

TERMS OF TRADE
With Special Reference
to Southeast Asia

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ABSTRACT

The terms of trade of Southeast Asia during the past fifteen years have generally become less favourable. Because of the magnitude of exports in relation to the gross domestic product, and heavy dependence upon a limited range of primary exports, fluctuations in terms of trade have tended to exert a considerable impact not merely on the balance of payments' position, but on the growth of the domestic economy of the countries in Southeast Asia.

Wide swings in the terms of trade characterised the period 1948 - 1955. The years, 1950 and 1951 which brought along the Korean War Boom, caused a tremendous rise in prices of primary products, notably rubber and tin, due partly to the acute shortage of supplies from the producing countries and partly to the stockpiling policy of the industrial countries. The terms of trade of all the countries, in Southeast Asia, were favourably influenced by this event, particularly countries like Indonesia and Malaya, where rubber and tin were the main exports.

The price relationships prevailing during the boom of 1950 - 1951 changed considerably in the subsequent period. The American recession that took place during 1953 - 1954 together with the increasing use of synthetic products, had a deep effect on the exports of rubber, tin, copra, that mostly originated from Malaya, Indonesia and Philippines. Accordingly, the terms of trade for these countries have generally experienced deterioration since 1951. On the other hand, the terms of trade of Burma and

Thailand, the major rice exporting countries of the region, remained remarkably stable, especially during the boom. This was due to the fact that rice exports from these countries depend substantially on markets within the region which are largely deficit in food production. Apart from minor variations in the early post-war years, the terms of trade for both Burma and Thailand improved substantially through 1953, on account of an increasing trend in demand from the neighbouring countries of the region.

After a brief accelerated activity in the world economy in 1955 and 1956, the primary producers again suffered from another American recession, which took place in 1957. In 1959, the renewed expansion in world trade brought a substantial improvement in the terms of trade of all the countries in the region.

The world demand for the commodities supplied by Southeast Asia however, has been determined by various factors which differ from commodity to commodity. The result has been that the various countries in the region have experienced different degrees of instability. The perverse effects of price fluctuations, together with the deterioration in the terms of trade, have been a serious drag on the economic development of the countries in Southeast Asia.

The central hypothesis of this dissertation stated simply is this; there is a positive relation between movements in the terms of trade and the rates of growth of the domestic economies of the countries of Southeast Asia. To a large extent

therefore the export sectors are the "leading" sectors in these economies. The price instability associated with primary products in the international markets affects the ability of the domestic planners in Southeast Asia to regulate the development of their economies on a smooth and steady basis. Accordingly, there appears a belief in the need for a case-by-case approach, which would enable deliberate policies to be formulated on the basis of complex programming and planning models. In Indonesia, for example, multiple exchange rate system had been imposed during 1957-59. Unfortunately this measure failed to cope with the balance of payments deficit problems. In 1960-62, Thailand and the Philippines had also introduced freely fluctuating exchange rates. However, with domestic excess demand in the region, the search for an equilibrium rate by means of a free exchange market with little control on trade and payments, caused a drastic fall in exchange rate which again led to considerable fluctuations in export proceeds. Devaluation has also been used as a means of improving export earnings, but since the traditional exports of the region have low aggregate price elasticity of demand in the consuming countries, this measure again failed to maximize foreign exchange.

Therefore, after a brief examination of the various means of improving export earnings, it appears that a combination of taxes, subsidies and of multiple exchange rate is the only practical policy left for the countries of the region. In addition to these, discussions have also been made in the international

forums in recent years regarding the problems of price instability and possible solutions have also been suggested. Various exceptions to the rules are gradually being worked out in international agencies such as the International Monetary Fund, and the General Agreement on Trade and Tariffs with the aim of preventing the developing countries from adhering to the tenets of free trade and payments. For instance, it has been decided that in some circumstances, developing countries may receive the benefits of tariff concessions granted by the industrial nations without having to make similar concessions themselves. "Compensatory financing" has also been introduced by the IMF to provide short-term financial assistance to countries that are suffering from fluctuations in exchange receipts from exports of primary products. Numerous commodity agreements have also been formed on an international level as stabilization measures to the fluctuating primary product prices.

Thus, a combination of taxes, subsidies and of multiple exchange rates, tailored to the situation of the countries concerned, supplemented by co-operative international agreements would be considered as the most appropriate measures in solving the balance of payment problems of the developing countries of Southeast Asia.

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CHAPTER I. TERMS OF TRADE: A THEORETICAL BACKGROUND

By the terms of trade of a given country, we refer to the relation between its import and export prices. According to this definition a movement of the terms of trade in favour of a country means an increase in the volume of imports received in exchange for each unit of its exports. The concept so defined is called "Commodity Terms of Trade". But although straightforward and clear, this definition has often been met with criticism from economists, mainly because it ignores one or another of the factors which determine the influence of the terms of trade on the balance of payments, the gains from trade, or the income of a country. Consequently several other concepts have been suggested which take account of one or more of the factors ignored. "The Single Factoral Terms of Trade" for example, correct the "Commodity Terms of Trade" for changes in productivity in producing exports; the "Double Factoral Terms of Trade" correct them for changes in productivity in producing imports and exports; the "Index of Total Gains from Trade" takes account of the volume of trade, and the "Income Terms of Trade" takes into account a country's capacity to import.

The importance of the terms of trade then derives from the fact that they affect both a country's balance of payments position and its capacity to import i.e. export earnings. Many underdeveloped countries particularly the exporters of primary materials face a problem

1

of deteriorating terms of trade. Though the ratio of exports to national income may not be higher in these countries than in the advanced countries, the underdeveloped countries, however, depend heavily on a few export commodities for the bulk of their foreign earnings. Consequently, price fluctuations which have characterized the international commodity market and the declining terms of trade are the source of a serious problem for these countries. The countries of Southeast Asia share these problems with other underdeveloped countries.

2

This dissertation will concern itself with the trends in the barter terms of trade for Southeast Asia as a whole. Specific analysis will be made of the exports of the major countries, namely, Burma, Indonesia, Malaya, the Philippines and Thailand. Attempts will also be made to trace the sources of instability in the value of exports from these primary producing countries by considering the demand and supply factors affecting these commodities. There is also a need for specific and detailed analysis of the concepts of the terms of trade as a theoretical background for the analysis in this dissertation.

3

Concepts of Terms of Trade

The terms of trade of a given country refer to the relation between its import and export prices. There are at least five ways

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1. United Nations, Relative Prices of Exports and Imports of Underdeveloped Countries, New York, 1949, p. 7-16, 121-131; see also United Nations, Instability in Export Markets of Underdeveloped Countries, New York, 1952, p. 29-67.
 2. Ibid. p. 7-16.
 3. "Malaya" refers to both the Federation of Malaya and the Colony of Singapore.

of expressing this relationship, namely:

- (1) The Net (barter) terms of trade - the unit terms of trade.
- (2) The gross (barter) terms of trade - Quantum Index.
- (3) The single factoral terms of trade.
- (4) The double factoral terms of trade.
- (5) The income terms of trade (or the index of the capacity to import).

The net barter terms of trade is the ratio of export prices⁴ to import prices. It is computed by relating the index numbers of import prices and export prices (unit values of imports and exports). The unit terms are obtained by dividing the export price index (unit value of exports) by import price index (unit value of imports). Rising figures indicate improving terms of trade i.e. a country is getting more value of imports in exchange for each unit of exports on the aggregate and falling figures indicate worsening terms of trade. Alternatively the unit terms of trade can be expressed algebraically as:

$$\frac{Px1}{Pm1} : \frac{Px0}{Pm0} ,$$

where P stands for price, x for exports, m for imports, and 0 and 1 for the base and subsequent periods, respectively.

4. C. P. Kindleberger, International Economics, Richard, Inc., 1963, Third Edition, pp. 170-173.

The net barter terms of trade however, say nothing of what has happened to the balance of payments. One cannot tell from the statement that the terms of trade improved from 100 to 150 whether exports and imports remained balanced and less exports are being exchanged for the same amount of imports: whether $X = M$, in the base period but more imports are being obtained for the same exports; or whether exports exceed imports and the surplus is being invested abroad. Indeed, there might be balance now and a deficit in the base period.

The gross barter terms of trade attempt to remedy this deficiency.⁵ The gross barter terms of trade relate the quantities of exports and imports exchanged for one another in a subsequent period as compared with a base period. Here again, in the many-commodity case, index numbers must be used. The quantities of exports and imports are sometimes expressed in tons in national statistics, but this is misleading except perhaps to people concerned with shipping, since a ton of gold and a ton of coal are not economically comparable. The gross barter terms of trade are expressed as follows:

$$\frac{Q_{x1}}{Q_{m1}} : \frac{Q_{x0}}{Q_{m0}} .$$

These quantities are derived, however, as index numbers by dividing index numbers of value (P times Q) by index numbers of price P . If

5. F. W. Taussig, International Trade, New York, the Macmillan Co., 1927, pp. 245-262.

the balance of payments remains balanced when the net barter terms of trade have turned favourable e.g. from 100 to 150, then the gross barter terms of trade will have declined numerically from 100 to 67. This indicates a favourable movements, since it means that smaller quantity of exports is given for the same volume of imports or that a larger volume of imports is being obtained for the same amount of exports or a little of both.

The meaning of the net and gross barter terms of trade is unambiguous only when the balance of payments remains balanced in the two periods concerned and when these periods are sufficiently close together to ignore large changes in productivity.

Concepts which include productivity have been developed by Professor Viner and are called the "Single factorial" terms of trade⁶ and the "double factorial" terms of trade.

The single factorial terms of trade represent the price of imports relative to the price of exports adjusted for changes in the productivity of a country's factors in the production of exports.

The double factorial terms of trade take into account as well the increase in efficiency of foreign factors in producing import goods.

The single factorial terms of trade have been described by Sir Dennis Robertson as the most significant of all the terms of trade

6. J. Viner, Studies in the Theory of International Trade, New York, Harper and Brothers, 1937, p. 558.

7
concepts. They represent the rate at which the services of a country's factors are exchanged for goods from abroad. If export prices fall, relative to import prices, but productive efficiency increases more, a country is unambiguously better off in real terms. The net barter terms of trade are an adequate measure of gains from trade under conditions of changing efficiency. When, a change in the net or gross barter terms of trade takes place without drastic changes in productive efficiency at home or abroad, or in the quality of foreign-trade goods or their composition, a change in real incomes has occurred. It is generally possible to say this with assurance only for short-run changes in the terms of trade.

Finally, the net barter terms of trade are sometimes modified by multiplying them by the quantity of exports. This gives $\frac{P_x Q_x}{P_m}$ expressed in index numbers and represents the country's capacity to purchase imports. The net barter terms of trade, by themselves, may be misleading if the volume of exports has changed a great deal. An improvement in the terms of trade which comes about through a large decline in exports may leave a country worse, rather than better off in her command over foreign goods. This concept has been called the "income" terms of trade. It measures also a country's "capacity to import", if there is a strong pull toward equilibrium in the balance of payments. (i.e. $P_x Q_x = P_m Q_m$) then $\frac{P_x Q_x}{P_m}$ determines Q_m . Thus a country can buy more imports if any of three things happen:

7. Cited by Kindleberger, pp. 167-172

- (1) The price of exports goes up.
- (2) The price of imports goes down.
- (3) The volume of exports goes up.

Index used in this study are those of United Nations, showing the changes in the volume of the aggregate merchandise imports or exports known as Quantum Index, and that showing the weighted average price of the aggregate merchandise imports or exports, the unit value Index. Each index represents a change in price or volume between the current period and a base period. Adjustments are made in order to make the indices, comparable over time. The method of computing the export and import index in each country is based on the three formulae mentioned above. Symbolically they are represented as follows:

	<u>Quantum</u>	<u>Unit Value Index</u>
Index with fixed weights Laspeyre Formula	$\frac{E_{po} q_n}{E_{po} q_o}$	$\frac{E_{pn} q_o}{E_{po} q_o}$
Index with current weights Passche Formula	$\frac{E_{pn} q_n}{E_{pn} q_o}$	$\frac{E_{pn} q_n}{E_{po} q_n}$

Fisher's Ideal Index Formula is also used in some countries as it is the geometric average of the index of the above two indices. In these formulae, the period denoted by the subscript o is referred to as the base period and that by the subscript n is the current period.

When changes occur in the coverage, formula, or base period of an index, the two series are linked together, if they have an overlapping period and are sufficiently comparable. Two or more index numbers for successive years are sometimes multiplied together to form

a chained index.

Difficulties both statistical and conceptual are found in constructing the index for terms of trade. Generally all index numbers which aggregate disparate entities are subject to doubts because of the problems of choice involved in weighting. Links are frequently used with the aim of facilitating comparability. But such practise involves considerable risks especially over long periods of time.

Difficulties are also encountered when the index covers a long period of time. If the period is divided into segments, each is computed on a different fixed base. Problems of linking again arise, leading to the possibility of error. When wide seasonal or cyclical changes in the composition of trade occur, the index ceases to be a useful measure of price developments. Apart from the above, the selection of a base for comparison is also a problem. The base period for the terms of trade index should be a year in which most countries are experiencing average trading patterns, so that the terms of trade, in an absolute sense, are neither excessively favourable nor unfavourable.

In the present study two sets of trade indices are used; one using 1953 as the base year, and the other using 1958 as the base year. The adoption of Standard International Trade Classification (S.I.T.C.) as the national classification for each country has greatly lessened the amount errors. However, owing to territorial changes and to changes in methods of reporting foreign trade, discrepancies still

exist.

The Terms of Trade and Economic Development

Despite conceptual and statistical difficulties regarding the measurement of the terms of trade as an index of gains from trade, there appears, on the whole, to exist a consensus of opinion that the terms of trade have turned against developing nations. The Economic Commission for Latin America has reported "that average prices of primary commodities relative to manufactured goods have been declining over a period of more than half a century.⁸" This contradicts the assertion by Mill that "the richest countries, ceteris paribus, gain the least by a given amount of foreign commerce; since having a greater demand for commodities generally, they are likely to have a greater demand for foreign commodities, and thus modify the terms of interchange to their own disadvantage.⁹"

The implications of changes in the terms of trade for developing countries are, however, quite clear. An improvement in the terms of trade would serve to promote economic development by increasing a country's purchasing power on international markets. With a given amount of exports, the country can acquire more imports and this

8. Economic Commission for Latin America, Relative Prices of Exports and Imports of Underdeveloped Countries, United Nations, Lake Success, 1949, pp. 22-23.

9. J. S. Mill, Principles of Political Economy, London, Longmans, Green and Co., 1929, p. 365.

provides a greater capacity for development in so far as resources are released from export or import-competing production for employment elsewhere. An improvement in the terms of trade brought about by a rise in export prices would also stimulate an inflow of foreign capital. Deterioration in the terms of trade, on the other hand will decrease the capacity for economy to grow in so far as more resources must now be absorbed in exports to gain the same amount of imports - unless the decline in export prices is due to increased productivity. Even in this case if a comparable reduction in import prices does not occur, then the advantages of rising productivity in the export industries are passed on to foreign consumers. If, as is likely, foreign demand for the export commodities is largely price and income inelastic, the payments situation will worsen even further. This may not only inhibit the inflow of foreign investments but it may cause a redirection in the allocation of resources to the disadvantage of the primary producer. This situation can be more easily illustrated after a brief study of the relationship between economic growth and the terms of trade of a country.

10

According to F. L. Pryor, there exists a two-way relationship between the terms of trade and economic growth of a country by taking into consideration of the production possibility curve and the reciprocal demand curve which embodies supply and demand

10. Frederic L. Pryor, "Economic Growth and the Terms of Trade", Oxford Economic Paper, March, 1966, pp. 45-57.

elasticities for both export and import goods. By showing the relationships of various types of economic growth to changes in the reciprocal demand curves of two different countries, the relationships of economic growth to the terms of trade become evident.

F. L. Pryor assumes a two-good, two-country, world of free competition, with each nation having production functions with diminishing returns, and having definably and fixed community indifference curves. Furthermore, he also assumes that trade is balanced between the two nations, that neither nation completely specializes in the production of either good, and that no type of trade barriers exist.

11

Economic growth occurs when the production possibilities curve expands, either due to technological change or to an increase in one or more production factors. In this analysis, population growth is excluded, since this implies a change in the community indifference curves which, by assumption, does not occur. There are four main types of growth which can be distinguished:

- I. Neutral economic growth occurs when the new production possibility curve expands at a constant percentage in each direction from the origin so that the new production possibilities curve has exactly the same shape as before.

11. Ibid. According to Frederic L. Pryor, growth here is measured simply by the percentage expansion of the faster growing side of the production possibilities curve.

12

II Growth has an export-good bias when the production possibility curve expands due to an increase in one or more production factors for export goods.

13

III Growth can also have an import-good bias when the production possibilities curve expands due to an increase in import goods.

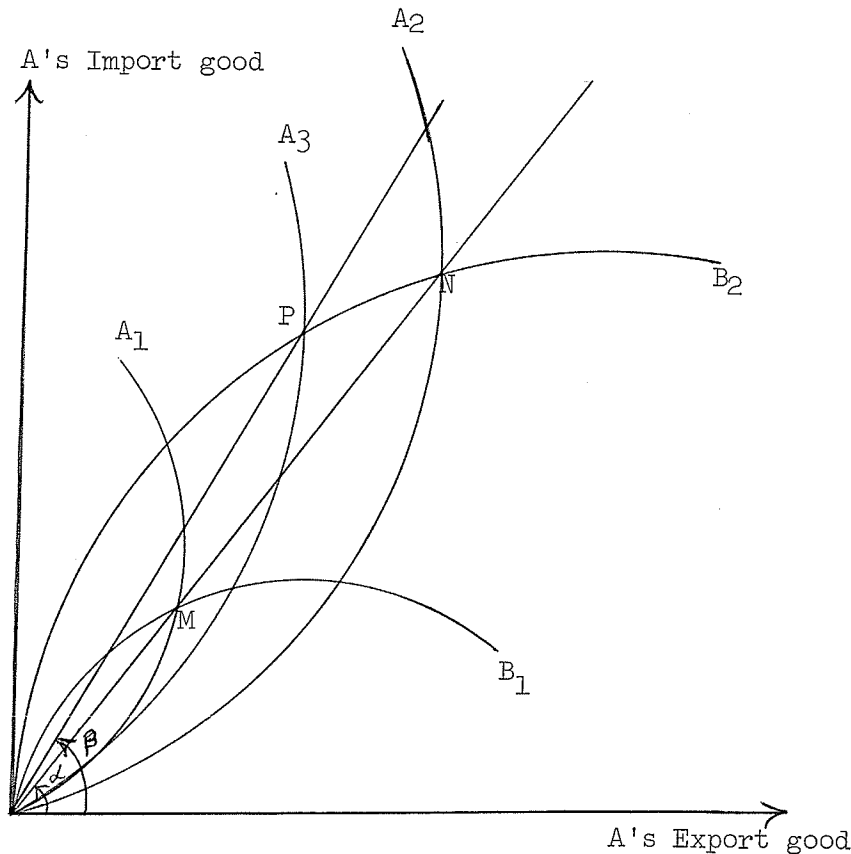


Figure 1

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12. The "export-good biased growth" is different from Hick's "export biased growth". There is also a resemblance of this type of growth to Harry G. Johnson's (Money, Trade and Economic Growth, Cambridge, Mass., Harvard University Press, 1962, pp. 99-103) "pro-trade biased production" change although he speaks of such changes occurring to single good in isolation from other goods produced in the economy.
13. "Import-good biased growth" is somewhat similar to Hick's "Import-biased growth" and to Johnson's "Anti-trade biased production" change.

IV Lastly, growth is said to be 'messy' when it does not fit into any of the above classifications.

Bearing these four types of economic growth in mind, if the reciprocal demand curves between two countries A and B intersect at only one point, so that the terms of trade is \angle and if, after economic growth, both resulting reciprocal demand curves are $n\%$ radial extensions of the former reciprocal demand curves, then the terms of trade will not change, but the volume of trade will increase by $n\%$.¹⁴

As shown in Figure I, originally, the reciprocal demand curves of countries A and B are A_1 and B_1 , which intersect at M. After $n\%$ radial expansion, these reciprocal demand curves are A_2 and B_2 and they intersect at N, which lies on the ray OM. If the radial expansion of the reciprocal demand curve of country B is relatively greater than country A, the reciprocal demand curves are A_3 and B_2 and they intersect at P, then the terms of trade will turn in favour of country A ($\beta > \angle$). In other words, if export desires of country A increases less than the export desires of country B, then the price of export goods at A will tend to rise and the price of A's import goods will tend to fall, i.e., the terms of trade will shift in favour of A.

Suppose that the elasticities of demand for each good in

14. For a detailed explanation, see, Frederic L. Pryor, "Economic Growth and the Terms of Trade", Oxford Economic Papers, March, 1966, pp. 45-57.

each country are unitary. If country B, experiences $n\%$ neutral, economic growth and country A experiences $n\%$ import-good biased growth (It may be due to an increase in capital and greater diminishing returns in the export-good than in the import-good industry) then the reciprocal demand curve of country B will radially expand by $n\%$ and the reciprocal demand curve of country A will expand by less than $n\%$. The terms of trade will thus turn in favour of country A. This illustrates the classical theorem that the terms of trade will turn in favour of those countries experiencing diminishing returns in their export industries, although the classical economists never specified the demand or supply conditions very precisely.

Similarly, suppose that each country experiences $n\%$ neutral economic growth, but that the income elasticity of demand for the good which country A exports is less than one for each country, (and the income elasticity for country A's import is greater than one).

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15. See Mill, J. S. Principles of Political Economy, London, Longmans Green and Co., 1929, Book III, Chapter 17-18.

Taussig, F.W., International Trade, New York, The Macmillan Co., 1927, pp. 245-262.

Viner, J., Studies in the Theory of International Trade, New York, Harper and Brothers, 1937, P. 437.

In this case, the reciprocal demand curve for country A will expand further than $n\%$ from the origin (which would have been the case if the income elasticities of demand had been unitary for both goods); similarly, the new reciprocal demand curve for B will expand less than $n\%$. Therefore, the terms of trade will turn against A, thus demonstrating the neo-classical proposition that the terms of trade will turn against a country exporting goods with low income elasticities (It becomes clear that for the developing countries of South-east Asia, as a whole, with low income elasticities, the terms of trade will turn against them).

If both countries have an income elasticity of demand for A's export good of less than unity and if country A has an export-biased growth as well, the reciprocal curve after $n\%$ economic growth, would be even further from the origin and the terms of trade would turn even more against it.

If both countries have an income elasticity of demand for A's export-good of less than one and, at the same time, A's growth is

16. The neo-classical economists such as Alfred Marshall and Edgeworth, never specified the supply condition very precisely. Refer to Haberler, G.T. Von, The Theory of International Trade, Harvard University Press, Cambridge, 1935, p. 91.

Marshall, A, The Pure Theory of Foreign Trade, the London School of Economics & Political Science, London, 1930.

Ohlin, B., Interregional & International Trade, Harvard University Press, Cambridge, 1935.

import-good biased, then the terms of trade would be indeterminant, since two forces tend to move the terms of trade in opposite directions.

By means of this analysis, it is quite obvious that there exists a two-way relationship between the economic growth and the terms of trade of a country, though the cause or effect of either one of these two variables can hardly be ascertained.

From Pryor's analysis, it becomes clear then that for developing countries, each exporting goods with low income elasticities, the terms of trade of each country would turn against it. Such worsening of the terms of trade will have unfavourable repercussion on economic growth in general. Pryor relates this kind of economic growth as neutral economic growth ($n\%$) which would be of different sizes depending on the reciprocal demand curve of one country. In other words, the size of the impact will depend not only on the size of the deterioration but also on the extent to which the exports of a country are concentrated in the sector against which the terms of trade have turned and the extent to which a country depends on foreign trade. The larger the foreign trade ratio to national income the greater the impact of a worsening terms of trade will be.

As will be shown below, international trade is of very considerable importance to the countries of Southeast Asia covered in this study. Gains and losses from international trade therefore tend to have profound effects on these economies. The terms of trade

are therefore a major factor affecting economic development there.

Specifically, how important is foreign trade to underdeveloped countries in general? Perhaps the best statement of the case has been made by Singer. He writes:

".....Foreign trade tends to be proportionately most important when incomes are lowest. Secondly, fluctuations in the volume and value of foreign trade tend to be proportionately more violent in that of underdeveloped countries and therefore also more important in relation to national income. Thirdly, fluctuations in foreign trade tend to be immensely important for underdeveloped countries in relation to that margin of income over subsistence needs which forms the source of capital formation for which they often depend on export surpluses over consumption goods required from abroad Thus the economy of the underdeveloped countries often presents the spectacle of a dualistic economic structure; a high productivity sector producing for export coexisting with
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a low productivity sector producing for the domestic market".

The problem facing the underdeveloped country is two-fold and a distinction should be made between the tendency for the prices and volume

17. Hans Singer, "The Distribution of Gains between Investing and Borrowing Countries", American Economic Review Papers and Proceedings, May, 1950, p. 473.

of exports from underdeveloped countries to fluctuate severely over the course of world business cycles and the secular tendency for the prices of their exports to decline relative to the prices of their imports. The first tendency relates to the problem of instability in prices of exports while the second refers to the long-run trend in terms of trade. The distinction between these two has been well

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stated by Dr. M. K. Atallah:

"The reliance of the underdeveloped countries on their exports of agricultural products to derive a large share of their income is one major cause of their weak economies, because it makes them sensitive to the slightest fluctuations and imposes additional hardships on their populations. It is the more so, since the price of primary commodities are known to be subject to wild fluctuations which although in the upswings bring unusual prosperity, can in the downswings assume the proportions of catastrophies. In the 1930's farm incomes in the whole world were cut to one-half, or one-third of their previous levels; and apart from the general depressions, particular price slumps have been experienced frequently for individual commodities such as coffee,

18. M. K. Atallah, The Long-term Movement of the Terms of Trade between Agricultural and Industrial Products, Rotterdam, 1958, p. 1.

rubber, cocoa and many others.

Since the Second World War, when most of the underdeveloped countries have discovered the difference between their economic conditions and the standard of living prevailing in the developed countries and decided to decrease this gap by the development of their economies, a further aspect has been added to this problem; because all programs of economic development require large amounts of capital goods obtainable in the advanced countries and must be exchanged - as far as no capital imports take place - for exports of primary products. The ability of the underdeveloped countries to acquire these goods depends therefore on the relation between the prices of their exports of primary products and the prices of their imports of capital goods."

To what factors can the deterioration in the terms of trade of primary producers be attributed to? There is a raging controversy over the issue which is by no means decided. Briefly the views of the protagonists can be summarized as follows:

Raul Prebisch holds the view that industrialization is not incompatible with the efficient development of primary production. However efficient agriculture requires mechanization which means the import of equipment. Foreign exchange must be made available for this purpose directly or indirectly through trade. But on the whole, however, technical progress seems to have advanced faster in industry

than in agriculture. The prices of agricultural products fall relative to industrial products for at least two reasons, namely:

- (a) prices have failed to adjust themselves to the respective productivities in agriculture and industry, and
- (b) the fact that bargaining strength is skewed in favour of industry.

In underdeveloped countries the dependence on industrial manufactures is increased not only by the demands for technical change but also by the international demonstration effect which has created new wants which cannot be satisfied from local resources and certainly not without further industrialization and capital imports. This may be regarded as a "demand pull theory" of the terms of trade.

A very similar argument has been made by Singer who also takes the view that the movement of the terms of trade has for a long time shown a decreasing trend to the detriment of the agricultural producers. Such deterioration of the terms of trade has been a serious drag on economic development of the underdeveloped countries.

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Using the same United Nation's data as Prebisch, Singer explains:

"the gains of technological progress in industrialized

19. op cit. p. 473.

20. UN Department of Economic Affairs, "Relative Prices of Exports and Imports of Under-developed Countries, New York, Dec. 1949.

countries were distributed to the producers as higher incomes, whereas, in countries producing primary products the gains from such technical improvement as occurred were distributed to consumers in the form of low prices. In a closed economy, it does not matter which form the rise in real incomes takes; but when producers are at home and consumers are abroad, it makes a good deal of difference.²¹

It is thus evident that the industrialized countries have had the best of both worlds; both as consumers of primary commodities and as producers of manufactured articles, whereas the underdeveloped countries have the worst of both worlds; as consumers of manufactures and as producers of raw materials. According to Singer, the perverse effects of economic fluctuations on the position of underdeveloped countries also retard economic development by delaying the needed structural change. Good prices for raw materials and foodstuffs provide the means for financing the import of capital goods for industrialization but dilute the incentive to do so. When these prices fall, the incentive to industrialize is stronger but the means are not available.

Colin Clark and Arthur Lewis reached quite different conclusions. Writing in 1944, Colin Clark endeavored to predict the

21. op. cit. p. 473.

demand for and supply of agricultural and industrial products in 1960.²²
His calculations indicated that the terms of trade of agricultural products would improve by 90 per cent between the 1925-34 average and 1960. But Arthur Lewis disagrees with Clark's estimates, which according to Lewis, will not be on such a big scale.²³ Lewis goes further and states; "Putting food and raw material prices together, the terms of trade for primary products will move between a lower limit of a fall of 3 per cent and an upper limit of a rise of 10 per cent between 1950 and 1960."²⁴ According to C. P. Kindleberger's series, industrial European merchandise terms of trade,²⁵ have shown a decline between 1900 and 1920, followed by improvement until 1923, a slight decline during the rest of the 1920's, which was then followed by improvement again in this 1930's and deterioration in the post-war period.

Whatever the criticism regarding the deterioration of terms of trade in relation to economic development of the underdeveloped

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22. The Economics of 1960, (London, 1944). See also "The Future of the terms of Trade, the Problems of Long-term International Balance", Proceedings of the International Economic Association, Sept. 1950, and "Half-way to 1960", Lloyds Bank Review, April, 1952.
23. W. A. Lewis, "World Production, Prices and Trade, 1870-1960", The Manchester School of Economics and Social Studies, Vol. XX, 1952.
24. Ibid.
25. C. P. Kindleberger, The Terms of Trade; An European Case Study, London, 1956, p. 12.

countries may be, the factors most important in the determination of the terms of trade are the supply and demand for agricultural and industrial products. Thus the different conclusions about their future movement depend on the different estimates of these magnitudes.

Available data are rather unsatisfactory as a basis for theoretical speculation about the impact of trends in terms of trade of the countries in Southeast Asia. Nevertheless, attempts will be made to analyse the extent of the deteriorating terms of trade in relation to the magnitude of exports and the composition of exports for the countries concerned. Following Prebisch and Singer's arguments as dealt with in the above section, an attempt will also be made to trace the possible factors that have caused export prices between the period 1948-1963 to fluctuate continuously.

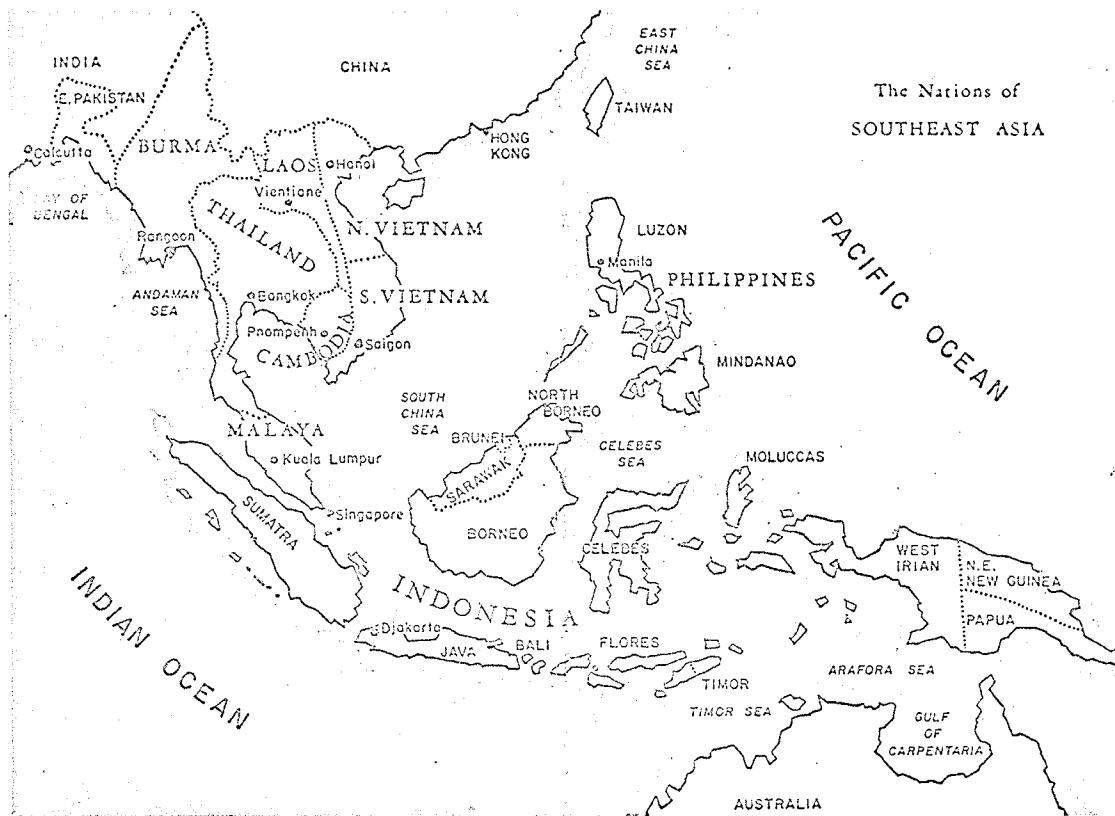
CHAPTER II. GENERAL CHARACTERISTICS OF SOUTHEAST ASIA

Position and Size:

Southeast Asia, as a whole, is a region of considerable importance in the modern world; it is a region of potential prosperity. It is an area of comparatively small countries, mostly with new and independent governments. The region is overshadowed by the great land masses of India and China, both of which have substantial minority populations scattered throughout the individual countries of Southeast Asia. Though lying between India and China, the region, on the whole, differs from them in climate, topography, population and most of the geographic characteristics. It comprises two broad groups; mainland Southeast Asia, usually known as the Indo-Chinese peninsula¹, containing the countries of Burma, Thailand, Indo-China (Laos, Cambodia, North and South Vietnam), and Malaya ; and an island in Southeast Asia known as the Malayan archipelago, stretching eastwards from Sumatra, and north-eastwards to the Philippines. The region as a whole has approximately 222 million people, occupying² 1,719,060 square miles of land.

