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The Southeast Asian colonial-type economy has received considerable attention in literature written by economists, historians and other social scientists.[1] This literature points to a number of common characteristics that provide a basis for describing a more or less unique situation as the Southeast Asian economy.

All Southeast Asian countries experienced a significant foreign impact, resulting in roughly similar structural and functional patterns in their economies. By the eve of World War II, all had an essentially dualistic economic structure: a large, relatively stagnant, traditional agricultural sector contrasting sharply with a superimposed export-oriented sector. The foreign-dominated export activities produced a dynamic enclave in which investment and growth occurred, but this expansion was primarily geared to conditions in foreign markets and their inducements to foreign investment in the Southeast Asian economy. Hence, whatever economic excitement took place in these economies was limited to the export sector. By and large, how-

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[1] E.g., Furnivall, Myint, Higgins, Boeke.

ever, expansion in this sector failed to spark a growth response in the traditional economy, although in some cases there were induced effects around the fringes of the massive agricultural sector. Yet the growth of the export sector proceeded rapidly as foreign factors of production — capital as well as labor and entrepreneurship — flowed in so that ratios of exports to total product rose consistently. By the end of the 1920's, all Southeast Asian economies showed high export ratios, in some cases the highest achieved by colonial, underdeveloped countries. For these reasons, we view Southeast Asian economies during the colonial period as *export-dominated* growth economies.

These well known characteristics mark off Southeast Asian economies as a particular type, contrasting with other less-developed economies. They also provide a foundation for a more satisfactory understanding of the growth process by developing a framework for more suitably formulating the laws of growth of the Southeast Asian type economy. From this framework insights to better guide development planning may be evolved. These remarks point in the direction of the subject of major concern in this paper, the use of typology to facilitate the classification of growth theory and planning methodology.

For our purposes the typology approach is defined as a framework of analysis incorporating essential components of an economy and measurable resource flows among the component parts; from which the functioning of the economy as a whole, patterns of growth and specific structural characteristics can be identified. In the first section we discuss the general methodological issue raised by this approach. We then proceed to build this framework for analysis of Southeast Asian economies. Finally, we examine a few of the implications of the analysis for development strategy and planning.

I. Typology Approach: Methodological Considerations

In recent years it has become increasingly recognized that there should not be one growth theory or one planning methodology of universal applicability. The present writers believe that it is more realistic to think in terms of typology, both for formulating growth theories and for devising and selecting developing planning methods appropriate to different types of economies. Indeed, the notion that it is useful to think of Southeast Asian economies as a type was implicit in the Honolulu Conference on Economic Planning in Southeast Asia.

Prodigious research effort in economic development has focussed on devising strategies and policies for stimulating growth in less-developed countries. In this continuing search for effective ways to promote growth, the more difficult issue continues to be identifying critical problems to be tackled. For, providing significant problems are defined first, it is not difficult to develop methods or planning models to solve the particular problems. It is here that growth theory is relevant. Only in the context of a growth theory appropriate to a particular type of economy can the major obstacles to growth be uncovered and the paramount planning problems identified and formulated.

Literature on less-developed countries is rich in social, political and economic characteristics describing societies of particular types. These characteristics usually have been derived from inductive analysis. There is a need to reformulate and classify these characteristics through economic analysis, so that their operational significance to the development planner will stand out clearly. If analysis of this kind is to be fruitful, however, it is necessary that attention be paid to all of the essential features of the totality of the growth process rather than to some particular facet. Hence, an aggregate method of economic analysis is needed for this task.

This approach to the growth problem begins with an identification of the basic sectors of the less-developed economy, such as the industrial sector, the agricultural sector, and the export sector. The next step involves tracing important intersectoral relationships of two types: (1) the static pattern of intersectoral resource allocation, and (2) intersectoral transfer of factors of production such as capital and labor. Finally, it is important to trace out the changing patterns of these intersectoral relationships in a long-run historical perspective. This is true because the so-called dynamics or rules of growth of less-developed economies are mainly reflected in the changing patterns of resource utilization among these sectors through time. These ideas will be illustrated below in our analysis of the Southeast Asian type economy.

To be useful for planning and growth theory typology, the number of sectors identified in this way should be neither too large nor too small. Economists are now able to handle a large number of small sectors provided the relations between these sectors are symmetrical and homogeneous. This is exemplified by the input-output approach. It is also possible to give a rather intensive treatment to the growth process using one or at most two sectors at the aggregate level. However, for typology of growth theory and planning methodology, it is most useful to work with approximately four or five sectors. In contrast to the input-output approach, this number of sectors is small enough to allow treating asymmetrical relationships among sectors, and it is only through the identification of such asymmetrical relationships that we can contrast economies of different types. However, formulating the problem in terms of four or five sectors produces enough complexity so that a variety of approaches are needed to explore the problem fully. There is room for rigorous mathematical analysis as well as for more qualitative historical and institutional analysis.

