

for available private capital, and the advantage of the region in this competition is that it offers potentially large and growing markets. Capital may flow in from long-established business connections which are well acquainted with the conditions of the area. It may also flow in through industrial corporations new to the area, some with world-wide connections which are consequently selective in their decisions. They have a wide area of choice and they will naturally try to establish or expand industrial enterprises, frequently in co-operation with local private interests or governments, in those countries where they believe that their investment will be most secure and profitable, and where the friendly receptivity of governments is assured. The attractions of the region, however, can be counter-balanced by such factors as apprehensions as to the security of investment, difficulties with administrative and financial procedures and restrictions, and uncertainties about the incidence and weight of taxation. To such matters governments will no doubt continue to give detailed consideration.

During the year a number of countries in South and South-East Asia have run into balance of payments difficulties. They have been due to a variety of causes, for example different relative movements of prices, the impact of inflationary developments, or the increasing demand for imports flowing from the momentum of economic development. Such a situation tends to be aggravated by speculative factors. Some of the countries facing these difficulties have been fortunate in possessing substantial external reserves and have thus been able to cover the deficit in their balance of payments while measures to rectify their difficulties have had time to take effect. Some other countries whose exports are currently inadequate to pay for essential imports and whose exchange reserves are small in comparison with their needs have been helped by other external resources. While deficits may arise from unforeseen circumstances there are dangers in planning for even a temporary deficit in the balance of payments unless there are adequate exchange reserves or the certainty of other external resources to cover it . . .

As previous reports have emphasized, the great bulk of the finance needed for development must come from domestic resources, and the encouragement and mobilization of domestic savings, together with its utilization on wise economic lines, is therefore of crucial importance. In the case of most countries in the area, external aid can only be supplementary, although it may be particularly valuable in helping to cover some portion of the external costs of development or achieving other specific purposes.

Their own export earnings are, however, of predominant importance for the fortunes of most countries of the area. The almost inevitable fluctuations in the prices of stable exports pose a difficult problem, particularly for those countries dependent on one or two export items. There is no simple solution. Countries in this position may have to seek a solution in such ways as further diversification of their economies and the maintenance of financial reserves adequate to tide them over short term fluctuations.

The settlement of main priorities is a matter to which governments in the area are giving increasing attention. In the case of food-importing countries, the expansion of food production is a high priority. An adequately fed population is a first essential. Quite apart from the social disasters which a shortage of food can occasion, it can also have serious effects on prices and may necessitate a large diversion of resources to pay for urgent food imports. At the same time there are important food-exporting countries in the area and it is in the interests of their customers to profit from the natural advantages of these sources of supply and that the amounts of food available for export from these countries should continue to increase. Here again comparative advantage may determine the allocation of resources between alternative fields of production.

The provision of better transport facilities is another high priority in many countries, to enable the best use to be made of resources by increasing their mobility, to move agricultural produce from farms to markets, to bring raw materials to industries, and to provide access to external markets . . .

There is continued reference throughout this report to the search by countries of the area for additional resources, more capital, more equipment, and more managerial and technical skills. But it would be wrong to regard the situation as wholly discouraging. These are the signs that the countries concerned are pressing on with urgent tasks of development and the raising of living standards with speed and energy. Reference to difficulties must not of course be taken to imply that the difficulties are insuperable, or indeed peculiar to countries at a relatively early stage of development. Signs of strain are by no means limited to the less industrialized countries: they have been repeatedly evident in recent years in some of the most highly developed countries in the world; these too tend to find themselves continuously faced with the need to balance resources against aspirations, and, while making the quickest possible advance, to be constantly on their guard against the onset of inflation and external dis-equilibrium. Efforts must not flag because the road ahead runs uphill.

The existence among the peoples of the region of abounding confidence in their own destiny is a factor highly favourable to social and economic improvement. The problems remaining do not arise from static or stagnating economic conditions. Rather they are