CHARACTERISTICS OF FINANCE IN UNDERDEVELOPED COUNTRIES

By HIDEO KUROSAKI

Introduction

Parts of the financial systems in the underdeveloped countries are, more or less, imitations of those in the more developed countries. A typical example is one of the many monetary markets which were established in the less-advanced countries under the old colonial eco nomy, for the purpose of trade with their homelands.

It does not follow, however, that the structures of finance in the rich and well-equipped nations are the same as those of the underdeveloped countries, nor should one expect that the present status of the finance in these countries corresponds to some stage of development in the more advanced nations.

Since the structures of finance in the underdeveloped countries have some peculiar characteristics, it is quite natural that the monetary policies of these countries should be different from those of the developed countries. But the differences of the financial structures of both the developed and the underdeveloped countries have not yet been made clear enough, and this leads to much confusion in the monetary policies of the less-advanced countries. Although the international financial authorities are without doubt giving much consideration to these regional differences, a "trial and error" attitude is still discernible in their financial policies.

It is interesting to note that they are adopting, with slight revisions, such policies as have been taken by Japan in the past. Time will prove the value and effectiveness of these policies.

There are many arguments as to what sort of monetary policies the underdeveloped countries should adopt. The common aim of these countries is to accelerate the rate of their economic development, and this is here where their policies should differ greatly to those of the developed countries.

The biggest task for the emerging nations is to accumulate the tremendous amount of capital needed for development, a difficult task

in view of the low national income levels. Many countries turn to the more advanced nations for assistance in raising these development funds. The alternative, as long as countries place such a high regard on economic development, is for the "have not" countries to obtain this capital within their own boundaries, using every method within their means. But sometimes this is done at the expense of the steady development of the country's financial structure, for example, where inflationary policies are pursued at the expense of sound financing, with results that defeat their own purpose.

Then, what sort of finance should the underdeveloped countries have in order to raise these funds?

There is but one way, and that is by revising the financial structure peculiar to the underdeveloped countries, and eliminating some of the antiquated and backward features. Time and much effort would be required for this purpose, for an ideal system cannot be created overnight.

This article will attempt to outline the problems, and to suggest possible remedies.

I. FINANCIAL STRUCTURES OF UNDEVELOPED COUNTRIES

The financial structure of a country is related to its economy. But it must not be overlooked that the social structure of a country too could have a bearing on this. The following enumerates peculiarities in the financial structure of the developing countries.

1. *The Existence of a Non-Monetary Sector*

As the economy develops, the monetary sector expands. In the developed countries the economy is fully monetized and barter rarely exists. A different situation is present in the underdeveloped countries, where there is still an extensive area of barter trade. The agricultural sector, much bigger than the trade sector in these countries, possesses features of self-sufficiency. This tendency is more pronounced in the old colonial countries, where the main object was to export a few specialized primary products, and it was round these industries, and these industries alone, that the monetized economy was based. Thus, villages which had nothing to do with the raising of primary products intended for the export trade were practically unaffected by the monetized economy, and tended to be self-sufficient. Even in the villages engaged in the production of products for export a monetized economy was not necessarily completely adopted, for many farmers borrowed

their farming equipment and daily necessities from their landlords and from merchants, repaying in kind at harvest time. Thus, in the sectors that could most easily use money, circulation was sometimes restricted to those who collected produce, the landowners, and the shopkeepers.

As the underdeveloped countries sought their release from a colonial bondage, this non-monetized sector proved a stumbling block to economic development, for this primitive money economy did not permit capital to be transferred to those sectors where it was needed the most, since it existed in the form of goods. The monetization of the non-monetary sector is a pressing requirement of these countries, needing funds for the development of transportation and the expansion of education. In short, what is needed is an assimilation of these independent village units within the national economy and encouragement of integration with other areas and sectors.

