Trade and External Sector Reforms in Developing Asia: An Overview

Srinivasa Madhur

*The rags-to-riches stories of economic success of Newly Industrialised Countries (NICs) have made trade liberalisation and exchange reforms a fad in south and south-east Asian countries. These countries are proceeding with reforms at a breakneck speed to make up for the 'precious time lost'. The reforms which **South Korea and Taiwan** implemented during the course of two decades are being carried out overnight.*

This paper while highlighting the main elements of evolution of external sector reforms in the Asian region during the past three decades throws light on the gray prospects of Asian exports in the context of ongoing global recession, protectionist tendencies of developed countries and shrinking global savings and liquidity.

I
Introduction

THE development experience of the last few decades has shown that although the pace of industrialisation depends to some extent on initial conditions (such as resource endowments, size, location and social mores) and the international environment, economic policy has a major role in determining the rate of industrial growth and structural change [World Bank 1991]. A key component of the overall economic policy framework guiding industrialisation and economic growth is the policy regime governing foreign trade and external capital flows. Perhaps, nowhere else the nexus between trade and the related external sector policies on the one hand and industrialisation on the other has been as well established as in Asia.

During the last three decades, development experience of this region has thrown up examples of countries using trade and the international capital market as engines of growth and consequently transforming themselves from 'hopeless basket cases' into rapidly growing, vibrant economies. In contrast to this rags-to-riches stories of economic success, the region has also thrown up examples of countries which, among other things, followed less appropriate trade and foreign exchange policies and hence could not exploit the full potential of their resource endowments, both physical and human. The objectives of this paper are twofolds: first to review this rich and varied experience of developing Asia on foreign trade and related external sector reforms and then pull together the major lessons to be drawn from this for the future course of trade and commercial policy reforms in the region. To keep the analysis at manageable levels, the discussion is highly selective in terms of both the number of countries covered and the issues addressed. In terms of countries, the paper concentrates mainly on Taiwan, south Korea, Singapore, Thailand, the Philippines, Indonesia and Malaysia in east and south-east Asia and on India, Pakistan and Sri Lanka in south Asia.

In general, during the last three decades developing Asia has moved from an inward-oriented to an outward-oriented trade and commercial policy regime. Although the timing as well as the pace of this movement have varied a great deal across the major subregions and countries, three distinct phases of trade and commercial policy reforms are discernible for the region as a whole: (i) the period between the early 1960s and the first oil shock in 1973; (ii) the period between the two oil shocks, i e, from 1973 to the early 1980s; and (iii) the period since the second oil shock and especially since the mid-1980s.

The first of these phases saw the strategic shift in development strategy and trade and industrial policy among the three countries—Taiwan, south Korea and Singapore which along with Hong Kong are by now commonly referred to as the Newly Industrialised Countries (NICs), whereas most other countries in the region continued with inward-oriented trade and exchange policy. During this period, therefore, developing Asia was polarised on economic policy—a few small and resource-poor countries effecting significant outward-orientation in their policies where as most other countries continuing to persist with inward-looking trade policies. Coupled with a favourable world economic environment, this shift in development strategy produced dramatic results for all the three countries: Taiwan, Korea and Singapore. Section II deals with this dramatic shift in policy stance and the impulses behind it.

One would have expected that the success achieved by the NICs through an outward-oriented trade and exchange rate policy should have prompted other countries in the region to give up their inward-oriented economic policies. But the next decade, i e, the 1970s did not witness any such large-scale "demonstration effect" on economic policy in developing Asia; if anything, the pace of trade and external sector reforms towards greater outward-orientation was exceptionally slow during the 70s. Section III outlines the key factors contributing to this slowdown in trade and external sector reforms during the 70s. The last phase, i e, the period since the early 1980s witnessed three important events: (i) the mid-course policy correction introduced by Korea, (ii) major shift in trade and external sector policies effected by Thailand, Indonesia and Malaysia and (iii) the beginning of the end of inward-oriented trade regime in south Asia. Section IV presents the key elements of this policy shift in the region and the major impulses and imperatives that have prompted this shift. The last section pulls together the important lessons that can be drawn from the evolution of trade and commercial policy in developing Asia and their relevance for further reforms in the region.

A point that needs to be mentioned at the outset is that this paper is not on the trade performance of the developing Asian countries (covering such issues as growth and structural change in their exports and imports, etc) but on the evolution of their trade and external sector policies (by and large, covering policies relating to quantitative restrictions on trade, the level and structure of tariffs, export subsidies, foreign investment, capital flows and management of the exchange rates, etc). Although a lot has been written about the trade and external sector policies of these countries, most of it is either on a particular country or for a particular period of time or both. The key objective of this paper, therefore, is to put together the main elements of the evolution of trade and external sector reforms in the region and the key impulses and imperatives behind this evolution over the last three decades in one place and draw certain lessons from this for future trade and exchange reforms.

II
Policy Regime Prior to First Oil-Shock

It is well known that during the 1950s, in keeping with the then prevailing consensus

on the suitability of import-substituting industrialisation for less developed countries, most of the developing countries in Asia (except perhaps Hong Kong) had followed inward-oriented trade policies [James et al 1989]. Imports were controlled not only through high tariffs but also detailed and discretionary direct quantitative restrictions. Foreign exchange allocations for imports were strictly controlled by the governments, not to speak of the restrictions on transborder capital flows. For most of the developing Asian countries, the major and perhaps the only source of exports were primary commodities. For resource-poor countries like Korea and Taiwan, even this source of exports and foreign exchange earnings was not available. Both these countries were, therefore, considered as "hopeless basket cases" by most development economists; in contrast, most observers considered natural-resource-rich countries like India and Burma to be the forerunners in industrialisation [Bhagwati 1987].

By the end of the 1950s and early 1960s, both Taiwan and Korea realised that their poor resource-base and relatively small domestic markets coupled with the expected phasing out of US aid flows were posing inherent limitations to the continuation of inward-looking, import-substituting trade policies. Since these countries were not in a position to exploit something they did not possess—natural resources, they had to exploit something they did have—their abundant human resource, particularly relatively literate but inexpensive labour [Ranis 1988]. Given the smallness of their domestic economies, one of the ways they could do this was by promoting labour-intensive exports and importing the capital goods and technology required for that. This necessitated moving away from their import-substituting trade regime towards a more open, outward-oriented trade regime. In the decade since the early 1960s, therefore, both these countries implemented significant trade policy reforms.

The major objective behind these trade reforms was to ensure that the domestic exporters had access to capital goods, raw materials and components at close to international prices. Coupled with the relatively inexpensive domestic labour, this could enable domestic exporters to successfully compete in the international market. The key policy instruments used to provide the domestic exporters with the necessary inputs at world prices were a large number of rebates, tax exemptions and subsidies to exporters and the promotion of special export processing zones [Westphal and Kim 1982, Lee and Liang 1982, Kwack 1990, Scitovsky 1990, Amsden 1989 and Li 1988].

It was Taiwan which took the first initiatives at trade and exchange reforms in developing Asia, starting roughly in 1958. As a prelude to these initiatives, the Taiwanese government devalued the domestic currency and replaced the then existing multiple exchange rate system by a dual rate system with a basic official exchange rate and an exchange certificate rate. The government experimented with this dual exchange rate for a while. The exchange certificate rate, which was left to be determined by the excess demand for foreign exchange, fluctuated fairly wildly for some time and finally stabilised at about NT$ 40 per one US dollar. The government subsequently gave up the dual exchange rate system and unified the exchange rate at this level in June 1961. It is remarkable that the nominal exchange rate of Taiwanese dollar remained unchanged within a narrow band of about 10 per cent around this level for almost the next three decades. Along with fairly low domestic inflation rate, this ensured domestic exporters of reasonable earnings free from exchange uncertainties.

The simplification and the adjustment of the exchange rate system was supplemented by the introduction of a set of export incentives consisting mainly of rebates of customs duties on imported raw materials for exporters, exemption of export earnings from business and other taxes, a deduction of 2 per cent of annual export earnings from taxable income, and a 10 per cent tax reduction for manufacturing, mining and handicraft corporations that exported more than 50 per cent of their output. Overall, these export incentives constituted about 14 per cent, of the value of merchandise exports. From 1966 onwards, exports were also promoted through the establishment of duty-free export processing zones [Lee and Liang 1982]. In an attempt to move the trade policy regime towards further outward-orientation, the Taiwanese government gradually liberalised import controls and reduced tariffs. As a result of the tariff reductions, the average nominal tariff rate, measured as the ratio of customs revenue to total imports, gradually declined from 42.3 per cent in 1955 to 28.1 per cent in 1960, to 22 per cent in 1965, and to 18 per cent in 1970 [Lee and Liang 1982].

A good indicator of the overall progress in moving the trade policy regime towards outward-orientation by Taiwan during the period between early 1960s and the early 1970s is provided by this: In 1960, the ex-factory price of domestic manufactures seeking protection were allowed to exceed the landed price of comparable imports by 25 per cent but by 1973 it was reduced to only 5 per cent [Lee and Liang 1982].

