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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ECONOMIC DEPARTMENT

SUMMARY OF THE REPORT OF
THE INDUSTRIAL DEVELOPMENT WORKING PARTY
OF THE
ECONOMIC COMMISSION FOR
ASIA AND THE FAR EAST

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The Industrial Development Working Party of the Economic Commission for Asia and the Far East convened in Shanghai on August 26, 1948 and was in continuous session to the 25th of October, 1948 during which they undertook field trips to the principal countries of the region.

Its personnel consisted of four members nominated by China, the Philippines, India and the Kingdoms of Cambodia and Laos and sixteen co-opted experts from the various countries of ECAFE including one each from the Economic Commission for Europe and the International Bank for Reconstruction and Development. With the exception of the specialists co-opted from Indonesia and the Bank, the members of the Working Party were primarily engineers and technical experts. The analytical work of the experts plus their appraisals and suggestions became the basis for the recommendations embodied in the final report, which was written by the Secretariat.

The report consists of four chapters. Chapter I briefly discusses the progress of rehabilitation and development in each country of the region and gives the following reasons why, as a whole, progress "has been slow and spasmodic": (1) difficulties of mobilizing domestic capital and lack of foreign exchange for importing capital equipment; (2) difficult budgetary positions; (3) difficulties in obtaining technical personnel and knowledge; and (4) political and economic instability in most of the countries.

Chapter II deals with requirements for reconstruction and development. As a result of information (though admittedly incomplete) assembled by the various experts on the general reconstruction and development plans and requirements of the countries of the region, it became possible for the first time to arrive at a very rough estimate of the general order of magnitude of the

financial cost of putting these plans into effect. It should be made clear that the estimates were prepared by each country, who submitted very rough figures subject to considerable qualification by numerous assumptions as to future conditions, such as economic, financial, and political stability of each country, availability of capital equipment in adequate amount and delivery within time, stability of prices, etc.

Although aware of all the inaccuracies inherent in estimates of this nature, the Working Party found that the total financial requirements for reconstruction and development submitted by the ECAFE countries amount to roughly \$13.6 billion, of which \$6.4 billion represents the cost of locally available materials and services and \$7.2 billion represents foreign exchange requirements.^{1/} For the most part these estimates are for approximately a five-year requirement of the region.

It must be pointed out here that for one reason or another the countries did not submit fully engineered detailed specific projects or well worked out over-all plans for industrial development. The "plans" in most instances were more in the nature of schemes and proposals. In fact, the basic data on financial requirements submitted by the various countries consisted mainly of the filled in work sheets giving figures indicating estimated costs in terms of local currency and foreign exchange needed for industrial reconstruction and development. Some of the work sheets were completely filled in, while others gave total figures only with no breakdown as to local currency and foreign exchange requirements. Also some of the smaller countries provided estimates for major industries only, and consequently their full needs were not reflected in the total estimated requirements.

^{1/} The breakdown of total requirements by country is given in Annex II.

Therefore, the U.S. \$13.6 billion figure should be used with considerable caution, since on the one hand it no doubt does not include all the plans or specific projects which some of the countries failed to submit to ECARE, and on the other hand it includes some proposals and schemes which would have no validity in the light of a realistic appraisal of their engineering and economic worthiness.

A breakdown by industries shows that the largest expansion in terms of funds required is planned for transportation facilities amounting to \$5,230 million or 38.4 per cent of planned expansion for all industries. The second largest expansion, amounting to \$1,820 million or 13.4 per cent is contemplated for electric power, largely hydro-electric developments. Thirdly comes the textile industry with an expansion of \$1,085 million or 8 per cent.