Despite the effort the underdeveloped countries are making for the elimination of these non-monetized sectors, they still occupy a sizeable portion of the whole economy. There exist no statistical data to show exactly to what extent. However, as for India, H.V.R. Ienger, governor of the Reserve Bank of India testified at the Radcliffe Committee: "The monetized sector again may be put at about two-thirds of the economy as a whole"[1], intimating that the remaining one-third is still in the non-monetized sector.

As an index of the degree of monetization Table 1 shows the ratio of cash currency to national income among the major Southeastern Asian countries. According to this table, the ratio of cash currency to national income is considerably higher than that of developed countries; further, from 1953 to 1961, this ratio shows a considerable increase. In the long run there is a general tendency for this ratio to increase as the process of monetization goes on, and to then tend to decrease as a credit economy develops, since the weight of deposit currency in the total currency increases. Therefore, the generally high ratio of cash currency compared with national income with its rising tendency shows that the deposit currency in Southeastern Asian countries is still underdeveloped, and monetization of economy is still under way at present. No one can state that when this ratio reaches a certain figure the monetization of the economy is completed and that a non-monetized condition ceases to exist because each country has varying circumstances. In the case of Japan, around 1895, the ratio of

1 Committee on the Working of the Monetary System, *Principal Memoranda of Evidence,* Volume 1, London, Her Majesty's Stationery Office, 1960, p. 256.

cash currency against national income was about 20%, and from 1896 to 1900, the period when, according to Rostow, the "take-off" was about completed, it decreased from 16% to 11%.

Table 1. RATIO OF CASH CURRENCY AGAINST NATIONAL INCOME

Country	1953	1961
India	11.7%	14.5%
Pakistan	12.0	17.0
Ceylon	7.7	12.2
Indonesia	6.3	24.0
Malaya	17.2	25.1
Philippines	9.5	9.1
Thailand	13.8	14.5
Burma	12.4	20.0
Japan	10.5	9.8
U.S.A.	9.3	7.1
U.K.	11.4	10.3

Source: IMF, *International Financial Statistics.*
Note: 1. The figures for cash currency are from IMF's *International Financial Statistics,* Monetary Survey.
2. Of national income figures, those of India, Ceylon, Thailand, and Malaya are for 1960, and that of Indonesia, for 1959.

2. *Organized and Unorganized Money Markets*

The monetized economy in the developed countries represents an organic entity, but this is not so in the less-advanced nations, where organized and unorganized money markets exist within their boundaries.

The existence of these unorganized money markets is an obstacle to economic development, since they do not help in the accumulation of capital funds, neither can their financial assets be used and invested in those areas where the need of development is greatest. They remain isolated from the other money markets, centring on indigenous banks or money-lenders and possess strong regional characteristics. This is the type of finance the rural, and sometimes the urban areas depend on, and it has great influence. It is estimated in India, for example, that this type of finance represents 40 per cent of the total money market.[1]

Whilst the organized money market consists of modern banks, co-operatives, development finance houses and similar institutions with the central bank as its nucleus, the unorganized money markets remain isolated, even from each other, yet, as they represent a traditional type

1 S.L.N. Simha, "Evolution of Monetary Policy in India," *1960 Annual Commerce,* December 1960, Bombay, Commerce Ltd.

of financing, they resist change with a tenacity which becomes a problem to the planners.

The explanation of their existence may be due to the fact, on the one hand, that under the old colonial economy, organized money markets were needed only in the foreign trade sector while the necessity of such markets was much less in the agricultural and the domestic commerce sectors. On the other hand, the risk involved in agriculture and home trade was extremely great, and there was little room for modern banking practices.

Therefore, the elimination of these unorganized markets is related to the release from the colonial economic system, and they should be integrated into a truly national economy, just as all the other economic sectors should be.

