Survey of Asia and the Far East, 1970* (Bangkok, 1971), p. 12.

[a] Includes South Asia and Far East regional totals plus Iran. Official bilateral flows are limited to those originating from the OECD/DAC countries.

[b] Direct investment and long-term loans, including export credits, received by Burma, India, Indonesia, Iran, Khmer Republic, Republic of Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Republic of Viet-Nam.

on the investor side, neither interest nor capability was exhibited by private enterprises in developed countries except the United States in undertaking overseas investment during the first several years after the War. They were preoccupied with sheer survival in a period of violent economic and social upheaval in their countries.

In the late 1950s, however, notable changes occurred both in developing Asian countries and in the major developed countries in which foreign private investment was most likely to originate. Confronted with growing unemployment, dwindling foreign exchange reserves and rising expectations among the masses of people for a higher level of living, many developing countries of Asia embarked on a road to industrialization through import substitution. For those countries lacking any one of such factors as risk-taking capital and entrepreneurship, industrial technology and management know-how, or foreign exchange, it was a logical step for their governments to encourage the inflow of private foreign capital in the form of direct investment and longer-term loan investment. Aside from raising tariffs and non-tariff barriers against foreign imports, many investment incentives were offered to private investors, both domestic and foreign, coming into those pioneer or promoted industries, mainly manufacturing. They took the form of tax and tariff reduction and/or exemption as well as special loans and subsidies on the import

of industrial materials, machinery and equipment, and technology. Often countries of the developing Asian region competed with each other and with those in other developing regions for a greater inflow of foreign private investment by offering larger incentives. Many developing countries in the region also made a rather liberal use of export or suppliers' credits to meet the rising import demand coupled with balance-of-payments deficits.

By mid-fifties Japan and Western European countries, once shattered by the War and its aftermath, re-emerged on the world economic scene to experience thereafter rapid economic growth propelled by high rates of plant and equipment investment, technological innovations, and export growth. In the process of such high growth, the demand for minerals, petroleum, and other raw materials expanded rapidly in the developed countries, since they were becoming increasingly geared to the development of resource-intensive, heavy and chemical industries. Private capital, technology, and management know-how flowed to many developing countries both in Asia and elsewhere to enable an uninterrupted supply of those mineral and other resources at a favorable cost. Secondly, as high growth continued in these developed countries over a period, the labor market became tighter, strengthening the bargaining position of workers particularly those in well-organized trade union movements. In order to keep labor cost down and remain competitive on the international market, an increasing number of manufacturers, especially in labor-intensive industries, had to expand their overseas production facilities in developing countries where labor was plentiful and efficiency wages were lower. It is to be noted in this connection that policy measures by governments of developed countries to extend and improve non-reciprocal tariff preferences on the export of manufactures from developing countries contributed to some extent to expanding private investment flows to the developing Asian region.

Thirdly, rapid economic growth and an equally rapid shift to heavy and chemical industries in many developed countries brought with it urban crowding environmental deterioration, air and water pollution. Private industry in the United States, Western Europe, and Japan has in recent years encountered increased community resistance to locating their pollution-producing manufacturing and processing plants in their own countries. Many manufacturers have thus had to spend millions of dollars on the development and installation of anti-pollution devices, and yet community resistance has hardly subsided. For this reason, many firms are now planning to locate new production facilities overseas, particularly in those developnig countries where pollution is not a major problem yet. Also, particularly in Japan, land prices have been rising rapidly and many land-intensive industries have begun to move out of the country to remain competitive on the world market. Finally, the persistence of an overvalued U.S. dollar especially since the mid-sixties and the declining profitability at home relative to those investments abroad facilitated the outflow of U.S. private capital into many parts of the world including the developing Asian region. The devaluation of the U.S. dollar in December 1971 and February 1973 seems to have wiped out much of this problem. Instead, Japanese yen and many European currencies are not overvalued, providing a stimulus

for these countries to invest overseas. A logical area for Japanese overseas investment is the developing Asian region.[4]

In prewar days, a large amount of portfolio investment was made in the development of elements of the infrastructure such as transport, power, and public utilities. Investors in the metropolitan countries heavily subscribed to the issues of governments, public authorities, and railways of developing Asian countries. In the postwar period, however, portfolio investments sharply declined, replaced by both direct investment and long-term loan capital on the one hand, and official bilateral and multilateral flows on the other (see Tables VII and VIII). The former has been

TABLE VIII
PRIVATE FOREIGN INVESTMENT IN AND LONG-TERM LOANS TO SELECTED ASIAN COUNTRIES, 1960–69

(U.S.$ million)

Country	Direct Investment	Long-term Loans[a]	Total	Share of Loans in Total (%)
Ceylon	2.05	1.10	3.15	34.92
Iran	592.30	70.90	663.20	10.69
Korea, Republic of	66.60	1,188.30	1,254.90	94.69
Pakistan	159.17	356.66	515.83	69.14
Philippines	33.10	637.30	670.40	95.06
Taiwan	184.60	448.30	632.90	70.83
Thailand	278.50	819.90	1,098.40	74.64
Viet-Nam, Republic of	18.24	14.10	32.34	43.59
Total	1,334.56	3,536.56	4,871.12	72.60

Source: United Nations, *Economic Survey of Asia and the Far East, 1970* (Bangkok, 1971), p. 13.

a Private loans of all types with maturity of one year or more, including export credits.

found mainly in plantation agriculture, mining, manufacturing, finance, and commerce, the latter for the most part in infrastructure development. The sharp rise in the importance of direct and loan investment rather than portfolios reflects three postwar phenomena in the developing Asian region: the predominance of U.S. investments traditionally in the form of direct investment, the growing importance of Japanese investment relying heavily on loan capital, and the policy of the governments of developing Asian countries to encourage the inflow of foreign direct invest-

4 Under the worldwide floating exchange rate system, Japanese yen, German marks, French francs, and many other European currencies hit their respective peaks in relation to the U.S. dollar in February–March 1973. After several months of generally downward rate adjustments, these currencies took a sudden plunge in relative value upon the announcement by Arab states of a scheduled reduction in the supply of crude oil. Central banks in many countries are intervening in the foreign exchange market to prevent devaluation of their currencies for fear that it will aggravate the imported inflation which has already reached serious levels.

ment into the secondary sectors, while limiting foreign equity participation on a minority basis.

Not only in the developing Asian region but also in many other parts of the world, U.S. investments typically have been in the form of direct rather than loan investments, and oftentimes wholly-owned or majority-owned subsidiaries. This characteristic of U.S. overseas investment arises mainly from the strong bargaining position U.S. corporations held in the postwar period and the fact that they tend to operate with more advanced technologies a full control of which is essential to maintaining both secrecy and competitive advantage. There is no doubt, too, that foreign subsidiaries under central management not only yield better corporate performance but also is nearly a prerequisite in the light of worldwide business and marketing strategies in which multinational corporations are invariably engaged. And as U.S. investment predominates foreign private investment in the developing Asian region in the postwar period, direct investment rather than loan or portfolio investments has emerged as the dominant form of foreign investment in this region. Developing countries of Asia, on the other hand, are increasingly demanding either joint-ventures or majority local ownership of foreign direct investment.

The predominance of long-term loan capital in Japanese investment in developing Asian countries stems mainly from two features: a comparatively high proportion of investment in primary and tertiary sectors and a high gearing ratio practiced generally by Japanese firms in the postwar period. As observed with production sharing plans in Indonesia, loan participation has often been more dominant than equity in Japanese mining and timber investment. With a greater degree of commercial risk involved and with a larger amount of capital required in the primary sector investment, firms participating in such undertakings would usually find it much easier to finance them through the medium of long-term loans guaranteed either by government or by public financing institutions than that of equity investment. Also, in mining investment, goverments of many developing Asian countries would prefer loan to equity participation, as natural resources are considered national assets to be parcelled out to foreign investors only in the form of mining rights. In the banking, insurance, trading, and service sectors, foreign direct control through equity participation is a must in running subsidiaries, as they constitute a worldwide network of servicing organizations and marketing arrangements under centralized management. However, the type of business is such that those enterprises would require a minimal amount of equity capital, with their large financing requirements usually met by loans made available in transactions.

