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Trade versus Aid in the Reconstruction and Development of Southeast Asia

by
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TRADE VERSUS AID IN THE RECONSTRUCTION OF THE DEVELOPMENT OF SOUTHEAST ASIA

CHAPTER I

INTRODUCTION: SOUTHEAST ASIA IN 1967

Few Americans would deny that in 1967 Southeast Asia constitutes the world's major trouble spot, whether we think of the problem confronting the government officials responsible for formulating and executing United States foreign policy or of the decisions confronting the American electorate as a whole. The war in Viet Nam is not only the most troublesome single item confronting American policy makers, but in some respects may well be the most difficult policy question which has ever confronted an American government. Beyond the war in Viet Nam there is the fear that other Southeast Asian countries may "fall like a stack of dominos," with or without early victory in Viet Nam.

Quite apart from the immediate military and political problems in Southeast Asia there is the worrisome fact that Southeast Asia (with the possible exception of some parts of Black Africa) is the recalcitrant of all major regions from the economic point of view. The region as a whole has been curiously stagnant since World War II. This stagnation, moreover, is nothing new; Southeast Asia has also been (again, with the possible exception of some parts of Africa), the most stagnant of all major regions during the whole century from

1860 to 1960. During this century Southeast Asia had the slowest growth of per capita income among all of the major regions distinguished by Professor Zimmerman; the increase in per capita income over the entire century averaged only 0.38%, as compared, for example, with 0.89% for the Far East, 0.92% for China, 1.54% for North America, 2.26% for the Soviet Union, and 2.03% for Japan. (See Table I and Table II.)

This peculiar stagnation, extending through centuries of colonial rule and continuing into the period of independence after World War II, cries aloud, first for an analysis and explanation, and secondly for some effective program to replace stagnation with sustained progress. The recognition of this need has recently been voiced by President Johnson, with his promise that the United States will assist in "forging a social revolution in Southeast Asia," and the establishment of the Inter-Agency Committee for Southeast Asia to consider means of accomplishing this task.

Southeast Asia as a Region

Professor Lucian Pye of MIT has pointed out that "the very term 'Southeast Asia' came into common usage only with World War II and the creation of the Southeast Asia Command." Anyone is free to define "Southeast Asia" with whatever geographic scope he wishes - within reason; and what is "reasonable" depends on the problem to be analyzed. The focus of the present study is the possibility of economic integration of Southeast Asia and the contribution such integration may

make to the future economic development of the countries in the region. For the purposes of the present study, Southeast Asia will be defined to extend from Ceylon to Taiwan, including inbetween Burma, Thailand, Cambodia, Laos, Viet Nam, Malaysia, Indonesia and the Philippines.[1]

In another context the present writer has raised questions about the usefulness of geographic units, such as "Southeast Asia" thus defined, as categories for analysis.[2] It is always possible that some classification other than geographic proximity may assemble groups of countries which are more essentially alike in terms of past and potential economic development than groupings in terms of geographic sub-divisions. However, one must distinguish between categories as analytical units and categories as policy units; the decision to treat Southeast Asia as a policy unit has already been made. Moreover, there are sufficient similarities among the Southeast Asian countries as defined above to warrant treating them as an analytical category as well. There is first of all a shared geography, which brings with it at least some degree

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[1]Lucian W. Pye, "The Politics of Southeast Asia," in Gabrial A. Aman and James A. Coleman, eds., The Politics of Developing Areas (Princeton: Princeton University Press, 1960), p. 65.

[2]Benjamin Higgins, "Dominant Problems in Southeast Asia in Planning a Western View," Philippine Economic Journal (Second Semester, 1965).

of commonality of soil and climate. In the economic history of these countries certain commodities appear with special importance for all of them: rice, rubber, tea, coffee, coconut products, palm oil, tobacco, and earlier, spices; there is also tin, and for some countries bauxite and petroleum. These similarities in product-mix throughout the years results in similarities in past, present and future economic problems. All of these countries, moreover, share in some degree the history of a gradual shift from slash and burn agriculture to stable, irrigated rice culture, with the superimposition of plantation products. Population pressure has increased and land becomes scarce at various times and at various rates in the different countries.

In all of these countries there is also, as Professor Pye has pointed out, the sharp division between elite and peasant. In none of them has any indigeneous "bourgeoise" played any major role. Professor Pye also makes a point of fact that although the traditional religions have differed from one country to another, all of them have stressed "ideal people" more than "ideal societies." As these countries gained independence, they quite naturally wished to disassociate and differentiate their independent societies from the ideologies of the colonial powers,--and also, in most cases, from the ideology of Marxist-socialism. However, the peoples and governments of Southeast Asian countries found little political guidance for designing new societies in their traditional ideologies and religions. They were hard put to

it to define the precise nature of the economic, social and political organization that would conform to their own ideals.

To some degree, too, there is a shared culture. The Hindu-Buddhist culture plays a role even in countries like Malaya and Indonesia where the dominant religion is Islam. Also, in all of these countries the overseas Chinese have played an important and somewhat similar role as traders, money-lenders and entrepreneurs. In all of them, as we shall see, the population explosion is a major variable, if not the major variable, in explaining differences in past development and in determining the magnitude of the development problems of the future.

Finally, these countries have a shared history. All have been subjected in some fashion or another to influence by the Portuguese, British, Dutch, or French, or Spanish and American colonial powers. Even countries which were not technically colonies, like Thailand, or where the economic penetration was shallow, like the Philippines, nonetheless were subjected to influence by the rivalries of these contesting colonial powers; and, as we shall see, where a full-fledged colonial economic structure was not provided from outside, it somehow became necessary for the indigineous people themselves to invent one. The economies of all the countries in the region were disrupted by World War II, and most of these Southeast Asian countries were occupied by Japan. With the exception of Thailand, too, all of them have gained their independence since World War II. Taken together, these factors are

sufficient reasons to treat them as an analytical as well as a policy category.

We have excluded Pakistan, on the grounds both that Pakistan belongs more to the Middle East than to the Southeast Asian countries, and also on the grounds that its product-mix is fundamentally different and its problems likewise. It has emerged with a different kind of government from any that we have observed in Southeast Asia, is a member of the Central Treaty Organization, and the whole approach to Pakistan on the part of the United States will tend to differ from that to the Southeast Asian countries. India is so huge that it is best handled by itself. Certainly relations of Southeast Asia to India, in terms of trade and migration, must be taken into account. But any effort to include India as a part of the region would result in any aggregate and average statistics being swamped by Indian experience. Moreover, the political situation in India is entirely different from that of Southeast Asia. With a stable democracy and slow if painful success in economic development in the face of great obstacles, the problems of India remain more economic and technical than they do political and social. The "India Club" is well established, and the general pattern and channels of United States approaches to India, in terms of assistance to Indian economic development, are now well established. For all of these reasons it seems better to exclude India for the purposes of the present study.

For some purposes, it will be useful to sub-divide

Southeast Asia into smaller classifications. Indonesia, for example, is a case by itself. It is the dominant country in the region in terms of population, gross national product, or development potential. It has about half the population and about half the GNP and perhaps more than half of the potential increases in gross national product. It is a large and stagnant country, with a centralized government, destructive nationalism, a serious education lag, and a widespread antipathy to entrepreneurship of all kinds. The Philippines, Malaya and Thailand are all middle-sized and growing. Each of these countries have given free reign to private enterprise; there is more attention to education; and nationalism, while presenting some problems, takes a more constructive form. Third, there are the small and stagnant countries: Burma, Ceylon, Laus, Cambodia and Viet Nam. Burma has centralized control and destructive nationalism. Ceylon has a democratic form of government, and the nationalism, while an obstacle to national policy, is less destructive than in some other countries. The Viet Nam situation is dominated by the war, Laus and Cambodia continue to be appallingly lethargic from an economic point of view.

Taiwan is clearly a special case and perhaps should not be included in Southeast Asia at all, since culturally it is different from the other countries. However, Taiwan is a useful point of comparison, and shares much of the same geography, product-mix and history. This is a country which is

small and rapidly growing with foreign domination and assistance.

The Role of Trade in Southeast Asian Development

These countries also resemble each other in having had, all of them, strong exports at some or all stages of their economic history since the European powers began taking an interest in them.

The relative stagnation of Southeast Asia during the century prior to World War II cannot be explained in terms of failure of foreign trade to expand. All countries in Southeast Asia have had at one time or another one or more strong exports to serve as a leading sector in the economy as a whole. In the case of Indonesia, which has been by and large the most stagnant of all Southeast Asian countries, there has been a whole succession of strong exports, starting with spices in the 16th century. All of these countries have had periods of extremely rapid percentage increases in foreign trade. Indonesia had the first of these under the Portuguese, a second under the Dutch East Indies, a third under the Culture System and even more spectacular expansion under the so-called "liberal" and "ethical" systems of the late nineteenth and early twentieth centuries. Between 1880 and 1920, Indonesian exports grew by 1,300 per cent in 40 years. Similarly, between 1906 and 1925 Malaya enjoyed a 440 per cent increase in exports in 30 years. Between 1906 and 1950, a 45-year span, Malayan exports grew by 1,400 per cent. The exports of

tea from Ceylon grew 1,100 per cent between 1849 and 1875-79, a thirty-year span. In Taiwan total exports grew 500 per cent in 25 years between 1915-16 and 1940-42. In selecting these periods, care has been taken not to start with an initial year when the dates were so small that large percentage increases mean little; in each case, the initial year is chosen some time after major new export industries were established. If one takes longer spans, one still finds typically in Southeast Asian countries that during the nineteenth and early twentieth centuries the percentage rate of growth of exports was considerably in excess of the percentage growth of national income.

This experience is totally contrary to the neo-classical theory of trade. While both Malthus and Mill had the insight to see that what worked well for the advanced countries, and for the countries of recent settlement, might not work for the colonies, on the whole, both the classical and the non-classical economists regarded foreign trade as an "engine of growth." Marshall considered that "the causes which determine the economic progress of nations belong to the study of international trade."

In considering why the expansion of foreign trade proved such a failure as an "engine of growth" in Southeast Asia (and to a lesser degree, in other developing countries, too) two sets of relationships must be borne in mind. One is the relationship between the advanced countries of Europe (essentially, the nineteenth century colonial powers) and the

developing countries (essentially the colonies). The other is the relationship between the modern export sector in the developing countries themselves and the traditional sector of the same countries. These two sets of relationships are, of course, closely related; in most Southeast Asian countries the modern sector was initially developed with foreign capital, foreign enterprise, foreign management and foreign technical skills. The modern sector was, indeed, an extension of the economies of Great Britain, the Netherlands, France, Spain, Portugal and the United States. To this story of the impact of colonialism in Southeast Asia we now turn.

INDONESIA: THE MAGNIFICENT FAILURE

Indonesia must surely be accounted the number one economic failure among the major underdeveloped countries. No other large and populous country presents the same stark picture of prolonged economic stagnation, persevering throughout centuries of colonial rule and continuing throughout a decade and a half of independence. Stagnation--in the form of virtually constant levels of per capita income or an unchanging structure of employment and production or both--is certainly not unknown among underdeveloped countries; but the Indonesian experience, in which a whole series of concepts of economic organization, first in a colony and then in an independent nation, failed to bring significant or lasting improvements in levels of living at any time, seems to be unique.

When the author visited Indonesia early in 1966 the basic economic problems in Indonesia were still essentially the same as they were when he first arrived there as monetary and fiscal adviser to the government in 1952--or when the U.S. Economic Survey Team went in 1961--only worse. Per capita income in 1966 was probably below that of 1938. The national accounts, for whatever they are worth, show a slightly falling per capita in recent years. Self-sufficiency in basic food-stuffs continued to be a stated objective, but no clear improvement in rice yields had been achieved and rice output had failed to keep pace with population growth. Per capita rice production was clearly below the 1935-39 average. The same was true of rural food production. Rice imports rose from 707 metric tons in 1958 to 1,085 metric tons in 1964.[1] The consequent pressure on Indonesia's slim foreign exhange reserves limits imports of raw materials and spare parts.

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[1]During 1965 significant increases in yield were attained in projects covered by the Bimas extension program, and inputs were subtantially reduced.

(let alone new capital goods) and inhibits expansion elswehere in the economy. Manufacturing still accounts for less than 10 percent of net national product and even this small industrial sector operates at excess capacity--in mid-1965 textile mills were operating at 5 to 10% of capacity. Sugar production was still below prewar levels, even in absolute terms, and declining. Rubber production was about at prewar levels but below postwar peaks and falling. With increasing competition from synthetic rubber and prolonged failure to replant with high yield strains, rubber output seemed doomed to still further decline and rubber has been Indonesia's major source of foreign exchange for decades. Vegetable oil output was stagnant. Tin production was below prewar levels, and coal output hardly one-third of prewar levels. Bauxite production was above prewar levels but well below the 1951 figure. Only petroleum production showed some buoyancy, but even that was below potential, and in danger of falling.

Meanwhile budget deficits had reached two-thirds of government expenditures, the money supply grew from Rr. 4.3 billion at the end of 1950 to Rp. 19 billion at the end of 1957 and some Rp. 15,000 billion at the end of 1966.[1] Indonesia has recently presented the worst case of hyperinflation in the world. The cost of living index for Djakarta, with March 1957 - February 1958 as 100, reached 3,685 in September 1964, 18,804 in September 1965--and prices had already doubled between 1950 and 1957. In December 1965 a "new rupiah" was issued at one new to 1,000 old rupiahs--but inflation continued virtually unchecked. By September 1966 the Djakarta cost of living index stood at 200,615. The balance of payments worsened accordingly and foreign debts grew to a point where servicing them was virtually impossible. In December 1965 the Bank of Indonesia found itself unable to pay

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[1]For the sake of comparability all these figures are expressed in old rupiahs.

on letters of credit. Bu 1966 Indonesia's total foreign debt reached $2.4 billion, and total interest and amortization commitments for 1967 considerably exceeded estimated total export earnings.

The transport system continued to deteriorate for lack of maintenance. Miles of asphalted road and railroad in use were less than prewar. In that island economy shipping had become a serious bottleneck and crops rotted on the docks. Railroad capacity in East Java was estimated at 15 to 16% of requirements. General disrepair of the road system took a heavy toll on the limited supply of trucks and busses, which could not be repaired for lack of parts. In Surabaja less than one fifth of the existing busses were in operation.

Throughtout fourteen years of visiting Indonesia at intervals the present writer has become used to finding conditions less bad than their portrayal in the foreign press or even than what the statistics indicated. But in 1966 he found the situation even worse than expected There were signs of genuine distress in parts of Djakarta, reminiscent of Calcutta or Bombay--bloated stomachs, deficiency diseases, people living under gunny sacks and picking over garbage in the streets in hopes of finding something edible. Yet the population explosion continued unbated, especially in the Outer Islands, and a shortage of land was appearing even in Sumatra. Indeed Sumatra is clearly heading the way of Java and not too much time remains to prevent serious overpopulation and build a modern economy there.

"Eat More Mice"

During a discussion of economic conditions early in 1966 one Indonesian friend quoted Sukarno as having said "the people should eat less rice and eat more mice." It is some measure of the economic deterioration in Indonesia that despite my long acquaintance with the country at first blush it seemed to me quite reasonable that Sukarno may have made such a remark in the course of a speech. I knew that he had been trying to relieve the pressure on rice supplies by persuading people to change their diets, and while it seemed going a bit far to urge them to eat mice, it also seemed within the range of possibilities. It was only sometime later that I realized that this particular Indonesian, whose original education had been partly Dutch, was actually referring to maize and giving it the Dutch pronunciation.

Yet ever since the Portuguese arrived there in 1500, Indonesia has been regarded as a country "rich in natural resources." The foreigner's interest in the country has ranged through time all the way from pepper to petroleum with sugar, tea, coffee, copra, rubber, tin, and bauxite in between. At

every stage of the expansion of Asian trade with Europe and America, Indonesia has been an important exporter of something; one might hope that a country so blessed by nature would afford opportunities for easy and rapid improvements in living standards.

Resources--Natural and Human

Indonesia's land area is about equal to that of the United States east of the Mississippi. In terms of transport problems or unification, stating the size of Indonesia this way is misleading, for Indonesia is comprised of a string of islands stretching from a point opposite the northern tip of Malaya almost to the northern tip of Australia--a distance considerably greater than the width of the United States at any point. The equator is the string on which these islands are strung; it cuts three of the major islands, and the whole country is within 10 degrees of it, north or south. The climate is hot and varies little from one season to another. There is more variation according to altitude, and wealthier members of the community find relief from the monotony of the coastal climate by going into the mountains which form the "spine" of most of the major islands.

The total population is about 105 million. Relative to the area of the country, the population is not so great as in some other Asian countries. The figure of total population, however, is rather meaningless, since over three-fifths of the population are crowded into the one small island of Java. Java is consequently the most densely populated large area in the world, with nearly fourteen hundred people per square mile. This extreme population density is made possible by Java's rich volcanic soil and its assured rainfall, which together permit two or three crops a year throughout much of the island.

In the other islands, the soil is for the most part less fertile than in Java, and in some of them the rainfall is less certain, but Indonesia as a

whole can be regarded as a fertile land. To this day, Indonesia's soil remains its most important natural resource; it admits not only near self-sufficiency in foodstuffs (of which the most important are rice, cassava, and maize) but also the great plantation industries: rubber, copra, coffee, tea, sisal, tobacco, pepper, teak, and others.

The country also has abundant hydroelectric potential in some areas and a wide variety of mineral resources. Of the latter, petroleum has become most important since the war. Tin and bauxite are also found in significant quantities. There are deposits of gold and silver, iron, coal, manganese, nickel, diamonds, copper, sulfate, lead, and zinc.

It is this wide range of natural resources that evokes the frequent reference to Indonesia as a country "rich in natural wealth." True, the quantity and quality of some of these resources is not impressive in relation to the present size of the population; the quantity and quality of some others are not thoroughly known. The most promising source of hydroelectric power (the Asahan Valley) is not ideally located relative to population and sources of raw materials, and other regions, with dense populations and larger supplies of raw materials, are power-poor. A growing share of petroleum output is absorbed by domestic consumption. Nonetheless, compared to other countries with similar levels of per capita income, Indonesia must be considered well off where natural wealth is concerned. "Per capita resources" is a somewhat meaningless concept, as we saw in Chapter 12 above. So much of the value of "natural" resources is created by human activity that an aggregate ratio of total value of natural resources to population can have only a very limited significance as an explanation of economic development. A more important question is, "Are there sufficiently diverse 'growing points' to permit 'balanced growth,' or sufficiently strong exports to permit 'unbalanced growth,'

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or both?" In this respect Indonesia has certainly been relatively favoured. She has had at least one strong export in each phase of her economic history, and sufficient diversity of resources to permit development on many fronts at once.

A sixteenth century observer with foresight as to future resource discoveries and technological change--and nothing else,--would surely have predicted a brighter future for her than for any of her neighbours. Indonesia is not one of those countries in which there is little with which to work. Up to 1850 at least the resource population ratio was higher than in most countries now classified as underdeveloped. At the beginning of the nineteenth century Indonesia's population was little bigger than Thailand's or the Philippines', and her area was very much greater. This was a country blessed with a rich, volcanically renewed soil and assured rainfall throughout much of its length and breadth. It was a country which turned out to have tin, bauxite, and petroleum in large quantities, and gold, silver, copper, iron, diamonds, in smaller quantities. It is a country of vast potential hydro-electric power. Consisting as it does of thousands of islands, with most productive activity taking place near the coasts and with numerous harbours, it had a ready-made source of cheap transport. Its people have proven resourceful and quick to learn. Why has the ceiling of $100 annual per capita income never been broken?

Indonesia has also been blessed among underdeveloped countries in having always had, ever since 1500, at least one strong export to serve as "leading sector" and "focal point of growth." First it was spices, cinchona and indigo; then it was sugar; later it was tea and coffee; later still it was tobacco, copra, sisal, and palm oil; then came rubber; and finally tin, bauxite, and petroleum. Nor did the appearance of new strong exports always replace the

earlier ones. In many cases the new exports were simply added on to the existing export base. Indonesia's economic history is not one of repeated "boom-and bust," like Brazil's. The export sector as a whole expanded almost without interruption, and sometimes in spectacular fashion, for four centuries. Between the two World Wars exports constituted about one quarter of the gross national product. After 1850 there was also a substantial inflow of foreign capital. Yet for Indonesia foreign trade was a feeble "engine of growth" indeed; it's expansion never raised Indonesian standards of living much, if at all, above the levels already established in 1500.

Certainly Indonesian stagnation cannot be explained in terms of the limited size of the domestic market. By 1900 Indonesia already had a population of 50 million, with about forty million on the one relatively small island of Java and so easily accessible from the major ports of Djakarta and Surabaja. In 1966, with a population over 100 million--still concentrated very largely on Java--Indonesia is presumably the fifth biggest country in the world in terms of population.[1] In essence, the Indonesian tragedy is a story of repeated nipping off of a budding entrepreneurial upsurge by a political elite essentially hostile to it.

Stagnation under Colonialism

Had it not been for the delaying action of three and one-half centuries of colonial rule, an Indonesian "take-off" might have occurred long ago. When the Portuguese arrived in Indonesia at the end of the 15th century, they showed no marked superiority to the Indonesians in technology, labor and managerial

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[1]"Presumably" because intercensal estimates for Indonesia are not wholly reliable and Indonesia is hard pressed by Japan and Pakistan in terms of total population.

skills, or entrepreneurial activities. Indonesians were heavily engaged in the expanding international trade of the 15th and 16th centuries. The Javanese were also "shipbuilders, seafarers, and colonizers...dominating the trade of the whole Archipelago, and even of the Malay peninsula and the Philippines."[1] They founded their own cannon, and were well supplied with builders, plaster workers, smiths, and carpenters. There was "a complex and elaborate centralized administrative organization" to regulate trade, and "the people as a whole led a fuller life and had a larger range of activities than at any time before or since."[2] Both Asian shipping and Asian navigation techniques compared favorably to those of the Portuguese. Nor can it be demonstrated that in 1500 the standard of living of either rich or poor was significantly higher in Europe than in Indonesia. Peasants and unskilled workers lived near the subsistence level in both places. But princes, merchants, and merchant princes in Indonesia were all engaged in domestic and international economic activities, and many lived in considerable luxury.[3] There is even some evidence that Javanese literacy was higher in 1600 than in 1900.[4]

Even from a military point of view, the Portuguese superiority was never clearcut. They were uneasy in their trading posts, and never had much more than a toehold in Indonesia. The Portuguese never really conquered the strongest sultans of the Java and Sumatra, and the Atjehnese were even strong enough

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[1]J. S. Furnivall, Netherlands India: A Study of Plural Society, Cambridge, 1939, pp. 9-10.

[2]J. C. van Leur, Indonesian Trade and Society: Essays in Asian Social and Economic History (The Hague: W. van Hoeve Limited, 1955) p. 117.

[3]Cf. van Leur, op. cit., p. 138.

[4]Cf. B. Schrieke, Indonesian Sociological Studies, The Hague: W. van Hoeve Limited, 1955, Vol. I, p. 34.

to make attacks on the Portuguese fortresses, turning the Portuguese into harried defenders of their own position. Indeed, it is interesting to speculate what the fate of Indonesia might have been if the Portuguese had arrived a century earlier (or the Dutch two centuries earlier) than they did. For the Europeans would then have encountered, not a disintegrated nation ruled by a host of petty sultans, but a powerful and united Madjapahit empire. The "response" to the "challenge" provided by the arrival of the Europeans might then have been similar to the Japanese response to the European challenge some 350 years later; cementing the hold of the Madjapahit Empire, as leaders in all parts of the country sought unity against the foreign aggressor, and a deliberate effort on the part of an elite-turned-entrepreneur to develop the country economically, to make it strong from a military viewpoint as well.

Having little to offer in the way of technical, managerial, or administrative skills, and having only a toehold in the remoter islands, the Portuguese did nothing to develop Indonesia. By the same token, however, they did little directly to retard Indonesian development. The Portuguese may have had an indirect influence that was unfavorable. They acted as a buffer rather than a link between Indonesia and the more rapidly progressing parts of the world. In Europe at that time the transition from feudalism to commercial capitalism was well advanced, the agricultural revolution was on its way, even the beginnings of the factory system could be observed. Had Asia carried its trade to Europe rather than the other way around, some of this process of establishing "preconditions for take-off" might have been transferred to Asia as well. As it was, whereas the fifteenth century was one of relative stagnation in Europe and Asia alike, the sixteenth century brought the first stirrings of the subsequent industrial revolution to Europe, while Asia continued to stagnate, so far as technology and productivity were concerned.

Prince vs. Peddler: The N. E. I. Company vs. Mataram

The Netherlands East Indies Company did not want much in the way of land or political power in the Indies--all they wanted was profitable trade--but what they felt necessary for their trading operations they took readily enough. There were exceptions: the effort to establish a stronghold in Atjeh was no more successful than the earlier Portuguese attempt had been. Indeed, the Atjehnese were able in 1599 to attack Cornelius de Houtman on his own ship, killing him and capturing his brother. It was not until 270 years later that the Dutch made another serious bid for control of North Sumatra.

By and large, however, the neglect of the Outer Islands throughout the period 1600-1870 reflected the fact that the Dutch were busy enough in Java and the Moluccas, rather than military superiority of the Sultans of the Daerahs. The military and technical superiority of the Dutch was certainly not so great in 1600 as it was in 1800, but it served the immediate purposes of the company well enough. The Company made formal treaties with the Sultans wherever convenient, but behind the formality was always the threat of force, and often actual violence. In effect, the Sultans were converted into servants of the Company. In most cases the "regent" of a district was the hereditary ruler, even when his cooperation had to be obtained by force.

The Empire of Mataram in Central Java was the chief threat to Dutch control over Javanese trade. In a vague sort of way Mataram inherited the glories of Madjapahit. It is possible that in the absence of Dutch power Mataram would have grown to the size of the former Madjapahit. Moreover, the Sultans of that day showed no reluctance to "sully their hands in trade."

One way for a "take-off" into sustained economic growth to occur is for the political elite themselves to become ardent entrepreneurs. The Susuhunan of Mataram never commanded the military power to give reality to his ambitions, although it was not until 1755 when Mataram was split into three smaller and weaker kingdoms, that Dutch control over Central Java was fully established.

It might have taken even longer, had not the coastal sultans themselves risen against the oppression of Susuhunan Mangkurat I, forcing him to seek Dutch protection in 1677 in exchange for territorial concessions. Mataram was never a serious threat after that; it survived seventy-five years more under Dutch sufferance. Meanwhile, Dutch power in other parts of the archipelago was gradually extended.

Impact of the N. E. I. Company

The failure of Mataram to withstand the steady encroachment on its power by the Dutch East Indies Company really meant the end--for all time--of the bid for ascendancy in Indonesia from the Javanese aristocracy. Thus the Javanese aristocracy, who were in themselves both power-élite and entrepreneurs before the Europeans came, and who tolerated and even encouraged trading and productive enterprises by merchants and farmers lower in the social scale, were undermined both as political leaders and as entrepreneurs by the rival traders, the Dutch East India Company.

The system of forced deliveries led inevitably to control of production; expansion of output was encouraged or curtailed according to market conditions. Thus decision-making was transferred even from farmers to the Company, helping to snuff out whatever entrepreneurial abilities may have been still flickering in the Javanese classes below the sultans and regents.

The British Inter-regnum

During the Napoleonic Wars, when France occupied Holland, the British attacked "France" by seizing Java. For five years Java was under the administration of Sir Stamford Raffles, the brilliant British colonial administrator who later established Singapore as the major port in Southeast Asia. Raffles' effort to replace the system of forced deliveries by a system of land taxes

(or rents) and to replace indirect rule through the feudal aristocracy by a more modern colonial administration have been the subject of a good deal of controversy. In any case, the experiment was so short-lived that the impact on Javanese development is difficult to assess.

Raffles' reforms might have generated a take-off had they been pushed for fifty years instead of five. Feudalism might have broken down, and both princes and peasants driven into the world market. The latent entrepreneurial and labour skills, which were to be disclosed and then repressed by the Dutch, might have found scope for development. We shall never know.

More interesting than Raffles' brief experiment in Java is his extension of the system of forced deliveries in Sumatra. The English administration lasted a good deal longer in Sumatra than in Java (until 1824, when the British holdings in the area around Benkulen were exchanged for Singapore). The impact of British administration was accordingly greater there. Since the system pursued by Raffles in South Sumatra was not very different from the Culture System later introduced into Java by the Dutch, its effect on labor and enterprise was much the same.

In one respect, the British administration in South Sumatra was even more oppressive of domestic enterprise than the Culture System in Java: enforcement of the Company's policy was turned over, not to the local chiefs nor even to Europeans, but to imported Buginese officers.

This system of forced cultivation and indirect rule, enforced through the Buginese, was introduced <u>only</u> in South Sumatra. The Dutch became interested in Sumatra only after the culture system was already in its demise. Thus Raffles did for enterprise and skills in South Sumatra what Van der Bosch did for Java. It is no accident that this area of Sumatra is the only one which has not produced political and economic leaders proportionate to its population,

and which is distinctly lacking in local enterprise and skills. The Menangkabau further to the north are famous as exporters of both political leaders and entrepreneurs. The same is true of the Bataks in the Lake Toba region. The people of the lampongs have no such reputation. Differences in resource patterns may have something to do with this striking contrast, but the difference between South Sumatra and the Menangkabau area in this respect is not great enoughtto provide the whole explanation of it. The explanation must be sought mainly in socio-cultural history; and when speaking in these terms, the demoralization of the local aristocracy, the crushing of individual initiative, the elimination of free choice of occupation and land use, the conversion of peasants into coolies, and the consequent destruction of labour incentives and enterprise under the British administration, is a large element of any such explanation.

The Culture System

In 1830 van den Bosch became Governor of the Indies, and in the course of his first year in office the King sent him a secret instruction setting a target for exports of five guilders per capita. This instruction was the immediate incentive for van den Bosch's culture system. Its main feature was the replacement of the Raffles land rent system with the old system of forced deliveries, still operative in the Preanger and apparently more productive than the land rent system. Indeed van den Bosch defended the system as a return to traditions which Raffles had ruthlessly violated. The reservation of one-fifth of their land for their sovereign,--or compulsory labour for one-fifth of the year in the case of the landless--was traditional, he maintained. Henceforth any village reserving one-fifth of its land for cultivation of designated export crops would be exempt from land rent. The

produce might be bought at a low fixed price, or simply taken as a kind of tax; it was then shipped to Holland by NHM where it was sold for handsome profits. With the culture system, the cultivator's freedom to choose the use of the land devoted to the "sovereign" was abolished altogether.

There is evidence that in practice the share of the land taken over for forced cultivation exceeded one-fifth of the total, and that the share of value product taken was even larger, in the areas where the system operated.

The culture system carried one step further the process of converting the Javanese aristocracy into low-grade N.E.I. civil servants. The use of the existing feudal structure to force increased production on an unwilling people reflected no Dutch respect for the aristocracy, but rather the lack of it, and a willingness to utilize the feudal system, not because it was admired, but because it was convenient and profitable. Moreover, there is no evidence that the individual Dutchmen who were responsible for administering the culture system were a great improvement over those who served the Netherlands East India Company. For the most part, the Javanese aristocrats must have considered their masters inferior to themselves in everything but brute force; and being compelled to served people for whom you have no admiration can be demoralizing indeed.

The Liberal System

After 1850 the Culture System gradually gave way to private enterprise, and particularly to large-scale corporate enterprise. The simple fact that the Netherlands economy was expanding under private enterprise while the Indonesian economy was stagnant under the Culture System had much to do with the demand for change in the Indies. Private interests saw opportunities for profits in the Indies, and became increasingly resentful of governmental barriers to earning them. This late nineteenth century pattern of organization

is usually referred to as the "liberal" system; but it was liberal only in the nineteenth century sense of being anti-governmental. It was monopolistic from start to finish--and highly monopsonistic in the Indonesian market. It left less freedom of choice of occupation to Indonesians than ever, and excluded them from the decision-making process even more completely than the Culture System had done.

Sugar was one of the first industries to make the change. Even in 1830 the necessary investment for efficient operation of a sugar plantation and mill was larger than could be easily provided on an individual enterprise basis. Until 1870 the sugar was still produced under government contract; in that year there were 100 factories, mostly in European hands, the rest still Chinese. From 1870 on the government gradually disappeared from the marketing as well as from the production of sugar. Coffee too shifted over to large-scale plantation enterprise. Tobacco planting in Java began in 1859. Mr. Birnie's pioneering effort grew to an enterprise with a European staff of 60 and 500 Indonesian mandurs supervising 35,000 peasants. The really big tobacco plantations, however, were established later in Deli in North Sumatra. Rubber, which was to become the most important plantation product, did not really start until the first decade of the present century. The major rubber enterprises were established on Sumatra. Tin mining is as old as Indonesian history, but it became a major enterprise only with the Billiton discoveries in 1851. The big expansion of tin production came in the late decades of the nineteenth century and the early decades of the twentieth. Petroleum production began in the 1890's, but rapid growth of the oil industry is also an affair of the present century. Bauxite production became important only in the 1930's.