The Korean trade policy reforms more or less coincided with those of Taiwan. In 1961, the Korean won was devalued by about 50 per cent. Subsequently, the level and the range of export subsidies was increased sharply in 1963 (by about 25 per cent in value terms) and the won was devalued by almost 65 per cent in 1964 and 24 per cent in 1965. Following these devaluations, quantitative controls on imports were gradually relaxed and a large number of items were made eligible for unrestricted imports. In 1967, the system was further liberalised when the so-called positive list system, under which only those commodities listed in the trade programme could be imported, was replaced by the negative list system, under which all commodities not listed were automatically approved for import. However, unlike Taiwan, Korea did not implement any substantial reduction in the tariffs. Even the tariff reform undertaken in 1967 ultimately led to very few changes. Tariffs were, in general, raised somewhat, although the highest rate was reduced to 150 per cent [Westphal and Kim 1982].

Since tariffs were generally maintained at a fairly high level, Korea had to rely extensively on a large number of export incentives. In 1968, such incentives formed about 30 per cent of the value of merchandise exports, more than double the corresponding percentage in Taiwan, consisting of: tariff exemptions, 14.4 per cent; indirect tax exemptions, 7 per cent; interest rate subsidies, 4.5 per cent; wastage allowance, 2.4 per cent; direct tax deduction, 1.1 per cent; and overhead rate reductions, 0.4 per cent. Because of these fairly large export incentives, the average effective subsidy rates on domestic sales and exports were almost equal in 1968 [Westphal and Kim 1982].

Almost right from the beginning, Hong Kong had an outward-oriented trade and commercial policy, with almost no government intervention in the allocation of foreign exchange or regulation of imports through quantitative restrictions. Nor did it have protective tariff walls. Also, Hong Kong had a liberal policy towards foreign investment. The case of Singapore, Hong Kong's neighbour with similar size and resource endowments, has been somewhat different. For about half a decade until the mid-1960s, Singapore experimented with import-substituting trade and industrial policy. Between 1960 and 1962, protective import duties were imposed on quite a few products. The import substitution policies were intensified in 1963 when Singapore joined Malaysia. It was then believed that the large domestic market offered by the political union with Malaysia would ensure the success of these import-substitution policies. Quantitative restrictions were instituted in 1963 and by 1965, as many as 230 commodities were subject to import quotas [Yah and Associates 1988].

The subsequent failure of the common market and the political union with Malaysia and the separation of Singapore in 1965 marked the beginning of the shift from import-substitution policies towards outward-oriented trade policies. Like Taiwan

and Korea, Singapore recognised that because of its small domestic market and the lack of natural resources, it may not be able to sustain growth by import substitution. Three major changes were, therefore, effected in the years between 1965 and 1973. One was the replacement of import quotas by tariffs. In 1966 all but 88 commodity import quotas were replaced by tariffs; this was subsequently reduced to 26 by 1969 and to only 3 by 1973. The second major reform measure was the gradual reduction in the number of imported items subject to tariffs. In 1967, the number of dutiable items was 398 and by 1973 this had fallen to 197 [Tan and Hock 1982 and Yah and Associates 1988]. Throughout this period, export incentives in the form of duty drawbacks and tax concessions were offered for domestic exporters to mitigate the anti-export bias of import tariffs. A third key feature of Singapore's trade and commercial policy during this period was an open foreign investment policy. Multinational corporations were encouraged to invest in Singapore through a liberal foreign investment policy including a variety of tax exemptions and financial incentives [Yah and Associates 1988].

In general, during the first phase of trade and commercial policy reforms in developing Asia, Taiwan, Korea and Singapore shifted from an inward-oriented trade policy towards an outward-oriented trade policy whereas in Hong Kong, an open trade regime was already in place. This shift in policy was effected through a combination of exchange rate adjustments, gradual reduction, but by no means elimination, of quantitative restrictions and tariffs on imports and the introduction of a large number of incentives for exports. All along this shift in trade policy, a firm eye was always kept on international markets and prices. The key idea behind these reforms was to give domestic producers a fair chance to compete in the international market by a system of conditional, time-bound and often gradually declining protection [James et al 1989 and Amsden 1989].

In sharp contrast to the NICs, almost all south Asian countries largely persisted with the import-substitution trade policies during most part of the 1960s and early 1970s. In general, tariffs were maintained at very high levels and the domestic currencies were largely overvalued [Bhagwati and Srinivasan 1978 and James et al 1989]. If anything, some of them even intensified these policies through implementing more detailed and discretionary quantitative restrictions on imports, often in response to a balance payments crisis or a failed attempt at trade liberalisation. However, since most of these countries followed fairly conservative fiscal-monetary policies, economic crises were generally avoided [World Bank 1987].

The trade policy regime of the ASEAN-4—Indonesia, Malaysia, the Philippines and Thailand—during this period was one that belonged to the grey area that lies between the strong outward-orientation of the NICs and the strong inward-orientation of the south Asian countries [World Bank 1987]. It was in many respects a mixed bag. Their tariffs were, in general, lower and in some of them quantitative restrictions on imports were also less pervasive than among the south Asian countries [James et al 1989 and World Bank 1987]. At the same time, perhaps because primary commodity exports were still fetching them reasonable foreign exchange earnings and hence kept their trade and current account deficits within manageable limits, the need for a major shift from import-substitution to outward-oriented trade policy was not felt. In fact, some argue that the limits to import-substituting industrialisation primarily depends on the volume of concessional foreign aid and/or the ability of the country concerned to expand primary-commodity exports; once these sources of foreign exchange earnings dries up, import-substituting industrialisation comes almost to a grinding halt. In retrospect, therefore, it appears that the relatively comfortable resource endowment of ASEAN-4 might have postponed significant trade reforms.

The structural transformation of the NICs following the trade policy reforms implemented during the decade since the early 1960s is now well known. Volumes have been written on this. The key point that needs to be emphasised here is that the shift from inward-oriented to outward-oriented trade regime among the NICs was followed by not only faster export growth, mainly manufactured exports, but also rapid economic growth. In 1964, among the developing Asian countries, India had the largest merchandise exports, of about $ 1.7 billion, followed by Malaysia ($ 1.10 billion) and Hong Kong ($ 1.01 billion); in comparison, Singapore's exports was less than a billion dollars, Taiwan's was only about $ 0.43 billion and Korea's was even lower at $ 0.12 billion. But by 1973, all these countries had surpassed India's exports (Table 3). Between 1964 and 1973, export earnings of Korea had increased by about 27 times, that of Taiwan by about 10 times and that of Singapore by about four times but that of India by only a little over one and half times. Significant improvements in the domestic investment and savings rates were also achieved by the east Asian countries during this period (Table 2). Between 1964-65 and 1972-73, gross domestic investment rate increased from about 22 per cent to about 40 per cent in Singapore, from less than 15 per cent to about 23 per cent in Korea, and from about 21 per cent to over 27 per cent in Taiwan. This was in contrast to south and south-east Asian countries where, except for Indonesia, the domestic investment rates either stagnated or improved only marginally (Table 2).

Quite naturally, the rapid growth in exports and the substantial improvements in domestic investment and savings rate among the NICs had a salutary effect on economic growth. During the period from 1950 to 1965, except for Hong Kong, the annual average growth of GDP among the NICs had been about 5.5 per cent [Riedel 1988]. In the post-reform period, i e, between 1965 and the first oil shock in 1973, the annual average growth of GDP in Singapore was 12.5 per cent; in Taiwan about 11 per cent and in Korea about 9.4 per cent (Table 1). In contrast, during this period, the annual growth of south Asia was just about 3 per cent; only Pakistan in south Asia grew at a respectable rate of about 6 per cent per year. Helped by the good growth of primary commodity exports, the ASEAN-4 achieved a reasonably good growth during 1967 to 1973 with Thailand being the fastest growing economy (at about 8 per cent) and the

Table 1: Growth and Incremental Capital-Output Ratio

Country	1965-73	1974-80	1981-86	1987-90
Hong Kong	9.1 (2.6)	9.6 (3.0)	6.7 (4.1)	6.6 (4.1)
Singapore	12.6 (2.5)	8.0 (5.1)	5.5 (8.2)	9.5 (4.8)
Korea	9.3 (2.5)	8.8 (3.3)	9.1 (3.2)	9.6 (3.0)
Taiwan	11.0 (2.3)	9.0 (3.5)	7.6 (3.1)	8.1 (2.9)
Indonesia	7.0 (2.0)	7.7 (3.0)	4.9 (5.7)	6.3 (5.3)
Malaysia	7.2 (2.9)	8.0 (3.4)	4.5 (7.2)	8.1 (3.1)
Thailand	7.8 (3.1)	7.3 (3.6)	5.5 (4.4)	11.2 (2.2)
Philippines	5.5 (3.7)	6.4 (4.4)	–0.2 (—)	4.8 (3.6)
India	3.0 (5.8)	3.7 (5.7)	5.6 (4.0)	5.6 (4.0)
Pakistan	6.0 (2.7)	5.8 (2.9)	6.4 (2.9)	6.1 (3.1)
Sri Lanka	4.2 (3.7)	5.5 (3.5)	5.0 (5.3)	2.9 (9.1)

Note: The unbracketed figures are average annual growth rates during the corresponding period and the bracketed figures are on incremental capital-output ratios.