II. Framework for Analyzing Southeast Asian Economies

Following the approach outlined above, we begin by identifying the major sectors of the economy. Four basic sectors are employed to give us a synoptic view of the Southeast Asian type economy: (1) the traditional agricultural sector; (2) the export sector; (3) the commercial services sector; and (4) the foreign sector. The *traditional agricultural sector* represents labor-intensive modes of production concentrated on food crops for subsistence of the sector's population itself. In the early stages this sector is largely self-contained, but eventually it is drawn into exchange with other sectors. The *export sector* is concerned with production of goods for export, with foreign factors of production playing an important role in initiating and promoting this activity. The *commercial service sector* is oriented toward export activities; it provides the services required for mobilizing and marketing export products. The *foreign sector* represents the foreign source of the domestic economy's trade and investment relationships.

To describe the operation of the economy we trace the pattern of commodity flows, primary factor flows, and financial (savings and investment) flows among these sectors. Despite the similarities among Southeast Asian export-dominated-growth economies, two rather distinct sub-types can be identified for the historical (i.e., pre-World War II) period. For easy reference, these are termed Model I, *the monomorphic production sector model,* and Model II, *the multiple production sector model.*

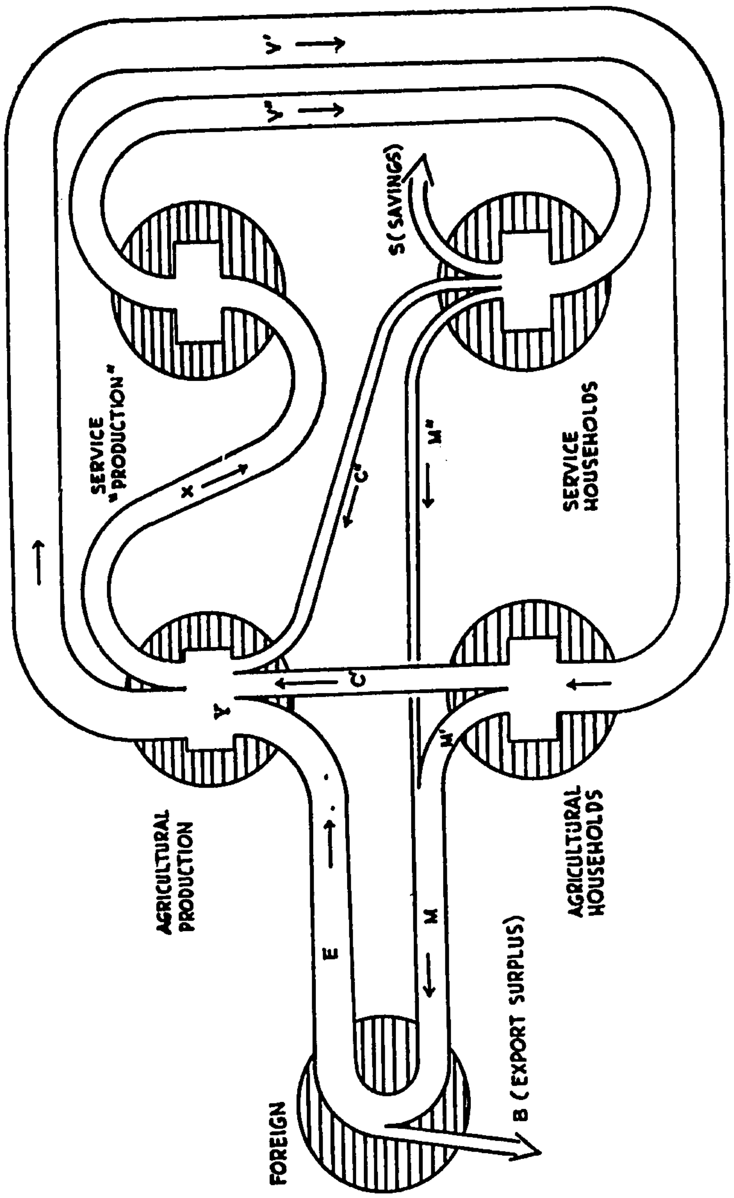
The distinguishing characteristic of Model I, (the monomorphic production sector model) is that export production continued to emphasize traditional, labor-intensive methods applied to an indigenous crop — rice being the outstanding example in Southeast Asia. In the case of Model II (the multiple production sector model), export production was associated with capital-intensive methods introduced from abroad. Most commonly these were applied to products which were also implanted from abroad — rubber and sugar representing two important examples in Southeast Asian history. Exploitation of mineral, rather than agricultural, resources for export (e.g., tin and petroleum) may be considered as a variant of the second case. We discuss these two cases in turn emphasizing the historical pattern of their growth and development.

