b. Project on the reorganization of the wartime economy, 1941–1942:

Memoranda containing opinions on unification related to the wartime economies in Japan, Manchuria, and China were prepared by the Tokyo group, but with the outbreak of the Pacific War, and the tremendous change in circumstances, research was halted.

c. Project to determine the availability of strategic resources for Japan in the Japan-Manchuria-China bloc, 1939–1941.

d. Project on the location of industry, 1939–1943:

This was conducted primarily by the Hsinking Research Office, but the Dairen, Mukden, and Tokyo branches also participated.

e. Project to review the general war potential of China, 1939–1941:

This was executed primarily by the research office of the Shanghai branch, and produced epoch-making achievements. On the scientific judgments regarding the politics and economy of the interior of China (some of which were arrived at by Chinese including Mao Tse-tung's work, "On Protracted War",) the Shanghai office twice held meetings which brought together the staffs of the Dairen, Peking, Tokyo, and Hsinking branches. They came to the conclusion that the fighting strength and power to resist of the Chinese should not be scorned. The results were reported to the General Commander of Nanking, to such important personages of the army and navy as the general staff at Tokyo, and to relevant government personnel. However, as the defeat in the war drew near, those who had done research on these items were held in contempt by the Kwantung military police. The result was the Incident of the Research Department of the SMR, in which in 1943, 38 outstanding employees of the Research Department were imprisoned as "legally camouflaged communists" on charges of violation of the Peace Preservation Law. At the same time, the Company purged 30 employees from the Research Department.

In the third section of the present volume, Dr. Young narrates the decline and dissolution of the SMR. He records that the Japanese Military brought about the dissolution of the SMR's Research Department without waiting for the end of the war. (*Takeo Itō*)

STAFFAN BURENSTAM LINDER, *Trade and Trade Policy for Development*, New York, Washington, London, Frederick A. Praeger, 1967, xi+179 pp.

According to Professor Linder's reasoning, *developing countries*, which lack the ability to transform their domestic resources into the goods essential for their economic development, have *import minimum*—minimum input import—in order to realize the full use and growth of their productive capacities. At the same time, these countries have *export maximum* due to the unfavorable demand conditions for their exportable goods. For most developing countries, the former has a tendency to exceed the latter. This is *the theory of foreign exchange gap* developed in this book as a new approach toward the trade

problems of developing countries. This theory is novel in its theorizing of foreign exchange constraint for development. In traditional theory, the balance of payments crisis of developing countries has been usually attributed to an excessive and overly ambitious investment project or to a failure in mobilizing domestic savings. Professor Linder aims at a presentation of an alternative theory to these traditional viewpoints. His reasoning, starting with an interesting analysis of various input import and ending with a practical recommendation on economic integration among developing countries, is not only systematic but also very persuasive.

When we carefully examine his compact presentation of the theory of foreign exchange gap, however, we discover the crucial fact that the theory developed in this book is not necessarily independent of *the theory of overlapping demand* set forth several years ago in the author's book, *An Essay on Trade and Transformation* (1961). Indeed, it seems to me that the theory of foreign exchange gap is derived from and thereby is wholly dependent on the theory of overlapping demand. This fact introduces certain biases into his analytical framework and imposes certain limitations on his policy recommendations. As stated above, the foreign exchange gap is a product which results from import minimum and export maximum of developing countries, but the existence of import minimum is not unique to them. Since the rigidity of production is brought about through a priori resource endowment as well as the particular stage of development of countries concerned, even for advanced countries there exist cases in which a certain amount of input import is required for the use and growth of their productive capacities, as Professor Linder clearly points out. Moreover, when exports are sufficient to cover import minimum, the foreign exchange gap does not appear at all. Therefore, the existence of the gap, if any, is introduced from the fact that export maximum of developing countries falls short of the required import minimum. As for the exports of developing countries, it is well recognized that the demand of developed countries for primary goods exported from developing countries is inelastic and stagnant, while substantial and rapid expansion of manufactured export is expected by such developing countries. However, according to Professor Linder, a rigid limitation exists even for the latter category of exports, because there is a big difference in the level of per capita income, hence in demand structure, between advanced and developing countries. For this reason, manufactured goods in whose production developing countries have some advantages resulting from the existence of domestic demand for them are not demanded by advanced countries. While in regard to goods demanded by advanced countries, the developing countries are unable to produce such manufactured goods efficiently owing to their own lack of domestic demand. This particular explanation has its roots in the theory of overlapping demand itself. Thus, we can conclude that the newly evolved theory of foreign exchange gap stems from the already familiar theory which Professor Linder originally presented to explain the tremendously increasing trade in manufactures among industrially developed countries.