Sources: (1) IMF, *International Financial Statistics*, yearly issues.
(2) Asian Development Bank, *Asian Development Outlook*, Manila, 1989 and 1991 issues.
(3) K T Li (1988), *The Evolution of Policy behind Taiwan's Development Success*, Yale University Press, New Haven.

Philippines the slowest among them with about 5.5 per cent growth (Table 1).

III
Policy Reforms between Oil Shocks

The first phase of trade policy reforms belonged to the NICs. In particular, the experiments of Korea and to a lesser extent those of Taiwan at export promotion and rapid growth while at the same time maintaining quantitative restrictions and high tariffs heralded a new strategy of trade and industrialisation. It was a via media between complete *laissez-faire* or free trade regime of countries like Hong Kong and the highly inward-oriented regimes found in, say, south Asia. In many respects, this strategy could be characterised as a 'dual-track' trade strategy, i e, one of maintaining relatively high tariffs and even quantitative restrictions on imports on the one hand and yet maintaining domestic exporters' competitiveness in the international market through a set of strong but conditional and time-bound export incentive measures. This is protection coupled with competition [Wade 1988]. The real test of the strategy and its resilience came in the decade following the first oil shock, a decade in which the world economic environment not only turned adverse but also kept changing almost continuously.

By about the early 1970s, all the three countries, Korea, Taiwan and Singapore were finding it difficult to sustain high growth rates of labour-intensive, light manufactured exports. The rapid economic growth and the consequent growth of employment of the previous decade was leading to tightening of the labour markets and hence an increase in the wage rates. This tended to increase labour costs and reduce the international competitiveness of traditional, labour-intensive manufactured exports. At the same time, worsening balance of payments, rising inflation and unemployment in Europe and the US were forcing them to impose additional non-tariff barriers, discriminating against the exports of the Asian NICs. All these problems were compounded by the oil shock in 1973. These posed fresh challenges to the NICs. The key challenge was one of furthering the trade and exchange reforms initiated in the earlier decade but at the same time shifting the output-mix and exports towards more skill and capital-intensive manufactures.

The policy responses to these challenges varied substantially across the three NICs. Taiwan responded primarily by a two-fold strategy: (i) speeding up the trade and exchange liberalisation process which it had initiated in the earlier decade, and (ii) launching a 210 hectare science-based industrial park, which was a duty-free, bonded area reserved for the operation of high-technology firms—a version of Taiwan's earlier decade's export processing zones. The first of these measures was intended to improve the overall competitiveness of the Taiwanese economy and the second especially aimed at encouraging the production and the exports of more skill and capital-intensive manufactures.

The speeding up of trade liberalisation took the form of near-elimination of quantitative restrictions on imports and a reduction in both the level and dispersion of tariffs. By 1975, Taiwan had eliminated almost all quantitative restrictions on imports; more than 96 per cent of over 15,000 import items were free from quantitative restrictions [Reidel 1988]. In addition, both the level and the dispersion of the tariff rates were substantially reduced [Balassa 1981]. These import liberalisations were also accompanied by a reduction in the export incentives of the earlier regime. Already in December 1970 the 10 per cent income tax deduction available for exporters had been abolished. This was followed by discontinuation of other subsidies for exports. Overall, export incentives which constituted about 14 per cent of the value of exports in 1970-71 was gradually reduced to about 8 per cent by 1976 [Lee and Liang, 1982]. In another major step, the Taiwanese government floated the foreign exchange rate in 1978 [Li, 1988].

The responses of Korea and Singapore differed somewhat from that of Taiwan. Both these resorted to greater state intervention to shift resources away from labour-intensive to skill and capital-intensive sectors. Korean government intervened heavily in the capital market and the foreign trade regime whereas the Singapore government intervened in the labour market. Korea embarked on a trade and industrialisation policy that encouraged the setting up of heavy industries such as steel, industrial chemicals and heavy machinery. Two key instruments were used for this. First, credit for setting up or expansion of these industries was provided at artificially low interest rates. Secondly, selective import controls and tariffs were imposed on the import of these product categories. Like Korea, the Singapore government resorted to direct intervention. But since Singapore had a more open and globally linked capital market, the government had to intervene in the labour market and not in the capital market. In order to redirect domestic investment away from labour-intensive to capital-intensive and skill-intensive industries, the Singapore government raised the level of legal wages by as much as 80 per cent between 1979 and 1981 [James et al 1989]. This was supplemented by measures to upgrade the skills of the labour force.

The oil shock posed problems for the ASEAN-4 too, although the nature of the problem differed substantially across coun-

TABLE 2: GROSS DOMESTIC INVESTMENT AND SAVINGS

(Per cent of GDP)

Country	1964-65	1972-73	1979-80	1985-86	1989-90
Hong Kong	36.6 (27.1)	24.3 (27.4)	35.1 (31.3)	22.9 (27.9)	26.8 (34.7)
Singapore	21.9 (11.8)	40.4 (27.0)	44.9 (30.9)	40.5 (40.0)	36.0 (43.4)
Korea	14.6 (7.1)	22.6 (18.9)	33.3 (25.8)	28.8 (32.3)	35.3 (35.2)
Taiwan	20.8 (14.3)	27.5 (26.3)	33.8 (25.7)	18.3 (35.1)	22.4 (29.4)
Indonesia	11.0 (10.9)	21.3 (22.6)	25.5 (35.3)	28.2 (28.6)	35.0 (37.3)
Malaysia	19.9 (22.9)	24.5 (26.6)	29.7 (35.3)	26.8 (32.4)	31.0 (34.0)
Philippines	20.9 (20.7)	19.7 (21.1)	30.9 (25.1)	13.4 (16.4)	18.4 (17.1)
Thailand	23.1 (20.7)	24.3 (22.9)	26.8 (20.3)	23.0 (21.1)	33.2 (31.6)
India	18.1 (15.6)	18.5 (18.0)	24.3 (21.3)	25.1 (19.8)	23.8 (21.4)
Pakistan	20.5 (12.8)	13.6 (9.7)	18.2 (—)	18.6 (8.6)	18.8 (12.9)
Sri Lanka	12.8 (10.6)	15.5 (14.1)	29.8 (12.5)	24.3 (11.1)	22.2 (12.4)

Notes: (1) For Singapore and Thailand, figures in Column 1 are averages for 1965 and 1966.
(2) Unbracketed figures are on investment and the bracketed figures are on domestic savings.
Sources: Same as of Table 1.

TABLE 3: MERCHANDISE EXPORTS AND IMPORTS

(in billion US $)

Country	1964	1973	1980	1986	1990
Hong Kong	1.01 (1.50)	5.07 (5.66)	19.75 (22.45)	35.42 (35.36)	82.87 (82.97)
Singapore	0.91 (1.14)	3.65 (5.13)	19.38 (24.01)	21.34 (23.40)	49.29 (52.11)
Korea	0.12 (0.40)	3.23 (4.24)	17.51 (22.29)	33.91 (29.71)	64.00 (64.48)
Taiwan	0.43 (0.43)	4.48 (3.79)	19.81 (19.73)	39.55 (22.63)	66.24 (52.70)
Indonesia	0.72 (0.68)	3.21 (2.73)	21.91 (10.83)	14.40 (11.94)	25.71 (19.15)
Malaysia	1.10 (1.04)	3.05 (2.45)	12.96 (10.82)	13.55 (10.30)	28.70 (26.16)
Philippines	0.67 (0.87)	1.89 (1.80)	5.74 (8.29)	4.84 (5.04)	8.20 (12.11)
Thailand	0.60 (0.68)	1.56 (2.05)	6.51 (9.21)	8.80 (8.41)	23.40 (28.09)
India	1.70 (2.87)	2.92 (3.21)	8.56 (14.86)	10.25 (15.69)	18.15 (26.00)
Pakistan	0.43 (1.00)	0.96 (0.97)	2.62 (5.35)	3.19 (5.97)	4.99 (7.26)
Sri Lanka	0.39 (0.42)	0.41 (0.43)	1.07 (2.04)	1.21 (1.97)	1.83 (2.50)

Note: The unbracketed figures are exports and the bracketed figures are imports.
Sources: Same as of Table 1.

tries. Among them, the Philippines and Thailand were net oil importers whereas the other two, Indonesia and Malaysia, net oil exporters. Like many countries in the region, the former faced terms of trade losses and the associated financing problems but the latter had terms of trade gains; these windfall gains, however, caused the familiar problem of Dutch-disease: appreciation of the domestic currency and the associated disincentives for the traded goods sector. The windfalls that followed the oil price hikes largely postponed trade reforms in Indonesia, which then had perhaps the largest anti-export bias in trade policy among the ASEAN-4. Malaysia, the other net exporter of oil also did not attempt any major trade and commercial policy reforms, although it already had perhaps the least protected industrial sector among the ASEAN-4.