The existence of such unorganized money markets means, in other words, a narrowness of the organized money market. As an index of this, Table 2 shows the formation of currency in circulation in Southeast Asian countries. Currency in circulation consists of cash currency and deposit currency. While cash currency is utilized both in organized and unorganized money markets, deposit currency is almost exclusively utilized in the organized money market. Therefore, if the ratio deposit currency holds in currency in circulation is small, it means a narrow organized money market, or conversely an extensive unorganized money

Table 2. CURRENCY IN CIRCULATION (end of 1961)

Country	Currency in Circulation	Cash Currency	Ratio (%)	Deposit Currency	Ratio (%)
India (in 100 mil. rupees)	284	206	72.5	78	27.5
Pakistan (in 1 mil. rupees)	6,180	4,054	65.6	2,126	34.4
Ceylon (in 1 mil. rupees)	1,268	692	54.6	576	45.4
Indonesia (in 100 mil. rupiah)	678	487	71.8	191	28.2
Malaya (1 mil. M. $)	1,524	1,068	69.8	461	30.2
Philippines (in 1 mil. pesos)	2,219	1,050	47.3	1,170	52.7
Thailand (in 100 mil. baht)	112	65	57.8	47	42.2
Burma (in 1 mil. kyats)	1,504	1,038	69.0	466	31.0
Japan (in bil. yen)	5,258	1,319	25.1	3,939	74.9

Source: IMF, *International Financial Statistics.*

market. According to Table 2, except for the Philippines, the weight of deposit currency is less than 50 per cent, the majority of the countries showing between 20-30 per cent, while the weight of cash currency is much bigger. In Japan, to the deposit currency's 75 per cent, cash currency's weight is only 25 per cent, showing that an unorganized money market hardly exists.

3. Finance Systems Based on Trade

In the colonial period the underdeveloped countries exported primary goods and imported consumer goods, and the banking systems were geared to this type of trade. This type of financing, of course, could not help in the accumulation of development funds—funds required to encourage production and industrialization. The problem of switching capital out of trade and into industry is one which confronts the developing countries at the present time.

That the capital of an organized money market centres around finance for commerce involves the risk that capital might be utilized for speculative activities. Very often the new supply of capital through the central bank, instead of being used to increase production, as industrial capital, brings about a skyrocketing increase in the price of merchandise. The reason why the central banks of underdeveloped countries try to resort to selective credit control and suppress finance for commerce in the transaction of specialized commodities on the part of commercial banks is because they want to prevent the finance for commerce being utilized for speculation.

However, there are reasons why finance for commerce holds the central position in the finance of underdeveloped countries. When industrialization began, naturally the need for capital in the manufacturing sector was not very great. Of course, the economic development in underdeveloped countries also calls for industrialization, and the latent capital demand in industry must be great also. However, this new demand for capital cannot immediately be supplied by the organized money market. As long as finance is the phenomenon of a credit economy, it is difficult to invest capital in something insecure. Furthermore, the accumulated capital in underdeveloped countries is mainly short-term capital, again only natural where there is little capital accumulation. On the other hand, the commercial sector is the most appropriate one for this type of capital to be invested in, especially in the trade sector, because there is sufficient credit and security, and the capital is invested for a short term, usually less than one year.

Table 3 illustrates the weight commerce holds in the commercial bank loans in Southeast Asian countries. Except for India, loans for commerce are more than loans for industry; notably in Ceylon the ratio is as high as 86 per cent. In the case of India, loans for industry are even greater than those in Japan, but it cannot be said that loans are all strictly capital for production. Besides, long-term capital for industry is exceptional in this country. Among the collateral the Indian commercial banks hold against these loans, 56 per cent of the total loans are made against merchandise, indicating that many of the loans are short-term finance for manufacturers. Therefore, in the Southeast Asian countries, the weight of loans for commerce is higher than in the case of developed countries, and it is extremely important to switch capital from commerce to industry.

