

Chairman's Statement

The Chartered Bank

Statement by the Chairman, Vincent Alpe Grantham, Esq.

THE following is the text of the Statement by the Chairman on India, Pakistan, Ceylon, Burma, Singapore, Federation of Malaya, Indonesia and Thailand to be submitted at the One-Hundred-and-Fifth Annual General Meeting of the stockholders of the Chartered Bank, to be held on the Bank's premises at 38 Bishopsgate, in the City of London, on Wednesday, the 1st day of April, 1959:-

India

In previous years I have expressed anxiety that, taking into account India's available financial resources, the second five-year plan might well prove too ambitious. Nobody who has any knowledge of the living standards of the mass of the Indian population will question the need for strenuous efforts to improve them but, if the problem is to be tackled successfully, harsh economic realities make it necessary to distinguish between what is desirable and what is practicable. At one stage during the past year there seemed a grave danger that the Import programme sanctioned soon after the inception of the plan in April 1956 had not only outstripped India's ability to finance it, but also the extent of the foreign aid that was likely to be forthcoming. Fortunately, following the Finance Minister's foreign tour last September, he was able to secure sufficient credits to meet India's shortage of foreign exchange until next March, and possibly to March 1961. Moreover it is generally understood that arrangements are in hand for the provision of enough foreign assistance to complete the essential features of the plan, which suggests that the worst of the crisis may be over. The Reserve Bank of India figures, which show its recent purchases of sterling from the commercial banks to have exceeded its sales, serve to confirm these indications that the stringent import restrictions are now producing a favourable balance of trade in the private sector of the economy. It is difficult to gauge the fall in foreign exchange expenditure on government account, where a rapid

contraction is not easily effected, but it does appear that the heavy and continual loss of foreign exchange over recent years has been halted. Unfortunately the extent to which the government has resorted to deferred payments to achieve this result has left a burden, to be shouldered in the years to come, which will leave little margin for additional foreign exchange expenditure during the third five-year plan, even allowing for possible savings on exchange which are likely to accrue when the new steel works and heavy industries, set up under the present plan, commence operations.

This factor and other difficulties that are bound to be encountered in effecting future balance of payments leave little hope for any early increase in the present low figure of foreign assets and, as little or no foreign exchange now exists to mitigate the effects of bad harvests or of temporary reductions in export earnings, it is important to pay some attention to what may be in view in the third five-year plan. It is planned to invest Rs 10,000 crores in the period and one-third of the figure is expected to come from private investment. Progressively less reliance is to be placed on foreign assistance and a much larger figure is expected from domestic savings. This large figure of private investment is looked for after quite considerable extra taxation has been imposed and collected to take care of investment in the public sector. Domestic savings must surely depend on the ability to save and it is at least questionable whether the income per capita in relation to the cost of living will permit of savings on this scale. So far as private enterprise is concerned, the country's complicated system of heavy taxation, direct and indirect, which is apparently to bear extra burdens, has already reached a point where it is a serious deterrent not only to private enterprise in India, but also to foreign enterprise. Although progressively less reliance is to be placed on the latter the investment of foreign capital is still recognised as being of vital necessity and the

government has said that it wishes to encourage it. It is questionable under the circumstances whether this encouragement is in fact being given. Investment too, however made, should be concentrated on the agricultural sector, which would probably show quicker and better returns than industrialisation and would certainly do more generally to raise the standard of living.

So far the vagaries of the monsoon and the resultant food shortages in some districts, have been offset by substantial deliveries of wheat by the United States under P. L. 480 agreements and equally generous supplies of cotton were given. These overseas gifts do not, however, solve the foreign exchange problem and it seems to me that India has to accomplish two things in order to safeguard its future; firstly, and this applies equally to Pakistan, it has to improve its relations with its neighbour to an extent that the proportion of military and other service expenditure in its budget is so drastically reduced that a lowering of taxation is possible. Secondly that the gold in the hands of the people be made available to the government. This is a psychological problem depending on confidence but it might be possible to introduce a form of bearer loans against gold, or even free imports, and allow an economic rate to be found and confidence restored in that way. Success in this could go a long way towards solving India's foreign exchange problem.