The financial requirements by industries are summarized in the following table:

ESTIMATED FINANCIAL REQUIREMENTS FOR
RECONSTRUCTION AND DEVELOPMENT
BY INDUSTRIES

<u>Industry</u>	<u>Total Requirements</u>		<u>Import Requirements</u>	
	<u>Amount</u>	<u>Per Cent of total</u>	<u>Amount</u>	<u>Per Cent of total</u>
Transportation	\$5,230	38.4%	\$3,038	41.8%
Electric Power	1,820	13.4%	1,214	16.7%
Textiles	1,085	8.0%	482	6.7%
Fertilizers	934	6.8%	570	7.9%
Iron and Steel	665	4.9%	525	7.2%
Coal	118	.9%	75	1.0%
Other Minerals	157	1.1%	93	1.3%
All other	3,618	26.5%	1,260	17.4%
	\$13,627	100.0%	\$7,257	100.0%

(amounts in millions of \$US equivalents)

In terms of physical capacity the data indicate that the combined plans of the ECAFE countries provide for an increase from present production of 3 times in steel production, 2 times in coal production, $2\frac{1}{2}$ times in electric power generation, almost 2 times in cotton textiles, and 10 times in ammonium sulphate production.

The more important planned expansions are shown below:

PLANNED EXPANSION OF CAPACITY

<u>Industry</u>	<u>Unit</u>	<u>Present Capacity</u>	<u>Short Term Plan</u>	<u>Long Term Plan</u>
Steel Ingots	Million Metric Tons per year	1.3	3.0	4.0
Coal (Production)	Million Metric Tons per year	39	55	78
Electric Power	Million KW	4.0	6.4	10.3
Cotton Textile	Million Spindles	15.5	26.1	29.3
Ammonium Sulphate	Thousand Metric Tons per year	100	1,050	n/a

n/a = not available

Chapter III briefly summarizes the experts' individual studies and touches on the question of sources of funds to finance industrial development. Stress is placed on (1) the need to mobilize internal finances through better organized and more efficient local financial institutions and (2) the need to provide conditions which will invite employment of domestic venture capital. In this connection, caution is urged that due regard be given to the effect of local currency expenditure on inflationary pressures particularly on the part of those countries where inflation has persisted for some time, and where domestic financing would impose undue budgetary burdens.

The sources of foreign exchange required are briefly indicated in this chapter. A statement is also made to the effect that investments by private foreign institutions and individuals will be conditioned by full consideration of such factors as (1) economic, financial, and political stability of borrowing country, (2) availability of adequately trained technical and skilled personnel as well as competent managerial personnel, (3) well prepared and well planned projects, and (4) freedom to remit dividends, interest and profits, non-discriminatory taxation, fair compensation in event of nationalization, etc.

The fourth and last chapter deals with conclusions and recommendations, the most important of which can be summarized as follows:

1. To make surveys and investigations of existing resources, such as water power, coal, petroleum, and basic materials.
2. To secure international aid in importing machinery and equipment.
3. To rehabilitate and develop transport facilities.
4. To standardize equipment particularly in transport and heavy engineering.
5. Explore possibilities of obtaining capital goods in exchange for raw materials.
6. To complete speedily the study of financial institutions of ECAFE countries to determine how they can be used in mobilizing domestic financial resources.
7. To establish a permanent Committee on Industrial Development in the Commission with broad functions of planning and coordination of reconstruction and development projects; collection and dissemination of information concerning industrial rehabilitation and development; securing of experts to advise governments, upon request, on detailed planning and best methods to increase

production; initiation and fostering of arrangements to remove bottlenecks in supplies, etc; establishing when necessary Sub-Committees or Working Parties.

The report was presented at the Fourth Session of the Economic Commission for Asia and the Far East held at Lapstone, Sydney, Australia in December. The Commission, however, felt that the governments concerned had not had sufficient time to consider the material submitted. It was therefore agreed that the Report of the Working Party on Industrial Development should be further considered by a Committee of the Whole Commission to meet as soon as convenient after two months from close of the session. In a recent statement by Dr. Lokanathan, the Executive Secretary of ECAFE, he urged that this meeting be held in Bangkok sometime in March 1949.