A. Model I: Monomorphic Production Sector

This model represents Southeast Asian countries in which a traditional agricultural product came to be the dominant export, and exemplified historically by rice exports from Burma and Thailand.[2] Since a new sector producing export products was not grafted on to the economy, we work with three basic economic sectors: the production sector, the foreign sector, and the service sector. The service sector here plays the important role of handling the economy's exports; its function consisted of collecting, processing and marketing the product abroad. The origin of commodity production continues to be concentrated exclusively in the traditional agricultural sector, and a superimposed export production sector does not emerge. The service sector's functions tend to be limited to providing middleman-type services for moving abroad goods originating in the monomorphic production sector. Hence we do not construe the service sector to be an independent production sector for purposes of our analysis.

The national income accounting system shown in Diagram I pictures the basic economic flows in the monomorphic model. The three basic sectors in this economy (agri-

[2] In Burma, "of the average annual production of 4.9 million tons before the war, about 2.9 million tons [of rice] was exported." Jonathan V. Levin, *The Export Economies: Their Pattern of Development in Historical Perspective* (Cambridge, Massachusetts, 1960), pp. 206-7. In Thailand, exports of rice accounted for about 70 per cent of total exports consistently between 1870 and 1929, falling to about 55 per cent in the late 1930's. See James C. Ingram, *Economic Change in Thailand Since* 1850 (Stanford, California, 1954), Table VIII, p. 94.


Y'
Y''
S (SAVINGS)
SERVICE "PRODUCTION"
SERVICE HOUSEHOLDS
X
C''
M''
C'
Y
M'
AGRICULTURAL PRODUCTION
AGRICULTURAL HOUSEHOLDS
E
M
B (EXPORT SURPLUS)
FOREIGN

culture, service and foreign) are represented by the five circles; the agricultural sector and the service sector each have two circles of activity — the top representing production activities, the bottom representing income disposition by the households.

Beginning with the agricultural sector, the dominant part of productive activity, there are three components of demand for output: consumption demand by agricultural households (C') and by service households (C''), as well as export demand (E). One part of the total income received by agricultural producers (Y) is spent to purchase the "output" (x) produced by the Service sector. This output resembles an intermediary productive factor. Hence, expansion of the service sector depends on the growth of demand for agricultural output.

Another part of agricultural producers' income is paid to the agricultural households in return for supplies of primary factors of production (V'). This in turn represents income to the agricultural households, spent either as payments for consumption of agricultural goods (C') or imports (M'). Similarly, the income generated by payments to the service sector ($V'' = x$) is disbursed by service households for agricultural consumption goods (C'') and for imports (M''). Unlike agricultural households, however, a part of this income is also devoted to savings (S).

Finally, in the foreign sector, we see recorded total exports (E), imports ($M = M' + M''$), and an export surplus equal to the difference between exports and imports. Looking at the entire accounting system pictured, savings (S) and the export surplus (B) are the two capital account items; and they are of primary significance for development. As defined in this model, they are equal, i.e., $S = B$.

The diagram emphasizes the asymmetrical structure of relationships among the sectors. From the production aspect, we see that the service sector is dependent on the agricultural sector, while from the viewpoint of profit generation, it is apparent that the economy's entire savings fund accrues to the foreign operators of the colonial service sector. Hence, expansion or contraction of the system through time depends entirely upon the behavior of foreigners.

To analyze the dynamics of growth in the monomorphic production economy, it is useful to distinguish two phases in the economy's life cycle, a *stagnant* phase and an *active* phase. The key to this analysis lies in the different roles played in the two phases by the two capital accounting items, savings and the export surplus. Thus, these two items are central to the analysis of growth in the monomorphic economy.

Stagnant Phase

Growth of the monomorphic economy is dominated by conditions prevailing in the export market. The primary characteristic of the *stagnant phase* is that the export demand (E) continues at a constant level. Since the productive capacity of the service sector (x) is directly linked to export supply (E), there is no need to expand the capacity of the service sector through reinvestment of the sector's profit, i.e., savings (S).

Since savings (S) generated in the service sector accrue mainly to foreign entrepreneurs as profit and there are no profitable investment outlets within the economy during this phase, savings flow abroad as profit transfers. This is made possible by the existence of an export surplus (B). As shown in Diagram I, the magnitudes of the export surplus (B) and savings generated in the service sector (S) are the same, making possible the profit transfer.[3]

[3] To demonstrate empirical evidence for this argument, we cite Levin, *op. cit.*, p. 215: "In the years between 1928 and 1940, Burma's merchandise imports amounted to only between 38 and 55 per cent of merchandise exports. Moreover, of the prewar rice trade profits remaining in Burma — according to the statements of Prime Minister U Nu in 1948 — little was devoted to investment and a great deal to consumption of primarily imported luxuries." For Thailand we have Ingram's statements: "Thailand has had an export surplus in commodity trade ever since 1850. One reason for Thailand's persistent export surplus is that foreigners receive a considerable portion of the export pro-

From the point of view of the less-developed economy, a major disadvantage of this colonial-type arrangement is the absence of a direct link between the domestically generated savings fund (S) and expansion of productive capacity within the economy. Indeed, when export demand is not growing, the savings fund generated automatically flows outward to finance real capital accumulation in the metropolitan country.