Another factor which may prove of the utmost importance but which is not dependent upon governmental action is an increase in oil production. On the other hand, I cannot but view⁷ with misgiving the increased tendency towards State trading. State trading corporations may perhaps be essential in dealing with countries behind the iron curtain but generally speaking they detract from a country's competitive trading ability and they certainly discourage private enterprise.

The widespread publicity given to India's difficulties during the

past year or more should not be allowed to obscure the extensive progress that has been achieved in carrying out the country's development programme. The task of improving the living standards of a population of some 400 million, which is increasing by about six million each year, is obviously immense and it is greatly to the credit of the Indian government that it has chosen to implement its five-year plans by democratic means.

In the purely banking field there was a tremendous change in the lending/deposit ratio of the banks, due no doubt to a striking increase in bank deposits. How much this is due indirectly to the large counterpart funds held in the country resulting from the sale of commodities imported under aid is not clear, and it would perhaps be more to the country's advantage if these counterpart funds could be spread amongst all the banks instead of being held by a single lender. Such a redistribution might, too, bring deposit and other rates to a level more in keeping with the cost of bank advances.

Pakistan

A few years ago it seemed possible that Pakistan would emerge as a State strong economically and sound politically notwithstanding such initial disadvantages as the lack of a civil service, the influx of refugees and a territory divided geographically. Unfortunately since then over-emphasis on industrial rather than agricultural development on the one hand and a sad deterioration in the standards of public life on the other have seen these desirable goals recede. In fact such was the cost to the country of governmental instability and lack of leadership that when, last October, Major-General Iskander Mirza, who was then President, abrogated the constitution and, with the support of the army, imposed a direct presidential rule under martial law, there was general relief and a feeling that this was the only hope of saving the country from what was considered a steady drift to disaster.

Fortunately the new regime achieved power without bloodshed or disorder and under the new President, General Ayub Khan, it has acted with energy to effect an improvement in the country's circumstances. Although at first there was some confusion in business circles be-

cause of the many regulations fixing prices and limiting profits and dividends, the authorities have shown a commendable spirit of compromise and a general soundness of judgment in the introduction of new measures. Some of these measures, designed to bring to light illicit foreign exchange holdings and to eliminate corruption, hoardings and profiteering were long overdue and can only have a wholly beneficial effect on the economy.

It is pleasing to see that national effort is to be concentrated on the agricultural sector of the economy, on which the country's prosperity will depend for many years to come and when Pakistan can again feed its population and stop the large imports of food-grains which have entailed such heavy outlay of foreign exchange in the last few years, then a great step forward will have been taken towards restoring equilibrium to the national economy. The higher interest rates already announced, if supplemented by a sound budgetary policy and the elimination of deficit financing, should curb the steady expansion of purchasing power within the country and indirectly help exports, but I view with some apprehension the recently announced export bonus scheme. The idea behind all such schemes is commendable but in practice, for administrative reasons, not one has so far worked successfully in any Eastern country. Nevertheless, it is fair to say that Pakistan enters 1959 in circumstances more hopeful than for some years past.

Ceylon

The major and disquieting feature which has dominated trade and industry in Ceylon during the past year has been the widespread and increasing state of unrest which first manifested itself in November 1957 in serious labour disputes which, as I mentioned last year, brought to a standstill the normal working of the port of Colombo. The resurgence of tension between the Sinhalese and Tamil communities culminated in May last in an outbreak of rioting and disorder almost throughout the island. After some hesitation, it became necessary to declare a state of emergency and the government then took steps to restore law and order. The authorities acted probably only just in time to prevent what might well have been an Irremediable deterioration in

the island's security; the fact the state of emergency is still in force shows that although the general situation has been more normal for some months a renewed outbreak of violence is still considered a possibility.