In an effort to adjust to the increased oil import bill, both Thailand and the Philippines implemented measures to encourage manufactured exports. Towards this end, the then existing export controls were relaxed and a number of export taxes were either abolished or reduced. However, neither of them attempted any major tariff cut. To mitigate the anti-export bias of high tariffs, both the countries experimented with a set of incentives for exporters somewhat similar to the ones which had been introduced by Korea and Taiwan in the mid-1960s: allowed duty-free imports of inputs, special rebates on income and turnover taxes and access to liberal credit facilities. In addition to these export incentives, the Philippines devalued its currency, but because of the failure to contain the domestic inflation rate, the real depreciation following the nominal devaluation was largely negligible. Overall, the trade policy changes attempted by Thailand and the Philippines in the mid-1970s could be characterised as an experiment with a milder version of the 'dual-track' strategy that had been implemented by Korea and Taiwan about a decade earlier.

For most south Asian countries, the deterioration of the terms of trade following the first oil shock led to worsening trade deficits. However, the increase in the oil price and the consequent boom in the Middle east also had a favourable effect on these countries: substantial increase in the foreign exchange remittances from the south Asian nationals, working in the Middle east. To some extent, these remittances enabled them to finance their enlarged trade deficits. In fact, within about four years of the first oil shock, India, the largest country in south Asia, was running a current account surplus along with fairly comfortable foreign exchange reserves.

The adjustment to the first oil shock was, therefore, reasonably smooth in most south Asian countries. Yet, ever since the mid-1960s, industrial growth had been extremely sluggish in most parts of south Asia [James et al 1989]. More importantly, by the mid-1970s, key parts of the industrial sectors in most of these countries were inefficient and technologically backward. The technological gap between domestic industry and the international economy was posing the biggest constraint on the growth of manufactured exports from the region. Around this time, empirical evidence from a large number of developing countries also indicated that, as compared to inward-oriented trade regimes, outward-oriented trade regimes not only foster exports but also help achieve a more efficient resource use and hence rapid economic growth [for example, Donges and Reidel 1977 and Krueger 1978]. All these provided the initial impetus to a series of, among other things, trade policy changes in the south Asian region for about a decade or so, roughly spanning the period since the late 1970s. By the standards of their east Asian counterparts, these policy changes were however, quite moderate, limited mainly to procedural simplification of the regulatory apparatus governing foreign trade and the introduction of a few export incentive measures. Neither did it attempt any large-scale relaxation of the quantitative restrictions on imports nor any substantial tariff cuts. Sri Lanka was the only exception to this general trend.

In 1977, the new government which was elected to power in Sri Lanka introduced significant policy initiatives at trade liberalisation and domestic deregulation. This was a major policy shift in Sri Lanka after almost two decades of heavy protection and inward-oriented trade regime. On trade policy, most quantitative restrictions on imports were replaced by tariffs and the tariff structure itself was simplified. The new tariff structure had six bands, with rates varying between zero on essential consumer goods (like rice, flour and drugs) and 500 per cent on luxury items. The then prevalent dual exchange rate system was abolished, the exchange rates were unified and was devalued by about 50 per cent. Controls on foreign exchange transactions and repatriation of profits were eased and an industrial free trade zone was also established [World Bank 1987 and Aghelivi et al 1988].

During the decade following the first oil shock, most of the Asian developing countries were painfully adjusting to the continuous external shocks—the collapse of the Bretton Woods, the two oil shocks and the world-wide recessions following them, the tightening of the international capital markets and later on, the decline in the primary commodity prices. In a way, therefore, many of these countries were engaged in fire-fighting operations most of the time. Overall, therefore, trade and external sector reforms proceeded at much slower pace during this phase than in the earlier phase, perhaps the key exception being Taiwan and Sri Lanka. Korea had even reversed some of the trade liberalisation measures initiated in the earlier decade and had resorted to greater state intervention in an attempt to shift the output-mix and exports towards skill and capital-intensive products. Similarly, Singapore resorted to direct intervention in the labour market to tilt factor prices against labour in an attempt to change the composition of output and exports in favour of capital and skill-intensive products.

In spite of the adverse and continuously changing external economic environment, the NICs maintained an average growth rate of about 9 per cent during the period 1973-80 [Table 1]. Although this was lower than the growth rate achieved by them in the period between 1965 to 1973, the NICs grew faster than the other countries in the region. Like in the previous decade, therefore, the more outward-oriented NICs grew at a faster rate than the ASEAN-4 and the latter, in turn, grew faster than the strongly inward-oriented south Asian countries. In spite of this impressive growth performance of the region, by the end of the 1970s and the early 1980s, quite a few countries were facing problems of high inflation, widening current account deficits and the associated balance of payments problems. It looked as if many of the countries were 'stretched to the limit' by the need to continuously adjust to the unfolding adverse external shocks of the 1970s.

IV

Reforms since Early 1980s

By the late 1970s, even Korea, the star performer in the region for about one and half decades since the mid-1960s was facing widening structural imbalances: high inflation, excess capacity, high unemployment and worsening current account deficit and increased debt-servicing ratio. To some extent, these imbalances could be attributed to the Korean government's interventions in the capital market and the trade regime initiated in the mid-70s [Aghelvi and Marquez-Ruarte 1985].

As part of this strategy, not only that substantial subsidised loans had been granted to investors in heavy and chemical industries but also that the level of protection to these industries had been raised by increased tariffs. The availability of cheap credit, combined with an overly optimistic assessment of domestic and world market prospects, resulted in a duplication of investment by competing companies and the creation of excess capacity in most of the heavy industries. At the same time, the neglect of labour-intensive, light manufacturing industries had weakened the efforts to improve the quality of traditional exports. These structural problems were aggravated by rapid growth in domestic credit resulting in considerable excess liquidity. This pushed up aggregate demand which, in turn, put pressure on

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RIGHTS ISSUE AT PAR

HIGHLIGHTS

• An existing, profit making, dividend paying Company. • Promoters with proven track record. • Expansion of existing Super Enamelled Copper Wires and Bare Wires manufacturing activity. • Low gestation period - Commercial production for additional capacity to commence by April, 1994. • Tax benefits U/s 80 L, 80 M and 80 IA of the Income Tax Act, 1961. • Backward Area Benefits. • Easy Liquidity listing at Bombay, Madhya Pradesh, Ahmedabad and Delhi Stock Exchanges.

RISK FACTORS

• The project has not been appraised by any financial institution/bank and the estimated cost of project and other projections are based on the company's own estimates. • In the absence of stake of any financial institution/bank there will be no monitoring of the funds raised through this issue and deployment of funds raised through this issue is left entirely to the promoters. • The company foresees competition from the manufacturers of copper winding wire. However, management perceives that with supplies to original equipment manufacturers, the company will be able to counter the competition. • The Company is yet to obtain sanction for additional power requirement for the aforesaid project from State Electricity Board. The necessary application for the purpose has been made. • The Company is yet to obtain No Objection Certificate from the concerned Pollution Control Board for the proposed project. The necessary application for the purpose has been made. • The investors are advised to refer to paras on 'PREVIOUS ISSUE' and on 'PERFORMANCE' VIS-A-VIS 'PROMISES' relating to previous issue appearing on page no. 12 before making any investment decision. • The Company made a Public Issue in November, 1992. The listing of the shares was delayed by more than 4 months in all Exchanges other than the regional Exchanges. The commercial production of the project was also delayed by 3 months.

The Investors are advised to refer to the para on Stock Market Data before making a decision to invest in this Issue.

ISSUE OF 32,50,000 EQUITY SHARES OF Rs. 10/- EACH FOR CASH AT PAR AGGREGATED TO Rs. 3,25,00,000 ON 'RIGHTS' BASIS TO THE EQUITY SHARE HOLDERS.

If the Company does not receive the minimum subscription amount of 90% of the issued amount including devolvement of underwriters where issue is underwritten, within 90 days from the date of closing of the issue, the Company shall refund entire subscription amount within 8 days, with interest for delay beyond 78 days from the date of closure of the issue as per Section 73 of the Companies Act, 1956.

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LAST DATE FOR RECEIVING REQUEST FOR SPLIT FORMS : FEBRUARY 11, 1994

ISSUE OPEN

Concept

inflation and nominal wages, both of which eroded Korea's external competitiveness. The underlying stresses and strains were exacerbated in 1980 by a disastrous harvest, the rise in international oil price and interest rates and domestic political disturbances. Consequently, Korea's economic performance worsened sharply and GDP declined in 1980 for the first time in Korea's modern history [Aghelvi and Marquez-Ruarte 1985].

In response to these emerging problems, the Korean government introduced a series of stabilisation and structural adjustment measures. As part of this programme, the government liberalised the trade and exchange system. Since December 1974, the Korean won had been pegged to the US dollar. In 1980, the government devalued the won by 17 per cent and introduced a more flexible exchange rate regime by linking the won to a basket of currencies. Following this, import liberalisation which had been somewhat halted since the mid-1970s was resumed in 1983-84, in spite of an adverse climate in export markets. The import liberalisation programme had two basic components: a gradual reduction in the percentage of imports subject to licensing and a phased reduction in the tariff rates. During 1983, about 300 items were shifted from the category of imports requiring licensing. This raised the proportion of unrestricted imports to total imports to about 80 per cent. In 1984, this ratio was raised to 85 per cent. Subsequently, the government announced a five-year import liberalisation plan with the aim of raising the proportion of unrestricted imports to 95 per cent by 1988. The items of imports to be freed from quantitative restrictions included machinery, electronics, textiles, petrochemicals, chemicals, steel and metal products. The government also announced a five-year programme of tariff reform. Under this programme, the average (unweighted) tariff rate was reduced from 32 per cent in 1982 to 22 per cent in 1985 and was expected to be reduced to 18 per cent by 1988 [Aghelvi and Marquez Ruarte 1985 and World Bank 1987b]. In addition, the dispersion of the tariff rates was also narrowed substantially from a range of 0 to 100 per cent to a uniform rate of 20 per cent for finished products and 5 to 10 per cent for raw materials.