All these enterprises had three common features: they had access to the capital markets of Europe and America; they were land-hungry and labour-hungry; and they had no room for Indonesian enterprise and little room for Indonesian skills. Their relations with the local population were directed mainly towards obtaining the use of the necessary land and assuring a large and continuously available supply of unskilled labour. Their impact on Indonesian society differed from that of the Culture System much less than the opponents of the Culture System had imagined. Indeed, the main effect of the transition to the "liberal" system was to spread and intensify the disintegration of Indonesian society started by the Culture System.

The "demonstration effect" that introduction of western enterprise might have had was deliberately destroyed by Dutch policy. The most flagrant of the measures to destroy Javanese enterprise in sugar came later, with the law of 1920 forbidding the purchase of native grown sugar by the mills.[1] Since the Javanese entrepreneurs lacked capital to install modern refineries of their own, this law meant that the market for native grown sugar was confined to small, crude mills refining brown sugar for the home market.

In a sense, the trouble with the modern industrial undertakings (including plantations) was that they were always on too small a scale to have a decisive impact on the Indonesian way of life. They never succeeded in absorbing a significant proportion of the labour force--let alone reducing the relative importance of the traditional peasant agricultural sector. The population explosion launched by the Culture System was given new impetus by the growth of corporate enterprise. All the factors operating under the Culture System were reinforced by the "liberal" era. Corporate enterprise required still more Dutch settlement than the Culture System had done. Efforts to improve public health became more systematic and widespread, and law and order became even

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[1]Cf. Encyclopedie Van Nederlands Indie, op. cit., Vol. 6, p. 885.

more imperative. The transport system was enlarged and improved, and after 1900 was built up in the Outer Islands as well as in Java.

Because of the high rate of population growth and the capital-intensive nature of the modern enterprises, the number of jobs provided in the modern sector was never more than a fraction of the total increase in the labour force. The total amount of new capital investment in the modern sector was in any case not very large up to 1900, when petroleum, mining, and rubber became really significant. At no time did more than seven per cent of the labour force find employment in the modern sector.

Even rice production failed to expand as fast as population, as the good land gave out and virtually all of it suitable for sawah (irrigated rice culture) was converted to that form of cultivation. The rents paid to Indonesian landowners by plantations in 1900 were lower--even in florins, let alone purchasing power--than the Government had paid under the Culture System. Apparently wages were lower too.

Impact of the Great Depression

The great depression of the 1930's had a mixed effect on Indonesian development. On the one hand, there is some evidence that if the sugar boom had lasted longer it would eventually have had a Westernizing effect on Javanese society despite the efforts of the Dutch to prevent it. In any case the dramatic collapse of the export market for sugar destroyed any possibility there may have been that sugar would become a "leading sector" for a generalized takeoff into sustained economic growth for Indonesia. On the other hand, the very speed and extent of the destruction of Dutch manufacturing and trading enterprises seems to have opened opportunities for venturesome Indonesians to enter the market--and once again Indonesians responded to these opportunities. A third effect of the great depression was a shift from a relatively free to

a highly regulated economy. This influence was to be a lasting one; for it was the regulated and not the free economy that the Indonesians inherited from the Dutch, and the tendency of governments of independent Indonesia has been to add new regulations without removing the old ones.

Stagnation after Independence

The Japanese occupied Indonesia in 1940. In August 1945, as the Japanese were withdrawing, Sukarno issued the Declaration of Independence. After five years of intermittent fighting, Holland transferred sovereignty to the new Republic in December 1949.

Enterprise and Economic Policy, 1945-1950

The confusion of economic policy with social philosophy came very early in the Republican regime. At the Jogja Economic Conference in 1946, Vice-President Hatta in his keynote address spoke of the abandonment of principles of of individualism in favor of those of tolong-menolong (mutual aid) and of applying the principle of cooperation from the village outwards. Land ownership, he declared, should be under government control, although he was opposed to outright confiscation of alien property. At this economic conference, no one represented the Indonesian businessman.[1]

The first years of the Republic saw a new upsurge of Indonesian enterprise (salt fish, rubber, glassware, bottles, among others) and 1947 brought some thaw towards private enterprise. At the Jogja Economic Conference, Hatta had seen no role for the private entrepreneur above the level of tukang (craftsman) in the future Indonesian society. By 1947, however, "private enterprise was an accepted institution in the economic order envisaged in government policy."[2]

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[1]John O. Sutter, Indonesiasi: Politics in a Changing Economy, (Ithaca, 1959), p. 393.

[2]Ibid., p. 433.

That year saw the entry of Indonesians into foreign trade on a large scale, and the Ten-Year Plan of 1947 envisaged a substantial role for both foreign and domestic private enterprise.

At the time of the transfer of sovereignty, anti-capitalistic views prevailed. Already there was general support for some kind of "guided economy." At that time, too, the sharp division between those who thought that the government should completely dominate business (at least whatever business was not organized on a cooperative basis) and those who felt that government policy should encourage the growth of national capitalism (Indonesian enterprises) appeared. But even those who favored the encouragement of some Indonesian enterprise condemned "capitalism" as a system. Capitalism as a form of economic organization which could be directed towards the general welfare, according to the prevailing attitudes in the United Kingdom, United States, Canada, and Australia, was an image that simply did not appear to Indonesian leaders. "Exploitation of man by man," "seeking the greatest possible profit," and "free fight" were the sort of terms used to typify the capitalist system. Moreover, the concept of "liberalism" was scarcely differentiated from this kind of capitalism, and was mainly identified with a 19th century "freedom to exploit." The outlook for Indonesian entrepreneurs was therefore none too good even at the time of the transfer of sovereignty; but it was to get better before it got worse. It might have become quite favorable had not the squatter problem led to the fall of the Wilopo Cabinet--an event which Herbert Feith rightly regards as a turning point in Indonesian economic history.[1] The Wilopo Administration, whatever else one may think of it, had a certain shape with regard to economic policy, especially after the "Treasury-Bank

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[1]Herbert Feith, The Wilopo Cabinet, 1952-53, A Turning Point in Post-Revolutionary Indonesia, (Ithaca, 1958).

accord" of 1952, which paved the way to close collaboration between Sjafruddin and Sumitro, a collaboration which produced the most effective economic policy in the whole history of the Indonesian Republic. Sjafruddin and Sumitro had a vision of a growing economy in which the relative role of public enterprise would increase by vigorous expansion of the public sector, not by hampering the growth of the private sector.

Economic Policy, 1950-1960.

Since Independence all Governments and all parties have expressed themselves in favor of "converting the colonial economy into a national economy," but the concept of a "national economy" differed from party to party and from leader to leader. All parties pay lip-service to the national goal of "organizing the economy along cooperative lines" which was written into the Provisional Constitution; but this goal also lacked clear definition. For some leaders it meant an extension to national economic policy of the principles of rice-roots village democracy--gotong rojong, kerdja sama, ramah tamah, and musjawarat desa;[1]--but what this would mean in terms of specific development projects, or monetary, fiscal, and foreign exchange policies was never spelled out. For other leaders the "cooperative society" was defined in the 1930's--European-fashion--as the "middle way" between Communism and unbridled monopoly-capitalism. For them the extension of the cooperative way to the national economy meant quite simply organizing more and bigger cooperatives--credit cooperatives, producers' cooperatives, marketing cooperatives. They seemed to take it for granted that the European cooperative and Indonesian village communalism were the same thing in spirit. The idea that a cooperative can

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[1]Roughly, mutual assistance, working together, a family-like society, and search for unanimity.

be as ruthlessly exploitive in intent as a corporation, if not more so, seems to have occurred to few Indonesian leaders.[1]

Thus, while there was no agreement on concrete social goals there was agreement that Indonesia was not to be developed on "capitalist" lines. Rugged individualism, free competition, and private enterprise had few enthusiastic backers. They were associated in the minds of most Indonesians with imperialism, colonialism, materialism, and a ruthlessly exploitive, ferociously competitive, "devil-take-the-hindmost" approach to social organization. Indonesians did not want such "capitalism." but were divided as to what they did want. Similarly, while everyone agreed that the political system was to be "democratic," they also agreed that it was not to be democratic in the ordinary "Western" sense. No one but the Communists wanted a "People's Democracy." It was to be an "Indonesian" democracy, reflecting the spirit of gotong rojong and musjawarat desa, and rejecting--as Sukarno put it--"the principle that 50 per cent plus one is right." There was, however, no agreement as to what "Indonesian" democracy would be. Meanwhile, it was felt that "as the twig is bent so is the tree inclined." No new institutions should be set up that might prejudice the final outcome.

The paralysis resulting from this disunity and political instability, and disappointment over the consequent failure of independence to bring prosperity, aggravated the growing discontent in the Outer Islands. The conflict between the Outer Islands and Djakarta culminated in February 1958 with the declaration of a Revolutionary Government (P. R. R. I.) with headquarters in South Sumatra. The rebel leaders wanted Indonesia to develop on non-Communist lines, with increased regional and local autonomy. They proposed a return to a federal constitution. They also urged building on the "growing points and leading

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[1]For a further discussion of this point, see Benjamin Higgins, "Hatta and Co-operatives: the Middle Way for Indonesia?" The Annals, July 1958.

sectors" in the Outer Islands in order to launch an effective economic development program and eliminating from the central government corruption, incompetence, and abuse of party politics. The rebellion as such was quickly crushed, and there is virtually no chance that the rebels can reorganize and win a military victory; but guerrilla warfare continues in several areas, and the leaders still fight a propaganda war from outside the country. Success in quelling the rebels' main force further enhanced the Army's growing prestige and the political influence of Chief-of-Staff Nasution and others in the Army Command. The Army had a civilian organization throughout much of the country, and the diumvirate "Sukarno-Nasution" had replaced the old diumvirate "Sukarno-Hatta" in shaping the course of political events.

Return to the 1945 Constitution

In July 1959, with continued unrest in the country, and deadlock in both the Parliament and the Constituent Assembly, President Sukarno decreed a return to the 1945 Constitution. Sukarno thus became the chief executive, at once President and Prime Minister. Like the American President, he could not be removed from office by failure to obtain support in the legislature, the Chamber of Representatives. The Chamber is half appointed, half elected from an approved slate; in any case, it can be largely bypassed under the regulations governing the prevailing State of War and Siege regulations. The People's Consultative Assembly had only one mandatory task: to meet once in five years and choose a new President. The President was advised by a National Planning Council of 76 men, and a Supreme Advisory Council of 44, both appointed by himself to represent "functional groups" (armed forces, labor, peasants, youth, women, religious groups, etc.) and the regions. There was a small Inner Cabinet of eleven men, headed by former Prime Minister Djuanda as First Minister and Minister of Finance. Each Department had one or more Junior Ministers. The

Cabinet as a whole was expected to be an executive rather than a policy-making body. Indeed, a Presidential Decree of August 26, 1959, converting the Ministries into Departments, stated that the Ministers were not in full charge of their Departments but will be "assisted" by staffs "comprising civil and military personnel."

While Sukarno was the strongest single person in the new government, there was a species of system of checks and balances. There were two main forces: Sukarno, with his extreme nationalist and Communist support; and the Army, with its direct representation in the Cabinet, in the two Councils, the Chamber, and the People's Assembly, and with its elaborate grass-roots organization (Army-Youth Corps, Army-Women Corps, Army-Peasant Corps, Army-Worker Corps, etc.), its "observers"in strategic offices of the Civil Service, and its hold on administration of plantations and other former Dutch enterprises. The "regions," while rather nebulous in organization, constitute a third force. They were represented directly in the two Councils and in the Assembly and are still represented to some degree through the Masjumi and PSI parties, although these parties no longer have any direct influence on the government since they have been officially dissolved. Finally, there were moderate nationalists in the Cabinet, with some popular support but no organization.

Constitutional reform in the direction of "democracy with leadership" was probably necessary to give Indonesia stable, non-Communist government. At that stage ordinary parliamentary democracy could only mean rule by Java, since Java has two-thirds of the electorate. The only way in which Java could have provided the required coalescence of entrepreneur and elite would have been through further growth of the Communist Party and the establishment of a Communist regime.

The Plans

Indonesia's First Five-Year Plan covered the years 1956-1960. It was a very modest plan, largely a projection of what Ministries were already doing. But even this plan was not fulfilled. In connection with the August 17th celebrations in 1959--the first under the new system of "guided democracy"--the National Planning Bureau issued a report on progress under the Plan. It would be more accurate to say that the Bureau made a "lack-of-progress" report; in most fields performance fell far short of the modest targets laid down in the Plan. The Bureau explained the shortfall in terms of the conflict with the Netherlands in 1957, the rebellion in 1958, continuing budget deficits and consequent increases in prices, and shortages of foreign exchange.[1]

In mid-1959, only 42 of the 92 pilot industrial projects were completed; 30 were not even started. By the end of 1958, only five of the projected sixty-one new central power plants had been completed. The large Djatiluhur power project was still in the second of the projected three stages; the still larger Asahan project in North Sumatra had not been started at all. The proposed iron and steel plant was still under discussion. The total mileage of roads was essentially unchanged, although the number of vehicles using them quadrupled between 1950 and 1957. Nor was there clear evidence that the overall condition of the roads had improved during the Plan period; some roads were better, others were worse. Repair and extension of railways were delayed by the rebellion and general insecurity; total mileage was unchanged, maintenance fell off. On balance, it seems likely that the railroads deteriorated between 1955 and 1959. Total rolling stock remained more or less unchanged, although the number of passenger carriages declined. The number of passengers carried increased

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[1]The Bank of Indonesia, in its report for 1958-1959, put somewhat more stress on the recession in the United States and its repercussions on exports.

slightly, but the total freight carried dropped about fifteen per cent. A good deal of work was completed on harbors, but coastal shipping was clearly less adequate in 1959 than in 1955; the Bureau reported that by the end of 1958 forty to fifty per cent of the shortages resulting from withdrawal of the Dutch (KPM) ships had been replaced. Both tonnage and passengers through Indonesian harbors declined. Some new aircraft were purchased, but in 1958 Garuda Indonesian Airways carried fewer passengers and less freight than in 1955.

Even in agriculture the picture was mixed, with no clear evidence of overall progress. Rice imports increased from 261 million tons in 1954 and 128 million in 1955 to 563 million in 1957, and 681 million tons in 1958. For the first four months of 1959 the imports were running still higher than in the previous year. Harvested areas under food crops barely kept pace with population growth, and there were no important changes in yields per acre. Principal foodstuffs available per capita from domestic production actually declined during the period of the first Plan, so that maintaining food supplies made increasing inroads into foreign exchange earnings. For a country with Indonesia's industrial potential this development was not necessarily unhealthy in itself--but the Plan called for self-sufficiency in foodstuffs, and there was not enough expansion of the industrial export sector to justify the increase in food imports.

Indeed, not one of the traditional plantation products had regained prewar levels of planted area by 1959. Rubber output increased despite the drop in acreage, because the replanting done between 1946 and 1950 was done with higher-yield strains. For all other major estate crops, output as well as acreage was still well below prewar levels. Even for rubber, both estate and smallholders' exports reached a peak physical volume in 1954, while value of total rubber

exports was at its peak in 1955. Even when allowance is made for smuggling, copra exports show a decline in value during the Plan period. The same is true of tin. Only the expansion of petroleum exports has prevented foreign exchange earnings from falling more drastically than they have; and in 1958, with the growing domestic market for refined products and disruption through the rebellion, even petroleum exports fell in value.

The Planning Bureau estimates showed national income at constant prices substantially lower in 1958 than in 1957, and their estimates for 1959, while showing recovery from 1958, remain lower than in 1957. The component of national income showing the biggest drop between 1957 and 1958 is private consumption, which dropped by Rp. 17 billion at 1957 prices. Private investment dropped almost a billion, government investment by almost 2 billion, and "desa investment" by 300 million. Government consumption also dropped by 2 billion. Gross investment as a percentage of gross national product fell from 6.2 per cent in 1957 to 5.1 per cent in 1958, and was expected to recover only to 5.6 per cent in 1959. Meanwhile, the Indonesian population is growing at a rate of about one and a half million persons per year. The Planning Bureau estimates show 1952 per capita income below that of 1938; since 1958 per capita income was below 1952 at constant prices, one must conclude that in 1958 per capita incomes in Indonesia remained lower than they had been twenty years before.

Among the new institutions established under the konsepsi in July 1959 was the Dewan Perantjang Nasional, or National Development Council, called DEPERNAS for short. It was charged by the President with the task of preparing an economic development plan in the shortest possible time, keeping in mind the evolving concept of "Indonesian socialism." The council was composed of 74 political appointees under the chairmanship of poet and historian Yamin, with M. Hatusoit, a former secretary-general of education, as its

secretary-general. The council met for the first time in August 1959 and a year later presented a draft Eight Year Plan nearly 5000 pages long to the President.

The Eight Year Plan is not merely a design for economic development; it also seeks to crystallize the conception of Indonesian democracy and to define the sort of society the Plan is expected to produce. The spirit of the Plan is well indicated by its division into 8 parts, 17 volumes, and 1945 paragraphs, to symbolize the Proclamation of Independence on August 17, 1945. The Indonesian national identity, the Plan states, is to be sought in the traditional culture--the songs, the dance, the wayang, the literature. The goal must be "a just and prosperous society based on the Pantja Sila," the five pillars of Indonesian social and political philosophy--nationalism, internationalism, democracy, social justice, and belief in God. It must also be a "family-like society," reproducing at the national level the spirit of village organization.

The Plan also summarizes the principles of Indonesian socialism as follows:

1. Emphasis on the production of consumer goods.
2. Better distribution of daily necessities.
3. Agriculture and industry should produce foreign-exchange-earning finished goods.
4. Imports should be used for the creation of increased employment opportunities and for the production of foreign-exchange-saving goods.
5. Development of basic industries.

Somewhat more concretely, the Plan states that Indonesian socialism should guarantee every citizen adequate food, clothing, and shelter; appropriate public health and education facilities; support in old age; and freedom to develop his spiritual and cultural life.

The Eight Year Plan is a "project plan." The council relied mainly on the work of the ministries to provide them with proposed projects and many of the unfulfilled projects of the old Five Year Plan were carried over into the new one. The scale is determined by a social welfare judgment that with present living conditions Indonesia cannot invest more than 13% of its national income. It was this judgment, together with a rough estimate of the present level of national income, that gave the figure of 240 billion rupiahs as the planned investment over the eight-year period. This figure applies to the A projects which constitute the plan proper; these A projects are to be financed from the yield of the B projects, mainly foreign investments in the export industries, and the capture of foreign exchange now lost by smuggling of exports.

The A Projects

The A projects are designed to improve the standard of living of the Indonesian people, and are divided into several sections: culture, education, research, social welfare, government, defense, food, clothing, industry, pharmaceutical, communications, and distribution.

The Mental and Spiritual Sector involves 43 educational projects and 9 cultural ones, accounting for 7.4% of the total budget. Among the latter is expansion of the National Museum and National Art Gallery. The section of education recommends that scientific and technical education be encouraged, while emphasis on humanities in secondary schools and training in law or economics in universities should be discouraged.

Research, the second sector in the Plan, is to center in seven Institutes. Only 1.1% of the budget is allocated to this sector. The eleven Welfare projects account for 2.58%. An interesting feature of the Government sector (1.51%) is the explicit abandonment of the ambitious resettlement projects that played so large a role in discussions of development during the early days of the

National Planning Bureau. The 12.5% of the budget for Special Development includes national security, and the 4.7% for Finance includes tourism. The allocation of 25.16% of the budget to Distribution seems high until one realizes that this sector includes transport and communications.

By far the biggest chunk of the development budget, however--45.02%--is allocated to Production. In this sector there are 88 industrial projects, 8 foodstuffs projects, 7 clothing projects, and 6 pharmaceutical projects. On the whole, these projects seem well conceived, although managerial and marketing problems associated with them recieve too little attention.

The B Projects

The B projects, which are planned to provide the capital to finance the A projects, are the big export industries--the plantation industries, including rubber and copra, oil, timber, fisheries, tin, aluminum, which were reviewed for the Five Year Plan. The Eight Year Plan adds tourism to the list.

The foreign oil companies alone are expected to yield $1.5 billion over the period--at least five times as much as they have invested in rehabilitation, expansion, and modernization of their facilities since World War II--and to provide $1,180 millions in revenue to the government from their earnings. Foreign timber enterprises are expected to yield $52 million to the government (scaled down from an initial estimate of $1,455 million) fisheries $12.5 million (scaled down from an original $4,000 million) and aluminum $11.5 million. Tourism, plus increased output of tin and aluminum are expected to yield $71.5 million. Stopping the smuggling of exports of rubber and copra should bring $396 million, according to the council. Smuggling is to be stopped by making it unprofitable; that is, by stabilizing the rupiah and eliminating the spread between official and black market prices of foreign exchange.

The most serious weakness of the Plan was its vagueness with regard to financing. The total of the estimated revenues from the B projects, $2,462.5 million, does not even meet the estimated foreign-exchange costs of the plan in full. Converted into rupiahs at official rates of exchange, it is less than half the total projected costs. Yet there is no specific provision for meeting the balance. The Indonesian plan is unique in making no provision for domestic financing of any kind; no effort will be made to increase either voluntary savings or tax revenues, because the Indonesian population is poor, and any restrictions on consumption would not be "in accordance with the humanitarian principles of our society." If there is to be no additional taxation or saving--and no drastic reduction in government current expenditures--the difference can be met internally only by inflationary deficit finance, a policy totally inconsistent with the scheme to make smuggling of exports unattractive.

The Default of Economic Leadership

Indonesia's lack of progress since Independence, and particularly since 1959, might be summed up by the one word "Sukarno;" but to be fair "Government indecisiveness" must be added. When the author first went to Indonesia as financial advisor to the Government in 1952, unconscionable amounts of time and energy were devoted to ideological debate. What was the precise meaning of Indonesian socialism? How was the ideal of ramah tamah (the family like society) to be extended to the national level? How was gotong royong (the spirit of mutual assistance) to be translated into cooperatives? Meanwhile the seeds of present economic difficulties sprouted and grew. Some leaders were aware of the mounting problems and knew well enough how to deal with them, but in the "debating society" political atmosphere of the 'fifties nothing could be done.

The hopeless indecisiveness of Indonesia's parliamentary democracy led to Sukarno's introduction of his konsepsi--his concept of Indonesian democracy in 1959. Unfortunately, Sukarno's "guided democracy" turned out to be mainly misguided nationalism and a misguided economy; Sukarno deflected the country's resources and energies into quarrels over West Irian and Malaysia. He did not grasp the country's urgent need for economic development; his 1966 statement that he would root out the people responsible for inflation and shoot them epitomizes his approach. His concept of economic policy was to find the miscreants who were depriving Indonesian people of their natural prosperity and to liquidate them. On these grounds he expropriated and exiled the Dutch, drove the Chinese out of business, deliberately bankrupted Indonesian entrepreneurs, and later forced out the British and Americans. There may have been some rough justice behind some of these moves, but they left the country with no effective economic leadership at any level. Most of the nation's economists were either exiled, in goal or excluded from all government policy-making positions.

Not one trained economist was retained in a position of influence or power within the government. There were well-trained Indonesian economists in the universities and a few in the Civil Service, but their advice was not sought on important policy questions. They were associated in the minds of Sukarno and other government leaders with the anti-Sukarno faction, largely because many of them were students or colleagues of Sumitro who became Minister of Economic Affairs in the rebel "government."

The monetary reforms of August 1959 illustrate very well the kind of ill-considered palliative that characterized economic policy during the Sukarno regime. With rising inflationary pressure and a soaring black market rate for the rupiah, with reserves having dwindled to less than three months'

normal imports, it was clear that something had to be done. The measures called for by the situation were ruthless pruning of unnecessary government expenditures; more rigorous tax enforcement and introduction of new taxes, particularly some kind of land tax (which might have been called a "development tax" to withdraw some of the sting); encouragement of export industries--including petroleum--and import-replacing industries; assignment of greater financial powers and development responsibilities to the regions to permit more rapid growth of export industries; and careful studies to determine an official rate of exchange that could be made to stick if these complementary measures were carried out. None of these things was done. Instead, the official rate of the rupiah was re-established at Rp. 45 to the dollar <u>without</u> the complementary measures to make this rate stick; notes of Rp. 500 and Rp. 1000 denominations were devalued by 90%; and deposits of over Rp. 25,000 were devalued by 90% although government securities were given to depositors with a face-value equal to the amount of deposits cancelled by the government.

Thus the measures constituted a capital levy, plus a forced loan, of a highly discriminatory sort. The government justified its move on the grounds that people holding considerable sums of notes of large denomination were speculators and black marketeers anyhow. There was little evidence to support this contention. Over two-thirds of the total money supply consists of currency, and many holders of large notes were legitimate businessmen--those very entrepreneurs who have been responsible for such economic development as Indonesia enjoyed under the first Five-Year Plan. This sudden destruction of their working capital cannot fail to impede their further expansion. The replacement of deposits with government securities was also a partial expropriation of the working capital of Indonesian enterprises; the market value of the securities will certainly be less than face value, and efforts to

replenish working capital by liquidating government bonds will involve the holders in substantial losses; even if no losses are suffered the measure is not anti-inflationary. To hold cash balances is no great sin in an under-developed country--it is more virtuous than spending them on scarce commodities. A similar measure was undertaken in 1950 and thus will be feared in the future. Consequently, the people will tend to spend rather than hold cash, velocity of circulation will rise, and the anti-inflationary effects of the reform will be short-lived--as they were in 1950. The only merit of the measure was a purely political one--there was no strong, organized, and articulate group to oppose it.

The antagonism towards both foreign and domestic capital, and particularly the destruction of much of indigenous Indonesian entrepreneurship which characterizes the period of Sukarno's "guided democracy," apparently cannot be attributed to the influence of the PKI on the President. The PKI program would maintain the agrarian economy on a basis of "private ownership of peasants of the land" and insists that "economically the national capitalits should, moreover be developed...protection and facilities must be granted to the national capitalists."[1] There is reason to believe that it is Sukarno himself who fears the rise of national capitalism, not so much on ideological grounds as because he is afraid that a thoroughly entrenched class of Indonesian entrepreneurs, on whom a large number of workers might be dependent for employment, would constitute a political force with which he does not wish to contend. The fact that Sjafruddin, Natsir, Sumitro, and the other leaders of the rebellion in 1957-58 were precisely those who showed more sympathy towards

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[1]Van der Kroef, Juan Justus, "Indonesia's Unfinished Revolution," United Asia, (Vol. XII, No. 6), 1960, p. 486.

the development of private enterprise when they were in positions of power no doubt strengthens the President's opposition to capitalism in any form.

The most disturbing feature of the monetary reform of August 1959 is the accompanying evidence that it was deliberately designed to discourage private enterprise. In his 1959 Independence Day address and other recent speeches, President Sukarno reiterated his antagonism towards "national capitalism," referring to it as "vulture capitalism" and warning against the dangers of "liberalism" which he identifies with exploitation of the many by the few. He stresses the necessity of sticking to the socialist, cooperative path and insists that a guided democracy must have a "guided economy." Similarly, in a June 1959 speech, Acting President Sartono criticized Indonesian governments for allowing the economy to remain "capitalistic" instead of transforming it into a "socialist" state according to the 1945 Constitution. The "transfer of power from white (Dutch) and yellow (Japanese) hands to brown (Indonesian) hands" is not enough, for "fundamentally our economic system has remained capitalistic and not socialistic as it should be."[1]

Economic growth can take place through public enterprise as well as through private enterprise, but there is a vast difference between public ownership and control and public enterprise. True enterprise has been conspicuously lacking in the public sector of the Indonesian economy. Many Indonesian leaders have strong views as to the things they are against, but few of them have clear, pragmatic ideas of what they are for. "Guided democracy," "converting the colonial economy into a national economy," "organizing the national economy on a cooperative basis," "avoiding the evils of national capitalism," and similar popular slogans provide no guidance as to the kind of economic system Indonesia is to have, let alone concrete answers to specific

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[1]Antara News Bulletin, (New York), June 23, 1959.

economic policy questions. The ideology most needed in Indonesia has been--ad hocery, analyzing problems and dealing with them, one at a time--the one most seldom encountered. Economic leadership has yet to appear in central government circles. There is a good deal of economic leadership in the private sector, as we have seen; but the Sukarno regime had a strong bias against encouraging it, and all the available entrepreneurial talent could not be pushed or lured into the procrustean bed of government enterprise.

Conclusions

The reason for Indonesia's spectacular failure should now be clear: no regime, from the Netherlands East Indies Company through Sukarno's guided democracy, provided the combination of "big push," economic leadership, and a political framework encouraging to the exercise of entrepreneurship, which is needed for a "take-off" into economic development. Under the Dutch colonial regime a series of "development systems" was tried: private trading monopoly and forced deliveries; public trading monopoly and forced deliveries; free private enterprise with large-scale corporative undertakings; limited planning with modest technical assistance. These succeeded only in launching and sustaining the population explosion and destroying indigenous entrepreneurship, while building a modern sector that was really part of the Dutch economy, and never big enough to permit a decline in the share of a rapidly growing Indonesian population which was forced to seek a livelihood in the traditional sector. After independence came a period of parliamentary democracy with debate but no decisions on fundamental questions of economic development policy. The result was stagnation of per capita output and gathering inflation. Finally came Sukarno's "guided economy," in which Dutch, Chinese, other foreign, and

eventually Indonesian private entrepreneurship was destroyed, without being replaced by effective public enterprise and without developmental investment of "big push" proportions.

We know that rapid growth can take place with public entrepreneurship--or better, economic leadership--as well as with private. But it cannot take place without entrepreneurship or economic leadership of some kind. At time of writing the new Suharto-Nasution regime had just announced its streamlined cabinet. The confrontation of Malaysia had been dropped. There was evidence that at long last Indonesian natural and human resources would be directed towards economic development within some systematic plan. A consortium was being formed to provide substantial foreign aid. There was reason to hope that the new regime would provide, after centuries of postponement, the conjuncture of entrepreneurial endeavour and political power élite favourable to the exercise of entrepreneurial talent which would permit Indonesia to realise her economic potential.

The Doctrine of the "Little Push": the "Ethical System"

By the end of the Nineteenth Century the liberals had become Liberals, well entrenched as the leading political party, responsible for policy in the Netherlands East Indies and so the butt of criticism of that policy. By 1900 there was plenty of such criticism. In the Indies themselves concern over the plight of the Indonesians seems to have been mingled with the "drain theory" and the concept of a "debt of honor" ...the idea that Holland should restore to Indonesia the capital drained off through profits transfers under the culture system. It was also linked with a desire of Dutchmen in the Indies for greater local autonomy. Such, at least, was the tenor of the articles and editorials in the Semerang newspaper, De Locomotief.[1]

The result of this outcry against "Liberalism" was increased emphasis on technical assistance in the administration of the Indies. During the period from 1900 to 1930, when the "ethical policy" was pursued, the Dutch had a scientific--even scholarly--approach to their colonial policy. NEI civil servants arrived in Indonesia with a special degree in oriental studies, speaking the Indonesian language, and well versed in Indonesian history and culture. Many of these civil servants were genuinely devoted to the cause of raising Indonesian living standards, as well as being highly trained. One of these was J.H. Boeke, whose name is so inseparably linked with the theory of cultural dualism.[2]

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[1]Cf. Robert van Niel, The Emergence of the Modern Indonesian Elite, the Hague, (W. van Hueue), 1960, p. 8.

[2]For a brief discussion of the theory of sociological or cultural dualism, see Benjamin Higgins, Economic Development: Problems, Principles, and Policies, New York: 1959, p. 12.

This very dualism, however, was the undoing of the ethical system. There is no doubt that the Indonesian economy was a highly dualistic one at the time the ethical policy was launched. Much Dutch social theory, however, explained this dualism in sociological terms and regarded it as immutable, rather than recognizing it as the result of Dutch policy during the preceding three centuries.

