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CAPITAL REQUIREMENTS
FOR THE DEVELOPMENT OF
SOUTH AND SOUTH-EAST ASIA

Dr. S. A. ABBAS

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"While choices of fields of inquiry are often subject to personal or erratic factors, they most often reflect the drive for intellectual mastery of the major events that affect mankind. The acuteness of a problem coupled with a realization that insufficient knowledge exists either of its magnitude or of the factors that determine it is a sharp spur to human inquiry and a powerful magnet that attracts efforts in one direction rather than another."

Simon Kuznets, *Problems in the Study of Economic Growth* (New York: Universities National Bureau Committee on Economic Research, 1949), p. 3.

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FOREWORD

The importance of quantitative studies in the field of economic development, especially for the densely populated countries of South and South-East Asia, is realized more and more. In this study Dr. S. A. Abbas has made a useful contribution to this problem by combining a clear analysis with an extensive statistical material. Although there still are considerable difficulties to be overcome, as e.g. the explanation of the low values of the capital coefficient recently found for a number of countries, a careful study like the present will be of interest to all concerned with the problem.

J. TINBERGEN

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CHAPTER I

ECONOMIC STRUCTURE OF SOUTH AND SOUTH-EAST ASIA

1. Introduction

The economic problems of the under-developed countries have received considerable attention during the last few years. Such an interest has developed from several reasons – economic, social and political ¹⁾. The ever increasing activities of the United Nations and its specialized agencies have played a no less significant role in this respect. One of the outstanding features which distinguishes the United Nations from its predecessor, the League of Nations, consists in its far greater emphasis on the problems of international economic co-operation ²⁾. The extensive research and reporting work of the regional commissions of the Economic and Social Council ³⁾ as well as the various departments of the UN Secretariat have made available a massive flow of technical information pertaining to economic matters ⁴⁾. Several reports of the International Bank for Reconstruction and Development, prepared by the expert missions

¹⁾ President Truman's inaugural address dated 20th January 1949, popularly known as Point Four.

W. R. Sharp, *International Technical Assistance* (Chicago: Public Administration Service, 1952), pp. 1-24; W. A. Brown and R. Opie, *American Foreign Assistance* (Washington D. C.: The Brookings Institution, 1953), pp. 383-417; Report of the International Advisory Board to the President, *Partners in Progress* (Washington D. C.: 1951).

²⁾ Article 55 of the Charter pledges the UN to promote higher standards of living, full employment, and conditions of economic and social progress and development.

³⁾ There are three Commissions: The Economic Commission for Asia and the Far East (ECAFE), The Economic Commission for Latin America (ECLA) and the Economic Commission for Europe (ECE).

⁴⁾ Bodies like the Economic and Employment Commission, Transport and Communications Commission, Population Commission and Statistical Commission have issued several reports. Expert Committees were appointed for special problems.

sent out to study the economic conditions of a number of member countries, in connection with its loan operations, have brought together fairly useful and reliable material about the economic situation of these countries ¹⁾. Similar studies have also been made by the International Monetary Fund ²⁾.

It is, therefore, not surprising that in such an atmosphere the professional economists have also attached more importance to the under-developed countries. Only a few years back the economic problems of the under-developed areas were seldom mentioned; of late, however, these have received considerable attention by technical journals, learned societies and assemblies of economists ³⁾ and a new light has been thrown on them. In the first place, efforts have been made to evaluate the extent to which the existing body of economic knowledge is applicable to the under-developed countries. Notwithstanding the equal validity of many economic principles for the developed as well as the under-developed economies, "economic backwardness" presents many special features which deserve emphasis and demand careful attention and analysis. Modern economic theory has as its empirical basis the situation in the western countries and explicitly or implicitly assumes that background, stage of economic development and institutional framework. Economic theory and economic policy being intimately related, the neglect of the differences between developed and under-developed countries has sometimes resulted in wrong diagnosis and suggestion of wrong remedies ⁴⁾. One of the most glaring examples

¹⁾ See Reports on Ceylon, Columbia, Cuba, Br. Guiana, Guatemala, Iraq, Jamaica, Porto Rico and Turkey.