Furthermore, Japanese firms accustomed to operating on a high gearing ratio at home tend to duplicate such financing patterns in their overseas investment, partly because of their long-standing preoccupation with high rates of corporate growth rather than high rates of profit. This corporate financing strategy is being accentuated by the awareness of these primarily import-substituting firms in developing Asian countries that their domestic markets are relatively small and slow to expand.

The rising importance of direct and loan investments in the developing Asian region is also related to the particular policy orientation taken by various regional

governments with respect to industrialization and foreign investment. Lacking sufficient risk capital at home, most governments in the region decided to mobilize foreign capital in financing extractive and secondary industry investments. What they required, however, was not only and probably not so much a long-term capital financing but the direct foreign investment which combined capital, technology, entrepreneurship and management know-how, and later markets abroad. Long-term loan investments from abroad, plentiful in these countries, have thus been made in conjunction with such direct equity investments, and not in the form of portfolios as in prewar days. However, as foreign investment grew rapidly in many countries in the region and became dominant in the modern, high-growth sectors, the policy of limiting and structuring foreign capital participation as long practiced by Japan in its industrialization process is becoming more widely accepted by various governments. It is quite probable that the importance of minority foreign equity participation and loan capital may rise significantly in the foreseeable future in the developing Asian region. This trend will certainly be accelerated if the developed world should come to grips with the philosophy of economic nationalism now resurging in the developing world as a necessary, positive step forward in the narrowing of the North-South gap and in eventual world economic integration. Along with this emerging trend, portfolio investment may again become a more important component of foreign private investment in the 1970s and 1980s, as

TABLE IX
DIRECT INVESTMENT AND OTHER PRIVATE CAPITAL FLOWS (NET) FROM OECD COUNTRIES TO DEVELOPING ASIA

(U.S.$ million)

Year	Total Asia	United States	United Kingdom[a]	France	Federal Republic of Germany	Italy	Japan	Others
1936–39		348	1,741	419	10	10	732	1,769
1960	320	175	—	5	3	5	60	72
1961	292	147	—	5	9	7	82	42
1962	103	45	—	1	3	9	44	1
1963	271	212	—	6	10	−8	51	—
1964	301	254	—	5	—	4	37	1
1965	884	702	—	82	24	14	52	10
1966	462	264	34	69	18	18	58.5	4
1967	858	556	—	77	134	15	72	4
Total	3,491	2,355	34	250	201	61	456	134
Percentage[b]	100	67.3	1.0	7.2	5.8	1.8	13.1	3.8

Source: United Nations, *Economic Survey of Asia and the Far East, 1970* (Bangkok, 1971), p. 13.

Note: As far as possible, the data include estimates for re-invested earnings. The data exclude guaranteed private export credits and unallocated investments.

[a] The British investment abroad, as shown in the OECD table, was most probably included in the unallocated class. This table therefore gives an underestimate of British foreign investment.

[b] Since this table excludes British investment for most years, the percentage share of other countries are correspondingly overestimated.

organized capital markets and financial instrumentalities develop in these developing countries.

In postwar Asia, the source country picture of new foreign investment has undergone some dramatic changes. Metropolitan countries are no longer the sole and major foreign investors. The United States investments, instead of the British, are pre-eminent nearly everywhere in the region, reflecting the economic and technological supremacy, capital surplus, high wages, and the overvalued dollar of the United States relative to the other major developed countries. As for Japanese investments, they have already become rather conspicuous in many countries of the region, regardless of its colonial legacy and wartime adversities. German investments, relatively new in Asia, have also been steadily rising in a number of countries. The increased flows of French and Italian private capital to the developing Asian region have for the most part been due to the rapid increase in their export credits rather than in direct investments. The Dutch have been gradually regaining lost ground in Indonesia and spreading investments elsewhere in the region (see Table IX). Overseas Chinese investments omnipresent in Asia, particularly in Southeast Asia have also been expanding quite significantly not only in traditional lines of business activity but in the manufacturing sector. Long-term investments by Arab states may become in the foreseeable future a significant element in the developing Asian region, as they accumulate huge oil dollar reserves and organize investment financing institutions to utilize such capital surplus at home and abroad.

The diversification of source countries in the postwar era coincides with, and results partly from, the new government policy in developing Asian countries in the early 1960s of lessening traditional economic dependence upon metropolitan countries and also in late 1960s of positively diversifying their external economic linkages so as not to be overshadowed by any single developed country. Aside from the political implications, a high dependence of an economically smaller-scale and weaker developing country upon any one developed country accentuates the element of instability in the former as caused by cyclical fluctuation, structural change, and policy shift in the latter.

Unlike prewar days when a dominant part of metropolitan investments were found in plantation agriculture, mining, and infrastructural sectors, the postwar era has seen foreign private investment flowing mainly in manufacturing and related sectors as well as mining and timber development. In the manufacturing sector, such light industries as food, beverages, textiles, paper, and wood products have attracted most numerous foreign investment projects, while heavy industries such as chemical, petroleum, basic metals, electrical machinery, and transportation equipment manufacturing have required the largest flow of capital, technology, and management know-how from abroad (see Table X). With the exceptions of basic metals and petroleum refining, those industries which attracted the most foreign investment are consumer-goods sectors which have been encouraged to develop to substitute much of the traditional imports from developed countries. Many of these industries have a ready access to raw materials and represent, with a few exceptions, the labor-intensive manufacturing sector. In other words, foreign private investment in the developing Asian region has been found mainly in those sectors where

TABLE X
FOREIGN INVESTMENT IN SELECTED ASIAN COUNTRIES BY INDUSTRY, 1968 AND 1969

Industry Group	Indonesia 1969 (US$mil.)	Malaysia 1969 (M$1,000)	Philippines 1969 (P 1,000)	Singapore 1968 (US$1,000)	Thailand 1969 (US$1,000)
Forestry	352.85	—	137,259	—	—
Fishery	8.00	—	33,759[f]	—	—
Mining	535.20	—	237,159	—	60
Food	—	50,205.9	23,190		
Beverages	—	17,973.0	—	12,525	
Textiles	35.50	13,344.2	—		14,290
Footwear & apparel	—	3,706.5	—	16,221	14,850
Wood products[a]	—	1,821.9	3,860[g]		2,260[j]
Furniture & fixtures	—	1,386.7	—	—	—
Paper & paper products	—	135.5	62,446	3,303	—
Printing & publishing	—	2,965.9	—	—	—
Leather & leather products	—	950.0	—	—	—
Rubber products	—	4,020.1	—	11,790	—
Chemical & chemical procucts	15.05	43,320.0	97,807	10,235	6,730
Petroleum & coal products	—	99,664.5	—	81,522	—
Non-metalic mineral products	—	12,045.0	—	4,203	—
Basic metal industry	—	25,616.7	—	23,928	—
Metal products[b]	—	9,363.3	—	—	8,460
Machinery[c]	—	1,780.0	—	—	—
Electric machinery	—	14,355.9	3,068	6,098	1,290
Transport equipment	—	1,655.0	2,555[h]	—	9,990
Plastic products	—	—	—	1,237	—
Miscellaneous manufacturing	95.13[d]	2,009.3	80,539[i]	4,165	10,560
Real estates & housing	15.53[e]	—	—	—	—
Trade	3.80	—	—	—	—
Infrastructure	3.10	—	—	—	—
Hotel	10.49	—	—	—	1,790[k]
Estate & agro. business	10.52	—	—	—	—
Communications & transportation	7.64	—	—	—	—
Total	1,092.81	306,319.4	910,486	175,227	70,200

Source: Asia Development Bank, *Southeast Asia's Economy in the 1970's* (London: Longman, 1971), pp. 501-10.