Since many Dutch officials regarded Indonesia as incapable of development along western lines--and in the case of Boeke, felt that any such efforts would serve to hasten the disintegration of traditional society without replacing it with any other unified social system--their concept of an economic development program was limited in the extreme. The perintah halus--gentle pressure--was, indeed, the very opposite to the "big push" in either economic or social terms. It was limited to a bit of agricultural extension work, a bit of rural credit, an unsuccessful attempt to relieve population pressure on Java by moving people to empty Sumatra, and a very little bit of education. There were, however, modest efforts to educate the aristocracy. The Chiefs Schools were reorganized in 1900 to bring them closer to the pattern of the European secondary schools, and were renamed Schools for Training Native Administrators. To make it easier for boys in aristocratic families to obtain European educations, the European Primary Schools were opened to select Indonesians. Van Niel reports that in the early twentieth century, nonetheless, "the presence of an Indonesian at a European secondary school was rare."[1] A very few scions of noble families found their way to the Netherlands for higher education. The School for Training Native Doctors was established

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[1] R. van Niel, op. cit., p. 47.

in 1902. In 1907 there were only 135,555 Indonesian pupils in Java, and 132,385 in the outer islands.[1] Even in 1930, there were only 1,656,244 Indonesians in the lower grades of the elementary schools, a mere 15,716 in vocational schools, and only 178 Indonesians in universities.[2]

Meanwhile, of course, the population growth proceeded unchecked. Public health measures seemed to be more successful than any others, successful, that is, in reducing death rates. Whether or not the result was an improvement in Indonesian welfare is doubtful at best. Even Boeke asked, "How is the economic situation improved if the chance is created for two natives to lead a miserable existence whereas there was earlier only a chance for one"?[3] Since the development efforts under the ethical policy was so modest in scale, they did little to raise productivity in the traditional sector. The net result was that per capita income remained more or less unchanged, and may even have fallen. At any rate, the impression was wide-spread among the Dutch officials themselves that at least the Javanese standard of living was falling. Already in 1901, Queen Wilhelmina announced in her speech from the throne the government's intention to inquire into the minderewelvaart (declining warfare) of the Javanese people.

It was at this time that Idenburg, also an NEI engineer, was appointed colonial minister; and in 1902 he in turn appointed three experts, including Van de Venter, to look into economic conditions in Java. This

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[1] Furnival, op. cit., p. 316.

[2] Ibid., p. 377.

[3] Boeke, Staathuishondkunde, pp. 137-138.

was the first of a series of Royal Commissions to investigate living standards in Indonesia. In the years immediately following World War I, inflation led again to a clear-cut decline in real wages, and in 1930 a "Labor Commission for the determination of legal minimum wages for employees in Java and Madura" was appointed to investigate the situation. The Commission noted "general under-payment" of coolies, and unanimously advocated a minimum wage-rate. No steps were taken to implement this recommendation. It is interesting to note that the Commission recommended a minimum wage based on minimal biological requirements, and suggested prison rations as a standard. This proposal drew attacks even from so liberal a critic as Meijer Ranneft, who pointed out that if the whole of the Javanese population were to be fed prison rations, about forty percent of the island's rice requirements would then have to be imported. It was this sort of experience which led Boeke to cry out in despair,[1]

> "but the only popular response to all these nostrum is an increase in numbers, while foreign capitalists and foreign energy take out of native hands a rapidly increasing share of native activity."

In 1939, still another Royal Commission was appointed, the so-called Coolie Budget Commission, to look into "living conditions of plantation workers and peasants on Java." In general, the situation at that time was that money wage-rates had fallen at least as much as prices during the downswing of the Great Depression, but had failed to follow prices back up again. This careful study indicated that virtually all classes of Indonesian worker and peasants were inadequately nourished, and that

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[1] J.S. Boeke, "Het Zakerijke en Het Persoonlijke Element in de Koloniale Welvaartspolitiek," Koloniale Studien, April 1927.

peasant families were somewhat better off than workers and plantation workers living off the plantation, and about the same as factory workers living off the plantation.[1]

Perhaps even more important from the standpoint of the present study, the "ethical system," with its bevies of enthusiastic do-gooders in the civil service, completed the process of demoralizing the Javanese aristocracy. For as part of the ethical policy, Dutch officials felt it to be part of their job to protect the Indonesians from their own chiefs. The French geographer Bousquet describes the situation as follows:[2]

> "At this time they (the officials) resigned themselves to relinquishing their positions as agricultural supervisors but not as officials. Since their original usefulness had disappeared, they cast about for some new means of making themselves useful. Now there began to take shape the protective system for the Javanese, those meek people who nowadays are called the little folk (de kleine man). I do not wish to be misunderstood. This noble attitude which does do much honor to the Dutch was not born of self-interest or even of hypocrisy, but it produced a very natural change of feeling... This new departure had surprising results. The Dutch fell passionately in love with their work and allowed their enthusiasm to lead them farther than they had foreseen... They superseded native chiefs, whom they distrusted, and natives, whom they considered inept. They transferred the entire load to their shoulders: public affairs, private matters--all was grist to their mill."

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[1] A somewhat later study made for the Center for International Studies, MIT, by G. Tergast ("Improving the Economic Foundations of Peasant Agriculture on Java and Madeira," unpublished manuscript quoted in Geertz, The Social Context of Economic Change, pp. 44-45.) shows that between 1900 and 1940 rice production on Java failed to keep pace with the increase in population. Nutritional standards were maintained by increasing the cultivation of other foodstuffs in rotation with rice, and on dry land. In 1900, the per capita foodstuff production was about 110 kilograms of rice, 20 kilograms of tubers, and 3 kilograms of pulses. By 1940 this had become 85 kilograms of rice, 40 kilograms of maize, 180 kilograms of tubers, and about 10 kilograms of pulses. According to Tergast, the caloric contents of these two product-mixes was about the same, leaving per capita consumption below 2,000 calories for both dates.

[2] G.H. Bousquet, A French View of the Netherlands Indies, Oxford University Press, London and New York, 1940, p. 51. (Chailley, p. 209 et seq)

Bousquet also quotes Shouck Hurgronje:

> "One of my friends, an Assistant Resident, stationed on an outlying island, was temporarily transferred to Java. After he had been in Java for some time, I asked him for his impressions. 'I rather felt,' he said, 'that we are going too far in trying to regulate everything, but I never dreamed that there could be an administrative tyranny such as I have found here. All that is now lacking is an order instructing the natives at what hour they must do their daily duty.'"[1]

He also cites Meijer Ranneft, -- who had expressed concern about the implications of the Report of 1930 Commission--as also expressing concern about the "illegal" nature of the policy of "gentle compulsion" under the ethical system. The difficulty was, according to Ranneft, that orders were given to native chiefs, who in turn were required to execute these commands. The commands are given orally, and thus the person affected is unable to test their legality:[2]

> "The situation thus created, which is maintained with or without popular consent, is dependent upon the enforcement of a system of constraint through fear of punishment. In other words, the native knows that he must do something distasteful, or, contrariwise must refrain from doing something pleasant, because if he does otherwise he is threatened with something even worse. When compulsion is illegal, it can be enforced only by the means of illegal punishments, and these are far more common than might be supposed."

Thus Dutch colonial policy failed to bring economic development to Indonesia even when, at long last, it aimed to do so. The developmental effort under the ethical system was too little and too late to be effective in raising levels of living of the Indonesian people.

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[1] Ibid., p. 52.

[2] Ibid., pp. 54-55.

Chapter 3. The Philippines

When the Europeans first appeared in Southeast Asia, there was probably more difference between Spanish and Philippines levels of development than there was between Portuguese and Indonesian. There is some evidence, at least, that the Philippines were less advanced than their neighbors in the early sixteenth century. Professor George E. Taylor describes them as follows:

> When the Spaniards came to the Islands in the 16th century, they found scattered settlements based on sedentary agriculture and some fishing, with barter exchange and no market mechanism. The level of technology was low even in comparison with the neighboring Asian countries. The economy was constricted, apparently, by the limitations of the social and political system and by the small kinship groups in which economic functions were related more to social status than to the needs of the market. Such economic relationships as there were with the outside world were dominated mainly by foreigners, the Moslems who had trading settlements in Manila and Cebu.[1]

If indeed the Philippines started their modern development from a level below that of Indonesia the fact that their per capita income is now double that of Indonesia is all the more intersting.

On the other hand, the differences between Indonesia and the Philippines at the beginning of the colonial period should not be exaggerated. Taylor himself refers to

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[1]George E. Taylor, The Philippines and the United States: Problems of Partnership, New York, Council on Foreign Relations, 1964, p. 35.

"increasing evidence, especially from the work of American scholars such as Otley Beyer and Ralph Fox, that the pre-Spanish period was richer in cultural and material achievement and in contact with the rest of the world than Spanish historians would have us think."[2]

The economic penetration of the Spanish in the Philippines was shallow and narrow indeed. In truth the Spanish were not much interested in the Philippines. They were interested in New Spain (Mexico) and China, and in Manila as a way station between them. The trade between Manila and Aculpulco was in Spanish or Mexican and Chinese products; output of the Philippines themselves played a virtually insignificant role. There was no equivalent to the Netherlands East Indies Company imposing forced deliveries of local export products in the seventeeth and eighteenth centuries, no equivalent of the Culture System doing the same thing in the early nineteenth century, and certainly no large-scale Spanish corporate enterprise in the late nineteenth century. Despite the fact that the Spanish were in Manila for almost four centuries their impact on the Philippines bears a closer resemblance to that of the Portuguese than to that of the Dutch in Indonesia; they neither destroyed nor built very much.

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[2] *Ibid.*, p. 1.

The Spaniards did bring some technological progress in agriculture, and perhaps even some in industry as well. In addition to modifying the social and political organizations in the direction of a unified bheocratic system, they introduced new plants (tobacco, American corn, and cassava) and new techniques such as the use of stone for construction. The Spaniards took payments both in kind and in labor services, the last being more important. According to Taylor, "Apart from draining off the agricultural surplus and using corvee labor, the Spaniards left the existing settlements as they found them and had no further economic plans for the Philippines, once it was clear that spices and minerals were not abundant." The main interest of the Spanish was the "Manila Galleon," trading between China and Mexico. "The one major exception was the development of Manila as an entrepot for the China trade--really a trade between the silver-rich New Spain and China--a trade that lead to further development of Manila and to the neglect of the economy of the Philippines."[3]

Since the Spaniards were not interested in the Philippines economy, but were interested only in maintenance of peace and order throughout the country, to permit them to continue with their China trade, they had no reluctance in giving away large grants of land in exchange for support

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[3] Ibid., p. 36.

of the colonial regime. With the opening of the colony to world trade in the 19th century, both Chinese and westerners came into the country, the former as traders, the latter as merchants, bankers, shippers, and technicians. The actual production, however, was organized mainly by the new class of landlords, "drawn mainly from the chiefs, but also from Chinese who intermarried with the Filipinos and dropped their Chinese connections."[4] Taylor adds, "on his hacienda the landlord tended to take over the powers that the chieftan had and as there was no one in the provinces to dispute the authority that he had delegated to himself landlordism emerged as a new socio-economic phenomenon of great importance." However, he adds, "so much is said about the evils of landlordism in the Philippines that it is well to remind ourselves that the unscrupulous land-grabbing and extra-legal powers of the new class made possible important economic developments that might not otherwise have come about. The landlords collected rent instead tributes and introduced new crops and grew old for market."[5]

The pre-Spanish religious convictions of the Filipinos were for the most part neither deep enough nor systematic enough to provide much resistance to the Spanish missionaries. Conversion to Christianity seems to have

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[4] Ibid.

[5] Ibid., p. 37.

come quickly and easily enough, although one wonders how thorough the conversion was. Otherwise, however, even the cultural impact of the Spanish was largely limited to the elite.

> Quoting the Human Relations Area files, Area Handbook on the Philippines, Taylor states: "The Roman Catholic church trained Filipinos in the articles of the Faith, but for loyalties for the International Church it depended on foreign priests. In most of the Philippines the Spanish clergy faced no opposition from large-scale political or religious organization. Where they did meet organized resistance, as with the Moslems, the clergy had very little success...Anthropologists believe that the basic units of Philippine society today, the elementary family of Father, Mother, and children and the bilateral extended family with its networks of primary relationships that include all relatives of the Mother and Father, were also characteristic of the pre-Spanish community. There were no clans or similar unilateral groupings, for each person reckoned his relationship as now, with both paternal and maternal kin groups." The basic values of Philippine life continued from pre-Spanish time, "and while they have been adapted to Spanish and American influences, there has always been something very significant that can be identified as Philippine."[6]

The landlords were the Filipino elite at the time the Spanish occupation came to an end, and were the class that produced the ilustrados, who have been "the main bearers of Philippine culture even though they have shared control over the economy with two other important groups, the Spaniards and the Chinese."[7] The religious orders also

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[6] Ibid., pp. 34-35.

[7] Ibid., p. 37

owned large agricultural estates, and the problem of the "Friar Land" was to be a thorny one for sometime to come. As Taylor puts it, "the Filipinos felt that the friars had come by their land holdings by fraud and deceit and that they administered them with ruthless greed."[8]

The United States

Thus the United States took over a semi-feudal regime of a semi-Spanish type (no wonder the Philippines is so highly reminiscent of Latin American countries). Unfortunately, American colonialism did little to change the pattern of land holdings or to alter the power structure in either an economic or in a social and political sense. The American "civilizing mission" in the Philippines was defined largely in terms of spread of education, a gradual introduction of democratic institutions, and the further spread of Christianity, especially in its Protestant version. As Taylor puts it, "in retrospect it is easier to see now the inevitability of oligarchical rule so long as the suffrage is limited to literate males and the social and economic conditions of the mass population remained unchanged since Spanish times, except for the spread of formal education.[9] Indeed, says Taylor, "colonial policy had tended to consolidate the power of an oligarchy that

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[8] Ibid., p. 45

[9] Ibid., p. 65.

profited after 1909 from the free trade relationship and would be likely respect, after independence, the rights and privileges of Americans. The same policy had more, perhaps, to increase than to decrease the gap between rich and poor in the Philippines, and the oligarchy showed little interest in raising the general living standards of the people."[10]

Yet Taylor also maintains that American values of the times were such that the major objective was to make the Philippines a "democratic republic in the American image," a decision, he says, that was unilateral." The "experiment" with American colonialism, he maintains, "was designed to be an educational, social, political, and economic revolution."[11] However, compulsory education was regarded as the main instrument for forging this revolution, and the social and political revolution was apparently expected to bring in its wake whatever changes in the economic organization were required.

The United States did little to solve the problems of land tenure. Some order was introduced into the legal situation, but concentration of landholding remained virtually unchanged. Nor was there much in the way of what would now be called economic development. "There was some mechanization of agriculture, especially in the

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[10] Ibid., p. 67

[11] Ibid., p. 71

processing of sugar, and modest attention was given to the use of fertilizers and to plant and animal husbandary; but the extent of the effort may be judged by the fact that the production of rice and corn, the staple crops, did not keep up with the increase in the population.

Frank Golay, the leading American scholar of the Philippines economy, makes the highly significant point that American colonialism did not take the form of building up large plantation enterprises, after the fashion of Dutch, British, and French colonialism in other Southeast Asian countries. This "distinctive feature", he says, was the result of "an early triumph of Filipino nationalists", who succeeded in imposing limitations on the size of land holdings by either individuals or enterprises, despite the opposition of the American colonial adminstrators. Except for abaca production in Davao, where plantation-style development took place with Japanese capital and enterprise and Filipino "dummies", land holding was effectively limited to 1,024 hectares. These limitations were not sufficient to prevent further concentration of land ownership in the hands of relatively few individuals but they were enough to preclude large-scale corporate enterprise in plantation industries. Consequently American investment moved into the processing, rather than the production of export products. Sugar was produced on Filipino landholdings that were small in comparison to plantations

in Indonesia, and coconuts, the other major export, were grown mainly on Filipino smallholdings. And the Philippines had no equivalent of the tin, bauxite, and petroleum mining enterprises in Indonesia. Moreover, much of the major export production was shipped directly by the producers or by large-scale processors. Even in foreign trade, the role of the foreigner--whether American or Chinese--was not so great as in Indonesia. Most of the modern sector of the economy remained in the hands of Philippines nationals.[1]

Since the penetration of economic colonialism was late and shallow in the Philippines, the population explosion also came late. Indeed it is mainly an affair of the present century. Now, of course, the Philippine has one of the highest rates of population growth in the world, apparently above 3.2 percent per year. Population growth was already fairly high between 1902 and 1922, when population grew from 7.5 million to 11 million. By 1942 the population was up to 17 million and by 1962 to 29 million. Projecting current growth rates gives a figure of 55 million in 1982. Population pressure on the land is appearing in the form of s soil erosion, affecting 75 percent of the land, and of splinter holdings.[2]

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[12]Frank H. Golay, "Economic Collaboration: The Role of American Investment", in Frank H. Golay, editor, The United States and the Philippines, Englewood Cliffs New Jersey, 1966, p. 96.

[13]J.E. Spencer, Land and People in the Philippines, Berkeley, 1964.

Independence and Post-war Reconstruction, 1946-51

For the Philippines the early postwar years were a period of reconstruction. When the Philippines became an independent nation in July of 1946 it was one of the most thoroughly war-torn countries in the world. The capital city of Manila was devastated, the harbor was clogged with wrecked ships, internal transport was disrupted, production and exports were at a fraction of their pre-war levels. In that year agricultural production was only 58 percent of its 1937 volume; manufacturing production was only 21 percent, and mining 2 percent of the physical volume of production in 1937. The combined index of physical production for 1946 was 38.7, with 1937 as 100. According to the report of the United States Survey Mission, "More than three fourths of the productive facilities of the Philippines, outside agriculture, had to be restored in the post-war period."[14]

Agricultural resources also had to be restored. Wartime disruption had reduced the acreage under all crops from 5.1 million in 1940 to 3.9 million in 1946. Even the area devoted to palay, (rice) the basic food crop, had dropped to 1.65 million hectares as compared to 2.1 million in 1940. Some 1.3 million hectares were being cultivated for export crops, a drop of 300,000 hectares from the 1940 area.

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[14] Report to the President of the United States by the U.S. Economic Survey Mission to the Philippines, Washington 1950, p. 10, (henceforth referred to as "Bell mission" and "Bell Report").

Production of major crops showed even greater reductions than acreage. Output of palay (unmilled rice) was 1.6 million metric tons in 1946 as compared to 2.4 million in 1937; sugar output had dropped to 63,000 metric tons from the 1937 level of 1.1 million metric tons. Copra production was down to 204,000 metric tons from 522,000 in 1937, and output of abaca had shrunk from 201,000 metric tons to 30,000 in 1946. The number of head of livestock in 1946 was little more than 1/3 of the 1940 figure - 3.6 million head as compared to 9.7.

In 1940 the Philippines had a slightly favorable balance of trade. Exports were P312 million, imports P269 million, yielding a surplus of P42 million. By 1946 exports had shrunk to P128 million, while imports had expanded to P592 million, producing a deficit of P463 million.

Similarly, in 1941 the budget was virtually balanced: revenues amounted to P157 million, expenditures to P166 million. By 1945 revenues had virtually disappeared -- P3.6 million. Expenditures remained at the relatively high level of P52.3 million. Two years later revenues had recovered to a figure somewhat above prewar levels (P187 million) but government expenditures had swollen to P384.5 million and the internal debt had almost doubled as a consequence. ~~In 1947 wages were more than~~

The war brought serious inflation. In 1945 retail prices in Manila was nearly nine times the 1941 level. In the following year the index still stood at 507.2 (1941=100). In 1947 wages were more than three and a half times their 1941 level, and the price index had dropped to 306, but the cost of living of wage earners was still over four times the 1941 level, so that real wage rates were still below their 1941 level.

Under the circumstances reconstruction was clearly the first order of the day. The people of the Philippines set about the task of rehabilitating their economy with vigor and skill, retarded by selfishness and corruption in high places, but assisted by large-scale United States aid. National income jumped 16 percent between 1946 and 1947, and rose at an average rate of nearly 6 percent per year for the next four years. So great was the wartime devastation, however, that even with such rapid reconstruction, the economy had not entirely recovered by 1950. In 1949 the combined index of the physical volume of production had reached 91.3 percent of its prewar level. Agriculture was at 92.2, manufacturing at 94.7, but mining was still only at 49.1. The area under all crops was close to its prewar level, but the area under principal crops remained noticeably below the prewar level. Acreage under palay was still only 1.4 million hectares as compared to 1.6 million in 1940. Similarly, despite substantial recovery, the

number of head of livestock in 1950 was still only 8.1 million as compared to the 9.7 million level of 1940.

Among major prewar exports, copra production in 1950 was already well above the 1937 figure, but sugar production remained well below and abaca far below the prewar figure. (Table) Exports as a whole showed substantial recovery, reaching P529 million in 1947 and P674 million in 1950. However, the assistance provided by the United States permitted a much bigger increase in imports. From a 1940 level of P270 million they rose to P592 million in 1946. They continued to soar in the next few years, reaching the colossal level of P1,023 million in 1947 and P1,173 million in 1949, after which they fell to 684.9 million in 1950.

With such substantial increases in both production and imports, supplies of goods were greatly improved and prices dropped rapidly. The index of the wage-earner's cost of living in Manila (1937=100) fell from 776 in 1946 to 585 in the following year and to 385 in 1949. The index of food costs fell from 945 in 1945 to 729 in the following year and to 405 in 1945. They did not, however, fall enough to restore real wage rates. In 1949 the real wage rates of skilled workers in Manila was still only 96.5 percent in 1941, and the real wage rates of agricultural workers was 89.0 percent of the 1941 level. Only the real wage rates of unskilled workers showed any improvement over prewar levels.

The Bell Report

Under these circumstances it was natural that the United States Economic Survey Mission, reporting in October 1950, should have been primarily concerned with making the Philippines economy viable. They recognized that "the basic economic problem in the Philippines is inefficient production and very low incomes," (page 1), pointing out that despite the substantial recovery since the war both agricultural and industrial output were still below the prewar level while the population was up 25 percent. They were also concerned with the great inequality of income.

To meet these problems they made general recommendations that agricultural production should be improved, that the economy should be diversified, that a public health and education program should be undertaken, that public administration be made more efficient, and that a program of land reform be undertaken. Their specific recommendations, however, were directed towards two short-run problems: the large and mounting budget deficit, and the serious disequilibrium in the balance of payments. In 1949 total revenues were P360 million as compared to expenditures of P401 million. Inflation was held in check only by the very large volume of imports, which in turn was made possible only by the extraordinarily large scale of U.S. Government expenditures. In 1949 net United States disbursements in the Philippines amounted to P324 billion as compared to total exports of only P260 million. With

imports of P673 million and other payments of P92 million, the net loss of international reserves was P160 million.

Thus the immediate requirement was to keep the Philippines economy viable when the scale of American assistance diminished, as it was destined to do in the following year. The Mission laid particular stress on tax policy as a device both for curing the budget imbalance, and for improving the balance of international payments. A special emergency tax of 25 percent on non-necessity imports was recommended, and a whole program of tax reform was outlined to increase revenues and improve income distribution.

Economic Stabilization, 1949-55

In the task of stabilization, too, the Philippines showed both vigor and skill, once again aided by American technical and capital assistance. In the job of stabilization a leading role was played by the new Central Bank of the Philippines, established in 1949. From 1950 through 1955 price indices in the Philippines were remarkably stable, showing a slightly falling trend over the period as a whole. There was a 10 percent increase in retail prices in Manila between 1951 and 1952, but by the end of 1953 prices had returned to their 1950 level, and they continued a slightly downward trend for the next two years.

Meanwhile, after a further loss of foreign exchange reserves of $53 million in 1951, the net loss of foreign

exchange was reduced to negligible proportions until 1955, when a loss of some $60 million took place, necessitating new import restrictions.

The expansion of output and income continued between 1950 and 1955. The average rate of increase in national income for the period was in excess of 5 percent, while the increase in physical production was even higher.

Throughout the post-war period there was a moderate increase in money supply. A fairly rapid expansion of money supply up to the end of 1950 was followed by a small drop in money supply during 1951. Since 1952 money supply has resumed its upward drift with a market acceleration of the increase in money supply during 1955 and the first quarter of 1956.

The general pattern from 1950 to 1956 was one in which deflationary pressure was exerted through the balance of payments sector while both the private investment and government financed sector were inflationary. The most important factor in the increase in money supply during the period was the extension of credit by the commercial banks, to private businesses and individuals.

During the first quarter of 1956 the pattern of monetary expansion changed somewhat. The balance of payments sector contributed to the increase in money supply to the extent of P31.9 millions. The public sector added P46.5 million, while operations in the private sector produced a decline of P21.6 millions and improvements in

savings, time and other deposits brought a further reduction of P13.6 million in the money supply. The net effect was a more than seasonal rise in money supply of 3.4% over the year-end figure.

From the end of the "transition period" to 1956, the expansion of output was sufficient to offset the increase in money supply. Comsumer prices in Manila reached a peak of 111.6 in 1951 (1949=100) and fell to 97.4 in mid 1955. During the latter months of 1955 and the first quarter of 1956, there was a slight upward drift in prices. The index of consumers prices in Manila stood at 99.9 at the end of 1955, where it still was at the end of March 1956. Thus the Philippines was spared the disruptive forces of inflation which appeared in so many other underdeveloped countries after the war.

From 1950 to 1956 - from the submission of the Bell Report to the completion of the October Draft of the Five-Year Plan -- the economy of the Philippines presents a remarkable picture of stable growth. A prolonged increase in national income of more than 5 per cent per year coupled with gently falling prices is a performance almost unique in economic history. Unfortunately, behind this attractive facade of stable growth were economic and social disorders that threatened not only the economic stability in the Philippines, but even the social and political stability as well.

There were, in 1956, four major economic problems in the Philippines. First, there was growing evidence that maintaining past rates of growth would become increasingly difficult as time went by; some signs of stagnation had already appeared. Second, rising national income had done little to relieve the extreme poverty of the vast majority of Filipinos. Third, the balance of payments continued in chronic disequilibrium. Finally, unemployment was high and growing despite the rise in national income.

The Problem of Maintaining Growth

Both from general theory regarding incremental capital-output ratios (ICORS) and from the experience of other countries, an increase in ICOR is to be expected as an economy moves from a phase of postwar reconstruction to a phase of normal growth. Several wartorn countries seem to have enjoyed very low ICORs during the years of rehabilitation immediately after the war. Wartime devastation created unusual opportunities for high-yield, bottleneck-breaking investment; but as these have disappeared, ICORs have tended to rise. There was no obvious reason why the Philippines should prove an exception to this rule.

Among the reasons for the low ICORs in the Philippines between 1946 and 1952 were the large proportion of investment represented by reclamation and replanting of agricultural

land, a process bringing substantial increases in output with little or no outlay on capital equipment; the increased productivity obtained by use of fertilizer provided by foreign aid; repair of damaged machines, buildings, transport equipment and the like which permits the restoration of whole complexes of productive apparatus for very little cost; and the large amounts of war surplus equipment obtained at prices far below cost. Such occasions for adding significantly to output for very little capital outlay could not arise again. As the time came to replace the stock of capital obtained so inexpensively after the war, capital costs were above their original level.

The deceleration of economic growth occurred in the mid-1950's in the Philippines. The Office of National Planning of the N.E.C. calculated rates of increase in output of the major sectors of the economy for the periods 1950-55 and 1953-55 with the following results:

Compound Annual Rate of Increase

	1950-55	1953-55
Agriculture	5.6%	3%
Manufacturing	8.8%	7%
Mining	19.0%	5%
TOTAL	6.6	4

Since net investment apparently increased at a higher average rate between 1953 and 1955 than it did between 1950 and 1955 the ICOR obviously rose substantially during this period. Examination of the annual data for gross national product suggests that the transition may have come somewhere around 1952, when an increase in gross investment of 4.83 percent brought an increase in gross national product of only 2.27 percent. In the two previous years GNP rose by 8.19 percent and 11.73 percent despite actual reductions in gross investment.

The present writer has made an effort to pin down the "transition" from "reconstruction" to "normal growth" in terms of rates of increase in real national income. In order to avoid the thorny problem of selecting deflators - always difficult enough, and in this case complicated by a change in official price indices in 1949 - the expert resorted to the rough-and-ready device of picking terminal points at which the level of prices was substantially the same. The average change in money income over the period then gives an approximation to the average change in real income. There are theoretical objections to this method, but given the limited accuracy of the data it is doubtful whether more refined techniques are worth while. Mid-1950 to the end of 1951, and mid-1950 to the end of 1955, are two such periods when prices were substantially the same at the beginning and at the end of the period.

During the first period the average rate of increase in national income approached 6 percent. During the latter it was not much above 3.5 percent. Thus these figures also indicate a tapering off of expansion sometime around 1951.

Signs of Stagnation

A very different picture of trends in the Philippines economy was obtained when, instead of looking only at postwar figures of output and income, production figures were expressed in *per capita* terms and compared with prewar records. Generally speaking, in 1956 the picture in the agricultural sector was one of postwar restoration followed by maintenance of traditional relationships between the number of hectares under cultivation and total population. Indeed, the figures provided by the Central Bank (*Statistical Bulletin*, December 1955, p. 155) suggest that the ratio of hectares under "all crops" to total population was about 10 percent lower in 1955 than it had been in 1940. Moreover, there was no very obvious improvement in output per hectare as compared to pre-war. There had been little change from pre-war conditions in hectares per thousand people devoted to foodstuff production. All major foodstuff crops showed a decline in hectarage during the war, followed by recovery between 1946 and 1951, with a tendency to flatten out after that. Hectares *per capita* under rice were slightly lower in 1955 than in 1940. Hectares *per capita* under corn, fruits, and nuts and roots were slightly above the pre-war level. Hectares *per*

capita under beans and vegetables were higher than pre-war but the total is very small. *Per capita* hectarage growing other foods was below pre-war levels.

The picture with respect to output of foodstuffs was much the same; indeed, the correlation between output and hectarage seems to be rather close. Rice production per capita was slightly below pre-war levels, corn production slightly above pre-war. *Per capita* output of roots was higher than pre-war, but since the population resorts to cassava only when rice supply is inadequate, this fact is not altogether a favorable one.

The picture for plantation production was even less cheerful. *Per capita* hectarage under coconuts and abaca were both down; *per capita* production of copra alone was slightly above pre-war; but *per capita* production of coconut oil was well below pre-war; both hectarage and *per capita* output of sugar was down and *per capita* output of abaca is far below pre-war levels. The same is true of *per capita* output of leaf tobacco.

Substantial improvement was shown in *per capita* output of fish, but this is offset by a decline in *per* capita output of meat and poultry, which are on the whole preferred to fish.

The picture with respect to minerals was mixed. *Per capita* output of chromite was above pre-war but the total was a very small fraction of gross national production.

Per capita output of copper had fluctuated considerably but was above pre-war level in 1955. *Per capita* output of manganese and iron was still below pre-war levels and gold was far below pre-war on a *per capita* basis.

These figures regarding production did not add up to a picture of a vigorously expanding economy. On the contrary, when quantities are converted into *per capita* terms and compared with pre-war, the resulting picture was one of stagnation.

The same was true of the figures for the broad structure of the economy. Agriculture (including forestry and fishing) accounted for 40.6 percent of national income in 1949, and 42 percent in 1955. Manufacturing expanded significantly during this period, especially in 1951 and 1955, but remained a relatively small sector of the economy; it accounted for 11.6 percent of national income in 1949 and 14.6 percent in 1955. On the other hand, trade declined from 12½ percent to 11 percent, other private activities, including construction, dropping from 27.8 percent to 24.4 percent. The share of government increased from 6.6 percent to 8 percent. Thus with the exception of the increase in manufacturing, which was large in percentage terms but small in absolute terms, structural change in this period was in the wrong direction. The change in the share of agriculture was not very significant in magnitude - hardly more than the margin of error in the statistics. There was little evidence of progress so far as the

overall structure of the economy is concerned. The Philippines as well as India can be termed "a static economy in progress".

Another indication of lack of dynamism in the economy was provided by the figures of investment in newly registered businesses. These showed an almost steady decline since 1951, when a peak investment of P175 million was reached. The corresponding figure for 1955 is P110.8 million. These figures were small as well as declining: investment in new enterprises in 1955 was only about 11 percent of the investment budget proposed in the then current draft of the development program. Moreover, of the total investment in new enterprise during these years about half was in wholesale and retail trade. Investment in new manufacturing organizations declined, and was less than 1/3 of the total. Investment in new construction enterprises was insignificant. These figures presumably do not cover all investment in new enterprises[1] and of course they do not indicate expansion of old ones; but they confirm the impression given by the investment figures in the national accounts that net private investment was at a low level and that net capital formation was barely keeping pace with population growth.

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[15]They consist of enterprises newly registered with the Bureau of Commerce and with the Securities and Exchange Commission.

The percentage rise since 1949 barely exceeded the percentage increase in total labor force. The reported rise in manufacturing employment was less than 10,000 between 1949 and early 1956.

Another regrettable aspect of investment in new enterprise was its extreme geographic concentration. Some 57½ percent of total investment in newly registered business organizations during this time was in Luzon. Thus the geographic pattern of investment in new enterprise tends to accentuate the sharp differences in industrialization and living standards between Manila and other cities in Luzon on the one hand and the rest of the country on the other.

Poverty.