The Active Phase

The growth dynamics of a monomorphic, export-oriented economy, as we have seen, are responsive only to external stimuli. If the production structure is to change or grow, in the Schumpeterian sense of "new combinations", the impetus must come from abroad. Hence entrepreneurship is a function reserved to foreigners, and when expressed it operates through the service sector.

The active phase is begun by an increase or an anticipated increase in export demand for the product of the monomorphic production sector. In expectation of increased profits, the service sector — the only source of domestic saving — begins to undertake new investment in this sector. This occurs as this sector begins to shift its savings to finance this domestic investment rather than transferring them to the metropolitan country as in the stagnant phase.

Since domestic savings were previously matched by the export surplus, there is no balance of payments problem even if all investment expenditures require foreign exchange. In the case where new investment does not exceed domestic saving, therefore, the previous export surplus is adequate to provide both the savings and foreign exchange requirements of investment. Where new investment demand exceeds the current savings of the service sector, new foreign capital is

ceeds and choose to dispose of a good share of it by remittances in the form of interest, dividends and personal remittances." ... Ingram, *op. cit.*, pp. 203 and 204.

brought in by the foreign entrepreneurs who operate the the service sector.

The result of this new domestic investment activity is the expansion of export capacity. This means, first, an expansion of the export-servicing functions within the service sector itself.[4] Additional facilities required for handling a greater volume of the export product are developed, taking the form, for example, of more (or better) rice mills, new roads or railroads, additional transport equipment as well as more clerks and an increased supply of commercial capital. Secondly, the service sector takes the initiative in expanding productive capacity in the monomorphic agricultural sector itself. This comes about through investment to increase the supply of land through building irrigation facilities, forest clearing, drainage operations and similar land-increasing activities. Given the pressure of population on previous utilized land, surplus labor moves on to the "new" land to expand output of the export crop. The service sector then moves aggressively to mobilize the increments in output for export.

Eventually, the growing supply of exports meets the new demand and the volume of exports levels off at the new, higher rate. New investment is no longer needed and if foreign investment was occurring in this phase, it returns to zero. Equally significant, domestic savings from the service sector are again transferred abroad as the export surplus

[4] Levin cites six types of participants in Burmese rice export operations: "(1) the Burmese cultivators, (2) the Indian moneylenders who financed them, (3) the middlemen who bought the rice, (4) the millers in the ports of Burma, (5) the shipowners, and (6) the fine millers in London who cleaned the cargo rice." He adds: "The commercial side of the industry — the financing, intermediate trading, milling and exporting was predominantly in the hands of Indians, Chinese and Europeans." Levin, *op. cit.*, p. 211 and pp. 214-5.

The Thai case is described as follows by Ingram: "With the development of an exchange economy, important new functions had to be performed — namely, the functions of taking the farmer's produce from him, transporting it to the seaports, selling it to foreign buyers, and then buying other goods to take back to the farmers. These middleman functions were performed by the Chinese ... Western merchants participate in these activities, especially at the wholesale levels, but the Chinese were by far the most numerous. The Thai participated hardly at all." Ingram, *op. cit.*, p. 37.

re-appears in the balance of payments. The economy has returned to the stagnant phase.

Long-run Growth Characteristics

We now inquire into the long-run growth characteristics of the monomorphic economy, whose life-cycle alternates between these stagnant and active phases. In this long-run perspective, it might appear that this colonial-type arrangement involves some advantages to the colony. Savings for investment to expand exports in response to increased demand are supplied by foreign entrepreneurs. Similarly, foreign exchange is automatically made available for purchase of real investment goods from abroad in the active phase. Foreigners also provide the entrepreneurship, the labor skill, the processing know-how for export operations, as well as ready foreign markets for the export crop.

In spite of these apparent short-run advantages, however, the monomorphic economy exhibits a long-run trend toward stagnation. Super-imposed upon this trend are periodic bursts of development activity restricted to the service sector and responding to external stimuli. This course of events produces no change in the economy's productive structure or its productivity. There is no opportunity for improvement of human skills. Hence, the economy cannot generate a built-in forward thrust. Neither the quality of its labor force nor the material agents with which labor works can be enhanced. Moreover, the monomorphic economy continues to be open to the outside world, but under the special condition in which a foreign-dominated export enclave lies at the heart of what development activity occurs. In this pattern of cooperation with the metropolitan country, the monomorphic economy cannot escape from the constraint of its specialization in the production and export of raw material-specific commodities.

The nature of the monomorphic economy's stagnation requires elaboration. The agricultural sector, it should be remembered, is the center of gravity in the domestic economy, producing virtually all of the economy's output and holding almost all of the indigenous population. Yet the periodic development thrust is confined to the foreign-oriented enclave we describe as the service sector. Growth of export capacity does not generate spread effects to the agricultural sector. Hence, there is no mechanism to induce changes in this sector's techniques of production. Moreover, there are no long-run changes in the land-labor ratio, in the allocation of land between subsistence and export production or in the consumption standards of the indigenous population, overwhelmingly located in the agricultural sector .