Such improvement as there has been in the general situation has not been reflected unfortunately in the working conditions in the port of Colombo, which handles the bulk of the country's oversea trade. Hopes that strikes and go-slow movements among the dock labour force would cease when nationalisation of the port took effect at the end of July proved ill-founded and although in November all work connected with the harbour was declared an essential service under the emergency regulations, there has still been persistent trouble with the labour force.

To meet the situation it has been necessary to make increasing use of Ceylon's other ports, Trincomalee and Galle, which are now working to full capacity. Being in a position to ship through these ports has greatly assisted the tea industry but during the second half of the year tea prices at the Colombo auctions were lower and, had it not been for the introduction of the subsidy scheme last March, many of the marginal producers would have had to close down. Even so there is evidence of some of Ceylon's oversea customers turning to other supplies.

Fortunately, and because of the country's inherent agricultural wealth, the total volume of all exports was maintained at much the same level last year as in 1957. The volume of imports on the other hand decreased, partly because strikes in the port of Colombo made it difficult to land cargoes. Because of this the external balances, which had shown a marked fall in 1957, were well maintained at over Rs. 850 million. This is a tremendously important factor as it puts the government, if it so desires, in a position to avoid the mistakes of other potentially rich young nations of imposing controls that stifle enterprise and in their application undermine the political and official life of the country. Unfortunately all pointers at the moment suggest that the government, in order to attain the desire for more socialism, is committed to more nationalism, State trading and increased taxation, and in fact the

latest budget proposals embrace a new range of taxes involving expenditure, capital gains and property. Heavy government expenditure financed by a budgetary deficit is likely to generate further inflation, which in turn may endanger the precious exchange reserves.

More industrial development to raise living standards has been suggested by the National Planning Council but there can be little doubt that Ceylon's first priority should be to intensify and improve the cultivation of the country's staple agricultural products—tea, coconuts and rubber—in order to build up export earnings to pay for essential imports. Improved irrigation and the extensive use of fertilisers and the improvement of crops could adequately offset Ceylon's lack of mineral wealth, for it is difficult to see how a country lacking minerals, and without an extremely plentiful and cheap labour force, can successfully embark on large scale industrialisation. In any case one cannot look with any great optimism to the future until the government comes to grips with the unlawful elements in the island and puts labour on a realistic basis satisfactory to the government and private industry as employers and to the solid mass of decent, hard-working employees.

Burma

The outstanding event in Burma last year was the appointment in October of General Ne Win as Prime Minister in succession to U Nu. It was a peaceful transition with no bloodshed or violence. The General assumed office at the invitation of the then Prime Minister and the new regime, which was approved by a parliamentary majority, pledged itself to hold general elections within six months of its accession to power. Such undertakings are often difficult to implement, as is shown by the recent resignation of General Ne Win and his statement at the time that free and fair elections in April are practically impossible under conditions at present obtaining in the country. As there is no doubt that the non-party caretaker government under his leadership, which enjoyed a wide measure of popular support, had with vigour and efficiency set about its task of restoring law and order and normal living conditions, it is hopeful and gratifying that the General is seemingly prepared

to resume office and continue the good work provided the constitution be amended to allow him, a non-parliamentarian, to hold office for longer than the period of six months allowed under existing provisions.

Considering the good work being accomplished in many directions it is disappointing that the administration seems still strongly wedded to State trading and barter, notwithstanding the unfortunate experiences of the past years, and it would be a pity if the opportunity were not taken now to allow that freedom of private enterprise and trading which might make a vital difference to the balance of payments and hence the standard of living.