The United States Economic Survey Mission (Bell Mission) reporting in 1950 wrote: "The inequalities in income in the Philippines, always large, have become even greater during the past few years. While the standard of living of the mass of people has not reached the prewar level, the profits of businessmen and the incomes of large landowners have risen very considerably. Wages and farm income remain lower than the economy can afford because of the unequal bargaining power of workers and the tenants on one hand, and employers and landowners on the other."

"It is clear from the data on wages and prices, even when allowance is made for the usual doubts regarding index numbers, that until 1948, real wage rates were below

the prewar level for industrial workers in Manila and agricultural workers in the provinces. If average daily wage rates are adjusted for the cost of living index for a Manila working class family, it is found that unskilled workers in Manila did not reach their prewar level of real wages until 1948 and skilled workers did not reach this level until the end of 1949, and that agricultural workers have not even now reached the prewar level of real wages".

There was little evidence in 1956 of improvement in income distribution in the years following completion of the Bell Report. Wages of skilled workers, which averaged P7.60 in 1950, had fallen to an average of P7.45 at the end of 1955. Wages of unskilled workers show slight improvement, from an average of P.4.90 in 1950 to P5.22 at the end of 1955. The average daily wage of agricultural workers increased from P1.70 in 1950 to P2.14 in 1955, but this increase did not raise their real wage rates much above prewar and involved no significant change in their severely restricted way of life. Incomes, of course, depend also on the number of days worked.

The increases in wages were less than the rise in profits over the same period. Between 1946 and 1954 the total wage and salary income increased by 67 percent while entrepreneurial and company incomes rose by 70 percent. Between 1950 and 1954, wages and salaries and entrepreneurial and property incomes both rose by about 20 percent. At

the end of this period, the proportion of national income going to entrepreneurs and property owners was extraordinarily high: 56 percent of national income as compared to 44 percent for wages and salaries. When it is considered that the small land owners receive an average income of some ₱400 a year, it seems that the share in national income of the few large land owners and industrialists is unusually large. The available figures indicate that family income of small land owners is about equal to the average income per capita for the economy as a whole - another indication of extreme inequality in distribution of income. Indeed, superficial observation suggests that the standard of living of workers and peasants in the Philippines is no higher than it is in Indonesia, where average income per capita is only half as high as it is in the Philippines.

Another indication of the concentration of wealth was that in 1950 there were only 6,000 shareholders in the Philippines.[16] In contrast to other countries in the area, moreover, the Filipinos themselves were the most important group of investors in the country. They account for half the total investment in the country, as compared to 12.2 percent for the Chinese and 13.8 percent for the Americans.[17]

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[16] Bell Report, op. cit. p. 75

[17] U.S. Dept. of Commerce, Investment in the Philippines Washington 1955, p. 142. (figures for 1948)

This concentration of income and wealth would permit a high ratio of savings to income without great sacrifice on anyone's part, yet private net investment was less than 5 percent of national income.

The Tax System.

The fiscal process does little to mobilize potential savings nor to redress the maldistribution of income. Total tax revenues are only some 8 percent of national income. Moreover, the bulk of these taxes is paid by the middle and lower income group, not by the upper income groups. Corporation income and personal income taxes combined took less than 20 percent of total tax revenues in 1955, and only a small fraction of these taxes was actually paid by Filipinos in the higher income brackets. More than half of the total revenues from income tax is represented by the taxes on corporations, a substantial share of which is paid by foreign corporations. In 1949, the City of Manila alone accounted for some 87 percent of total individual and corporation taxes and there is little to suggest that this situation has markedly changed since. Of personal income taxes actually paid, less than half is paid by Filipinos (44.1 percent in 1949), the rest being paid by Americans, Europeans and Chinese.

Moreover, tax evasion appears to be common among the upper-middle and upper income tax groups. Mr. Jose Aranas, Deputy Administrator from the Bureau of Internal

Revenue and Professorial lecturer in the University of the East has recently described the situation as follows:

> "The portion of the Bell Report of October 1950 on taxes shows that 9,350 individuals with taxable incomes within the bracket of P2,000 to P4,000 filed their returns. The Central Bank estimated that more than 88,000 persons had incomes falling within those limits. The tax reports reveal a total income of P29.2 million for individuals in that bracket; the Central Bank, P232 million. If the Central Bank estimates are correct, only 11 percent of the people with taxable incomes were reported.
>
> "In 1952, there were 51,070 individuals who reported taxable incomes with tax assessments totalling P36.9 million. In the same year, assessments against 2,029 taxable corporation incomes were P69. million. . . In the province of Batangas, described as typical, only two lawyers paid income taxes totalling P73 and nine physicians paid a total of P158. . . . One of the reasons for the deficit in 1953 was that the receipts from taxes were P57.9 million less than 1952, although the national income showed an increase from 6,844 million pesos to an estimated 7,100 million pesos."[18]

Wage earners in tax-paying income brackets have more difficulty in evading the income tax because of the withholding tax on wages introduced in 1950. One could almost say that income tax returns are filed by those who are not liable to taxes rather than by those who are. In 1949, less than 1/3 of individual income tax returns and less than half of the corporation income tax returns were taxable. Under the present law, industries classified as

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[18] Jose Aranas, "Tapping the Sources of Public Revenue,", Economic Research Journal, March 1956, pp. 186-187

"new and essential" are completely free from taxes for five years. In any case, the rates on corporation incomes are low. . . 20 or 28 percent; income tax rates are also low in comparison to other countries, including some in the same region.

Apart from the income tax, which is in general not paid by persons in the higher income brackets, the Philippine tax structure is highly regressive. All other revenues come from commodity taxes of one sort or another which are passed on to the final consumer (see table). Considering that a fair share of government expenditure finds its way into profits, it seems quite possible that the fiscal process redistributes income from poor to rich.

Land Tenure.

Behind the unequal distribution of income was the concentration of land ownership. A survey made in 1952 by G. F. Rivera and R. G. McMillan showed that 48 percent of all farms in the Philippines had less than 2 hectares and only 16 percent had five hectares or over. Some 37 percent of all farms were operated by tenants and tenancy was on the increase. Some 42 percent of the landlords received 50 percent or more of the crop. Among tenants, 8 percent received from 35 to 49 percent of the crop, and 42 percent received from 50 percent or more of the crop. Five or fewer landlords owed on an average of 31 percent total farming area listed for taxes in the 10 barrios studied.

In 5 barrios more than ½ of the farm land was owned by 5 or less large landholders. As a rule, small farmers were unable to obtain credit through established financial institutions, relying on the merchant money lenders, the landlord or relatives and neighbors.[19]

In a later and more detailed study confined to Central Luzon, the same team found further evidence of concentrated landownership and rural poverty[20]. The average number of hectares in the farms enumerated in this survey were 1.8 for full ownership, 3.0 for part owners, 2.8 for tenants and 2.6 for the whole farm. Among 1,000 tenants enumerated 49 percent paid one-half of the principal crops as rent; 39 percent had 55-45 agreements with the landlords receiving the smaller share; some 5 percent paid between 30 and 40 percent of the crops as rent; and the remaining 7 percent in cash rentals. Moreover, tenants paid 61 percent of the total production cost and the landlords 39 percent. The total income of all farm households after deduction of expenses average ₱649.

Generally speaking, small farmers did not have cash crops. Less than one quarter of the farmers enumerated were able to sell palay (unmilled rice) after harvest. Among

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[19] Rivera and McMillan, The Rural Philippines, Manila (MSA) 1952

[20] Rivera and McMillan, An Economic and Social Survey of Rural Households in Central Luzon Manila, (FOA) 1954

tenants surveyed, only 6 percent of the total palay produced were sold for cash. Landlords received 39 percent of the crop as rent and 8 percent as principal and interest on loans. Some 12 percent of the palay crop lent to other creditors, 12 percent to harvesters and threshers; 3 percent was kept for seed, 2 percent were for incidentals and the remaining 18 percent was consumed by the tenant's households.

Robert S. Hardie summarized the situation in the rural Philippines in 1952 as follows:

> "Open rebellion and murderous violence rooted in and fed by tenant discontent is at present endemic to Central Luzon and a few scattered areas, but the causes of discontent characterize the whole of Philippine agriculture... Even though law and order prevailed (which it does not) existing land tenure patterns and inimical to maximized production. Concentration of the ownership of farm lands into the hands of a few implies uneconomic management...Tenants have little incentive to increase production through greater expenditure of effort or the introduction of technological improvements when landlords claim some half of the gains resulting from the increased effort; the interest rates deny the feasibility of employing fertilizer, insecticides, etc...[21]

A still later study, published in 1955,[22] found that only 13,859 landowners out of some 4 million possessed farms of 50 hectares or more on December 31, 1953. Of these 423 had holdings of 501 to 1,000 hectares and only 221 had more than 1,000 hectares.

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[21] Robert S. Hardie, Philippine Land Tenure Reform, Manila (MSA) 1952 pp. 7-8

[22] Arturo F. Sorongun, A Special Study of Landed Estates in the Philippines, Manila (ICA) 1955.

By and large these observations would appear to be still valid. The amount of open violence has been substantially reduced since 1952. The land reform legislation introduced in 1954 has improved to some extent the tenants' share of agricultural income, but it does not seem as yet to have materially affected the distribution of land ownership.

Conclusion

In the light of the analysis of per capita output and of income distribution presented above, it seems clear that the standard of living of the masses of the Philippine people has yet to show significant improvement over prewar conditions.

Balance of Payments.

Despite the fall in the domestic price level and the rise of prices elsewhere since 1950, the Philippine peso was an over-valued currency at official rates of exchange in 1956. The result was steady pressure on foreign exchange reserves. Only vigorous exchange controls prevented more serious depletion of reserves, which in any case fell from $355.91 million at the end of 1950 (including foreign exchange holdings of other banks as well as the international reserves of the Central Bank) to $209.1 million at the end of 1955.

Exports

The favorable balance of Philippines commodity trade before the war depended on a narrow range of traditional exports, most of which were products of plantation agriculture: copra and other coconut products, sugar, forest products, fruit and tobacco. These commodities still provide the bulk of Philippines exports. Coconut products alone still account for about 40 percent of the value of exports and the first four groups for over 80 percent.

After the war these plantations industries faced serious problems, problems which were reflected in the fact that the total area under plantation crops was still somewhat below the prewar level. The combination of mechanized processing operations in the "factory" side of the plantation industries with labor-intensive operations in the agricultural aspect of their undertaking put the plantation industries in a difficult position. The large amount of capital required for the "factory" part of the operation meant that the plants had to operate close to capacity if they were to be profitable. However, operating the plants to capacity requires the operation of plantations to capacity. With losses of productive land through destruction, squatters, insecurity, blight, disease, and inadequate maintenance the output of some plantations was no longer sufficient to keep the plants operating at capacity.

Where the minimum wage law is observed, gains in real wages have been obtained for which there is no commensurate increase in labor productivity.

Added to these production problems were difficulties of marketing even more serious after the war. Some of the plantation industries were facing increasing competition from rival products, including synthetics, the costs of which are steadily reduced, and the range of uses steadily increased, by technological progress in the synthetic industries.

Legally the Philippines then had a single, uniform rate of exchange; in effect, however, the country had a haphazard multiple-rate system. One form of multiple-rate was introduced by the no-dollar import law. This law permitted in effect a different foreign exchange rate for each barter transaction. This law opened the door to serious leakages of foreign exchange. There is also evidence that it put the Filipino exporter in a weak position in bargaining for imports from some of the more narrow markets in which exports are sold. Since the Philippines exporter must use his foreign exchange to buy stipulated goods in a particular market, his range of choice in buying goods for import is sometimes rather limited.

A second form of multiple rate was introduced through the subsidy on gold. The subsidy on gold production makes the peso value of gold approximately equal to the black market price of foreign exchange. Such subsidies

constituted a partial devaluation. It was well known that much of the gold sold in the Philippines free market was smuggled out of the country, which meant in effect that a sizeable volume of foreign exchange transactions was taking place at rates different from the official rate.

The same was true of the black market itself, which introduced still another effective foreign exchange rate into the Philippines system. It was estimated that the losses of foreign exchange through the Hong Kong market alone (mainly in travelers' checks) amount to $50 million a year.

The level of unemployment.

The results of the first Household Survey indicated that total unemployment in the Philippines amounted to 1.2 million. The Office of National Planning of the N.E.C. considered this figure to constitute 13 percent of the labor force[23]. This estimate of unemployment did not include

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[23]The Household Survey gives the unemployment ratio as 8.1 percent. The difference between the definition of labor force employed by the Office of National Planning and that used by the Survey is apparently the difference between the population below the age of 15 and that below the age of 10. If so, the figure used by the NEC is less misleading than the one given by the Survey Report. Obviously children between the ages of 10 and 15 are either in school or working; their only reason for not being in school would be that they are needed at home to work. Consequently the inclusion of this group increases the size of the labor force without increasing the number of unemployed.
It gives a misleadingly favorable picture of the employment situation to include in the labor force children between the ages of 10 and 15.

disguised unemployment, especially of the "dynamic" type - that is, the number of persons who could be released from their present occupations (mainly in agriculture) without a drop in total output, if production organization and techniques appropriately changed.

The Early Post-War Experience: Summary

As we have seen above, in the Philippines the decade following the Second World War brought rapid growth of national income with a relatively low investment ratio. As in other war-torn countries reconstruction provided unusual opportunities for raising output with very little investment and low incremental capital-output ratios were recorded National income increased at an average rate of 5 per cent.per year, which, with a population growth estimated at 2.5 per cent., meant an impressive increase in per capita income of 2.5 per cent. a year. Moreover, after 1950 this growth took place with a gently falling price level. All this was somehow accomplished with a rate of net investment that did not average more than 5 or 6 per cent. of national income.

Unfortunately, this post-war experience also led to the belief that satisfactory growth rates would be maintained with very modest increases in investment. This easy optimism was unwarranted. A large proportion of investment in the Philippines between 1946 and 1952 represented reclamation and replanting of agricultural land, a process bringing substantial increases in output with little or no outlay of capital equipment. A good deal of land which had lain idle during the war was brought back into use. The rapid rise in agricultural output was facilitated by greatly increased use of fertiliser, much of it provided through

foreign aid. Similarly, the repair of damaged machines, transport facilities, etc., permitted the restoration of whole complexes of productive apparatus with very little outlay. Large amounts of war-surplus equipment were turned over to the Philippine Government, some of which was resold to private enterprise at prices far below cost.

The Development Programme, 1957-61

Clearly, all these "bargain counter" investment opportunities were peculiar to the reconstruction period, and could not be expected to arise in similar form during the 1957-61 period covered by the programme. Even in 1956, when the development programme was drawn up, there were indications that the rate of growth was tapering off. Moreover, a comparison of per capita output in various fields with pre-war levels provided a picture of trends in the economy very different from that provided by the post-war decade alone. The comparison with pre-war conditions showed very clearly that what had happened during this decade was primarily reconstruction and not the launching of a growth process that could be expected to continue.

Concentration on the rate of growth of per capita income, and setting targets in terms of per capita income, population growth and recently recorded capital-output

ratios, drew attention away from the failure of the growth process to diffuse the increase in income widely among all occupational groups and regions. There was little evidence of improvement in living standards of either peasants or industrial workers. In addition, there was a worrisome balance of payments problem, which was in part a reflection of the deteriorating position of certain major exports, such as coconut products and abaca. Above all, however, over-emphasis on the aggregate income target led to an under-emphasis on the serious problem of unemployment.

The Employment Situation

Truly reliable figures of employment, unemployment and underemployment are available for the Philippines for only one year: October 1956 to October 1957, the period covered by the statistical survey of households. Apart from these figures, there is an index of non-agricultural employment which is available through 1959, and occasional estimates of growth of the labour force, employment, unemployment, and the like.

The Labour Force

The absolute levels of the labour force participation rates indicate the relatively low state of economic and social development in which the Philippines continue. For males, the proportion of population over ten years old

in the labour force ranged from 73.4 per cent. in October 1956 to 79.7 in May 1957. The figures for females were, or course, lower--41 per cent. on the first date and 37.4 per cent. on the second.

Structural Change

One of the problems noted in the economic programme was the absence of any evidence of the long-run structural change typical of economic growth. Agriculture accounted for about 42 per cent. of national income in 1950 and about 41.5 per cent. in 1955. So far as employment is concerned, the figures provided by the survey indicate no structural change during the period covered. Indeed, during the period, agricultural employment ranged from 57.5 per cent. of the total in the slack month of March 1957 to 60.9 per cent. in October 1957. However, this change represents seasonal fluctuations and clearly denotes no trend. The share of agriculture in national income fell slightly, from 37.7 per cent. in 1956 to 34.9 per cent. in 1959; but since productivity was rising faster in the non-agricultural sector, these figures also suggest little or no change in occupational structure.

Employment

Total employment rose from 7.7 million in October 1956 to 8.2 million in October 1957, an increase of 500,000,

about 230,000 more than the increase in the labour force. However, as shown in table 2, this increase in employment took place almost entirely in the agricultural sector. The increase in non-agricultural employment was only 48,000 during the year. Since the small size of the typical holdings in the agricultural sector was already regarded as one of the Philippines' major problems when the development programme was prepared, the question naturally arises as to what this increase in agricultural employment means.

If this increase in employment is compared with the figure for national income by industrial origin, it will be seen that agricultural production was virtually stagnant during the whole period from 1954 to 1958, the 1958 figure being only slightly above that for 1954. It seems probable, then, that the increase in agricultural employment does not represent a genuine increase in productive employment, but rather lack of employment opportunities outside the agricultural sector and the absorption of population growth into low productivity occupations in the traditional sector. In 1959, however, agricultural output registered an 8.7 per cent. increase in total value.

Unemployment

The number of totally unemployed fell from 859,000 in October 1956 to 630,000 in October 1957. Unemployment rates were considerably higher for females than for males.

Unemployment among males dropped from 8.5 per cent. in 1956 to 5.8 per cent. a year later. For females the corresponding figures were 12.6 per cent. and 9.5 per cent. About three-fifths of the unemployed persons were single, and the highest unemployment rate appeared in the construction industry, where it remained at 15.1 per cent. of the labour force in October 1957.

Underemployment

As in so many underdeveloped countries, the problem of underemployment in the Philippines is considerably more serious than the problem of total unemployment. In October 1956 the number of people working less than 40 hours a week and seeking additional work was 1.6 million. In May 1957 the figure still stood at 1.4 million. Underemployment, as could be expected, was more serious among agricultural workers than among non-agricultural workers, but the difference was not as large as might have been anticipated. In May 1957, 20 per cent. of agricultural workers and 15 per cent. of non-agricultural workers were underemployed.

The Educated Unemployed

The Philippines also shares with other underdeveloped countries the problem of educated unemployed. In October 1956 there were over 20,000 unemployed college graduates and almost three times as many unemployed persons who had

EMPLOYMENT INDEX, 1949-59
(1955=100)

Year	Employment excluding agriculture	Employment in manufacturing	Money wage rate index of labourers in industrial establishments in Manila	
			Skilled	Unskilled
1949	89.3	86.2	102.3	94.6
1950	88.9	84.4	102.2	82.8
1951	90.1	85.3	95.8	89.4
1952	92.6	85.4	97.4	95.6
1953	96.2	94.0	99.5	98.3
1954	97.0	99.6	100.0	97.1
1955	100.0	100.0	100.0	100.0
1956	105.0	100.5	100.3	101.5
1957	111.0	106.2	100.0	100.4
1958	112.9	106.5	103.5	101.0
1959	116.6	111.6	105.3	98.7
1960 (Jan.-June)	.	115.9		.

NATIONAL INCOME BY INDUSTRIAL ORIGIN
(In million pesos)

Sector	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Agriculture	2,505	2,787	2,806	3,009	3,118	3,161	3,049	3,050	3,138	3,411
Mining	55	79	98	107	105	121	122	142	138	167
Manufacturing	502	630	639	834	850	1,001	1,195	1,418	1,728	1,663
Construction	239	237	221	236	205	230	296	329	285	311
Trade	752	828	809	780	781	861	999	1,092	1,103	1,172
Transportation and communication	205	228	242	235	235	250	286	321	336	360
Services	1,664	1,688	1,739	1,807	1,851	2,000	2,341	2,412	2,593	2,684
Government	386	431	487	544	574	648	679	687	740	756
Personal services	274	343	310	313	317	358	494	507	578	600
Recreational services	23	26	26	27	27	28	31	32	31	31
Educational services	.	103	106	98	91	85	77	73	74	75
Professional services	--	161	178	182	186	209	233	261	285	306
All others	981	624	632	643	656	672	827	847	885	916
Total at factor cost	5,922	6,477	6,554	7,015	7,145	7,624	8,288	8,764	9,323	9,768

from one to three years of university training. There were over 200,000 unemployed people who had completed secondary education. The percentage of unemployment was higher for females than for males among university graduates, but was in fact somewhat higher for men who had completed secondary school training or had one to three years of university education.

No figures are available to indicate trends with respect to unemployment among educated people, but these figures clearly indicate a serious problem. The Philippines is exceptional among underdeveloped countries in the proportion of population attending universities and high schools. According to calculations made by a U.N.E.S.C.O. mission to the Philippines in 1956, there were at that time nearly 200,000 in Philippine universities and some 600,000 in high schools. The present writer estimated at that time that the total number of high school and college graduates each year probably exceeded the total annual increase in employment. The rate of employment creation seems to have improved somewhat since then, but it seems likely that unemployment among educated people continues to increase. The difficulty of providing suitable employment to all educated people is aggravated by the fact that relatively few Filipinos receive vocational or technical training. Law and humanities still account for a large proportion of the university degrees.

Subsequent Developments

For the years following 1957, it is necessary to rely on the figures of non-agricultural employment published by the Central Bank of the Philippines. These figures are shown in table 4. It will be noted that between 1957 and 1959 the increase in non-agricultural employment was less than 6 per cent. and was accordingly less than the estimated rate of increase in the labour force. Figures for the first half of 1960 suggest some acceleration of employment creation in the non-agricultural sector. If the labour force remains divided between agricultural and non-agricultural occupations in the same proportion as in earlier years--assuming that no relative increase in industrial employment has taken place--these figures indicate an increase in unemployment between 1957 and 1959, even if there was no increase in open unemployment in the agricultural sector. The increase in employment in manufacturing, which is one of the best indications of the rate of economic development, was even less than the increase in non-agricultural employment as a whole.

If we take the whole period from 1956, when the development programme was prepared, the picture improves slightly, but is still far from satisfactory The rate of increase in employment in the non-agricultural sector as a whole, or in manufacturing alone, barely exceeded the

estimated rate of increase in the labour force. Thus expansion of employment in the non-agricultural sector did very little to reduce the volume of unemployment over the period, let alone provide job opportunities which would permit a transfer from the traditional sector to the modern sector.

Employment and Wage Rates

This record of employment creation is all the more unsatisfactory since it was accompanied by declining real wage rates. Despite wage-price relationships that were extremely favourable to employers, there is little improvement in the employment situation. There were increases in money wages, but these were more than offset by a rise in the cost of living. The Philippines, while not suffering from serious increases in prices, was not spared the creeping inflation that was prevalent in so many countries during this period. The cost of living in Manila rose from an index of 100 in 1955 and 102.7 in 1956 to 107 in 1959 and 109.5 for the first seven months of 1960--less than 2 per cent. per year. The money wage rates of skilled workers rose from an index of 100 in 1955 to an average of 105.3, and fell to 98.7 for unskilled workers, in 1959. The index of real wage rates, accordingly, fell from 100 in 1955 to 97.5 in December of 1959 for skilled workers, and 92 for unskilled labourers. During the first quarter of 1960

money wages of skilled workers rose slightly to 105.4, and money wages of unskilled workers to 101.2. Real wage rates, accordingly stood at 98.2 and 94.3 respectively.

The maldistribution of income and the failure of the growth of national income to be widely diffused, especially among peasants and unskilled labourers, was one of the problems which the 1956 development programme was designed to cure. These figures suggest that far from providing a solution to the problem, the situation with respect to income distribution has been aggravated during the planning period, without any compensating improvement in the structure of production or in the over-all employment situation. The national accounts show that the share of employees fell slightly, from about 42 per cent. of national income (at factor cost) in 1956 to about 41 per cent. in 1959, entrepreneurial and property income constituting about 53 per cent. of the total in both years.[1]

Economic Growth

This slow rate of employment creation indicates a general lack of satisfactory economic growth during the first three years of the planning period. National income grew from 8,288 million pesos in 1956 to 9,768 million in

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[1] The Statistical Reporter (Manila, National Economic Council, Office of Statistical Co-ordination and Standards), Vol. IV, No. 2, Apr. 1960, table I.

1959, an increase of 17 per cent. Real income (at 1955 prices) rose from 8,293 million to 9,293 million, or 12 per cent. Income per head (at 1955 prices) rose from 364 to 376, or 3 1/3 per cent. As already indicated, this disappointingly small improvement in real income per head arises mainly from the lag in the agricultural sector, where the only substantial increases in employment took place.

Generally speaking, the picture in the agricultural sector since the war was one of restoration followed by maintenance of traditional relationships between the number of hectares under cultivation and total population. Indeed, the figures provided by the Central Bank suggest that the ratio of hectares under "all crops" to total population was about 10 per cent. lower in 1955 than it had been in 1940. Moreover, there is no very obvious improvement as compared with output per hectare before the Second World War.

There seems to have been little change from pre-war conditions in hectares per thousand people devoted to foodstuff production. All major foodstuff crops declined in hectarage during the war but recovered between 1946 and 1951, with a tendency to stabilise in recent years. The number of hectares per capita under rice was slightly lower in 1955 than in 1940 but in 1959 it was somewhat higher. For corn it was slightly above the pre-war level in 1955, a peak of 0.06 hectare per capita was reached in 1957, but

in 1959 a tendency to decline was evident. The 1955 level for fruits, nuts and root crops, which was slightly above pre-war hectarage, continued through 1959. The number of hectares per head under beans and vegetables was higher than the pre-war level but the total was very small. Per capita hectarage devoted to other foods increased in 1959 as compared with the 1955 level but it was still below the pre-war level.

The picture with respect to output of foodstuffs is much the same; indeed, there seems to be a rather close correlation between output and hectarage. In 1955, rice production per head of population was slightly below pre-war levels but in 1959 it recovered to the pre-war level; corn production which was slightly above pre-war continued to increase to 0.043 metric ton in 1959 which was an increase of 0.0157 metric ton per head over pre-war. Per capita output of roots was higher than pre-war, but since the population resorts to cassava only when the rice supply is inadequate this fact is not altogether a favourable one.

The picture for plantation production is even less cheerful. In 1955 as well as in 1959, per capita hectarage under coconut and abaca were both below pre-war; per capita production of copra alone was slightly above pre-war, though in 1957 it went slightly higher; both hectarage and per capita output of sugar were down and per capita output of abaca was far below pre-war levels. Native leaf tobacco

followed a slightly different pattern. In 1955 its output was below the pre-war level; however, in 1959 the pre-war level was regained. In Virginia leaf tobacco a whole new industry has been created; whereas in 1950 hardly any Virginia leaf was being grown, in 1959-60 output was about 23 million kilos which was substantially in excess of the national requirement of 15 to 18 million kilos.

Substantial improvement is shown in per capita output of fish, but this is offset by a decline on per capita output of meat and poultry, which are on the whole preferred to fish.

The Office of National Planning of the National Economic Council has calculated rates of increase in output of the major sectors of the economy for the periods 1950-55, 1953-55, and 1956-59 as shown in table 5.

TABLE 5. RATES OF INCREASE IN OUTPUT

(Percentage)

Sector	Compound annual rate of increase		
	1950-55	1953-55	1956-59
Agriculture	5.6	3	3.3
Manufacturing . . .	8.8	7	7.8
Mining	19.0	5	6.1
Total . . .	6.6	4.0	-1

These figures indicate a tapering-off of economic growth some time between 1950 and 1955. Since available figures show net investment increasing at a higher average rate between 1953 and 1955 than in either 1950-55 or 1956-59, the incremental capital-output ratio apparently rose during the period. In 1952 an increase in gross investment of 4.83 per cent. brought an increase in gross national product of only 2.27 per cent. In 1950 and 1951 the gross national product rose by 8.19 per cent. and 11.73 per cent. respectively, despite actual reductions in gross investment. These data suggest that a transition from reconstruction to normal growth occurred during 1952.

The period 1956-59 provides some evidence of accelerated growth. However, it is highly probable that maintenance of a 6 per cent. annual increase in gross national income will in the future require considerably bigger increases in gross investment. By the same token, the required increases in investment may prove somewhat bigger than those called for in the development programme.

Other Problems

Among the other problems which the five-year development programme was designed to alleviate was the balance of payments situation. At the time the programme was prepared, the Philippines suffered a chronic deficit in balance of trade, and a still bigger deficit on the

1956-60: Conclusion

The picture provided by these figures is one of relative stagnation in the Philippine economy, as compared to the first post-war decade. The Philippine development programme was an extremely modest one, in terms of the ratio of investment to income, as compared to many other countries. The actual performance in this respect came close to the programme target, but since the programme was essentially a projection of past experience, all that happened was a continuation of past performance. In terms of the objectives of the programme, however, the experience during the first years of the plan cannot be regarded as satisfactory. There has been no marked structural change, no significant improvement in the employment situation, productivity in the agricultural sector seems to have fallen, and there has been no adjustment in the production methods in the non-agricultural sector to the factor endowment. Per capita real income and output rose by less than 1 per cent. per year.

Had the employment problem been realistically tackled, it would have been necessary to programme a much higher rate of investment than in fact was done. Let us suppose, for example, that the goal of the Italian ten-year plan had been adopted. The investment budget would then have been designed to eliminate unemployment

total goods-and-services account. Private capital transactions also resulted in a net drain on the Philippines' foreign exchange. This over-all deficit was financed by United States Government expenditures in the Philippines for military purposes and for foreign aid.

The years following the launching of the 1956 development programme saw a further deterioration in the Philippines' balance of payments situation. Total reserves of gold and foreign exchange, which were $225 million at the end of 1956, dropped to a low of $125 million in November 1958. There was then some improvement; in December 1959 the figures stood at $163 million, and in September 1960 at $206 million--still substantially below the figure for the pre-planning period. The deficit in the balance of trade increased from $71 million in 1956 to $187 million in 1957, but dropped to $88 million in 1958. In 1959 a small surplus was registered, but this was partially offset by a further deterioration of the capital position. Nevertheless, the improvement in the balance of payments position, resulting in part from the system of multiple exchange rates ("margins") introduced in July 1959, has prompted the Government to introduce partial decontrol of foreign exchange, a free market being established for certain transactions.

in ten years. In order to meet at the same time the goal with respect to structural change, the majority of new jobs would have been created in the industrial sector where the capital-labour ratio would average at least $2,500 or 5,000 pesos. Translating the underemployment in October 1956 into its full-time job equivalent, and adding this figure to that of total unemployment at the time, gives a total of 1,300,000 new jobs as the requirement for eliminating unemployment and underemployment, or 130,000 per year for ten years. In addition, about 270,000 jobs per year would be needed on the average to absorb the increase in the labour force. The total requirement would therefore be 400,000 jobs per year. At 5,000 pesos per job, investment requirement would therefore average 2,000 million pesos per year for ten years--more in each year than the total public investment for all five years of the programme, and about double the total investment actually projected in the programme. Considering the level and distribution of Philippine national income and the investment ratio achieved in some other countries, the doubling of investment in this case is perfectly feasible if the Government and the people are determined to follow a successful economic development programme. A doubling of the investment budget would not only have led to the elimination of unemployment in a reasonably short time, but would have produced a significant rise in per capita income and substantial structural change.

THE THREE-YEAR PROGRAMME OF ECONOMIC AND SOCIAL DEVELOPMENT (FISCAL YEARS 1959-60 to 1961-62)

On 2 January 1959 the National Economic Council adopted a new three-year programme, covering the fiscal years 1959-60 to 1961-62. This new programme was at once more ambitious and more realistic than the five-year programme that preceded it. If executed as planned, it should have brought some improvement in the employment situation.

The programme begins by stating its major objective: "an orderly, uninterrupted and reasonably rapid and integrated development of the economy". Accordingly, it "provides for new additions to the country's stock of capital through the development of agriculture, manufacturing, mining, construction, transportation and communication, power and other utilities". It also "aims . . . at the expansion and improvement of domestic and foreign trade," through "appropriate policies and measures". The programme "outlines necessary fiscal and monetary, including foreign exchange and credit, policy," and "includes a plan of manpower development to ensure that both the short and long-term needs for technical knowledge and trade skills and management capacities are met".[1]

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[1]National Economic Council: Three-Year Program of Economic and Social Development (Manila, 1959), p. 1.