By the late 1980s, most of these proposed trade reforms had been carried out in Korea. Following this mid-course correction, economic growth was put back on track by the mid-1980s and for the first time Korea experienced a current account surplus in 1986. Substantial current account surpluses since then has enabled Korea to repay the large chunk of its external debt. Following this comfortable balance of payments position, Korea has relaxed some of the restrictions on the capital account transactions in recent years, especially on outward remittances of foreign exchange [James 1991]. Consequently, Korea has emerged as a significant foreign investor in recent years [Hill 1990].

The need for mid-course correction of trade and exchange rate policy was relatively less in Taiwan than in Korea mainly because of what Ranis calls the linearity of policy evolution in Taiwan [Ranis 1988]. Trade liberalisation in Taiwan was initiated in early 1960s and gathered momentum through time in small cumulative steps rather than by large leaps and bounds, but each step was in the general direction of a freer trade and exchange payments regime. Compared to Korea, there were not many policy reversals in Taiwan throughout the two decades since the early 1960s. In the 1980s, Taiwan generally continued its linearity of trade policy reforms.

By 1975, about 96 per cent of the imported items in Taiwan was already out of the fold of quantitative restrictions. By 1983, not only was quantitative restrictions on imports fully eliminated but tariffs were also reduced substantially. In addition, following the floating of the exchange rate in 1978, in 1983 commercial banks were given the right to act as agents for buying and selling foreign exchange; ending the Central Bank's monopoly and making the exchange rate more fully reflective of market forces. Furthermore, in July 1987, foreign exchange was fully decontrolled [Li 1988]. Since then, capital account transactions have been greatly liberalised enabling a freer transborder capital flows. In recent years, like Korea, Taiwan has emerged as a major exporter of relatively capital and skill-intensive products as well as a major overseas investor in the region.

By the early 1980s, Singapore had a highly open trade and exchange regime comparable to that of Hong Kong with an average tariff rate of only about 5-6 per cent. In addition, through a system of compulsory contractual savings, Singapore had also attained exceptionally high domestic savings rate of over 40 per cent, the highest savings rate among the NICs. It appears that these two factors—an open trade and exchange regime and an exceptionally high domestic savings rate—helped Singapore's high wage policy of the early 1980s to effect significant shift in the country's product and export mix in favour of capital and skill-intensive products, without causing undue structural imbalances. Without the very high domestic savings rate, the relatively smooth graduation of Singapore from being an exporter of labour-intensive light manufactures to an exporter of capital and skill-intensive products would have been fraught with major structural problems.

The structural imbalances emerging among the ASEAN-4 in the first half of the 1980s were far more serious than even those of Korea. The onset of the second oil shock, the subsequent world recession, and the surge of interest rates have put severe strains on these economies. The final blow cai when primary commodity prices crashed in the international market. To a large extent, until the late 1970s, primary commodity exports has been one of the major sources of foreign exchange earnings for most of these countries. With primary commodity prices remaining depressed for quite a while in the early 1980s, most of these countries found themselves in trouble. In Indonesia and Malaysia, because of their oil exports, the problem was less severe initially but by mid-1980s, the international price of oil also fell sharply from about $ 35 per barrel in January 1981 to $ 14.5 per barrel in March 1986 and further to an all-time low of $ 10 per barrel in August 1986. This caused severe terms of trade losses to these countries, especially Indonesia whose terms of trade declined by more than 30 per cent between 1981 and 1986. Between 1980 and the mid-1980s export earnings fell in Indonesia, Malaysia and the Philippines whereas it increased marginally in Thailand (Table 3). Since imports remained more or less unchanged during this period, trade imbalance worsened considerably among the ASEAN-4. All these led to a sharp increase in the current account deficits and a decline in the average growth rates of these countries in the first half of the 1980s. For example, Indonesia, Malaysia and Thailand which had grown at annual average rates of 7 to 8 per cent between 1974 and 1980, grew at only about 5 per cent between 1981 and 1986; the Philippines, in fact, experienced a virtual stagnation of GDP during this period (Table 1). During the first half of the 1980s, there was, therefore, increasing recognition among these economies that without substantial policy reforms, it would be difficult to put their respective economies back on a high and sustainable growth path. In response, most of these countries, effected significant trade and exchange reforms.

The Philippines was the first to attempt a set of trade policy reforms. In 1980, it had planned a five-year trade reform programme with three key elements; removal of import restrictions, restructuring tariffs and strengthening export incentives. Between 1980 and 1982, the average nominal tariff rate was reduced from 41 per cent to 28 per cent and the dispersion in rates was narrowed from 0-100 per cent to 10-50 per cent. A large number of consumer goods were also removed from the banned import list. To strengthen export performance as well as arrest capital flight, Philippine peso was allowed to depreciate three times between 1983-84 and by October 1984, the government floated the exchange rate. However, with the eruption of balance of payments crisis and the high domestic inflation, the import liberalisation programme was given up in 1983. In fact, the number of items subject to prior approval by the government and the number of items subject to quantita-

tive restrictions increased and the system of approval of imports became more restrictive, neutralising the effects of the earlier reforms.

Trade liberalisation was resumed in 1986, following a major stabilisation programme. In 1986, 936 items which accounted for about 62 per cent of the items subject to quantitative restrictions were taken out of the fold of import controls. Between 1986 and 1991, quantitative restrictions and licensing requirements were lifted on about 1,500 import items. As of September 1991, only 260 import items were subject to quantitative restrictions. In addition, a second phase of tariff reform was initiated in July 1991, providing for a simplified and more uniform tariff structure, with the number of rates reduced from seven to four and the tariff band narrowed down from 10-50 per cent to 3-30 per cent.

Beginning in 1982, Thailand initiated a set of trade reform measures. Since quantitative restrictions were less pervasive and tariffs and the exchange rate were the primary instruments of import control in Thailand, these reforms focused almost exclusively on tariff reductions and exchange rate adjustment. Average nominal tariffs were reduced substantially and the ceiling rate was set at 60 per cent [World Bank 1987b]. This, was, however, shortly followed by the introduction of a general import surcharge. This surcharge was continued until 1984-85 mainly for revenue considerations. In November 1984, the Thai baht was devalued by about 15 per cent (against the US dollar). At the same time, the exchange rate which until then has been pegged to the US dollar was subsequently pegged to a basket of currencies with some flexibility to adjust in accordance with the balance of payments development [Leeahtam 1991]. Following these exchange rate adjustments, the temporary import surcharge was abolished. Since the mid-1980s Thailand has taken several significant measures in small steps including a gradual reduction in the level and the dispersion of tariffs and a fairly liberal policy on foreign investment. Since April 1991, Thailand has also liberalised the external capital account transactions a great deal [Robinson et al 1991]. All these have continuously moved the trade and exchange regime towards greater openness—something comparable to the linearity of policy evolution in Taiwan in the earlier decades. This has contributed in no small measure to Thailand's double-digit annual rate of growth since 1987.

Indonesia's trade reform measures of the 1980s were, by far, the most ambitious among the ASEAN-4. For long, Indonesia had a fairly open capital account with very few foreign exchange controls. There was no surrender requirement for export proceeds, nor tax or subsidy on the purchase and sale of foreign exchange. However, Indonesia's trade regime continued to be highly protective. By 1984, its import regime was characterised by disparate tariff rates, with an average rate of 33 per cent and a range between 0 and 225 per cent. It also had non-tariff import restrictions that covered about 20 per cent of all import categories [World Bank 1987]. In March 1985, the Indonesian government announced an across-the-board reduction in the range and level of nominal tariffs. The tariff ceiling was reduced from 225 per cent to 60 per cent, with tariffs for most products ranging from 5 to 35 per cent. These tariff reforms were also complemented by relaxing import licensing as well as the introduction of a package of measures designed to provide inputs to exporters at international prices. In another significant step, the Indonesian government initiated a major overhaul of the customs system and procedures, by placing the job of certifying and assessing tariffs in the hands of private, foreign surveyors.

These trade reforms have been supported by an aggressive exchange rate management and a liberal policy towards foreign investment by the Indonesian government. In fact, as a prelude to the trade liberalisation of the early 1980s, the Indonesian rupiah had been devalued by 34 per cent against the US dollar in November 1978. At the same time, the Indonesian government shifted from pegging the exchange rate to the US dollar to a managed float with the exchange rate determined by a basket of currencies. The rupiah was devalued by about 50 per cent in March 1983 and by another 50 per cent in September 1986 [Soesastro 1989].