Fortunately next season's rice crop is expected to be substantially higher and it can therefore be hoped that exports in the coming year will show a considerable increase on the disappointing figures for 1958. In fact the exportable surplus may once again reach two million tons for a year. Only a very severe restriction on imports enabled the Union Bank of Burma to show an increase in foreign assets over the year. This restriction on imports, besides being internally inflationary, deprived the citizens of some of the luxuries they were accustomed to in their mode of life: a state of affairs accentuated by the government-sponsored joint venture trading corporations' failure to live up to their declared purpose of reducing the prices of the consumer goods which were imported. This lends strength to my feeling that there is doubt whether the present system is consistent with the efficient marketing internationally of the country's staple exports or with obtaining the best possible value in terms of goods and commodities imported from abroad.

Notwithstanding the foregoing remarks I think that the beneficial effects on the administration of a continuance of the recent stable government, together with the country's steadily increasing agricultural wealth, ensures that Burma enters the new year under more favourable auspices than for several years past.

Singapore

The recession in international trade during the past year has

been reflected in a reduction of Singapore's oversea trade turnover. Singapore and the Federation together showed a trade deficit almost throughout the year, but in November a reduction in imports effected an improvement. Additional difficulty has been caused by the insurrection in Indonesia and relations with the Indonesian government have been somewhat strained, although the government of Singapore has appeared only too anxious to remain on good terms with its neighbour. The disruption of trade with Indonesia, on which Singapore's prosperity depends in large measure, not only left a legacy in the shape of excess stocks of imported goods in Singapore but emphasised the difficulties inherent in operating successfully as an entrepot in South East Asia at the present time.

The need for providing employment for the increasing number of young people entering the labour market from school has encouraged responsible political leaders to advocate close co-operation with the Federation in order to open up wider fields for local labour and enterprise. At the same time the government has made it clear its interest in local industrial development by introducing various measures to this end. Although in this particular direction Singapore could profit from the example of Hong Kong in developing a wide range of manufacturing industry, the basis of its prosperity must rest for many years to come on its status as a free port and on its entrepot trade, a fact which, as the controversy over the government's acceptance of a policy of selective protection showed, is well understood locally. Capital and enterprise from abroad can assist industrial development and it is to be hoped that the new immigration measures under consideration by the governments of Singapore and the Federation will not create difficulties for companies employing expatriate personnel.

The first elections under the new constitution, on which agreement with the British government was reached last year, are now due to be held in May of this year. In recent months there has appeared a growing awareness of the serious responsibilities to be shouldered by those entrusted with the government of the territory as a result

of the

NOW and in the future there is no guarantee that the living standards of Singapore's population, which at present are relatively high for South East Asia, can be maintained let alone improved if the goods and services available in Singapore are not fully competitive internationally. I stressed this point last year and it is a matter for cautious optimism that the paramount importance of the free port to the life of Singapore is gradually being accepted by all political parties. It is hoped that the City Council, and to a lesser extent certain government departments, will take an equally realistic view.

Federation of Malaya

The most important event in Malaya since my last review, and one which is of special significance to the Bank, has been the establishment of the Central Bank of Malaya (Bank Negara Tanah Melayu) which commenced business on 26th January, 1959. I take this opportunity of welcoming the new institution and of wishing every success to its future operations. The new bank is in a position to exert considerable influence, not only on the banking system of the Federation but also on the territory's economy as a whole. It is in keeping with the practical attitude which has been shown by the authorities in the Federation in setting up their Central Bank that, although the relevant legislation includes provisions under which the new institution can take over from the Board of Commissioners of Currency, Malaya and British Borneo, the issue of the Federation's currency, for the time being it has been decided to allow the existing arrangements to continue. So far there are no arrangements between the two governments concerned for any extension of the activities of the Central Bank of Malaya to Singapore. It must, therefore, be a matter for satisfaction that the continuance on the same parity basis, of the existing currency arrangements, to put it at the very least, postpones the fragmentation of the unified currency area comprising the Federation, Singapore and the British territories in Borneo, in which first the Straits dollar and subsequently the Malayan dollar have provided a stable and effective medium of exchange.