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1. "Malaya" in this study refers to the Federation of Malaya and the colony of Singapore.
 2. Butwell, Richard A. Southeast Asia, Today and Tomorrow, Frederick A. Preager, Publisher, New York, 1961, (Revised edition), p. 17.

CHART I. THE NATIONS OF SOUTHEAST ASIA*



*Vandenbosch, A.: Southeast Asia Among the World Powers, University of Kentucky Press, Lexington, 1958, pp. 16-17.

Table 1. Southeast Asia: Area and Population
(1963)

COUNTRY	AREA (Square Miles)	POPULATION (Millions)
Burma	261,610	21
Cambodia	46,880	6
Indonesia	750,000	100
Laos	88,780	2
Malaysia	128,340	10
Philippines	115,600	27
Thailand	198,250	26
North Vietnam	63,340	16
South Vietnam	66,260	14
Total	1,719,060	222

Source: Based on Butwell, Richard A., Southeast Asia - Today and Tomorrow, Praeger, New York, 1961, p. 7.

Economic Structure:

Though the countries of Southeast Asia differ widely in race, language, religion and other aspects of culture, the predominance of agricultural production in all of the countries gives a degree of homogeneity to the area. Politically, all except Thailand are former colonies that have regained their freedom since 1946. Most of the countries have tried to establish democratic governments but with little success.

Primary employment, as distinct from employment in secondary or tertiary industry, remains dominant in all countries of the region. Of the total population gainfully employed, 89 percent are in agriculture in Thailand, 70 percent in Burma, 69 percent in the Philippines³ and Indonesia, and 61 percent in Malaya.

Agriculture in Southeast Asia is a precarious occupation, not only because it is greatly dependent on nature, but also because the crops grown are limited in variety and returns are subject to the uncertainties of international markets.⁴ About 50 percent of the net national product is of agricultural origin and the major part of the foreign exchange is derived from agricultural exports.⁵ The average percentage of the working population engaged in agriculture is approximately 76 percent or more; (as compared with countries such as Western Europe, Britain, North America and Oceania, where the range is 5 and 35 percent)⁶. The dominant position of agriculture coupled with the lack of diversification in agricultural production renders the economy of this area extremely vulnerable. The prices of primary products such as rice, rubber, sugar, are subject to wide fluctuations so that a small

3. United Nations, Yearbook of Labour Statistics, 1945-46, Ninth Issue, International Labour Office, Montreal, 1947, pp. 7-19.

4. This point shall be discussed in the following section.

5. United Nations, Economic Survey of Asia and Far East, New York, 1961, p.14.

6. The Colombo Plan, Co-operative Economic Development in South and Southeast Asia, Vol. 8, No. 12, The Colombo Plan Bureau, Colombo, 1963, p.1.

excess in supply over demand depresses prices considerably⁷.

Another characteristic of the Southeast Asian economy is its extremely low productivity (man hours). This has its root in a number of factors: social, political and economic. Among the economic factors, the pre-dominance of agricultural production along traditional lines and the extremely limited use of mechanical power as a source of energy are the most important. Despite the fact that the majority of working population is engaged in agricultural production, the yield per area unit is also low. Table 2 shows the productivity of major agricultural crops; such as rice, maize and sugarcane in the principal countries of the region.

Table 2. Southeast Asia: Productivity of Major Agricultural Crops in Principal Producing Countries. (Selected Years)

COUNTRY	RICE		MAIZE		SUGARCANE	
	1948/50- 1952/53	1957/58- 1959/60	1948/49- 1952/53	1957/58- 1959/60	1948/49- 1952/53	1957/58- 1959/60
Burma	1.46	1.57	-	-	-	-
Indonesia	1.63 ^a	1.70	0.68 ^b	0.91	123.0	78.0 ^b
Federation of Malaya	1.85	2.19	-	-	-	-
Philippines	1.18	1.08	0.72	0.67	-	-
Thailand	1.31	1.35	0.91	1.50	17.0	33.0

Source: Based on United Nations, Economic Survey of Asia and Far East, 1961, New York, p. 14.

a. 1952/53 only.

b. Java only.

7. United Nations, Economic Survey of Asia and Fareast, New York, 1948. p. 20.

Generally the low productivity as indicated by Table 4 is mainly caused by the intensive application of labour to land, in contrast to high capital intensity in Europe and North America. Thus the pressure of population is generally felt in all the countries of this region. Other factors responsible for the low productivity in this region are lack of savings to develop improved techniques, wasteful systems of land tenure (including fragmentation of land holdings), and social customs affecting land utilization.

All these features of the economy contribute to the inevitable evil of poverty which tends to be self-perpetuating. According to the United Nations studies, the amount of saving relative to disposable income was only 13 percent for Burma, and minus 2 percent for Philippines in 1953⁸. Evidently, there exists very limited margins for saving from which capital can be accumulated to assist production in the future. Thus a 'vicious circle' in the form of a cumulative process, exists. Myrdal states that international trade can stimulate production of primary products in the underdeveloped countries to a limited extent only, due to the inelastic demands in the export market.⁹ This is true for the foodstuff exporting countries such as Burma and Thailand whereas in the raw material exporting countries Malaya, Indonesia and the Philippines, demand tends to be more elastic.¹⁰

8. United Nations, Yearbook of National Accounts Statistics, New York, 1960, p. 279.

9. Myrdal, G., Economic Theory and Under-Developed Regions, London, 1937, p. 12.

10. Shall be discussed in the following sections.

Economic Development in these countries has thus become geared to development in export markets which in turn are related to the level of economic activity in industrial countries.

Indicators of Economic Growth in Southeast Asia

Economic growth has been defined as 'a sustained increase in¹¹ population and product per capita of a nation'. The proximate causes of growth are identified as :

- (a) An effort to economies - either by reducing the cost of any given product, or by increasing the yield from any given input or effort or of other resources.
- (b) An increase in and application of knowledge. Kuznets, for instance, considers this as the major determinant. "The major capital stock of an industrially advanced nation", he says, "is not its physical equipment; it is the body of knowledge amassed from tested findings and discoveries of empirical science, and the capacity and training of its population to use their knowledge effectively".¹²
- (c) Increase in the physical equipment of society or amount of capital per head.¹³

11. Simon Kuznets, Six Lectures on Economic Growth, The Free Press of Glencoe III, 1959, p.1.

12. Simon Kuznets, "Toward a Theory of Economic Growth", in Robert Lekachman (ed.), National Policy for Economic Welfare at Home and Abroad, New York; Russel and Russel Inc., 1961.

13. These are offered by Arthur Lewis as the "proximate causes of economic growth", in The Theory of Economic Growth, (London: George Allen & Unwin Ltd., 1955), p. 11.

The fact of the matter is that "growth," however defined, involves many dimensions. It is not surprising then that economists have not been able to formulate a theory of economic growth, if by theory we mean "a statement of testable relations among empirically identifiable factors, such relations having been found relatively invariant in time and space."¹⁴

Various authors have emphasized different aspects of the growth process and indicated different prime moves and have accordingly provided different models integrating their key functions into equations of growth. This is particularly true of the schematic models of the Harrod-Domar type, but it is equally true of the models of the classical economists too.¹⁵

In summarizing the essential features of growth and development - the features on which there is substantial agreement and which have been confirmed by the empirical investigations of Colin Clark and Kuznets, for example - we observe that capital accumulation, resource discovery, population growth and technological progress, are

14. Kuznets, loc. cit.

15. R. F. Harrod, Towards a Dynamic Economics, London: Macmillan & Co., Ltd., 1949, Chapter 3. Also by Harrod, "An Essay in Dynamic Theory", Economic Journal, March 1939, pp. 12-33. Evsey D. Domar, "Expansion and Employment," The American Economic Review, March 1947, pp. 34-55. For an equational formulation of the classical growth model see: Benjamin Higgins, Economic Development, Principles, Problems and Policies, New York: W. W. Norton & Co., Inc., 1959, pp. 85-104.

the key determinants.¹⁶ The effectiveness of these determinants is summarized in the national accounts which are an organized arrangement of all transactions, actual or imputed in an economic system. Distinctions are normally made between forms of economic activity, namely: between consumption, production and accumulation of capital. Sectors or institutional subdivisions of the economy are separately evaluated and types of transactions such as sales and purchases are recorded. The summation is national income computed as the net value of all final goods and services produced by a nation within an accounting period, usually a year.

If the economic goods comprising the national income are examined in the process of their creation in various branches of the economy relative to the services of capital and labour employed in them, then national income measures the productivity of the economic system. If, on the other hand, national income is measured in its distribution phase, as a flow of money incomes from producing units to the participants in production, it appears as a measure of the

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16. By population growth I presume is meant an optimum rate of population change, or otherwise a rate of growth in population which enables a more effective use to be made of the resources of a country in the dynamic sense. There are at least four ways whereby population can be excessive and therefore hinder the processes of growth and structural change. A country is over-populated if:
- (1) it would have a larger output per head with a smaller population,
 - (2) the population is larger than can be fed without importing food,
 - (3) in an extreme sense, the country's population is so large relatively to its resources that a change in population would have no effect on total output, and
 - (4) a country is using up irreplaceable resources at an excessive rate.

W. Arthur Lewis, The Theory of Economic Growth, George Allen and Unwin Ltd., 1961, pp. 304-320.

equitableness of the existing social and economic system. Thirdly, if these economic goods are examined in the process of their consumption by the members of society or of their addition to capital formation, then national income appears as a measure of economic welfare. An examination of all three phases - production, distribution and disposition is essential for a balanced appraisal of an economy's operations. The three phases correspond to the three ways in which national income can be measured i.e. gross output, factor incomes and gross national expenditures.

National accounting in the countries of Southeast Asia, as in most underdeveloped countries, is based on expenditures i.e. on the aggregation of goods and services according to the final uses to which they are put in the economy (GNE). This is arrived at by adjusting expenditure on Gross Domestic Product for the factor payments from abroad.

The basic question, in what ways are GNE figures realistic for countries like those of Southeast Asia and to what extent do changes in GNE indicate real changes in the economies given the subsistence based nature of these economies and the paucity of statistics on production?

There is of course a division of opinion among experts about the applicability of the concept of GNE to underdeveloped economies. Kuznets contends that economic goods relevant for national income purposes - and which the accounts attempt to estimate - are the goods which are usually traded in at the market.

"The most distinctive attribute of economic activity ... is its close connections with the market, and the most conspicuous characteristic of economic goods is that they

usually appear on the market."¹⁷

It is the market, with its vast mechanism for the disposition of diverse goods that reveals the ties binding the separate units in the economic system and segregates economic goods from others.

"Therefore", says Kuznets, "we define economic goods as the commodities, services, arrangements, etc., that are dealt in on the

market".¹⁸ In other words the line is drawn "that will fit the experience of recent decades alone and be valid solely, for the mature

economies".¹⁹ In the same strain David Creamer contends that national income estimates can have but limited applicability in the underdeveloped country. He concludes, "and if estimates are continued for such inarticulated economies, they can but have little meaning".²⁰

The economies of the countries of Southeast Asia are certainly "inarticulated" in the sense that stratification impedes communication between the sectors of the economy - more particularly between the subsistence and industrial sectors. In general, the smaller the ratio of subsistence to commercial production, the more nearly would market prices reflect social values and the higher the degree of integration among the social and ethnic groups, the greater is the degree of articulation in the economy. These are broad

17. S. Kuznets, "National Income and Its Composition, 1919-1938", National Bureau of Economic Research, New York, 1954, p. 7.

18. Ibid.

19. Ibid.

20. David Creamer, "Use of National Income Estimates in Underdeveloped Areas", Income & Wealth Series III, Bowes & Bowes, Cambridge, 1953, p. 214.

generalizations, but they are the generalizations which lie at the centre of the concept of the market.

Any estimates of growth of the Southeast Asian countries will have to take into account these structural features. In particular, some new scientific methods must be found to measure subsistence production. The volume of subsistence production is important for a number of reasons:

- (1) The production for own use in agriculture, forestry and fishing could make, by its magnitude, an important contribution to the levels of living. Its evaluation is useful for policy making in the estimation of needs.
- (2) The inclusion of a subsistence estimate in an income time series will allow a more realistic assessment to be made of the rate of growth of an economy. Without the inclusion of this relatively stagnant element, rates of growth could be much magnified.
- (3) There are three additional reasons for which changes in the magnitude of this item will be of special concern to governments of Southeast Asia as development proceeds:
 - (a) in assessing the trend of rural levels of living, especially consumption patterns;
 - (b) in evaluating the trends in supply of agricultural production with the shift from subsistence to production for the market, and
 - (c) in assessing the impact of migration and rural depopulation (urbanization) upon subsistence output.

- (4) The size of rural capital formation by households is unknown and it would be important to estimate more accurately this annual contribution to total capital formation.
- (5) The investment potential of subsistence activities is likely to be tapped in future years and the assessment of this item could assume an increasing importance.

The meaning of the discussion is clear. Considered as a value-determining institution, the market is seriously limited in Southeast Asia. This is a consequence of political, social factors and economic underdevelopment. Traditional institutions are firmly entrenched in these economies. But in some of these economies there is taking place a rapid commercialisation of production. A more meaningful concept of gross national product will have to recognise the dual nature of these economies and employ an accounting device which would incorporate into the conceptual framework a system of reflator indexes for valuing output in the traditional sector and for analyzing flows between the two sectors. The conceptual difficulties involved in such an exercise would be immense and probably hardly worth the exercise in view of the fact that the trend is towards greater convergence to the market concept and structural shift away from subsistence.

The data on gross product which are presented below might be considered therefore as showing rough orders of magnitude or more appropriately as indicating direction of change. We analyse the information on the assumption that rough approximation is preferable

to complete ignorance. Attempts will be made to study the rates of growth of the various countries in Southeast Asia in relation to capital formation, consumer expenditures, the degree of dependence on foreign trade and finally the income elasticity of demand for imports for the respective countries. The analysis is kept at the level of generalities since a more detailed scrutiny will be made of the forces of demand for and supply of exports, imports and the value ratios between them in subsequent chapters.

A study of the time series of national income in Southeast Asia reveals two things:

- (1) the wide divergence in rates of growth between the countries and
 - (2) the wide fluctuations in rates of growth in each country.
- Wide fluctuations in yearly rates of growth are of course evidence of economic instability. This instability, characteristic of Southeast Asia, originates from fundamental and deep-seated causes within these economies and from cyclical instability in the export markets of these countries.

Table 5 shows the aggregate national product of the principal countries in Southeast Asia 1948 - 61, measured in current domestic currencies. Rates of change are indicated in percentage variations. The range of year to year fluctuations are remarkable. On the whole Burma and the Philippines appear to have experienced a relatively more stable rate of growth than Indonesia, Thailand and Malaya.

In three years, 1948 to 1950, Burma experienced severe declines

Table 3. NATIONAL INCOME OF MAJOR COUNTRIES IN SOUTHEAST ASIA 1948 - 1961.

(In National Currencies)

	Burma		Indonesia		Malaya*		Philippines		Thailand	
Year	M. Kyats	% Change	M. Rupiah	% Change	M. Malayan \$.	% Change	M. Pesos	% Change	M. Baht	%Change
1948	3,132	-	-	-	-	-	5,511	-	16,668	-
1949	2,901	- 7.4	-	-	3,185	-	5,464	- 0.9	20,064	+ 20.4
1950	2,744	- 5.4	-	-	4,500	41.0	5,922	+ 8.4	23,377	+ 16.5
1951	3,199	+17.0	63.6	-	6,465	44.0	6,487	+ 9.5	24,746	+ 5.8
1952	3,520	+10.0	78.8	23.9	5,780	- 11.0	6,554	+ 1.0	25,907	+ 4.7
1953	4,033	+15.0	83.3	5.7	5,305	- 8.2	7,015	+ 7.0	29,186	+ 12.7
1954	3,917	- 2.9	91.8	10.2	-	-	7,145	+ 1.9	28,664	- 1.8
1955	4,126	+ 5.3	120.3	31.0	4,070	- 8.2	7,624	+ 6.7	36,400	+ 26.9
1956	4,466	+ 8.2	140.3	16.6	4,250	+ 4.4	8,288	+ 8.7	37,957	+ 4.3
1957	4,581	+ 2.6	165.0	17.6	4,340	2.1	8,764	+ 5.7	35,544	- 6.4
1958	4,453	- 2.8	174.2	5.6	3,903	-10.1	9,323	+ 6.4	40,202	+ 13.1
1959	4,637	+ 4.1	20.29	16.5	4,232	+ 8.4	9,768	+ 4.7	43,344	+ 7.8
1960	4,930	+ 6.3	213.0	5.0	4,535	+ 7.2	10,600	+ 8.5	-	-
1961	5,250	+ 6.5	-	-	-	-	11,700	+10.4	-	-

Source: Based on United Nations, Economic Survey of Asia and Far East, New York, 1960, p. 126.

* Since 1955, the available data covers Malaya only.

in national income of the magnitude of minus 7.4 (1948) and minus 5.4 in 1950. This is perhaps attributable to the political unrest which followed the years immediately following her independence and the compounding effects of the heavy capital losses she sustained during the Second World War. Under the stimulating impulse of the Korean War and the boom in primary product prices the Burmese economy did not only arrest the decline (national product for the first time exceeded in absolute terms the level of 1948 by some 67 million kyats) but more remarkably the increase in the product from 1950 to 1951 was of the order of 17 percent. The economy has since grown at fluctuating rates in primary product prices. A reverse occurred in 1954 when national product fell by 2.9 percent from 1953 and again in 1958 when a decline of 2.8 occurred. As we will show in the next chapters, the path of growth of these countries is strongly influenced by the business cycles originating from the industrialized countries of the United States and Europe which form the principal markets of these countries. For example, the relative decline in 1957 and the absolute decline in 1958 correlate with the 1957-58 recession in the United States. A definite upward trend, 6.3 in 1960 and 6.5 in 1961 similarly corresponds to the sustained expansion occurring in the world economy under the stimulus of the record expansion in the United States since 1961.

On the whole the mean rate of growth in Burma is between 4 and 5.5 per cent per year. It is about 4.5 per cent per year (arithmetic mean since 1948), 4.8 percent with a two-year moving average, 5.2 per cent with a three-year moving average and 5.3 per cent with a

five-year moving average. In absolute terms, the economy has expanded by 64 per cent between 1951 and 1961, indicating an average yearly growth of about 5.8 per cent. This has to be deflated with an average price index. Since inflation has been quite severe in Burma as in many Southeast Asian countries, the actual rise in real output may be very modest indeed.

Fluctuations in the rate of growth of Indonesia are even more remarkable. Here again the basic causal forces are indentical with those of Burma - namely the Korean boom which exhausted itself by 1953, the 1957-58 recession and the long-phased expansion of the 1960's. The sharpest rise in the Indonesian economy occurred in 1955 when total product increased from 91.8 million rupiahs in 1954 to 120.3 million rupiahs in 1955, a change of about 31 per cent. Since then growth in the Indonesian economy has been more apparent than real. This is because of the occurrence of severe inflation in Indonesia. To use the consumer price index for Java, to illustrate the point; the index stood at 244 per-centage points in 1958 as compared to 100 in 1953. Within the same period the Indonesian economy in current prices expanded from 91.8 million rupiahs to 174.2 million rupiahs, a rise of about 89 per cent. When the 1958 figure is deflated with the consumer price index however, the size of the product is only 71 per cent of that of 1953.²¹ The source of the Indonesian economic stagnation is largely political instability.

21. Report of the Bank of Indonesia for 1956-57 through 1958-59.

"The national crisis precipitated by the anti-Dutch actions of 1957 was merely a prelude to the greater threat of national dissolution posed by outright rebellion of dissident provinces. Resolute and apparently successful military action against the dissident groups now appears to be one of the most far-reaching events in recent Indonesian history. Its impact upon an economy already in disequilibrium has been so grave that immediate and dramatic measures are needed to prevent per capita income from falling below tolerable levels."²²

Although political instability does not fall into the area under investigation our thesis is that instability in export proceeds of Indonesia confounds the attempts to promote economic development and the failure to promote economic development feeds fuel to the political instability and the threat of communism.

Thailand experienced a high rate of growth in national income since 1949 due to rapid post-war recovery in production of primary products especially rice.²³ In 1954 and 1955 violent fluctuations occurred. For the two years, gross national product changed from minus 1.8 percent to 26.9 per cent respectively, which suggests that the economy of Thailand is highly instable. Malaya also had remarkable rate of growth

22. D. S. Paauw, Financing Economic Development-The Indonesian Case, The Free Press, Glencoe, Illinois, 1961, pp. 42-43.

23. Wilson, David A., Politics in Thailand, Cornell University Press, Ithaca, New York, 1963, p. v-xi.

especially in the years of 1949 and 1950, 41 per cent and 44 per cent respectively, such significant growth was mainly due to the Korean War boom. The terms of trade also reached its peak in 1951.²⁴

Therefore from Table we find that a relatively high rate of growth in national income, together with violent year-to-year fluctuations has been experienced by all the major countries in Southeast Asia.

Movements in Principal Economic Schedules:

An analysis of the structural components of the gross domestic products of these Southeast Asian countries reveals typical features of underdeveloped countries, namely; high consumption as a ratio to the gross product relative to capital formation. Philippines devotes on the average about 80 percent of gross domestic product to private personal consumption and only about 8 per cent to capital formation. (Table 5). Thailand and Burma show a moderation in consumption which averages about 72 per cent and 70 per cent respectively, whilst, correspondingly, gross domestic capital formation accounts for better than 16 per cent on the average for each of them. Whilst the domestic product expanded by 70.5 per cent in Thailand (Table 6), between 1951 and 1959 (i.e. an average rate of growth of about 7.7 per cent) in response to the stimulus of capital formation, the expansion in Philippines of 63.4 per cent between 1951 and 1960 and at an average annual rate of 6.3 per cent was higher than an expansion of 54.1 per cent for

24. See discussion in the next chapter.

Table 4. BURMA: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 - 1963

(Current Market Prices) Million Kyats.

	1950 ^a		1951		1952		1953 ^a	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	2,944	77.9	2,668	72.3	2,724	66.7	3,420	64.6
2. General Government Consumption.	321	8.5	318	8.6	395	9.7	504	9.5
3. Gross domestic fixed capital formation.	387	10.3	431	11.7	610	14.9	767	14.5
4. Increase in Stocks.	-41	-1.1	45	1.2	133	3.3	316	0.6
5. Exports of Goods and Services.	728	19.3	1,020	27.6	1,154	28.3	1,342	25.4
6. Less Imports of Goods and Services ^b .	564	14.9	792	21.5	932	22.9	1,058	19.9
Expenditure on Gross Domestic Product.	3,775	-	3,690	-	4,084	-	5,291	-
7. Net factor Income from abroad. ^c	-8	-	-8	-	-5	-	2	-
Expenditure on Gross National Product.	3,767	-	3,682	-	4,079	-	5,293	-
8. Less Indirect taxes.	204	-	-	-	-	-	350	-
9. Plus Subsidies	37	-	-	-	-	-	16	-
10. Less Provisions for the Consump- tions for fixed capital.	263	-	-	-	-	-	310	-
Net National Product at Factor Cost = National Income.	3337	-	-	-	-	-	4,649	-

Table 4. BURMA: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 - 1963

(Current Market Prices) Million Kyats.

(Cont'd)

	1954		1955		1956		1957 ^a		1958	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	2,975	64.8	3,834	67.7	3,833	65.0	4,468	71.1	4,596	72.7
2. General Government Consumption.	698	15.2	626	11.0	692	11.7	758	12.0	858	13.6
3. Gross domestic fixed capital formation.	833	18.2	1,135	20.0	1,249	21.2	1,308	20.8	1,306	20.7
4. Increase in Stocks.	178	3.9	26	0.4	-43	-0.7	14	0.2	-98	-1.5
5. Exports of Goods and Services.	1,113	24.3	1,165	20.6	1,232	20.9	1,245	19.8	984	15.6
6. Less Imports of Goods and Services.	1,208	26.3	1,120	19.7	1,071	18.2	1,512	24.0	1,323	20.9
Expenditure on Gross Domestic Product.	4,589	-	5,666	-	5,892	-	6,281	-	6,323	-
7. Net factor Income from abroad.	8	-	-1	-	-12	-	-1	-	-14	-
Expenditure on Gross National Product.	4,597	-	5,665	-	5,880	-	6,280	-	6,309	-
8. Less Indirect taxes.	415	-	398	-	549	-	516	-	506	-
9. Plus Subsidies.	-	-	9	-	4	-	4	-	2	-
10. Less Provisions for the Consumptions for fixed capital.	-	-	349	-	362	-	383	-	396	-
Net National Product at Factor Cost = National Income.	-	-	4,910	-	5,124	-	5,352	-	5,399	-

Table 4. BURMA: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 - 1963

(Current Market Prices) Million Kyats.

(Cont'd)

	1959 ^a		1960 ^a		1961 ^a		1962 ^a		1963 ^a	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	4,478	68.1	5,046	71.3	5,217	72.9	5,258	68.2	5,363	66.1
2. General Government Consumption.	884	13.5	986	13.9	948	13.1	1,029	13.4	1,079	13.3
3. Gross domestic fixed capital formation.	1,179	17.9	1,124	15.9	1,083	14.9	1,207	15.7	1,338	16.4
4. Increase in Stocks.	132	2.0	104	1.5	160	2.2	65	0.8	311	0.4
5. Exports of Goods and Services.	1,098	16.7	1,274	18.0	1,088	15.0	1,315	17.1	1,336	16.5
6. Less Imports of Goods and Services.	1,200	18.3	1,460	20.6	1,264	17.5	1,168	15.2	1,310	16.1
Expenditure on Gross Domestic Product.	6,571	-	7,077	-	7,232	-	7,706	-	8,117	-
7. Net factor Income from abroad. ^c	- 25	-	-13	-	-19	-	-4	-	-2	-
Expenditure on Gross National Product.	6,546	-	7,064	-	7,213	-	7,702	-	8,115	-
8. Less Indirect Taxes.	506	-	713	-	674	-	711	-	708	-
9. Plus Subsidies.	2	-	2	-	9	-	10	-	5	-
10. Less Provisions for the Consump- tions for fixed capital.	414	-	438	-	449	-	480	-	502	-
Net National Product at Factor Cost = National Income.	5,628	-	5,915	-	6,099	-	6,521	-	6,916	-

Source: United Nations, Yearbooks of National Accounts Statistics, New York, 1957, p. 26, 1958, p. 31,
1960, p. 33, & 1961, p. 34.

a. Fiscal Year ending 30 September.

b. Recorded c.i.f.

c. Investment income only.

Table 5. PHILIPPINES: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 - 1963,

(Current Market Prices) Million Pesos.

	1950		1951		1952		1953		1954	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	5,533	83.1	6,371	85.9	6,479	85.5	6,816	84.0	6,960	84.0
2. General Government Consumption.	476	7.2	540	7.3	600	7.9	631	7.8	654	7.9
3. Gross domestic fixed capital formation.	485	7.3	491	6.6	486	6.4	559	6.9	563	6.8
4. Increase in Stocks.	84	1.3	68	.9	66	.9	100	1.2	156	1.9
5. Exports of Goods and Services.	946	14.2	1,087	14.7	1,001	13.2	1,141	14.1	1,118	13.5
6. Less Imports of Goods and Services.	869	13.1	1,142	15.4	1,056	13.9	1,136	14.0	1,168	14.1
Expenditure on Gross Domestic Product.	6,655	-	7,415	-	7,576	-	8,111	-	8,283	-
7. Net factor Income from abroad	-30	-	-48	-	-57	-	-109	-	-113	-
Expenditure On Gross National Product.	6,625	-	7,367	-	7,519	-	8,002	-	8,170	-

Table 5. PHILIPPINES: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 - 1963,

(Current Market Prices) Million Pesos.

(Cont'd)

	1955		1956		1957		1958		1959	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	7,501	85.0	7,873	82.6	8,523	84.2	8,982	83.3	9,392	81.7
2. General Government Consumption.	718	8.1	800	8.4	853	8.4	911	8.5	986	8.6
3. Gross domestic fixed capital formation.	624	7.1	777	8.1	890	8.8	871	8.1	945	8.2
4. Increase in Stocks.	165	1.9	95	1.0	146	1.4	89	.8	68	.6
5. Exports of Goods and Services.	1,130	12.8	1,226	12.9	1,204	11.9	1,274	11.8	1,344	11.7
6. Less Imports of Goods and Services.	1,318	14.9	1,234	12.9	1,497	14.8	1,348	12.5	1,236	10.7
Expenditure on Gross Domestic Product.	8,820	-	9,537	-	10,119	-	10,779	-	11,499	-
7. Net factor Income from abroad	-133	-	-131	-	-128	-	-95	-	-130	-
Expenditure On Gross National Product.	86.87	-	9,406	-	9,991	-	10,684	-	11,369	-

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Table 5. PHILIPPINES: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1950 - 1963,
(Current Market Prices) Million Pesos. (Cont'd)

	1960		1961		1962		1963	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	10,113	81.7	10,811	79.6	11,597	77.2	12,945	75.7
2. General Government Consumption.	1,091	8.8	1,223	9.0	1,420	9.5	1,649	9.6
3. Gross domestic fixed capital formation.	1,225	9.9	1,734	12.8	1,899	12.6	2,203	12.9
4. Increase in Stocks.	-17	-.1	66	.5	66	.4	95	.6
5. Exports of Goods and Services.	2,364	19.1	2,347	17.3	3,088	20.6	4,153	24.3
6. Less Imports of Goods and Services.	2,395	19.3	2,596	19.1	3,050	20.3	3,952	23.1
Expenditure on Gross Domestic Product.	12,381	-	13,585	-	15,020	-	17,093	-
7. Net factor Income from abroad	-225	-	-153	-	-78	-	-158	-
Expenditure On Gross National Product.	12,126	-	13,432	-	14,942	-	16,941	-

Source: United Nations, Yearbooks of National Accounts Statistics, 1957, p. 185, 1958, p. 185, 1960, p. 178, 1961, p. 212, 1964, p. 237.

Table 6. THAILAND: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1953 - 1963,

(Current Market Prices) Million Bahts

	1953 ^a		1955 ^a		1956 ^a		1957		1958	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	24,300	75.9	25,100	71.0	28,800	73.8	31,043	72.9	32,301	75.8
2. General Government Consumption Expenditure.	3,600	11.3	4,100	11.6	4,400	11.3	4,188	9.8	4,223	9.9
3. Gross Domestic Fixed Capital Formation.	4,600	14.4	4,700	13.4	5,100	13.1	6,883	16.2	7,034	16.5
4. Increase in Stocks.	300	.9	1,700	4.8	600	1.5	788	1.9	443	1.0
5. Exports of Goods & Services.	6,000	18.8	7,500	20.3	7,900	20.3	8,641	20.3	7,053	16.5
6. Less Imports of Goods and Services.	6,800	21.3	7,700	20.0	7,800	20.0	8,954	21.0	8,423	19.8
Expenditure on Gross Domestic Product ^b .	32,000	100	35,400	100	39,000	100	42,589	100	42,631	100
7. Net Factor Income From Abroad	-100	-	-100	-	-200	-	-253	-	-151	-
Expenditure on Gross National Product ^b .	31,900	-	35,300	-	38,800	-	42,336	-	42,481	-
8. Less Indirect taxes Net of Subsidies.	-	-	-	-	-	-	2,893	-	2,983	-
9. Less Provisions for Consumption of Fixed Capital	-	-	-	-	-	-	2,088	-	2,180	-
Statistical Discrepancy.	200	-	4,100	-	2,200	-	822	-	971	-
Net National Product at Factor Cost = National Income.	-	-	-	-	-	-	36,533	-	38,289	-

a. Estimates for years prior to 1957 shown in the table were prepared by a mission organized by the IBRD and published by the Bank in A Public Development Program for Thailand, The Johns Hopkins Press, Baltimore, 1959. They are not strictly comparable with the other estimates.

