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AMERICAN TRADE WITH ASIA AND THE FAR EAST

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*All opinions expressed in the individual papers
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Preface

THIS volume of essays on United States trade with Asia and the Far East deals with a timely subject the import of which cannot be over-emphasized. The extension of the Reciprocal Trade Agreements Act in 1958 for an unprecedented four-year period and the increasing awareness in this country of the expansion of the foreign economic relations of the Soviet Bloc countries, which were hitherto of little quantitative importance in world trade, have provided the setting for the symposium. While the essays do not constitute a handbook or pretend to offer a blueprint of foreign economic policy from the point of view of any particular country, their scope is sufficiently wide and their authorship suitably varied so that the airing of the problems confronting United States trade in Asia and the Far East through these pages may well fulfill a special function in the present international situation and in the face of what we believe to be the American mood that something positive be done.

The essays were first presented at a Conference on American Trade with Asia and the Far East held on April 17-18, 1958 at Marquette University under the auspices of the Institute for Asian Studies in co-operation with the Marquette Management Center. These have been edited by Professor Robert J. Barr who has also contributed the introductory chapter in which the principal issues are outlined. In so far as

this volume is found useful by its readers, credit should go to its editor,
the individual authors, and the Marquette University Press.

Yuan-li Wu
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Asian Studies

Introduction

THE FOLLOWING papers explore the factors influencing the nature and volume of United States trade with Asia and the Far East.* In a restricted setting, this exploration could be pursued by examining the demands of the various countries for imported commodities, and the productive potentialities of these countries for exportable commodities. But this would not be adequate for the countries under survey at the present time.

Asian countries exhibit a diversity of economic and social conditions. Some of them, recently released from colonial status to independence, aspire to full membership in the world community of nations, and particularly to living standards rapidly rising to approach parity with the rest of the world. Some, long accustomed to unchanging economic, social and political patterns, are now affected by Western ideas of progress and democracy. Some wish to achieve a greater degree of economic independence and self sufficiency. Finally, some lie under the threat of external aggression.

All nations, and especially the Asian nations, are determined to subject to conscious control the direction and velocity of their domestic

* The term "Asia and the Far East" includes the following countries: India, Pakistan, Ceylon, Burma, Thailand, Vietnam, Laos, Cambodia, Malaya, Republic of Indonesia, Republic of the Philippines, Republic of Korea, Hong Kong, Taiwan, Japan, Australia and New Zealand.

development. No nation is any longer willing to allow its economic fortunes to be determined either by other nations upon which it has become economically dependent, or by the play of undirected economic forces. Nations supplying raw materials to the world are insisting upon a greater degree of stability in their markets. The ferment of progress is a heady stimulant whose results are not always predictable. The threat of aggression distorts the normal development of economic life.

Underlying all the other problems of the area is the great problem of food for the teeming populations. Agricultural development is of urgent necessity. Counterbalancing the obstacles to this development which leap to mind are advantages of rich natural endowment, and in some countries, an almost virgin frontier comparable in a measure to that of the United States in the last century.

Hence in a broader setting the explorations of United States-Asian trade problems necessarily include consideration of a whole range of factors in their application to the specific conditions of the countries under review. Consequently, the papers explore the objectives and methods of consciously elaborated domestic development plans and programs. They explore requirements inherent in these plans, the balance, consistency and attainability of their objectives and the reasons why attainments have fallen short of objectives if they have done so. They explore the peculiar difficulties facing colonial economies in their attempts to diversify production and trade and in so doing to develop commercial, industrial and financial institutions, entrepreneurship and saving. The tensions both between the Asian nations and others, and between classes and groups within the Asian nations themselves are the subject of some consideration, though it is obvious why problems of this sort, important as they are, could not receive adequate consideration in the space available in this volume and under its title.

Attached to the main body of papers is a series of background papers which aim to present a summary of the factual information pertinent to the subject.

* * *

It may be worthwhile to analyze here a little more fully the problems which present themselves in a study of the "factors influencing the nature and volume of American trade with Asian countries."