The paradox of a dynamic service sector activated by foreign stimuli continuing side by side with a stagnant and massive agricultural sector requires investigation. In the long run, the production structure in the agricultural sector is determined by the basic forces of population growth and the availability of land. The nub of the long-run stagnation argument lies in the so-called quasi-equilibrium thesis. Applied to the situation discussed here, the thesis suggests that temporary stimulation of agricultural production, resulting from changes in export demand, automatically sets in force reactions causing the sector to revert to its original stagnant nature. These forces relate to the way in which population growth and changes in the supply of land interact.

In the stagnant phase, we envisage a given ratio between subsistence and export production in a typical farm household, working a given acreage of land. During the active phase, the service sector's new investment adds to the land resources and the typical household's acreage is increased. The system is operated to induce an increase in production of exports of a commodity which is also a staple food product; hence, the ratio of subsistence production to export production falls at this point. However, population growth continues and in fact accelerates as a result of improvements associated with foreign imports, which reach the agricultural sector in exchange for exports. Population growth requires expansion of subsistence production, so that eventually the old ratio between subsistence and exports is restored, though at a higher level of output for the economy as a whole. In this process, it is likely that population growth will exert pressures on export supplies. Hence, further increases in export demand induce repetition of the process. There is considerable evidence in Southeast Asian economic history suggesting that some colonial governments were led to establish increasingly strong controls to prevent population growth from negating the effects of new investment on raising exports. We note that this is a special problem in the case of a monomorphic food export economy.

All of this implies that the classical scarcity of land is indeed the limiting factor to expansion of the agricultural sector. Temporary relief from this limit is provided by service sector investment to increase land supply. As population growth persists, however, these new land resources are taken up by the growing labor supply, and disguised unemployment begins to appear. The stage is then set for repetition of this horizontal expansion process, set in motion if and only if export demand again rises.

B. Model II: Multiple Production Sector

This model describes the essence of Southeast Asian economies in which the dominant share of exports originated from a colonial-type export sector producing goods alien to the indigenous economy. In addition to the three sectors of Model I, therefore, this model includes a primary-producing export sector. Historically, Indonesia and Malaya represent Southeast Asian examples.

The primary-producing export sector is unique in many ways. Its origin and basic stimulus are external to the domestic economy. At the outset, the new export sector is built up through the introduction of new, foreign methods to produce a good for export. In this stage, the growth of the primary-producing sector (exclusively owned and operated by foreigners) depends on the inflow of foreign factors of production. Plantation agriculture (which is typical of this pattern), for example, required an inflow of foreign capital to introduce a new export commodity produced by large-scale, capital-intensive methods of production; capital inflow was accompanied by the inflow of human factors to provide managers, technical skills and even unskilled labor through immigration. Hence we find the excitement characterizing a dynamic sector confined to primary-production for export and closely associated with the injection of all the critical factors from external sources.

As time goes on, we may find, in the case of agricultural products such as rubber, that the foreign-stimulated sector spills over to generate a response from the indigenous economy. As the primary-producing sector expands, it begins to draw on the large domestic supply of unskilled labor, and commercialization begins to take place around the fringes of the traditional subsistence sector. If and when it becomes apparent that producing the new product offers economic advantages over traditional agriculture, a demonstration effect gradually induces domestic smallholders to enter the primary-producing export sector. They employ indigenous factors (land and labor) either for suppying middlemen (e.g., rubber) or to supply foreign processing firms (e.g., sugar. Historically, these spread effects eventually produced relatively large-scale participation of smallholders in some Southeast Asian economies, e.g., Indonesia and Malaya.

Nevertheless, the essence of the dynamics of an economy of this type continues to exist in foreign-dominated activity in the primary-producing sector. Attracted by profit opportunities on the world market, the sector is developed by an inflow of foreign capital accompanied by the complementary inflows of foreign management, foreign technical skills and immigrant labor. At this stage, the flows are exclusively inward. Eventually, however, exports are generated and experience a period of rapid growth; new investment tapers off although human flows may accelerate. We now find an export surplus being generated; in the pure case this surplus is used to finance profit transfers on the original investment, and foreign remittances of the immigrant human factors. If, however, the export sector is to be expanded or if new export commodities are to be introduced, a part of the export surplus will be used as re-investment to further develop this key sector. This process, although enlarging the developmental resources available to the economy, either diverts these resources abroad or channels them back to the dynamic enclave. The other sectors are left relatively untouched, although the service sector grows more or less proportionately in response to the basic thrust emanating from the export sector. Service occupations, however, tended to be filled by immigrants rather than indigenous population in the history of Southeast Asian economies of this type.

The second dynamic aspect in this model comes into play as the primary-producing export sector begins to penetrate into the domestic economy in search of labor or additional sources of supply of the raw product for export. While this penetration is clearly beneficial in terms of generating a modicum of local participation in new activities and providing somewhat higher income opportunities than traditional agriculture, it does not have a thoroughgoing developmental impact. The process fails to significantly transform the economy since growth is still externally dominated, and the foreign-controlled service sector insulates domestic export producers from opportunities for proceeding up the ladder to more profitable and specialized roles.

