

15. "STERLING BALANCES" HELD BY INDIA, PAKISTAN AND CEYLON WILL CONTINUE TO BE DRAWN UPON TO PROVIDE RESOURCES.

The possible channels of external finances are five, the first being the use of the countries' own external assets (e.g. sterling balances). In the last five years, this has been the main source of external finance for Commonwealth countries in the area.

In addition to the use of sterling balances of £270 million by India and Pakistan for the purchase of pension annuities, the transfer of military assets and capital repatriation, the sterling balances of India, Pakistan and Ceylon have been drawn down by £340 million for current account purposes from 1946 to 1949.

By agreement with the United Kingdom these countries restricted their drawings below what would have been desirable for their economies, in order to limit the burden on the United Kingdom economy.

The sterling balances of India, Pakistan and Ceylon will continue to be drawn down gradually during the six years, and by the end of the period it is expected that they will have been reduced to the level of reserves which these countries would wish to hold for the protection of their external financial position and for the backing of their currencies.

To the extent of this reduction, they will themselves be providing external finance from their own resources. On the other hand, the economic burden of supplying the corresponding imports will directly or indirectly fall upon the United Kingdom.

It is not certain, of course, that the whole burden would immediately fall upon the United Kingdom. Other sterling area countries, such as Australia and New Zealand, may be in surplus on current account and accumulate sterling. In that event they would be easing the immediate burden on the United Kingdom to whom they would in effect be making short-term loans. Similarly, other countries outside the sterling area might accumulate sterling as a result of expenditure by the countries of South and South-East Asia.

Thus the net effect of the six-year operation will be that a part of the sterling balances of India, Pakistan and Ceylon will have been repaid, at immediate economic cost to the United Kingdom, while another part may have become the sterling balances of other countries who would then have to bear the immediate economic burden. In either case, and wherever the immediate economic burden may ultimately fall, the effect of the programme should be to eliminate the problem created by the accumulated sterling balances of Commonwealth countries.

16. PRIVATE INVESTORS ABROAD CAN PLAY A USEFUL ROLE, EITHER BY LENDING TO PRIVATE ENTERPRISE OR TO GOVERNMENTS.

The contribution which can come through the second channel of external finance - private investors overseas to private enterprise in the area - will largely depend upon the contributions made in other ways.

There is a growing field for private investment in South and South-East Asia, for which the public development programmes are providing a sound economic framework, but the immediate problem is to finance public development of basic services. Private investment can carry forward the work begun by public development.

The third channel - private investors overseas to governments in the area - can produce constructive results. Borrowing by governments from private investors abroad has been the principal source of development in the past, and there is scope for an expansion of government borrowing in private capital markets.