The employment goal was stipulated prior to the income goal: an increase in employment of 950,000 workers. This rate of job creation was expected to absorb the annual increase in the labour force, and to "reduce the backlog of unemployed to 612,000 or 6.17 per cent. of the estimated force in 1962". In addition, it is expected that "under-employment and disguised unemployment will be improved with the greater development of agriculture and cottage and small industries". The income goal is to raise real per capita income to 417 pesos by 1962, an increase of 11.2 per cent. over 1957.

The programme called for gross capital formation of 12.5 per cent. of gross national product over the three-year period, and net domestic investment of just over 10 per cent. of national income. The rate of population increase was estimated at 3.4 per cent. per year. The gross capital-output ratio was estimated at 2.2:1 and the net or incremental capital-output ratio at 1.8:1. With these low incremental capital-output ratios, even the rather limited investment programme was expected to assure the target increases in income and employment. It should be noted, too, that while the programme seems modest in terms of the absolute levels of investment projected, these figures represented an increase in the rate of gross investment of about one-third, and an increase in net investment of over 40 per cent. in comparison to the years immediately preceding the new programme period.

CEYLON

In terms of the Indonesian analogy Ceylon might be said to have jumped straight into the "liberal system" with the cultivation of coffee in the 1840's. The East India Company phase of Ceylonese development had little impact on either the economy or the society, and nothing like the "culture" system ever existed in Ceylon. As Donald Snodgrass puts it,

> the beginnings of the export economy in Ceylon did not coincide with the country's colonialization. The Island had been a European fief for 3-1/4 centuries before it emerged with dramatic suddenness in the 1840's as a veritable model of the export economy. Portugal and Holland had each enjoyed a century and a half of rule of the Island, but their effective sovereignty had always been limited to a narrow coastal belt. Their economic interests had been similarly circumscribed, consisting mainly of trade in native-grown cinnamon, pearls, ivory, and other exotic commodities for which Ceylon has been renowned since ancient times. The Portuguese had failed in efforts to subjugate the Kandian kingdom of the hinterlands and the Dutch formulated a policy of leaving the feudal political, social and economic structure untouched to as great an extent as was consistent with their control of the prized cinnamon trade. The seizure of Holland's coastal forts by the British in 1796 had no immediate effect on this immediate situation. The British valued the Island for strategic reasons--proximity to India and the fine natural harbor at Trincomalee--and apparently gave little thought at first to its potential economic worth.[1]

It was not until 1816 that the British extended their control to the whole of the Island, and even then their interest was confined to the trade in spices. The introduction of coffee plantations in the 1840's, however, began the transformation of Ceylon into a classical, dualistic, export economy. As Snodgrass

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[1]Donald R. Snodgrass, Ceylon: An Export Economy in Transition (Homewood: Richard Irvin, 1966), p. 16.

points out, the export economy typified by Ceylon not only had a high ratio of exports and imports to the national income, but government revenues and expenditures, private investment, imports and even national income have a strong functional relationship to export earnings. At least in the early decade of the expansion of the modern sector through coffee plantations, only the size of the market limited the growth of the economy. All major factors of production were in good supply. Land was abundant, labor could be obtained cheaply through immigration from India, capital could be raised in the British money market, and British management and entrepreneurship was attracted to the Island by the opportunities afforded by the new enterprises.[1]

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[1]It might be noted in passing that Snodgrass misses the fundamental distinction between the theory of technical dualism and the Lewis or Ranis-Fei models. Snodgrass states correctly that the theory of technological dualism "states that factor proportions in the modern sector are either fixed by technical conditions at a highly capital-intensive position or are viewed as such by producers in the modern sector; traditional sector producers in the modern sector; traditional sector proportions are variable; since labor is relatively plentiful, labor intensive methods are used. Various writers have generalized from this starting position and have sketched out a process of economic development based on capital accumulation in the modern sector, which progressively expands and gradually draws into its employment the labor surplus from the traditional sector, ending with the elimination of technological dualism itself." He then cites Lewis and Fei and Ranis. However, a fundamental element of these models is "well-behaved isoquants" in both sectors. Moreover, both the Lewis and the Ranis and Fei models are in themselves completely static, and as stated are simply empirically wrong. There is no "unlimited supply of labor" which can be removed from agriculture permanently and full-time throughout the whole year without a drop in agricultural output; in all Southeast Asian countries there is a shortage of labor--even in Java--during the planting the harvesting seasons. To make sense of these models they must be dynamized, by being put into time, to permit population growth (natural or immigration or both) to provide the "unlimited supply of labor" through time, relative to the amount of investment that is taking place in the capital-intensive sector. In Ceylon, as we have seen, these conditions were fulfilled.

As Snodgrass also points out, the modern export sector was superimposed on the Ceylonese economy with very little impact of any kind on the traditional sector, at least in the beginning. The export sector was essentially a part of the English economy, and the traditional sector was left largely alone. Technology in the peasant sector underwent no apparent change for a century or more. The estates impinged very little on the rice lands of the peasants, since it was unnecessary to do so, given the relative abundance of land. Total acreage under cultivation in the traditional sector, as well as in the modern sector increased. It did mean, however, that when at last the population explosion was launched in Ceylon, the amount of land left for traditional peasant agriculture was not enough to prevent increasing population pressure on that land.

The Dutch made half-hearted efforts to encourage coffee production by native producers, and later the British did the same. These efforts, however, were unsuccessful. What proved effective was incentives to estate production, introduced in 1824 by Governor Sir Edward Bonds. Incentives included the abolition of the export duty, exemption of coffee lands from land taxation, repeal of import duties on agricultural and manufacturing equipment, exemption of the feudal labor dues of those employed in coffee growing. As Snodgrass puts it, "by the 1830's all conditions were right: the early experimental plantations had begun to evolve a greatly improved technology, the discriminatory import duty in favor of West Indian coffee which Great Britain had previously maintained was equalized,

and the plantation system in the West Indies was disrupted by the freeing of the slaves who had provided the labor force."[1] As a consequence export volume of coffee rose five-fold between 1834 and 1842. It rose another 300% in the following 7 years, and more than trebled again by 1869. (See Table 1, Table 2.1 on p. 20, Snodgrass.) The peak of export volume was reached in the late 1960's, although the area under coffee continued to grow until the late 1870's. The fall in yields was a result of a fungus disease which struck in 1869. This disease together with the fall in world prices of coffee with the expansion of Brazilian production spelled the end of coffee as the leading sector of Ceylonese growth.

The point might be made that such impact as coffee estates might have had in raising levels of technology and education was reduced by the use of imported labor, mostly Tamils, who lived on the estates in housing provided by the owners, with their own Bazaars and essentially leading their own lives. Thus the "foreignness" of the coffee enclaves was even greater than it might have been if the estates had relied more fully on Sinhalese natives. The coffee plantations were financed for the most part on a partnership bases.

Snodgrass suggests that the taking over of the highlands for coffee from the peasants brought some reduction in peasant welfare. The rice lands were mostly below the elevations suitable for coffee, but the peasants depended on the uplands for growing fruits and vegetables, and supplementary grains in a system of shifting cultivation. It seems unlikely that these

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[1] Ibid., p. 18.

effects were serious, but it is equally clear that the plantation system during the coffee period did little or nothing to improve the levels of living of the Sinhalese people. Small-holders' exports of coffee also reached a peak in the late 1860's and had fallen to insignificant amounts by the end of the century.

With the collapse of the coffee sector the planters turned to other crops. Chinchona and cocoa were both tried, but neither proved particularly attractive. Eventually, technical and financial problems relating to tea were overcome, and the tea industry swept the field. The extraordinary expansion of the tea sector (over 1000% between 1885-89 and 1905-09) is indicated in Table 2. (Table 2.5, p. 35, Snodgrass.) The rate of expansion, however, tapered off markedly after World War I. The tea industry was one of large European estates from the beginning, and for the most part these were corporate enterprises. After the coffee land had been converted to tea, the estates spread into new areas for tea plantations.

The British government actually tried planting rubber clones in Ceylon before the efforts in Malaya, but Malaya proved to be a better setting for a rubber industry. Nonetheless, the expansion of Ceylon production and export of rubber during the present century was also very rapid in percentage terms, output more than doubling in a single decade (see Table 3, Table 2.6, p. 41, Snodgrass). Since the technology in rubber is simplier than in tea, small-holders played a greater role in the expansion of this industry.

Coconuts, by comparison, was and remains largely a smallholders crop, as it is in other Southeast Asian countries. While coconut cultivation dates from the ancient classical period of Ceylon, its expansion as an export industry was also a matter of the late 19th century (see Table 4, Table 2.7, p. 45, Snodgrass).

Exports and Economic Development in Ceylon to World War II

If rapid expansion of a leading export sector were enough to guarantee overall economic development Ceylon ought at least to have been on the doorstep of the exclusive club of advanced countries when World War II began. The volume of coffee exports grew at an average rate of 6.4% between 1845 and 1870. It declined thereafter, as we have seen; but tea took over, output expanding at an average rate of 8.7% between 1888 and 1913. Between 1913 and 1929 rubber production grew at an average rate of 13.2% per year. It fell during the great depression, but increased again at a rate of 6.6% between 1939 and 1946. The index of combined export volume rose by 6.2% per year between 1888 and 1913 and between 1913 and 1929 at 7.7% per year. There were ups and downs, but the Ceylon story is not the "boom and bust" story of Brazil; to a large extent capital, entrepreneurship and managerial and technical skills did shift from waning to waxing sectors as the pattern of trade changed, in a fashion bringing overall growth of foreign trade. Export earnings grew from Rs. 58 million in 1891 to Rs. 423 million in 1929, stood at Rs. 328 million in 1939 and soared to Rs. 1,064 million by 1949.

Improvements in the level of living of the Ceylonese, however, were on a much more modest scale. Snodgrass estimates the average growth of real Gross Domestic Product between 1888 and 1939 at 3.2% per year; with an average growth of population of 1.4% annually this figure gives a growth of per capita gross domestic product at constant prices of 1.8%. This picture is a much rosier one than the apparent stagnation in Indonesia; but projected into the future it would mean another century at least before Ceylon would appear on the doorstep of the Club.

Structural Change

In terms of broad aggregates there was little structural change in Ceylon, as in Indonesia, up to World War II. The proportion of the labor force in the primary sector was exactly the same in 1921 as in 1881 (63%). The share in agriculture acrually increased from 60 to 61%. The proportion in the secondary sector showed a very slight increase, from 11 to 12%, although manufacturing by itself grew from 8 to 11%. The tertiary sector grew from 18 to 20%. However, in comparison with Indonesia, one fundamental difference appears. Whereas in Indonesia only 7% of the labor force was drawn into the modern sector when World War II began, in Ceylon 28% of the workers were employed on estates in 1921 and 30% in 1946. Since at least some of the manufacturing and services sectors were "modern," it is clear that at least one-third of the Ceylon labor force was successfully transferred to the modern sector by 1940. The difference in experience reflects less a more rapid expansion of the modern sector in Ceylon (in terms of

output or employment) than it does the later incidence of the population explosion in Ceylon. As we have seen, the population explosion in Indonesia (especially in Java) began in 1830 or so, and despite the rapid growth of the modern sector it was unable to absorb more than a small fraction of the growing population. The rest were compelled to seek a livelihood in the traditional sector, and population pressure increased, especially on Java, in that sector.

The war years did bring significant structural change. By 1946 the share of the primary sector in total employment had dropped to 53%, although it increased slightly to 54% in 1953. The share of agriculture was 51% in 1946 and 52% in 1953. The share of the secondary sector and of manufacturing alone remained virtually unchanged; but the share of the services sector rose from 20% in 1921 to 27% in 1946 and 28% in 1953.[1]

Population Growth

As is well known the real population explosion in Ceylon dates from about 1948, with the eradication of malaria. Population growth remained slow up to the 1920's and the supply of land to peasants and smallholders remained reasonably good. Nevertheless, the "industrialization" in the form of enclave plantation agriculture did have some effect on demographic factors. The decennial average of death rates continued to rise until 1910-1919, but fell significantly thereafter, from 30.1 to 23.5 for 1930-1939 and 17.9 for 1940-49. Birth rates

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[1]Figures from Snodgrass, op. cit., p. 323.

rose, from 27.5 in 1870-79 to 39.6 in 1920-29 and then fell slightly, remaining at 37.6 for 1950-59. Consequently the natural rate of population growth, which was 0.5% in the 'seventies and 'eighties, rose to 0.9% in 1900-1910, fell slightly in the next decade, and rose again to 1.3% in the 'twenties and 'thirties and 2.0% in the forties. The rate of increase rose gradually from 0.5 per year for the decade of the 1900-1909, and was already up to 1.3 for the 1930's. For the 1940's the figure was 2% and for the 1950's 2.7%. These decennial averages, however, mask annual fluctuations. There was a negative rate of natural increase as late as 1935, as a result of a sharp increase in the number of deaths in that year. In general, the Ceylonese picture was one of relatively slow population growth right up to World War II and consequently relatively little population pressure on the land.

The fact that Ceylon entered World War II with the level of per capita income somewhat higher than that of Indonesia would seem to be explained almost entirely by the later incidence of population explosion in Ceylon, and the consequent greater availability of land for peasant agriculture, at least as compared to Java. Another factor, of course, is that the modern sector of the Ceylonese economy absorbed a substantially larger share of the total labor force than it did in Indonesia. Estate agriculture alone had 28% of the labor force in 1921 and 30% in 1946. Since at least some of the secondary sector would be regarded as belonging to the modern sector, it is clear that the pattern of development in Ceylon which succeeded in drawing

into that sector at least 1/3 of the labor force by the time of independence. The difference between the Ceylonese and Indonesian experience in this regard, however, does not reflect a substantially higher rate of growth of the modern sector in Ceylon than Indonesia, but rather the earlier appearance of the population explosion in Indonesia (especially in Java) and the consequent necessity for the bulk of the increase in the population to find a livelihood in the traditional sector.

Health and Education

The review of the colonial period would be incomplete without some mention of the British efforts in the field of health and education. By 1939 some 40% of the total school age population was in school, and at the time of independence literacy was estimated at about 60%. Health services were also relatively good on Asian standards. On the eve of World War II there were 120 hospitals with over 10,000 beds, one for each 500th person.

Economic Development Planning in Ceylon

One might say that Ceylon has been engaged in development planning for 20 years, or that it has not yet commenced development planning, according to the rigour of definition used. Ceylon was one of the earliest countries in Asia to give thought to the requirements for raising per capita income after World War II. These requirements were being discussed by the Government of Ceylon as early as 1943. As Professor Oliver points out in the Foreword to his well known book, Ceylon was

"in fact, the first country in South and in East Asia to launch a plan."[1] On the other hand Ceylon has yet to carry the process of planning through to the final stage of completing detailed programmes which are binding on all governmental institutions, with respect both to projects undertaken in the public sector and to policies pursued by government agencies.

The "Project Planning" Phase

The early years of development planning in Ceylon, from the appointment of a Sub-committee for Postwar Development of the Board of Ministers in 1942, until the submission of the Report of the International Bank for Reconstruction and Development mission, may be regarded as the "project planning" phase of Ceylonese planning. The report of the Sub-committee presented to the Board of Ministers on February 1, 1943 was little more than a statement of what the Government of Ceylon ought to be doing with respect to development planning:

> There are two types of problems in the post-war period that require consideration:--
>
> (1) Problems created by war conditions and needing attention immediately on its cessation. For example, the provision of suitable employment for the men who will be demobilized and those temporarily employed on wartime jobs, who will be deprived of such employment.
>
> (2) A general scheme of social and economic planning. Such a scheme will deal with agriculture and industries, commerce and finance, and will be directed towards the increase of production and earning power, the elimination of unemployment and fostering of greater self-sufficiency. It will provide for a profitable utilization

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[1]Henry M. Oliver, Economic Opinion and Policy in Ceylon, Durham, N. C., 1957.

> of the material resources and man-power of this country and the application to the fullest extent to economic interests of the latest inventions and contributions of science. It will provide for a proper balance of occupations; for all the necessary health services for housing and water schemes; and for the abolition of illiteracy and for suitable vocational training. It will aim at assuring for all equal opportunities, a satisfactory standard of living, and freedom from want.

This concern with the need to consider the immediate and longer run economic problems which would confront the government at the end of World War II led to the publication in 1946 of the Government's Post-War Development Proposals. As the Introduction to this document states, the Proposals were primarily a list of "the schemes of the different Ministries," with some indication of "the time priorities we would recommend for these schemes." No targets were established for income, employment, structural change or any other economic aggregates. There is no indication of any attempt at coordination of the plans of the various Ministries, or of an effort to analyze cost-benefit ratios of the various projects described. The projects listed were presented in the form of brief general descriptions, with rough estimates of "approximate capital expenditure." In some cases there was an estimate of the additional governmental personnel required to administer the scheme, but there are no estimates of employment that would be created in the economy as a whole. The schemes also included many items which would not ordinarily be considered developmental, no matter how important they may have been from other points of view ("scientific treatment of frescoes").

In 1950 the Government of Ceylon submitted a development programme to the Colombo Plan Consultative Committee, which was published together with plans of other members of the Colombo Plan organization. This programme presented only rough estimates of amounts that might be spent over a six-year period in major sectors of the economy (agriculture, transport, power, industry and social capital). How rough the estimates were is indicated by the fact that the original estimate of total outlay under this programme was Rs 1,359 million, while one year later a revised programme suggested a programme of Rs 3,200 million. The chief difference between the two plans was the inclusion in the revised plan of a substantial item for rural development, and reductions in the relative share in the programme of all other items except industrial investment.

The "Perspective Planning" Phase

An invitation to the World Bank in 1951 to send a survey mission to Ceylon marked the beginning of a new phase in Ceylonese development planning, and a transition from uncoordinated project planning to long-run perspective planning. The report of this mission, published in 1953, provided guidance both for the establishment of a planning organization and for outlining the broad framework of a perspective plan.[1] The report included an analysis of basic economic problems in Ceylon,

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[1] The Economic Development of Ceylon, Report of a Mission Organized by the International Bank for Reconstruction Development at the request of the Government of Ceylon, Baltimore, 1953.

a survey of the material and human resources available for solving these problems, more detailed analyses of foreign trade and commercial policy, money banking and public finance, cooperatives and rural development, agriculture, water resources and irrigation, power, industry, transportation, public health, education and technology. It provided specific recommendations with regard to new organizations and institutions needed for effective planning, for surveys which should be undertaken as a basis for planning, for monetary and fiscal policies, and for specific development policies in each major sector. It did not, however, suggest specific projects or attempt any cost-benefit studies of individual projects. For the most part the Mission's recommendations for development policy took some such a form as "while net extension of acreage is undesirable, the replanting of some of the existing acreage with high yield cones should be facilitated." In some sectors the Mission could be more concrete. "Development of further hydro-electric capacity is recommended on a programme of work calculated to increase public-owned capacity from 25,000 KW to 125,000 KW by 1962 and beginning with the completion of Stages II-A and II-B of the Laxapana Development Plan."[1]

With respect to planning organization the Bank recommended the creation of an Economic Committee of the Cabinet to be assisted by an Economic Planning Secretariat and a part-time Development Advisory Board. The Bank also proposed a Ceylon

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[1] Loc. Cit., pp. 124-125.

Development Corporation to promote private investment and a Ceylon Institute for Applied Research. Most of these recommendations were accepted sooner or later by the Government of Ceylon. In 1953 a seven-man Planning Committee of the Cabinet was established with the Prime Minister as Chairman, and a small planning secretariat assembled. No Development Advisory Board was established at that time, but the National Planning Council initiated in 1956 was in essence an implementation of this recommendation of the Bank. A Development Finance Corporation to assist private enterprise was established in 1955, and the Ceylon Institute of Scientific and Industrial Research was established in 1955.

In August 1954 the Cabinet reached the decision that the Cabinet as a whole should serve as Planning Committee, and that the Planning Secretariat should be placed under the Minister of Finance and strengthened if necessary. On balance, this reorganization seems to have resulted in some dilution of the planning process in Ceylon. Both the Cabinet as a whole and the Minister of Finance were too heavily engaged in matters pressing for immediate consideration to devote much time and effort to longer-range planning. Nonetheless, a Six-Year Programme of Investment for 1954-55 to 1959-60 was prepared. This programme included a reappraisal of the basic economic problem in Ceylon, a statement of public investment requirements for development, estimates of required government expenditures in major sectors of the economy, analysis of the implications

of the programme for budgetary policy and consideration of the requirements for implementation. Like its predecessors, this plan did not include a statement of long-run goals with respect to income, employment, structural change, and the like. Targets were expressed only in such general terms as more rapid industrialization, greater self-sufficiency for foodstuffs, improved public health and education, and the like. However, the Programme included two chapters, presumably prepared by the Planning Secretariat then under the direction of Dr. Gamini Corea, on the process of development and on the technique of programming. Here for the first time the standard methods for undertaking perspective planning were set forth in a Government of Ceylon official publication.

With the change in government in April 1956 the planning organization was revised, taking a form closer to the recommendations of the World Bank Mission. The National Planning Council Act (No. 40 of 1956) established a National Planning Council consisting of the Prime Minister, the Minister of Finance, and not more than 15 other persons appointed as members by the Prime Minister. In point of fact only 10 additional members were appointed. The Director of the Planning Secretariat served also as Secretary of the Council. The Planning Secretariat was made "subject to the general direction and control of the Chairman of the Council," thus placing the Secretariat directly under the Prime Minister.

The First Interim Report, published by the National Planning Council in July 1957, represented further progress

towards completion of a genuine perspective plan. The Interim Report itself provides a brief plan frame, together with reports of technical working groups (PWD) which had been established by the Council to study such special sectors of a perspective plan as export crops, extension of cultivation, power, industrialization, and rural development. Reports of other technical working groups were published by the National Planning Council in July 1959. These covered private investment, roads, railways, airport, ports, the relationship between economic and physical planning, nuclear development, and manpower training.

The work of the National Planning Council culminated in the Ten-Year Plan published in June 1959. This document constituted a perspective plan in the fullest sense of the word, and utilized standard techniques of economic analysis and development programming.

The Ten-Year Plan is essentially employment oriented. It begins with the postwar population explosion in Ceylon, as the factor immediately responsible for the new sense of critical necessity to raise productivity substantially and quickly. Projections are made for the increase in population as a whole and for the labor force. Agriculture, large scale and small scale, is reviewed as a potential employer, both on old and on new lands. This analysis leads to the conclusion that while opportunities for raising agricultural productivity exist, providing productive jobs for all the Ceylonese people will ultimately require industrialization. Some projections of possible demands for industrial products are made.

A review of the position of the export sector leads to the conclusion that reliance on import-replacing industrial products will not suffice; there is also need to develop new industrial exports. This necessity for industrialization brings a special problem of financing the import of capital goods to get the process started. A separate chapter is devoted to "expansion in other fields," such as transport, health, education and housing. The critical factors in determining an appropriate pace of development are reviewed.

The basic objectives of the plan are set forth as follows:

(a) that the plan should aim both at providing employment for the increase in the workforce and at bringing about a certain reduction in existing unemployment and underemployment;

(b) that the plan should as far as possible aim at equilibrium in the balance of payments on current account or at least a limited deficit capable of being compensated for by borrowing and grants from abroad;

(c) that the plan should aim in the long run at raising the standard of living since this is the ultimate purpose of economic development;

(d) that the Plan should provide for the diversification of the economy so as to make it less vulnerable to external changes;

(e) last, but not least, that the Plan should further an equitable distribution of national income. In a situation of chronic unemployment the creation of employment opportunities is itself the most potent of instruments towards this end. But considerations of equity also affect the financing techniques used.

The projections made in the plan are based on the assumption that there will be no serious international depression during the planning period; that the terms of trade will

on average be the same as those in 1957; that significant amounts of capital and technical assistance from abroad will be forthcoming; that the population will increase by 38.2% and the labor force by 37.8% during the period; that the financial and monetary policy of the government will be geared to implementation of the plan; that there will be no significant increase in defense commitments; and that the plan will have the wholehearted support of both the government and the people. Employment projections are based on sectoral estimates of capital job ratios, while the historical capital output ratio of 2.6 to 1, based on experience in major sectors, is utilized for projecting national income. The total investment requirements thus attained are allocated among sectors, and the bulk of the report is concerned with a descriptive analysis of projects within each of these major sectors.

Towards a Three-Year Programme

The Planning Secretariat was fully aware of the importance of translating the Ten-Year Plan into operating programmes for shorter periods. The Plan document itself contains a highly significant paragraph under the title "The Follow-up":

> It is very desirable to follow-up the preparation of the Ten-Year Plan with a specific programme applicable to a shorter period. This shorter-time programme must serve a different function. The emphasis here must fall on the actual operational tasks necessary over the next three or four years for the purpose of realizing the Ten-Year Plan.[1]

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[1]National Planning Council, The Ten-Year Plan, Colombo, 1959, pp. 56.

Within a few months of completion of the Ten-Year Plan, the Planning Secretariat completed a memorandum on "implementing the Ten-Year Plan."[1] This memorandum pointed out that the Ten-Year Plan constituted the first comprehensive and coordinated programme for economic development in Ceylon, but that at the same time the completion of this plan is only one step in the entire planning process. "What is needed now," the memorandum continues, "is essentially a systematic approach to the implementation of the Plan as a whole. Delay is particularly harmful." The memorandum then proceeded to detail recommendations for implementation of the Plan. A later memorandum suggested certain reorganization of the Planning Secretariat to deal more effectively with the new functions as the stage of programming and implementation was entered. These included the creation of five separate divisions: 1) A division for Perspective Planning, which would continue the sort of work already represented in the Ten-Year Plan. The perspective plan would clearly require revision as time went by, specific projects were completed, and new knowledge was attained. 2) A Division for Overall Programming. 3) A Sectoral Programming Division to deal with main sectors; 4) and Implementation Division; and 5) a Statistical Division. Suggestions were also made for organization at the Ministerial level, the district level and the village level.

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[1]National Planning Council, Document No. MPC/38/59.

Unfortunately the delay, so correctly recognized by the Planning Secretariat as being extremely harmful, did occur as a result of events completely beyond the control of any planning organization. The assassination of Prime Minister S. W. R. D. Bandaranaike, and the inevitable limitations on the effectiveness of the provisional government which followed the assassination, resulted in a hiatus in the planning process. The Planning Secretariat endeavored to proceed with the preparation of a three-year programme, and launched further studies of requirements in particular sectors. Lacking leadership at or near the top, however, and with no clear-cut relationship between the work done by the Planning Secretariat and the actual operations of the various Ministries, it was impossible to complete the task of proceeding from the Ten-Year Perspective Plan to a sound Three-Year Programme.

With the formation of the new government under Prime Minister Madame Bandaranaike, some changes were made in the planning organization. In January 1961 the Secretariat was renamed the Department of National Planning and was brought under the direct supervision of the Prime Minister. The National Planning Council was not officially disbanded; the legislation creating the Council was not revoked; but the Council ceased to meet and in effect disappeared as an agency of the Government of Ceylon.

The Department of National Planning reports to the Cabinet Planning Committee through the Prime Minister. The

terms of reference of the Department of National Planning include the following major functions:

1. To coordinate the Plans and programmes of the individual Ministries and Departments and to integrate such plans into consistent development programmes in relation to the Ten-Year Plan.

2. To report regularly on the rate of Plan implementation and the state of the economy as a whole, with particular reference to expected bottlenecks, shortfalls and difficulties.

3. To advise on major policies likely to affect the costs of economic development.

4. To appreciate and make recommendations on departmental projects and policies related to economic development.

5. To advise on the necessity for revision and researching plans on the basis of changed circumstances at home and abroad.

Because of the long delay between completion of the Ten-Year Plan and the commencement of effective work on a Three-Year Programme to implement it, acceleration of the process of programming is one of the most pressing requirements in the whole field of economic policy in Ceylon at the present time.

Requirements for Ceylon Development

From this brief outline of the history of development planning in Ceylon, it will be seen that Ceylon has been spared the dismal experience of so many other countries, where one rival plan after another replaces its predecessor without much

progress in the completeness, concreteness, refinement or sophistication of the Plan. The various plans did not replace each other; rather, each successive plan was more complete, more comprehensive, more concrete, more detailed, more refined and more sophisticated than its predecessor. In large measure the planning process in Ceylon has been a continuous one. It remains only to carry this process through to completion.

The broad outlines of the economic problem in Ceylon and the requirements for solving it were already clear to the Sub-committee on Development Planning in 1943. If there has been a change in regard to basic principles of the Ceylonese development, it is a growing recognition of the paramount importance of industrialization in the long-run development of Ceylon and a growing optimism with respect to its possibilities. From the very beginning of government concern with economic development in Ceylon the main features of any well construed plan have been clear:

1. The traditional export industries would remain of vital importance to the Ceylonese economy for a long time to come, but they could not be regarded as a "leading sector" for future development, especially where employment is concerned. Development in the export sector must take the form of improved productivity, through replanting with better strains and other technological improvements, rather than expansion of acreage.

2. A major drive would be required to reduce the dependence on imports for essential foodstuffs, particularly rice. A substantial proportion of new lands opening for settlement

should be diverted to rice production. At the same time, it was doubtful whether complete self-sufficiency in rice production could be attained, or should be strived for, if it meant diverting land from higher-yield crops.

3. Industrialization in the first instance would take the form mainly of import replacing industries. As time went by, however, it would probably become necessary to find new industrial export possibilities, since as national income grew the share of national income generated through export of tea, rubber and coconut products would probably decline. Further processing of agricultural products before exporting them seemed an obvious line of development.

The broad line of attack was already apparent in the Post-War Development Proposals of 1946. On the basis of the analysis presented therein, the Sub-committee concluded that-:

> . . . . no development in tea and rubber and possibly coconut can be expected. . . . It is essential, however, that the present level of our exports should be maintained or even increased if we are to embark on the large scale capital development that is necessary if we are to progress. . . . It appears to us . . . . from the facts of our economic and human resources that it will be more expedient to concentrate on development in the immediate future in the direction of agriculture and to build up our resources for our future and industrial development during this period. . . . The production of rice which is our staple food is our first requirement.[1]

With respect to industrialization, this report clearly stated-:

> . . . . there is little or no opportunity for the development of our three specialized agricultural industries of

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[1]Post-War Development Proposals, oc. cit., pp. 36-37.

> tea, rubber and coconut. Some subsidiary industries such as the increased production of citronella, sericulture, cadjunuts, basil, etc., are possible and should be developed. It should also be possible to utilize our mineral resources. . . . It appears to us, however, that we cannot depend on agriculture alone for our living and expect to be able to provide the minimum standard we are aiming at for our rapidly increasing population.[1]

The Proposals then proceed to make suggestions for development in the field.

The development framework suggested by the World Bank Mission was in no way inconsistent with this earlier view. Like the Sub-committee, the Mission viewed the Ceylon economy as basically sound, but one in need of substantial structural change and capital accumulation if it was to meet aspirations for the future in the face of high and accelerating population growth. "The problem is not one of correcting maladjustments already become critical," the Mission stated, "but rather of forestalling a clearly seen threat to such maladjustment in the future. For some generations past Ceylon's productivity has maintained a lead in the race with population. Now the odds in the race are shifting. There is grave doubt whether increasing production in the old pattern can any longer keep up with a greatly accelerated population growth."[2] This is the light within which the Ceylon economy has been seen in all plans and programmes thus far produced.

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[1] Ibid., p. 40.

[2] IBRD., The Economic Development of Ceylon, loc. cit., p. 1.

The Bank Mission, like other analysts of the Ceylon economy, saw the basic problem of land use as determining an appropriate division between production for exports and meeting domestic requirements for foodstuffs. About two-thirds of agricultural land in Ceylon, the Mission pointed out, is utilized for the three major exports. These export crops "are no more vital than the rice and diverse crops consumed locally." The present cultivation of foodstuffs "lacks the dynamic elements necessary to support the steady population increase." The Mission also points out that the danger of population outrunning total output is aggravated by Ceylon's dependence on imports for over half of her rice supplies.[1]

In the first chapter of its Report, the Bank Mission laid down a plan frame in summary form. A review of the resource pattern, the Mission stated, reveals facts which:

> . . . . point clearly and obviously to the main channels for the full use of the natural resources of the country, following and extending the work of the past and the present. In existing agricultural production the high standards of the best estates must be maintained and the efficiency of the less well run estates and especially of the small holders greatly improved. The unused lands of the Dry Zone must be opened up by irrigation, jungle clearance, settlement of colonists, and provision of transport and other necessary services. Every encouragement should be given to the growth of sound manufacturing industry and to the effective utilization of raw materials available in the Island. As an essential basis and supplementary improvement of production, the hydro-electric potential needs to be harnessed, and transport and other services improved and expanded.[2]

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[1] Ibid., pp. 3 and 4.

[2] Ibid., pp. 18-19.

The rest of the Mission's report can be regarded as elaboration of this basic plan frame and more detailed suggestions for each of the major sectors.

