DM/58/32

INTERNATIONAL MONETARY FUND

Asian Department

The Character and Role of Economic Planning in Selected Asian Countries

Prepared by E. D. W. Spingarn

Approved by Henry C. Murphy

July 21, 1958

Introduction

In this paper it is proposed to survey briefly some aspects of the economic development plans of ten Asian countries: i.e., Burma, Ceylon, China (Taiwan), India, Indonesia, Japan, the Philippines, South Korea, South Viet-Nam, and Thailand.[1] It should be noted that the economies of these countries vary greatly. Although some of their basic economic problems are quite similar, these countries are at different stages of economic development, as, for example, Japan and South Viet-Nam. Differences in population, size, climate, resources, political and social institutions, as well as in the extent of entrepreneurial, technical, and administrative skills, have resulted in significant differences in methods of coping with development problems.

The standard of living in this group of ten countries is substantially lower than in many other parts of the world, as is indicated by available data on the per capita consumption of food and other selected basic commodities. Broadly speaking, the principal aim of economic development in the region is to increase this low standard of living to a level which is more nearly comparable to that of the industrially advanced countries of the West through an increase in the rate of capital formation, and through a more efficient utilization of available human and material resources.

With the exception of Japan, South Korea, and the mountainous frontier districts of northern India, the countries selected for this study have a tropical or sub-tropical climate. They vary greatly, however, in respect to size and the number of inhabitants. Only Japan and Thailand were independent countries prior to 1945. Most of them have had to cope with routine political and administrative problems, as well as those pertaining to economic development, with relatively few trained and experienced civil servants.

1/ Detailed information on economic planning in each of these countries may be found in the following departmental papers: Burma, DM/57/36; Ceylon, DM/57/37; China (Taiwan), DM/57/39; India, DM/57/34; Indonesia, DM/57/49; Japan, DM/57/55; the Philippines, DM/57/52; South Korea, DM/58/9; South Viet-Nam, DM/57/50; Thailand, DM/57/48.

It will be recalled that Burma, Indonesia, Japan, and the Philippines suffered substantial physical damage during World War II. More recently, South Korea was invaded by aggressive military forces, and there was heavy damage to physical assets. There was considerable destruction of property in South Viet-Nam during the war on the Indochinese peninsula and subsequently. The Government of Burma has been confronted with serious problems of internal security during the past ten years, while in recent months separatist movements in Indonesia have challenged the authority of the national Government. India, South Korea, and South Viet-Nam have had to cope with refugee problems of vast proportions. Thus, for many of the countries in the region, the rate of economic progress has been affected by problems of rehabilitation and reconstruction, as well as by the need for development. Moreover, heavy expenditures of local currency and foreign exchange for defense and internal security have tended to limit the resources available for development programs. The establishment of a Communist regime in China (Mainland) has created a number of difficulties for certain countries in the area. In the case of Japan, it has resulted in the loss of an important export market and source of essential raw materials and a consequent re-orientation of foreign trade policy.

Although economic growth has been given a top priority in the formulation of economic policy in these countries, it must not be supposed that all other aims of policy have been subordinated to the achievement of rapid economic development. On the contrary, in many instances there are clear indications that extra-economic considerations--political, social, and moral--have tended to dominate policy-making.

General Character of Plans

Because of important differences in economic conditions and political beliefs, the methods adopted by the ten selected countries of the region to raise the standard of living of the people differ in many respects. Yet certain essential characteristics are common to the economies of most of these countries, including population pressure, owing to a fall in the death rate, heavy dependence on agricultural production, inadequate economic and social overheads, etc.

An analysis of the scope, character, and magnitude of the several plans reveals significant differences. On the one hand, there is India's full-fledged Second Five-Year Plan with a detailed break-down of investment and output targets. On the other hand, there is the former Philippine employment and production program (1955) as reflected in various legislative measures pertaining to finance and import control. While the Indian plan is sufficiently broad to encompass almost the entire national economy, most of the others (including the Philippine Five-Year Fiscal Plan, 1957-61) refer to the public sector only. Japan, however, is a special case, being a country which has already passed through an historical stage of industrial development and is currently faced with the problem of achieving external economic equilibrium and optimum economic growth, without undermining monetary stability, following the dislocation of a disastrous foreign war. Accordingly, the Japanese plan relates mainly to the private sector. Broadly speaking,

it is a model for performance by the private sector. Instruments employed for its implementation are indirect: i.e., incentives and deterrents designed to influence private enterprise in the desired direction.

The Plans of the selected countries tend to emphasize one or more of the following objectives: increased per capita income; increased agricultural production; rapid industrialization; increased employment opportunities; diversification of the national economy; development of basic services such as transport, communications, and electric power; provision of more adequate social and economic facilities in regard to health, education, housing, social security, etc.; domestic economic stability; external equilibrium without continued foreign assistance; and a socialist pattern of society involving greater equality of income and wealth.