[a] Except furniture and fixtures.
[b] Except machinery & transport equipment.
[c] Except electrical machinery.
[d] Light industry and basic industry.
[e] Including recreation services.
[f] Marine products.
[g] Fiber bags.
[h] Communication equipments.
[i] Synthetic bags (9,578); ramie integrated (6,724); activated carbon (200); cassava starch (1,150); coconut oil (17,109); processed coconut products (14,635); cornstarch (18,944); ceramics (12,201).
[j] Including pulp product.
[k] Including services.

it has ready access to market and productive inputs required and is more competitive than their source country and other foreign counterparts. Also, foreign investment has been conspicuous in those industries where it has comparative advantage over host country competitors. However, excessive emphasis on industrialization on the part of some policy makers and industrialists as well has led in some cases to the inflow of foreign capital into those sectors in which none of those comparative advantages exists, requiring instead a high level of protection at the expense of an optimum allocation of resources in the national economy.

Confronted with a deteriorating balance of trade and payments in the process of industrialization, many developing Asian countries have now shifted their emphasis from import substitution to export promotion. And special investment incentives have been offered to those domestic and foreign investors that contribute to increased export earnings. Multinational corporations with an international network of information, technology and other inputs, and marketing are thus welcome in some countries more than those foreign investors with limited resources. In most countries of the region, certain industries have been closed to foreign investors by government policy, e.g., defense, radio and television broadcasting, telephone and telegraph, and public utilities. A recent trend shows that an increasing number of governments in the developing Asian region have become more cautious in keeping every industry open to foreign capital, particularly when the latter comes in the form of wholly-owned or majority-owned foreign subsidiaries. This is, as mentioned earlier, mainly due to the steady emergence of national entrepreneurs and industrialists in these developing countries on the one hand, and to the rising fear among the population of foreign economic domination on the other.

Joint ownership is a predominant pattern of foreign private investment in developing Asian countries, particularly in those pioneer or promoted industries (see Table XI). Its pattern, however, differs greatly among host and source countries as well as among industries. In more industrialized developing countries the laws and regulations on foreign ownership and control are not strict and foreign investors often have majority ownership, while in others majority ownership is invariably in the hands of local partners. As repeatedly said, an increasing number of governments in this region have adopted, as a matter of principle, the policy of minority foreign ownership, withholding permits from new applications for wholly or majority foreign-owned operation and encouraging the majority foreign-owned to divest portions of their ownership.

Regarding variation by source country, the United States investments are likely to be found for reasons mentioned earlier more among wholly or majority foreign-owned than among the minority foreign-owned. In contrast, the Japanese firms investing in developing Asian countries are predominantly jointly owned by local partners that often happen to be majority owners. British and other European investors prefer full or majority ownership and control of their subsidiaries in the region.

Full or majority foreign ownership appears more prevalent in those industries where high and advanced technologies are involved and where international marketing orientation calls for stricter brand management and quality control.

TABLE XI
FOREIGN DIRECT INVESTMENT IN SELECTED DEVELOPING ASIAN COUNTRIES, BY TYPE OF OWNERSHIP, 1970

Type of Ownership	India[a]		Indonesia		Malaysia[b]	
	Number	Amount	Nnmber	Amount	Number	Amount
Wholly foreign-owned	n.a.	387.5	86	432.9	n.a.	357.8
Joint enterprises	n.a.	546.5	220	341.3	n.a.	889.8
Foreign-controlled		410.4				347.2
Locally-controlled		136.1				542.6
Mining contracts	n.a.	n.a.	9	535.5	n.a.	n.a.

Type of Ownership	ROK[c]		Singapore[c]		Thailand	
	Number	Amount	Number	Amount	Number	Amount
Wholly foreign-owned	n.a.	31.9	25	n.a.	n.a.	9.25
Joint enterprises	n.a.	151.3	62	n.a.	n.a.	61.04
Foreign-controlled		128.8	34			52.68
Locally-controlled		22.5	28			8.36
Mining contracts	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: United Nations, *Economic Survey of Asia and the Far East, 1970,* pp. 37, 39, 46, 51, and 59; and Helen Hughes and You Poh Seng, *Foreign Investment and Industrialization in Singapore* (Madison: University of Wisconsin Press, 1969), p. 214.
Note: Data for India refer to outstanding direct foreign business investment for the period 1955–67, for Indonesia approved foreign investment for the period 1967–November 1970, for Malaysia the book value of net assets as of 1968, for the Republic of Korea direct foreign investment as of the year ending October 31, 1970, for Singapore the number of pioneer foreign firms as of 1966, and for Thailand the total registered capital of foreign direct investment firms in operations promoted over the period 1959–69.
[a] Figures for wholly foreign-owned, foreign-controlled, and locally-controlled joint enterprises are those for the Indian branches of foreign companies, the foreign subsidiaries controlled by foreign companies, and the foreign affiliates with controlling interest in the local partners, or shareholders' hands.
[b] Figures for wholly foreign-owned, foreign-controlled, and locally-controlled joint enterprises are those for the Malaysian branches of foreign companies, the foreign-controlled, and the locally-controlled Malaysian limited companies.
[c] Figures for wholly foreign-owned, foreign-controlled, and locally-controlled joint enterprises are those for the 100 per cent foreign-owned, the 50–100 per cent foreign-owned, and 1–50 per cent foreign-owned.

Thus, the fact that Japanese investors do not show any particularly strong preference for full or majority Japanese ownership and control of their investment projects reflects not so much the basic characteristics of Japanese nationals as the lack of high technologies and international marketing involved in such investment. This suggests that as these factors of high technology and international marketing become increasingly important in Japanese overseas investments in the future in keeping with the growing demand for such among developing Asian countries, Japanese investors will begin to have a greater interest in obtaining or retaining

full or majority ownership by them. It is to be noted in passing that Japanese investors are able to accept such a restrictive policy on foreign ownership as increasingly advocated by developing Asian countries more readily than many other foreign investors, probably because of their long exposure to their own government's restrictive foreign investment policy.

One of the emerging features of private foreign investment in the developing Asian region has been a growing incidence of multilateral ownership of such investment projects. Not only in the host country, but also in the source country more than one investor is involved in setting up such joint enterprises. At times two or three investors of different nationalities participate in such undertakings on the foreign side, while at other times foreign enterprises themselves become local partners in host countries. Two reasons may be advanced for the emergence of such multilaterally-owned foreign investments. The size of capital investment required, for example, in various mining development projects has now become so huge that no company is able to finance them by itself. This is particularly true of offshore petroleum exploration and production projects. In such projects, the dispersion of great risks involved also requires multilateral rather than bilateral ownership, although the day-to-day operation of such joint enterprises might be left to a management company on a fee or profit-sharing basis. As seen in a complicated, large-scale petro-chemical complex, multilateral ownership may also result from the need for pooling certain specialized technologies, know-how, raw materials, and markets to make such a complex viable. As size and complexity of foreign investment projects increase so as to require multilateral ownership, the question inevitably emerges of integrating national markets on a regional or subregional basis while guarding against the formation of private monopolies in national and regional markets, all this requiring an increased amount of government planning and coordination in foreign investment in the developing countries of Asia. We shall expound later in Section III on this and several other major problems associated with the changing patterns of foreign private investment in this region during the 1960s and possibly in the 1970s.