Annex I

The position of countries in the ECAFE region in regard to electric power is indicated by the following table, giving present installed capacity, and the planned increases in capacity under short-term and longer term plans:

<u>Country</u>	<u>Present Installed</u>	<u>Planned Increase</u>	<u>Longer Range Addi-</u>
	<u>Capacity</u> (Partially Estimated)	<u>in Capacity</u> <u>Short-Term</u>	<u>tional Increase i</u> <u>Planned Capacity</u>
	(Thousands of KW)		
Burma	30	20	120
Ceylon	21	25	75
China	1,332	698	n.a.
Hongkong	72	n.a.	n.a.
India	1,862	1,097	6,700
Indochina	46	27	188
Indonesia	340	40	210
Malaya	120	40	n.a.
Pakistan	75	43	184
Philippines	108	323	437
Siam	16	n.a.	n.a.
	Total	4,022	2,313

Plans to bring about increases in existing capacity have been formulated in all countries, although the one for Siam has not been made available. Longer term plans have not been finalized for Burma, China and Malaya.

Textiles

The cotton textile industry is one of the best developed industries in the ECAFE region; although it is large in size in both India and China, it is still small relative to the clothing requirements of the population. The table below summarizes available data on the present capacity of the cotton textile industry in the ECAFE region.

PRESENT CAPACITY IN THE TEXTILE INDUSTRY

	<u>Spindles</u>	<u>Looms</u>	<u>Cloth</u>	<u>Yarn</u>
Ceylon	22,200	674	3.1 million yds	1.5 million lbs
China	4,924,000	64,742	n/a	2,197,000 (400-lb bales)
Hongkong	120,000	3,223	n/a	86,400 (400-lb bales)
India	10,100,000	200,000	4,700 million yds	1,600 million lbs
Indochina	130,000	n/a	n/a	
Indonesia	2,200	6,000	10 million yds	80,000 lbs
Pakistan	166,700	n/a	76.6 million yds	n/a
Philippines	20,300	504	6.1 million yds	n/a

Available information on plans for the development of the textile industry in the region is as follows:

PLANS FOR DEVELOPING TEXTILE INDUSTRY

	<u>Spindles</u>	<u>Looms</u>	<u>Cloth</u>	<u>Yarn</u>
Ceylon	n/a	n/a	30 million yds	n/a
China				
(1948-52)	5,000,000	150,000	5,550 million yds	3,750,000 bales (400-lb bales)
(1953-57)	3,000,000	90,000	3,330 " "	2,250,000 bales (400-lb bales)
India	4,800,000	n/a	1,700 " "	n/a
Indochina				
(1948-53)	150,000	n/a	80 " "	21 million bales
(Longer term)	210,000	n/a	160 " "	42 " "
Indonesia	117,200	12,000	250 " "	30 " "
Philippines	130,000	n/a	n/a	35 " "

n/a = not available

FINANCIAL REQUIREMENTS FOR
INDUSTRIAL DEVELOPMENT OF ECAFE COUNTRIES^{1/}

<u>Country</u>	<u>Total Amount</u>	<u>Estimated Foreign Exchange Requirement</u>
British North Borneo	US\$ 16,000,000 ^{2/}	US\$ 16,000,000 ^{2/}
Brunei & Sarawak	2,634,115 ^{2/}	2,634,115 ^{2/}
Burma	20,000,000	N.A.
Ceylon	38,815,036	N.A.
China	6,579,933,000	3,222,201,000
Hongkong	N.A.	N.A.
India	3,650,566,000	1,533,237,720
Indo-Chinese Federation	750,000,000	240,000,000
Indonesia	1,045,345,500	901,406,400
Malayan Union & Singapore	112,000,000 ^{2/}	112,000,000 ^{2/}
Philippines	1,411,456,330 ^{3/}	1,186,681,490 ^{3/}
Siam	N.A.	N.A.
	US\$13,626,749,981	US\$7,214,160,725

N.A. means that the data was not available either because the government concerned had not submitted its plans to ECAFE or data on financial requirements were incomplete.

^{1/} The figures are for industrial development only. They do not include financial requirements for development projects in agriculture, forestry and fisheries.

^{2/} British North Borneo, Brunei and Sarawak, and Malayan Union and Singapore supplied estimates for foreign exchange requirements only.

^{3/} This estimate does not correspond either in total amount or in the purposes for which it is to be invested or finally in the distribution between the total amount and the foreign exchange requirement with the estimates presented in Washington and discussed between the Philippine Government and the International Bank.