Table 6. THAILAND: EXPENDITURE ON GROSS NATIONAL PRODUCT, 1953 - 1963,

(Current Market Prices)

Million Bahts

(Cont'd)

	1959		1960		1961		1962		1963	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
1. Private Consumption Expenditure.	34,701	74.2	38,003	71.5	41,055	69.9	45,061	72.6	49,952	73.4
2. General Government Consumption Expenditure.	4,187	9.0	5,396	10.1	5,281	9.0	5,742	9.2	5,776	8.5
3. Gross Domestic Fixed Capital Formation.	8,233	17.6	9,212	17.3	9,706	16.5	11,918	19.2	13,925	20.5
4. Increase in Stocks.	851	1.8	1,160	2.2	425	0.7	581	0.9	639	0.9
5. Exports of Goods & Services.	8,112	17.3	9,327	17.5	10,917	18.6	10,655	17.2	10,954	16.1
6. Less Imports of Goods and Services.	9,314	19.9	9,917	18.6	10,674	18.2	11,858	19.1	13,196	19.4
7. Expenditure on Gross Domestic Product. ^b	46,770	100	53,181	100	58,710	100	62,099	100	68,050	100
7. Net Factor Income From Abroad	-136	-	-99	-	-93	-	-98	-	-35	-
Expenditure on Gross National Product. ^b	46,634	-	53,082	-	56,617	-	62,001	-	68,015	-
8. Less Indirect taxes Net of Subsidies.	4,021	-	4,648	-	5,110	-	5,338	-	5,953	-
9. Less Provisions for Consumption of Fixed Capital	2,424	-	2,759	-	2,922	-	3,158	-	3,292	-
Statistical Discrepancy.	1,713	-	2,005	-	1,734	-	1,059	-	2,219	-
Net National Product at Factor Cost = National Income.	41,902	-	47,680	-	50,319	-	54,564	-	56,551	-

Source: Based on United Nations, National Accounts Statistics, New York, 1964, p. 291

b. Includes a statistical discrepancy.

Burma at an annual average rate of 5.4 per cent. This is a curious theoretical contradiction. One would expect the rate of growth in Burma to be higher than that of Philippines on account of the fact that Burma devotes a higher portion of her output to capital formation.

Two possible explanations may be offered for this apparent contradiction. It is possible that although the average rate may be lower in the Philippines than in Burma, the marginal rate of capital formation is higher in the Philippines than in Burma. This appears to be borne out by the statistical evidence. The rate of change in domestic capital formation (the first differential) particularly since 1958 has been far higher in the Philippines than in Burma. The rate of change in domestic capital formation in the Philippines since 1958 has been of the order of 8.5, 29.6, 41.6, 9.5, and 16.0 (1963) in Table 8. The comparable figures for Burma are: -9.7, -4.7, -3.6, 11.4 and 10.9. (Table 7). It is also interesting to note that, on the average, the marginal changes in consumption have been far lower in the Philippines than in Burma. This would indicate that in percentage terms a larger proportion of increases in gross product is devoted to consumption in Burma than in the Philippines. The figures in Tables 1 and 2 support this analysis.

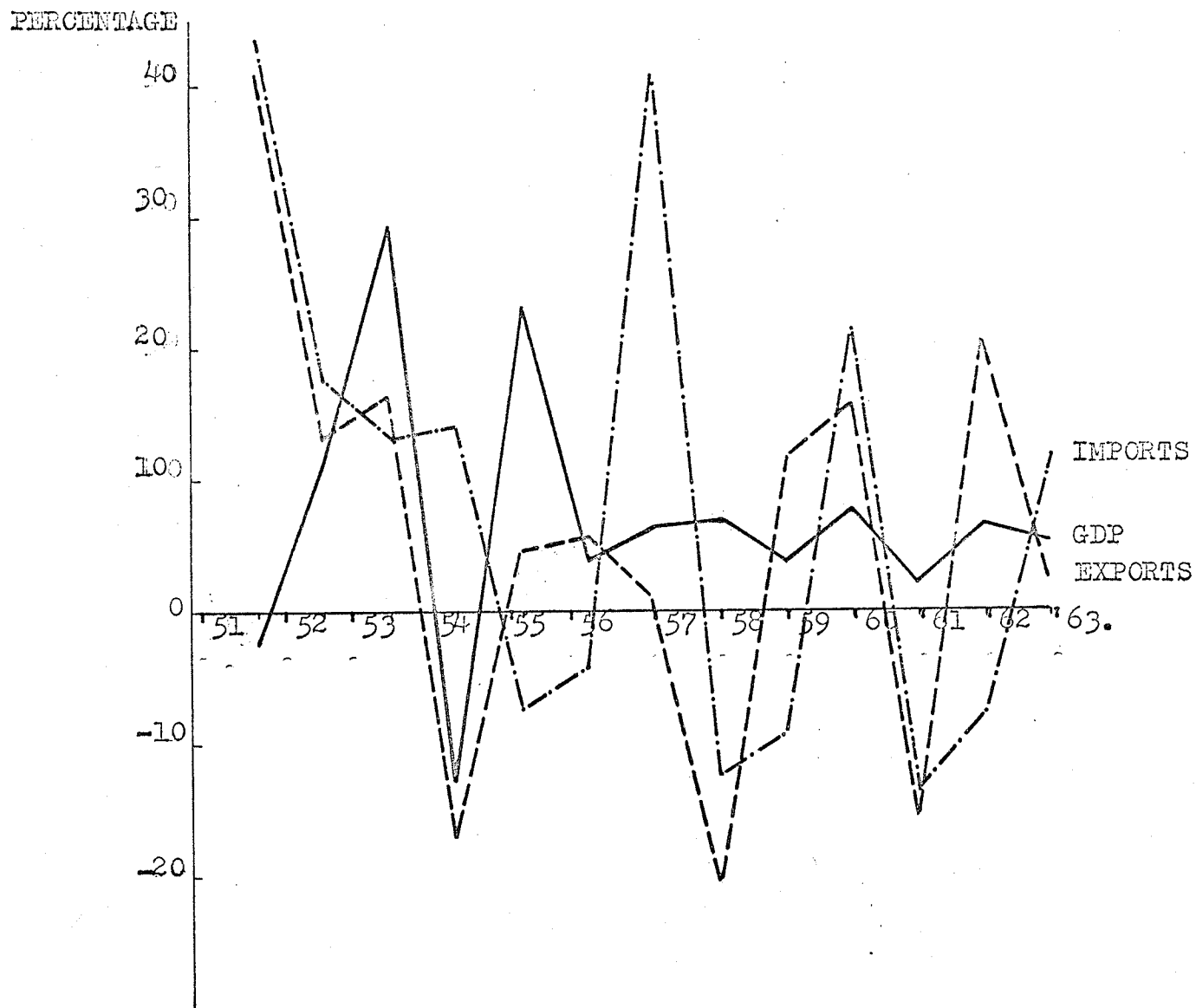
The second possible explanation may simply be that, in marginal terms, the effectiveness of capital formation in the Philippines is higher than that of Burma. This would be the case if capital formation in the Philippines occurred in such sectors as industrial production and in public utilities, particularly, roads, communications,

Table 7. BURMA: RATES OF CHANGE IN NATIONAL ACCOUNTS, 1950 - 1963.

	<u>1951</u> 1950	<u>1952</u> 1951	<u>1953</u> 1952	<u>1954</u> 1953	<u>1955</u> 1954	<u>1956</u> 1955	<u>1957</u> 1956	<u>1958</u> 1957	<u>1959</u> 1958	<u>1960</u> 1959	<u>1961</u> 1960	<u>1962</u> 1961	<u>1963</u> 1962
G. D. P.	-2.25	11.1	29.5	-13.3	23.5	4.0	6.6	0.7	3.9	7.7	2.2	6.6	5.3
Private Consumption	-9.4	2.1	25.6	-13.1	28.9	-0.1	16.6	2.9	-2.6	26.8	3.4	0.8	2.0
Government Consumption	-1.0	24.2	27.6	38.5	-10.3	10.5	9.5	13.2	3.0	11.5	3.9	8.5	4.9
Gross Domestic Capital Formation	11.4	41.2	25.7	8.6	36.3	10.0	4.7	-0.2	-9.7	-4.7	-3.6	11.4	10.9
Exports of Goods and Services	40.1	13.1	16.3	-17.1	4.7	5.8	1.1	-21.0	11.6	16.0	-15.6	20.9	1.6
Imports of Goods and Services	40.4	17.7	13.5	14.1	-7.3	-4.4	41.2	-12.5	-9.3	21.7	-13.4	-7.6	12.2

Source: Based on data supplied by Table 6, Expenditure on National Product 1950 - 1963.

CHART 2.
BURMA: COMPARATIVE RATES OF CHANGE -RGDP, EXPORTS
AND IMPORTS, 1950-1963.



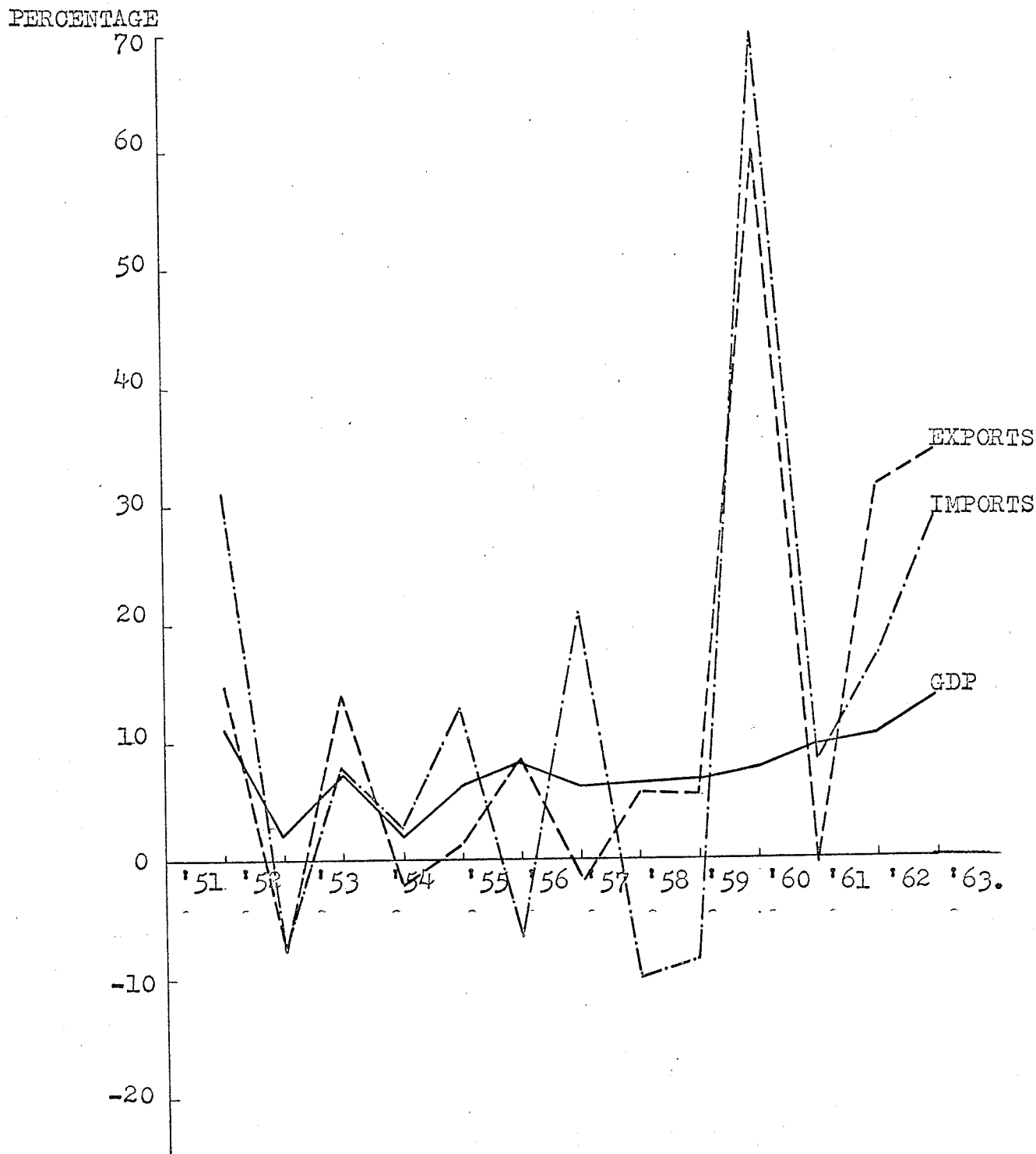
Source: Table 7.

Table 8. PHILIPPINES: RATES OF CHANGE IN NATIONAL ACCOUNTS,
1950 - 1963.

	<u>1951</u> <u>1950</u>	<u>1952</u> <u>1951</u>	<u>1953</u> <u>1952</u>	<u>1954</u> <u>1953</u>	<u>1955</u> <u>1954</u>	<u>1956</u> <u>1955</u>	<u>1957</u> <u>1956</u>	<u>1958</u> <u>1957</u>	<u>1959</u> <u>1958</u>	<u>1960</u> <u>1959</u>	<u>1961</u> <u>1960</u>	<u>1962</u> <u>1961</u>	<u>1963</u> <u>1962</u>
G. D. P.	11.4	2.2	7.1	2.1	6.5	8.1	6.1	6.5	6.7	7.7	9.7	10.6	13.8
Private Consumption	15.1	1.7	5.2	2.1	7.8	5.0	8.3	5.4	4.6	7.7	7.0	7.3	11.6
Government Consumption	13.4	11.1	5.2	3.6	9.8	11.4	6.6	6.8	8.2	10.6	12.1	16.1	16.1
Gross Domestic Fixed Capital Formation	1.2	-1.1	15.0	0.7	10.8	24.5	14.5	-2.2	8.5	29.6	41.6	9.5	16.0
Exports of Goods and Services	14.9	-8.0	13.9	-2.1	1.1	8.5	-1.8	5.8	5.5	75.9	-0.8	31.6	34.5
Imports of Goods and Services	31.4	-7.6	7.6	2.8	12.8	-6.4	21.3	-10.0	-8.4	93.8	8.4	17.5	29.6

Source: Based on data supplied by Table 7, Expenditure on Gross National Product 1950 - 1963.

CHART 3.
PHILIPPINES: COMPARATIVE RATES OF CHANGE - GDP, EXPORTS
AND IMPORTS, 1950-1963.



Source: Table 8.

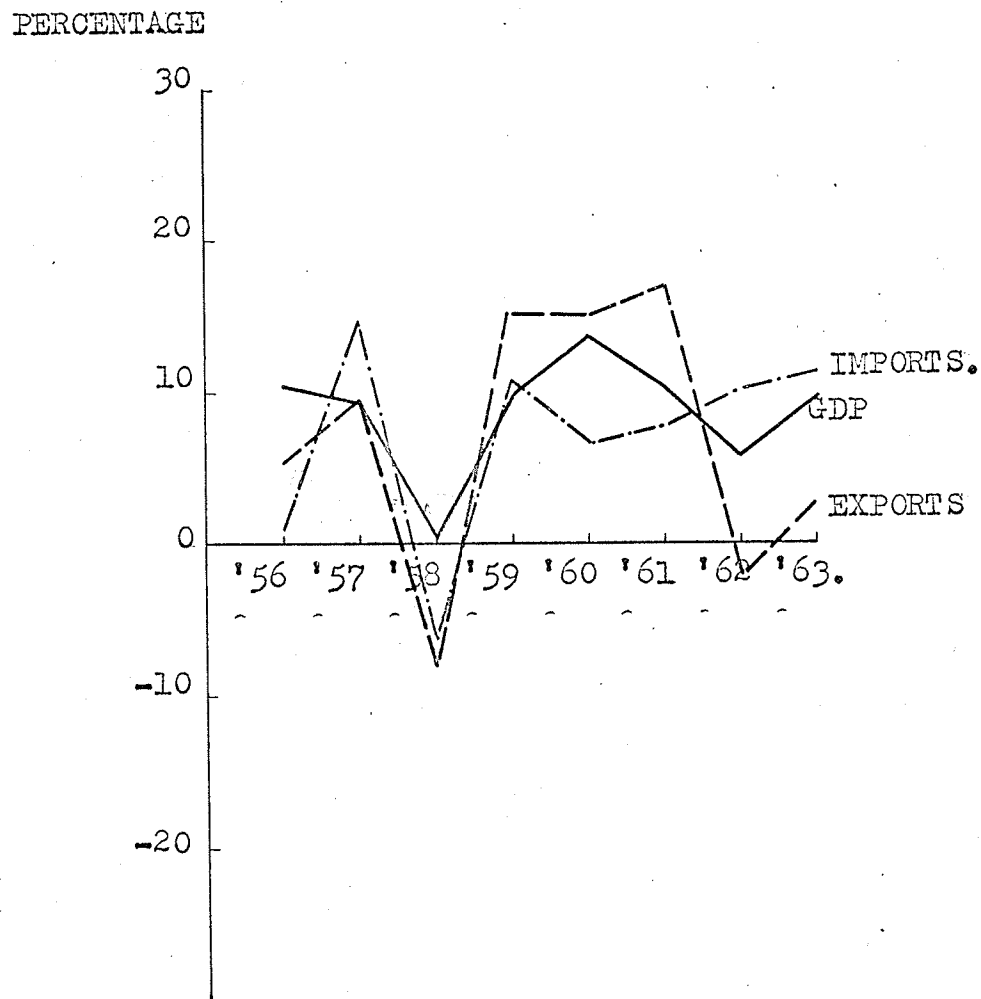
Table 9 . THAILAND: GROWTH RATE IN NATIONAL ACCOUNTS, 1956 - 1963.

	<u>1956</u> <u>1955</u>	<u>1957*</u> <u>1956</u>	<u>1958</u> <u>1957</u>	<u>1959</u> <u>1958</u>	<u>1960</u> <u>1959</u>	<u>1961</u> <u>1960</u>	<u>1962</u> <u>1961</u>	<u>1963</u> <u>1962</u>
G. D. P.	10.2	9.2	0.1	9.7	13.7	10.4	5.8	9.6
Private Consumption Expenditure	14.7	7.8	4.1	7.4	9.5	8.0	9.8	10.9
Government Consumption Expenditure	7.3	-4.9	0.8	-0.9	28.9	-2.2	8.7	0.6
Gross Domestic Capital Formation	8.5	34.9	2.2	17.0	11.9	5.4	22.8	16.8
Exports of Goods and Services	5.3	9.4	-8.4	15.0	15.0	17.0	-2.4	2.8
Imports of Goods and Services	1.3	14.8	-6.0	10.6	6.5	7.6	11.1	11.3

* Figures for 195 /56 are not strictly comparable.

Source: Based on data supplied by Table 8. Expenditure on Gross National Product 1953 - 1963.

CHART 4. THAILAND: COMPARATIVE RATES OF CHANGE -
GDP, EXPORTS AND IMPORTS,
1955-1963.



Source: Table 9.

electricity and education which yield high external economies rather than in the construction of dwelling houses or in state enterprises which are inefficiently organised. This latter explanation may be of importance on account of the fact that Burma is more 'socialistic' than the Philippines. This is however, only a conjecture since there is as yet no proof that industrial organization in Philippines is more efficient than in Burma.

Another characteristic of Burma is the acceleration in the share of the gross product going into government consumption. From a low of 10.3 per cent in 1950, the government consumption expanded to an average of slightly over 20 per cent for the four years between 1955 and 1958. Since then, there has been a decline both in the percentage and in the acceleration. This is to be compared with the relative stability in the shares of government in gross expenditures in Philippines and Thailand. Government expenditures in the Philippines since 1950 show three distinct phases: from 1950 to 1954 when government consumed 7 but under 8 per cent: 1955 to 1960 when this increased to 8 but under 9 per cent. The third phase starts from 1961 when government expenditures have averaged over 9 per cent of the gross domestic product. In Thailand government spends approximately 10 per cent of the gross product. The ratios have been 9.0 per cent, 9.2 per cent and 8.5 per cent for the years 1961, 1962, and 1963. This stability is remarkable in view of the vigorous expansion taken place in both Thailand and the Philippines.

The moral appears to be this; there is less government involvement in the economies of Thailand and Philippines than in Burma.

At the same time growth is more vigorous in Thailand and Philippines than in Burma even though capital formation as a proportion of national income is higher in Burma than in the Philippines. It would appear therefore that "more" government is less efficient in the promotion of economic growth than "less" government.

The Foreign Trade Sector

It is the contention of this dissertation that the export sectors of the economies of Southeast Asian countries are the leading sectors. This means that the export sectors have unique significance for the rates of growth of these economies. This hypothesis implies a number of things:

1. Structural change in these economies depends upon the availability of imports of capital goods. Growth depends therefore upon imports of capital goods. The supply of capital goods imports is conditioned by the availability of foreign exchange. Therefore exports pay for the imports. Growth in these economies depends ultimately on their exports.
2. The process of growth and industrialization tends to increase the demand for food and consumer goods. Since the capacities of these economies to supply agricultural foodstuffs and other consumer wants are limited and inelastic, the increased consumer demand can be satisfied only through importation. Price stability therefore depends also on the extent to which foreign exchange is available to be allocated to the purchases of consumer goods.

3. The dependence of these economies on foreign trade increases their vulnerability. The larger the foreign trade ratio, the more vulnerable an economy is and the more growth in the economy becomes tied to the international market.

Between 1950 and 1963 exports accounted for between 16 and 28 per cent of gross national product in Burma. Imports have ranged between 15 and 26 per cent. Exports and imports play a slightly less significant role in the Philippines than in Burma. Between 1950 and 1963 exports have averaged roughly 15 per cent of the Philippines gross national output. A significant rise in exports as a percentage of national income has occurred since 1960: the highest recorded percentage being 24.3 in 1963. Imports appear to have moved uniformly with exports in both direction and in absolute share. This is true also of Thailand where export and import figures show a remarkable stability in the 11 year period between 1953 and 1963. The average share of exports in Thailand's national product has been about 19 per cent.

The foreign trade index measures the dependence of an economy on foreign trade. This is computed by dividing the sum of the domestic product and imports - this latter representing the total of the available resources to the economy - by the sum of exports and imports. The size of the index measures also the openness of an economy and therefore the vulnerability of the economy to disturbances originating from outside the borders of the economy.

The foreign trade ratio was about 37.4 per cent in Burma (Table 10) in 1951. It reached as high as 41.6 per cent in 1952 and

Table 10. FOREIGN TRADE RATIO OF BURMA, PHILIPPINES AND THAILAND,
1950 - 1963.

PERIOD	BURMA	PHILIPPINES	THAILAND
	¹ Foreign Trade Ratio	¹ Foreign Trade Ratio	¹ Foreign Trade Ratio
1950	29.8	24.1	-
1951	37.4	26.0	-
1952	41.6	23.4	-
1953	37.8	24.6	32.9
1954	40.0	24.2	-
1955	33.7	24.1	35.2
1956	33.0	22.8	33.5
1957	35.4	23.3	34.1
1958	30.2	21.6	30.9
1959	29.6	20.3	31.2
1960	32.0	32.2	30.5
1961	27.7	30.5	31.1
1962	28.0	34.0	30.4
1963	28.1	38.5	29.7

1. Sum of Imports and Exports divided by sum of G.D.P. and Imports.

Source: Based on data supplied by Tables 4, 5, and 6 in Chapter 2.

has since progressively declined. In 1962 it was 28 per cent. It was 28.1 per cent in 1963. The decline in the ratio does not necessarily suggest a progressive expansion in the industrial base of the domestic economy to substitute for imports. The decline has been contrived by the government through the curtailment of consumer imports by the imposition of exchange controls and quantitative restrictions. Nevertheless dependence on foreign markets to the extent of more than one quarter of gross national product complicates the problem of structural adjustments and changes in the terms of trade are that much more destabilizing for the domestic economy.

The foreign trade index for the Philippines appears to be increasing with the growth in national income. It averaged about 23 per cent for the decade of the 1950s but a critical jump occurred in 1960 when the index stood at 32.2 per cent. A sustained upward trend has continued. The index reached 38.5 in 1963. The rise in the index coincides with a period of rapid expansion in the Philippines' economy. The expansion was largely export oriented as exports gathered momentum in the 1960s. Exports increased from 11.7 per cent of GNP in 1959 to 19.1 in 1960. Exports represented 24.3 of GNP in 1963. Imports have followed the same pattern. The ratio of dependence on foreign trade has remained stable at about 30 per cent for Thailand since 1950.

The hypothesis that growth in these countries depends upon exports which provides the means to finance capital equipment is supported by the diagrams below. These diagrams trace the year-to-year rates of change in gross domestic product, exports and imports.

In general there is a positive correlation between exports and GDP and between exports and imports. Exports show much greater year-to-year variability than GDP. The greater inertia of GDP may be attributed perhaps to some automatic internal compensatory mechanisms which absorb these shocks, e. g. stocks and farm production. But the unmistakable impression is that the accelerations in exports and GDP are uniquely and positively correlated.

The rate of change of the domestic product shows more variability in Thailand but exports are correlated with GDP in 6 out of 7 observations. The only year of inverse relationship was 1961 when the exports accelerated while the gross product retarded. A divergence in the direction of the rate of change between imports and exports occurred in 1959. This is perhaps attributable to official policies to maintain imports quite stable and to free imports from direct dependence on exports. Exports are positively correlated with GDP in 10 out of 12 observations in Burma, 1956 and 1957 being the odd years. In the Philippines the correlation is good for 12 out of 13 observations. Although this is but a small sample, the evidence is quite strong to indicate support for our premise.

Composition of Exports

All the countries in Southeast Asia have a limited range of commodities for exports²⁵. Generally, only a few agricultural and industrial raw materials and foodstuffs dominate exports. As shown

25. United Nations: A Study of Trade between Asia and Europe, Geneva, Nov. 1953, p. 10.

Table 11. BURMA: TRADE BY PRINCIPAL COMMODITIES: National Exports

f.o.b. (Value in million Kyats).

Year	Total Exports	Rice & Rice Products ^a		Rubber : Raw		Raw Cotton	
		Value	%	Value	%	Value	%
1948	744.36	584.46	78.52	6.19	.83	20.81	2.79
1949	727.35	594.55	81.74	3.28	.45	7.24	1.00
1950	656.93	576.03	87.68	8.06	1.23	12.89	1.96
1951	974.68	741.20	76.04	24.73	2.54	40.46	4.15
1952 ^b	1,093.13	809.56	74.06	28.30	2.59	57.05	5.22
1953 ^b	1,128.11	827.37	73.34	25.48	2.26	60.68	5.38
1954	1,190.60	933.69	78.42	25.22	2.12	49.96	4.20
1955	1,075.51	803.29	74.69	35.03	3.26	38.87	3.61
1956	1,184.92	848.18	71.58	43.92	3.71	51.23	4.32
1957	1,081.35	786.85	72.76	37.73	3.49	25.38	2.35
1958	912.81	665.07	72.86	26.57	2.91	15.81	1.73
1959	1,057.52	717.44 ^c	67.84	36.09	3.41	22.08	2.09
1960	1,061.77	703.95 ^c	66.30	41.45	3.90	36.99	3.48
1961	1,045.28	699.10 ^c	66.88	27.93	2.67	28.25	2.70
1962	1,256.75	795.86 ^c	63.33	28.89	2.30	42.79	3.40

Source: United Nations, Yearbooks of International Trade Statistics, New York, 1952, p. 67, 1954, p. 99, 1956, p. 107, 1959, p. 114, 1962, p. 114.

- a. Excludes paddy.
- b. Since 1953, the commodity classification is according to S.I.T.C. for all the countries for purpose of international comparison. Years previous to 1953, trade by commodity table has been based on the national commodity classification of the country concerned.
- c. In the years shown, the value paid by the State Marketing Board to domestic producers has been between 54% (in 1961) and 60% (in 1960) of the export transaction value here recorded.

Table 12. INDONESIA: TRADE BY PRINCIPAL COMMODITIES: Special
Exports f.o.b. (Value in million Rupiahs).

Year	Total Exports	Rubber		Tin	
	Value	Value	%	Value	%
1948	1,040.39	256.84	24.69	147.78	14.20
1950	2,953.79	1,286.50	43.55	185.25	6.27
1951	4,779.52 ^a	2,383.01	49.86	308.43	6.45
1952	10,446.81	4,786.74	45.82	981.09	9.39
1953	9,578.71	3,084.14	32.19	921.03	9.61
1954	9,759.06	3,025.71	31.00	677.80	6.94
1955	10,618.05	4,900.97	46.16	4.99	.05
1956	10,054.61	4,041.27	40.19	18.80	.19
1957	11,051.90	3,994.80	36.15	1.90	.02
1958	8,611.50	2,991.80	34.74	5.10	.06
1959	9,944.20	4,765.50	47.92	7.10	.07
1960	37,823.10	17,006.90	44.96	173.10	.46
1961	35,266.00	13,776.10	39.11	184.00	.52
1962	30,532.50	13,463.70	44.10	0.00	.00

Source: Based on United Nations Yearbooks of International Trade
Statistics, New York, 1952, p. 169, 1954, p. 270, 1956,
p. 298 - 299, 1959, p. 286, 1962, p. 326 - 327.

a. Revised totals.

Table 13. MALAYA: Exports By Commodities; (general exports f.o.b.)

(Value in Million Malayan dollars)

Year ^a	Total Exports	Rubber		Tin	
	Value	Value	%	Value	%
1948	1,764.34 ^b	815.49	46.22	214.39	12.15
1950	4,013.95	2,239.62	55.80	473.62	11.80
1951	6,074.28	3,694.48	60.82	577.88	9.51
1952	3,917.10	1,735.94	44.32	515.57	13.16
1953 ^c	2,911.52	1,237.82	42.51	391.55	13.45
1954	2,981.70	1,239.92	41.58	415.19	13.92
1955	4,030.61	2,329.68	57.80	433.02	10.74
1956	4,005.94	2,062.18	51.48	476.52	11.92
1957	6,660.34 ^d	2,465.94	37.02	318.85	4.79
1958	5,025.32 ^d	2,229.48	44.36	236.58	4.71
1959	5,913.39 ^d	3,128.65	52.91	294.65	4.98
1960	6,404.40 ^d	3,224.16	50.34	505.91	7.90
1961	5,934.60 ^d	2,554.42	43.43	550.12	9.27
1962	6,042.44	2,467.18	40.83	627.28	10.38

Source: Based on United Nations, Yearbooks of International Trade Statistics, New York, 1952, p. 219, 1954, p. 336, 337, 1956, p. 379 - 381, 1959, p. 192 - 193, 461 - 463, 1962, p. 423 - 440.

- a. For period 1957 - 1962, Figures are obtained by the sum total of Federation of Malaya and Singapore. Due to the territorial changes, available data can only represent a rough estimate.
- b. Excludes parcel post not distributed by commodity.
- c. Since 1953, commodities are classified according to S.I.T.C. code.
- d. Shipments less than 100 Malayan dollars are excluded from the group item data.

Table 14. PHILIPPINES: TRADE BY PRINCIPAL COMMODITIES

(National Exports, f.o.b.)

(Value in million Pesos)

Year ^a	Total Exports	Copra		Abaca: Unmanufactured		Sugar: Centrifugal	
	Value	Value	%	Value	%	Value	%
1948	594.11	309.40	52.08	60.30	10.15	41.58	7.00
1950	652.87	272.83	41.79	80.27	12.29	97.68	14.96
1951 ^b	826.06 ^c	308.19	37.31	134.30	16.26	136.92	16.57
1952 ^b	704.81 ^c	178.44 ^d	25.32	79.77	11.32	183.79	26.08
1953	796.24	232.65	29.22	77.84	9.78	191.56	24.06
1954	783.89	260.15	33.19	52.69	6.72	211.25	26.95
1955	795.31	237.36	29.84	55.67	7.00	212.59	26.73
1956	904.46	268.20	29.65	69.94	7.73	201.22	22.25
1957	858.57	263.92	30.74	77.98	9.08	165.60	19.29
1958	982.37	278.16	28.32	57.63	5.87	231.07	23.52
1959	1,056.46	276.15	26.14	77.73	7.36	225.27	21.32
1960 ^e	558.90	138.64	22.81	41.77	7.47	133.48	23.88
1961 ^e	530.20	95.99	18.10	27.95	5.27	128.52	24.24
1962 ^e	562.01	116.49	20.73	24.68	4.39	122.20	21.74

Source: Based on United Nations, Yearbooks of International Trade Statistics, New York, 1952, p. 279, 1958, p. 427, 1961, p. 514, 1962, p. 557.

a. Since 1953, commodities have been classified according to S.I.T.C. code. Conversion Rate: 50¢ = 1 pesos. (1960).

b. General Exports.

c. Includes gold.

d. Weights in thousand metric tons.

e. Since 1960, value in million U. S. dollars.

Table 15. THAILAND: TRADE BY PRINCIPAL COMMODITIES; (General Exports, f.o.b.)