Table 3. COMMERCIAL BANKS' LOANS BY INDUSTRIES (end of 1961)

Country	Commerce	Industry	Agriculture, Forestry, Fisheries	Others
India	34%	54%	1%	11%
Pakistan	39	32	8	21
Ceylon	86	5	2	7
Indonesia	47	12	2	39
Malaya	35	10	9	46
Philippines	40	34	17	9
Thailand	51	12	3	34
Burma	42	29	3	26
Japan	31	50	2	17

Source: Annual and monthly reports of the central bank of these countries.
Note: Commerce includes wholesale, retail, trade and finance insurance.

4. *Underdevelopment of Capital Markets*

Capital markets in underdeveloped countries are rarely fully developed, yet it is necessary to strengthen them so that they may assist in economic development. Unlike commerce, in industry a tremendous amount of fixed assets are necessary, and the capital for these facilities is not of a short-term nature. It is the capital market which raises the kind of long-term capital necessary for these facilities, but the accumulated capital in underdeveloped countries is generally of a short-term kind. Of course there is long-term capital, too, but it is either used as the enterprises' own investment——mainly real estate investment——or buried in unorganized money markets, and does not flow into the organized money market.

Most of the capital in organized money markets is thus short-term

capital, delaying the development of capital markets and it is an undeniable fact that what suppresses the growth of long-term capital is the lack of a capital market. Under the colonial economic system, long-term capital came from the home country or from reinvestment of profits, thus making very little indigenous capital necessary.

However, the need is now to accumulate domestic long-term capital and to draw it into the organized money market. For this objective, various development financial organs are established and stock markets are improved, but as yet they are not achieving the desired results. There is a strong tendency, therefore, rather than use voluntary savings in private sectors, to utilize compulsory savings on the part of the government or contractual saving such as annuities to raise this long-term capital. These methods are understandable as a transitional measure, but what is most necessary is to expedite the accumulation of long-term capital through the growth of a capital market.

5. *Dominance of Foreign Banks*

Because of the political reason that most of the underdeveloped countries used to be colonies, and that their economies were based on colonial economic systems, the foreign banks naturally make big advances. These foreign banks originally financed trade activities with the home-land and other countries, but eventually, due to the restricted nature of the organized money market in undeveloped countries, foreign banks became to dominate the market, or while there was still very little room for activities by indigenous banks, organized money markets came to be created solely by foreign banks.

Foreign banks contributed to the modernization of finance in underdeveloped countries by establishing organized money markets there. However, as underdeveloped countries began to become independent economically, the defects of these foreign banks became apparent. At present, in Burma, Ceylon, Indonesia, etc., foreign banks have been either expelled or discriminated against. This was done partly from such political motives as nationalism, but there were also financial reasons for these steps.

What were the defects then, of the foreign banks in the present underdeveloped countries? Firstly, the interests of foreign banks are not necessarily the same as those of the underdeveloped countries. As foreign banks very often are called exchange banks, they deal in trade finance and commercial finance accompanying it. However, the finance needed at present in underdeveloped countries is, as has been described

before, finance for production and industry. Of course some of the foreign banks are engaged in the finance for industry, but naturally there is a limit to their activities.

Next, in the underdeveloped countries, efforts are being made to expand the organized money markets, especially in the rural areas which had been left at the mercy of unorganized money markets. However, as long as foreign banks centre around trade financing activites, it is too much to expect them to enter into rural areas which do not need that kind of finance. Further, it does not pay to establish new branches in rural areas for these banks, so that it is difficult for underdeveloped countries to let foreign banks handle profitable trade finance and let indigenous banks engage in less profitable activities in rural areas. Therefore, it becomes possible for underdeveloped countries, by curtailing the activities of foreign banks, to allow indigenous capital banks to make advances in the field of trade finance and to incorporate the rural areas into the organized money market.