In this book, Professor Linder tries to apply the theory of overlapping demand for different circumstances—trade between developed and developing countries—and uses it, this time, to argue that the exports of manufactures from developing countries have fallen into a trap. However, I think, it will be possible to present several questions on this theory, which has been re-introduced in this special context. (1) While a flow of manufactures from developing to developed countries ceases to function by the application of this theory, an opposite flow of goods from developed to developing countries is infinitely opened in the form of required input import of the latter countries. Although differences in the nature of manufactures traded between the two groups of countries and the different degree with which demand of each group is overlapping are to be taken into account, the strict application of this theory to only one direction of trade seems to be somewhat arbitrary. (2) According to his theory, when the gap in per capita income between two groups is steadily widened in spite of growth in developing countries themselves—and this is actually occurring in the world—the possibilities and opportunities for manufactured exports from developing countries are getting smaller and smaller. This seems to be rather paradoxical. (3) In his previous book, Professor Linder distinguished the range of exportable goods based on so-called *representative demand* and that of importable goods including every goods for which demand could exist at its current price, and admitted that the range of the latter was generally wider than that of the former. Furthermore, he mentioned that the amount of demand for goods required previously at the lower level of per capita income could be expanded after per capita income increased. This appears to be the case with demand structure in economically advanced countries where per capita income is higher. (4) The theory of overlapping demand emphasizes primarily the existence of domestic demand for exportable goods and regards exports to external market as the final stage of an expanding production line in a particular country. As long as this theory is rigidly applied, manufactured exports from developing countries where domestic markets are extremely small are restricted owing to their supply conditions, as Professor Linder maintained. But he also agreed that there were some exceptional cases in which domestic demand was not necessarily a precondition for export; namely, the case in which products have easy access to the external market and which can be produced without intensive research and development. Manufactured goods which are now being exported from developing to developed countries seem to be examples of these exceptional cases. (5) Moreover, when we find that many of the investment ventures of developed countries are moving towards the industrial sector of developing countries for the purpose of establishing comparative advantage based on cheap and abundant labor, the principle of comparative costs, and not the theory of overlapping demand, seems to be applicable for manufactured goods exports as in the case of primary goods exports.

All of these questions are closely related to my own viewpoint which puts emphasis on an outward-looking or export-oriented industrialization in

developing countries as an escape from the impasse of an inward-looking or import-substituting type of industrialization which these countries have been driven into. Professor Linder applies the theory of overlapping demand to this problem, thereby closing the sole path of escape. This direction of his reasoning, therefore, necessarily leads to a strong inclination to import substitution of non-input imports and to policy recommendations on economic integration which will provide a useful framework for import substitution. Next, we shall proceed to these issues and make some points on them.

First of all, import substitution is concerned with a cut in non-input import. Since this reduction of non-input import is supposed to be compensated by the increase of input import, the total imports of such developing countries, and hence the total exports from developed countries, remain the same as before. At the same time, internal equilibrium of developing countries is realized through the increase of input import for them. But this ideal situation as described by Professor Linder will only be achieved when the initial foreign exchange earnings are equal to the total imports of developing countries and existing internal disequilibrium can be extinguished through the change of import composition. But when external disequilibrium exists side by side with internal disequilibrium at the initial condition, the cut of non-input import naturally leads to the reduction in total imports. Moreover, depending on the amount of input import required, external disequilibrium may even remain after non-input import is replaced by import substitution. It is my opinion that the foreign exchange gap in its true sense appears under these circumstances. If so, import substitution of non-input import will reduce its significance to a large extent.

Secondly, relating to the first point, it may be necessary to curtail the very input import in order to remove external disequilibrium. Domestic production of input import—this is called as *supply effect* by Professor Linder —is in a sense vital to resolve the foreign exchange gap fundamentally in that it implies overcoming the rigidity of production in developing countries. But this is an extremely difficult task for developing countries, because the supply effect will require a long time to become effective and it will call for further imports at least in its initial stage. Here again it is to be necessary to put priority on exports—especially manufactured exports—and promotion measures for such goods as the ultimate way to remove the foreign exchange gap. If Professor Linder had taken into account the relationship among the measures which he advanced to remove the gap, paying attention to their time elements, his inclination towards an import substitution policy might have been somewhat different.

Thirdly, Professor Linder proposes economic integration among developing countries as a useful framework to deal with import substitution. So far as his proposal is concerned, economic integration will certainly lessen the difficulties entailed in import substitution. Therefore, the proposal for economic integration is assigned a crucial role in this book as well as the theory of overlapping demand. In other words, the theory of overlapping

demand, import substitution policy and the proposal for economic integration are interrelated and logically arranged as the three main components in this work. As for economic integration, Professor Linder stresses the following three points: (1) in the case of developing countries, trade diversion effect can create gains not losses for them, as long as import substitution of non-input import based on an integrated framework leads to the increase of input import, (2) to secure fully the gains from integration, it will be desirable to form an integration plan which includes as many developing countries as possible, and (3) within this integration, the traditional theory of free trade will hold true. Of these three points, the first one is particularly important in understanding the significance of economic integration among developing countries. As for the second and the third points, however, Professor Linder disregards the diversity in the stage of development, which we can actually find examples of even among developing countries, and many of the difficulties such diversity may bring into the formation of economic integration itself. The larger the area included into such an integration is, the more diversity is possible in such an area. This is the main factor preventing the traditional trade theory from being applied. On the contrary, if we choose the area which can be covered under such an integration scheme in terms of applicability of traditional trade theory, the scope of such area will have to be reduced and correspondingly the gains from integration will be small. These are the problems for which we are just beginning to find the solutions. It seems that more detailed explanations on actual integration schemes are indispensable, when we remind ourselves of the crucial role assigned to economic integration in this book. The conclusion which can be derived from these considerations may diminish the excessive expectations on integration problems, contrary to Professor Linder's intention. (*Atsushi Murakami*)

G. COEDÈS, *Les peuples de la péninsule indochinoise: histoire-civilisation*, Collection SIGMA, Paris, Dunod édition, 1962, 228 pp.

The historical significance of the region of Southeast Asia lies in the fact that the area has provided a transitional zone for the contact between and intermingling of two major cultural areas: China and India. In this respect, the word "Indochina," indicating the continental part of Southeast Asia, symbolizes the "intermediary" nature of this region. Prof. Coedès' book is a historical study of the Indochinese peninsula.

The inhabitants of the countries in this area are composed of a great variety of races, among which the most important are the Mon Khmer of Austro-Asiatic descent, the Vietnamese of South Chinese descent, the Burmese of Tibeto-Burman descent, and the Siamese of Southwest Chinese descent. While there is considerable variety among the cultures of these respective groups, there are several cultural elements common among them which are the basis for a "unity within diversity."