C. *Changing Patterns of Development Assistance*

As with private investment flow from abroad, rapid increases have been noted in the postwar era in the flow of official financial resources from developed countries to the developing Asian region.[5] Secondly, while the concentration by country has been conspicuous on the recipient side on a broad range of financial flows, it has been far less noticeable on the donors' side. Thirdly, the process of multilateralization of official assistance has been steadily going on in the region as elsewhere through worldwide and regional banking and financing institutions and arrange-

[5] The flows of official financial resources from developed to developing countries and international organizations consist of official development assistance and other official flows. Major types of official development assistance are official bilateral grants, bilateral and multilateral long-term loans. Major types of other official flows are official export credits and loans to international financial institutions. Development assistance or aid combines both official development assistance and other official flows, and excludes all types of private flows.

ments. Finally, the terms and conditions of official assistance to this region have been steadily improving as a result of bilateral and multilateral efforts on the regional and worldwide basis. Behind all these observed changes, however, there has been one unchanging basic feature in the postwar pattern of development assistance in Asia; the volume, type, direction, and the terms and conditions of development assistance are determined primarily by the changing need and financial capability of donor countries rather than by the changing requirements of recipient countries. Thus, a widespread impression is inevitable that development assistance, while contributing in some measure to the economic and social development of recipient countries, has also frustrated the development process and often deepened socioeconomic problems in these developing countries, and that developed, donor countries probably had more to gain from such development assistance than the recipients.

The flow of official financial resources from the developed to the developing countries has seen a steady increase during the postwar period. Such flows from the member countries of the Development Assistance Committee (DAC) of the OECD alone increased from U.S.$4.9 billion to U.S.$7.9 billion on an annual basis between 1960 and 1970, totaling U.S.$71.4 billion on the net accumulated basis. During the same period, the developing Asian countries received approximately U.S.$30 billion from the DAC countries in the form of official assistance which rose on an annual basis from U.S.$2 billion to U.S.$3.2 billion, as shown earlier in Table VII. Particularly significant has been the increase in long-term official loans and export credits, rising rapidly from U.S.$439 million and U.S.$233 million to U.S.$2,785 million and U.S.$1,012 million, respectively, between 1960 and 1971 on the annual worldwide DAC basis. On the contrary, the comparable figures on bilateral official grants during the same period declined, though only slightly, from U.S.$3,692 million to U.S.$3,681 million.

Unlike prewar days when metropolitan countries were the major donors of official grants and loans, the flow of official financial resources to the developing Asian countries during the postwar period has been from practically all developed countries including the socialist nations. The major donors to this region have been the United States, Japan, West Germany, the United Kingdom, France, Canada, Australia, and the Netherlands. During a recent three year period, 1969–71, the United States contributed more than one-half of the total official bilateral development assistance received by the developing Asian countries. The corresponding figures were not significant for any of the major donors, except for Japan, West Germany, and the United Kingdom (see Table XII). Conversely, 99.3 per cent of the net flow of official bilateral development assistance provided by Japan in 1971 went to the developing Asian region, registering by far the highest proportion of all the DAC countries (see Table XIII). It is likely that in the 1970s the proportion of Japanese official assistance flowing to this region will slowly decline, resulting also in a steady decline in the Japanese share of total development assistance received by the region. This trend has already been observed for U.S. official assistance to the developing Asian region. Reflecting the growing political strains in the region, both the United States and Japan on the donors' side and all the

TABLE XII
RELATIVE SHARES OF MAJOR DONORS IN TOTAL NET FLOWS OF BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE BY AREA, 1969-71

(%)

Country	Africa			Asia			Latin America		
	1969	1970	1971	1969	1970	1971	1969	1970	1971
France[a]	41.7	41.3	36.8	2.0	2.4	2.9	18.0	19.3	22.9
Japan	0.3	0.7	0.8	12.8	13.4	13.3	−1.6	−1.7	−1.4
U.K.	10.1	9.7	8.4	4.8	6.0	7.1	4.0	4.2	7.5
U.S.A.	21.0	19.7	20.5	64.3	57.6	55.1	66.2	58.5	51.3
West Germany	8.3	9.3	8.6	6.6	7.0	8.4	8.1	10.0	10.0
DAC Total[b]	1,313	1,292	1,525	2,707	2,819	3,220	846	867	820

Source: OECD, *Geographical Distribution of Financial Flows to Less Developed Countries, 1970–71.*

[a] The figures for France are those for 1970.

[b] The figures for the DAC total are in U.S.$ million.

TABLE XIII
AREA DISTRIBUTION OF NET FLOW OF BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE BY MAJOR DONORS, 1971

(%)

Country	Africa	Asia	Europe	Latin America	Oceania	Others	ODA[a] Flow
France[b]	58.5	9.8	2.3	19.5	6.1	3.8	971.0
Japan	3.0	99.3	−0.2	−2.6	—	0.5	510.7
U.K.	26.2	47.3	4.7	12.6	4.2	4.9	560.7
U.S.A.	10.8	61.3	2.9	14.6	1.9	8.6	3,324.0
West Germany	24.8	51.3	4.1	15.5	—	4.2	734.2
DAC average	23.7	50.1	2.9	12.7	4.3	6.3	7,717.8

Source: OECD, *Geographical Distribution of Financial Flows to Less Developed Countries, 1970–71.*

[a] The figures for ODA flows are in U.S.$ million.

[b] The figures for France are those for 1970.

developing Asian countries are increasingly concerned today with the widely recognized need for reducing the high visibility of these two largest donors in their respective countries. It is to be noted, however, that lowering U.S. and Japanese visibility in this region depends significantly upon the policy of the other major donors with respect to development assistance to Asia. It also depends highly on type, terms, and conditions of such development assistance, or the degree to which the latter meets the economic and social requirements of the individual recipient countries in the region.

In the developing Asian region, India, Indonesia, Pakistan, South Korea, and South Vietnam have been the five largest recipients of official development assistance from the DAC countries since 1960, while India, Iran, Mongolia, North Korea, North Vietnam, and Pakistan have been major recipients of aid from the socialist countries of Asia and Europe (see Table XIV). A high proportion of official

TABL XIV
NET INFLOW OF LONG-TERM CAPITAL AND OFFICIAL DONATION TO DEVELOPING ASIAN COUNTRIES, 1960–68

(U.S.$ million)

Country	DAC Countries			Planned Economies Official Commitment 1954–71
	Official Receipts[a]	Private Receipts[b]	Total	
Burma	174	12	186	124
India	7,959	76	8,035	1,975
Indonesia	1,672	32	1,704	501
Iran	745	528	1,273	987
Malaysia and Singapore	210	639	849	—
(Singapore)[c]	(3)	(51)	(54)	—
Mongolia	—	—	—	1,115
North Korea	—	—	—	1,230
North Viet-Nam	—	—	—	3,877
Pakistan	3,191	449	3,640	857
Philippines	461	203	664	—
South Korea	1,404	985	2,389	—
South Viet-Nam	1,766	−1	1,765	—
Sri Lanka	214	−8	206	175
Thailand	388	513	901	—
Total	18,187	3,479	21,666	10,842

Sources: United Nations, *Economic Survey of Asia and the Far East, 1970*, p. 12; and Japan, Ministry of International Trade and Industry, *Present Status of Economic Cooperation and Its Problems, 1972* (Tokyo: Government Printing Office, 1973), p. 52.
[a] Includes grants and long-term public loans.
[b] Includes direct investments, long-term private loans, and export credits.
[c] 1965–68 only.

assistance to these developing countries has flowed into the reconstruction and expansion of the economic and social infrastructures either devastated by war or hitherto underdeveloped by lack of resources. Also, in some cases and over a certain period of time much of such development assistance was extended in the form of food aid, while in other cases a large portion of it was used to finance large-scale industrial development projects. For whatever reasons, the five largest recipients of DAC aid received approximately three-fifths of the total official assistance flowing to the developing Asian region during the 1960s. In these and other developing countries both intellectuals and youth have begun to question the desirability of an increased dependence upon external resources, official or private, in promoting their economic and social development, particularly in the light of both their continuously rising debt-servicing burden and widening economic disparities as well as the successful experiences in China of the great leap forward through self-reliance.