The Mission agreed with both previous and subsequent observers that the traditional export sector is of the utmost importance, but cannot be counted upon to provide the necessary stimulation for growth of the economy as a whole. Main emphasis in this sector, the Mission stated, should be based on maintaining and improving efficiency and output. With respect to tea, market conditions might justify an increase in acreage, but most of the land suitable for tea is already planted. In the case of rubber, no case for expansion of acreage could be made. For coconuts too, the emphasis should be on replanting, improved methods, fertilization and better cultivation practices. Some Expansion of area under coconuts, however, seemed feasible, in view of the growing domestic market for coconut products.

The Mission also agreed that industrial growth, while not as urgent as increased agricultural production, is essential to Ceylon's ultimate development.[1] They pointed out that not only labor and capital are necessary for industrial development, but also raw materials, technical knowledge, skills, experience and enterprise. The Bank Mission was not in favor of bold experiments in large-scale industrialization at that time. Rather, they recommended concentration of investment in those industrial projects which have "unusually secure prospects of paying their way," while "the foundations of later development" are laid down "by close and systematic scientific study of raw

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[1] Ibid., p. 40.

materials possibilities, ... and by facilitating the acquisition of technical skills, managerial experience and a habit of industrial enterprise."[1]

The Mission made a plea for recognition of the importance of the private sector, and the necessity of including the private sector in planning and programming so long as it continues to play an important role in the development of Ceylon. The Bank also urged the Government of Ceylon to exercise restraint in the replacement of foreigners having manual, technical and managerial skills by Ceylonese, in view of the overall shortage of these skills in the country as a whole.

The Six-Year Programme for 1954-55 to 1959-60 reflected this broad view of Ceylon's development problem. Nearly 36-1/2% of the total budget for the six years was allocated to agriculture, irrigation and fisheries. The next biggest sector was public utilities, slightly over 1/3 of the total budget. In this Programme industry accounted for only 4.42% of the total budget in the public sector. Slightly less than 16% of the budget was allocated to social development, 3.5% to administration and 3.7% to defense.

During 1958 and 1959 the National Planning Council obtained the services, on a short-run basis, of a number of distinguished European and American economists. In a series of papers prepared for the Council these economists elaborated further on the already familiar theme, and the Planning

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[1] Ibid.

Secretariat drew on their work in preparing the Ten-Year Plan.[1]

Like the Ten-Year Plan itself, Professor J. R. Hicks' essay laid major emphasis on the problem of providing employment as rapidly as the labor force grows. His view was more pessimistic than that of the Planning Secretariat, however, in that Professor Hicks felt that even "to arrange things so that, after an appropriate time has elapsed, 125 people can earn as good a living. . . . as 100 do at present. . . . is going to be a most difficult task." Such "horizontal expansion," as Professor Hicks termed it, would not be possible, in his view, with the existing structure of the economy. The additional labor force will have to be employed outside of the agricultural sector. Yet agricultural output must be raised as well, if the balance of payments is not to become an insuperable obstacle to the necessary capital accumulation. He recommended an alteration of the system of agricultural subsidies so that subsidies are paid only as a reward for increased efficiency. A place must be made for private enterprise, and foreign exchange policy must be integrated with monetary policy in such a way as to insure an increase in foreign investment. He felt that the use of monetary policies to offset fluctuations in foreign trade and to prevent inflation might nullify the stimulating effect of exchange control on domestic investment in new industrial enterprises.

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[1]National Planning Council, The Ten-Year Plan, Colombo, 1959.

Nicholas Kaldor expressed more optimism regarding the possibility of expansion in the export sector than most other observers have done, reservations regarding the goal of self-sufficiency in foodstuffs. He argued that "in the long run the employment problem. . . . can only be successfully tackled through industrialization and large scale construction projects associated with industrial development, rather than by agricultural colonization schemes."[1] Moreover, Kaldor added, "owing to Ceylon's relatively small size, it would be more advantageous to concentrate on particular fields with a view of not only satisfying domestic requirements but developing an industrial export potential, while continuing to rely on imports in other fields."[2] An adequate range of development, he maintained, would require stepping up the rate of capital accumulation from the current 12 or 13% to some 20 to 22% of the gross national product. He stressed the need for better coordination between the Department of National Planning and various government departments if development planning was to be effective in raising productivity in Ceylon. He warned the Government of Ceylon against excessive enthusiasm for nationalization, in view of the heavy drain on competent personnel that would be made by the creation of the necessary new enterprises.

Joan Robinson also considered creation of employment opportunities to be the major objective of development planning

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[1] Loc. cit., p. 26.

[2] Ibid., pp. 28-29.

in Ceylon. She made some calculations of the capital requirements for absorbing the increase in the labor force and reducing unemployment and underemployment, and pointed to two major dangers associated with the execution of an investment programme of requisite size: inflation, and a drain on foreign exchange reserves. In a review of the growing requirements for foodstuffs, and the difficulty in meeting these increased needs through increased domestic production, Mrs. Robinson believed that vigorous exchange control, eliminating imports of luxuries, would be a prerequisite for successful economic development. To curt domestic consumer spending a more effective tax system will have to be introduced.

Dr. Oscar Lange, even more than other observers, stressed the paramount importance of industrialization for Ceylonese development. "Industrialization is the factor which alone has the dynamic force of carrying forward this Island's economy by increasing national output, providing the necessary outlet for employment, making full use of the country's human and natural resources and producing a rise in the standard of living of the population." Indeed, in Dr. Lange's view, "All other fields of economic activity have to be developed in the light of the contribution they can make to the industrialization of Ceylon. This holds for the export sector, agriculture, transportation, trade and finance."[1] With respect to planning,

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[1] Ibid., p. 75.

Dr. Lange stressed the importance of making the Ten-Year Plan a "rolling" one, continually translated into a series of three-year action programmes. He urged the necessity of increasing public participation in economic development through a national savings campaign, more active participation of the rural areas through village and regional plans, participation of municipalities, and participation of economic and civic organizations.

Dr. John Kenneth Galbraith chose to emphasize one major requirement for Ceylonese development: management. Even more important than assuring a supply of managerial talent, he maintained, is the creation of favorable conditions under which management can work. He pointed to the difficulties involved in making good managers of public enterprises out of civil servants. He also argued that public enterprises, if they are to be efficient, cannot be subject to the political considerations which apply to the administration of government departments. Instead, they must operate on a cost-benefit criterion of performance.

The paper by Ursula Hicks was directed specifically towards the problems of strengthening local government, and particularly local government finance, so that the planning process in Ceylon can consist more effectively of "planning from below."

Finally, Professor Gunnar Myrdal in his comments to the National Planning Council, pointed to the need to demarcate clearly the boundaries between public and private sectors, and the necessity of considering the economic development aspects

of this division, as well as the purely political ones. He also pleaded for a foreign investment and foreign trade policy integrated with the needs of the development plan.

The Ten-Year Plan itself was a combination of all the research and analyses which had gone before. The composition of the proposed gross investment for the ten-year period differs from that of the earlier Six-Year Programme, reflecting not only a more advanced stage of planning, but also a later phase of Ceylonese economic development. Because of the population explosion and the social development requirements, social investments rose to 26.3% of the total, of which 20% was allocated to housing. It was hoped, however, that part of the investment in housing, especially in rural areas, would take the form of self-help programmes and thus be non-monetary. Agriculture, including irrigation and land development, was reduced to 22.9% of the total, and industry was raised to 20.6%. This marked increase in emphasis on industry is the main difference between the two plans. The figure also reflects the recognition that many of the industrial projects that would be carried out within an appropriate economic development programme would be capital-intensive in nature.

Thus the failure to launch a process of steady growth in Ceylon cannot be traced to uncertainty as to the broad outlines of a long-run development programme, nor to the lack of an adequate perspective plan as a basis for action. The failure lies rather in the long delay in translating the perspective

plan into a three-year development action programme, and in a short-fall of actual execution of development projects behind targets established in the perspective plan. These short-falls were set forth in a statement to Parliament by the Minister of Finance on July 27, 1961.[1] During the years 1958-59 to 1961-62, transport was the only major sector in which performance came reasonably close to planning targets. Even here, the relatively good results reflect a combination of over-fulfillment in some fields (posts and telecommunication, aviation) and under-fulfillment in others (roads and bridges, buses). Over the whole period, expenditures on railways were close to target, with over-fulfillment in the earlier than later years and under-fulfillment in between. The most serious short-falls were in fisheries, where achievements were only a small fraction of targets, and in the planned industry sector. The latter sector did, however, show considerable improvement over the four years. Actual expenditures for planned industry in 1958-59 were not much more than a third of those planned; for 1959-60 estimated expenditures rose to nearly 40% of plans; in 1960-61 estimated expenditures were about 50% of targets, and in 1961-62 estimated outlays were 85% of the target.

In presenting these figures to Parliament, the Minister of Finance pointed out that under-fulfillment was not the result

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[1]Department of National Planning, The Budget and Economic Development, Presented to Parliament by the Honorable Felix R. Dias Bandaranaike, M. P., Minister of Finance, on July 27, 1961.

of any financial limitations. There were virtually no restraints on development expenditure, and the short-fall reflects technical and administrative limitations in actual execution of projects in the various departments.

Strengths and Weaknesses in the Ceylon Economy

From the standpoint of long-run prospects for economic growth, there are both favorable and unfavorable factors in the Ceylon economy. The favorable factors are the natural and human resources which afford a solid foundation for accelerated economic growth, given appropriate policies; the unfavorable factors consist of pressing short-run problems, which, if not promptly solved by appropriate policy, could threaten long-run economic development as well.

Strengths

With a per capita income of about $120 per year, Ceylon is relatively well off among countries in South and Southeast Asia. In this region, only Malaya Taiwan and the Philippines have higher per capita incomes. In Ceylon there is a substantial margin above the subsistence level of income which can be tapped for economic development. Given a reasonable inflow of foreign aid and investment, meeting capital requirements for further economic growth seems less impossible than it does in some neighboring countries.

First, the structure of the Ceylonese economy is peculiar in the very large proportion of income that is generated by exports. In the late 1950's the total value of exports exceeded

1/3 of the gross national product. This extraordinarily large proportion of national income earned in foreign exchange affords opportunities for diversion of imports from non-necessities to capital goods and raw materials for development on a scale enjoyed by very few countries at Ceylon's stage of economic development. Second, standards of public health and education in Ceylon are unusually high for underdeveloped countries. With a death rate below that of United Kingdom and a literacy rate at about 70% of the population, Ceylon has already achieved standards in these fields which other Asian countries can hope to reach only some years in the future. A healthy and educated population is the basis for all kinds of economic development projects. Literacy and general education are a prerequisite for many kinds of training, from the higher levels of manual skill to advanced science and management.

Fourth, while still imperfect and incomplete, the infrastructure in Ceylon is relatively well built up. Roads, railroads and airlines serve most of the country; considerable hydro-electric capacity has been produced; and while housing standards leave much to be desired, complete absence of housing is not a major bottleneck in the development process.

More important than Ceylon's heritage of physical infrastructure, however, is the heritage of social infra-structure. Whatever distortions and delays in development may have been involved in British colonial policy, Ceylon is nonetheless fortunate in the numbers and quality of its civil servants, its

skilled workers, and its entrepreneurs and managers. Supply in none of these fields is adequate for an advanced, or perhaps even an advancing, economy; but in comparison to many other ex-colonial countries Ceylon must be considered well endowed with these types of human resources, so important to success or failure of development plans. Another way of stating the position with regard to human resources is that Ceylon's absorptive capacity for capital assistance is relatively high,--given only the appropriate atmosphere for a concentrated effort in the economic development field.

Ceylon has a relatively rich soil which seems to replenish itself rather quickly. Ceylon has been largely spared the curse of buffalo grass (alang-alang-) which has followed slash-and-burn, shifting agriculture in Indonesia and the Philippines, laying waste hundreds of thousands of square miles of land. The potential for hydro-electric power also seems to be high.

Another favorable factor in the Ceylonese economic position is the soundness of monetary, fiscal and foreign exchange policies. The Ceylonese economy has enjoyed some expansion since World War II, even if rates of growth have been far from satisfactory. This growth has taken place within a framework of economic stability. Prices rose during and immediately after World War II in Ceylon as in other countries, but the very small annual increases in cost-of-living since 1948 would be the envy of many underdeveloped countries where

cumulative inflation inhibits sound economic development. The expansion of the money supply has not been excessive, and reflects a cautious monetary and fiscal policy. The foreign exchange rate has been stable, thanks partly to the accretions of foreign exchange during World War II and the Korean War boom in 1954 and 1955.

Finally, as we have stressed above, Ceylon has enjoyed considerable continuity in economic development planning. It has avoided the erratic action with regard to planning which has characterized changes in government in some other countries. Much remains to be done in the planning field, as we have emphasized above; but each successive stage of planning has been able to begin where the previous stage left off.

Weaknesses

Unfortunately, these favorable factors are at present almost entirely balanced by unfavorable ones. While per capita income is higher than in some neighboring countries, it is still very low on the relative scale. Worse, the average rate of increase since World War II has been very low--less than 1% per year. The high ratio of exports to gross national product is countered by a still higher ratio of imports to gross national product. Moreover, among major imports, food, textiles and clothing play a dominant role. Close to half of Ceylon's total food requirements is currently imported, an extraordinarily high ratio for an underdeveloped country. Moreover, on the export side foreign exchange earnings are concentrated in three

products for which the long-run prospects are highly uncertain. Unfavorable developments in the markets for these major exports can threaten the very supply of food and clothing in the country.

Underlying all other aspects of the basic economic problem in Ceylon, however, is the population explosion. The population explosion came late to Ceylon, as we have seen. It is largely a phenomenon of the post World War II era. Dramatic and rapid reductions in death rates have brought to Ceylon one of the highest rates of population growth in the world. A by-product of this kind of population growth is abnormally high ratios of children and aged people in the population, resulting in a very high ratio of unproductive to productive members of the population. Combined with the welfare state penchant current in Ceylon, the rapid growth of population creates enormous requirements in the fields of health, education and housing, which threaten all other parts of an economic development budget.

Indeed, so far has the "welfare state psychology" displaced "development mindedness" in Ceylon that in recent years the consumption of domestic products plus imports has exceeded the production of commodities for domestic markets plus exports. In short, Ceylon has been consuming more than it produces, and the dissipation of the windfall of foreign exchange earned during World War II and the Korean War is primarily a reflection of this process.

The industrial base in Ceylon, so far as is known, is a limited one. Import-replacing manufacturing is certainly

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The industrial base in Ceylon, so far as is known, is a limited one. Import-replacing manufacturing is certainly

possible, but there are limitations on growth of heavy industry. Finding new industrial exports to assure that shortage of foreign exchange will not become a bottleneck in the future will be no easy task. Both technical possibilities and marketing prospects for new industrial exports require careful analysis.

The most serious weakness in the Ceylon economy, however, consists of the pattern of short-run conditions which could add up to a financial crisis of a kind that would inhibit economic growth in the next few years. By 1963 foreign exchange reserves had dwindled to the danger point; there were indications of acceleration of price increases; budget deficits were growing; a black market in foreign exchange had appeared with a spread between official and free rates nearing 100%.

Ceylon, 1963

Writing early in 1963, the author felt justified in saying:

> Ceylon is facing a gathering economic crisis of serious proportions. While one can point to various symptoms as factors in this crisis, underlying the whole situation is the failure to achieve significant economic development since World War II. As already pointed out, the rate of increase in per capita income since World War II has averaged less than 1%, a rate of growth which would require nearly three generations to double the per capita income, an achievement which would leave Ceylon among the poorest underdeveloped countries. Moreover, there has been none of the structural change which might be a harbinger of more rapid growth in the future. In 1948 agricultural production constituted 62% of gross domestic product, and services 33%; in 1960 agriculture still accounted for 61% of total output, and services 33%. The share of manufacturing rose only from 5% to 5.6% in 12 years.

The Balance of Payments

The symptom which brought the gathering economics crisis most forcibly to the attention of the authorities in 1963 was the virtual disappearance of foreign exchange reserves. Uncommitted foreign exchange reserves were down to approximately one month's normal imports. This hard fact compelled the authorities to recognize that it was no longer possible for Ceylon to go on consuming more than it produces.

Expanding world markets for exports combined with restrictions on consumption and imports during World War II resulted in substantial accumulation of foreign exchange reserves, from Rs 275.1 million in 1939 to Rs 1,260 million in 1945. These holdings dwindled somewhat in the years immediately after the war, falling to Rs 934 million in 1949. The Korean War, however, brought a new boom in the markets for major Ceylonese exports; by the end of 1951 Ceylon's foreign exchange reserves had risen again to Rs 1,185 million. The following two years saw the rapid utilization of these reserves, which cut out the external assets almost in half.

Favorable trends in the world market, however, brought another reversal of this disturbing trend in the following three years. While imports continued to rise, exports rose still more because of the sharp rise in export prices. The terms of trade, with 1948 equaling 100, improved to 160 in 1956. As a consequence foreign exchange holdings were back to Rs 1,179 million at the end of 1956.

After 1956 the terms of trade deteriorated again, falling to about 120 in 1963. Exports reached a peak value of Rs 1,940 million in 1955, sagging to Rs 1,832 million in 1960 and somewhat less in 1961.[1] Imports, on the other hand, continued to rise, reaching a peak of over Rs 2,000 million in 1959, and still standing at Rs 1,960 million in 1960, necessitating restrictions on imports in the following year. It is, of course, conceivable that favorable movements in world markets will rescue the Ceylon economy once again; but there are no indications that such an event is likely to occur, and there are indications that further deterioration of Ceylon's terms of trade is likely.

The Price Level

During World War II prices rose sharply in Ceylon as in other belligerent countries. The cost-of-living index for Colombo (the only cost-of-living index available) rose two and one half fold between 1939 and 1948. Between 1948 and 1952 rapid inflation gave way to mild inflation, the cost-of-living index rising from 260 to 281 (November 1938-April 1939 equals 100). The following seven years, while constituting a period of satisfactorily slow development, were years of admirable stability. With 1952 as 100, the cost-of-living index for 1960 was 103.5. In November 1961 the figure was still only 105.9.

Unfortunately, real wages in agriculture was also virtually stagnant during these years. Between the beginning of the war and 1952 agricultural real wages did show substantial

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[1]Based on figures through October.

improvement, the index rising from 100 to 163. On the other hand, with 1952 as 100, the 1960 figure for real wages in agriculture was only 106.2 and in November of 1961 it had sagged slightly to 105. Urban workers did somewhat better; with 1952 as 100 the 1960 index as 128, but in November of 1961 it had fallen to 122.2. The 3 1/2% annual increase in total real wage rate is certainly not excessive, but even this modest gain has been accomplished, at least to some degree, at the expense of the peasants and rural workers. More serious is the fact that inflation shows signs of gathering force. The cost-of-living index in 1960 was below that of 1958 and just above that of 1957. During 1961, however, the cost-of-living index rose nearly three points. The situatio is far from being runaway inflation, but given any necessity for further import restrictions, together with further increases in government deficits, the universal tendency for inflation to become cumulative will appear to Ceylon as it has in other countries.

The Budget

During much of the postwar period fiscal policy in Ceylon was conservative, and the expansion of money supply did not exceed the expansion of total output. In the late 'fifties and early 'sixies, however, deficits were growing, and constituted much the most important factor in expansion of the money supply. There were substantial deficits in 1951-52 and 1952-53, but in the following two years the government succeeded in producing budget surplusses. The budget in 1955-56 was almost balanced, but then the budget deficits grew rapidly and steadily,

reaching the figure of Rs 417.5 million for the fiscal year 1959-60.

These deficits appeared despite increases in tax revenues; expenditures grow more. Moreover, it was current government expenditures rather than capital outlays that were primarily responsible for the growth in government spending. Nearly three quarters of the total rise in expenditures between 1952-53 and 1959-60 represented increased current outlays. As the Central Bank of Ceylon pointed out in its Annual Report for 1960, some of these expansions in current expenditures were "built-in"; the rapid rise of population imposes severe pressures on the social development sector of the budget. The Bank goes on to point out, however, that three factors played particularly important roles; outlays on health and education, higher wage rates, and rice subsidies. Other food subsidies and subsidies to the export industries also played a role.

Indeed, over these years, Ceylon became increasingly a "deficitary" economy. Public enterprises ran at a deficit; rise was grown as a deficit; exports were grown at a deficit (these covered by subsidies). Free health and education meant in effect that both educational and health organizations operated "at a deficit," which had to be covered from government revenues. It is likely that at least some wage rates increased more than productivity. The result was an economy which operated as a whole on a deficitary basis, consuming more than it produced, a procedure which, with the virtual disappearance of free foreign exchange reserves, was no longer possible in 1963.

Moreover, if significant economic growth were to take place, public investment for developmental purposes would have to be raised well above current levels. According to estimates of the Department of National Planning, the assurance of even a 2% annual increase of per capita income would require raising public investment for development purposes to Rs 579 millions in 1962-63 and Rs 614 millions in 1963-64. With the then present policies with regard to current expenditures and taxation, these capital outlays would result in a deficit of about Rs 900 million in 1962-63 and over Rs 1,000 million in 1963-64. Even if private investment continued to rise at 3% per year, and if Rs 200 million per year were raised through noninflationary borrowing and another Rs 140 million through foreign aid, the situation would be inflationary. Current policies were inconsistent with continued steady growth in the Ceylonese economy. The then current policies would bring inflation, stagnation, or both.

The Black Market

Another symptom of the gathering economic crisis in Ceylon in early 1963 was the growth of the black market. The black market rate for foreign currency--even the Indian rupee--approaching a level double the official rate. It was commonly believed that the black market was a narrow one, and that the losses of foreign exchange through the black market were not significant. However, if the spread continued, more and more people and organizations would have recourse to the black market.

When the present writer first arrived in Indonesia in the middle of 1952, the spread between official and black market prices for foreign exchange was almost identical with that prevailing in Ceylon in early 1963. Within three years, the black market rate had risen to 30 times the official rate. With spreads of that kind, more and more people, especially small-holders, considered it worthwhile to smuggle exports through minor ports, in order to take advantage of the enormous profits involved in acquisition of foreign exchange through unofficial channels. The smuggling of imports also became highly profitable.

Moreover, as the black market price rose, more and more people wished to convert savings into foreign exchange, even if they did not themselves intend to transfer their enterprises to other countries or to emigrate to other countries. Many people were tempted simply to speculate in the foreign exchange market. Perhaps most serious of all, the large spread between official and black market exchange rates provided an open invitation to graft and corruption among officials responsible for import, licensing and allocation of foreign exchange. While there were fewer opportunities for smuggling in Ceylon than in Indonesia, and while flight of capital was not likely to reach the proportions it did in Indonesia, it seemed important to guard against further disruption of the foreign exchange market.

All these facts were well known to the Ceylon authorities. What was perhaps insufficiently recognized was that these

individual symptoms--dwindling foreign exchange reserves, accelerating increases in cost-of-living, stagnation of rural agricultural wage rates and slow increases in industrial wage rates, growing government deficits, a spreading black market in foreign exchange and growing gaps between official and black market rates, -- even trade union pressure and unrest in the countryside -- were part of a pattern, a pattern only too well known in other countries. The present writer expressed the hope that Ceylon need not tread the dismal path of cumulative economic and political deterioration which has resulted from this pattern in some countries. One could only too easily imagine further rises in cost-of-living leading to successful pressure for wage increases, increased rice, food, and export subsidies to counter the rise in cost of production and in cost-of-living, these leading to further inflation, an acceleration of the increase in black market prices of foreign exchange, increased resort to smuggling in foreign trade, and growing corruption in the civil service.

Ceylon, 1962-1965

The cumulative deterioration of the Ceylon economic position which seemed so threatening in 1962 did not in fact materialize. Instead of accelerating inflation and progressive erosion of the balance of payments, what occurred instead was stagnation. Effective measures were taken to reduce inflationary pressure and to close the balance of payments gap, protect foreign exchange reserves and reduce the rate of

increase in external liabilities. Unfortunately, the price of stabilization of the Ceylon economy was a decline in the average rate of increase of national income (at constant prices), which fell from 4.9% in 1950-55 to 3% in 1955-60 to 2.9% in 1960-64. The rate of population growth remained about 2.7% during this period, although there is evidence of a slight decline in the rate of population growth towards the end of the period to about 2.6%. Thus during the period 1960-64 per capita real income in Ceylon remained virtually unchanged.

In 1961 measures had already been taken to curtail imports, and the drain on reserves was reduced below 1960 levels. However, in 1961 the government cash deficit remained high, in excess of Rp. 400 million. For the fiscal year 1960-61 the gross budget deficit was Rp. 489 millions. About half of this amount, Rp. 241.4 million, was borrowed from the banking system, and with an adjustment for the change in the U. S. counterpart fund account, amounting to Rp. 7.5 million, the Central Bank of Ceylon calculates the net expansionary effect of the budget at Rp. 33.3 million.[1]

It may of course be questioned whether expenditures financed by domestic borrowing from non-bank sources, which amounted in 1960-61 to Rp. 199 million, are really "non-inflationary."

According to the well-known Haavelmo "balanced budget multiplier theorem," even a tax-financed <u>increase</u> in expenditures may be inflationary. Moreover, purchase of

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[1]Central Bank of Ceylon, <u>Annual Report 1961</u>, p. 15.

government securities by domestic savers may represent a diversion of savings rather than an increase in savings. Finally, the whole process of selling securities to savers and spending the proceeds may redistribute income from savers to spenders on the second round, raising the aggregate multiplier and so exerting inflationary pressure.

In any case, the continuing unfavorable balance of trade on goods and services account, together with the drawing down of existing stocks of exports, prevented any serious rise of prices in 1961. Bank lending to private enterprise was slightly higher in 1961 than in the previous year, Rp. 557 million as compared to Rp. 545 million.

In 1961 the increase in gross national product at constant prices was 2.6%, as compared to 4.8% in 1960. Thus the per capita gross national product actually decline by 0.2% in 1961. Reduction of export prices played some part in this decline in per capita income. The total value of exports in 1961 rose by 8.1%.

In 1962 the gross national product increased by 4.5%, and GNP per capita by 1.8%. The growth of population in that year is estimated 2.7%. At constant prices the increase in GNP per capita was about 1.3%. With further extension of import restrictions, foreign exchange reserves fell further, but considerably less than in 1961. The cash deficit for 1961-62 is calculated at Rp. 456 .1 million as compared to Rp. 462.5 million in the previous budget year. Of these amounts, Rp. 2[illegible] 6 million were borrowed from the banking system in 1961-62, and

Rp. 241.4 million in 1960-61. The "net expansionary impact" of the budget is calculated by the Bank of Ceylon at Rp. 190.4 million in 1961-62 and Rp. 233.9 million in 1960-61.

Stability with stagnation continued in 1963. Indeed, GNP in real terms rose by only 1.9% in 1963 which meant that per capita income declined by 0.6%. The increase in population in 1963 was estimated at 2.6%, a slight decline from the 2.7% of the previous year. Import restrictions continued, and scarcities of some commodities became a serious problem. The result was a rise in prices; the Colombo index of cost of living rose only 2.4% during the year, but this index is heavily weighted with fixed-price, subsidized commodities. Exports in real terms actually fell during 1963, while the domestic sector expanded by 3.1% as compared to 4.2% in 1962. Consumption at current prices rose by 5.5%, suggesting that per capita consumption was virtually constant. Fixed capital formation, however, fell during the year.

Further declines in the terms of trade contributed to the reduction in per capita national income. With 1958 equal 100, the index of terms of trade was 89 in 1963 as compared to 98 in the previous year. The terms of trade index had reached a peak of 114 in 1950, fell to 84 in 1952, recovered to 112 in 1955, and fell again to 94 in 1957. These fluctuations in terms of trade are among the factors that complicate the problem of generating sustained economic growth in Ceylon.

The unfavorable balance of trade on goods and services account was even higher in 1963 than in the previous year, and

the year brought further reductions in foreign exchange reserves and further increases in external liability. The inflationary pressure from the budget was significantly reduced in 1962-63 in comparison to the previous fiscal year. Domestic borrowing from the banking system fell to Rp. 178.1 million, and the net expansionary impact of the budget was calculated at Rp. 162 million. Commercial bank advances to the private sector showed some increase. The net result was a substantially greater increase in money supply than in the preceding years, amounting to 12.2%. The Central Bank in its report for that year expressed growing concern over the danger of cumulative inflation.

In 1964 real gross national product rose by 4.4%, and real GNP per capita by 2%, the rate of population growth for the year having fallen to 2.4%. There was a slight improvement in terms of trade. In 1964 the terms of trade fell by another 3 points, and the pressure on Ceylon's slender foreign exchange reserves contined. Despite the drastic restrictions on imports, the net expansionary impact of the budget was about the same in 1963-64 as it was in 1962-63. However, financing from non-bank sources increased from 213.2 million Rupees to Rp. 301.8 millions, and as suggested before, it may not be entirely justified to regard all of this financing as non-inflationary. Commerical bank advances to the private sector also increased, and the result was a greater jump in the Colombo consumers' price index than had taken place in the earlier years---from 108.3 in 1962 and 106.8 in 1963 to 102.2 in 1964. Both exports and gross investment fell as a proportion of gross national product as compared to 1960.

In its Report for 1964 the Central Bank of Ceylon expressed its growing concern over the problem of import capacity as a bottleneck in Ceylon's economic growth. Defining import capacity as export value over import price index times 100, the Bank calculated that the import capacity per capita in Ceylon had fallen from 103 (1948 = 100) in 1948-51 to 88 in 1961-64. "Ceylon's present difficulties," the Report states "are not of a kind that can be overcome by a slowing down of the monetary-fiscal expansion alone. The depletion of external reserves has helped bring to the surface problems of a more basic character--problems relating to the adequacy of supplies, particularly of imported goods needed for realizing the objective or rapid economic growth."[1] The Report goes on to point out that during the decade 1954-1963, the volume of the major key export products grew at an average rate of 3.1%. The year 1964, the Report states, "was one of the exceptional years in which the volume of key exports did not rise." But because of the adverse movements of the terms of trade import capacity has not kept pace even with this rather modest expansion of the physical volume of the major exports. Inflationary pressures have been kept down, as was pointed out, by restricting imports less than import capacity fell, running down external reserves and increasing external debt, a process which could not continue for ever. "The problem of raising Ceylon's import capacity is thus one of the urgent economic issues that has been forefront in 1964," the Report concludes.[2]

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[1]Central Bank of Ceylon, Annual Report 1964, p. 3.

[2]Ibid., p. 6.

Pessimism is expressed regarding the prospects os significant increases in foreign exchange earnings from traditional exports, and the development of new exports, it is pointed out, is bound to require time. "Whatever the long run prospects, it is unlikely that in the short term Ceylon can find a solution to her external payments difficulties and to the problem of bringing about a rising flow of essential imports, by increasing her export earnings alone." Thus it is necessary to consider the possibilities of import substitution, and also to make efforts to enlarge the inflow of external capital.

The year 1965 brought no improvement in the Ceylon economic situation. Indeed, the rise of gross national product at current prices fell from 5.8% to 4.0%, and at constant prices the growth in 1965 was only 2% as compared to 4.4% in the previous year. With population growth estimated at 2.4%, real per capita gross national product fell by 0.4% in 1965. In part this decline was due to bad weather and a consequent reduction in output of rice and coconuts. There was a slight improvement in the terms of trade (1.2%) but nonetheless, even with continuing severe curtailment of imports, it was necessary to draw on the International Monetary Fund. However, for the first time in several years there was an increase in foreign exchange reserves, which exceeded the increase in external indebtedness. Price increases were kept in check by a cautious fiscal policy; according to the Central Bank Report for 1965, "The budget for 1965-65 set out to eliminate completely the inflationary financing gap which had been a feature of past

budgets." According to the Bank's methods of calculation, the net expansionary impact of the budget for 1964-65 was only Rp. 40 million, as compared to Rp. 162.9 million for the previous fiscal year. However, it is worth noting that financing from non-bank sources increased from Rp. 301.1 million in 1963-64 to 400 million in 1964-65. Commercial Bank advances to the private sector, however, showed only an insignificant increase of Rp. 4.2 million for the year. In summarizing the experience for 1965, the Bank provides a typically British understatement; "Economic growth in the year 1965 was inadequate. While monetary expansion was kept within reasonable limits, supplies failed to respond to aggregate demand, due on the one hand, to inadequate foreign exchange reserves for obtaining supplies from abroad, and on the other hand, to the failure of domestic production to expand adequately."[1]

Thus between 1962 and 1965 the basic problems of the Ceylon economy remained unsolved. A conservative monetary, fiscal, and foreign trade policy prevented the collapse of the monetary and foreign exchange system. The increase in prices had been kept within limits (the price index for Colombo stood at 112.5 for 1965, compared with 112.2 for 1964, with 1952 = 100) and the balance of payments position had been prevented from reaching the point where devaluation would become necessary or where external commitments could not be met. Fundamentally, however, the structure of the Ceylon economy remains what it was at the time of the transfer of sovereignty, and this structure is not one which permits vigorous economic growth.