Thus, for example, increased agricultural production received special attention in India's First Five-Year Plan (ended March 1956), as well as in Ceylon's current program of investment. In Burma and Thailand, where there has been excessive dependence on rice production, efforts are being made to diversify agriculture by growing more cotton, sugar cane, etc., for export and for import substitution. India's Second Five-Year Plan emphasizes rapid industrialization, with a marked bias in favor of heavy industry, particularly iron and steel. The Japanese plan also envisages a substantial rise in industrial output. India's Second Plan made provision for additional employment opportunities for approximately 10 million persons, but this target was recently reduced to about 8.5 million. The employment objective is also recognized in the development plans of Ceylon, Japan, and the Philippines.

An important aim of all the plans under review is the development of basic facilities, including transport, communications, irrigation, electric power, and social capital. This is particularly noticeable in the case of Burma, Ceylon and Indonesia. As noted above, the Japanese plan places heavy emphasis on achieving external equilibrium without continued large-scale foreign assistance; this objective is also a major feature of development planning in China (Taiwan) and South Korea.

Given these goals, particularly the desire to establish an adequate economic and social infra-structure, it is hardly surprising that a heavy burden of responsibility should fall upon the public sector of the economy. In most of the countries selected for our study, Government development expenditure has been concentrated in large measure on basic facilities--mainly transport, communications, electric power, as well as irrigation and flood control measures intended to increase agricultural production. Except for Japan, which may be considered as a special case, the heart of the development plan of each country is public investment. Thus, the Indian Second Five-Year Plan envisaged a total expenditure of Rs 48 billion in the public sector (investment, Rs 38 billion, and current expenditure, Rs 10 billion), as against net investment in the private sector of approximately Rs 24 billion, but this target was recently lowered to Rs 45 billion. As the public sector expands into new fields, including the

manufacture of iron and steel products, heavy machinery, electrical equipment, anti-biotics, coal mining, etc., the role of private enterprise in India has been reduced, not absolutely, but in relative terms.

Agricultural Aspects

Most of the plans of the selected countries include a comprehensive program of Government expenditure on development projects in the agricultural sector, more or less closely integrated with over-all economic requirements. In some cases, estimates of private investment expenditure are included; in Japan they are an important feature of the plan. Generally, agricultural development expenditures are concentrated on increasing crop production, but in China (Taiwan) heavy emphasis is also placed on forestry and fisheries.

Broadly speaking, the plans include measures designed to increase agricultural output, to provide incentives to agriculturists, to provide ancillary services, and to promote various institutional reforms. They include public expenditure on irrigation, reclamation, land development, fertilizers, disease and pest control, community development, extension services, research, as well as tax concessions, subsidies, price support policies, improved credit and marketing facilities, and agrarian reforms.

A major objective of these agricultural development plans is to strengthen the balance of payments, either by increasing the output of export products or by increasing the output of import-replacing commodities. Burma and Thailand have taken measures to stimulate the production of rice for export; and there are similar programs in certain countries under review in respect to raw cotton (India), rubber (Ceylon, Indonesia), and coconut products (Ceylon, Indonesia, the Philippines). Diversification of agriculture is also an important planning objective in certain countries. Thus, it may be noted that Ceylon, India, Indonesia, Japan, the Philippines, and South Korea are endeavoring to increase their production of foodgrains, in order to achieve a greater degree of self-sufficiency; China (Taiwan) and India are implementing programs which aim at increasing the domestic output of raw jute required by indigenous mills.

Concerning the targets specified in the plans, Ceylon has set quantitative input targets in respect to the area to be planted with improved planting material. On the other hand, Burma, China (Taiwan), India, Japan, and the Philippines have established quantitative output targets over the plan period. The successful implementation of such targets is, however, much more uncertain, particularly in the absence of adequate statistical and other data, than that of targets of the first type where the supplies of the principal inputs can be controlled by public policy. Apart from problems arising from heavy dependence on climatic conditions, the human factor cannot be ignored. Insofar as the programs depend upon the cooperation of large numbers of small farmers, a majority of whom may be illiterate, efforts must be made to secure their acceptance, and to associate them or their representatives in the formulation and implementation of the plans through the method of continuous consultation at the local level.

Several Asian countries, including Burma, China (Taiwan), India, Japan, the Philippines, South Korea, and South Viet-Nam, have undertaken steps to effect the transfer of ownership of land to the cultivators. In these countries, the policy of the government has been that the actual tiller of the land should be brought into direct relationship with the State, and the intermediary interests should be eliminated. Some of these countries have adopted other agrarian reform measures, including rent control legislation, consolidation of small holdings, improvement of the terms of leases with a view to increasing security of tenure, etc. Thus, in China (Taiwan), under the land-to-the-tiller program, land holdings over a certain minimum amount have been purchased by the Government, and resold to actual tillers.1/ It may be noted, however, that the implementation of land reform measures has sometimes been impeded, not only by the difficulty of raising financial resources for purposes of compensation, but also in some areas by enforcement problems arising from the illiteracy of the tenants, their weak economic position, and lack of organization.