From the standpoint of the United States the aspects of trade with Asian countries are: (1) the commodity composition of our imports from and exports to those countries; (2) the countries to which we

export and from which we import specified commodities; (3) the proportions which this trade bears to our total trade, and to our trade with other specified regions and countries. The same analysis can be made for each of the Asian countries, from its standpoint, of its trade with the United States, or with the world as a whole, or with specified regions or countries. And in setting forth the present status of this trade, its origins and likely course of development should be discussed.

International trade is a network of interdependent movements of commodities, services and funds. Like all true networks, the individual elements enter relationships of mutual dependence and determination, not only with each other but with the network as a whole. It is also clear that each element at any particular moment is what it is because of historical circumstances. Finally, a little thought will produce the conclusion that consistency is the fundamental rule of the international trade network. That is to say, an individual movement seen from the sending or from the receiving country is an identity; a flow in one direction must be balanced by an opposite flow of an equally valuable asset in the other; each nation's total outward flows must balance its total inward flows. It would, however, impose an unnecessarily restrictive condition on the magnitude of the flows to require that each nation's outward flows must balance its inward flows with *each other nation individually*.

A simple illustration may clarify these remarks. The invention of the automobile resulted in a rapidly increasing demand for rubber. From Brazilian seeds grown in Kew Gardens, rubber trees were planted in Malaya, and the dominant element of the United States-Malayan trade pattern was determined — a combination of adventitious circumstances, conscious planning and natural endowments. The flow of rubber from Malaya to the United States was accompanied by a flow of other commodities from the United States to the United Kingdom and a flow of still other commodities from the United Kingdom to Malaya. Since the values of these commodity flows were not identical, the balance was achieved by payments of United States dollars earned by British-owned rubber plantations in Malaya first to the United Kingdom and ultimately to the United States. Thus, omitting numerous complicating details, the trade and payments pattern between the United States, the United Kingdom and Malaya developed in response primarily to an originally French invention. The subsequent invention of synthetic rubber — itself a combination of adventitious circumstances,

conscious planning and “natural” economic progress — produced strains in this sub-network necessitating numerous adjustments. As a rule, the strains and adjustments are accompanied by profits to some, losses to others — to individuals and to countries — and thus tend to create conflicts of interest which spread over from economic to political and social relationships.

It should be noted that the international network of trade and payments is duplicated in detail by similar internal networks within each country.

As a first classification of factors determining trade we may take: (1) those natural advantages of countries and regions of which Ricardo spoke when he first clarified the theory of international trade; (2) those adventitious (historical) circumstances which the economist may note but which may not necessarily originate within the economic world; (3) those purposefully elaborated development plans which have become so numerous in postwar years and which impose upon the network a pattern different from that which would arise solely from the background of natural endowments; and (4) those requirements of consistency imposed by the nature of trade and payment networks, internal and international.

The first two classes of factors, important as they are, lie on the periphery, or outside, the area of economic science. It is with the last two classes that we are primarily concerned. Thus more elaborate discussion of their characteristic problems is called for. Yet certain natural and historical factors have been so important in forming the present structure of Asian economies and trade that a discussion of their nature and effects is also in order.

The dominant influence on some of the Asian countries under review is colonialism. This means that the economic potentialities of the colonial area were developed primarily in subservience to the demands of the economically advanced industrialized countries of the world — not necessarily solely the demands of the metropolitan center though these of course were often of great weight. It means also that the bargain that was struck as remuneration was often disadvantageous to the colonial area — though here certain consideration must be given to the notoriously “adventurous” character of many early concessions and the fact that losses as well as great profits emerged. What is really at issue is the fact that “contracts” which turned out to be unduly disadvantageous to the colonial area could not easily be revised since one

of the contractors was not really free and equal. It means also that the people of the colonial area were not seriously accorded the equal rights of full copartners in the economic development of their areas. Here too, however, we must recognize the contemporaneous existence of similar disparities in class privileges within advanced industrial nations — disparities which have only lately been reduced or eliminated.

All this is well known but is here brought out into the open to emphasize the reason why certain types of problems have emerged in the former colonial areas of Asia. It is understandable that not only the *fact* but also the *sign* of their former dependence must be abolished. And since this sign is the excessive and unbalanced development of the raw material sector of the economy, this unbalance must be redressed by compensatory hurried development of the industrial sector — in the course of which it may be forgotten that the raw material sector was perhaps the one exhibiting the greatest existing comparative advantage. Not only former colonial areas, but independent though underdeveloped areas have been affected by the drive for industrialization.