In concluding this section, we compare and contrast the multiple production sector model with the monomorphic model previously discussed.[5] The major differences concern

[5] Space does not permit presentation here of a detailed accounting analysis for Model II, although the authors have constructed such a system.

the structure of production and production techniques. In the monomorphic economy, we noted that production takes place only in the monomorphic agricultural sector and traditional labor-intensive techniques continue to be used. In the multiple production sector, on the other hand, there is, in addition, a superimposed capital-intensive sector in which Western techniques, previously alien to the economy, are employed. Secondly, the multiple production sector economy is more specialized in nature. Subsistence production is concentrated in the agricultural sector while production for export takes place in the capital-intensive export sector. We had noted in the case of the monomorphic economy that the same households produced for both domestic subsistence and export. This immediately suggests that the multiple production sector is a considerably more complicated economy with more complex intersectoral flows that we had traced out for the monomorphic economy. Another important difference concerns the nature of the foreign impact itself. In the monomorphic case, we observed that foreign capital inflows are important to the expansion of agricultural output. In the case of the multiple production sector economy, foreign capital inflows must be accompanied by complementary factors if production is to occur in the capital-intensive export sector. The relationship between foreign capital inflows and production, therefore, is much more direct, not being channeled through the service sector as in the monomorphic case.

Despite these profound differences, however, there are basic similarities. The multiple production sector economy, like the monomorphic, is an export-dominated economy in which growth dynamics are dependent upon the foreign impact. Secondly, both are dualistic in nature, a large, stagnating subsistence sector contrasting with a small dynamic enclave. Thirdly, both are essentially operated as colonial systems to produce profit transfers outward rather than domestic savings to finance domestic investment.

III. Implications for Development Planning

The previous discussion has been concerned with an analytical sketch of the economic nature of the Southeast Asian type economy during the colonial period. It is apparent from this background that major common characteristics can be adduced for these countries at the time they began to emerge from colonial status after the second World War. Despite some differences between the monomorphic and the multiple production sector cases, these societies exhibited an *external* condition which we describe as an *open economy*, specializing in the production of natural resource-specific exports for world trade. Similarly, *internally* they possessed a markedly *dualistic economy*, showing sharp contrasts between a stagnant, indigenous subsistence sector and a dynamic, foreign-dominated export-oriented sector. In the monomorphic case, the latter aspect was reflected in the commercialized service sector, catering to export trade; while in the multiple production sector case it was centered in the export production, supported by the service sector. Planning for economic development must, therefore, be based upon the primary strategy of breaking the pattern of resource utilization inherited from this colonial situation. This broad policy may be termed as *economic decolonization,* and we examine briefly the analytical content of this strategy in the remainder of this paper.

It may be taken for granted that the objective of the strategy of economic decolonization is to raise real income per capita in the domestic economy. The above analysis suggests that diversification of the structure of production must be a major means for achieving this objective, especially for the monomorphic case where the structure of domestic production is left completely untouched by the colonial impact. The transformation that must be undertaken to produce a viable, diversified economy from the situation inherited from the colonial past may be briefly outlined by reference to Diagram I. Domestic savings (S), traditionally employed in the stagnant phase to transfer profits outward through an export surplus (B), must be redirected to finance the growth of new domestically-oriented industries. This source of savings and related foreign exchange resources may be augmented by curtailment of imports, especially the M'' component which will be viewed as luxury imports in the austerity situation required to spark growth in the context of economic decolonization. Thus, the cardinal principle in this transformation period will be the necessity to redirect and routinize the flow of domestically generated savings to the finance of domestic capital accumulation, avoiding their dissipation as capital outflows.

We are formulating explicitly the development strategy appropriate to an ex-colonial, export-growth dominated economy. Yet we note that a similar logic has been implicit in the policy measures adopted or mooted by Southeast Asian countries. The logic is reflected in import controls designed, for example, to curtail luxury imports and to encourage capital goods imports, in control of profit transfers and in confiscation steps. Yet the adoption of such policies has nowhere produced a smooth and effective transition, and lack of progress has been reflected in growing frustration in Southeast Asian countries. There is need, therefore, for a better understanding of the fundamental problems involved. The underlying nature of the transformation must be better diagnosed, and development strategy and planning methods must be devised more rationally to accomplish the comprehensive task of economic decolonization. We hasten to add that these issues are by no means settled, implying an urgent need for intensive research on these central problems of development strategy. In the paragraphs below we merely point to a few considerations suggested by the foregoing analysis, as applied to the current situation in Southeast Asia.

First, it must be borne in mind that the colonial economic system was a going concern. It involved a complete package, representing both a consistent pattern for resource utilization and a means of discharging all the essential economic functions required for achieving the specifically colonial economic objectives. Foreign initiative and entrepreneurship performed these critical functions. It was the foreigner, for example, who channeled the economy's saving to investment in response to profit opportunities, a linkage possible because both savings and investment projects were under foreign control. It was foreign talent, too, which provided the financial intermediation for this linkage. Similarly, the foreigner furnished the skills and techniques needed to transform the indigenous resources into commodities appropriate for export markets.