Thus the dominance of foreign banks is gradually weakening. At the end of 1961, in the Southeast Asian countries, the weight of foreign banks in the deposits at commercial banks were as is shown in Table 4. Beginning with Malaya's 84 per cent, Ceylon followed with 52 per cent, Burma with 40 per cent, holding still considerably high weight. The reason why Indonesia shows very low weight is because the Government confiscated Dutch banks and took forcible steps in nationalizing other foreign banks. In Burma, too, nationalization of all the foreign banks took place in 1963. In Ceylon, new business at foreign banks is very much restricted. On the other hand, in India, as a result of the Government's efforts to foster a positive financial system the weight held by foreign banks was lowered. In any case, the dominance once held by foreign banks will be further weakened in the future, and it

Table 4. FOREIGN BANKS' WEIGHT IN COMMERCIAL BANKS (end of 1961)

Country	Foreign Banks	Local Banks
India	14.4%	85.6%
Pakistan	32.7	67.3
Ceylon	52.0	48.0
Indonesia	7.1	92.9
Malaya	83.9	16.1
Philippines	23.7	76.3
Thailand	16.4	83.6
Burma	40.0	60.0

Source: Annual and monthly reports of the central bank of these countries.
Note: Indonesia's figure is that of the end of 1960.

is hoped that, in the meanwhile, measures respecting the rational characteristics of finance are adopted.

6. Establishment of National Banks

In underdeveloped countries the role played by the national banks is very important. It is necessary to eliminate the influence of foreign banks in these countries, but there must be something to fill the void after eliminating them. It is desirable to use private banks utilizing indigenous capital for that purpose, but unfortunately in underdeveloped countries there is not enough indigenous capital. For this reason the establishment of national banks with assistance, capital, and guidance given by either the Government or central bank is called for.

Next, although national banks may not eliminate foreign banks completely, in order to increase the organized money markets they must increase the number of branch offices rapidly, even at the risk of a loss of profit, something which the private banks, which lay stress on profit, cannot very well do. This is the second reason why it is necessary to establish national banks. Also, although finance for production is needed in economic development, in underdeveloped countries where industry is not yet firmly established there is still great risk involved in finance for production. It is not without reason that private banks are shy of this kind of financing and lay more stress on finance for commerce, but then economic development cannot be financed that way. That is another reason why national banks are called for, because banks are needed which can shoulder a certain degree of risk and make positive advances in financing industry.

Besides these economic reasons, nationalism and socialistic ideology require national banks. In some countries, these considerations are far more important than the economic reasons. However, even though national banks are established for political reasons, behind it all there are still economic circumstances peculiar to underdeveloped countries.

Table 5 shows the position national banks hold among commercial banks. At the end of 1961, in Indonesia national banks held 84 per cent of total deposits. Next comes Burma with 49 per cent, followed by Ceylon with 48 per cent. At present, in Burma, not only foreign banks but indigenous private banks as well are all nationalized, so that the share of the national bank is literally 100 per cent. In Ceylon there are no private banks, but only the Bank of Ceylon—the national bank—other than foreign banks. Only Malaya and Thailand are without national banks.

Thus national banks hold high position among commercial banks, playing an important role in expanding the financial structure and raising economic development capital. At the same time, utilizing their favoured position, they are achieving good results as instruments of financial policy. By their influence in the determination of interest rate of commercial banks they are able to facilitate the change in the interest levels of the country.

Table 5. POSITION NATIONAL BANKS HOLD AMONG COMMERCIAL BANKS (end of 1961)

Country	National Banks	Indigenous Capital Private Banks
India	21.3%	64.3%
Pakistan	28.4	38.9
Ceylon	48.0	0
Indonesia	83.6	9.3
Malaya	0	16.1
Philippines	33.5	42.8
Thailand	0	83.6
Burma	49.0	11.0

Source: Annual and monthly reports of the central bank of these countries.
Note: 1. The proportion in the amount of deposits. The figures for Indonesia are those for the end of 1960.
2. The figures for national banks, in the case of Philippines, end of 1959; Burma, end of June, 1959; and Pakistan, end of 1960.