Another influence has not yet had as significant results as may be expected in the future. Prices of raw materials (the commodities which Asian countries typically export) fluctuate with greater amplitude than those of manufactured products (the commodities which Asian countries typically import). Also, the volume of raw material imports by industrial countries varies in the same direction as their prices. Consequently, the terms of trade and the level of productive activity of Asian countries are excessively unstable. The demand is insistent that some control over these matters be exercised by international agreement.

The effort to accelerate diversification and industrialization puts demands upon government coordinating agencies, central banking systems, financial institutions related to the flow of savings-investments, entrepreneurship and labor training institutions which would strain even advanced economies. All of these institutional establishments must undertake tasks of great magnitude involving highly seasoned judgment and extensive statistical fact finding, in circumstances where these resources are inadequate. It is no wonder then that honest misjudgments as well as naive blunders have resulted in misdirection of effort, domestic inflation and balance of payments crises. Even advanced economies have not always made better records in these respects. Positive, and sometimes more emotional than wise, efforts are made to change

the direction of trade away from the former metropolitan center toward countries which did not participate in the former economic and political dominance of the colonial area. Economic stress is then created in all three areas. Above all, in view of the generally low level of productivity and savings potential, is the necessity of a massive flow of capital from advanced nations, preferably private capital. Yet private foreign capital has been perhaps justifiably timid about embarking upon the needed investments in public utility or even industrial installations in the conditions of resurgent independence in the postwar world.

The reverse side of the diversification-industrialization program is that of agricultural production. Conditions of land ownership inherited from the past, techniques of agricultural production and allocation of land and labor resources to nonfood crops for export, have conspired to hold many Asian countries on a subsistence level. It is true that some countries have produced a surplus to alleviate the deficits of others. The region as a whole, however, has produced little agricultural food surplus above a subsistence level. In conjunction with dense and rapidly growing populations, the effort to industrialize has sometimes got out of balance with the base in agricultural food production. Here again everything must be done at once — changes in land occupation, ownership and exploitation, in social custom, in technique and in capital investment.

Not all the Asian countries fall into the group of former colonies. Another historical condition is the result of the war with its disruption of prewar international economic relations and physical destruction of productive facilities. Not to be overlooked are population movements — influx of refugees, displacement and loss of skilled manpower.

Productive facilities must be re-established when savings potentials have been impaired; market connections must be re-established when commercial rivals have successfully penetrated one's former preserves. A prime requirement for this sort of rehabilitation is again a ready flow of international investment funds. In the long run the flow of private funds is to be hoped for, but in the meantime international institutions were established to facilitate the process. However, even these arrangements have proved inadequate to the severe postwar circumstances and extraordinary governmental assistance has proved necessary. The form in which government aid has been extended has in its turn raised difficult problems.

Finally, another circumstance has affected some of the countries

under review, that is, technological developments and in particular the development of industrially produced substitutes for natural products of the area, e.g., synthetic rubber and synthetic textile fibers. Not to be overlooked in this sector also is the development of material-saving processes, e.g., thinner tin plating. Also worthy of note here is the application of machine methods to the production of agricultural products, in special circumstances and usually in conjunction with government pricing schemes, resulting in an "unnatural" temporarily reversed flow of agricultural products from industrialized to underdeveloped countries. These circumstances have produced problems of enforced and hurried structural adjustment and of strained competitive relationships — in some sense they have produced an "upside down" international world.

Upon this already troubled scene in recent years has come the threat of further deliberate disturbances arising from politically inspired Communist trade maneuvers. The direction which commodity trade would normally take under the influence of cost-price considerations is distorted, placing additional adjustment strains upon the economies of the countries involved, strains which are made more tense by the fear that at any moment the trade relationships will again be disturbed and further adjustments will thus be called for. Associated with the threat of trade war is that of military aggression, direct or indirect, although this factor is more limited in the range of countries affected *at the moment*. Both these threats introduce considerations of military as well as economic assistance, primarily from the United States.