Multilateralization of official assistance made significant progress during the 1960s. On the worldwide DAC basis, multilateral assistance increased from U.S.$601 million to U.S.$1,379 million between 1960 and 1970, against the growth

of bilateral assistance from U.S.$4,364 million to U.S.$6,320 million. In the developing Asian region, multilateral assistance grew on an annual basis from U.S.$73 million to U.S.$500 million during the same period, a sevenfold increase against the less than twofold increase in bilateral assistance. Multilateral assistance has grown partly in supplement to and partly in place of bilateral. Many developing countries receive ever increasing bilateral assistance from a limited number of developed countries and fear the possible political encroachment upon their sovereignty in domestic and foreign policy decisions. Many donors have multilateralized their official assistance partly to avert the risk of bad debts and expropriation, and partly to lessen their visibility in recipient countries which might quite possibly lead to bilateral political strains. It is also being claimed that donor countries could exercise a greater degree of fiscal discipline on recipients without a backlash by multilateralizing their official assistance. With increased contributions by the World Bank group, the Asian Development Bank and the United Nations Development Programmes and other specialized agencies, multilateralization of official assistance is expected to grow steadily during the 1970s and 1980s. In view of the growing importance of multilateral assistance in the future, the question of improving aid efficiency and effectiveness will be a matter of greater concern to all developed and developing countries.

Though there has generally been steady improvement made in the terms and conditions of official assistance both on a world-wide and regional basis, it has never been a uni-directional one. While the proportion of the official development assistance in the form of grants has declined rather considerably over the years, remarkable progress has been made in the average length of maturity, interest rates, grace period and in the grant element as per cent of total official loans. Because of the predominance of U.S. development assistance in the developing Asian region, variations over the years in the terms and conditions of the U.S. official assistance, which tended to harden in recent years, have affected the total picture considerably. It is noteworthy, however, that the rapid expansion of Japanese official assistance with improved terms of long-term loans and export credits during the late 1960s and early 1970s has given a significant lift to many developing Asian countries highly dependent on such assistance. In this connection, a fast rundown in Japanese foreign exchange reserves from a peak of U.S.$19,067 million to U.S.$12,246 million between February and December 1973 and a continued, large deficit in its balance of payments predicted for 1974 and 1975 may well retard or even reverse such a pace of improvement in the coming few years. Instead of Japan, oil-rich Arab countries and others with huge oil dollar reserves may become increasingly important in the developing Asian region as donors of softer-term official assistance.

One of the persistent features of the official bilateral assistance, regardless of grants or loans, provided by most donors has been found in that it is tied to the purchase of goods and services from the donor country. This basic feature of development assistance indicates that it has been extended by developed countries to increase their export and economic growth by giving developing countries additional purchasing power. In this respect, official assistance is identical with sup-

pliers' credits extended by commercial banks in export countries. Probably the only difference between these two types of external resources lies in the terms and conditions of such resource flows: official assistance tends to carry softer terms than the other. It is to be noted in this connection that multilateral assistance is no exception to the general rule of official bilateral assistance being tied to the donor countries. It is equally important to note, however, that most DAC countries have now pledged to untie their official development assistance steadily in coming years. Untying of official development assistance will certainly be extremely useful in doing away with many complaints held by recipients on it, e.g., overpricing of aid commodities, limited options in the kind of such commodities and services and an increased economic dependence on donors. How fast untying will proceed could be a fair test of how seriously developed countries are concerned with making their development assistance an instrument of the economic and social development of recipient countries rather than one of increasing their own exports and promoting their own economic growth. It seems quite unrealistic to predict that untied assistance will become dominant by the end of 1970s.

III. ECONOMIC STRUCTURES AND POLICIES OF MAJOR DEVELOPED COUNTRIES IN THE CHANGING PATTERNS OF ECONOMIC INTERDEPENDENCE IN ASIA

Economic interdependence between the developing Asian countries and the major industrial countries has heightened during the postwar era not only in breadth but in depth. As shown in Section II, developing Asian countries export not only traditional agricultural products but also new farm products and an increasing variety of manufactures chiefly of labor-intensive character. In response to rising demand in developed countries, they also export a wide range of timber and mineral ores as well as petroleum. In return for their exports, they import an equally wide variety of industrial products. With the rapid expansion of mining and manufacturing investments from overseas, their imports of industrial materials, parts, machinery, and equipment have seen an enormous increase both in absolute and relative terms. The policy of industrialization through import substitution and foreign private investment, plus a steady increase in the real and aspired income and consumption level among the middle and upper classes, have all induced tremendous expansion in the import of these developing Asian countries, far beyond the increases in their exports. In many countries of the region, deficits in the balance of trade and payments have grown year after year. The long-run decline in the prices of major export commodities, coupled with wide fluctuations, against the steady rise in the prices of imported manufactures from developed countries has affected this picture. Compensatory financing is not sufficient to solve the balance of payments problems, and official bilateral and multilateral assistance has been supplied to these developing Asian countries so as to meet their rising import demand. Suppliers' credits and long-term private flows are provided from abroad essentially for the same purpose. In the whole process of expanding trade, investment and development assistance, the external economic relationships of develop-

ing Asian countries are no longer limited in the main to their former metropolitan countries but are extended to any other countries that have mutual gains through such relationships. Thus, an increased, deeper economic interdependence has emerged in Asia between those developing countries and the rest of the world, and in particular major developed countries of Asia, Europe, and North America.

No doubt, an increasing degree of intensity, diversity, and complexity in the postwar patterns of economic interdependence in Asia has been a response to the dominant forces working both in those developing countries of Asia and those major developed countries. In this section we shall not deal with the forces at work in the former; instead, we shall concern ourselves more with working in the latter. As regards the dominant forces operating in developing Asian countries, suffice it to say here that various economic and social restraints have had to be taken into account in their arriving at national economic policies which in turn are crucial in determining the particular patterns of economc interdependence between them and major developed countries, and that the national preoccupation with high rates of economic growth, while contributing to achieving the stated objectives in many countries, has not solved many of the older economic and social problems handed down from preindependence days. But creating new problems, by skirting around rather than eliminating those constraints at home. A lingering hope that high growth could solve mounting domestic problems has remained wishful thinking in the developing Asian countries. It is certain today, looking back to the 1960s, that a high-growth policy alone will not be sufficient to solve persistent and growing problems of mass unemployment and underemployment, malnutrition, urban crowding, unequal distribution of income and wealth among different segments of the population, regional imbalances in development, balance-of-payments deficits and inflation, as well as economic disparities between the traditional and the modern industrial sectors. To cope with the above-mentioned problems in the developing Asian region, an integrated approach will be called for, combining monetary, fiscal, industrial, and institutional policy measures. Although the ultimate responsibility for solving these problems rests with the people and the governments of the developing countries themselves, the developed countries could contribute a great deal toward that end to the extent that they have much to do with shaping the changing patterns of trade, investment, and development assistance of the developing Asian countries today, and to the extent that they play a decisive role in bringing about desired changes in current patterns of economic interdependence in Asia through changes in their own domestic economic structures and their domestic and foreign economic policies.

One of the salient features of the current world oil crisis lies in the fact that developing countries themselves could initiate those desired changes in the domestic economic structures and the domestic and foreign economic policies of the major developed countries through their own concerted efforts in scheduled reduction of crude oil supply and repeated hikes of crude oil prices. Changes triggered by the member countries of the Organization of Petroleum Exporting Countries (OPEC) and the Organization of Arab Petroleum Exporting Countries (OAPEC) are bound to affect the current patterns of economic interdependence facing them and have

a spillover effect upon the current patterns facing the developing Asian countries. As shown in this case, the developing countries that can exploit a monopolistic position need not wait indefinitely for developed countries to initiate desired changes in their economic policies and patterns of external economic relations as well. Those developing countries that cannot, however, will have to rely upon either the developed or the developing, or both for such changes. In order to prevent aggressive and retaliatory actions on either side from plunging world trade, investment and economy into confusion, the desired patterns of economic interdependence in any region will have to be worked out with the fullest possible cooperation among all countries involved on the basis of an agreed grand design of world economic development and an agreed set of rules of international economic relationships governing currency, trade, investment, development assistance, and energy and other natural resources.