To supplement the Central Bank legislation, a banking ordinance providing for the licensing and regulation of the business of banking was enacted and came into operation at the same time as the Central Bank commenced business. Most sections of the ordinance have been based on similar legislation in other Commonwealth countries and include the normal safeguards to protect depositors and others conducting business with the commercial banks. There is one section, however, which has excited some controversy since it confers power on the authorities to refuse a licence to carry on business in the Federation to any bank which is in effect controlled by the government of a foreign state. The Federation's aggregate trade turnover has been lower this year, exports falling more than imports. There are obvious reasons for this, including the general recession in international trade and, a factor which has particularly affected the Federation, the restriction of tin shipments by producing countries under arrangement with the International Tin Council. During the first six months of the year, coinciding approximately with the first export control period fixed by the International Tin Council, some 40 per cent, of the Federation's tin mines closed down, causing substantial unemployment, especially in Perak. Not surprisingly Malaya's tin exports last year were the lowest for over a decade and represented a reduction of 35 per cent. on the 1957 level of shipments. This time last year producers in Malaya were hoping that the restrictions imposed would have the effect of restoring equilibrium between supply and demand in the international tin market by the end of the year. These hopes have been disappointed because of Russian selling of tin on the London market in the middle of the year, which was on such a scale that it proved impossible to maintain the floor price arranged under the Buffer Stock Agreement. Nevertheless, it is generally recognised that had it not been for the agreement the price of tin might have fallen substantially lower. In fact during recent months prices have improved and now that Soviet Russia has shown a readiness to restrict its tin exports by agreement with the International Tin Council, it is possible that the worst of the Malayan industry's ordeal

may be over, although the full effects on the results of producing companies have yet to be seen.

The rubber industry has enjoyed better fortune, heavy Russian buying at the end of the year being the major influence in raising prices in the Singapore market. Mainland China had been a substantial purchaser of Malayan rubber in the early part of the year but later ceased buying in accordance with its policy of discontinuing trade with Malaya in view of what it considers discriminatory legislation in the Federation. The Malayan rubber industry is well aware of the necessity of maintaining its ability to compete with synthetic rubber and, in this connexion, it is to be noted that record progress has been made during the past year in replanting with high yielding seed.

Unemployment in the tin industry has served to emphasise the importance of encouraging economic development in other directions. By introducing legislation granting pioneer industries relief from income tax for periods of two to five years and by displaying interest in sponsoring an international investment charter, the government has shown readiness to create conditions favourable to foreign investment in Malaya. The government continues also to implement its own five-year development plan, but with prudent regard to the financial resources available. Last September the World Bank made a loan to the Federation in connexion with the Cameron Highlands hydro-electric scheme and I am pleased to say that this Bank participated therein.

Elections are due to be held in August 1959 and meanwhile progress is being made towards ending the emergency, many parts of the country having now been declared 'white areas' owing to the efficiency and vigilance of the security forces.

Indonesia

The past year has been one of great difficulty for the Republic. In May it was officially announced that active resistance by the rebels had virtually been brought to an end; insurgent activity however, particularly in Sumatra and the Celebes, continues to cause considerable interference with estate production and with the normal movement from the interior of agricultural products destined for shipment abroad. The rebellion and its

aftermath have inevitably had we effect of reducing exports but somewhat surprisingly provisional figures for the first ten months of the year show that Indonesia not only had a trading surplus but that the surplus itself was substantially higher than for the same period of 1957. Although there is still much leeway to be made up some progress has been made in restoring the country's trade position.

For the time being there remains a serious shortage of foreign exchange and because of this it is unlikely that the import of other than strictly essential goods will be permitted for some time to come. The shortage of foreign currency stems partly from excessive imports in the past and from loss of exchange through extensive barter trade and partly through the disruption in trade caused by the rebellion.