(Value in million Bahts)

Year	Total Exports	Rice		Rubber		Tin	
	Value	Value	%	Value	%	Value	%
1948	2,079.07	938.02	45.12	419.19	20.16	52.29	2.51
1950 ^a	3,576.26	1,742.83	48.73	55.99	1.56	17.15	.48
1951 ^a	4,473.11	1,875.18	41.92	106.53	2.38	8.56	.19
1952 ^c	331.10	216.30	65.33	50.20	15.16	22.70	6.86
1953 ^c	322.60	213.70	66.24	37.50	11.62	20.30	6.29
1954	6,105.91	3,086.52	50.55	1,108.75	35.92	373.55	6.12
1955	7,009.75	3,133.38	44.70	1,801.87	25.71	440.51	6.28
1956	6,716.51	2,860.65	42.59	1,526.43	22.73	507.45	7.55
1957 ^b	7,291.76	3,622.15	49.67	1,410.04	19.34	531.18	7.28
1958 ^b	6,192.36	2,967.99	47.93	1,326.61	21.42	254.96	4.12
1959	7,257.69	2,575.64	35.49	2,336.03	32.19	434.26	5.98
1960	8,422.20	2,569.82	30.51	2,579.35	30.63	536.62	6.37
1961	9,716.67	3,598.20	37.03	2,130.05	21.92	616.94	6.34
1962	9,255.00	3,240.00	35.01	2,100.00	22.69	685.00	7.40

Source: Based on United Nations, Yearbooks of International Trade Statistics, New York, 1952, p. 324, 1954, p. 494, 1958, p. 492, 1962, p. 652.

- a. Port of Bangkok only for individual commodities shown.
- b. Data for total exports in each S.I.T.C. section, rice, crude rubber, and tin ore concentrates refer to the whole of Thailand.
- c. For 1952, 1953, data, value are given in million U. S. dollars.

in Table 11, during 1949 and 1950, rice accounted for about 80 per cent of the value of exports from Burma. Although the share of rice has been decreasing since 1950, it did not go below 63 per cent of the total value of exports. Other exports such as rubber and raw cotton occupy a very insignificant place.

Exports from Indonesia consist of almost exclusively rubber, tin and petroleum. Over 40 per cent of her total exports consist of rubber, exports of tin have shown a gradually decreasing trend.

(Table 12)

Rubber and tin form the major part of the exports of Malaya. About 50 per cent of Malaya's total exports consist of rubber, while tin accounts for nearly 10 per cent. (Table 13)

Copra, abaca, and sugar form the main exports of the Philippines as shown in Table 14. Copra accounted for 52.08 per cent of the Philippines' total exports in 1948, but this has declined gradually through the post-war years. In 1963, it accounted for only 20.7 per cent. The amount of abaca exported, also has shown a downward tendency from 10.15 per cent in 1948 to 5 per cent in 1963 while the export of sugar increased from 7 per cent in 1948 to about 21.7 per cent in 1963.

Nearly 60 per cent of Thailand's exports consist of rice, rubber and tin. In 1952 and 1953, exports of rice accounted for about 65 per cent as shown in Table 15, in 1963, this share declines to 35 per cent, while rubber constitutes about 20 per cent of her total exports except in 1954. The amount of tin exported from Thailand has increased slowly from 0.19 per cent in 1961 to 7.4 per cent in 1963.

Thus the principal commodities for export in order of importance are; rice, rubber, copra, sugar, tin, and abaca. Although the relative position of these will change the striking developments in the post-war period have been the increased importance of rubber and to a lesser extent tin and sugar in export trade, and the very considerable decline in the relative importance of rice.

Direction of Exports

The direction of exports of the major countries of Southeast Asia underwent significant changes during the period 1948-1962. During the period under review, the value of exports of the major countries in this region remained unchanged, however, exports to individual areas showed divergent movements. On the whole this region depends to a large extent, upon the markets in countries such as Japan, United Kingdom and the United States. For example, in 1948-62, the United Kingdom and the United States together took about 50 per cent of all the exports of Malaya. (Table¹⁸)

Table 18 shows the value and the percentage of exports of Burma with her principal trading countries during the period 1948-62. Trade with India became important, especially during 1948-49 and 1954, since nearly 42 per cent of Burma's total exports went to India in those years. Such growth of exports to India corresponds to the increase in the production of paddy and petroleum products in the country.²⁶ Since 1950, trade with India together with that of Ceylon,

26. Economic Development of Burma, Department of Economics, Rangoon, Burma, 1963, p. 32.

showed a declining trend while trade with Japan started to grow, reaching the peak of 27.7 per cent of Burma's total exports in 1955. In 1949, since Burma obtained her independence, trade with the United Kingdom declined considerably to less than 10 per cent of her total exports in 1954, it then gradually increased to 16.6 per cent in 1962. Trade with China²⁷ increased from less than 1 per cent in 1951 to 24.4 per cent 1961. The United States plays an insignificant role in trade with Burma. Intra-regional trade accounts for about 10 per cent for the period 1948-62, with Malaya as the major trading country as shown in Table 16.

Similarly, Indonesia has a close link with Netherlands which took about 46.9 per cent of her total exports in 1948. This started to decline after her independence to about only 0.4 per cent in 1961. Malaya²⁸ took about 30 per cent of her exports during the period of 1948-55. The United States plays a more important role in her trade with Indonesia, compared with that of Burma. Trade increased from 13 per cent to 29 per cent during the period 1948-61. Besides the above mentioned countries, the United Kingdom, Germany, Canada, Italy, Japan also took a small portion of Indonesian exports. (Table 17)

Changes in the direction of exports of Malaya were moderate during 1948-62. Nearly 50 per cent of her exports go to the United Kingdom and the United States and these two markets are of great

27. Mainland China which excludes Formosa.

28. Figures given in Table 17, relating trade with Malaya, includes trade with Singapore up to 1956 only.

importance to her economy. The remaining 50 per cent of her exports are shipped to countries²⁹ such as Indonesia, Japan, Germany, Canada, Australia and the remaining parts of Southeast Asia as shown in Table 18.

The total value of the exports of Philippines remained relatively stable for the period 1948-62. During this period, foreign trade of the Philippines depended heavily on markets in the United States which took about 54-78 per cent of her total exports. Japan ranks second in her trading position with the Philippines which receives about 25 per cent of her total exports. Besides these two major trading countries, other countries which constitute the remaining 20 per cent are: the United Kingdom, Germany, Italy, Netherlands, and Belgium-Luxemburg. Intra-regional level of trade for the Philippines remains low during the period 1948-62 as shown in Table 19.

Unlike the Philippines, Thailand maintains a considerable amount of trade within the region especially with Malaya which absorbs on the average about 20 per cent of her total exports during 1948-62. The United States also plays a significant role in Thailand's foreign trade. In the years such as 1955, 1959, Thailand shipped about 33.5 per cent and 36.3 per cent of her total exports respectively to the United States, Japan and Hong Kong also became important trading partners of Thailand. The level of trade with Japan has fluctuated considerably, ranging from 0.3 per cent in 1948 to 32.8 per cent in

29. These countries are arranged in order of importance according to Table 18.

1954, but during 1959-1962, it remained quite constant, averaging about 23 per cent. Hong Kong took about 10 per cent of the total exports of Thailand during 1948-62.

On the whole, there is a concentration of trade in the United States and Britain. Malaya and the Philippines have a relatively closer link with the United States than the other countries in the region. Trade with Japan is growing rapidly since 1948. Intra-regional trade also bears a rising trend. Thus, from the trade relationship of Southeast Asia, it is found that the demand for exports of the region depends heavily³⁰ on the business cycles which

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30. Another way of studying a country's foreign trade relationship is by computing the "income elasticity of demand for imports" which is the percentage change in imports associated with a given percentage change in national income. If a percent increase in national income produces a 10 per cent increase in the value of imports, then the income elasticity of imports is relatively high. If on the other hand, a 5 per cent increase in national income produces a change in imports of only 2½ per cent, then imports are income-elastic. When a given change in income leads to an equal percentage in imports, the income elasticity of demand for imports is unity. Expressed in algebraic terms, income elasticity is measured by $\frac{dM}{M} / \frac{dY}{Y}$ which can be computed by dividing the marginal propensity to import by the average propensity, ∴

$$\frac{\frac{dM}{M}}{\frac{dY}{Y}} = \frac{dM/dY}{M/Y}$$

This income elasticity of demand for imports device can not be used in Southeast Asia to indicate the relationship between imports and national income due to the various restrictions imposed on trade, in each country of the region.

C. P. Kindleberger: International Economics, Richard D. Irwin, Inc. Third Edition, 1963, p. 179-181.

originates in the industrial countries. Both direct and indirect effects on demand of the United States centered business cycle, have a considerable influence on the foreign trade sectors of Southeast Asia.

Table 16. BURMA: TRADE BY PRINCIPAL COUNTRIES, General Exports, (1948 - 1962),
f.o.b. (Value in Million Kyats)

Principal Countries	1948 ^a		1949		1950 ^a		1951 ^a		1952		1953		1954	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Ceylon	138.82	19	138.97	20.9	204.78	35.7	234.51	27.1	161.19	17.3	134.12	14.3	120.36	1.20
China ^b	44.43	6	34.07	5.1	10.78	1.9	8.43	.9	0.94	.01	6.54	.7	0.46	0.05
India	301.90	42	276.76	41.6	91.10	15.9	226.06	26.1	318.96	34.2	167.68	17.9	426.74	4.2
Indonesia ^c	32.67	4.5	46.35	6.9	100.03	17.5	132.23	15.3	111.86	11.9	176.50	18.8	106.30	10.6
Japan ^d	0.84	0.1	15.51	2.3	99.13	17.3	132.38	15.3	106.62	11.4	214.13	22.9	267.11	26.5
Malaya	121.26	16	97.74	14.7	38.31	6.7	75.37	8.7	102.53	10.9	132.07	14.1	-	-
Philippines	2.05	0.2	10.36	1.6	0.00	-	0.00	-	25.89	2.8	0.00	-	0.00	-
Thailand	1.45	0.2	1.39	0.2	0.09	-	0.52	.06	1.07	.1	0.40	-	0.28	.03
U. K.	67.15	9.3	38.72	5.8	26.80	4.7	50.59	5.8	91.63	9.8	84.43	9.0	78.13	7.8
U. S.	7.51	0.5	5.59	.8	1.55	.2	5.11	.6	12.09	1.3	21.04	2.2	8.02	.8
Total:	718.08		665.46		572.57		865.20		932.78		936.91		1007.40	

Table 16. BURMA: TRADE BY PRINCIPAL COUNTRIES, General Exports,f.o.b. (1948 - 1962)

(Value in Million Kyats)

(Cont'd)

Principal Countries	1955		1956		1957		1958		1959		1960		1961		1962	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Ceylon	78.55	11.0	86.51	11.6	105.24	15.4	103.54	13.5	129.16	19.1	120.24	16.7	103.81	14.2	127.18	17.2
China	83.29	11.7	71.77	9.6	47.04	6.9	14.14	1.8	2.08	0.2	37.39	5.2	178.02	24.4	89.79	12.1
India	197.34	27.7	172.85	23.1	253.48	37.1	195.86	25.5	165.30	24.5	163.14	22.6	90.65	12.4	122.27	16.5
Indonesia	57.36	8.1	137.13	18.4	94.42	13.8	118.50	15.4	177.33	26.3	205.07	28.4	149.89	20.5	151.28	20.5
Japan	193.36	27.2	178.25	23.7	90.26	13.2	47.41	6.2	39.77	5.9	54.40	7.5	42.14	5.7	58.75	8.0
Malaya	-	-	-	-	-	-	59.90	7.8	58.60	8.7	35.24	4.9	38.74	5.3	61.59	8.3
Philippines	4.98	.7	0.00	-	0.00	-	15.17	2.0	0.00	-	0.00	-	6.55	0.9	0.01	-
Thailand	0.28	-	0.16	-	0.11	0.02	0.11	.01	0.30	0.04	0.40	0.06	0.63	0.09	1.09	0.1
U. K.	90.68	12.7	91.32	12.2	77.21	11.3	69.98	9.1	94.23	13.9	102.07	14.1	115.11	15.8	123.00	16.6
U. S.	5.53	.8	8.77	.1	15.12	2.2	7.12	.9	8.61	1.3	3.70	0.5	5.24	0.7	4.42	0.6
Total:	711.37		746.76		683.24		768.26		675.38		721.65		730.78		739.38	

Source: Based on United Nations Yearbooks of International Trade Statistics, New York, 1952, p. 68, 1954, p. 100, 1958, p. 124, 1962, p. 115.

- a. Data include all re-exports.
- b. Excludes Formosa.
- c. Described as "East Indies"
- d. Includes other British South East Asia.

Table 17. INDONESIA: TRADE BY PRINCIPAL COUNTRIES, Special Exports f.o.b.
(1948 - 1961). (Value in million Rupiahs)

Principal Countries	1948		1950		1951		1952		1953		1954		1955	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	9.68	1.2	51.63	1.9	113.33	2.7	258.81	2.8	214.82	2.7	344.88	4.2	227.16	2.5
Burma	0.52	0.07	0.32	0.0	-	-	0.62	-	1.59	0.02	7.17	0.08	28.35	0.3
Canada	6.77	0.8	1.71	0.0	1.60	-	14.32	0.02	-	-	5.26	0.06	9.08	0.1
Germany	17.39	2.2	83.87	3.2	145.46	3.5	378.66	4.1	445.53	5.6	451.24	5.5	471.08	5.2
Italy	4.70	0.6	12.58	0.5	39.47	0.9	117.01	1.3	162.81	2.0	173.09	2.1	89.48	1.0
Japan ^a	25.43	3.2	40.63	1.6	152.14	3.7	278.40	3.0	423.61	5.4	571.13	6.9	834.42	9.3
Malaya	198.76	25.1	1077.25	41.1	1581.09	38.1	2823.43	30.8	2287.31	29.0	2498.80	30.5	2412.82	26.8
Netherlands	372.16	46.9	710.07	27.1	992.54	24.0	2202.11	24.0	2103.87	26.7	1882.49	23.0	1719.59	19.1
Philippines	9.22	1.2	18.98	.72	25.14	0.6	84.60	0.9	78.16	0.9	117.73	1.4	153.58	1.7
Thailand	3.21	0.4	12.49	.48	18.27	0.4	70.82	0.8	83.67	1.1	96.27	1.2	89.42	1.0
U. K.	21.00	2.6	116.39	4.4	295.98	7.1	279.89	3.1	192.95	2.4	447.90	5.5	1048.08	11.7
U. S.	182.07	23.0	492.31	18.8	783.81	18.9	2659.42	29.0	1929.95	24.5	1635.95	20.0	1904.49	21.2
<hr/>														
Total:	792.86		2618.23		4148.83		9166.09		7888.27		8195.91		8987.55	

Table 17. INDONESIA: TRADE BY PRINCIPAL COUNTRIES, Special Exports f.o.b.(1948 - 1961). (Value in million Rupiahs)

(Cont'd)

Principal Countries	1956		1957		1958		1959		1960		1961	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	358.80	4.0	480.14	4.2	504.40	5.5	349.43	4.2	1428.65	4.5	2082.34	7.3
Burma	19.22	0.2	4.16	0.03	-	-	4.32	0.05	75.02	0.02	0.41	0.0
Canada	7.93	0.08	5.58	0.04	0.99	0.01	1.19	0.01	11.79	0.03	6.84	0.02
Germany	404.55	4.5	461.78	3.7	303.51	3.3	592.18	7.2	2309.43	7.4	2088.88	7.3
Italy	133.94	1.5	170.23	1.4	96.96	0.1	74.40	0.9	236.85	0.8	183.61	0.6
Japan	840.20	9.4	457.17	3.7	312.14	3.4	379.35	4.6	1543.07	5.0	2516.73	8.8
Malaya ^a	2417.79	27.0	3242.75	25.9	2505.43	27.2	365.28	4.4	2610.26	8.4	2315.29	8.1
Netherlands	1955.59	21.9	1854.16	14.8	355.39	3.9	105.29	1.3	109.48	0.4	103.15	0.4
Philippines	193.72	2.2	305.82	2.4	331.23	3.6	209.49	2.5	869.69	2.8	838.73	2.9
Thailand	107.60	1.2	120.83	1.0	103.52	1.1	92.62	1.1	342.07	1.1	387.14	1.4
U. K.	895.53	10.0	804.84	6.4	1092.31	11.9	2176.73	26.4	4112.62	13.2	2281.39	8.0
U. S.	1611.22	18.0	1683.61	13.4	1484.81	16.1	1627.97	19.8	8739.93	28.1	8391.65	29.3
Singapore	-	-	2939.97	23.5	2119.75	23.1	2260.45	27.4	8742.89	28.1	7353.30	25.8
Total:	8946.09		12531.04		9210.46		8238.70		31131.75		28549.46	

Source: Based on Yearbooks I.T.S., 1952, p. 169, 1954, p. 270, 1958, p. 290, Vol. 1, 1962, p. 328.

a. Includes trade with Singapore up to 1956.

Table 18. MALAYA: TRADE BY PRINCIPAL COUNTRIES, General Exports, f.o.b.(1948 - 1962)

(Value in Million Malayan dollars)

Principal Countries	1948		1950		1951		1952		1953		1954		1955	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	49.21	3.86	141.00	4.8	293.09	6.95	147.54	5.05	53.82	2.49	154.66	7.28	177.89	5.87
Burma	11.53	0.90	12.81	.44	49.47	1.12	45.11	1.54	40.70	1.88	52.08	2.45	27.29	.97
Canada	44.32	3.47	98.28	3.37	153.94	3.49	65.62	2.25	61.79	2.86	65.28	3.07	92.34	3.05
China	14.07	1.10	124.01	4.25	99.51	2.26	0.03	.00	5.79	.28	19.50	.92	12.86	.42
Germany	46.83	3.66	171.36	5.88	182.25	4.13	135.51	4.64	111.47	5.16	132.70	6.25	228.88	7.55
India	63.26	4.95	75.95	2.61	116.33	2.64	88.55	3.03	98.43	4.55	114.46	5.38	97.10	3.20
Indonesia	193.60	15.15	256.99	8.82	486.97	11.04	414.90	14.20	218.99	10.13	141.97	6.68	199.67	6.59
Italy	41.35	3.23	147.23	5.08	236.67	5.37	120.88	4.14	97.54	4.51	126.73	5.97	155.65	5.14
Japan	19.66	1.54	115.44	3.96	157.13	3.56	154.80	5.29	157.12	7.27	165.14	7.77	288.43	9.52
Philippines	6.43	.21	15.35	.53	17.30	.39	27.00	.92	37.49	1.73	38.87	4.84	37.13	1.23
Sarawak	31.37	2.45	58.38	2.00	69.49	1.58	67.19	2.30	72.40	3.35	80.31	3.78	90.06	2.97
Thailand	48.73	3.81	72.08	2.47	96.29	2.18	142.01	4.86	104.96	4.86	81.21	3.82	90.50	2.99
U. K.	234.76	18.37	546.87	18.76	1215.48	27.5	815.27	27.91	484.83	22.43	452.10	21.28	761.60	25.14
U. S.	458.19	35.85	1048.15	35.96	1193.70	27.07	656.78	22.48	479.56	22.19	460.57	21.68	723.45	23.88
N. Borneo	14.83	1.16	31.06	1.06	42.29	.96	40.35	2.25	37.08	1.72	38.61	1.82	44.86	1.48
Total:	1278.22		2914.96		4409.91		2921.54		2160.97		2124.19		3029.71	

Table 18. MALAYA: TRADE BY PRINCIPAL COUNTRIES, General Exports, fo.b.

(1948 - 1962), (Value in Million Malayan dollars)

(Cont'd)

Principal Countries	1956		1957		1958		1959		1960		1961		1962	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	153.23	5.13	138.48	4.66	143.76	5.3	163.29	5.4	193.38	6.1	107.69	3.7	127.64	4.4
Burma	41.76	1.40	55.55	1.87	19.71	0.7	18.09	0.6	18.42	0.6	15.42	0.5	16.49	0.6
Canada	88.81	2.97	78.55	2.64	62.68	2.3	94.22	3.1	88.48	2.8	81.17	2.8	86.02	3.0
China	23.74	.79	74.19	2.49	118.62	4.4	138.25	4.6	94.90	3.0	12.36	0.4	2.30	0.0
Germany	196.15	6.57	150.48	5.06	162.76	6.0	234.55	7.8	294.75	9.2	231.49	8.0	178.06	6.2
India	120.36	4.03	136.52	4.59	363.77	13.4	143.70	4.8	144.17	4.5	233.02	8.1	318.94	11.0
Indonesia	227.68	7.62	259.94	8.74	101.92	3.8	109.53	3.6	151.88	4.8	119.83	4.2	120.20	4.2
Italy	175.01	5.86	164.96	5.55	142.55	5.3	158.92	5.3	189.85	6.0	183.41	6.4	168.63	5.8
Japan	335.57	11.24	419.93	14.12	364.83	13.4	513.23	17.0	526.72	16.4	557.69	19.4	524.54	18.1
Philippines	57.12	1.91	69.06	2.32	53.7	2.0	58.07	1.9	60.95	1.9	28.88	1.0	15.97	0.5
Sarawak	83.96	2.81	78.28	2.63	69.71	2.6	83.42	2.8	87.29	2.7	88.23	3.1	88.58	3.1
Thailand	108.73	3.64	114.54	3.85	110.04	4.1	124.83	4.1	131.72	4.1	107.23	3.7	115.38	4.0
U. K.	687.67	23.03	607.87	20.44	605.64	22.3	604.02	20.0	669.21	20.9	560.44	19.4	462.53	16.0
U. S.	629.36	21.07	557.68	18.75	393.96	14.5	577.19	19.1	545.25	17.1	556.63	19.3	666.19	23.0
N. Borneo	57.46	1.92	68.56	2.30	-	-	-	-	-	-	-	-	-	-
Total:	2986.61		2974.62		2713.65		3021.31		3196.20		2882.49		2892.06	

Source: Based on United Nations, Yearbooks of International Trade Statistics, New York, 1952, p. 217,

1954, p. 335, 1958, p. 194, 1962, pp. 417 - 434.

Table 19. PHILIPPINES: TRADE BY PRINCIPAL COUNTRIES, General Exports, f.o.b.
(1948 - 1962). (Value in million Pesos)

Principal Countries	1948		1950		1951		1952		1953		1954		1955	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	1.81	.31	0.49	.08	0.39	.05	0.50	.08	0.21	.03	0.43	.06	0.65	.09
Belgium -														
Luxembourg	4.06	.71	15.88	2.54	33.13	4.41	16.31	2.57	12.99	1.74	11.26	1.53	8.64	1.19
Canada	11.33	1.97	8.84	1.42	9.76	1.30	8.11	1.28	4.23	.57	7.18	.97	2.70	.37
China;														
Mainland	4.05	.70	1.93	.31	1.21	.16	0.00	.00	0.00	.00	-	-	-	-
Denmark	15.51	2.70	2.62	.42	11.16	1.49	8.44	1.33	14.92	2.00	15.48	2.10	12.94	1.78
France	30.75	5.34	4.42	.71	11.23	1.50	3.19	.50	2.70	.36	8.90	1.21	1.90	.26
Germany	11.02	1.92	3.42	.55	8.01	1.07	5.06	.80	10.22	1.37	21.46	2.91	18.12	2.49
India	3.53 ^b	.61	1.61	.26	2.64	.35	1.53	.24	0.83	.11	1.17	.15	0.94	.13
Indonesia	10.28	1.79	0.39	.06	2.87	.38	1.21	.19	0.83	.11	0.34	.05	0.22	.03
Italy	11.07	1.92	11.37	1.82	15.42	2.05	7.97	1.25	4.48	.60	8.16	1.11	6.57	.90
Japan ^a	31.04	5.39	44.06	7.06	60.13	8.01	75.12	11.82	93.84	12.58	100.92	13.70	121.93	16.78
Malaya	1.66	.29	0.32	.05	0.83	.11	1.49	.23	1.08	.14	1.18	.16	1.01	.14
Netherlands	5.86	1.02	14.80	2.37	43.72	5.82	16.49	2.59	31.58	4.23	65.67	8.91	59.48	8.18
Switzerland	3.56	.62	11.14	1.79	8.35	1.11	20.76	3.27	11.08	1.49	1.86	.25	2.58	.35
Thailand	1.67	.29	0.84	.13	0.43	.06	1.11	.17	0.46	.06	0.33	.04	1.04	.14
U. K.	6.65	1.16	10.74	1.72	25.53	3.40	15.30	2.41	12.06	1.62	9.89	1.34	10.70	1.47
U. S.	421.60	73.26	491.17	78.71	515.59	68.65	469.70	73.89	544.42	72.99	492.63	66.86	477.39	65.68
Total:	575.45		624.04		751.00		635.70		745.93		736.86		726.81	

Table 19. PHILIPPINES: TRADE BY PRINCIPAL COUNTRIES, General Exports, f.o.b.(1948 - 1962). (Value in million Pesos)

(Cont'd)

Principal Countries	1956		1957		1958		1959		1960		1961		1962	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	0.79	.10	0.75	.10	0.61	.06	0.35	.07	0.88	.17	1.09	.22	1.33	.26
Belgium -														
Luxembourg	16.15	1.99	19.49	2.51	16.77	1.83	5.91	1.20	8.57	1.65	4.67	.94	1.81	.35
Canada	3.05	.38	4.45	.57	2.78	.30	1.29	.26	1.28	.25	1.53	.31	1.13	.21
China;	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mainland														
Denmark	12.40	1.53	8.98	1.16	10.83	1.18	4.70	.95	4.04	.79	2.40	.48	5.60	1.08
France	2.25	.28	2.62	.34	5.51	.60	2.38	.48	2.19	.42	1.10	.22	2.23	.43
Germany	27.61	3.40	18.65	2.40	22.12	2.41	14.60	2.96	21.11	4.06	17.88 ^c	3.59	33.14	6.40
India	0.81	.10	0.65	.08	0.55	.06	0.38	.08	0.65	.13	0.51	.10	0.26	.05
Indonesia	0.30	.04	0.04	.01	0.17	.02	0.00	.00	0.22	.04	0.09	.02	0.17	.03
Italy	3.61	.44	7.72	.99	7.88	.86	3.90	.79	5.64	1.08	5.30	1.06	4.11	.79
Japan	160.85	19.79	155.69	20.06	193.12	21.06	116.64	23.67	131.62	25.33	137.39	27.55	133.17	25.73
Malaya ^a	1.17	.14	0.93	.12	1.39	.15	0.50	.10	0.82	.16	0.62	.12	1.35	.26
Netherlands	78.61	9.67	88.13	11.36	91.70	10.00	41.25	8.37	46.72	8.99	32.47	6.51	35.27	6.82
Switzerland	1.98	.24	0.25	.03	0.09	.01	0.02	.00	0.15	.03	0.23	.05	0.65	.13
Thailand	0.95	.12	0.58	.07	0.19	.02	0.21	.04	0.11	.02	0.22	.04	0.34	.07
U. K.	13.78	1.70	13.29	1.71	12.81	1.40	8.67	1.76	11.41	2.20	8.32	1.67	7.12	1.38
U. S.	488.39	60.09	453.79	58.48	550.31	60.02	292.58	59.37	284.13	54.69	284.92	57.13	289.82	56.00
Total:	812.70		776.01		916.83		492.82		519.54		498.74		517.50	

Source: Based on United Nations, Yearbooks of International Trade Statistics, New York, 1952, p. 280, 1954, p. 434, 1958, p. 428, 1962, p. 428.

a. Includes trade with Singapore.

b. Probably includes trade with Pakistan.

c. Prior to 1961 Germany.

Table 20. THAILAND: TRADE BY PRINCIPAL COUNTRIES AND SALE GENERAL EXPORTS,f.o.b. (1948 - 1962). (Value in million Bahts)

Principal Countries	1948		1949		1954 ^a		1955		1956		1957	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	0.66	.04	3.30	.13	4.57	.11	6.51	.10	9.03	.16	12.39	.10
Belgium	3.85	.22	5.70	.23	46.36 ^b	1.31	19.10	.31	9.42	.17	22.60	.18
Burma	-	-	12.22	.49	10.30	.25	2.03	.03	4.07	.07	5.18	.04
Canada	0.94	.05	0.54	.02	24.42	.59	21.13	.34	11.23	.20	4.64	.04
Ceylon	-	-	101.88	4.11	30.41	.74	40.86	.65	16.63	.29	97.75	.77
China;												
Mainland	261.74	14.93	85.68	3.46	12.11	.30	0.00	.00	24.03	.42	68.23	.54
Hong Kong	195.81	11.17	207.88	8.39	502.44	12.26	603.77	9.65	573.63	10.11	567.24	4.49
India	202.50	11.55	371.31	14.98	37.70	.91	23.29	.37	31.88	.56	23.65	1.87
Italy	12.36	.70	34.25	1.38	11.26	.27	5.36	.09	7.72	.14	7.20	.06
Japan	6.00	.34	167.89	6.77	1344.26	32.80	1254.69	20.06	589.12	10.39	590.39	4.67
Malaya	474.71	27.07	820.78	33.12	1252.38	30.56	1694.39	27.09	1968.30	34.70	2065.03	16.34
Philippines	65.64	3.74	51.70	2.09	48.12	1.17	125.16	2.00	54.79	.97	202.36	1.60
Switzerland	34.62	1.97	18.64	.75	2.36	.06	3.24	.05	1.91	.03	4.67	.04
U. K.	53.45	3.05	137.66	5.55	138.34	3.38	168.55	2.69	214.20	3.78	228.66	1.81
U. S.	441.31	25.17	459.03	18.52	266.74	6.51	2094.96	33.50	1719.24	30.31	1494.86	11.83
Indonesia	-	-	-	-	366.05	8.93	191.09	3.06	437.27	7.71	442.29	3.50
Total:	1753.59	100	2478.46	100	4098.72	100	6254.13	100	5672.47	100	12637.14	100

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Table 20. THAILAND: TRADE BY PRINCIPAL COUNTRIES AND SALE GENERAL EXPORTS, f.o.b.(1948 - 1962). (Value in million Bahts)

(Cont'd)

Principal Countries	1958		1959		1960		1961		1962	
	Value	%	Value	%	Value	%	Value	%	Value	%
Australia	6.49	.13	13.71	.28	25.15	.45	14.53	.22	18.52	.33
Belgium	28.56	.57	18.08	.37	33.41	.68	22.65	.34	131.28	2.33
Bulma	9.08	.18	6.30	.13	5.54	.10	27.50	.41	30.75	.55
Canada	3.04	.06	3.24	.07	4.72	.08	4.78	.07	8.23	.15
Ceylon	2.72	0.05	10.04	.21	26.74	.47	127.19	1.89	100.58	17.86
China;										
Mainland	63.57	1.27	0.01	.00	0.00	.00	0.00	.00	0.00	.00
Hong Kong	578.71	11.58	644.13	13.16	731.36	12.99	901.08	13.36	1026.83	18.23
India	29.66	.59	12.20	.25	16.26	.29	69.28	1.03	36.29	.64
Italy	17.33	.34	15.87	.32	31.32	.56	68.27	1.01	117.15	2.08
Japan	481.57	9.63	879.30	17.96	1521.18	27.01	1393.27	20.66	1332.91	23.66
Malaya	1755.14	35.11	1135.63	23.19	1345.32	23.89	1346.50	19.96	1378.71	24.48
Philippines	115.44	2.31	4.01	.08	1.91	.03	339.34	5.03	4.11	.07
Switzerland	4.75	.10	4.62	.09	4.40	.08	13.30	.20	21.89	.39
U. K.	342.23	6.85	221.21	4.52	372.46	6.61	846.10	12.55	466.01	8.27
U. S.	1167.56	23.36	1777.98	36.31	1196.37	21.24	845.17	12.53	817.99	14.52
Indonesia	349.67	7.00	149.94	3.06	344.34	6.11	725.40	10.76	561.18	9.96
Total:	4998.32	100	4896.27	100	5631.33	100	6744.36	100	5632.49	100

CHAPTER III. PRODUCTION, TRADE AND TRENDS IN TERMS OF
TRADE (1948 - 1955)

The preceding two chapters have attempted to explore the implications of the pure theory of international trade, in respect of changes in the terms of trade, for the economic development of primary producing countries, especially the countries of South-East Asia. The first chapter discussed the problem at the level of generalities. In the second chapter two things were attempted. In the first place an attempt was made to analyse the structural features of the Southeast Asian countries and to relate these features to the rates of expansion in these economies. From this, (and bearing in mind, the paucity and low quality of empirical evidence) an attempt was made to employ such statistical data as are available to establish three hypotheses which are the central core of this investigation. The hypotheses established and proved are :

1. Economic growth in underdeveloped countries is contingent to a large extent upon structural changes. Structural changes in turn depend among other things: upon the availability of imports of capital equipment. Since the supply of imports of capital equipment is contingent, apart from foreign aid, on the availability of foreign exchange it is crucial that exports from underdeveloped countries pay for imports to earn foreign exchange. Growth in these economies therefore depends ultimately on their imports.
2. The process of industrialization tends to increase the demand for food and other consumer goods as well. Since

the capacities of these economies to supply agricultural foodstuffs and other consumer wants are inelastic, the increased consumer demand can be satisfied only through importation. Price stability therefore depends as much on the extent to which foreign exchange is available to be allocated to the purchases of consumer imports as upon government fiscal policy.

3. The dependence of these economies on foreign trade increases their vulnerability to the violent fluctuations in the prices of primary products in the world market. The larger the foreign trade ratio, the more growth in the economy becomes tied to the international trade.