²⁾ See "Economic Development with Stability" – Report of the IMF Mission to India, *IMF Staff Papers* (February 1954), pp. 313-386.

³⁾ For the discussion of a few important books, see James Baster, "Recent Literature on the Economic Development of Backward Areas", *The Quarterly Journal of Economics* (November 1954), pp. 585-602.

⁴⁾ V.K.R.V. Rao, "Investment, Income and the Multiplier in the Under-developed Economy", *Indian Economic Review* (February 1952), pp. 55-67;

V. B. Singh, "Keynesian Economics in relation to Under-developed Countries", *Science and Society* (Summer 1954), Vol. XVIII, no. 3, pp. 222-234; M. Dobb, "Full Employment and Capitalism", *Modern Quarterly* (1950), vol. V, no. 2, pp. 125-135;

is the Keynesian remedies for unemployment for the under-developed countries where the situation in reality is not the lack of effective demand but that of the scarcity of real capital. Even when such differences are recognized, one is faced with another question much deeper and more complicated – the question of economic growth itself. What is the mechanism of growth and what are the determinants of economic development (under-development being the reverse case)? Quite recently this problem has engaged the attention of economists and economic historians and has shifted the emphasis from the analysis of short-run equilibrium and cyclical fluctuations to the long-term problems of economic growth¹). This amounts to filling a very important lacuna in the body of economic knowledge. It is not, however, a mere coincidence that the study of the “Growth Economics” is in the forefront during the same period of history when the problems of the “under-developed” countries are receiving increasing attention.

A glance at the statistics relating to national income, per capita income, capital per head, production per head, mortality, longevity, education and health facilities, transport and housing etc. reveals that the world consists of very heterogeneous units ranging from the United States on the one end of the scale to the under-developed countries on the other, Western Europe lying somewhere in between. “Heterogeneity” or “economic dissimilarity” has been, therefore, sometimes described as the “most striking feature” of the world economy²).

Louis, Baudin, “Irrationality in Economics”, *The Quarterly Journal of Economics* (November 1954), p. 489.

“Without going to such lengths, we know that economic laws observed in Western Europe are frequently extended without modification to non-European Societies where they prove to be inapplicable.”

¹) *Infra*, chapter II.

²) T. Haavelmo, *A Study in the Theory of Economic Evolution* (Amsterdam: North-Holland Publishing Co., 1954), p. I.

“In the world economic picture that we can piece together from current international statistics, perhaps the most striking feature is that of *economic dissimilarities*.”

See Colin Clark, *The Conditions of Economic Progress* (London: Macmillan & Co. Ltd, 1951); *The Economics of 1960* (London: Macmillan & Co. Ltd, 1944).

This heterogeneity would not have been of much consequence if the respective units had existed in isolation from each other. This is, however, not the situation. On the contrary, this heterogeneity has given rise to a series of inter-relationships, the most obvious of these being international trade, the exchange of product against product as well as the transfer of the factors of production especially capital and to a lesser degree labour¹). Another very important impact of the existence of non-homogeneous units lies in the field of technology. Quite a new light has been shed on the inter-regional relations by James S. Duesenberry who emphasises the fact that the individual consumption functions are not independent but interrelated through the "demonstration effect". People's consumption is not simply a function of incomes and prices but is affected by the contact with superior goods and superior patterns of consumption²).