On the basis of recent experience, there is now a recognition that agricultural plans cannot be rigid. As in the case of economic development plans in general, revisions are likely to become necessary from time to time. Thus, in India's Second Five-Year Plan, the agricultural output targets were revised upward (from a planned increase of 17 per cent to an increase of 27 per cent in respect to aggregate agricultural output, and from 16 per cent to 24 per cent in respect of foodgrains) as early as November 1956--that is, less than nine months after the commencement of the Plan period.

There ia ample evidence that a shortage of trained and experienced personnel has been a major limiting factor in the formulation and execution of the agricultural development plans in the selected countries. Fluctuations in prices and earnings from agricultural exports, on which depend the foreign exchange resources of certain countries, including Burma, India, and Thailand, have increased the difficulties of over-all planning. In some cases, the fixing of relatively low buying prices by Government marketing agencies has probably had a disincentive effect on domestic production. There is also the need for a more adequate statistical basis for planning, particularly in regard to such categories as the demand for foodgrains and other agricultural products, population trends, income, and the supply position of basic commodities.

1/ Total annual cash payments made by tillers under the program are equivalent to about 41 to 44 per cent of the gross value of their crops. This includes payments for amortization, land tax, improvements, etc. At the end of ten years, the property will be owned by the tiller. The amount paid annually is thus somewhat higher than the proportion of the crop paid as rent immediately prior to the inception of the program (i.e., 37½ per cent, to which it had been reduced from 50 per cent).

Degree of Economic Development

It is generally agreed that Japan's economy is so industrially advanced and so dynamic that there can be no question but that Japan should be classified as the most developed of our ten Asian countries. With its tradition of industrialization extending over a number of decades, Japan possesses a highly industrialized economy unique in Asia. Moreover, the rate of economic growth in postwar Japan has been so rapid as to exceed the most optimistic expectations of the economic planners. In 1956, the share of manufacturing and mining in Japan's net domestic product was as high as 28.4 per cent. China (Taiwan) and India may be classified as semi-industrialized countries. Both have made substantial progress in this direction in the past seven or eight years. By 1956, the share of manufacturing and mining amounted to 19.5 per cent in China (Taiwan), while in India the relative contribution of manufacturing, mining, and construction in 1955 was 19.4 per cent (see Table 1). The per capita output of such major items as coal, steel, cement, cotton yarn, and electricity was substantially higher in Japan than in either of the other two countries, and somewhat higher in China (Taiwan) than in India.

Table 1. Manufacturing and Mining in Selected Asian Countries

	Calendar or Fiscal Year	Manufacturing and Mining	Net Domestic Product at Factor Cost	Share of Manufacturing and Mining
		(billion national currency units)		(per cent)
Burma	1957	0.7	5.2 2/	12.4
China (Taiwan)	1956	5.1	26.0	19.5
India	1955	18.7 1/	96.5	19.4
Japan	1956	2,191.0	7,718.0	28.4
Philippines	1956	1.3	8.3 3/	16.1
Thailand	1955	5.6	39.5 2/	14.2
South Korea	1955	141.0	1,140.0 2/	12.4
South Viet-Nam	1955	8.3	72.0 2/	11.5

Source: United Nations, Economic Survey of Asia and the Far East, 1957.

1/ Manufacturing, mining, and construction.
2/ Gross domestic product at market price.
3/ National Income.

The other seven countries under review may be classified as non-industrialized countries. In this group, the share of manufacturing and mining varies from 16.1 per cent of net domestic product in the case of the Philippines, in 1956, to 11.5 per cent in South Viet-Nam in 1955.

In between were Burma, South Korea, and Thailand. The rise in industrial output in South Korea has been notably rapid since 1953. Comparable data for Ceylon and Indonesia are not presently available. Basically, all these nonindustrialized countries may be classified as primary producing and exporting countries in which exports represent a substantial share of the national product, except that in recent years the war-torn economies of two of these countries--South Korea and South Viet-Nam--have been afflicted by problems of rehabilitation and reconstruction of vast proportions.

Availability of Domestic Resources for Investment

The rate of saving is generally low in under-developed countries, owing mainly to low per capita incomes. Fiscal and other policies which aim at redistributing income and wealth, with a view to promoting greater equality, probably affect the rate of saving adversely by increasing the propensity to consume.

In regard to the various Asian countries under review, the rate of gross capital formation (gross fixed capital formation adjusted for variations in stocks) expressed as a percentage of gross domestic product was as high as 26.5 per cent (average) in Japan in 1946-55. At the other end of the scale were India, Indonesia, the Philippines, and South Viet-Nam, where the rate in recent years was 10 per cent or less. In South Viet-Nam, it was as low as 4.7 per cent in 1955. In between these extremes were Burma, Ceylon, China (Taiwan), and South Korea, with rates of capital formation varying from 10 per cent to 20 per cent. In Burma, it was 19.3 per cent in 1956; in China (Taiwan), it was 18.1 per cent (average) in 1951-55 (see Table 2).

The high rate of saving in Burma in recent years was due mainly to the substantial monopoly profits of the State Agricultural Marketing Board earned in rice trading, which may be considered a de facto development tax. An additional factor was the destruction of physical assets by hostile insurgent forces, and the consequent demand for replacement.