For a long time, Malaysia had a fairly open trade regime. First, quantitative restrictions on imports were generally unimportant in Malaysia. The number of items subject to quantitative restrictions which was already fairly low at 110 in 1978 was further lowered to 12 by 1982. Secondly, the average tariff rate was also quite low at about 15 per cent, in comparison to about 30 per cent in Thailand, 33 per cent in Indonesia and over 40 per cent in the Philippines [Kraus and Lutkenherst 1986]. Hence, the policy reforms in Malaysia since the mid-1980s have generally concentrated on domestic deregulation. On the trade and exchange regime, the key measures that have been taken are the promotion of free trade zones and the liberalisation of the foreign investment policy. With the liberalised foreign investment policy, foreign investors are now allowed to hold equity up to 100 per cent principally in export-oriented industries.

For almost a decade since the late 1970s, many countries in south Asia have been attempting to reform, among other things, their highly inward-oriented trade and exchange regimes. However, except for Sri Lanka's reforms in 1977, most of these attempts were limited largely to the introduction of a few export-incentive measures, some relaxation of the import controls and a somewhat more flexible exchange rate management. These policy changes never constituted a package of reforms bold enough to reverse the anti-export bias of the trade regime and take it anywhere near the degree of openness achieved by the east and south-east Asian countries.

Even these somewhat partial attempts at liberalisation were yielding fruits in some of the countries (notably India and Pakistan) in that these countries had moved on to a higher growth path in the 1980s and export growth was respectable especially since the mid-1980s (Tables 1 and 3). However, the higher growth of south Asian countries in the 1980s has been accompanied by relatively high inflation, worsening balance of payments and sharply increasing debt-servicing as well as debt-to-exports ratios. This was in contrast to the experience of most east and south-east Asian countries which (with the exception of the Philippines and to certain extent Indonesia) were successful in reducing the inflation rate as well as in keeping external debt and debt-servicing within sustainable limits. In fact, by 1989, the external debt servicing ratio of India was about 26 per cent, and of Pakistan 23 per cent. In addition, the stock of external debt as a percentage of receipts from exports of goods and services, was about 250 per cent both in India and Pakistan [World Bank 1991]. Hence by late 1980s and early 1990s, many south Asian countries had structural imbalances and balance of payments problems of near crisis proportions. These countries could not postpone fundamental structural adjustment anymore. Hence, roughly beginning in 1989, they undertook significant macro-economic policy reforms.

In Sri Lanka, partly due to the postponement of the required policy reforms and partly due to the ethnic conflict and political violence, growth had suffered during the second half of the 1980s (Table 1). At the same time, inflation was running high and the balance of payments was under severe pressure. By 1989, foreign exchange reserves were worth only about three weeks' imports and the fiscal deficit was over 15 per cent of GDP. The new government, which took office in 1989, therefore, was confronted with a potential financial crisis. This prompted the government to embark on a serious economic restructuring programme in mid-1989. As a part of this adjustment programme, a few key trade policy measures were initiated. Besides a 14 per cent devaluation of the Sri Lankan rupee, the programme envisaged reduction of the nominal tariffs on non-agricultural goods to 50 per cent in 1991, introduction of a four-band tariff schedule by 1990-92 and elimination of all restrictions on foreign equity participation. By now, most of these measures have been implemented.

In Pakistan and India, domestic prices and balance of payments were under severe

pressure towards the end of the 1980s, though both the countries still maintained annual rates of growth of over 5 per cent. The Gulf crisis further aggravated these problems. The political situation in these countries also became somewhat fluid with frequent changes in the governments and the consequent postponement and uncertainty of economic policy reforms. Hence, the new governments which took office in early 1990s (in November 1990 in Pakistan and June 1991 in India), were faced with economic problems which required not only drastic but also quick changes in economic policy. The governments of both the countries, therefore, initiated wide-ranging policy reforms immediately after assuming office.

In Pakistan, the new government that assumed office in November, 1990 undertook far-reaching reforms in the areas of deregulation and privatisation, industrial and trade policy, foreign investment, exchange and payments system. Trade policy has been liberalised with a reduction in the number of items requiring import licensing and a reduction in the maximum tariff rate from 125 per cent to 90 per cent. At the same time, a number of measures to promote exports have been initiated; besides streamlining existing export promotion schemes, these include priority to exporters in the provision of electricity, deregulation of charter of cargo flights and improved port facilities for exporters. The liberalisation of the capital account of the balance of payments is even more radical than that of the trade account. Besides a liberal foreign investment policy, these capital account reforms include a major liberalisation of the exchange and the payments system.

Foreigners and overseas Pakistanis are now allowed to make investments in Pakistan without any prior approval except in a few industries for security and social reasons. In addition, foreign investors can own equity up to 100 per cent in a venture and can purchase equity in existing companies on a repatriable basis. Dividend and original investment can be remitted abroad at any time and an act of parliament protects all foreign investment against nationalisation. Foreign companies are also free to determine the mode and the level of transfer of technology and restrictions on the payment of royalty and technical fees have been eliminated. In another significant step, the government has allowed the establishment of foreign trading houses which can freely engage in the export trade. In addition, access to borrowings by foreign companies has been greatly liberalised; no restrictions on foreign borrowing where no government guarantee is required and much fewer where it is.

With the easing of the exchange and the payments systems, resident Pakistanis can now maintain foreign currency accounts on the same basis as non-residents and those holding such accounts are allowed to obtain rupee loans against these accounts. The government has introduced US dollar denominated bearer certificates with a rate of return of a quarter per cent above the relevant LIBOR. These certificates can be purchased by anyone, whether residing in Pakistan or abroad, through payment in foreign exchange. In another major step, licences are being issued to set up money changers within the country. With these reforms, Pakistan has substantially dismantled foreign exchange restrictions of the earlier regime.

In India, by June 1991 when the new government took office, inflation was running high and the balance of payments was under unprecedented pressure. The country's foreign exchange reserves were not enough to finance even a month's imports, export growth was showing down, external debt servicing was posing problems and above all there was a great weakening of international confidence in the Indian economy. In response, the new government implemented a series of adjustment policies. As a first step towards correcting the worsening balance of payments situations, the Indian rupee was devalued by about 20 per cent in early July 1991. This was followed by significant changes in policies regarding foreign trade, foreign investment and industrial licensing. Besides the devaluation of the Indian rupee, the key measures in the area of trade policy are a significant reduction in the quantitative restrictions on imports, and a plan to gradually reduce tariffs.

Within a year of initiating the reforms, the import policy regime was revamped by shifting a large number of items outside the purview of import licensing. All items except for a "negative list" are now freely importable provided the foreign exchange for these imports are obtained from the market. After experimenting with a dual exchange rate system for about a year, in March 1993 the government unified the exchange rates. The exchange rate is now determined largely by market forces. In effect, the Indian rupee is convertible on the trade account. Along with these the government has dispensed with cash subsidy for exports that existed earlier. As a step towards a gradual reduction in the tariffs, in July 1991, the maximum rate of import duty was reduced from more than 300 per cent to 150 per cent. By March 1993, the maximum tariff rate has been further reduced to 85 per cent. The Eighth Five-Year Plan Document released in July 1992 has proposed further liberalisation of the trade regime. It is proposed that the terminal year of the plan, i e, fiscal year 1996-97, the negative list of imports should contain only items which would be banned for reasons such as environment and safety. By the mid-1990s, the average tariff rate is proposed to be brought down to about 25 per cent.

An integral part of the reform package in India has been a set of measures aimed at a freer flow of foreign investment. Specific measures in this direction are: (i) automatic approval to foreign technology collaboration as well as foreign equity participation up to 51 per cent of the paid-up capital in about 34 product categories, (ii) 100 per cent foreign equity participation in key infrastructure sectors like power, (iii) delinking technology transfer from equity investment to impart flexibility in sourcing technology imports for firms, and (iv) a liberal policy on foreign portfolio investment in Indian stock exchanges.

With south Asian countries initiating substantial policy changes to move their trade and exchange regime towards greater outward-orientation and openness, the polarisation of developing Asia on trade and external sector policies witnessed during the 60s and the 70s has come to an end. At present, most of the developing countries in Asia are at different stages of integrating their respective economies with the world economy, be it through trade, technology transfer or transborder capital flows. The integration of NICs in the world economy is at an advanced stage, and the ASEAN-4, especially Malaysia. Indonesia and Thailand are moving fast in that direction whereas the process of integration has just about begun in the case of south Asian countries.

V
Lessons and Challenges

Several lessons can be drawn from the evolution of trade and commercial policy among the developing Asian countries during the last three decades.

First and foremost, the Asian experience shows that a dynamic manufacturing export sector is almost a prerequisite to sustained industrialisation of developing countries. Fostering such an export sector, in turn, requires a broad set of trade and exchange policies. First, it requires an exchange rate policy under which the return to tradable goods sector adequately reflect the value to the economy of the foreign exchange earned or saved. Second, it requires a trade regime—including such specific policies as tariffs, quotas and exchange restrictions which approaches neutrality in that it does not unduly discriminate between production for domestic sales and exports. Over time, different subregions and countries in Asia have realised this and hence there has been a general shift from inward-oriented towards outward-oriented trade and exchange policies. The timing of this shift, or more appropriately the initiation of the shift, has, however, varied a great deal across subregions, with the NICs initiating such a shift as early as the early to mid-1960s, the ASEAN-4 around the early to mid-1980s and the south Asian countries around late 1980s and early 1990s.