The purpose of the chapters following is to trace, in historical sequence, the actual relations in the terms of trade for Southeast Asia as a whole and for individual countries; and also to analyze changes in the production and export prices of the individual products which are offered by the major countries in the region.

On the whole, the unit values of imports and exports of the countries in Southeast Asia tended to vary in the same direction in the period between 1948 and 1955. Charts 7 - 11 indicate that higher import prices were accompanied by higher export prices and vice versa. This is of course due to the fact that forces generated in the more industrialized countries exercise a preponderant influence over price trends in world markets.

Before a fuller treatment is given to the changes in the terms of trade between 1948 and 1955, a brief description of pre-war trade developments, (using Malaya as an example) will offer the advantage of placing the analysis in the proper historical perspective.

Pre-War Trade Developments

All the major countries of South-East Asia, Thailand excepted, have experienced varying periods of colonial rule. This perhaps explains the early emergence in these countries of commercially export-oriented primary production. The economics of enforced bilateralism, or colonialism, operated on the simple formula whereby colonial countries supplied the raw materials which fed the maws of industry in the mother countries and at the same time provided markets for the manufactures of the mother country.

It is almost impossible to analyze precisely the terms on which exports of these countries exchanged for imports in the 1930s. This is because, for the most part, statistical data for the individual countries are not available. But all the five main countries in South-East Asia exported primary goods. Rough estimates place the ratios of exports to gross domestic product during this time in the region of 19 to 51 percent.¹ Trade statistics do not exist for the period before the First World War.

In spite of the roughness of these estimates, it appears that the backwash effects of the Great Depression (1929-34) were felt in this region. In particular the Federation of Malaya and Singapore were severely affected as a result of the deep slump in rubber prices.

Table 21 shows the average variation in raw material prices between 1921-38 in Malaya. Rubber had the highest percentage in price variation among the seven principal commodities.

1. United Nations, Annual Economic Survey of Asia and Far East 1957, New York, p. 112.

Table 21. Variation In Raw Material Prices In Malaya 1921-38.

(Percentage)

Commodities	Average annual Variation 1921 - 38	Lowest Price 1921-38 as % of highest price
Wool 64s tops	24	25
Copper	26	27
Tin	28	31
Cotton	31	31
Rubber	47	3
Butter	23	32
Wheat	30	29

Source: Silcock, T. H. Readings in Malayan Economics, Eastern Universities Press Ltd., Singapore, 1961, p. 187.

The severe fall in the price of rubber can best be seen by studying the Malayan trade returns which also well reflect the impact of the Great Depression. Table, 22 indicates that the price of rubber turned downward in 1929 and reached a very low level in 1932. With such a violent fall in the price of rubber, the net imports of the Federation of Malaya also declined sharply from 190 million dollars in 1929 to 63 million in 1933². This must have caused an enormous reduction in consumption as Malaya depends largely on imports of both manufactured goods and foodstuffs³.

2. Silcock, T. H. Readings In Malayan Economics, Eastern Universities Press Ltd., Singapore, 1961, p. 187.

3. Ibid.

Table 22. Average Spot Price of Rubber in Singapore 1929 - 33

Period	Strait cents per lb.
1929	34.48
1930	19.31
1931	9.96
1932	7.01
1933	10.23

Source: Silcock, T. H. Readings in Malayan Economics, Eastern Universities Press, Ltd., Singapore, 1961, p. 186.

Chart 5 (based on Table 23), shows that the value of exports and import declined drastically between 1929-1933. Of the total exports of Malaya, rubber accounted for approximately 58-60 per

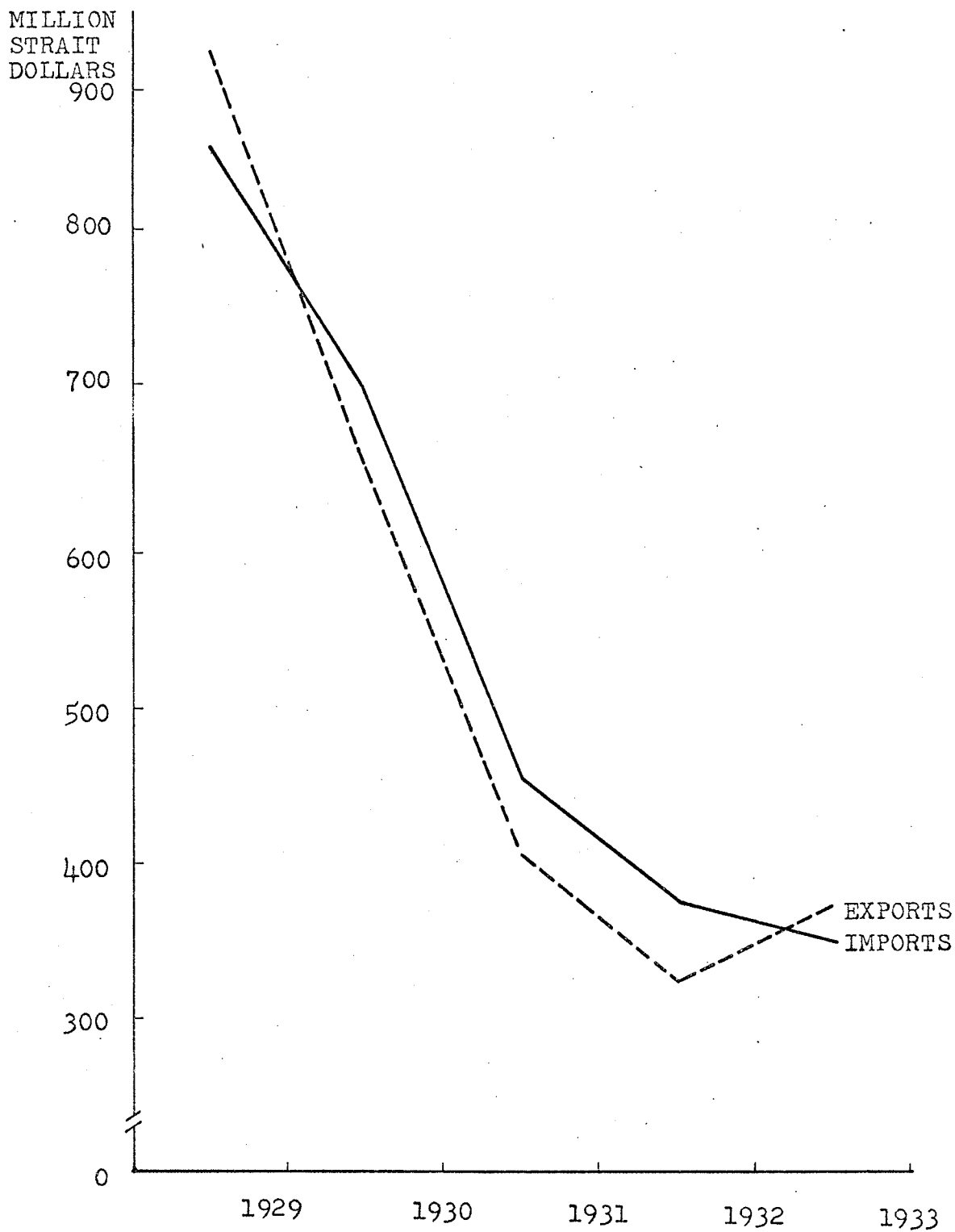
Table 23. Gross Merchandise Imports And Exports Of Malaya, 1929 - 33

(Million Strait Dollars)

Period	Imports	Exports
1929	861	925
1930	706	658
1931	453	401
1932	377	323
1933	350	373

Source: Silcock, T. H. Readings In Malayan Economics, Eastern Universities Press Ltd., Singapore, 1961, p. 187.

CHART 5.
GROSS MERCHANDISE IMPORTS AND EXPORTS OF MALAYA
(1929-1933).



Source: T. H. Silcock, Readings in Malayan Economics,
Eastern Universities Press Ltd, p. 187.

cent.⁴ The terms of trade turned adversely against Malaya in 1929. Thus various steps including the imposition of an import duty on rice were taken during 1929-32, with the aim to diversify the Malayan economy and also to reduce the dependence on imported food.⁵

The history of Malaya during 1929-32, therefore provides an outstanding example of the susceptibility of the primary producing countries in this region to wide fluctuations in their export proceeds and level of economic activity.

Post-War Trade Developments: 1948 - 55

Developments in the trade of Southeast Asia for the period between 1948 and 1955 fall into three distinct phases each with its own dominating characteristics.

The first phase covers the period of recovery in the production of foodstuffs and raw materials, that is the period immediately after the war to 1949. The second phase is dominated by the Korean War and its aftermath, whilst the third phase covers the period between 1951 and 1955.

The First Phase 1948 - 1950

The Second World War inflicted heavy losses on Southeast Asia. Under the Japanese occupation, many territories were despoiled and neglected, rice fields, rubber plantations and other economic asset built up over generations were destroyed. Immediately after the war,

4. Ibid. P. 187.

5. Ibid.

these damages, together with a shortage of shipping, greatly dis-organized the production and transportation of foodstuffs and raw materials within Southeast Asia.⁶

In many parts of the area, in addition to the physical ravages of war, economic dislocation and inflation were present.⁷ Efforts were made to increase food production. Home consumption had to be restricted in order to maintain exports of a few items. All these events, together with the great increase in money supply arising from war finance, created an inflationary situation which remained a source of economic instability when the war came to an end.⁸

After the war, the state of insecurity continued in the area, as political and social disturbances occurred in large areas with varying intensity at different times. Some governments were largely pre-occupied with these disturbances, and others, although well established were compelled to devote a large part of their resources to defence and the maintenance of law, and order. In Malaya, economic rehabilitation proceeded, but measures required to maintain law and order constituted a heavy drain upon the resources of the government of the Federation of Malaya and that of

6. For detail description see The Colombo Plan, for Co-operative Economic Development in South and Southeast Asia, Report by the Commonwealth Consultative Committee, Sept., 1950.

7. Ibid. p. 4.

8. Ibid.

the United Kingdom. In Thailand, the economic situation steadily improved while in Burma, Indonesia and the Philippines, grave displacement due to insurgent activities, retarded the process of post-war recovery.⁹

The impact of the war and of post-war unrest have been serious especially with respect to food production, for the effects of the disruption of the major sources of supply have been accentuated by large population increases.

Table 24. Rates of Population Increase In Southeast Asia (1950)

Major Countries In the Area	Annual Rate of Increase Per Cent
Malaya	2.4
Burma (1931 - 41)	1.3
Thailand (1937 - 47)	1.8
Indonesia (Java, 1920 - 30)	1.8

Source: The Colombo Plan. For Co-operative Economic Development In South and Southeast Asia, Report by the Commonwealth Consultative Committee, Sept. 1950, London, p. 9.

According to the studies made by the United Nations Economic Commission, the output of food in Southeast Asia in 1950 was still below its prewar level, while the population increased at an average rate of 1.8 per cent

9. United Nations, Economic Survey of Asia and Far East, 1950, New York, p. 206.

Table 25. TERMS OF TRADE* OF SOUTHEAST ASIA, 1948 - 1955.

(1953 = 100)

COUNTRY	1948	1949	1950	1951	1952	1953	1954	1955
Burma	41	37	33	57	81	100	83	70
Indonesia	-	-	132	138	102	100	106	120
Malaya	80	77	120	143	116	100	104	130
Philippines	112	92	103	98	78	100	93	85
Thailand	-	-	-	81	106	100	106	103

Source: Based on Year Books of International Trade Statistics
and ECAFE Annual Surveys.

* Percentage of unit value index.

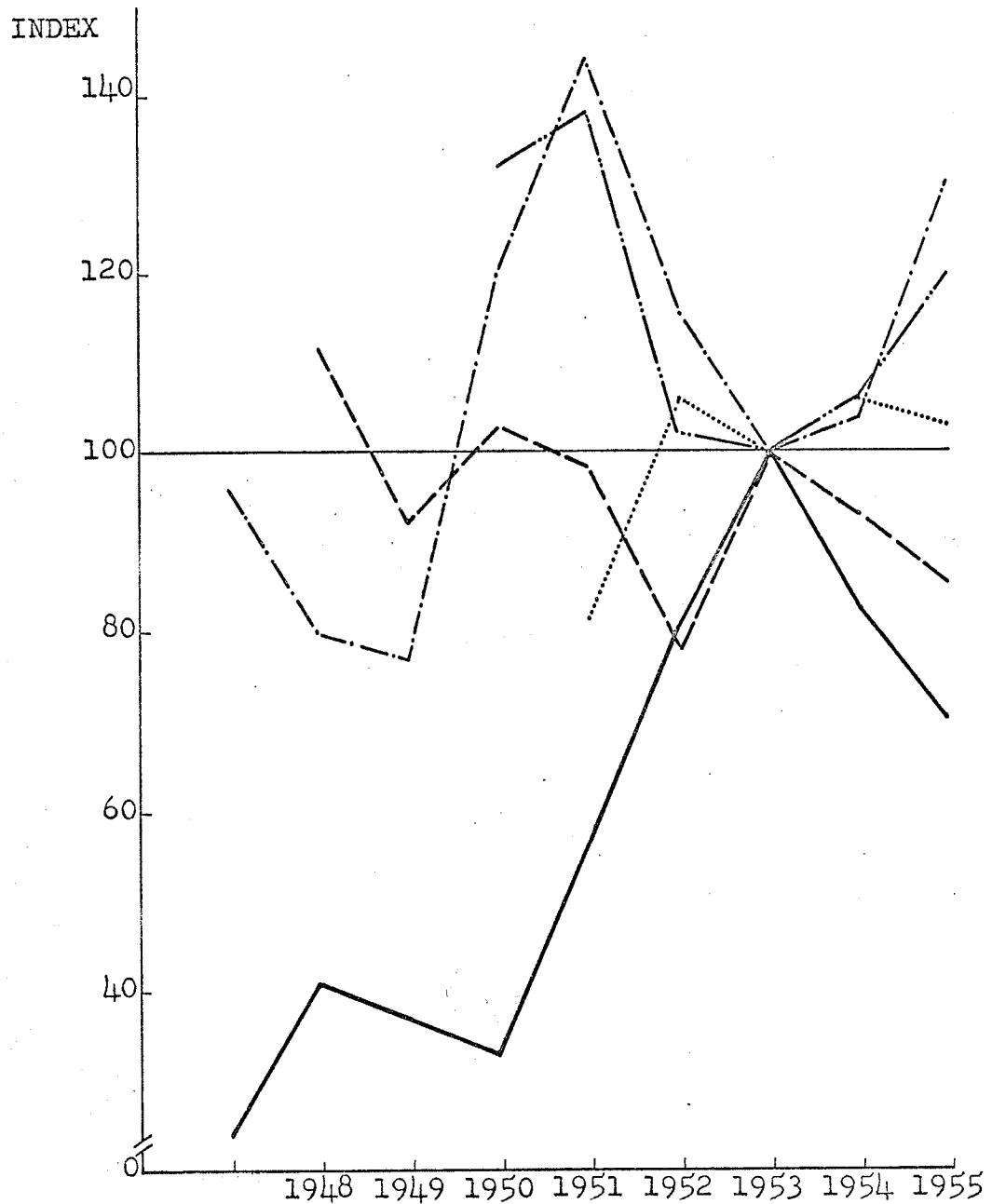
Table 26. INDEX NUMBER OF UNIT VALUE: QUANTUM OF SOUTHEAST ASIA,
1948 - 1955.

(1953 = 100)

COUNTRY	1948	1950	1951	1952	1953	1954	1955
Burma:							
Imports	68	64	69	104	100	123	104
Exports	116	79	113	105	100	130	145
Malaya:							
Imports	72	99	131	116	100	107	128
Exports	95	121	128	109	100	110	118
Philippines:							
Imports	123	80	100	90	100	110	125
Exports	62	85	96	107	100	111	121
Thailand:							
Exports	69	114	112	100	100	87	108

Source: Based On ECAFE Annual Economic Surveys, 1948 - 1963.

CHART 6.
TERMS OF TRADE OF SOUTH-EAST ASIA, (1948-1955).
(1953=100)



REFERENCE:

— BURMA

—...— INDONESIA

—...— MALAYA

—...— PHILIPPINES

..... THAILAND

Source: Table 25 •

per year. (See Table 24) Consumption per head was therefore lower than it was ten years before. It was clear that both agricultural and industrial production had to rise to provide for the additional population.

The terms of trade for the region as a whole remained relatively unfavourable during 1948 and 1949. From the available statistics, in Table 25, the terms of trade for Burma stood as low as 40 in 1948, and fell to 37 in the following year, while in Malaya, the terms of trade were higher than in Burma, they were 80 in 1948 and 77 in 1949. Philippines had a favourable terms of trade in 1948, with 112, they then declined to 92 in 1949. Thus, from Chart 6 it is seen that for the period 1948-49, the terms of trade for Burma, Malaya and Philippines were very low but Malaya and Philippines, the raw-material exporting countries, stood at a relatively higher level than the rice-exporting country, Burma.

Rice:

Production was severely retarded by the lack of internal stability in the countries of Southeast Asia especially Burma and Thailand. On the whole, during the period 1946-1955, the flow of supplies was only partially restored.¹⁰ In Burma, normally the largest surplus-producing country in the world, the continuation of political and military unrest adversely affected the 1949-50 rice harvest.¹¹

10. United Nations, Economic Survey of Asia and Far East, 1950, New York, p. 210.

11. Ibid. p. 210.

In 1947/48, the production of rice was 5,287 thousands metric tons, but in 1948/49, it declined to 4,076 thousands metric tons and remained at this level in 1949/50. (Table 27)

Table 27. Production of Rice In Southeast Asia (Selected years)

(Thousand metric tons of paddy)

Country	1934/35- 1938/39 Average	1947/48	1948/49	1949/50
Burma	6,971	5,287	4,076	4,080
Indonesia	9,987	-	9,287	9,866
Malaya	513	553	495	703
Philippines	2,179	2,198	2,491	2,596
Thailand	4,357	5,174	6,835*	6,683*
Total:	24,007	13,212	23,184	23,928

Source: Based on United Nations, Economic Survey of Asia and Far East, 1950, New York, p. 210.

* Figures not comparable with those for earlier years.

In Thailand, there was a full recovery in the production of rice. In 1949/50, production of rice in Thailand accounted for 6,683,000 tons which was well above the prewar level of 4,357,000 metric tons (1934/35 - 1938/39 average). In the remaining countries of the region, Indonesia, Malaya and Philippines, the production of rice in 1949/50 continued to expand well above the pre-war averages, but these countries did not have

export surpluses. According to P. Lamartine Yates' calculation, in 1953-54, production in Malaya accounted for only 53 per cent of the total consumption of rice in the country, while in Indonesia, production accounted for 96 per cent of the total consumption.¹² The remaining portion had to be supplemented with rice imported from the neighbouring countries.

Rubber:

Unlike rice, the level of rubber exports recovered rapidly after the war. It is the largest single dollar earner for the region, which accounts for 96 per cent of world production of natural rubber.¹³ Post-war production of natural rubber has been much higher than the pre-war level.

-
12. P. Lamartine Yates, Forty Years of Foreign Trade, George Allen and Unwin Ltd., 1959, p. 73, Table 39 (D). According to Yates' calculation from Table 39 (D), Burma, Pakistan and Thailand, together accounted for 2,509,000 metric tons of rice out of a total 4,500,000 metric tons of rice exports in the world market, which means that the exports of Burma, Pakistan and Thailand accounted for 55 per cent of the total exports in the world market. Yates states, "..... Thus the world's rice trade is in two almost distinct parts; a minor one consisting in United States exports to other Western Hemisphere countries, and a major one which is intra-regional trade between surplus and deficit countries of the Far East." See Yates, p. 74.
13. United Nations, Economic Survey of Asia and Far East, 1950, New York, p. 225.

Table 28 below indicates the position:

Table 28 Natural Rubber Production in Southeast Asia, (1938, 1948-50)

(Thousand long tons)

Country	1938	1948	1949	1950
Malaya	360	698	671	694
Indonesia	319	432	431	684
Thailand	42	96	94	112
Burma	7	9	9	9
Total:	728	1,235	1,205	1,499

Source: Based on United Nations, Economic Survey of Asia and Far East 1950, New York, p. 225.

In 1950, the output of rubber was about 185 per cent of the 1934-38 average.¹⁴ In Malaya, the output of rubber in 1950, was 192 per cent of the 1938 average while in Indonesia, it was 210 per cent of the 1938 average, in Thailand, the output of rubber in 1950 was almost three times the amount in 1938. But production of rubber in Burma had hardly increased, due to insurgent activities.¹⁵ (See Table 28). The rapid increases in output; especially in Malaya, Indonesia, and Thailand were greatly stimulated by high prices obtained in the world markets.

14. Ibid. p. 225.

15. Ibid. p. 96, 1951

Price indexes in terms of U. S. dollar for rubber rose from 128 in 1947 to 364 in the second half of 1950 in Malaya, Indonesia, and Thailand (1938 as the base). This fact contributed largely to the relatively favourable terms of trade for Malaya in 1951 as rubber alone constituted 60 per cent of her total exports.¹⁶

Sugar:

The sugar industry underwent great changes after the First World War. As shown in Table 29, production declined appreciably

Table 29. Sugar Production In Southeast Asia 1935-39, 1949, 1950.

(Thousand metric tons, raw value)

Country	1935-39*	1949	1950
Burma	71#	18#	20#
Indonesia	1,170	240	320
Philippines	1,004	662	617
Thailand	-	-	69 ^x
Total:	2,245	720	1,006

Source: Based on United Nations, Economic Survey of Asia and Far East, 1950, New York, 1950, p. 222.

* Average figures for four years.

Unofficial estimate prepared by Economic Commission for Asia and Far East, United Nations.

x includes 19,000 tons of crude brown sugar.

16. Refer Table 13 Chapter 2, also see Table 31 in the following page.

from 1939. Production of sugar in Indonesia decreased from 1,170,000 metric tons in 1935-39 (average) to 320,000 metric tons in 1950, while in Philippines, production also decreased from 1,004,000 metric tons in 1935-39 (average) to 617,000 metric tons in 1950. Since 1948, sugar has accounted for only 7 per cent of the total exports in Philippines.¹⁷

Tin:

The tin of Malaya and Indonesia suffered heavy losses from the war. Production declined from the 1938 level to very low levels in the four major countries of the region. In Burma, output of tin fell from 5,030 metric tons in 1938 to 350 metric tons in 1946, in Indonesia output of tin declined from 30200 metric tons in 1938 to 6,530 metric tons in 1946, while in Malaya the war damages were even more severe as the output of tin fell drastically from 44,070 metric tons in 1938 to 8,570 metric tons in 1946. The tin industry was almost wiped out in Thailand as production declined by nearly 93.6 per cent from 15,060 metric tons in 1938 to 1,070 metric tons in 1946. After the war, new dredges and pumps were put into operation and the supply of engineering materials, coal and electric power improved. By 1949, production of tin in Indonesia, Malaya and Thailand had started to show signs of recovery mainly because of the high prices prevailing in the world market. Tin prices in terms of U. S. dollars rose from 174 in 1947 to 234 in 1949 (January - September) with 1938 as the base.¹⁸

17. Refer to Table 14, Chapter 2.

18. Refer to Table 31 in the following page.

This rapid increase in prices of tin resulted from the stockpiling purchases of the United States and other countries.¹⁹ Table 30 indicates that Burma, Indonesia and Thailand together contributed about 60 per cent of the world production of tin metals in 1950. This was much higher than the 1946 level of 18 per cent, but only slightly above the 56 per cent level achieved in 1938.

Table 30. Production of tin* of Southeast Asia, 1938, 1946-50.

(In Thousand metric tons)

Country	1938	1946	1947	1948	1949	1950
Burma	5.03	0.35	1.82	1.17	1.81	1.71
Indonesia	30.20	6.53	16.19	31.10	29.43	32.62
Malaya	44.07	8.57	27.46	45.53	55.79	58.46
Thailand	15.06	1.07	1.42	4.31	7.94	10.53
Total:	94.36	90.00	46.89	82.11	94.97	103.32
World Total:	168.36	90.00	114.00	154.00	165.00	170.00
Southeast Asia Total as % of World Total:	56	18	41	53	57	60

Source: Based on Economic Survey of Asia and Far East, United Nations, New York, 1950. p. 239.

* tin in concentrates. (Metal content).

19. United Nations, Economic Survey of Asia and Far East, 1950, New York, p. 240.

Thus from the production figures of the major export commodities of the region in the above section, it is obvious that the production of the export products, with the exception of sugar, had recovered partially by the end of 1949. This naturally improved the export earnings of the individual countries of the region.

With the exception of Burma, as shown in Chart 6, the terms of trade were relatively favourable for Malaya and the Philippines. The terms of trade for Malaya rose from 77 in 1949 to 120 in 1950, they continued to rise and reached the peak of 143 in 1951. Similarly in the Philippines the terms of trade rose from 92 in 1949 to 103 in 1950, but started to decline after 1950. Burma on the other hand experienced only very slight changes in the terms of trade which remained very unfavourable during 1948 - 1955. (Chart 6, Table 25).

Thus during 1948-50, changes in the terms of trade of the individual countries especially Malaya and Philippines corresponded roughly with changes in the growth rate of GDP in these countries. In Malaya during 1949-1950, there was a rise of 43 percentage points in the terms of trade which corresponded with a rise of 44 per cent in national income during the same period. In the Philippines, during 1949 - 1950 the terms of trade rose by 11 percentage points while the national income also rose by 8.5 per cent.²⁰ In Burma, the national income for the period 1948-49, decreased by 5.4 per cent while the terms of trade also fell by 4 percentage points. (Table 25).

Table 3¹ on the following page, shows fluctuations in prices expressed in terms of dollars of the major export commodities in Southeast Asia for the period 1947 - 1950, with 1938 as the base year.

20. See Chapter II, Table 3.

Table . . . Index of Prices In Terms Of Dollars Of Selected
Commodities Exported From Southeast Asia
(1938 = 100)

Year	Rubber (Malaya)	Tin (Malaya)	Copra (Philippines)	Rice (Burma)
1938	100	100	100	100
1947	128	174	584	483
1948	145	225	859	552
1949 (Jan.-Sept.)	120	234	521	552
1949 (Oct.-Dec.)	109	171	528	384
1950 (Jan.-June)	153	170	586	402
1950 (July-Dec.)	364	264 ^a	609	402 ^b

Source: United Nations, Economic Survey of Asia and Far East, 1950,
New York, p. 343.

a. Average of September, October, and December.

b. Average of five months from July to December.

The price of rubber in terms of dollars rose from 128 in 1947 to 364 in 1950, the price of tin also rose from 174 in 1947 to 264 in 1950. This violent rise in the export prices of both rubber and tin, constituted the major factors which caused the improvement in the terms of trade of Malaya which owing to its heavy dependence of its economy on foreign trade, eventually led to a substantial growth in national income of the country. Similarly in the Philippines, since copra represented about 42 per cent of the total exports in 1950, the rise

in the price of copra in terms of dollars from 584 in 1947 to 609 in 1950, had a considerable influence on the terms of trade of the country, thus leading to a slight rise in the national income.²¹ The price of rice exports expressed in terms of U. S. dollars from Burma underwent a decline from 483 in 1947 to 402 in 1950 (1938 as the base). Accordingly, there was a fall in the terms of trade from 44 in 1947 to 33 in 1950 and also a fall of 5.4 per cent in the national income in 1950 from the previous year.

Thus from the figures given in Table 31, we find that there was a positive relation between the growth of national income, and improvement in the terms of trade, and between the prices of exports and the terms of trade. This is true both for the raw-material exporting countries and the rice exporting countries. Chart 6 traces the changes in terms of trade of the five major countries of the region for the period 1948-1955, (1953 = 100). In general, the raw-material exporting countries of Malaya and Philippines had a relatively more favourable terms of trade than the rice exporting countries of the region for the period 1948 - 1950. (Chart 6)

The Second Phase 1950 - 1951²²

Toward the end of 1949, economic recovery started in the United States and this revived the import demand for raw materials.²³

21. See Tables 3 and 14, Chapter II.

22. This period covers the end of 1949 and the beginning of 1951, as a clear distinction between the second and the third phase can hardly be maintained.

23. J. W. F. Rowe, Primary Commodities in International Trade, Cambridge University Press, 1965, pp. 101-104.

The stock-piling programmes of some western countries and the outbreak of the Korean War further increased the demand for and the prices of raw materials especially rubber and tin.²⁴ In 1950, the price of rubber in terms of dollars, as shown in Table 31, rose from 128 in 1947 to 364 in 1950 (1938 = 100), which represented an improvement of about 300 per cent compared with 1938. The terms of trade for Malaya and Indonesia reached their highest level in 1951. While the unit value of exports in Malaya rose from 116 in 1950 to 172 in 1951, the import price index rose from 96 to 120 in the same period, (as indicated in Table 33, Chart 7). Thus the great increase in the prices of exports, combined with a relatively smaller increase in import prices, resulted in the favourable terms of trade for Malaya.

During 1950 - 1951, improvements in the terms of trade for all the countries of the region were also significant, and were caused mainly by a rise in the prices of raw materials at a time when the prices of foodstuffs did not increase as rapidly. For instance while the price of rubber increased by about 200 per cent in 1950 from 1948, the price of rice fell by about 25 per cent in 1950 from 1948²⁵. Since the export trade of the various countries of the region differs in their commodity structures, these changes in price relations affected their terms of trade differently. On the import side, there are no marked differences among these countries; all are importers of manufactured goods, which

24. Ibid. p.102.

25. See Table 31.

account for between two-fifths to three-fifths of their total import trade. The prices of these held quite steady. Therefore, the variations in the terms of trade of the various countries of the region for the period were mainly the result of the uneven changes in the prices of their various export commodities, and of the varying weight of such commodities in their total exports.

Countries which showed the greatest improvement in their terms of trade during late 1950 and early 1951 were the major exporters of rubber and tin, for example Malaya whose terms of trade improved by about 66 percentage points between 1949 and 1951. (Table 33, Chart 7). The terms of trade for Indonesia reached the highest peak in 1951 as indicated by Chart 8, Table 34. Burma and Thailand also experienced a substantial, though less marked improvement in their terms of trade as shown in Charts 9, and 10 respectively.

It is clear, at least from hindsight, that the strong commodity surge could not be maintained but rather contained the seeds of a major slump to follow. This is because, the period was very untypical. It was dominated by preparations for the Korean War. The strong showing of commodity prices relative to manufactures, then, was due to speculative purchases and not due to a basic expansion in commodity consumption in the industrialised markets. The end of the Korean War was bound to reverse the trend. This was bound to be all the more severe, since the favourable prices would in the meantime have stimulated production and supply. As J. W. F. Rowe puts it:

"... The upward surge in prices which then took place was not due to any appreciable increase in actual consumption,

but essentially to a terrific scramble for stocks of raw materials of all kinds, and of certain materials in particular".²⁶

According to Rowe, most foodstuffs also rose substantially in 1950, but they were followers and not leaders. Of the two rice exporting countries of the region (Burma and Thailand) the available statistics showed that Burma's terms of trade experienced relatively no appreciable improvement during the boom 1949 - 1950. Chart 9 shows the changes in export and import price indexes and the terms of trade for the period 1946 1955 with 1953 as the base. The unit value of imports reached their highest peak in 1950 and started to decline frastically. At the same time, the unit values of exports rose gradually from 1946 through 1950.

The same pattern albeit with a slight modification reveals itself in the case of the Philippines. Since there appears to exist a positive relation between the price of exports and the terms of trade, we find that the terms of trade in Philippines reached their highest peak of 112 in 1948, which corresponded to the highest level of copra prices which was at 859 in terms of U. S. dollars.²⁷ In that year, copra accounted for 52 per cent of the total value of Philippines' exports.²⁸ Simultaneously the unit index of imports in 1948 also

26. Rowe, J. W. F. Primary Commodities in International Trade, Cambridge University Press, 1965, p. 101.

27. See Table 31.

28. Refer Table 14, Chapter II.

reached a relatively high level of 105. Between 1948 and 1949, both the exports and the terms of trade declined slightly as the price of copra expressed in terms of U. S. dollars fell from 859 in 1948 to 521 in 1949.²⁹ In 1950, the price of copra rose by 16 per cent, thus leading to a rise of 5 percentage points in the terms of trade of the country. There was no change in the unit value of imports during 1948-49, while the exports rose by 5 percentage points.³⁰ Philippine was therefore the least affected of the raw-material exporting countries of the region in regard to the terms of trade.

Thus the impact of the Korean War boom on the individual countries in their terms of trade depended upon the relation of their foreign trade to total economic activity in each particular country.³¹ On the whole, the changes in the terms of trade during the boom 1948-1951, were most favourable for Malaya and Indonesia. As the export trade accounts for a large share of total economic activity in Malaya and Indonesia, the impact of the commodity boom on these economies was particularly significant.³²

The Third Phase 1951 - 1955

The price relationships prevailing during the boom of 1950-1951 changed in the subsequent period. The raw material exporting

29. Op. cit. Table 31.

30. Table 35, Chart 92.

31. The relation of exports to national income for the major countries of Southeast Asia has been discussed in Chapter II. See also Tables 4, 5, and 6.