The immediate situation will be relieved to some extent by various credits which Indonesia is receiving from abroad notably from the United States and the U.S.S.R. Aid of this nature can however be but a temporary palliative: lasting economic recovery can only be assured by expanding production and export of the country's agricultural and mineral resources. The government in an endeavour to improve the position has recently shown particular interest in the possibilities of further exploiting the potentialities of the oil industry. A law has also been passed to encourage investment from abroad but with the nationalisation of Dutch owned enterprises and the difficulty in obtaining an adequate return in the form of profit or dividend remittances it seems hardly likely that the Republic can attract outside capital. There can be little doubt that many of the difficulties which Indonesia has had in the economic sphere can be attributed to inflation generated by persistent and excessive budgetary deficits. The excess purchasing power thus created had the effect ultimately of running down the exchange reserves to a dangerously low level and it became necessary in January last to limit to 60 per cent, the cover which the commercial banks were permitted to hold against their foreign exchange commitments under letters of credit. This measure, and the severe credit restrictions imposed by the authorities in an endeavour to curb inflation

and to restrict imports, have borne heavily on the banks, a large part of whose resources have been immobilised in the form of statutory deposits with the central bank. Such measures, although they may be deemed necessary in the national interest, can have little hope of success unless a more satisfactory balance can be attained between government revenue and expenditure. Controls and other expedients such as the complicated Bukti Ekspor system instituted with the object of righting economic ills have not been entirely successful and sooner or later it would seem inevitable that there must be an outright devaluation of the rupiah and a return to normal commercial procedure.

In view of the restrictive policy being followed by the authorities in regard to profit remittances and with the difference between the internal and external value of the rupiah I see little prospect for the time being of any worthwhile reward being received for the extensive services which we offer and the business which we conduct in Indonesia.

Thailand

It is probable that economic factors, no less than political, played their part in causing Field Marshal Sarit, Supreme Commander of the Armed Forces, to effect an unexpected coup d'etat last October and personally assume the post of Prime Minister. Reduced export earnings had caused a deterioration in Thailand's balance of trade and the resultant reduction in the country's holding of foreign exchange together with a sharp rise in the cost of living brought about a situation in which it was evidently thought necessary to effect a change of government. The old constitution was abrogated last October and under interim arrangements a constituent assembly is to be nominated and to have the task of drafting a new constitution.

To improve the economic position, an advisory committee has been formed to develop the country's resources, effect an immediate reduction in the cost of living and to plan the setting up of secondary industries at an early date. The committee will also be concerned with the formulation of a longterm development plan to be based on the report of the World Bank mission

which visited the country during the course of the year. Early results of the committee's work are new regulations to encourage the establishment of industrial enterprises and to attract foreign capital for investment in the country. New enterprises are to be guaranteed freedom from nationalisation, facilities to import the necessary plant and machinery free of duty, exemption from income tax for a period of from two to five years and, if necessary, a measure of protection by means of tariffs against competitive foreign products,

Notwithstanding rice exports being substantially lower in 1957 compared with previous years and the prospect that good crops next season in adjacent countries may make exports difficult, the authorities have wisely set their face against imposing import restrictions, taking the view that no cause should be given for retaliatory action by other countries against Thailand's exports. Behind this reasoning doubtless there lies the assumption that although the country had a rather unsatisfactory trading year in 1958, the prospects for the export of rice, rubber and tin for the coming year are probably better. The worst of the difficulties arising from the International Tin Council's restriction scheme may well be over, and assuming that the new powers vested in the government departments do not stifle enterprise, Thailand can rely on its traders to find markets abroad notwithstanding the more competitive conditions fore-shadowed.

Vigil

Independent Political Weekly

Subscription :

Six Months : Rs 6/-

Annual : Rs 12/-

Single Copy : 25 nP

Published Every Saturday

From :

**2, S. N. Bannerjee Road
Calcutta - 13**