Table 2. Capital Formation in Selected Asian Countries

	Time Period	Capital Formation 1/	Gross Domestic Product at Market Prices	Capital Formation as a per cent of Gross Domestic Product
		(billion national currency units)		
Burma	1956	1.0	5.0	19.3
	1947-1956	0.7	4.0	17.0
Ceylon	1955	0.6	5.5	11.3
	1947-1955	0.4	4.1	10.5
China (Taiwan)	1955	4.0	27.9	14.6
	1951-1955	3.6	19.8	18.1
India	1953	11.3	114.6	9.9
	1948-1953	9.9	104.9	9.4
Indonesia	1952	4.9	93.4	5.2
	1951-1952	4.4	88.1	5.0
Japan	1955	2,151.0	8,214.0	26.2
	1946-1955	1,221.0	4,615.0	26.5
Philippines	1955	0.8	9.0	8.9
	1946-1955	0.6	7.2	8.9
South Korea	1955	135.0	1,140.0	11.8
	1953-1955	82.0	773.0	10.6
South Viet-Nam	1955	3.4	72.0	4.7

Sources: United Nations, Economic Bulletin for Asia and the Far East, Vol. VIII, No. 3, November 1957; Economic Survey of Asia and the Far East, 1957.

1/ Gross fixed capital formation (public and private); the data for Burma, Japan, and the Philippines are adjusted for changes in stocks.

Importance of Public and Private Sectors

Government policies pertaining to the pattern of industrial development, including such questions as the relative importance of the public and the private sectors, vary noticeably among the countries under review. Outside the scope of our inquiry is China (Mainland) with its centrally planned economy. India, however, has what might best be called a mixed economy in which the role of the public sector in the process of industrialization has been prominent. Thus, in India's Second Five-Year Plan, the public sector is to be expanded more rapidly than the private sector, as is indicated by the relatively large share of investment in industry, mining, and power development allocated to the public sector. In Burma and South Korea, the principal industrial enterprises and mines are mainly State-owned and operated, while in Indonesia's development plan all large-scale projects included therein are to be executed by the Central Government, and small-scale projects are to be undertaken either by the provincial authorities or by private entrepreneurs. The Government of Ceylon has recently nationalized bus transport services (railway transport and communications have been state-owned and operated for many years).

The Indian case is particularly interesting in view of the Government's announced purpose of establishing a "socialist pattern of society." The Indian authorities hold that, in order to create conditions appropriate for development, the Government should take responsibility for expanding the public sector rapidly. All industries deemed to be of basic and strategic importance, or in the nature of public utility services, are to be placed in the public sector,[1] while certain other industries are to be progressively government-owned (i.e., private enterprise is not excluded, but the State will take the initiative in setting up new units). Along with the expansion of public control, the "socialist pattern" is expected to achieve a substantial reduction in inequalities of income and wealth.

From the standpoint of public policy, the Indian case may, therefore, be contrasted with those of Japan, the Philippines, and Thailand, where private enterprises are generally more important. While the role of private enterprise is proposed to be reduced in relative terms in India, as also in Ceylon, it is to be increased in China (Taiwan), Japan, the Philippines, and South Korea. This does not, however, preclude some absolute expansion of the private sector or of the public sector, as the case may be. In Burma, the Philippines, and Thailand, the Government has established textiles mills. Both China (Taiwan) and South Korea have to a lesser extent established new enterprises in the public sector, but the government authorities are fully prepared to transfer such undertakings to the private sector whenever it is deemed ready to take them over and operate them successfully. During

1/ In regard to certain industries in this category (e.g., iron and steel), substantial expansion of existing private units is authorized.

the plan period 1957-60, the Chinese authorities propose to allocate nearly 30 per cent of planned public expenditure to manufacturing and mining. This is appreciably higher than the comparable percentages for Burma, Ceylon, the Philippines, and South Viet-Nam, and slightly higher than the Indonesian figure, but lower than the Indian figure of 45 per cent.

In regard to the ratio of public expenditure to gross domestic product, the position varies in the different countries. A recent study shows that in India, in 1956, total public expenditure on revenue and capital account formed about 15 per cent of national income. In 1954, total public expenditure was only 10.3 per cent of (estimated) gross domestic product at market prices. In regard to the other Asian countries under review, the ratio of public expenditure to gross domestic product exceeded 15 per cent in Burma (1957), Ceylon (1956), Japan (1956), South Korea (1955), and South Viet-Nam (1955), but was considerably less than 15 per cent in the Philippines (1956). These data are summarized in Table 3. They do not, however, include the current expenditure of State enterprises, and are therefore incomplete for our purposes. Such data are available for India in 1954. In that year the current expenditure of State enterprises was equal to 4.1 per cent of gross domestic product, and total public expenditure, thus adjusted, was equal to 14.4 per cent of gross domestic product, instead of 10.3 per cent, as cited above. But even this figure is lower than the unadjusted figure for any other country included in the table except the Philippines. In regard to China (Taiwan), data on public expenditure on capital account are not available, but the ratio of Government current expenditure (excluding that of State enterprises) to gross domestic product in 1955 was as high as 17.2 per cent. Defense expenditure represents a substantial portion of such current expenditure.