A. *Economic Structures and Growth*

Two of the major domestic forces at work in developed countries that have had much to do with the shaping of the changing patterns of economic interdependence in Asia during the postwar period are changing economic structures and steady economic growth. The high level of per capita income, the pattern of personal consumption associated with such high incomes, the particular set of factor proportions and relative factor prices, technological changes, and high rates of productivity growth, all these factors have produced in the developed countries economic structures and production patterns highly geared to the manufacturing and service sectors in generating gross domestic product and employment opportunities (see Tables XV and XVI). With the exception of the United States, Canada, and

TABLE XV
CHANGES IN INDUSTRIAL STRUCTURE OF SELECTED OECD COUNTRIES: PERCENTAGE SHARE OF GROSS DOMESTIC PRODUCT BY MAJOR SECTORS, 1960–70

(%)

Country	Agriculture		Industry		Services	
	1960	1970	1960	1970	1960	1970
United States	4	3	37	35	59	62
Canada	6	5	35	32	59	63
Sweden	7	4	38	36	55	60
Australia	12	9	37	38	51	53
Netherlands	7	7	43	43	50	50
United Kingdom	4	3	42	40	54	57
France	9	6	48	48	43	46
Japan	13	9	44	43	43	48
Switzerland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	6	3	54	55	40	42
Italy	13	9	41	43	46	48

Source: United Nations, *Statistical Yearbook, 1971,* pp. 576–84, Table 181.
Note: Figures for Canada, Australia, and the United Kingdom are for 1969, while those for Netherlands and Japan are for 1968.

TABLE XVI
CHANGES IN INDUSTRIAL STRUCTURE OF SELECTED OECD COUNTRIES:
PERCENTAGE SHARE OF LABOR FORCE BY MAJOR SECTORS, 1960–70

Country	Agriculture		Industry		Services	
	1960	1970	1960	1970	1960	1970
United States	8.3	4.4	33.6	32.3	58.1	63.3
Canada	13.3	7.7	33.2	31.4	53.5	60.9
Sweden	14.9	8.1	42.6	38.4	42.5	53.5
Australia	11.3	8.6	40.9	38.9	47.7	52.5
Netherlands	11.5	7.2	42.3	41.0	46.2	51.8
United Kingdom	4.1	2.9	48.8	46.6	47.0	50.6
France	22.4	14.0	37.8	38.8	39.8	47.1
Japan	30.2	17.4	28.5	35.7	41.3	46.9
Switzerland	11.4	6.7	50.0	49.4	38.7	43.9
Germany	14.0	9.0	48.8	50.3	37.3	40.7
Italy	32.8	19.6	36.9	43.7	30.2	36.7
OECD Total[a]	21.9	14.4	35.5	36.9	42.6	48.6
EEC	21.0	12.8	42.2	44.6	36.8	42.6
EFTA	12.8	8.6	44.4	43.5	42.8	47.9

Source: OECD, *Report by the High Level Group on Trade and Related Problems* (Paris: OECD, 1972), Table 13.

Notes: 1. Labor force refers to civilian employment.
2. Agriculture includes agriculture, forestry, hunting, and fishing (ISIC—International Standard Industrial Classification—division 0); industry includes mining, quarrying, manufacturing, construction, and electricity, gas, water, and sanitary services (ISIC divisions 1–5); services (other activities) include commerce, transport and communication services, and others and not specified (ISIC divisions 6–9).

[a] Including Australia.

Australia where highly mechanized and productive agriculture is an important sector in the national economy throughout the postwar period comparative advantages of these developed countries vis-à-vis the developing Asian countries have lain with the manufacturing and service sectors, particularly of capital-intensive character. With wages higher and rising much faster in developed than in developing countries, the labor-intensive industries in the former have been steadily losing their international competitiveness to those in the latter. This has encouraged the developed countries not only to transplant their labor-intensive industries but also to import such products from the industrializing countries in Asia and elsewhere.

All developed countries have not reached exactly the same stage of industrial development. Consequently variations are observed among them in economic and industrial structure. For example, comparative advantage of the United States, the United Kingdom, and West Germany lies with technologically sophisticated industries in trade with other developed countries, while the comparative advantage of Japan, Canada, France, and Italy lies in nonsophisticated manufactures. Also, Canada and the United States have a comparative advantage in primary industry. Such differences among developed countries in comparative advantages have

naturally influenced their trade and investment relations with developing countries in Asia and elsewhere (see Table XVII). They also influence direct investment from one developed country to another.

TABLE XVII
IMPORT-EXPORT RATIOS IN SELECTED DEVELOPED COUNTRIES BY PRODUCT GROUPS, 1960 AND 1969

(%)

Product Groups	U.S.A.		EC		Japan		OECD	
	1960	1969	1960	1969	1960	1969	1960	1969
Total external trade:								
Technology-intensive production	7.8	28.3	45.5	47.0	57.3	32.1	83.1	92.4
Mass-production machinery	26.4	83.4	23.9	23.3	26.7	14.0	47.8	64.5
Resource-intensive production	84.8	108.7	61.0	78.7	88.9	67.4	83.1	92.4
Semi-sophisticated production	51.9	75.7	45.5	56.1	21.1	27.2	60.6	76.1
Nonsophisticated products	204.5	340.2	51.0	69.5	1.9	16.5	87.8	100.6
All products	55.0	90.3	45.8	55.4	30.4	32.9	66.2	78.3
Trade with developing countries:								
Technology-intensive production		2.7		3.0		2.1		3.7
Mass-production machinery		8.0		1.1		0.2		3.1
Resource-intensive production		85.4		78.1		56.9		72.9
Semi-sophisticated production		28.8		14.7		6.3		19.3
Nonsophisticated products		348.7		81.4		9.4		104.8
All products		50.6		33.8		18.4		35.1

Source: Japan, Economic Planning Agency, *White Paper on Japanese Economy, 1972* (Tokyo: EPA, 1972), p. 111.
Note: All exports are on F.O.B. basis, while all imports on C.I.F. basis, except for the United States where both exports and imports are registered on F.O.B.

A new phenomenon observed in the changing patterns of production in developed countries since the early seventies has been a gradual phasing out of resource-based industries such as lumber and mineral processing. In many developed countries timber and mineral resources have been nearly exhausted and their processing plants have begun to move closer to where those resources are available. Anti-pollution requirements have also become much severer and community resistance to pollution-generating industries has become much stronger in recent years in the developed countries. Mineral processing plants and petroleum refining plants have been encouraged to be moved to those developing countries where mineral ores and petroleum are mined and/or other conditions are more favorable for such plant sites. An increased labor shortage and consequent rising labor cost have been

pushing some of the more labor-intensive resource-based industries out of the developed countries. On the other hand, many developing countries with these natural resources have become increasingly interested in the development of those resource-based industries as part of their overall programs of industrialization through export expansion and increased value added and as an instrument of employment creation. Technological spillover resulting from this is also considered to be significant from the standpoint of the developing country.

These new trends emerging in the industrial structure of developed countries will in the 1970s certainly strengthen the forces of change in the current pattern of economic interdependence in Asia. The export by developing Asian countries of manufactures and semi-manufactures will expand greatly both in absolute terms and in relation to their total exports, while the proportion of total imports in processed form will increase significantly on the part of developed countries. Also, such changing trade patterns are expected to contribute to increasing the trade dependence further between the developing Asian countries and developed countries. Similarly, in the emerging trends in the developed countries, private foreign investment flows will expand rapidly from the developed to those developing Asian countries favorably endowed with manpower and natural resources. Along with such expanding investment from abroad, imports of machinery and equipment as well as industrial materials and components by the developing countries will steadily increase. All these developments may not contribute, as hoped for, to lowering the trade deficits of most developing Asian countries in relation to the developed. Except for those with abundant petroleum resources, many countries in this region will continually be confronted with growing deficits in their trade with the developed world which can be met only through increased official and private flows from the latter.

