income rise, so the proportion of the national income which can be saved will grow; the amount of savings available therefore rises cumulatively until at a high stage of development the country can finance a high level of development expenditure.

The traditional means by which the vicious circle of lack of savings and lack of development has been broken is by injections of foreign investment. Without the use of external resources, the government must either restrict its development programme or divert internal resources to development work by cutting down the standard of living.

For governments in South and South-East Asia none of these courses is practicable. Curtailment of the development programmes, while populations are increasing, would condemn the people of the area to continuing poverty; direct reduction of living standards could not be achieved without authoritarian government; the political, social and economic consequences of inflation are unpredictable, but the social fabric could hardly be expected to withstand the strain which it would impose.

14. FOR THE SIX-YEAR PROGRAMMES, £1,085 MILLION (equivalent to $3 billion) IS NEEDED FROM ABROAD.

The economies of countries in the area are already receiving external finance, primarily through sterling balance release. The acceleration of development work will require additional external finance.

The need for external finance cannot be measured by the cost of imports of capital goods for the projects in the development programmes. They need not only capital goods, but also consumer goods for the workers engaged on the projects.

[In the case of India, for example] external finance is needed not only for the materials and equipment imported in connection with the development projects, but also for other imports, to enable the Government to counteract inflationary pressure and to raise a part of the funds needed for internal expenditure

Pakistan's position is different. Nearly the whole of the materials and capital goods which are needed to carry out the development programme have to be imported, and consequently a large part of the expenditure on the programme requires external finance. Ceylon's requirements are [also] virtually limited to the actual capital goods imported.

The primary function of the foreign investment [is to] enable the country to have a larger balance of payments deficit than would otherwise be possible. At the same time foreign investment can incidentally help to provide the internal finance which the government needs to pay the workers and the contractors for the development programme. The precise technique by which the flow of capital from abroad is transmitted into finance for the government will vary from time to time and from country to country. But in one way or another, the foreign investment can serve

... 12.