There appears to be an increased appreciation of the role of private enterprise in several of the countries under review. In recent months, the Indian authorities have indicated in various ways their acceptance of the principle that encouragement be given to private industry without, however, abandoning their goal of a continued relative expansion of the public sector. The Government of Burma is also providing greater scope for the private sector, including private foreign investment. It hopes that foreign capital will be attracted to Burma for investment in association with domestic capital for the development of the country's resources, particularly its mineral resources. This does not necessarily imply the abandonment of its long-term socialist objectives, but it constitutes a recognition that in the foreseeable future the task of developing the country will be too great for the Government to manage by itself.

Table 3. Government Expenditure in Selected Asian Countries

	Calendar or Fiscal Year	Government Expenditure: Current 1/	Government Expenditure: Gross fixed capital Formation	Government Expenditure: Total	Gross domestic product at market price	Govt. expend. as a per cent of gross domestic product
		(billion national currency units)				
Burma	1957	0.7	0.5	1.2	5.2	23.7
Ceylon	1956	0.7	0.4	1.1	5.2	20.3
China (Taiwan)	1955	4.8	3.5 2/	...	27.9	...
India	1954	6.7	4.3	11.0	106.6 3/	10.3
Japan	1956	1,029.0	681.0	1,710.0	9,320.0	18.3
Philippines	1956	0.8	0.2	1.0	9.5	10.0
South Korea	1955	149.0	27.0	176.0	1,140.0	15.4
South Viet-Nam	1955	14.1	0.7	14.8	72.0	20.6

Source: United Nations, Economic Survey of Asia and the Far East, 1957.

1/ Excludes State enterprises' current expenditure.
2/ Public plus private gross fixed capital formation; no breakdown is available.
3/ Estimated by IMF staff.

Public Control of Economic Affairs

In this section, it is proposed to survey briefly the extent of public control over internal and external economic affairs in the several countries under review. As we have already discussed the relative importance of the public and private sectors in these countries, we now propose to focus attention on the implementation of economic development programs through the medium of policies designed to promote or regulate private business activity. Direct controls over investment, production, consumption, and prices are among the methods which may be employed. Beside these obvious instruments of control, there are indirect methods of control in regard to monetary policy and fiscal policy, as well as a variety of measures designed to influence one or more elements of the balance of payments. It does not follow that all of these methods will be equally effective. Much will depend upon the institutional environment and the administrative machinery. Thus, for example, the effectiveness of conventional monetary policy of the type employed in the United Kingdom or the United States is limited in the under-developed countries of Asia where monetization of the economy has not developed to the same extent as in the

industrially advanced countries, where currency is more important than bank deposits in the monetized sector, and where money and capital markets are relatively under-developed. Similarly, the effectiveness of such policy is likely to be impaired by large-scale deficit financing of development programs.

The degree of government control of the private sector is substantial in all of our ten countries, though it is probably greatest in India. But even in such countries as Japan, the Philippines, and Thailand, where the free enterprise system is favored, there is a very considerable amount of government intervention in the economic field. In regard to Japanese economic policy, it may be noted that, since the development plan aims at over-all balanced growth, the authorities have found it necessary to impose a substantial amount of direction through the medium of carefully selected instruments of control which provide incentives (or deterrents) to business activity in the various fields. Thus, financial, monetary trade, exchange social, and institutional policies are coordinated. In this connection, however, it should be borne in mind that the homogeneity of the Japanese people, their strong sense of duty and tradition of collective action, as well as the prestige enjoyed by Government, have created a pattern of behavior which tends to minimize the need for open intervention on the part of the public authorities. Therefore, the adoption and publication of a plan by the Government would indicate to the people the direction and form of economic activity the authorities expect them to assume, and they would endeavor to cooperate as a patriotic duty by complying with these instructions.

Most types of control measures compatible with democratic institutions have been tried in India in recent years. It should be noted, however, that since the early years of the first Five-Year Plan there has been a trend away from direct controls over consumption and prices, and greater reliance on more general monetary and fiscal measures. There has been a steady increase in direct taxation in the middle and upper income brackets, and in indirect taxation, as well as increasing reliance on selective credit controls to restrain inflationary pressures. Private investment activity may be stimulated in conformity with Plan priorities by means of tax rebates and generous financial assistance provided by one of several government finance corporations, or it may be curbed by refusal to authorize issue of the required licenses. The Industries (Development and Regulation) Act, 1951, as amended, taken together with the control of capital issues and imports, gives the Government the power to regulate the investment of capital in the private sector. It must not be supposed that the direction of new investment will be determined exclusively, or primarily, by the same criteria as would be the case in a free market economy.