However, those developing Asian countries lacking abundant petroleum and/or other natural resources to exploit and export may not be able, in spite of their greater need, to obtain a larger inflow of both official and private capital and technology from abroad than those with such resources. They simply have less to offer to those developed countries interested in such natural resources. Also, the development of timber and mineral resources and of resource-based industries being phased out in developed countries requires extensive pre-investment feasibility studies including costly aerial surveys and large-scale infrastructural development, which cannot be financed by private investment alone. Furthermore, as a result of the current world oil crisis and repeated hikes of crude oil prices, forecast to make an enormous drain on foreign exchange reserves, most developed countries will be more cautious and selective in providing developing countries with larger flows of development assistance. There are already some signs that those developing countries favorably endowed with petroleum will be receiving in the foreseeable future larger flows of official capital and technical assistance and private investment as well from interested developed countries. This will undoubtedly reinforce the current pattern of development assistance in the developing Asian region. It tends to flow in greater quantities to those developing countries with larger development potentials than to those least developed developing countries.

TABLE XVIII
GROWTH RATES OF REAL GNP IN SELECTED DEVELOPED AND DEVELOPING ASIAN COUNTRIES, 1955–70

(%)

Country	Average Annual Rate		
	1955–60	1960–65	1965–70[d]
Japan	8.9	10.0	12.1
U.S.A.	2.2	4.8	3.3
France	5.0	5.8	5.8
Germany	6.6	5.0	4.8
Italy	5.6	5.3	5.9
U.K.	2.7	3.4	2.4
India[a]		3.3	4.4
Indonesia		1.8	3.5
Iran[b]		6.6	9.3
Korea, Republic of		6.8	12.8
Malaysia, West		5.9	6.9
Pakistan[c]		5.5	6.0
Philippines[c]		5.6	6.3
Sri Lanka		3.9	6.1
Thailand		7.3	9.1

Sources: Committee for Economic Development, "Japan in a New World Economy: A U.S. View," unpublished draft, p. 10, Table II-1; and United Nations, *Economic Survey of Asia and the Far East, 1970*, p. 140, Table II-2-2.
[a] Year ending March 31.
[b] Year ending March 20.
[c] Year ending June 30.
[d] The figures for the developing Asian countries are for the years 1965–69.

While the level of postwar economic growth of most developing Asian countries has been encouraging particularly since 1960, the economic performance of the developed countries has also been quite remarkable, resulting during the period 1960–69 in the real per capita GNP growth at the annual rate of 4.0 per cent for the developed world against 2.5 per cent for the developing (see Table XVIII). The rapidly rising per capita income in these developed countries has provided an ever larger market for goods and services produced overseas. In nearly every developed country, export and import as a per cent of GNP have increased over the period. It is true that trade between the developed countries has expanded more rapidly than that among the developing and that both export and import of the developed countries as a proportion of world trade has increased steadily, e.g., from 66.9 per cent to 72.3 per cent for export and from 64.4 per cent to 71.0 per cent for import between 1960 and 1970. Nevertheless, the rising real per capita income and the increasing income elasticity of import demand in these developed countries have been a great stimulus to the export of most developing countries in Asia and elsewhere.

Continued economic growth in nearly every developed country since the War

has brought with it rising labor shortages, stronger trade union movements and sharply increasing wage rates and wage cost. Also coupled with the rapid pace of technological change requiring high capital intensity and high capital coefficient, it has brought an oligopolistic market structure in various important industrial sectors. These two basic factors have in the past tended to produce the cost-push inflationary pressure in these developed economies. On top of this, demand-pull inflationary pressure has persisted in these countries mainly because of the irreversible government policy of maintaining full employment entailing all sorts of anti-recessionary measures including economic forecasting devices, employment and social security measures, and the usual monetary and fiscal policy measures. Furthermore, both cost-push and demand-pull inflationary pressures have been accentuated by the deliberate high-growth policy as in Japan.

Inflationary price increases so apparent in most developed countries since the mid-1960s, and in particular since 1970 have had both favorable and adverse effects upon the developing Asian countries. On the favorable side, the faster price increases in developed as compared with these developing countries, by making the latter's products more competitive, have given an extra incentive to the expanded exports of the industrializing nations. However, this effect has been more apparent or theoretical than real. Most developed countries, as will be discussed later, have maintained farm price support programs and kept high tariff and nontariff barriers on imports of agricultural products, shutting out exports of the very products in which most developing Asian countries have comparative advantage. Also, most developed countries have maintained an escalated tariff schedule by which higher tariff rates are imposed as the stage of processing advances. The higher price competitiveness for semi-manufactures and manufactures in some developing countries has thus met a strong barrier in developed countries offsetting such competitiveness. The inflationary price increases, differentiated among the developed countries themselves as well as between the developed and the developing Asian countries, have meant to be a major stimulus to the exports of some developed countries to other developed rather than to those of the developing to the developed countries (see Table XIX).

Adverse effects have been more conspicuous and increasingly so particularly since the beginning of this decade. Though different among developed countries, export prices of most industrial commodities, either of producer or consumer type, have risen over the years in the developed countries, as shown in Table XIX. The terms of trade the developing Asian countries must contend with have worsened, and with rapidly increased imports from developed countries their trade balance and deficits have further deteriorated, forcing them to depend more upon private and official capital from abroad. The inflationary price increases in developed countries have also impeded the pace of softening terms and conditions of development assistance going to the Asian countries. They have been in recent years bringing the problem of imported inflation to surface in this region as much as and probably worse than in the developed world, mainly because the range of options open to respective governments is more limited in the former than in the latter. Inflation, whether imported or domestically sourced, in these developing countries

TABLE XIX

COMPARATIVE PRICE PERFORMANCE, 1955–72

(%)

	Japan	Average Annual Rate of Change				
		U.S.A.	France	Germany	Italy	U.K.
Consumer price:						
1955–60	2.0	2.0	5.9	1.8	1.9	2.7
1960–65	6.2	1.3	4.0	2.8	4.9	3.5
1965–70	5.5	4.2	4.3	2.6	2.9	4.6
1970–71	6.1	4.3	5.6	5.1	4.9	9.4
1971–72	4.5	3.3	5.8	5.8	5.7	7.0
Wholesale price of industrial products:						
1955–60	0.2	1.8	5.7	0.7	−0.3	2.0
1960–65	−0.2	0.2	2.6	1.3	2.2	2.5
1965–70	1.9	2.7	3.5	1.6	2.6	3.6
1970–71	−1.1	3.6	2.2	4.6	3.2	7.8
1971–72	0.8	3.4	4.6	3.2	4.1	7.1
Export price:						
1955–60	0.9	1.3	6.6	1.0	−1.6	1.8
1960–65	−1.8	1.0	1.3	0.5	0.1	1.8
1965–70	2.6	3.1	3.7	0.4	1.5	4.5
1970–71	0.7	3.4	5.8	1.6	6.0	7.6
1971–72	−2.9	3.4	1.1	1.0	1.1	7.1
	India	Iran	ROK	Pakistan[b]	Philippines	ROV
Consumer price:						
1960–68	7.2	1.5	13.7	3.4	4.5	19.5
1969	−0.9	3.6	12.4	3.2	1.5	22.0
1970	5.1	1.7	15.6	5.4	17.3	36.6
1971	3.3	4.1	15.2	4.7	19.0	18.3
1972[a]	2.9	7.5	—	4.9[c]	3.5[d]	16.4[d]
Wholesale price of industrial products:						
1960–68	6.8	1.0	13.5	3.2	4.8	—
1969	2.0	2.2	7.0	5.8	0.7	19.5
1970	6.4	3.2	9.1	2.9	19.4	23.9
1971	—	—	—	—	—	—
1972[a]	—	—	—	—	—	—

Sources: Committee for Economic Development, "Japan in a New World Economy: A U.S. View," unpublished draft, p. 27, Table II-2; and United Nations, "Economic Survey of Asia and the Far East, 1972," preliminary draft, p. 152, Table I-39.