It is in such a perspective that the present study proposes to consider a particular aspect of the economic problems of the under-developed countries, viz., the problem of capital requirements. This question has been in the forefront of some of the recent discussions. It has generally been maintained and is undoubtedly true that the under-developed areas suffer from paucity of capital and that if the capital were made available these areas would develop. Only a few studies have, however, adopted a quantitative approach and although capital needs have been emphasised in general terms their magnitude has seldom been assessed. These were the considerations which led to the following remarks by the UN Experts Committee: "We have debated at some length whether it would serve any useful purpose to suggest any figures in this sphere (capital requirements) and whether we should not merely leave the matter

¹) J. Tinbergen, *International Economic Integration* (Amsterdam: Elsevier, 1954), pp. 29-39.

²) James S. Duesenberry, *Income, Saving, and the Theory of Consumer Behaviour* (Cambridge, Massachusetts: Harvard University Press, 1949);

R. Nurkse, *Problems of Capital Formation in Under-developed Countries* (Oxford: Basil Blackwell, 1953), pp. 58-65; "Some International Aspects of the Problem of Economic Development", *The American Economic Review* (May 1952), pp. 577-583.

by saying that these countries will progress faster if they get more capital, and more slowly if they get less. We have, however, come to the conclusion that there is so little understanding of the magnitude of what is involved that we would be failing in our duty if we did not indicate that, in our opinion, the transfer of capital that is required to raise rapidly the living standards of under-developed countries is far beyond what is currently envisaged" ¹⁾). The selection of the problem of capital requirements for the present study, however, does not mean that economic development is entirely dependent on capital; nothing could be further from the truth but the fact remains that the scarcity of capital is the largest bottle-neck for the under-developed economies ²⁾).

As quite frequently we shall be using the term "under-developed" in the present analysis, it seems necessary to define it to avoid ambiguity. Although not entirely satisfactory this term has become current in recent economic literature and has served a useful purpose. It refers to the countries where national income, per capita income, productivity and capital investment are low and the standard of living of a large majority of the people is at or near subsistence level. Even the most developed countries may have some "under-developed" parts and the term "under-developed" may sometimes be used to indicate that it might be possible to achieve a greater degree of economic progress

¹⁾ UN, *Measures for the Economic Development of Under-developed Countries* (New York: 1951), p. 75.

²⁾ Authorities on the economic development of under-developed areas appear to agree on this point.

H. W. Singer, "Capital Requirements for the Economic Development of the Middle East", *Middle Eastern Affairs* (February 1952), p. 37.

"It must be realized that economic development is not entirely a matter of capital. Capital investment is only the second or even the third step, not the first."

R. Nurkse, *op. cit.*, p. 1.

"The so-called 'underdeveloped' areas, as compared with the advanced, are underequipped with capital in relation to their population and natural resources. We shall do well to keep in mind, however, that this is by no means the whole story. Economic development has much to do with human endowments, social attitudes, political conditions – and historical accidents. Capital is a necessary but not a sufficient condition of progress."

than has been attained so far. We shall, however, use the term "under-developed" in a relative, comparative and aggregative sense – the basis of comparison being the level of development of the USA and the countries of Western Europe. "Indeed, to speak of development, or lack of it, at all, is to assume that the society to which the term is applied is proceeding, or is failing to proceed, in a certain direction – towards a preconceived foreseeable goal or end, the attainment, or partial attainment, of which will indicate a more desirable state of affairs than that now being experienced, or than that which the society experienced in the past. In other words, to speak of the process of development is to assume, or imply, consciously or unconsciously, certain standards or criteria of such development" ¹⁾. The possibility of international comparison of national incomes and standards of living etc. has been questioned by some economists ²⁾. Notwithstanding the difficulties, technical or otherwise, in comparing the figures relating to these concepts, there are some objective standards of comparing economic development and economists and statisticians can, at least, with some degree of success measure the level of economic progress. Even in the case of the non-material needs, so long as those are satisfied through and identified with material means and facilities, measurement will be possible ³⁾. While accepting the possibility of measuring and comparing economic progress there remains the question of its desirability. This problem falls beyond the scope of the present study as it involves value judgement. Our assumption is that material and economic progress is worth striving for and desirable. It may, however, be remarked that economic progress does not necessarily mean a sacrifice of some other value-system. This is particularly true in the prevailing conditions of South

¹⁾ Herbert S. Frankel, *The Economic Impact on Under-Developed Societies* (Oxford: Basil Blackwell, 1953), p. 56.