The first requisite of the decolonization strategy, therefore, is institutional reconstruction, to transfer from foreigners to domestic factors[6] the capabilities to discharge the critical functions to operate the economy, albeit for objectives quite different from those built into colonial policy. Institutional decolonization requires that a class of indigenous human agents be identified and developed to operate institutions for performing the essential economic functions, and it is likely that considerable change will occur in these institutions themselves, in response to the introduction of national economic goals. We emphasize that building a new framework and supplying the domestic factors to perform the important economic functions previously discharged by foreigners is a comprehensive and difficult task.

Viewing this important strategy consideration in terms of the two models we have discussed, it is immediately apparent that this task is much more complex and difficult in the case of the multiple production sector economy. In this case, the colonial capital-intensive productive apparatus must be geared to the new national objectives. To avoid misunderstanding, it should be stated that this process need not involve nationalization of foreign enterprise. The im-

[6] Levin, *op. cit.*, uses this apt term and a similar line of argumentation.

portant prerequisite to break the growth inhibitions of the traditional pattern consists of inculcating among the human resources in the society the critical functions to launch an independent growth process. To accomplish this, opportunities to acquire the needed talents must be increasingly dispersed beyond the foreign enclave, in which they were almost exclusively confined during the colonial period. This involves a wide range of specialized and sophisticated skills of managerial, technical and organizational types, to redirect the critical capital flows, and this may imply the even more challenging task of national, rather than foreign operation of important industries. In the monomorphic case, by contrast, the institutional reconstruction process is exclusively concerned with the service sector. Hence, the range of specialized skills needed to accomplish the transition by harnessing the critical sector to national development objectives is more limited.

The clear policy implication is that where colonialism has left a multiple production sector economy, gradualism in achieving institutional decolonization is particularly important to allow acquisition of the necessary human capabilities. Abruptness and haste in this transition are likely to disturb the operation of the economy, and to throttle the historically lucrative export activities, affecting development prospects adversely. This lesson seems to be reflected in the recent experience of Indonesia and Malaysia. In the former, where a quick, massive assault was made on the problem of institutional decolonization, the modern export sector has been seriously set back, while in Malaysia, where gradualism has been the policy, the export sector has continued to thrive. Even in Burma's monomorphic type economy, excessive zeal to accomplish institutional decolonization appears to have had unfortunate economic effects. It might be well to reiterate the importance of accomplishing these pervasive institutional changes if the domestic economy is to escape from the self-sustaining pattern of stagnation analyzed above. Hence, the temptation to press overly ambitious changes in the nature of the system is quite understandable, particularly where colonialism involved unfavorable psychological overtones. Our remarks are not meant to be a criticism of the implied political choices; we are exclusively concerned with the economics of the problem.

A second major strategy consideration following from our analysis concerns another central issue in development planning, that of allocation of investment funds among alternative uses. Here, too, the newly independent country confronts a new problem, for which its colonial history did not adequately prepare the society. Under the colonial economy, which we have discussed above, the investment allocation problem was relatively simple, and, in any case, was handled by the foreign entrepreneur. Resources were channeled to the existing industries or to the development of new industries in response to world market demand. In the new situation after decolonization, this guiding force is inadequate; and the problem of allocation must be raised as a conscious issue of national policy.

Institutional decolonization itself has important implications for allocation of investment resources, in terms of social overhead requirements for a new type of society. However, we point to a much more fundamental problem which concerns the basic orientation of the Southeast Asian-type economy. The central question is the extent to which the economy should continue to follow the historical export orientation versus the alternative of being re-oriented toward a national domestic market. From our earlier analysis, we see that this issue has profound implications for the extent and rate of restructuring the basic nature of the colonial-type economy. The resource, commodity and financial flows analyzed above must be drastically changed if one or another degree of re-orientation is embraced as national policy. Technically, this question relates to the direction of allocation of investment funds to promote the growth of new industries, that is, whether or not they will be primarily import-substitution oriented or export-diversification oriented. In terms of overall development strategy, the extreme choices may be posed as a dichotomy between an import-substitution, autarkic emphasis or an export-diversification, world economy orientation.

These extremes are approximated in Southeast Asia by the very different development strategies pursued by Indonesia and Malaysia. In the Indonesian-type development strategy, the fundamental logic of the approach to the primary-producing export sector involves its use as a short-run cushion in building a longer-run autarkic economy. The resources provided by this sector, representing the traditional export surplus, are viewed as a temporary source for financing the development of the emerging industrial sector. It is assumed that the society can devise means to capture and redirect these resources. This amounts to contracting the export sector over time to feed the expansion of the industrial sector. Industrial production is to be expanded primarily to supply the domestic market, only incidentally for export, if at all. In other words, this strategy consists virtually exclusively of import-substitution rather than export-diversification or a combination of the two.