The criterion of relative profitability is probably less important in this connection in the case of India than in the case of certain other Asian countries, including Japan and the Philippines, where the use of private resources has been determined mainly by financial inducements, rather than by licensing. This is to be expected in view of the more comprehensive character of development planning in India, and the heavy emphasis on centralized control and direction, yet even in such countries as the Philippines

investment in the construction of luxury and less essential buildings has been restricted by means of licenses granted on a priority basis. In Burma, for example, where industrial raw materials are nearly all imported, controls over raw materials and foreign exchange are merged with a view to securing the desired direction of industrial development at a given time. A similar policy has been adopted in Japan and the Philippines. In China (Taiwan), the State monopoly in the distribution of fertilizer and its control over the use of irrigation water have been factors influencing the proportion of the various crops planted. Systems of rationing have been in operation in recent years in Ceylon and India; and at the present time allocation and price regulation of coal, steel, and cement are operative in the latter country. New financial corporations or agencies dealing with agricultural, industrial, and other finance have been established in Burma, Ceylon, India, and the Philippines to provide various types of medium term and long-term finance, and to promote development programs in the private sector.

In regard to fiscal policy, the low level of per capita income in Asian countries (other than Japan) leaves but a slender margin of income above subsistence available for taxation. In many of our countries, the ratio of tax revenue to gross national product is below 12 per cent (see Table 4), as compared with 25 per cent or more in certain industrially advanced countries outside Asia. Thus, in India, the estimated ratio of (Central and State Government) tax revenue to national income in 1957-58 was 8.3 per cent, compared with 7.4 per cent in 1956-57. Burma, Ceylon, India, and Japan have systems of direct taxation which are among the stiffest in the world for high incomes, particularly personal incomes; India and Japan also have systems of indirect taxation which bear heavily on such obvious signs of riches as automobiles and other articles of consumption deemed to be nonessential. Admittedly, the income tax and other forms of direct taxation apply to only a tiny fraction of the total population - in India, to less than 1 per cent - and various tax measures have been introduced to reduce the incidence of taxation of business profits by allowing higher rates of depreciation, as in Ceylon and India, by providing tax exemptions and rebates for new and desirable industries, as in India and the Philippines, by allowing preferential rates to reinvested profits, by authorizing substantial carry-overs of losses in one year to offset subsequent gains, etc. Nevertheless, the heavy taxation of personal income is a factor which should not be disregarded in any discussion of the status of the private sector and the degree of public control thereof.

As it is not possible within the scope of this paper to review in detail the fiscal policies of the selected countries under review, neither is it possible to provide detailed information on their monetary policies. It may be noted, however, that wherever positive policies have been adopted greater emphasis has been placed on qualitative or selective methods of control than on general quantitative measures. There had been some degree of reliance on general controls, such as the increase in commercial bank minimum reserve requirements in Burma and China (Taiwan); and one may also cite the raising of the rediscount rate in Japan and the Philippines,

Table 4. Tax Revenue in Selected Asian Countries
(Central Government)

	Calendar or Fiscal Year	Tax Revenue	Gross Domestic Product at market prices	Tax Revenue as a per cent of gross domestic product
		(billion national currency units)		
Burma	1957	0.8	5.2	15.9
Ceylon	1956	1.0	5.2	19.1
China (Taiwan)	1956	4.3 1/	32.2	13.5
India	1956	8.4 2/	114.1 4/	7.4
Indonesia	1955	9.9	100.0 4/	9.9
Japan	1956	1,537.0 3/	9,320.0	16.5
Philippines	1956	0.9	9.5	8.9
South Korea	1955	73.5	1,140.0	6.6
South Viet-Nam	1955	4.8	72.0	6.6
Thailand	1955	4.0	39.5	10.1

Sources: United Nations, Economic Survey of Asia and the Far East, 1957; Government of China (Taiwan), Document submitted to IMF team for 1957 consultation; Government of India, Estimates of National Income, 1948-49 to 1956-57; Government of Japan, Ministry of Finance, Quarterly Bulletin of Financial Statistics, March 1958.

1/ Central, Provincial, and Municipal Tax Revenue.
2/ Central and State Government Tax Revenue
3/ Central and Local Tax Revenue
4/ National Income

and to a lesser extent in India. Yet in the case of Japan it is the highly complex structure of the Bank of Japan's interest-rate system which is pertinent in that it affords ample scope for the selective regulation of the volume of credit. In India during the past year, the Reserve Bank introduced a series of selective credit controls, including directives to commercial banks in regard to credit for trading in foodgrains, sugar, and

cotton textiles, and directives requesting a reduction in aggregate advances; similarly the Central Bank of the Philippines tightened its selective controls by instituting a priority schedule for rediscount facilities with ceilings on low-priority commercial, real estate, and building construction loans. Both Indonesia and South Korea have established a loan-ceiling system, to be applied selectively to ensure that desirable production not be impeded by lack of finance. In the latter case, the policy has tended to discriminate in favor of government-owned enterprises.