32. United Nations, Economic Survey of Asia and Far East, 1951, New York, p. 127.

countries of the region suffered a substantial deterioration in their terms of trade. In 1952, the terms of trade of the two raw-material exporting countries namely Malaya (Chart 7) and Indonesia (Chart 8) were about 36 percentage points below the peak levels which they had reached in the second half of 1950 or the first half of 1951.³³ Philippines suffered a relatively smaller deterioration in her terms of trade which fell by 20 percentage points in 1952 from their 1951 level. (Chart 9)

The rice-exporting countries of the region were much less affected by the boom and its subsequent abatement. Burma, where about 80 per cent of total export earnings are derived from rice, was the least affected.³⁴ In 1952, the terms of trade in Burma rose by 24 percentage points from the 1951 level. (Chart 10) Similarly Thailand, where 50 per cent of her total export earnings are derived from rice, experienced an improvement in her terms of trade which showed a slight rise of 24 percentage points in 1952 from the 1951 level.³⁵ (Chart 11)

The divergent movements in the terms of trade of these two groups of countries were due to two factors:³⁶

33. The outbreak of the Korean War took place in July 1950. Thus the exact period for the boom started only in the second half of 1950 and continued to the first half of 1951 according to the studies made by United Nations Economic Commission.

34. See United Nations, Economic Survey of Asia and Far East, New York, 1952, p. 32.

35. Ibid.

36. I mean the raw-material exporting countries; Malaya, Indonesia and Philippines and secondly the rice-exporting countries; Burma, and Thailand.

- (1) The different degrees of fluctuations in the prices of the individual export commodities, and
- (2) Differences in the commodity structures of the exports of individual countries.³⁷

Table 32 shows the price quotations of the major export commodities in Southeast Asia, expressed in national currencies, for the period 1951 - 1962. There is hardly a general pattern in the movements of prices except a rather slow drift downwards punctuated by some very large fluctuations in the prices of particular commodities. For instance the price of rice in Burma and Thailand, rose in 1952 by 10 per cent from the level of the previous year, which brought a rise in the terms of trade for both countries. The price of rubber in Singapore fell by 50 per cent in 1952 from 1951, while in Indonesia a fall of nearly 10 per cent was recorded in the same year.³⁸ In both Malaya and Indonesia, between 1952 and 1954, the price of rubber took a downward plunge with a drop of about 30 per cent in 1953 from 1952, followed by a smaller fall in 1954. In 1955, the price of rubber recorded was still lower than the peak reached in the Korean boom. These changes in rubber prices during the 1951 - 1955 period coincided with an increased use of rubber synthetics. A United Nation's report summarized

37. A detailed description regarding the composition of exports has been given in Chapter 2, supported by Tables 11 - 15.

38. Price quotations from Singapore are the only available statistics from this study.

Table 32. PRICE QUOTATIONS OF MAJOR EXPORT COMMODITIES IN SOUTHEAST ASIA1951 - 1962

Commodity & Country	Currency Weights	1951	1952	1953	1954	1955	1956
<u>RICE:</u>							
Burma	£ per L. ton	45.0	52.5	60.0	49.0	41.1	35.6
Thailand	£ per L. ton	52.4	56.7	63.4	57.3	50.5	48.9
<u>SUGAR:</u>							
Indonesia	Rp per 100 kg	294	286	285	308	306	302
Philippines	Peso Per picul	13.6	14.3	15.2	14.9	13.8	14.0
<u>COPRA:</u>							
Federation of Malaya	M.\$ per picul	44.02	28.82	35.30	30.68	26.38	25.70
Indonesia	Rp per 100 kg.	189	169	219	194	193	178
Philippines	Pesos per 100 kg.	36.16	24.63	36.62	30.76	27.12	26.02
Singapore	M.\$ per picul	43.91	29.09	37.59	32.55	28.14	27.45
<u>RUBBER: NATURAL</u>							
Burma	K. per lb.	1.20*	1.10*	1.10	0.81	1.29	1.58
Indonesia	Rp per 100 kg.	921	853	565	545	888	821
Singapore	M. cents per lb.	169.55	96.07	67.44	67.30	114.16	96.76
Thailand	Baht per kg.	13.18	10.14	7.30	8.17	13.59	11.25
<u>HEMP: RAW:</u>							
Philippines	Peso per picul	62.6	64.0	38.4	28.8	31.0	37.4
<u>COCONUT OIL:</u>							
Philippines	Pesos per kg.	0.70	0.46	0.69	0.57	0.48	0.45
Singapore	M.\$ per picul	79	48	59	55	44	44
<u>TIN:</u>							
Indonesia	Rp per m. ton	6,865	19,220	19,377	14,215	14,986	16,078
Singapore	M.\$ per picul	526.6	480.1	363.9	353.6	365.5	387.0
Thailand	Baht per kg.	15.2	15.4	8.7	26.9	28.2	28.8

Table 3a PRICE QUOTATIONS OF MAJOR EXPORT COMMODITIES IN SOUTHEAST ASIA1951 - 1962

(Cont'd)

Commodity & Country	Currency Weights	1957	1958	1959	1960	1961	1962
<u>RICE:</u>							
Burma	£ per L. ton	34.2	37.0	32.9	32.3	33.0	33.2
Thailand	£ per L. ton	49.8	53.1	47.7	44.8	49.0	55.7
<u>SUGAR:</u>							
Indonesia	Rp per 100 kg	350	418	440	465	590	980
Philippines	Peso Per picul	14.8	15.3	14.9	16.7	21.0	26.8
<u>COPRA:</u>							
Federation of Malaya	M.\$ per picul	26.85	35.13	41.29	33.17	26.63	27.27
Indonesia	Rp per 100 kg.	156	178	237	759	651	588
Philippines	Pesos per 100 kg.	28.43	37.70	46.66	39.92	38.14	47.31
Singapore	M.\$ per picul	27.34	33.89	40.89	33.10	26.29	27.82
<u>RUBBER: NATURAL</u>							
Burma	K. per lb.	1.31	-	-	-	-	-
Indonesia	Rp per 100 kg.	746	641	804	3,465	2,671	2,535
Singapore	M. cents per lb	88.75	80.25	101.56	108.08	83.54	78.20
Thailand	Baht per kg.	10.87	10.33	13.92	15.85	12.04	11.26
<u>HEMP: RAW:</u>							
Philippines	Peso per picul	46.8	39.2	57.6	61.6	60.5	57.8
<u>COCONUT OIL:</u>							
Philippines	Pesos per kg.	0.47	0.66	0.80	0.70	0.66	0.79
Singapore	M.\$ per picul	46	54	65	53	41	42
<u>TIN:</u>							
Indonesia	Rp per m. ton	16,004	15,669	15,761	66,946	65,709	-
Singapore	M.\$ per picul	373.2	369.4	396.9	393.7	446.8	447.8
Thailand	Baht per kg.	28.9	28.0	31.6	31.4	34.1	34.5

Table 32. PRICE QUOTATIONS OF MAJOR EXPORT COMMODITIES IN SOUTHEAST ASIA

1951 - 1962

(Cont'd)

Source: United Nations, Economic Survey of Asia and Far East, New York, 1963, p.

Specifications:

Rice:

Burma - Average of export contract prices, f.o.b. white rice, No. 1, Small mills, special ngasein.
Thailand - Export price f.o.b. Bangkok, white rice 5% broken; prior to 1955, export contract price f.o.b.

Sugar:

Indonesia - Domestic wholesale price of white sugar, Djakarta.
Philippines - Wholesale prices of centrifugar sugar, Manila.

Copra:

Fed. of Malaya - Wholesale prices, sundried.
Indonesia - Export prices f.o.b. mixed. Prior to August 1951, f.m.s. and mixed.
Philippines - Whole prices, reseeded, Manila.
Singapore - Wholesale prices, sundried.

RUBBER: - Natural

Burma* - Unit Value of Exports.
Indonesia - Export prices f.o.b. R.S.S.I. and Crepe 1.
Singapore - Buyer's midday prices, f.o.b. Singapore No. R.S.S. in bales, since 1952 average of daily prices.
Thailand - Unit value of exports of rubber smoked sheet. Annual figures relate to whole kingdom monthly and quarterly, figures relate to port of Bangkok only.

Hemp-Raw:

Philippines - Domestic export price at Manila, Manila Hemp, Grade G.

Coconut Oil:

Philippines - Wholesale and prices Manila.
Singapore - f.o.b. Singapore.

Tin:

Indonesia - Unit value of exports of tin and tin ore.
Singapore - Export prices ex-works.
Thailand - Unit value of exports of tin ore and tin in concentrates. Annual figures relate to whole kingdom, monthly, and quarterly figures relate to Port of Bangkok only.

the position thus:

"..... in 1951, consumption of natural rubber declined by 200,000 tons, as compared with 1950, while the consumption of sythetic rubber increased by a slightly larger amount."³⁹

The substitution continued into 1952, although at a slower rate, because as the prices of natural rubber fell rapidly in 1953, rubber regained its competitive position.⁴⁰ The consumption of synthetic rubber was 246,000 metric tons in the last quarter of 1953, while no change occurred in the consumption of natural rubber which stood at about 427,000 metric tons in each quarter of the year 1953.⁴¹

Apart from the variation in rubber prices, as shown in Table 32, the prices of sugar, copra, coconut oil and tin also fluctuated moderately due primarily to circumstances peculiar to each commodity.

Changes in the terms of trade in the individual countries of the region corresponded closely with the price movements of the export commodities.

In 1953, the terms of trade in Malaya fell by 16 per cent (Table 33) from the previous year. Although tin forms another major

39. United Nations, Economic Survey of Asia and Far East, 1956, New York, p. 6.

40. Table 32.

41. Commission on International Commodity Trade, Survey of Primary Commodity Markets, 1955, United Nations, New York, p. 81, Table 37.

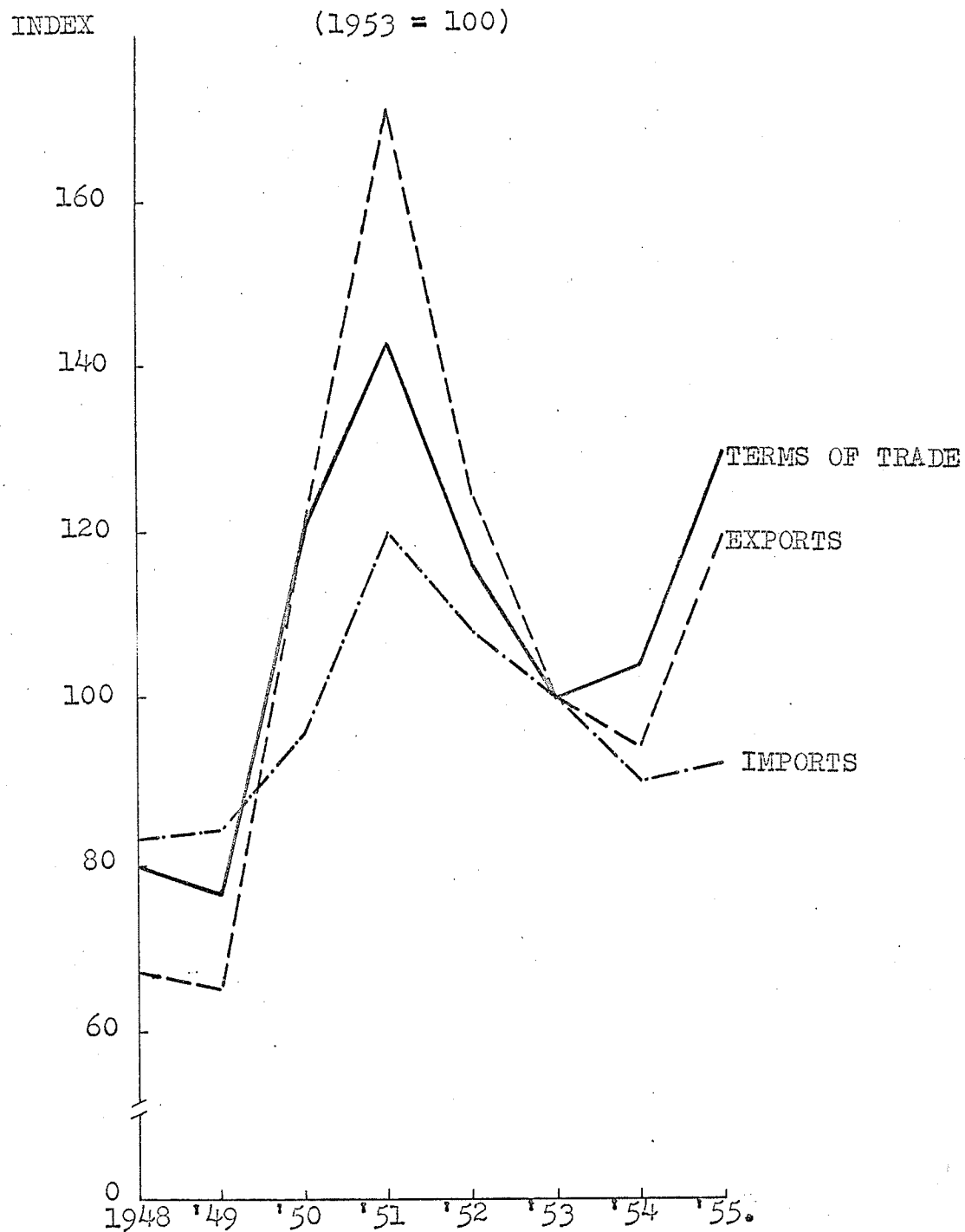
Table 33. MALAYA: INDEX NUMBER OF UNIT VALUE AND TERMS OF TRADE,
1948 - 1955.

(1953 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1948	83	67	80
1949	84	65	77
1950	96	116	120
1951	120	172	143
1952	108	125	116
1953	100	100	100
1954	90	94	104
1955	92	120	130

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1948 - 1963. United
Nations, New York.

CHART 7. MALAYA: UNIT VALUE INDEX OF EXPORTS AND IMPORTS AND TERMS OF TRADE, 1948-1955.



Source: Table 33.

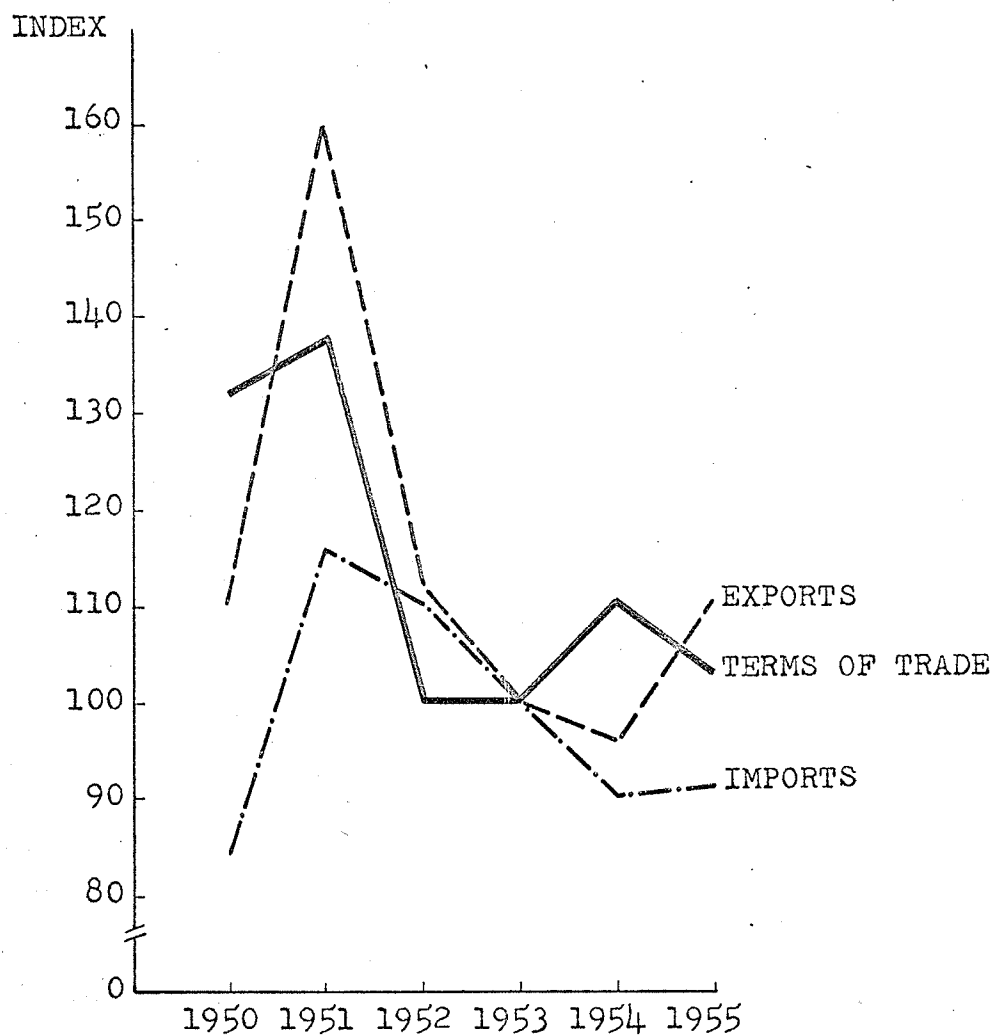
Table 34. INDONESIA: INDEX NUMBER OF UNIT VALUE AND TERMS OF TRADE,
1948 - 1955.

(1953 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	IMPORTS	EXPORTS	
1948	-	24	-
1949	-	25	-
1950	84	111	132
1951	116	160	138
1952	110	112	102
1953	100	100	100
1954	90	96	106
1955	91	110	120

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1948 - 1963, United Nations,
New York.

CHART 8.
INDONESIA - UNIT VALUE INDEX OF EXPORTS AND
IMPORTS AND TERMS OF TRADE, (1950-1955).
(1953 = 100)



Source: Table 34.

export of Malaya, it represents only 10 per cent of the total value of exports, thus the economy is less dependent on it.⁴² Following the upward surge in the prices of both rubber and tin, the terms of trade started to rise and reached 130 in 1955. Chart 7 showed that the unit value of exports was positively correlated with the terms of trade. A positive correlation also existed between imports and the terms of trade but the relationship is less well defined than that for exports.

Indonesia, another major rubber exporting country of the region, also experienced a decline in the terms of trade in 1953. However, the terms of trade improved during 1953 - 1955, and reached a relatively high level of 120 in 1955. Like Malaya, there existed a positive correlation between the terms of trade and exports (Chart 8).

The price of tin fell from the peak of 1950, but stabilized in 1952 and 1953 following the introduction of a buffer-stock agreement between the United States and Indonesia, in order to prevent wide fluctuation in prices.⁴³ This agreement was of special significance to the region which produced the major portion of the world's tin supply or roughly more than 50 per cent.⁴⁴

In 1953, there was a rise of 22 percentage points in the terms of trade of the Philippines, from the 1952 level, while her Gross Domestic Product also increased by 7.1 percent.⁴⁵ However in 1953,

42. Refer Table 13, Chapter II.

43. Refer Table 31. See also United Nations, Economic Survey of Asia and Far East, 1956, New York, p. 7.

44. Refer to Production of Tin in Table 30.

45. Refer Table 8, Chapter II.

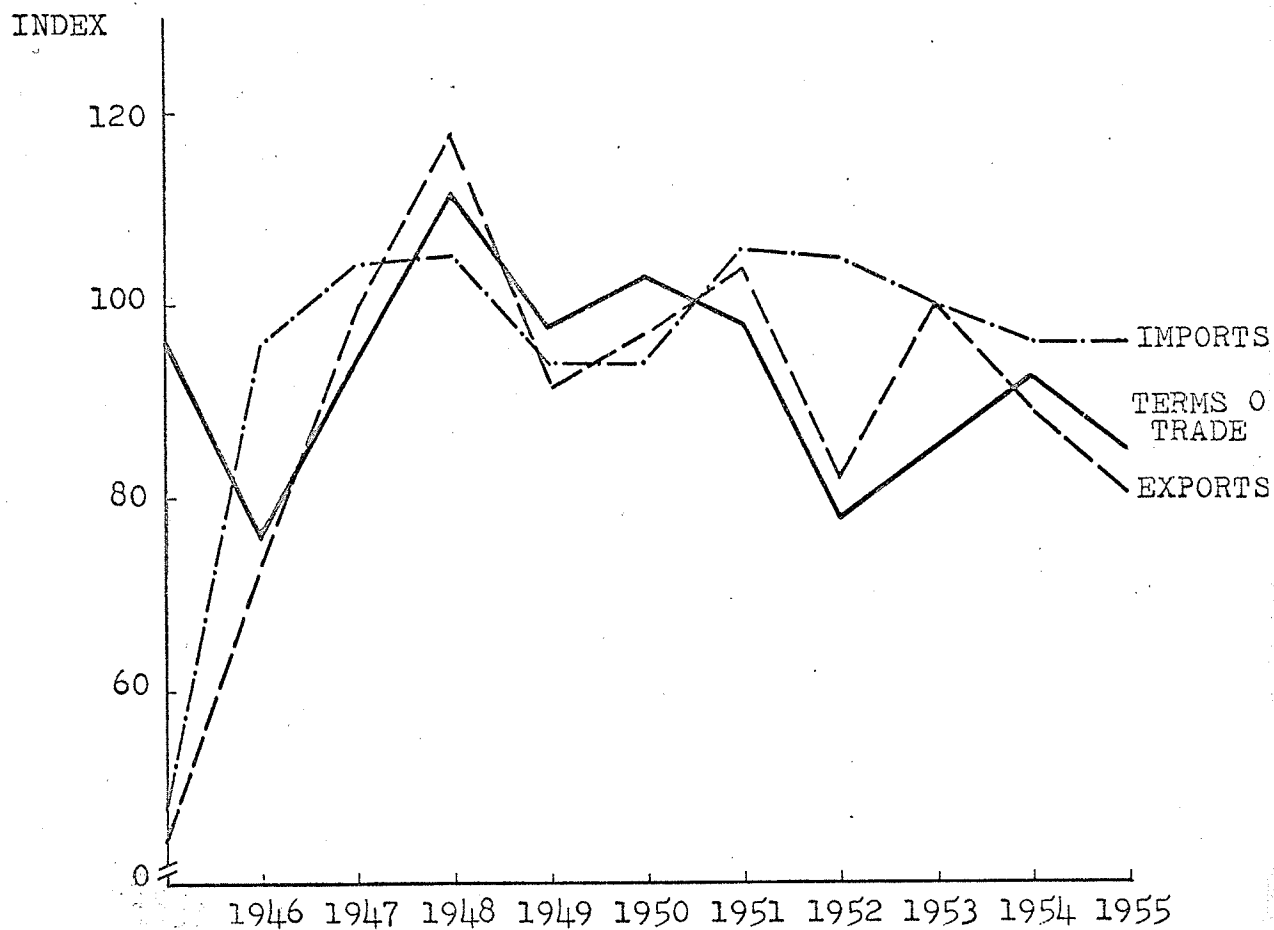
Table 35. THE PHILIPPINES: INDEX NUMBER OF UNIT VALUE AND TERMS
OF TRADE, 1946 - 1955.

(1953 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1946	96	73	76
1947	104	99	95
1948	105	118	112
1949	94	92	98
1950	94	97	103
1951	106	104	98
1952	105	82	78
1953	100	100	100
1954	96	89	93
1955	96	81	85

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Surveys, 1948 - 1963, United Nations, New
York.

CHART 9.
PHILIPPINES-UNIT VALUE INDEX OF EXPORTS AND
IMPORTS AND TERMS OF TRADE, (1946-1955).
(1953=100)



Source: Table 35.

the terms of trade began to fall gradually and reached the relatively low level of 85 in 1955. (Table 35). The unfavourable movements of the terms of trade in the period 1953 - 1955, coincided roughly with the downward trend of the prices of copra and coconut oil which together accounted for nearly 60 per cent of the total value of exports of the country in these years.⁴⁶ (Chart 9)

In the rice exporting countries of Burma, and Thailand, (Charts 10 and 11) the terms of trade improved substantially from 1952. In Burma, there was a sharp rise in the terms of trade in 1953 by 19 percentage points. (Table 36) This resulted chiefly from the higher prices obtained for rice which accounted for about 74 per cent by value of her total exports in that year.⁴⁷ The price of rice in 1953 was £ 60 for Burma and £ 63 per long ton for Thailand.

Burma appears to have reached her high water mark in 1953. Since then the inevitable downward trend in the terms of trade has proceeded unabated. Consequently, her foreign exchange position has never been comfortable. In 1953, the foreign reserves stood at K. 1,269 million; in 1955, they were down by 60 per cent to K. 544 million. The drastic fall in the foreign exchange reserves between 1953 and 1955 was due partly to the fall in the prices of rice (the main foreign exchange earner) and partly due to the increasing expenditure in development programmes of the country.⁴⁸ Gross capital formation in

46. See Table 32 and Table 14.

47. See Table , Chapter II.

48. 1955 marked the beginning of the implementation of Burma's Eight-Year Economic and Social Development Programme known as the K.T.A. Plan, 1955 - 1963.

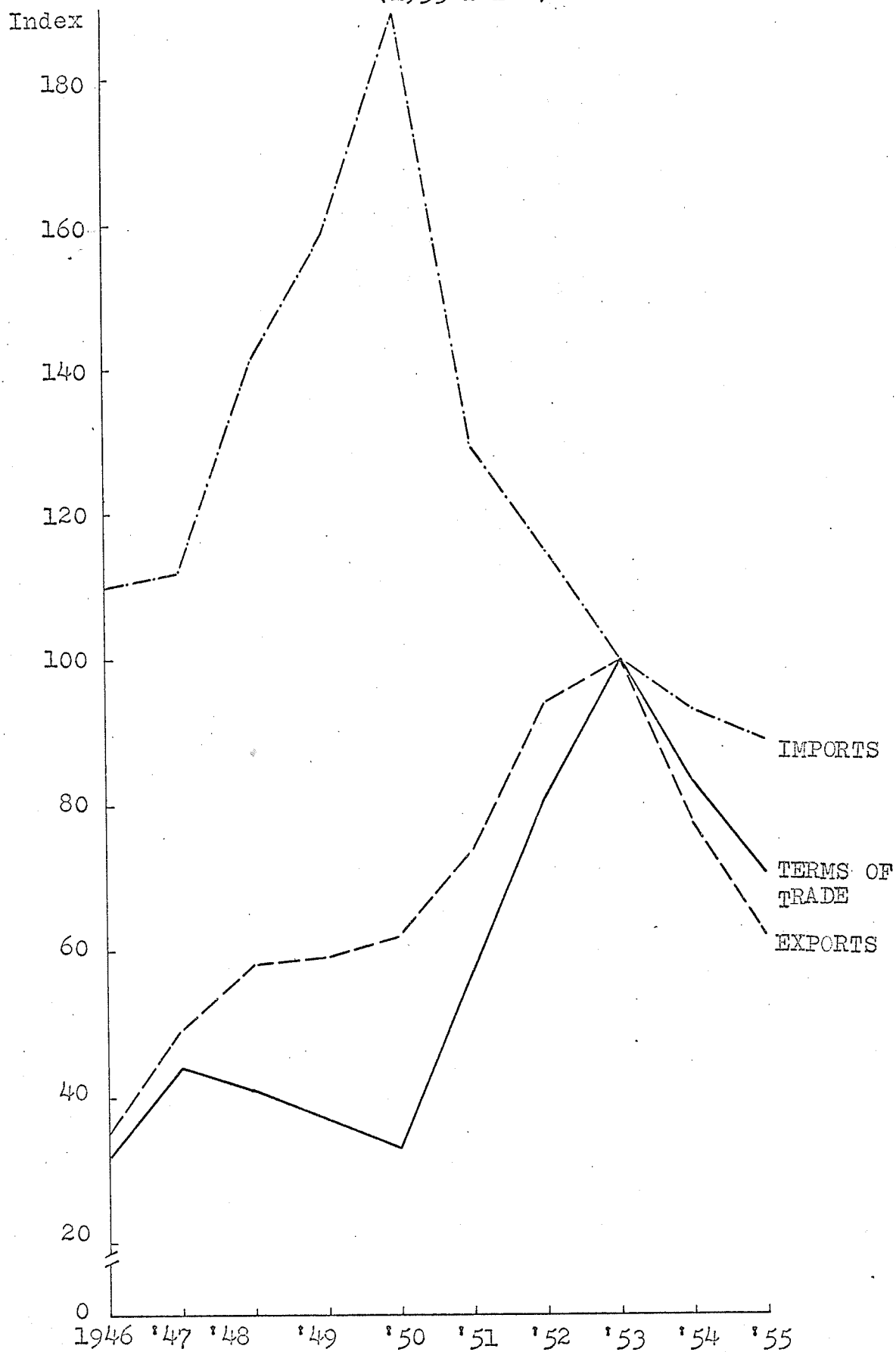
Table 36 BURMA: INDEX NUMBER OF UNIT VALUE AND TERMS OF TRADE,
1946 - 1955.

(1953 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1946	110	35	32
1947	112	49	44
1948	141	58	41
1949	159	59	37
1950	189	62	33
1951	129	74	57
1952	115	94	81
1953	100	100	100
1954	93	77	83
1955	89	62	70

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1948 - 1963, United
Nations, New York.

CHART 10. BURMA: UNIT VALUE INDEX OF EXPORTS AND IMPORTS
AND TERMS OF TRADE, (1946-1955).
(1953 = 100)



Source: Table 36

Table 37. THAILAND: INDEX NUMBER OF UNIT VALUE AND TERMS OF
TRADE, 1951 - 1955.

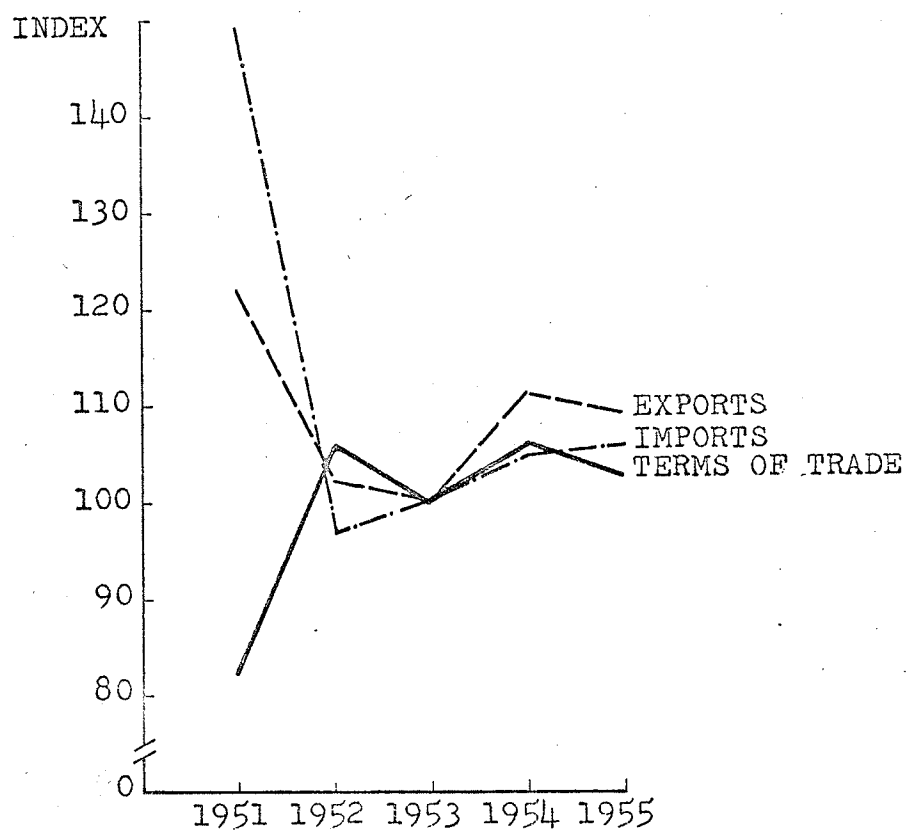
(1953 = 100)

YEAR	UNIT VALUE*		TERMS OF TRADE
	Imports	Exports	
1951	149	122	82
1952	97	102	106
1953	100	100	100
1954	105	111	106
1955	106	109	103

Source: Based on Yearbooks of International Trade Statistics
and ECAFE Annual Surveys, 1948 - 1963. United Nations,
New York.

* For years beginning 1950, Fisher Ideal Formula chained is used
for both unit values and quantum values, series are interdependent.

CHART 11.
THAILAND - UNIT VALUE INDEX OF EXPORTS AND
IMPORTS AND TERMS OF TRADE, (1951-1955).
(1953 = 100)



Source: Table 37.

1955 constituted about 20 per cent of the Gross Domestic Product while consumer and current expenditure also remained at a high level.⁴⁹

As a result of the continued drain of foreign exchange reserves, various measures were taken by the government in 1955, e. g. exchange control. Agricultural and industrial production of import substitutes were stepped up. Efforts to push sales of rice led to a number of barter deals, mostly with mainland China, the U.S.S.R. and eastern European countries.⁵⁰

The over-all picture shows that during the period from 1949 to 1955, favourable terms of trade brought large gains to some of the countries of the region. These gains accompanied by an increase in the volume of exports, enhanced considerably the capacity to import,⁵¹ and thus enabled larger capital formation and an increase in national income.⁵²

Although the terms of trade continued on the whole to be favourable to the region, the main source of gains originated mainly

49. See Table 4, Chapter II.

50. United Nations, Economic Survey of Asia and Far East, 1955, New York, Chapter 4, p. 57.

51. The capacity to import of a country during a certain period is related to the total foreign exchange resources available from export of goods and service, net capital inflow, donations or grants etc. Statistically, it equals to the values of export deflated by import price indices.