7. *Seasonal Characteristics of Finance*

Because industry in underdeveloped countries still centres around agriculture, in the fields of finance strongly seasonal characteristics are observed. The harvest season is a busy time for finance too, and a slack period occurs after the harvest. In India, where jute, cotton, and tea are the main products, the busy season for finance is from November to April of the following year, and May to October is the slack season. This kind of seasonal financing necessitates large cash reserves to be held by commercial banks. In underdeveloped countries, because of difficulties in transportation, and payments in cash rather than by cheque, more cash reserves are needed when compared with banks in developed countries. As a result, loans from commercial banks are much limited, bringing about insufficient utilization of the organized money market, which is too small in the first place.

Again because of these seasonal characteristics, even during the slack period, bank capital cannot be utilized in medium and long-term finance for industry. It is very difficult for banks to do else than

hold cash or buy short-term government bonds at the most in preparation for busy seasons. Unless the industrial structure of underdeveloped countries changes, the seasonal characteristics of finance will remain. However, utilization of the capital market should be examined in order to turn the surplus capital during slack periods into capital for industry.

8. *Duality of Interest Structure*

Duality of interest is another characteristic in the finance of underdeveloped countries. Naturally even in developed countries, depending upon short- or long-term capital, or depending upon the kinds of security, the interest rates vary. However, there is an organic relationship among the different interest rates, and they are not unilaterally determined, while in underdeveloped countries there are two kinds of interest rates, with a clear gap between them. One of them is the interest rate adopted by central banks, commercial banks, development financial organs, and government bonds, and the other is that of indigenous banks, money-lenders, etc. The former is much lower than that of the latter.

This kind of dual structure of interest rate is brought about basically by the fact that the money market is divided into organized and unorganized money markets. The interest rate in the organized money market is determined by a demand-and-supply relationship (generally supply surplus) of capital in the market, while the interest rate in the unorganized money market is again determined by the demand-and-supply relationship (generally demand surplus) of that market. Between the two markets, there is hardly any interchange, nor any organic relationship between them. Of course, there is a political element which lowers the interest rate in the organized money market, depressing it, while in the unorganized money market, because of risk and security conditions the interest rate is higher than what the actual capital demand calls for. However, it is an undeniable fact that the lack of interchange between the two markets enlarges the gap in the interest rates.

This dual structure of interest rates in underdeveloped countries is a big obstacle to economic development. Needless to say, it is desirable to have low interest rates for economic development. Also, since this investment is made through the organized money market, the cheap money policy, maintaining the interest rate in this market as low as before is desirable. On the other hand, pushing a cheap money policy not only does not contribute to lowering of interest rate in the unorganized

money market, but makes it impossible for funds in this market to be absorbed into the organized money market to be utilized for development. In order to establish an organic relationship between the two markets and to have the capital flow between them it is necessary to eliminate the gap in the interest rates. For this purpose, the interest rate of organized money markets must approach the high rate of unorganized money markets to some degree. There is an objection in underdeveloped countries in view of the low interest elasticity against savings, but this is an argument concerned with only the organized money market, overlooking the ever present existence of the unorganized money market.

II. FINANCE IN ECONOMIC DEVELOPMENT

1. Raising Development Capital

The role of finance in economic development is naturally the raising of development funds. Within the development funds are both domestic capital and foreign capital. The biggest task for the finance of underdeveloped countries is the accumulation of domestic capital and its investment as capital for industry. In order to expedite accumulation of domestic capital, first of all the organized money market must be expanded and the unorganized money market eliminated. The measures which must be taken would be establishment of new banks, increase of branch offices, making banking facilities available throughout the nation, and at the same time raising the interest rate in the organized money market giving it a closer relationship to the unorganized money market. Inside the organized money market, too, such measures as an establishment of a credit organization and other similar improvements should be taken in order to accelerate the accumulation of capital.