²⁾ Jacob Viner, *International Trade and Economic Development* (Glencoe: The Free Press, 1952);

Frankel also holds the same view and questions the approach adopted by C. Clark and others.

³⁾ For an excellent treatment of the problem, see UN, *Levels of Living and Standards of Living* (New York: 1954); also C. Clark, *The Conditions of Economic Progress*, pp. 16–17.

and South-East Asia where the problem is that of saving the life of millions submerged in poverty, hunger and starvation and this can be achieved only through economic progress.

The present study, although some of its conclusions are general enough to be applicable to other parts of the under-developed world, specifically deals with South and South-East Asia. For the purpose of this study, the term includes Burma, Ceylon, India, Indonesia, Pakistan, the Philippines and Thailand ¹⁾. The selection of South and South-East Asia as a subject of this study needs some explanation. In the first instance, it is necessary to distinguish between two forms of under-development: the one prevailing in heavily populated areas as compared to that of sparsely populated areas ²⁾. Although the under-development in both the cases manifests itself in terms of the criteria mentioned above, they differ with respect to their causes and therefore to their remedies. Disguised unemployment is a very significant feature of the densely populated under-developed countries.

Moreover, South and South-East Asia is passing through a very significant period of its history. The short span of 1946-1950 has witnessed the end of centuries of colonialism ³⁾. Decline of colo-

¹⁾ "South-East Asia is a term which became popular during the Far Eastern War 1941-45, to describe those territories of Eastern Asia which lie south of the Tropic of Cancer (Burma, Siam, Indochina and Malaya) and the nearby islands spreading eastwards from the Asiatic continent towards New Guinea."

E. H. G. Dobby, *South East Asia* (London: University of London Press Ltd., 1953), p. 17;

"South Asia" is also of very recent origin and refers to India, Pakistan and Ceylon.

²⁾ See R. Nurkse, *op. cit.*, pp. 47-56.

³⁾ Burma became independent on 4th January, 1948; Ceylon on 9th February, 1948; India on 15th August, 1947; Indonesia on 1st July, 1950; Pakistan on 14th August, 1947 and the Philippines on 4th July, 1946.

As colonialism creates special problems we have excluded from this study Malaya and British Borneo, which geographically form parts of South and South-East Asia. Indochina, where war has complicated the situation still further, has also been excluded.

For the general background of the economic, social and political problems of the region see P. Talbot (ed.), *South Asia in the World Today* (Chicago: The University of Chicago Press, 1950).

nialism has exerted a profound influence on the economic structure of these countries, bringing about changes in production, trade, balance of payments and international economic relations. There has been an increasing participation of the state in economic activity. The most important feature, however, consists in the conscious effort towards economic development through "Plans" with a view to attaining a higher standard of living and in order to foster these plans there have been controls over trade, exchange and investment. "The peoples of Asia have long felt the pressure of poverty and hunger. While the realisation of self-government could not of itself relieve this situation, it has made possible a new approach to the problem of raising living standards through the vigorous development of national resources. Among the peoples of Asia hopes and aspirations have been raised by the plans of their Governments to secure a fuller life for them" ¹). One should, however, be careful in assessing the role of the existing development plans. Economic development is a complicated process and unless the plans are undertaken with a great foresight and a sense of realism, considering the entire situation, the results may not be very encouraging.

There is another factor which justifies the regional approach to the study of the problems of this area. It is possible as well as fruitful for the purpose of economic analysis to approach the problems from the regional point of view provided the divisions within the region have common properties as regards their economic structure; only then we can deal with it in terms of averages which will result in meaningful economic variables. Looked at from this point of view, the region has certain characteristics with respect to the extent as well as the sequence of economic development. These characteristics consist of a large population, predominance of agriculture as a source of employment, disguised unemployment, low productivity, dearth of capital, low savings and a low rate of economic development.