52. Refer to Chapter II, tables 3 - 10.

from rubber, tin and copra. But prices of primary exports fluctuated violently in direct relationship to the terms of trade. Although the fluctuations in prices of export commodities varied from country to country, those countries which concentrated their exports on a smaller number of primary products suffered larger fluctuations in their terms of trade. The fluctuations have varied greatly according to the magnitude of the foreign trade index of the countries concerned.⁵³

The implication is that there exists no certainty that the terms of trade may not suddenly fall again or shoot up further any time in the future. Any significant change in the terms of trade will definitely affect the rate of economic development and economic stability in these countries.

53. See Table 10, Chapter II.

CHAPTER IV. PRODUCTION, TRADE AND TERMS OF TRADE. (1955 - 1961)

General Trend In Terms of Trade:

The most outstanding achievement of the countries of South-east Asia in the decade after the Second World War, was the rapid recovery which these economies made following, perhaps, the most severe economic dislocation in the history of the sub-continent. But recovery in these economies was largely the result of the restoration of trade and recovery in the industrialized countries of the West who from the major trading partners of Southeast Asia. This economic dependence, through trade, remains a fundamental economic factor in the development efforts of Southeast Asia.

As the previous chapter has traced out, Southeast Asia's involvement in the web of international trade was on the basis of reciprocity whereby Southeast Asia supplied unprocessed raw material in exchange for consumption and capital goods for economic development. This particular pattern of trade places these countries at a disadvantage. The disadvantage resides in the behaviour of the terms of trade, and in the fact that demand for primary production does not seem to be expanding pari-passu with the expansion in world trade and incomes.

The factors which have determined the world demand for the commodities supplied by Southeast Asia, have varied from commodity to commodity. The result, as we have shown, has been that the various countries in Southeast Asia, have experienced different degrees of instability. On the aggregate, however, the Korean War exercised a major expansionary effect on these economies. Since then, the main pre-occupation of these countries, appears to be an attempt to restructure

production and trade in such a way as to accommodate the declining world demand for primary products and to shift the centre of stimulation for the domestic economies from dependence on foreign markets to within the internal economies themselves. These programmes of conscious and deliberate manipulation have more than ever accentuated the need for international liquidity which can be secured only through trade but on the basis of unstable terms of trade. This forms the heart of the dilemma of Southeast Asia. Since 1955, the balance of payments position of the countries in this region have become increasingly unfavourable.

In 1956, the region as a whole experienced an expansion in the unit values of both exports and imports, but prices of imports were considerably higher than those of exports. The deficits in the trade balances accordingly widened. In 1957, the lag of exports behind imports was even more pronounced, and the deficits in the trade balances were consequently larger. Price fluctuations continued with great violence for rice which dominates the export trade of Burma and Thailand.¹ The annual percentage change in the prices of some of the major export commodities for 1956 and the second quarter of 1957 are shown in Table 38 in the following page:

1. See Table 32 Chapter III.

Table 38. Southeast Asia: Percentage Price Changes Of Major
Export Commodities 1955 - 1957.

Commodity and Country	Change in 1956 over 1955	Change in Second quarter of 1957 over 1956
RICE:		
Burma	- 8.2	- 1.0
Thailand	- 7.4	- 3.0
RUBBER:		
Indonesia	- 7.4	- 9.5
Malaya	-15.3	- 5.4
TIN:		
Malaya	5.5	- 0.7
GOPRA:		
Indonesia	- 7.8	- -
Philippines	- 4.1	2.5
COCONUT OIL:		
Malaya	0.2	1.6
Philippines	- 4.6	- 3.9

Source: Based on Economic Survey of Asia And Far East, 1957,
New York, United Nations. p. 26.

The above table shows that the price of rice fell rather sharply between 1955 and 1957, leading to a decline in terms of trade for both Burma and Thailand. (Chart 12) Similarly, the price of rubber,

the chief export for the region as a whole, also slumped and reduced the export earnings of Malaya and Indonesia. The terms of trade of the Philippines fell only slightly, as the prices of copra and coconut products were somewhat stronger than in the previous year. During the period 1955 - 1958, the Philippines was the only country not affected by the general decline in export prices and thus maintained stable terms of trade.

Besides the sharp decline in the prices of export products, increased expenditures on imports also contributed to a deterioration in the balance of payments. Expenditures on imports rose,² largely due to increased imports of capital goods and more essential consumer goods, and in certain countries to emergency imports of food grain.³ The Suez Canal crisis in late 1956 and the inflationary tendencies in the exporting countries in the West, further raised the cost of imports to the countries of this region.⁴ Import prices had to absorb the increased freight and insurance charges during the closure of the Suez Canal. These import price increases, together with the fall in the prices of primary commodities, combined to exert considerable pressure on the balance of trade of many countries in the region.

2. For instance, imports in Indonesia rose from 574 million rupiah in 1955 to 817 million rupiah in 1956 where her exports increased only from 813 million rupiah to 885 million rupiah in the same period as shown in Table 40.

3. Indonesia during 1955 - 1957, was obliged to import considerable quantities of rice.

4. United Nations, Economic Survey of Asia and Far East, 1957, New York, p. 30-32.

Table 39. South-East Asia: VALUE OF EXPORTS AND IMPORTS AND BALANCE OF
TRADE (monthly average) million.

	BURMA (K)			INDONESIA (Rp*)			MALAYA (M\$)		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1938	41	18	+23	57	41	+16	50	46	+ 4
1948	63	43	+14	87	94	- 7	147	149	- 2
1951	82	54	+28	409	276	+133	506	396	+110
1952	105	76	+29	888	900	-12	326	323	+ 3
1953	84	70	+14	798	726	+72	252	270	- 18
1954	95	81	+14	813	598	+215	259	262	- 3
1955	90	71	+19	885	574	+311	346	318	+ 28
1956	99	79	+20	878	817	+61	188	146	+ 42
1957	91	118	-27	907	763	+144	182	151	+ 31
1958	77	81	- 4	751	517	+234	157	138	+ 19
1959	89	89	-	884	459	+425	206	145	+ 61
1960	90	103	-13	3,152	2,153	+999	244	179	+65
1961	88	86	+ 2	2,939	2,978	- 39	219	186	+ 33

Table 39. SOUTH-EAST ASIA: VALUE OF EXPORTS AND IMPORTS AND BALANCE OFTRADE (monthly average) million

(Cont'd)

	PHILIPPINES (P)			THAILAND (Baht)		
	Exports	Imports	Balance	Exports	Imports	Balance
1938	19.4	22.1	- 2.7	17	11	+ 6
1948	53.0	97.6	-44.6	174	146	+28
1951	68.3	81.7	-13.4	373	309	+64
1952	58.7	70.5	-11.8	487	473	+14
1953	67.3	76.2	- 8.9	492	552	-60
1954	67.5	80.4	-12.9	479	585	-106
1955	66.8	91.3	-24.5	597	600	- 3
1956	37.8	42.2	- 4.4	577	630	-53
1957	35.9	51.1	-15.2	628	703	-75
1958	41.1	46.6	- 5.5	537	685	-148
1959	44.1	53.6	+ 0.5	630	749	-119
1960	46.7	50.3	- 3.6	722	789	-67
1961	41.6	50.9	- 9.3	834	848	-14

SOURCE: ECAFE Annual Economic Surveys, 1956 - 1963, New York.

* Conversion rate of the rupiah changed in January 1960 from 11.4 to 45.0 per U. S. dollar.

Table 40. TERMS OF TRADE* OF SOUTHEAST ASIA 1955 - 1961.

(1958 = 100)

COUNTRY	1955	1956	1957	1958	1959	1960	1961
Burma	111	121	105	100	106	101	95
Indonesia	129	124	120	100	132	-	-
Malaya	124	115	105	100	118	121	109
The Philippines	100	100	98	100	106	102	93
Thailand	107	97	94	100	107	109	104

Source: Based on Yearbooks of International Trade Statistics
and ECAFE Annual Economic Surveys, 1955 - 1963, United
Nations, New York.

* Percentage of unit value index.

Table 41. INDEX NUMBER OF UNIT VALUE: QUANTUM OF SOUTHEAST
ASIA, 1955 - 1961.

(1958 = 100)

COUNTRY	1955	1956	1957	1958	1959	1960	1961
Burma:							
Imports	126	107	160	100	142	186	160
Exports	124	140	130	100	130	134	135
F. of Malaya & Singapore:							
Imports	92	101	100	100	101	105	117
Exports	91	98	100	100	101	101	111
The Philippines:							
Imports	104	96	113	100	90	100	103
Exports	87	97	91	100	99	107	103
Thailand:							
Imports	91	94	100	100	111	116	123
Exports	103	109	120	100	111	123	146

Source: Based on Yearbooks of International Trade Statistics and
FCAFE Annual Economic Surveys, 1955 - 1963, United Nations,
New York.

CHART 12.
TERMS OF TRADE IN SOUTH-ASIA, (1955-1961).
(1958 = 100)



REFERENCES:

———— BURMA

----- INDONESIA

----- MALAYA

----- PHILIPPINES

..... THAILAND

Source: Table 40.

Table 39 shows that all the countries of the region experienced a decline in the balance of trade between 1955 and 1958. In 1957, three countries; Burma, Philippines and Thailand had a severe decline in the balance of trade with deficits of 27 million Kyats, 15.2 million pesos and 75 million bahts respectively. Thus the balance of trade for these three countries reached a relatively low level in 1957, but improved between 1958 and 1961.

Chart 12 traces the terms of trade for Burma, Philippines, Thailand, Malaya and Indonesia for the period 1955 - 1961. On the whole, the terms of trade were favourable for all the countries in the region during the period 1955 - 1961, but year-to-year fluctuations were still very pronounced. As in the 1948 - 55 period, the raw material exporting countries, notably Indonesia and Malaya, were relatively better off, although Indonesia's terms of trade fluctuated more widely than Malaya's. This is evident from Table 39 and Chart 12. On the other hand, the rice-exporting countries of Burma, and Thailand, experienced a more stable, though relatively more unfavourable terms of trade position.

Year-by-year analysis indicates that the terms of trade for all the major countries in Southeast Asia moved up between 1958 and 1959. 1959 was a year which recorded a general expansion in world trade. The 1960 Economic Survey of Asia and the Far East reported the value of world trade to have increased \$ 100.6 billion in 1959, from 1958. Primary products featured in the expansion but only moderately. The total value of primary products traded rose from \$30.6 billion in 1958 to \$30.8 billion in 1959. Southeast Asia shared in this expansion.

For instance, Thailand narrowed her trade deficit from 148 million bahts in 1958 to 119 million bahts in 1959. The Philippines reversed her deficit of 5.5 million pesos in 1958 to a moderate surplus of 0.5 million pesos in 1959. Burma achieved a balance while Indonesia and Malaya increased their trade surplus by nearly a 100 and 300 per cent respectively.

The average export prices of the primary products were considerably higher in 1959 than in the previous year.⁵ These reflected to some extent, the growing strength of the recovery in the industrial countries especially the United States, after the decline in world trade associated with the recession during 1957/58.⁶ Thus indications of an expansion in international trade and of a rising trend in the export prices of many of the commodities produced in the area,⁷ provided added prospects for an improvement in the international financial position of the countries in the region. But the situation changed in 1960.

5. See Table 32 Chapter III.

6. Industrial countries are North America, Western Europe and Japan as defined by United Nations Economic Commission of Asia and the Far East. See also United Nations, Economic Survey of Asia and the Far East, 1959, New York, p. 20, Table 3.

7. Rubber, copra, coconut oil and tin in 1959, as shown in Table 32.

Table 42. Southeast Asia: Exports, 1958-60

(f.o.b. values in Million Dollars)

COUNTRY	1958	1959	1960	Change in 1960 over 1959%
Burma	193	223	189	-18
Fed. of Malaya*	616	807	729	-17
Indonesia	755	872	629	-33
Philippines	493	530	435	-20
Thailand	309	359	297	-20
Total:	2,366	2,701	2,279	-22

Source: Based on United Nations, Economic Survey of Asia and the Far East, 1960, New York, Table 8.

* Including trade between Singapore and Federation of Malaya.

Table 42 shows the total value of exports of the five major countries in the region, calculated in f.o.b. prices in terms of dollars. Comparing the value of exports of 1959, and 1960, the value of exports in 1960 was about 22 per cent lower. There was a general decline in the total value of exports during 1959-60, for each individual country in the region. The volume of exports of the major commodities of the region however, increased in 1960 over 1959 as shown in Table 43 below, except for rubber. The decline in the volume

Table 43. Southeast Asia: Quantity of Exports of Major Commodities.

(Thousand tons)

	1955	1956	1957	1958	1959	1960	1961	1962
RICE:								
Burma	141.5	162.1	155.7	127.7	150.4	152.2	137.1	145.6
Thailand	102.6	105.1	131.4	94.4	91.5	100.2	131.9	105.9
COPRA^a & COCONUT OIL:								
Fed. of Malaya	4.8	6.0	5.5	4.1	2.3	2.3	3.4	2.7
Singapore ^b	2.9	2.7	3.0	1.6	0.9	0.9	1.2	0.7
Indonesia	12.5	13.8	15.4	6.2	7.0	9.0	12.7	5.9
Philippines	48.4	59.8	57.6	50.0	41.1	47.9	39.7	53.9
NATURAL RUBBER:								
Burma	1.0	1.0	1.1	0.9	1.0	0.7	0.8	0.9
Indonesia	61.1	56.6	56.4	55.0	60.0	48.9	57.0	54.0
Fed. of Malaya	37.9	36.6	52.3	53.7	61.8	58.9	61.4	61.3
Singapore	15.6	15.7	17.2	19.3	--	--	--	--
Thailand	11.0	11.3	11.3	11.6	14.4	14.2	15.4	16.2
TIN: (Concentrates)								
Burma	79	71	83	113	117	118	112	125
Fed. of Malaya	-	-	5,049	2,796	3,118	-	-	-
Indonesia	2,689	2,638	2,318	1,553	1,560	2,106	1,421	1,415
Thailand	935	1,052	1,130	554	854	1,072	1,112	1,207
TIN: (Metal) tons.								
Fed. of Malaya ^c	3,204	4,399	4,252	3,212	3,727	6,466	6,606	6,892
Singapore	2,831	1,806	1,763	667	49	-	-	-
Indonesia	-	-	7	18	24	149	152	-

Source: Based on United Nations, Economic Surveys of Asia and Far East, 1960, 1963, pp. 151-162, & pp. 221-222., respectively.

a. Interms of oil equivalent.

b. Net exports.

c. Since 1960-1962, data covered Malaysia.

of rubber originated primarily from Indonesia whose exports fell from 60,000 tons in 1959 to 48,900 tons in 1960. Malaya's rubber exports fell from 61,800 tons to 58,900 tons.

8

Changes in export prices were uneven in 1960. Rubber fetched significantly higher prices. Tin concentrates and metal ore prices were relatively stable. On the other hand, the markets for rice, sugar and copra were soft; for rice and copra in particular, the sharp increase in the volume of exports was associated with significantly lower prices.

Thus during 1955-61, again the volume and value of the export trade of the major countries in Southeast Asia were greatly affected by the fluctuations in commodity prices which, in turn, also considerably influenced the terms of trade of each of the countries.

The Significance of the Terms of Trade

The significance of the uneven changes in the prices of the export of this region lay in their impact on the balance of payments and the ability to import - measured by the real value of export earnings - of each of the different countries in Southeast Asia. For the period 1959-1961, three different situations confronted these countries.

1. There were countries which experienced increases in real exports and capacity to import, but whose real imports grew faster than their capacity to import. In most of these countries, the terms of trade deteriorated over the period, and the countries continued to suffer from

8. Refer to Table 32, in Chapter III.

Table 44. Indices of Real Gross Domestic Product, Real Exports,
Real Imports and Import Capacity, 1959 - 1961.

(1952 - 1954 = 100)

Country	Gross Domestic Product	Exports	Capacity to Import ^a	Imports ^d
GROUP I.				
Burma	138	135	100	124
Thailand	141	139	138	149
GROUP II.				
Indonesia	121 ^b	99	114	90
GROUP III.				
Fed. of Malaya	132 ^c	128	176	150
Philippines	146	136	130	117

Source: United Nations, Economic Bulletin For Asia and Far East, Vol. XV, No. 1, June, 1964, New York, P. 11.

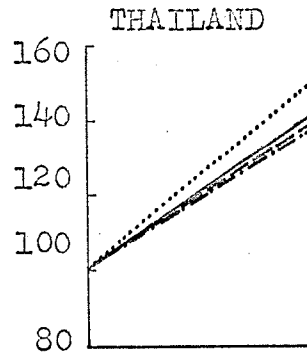
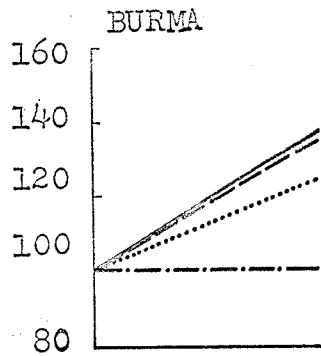
- a. Values of export deflated by import price indices.
- b. 1958 - 1960.
- c. Estimated figure based on the rate of increase of 18 per cent from 1955-56 to 1959-1961.
- d. Including imports of materials chiefly for capital goods. Deflated by the weighted price index of exports of capital goods from developed countries.

persistent pressures on the balance of payments.

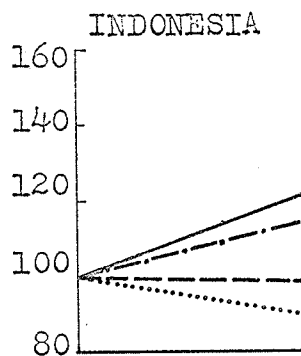
- 2. Some countries experienced a decline or stagnation in real exports and a similar reduction in real imports.

CHART 13.
INTERRELATIONSHIP BETWEEN THE CHANGES OF REAL PRODUCT,
REAL EXPORTS, REAL IMPORTS AND CAPACITY TO IMPORT OF
SOUTHEAST ASIA, 1959-1961.
(1952-54 = 100)

GROUP I.

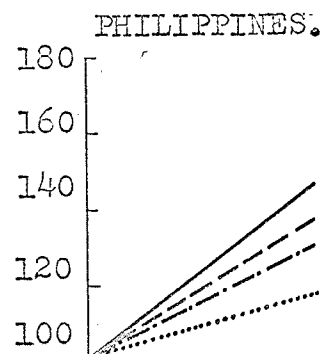
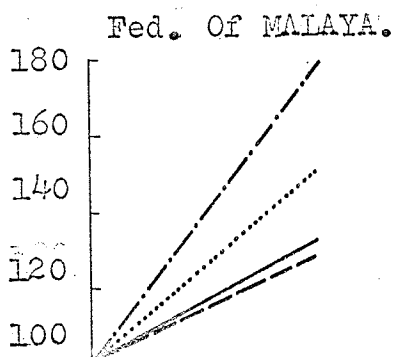


GROUP II.



_____ Gross Domestic Product
----- Real Exports.
- Import Capacity.
..... Real Imports.

GROUP III.



Source: Table 43.

The pressure on the external balance in these countries depended largely on the movements of the terms of trade.

3. Finally, there were countries which experienced an increase in import capacity larger than that in real imports owing to a greater increase in real exports and/or to an improvement in the terms of trade. Countries in this group experienced a diminution in pressure on the external balance.

Burma and Thailand may be considered to belong to the first group.⁹ In these countries, increasing or continuing pressure on the external balance came from the fact that imports rose faster than import capacity. For example, in Burma, during 1959-1961, the index of real imports (1952-54 = 100), was 124, while the capacity to import was 100. (Table 44) In Thailand, real imports also rose faster than domestic product.

As indicated in Chart 14, the terms of trade for Burma reached their highest level in 1956, at 121. They then declined in the following two years and started to rise slightly in 1959 to 106. During 1959-1961, the terms of trade fell by 11 percentage points, from 106 in 1959 to 95 in 1961. The peak in 1956 was caused mainly by a decline in import prices from 91 in 1955 to 84 in 1956, while the export prices remained constant at 101. Thus a fall of 7 per cent in the unit value of import prices, whilst the unit value of exports remained constant, led to a rise

9. United Nations, Economic Bulletin For Asia and Far East, Vol. XV, No. 1, June, 1964, New York, pp. 12-15.

Table 45. BURMA: INDEX NUMBER OF UNIT VALUE AND TERMS OF TRADE,

1955 - 1961.

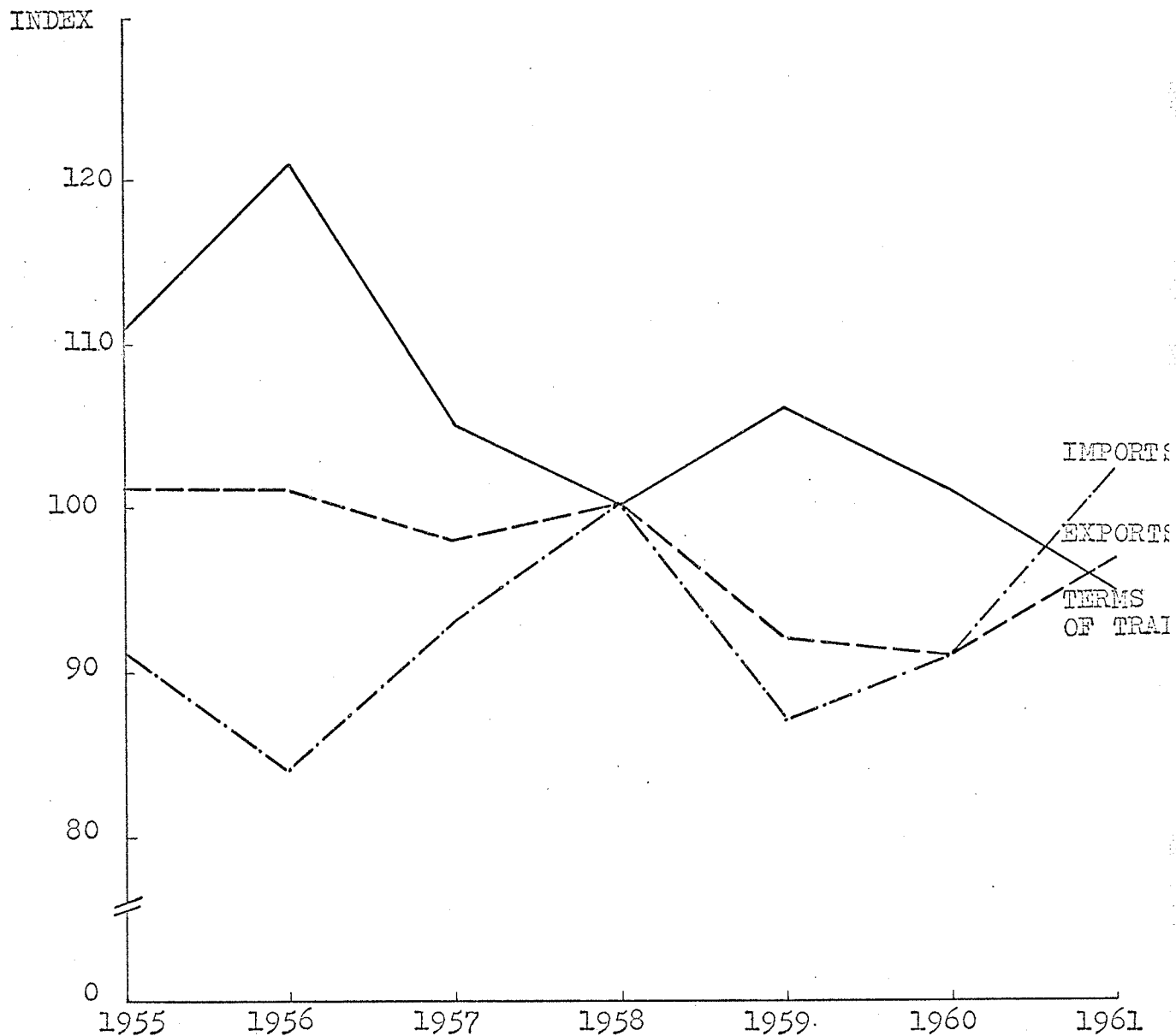
(1958 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1955	91	101	111
1956	84	101	121
1957	93	98	105
1958	100	100	100
1959	87	92	106
1960	91	91	101
1961	102	97	95

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1955 - 1963, United Nations,
New York.

CHART 14.
BURMA: UNIT VALUE OF INDEX OF EXPORTS, IMPORTS
AND TERMS OF TRADE, 1955-1961.

(1958 = 100)



Source: Table 45.

of 10 per cent in the terms of trade and an increase of 8 per cent in the national income of Burma. In 1957, the terms of trade fell by 6 per cent and was due to a fall of 2 per cent in the export index. This was associated with a 9 per cent increase in the import price index. National income also slowed down, and rose only by 2.6 per cent. In 1959, the terms of trade again appeared relatively favourable, and this again was largely due to a larger fall in import prices. National income in 1959 grew by 4.1 per cent in contrast to a decline of 2.8 per cent in 1958. In 1961, the terms of trade became unfavourable in comparison with the previous years. On the whole, however, there were no drastic fluctuations in the terms of trade for Burma throughout the period 1955-1961.

A more realistic way to look at the development of the Burmese economy over the period 1955 - 1961 is to set up the series of relationships, at the macro-economic level, which have been operating on the economy. A simple Keynesian model taking account of international trade will have the following relationships.

$$C + I + X = C + S + M. \quad (1)$$

where C equals consumption; I domestic investment, X represents the exports, S domestic savings and M is imports.

$$\text{Therefore} \quad I + X = S + M \quad (2)$$

The multiplier will then be equal to the reciprocal of the sum of all leakages, i. e.,

$$k = \frac{1}{s + m} \quad (3)$$

(where s is the marginal propensity to save and m the marginal propensity to import.)

Since $S = sY$; $M = mY$ (4)

We have $I + X = (s + m)Y$ (5)

$$Y = \frac{I + X}{s + m} \quad (6)$$

The balance of payments and income effects of the model can be represented diagrammatically as follows:

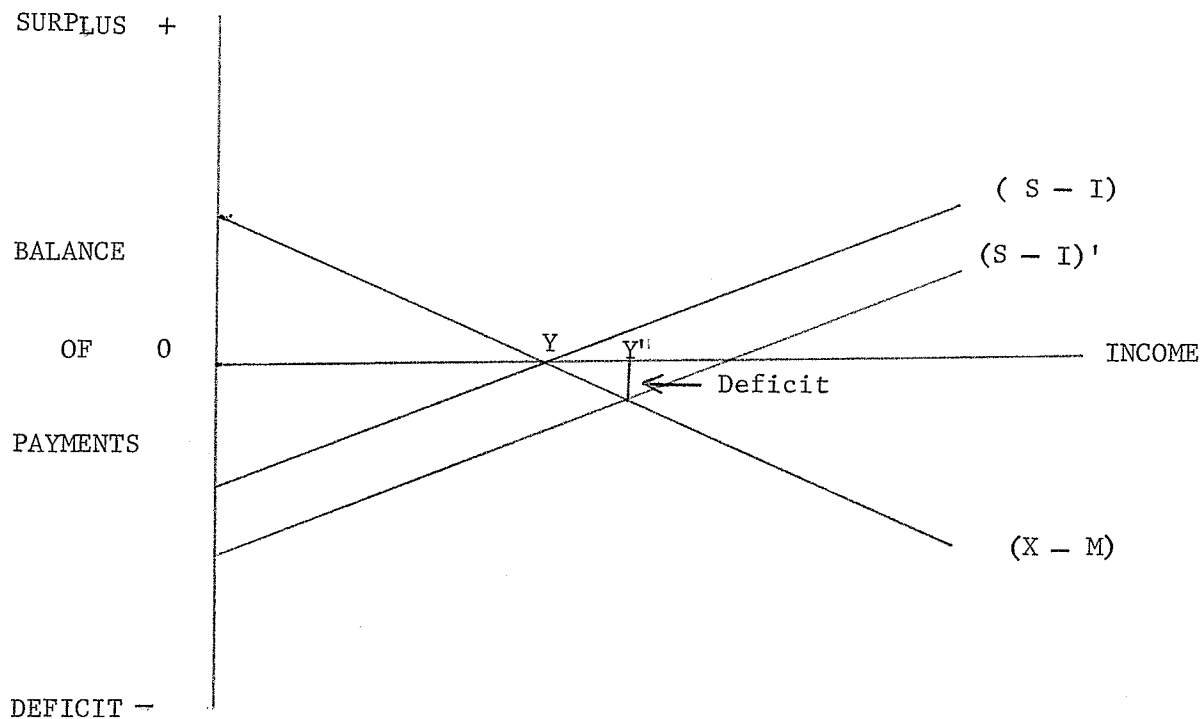


FIGURE 2.

The model shows that there are two broad possible strategies which can be pursued to raise national income, namely:

1. Growth with equilibrium in the balance of payments whereby increases in exports or imports will have to be compensated for by shifts in the $(S - I)$ function.
2. Growth through disequilibrium in the balance of payments, whereby the savings deficit is made good by the deficit on the external account: $I - S = M - X$.

The second alternative best explains the case in Southeast Asia in general. The strategic function is the $M - X$ function since domestic savings are low and capital formation accommodates itself to the external deficit. The problem with this strategy is that it increases the external indebtedness of the countries. To the extent that foreign loans are not forthcoming, it exerts pressure on the external means of payments which therefore becomes an effective constraint on growth and structural change. The only possible way out is to shift the whole $X - M$ function upwards to the right, by increasing simultaneously exports and imports. As primary producers, dramatic increases in exports cannot be expected. The terms of trade are therefore exceptionally vital.

Table 44 and Chart 13, attempt to measure these interrelationships, i.e. real exports, real imports and the capacity to import as regressions of gross domestic product. With the average of 1952 - 54 as base, the real exports of Burma increased between 1959 and 1961 by 35 percentage points, but the capacity to import remained substantially unchanged, largely because of a 40 per cent reduction in export

prices of rice over the period. On the other hand real imports increased by 24 percentage points, lower than the 38 point increase in gross domestic product. For the same period, the average share of capital goods imports expressed as percentage of gross domestic capital formation was about 45 per cent in Burma. It could be concluded from this analysis that every one per cent increase in capital imports, generated about 3-4 per cent increase in the gross domestic product. This is, of course, merely intended to indicate the orders of magnitudes involved. The conclusion is that growth in gross domestic product depends on the availability of foreign exchange, despite the fact that the foreign trade ratio in Burma has declined gradually from 33.7 per cent in 1955 to 28.1 per cent in 1963.¹⁰

The terms of trade for Thailand fell by 10 percentage points in 1956, from 107 in 1955 to 97 in 1956 and reached 94 in 1957. This, simultaneously caused the growth in national income in Thailand to slow down, from a rate of 26.9 per cent in 1955, to a mere 4.3 per cent in 1956. In 1957, the national income again fell by 6.4 percent. During 1955-1958, the terms of trade of Thailand fell successively. This was caused mainly by a fall of 9 per cent in export prices while import prices remained unchanged. In 1957, import prices rose by 2 per cent which was the main factor leading to a corresponding 3 per cent fall in the terms of trade as the export prices held steady in 1957. After 1958, the terms of trade started to turn upward and became quite favourable. Real exports grew and were accompanied by a greater increase in domestic product. This was largely due to a rapid expansion

10. See Table 10, Chapter II.

Table 46. THAILAND: INDEX NUMBER OF UNIT VALUE AND TERMS OF TRADE,
1955 - 1961.