On the part of those who supply industrial capital, bias in favour of capital for commerce must be corrected and finance for production must be expanded. If finance for production involves too much risk, then measures must be devised to eliminate such risks. Also, finance for industry needs longer term capital than finance for commerce, so that measures should be taken to switch the short-term capital into long-term capital. Measures to keep the interest rate for industrial capital as low as possible must be taken. Consideration should be given to utilizing foreign banks, although they have defects in supplying industrial capital.

The tasks imposed on underdeveloped countries in the field of finance in raising economic development funds call for various measures.

However, what underlies them all is the establishment of a modern financial system, an artery for the national economy. When such a banking system is established, then capital formation in the form of financial assets, necessary for development, can be expanded, and industrial capital is supplied to the sectors where it is needed most. Therefore, rather than hurriedly raising development funds by easy political means, it is more important first to create a modern financial system by checking the undesirable characteristics peculiar to the finance structure of the underdeveloped countries. Of course, it cannot be left to private sectors alone, where there is not sufficient capital accumulation, and positive guidance and aid on the part of the Government and the central bank are needed.

2. Measures to be taken by the Government and the Central Bank

First of all, financial aid must be given in order to establish a modern financial system. This can take the form of financing at low interest, or temporary investment by the central banks for establishment of new banks, or giving subsidies when new branch offices are opened in the rural areas. These measures have been already taken in Pakistan and Burma, etc., and these should be carried out as an aid to the private financial sectors, and not as a measure of nationalization of banks. In order to fill the gap between a high interest rate policy from the point of accumulation of domestic capital and low interest rate for supplying industrial capital, an interest subsidy system should be adopted for enterprises. The high interest rate policy in order to expand the organized money market is the way to establish a modern financial system, and the burden the industry has to shoulder as a consequence should be borne by fiscal funds as long as it is nationally approved. In the present circumstances where the industrial capital is more risky than finance for commerce, it is necessary for the Government or governmental agency to give adequate guarantees to industrial finance.

Next, the central bank must do its best to stabilize the currency. Although there are people who hold that mild inflation is useful in increasing accumulation of capital and so helping economic development, what is most important for underdeveloped countries, which must spread and establish a monetized economy all over the country, is the stabilization of the currency value. If the value lowers, then the sectors which have been monetized would easily go back to a non-monetized economy as before. When the development towards monetized economy

lags behind, savings in the form of financial assets fail to increase, making the raising of development capital impossible. No one can deny this after observing the example of the Indonesian economy.

Efforts should be taken on the part of the Government and the Central Bank to educate the general public and those concerned with financial organs. Increased capital formation cannot be achieved by mere financial and fiscal techniques. There must be a people's savings movement as the basis thereof. In underdeveloped countries there is not too great a saving propensity under their social and economic conditions, but for economic development there should be active savings. Naturally it is necessary to improve the social and economic conditions which hamper the spontaneous savings propensity, but it can be fostered first of all through education, letting each person realize that he is a part of the nation as a whole, and that his savings, together with the savings of his friends, help the national economy, and these too can help to improve his personal life.

Others too, connected in the business life of the country should be educated in the importance of industrial finance in general, and the principles of finance in particular, for knowledge in these things will strengthen the whole basis of finance in the underdeveloped countries.

Announcement of the forthcoming issue :—

THE DEVELOPING ECONOMIES

Volume II. March 1964 Number 1.

Land Reform and New Marriage Law in China..........Noboru Niida
Possibility of Regional Economic
Integration in Southeast Asia..................Noboru Yamamoto
Problems of Primary Products Exports in
Underdeveloped Countries ....Katsu Yanaihara
Landownership and Land Reform Problems
in the Philippines ....Tsutomu Takigawa
On Arab Socialism ....Takeshi Hayashi
Ecological Studies of the Tibetans in the Himalayas ....Shigeru Iijima

Book Reviews