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[1]Central Bank of Ceylon, Annual Report 1965, p. 15.

Other Countries

Malaysia

Burma

Taiwan

Thailand

MALAYA (MALAYSIA)

Development of Malaya under foreign enterprise is very largely an affair of this century. It took an astonishing long time between the appearance of the Sequeira from Portgual in 1509 at Malacca and the establishment of complete control of the country by the British and the launching of the great plantation and mining enterprises in the last decades of the 19th century. The story is not unlike that of Sumatra on the other side of the Straits; as the Dutch were so occupied with Java as to be unwilling to face the problems of developing the other islands until after 1870, so the British had more compelling interests in other parts of Asia, and did not get around to developing Malaya until very late in the game.

Sequeira's first expedition to Malacca was driven out by the Gujeratis. Two years later Albuquerque with a much larger force succeeded in establishing a foothold and later in building a fort and a factory. Then, says Kennedy, "the trade at Malacca was now handled on terms favorable to the Portuguese. All ships passing through the Straits were required to call at Malacca and pay the appropriate duties. Portuguese patrols at times took drastic measures to enforce this rule. Large presents were expected from foreign traders in addition to import duties ranging in normal conditions from, between 6 and 10% of the value of the goods."[1]

The Portuguese extended their influence by inter-marrying with the Malays, but they were constantly harrassed by the Sultan of Johore, powerful

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[1] J. Kennedy, A History of Malaya, A.D. 1400-1959 (London: 1962), p. 30.

Javanese merchants, the Achinese, and eventually the Dutch. The Dutch had gained considerable control over the trade in the Straits decades before the joint Dutch-Johore attack on Malacca in 1640. This combined force was successful in seizing Malacca after a prolonged seige. The itinerant empire of Johore remained independent throughout the entire period of Dutch control of Malacca, sometimes fighting them and sometimes making treaties with them. The Dutch impact on the economy was slight, perhaps even less than that of the Bugis from Southwest Sulawesi. According to Kennedy "by the end of the 18th century the heyday of the Bugis was over. Their empire represented a passing phase, but one which lasted a considerable time, and had far-reaching results.

The English East India Company

The English East India Company had had a "factory" in Bencoolen in southwest Sumatra ever since 1685, but their expansion in the Indies was slow indeed.. It was not until a full century later that the Sultan of Kedah was persuaded to cede the island of Penang to the Company, and it was a few years after that (1795) when they took Malacca from the Dutch. Still the impact of the British in the area remained very superficial indeed. Raffles used Malacca as a base for his invasion of Java in 1811, and as we know his attention was then occupied by Java and later by Bencoolen for several years. But in 1819 Raffles and Farquhar landed in Singapore and negotiated an agreement with the Tmenenggong of Johore for the occupation of the island. The Company was apparently not too pleased with this turn of events, but the rapid expansion of Singapore trade changed their minds. The Dutch objected strenuously to the English presence in Singapore, but in 1824 a treaty was signed in which the

British agreed in effect to leave the Malay Peninsula, including Singapore, to the British and the British agreed to vacate Bencoolen. For fifty years, however, the Company was concerned only with trade and shipping and displayed little interest in the interior of Malaya.

Tin

It was tin that provided the first impetus for the spread of British economic and political control. Until the Chinese became interested in tin mining toward the middle of the century, it had been on a very small scale. The development of tin mining up to the latter half of the nineteenth century was largely in the hands of the Chinese. The finance came from prosperous merchants in Penang, Malacca, and Singapore, and these appointed Chinese managers and personnel agents. Chinese labor was brought in from the Straits Settlements, and later by direct immigration from South China.

It was not until the 1880's and 1890's that British and French Companies began to seek tin mining concessions in the Malaya States. One reason for the greater attraction to European investment, of course, was the extension of the British Resident System. In 1874, British administrators had been introduced into three Malay States. In the beginning, this move seems to have been directed less towards expansion of economic activities in Malaya itself than the protection of the British East India company's interests in other parts of Southeast Asia.

> "The disorders of the Malay States must be regarded as a contributory cause of British intervention, but when the mild instruction was given from the Colonial Office in September 1873, other forces were working towards the same objective. The fear of intervention on the Malay Peninsula by some other European Power, and the quickening of British interest in Eastern trade, were both part of the scare at the times in the early 1870's. The merchant

class of Singapore considered orderly conditions in the Malay States a necessary condition for trade, investment, and the development of natural resources."[2]

Strictly speaking, the Resident at the time had no powers beyond those incorporated in his capacity as advisor to the Sultan. Even if the Sultan accepted the advice, there was no assurance that it would be implemented. The low point in British-Malay relations was reached with the assissination of Resident Birch at Surat in 1875. Thereafter the British became more astute at "advising" in such a way that their advice was accepted and implemented while the facade of Malayan sovereignty was maintained. Through his "tact and patience.. blended with an occasional show of firmness", Resident Low was able to exercise considerable influence without conflict. The responsibility of the Resident increased, encompassing ever more in the way of economic development projects. Both roads and railroads were built. All this helped to attract European capital into tin mining. The Suez Canal also expanded the market.

Other European economic interests are essentially an affair of the present century. Western enterprise became involved in coal mining in 1913. Iron ore was essentially a Japanese enterprise: in 1938 shipments from Malaya represented half of Japan's ore imports.

Europeans were engaged in planting sugar as early as the 1830's, but this industry never achieved significant proportions in Malaya. The Malayan sugar industry declined after 1910 and the last sugar factory was closed down in 1915. Coffee planters arrived from Ceylon after the outbreak of plant disease in the 1880's, but coffee too failed to become

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[2] Ibid., pp. 156-157.

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a large scale European enterprise. In the agricultural sector the one crop which became really significant for European enterprise was rubber; but even that was very slow in flowering. Twenty-two rubber plants reached Singapore from Ceylon in 1877. Twenty years later, Malaya had only 345 acres under rubber. In 1905, only 200 tons of rubber was produced in Malaya. By 1920, however, exports of rubber had reached the 200,000 tons, half the world's supply. From there on the rubber industry boomed, especially after the automobile industry was established. By 1947, rubber accounted for half the cultivated area, 33 percent of exports, and 26 percent of the total employment. The relative importance of rubber continued to increase through the 1950's. Today rubber occupies some two-thirds of the total acreage under cultivation. The land/population ratio in Malaya was such that the Malayans themselves were able to play an important role in the expansion of the rubber sector, mainly as small-holders, but to some extent even as planters. The rubber boom also attracted new immigration from Indonesia and China.

As in Indonesia and Ceylon, coconut products are very largely a small-holders crop. The Chinese and European estates account for less than one-fifth of total coconut production. Exports of copra and coconut oil have expanded substantially since the 1870's. Oil palm is not indigenous to the region, and was introduced by Euroepan planters around 1875. However, it was not until after World War I that plantation oil palm production reached significant proportions. In 1933 there were 32 oil palm estates with 64,000 planted acres; on the eve of World War II the acreage was nearly 80,000.

The Population Explosion

Since economic penetration of Europeans came late, and settlement of Europeans was very thin outside the major cities, the population explosion also came late in Malaya. It was not until after World War II that truly high rates of population growth set in. In recent years, it is true, they have been very high indeed, 3.2 percent per year between 1958 and 1961. But in 1911 there were only 2.3 million people in the Federation of Malaya, including Singapore. Death rates in the 19th century were high, and had it not been for immigration, the population would have been almost stationary. Smallpox, cholera, enteric fever, and plague kept the natural growth of population low. Infant mortality rates were also high. As usual, however, the increasing interest of the colonial power in economic development was accompanied by a greater concern for public health. The late 19th and early 20th centuries saw a concerted effort to reduce the incidents of disease. There was a marked acceleration of the population growth in the decades after 1911. The population was 2.9 millions in 1921, 3.8 millions in 1931, and 4.9 millions in 1947. Thus the rate of population growth increased from about 2 percent per year at the beginning of the period to about 2.5 percent at the end.

Education

It could hardly be said that the British made a major effort to educate the Malayese from the beginning their economic interest in the area was of prime concern. At the same time, the education story is considerably less dismal than in Burma. Mission schools and other privately supported schools were started in Penang, Singapore and Malacca

in the first two decades of the 19th century. More such schools were established as the century wore on. Between the First and Second World Wars, there was a substantial expansion of the educational system. A teacher's training college was established in 1922, a technical school in 1926, and a school of agriculture in 1931. The University of Malaya was established in October, 1949, The Chinese Nanyg University in Singapore is also a postwar development. The period since World War II has seen a "big push" on the education front.

Conclusion

British Colonialism disrupted local Malayan culture relatively little, and left Malaya, at the time of independence, with no population problem. Most fundamental of all is the fact that in 1947, less than half of the Malaysians, and only 6.2 percent of the Chinese population, were engaged in peasant rice agriculture. Some 20 percent of the Malaysians and 23.4 percent of the Chinese (25.9 percent of the total population) were employed in the rubber sector. About 4.8 percent of Malaysians and 3.1 percent of the total population were engaged in fishing. Nearly 12 percent of the Malaysians, and 21.5 percent of the total population, were engaged in manufacturing, commerce and finance, transportation and communication, and mining. Even allowing for some "traditional" activities in the manufacturing, trading and financial sectors, it seems clear that in 1947 nearly half of the Malaysians, and more than half the total population of Malaya, had been absorbed into the modern sector. This figure stands out in sharp contrast to the 7 percent of the Indonesian population who has been drawn into the modern sector at the time of the transfer of sovereignty. Indeed, speaking in Indonesian terms, one could say that

Malay never had the equivalent of the culture system but came straight into the liberal system nearly a generation later than the beginnings of the liberal system in Indoneisa. In short, as already suggested, the story of Malaya is not unlike the story of Sumatra taken by itself; and the picture in Sumatra alone is as different from that of Indonesia as a whole as is the picture of Malaya.

This relatively happy story of relationships with the Colonial Powers goes far to explain Malaya's superior performance since World War II. With per capita income at $368 in 1961 and $434 in 1965, Malaya was much the most advanced country in the region, with a per capita income nearly 9 times as high as that of Laos. Moreover, the rate of growth has been fairly high and increasing through the postwar period: 3 percent per year between 1950 and 1955, 4.1 percent between 1955 and 1960, and 6.2 percent between 1960 and 1964. For the whole period 1950/1952 to 1960/64 the growth of income averaged 4.2 percent. True, with a population growth in excess of 3 percent, these figures do not represent a high rate of growth of per capita income for the period as a whole. However, the growth rate of per capita income of 3 percent per year from 1960 to 1964, was certainly a respectable one. Malaya's problems lie mainly in the prospects for its traditional exports, especially rubber and tin. The very factors which account for Malaya's unique prosperity in Southeast Asia also complicate the problem of maintaining high rates of growth of per capita income in the future.

BURMA

The economic penetration of Burma by the British came late, was restricted in scope, and rather shallow. While the British did relatively little to develop Burma, they also did relatively little through British enterprise to destroy it. One might have hoped, on these grounds, that the impact of colonialism on Burma was no more damaging than the effects of American colonialism in the Philippines. Unfortunately, the pattern of British economic colonialism in Burma bore strong resemblance to that of the British in South Sumatra, except that it lasted much longer and that the pattern of "double colonialism" was even more pernicious. The lack of fundamental developmental investment and neglect of education, combined with the undermining of the indigenous social organization and indigenous enterprise, left Burma with a serious problem of reconstruction. British colonialism also left Burma with a destructive nationalism which has made it hard for Burmese governments to deal effectively with that problem.

The British were not really very much interested in Burma; they were interested in India. Given this interest, the long border between India and Burma, and the stubbornness of Burmese kings, it was inevitable that British concepts of national security in India would have dictated the extension of military and administrative

control over Burma sooner or later. In addition, there was just enough of economic interest in Burma itself to make sure that steps to establish control would be taken. The steps were taken in 1825, 1852, and 1885. In these three steps the United Kingdom converted the whole of Burma into a British colony. The War of 1824-26 ended with the annexation of the Arakan and Tenasserim coastal strips. Lower Burma (the former kingdom of Pegu) was taken in 1852, and the final step of 1885 took upper Burma to complete the process.

Each of these steps followed incidents which gave the British the occasion for action. The 1824 annexation resulted from a series of border incidents, when Burmese soldiers crossed the Arakanese border into British India in pursuit of Arakanese rebels. The 1852 step had as its immediate cause the imposition of a heavy fine by the Myowun in Rangoon on the captain of a British ship, alledgely for violation of rules of the port. The 1885 move against Upper Burma followed the imposition of a heavy fine on the Bombay-Burma Trading Company by King Thibaw, after a rather haphazard court procedure.

1824

A British historian, G.E. Harvey, explains the 1824 annexation in terms of the responsibility of the British to protect the people of Arakan from their

northern neighbors. The 1852 action, according to Harvey, was unpopular in England; but in 1885 humanitarian motives (the bloodthirstiness of Thibaw's regime) together with the threat to the region by the French necessitated further intervention. [1]

To this analysis Louis Walinsky properly replies:[2]

> These explanations seem too simple. Surely the rapid growth of population, of rice acreage and of rice exports, in the Arakan and Tenasserim areas, and the lucrative exploitation of teak in the Nasserim as well inspired British commercial interests in the period 1926-1952 with a lively interest in the economic potential of Lower Burma, which promised also to be a feasible avenue toward the development of trade with China through Yunn. Again, the rapid development of Lower Burma, after the annexation in 1852, made almost inevitable the extension of British hegemony to the remainder of Burma.

The Burmese apparently had no conception of what they were encountering when taking on the British. Burma up to the middle of the 19th Century was extraordinarily isolated. As Furnival expresses it, Burma "is cut off from the world by the mountains and the sea. Though marching with India, China, and Siam, land traffic with these countries on any considerable scale is almost impossible." [3] The rivers run north and south, not east and

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[1] G.E. Harvey, British Rule in Burma, 1824-1942, London, 1946, pp. 18-19.

[2] Lewis J. Walinsky, Economic Development in Burma, 1951-1960, N.Y. (Twentieth Century Fund), 1962, p. 18.

[3] J.F. Furnival, Colonial Policy and Practice, A Comparative Study of Burma and Netherlands India, Cambridge, 1948, p. 10.

west, with mountains and jungle in between. The Burmese Kings regarded the Royal Palace as being quite literally the center of the universe, and their conception of the universe was limited indeed. As Everett Hagen puts it "until fairly recent times the rest of the world hardly existed for the Burmese Kings, or at best was barbaric. No Chinese Emperor ever regarded himself as all-sovereign most unqualifiedly than did the Burmese Kings". [4]

The same isolation which made Burmese Kings refuse to receive envoys sent by a mere Vice Roy of India, instead of by the King of England himself, also cut Burma off from the technological process that was taking place even in other countries in Asia. "Up to the beginning of the 19th century," says Furnival, "Burmans were still living in the Middle Ages, and in their medieval world they had good reason for complacency".[5] In the 18th century, as in the case of the Javanese Empire of Mataram a century earlier, the Burmese not only felt safe within their own borders, but were expansionist as well. They conquered Pegu in 1759, and later overran Siam and repelled an invasion from China. They conquered Arakan in 1785, Manipur in 1813 and

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[4]Everett Hagen, The Economic Development of Burma, Washington, D.C. (National Planning Association), July, 1956, p. 12.

[5]J.S. Gurnival, op. cit., p. 23.

Assam in 1816. Why should they fear the British? When the border incidents took place, the Burmese King refused to negotiate, since, as Hagen says, "Burmese tradition encompassed no negotiation or treaty with foreign powers, for negotiation or entering into a treaty implies limitation on sovereignty".[6]

The conquest of 1824-26 led to very little in the way of economic development, even within the limited areas then controlled by the British. Some attempt was made to construct roads with compulsory labor, but such was the shortage of labor that the attempt to build roads interferred with cultivation. As Furnival says, "It was unprofitable to make roads to carry rice if road-making left no rice to carry". [7]

Accordingly convicts were imported from India for the purpose. However, the demand for labour for such that the convicts were soon hired out to private individuals; little was done in the way of actual road construction, and a fair share of the roads that were built were subsequently abandoned and reabsorbed into the jungle. Very little British settlement took place; the trade in

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[6]Everett E. Hagen, op. cit., p. 12.

[7]Op. cit., p. 43.

teak was the one enterprise which was attractive to the British at that time. A few sawmills were erected, and some ship building took place. Much of the trade of Tenasserim was not with the outside world, but with Arva (Upper Burma). "Tenasserim was an unprofitable possession to the British," says Furnival, "and it might almost be claimed that the chief benefits of the British occupation of Tenasserim went to Arva".[8]

The British administration removed the restrictions on trade in rice which had been imposed by the King, leading for a time to excessive exports and a shortage of seed grains and basic food stuffs. The result was a temporary embargo on the export of grain. There was, however, some permanent gain in rice acreage and rice exports.

1852

The expansion of British trade with the Burmese brought with it an increase in friction. For some decades, however, the Indian government chose to ignore the complaints of the British traders. Governor General Dalhousie, however, took a different view; according to Furnival, "He regarded the expansion of the British empire as a law of nature, and was accutely sensitive on matters of prestige".[9]

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[8] Op. cit., p. 47.

[9] Op. cit., p. 25.

Complaints from two ships' captains were enough excuse for him to intervene. The result was the annexation of Lower Burma (Pegu).

Once again the British embarked on a program of road construction, and once again the shortage of both labour and capital imposed severe limitations on what was actually accomplished. Furnival quotes the Chief Commissioner in 1869 as reporting that in the whole of British Burma there was not yet a single completed road: "Arakan has been under British rule for more than 40 years, Tenassarim for the same period, Pegu fifteen years, and in these periods but five incomplete roads gave evidence of our possession of a country covering an area of 90,000 square miles".[10] Given the extensive waterways, however, the absence of roads was not so serious as it might sound.

Once again restrictions on the rice trade were removed, and once again acreage and exports expanded. Once again, too, the British showed little interest in settlement. They were content with the trade in teak and rice, and not long after the occupation of Lower Burma rice replaced teak as the principal export of the region. Yet cultivation expanded less rapidly than the population. Nonetheless, Furnival believes that welfare of the Burmese increased during this period.

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[10] Op. cit., p. 48.

Meanwhile in Upper Burma King Mindon came to the throne in 1853. Hagen compares Upper Burma under King Midon to Japan after the Meiji restoration in Japan. Coming to the throne just one year after the British occupation of Lower Burma, says Hagen, "King Mindon reacted rationally to this second demonstration of superior external power. It stimulated him and his lieutenants into a decision to 'modernize'. During the next 25 years, obtaining just foreign technical assistance as he needed, he introduced a remarkable group of innovations, parallel in general nature to those introduced in Japan after the Meiji restoration, which occurred 15 years after Mindon became King of Burma".[11]

He introduced a coinage, reformed the revenue system, established a civil service on regular salaries, built a fleet of river steamers, adapted the Morse code to the Burmese alphabet and directed telegraph lines, built factories with European machinery, and in some cases under European management, sent a few young men to Europe for training. In general, says Furnival, King Mindon "was probably the best sovereign of his line, and under his fostering care his people grew in numbers and prosperity".[12]

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[11]Everett Hagen, op. cit., p. 13.

[12]Furnival, op. cit., p. 64.

This expansionism was well designed to bring new friction with the British in Lower Burma in any case. Other events helped to make conflict certain. The development of steam navigation and the completion of the Suez Canal in 1869 coincided with the Civil War in the United States, which cut off supplies of rice from the Carolinas. Together, these factors greatly increased the interest in the rice trade. When King Mindon died in 1878 the son who was his choice as successor was assassinated, and a half-mad son, Thibaw, came to the throne and stayed there by murdering all his rivals. This "barbarism" and Thibaw's ineptness in foreign relations gave England the excuse for occupying Upper Burma in 1885.

It was the ruby mines which first attracted European investors to Upper Burma, but as Furnival notes, it turned out the "rice and oil were more precious than rubies".[13] Oil was the precinct of foreign investors, rice mainly of native enterprise. By 1890 Burma had changed from a net oil importer to a net oil exporter, and total production expanded nearly 15 fold between then and 1923. Lead, silver, and tin also attracted European interest in capital, but it was not until after World War I that any of these made a significant contribution to Burmese gross national product. In short, foreign enterprise in Burma had barely begun to make its presence felt when World War II began.

Burma differs from Indonesia in that its principal food crop is also its principal exporter. Furnival notes that up to 1870 population increased faster than the area under cultivation; but during the last decades of the century the population grew by 987,000, and acreage by 2,295,000.[14] Land was still relatively abundant; what was short was

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[13] Furnival, op. cit., p. 84.

[14] Ibid., pp. 84-85.

capital, and this was provided by the Indian money lenders. Furnival describes the process in graphic terms:

> "But now the Chettyars readily supplied the cultivators with all money that they needed, and with more than all they needed... naturally the cultivator took all that he could get, and spent the surplus on imported goods. The working of economic forces pressed money on the cultivator; to his own discomfiture, but to the profit of the money-lenders, European exporters who could insure supplies by giving out advances, of European importers whose cotton goods and other wares, the cultivator could purchase with the surplus of his borrowings, and of the Bank which financed the whole economic structure. But at the first reverse, with any failure of the crop, the death of cattle, the illness of the cultivator, or a fall in prices, due either to fluctuations in world prices or to manipulation of the market by the merchants, the cultivator was sold out and the land passed to the money lender, who found some other thrifty laborer to take it, leaving part of the purchase price on mortage, and within two or three years the process was repeated."[15]

Moreover, the expansion of rice production was not true development, but rather an example of what Vkrv Raul has called a "static economy in progress". That is, the increase in output was obtained by occupying more land, and farming it by traditional methods, rather than by improvements in technology. As Hagen puts it:

> "No effective steps were taken to increase productivity in agriculture and other traditional occupations. For example, except for the rather limited introduction of improved rice seed, traditional agricultural methods persisted with some small exceptions. ...Furthermore, the introduction of new industry was carried on quite outside of Burmese life, and without any effective attempt to bring Burmans into the process. The industrial beginnings which King Mindon had established were swept aside; the foreign entrepreneurs were not interested in small-scale production for the Burmese market."[16]

Double Colonialism

Money lending was not the only area of economic activity invaded by

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[15] Ibid., p. 86.

[16] Hagen, op. cit., p. 21.

Indians and other foreigners. The immigration of Indian laborers had already been noted. In addition, as the British administration spread, the British administrators trained in India took over top decision-making positions, with Indians trained in the Indian civil service taking the middle-level positions. Hagen describes the process as follows:

> "as new export industries were established, Indian workers accustomed to extremely low living standards were imported to perform the manual task; thousands of Burmese were driven from the unskilled urban employment in which they had been engaged by Indians who worked for what even to Burmese were 'starvation wages'. Further, British businessmen, who had engaged in business in India for a long time, brought with them Indians to perform the third and fourth layers of administrative duties. Throughout the colonial period, these Indians were intermediaries between foreign business administrators and Burmans, blocking the road to advancement and business experience to Burmans. Burma became 'doubly colonial'."[17]

Walinsky paints a similarly gloomy picture: "not only were land ownership, the government, the civil service, and trade and commerce also entirely in foreign hands; there had been, in effect, a leveling down of all Burmans, and a destruction of the existing social relations and values. There were no posts of importance to which a Burman could aspire; nor did the means exist for training and experience by which the Burman could equip himself for advancement."

Education

There is some evidence that in Burma as in Java levels of literacy, and perhaps even levels of general education, declined under colonial rule. Traditionally, levels of literacy in Burma were apparently high, at least among boys. The monastery schools, which almost every boy attended, made sure that their pupils could at least read and write. Hagen states that "at the beginning of the 19th century, the literacy

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[17] Hagen, op. cit., p. 21.

rate was almost certainly higher in Burma than in Western Europe, Britain, or the United States--in short, than in any other country in the world."[18] Under Burmese rule there had also been schools of medicine, and a respect for scholarship. "But under British rule", Furnival notes, "until close on 1870 education languished."[19] There was no demand for educated men within the economic structure the British were building up with the help of their Indian colleagues. One field that seemed to be both open and attractive to Burmans was the law.

> "Even in 1875 an experimental law class failed to attract students, and a decade later litigation among Burmans was still infrequent. But the abolition of the circle headmen and the encroachment of the courts on the custom, gave a further blow to arbitration. Burmans increasingly resorted to the courts; there was a demand for law and a demand created a supply. At first, as in other lines, the lawyers were Indians. But men who struggled through the schools and failed to find employment, had no resource except the law. Burman lawyers multiplied rapidly in competition with the ever-growing number of Indian lawyers, and the excess of the supply over demand encouraged litigation and a decline in ethical standards."[20]

The Burman culture slowly died, without having anything to replace it.

The Population Explosion

Since the economic penetration of the colonial administration came late, and was limited in both breadth and depth, the population explosion also came late to Burma, and never reached the proportions elsewhere. In 1861 there were still fewer than 2 million people in the whole of British Burma. In 1870 the population had grown to 2.5 million, immigration accounting for a large share of the increase. The first regular census of 1872 reported a population of 2.75 million, but Furnival regards this figure as an under-estimate. In 1901 the population was 5.58 million,

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[19] Furnival, op. cit.

[20] Ibid., pp. 127-128.

in 1921, 7.05 million. If Furnival's figure of 3.1 million for 1872 is right, it took 60 years for the population to double, even with immigration implying a population growth rate of less than 1.5% per year. Public health facilities remained seriously inadequate until well into the present century. Recent estimates, however, show the Burmese population rising at a more rapid rate.

Lack of Structural Change

Thus little in the way of economic development took place in Burma prior to World War II. In 1931, nearly 70% of the population was still engaged in agriculture, and nearly all of these were in peasant agriculture. Less than 11% had been absorbed into industry, and more than a third of these were in textile production, much of which remained traditional in form. Some nine percent were engaged in trade, mainly trade in foodstuffs. Only 3.2% of the total population were in the professions, 0.8% in public administration, and 3.5% in transport. In terms of the occupational structure of the Burmans themselves, these figures almost certainly represent retrogression over the preceding century.

Social and Economic Disintegration

There is much evidence that so far as Burmese society and economic organization are concerned, the British destroyed more than they built. As Louis Walinsky says, "all knowledgeable observers and students of Burmese history, British included, agree that under this combination of circumstances, a social disintegration set in."[21] Hagen points to the destruction of traditional local government and its replacement with an

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[21] Walinsky, op. cit., p. 19.

"alien authority", the disregard of Burmese customs and open disrespect for Buddism.

> "The degree to which these acts and others of which they are examples disrupted the basis for social order is seen by the growth of corruption and crime. ...Responsible and informed observers estimated in the 1930's that at least two-thirds of lower administrative officials and lower court officials were corrupt...The complete lack of training or experience in business administration, the almost complete absence of vocational, technical, or scientific education, and the disruption of the basis for social order, all resulted in problems which Burma today must master, on her road to economic development."[22]

Speaking of conditions during the 1920's, Furnival writes:

> "If Burmans could no longer get a footing on even the lowest rung of the industrial ladder, still less could they aspire to enter the higher ranks of industry and commerce. In finance, Indians had long done business with European banks; and naturally came to function as middlemen between them and the people. In commerce, Indians had learned to deal with European merchants before the British came to Burma. Importers did not speak Burmese; Burmans did not understand European methods of business; they could obtain credit or capital only on ruinous terms; and they had at the same time to compete against the lower standard of living of the Indian. When local cloth was driven off the market by the flood of imported cloth, the importtrade in clothing passed largely into Indian hands. ...The exclusion of the Burman from modern economic life was not deliberate, was indeed frequently deplored; it just happened."[23]

Post-War Developments in Burma

Of all Southeast Asian countries Burma took longest to restore production to pre-war levels. The years immediately following World War II were marked by Communist insurrection, racial conflict, and banditry which delayed the completion of the reconstruction task. Douglas Paauw sets the year in which pre-war aggregate output levels were restored in Burma at 1957, as compared to 1953 for Indonesia, 1947-48 for Malaya,

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[22] Hagen, op. cit., pp. 24-25.

[23] Furnival, op. cit., p. 119.

1948 for the Philippines, and 1947 for Thailand. In per capita terms, it may be questioned whether pre-war levels of production have been restored even now. In 1959-60 per capita real income was still 16% below the immediate pre-war level, and between 1960 and 1964 real product in Burma grew by only 2%, less than the estimated rate of population growth. Official figures show very high rates of growth in the early post-war years: 7% (for gross real national product) for 1950-55 and 5.7% for 1955-60. These high figures are misleading on two counts. First, as already indicated, they represent reconstruction from very low levels of per capita income rather than real economic progress. Secondly, the figures themselves are suspect. According to ECAFE "Burma's growth rates of aggregate and per capita product seem to have been over-estimated; growth of its aggregate product cannot be reconciled with that of agricultural production, and growth of per capita product is further exaggerated by the use of an unusually low deflator for population growth."[24] In any case, it seems clear that Burma's economic record since World War II is even more discouraging than that of Indonesia, and except for Laos, Burma remains at the bottom of the list of Southeast Asian countries in terms of level of per capita income.

Burma is also characterized by "inner-directedness" and destructive nationlism. Foreign aid programs have been periodically in trouble in Burma, and in recent years the political situation has been such as to make difficult the effective use of either foreign capital or foreign advice.

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[24] ECAFE, Economic Survey of Asia and the Far East, 1961, p. 110.

Taiwan

There is perhaps some question as to whether or not Taiwan is properly regarded as part of Southeast Asia. Culturally, of course, it is quite distinct from the other countries in the region. It does, however, share something of the same history, and it is sufficiently a part of the same geographic area to be involved in the same complex of commodity-production and trade. It does not weigh very heavily in the balance for the region as a whole, since its population is still small. However, it does provide some useful added support for the general thesis suggested in this paper.

Early History

Not much seems to have happened by way of economic development in Taiwan before the Japanese occupation in 1895. Like other countries in the region, Taiwan attracted the interests of the Dutch during the 17th century. In 1622 they managed to establish a few fortified trading posts on the island, and launched a certain amount of trade across the straits. At that time Taiwan was occupied by a thin population of tribal "savages" of unknown origin. The Dutch apparently established a minimal organization to govern the island within the limits required for their limited trading activity. According to George W. Barclay, the brief Dutch settlement had no permanent impact on the development of the island.[1]

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[1]George W. Barclay, Colonial Development and Population in Taiwan (Princeton: Princeton University Press, 1954), p. 4.

The Dutch chronicles indicate that even at that time large scale immigration from the mainland had commenced, and by 1662 there were enough Hakka Chinese on the island to drive the Dutch out. The population increased from a few thousand in 1600 to over 2 million in 1895.

The Coming of the Japanese

In 1894 the Japanese provoked a war with China, won a few easy victories, and as part of the peace settlement of 1895 took over Taiwan. They set about promptly to develop the area as a part of the Japanese economy. Industrialization of Japan was then going full-swing, and the role of Taiwan in the pattern was seen as the provision of foodstuffs and agricultural raw materials.

Economic Development under Japanese Colonialism

Expressed in terms of the Indonesian story, the pattern of Japanese development in Taiwan might be characterized as a simultaneous admixture of "the liberal" and "culture" systems. The Japanese established large-scale corporate enterprises of their own, some public and some private, and also took steps to increase production and acquire surpluses from land left in possession of the Taiwanese.

According to Barclay, Japanese economic development policies in Taiwan had two objectives: "To secure profits for certain individual and groups, and to promote the

self-sufficiency and military strength of the empire.[1] They were determined that the Taiwanese should finance its own expansion, and consequently introduced measures to increase effective saving of the country. Whereas Japan was generating savings at home for the purpose of industrialization, in Taiwan the savings were reinvested in the expansion of the agricultural economy, as a complement to the Japanese economy. Official monopoly and export associations were established, and commercial activities were regulated. In addition, "a stiff land tax" was imposed on the Taiwanese landowners. The Japanese also embarked on a substantial technical assistance program in the field of agriculture, which took the form mainly of introducing into Taiwan the relatively advanced techniques which had already been developed in Japan. Finally, as part of the classical format of economic development, they also made investment in social overhead capital, including roads, railroads, communication facilities, harbor equipment, and public health. An efficient administrative system was established including a kind of agricultural extension service. According to Barclay,

> As investment began to expand, they also took steps to concentrate it in a few hands. This was the more remarkable since capital was not poured in from outside. As we have seen, through heavy taxation, charges for capital services, conscription of labor, and manipulation of farm prices, the authorities and businessmen managed to defray the expenses of their program and to secure net proceeds for export to Japan. Taiwanese more than paid their own way in economic development.[2]

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[1] Ibid., p. 18.

[2] Ibid., p. 257.