Although former colonial areas have been especially forward in promoting development plans, other nations also participated in this characteristic postwar phenomenon. The essence of a plan is the conscious direction of economic progress along certain selected lines, generally in the industrial sector as this is the sector of the economy which most obviously distinguishes the developed from the underdeveloped countries. Results of this redirection of economic effort include shifting direction and commodity composition of trade: new imports — particularly capital goods which are likely to come from different countries of origin; possibly reduced exports — at any rate in the short run lessened production of former export goods along with increased consumption of domestic production. The effort to accelerate investment very likely exceeds the domestic saving potential and can only be accomplished by the import of foreign capital, lacking which domestic

inflation results. Altered cost-price relationships, exchange difficulties and modified import and export demands are a consequence. An attempt to accommodate to or control all these difficulties may be made by restrictive commercial policy; in fact, such restrictive policy may from the beginning be a part of the controls by means of which the development plan is executed. And it goes without saying that monetary and fiscal policy of a high order of effectiveness is required if disastrous consequences are to be avoided.

The special role of the United States in relation to these problems follows both from the historical role which this country has played in Asian affairs, and the position it occupies at the present juncture of being the largest reservoir of capital. Our imports from Asian countries have been the natural products of the specific areas, typical products of their climate — tea, spices, rubber, jute, etc., but also including tin; and other “artificial” products of economic development — silk, handicraft articles of wood, fiber and other materials. Our exports were usually smaller in total than our imports and extended over a wide range of products. These relationships have changed. Except for silk, the commodity composition of our imports remains substantially what it was with some increases in mineral raw materials, which, after all, are the commodities in which these countries possess great natural advantages. It is in the overall balance of trade and in the composition of our exports that significant changes have taken place. Specifically, the Asian countries have come to the United States for capital goods, for investment capital and for agricultural products. We have developed a substantial export surplus and have extended economic and military aid in large amounts as partial compensation.

The problems which arise in this connection are those of commercial policy (our own as well as Asian) by which those trade and capital movements are facilitated which further the aims of general policy, and those are hindered, which interfere with achievement of these aims.

The wide range of problems raised by the circumstances mentioned in the preceding paragraphs may be brought into focus in relation to the “rule of consistency.” It is not simply that a particular country must make an adjustment once and for all to a new condition of its economic life. The adjustment made involves other adjustments in its domestic economic arrangements, and each of these in turn is likely to constitute a change in the conditions facing other countries. Thus, any

disturbance is transmitted from its point of origin throughout the trading system; and its effect is finally absorbed by a diffused and complex set of adjustments including those intended to insulate a country from disturbances and adjustments in its trading partners.

In the large, the general effects of postwar events have been to distort the prewar trade and payments network as follows:

1) First have come a series of structural changes in the pattern of domestic production as adjustments to technological changes, accelerated diversification and industrialization.

2) Second have come shifts in the direction of trade which are, on the whole, surprisingly small considering the powerful incentives at work, though one may venture to guess that the prewar pattern was so firmly founded on natural endowments that only a long course of development could produce substantial change.

3) Third have come shifts in the commodity composition of trade, mainly in imports into Asian countries, in response to efforts at industrialization.

4) Fourth have come changes in the total volume of trade in response to unsettled domestic affairs, restrictive practices and diversion of resources from export lines to lines for domestic consumption.

5) Following upon many of these changes have come balance of payments difficulties.

6) Problems of adjustment to economic forces of cost-price relationships are frequently severe enough in all conscience; when exacerbated by the political forces of politically inspired trade war their magnitude is often enhanced beyond the adjustment capacity of the normal economic mechanisms.

One may be forgiven for being dismayed at the magnitude of all these problems, but the following papers push on to concrete proposals for their amelioration or solution. No panaceas are offered. But people who wrestle intimately with the problems, as have all the authors of this collection of papers, come away from their experience with practicable and effective suggestions for improvement. It is the purpose of these papers not only to lay bare the problems which beset the development of American trade with Asia and the Far East, but also to propose policies to private business and to official organization which might facilitate this development in the belief that the enlargement of this trade would benefit the peoples of all countries.

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