It is not possible on account of the limitation of space to present a complete picture of the economy of South and South-East Asia,

¹) H. M. G., *The Colombo Plan for Co-operative Economic Development in South and South-East Asia* (London: His Majesty's Stationery Office, 1950), p. 1.

its basis, resources and development. We shall, therefore, have to be content with a summing up of the main characteristics relevant to our purpose and having a direct bearing on the analysis planned for the present study. The following paragraphs of the present chapter are, therefore, devoted to the study and analysis of the existing situation as well as of the general trends relating to population, national income, saving, investment, production, inflation, balance of payments and terms of trade, which give us the general background of the economy of the region and provide us with a basis for fixing the targets for development. After this introduction, chapter II will deal with the problems of the theory of economic growth. Chapters III and IV provide the theoretical basis for choosing a method to estimate capital requirements. Chapter V will deal with the international aspects of the problem. In chapter VI, utilizing the data of chapter I and the method developed in chapters III and IV, we shall arrive at the object of our enquiry, viz., the capital requirements for the development of South and South-East Asia. Chapter VII contains the main conclusions of our study.

2. Population and its Growth

As we have distinguished between the two cases of under-development, viz., that of overpopulated as compared to sparsely populated areas we shall first consider the problem of population. The growth of population and technological advances are the most important factors determining the capital requirements. Moreover, the programmes of economic development, to be planned in the most effective way, must take into account the present and future needs of the population. It should be realized that the question as to how the growth of population affects the material welfare of the people does not admit of any general answer that would be valid for all places and time. It is, therefore, necessary that the question of population be related to the whole set of facts all of which should be examined carefully before giving a final answer.

The growth or decline of population during any given period is a function of additions through births and immigration and subtraction by deaths and emigration. In the coming years, for South

and South-East Asia, the determining factors of the growth of population will be birth and death rates rather than immigration and emigration¹⁾. From the geographical point of view, three kinds of movements of population can be distinguished (a) internal, (b) inter-regional and (c) extra-regional. As regards internal movements, economic development would result in changing the urban-rural structure of population and cause corresponding movements. Inter-regional movements have generally been very small (except between India and Pakistan, where movements took place under the extraordinary situation caused by the political exigencies) and do not improve the situation of the region as a whole. The only type of movement which can relieve the pressure of population is "extra-regional". Such migrations from the region have been negligible during the recent past and there does not appear to be any ground for believing that there is going to be a reversal of this tendency in the near future. The demographic situation will be, therefore, to a large extent, the outcome of factors relating to deaths and births. A comprehensive study of the demographic situation will require detailed statistics²⁾. The basic requirements, however, consist of (1) periodic census figures giving the size of population and some of its characteristics, especially sex and age composition and (2) annual statistics of births and deaths. Even these basic data cannot be provided by many countries of South and South-East Asia. Burma, India and Pakistan have a long series of decennial census, the first census record for India going back as far as 1872. Post-war census have been conducted in the Philippines, Thailand and

¹⁾ The people of the countries facing a difficult population situation still look forward with some hope to such opportunities. Yasumaro Shimojo, representative of Japan to the world population conference in Rome, remarked (UN E/Conf. 13/354), "In fact, the population tension of Japan is not only the problem of Japan but also a problem to which other countries in the world cannot be quite indifferent. Of course, the problem of the overpopulation of Japan cannot be solved by her own capacity. To lessen the sufferings of the overcrowded countries it is necessary to grant them the equal use of natural resources in consideration of the brotherhood of mankind and the mutual love of human being."

²⁾ For the techniques of demography, see UN Reports on methods of population statistics and analysis.