[a] Year ending June 30.

[b] Consumer price index for industrial workers only.

[c] Year ending May 30.

[d] Year ending March 31.

is well known to have been having adverse implications to the national efforts and success in economic and social development. On top of all this, skyrocketing increases in crude oil prices in such short period of time are bound to have serious impacts on both agricultural and industrial production in these developing Asian countries, as they rely heavily on the imports of chemical fertilizer, industrial materials, machinery, and equipment from developed countries, and as the substitution in the source of imports of one country by another yields no benefits in this case.

A decline in real economic growth rates coupled with the persistence of inflationary price increases now forecast for most advanced countries for 1974 and afterwards, if left to the natural course of events, will be a real threat to continued economic and social development of the developing Asian countries. Although competitive devaluation of the major currencies may be avoided by each developed country with the floating exchange rate system now prevailing, all developing countries of Asia and elsewhere will be confronted with both more selective import policies and more aggressive export policies from the developed countries who will be seriously concerned with an impending deterioration in their balance of payments situation, while making all-out efforts in preventing both the growing unemployment and the inflationary price increases from getting much worse or out of control. While declining economic growth rates in developed countries may encourage private capital to seek more profitable investment opportunities overseas, further drains on foreign exchange reserves may slow down the outflow of such capital and an increasing proportion of foreign private investment in this region will be likely to be sourced with the third country, with greater local capital participation.

B. *Foreign Economic Policies*

As clearly shown by the setting up of the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (IBRD, or the World Bank) immediately after World War II, major developed countries agreed in the belief that only a growing and prosperous world economy in which every nation's economic health is inseparably linked could lead to lasting peace, that it was the responsibility of every nation in all the fields of currency, trade, and investment to maintain and foster an orderly environment for international economic cooperation and development among both developed and developing countries. There was a general commitment on the part of these countries to the principle of free trade and free capital movement among them as the guiding principle for a steady expansion of world trade and economy. Though with several exceptions, most of the major developed countries have thus adopted foreign economic policies which would promote freer international flows of goods, services, capital, and technology. After the mid-sixties a series of tariff reductions were installed under the Kennedy Rounds.

The open-door policy of the developed countries has helped both the developed and developing to expand their exports on a non-discriminatory basis. The policy of non-discrimination and fair competition, however, had proven to be more advantageous to the developed than to the developing, simply because the former

by definition had greater competitiveness on the world market than the latter for those goods and services on which they would compete with each other. Accordingly since the late sixties, the scheme of generalized tariff preferences has been applied by nearly all developed countries of Asia and Europe in their trade with other developing countries. The scheme, however, is still limited in variety and quantity of goods to which it applies, and thus its impact on increases in the exports of manufactures and semi-manufactures from developing countries is limited. In the developing Asian region as in other regions, greater benefits of the scheme have accrued to more industrialized developing countries as compared with less industrialized.

A beginning was made in the fall of 1973 for new International Rounds which might reduce tariff and nontariff barriers further primarily among the GATT member countries. Unless additional benefits are provided under the generalized tariff preference scheme, the developing countries fear that such world-wide trade liberalization will adversely effect their export of manufactures which would face stronger competition from the developed countries. Not to be underestimated, however, is that rapidly expanding and more integrated world trade and production resulting from freer trade of goods and services will provide a favorable climate to the industrializing developing countries of Asia and elsewhere in expanding their exports and acquiring their needed imports more competitively.

Compensatory financing, the issuance of the Special Drawing Rights (SDRs) and other measures under the IMF agreement, though far from being adequate, have assisted many developing Asian countries in relieving their balance of payments difficulties. Development financing by the World Bank, the Asian Development Bank, other international financial institutions, and consortia of commercial banks in developed countries has been of significant assistance to many of these countries in speeding their economic development.

Not all foreign economic policy measures pursued by developed countries and international organizations have been favorable to the developing countries of Asia. In spite of the general support given to the principle of free trade under GATT, many developed countries have maintained high tariffs, quantitative import restrictions, and other nontariff barriers to protect domestic industries. Trade in agricultural commodities has faced the highest hurdle in the postwar period. The agricultural price support programs in Japan and Europe have proven to be a serious hindrance to export expansion by developing Asian countries of their internationally competitive agricultural products. As some developing countries in the region have made a success in industrial development, they have found tariffs on manufactured imports in many developed countries too high to penetrate the latter's expanding markets.

Many developed countries have been too eager to export their products and services anywhere in the world and have maintained numerous subsidies and tax exemptions to accelerate exports. By so doing they have increased the competitive edge of exports against manufactured exports by developing countries of Asia and elsewhere. They have also made inroads into the developing countries' markets with such a broad range of products and services that the developing countries have

been put in a relation of depending. This is true particularly of export-oriented developed countries not only in physical goods and services but also in import financing. Some developed countries have used their development assistance and private investment overseas as an instrument for export expansion. Allegations of this kind were made of Japan and Italy from around the mid-sixties, later joined by the United Kingdom and West Germany. Until the World Currency Realignment in Washington, D.C. in December 1971, Japan and many countries of Europe used even exchange rate policy as an instrument of export expansion, by maintaining their currencies undervalued relative to the U.S. dollar. On the contrary, it was in the interest of the United States to keep the dollar overvalued to promote corporate overseas investment, penetrate foreign economies from within, and promote imports of goods and services on favorable terms, as well. During the 1960s, however, relative economic positions of the developed countries changed in favor of Japan and the European countries, with international liquidity spread more evenly among them, all of this culminated in the Smithsonian Agreement and later exchange rate readjustments in the 1970s. The greater need for Japan and the European countries to invest abroad to obtain necessary raw materials and expand production facilities had also paved the way for them to accept the multilateral currency realignment and other adjustments of the last three years. The currency realignments have had a decided impact on the outflow of private capital from these developed countries, whether in a direct or indirect form. Many developing Asian countries have been recipients of large amounts of such investment flows, particularly from Japan and West Germany.

For the past few years the growing incidence of unemployment, deteriorating balance of payments situation, and dissatisfaction with other developed countries for "not playing fair" in international competition and cooperation for development have led to protectionist moves in all sectors of the United Staets economy. Constraints on domestic economic policy imposed by the principle of free trade and free capital movement were hitherto held up as a guiding principle for a more integrated world economy. These principles have been at times abandoned, not only in the United States, but also in other developed countries, for the sake of preventing employment from deteriorating further and to maintain high rates of economic growth. In the meantime, sacrifices in this way have been made at the disadvantage of other countries, and disturbances in the functioning of the agreed international monetary, trade, investment, and aid arrangements have been clear, with the most adverse effects felt by the developing countries, the weakest links in the world economy. The emerging nations of Asia and elsewhere have the right to protest such unilateral actions taken by major economic powers and ask for compensation for untold economic damage and additional financial burdens imposed by such actions.

Furthermore, as shown by the actions of the IMF Committee of Twenty and as propounded by the United Nations Conference on Trade and Development (UNCTAD), the developing countries must be given equal rights and status in determining the international rules that govern currency, trade, investment, and development assistance in the world. In order for the emerging Asian nations to

come up with desired changes in current patterns of economic interdependence in Asia, the developed countries involved in trade, investment, and development assistance in Asia must take into full consideration the needs and requirements of the developing Asian countries in determining their own foreign economic policies. In turn, the developing Asian countries must realize that neither autarky nor a blind dependence upon developed countries can ever be the way to stable economic and social development and that this development will not be a success without tangible improvement in the welfare of the low-income strata of their population. Policy measures taken by governments of both developed and developing Asian countries that shape the future patterns of economic interdependence in Asia must be such that the poorest groups participate fully in the gains from such economic interdependence and resultant economic growth.