Contrasting sharply with the Indonesian approach, the Malaysian-type strategy is essentially an attempt to maintain the vigor of the primary-producing export sector and to utilize it as a major vehicle for the more gradual, long-run transformation of the economy toward domestically-oriented industry. Both export and import substitution are given emphasis as the industrial sector expands in response to foreign and domestic markets. The vigorous export sector is relied upon as the major source of industrial finance, while foreign investment is encouraged to play a strong supporting role. Hence the paramount policy problems concern the particular combination of measures appropriate to stimulate exports and foreign investment while also yielding a substantial supply of resources for the domestic development program. Devices to capture a surplus for this purpose must be used with caution to avoid disincentive effects on the sector which is serving as the base to launch growth.

We wish to add a word of caution to avoid erroneous conclusions from this comparison. The Indonesian economy possesses a sufficiently diverse resource base and its size is large enough to warrant emphasis on considerable self-sufficiency in domestic industry rather than narrow specialization for the world market. The size of the Malaysian economy, and its less diversified resource endowments, point in the opposite direction, toward a less diversified domestic industrial structure and more trade. Moreover, the relative long-run success of the two contrasting strategies cannot yet be predicted accurately. Both cases bear close observation in the future.

A third major strategy consideration suggested by our earlier analysis concerns the central problem of dualism in the Southeast Asian type economy. As it has been frequently formulated by economists, this has to do with the balanced growth thesis. The real issue here concerns the extent to which development planning will focus on industry versus agriculture. Our earlier analysis has highlighted the significance of the massive traditional agricultural sector, existing side by side with a dynamic foreign-dominated enclave oriented toward the outside world. The problem posed for development strategy is how to move the neglected agricultural sector off dead-center while simultaneously developing a nascent industrial sector. Economists are familiar with some of the important aspects of this problem; such as transferring surplus labor from agriculture to industry and generating savings in the agricultural sector to finance industrial development. The deeper problem, however, involves raising agricultural productivity, given the predominant position of agriculture in an economy of this type. It should be remembered that the majority of the population resides in the agricultural sector and a large share of total output comes from this sector. The problem in the Southeast Asian type economy is somewhat more complex than in other less-developed economies. The balanced growth issue is clearly tied up with the problem of export orientation, posing a choice in terms of timing import-substitution vis-à-vis continued export-specialization, and similarly between continued reliance on export versus major reliance on the agricultural sector for providing savings for industrial diversification. We note, for example, that in the case of less export-oriented economies, such as India and Pakistan, no such choice is possible. In other words, while the balanced growth problem is critical for the large labor surplus economies of the Indian type, in the Southeast Asian open economy the problem is complicated by alternative avenues to development which involve the export sector.

Again, we contrast the Indonesian strategy with the Malaysian strategy to exemplify the complexity we have in mind. In the Indonesian autarkic type startegy, the role of the agricultural sector turns out to be crucial at an early stage of the new development strategy. The underlying logic of the process is to transfer resources from the primary-producing export sector to enable industry to absorb labor from the large, stagnant subsistence sector. We note also that the export sector will tend to contract rapidly, becoming a decreasingly small source of savings. Finally, the growth of industrial output will require a growing domestic market, to be found primarily in the agricultural sector. For all of these reasons, the problem of raising agricultural productivity becomes the crux of this strategy very early in post-colonial experience. Agriculture must provide the new base to finance industrialization as exports inevitably wane, it must provide the additional food required for industrial workers, and it must provide a growing market for the domestically produced industrial goods by virtue of the domestic industrial sector's primacy in the strategy.

The attempt to shift the base so drastically from exports to domestic agriculture implies a radical new departure in the organization of the economy. Wide-scale efforts to diffuse both incentives and productivity-raising innovations to a large, conservative peasantry must meet with enough success to yield quick and substantial productivity gains. It is significant to observe that this massive task must also be accomplished through application of a delicate balance of new popular incentives to raise productivity and mobilize a surplus; compulsory methods have failed conspicuously in Southeast Asian countries that have sought to resort to direct mobilization.

In the case of the Malaysian export-oriented strategy, the need for an imminent attack upon the massive problem of agricultural productivity is at least temporarily deferred. For some considerable period of time, this strategy seeks the source of development finance from an existing and traditionally lucrative type of economic activity, i.e., exports. Progress toward raising general agricultural productivity, therefore, may be made at a relatively moderate pace, as in fact Malaysia is doing, and the rate of agricultural change can be geared to the society's gradually expanding administrative and technical capabilities.

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This exercise leads us to believe that there is promise in studying problems of growth theory and development planning strategy by employing a typology approach. Few serious students of development would question the importance of tailoring development programs more consciously to attack directly the central long-run problems confronting individual societies. The present modest study points in this direction, but much additional work is needed to move from our level of generalization for the Southeast Asian type economy to more specific development planning implications as well as to examine other types of situations.