Ceylon. Indonesia is the only country for which the post-war population figures are not available¹⁾. The statistical deficiencies may make it impossible to draw reliable conclusions as regards short-term changes, but it is possible to visualize the long-term demographic developments with the help of the census figures and the fragmentary vital statistics. The relevant demographic data are given in the following tables.

The population of the region exhibits an increase of 35 % during the period of 15 years (1937-1951) and went up from 423 millions to 574 millions. The existing huge population in relation to the economic resources and techniques of production is in itself a factor of great significance. While considering the long-run demographic development, attention has also to be focussed on the increasing use of medical and sanitary facilities, which are developing partly due to the initiative of these countries themselves (the plans of development have earmarked expenditures on health facilities) and partly due to the efforts of international agencies such as FAO and WHO. Whereas the application of medical knowledge is likely to reduce the death rate, there seems to be no cogent reason to expect a similar effect on the birth rate which is intimately related to social institutions and customs that are not easily changed. The net result, therefore, is likely to be a widening gap between the number of births and deaths and an acceleration of the growth of population.

The rapid growth of population in Europe during the last two centuries furnishes the evidence in favour of this proposition. As Heaton writes, "The growth of population took place at a rate unknown in any earlier period. Beginning in some countries during the first half of the eighteenth century, it reached its highest point - 1.14 per cent. per annum for the whole continent - between 1900 and 1914."

"The causes of this unprecedented growth were medical and economic. There was little or no apparent increase in the birth rate, but a long series of improvements in public and private health made

¹⁾ For the yearly estimates from 1940-1953 and projections for 1959 see: N. Keyfitz, "The Population of Indonesia", *Ekonomi Dan Kenangan Indonesia* (October 1953), pp. 641-655.

TABLE I
Population, Area and Density of South and South-East Asia

Country	Population's Latest Census Year	Population	Estimates of midyear population ('000)			Area (sq. km)	Density (Per sq. km) 1952
			1937	1951	1952		
Burma	5- 3-1941	16,823,798	15,635	18,674	18,859	677,924	28
Ceylon	20- 2-1953	8,098,637	5,712	7,742	7,941	65,607	121
India	1- 3-1951	356,879,394	394,333	(356,869)	367,000	3,288,251	112
Indonesia	7-10-1930	60,412,962	67,398	76,500	78,163	1,491,564	52
Pakistan	28- 2-1951	75,842,165	—	(75,842)	—	943,699	124 (1951)
Philippines	1-10-1948	19,234,182	15,445	20,246	21,023	299,404	69
Thailand	23- 5-1947	17,442,689	14,492	18,837	19,193	511,937	37
			423,515	574,320			

Source: UN, *Demographic Year Book 1953* (New York: 1953), pp. 74-77

TABLE II
Rate of Increase and Distribution of Population between the Agricultural and Non-agricultural Sectors

Country	Rate of annual increase (a) %	Active Population as % of total population (b)	% of Active population in agriculture (c)	% of Active population in non-agricultural activities (d)	
Burma	1.30 (1931-41)	42.5	70	30	(1931)
Ceylon	2.20 (1948)	49.6	53	47	(1948-49)
India	1.25 (1948)	42.2	67	33	(1948-49)
Indonesia	1.80 (1929-30)	34.4	69	31	(1930)
Pakistan	1.25 (1948)	28.0	82	18	(1948-49)
Philippines	.75 (1948)	33.2	69	31	(1939)
Thailand	1.80 (1937-47) x)	47.2	82	18	(1937)

Sources: (a) H. M. G., *The Colombo Plan*, p. 9

x) added from UN, *Measures for the Economic Development of Under-developed Countries*, p. 76.

(b) UN, ECAFE, *Economic Survey of Asia and the Far East*, 1948, p. 109.

(c) and (d) UN, *Ibid.*, p. 110 for Burma, Indonesia, the Philippines and Thailand. *Colombo Plan*, op.cit. pp. 69, 78 and 84 for Ceylon, India and Pakistan.