21. In Malaya and British Borneo the need for external finance arises primarily from the lack of internal finance available to the Governments. The external finance is a larger part of the total development programme than in the other countries' programmes. The balance of payments position of Malaya is rather similar to that of Ceylon ; it is now reasonably favourable, but can rapidly deteriorate and destroy both the internal and the external financial basis of the development programme.

22. It appears from the programmes that the need for external finance cannot be measured by the cost of imports of capital goods for the projects in the development programmes ; consumer goods as well as capital goods are needed to carry them out. The need for external finance arises from the size of the balance payments deficit which is required in order to permit the development programmes to be carried through ; the criteria to be adopted are therefore to be found firstly in the soundness of the development programmes themselves, and secondly in the extent to which a balance of payments deficit is necessary in order to provide the external resources to support the economies of the developing countries.

The Provision of Finance

23. The dimensions of the external finance needed by the Commonwealth countries in the area have been stated above at almost £1,100 million in the six-year period beginning in July, 1951. This figure represents a general order of magnitude ; the countries' needs for external finance will change in the course of the period as the general economic position changes, and the programmes themselves will change in the light of experience and further progress. The programmes will be kept under continuous review. It is impossible now to make a similar assessment of the needs for external finance of the non-Commonwealth countries in the area, but the application to them of the same technique as has been applied in this Report would almost certainly point to a considerable need, although it would not be as large as that of the Commonwealth countries, which have three times the population.

24. The problem which confronts the countries of South and South-East Asia is to secure a flow of capital from overseas of these general dimensions, in order to provide them with the resources required to supplement their own maximum savings and enable them to carry out their programmes. The possible channels of external finance are—

(i) use of the countries' own external assets (*e.g.*, sterling balances) ;

(ii) from private investors overseas to private enterprise in the area ;

(iii) from private investors overseas to Governments in the area ;

(iv) from international institutions to Governments in the area ;

(v) from Governments overseas to Governments in the area.

25. In the last five years, as explained in Chapter II, external finance has been provided by Commonwealth countries to non-Commonwealth countries in the area. The main sources of external finance for Commonwealth countries in the area has been the use of their external assets. In addition to the use of sterling balances of £270 million by India and Pakistan for the purchase of pension annuities, the transfer of military assets and capital repatriation, the sterling balances of India, Pakistan and Ceylon have been drawn down by £340 million for current account purposes from 1946 to 1949. By agreement with the United Kingdom these countries restricted their drawings below what would have been desirable for their economies, in order to limit the burden on the United Kingdom economy.