Though the specific imperatives and impulses for such a shift towards outward-oriented trade and exchange regime has been somewhat country-specific, including the size of the domestic market and the ideological stance of the country, the ultimate impulse has been a balance of payments crisis or more specifically the inability to expand primary commodity exports and/or the drying up of softer external financing sources, such as foreign aid or expatriate foreign exchange remittances. This perhaps explains why the NICs were the first ones to shift towards an outward-oriented trade and exchange regime and the south Asian countries were the last ones to initiate such a shift.

Being small and poorly endowed with natural resources, Taiwan, Korea and Singapore had very limited possibilities of industrialisation through inward-oriented import-substitution policies. This prompted them to shift towards an outward-oriented trade regime fairly early. To some extent, the easier access of Taiwan to foreign aid in the 1950s delayed this shift but as soon as the US announced its intention to phase out foreign aid to Taiwan, it had very little option but to embrace an outward-oriented trade and exchange regime. Similarly, the formation of the Malayan union between the resource-rich Malaysia and the resource-poor Singapore prompted Singapore to go in for an inward-oriented trade regime in the early 1960s. But as soon as the Malayan union broke down, Singapore initiated the shift to an outward-oriented trade regime by the mid-60s. Similarly, the ultimate impulse for drastic changes in trade and exchange policies in Thailand, Malaysia and Indonesia in the mid-1980s was provided by the sharp fall in the international prices of primary commodities—a major source of foreign exchange earnings for these countries.

In south Asia—mainly in India and Pakistan—the policy-shift got further delayed especially because although these countries almost always had balance of payments problems throughout the last three decades, the problem never reached crisis proportions until the early 1990s. In the 50s and the 60s, the balance of payments problems could be managed through substantial flow of foreign aid. The adverse effects of the two oil shocks could be weathered to some extent through large foreign exchange remittances from their nationals in the Middle East. In the second half of the 1980s, India, the largest country in south Asia relied heavily on the international capital market to finance an enlarged current account deficit. But by 1991 even this source of external financing had dried up amidst a balance of payments crisis. This provided the ultimate impulse for drastic trade reforms in India.

Secondly, along with a shift towards outward-orientation, there has been a trend towards decreasing government intervention in the area of trade policy. The governments of early reformers like Taiwan and more importantly Korea had intervened quite extensively, especially during the period when they followed the dual track "strategy of high tariffs and liberal export subsidies". But its very nature, governments had to intervene to administer such a trade strategy. By far, since these governments always kept an eye on international markets and prices and enforced conditional, time-bound and often gradually declining protection to domestic industry, their intervention did not create undue and unending anti-export bias. However, similar interventions by governments in other countries such as the Philippines, Indonesia and notably in most countries of south Asia could not produce the intended benefits. For various reasons, including perhaps political factors, these governments could not implement the 'dual track' strategy efficiently; instead they ended up stiffling exports and industrialisation. Hence, the efforts of these countries in recent years has been to move towards greater outward-orientation but with much less government intervention than was found in, say, Korea at comparable stages of trade and exchange liberalisation. In general, therefore, their objective is to achieve neutrality in trade and exchange policy through minimum restrictions on imports, fewer subsidies for exports and a more uniform tariff structure. All these involve much less government intervention in trade policy.

A third important lesson that can be drawn from the past trade and exchange reforms in the region is with respect to the pace of reforms. In general, early beginners in trade and exchange reforms such as Taiwan and Korea had implemented the reforms somewhat slower than the late comers like the ASEAN-4 or the south Asian countries. In fact, Taiwan took about a decade and half since the initiation of reforms in early 1960s to completely eliminate quantitative restrictions on imports. Korea took even longer, about two decades, to eliminate quantitative restrictions on imports. Similarly, Korea took over two decades, since the initiation of the trade reforms in early 1960s, to liberalise the capital account of the balance of payments. Countries implementing reforms in more recent years seem to be taking a much shorter time to complete the reforms. In general, therefore, there has been a shift away from gradual trade and exchange reforms towards swifter reforms. Three factors seem to have induced this. First, the growing global interdependence among nations not only in trade and technology but also in capital flows; second, the recent movement among developing countries towards market economy and global integration; and the third, the initial conditions of the economies being reformed.

The world today is much more interdependent through technology transfer and capital flows than in the 1960s and the 1970s, when the NICs reformed their trade and external sector policies. Moreover, in the 1960s and the 1970s, perhaps only a handful of developing countries were embarking on a shift from inward-oriented trade and exchange policies towards greater openness and hence the NICs could afford to resort to a very gradual approach to trade and exchange reforms. But in recent years, a whole set of developing countries around the globe, including the erstwhile centrally-planned economies, have been initiating policy measures to integrate their respective economies with the rest of the world. Consequently, the road to global integration today is much more crowded than during the 1960s and the 1970s. In such a situation, it is quite natural that countries intending to integrate their economies with the rest of the world have to be much more agile and swifter in carrying out reforms. In other words, the increased global interdependence and the recent revolution among developing countries towards market economy and global integration has rendered some sort of an urgency to trade and exchange reforms and hence reduced the duration of the transition period. Similarly, larger the accumulated distortions at the time of initiation of the reforms, the quicker would be the pace of reforms needed to correct them. The longer the duration of inward-oriented trade regimes preceding the reforms, the larger, would be these accumulated distortions. Late comers in trade and exchange reforms (such as ASEAN-4 and south Asia), therefore, are almost forced by circumstances to take a shorter time in transition than early beginners like the NICs.

Fourthly, the past experience of trade and exchange reforms in developing Asia does not seem to indicate any unique pattern of sequencing of trade and exchange reforms. Taiwan and Korea have by far followed the generally advocated sequencing, with liberalising the trade and the current account first and only then reducing restrictions on the capital account. To some extent, Thailand has also followed such a sequencing. The main reason given for such a sequencing by its advocates is that capital account liberalisation before trade liberalisation would generally lead to capital flight. However, Indonesia had liberalised the capital account transactions much before it liberalised the trade regime. More recently, Pakistan has also liberalised its capital account quite substantially but before a substantial liberalisation of its trade regime. Other south Asian countries like India seem to be liberalising the trade and capital flows more or less simultaneously.

To some extent, this somewhat unconventional or unorthodox sequencing appears to be due to two factors. First, it is increasingly realised that formal foreign exchange

and capital account restrictions are ineffective in controlling, and if anything even encourage, capital flight through illegal channels. Secondly, it is also being realised that the traditional distinction between foreign exchange flows on the current and the capital account of the balance of payments is getting blurred on account of such factors as underinvoicing/overinvoicing of imports and exports and the illegal diversion of invisible receipts. Both these factors have encouraged recent reformers to liberalise the capital account in the early stages of the reforms. Some limited practical evidence in support of such an unorthodox sequencing is available from Indonesia and more recently from Pakistan. In neither of these countries, easing of exchange controls and the liberalisation of the capital account, (preceding trade liberalisation) has led to large-scale capital flight. To some extent, however, the success of the unorthodox sequencing of reforms in arresting capital flight in Indonesia might have been contingent on a substantial depreciation of the domestic currency and a double-digit domestic interest rate policy.

A fifth lesson that can be drawn from the experience of developing Asia is that late reformers like the ASEAN-4 and the south Asian countries have placed more emphasis on liberalising foreign investment and other capital flows than early reformers like Korea and Taiwan. In their initial phase of reforms spanning almost two decades since the early- to mid-1960s, both Taiwan and Korea concentrated on liberalisation of trade; capital account flows—both inflows and outflows—were fairly strictly controlled during this period. In contrast, both the ASEAN-4 and the south Asian countries have placed more emphasis on liberalising capital flows almost at the beginning stages of trade and external sector reforms. To a large extent, this is a reflection of the changing world economic scenario. Transborder capital flows and the extent of relocation of industries have become much more important in recent years than, say, about two decades ago. Today, there is as much to be gained from a freer flow of capital across borders as from a freer flow of goods. For the Asian region, this has been of special significance ever since Japan started accumulating current account surpluses and relocating industries around the mid-1980s. The process has been further strengthened in more recent years, ever since Taiwan and Korea have also become net capital exporters in the later years of the 1980s. In this changed world scenario, it is only natural that countries initiating reforms have placed more emphasis on liberalising capital flow than the NICs who undertook reforms in the 1960s and the 1970s, when world capital flows were less important than trade flows in integrating nations with the world-economy.

The key future challenge for the region is to sustain the pace of trade and exchange reforms of the recent years. By now, the different subregions as well as countries within each subregion have attained varying degrees of outward-orientation. Therefore, sustaining the pace of trade and exchange reforms means different things to different subregions/countries. In other words, these challenges are of quite a different nature for the NICs than, say, for south Asia or even for the ASEAN-4.

In many respects, the task of sustaining the pace of trade and exchange reforms is most challenging for the south Asian countries. The task is twofolds: first, implementing the recently announced reform measures and second, carrying out further reforms. The former is an immediate challenge and the latter of a somewhat medium-term nature. As for the immediate challenge of sustaining and implementing the recent reform measures, several issues are important.