In the sphere of foreign trade and payments, most of the Asian countries under review maintain effective import and exchange restrictions not, however, without incidental protective effects. As noted above, a number of countries have integrated raw material controls with import and exchange controls. Owing to the need to conserve foreign exchange resources for development programs and other high priority uses, this is not unusual, particularly at times when large-scale investment expenditure is exerting heavy pressure upon the balance of payments and reserves. Burma and Ceylon are countries whose foreign trade represents a relatively large percentage of the gross domestic product (see Table 5). In such countries, there is maximum scope for restrictions on external trade and payments. Such restrictions have also been important, however, in Japan and the Philippines, whose foreign trade represents a much smaller percentage of gross domestic product. It may be noted, in this connection, that South Korea and South Viet-Nam, whose imports have consisted mainly of aid goods, have not needed to impose direct import restrictions, and Japan has been able to liberalize its payments system by substituting transferable payments arrangements for bilateral arrangements, owing mainly to the introduction of appropriate fiscal and monetary measures. Burma, China (Taiwan), India and Thailand operate State Trading Organizations. Indonesia and Thailand have fluctuating exchange rates, although that of Thailand appears to be de facto stabilized. The Philippines, South Korea, and Thailand have applied, and China (Taiwan), Indonesia, and South Viet-Nam are still applying multiple exchange rates in one form or another. Duties on major export commodities are levied by all the primary exporting countries in the group, except China (Taiwan) and the Philippines, as well as by India, and adjustments in rates of duty are fairly frequent, particularly in the case of sliding-scale duties. In several countries of the region, including Indonesia, the Philippines and Thailand, taxes on imported goods or on the purchase of foreign exchange have been employed in combination with (or in lieu of) quantitative restrictions.

These, then, are some examples of government control of the economic affairs of the countries under review. The list is far from complete, but it does provide a clear indication of the pervasiveness of interventionism in these countries, not only in those with "mixed" economies, but even in these which are following policies based on a system of free enterprise.

Table 5. Foreign Trade of Selected Asian Countries

	Calendar or Fiscal Year	Exports	Imports	Gross Domestic Product at Market Prices	Exports as a Per cent of G.D.P.	Imports as a Per cent of G.D.P.
		(billion national currency unit)				
Burma	1957	1.0	1.4	5.2	19.2	26.9
Ceylon	1956	1.7	1.6	5.2	32.7	30.8
China (Taiwan)	1956	2.9	4.8	32.2	9.0	14.9
India	1956	6.0	8.1	114.1 1/	5.3	7.1
Indonesia	1955	10.8	7.2	100.0 1/	10.8	7.2
Japan	1956	900.2	1,162.7	9,320.0	9.7	12.5
Philippines	1956	0.9	1.0	9.5	9.5	10.5
South Korea	1955	9.0	88.1	1,140.0	0.8	7.7
South Viet-Nam	1955	2.4	9.2	72.0	3.3	12.8
Thailand	1955	6.5	7.2	39.5	16.5	18.2

Sources: International Financial Statistics; United Nations, Economic Survey of Asia and the Far East, 1957; Chinese Maritime Customs, Trade of China (Taiwan District), 1956.

1/ National Income.

Amount of Detailed Economic Planning

A comparison of the economic development programs of the selected Asian countries under review shows substantial differences in the degree of detailed economic planning on the part of the central authorities. Both Burma and India are public-enterprise minded states, subject to important qualifications, as indicated above; Ceylon and Indonesia also appear to be moving in that direction. On the other hand, Japan and the Philippines have private enterprise economies in which public investment plays a complementary role.

It will be recalled that the core of any economic development plan is investment. Except for Japan, the core of the development plans under review is public investment. India's Second Five-Year Plan is comprehensive; it includes planned investment, not only in the public sector, but also in the

private sector (i.e., agriculture, organized industry, etc.). Thus public policy in the economic field is formulated with a view to fulfilling the various targets - real income, investment, savings, employment, as well as special output targets for basic and other commodities. The planning authorities are responsible for the establishment of these targets, including the order of priority thereof.

In the Indian Plan, simplified aggregate growth models were constructed in order to estimate future rates of economic growth.1/ There was some rudimentary work in the preparation of input-output tables for the analysis of inter-industry relations in respect to coal, steel, power, etc., but these were not applied extensively in the drafting of the Plan itself, and the incremental capital-output ratios assumed for planning purposes probably err on the low side. Ceylon's development program and the Indonesian draft plan also employed a model of the type described above. The Indonesian plan bears some resemblance to the Indian plan, except that it is less comprehensive and integrated. Although it includes estimates of the aggregate costs of the desirable investments in the public sector, as well as those of the required complementary investments in the private and village community sectors, together with a provisional order of priorities, the discussion of the policies to be pursued to implement the Plan is of only a general nature, and the available instruments appear to be limited, particularly in regard to the private sector. The Ceylonese program covers only the capital outlays of the Central Government, while private investment, which has in the postwar period represented a substantial percentage of total investment, is totally outside the program. Much the same can be said of development planning in Burma, China (Taiwan), and the Philippines. Thus, although the Chinese plan covers the major goods and services of both the public and private sectors, the treatment of the two sectors varies noticeably. In the private sector, there is limited control of agriculture through the allocation of fertilizer and irrigation water, but the output targets are hardly more than a forecast or an expression of aspirations. On the other hand, the industrial projects are mainly State enterprises; their output targets call for detailed supervision at every phase of the production process, and may therefore be considered as fairly definite. The Governments of South Korea and South Viet-Nam are currently implementing various loosely coordinated investment programs which aim at developing specific branches of the economy. These programs are limited in scope and cannot be classified as over-all plans designed to develop all branches of the economy.