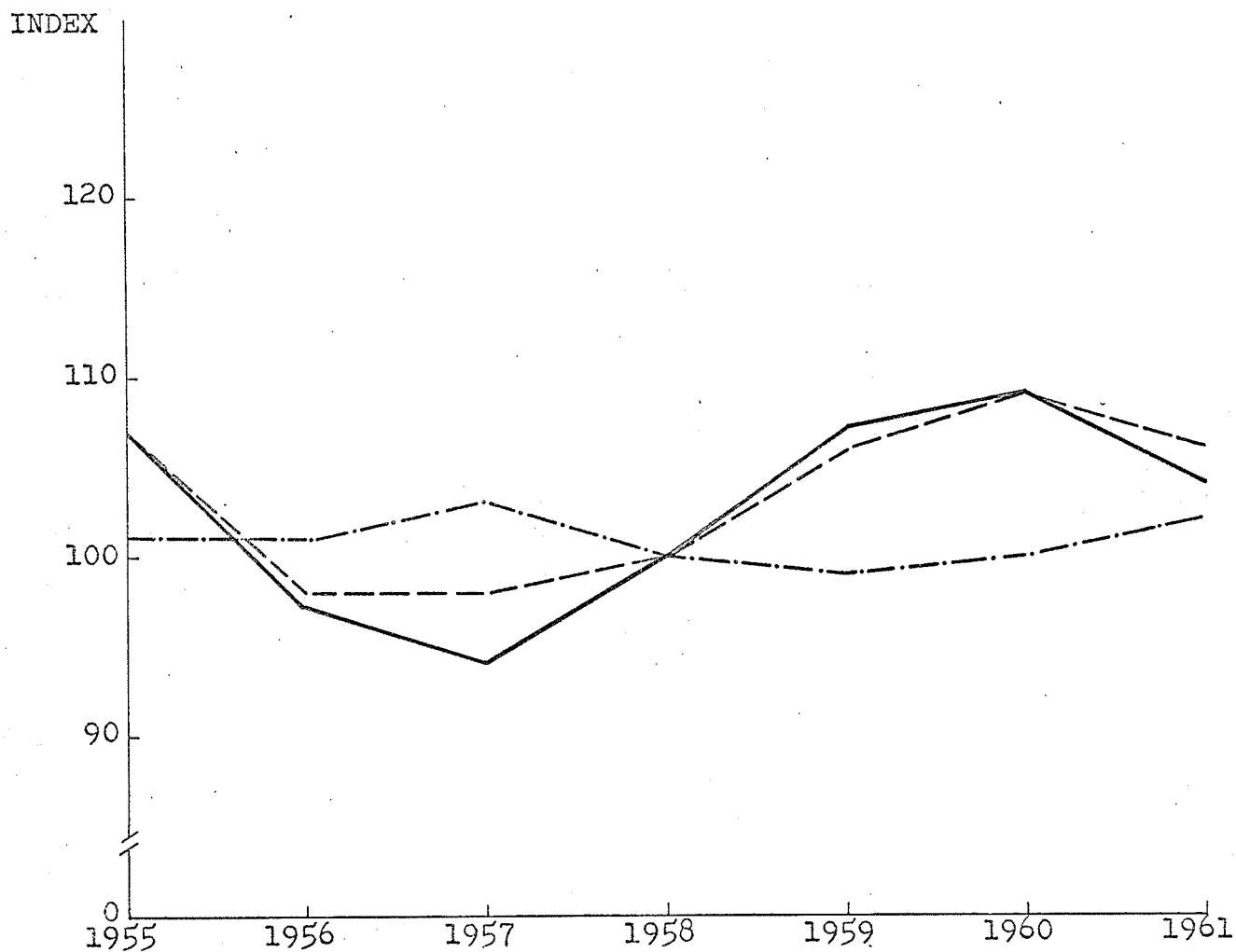
(1958 = 100)

YEAR	UNIT VALUE*		TERMS OF TRADE
	Imports	Exports	
1955	101	107	107
1956	101	98	97
1957	103	98	94
1958	100	100	100
1959	99	106	107
1960	100	109	109
1961	102	106	104

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1955 - 1963, United Nations,
New York.

* For years beginning 1950, Fisher Ideal Formula chained is used for
both unit values and quantum values; series are interdependent.

CHART 15.
THAILAND-UNIT VALUE INDEX OF EXPORTS, IMPORTS AND
TERMS OF TRADE, (1955-1961).
(1958=100)



in the volume of Thailand's major exports¹¹ - rice, rubber and tin - which together accounted for more than half of the total export earnings. In spite of the relatively stagnant world trade in these commodities, the capacity to import also remained high as shown in Table 44.¹² Like Burma, Thailand's real imports also grew faster than domestic product because of the intensified investment in the country.¹³

Unlike Burma, the terms of trade for Thailand between 1958 - 1961, were favourable since the exports of Thailand were more diversified than those of Burma. Her terms of trade underwent moderate changes from 100 in 1958 to 107 in 1959, reached 109 in 1960 and then fell to 104 in 1961. While the terms of trade rose by 7 percentage points in 1959, Thailand's national income also grew by 7.8 per cent in 1959.¹⁴ The share of expenditure on domestic capital formation increased from 13.3 per cent of gross domestic product in 1955 to 20.5 in 1963, while the share of imports decreased slightly from 21.8 in 1955 to 19.4 in 1963,¹⁵ of which imports of capital goods represented roughly more than 50 per cent of gross domestic capital formation.¹⁶ Comparing the rates of

-
11. Table 44 indicates that the volume of exports of rice from Thailand increased from 944,000 tons in 1958 to 1,319,000 tons in 1961, (a rise of 30%). Rubber increased from 116,000 tons to 154,000 tons (50%). Tin output doubled from 554,000 in 1958 to 1,112,000 in 1961.
 12. United Nations, Economic Bulletin For Asia and Far East, Vol. XV, No. 1, June, 1964, New York, pp. 12-15.
 13. Ibid. p. 12.
 14. Refer Table 3., Chapter II.
 15. Refer Table 6, Chapter II.
 16. United Nations, Economic Bulletin For Asia and Far East, Vol. XV, No. 1, June 1964, Table 15, p. 11.

growth between the gross domestic capital formation and imports, the former seemed to grow faster than the latter.¹⁷ The foreign trade ratio declined slightly from 35.2 per cent in 1955 to 29.7 per cent in 1961.¹⁸ This fact indicates that the economy of Thailand was still slightly more dependent on foreign trade than that of Burma whose foreign trade ratio remained at a lower level in 1961.

According to our classification above, Indonesia belongs to the second group of countries. Her terms of trade (Chart 16) on the whole, were favourable between 1955 and 1959. Between 1955 and 1958, however, Indonesia's terms of trade declined by 29 points from 129 to 100. The downward movement was due to a reduction in the prices of her major exports. The downward trend was arrested in 1959 when the terms of trade rose dramatically by 32 percentage points. This was caused by a rise of 18 per cent in export prices and a fall of 11 per cent in import prices. Accordingly, there was a slight increase in the capacity to import as a result of the favourable terms of trade. (Table 44). Real exports expanded slightly in 1959. Real imports, however, remained low in 1959, and as the imports of capital goods represented only 32 per cent of the gross domestic capital formation, there was very little change in the import structure of Indonesia compared with Burma and Thailand.¹⁹ The terms of trade appeared to play a relatively more dominant role in Indonesia.

17. Refer Table 9., Chapter II.

18. Refer Table 10, Chapter II.

19. United Nations, Economic Bulletin of Asia and the Far East, Vol. XV, No. 1, June, 1964, Table 15, pp. 11-12.

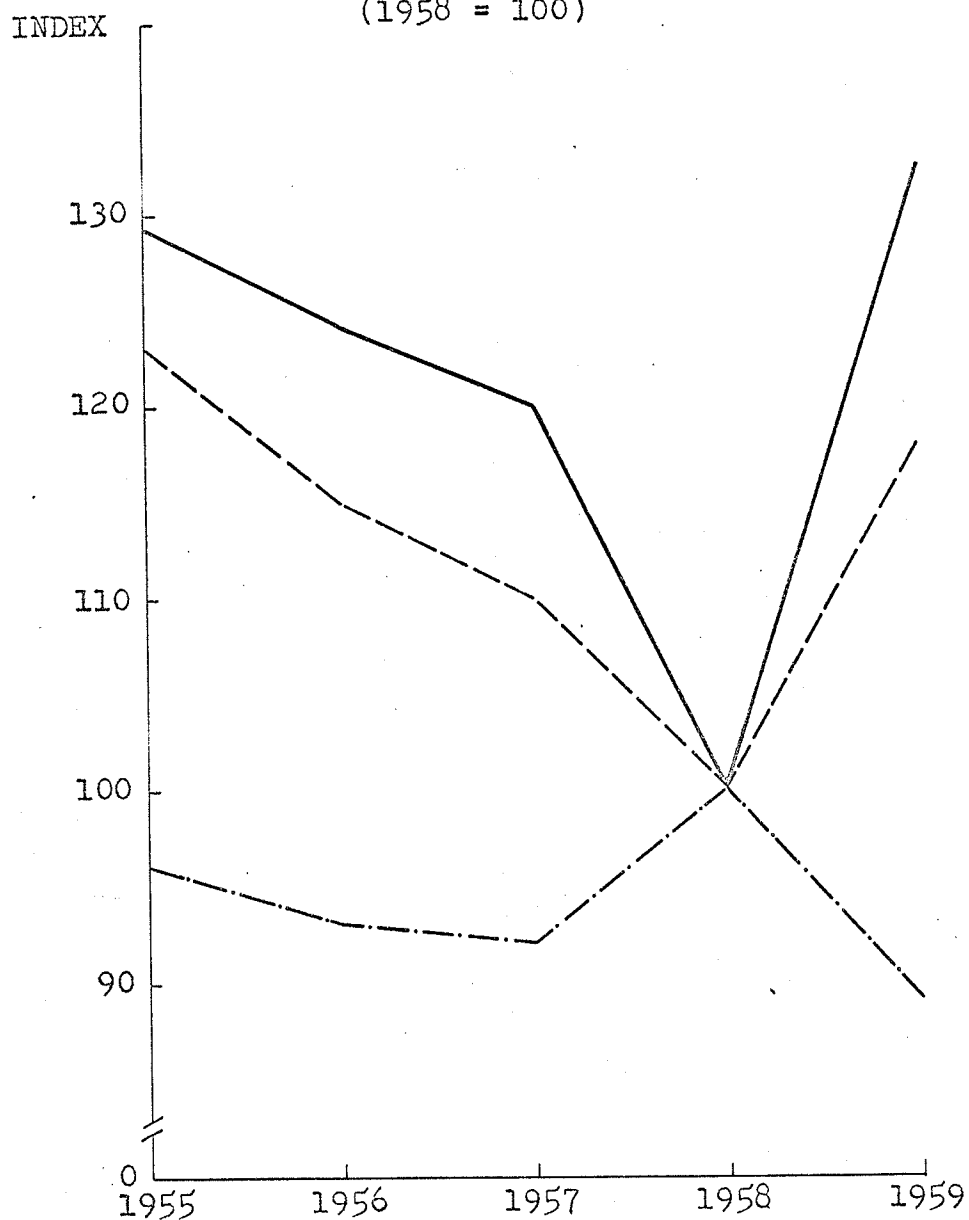
Table 47. INDONESIA: INDEX NUMBER OF UNIT VALUE AND TERMS OF
TRADE, 1955 - 1961.

(1958 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1955	96	123	129
1956	93	115	124
1957	92	110	120
1958	100	100	100
1959	89	118	132
1960	-	-	-
1961	-	-	-

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1955 - 1963, United Nations,
New York.

CHART 16.
INDONESIA - UNIT VALUE INDEX OF EXPORTS
AND IMPORTS AND TERMS OF TRADE,
1955-1959.
(1958 = 100)



REFERENCE: ————— TERMS OF TRADE
 - - - - - EXPORTS
 - . - . - IMPORTS

Source: Table 47.

In the third group of countries - Malaya and the Philippines - capacity to import rose faster than real imports, as a result the pressure on the external balance diminished after 1955. For instance, the balance of trade for Malaya changed from a deficit of M\$. 3 million in 1954, to a surplus by M\$. 28 million in 1955, and though variations occurred between the years, the balance was still favourable by M\$. 33 million in 1961.²⁰

Chart 17 shows that Malaya experienced a relatively favourable terms of trade throughout the period 1955-1961, though there were year-to-year fluctuations. For instance, the terms of trade of Malaya fell by 9 points to 115 in 1956, and by a further 10 percentage points to 105 in 1957. It was evident that with little change in import prices during 1955 - 1958, the gradual fall in the terms of trade of the country was mainly caused by the fall in the prices of her exports of which rubber played a prominent role. The prices of rubber exported from Malaya fell by 20 per cent from 114.16 Malayan cents per lb. in 1955 to 80.25 Malayan cents in 1958.²¹ The volume of rubber exports nevertheless, expanded from 379,000 tons in 1955 to 537,000 tons in 1958, - a rise of approximately 50 per cent.²² The terms of trade gained 18 points in 1959, 3 points in 1960 and then fell from 121 in 1960 to 109 in 1961. The rate of growth of the economy fluctuated sympathetically with the terms of trade. For instance, in 1959, while

20. Refer Table 38.

21. United Nations, Economic Survey of Asia and the Far East, 1960, New York, Table 28, p. 159.

22. See Table 42.

Table 48. MALAYA: INDEX NUMBER OF UNIT VALUE AND TERMS OF TRADE,
1955 - 1961.

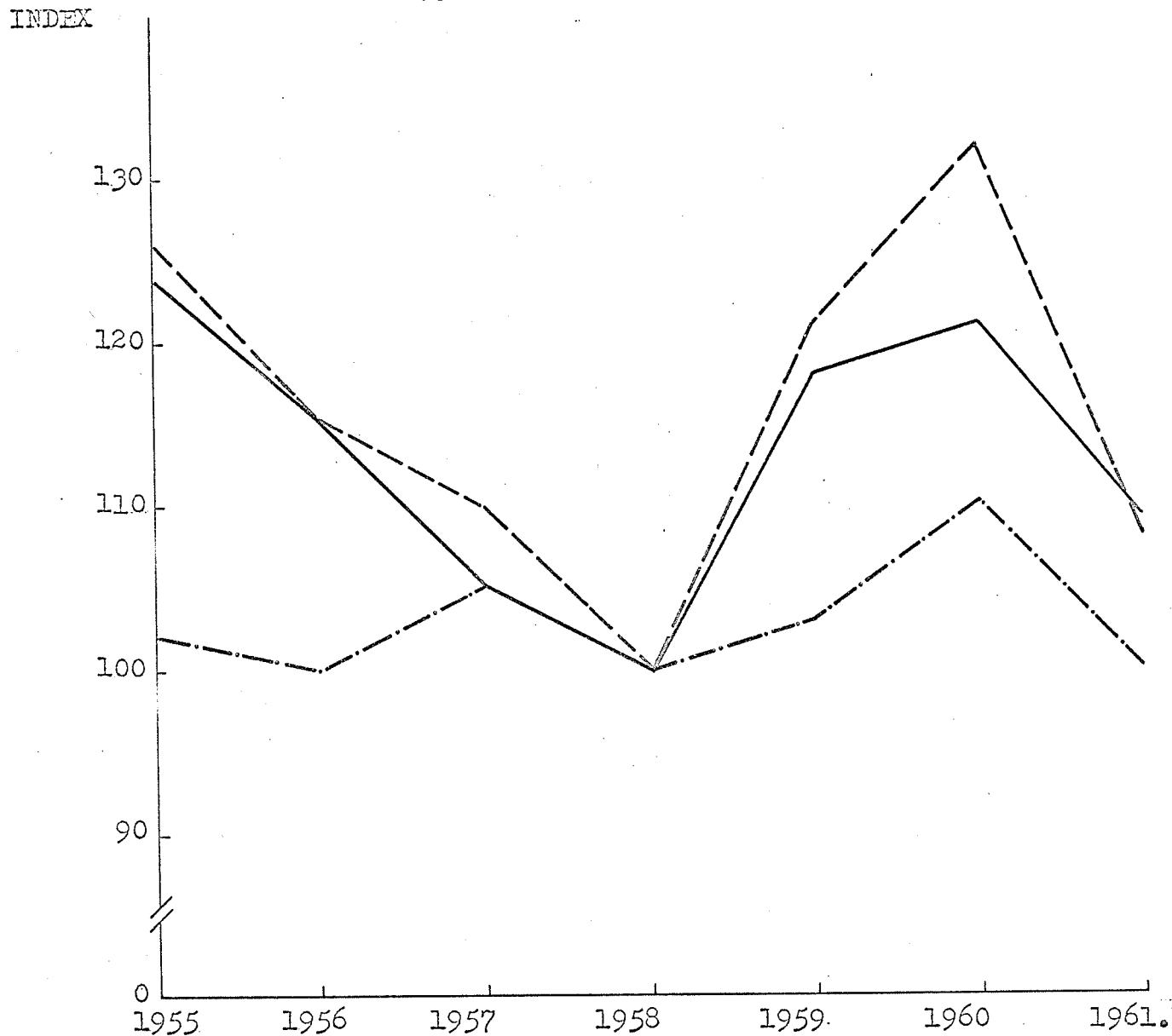
(1958 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1955	102	126	124
1956	100	115	115
1957	105	110	105
1958	100	100	100
1959	103	121	118
1960	110	132	121
1961	100	108	109

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1955 - 1963, United Nations,
New York.

CHART 17.
MALAYA: UNIT VALUE INDEX OF EXPORTS, IMPORTS
AND TERMS OF TRADE, 1955-1961.

(1958 = 100)



REFERENCES:

————— TERMS OF TRADE.

----- EXPORTS.

- . - . - . - IMPORTS.

Source: Table 48.

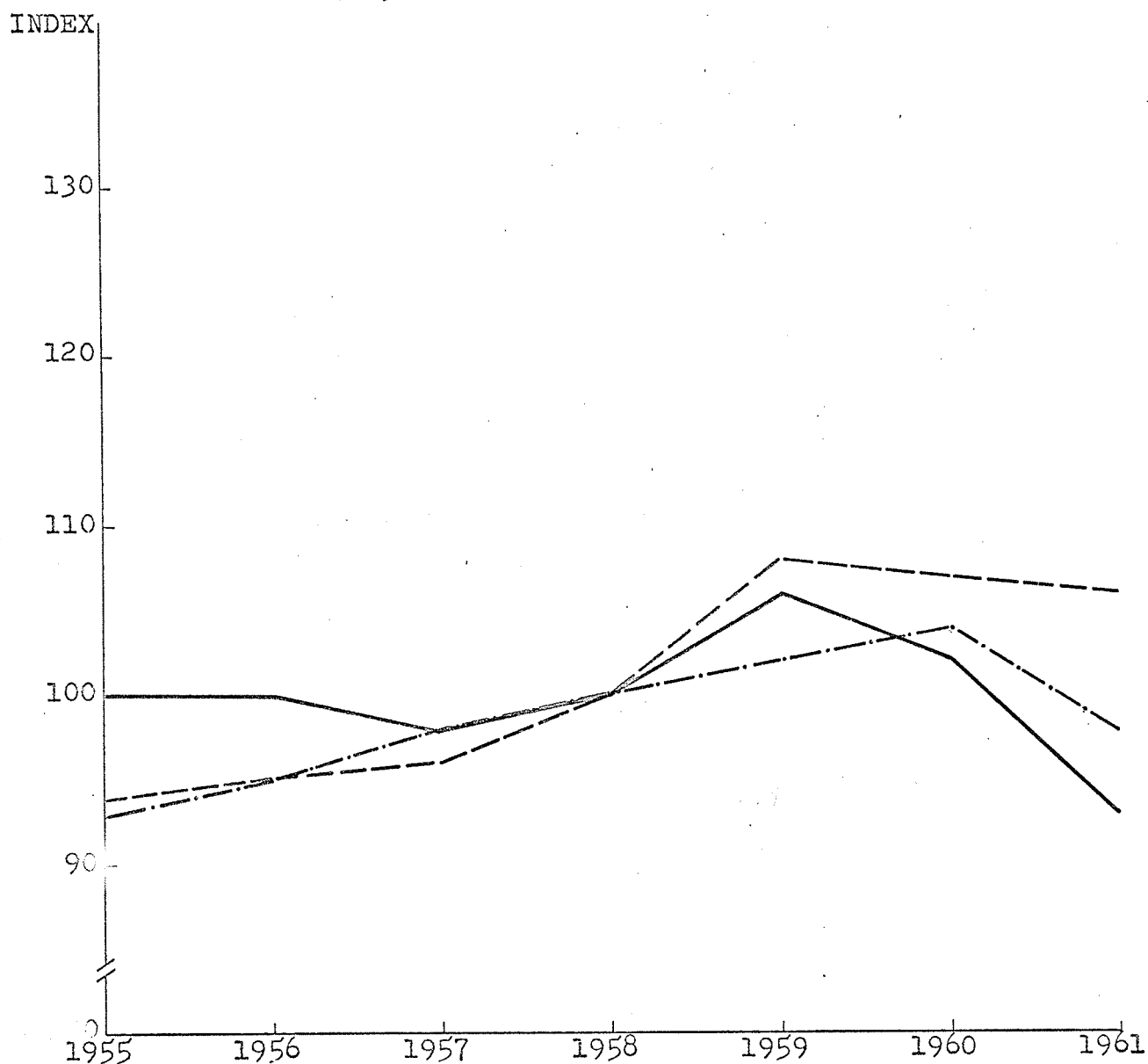
Table 49. THE PHILIPPINES: INDEX NUMBER OF UNIT VALUE AND TERMS
OF TRADE, 1955 - 1961.

(1958 = 100)

YEAR	UNIT VALUE		TERMS OF TRADE
	Imports	Exports	
1955	93	94	100
1956	95	95	100
1957	98	96	98
1958	100	100	100
1959	102	108	106
1960	104	107	102
1961	98	106	93

Source: Based on Yearbooks of International Trade Statistics and
ECAFE Annual Economic Surveys, 1955 - 1963, United Nations,
New York.

CHART 18:
PHILIPPINES - UNIT VALUE INDEX OF EXPORTS, IMPORTS
AND TERMS OF TRADE (1955-1961).
(1958=100)



REFERENCE: _____ TERMS OF TRADE
 - - - - - EXPORTS
 - . - . - IMPORTS

Source: Table 49.

the terms of trade improved by 18 percentage points, the Malayan national income increased by 7.2 per cent.²³

The terms of trade for Philippines remained relatively stable during 1955 - 1958. (Chart 18). The gross domestic product of the country grew by 10 per cent during the same period. Likewise, the export prices of sugar, copra and coconut products also appeared to be relatively stable during 1955 - 1958. The terms of trade improved by 6 per cent in 1959 and was accompanied by a growth in national income of 4.7 per cent. The favourable turn of events in 1959 were mainly caused by a rapid rise in the prices of her export products, notably copra. In 1959, the price of copra rose from 37.7 pesos per 100 kg. (1958), to 46.66 pesos per 100 kg., a rise of about 30 per cent. Table 46 shows that the Philippines experienced considerable growth in gross domestic product and to a lesser extent in real exports. Both the expenditures on capital formation and imports grew.²⁴ As imports represented about 56 per cent of the gross domestic capital formation, real imports also grew.

The overall impression is that a greater variation occurred in the prices of imports and exports in the 1955 - 1961 period than in the 1948 - 1955 period. The terms of trade situation was more complex since the pattern differed from country to country. The general trend for the region as a whole would no doubt be best described by reference to a composite index but attempts to construct a weighted

23. See Table 3 Chapter II.

24. See Table 5, Chapter II.

average terms of trade index have been unsuccessful due largely to the inadequacy and incomparability of the basic data. Nevertheless the unmistakable impression is that the terms of trade for each of the countries inspite of occasional resurgence, were weak and unfavourable. However, the remarkable fact which emerges from this study is that the terms of trade of Southeast Asia, apart from the general tendency towards downward trend, have been influenced by special exogenous events, namely: the Great Depression, the Second World War and its immediate aftermath and the Korean hostilities, for example. The pressure on the balance of payments of these countries, however, appears to have only a recent origin, i.e. since the various governments initiated development programmes which required large capital imports.

CHAPTER V.

CONCLUSIONS

This dissertation has attempted to measure the impact on and the significance of the terms of trade for the developing economies of South-East Asia. There are, of course, a number of conceptual and statistical difficulties regarding the terms of trade, to be resolved. Similarly, economic accounting in statistically underdeveloped and subsistence-based economies is so primitive that no exact quantitative conclusions can be formulated on the basis of the statistical information on these economies. We have accepted national income figures and statistics on trade and production on the economies of South-East Asia as mere indicators of the direction of change rather than as absolute magnitudes. Our main conclusions are therefore qualitative. The particular concept of the terms of trade employed in the analysis has been the unit value concept and throughout the dissertation, United Nations' reports have been relied upon as primary sources of information.

South-East Asia is important for a number of reasons. It contains about one quarter of the world's population and therefore dramatizes the major economic problem of this century, namely; how to bring quick economic growth and decent levels of living to underdeveloped countries. It highlights also the trade problem - the terms of exchange between primary commodities and industrial manufactures. This relationship is measured by the terms of trade. It is of unique significance to developing nations because the terms on which their primary products exchange for capital imports tend to govern the pace at which structural

evolution occurs in developing nations.

The study covers a period of fourteen years between 1948 and 1961. For the period as a whole, the terms of trade turned against these countries. However, the movement was not monotonic. As a matter of fact, the period was characterized by wide swings in the terms of trade. These gyrations caused sympathetic fluctuations in the rates of growth of these economies. But the actual impact of the terms of trade on these economies is not very easy to delineate. This is because the countries differ in the degree of concentration of their exports and on the ratio of foreign trade to national income. The larger this ratio, and the greater the concentration of exports, the greater the impact the worsening and fluctuating terms of trade have exercised on the economy.

The seven-year period between 1948 and 1955 was a period of rapid recovery in South-East Asia. The recovery was largely stimulated by the restoration of trade and recovery in the industrialized countries following the dislocation of the Second World War. The major trading partners of South-East Asian countries are the United States, the United Kingdom and Japan. The economic dependence through trade remains a fundamental economic factor of great significance.

The various countries of the region, however, have fared differently. The conditions of world demand for the commodities supplied by South-East Asia differ from commodity to commodity. In those countries where single commodities account for the bulk of exports, movements in the terms of trade were determined largely by the fluctuations in export prices of the dominant commodity. Burma provides a unique example

of this case. In countries where more than one commodity were offered, price movements tended to offset each other and consequently dampened the fluctuations in the terms of trade, except when all prices fell or rose together. Thailand is a case in point. The fall of rubber and tin prices after 1951 were offset to a considerable extent by a sustained rise in the price of rice. Thailand's terms of trade therefore have fluctuated less violently compared to those of Burma and Malaya.

A further distinction must be made between those countries in South-East Asia exporting industrial raw materials and those supplying food-stuffs. The raw-material countries, namely, Malaya, Indonesia and the Philippines exporting such commodities as rubber, tin and abaca have experienced more unstable and adverse trends. Apart from larger price variation from year to year, the recurrent expansion and contractions in demand for these products associated with the business cycles originating in the principal markets are a source of pervasive instability on the economies of the supplier countries. The food producing countries have also faced persistent adverse terms of trade but with less price fluctuation. For foodstuffs, supply factors are perhaps the main sources of instability. On the whole Burma and Thailand, the exporters of rice, have experienced more moderate rates of variation in national income.

On the aggregate, however, the Korean war exercised a major expansionary effect on these economies. Since then major attempts have been made in the countries of South-East Asia to diversify the economies and to break the precarious dependence on primary commodities. Between

1955 and 1961 all the countries accelerated the rate of domestic fixed capital formation which grew at a considerably higher rate than gross domestic product. Consequently the share of gross fixed capital formation in the gross product also rose. As we have shown, the terms of trade played a key role in this development. A positive relation has existed between fluctuations in the terms of trade and growth rates in the domestic product.

Instability in export proceeds and the general weakening in the demand for primary products impair the ability of these countries to finance their development programmes on an orderly and sustained basis. The traditional trade and payments theory had a simple policy formula for all countries regardless of their stage of development, namely, free trade and payment policies except for protection of infant industries and tariff for revenue. After considerable debate in the past two decades as to whether such policies are appropriate for developing economies, there is by no means unanimity of views. The majority of economists have gradually come to recognize special circumstances in the case of developing economies. Even in theory, the free trade cases have been very much weakened. In its stead, has risen a belief in the need for a case-by-case approach, tailoring policies to individual country situations, and even the need to formulate deliberate policies on the basis of complex programming and planning models. There is also a new widespread shift from measures which emphasize restriction of imports to those which focus on stimulation of exports.

Within the case-by-case approach, there have been several attempts¹ to formulate some specific guidelines for policies. It has been argued that if the 'Ideal' subsidies are not available, protection should be in the form of tariffs rather than in the form of quantitative restrictions on imports or multiple exchange rates. The results of import restrictions and multiple exchange rates as measures to foster protection and to cope with balance-of-payments deficits did not turn out as fruitful as one expected especially in countries of South-East Asia. Commercial and political pressures for changes in licensing policies or in multiple exchange rates and the frequent ineffectiveness of controls have often grown into serious problems for exchange control authorities of the countries concerned. Although such difficulties are attributed partly to weak administration rather than to the inherent problems of protective policies, attention has been called to the several distorting economic effects of excessive restrictions and use of multiple exchange rates. In the case of Indonesia, for example, several problems occurred when a multiple² exchange rate system was imposed in 1957-1959. These problems included overvalued exchange rates, discouragement or neglect of exports and the inability of multiple exchange rates to function in circumstances of

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1. Refer to the detailed discussion given by Margaret G. De Vries, "Trade And Exchange Policy And Economic Development: Two Decades of Evolving Views", Oxford Economic Papers, March, 1966, pp. 19-44.
 2. See United Nations, Economic Bulletin For Asia and Far East, Vol. XIV, No. 3, Dec. 1963, pp. 61-80.

inflation.

Some countries in the region i.e. Thailand and the Philippines, had introduced freely fluctuating exchange rates during 1960-62.³ It was expected that free market forces of supply and demand would determine the rate of exchange which would lead towards an equilibrium in the exchange market. However, with domestic excess demand in the region, the search for an equilibrium rate by means of a free exchange market with little control on trade and payments, may cause a drastic fall in exchange rate which again leads to considerable fluctuations in export proceeds.

Devaluation has also been broached as a means of improving export earnings of the countries in South-East Asia. The success of this measure depends upon the major portion of exports being price sensitive. Most often the traditional exports of the region have low aggregate price elasticity of demand in the consuming countries. Since a general devaluation cannot take into account the differing elasticities of different exports, it cannot be used to maximize foreign exchange. Moreover, devaluation raises cost of imports, including the cost of imported materials and equipment used by export industries. Consequently, the terms of trade of the countries concerned may worsen. Besides, devaluation also affects all items of the balance of payments including invisible receipts and payments. For countries

3. Ibid. p.71.

in the process of economic development, where some inflation exists, a further devaluation may have to be imposed if devaluation is to be effective as a corrective measure in improving export earnings of a country. Indonesia provides an unique example of how inflation led to successive devaluations. She devalued once in 1952 and then again in 1959.⁴ Lastly, devaluation once undertaken cannot be quickly adjusted to changing conditions in export markets without generating an instability and encouraging speculative tendencies in trade and exchange transactions.

It thus appears that a combination of taxes, subsidies and of multiple exchange rates is the only practical policy left for the countries of the region, except where an adequacy of exchange reserves, a relative stability of export proceeds and strong balance of payments position may allow an experiment with a free exchange market. With an improvement in the quality and integrity of public administration an increasing role may be assigned to the taxes and subsidies.

In addition to the above measures, several studies of the United Nations agencies of ECLA and ECAFE⁵ have highlighted the limitations of policies which emphasize import substitution as a means of development. For countries in South-East Asia, facing the

4. Ibid. Also see W. M. Corden and J. A. C. Mackie, "The Indonesian Exchange Rate System", Malayan Economic Review, April, 1962.

5. United Nations, World Economic Survey, 1961, pp. 37-47; ECLA, Economic Survey of Latin America, 1956, Part III, Preliminary Study of the Effects of Postwar Industrialization On Import Structures and External Vulnerability in Latin America, (New York, 1957), pp. 115-63; and ECAFE, Economic Survey of Asia And Far East, 1959, (Bangkok, 1960), Part II.

problem of price declines, and worsening terms of trade, expansion of exports becomes extremely difficult, since what is gained through increased foreign exchange earnings on an expanded volume of exports might be lost in the form of lower prices. Hence, there is an increasing belief in the need for an international attack on the problem of fluctuating prices, for example, through price stabilization agreements for primary commodities. Considerable discussions in the recent years in international forums of these problems and of possible solutions have been conducted. Increasing number of agencies dealing with codes of behaviour in the field of international trade and payments have been formed, such as the International Monetary Fund (IMF), and the General Agreement on Trade and Tariffs (GATT), in order to prevent the developing countries from adhering to the tenets of free trade and payments or provide them with some special policies. Various exceptions to the rules are gradually being worked out for instance, by the GATT. In the last few years, it has been decided that in some circumstances developing countries may receive the benefits of tariff concessions granted by industrial nations without having to make similar concessions themselves. In 1963 the IMF introduced a new⁶ facility known as "Compensatory financing", to provide short-term financial assistance to countries that are suffering from fluctuations

6. Margaret G. De Vries, "Trade And Exchange Policy And Economic Development: Two Decades of Evolving Views", Oxford Economic Papers, March, 1966, pp. 39-40.

in exchange receipts from exports of primary products. It was to this end that the United Nations Conference on Trade and Development was held in March, 1964. Thus the need for co-operative international arrangements to help to solve the trade and payments problems of developing countries has gradually received attention. Trade agreements and commodity agreements on an international level, will have an important role to play, especially in stabilizing price fluctuations in the developing countries. In this context, and in view of deterioration in the terms of trade of South-East Asia and the strategic role that foreign exchange plays in the whole processes of income determination, saving and investment, any proposal which would offer a solution at the international level would be most beneficial to the region as a whole.

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一、本局自成立以來，承蒙各界人士之愛護與支持，業務日見發達，茲將本年度業務概況，彙編成冊，呈請核閱。

二、本年度業務，除完成各項既定計劃外，並積極推行各項新業務，以期提高行政效率，並謀福利之增進。

三、本年度業務，除完成各項既定計劃外，並積極推行各項新業務，以期提高行政效率，並謀福利之增進。

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