First, these measures have been introduced at a time when the world-economy is still in recession. As yet, it is uncertain as to when the industrialised countries would recover from the recession. So long as the world recession continues, it is quite uncertain as to whether or not exports from south Asia would pick up, in spite of their recent policy initiatives. Secondly, the possible failure to reach agreements on various key issues in the Uruguay Round of GATT negotiations might lead to no let-up in the protectionist tendencies among the developed countries and this might lead to a slow down in world trade. Stepping up export growth under such circumstances could prove to be extremely difficult. Thirdly, the single European Community Market would also pose uncertainties on the trade prospects between south Asian countries and Europe. This is especially important since European Community forms the single largest market for the exports of many south Asian countries. Fourthly, it is possible that the next few years could witness a tightening of world liquidity as demands on the global pool of savings mount rapidly. The financial needs of eastern Europe and the capital requirements associated with the gradual revival of the Latin American economies would put forward pressure on the demand for funds, which may not be matched by an equivalent rise in world savings. Attracting foreign capital flows under such circumstances for south Asian countries is going to be a quite difficult task in spite of their major attempts at liberalising foreign investment policy. Finally, for a long time now, the Middle East has been an important source of demand for labour from south Asia. The foreign exchange remittances of the south Asian nationals in the Middle East has been of great help in tackling the balance of payments problems of south Asian countries. With the future uncertainty surrounding the Middle East, it is not sure whether and to what extent this avenue would be open to south Asia in the future years. It is possible that all these would continue to put pressure on the balance of payments of south Asian countries. In response, some of these countries may be forced to put brakes on their imports and go slow on implementing the recent trade liberalisation measures. Sustaining the recently announced trade and exchange policy measures under such circumstances would, therefore, pose as the most important immediate challenge for these economies.

Over a somewhat longer time horizon, the key challenge would be one of carrying forward the reform process itself. No doubt, the recently announced reform measures have gone a long way in opening up these economies to the rest of the world. Despite this, the trade and payments regime of most south Asian countries continues to be less open than those of the south-east Asian economies. Both the level and the dispersion of tariff rates in most south Asian countries are higher than in south-east Asia and elsewhere in the world. Movement towards a more uniform tariff structure as well as a general lowering of the level of tariffs itself would appear to be the logical next step in the future efforts at trade policy reforms by south Asian countries. A constant and continuous effort would, therefore, be required by these countries in the future to further liberalise their trade and capital account of the balance of payments. In recent times, many of them have shown keenness on this front. India and Pakistan, the two relatively less open economies in the subregion, for example, have already announced their intentions to gradually reduce their tariffs and to ensure convertibility of their domestic currencies over the next few years. The degree of progress on this front would very much depend upon how the balance of payments of these countries evolves over the next two to three years.

The ASEAN-4 have undertaken major trade and exchange reforms in the 1980s, especially since the mid-1980s. This, among other things, has helped them to step up their manufactured exports and the rate of growth of GDP impressively. Through a combination of trade and exchange reforms and attractive incentives for foreign direct investment in the last few years, the ASEAN-4 have been successful in exporting labour-intensive products, which have been vacated by the NICs. Sustaining this catching-up process is going to be the key challenge for the ASEAN-4 in the 1990s. Further liberalisation of the trade and exchange regime would appear to constitute an important element of any package of measures to address this challenge.

No doubt, their trade and exchange regime today is much more open than that is prevalent in many parts of the developing world. It is also more liberal than the trade

and exchange regimes of Taiwan and Korea at comparable levels of development, particularly in the area of exchange controls and capital account transactions. Yet, in a world of increasing global interdependence, shortening product cycles and rapidly shifting comparative advantage, trade and exchange reforms constitute a continuous process rather than a one-shot effort. It is in this sense that the ASEAN-4 will have to keep up the tempo of the trade and exchange reforms that had been initiated in the 1980s.

A disturbing feature of the development process of some of these countries in recent years has been the tightening of the labour market and the consequent increase in the wage rates in the non-agricultural sector. To some extent, this is due to the increase in labour productivity in the manufacturing sector. But with most of them, except perhaps Malaysia, still having substantial surplus labour in agriculture, they should have been able to transfer this surplus labour to manufacturing and dampen the increase in non-agricultural wages. It, therefore, appears that these countries are hitting the labour-bottleneck at too early a stage of development. This is particularly so in Thailand, where about two-thirds of the labour force is still in agriculture [Villegas 1990]. If the wage rates in non-agriculture continue to rise, it would erode their competitiveness in labour-intensive manufactures, which has been the key to their recent success. Hence, future trade policy reforms in these countries would have to be combined with efforts to remove the constraints on the mobility of labour from agriculture to the non-agricultural sectors.

As for the NICs, most of them are at present at an advanced stage of the most difficult process of economic transformation, that of graduating from the familiar first stage export-orientation (e g, exporting labour-intensive light manufactures and import of capital and intermediate goods) to the second stage export-orientation (i e, exporting capital/technology/knowledge intensive manufactured products and services of various kinds). Historically, this transformation has been less understood and more intriguing than the transition from first-stage import-substitution (during which domestic production is largely concentrated in non-durable consumer goods) to first-stage export-orientation. What is even more important, these countries are in this process of transition in a much more interdependent global environment than, say, when Japan under went this transition in the earlier decades. To that extent, it may pose unexpected challenges for the macro-management of the NICs (Chen 1989 and Hughes 1989].

Their loss of GSP status in the market of the US and Europe and the rising domestic wages is putting tremendous pressure on them to re-locate a large number of traditional labour-intensive industries in other parts of the world, especially in south-east Asia and China. The key challenge facing the NICs are primarily twofolds: furthering the process of relocating industries in which they are losing comparative advantage and penetrating the market of developed countries with more capital-intensive and skill-intensive products. Among other things, this may require special emphasis on developing the skills of their labour force and domestic entrepreneurs. On the trade policy front, there is going to be increasing pressure on some of the NICs to open up their domestic service sectors and to provide tighter protection of intellectual property rights.

[The views expressed in the paper are those of the author and not necessarily of the organisation to which he belongs. The author is thankful to N V Lam for useful discussions on the subject.]

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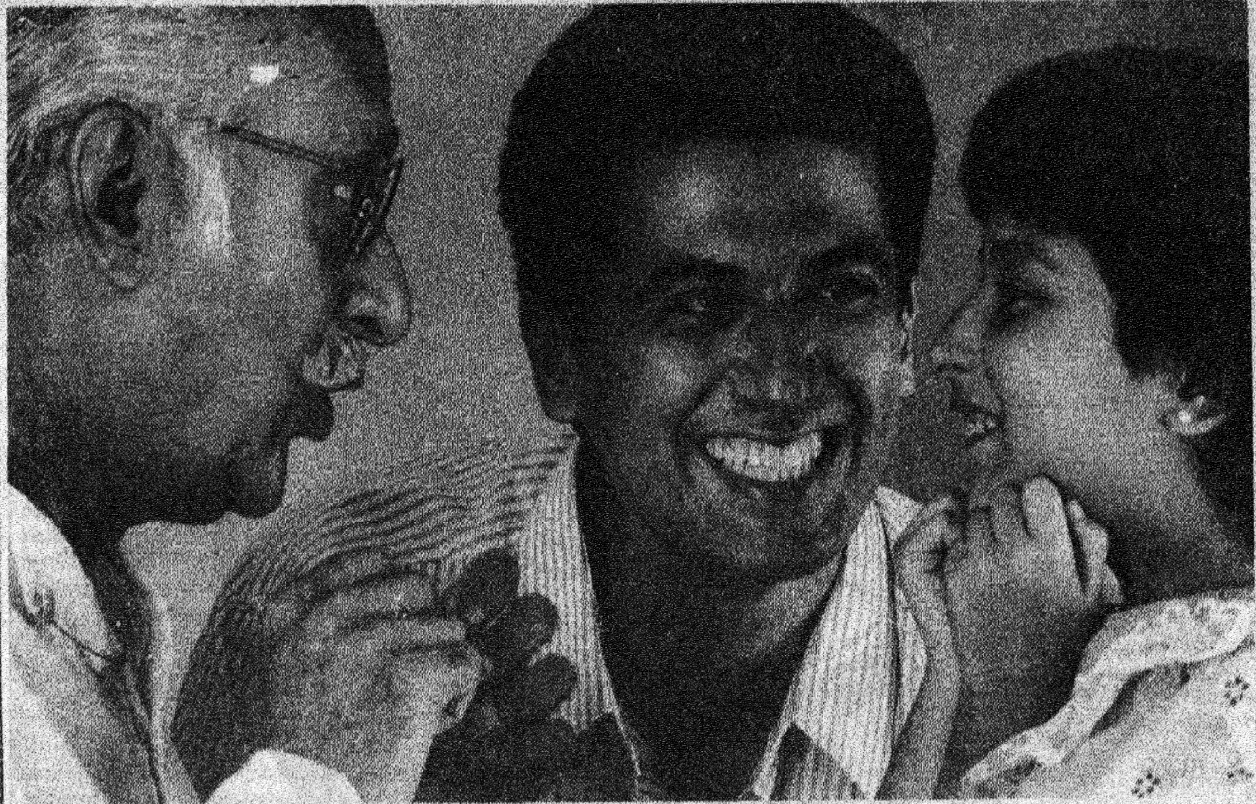

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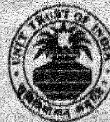

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