When we consider the case of Japan, we observe firstly, the predominant role of the private sector in the national economy. We see that the Plan refers mainly to the private sector. Basically, it is a forecast of future economic behavior subject to carefully selected instruments of control. These include incentives, deterrents, and methods of persuasion designed to influence private investment, output, etc., in a certain direction through the medium of financial, monetary, trade, exchange, and related policies.

1/ The model employed three variables (i.e., rate of saving, capital-output ratio, and rate of population growth) in order to determine the rate of growth in real per capita income.

As in the case of India, simplified aggregate growth models have been employed in Japan for projecting the increase in income. The principal variables in the Japanese model were employed population and per capita annual output, thereby indicating the expected increase in labor productivity. Anticipated domestic inflationary and balance of payments pressures were also taken into account, owing to Japan's heavy dependence on imports of industrial raw materials. The Japanese planners have also prepared estimates of sectoral incremental capital-output ratios, and have done some preliminary research in the construction of inter-industry (input-output) tables, as well as in forecasting consumption trends on the basis of estimates of demand and income elasticity.

It must not be supposed that programming as employed in Japan's free enterprise economy is purely a problem of establishing economic projections over the Plan period by means of simple extrapolation. To do so would be to ignore the fact that the authorities are prepared to impose a substantial amount of direction, or purposeful planning, with a view to implementing goals of policy. This may be necessary, for example, to correct divergencies from projected trends. The aim of over-all balanced growth is naturally concerned with macro-economic aggregates, but considerable attention has also been paid, not only to balance of payments problems arising from a high rate of home investment, but also to a number of fundamental problems of a structural nature, including the relationship between the technical coefficients of production and the supply of labor and other factors.

Japan's new Five-Year Plan for the fiscal years 1958-62 was adopted in December 1957, with effect from April 1, 1958. It replaced an earlier plan for the fiscal years 1956-60. Because of the unusually favorable state of the world market, and the high level of demand for Japanese exports in 1955 and 1956, the rate of growth envisaged by the planners in those years was exceeded by such a substantial margin that the targets set under that plan for 1960 soon lost their meaning as guides to policy. Accordingly, the authorities have now adopted a substitute plan. In conception, nature, and technique of implementation, the new plan is broadly similar to the one it replaced. As the prosperity and expansion which Japan enjoyed in 1956 received a severe check in 1957, owing to the sharp increase in imports and the consequent strain on the balance of payments, it became necessary to slow down the rate of investment. In the first half of 1957, the Bank of Japan raised its (basic) discount rate from 7.3 per cent to 8.4 per cent,[1] and the Government issued directives to private entrepreneurs to restrict non-essential investments, including residential construction. Restrictions were imposed on the financing of imports, and arrangements were made for an over-all budget surplus. The new plan envisages an annual growth rate of 6.5 per cent, which is higher than that envisaged in the previous plan but lower than the actual rate during the past two years.

Conclusion

A number of conclusions emerge from the discussion in the preceding sections. These will be stated briefly.

1/ On June 18, 1958, this rate was reduced to 7.7 per cent, reflecting an improved payments position and a reduced pressure of domestic demand.

In the first place, it should be noted that the economies of the selected countries vary in a great many important respects. These countries are at different stages of economic development, and there are marked differences in respect to their productive resources and foreign trade. Most of the countries have mixed public and private economies, but the relative importance of the public and private sectors varies considerably. The degree of government control of the private sector is, however, substantial in all of the ten countries, even in those which are following policies based primarily on a system of private enterprise.

Economic development is a continuing process of increasing the capacity of a given country to produce desired goods and services, with a view to achieving a rising standard of living for the people. The development programs of the several countries vary in respect to scope, general character, magnitude, output targets for specific items, composition of planned public expenditures, financing, amount of detailed economic planning, etc. The means of implementation of policy are by no means uniform.

The countries under review have inevitably encountered a number of difficulties in the implementation of their development programs. In addition to shortages of capital, and of trained and experienced personnel, limitations of available knowledge represent a major obstacle. In some countries, expenditure targets based on faulty estimates of available real resources have subjected the economy to heavy strain. This has necessitated the imposition of severe restrictions, including restrictions on foreign trade and payments. It has also led to frequent revisions of plans and policies. In these circumstances, the need for a more adequate statistical basis for economic planning is clear. This fact is fully recognized by the planning authorities in the several countries. As they have already accumulated much valuable experience in economic development planning, there are grounds for hope that the major obstacles to success will be gradually overcome.