This pattern of economic development involved a gradual extension of Japanese control over the agricultural economy and village life. The control was made effective, says Barclay, by wedding the two channels of business and government, and by manipulating the pre-existing situation from a few vantage points on the outside.[1]

Rules of conduct were imposed on inhabitants of villages and smaller towns. Like the Dutch in Indonesia, the Japanese made use of the existing village structure to exercise their control. Through this system of indirect rule the village governments were required "to disseminate instruction for crop improvement and soil maintenance, bearing its own expenses", and also to supply men for the village police service and school facilities. The system, says Barclay, "functioned through the media of prior obligations and loyalties that were already present in every community."[2] This system is also used to mobilize labor for the agricultural improvements and the public works program. As pointed out by Barclay, such a system of indirect rule, "is a poor vehicle for social change". The more it is used to wield authority, the more resistant and stronger it can become."[3]

Thus, the story of Taiwan seems similar to Indonesia under the Dutch. The Japanese abandoned the idea of reorganizing

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[1] Ibid., p. 49.

[2] Ibid., p. 51.

[3] Ibid., p. 52.

the rural society, says Barclay, primarily because they tried and failed.

Economic Growth under Japanese Colonialism

In any case the system of indirect rule, agricultural improvement, tight regulations, and public investment produced significant increases in output and exports. Yearly average output increased from 262.7 million Yen in 1915/16 to 1,388.5 million Yen in 1940/42. (Unfortunately figures at constant prices are not available.) Agricultural output grew in the same period from 144.5 million Yen to 576.4 million Yen; mining production from 7.2 to 62.8 million yen; fishing and forestry from 9.1 to 91.8 million Yen; and industrial production from 101.9 to 657.4 million Yen. Textile production increased more than 3 fold, metal output more than 15 fold, machinery and equipment production nearly 7 fold, chemical production about 6 fold, and food products about 3-1/2 fold.

If foreign trade were an engine of growth, Taiwan should have had a very rapid economic development indeed. Between 1899-1909 and 1940-42, total exports increased from 24,659 thousand Yen to 527,699 thousand Yen. The great bulk of these exports went to Japan and Korea; in the latter period nearly 80% of the total value of exports went to Japan and Korea. Throughout the whole of this period Taiwan enjoyed a favorable balance of commodity trade, except for the first decade, when there was a small net import surplus. By 1940-42, the export

surplus amounted to 18.5% of the total exports, and in some previous periods this ratio was higher still. The impressive expansion of rice production during this period was less to improvements in yield per hectare with given type of seed, than it was to expansion of total area under cultivation and a shift to relatively high yield strains. The percentage of double-cropping also increased significantly.

Structural Change

As in Indonesia, this pattern of development brought with it relatively little structural change. Between 1905 and 1940 the proportion of the occupied labor force engaged in agriculture fell only from 71.2% to 64.2%. The proportion in fishing more than doubled, from 2.2 to 5.4%. The increase in manufacturing was relatively insignificant, from 6.2 to 7.6%, while commerce increased from 6.7 to 10%. The government and professions saw a substantial increase, and transportation a slight increase. Mining increased from 0.5 to 1.9%.

Barclay shows that in terms of the ratio of males employed in 1930 to those in 1905, there were significant differences in the rate of expansion. Thus while total numbers of males employed increased by 46% over this period,the number in agriculture increased by only 18%, while the number in mining increased by 168%, the number in manufacturing by 81%, and the number in government and professions by 128%. However, since the original numbers in the sectors showing relatively

high percentage growth were so small, the differences do not really reflect the significant change in agricultural structure. Taiwan was and remains a centrally agricultural country throughout the whole of the Japanese occupation.

The Population Explosion

As in Indonesia, too, the pattern of colonial development carried with it a sharp increase in the rate of population growth. The total population increased from a little over three million in 1905 to 5.9 million in 1940. The bulk of this growth represented increases in the number of Taiwanese, from just under 3 million in 1905 to 5.5 million in 1940 (and nearly 6 million in 1943). The death rate remained high during the earlier part of this period, and the annual percentage rate of growth was only 1.2% between 1905 and 1915, and 0.83 between 1915 and 1920. After that year, however, the rate of population growth jumped sharply, reaching 2.2% between 1925 and 1930, 2.48% between 1930-35 and falling to 2.42% thereafter. The continuing high death rate, short life-expectancy and high fertility rate resulted in a population age structure heavily weighted in the earlier age groups.

As in Indonesia, improvements in public health were the major factor in the acceleration of population growth, but also as in Indonesia, the introduction of law and order and consequent restrictions on "freedom of the Taiwanese to kill each other", and also, apparently, rising fertility rates

played some part. The public health program gathered pace after 1905. It took a decade to eradicate plague, and a bit longer to eliminate malaria. Death rates fell only from 33.4 per 1,000 in 1906/10 to 31 per 1,000 in 1916/20, but then fell steadily and relatively rapidly to 18.5 per 1,000 in 1941/43. Age-specific death rates fluctuated, but also show a sharp downward trend. Infant mortality rates proved more stubborn, partly, perhaps, because they were relatively low to begin with. Infant mortality rates fell from 182 per 1,000 live births in 1906 to 155 in 1938; the equivalent figure for females were 165 and 128. Crude birth rates show some increase in the early years of the public health program, from 41.7 per 1,000 in 1906-10 to 46 per 1,000 in 1931-35, and in 1941-43 they were still higher than they had been in the first of these periods. Consequently the natural rate of increase jumped from 8.3 per 1,000 in 1906-10 to 24.8 per 1,000 in 1931-35, and remained at 23.6 per 1,000 in 1941-43. Measures of fertility rates (births per 1,000 women age 15 to 49) also show an increase from 170 in 1905 to 203 in 1940, or on the basis of three-year averages from 170 to 201. Thus we may well raise the question for Taiwan which we raised for Indonesia; is it possible that the form of colonial development, involving as it did both labor and a direct tax on the ownership of land, lead to an increase in the demand for children, in order to meet the requirements of labor imposed by the colonial authorities?

As in Indonesia the population explosion prevented the expansion of exports and production from bringing prosperity to the masses of the people. At the end of World War II the per capita income of Taiwan remained below $100.00.

Post War Developments

Since World War II, on the other hand, Taiwan has enjoyed an extremely high rate of economic growth. It may be that Taiwan has substituted one form of colonialism for another, but measured by economic development it is quite clear that "American economic imperialism" has been far more successful in Taiwan than the earlier Japanese imperialism. Indeed in terms of post-war rates of economic growth, Taiwan is one of the major "success stories". Between 1950/52 and 1962/64 the average annual increase in real national product was 7.4%. Moreover there is some tendency for the rate of economic growth to accelerate. Between 1950-55, which was essentially a reconstruction period when high percentage rates of growth were relatively easy to generate, the annual average increase in gross national real product was 8.2%. Between 1955 and 1966, the rate dropped to 6.5%; but between 1960 and 1964 the growth rate was back up to 8.2%.[1] Even with a continuing high rate of population growth, these figures represent very impressive rates of increase in per capita income.

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[1]These figures are taken from OECD, Development Assistance Efforts and Policies: 1966 Review (Paris: 1966), pp. 21 and 20.

Dr. I-Shuan Sun, in his paper on "Trade Policies and Economic Development in Taiwan" prepared for the University of Wisconsin Bangkok Conference, cites a Joint Commission on Rural Reconstruction as estimating the growth of real gross national product in Taiwan between 1911 and 1940 as 4%. Thus the growth rates since 1950 have been almost double that of the pre-war decades. Since population growth has not accelerated to quite the same extent, the acceleration of increase in per capita income was even greater. The index of per capita real gross national product rose from 86 in 1952 to 125 in 1960 .

In contrast to pre-war development, post-war development has followed a pattern of industrialization and structural change. This statement applies particularly to the period after 1956, when the stage of stabilization and reconstruction was completed and more pure economic development began. The industrialization is reflected in the pattern of Taiwan's foreign trade. Before World War II, according to Sun, Taiwan's exports consisted mainly of rice, sugar, and other agricultural or processed agricultural products, while imports consisted of manufactured products, including cotton textiles and chemical fertilizers. The proportion of consumers' goods in Taiwan's imports fell from nearly 50% in 1950 to just over 20% in 1965. The share of capital goods imports rose from 12.5% to 27.3%, and raw materials from 37.9 to 52.5%. The share of agricultural products in exports shows fluctuations from year to year, with no very clear trend throughout the period 1950-1965. The

share of processed agricultural products, however, fell sharply and the share of industrial products rose substantially, especially after 1956. In part at least this change in composition of foreign trade reflects the deliberate intervention by the government through multiple exchange rates, quotas, and the tariff system. Import substitution was a major objective of the drive for industrialization. Sun shows that the effective rates of protection vary widely, from 6.3% for chemical fertilizers to over 400% for processed foods and beverages.

One paragraph of Sun's paper is of particular relevance to the thesis presented in this study: "After 1949, technical, managerial, and administrative talents from the mainland supplied much needed leadership in the reorganization of the economy. Helped by the continuous and sizeable inflow of U. S. aid, production levels recovered the pre-war peak by 1952, and per capita income reached the pre-war high in 1956." Thus the very factors which were so badly lacking in Indonesia were supplied from abroad in the case of Taiwan. Moreover, the pattern of American assistance to Taiwan involved a considerable degree of management, entreneurship and control as well. These factors, plus a stable government, together with large scale capital and technical assistance, go far to explain the remarkable economic development of Taiwan since World War II.

Even in Taiwan, however, the growth of per capita income was less than proportionate to the growth of foreign trade. According to Sun, export promotion brought an increase in

exports of 400% between 1952 and 1964. Per capita real income, however, increased at a rate of 4%, which would mean doubling in about 17 years. The share of agriculture and total production was already fairly low in 1952--according to Sun, 35%--but it fell further to 25.5% in 1964, while the share of the industrial sector increased from 17.6% to nearly 30%. By the end of the third economic development Plan 1961-64, total exports were nearly 19% of gross national product. However, Taiwan continues to have a trade deficit. Paauw and Cookson, in the projections of required capital inflows for Southeast Asia, quite rightly insist that projections for increases in gross national product for the purpose of calculating foreign exchange requirements should not be less than the planned targets, especially since Taiwan is one of the relatively few countries to have ambitious targets and to achieve them. However, according to the Paauw-Cookson calculations, if the planned target is pursued, the foreign exchange gap will exceed half a billion dollars by 1977, and will not turn down until the year 2012, when the gap would be $400,200,000. Paauw and Cookson, therefore, insist that policies in Taiwan must be directed toward closing the foreign exchange gap.[1] Apparently the authorities in Taiwan agree; the current economic development Plan for Taiwan (the Fourth Four-Year Plan for 1965-1968) projects continued industrialization and rapid expansion of Taiwan's exports.

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[1]Douglas Paauw and Forest E. Cookson, Planning Capital Inflows for Southeast Asia (Washington: National Planning Association, 1966), pp. 53-55.

THAILAND

While the writer has visited Thailand many times, he has yet to undertake an advisory mission in that country; and as the University of Wisconsin project on integration in Southeast Asia drew to a close, he had not as yet found studies on Thailand as suitable to the special purposes of this paper as were available for the other countries covered. This section, therefore, remains highly impressionistic. However, the main facts seem to support our general thesis regarding the impact of colonialism and foreign enterprise on Southeast Asian countries.

One might summarize the Thailand case by saying that Thailand has "benefited" by never having had a modern industrial sector; Thailand managed to avoid becoming a formal colony during the eighteenth and nineteenth centuries, and the penetration of foreign enterprise was shallow, confined largely to trade and finance. Consequently Thailand was not subjected to either the population explosion nor to the de-traditionalization of its society, and the related undermining of domestic entrepreneurship, to the extent observed in other Southeast Asian countries. Population/land ratio has remained relatively low, at least until recent years; soil and climate have permitted the production of a food surplus, and the staple crop has also been the major export. If in comparison to other Southeast Asian countries Thailand has seemed until very recently to be stable, peaceful, and prosperous, these are the historical factors which would seem to explain the country's comparatively favorable situation.

Not that Thailand's level of per capita income is high; it is lower than in the Philippines and much lower than in Malaya. But Thailand

does not have the sharp contrast between a highly productive, modern export sector consisting of large plantations and mines and a traditional peasant agriculture sector where productivity is low. Technological dualism is less sharp and the income distribution among groups, if not among individuals, accordingly less unequal. Moreover, since the export sector is not a foreign enclave, transfers of profits abroad do not constitute as large a drain on domestic incomes as has been the case in the Southeast Asian colonies. Postwar growth rates have been high, and for fifteen years both the external and the internal value of the currency has been impressively stable.

According to Insor, the most enduring of Thai sayings is "There is rice in the fields, fish in the water";[1] until recent years the population pressure on the rice and fish was gentle. Now, however, it is becoming abundantly clear that Thailand, too, must have structural change if even present levels of prosperity are to be maintained.

Foreign Powers

During the seventeenth century there was a bid for French control over the Siamese court, aided and abetted by Constantine Phaulkon, Greek adviser to King Narai. With the death of Narai and the execution of Phaulkon in 1688 the French threat of domination disappeared, and "Western influence was not restored for 150 years". While the word for foreigner, farang derives from francais, says Insor, "there is no association of 'foreigner' with 'outside influence'. The intense rivalry in the region between Britain and France together with the astute diplomacy of a

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[1] D. Insor, op. cit., p. 13.

succession of Siamese kings, was enough to protect Thailand from domination by either power. Indeed Thailand was itself an imperialist power in a modest way; substantial parts of Laos and smaller parts of Malaya were under Thai rule. The former were seized by France towards the turn of the century, regained by Thailand during World War II, and lost again with the defeat of Japan. The British took the parts of Malay that were under Thai suzerainty in 1909. On the whole, however, Thailand was left in peace by the colonial powers, and even the economy was left largely undisturbed by foreign enterprise.

There are, of course, the overseas Chinese, as in other parts of Southeast Asia. Indeed the relative role of Chinese enterprise in the commercial and financial ventures of Bangkok is no doubt greater than their role in Djakarta or Manila. But the Chinese have been more fully and more quietly absorbed into Thai society than in the case of some other Southeast Asian countries. The Chinese have intermarried, become Thai citizens, and entered partnerships with Thai businessmen, and have thus survived the occasional outbursts of anti-Chinese sentiment. If they have not greatly accelerated the process of structual change in Thailand, neither have they greatly delayed it.[2]

Economic Development

As already indicated, Thailand's relative success in providing a standard of living for the bulk of her people that is comfortably above a subsistence level has resulted from the country's capacity to raise food production faster than population grew. James Ingram reports that in less than a century after 1850 rice exports grew twenty-five fold, while population doubled. Population growth, accordingly, was less than

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[2]Cf. William G. Skinner, Chinese Society in Thailand: An Analytical History (Ithaca: Cornell University Press, 1957).

1.0 percent per year throughout the century. Even since World War II the average rate of population growth has been under 2.0 percent, although in the years 1958-61 it had increased to over 3.0 percent. Since the war, expansion of rice production has slowed down (about 1 percent per year during the 'fifties) and growth of rubber output has barely exceeded population growth; but expansion of other agricultural production has been impressive, running between 10 and 15 percent in the 1950's.[3]

The price paid by Thailand for its relative freedom from foreign control and relatively slow population growth, and the relative ease of its food situation, is an almost total absence of structural change. In 1947, 84 percent of the labor force was still engaged in the agricultural sector, barely 2.0 percent in manufacturing, less than 1.0 percent in services other than government. The 85 percent of the labor force in agriculture, forestry and fishing produced half of the gross national product, and during the 'fifties this proportion fell very little. Between 1951 and 1961, investment in agriculture rose by 52 percent, as compared to 50 percent in manufacturing and 53 percent in mining.[4]

Within the agricultural sector there has been a shift from rice to other products, including maize and rubber. The World Bank mission, writing in 1958, seemed to welcome this shift; but it may be questioned whether, in view of the impending world food crisis on the one hand and the ever growing range of uses for synthetic rubber, rice may not be a stronger export during the next few decades than rubber. Meanwhile the

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[3]Figures are from A Public Development Program for Thailand, Report of a Mission organized by the International Bank for Reconstruction and Development (Baltimore: The John's Hopkins Press, 1959).

[4]Puey Ungphakorn, "Thailand," in Cranley Onslow, ed., Asian Economic Development.

mounting population pressure is cutting into the supply of rice available for export. It seems clear that Thailand needs some industrialization and import replacement. The examples of Canada, Australia and New Zealand show that countries can do very well by concentrating their exports on primary or partially processed products, provided the economy as a whole undergoes the structural change that will reduce the agricultural sector to a small fraction of the total economy, whether measured in employment or output. Given its resource base, the most hopeful pattern of development for Thailand may well fall along the lines of these examples. The point worth stressing, however, is that even if Thailand remains an exporter of primary or partly processed products, achieving high levels of living, or even maintaining present ones, will require drastic changes in the structure of employment and output.

Summary and Conclusion of Part II: Major Features of Economic Development in Southeast Asia

The economic history of Southeast Asia since 1800 has been largely a matter of super-imposing a modern export sector on a pre-existent traditional economy, largely given over to growing rice and other foodstuffs. Simple construction materials like bamboo, and in some cases, textile raw materials, were also produced in the traditional sector, making it largely self-sufficient. The main development within the traditional sector has been the substitution of stable for shifting agriculture as population grew. As we have seen above, the traditional peasant economy in itself does not vary greatly from one Southeast Asian country to another. The per capita income within the traditional peasant sector does not range much in either direction from $50 per year. Population pressure and hence the mix of stable and shifting agriculture and average size of family holdings varies from country to country. However, to a considerable extent the differences in population density reflect differences in soil fertility, reliability of rainfall, and other factors affecting yields per hectare. It must also be remembered that in terms of yields per man-year--which is what really counts--slash and burn farming can be quite efficient. The shift to stable, irrigation rice culture was a device to maintain per capita yields despite rapid population growth. Thus Java is densely populated and the Outer Islands of Indonesia thinly populated; but at least until

recent decades it could not be said that the level of living of Javanese peasants was markedly below that of peasants in the Outer Islands. In some respects indeed--such as level of sensare culture--it was higher.

The differences in per capita income among Southeast Asian countries, in other words, are not to be explained in terms of differences in the productivity of the traditional sector. Nor is there any very clear evidence that man-year productivity in the modern sector differs greatly from one Southeast Asian country to another. The fact that per capita income in Malaya is nearly four times as high as in Indonesia does not mean that in Malaya productivity per man-year on rubber plantations or in tin mines is four times as high as it is in Indonesia. On the contrary, the differences in per capita income relate almost entirely to the relative size of the modern export sector, - together perhaps with the relative importance of small-holders exports in some cases - in comparison to the size of the traditional sector. And "size" in this context means mainly the share of the labour force engaged in each of the two main sectors. The relative size of the smallholder's sector is also of some importance. While productivity per man-year is clearly not so high in small holdings as in the modern sector, it can be substantially higher than in the traditional peasant agriculture sector.

In short, the difference between Malaya and Indonesia lies in the fact that whereas only 7 percent of the Indonesian

labour force had been drawn into the modern sector at the time of the transfer of sovereignty, in 1947 in Malaya 26 percent of the labour force was engaged in rubber growing alone, another 8 percent in manufacturing, still another 8 percent in commerce and finance, nearly four percent in transportation and communications, and some two percent in mining. Even allowing for the existence of some traditional methods within each of these sectors, it is clear that more than half the Malayan labour force had been drawn into the modern sector at the time Malaya became independent.

By the same token, by 1947 over 35 percent of the Malayan population was living in urban areas, and by 1957 over half the population was urbanized. Even when Singapore is excluded, the degree of urbanization in Malaya was clearly much higher than in other Southeast Asian countries. Similar differences in the degree of success in attracting population into the modern sector, including large-scale plantation agriculture and mining as well as the more truly urban occupations in the modern sector, also explains the differences in level of living between Malaya and other Southeast Asian countries.

Causes of Differences in Levels of Development

The differences in degree of success in achieving structural change, and thus attaining higher levels of living, are in turn due mainly to three major factors: the timing and depth of colonial intervention, the extent and nature of

the educational program, and the type of nationalism which emerged from the colonial period. Of these, the nature of the colonial history is much the most important.

Colonialism and the income gap

In our outline of Indonesian development under the Dutch we argued that the great differences in productivity and income between Indonesia and Europe--and more generally between South and Southeast Asia and Europe--emerged only after the Europeans appeared in Asian waters and began to take over the trade with Europe. Other evidence, however, suggests that the link between colonialism and the income gap is much closer, and that the real differences in productivity and income developed only during the nineteenth century as the economic penetration of the colonial powers in the colonies widened and deepened. Surendra J. Patel of the U.N. Economic Commission for Africa has made some estimates of years in which various countries, now economically advanced, reached a level of per capita income of $200 in 1952-54 prices. The years are surprisingly recent: United States 1832, United Kingdom 1837, Canada 1846, France 1852, Germany 1886, Sweden 1889, Italy 1909, Japan 1955. He also suggests that in 1850 the average per capita income in industrial countries was about $170, as compared to some $100 in pre-industrial countries. By and large then, the big gap has appeared after 1850; the industrial countries enjoyed fairly rapid growth in the ensueing century, while the pre-industrial countries

remained virtually stagnant. The period 1850 to 1950, of course, was the heyday of colonialism.

Patel believes that in 1850 "no country had attained a built-in steadiness in its economic progress"; that came only after 1950. Between 1850 and 1960 per capita income in industrial countries grew at an annual average rate of 1.8 percent, while the figure for pre-industrial countries was 0.1 percent. Such is the force of compound interest that this difference in growth rates was quite enough to produce the enormous differences in levels of living that now prevail between rich and poor countries.[1]

It is worth re-iterating that it was the agricultural revolution of the late nineteenth century, rather than the industrial revolution of the early nineteenth century, that was not fully shared with the developing countries. As noted above, in the modern sector of the developing countries, including plantation agriculture, techniques tend to be as advanced as anywhere in the world. But only a small fraction of the labor force has been drawn into this sector. In peasant agriculture there has been little technological progress in the last century, yet numbers engaged in peasant agriculture have continued to increase. Despite drastic reductions in the proportion of the labor force in agriculture (and in some advanced countries reductions in the total numbers

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[1]Surendra J. Patel, "The Economic Distance between Nations: its Origin, Measurement, and Outlook". The Economic Journal March 1964, pp. 119-131, esp. pp. 121-123.

engaged in agriculture) output per head of total population increased over the past 80 or 90 years at a rate of about 1.7 percent per year in advanced countries. In developing countries, despite the fact that the share of total employment in the agricultural sector remained more or less the same, agricultural output per head of total population remained virtually constant. In advanced countries industrial output per head of total population has of course risen much more than agricultural output per head, as a consequence of structural change combined with technological progress in the industrial sector. But gaps in productivity per man-year actually engaged in each sector are greater in agriculture than in industry.

This gap, too, has appeared since 1850. According to Dr. Patel agricultural yields in mid-nineteenth century Europe were not much different from what they are in poor countries today--or for that matter, what they were in poor countries in 1850. But since then yields in Northwest Europe have risen three to fourfold, while yields in developing countries remain virtually unchanged. Some of the advances in the industrial countries are possible only with large-scale mechanized agriculture, but Dr. Patel believes that not all of the technological advance that is applicable even with the present pattern of landholding has in fact been applied.[2]

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[2]Surendra J. Patel, "What is Holding up Agricultural Growth", The Economic Weekly, Annual Number February 1964, pp. 327-341.

Education

The kind of educational system which was developed during the nineteenth and early twentieth centuries was of course closely related to the type of colonial policy. One should not over-emphasize the role of formal education as such--otherwise Ceylon ought to stand much higher in the ranks of Southeast Asian countries, in terms of per capita income, than it does. On the other hand, it is quite clear that Southeast Asian countries differ less in terms of ratios of either exports or investments to national income than they do in terms of the results achieved from particular levels of export or investment. In other words, historical capital: output ratios seem to have varied more than investment ratios, and the differences in capital:output ratios can be traced in large measures to the differences in education in the broad sense. By and large, the British colonies were left with a well-trained elite, able to exercise economic leadership in both the public and the private spheres. The same is true of the one American "colony", the Philippines, although in this case a rather high price was paid for an educated elite in terms of concentration of wealth and power. In the Dutch and French ex-colonies, on the other hand, (and particularly, in the latter case, in Laos and Cambodia), the layer of educated elite was woefully thin, and shortage of technical, scientific and managerial skills was a major bottleneck to be overcome.

Nationalism

The type of nationalism which has emerged is also highly cross-correlated both with the type of colonialism and with the kind of educational system that developed. No British colony had to fight for its independence, and except for Burma, which suffered from a particularly virulent style of "double colonialism", the ex-British colonies were quite happy to accept British political institutions, and were able to do so because of the presence of a British-educated elite. Similarly, the Philippines, which on the whole enjoyed a rather happy relationship with her second colonial master, were ready to adopt American political and social institutions, and were able to do so with considerable success because of the presence of an American-educated elite. Taiwan did well under both the Japanese and the Americans. Indonesia and Indo-China, having been compelled to fight for their independence, and having had a rather unfortunate experience with their colonial powers, were more eager to destroy colonial institutions than to build upon them. Both Ceylon and Burma are handicapped by their history of "double colonialism."

The division of Southeast Asian countries between those manifesting "destructive nationalism" and those manifesting "constructive nationalism" is essentially the same as Professor Hla Myint's division between the "inner" and "outer" directed Southeast Asian countries.[1] Thailand, which

[1]Hla Myint, "The Inward and Outward Looking Countries of Southeast Asia and the Economic Future of the Region", Research Paper No. 7, Presented at a Conference at Kyoto, Japan, June, 1965.

escaped political colonialism altogether, has emerged with an essentially constructive nationalism, and is "outward-looking", together with Malaya, the Philippines and Taiwan. Indonesia, and Indo-China, with more unfortunate of colonial experiences, have been most destructive in their nationalism, and most inwardlooking in their economic development policies. Burma and Ceylon are intermediate cases, Burma being more destructive and more inwardlooking than Ceylon. In both of these countries a past sense of inferiority and consequent resentment with respect to India, as well as with respect to Great Britain, plays a role in the formation of current attitudes and values.

It is worth noting that while Thailand had no political imperialism, and the Philippines very little economic imperialism, both these countries have emerged with the same essential technological dualism in their economies that characterize other Southeast Asian countries. In a sense, one could say that Thailand and the Philippines "created their own colonialists." In the case of Thailand, the "colonial power" consisted of the royal family and its military appendage. In the Philippines it consisted of the latifundistas created by the Spanish and preserved by the Americans, who also became, by and large, the new industrialist class in the present century. Both the Philippines and Thailand also experienced "double colonialism" in the form of the major economic role played by the overseas Chinese, but have been more successful in assimilating their Chinese than was Indonesia.

In general, the lucky countries of Southeast Asia were those where industrialization under a "colonial" power came late, and where the penetration of the foreign "enclave" was relatively thin up to World War II. Indonesia's experience was the worst, if only because the process of industrialization, and the accompanying population explosion and destruction of internal dynamics of the society came so early, with the Culture System in 1830. If one could abstract Java from Indonesia and look only at the Outer Islands, where industrialization through foreign enterprise came at more or less the same time as it did in the other Southeast Asian countries, the difference between Indonesia and Malaya would not be so great. The Outer Islands alone are not markedly different in economic structure or levels of per capita income from Malaya; it is overcrowded Java which creates the problem in Indonesia, and it is in Java that industrialization began. Taiwan's experience has perhaps been a relatively happy one, since the colonialism there came very late, and because colonialism both before World War II and after, has brought with it the import of skills, technical assistance, capital assistance, and some structural change. Malaya's experience has also been fortunate, for much the same reasons. The population explosion came late, and land has not even yet become truly scarce. Thailand has in a sense benefited from having no modern production sector at all, and consequently having had little in the way of population explosion or

destruction of indigenous enterprise, except perhaps by the Chinese, who have in any case been largely absorbed into Thai society.

In general, Southeast Asia consists of countries which have never truly had a "big push", and that is what they need most at the present time. Structural change has been limited, even in Malaya; although there, the fact that only one quarter of the population was still engaged in growing rice in 1947 was an enormous advantage, in comparison to other countries, such as Indonesia and Indo-China, where some three-quarters of the population were so engaged.

The Post-War Experience

The differences in post-war experience can also be explained mainly in terms of the three factors outlined above. There have been no striking changes in the relative positions of Southeast Asian countries since World War II. By and large, all of them have continued to be what they were when World War II began.

As Dr. Myint points out, the countries which have chosen the "inner directed" course are not those which can best afford it. Indonesia, it is true, has a population which is large enough and sufficiently concentrated to permit substantial economic development through import replacement, provided that per capita incomes are rising through some other generating force. With 110 million people, of which two-thirds live in the one small island of Java, and others in

sizable cities like Medan, and all within relatively easy reach of harbors, the possibility for a vigorous intra-island trade is clear. However, the trade cannot take place so long as per capita income of the 70 percent of the population who are peasants remains as low as it is. Even Indonesia must expand its export sector for some years to come if healthy and sustained growth is to take place. The cases of Vietnam, Cambodia, Laos, Burma and Ceylon, are much worse in this respect. Not only are these poor and stagnant countries, they are also countries whose native populations are far too small to permit rapid and continued growth on the basis of import replacement alone. These are the countries which could benefit most by incorporation into a larger economic unit, but are probably those which are most difficult to draw into such an organization from the political point of view, precisely because of their inner-directedness and destructive nationalism.

Foreign Trade in Postwar Development

One thing at least is clear: the post-war experience cannot be explained in terms of the foreign trade position of these countries, any more than the prewar experience can. There is little correlation between either the level of per capita income in 1961, or the rate of growth of income during the post-war period, and either the growth of exports or the ratio of exports to national income. Malaya, it is true, with the highest level of per capita income in 1961, also had

the highest ratio of exports to gross domestic products. Ceylon came second in terms of the latter measure, yet ranked fourth in terms of level of per capita income, and sixth in terms of rate of growth during the decade 1955-65. Taiwan enjoyed the highest rate of growth of exports during the decade of the 1950's, but was only third in terms of level of per capita incomes. Taiwan did enjoy the highest rate of growth of per capita income during the decade 1955-65. On the other hand the Philippines, which ranked second in terms of rates of growth of income during this period, was only fourth in terms of growth of exports.

"Backwash" Effects of Foreign Trade?

Both Gunnar Myrdal and Hla Myint have suggested that in the case of countries like those in Southeast Asia foreign trade has had "backwash" rather than "spread" effects from the expanding modern export sector to the underdeveloped traditional sector in which the bulk of the population must find its income. One needs, however, to exercise considerable care in concluding that the growth of the export sector had net backwash effects simply because it was not accompanied by increases in per capita income proportionate to the growth of exports.

Myint points out that disequilibrating factors operate not only between backward and advanced countries as aggregate units but also between the backward and advanced groups of people within the "backward" country. He stresses the failure

of expansion of foreign trade to draw any large proportion of the indigenous population into the modern sector and the lack of "demonstration effects" or upgrading of skills. The operations with advanced technology were capital intensive, labor-intensive operations were used only where low levels of skill sufficed. He also emphasizes the "double colonialism" in Southeast Asia, Chinese and Indians being brought in to undertake middle-level operations.[1] He quotes L. C. Knowles as saying that there were really three "mother countries" in the British Empire--the United Kingdom, India, and China.[2]

Myrdal stresses "circular causation", the tendency for cumulative movements away from equilibrium, one form of which is a tendency for gaps between rich and poor regions of a poor country to grow wider. Agglomerative pulls to the more progressive sector/region are strong and resources are shifted into that sector/region. Meanwhile fertility rates are higher in the poor sector/region. The expansion of foreign trade serves only to give further competitive advantage to the leading sector/region.[3]

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[1]Hla Myint, "An Interpretation of Economic Backwardness" Oxford Economic Papers, June 1954; "The 'Classical' Theory of International Trade and the Underdeveloped Countries", Economic Journal, June 1958; and The Economics of the Developing Countries, New York, 1965, Chapters 3, 4, and 9.

[2]L. C. Knowles, The Economic Development of the British Overseas Empire, Vol. I, pp. viii, 182-201.

[3]Gunnor Myrdal, Economic Theory and the Underdeveloped Regions, London, 1957, pp. 13, 28, 29.

Let us examine the "backwash" theory in a somewhat more systematic fashion. Backwash effects would occur if the development of the export sector (and region) had unfavorable effects on the traditional sector (and region) and spread effects occur when the expansion of the modern sector and region has favorable effects (on income, employment, output, etc.) in the traditional sector and region. The relationship is probably best expressed in terms of investment. Letting I_m represent investment in the modern export sector/region and I_t investment in the traditional sector/region; we may then say that spread effects occur on balance if $\frac{\Delta I_m}{\Delta I_t} > 0$ and backwash effects occur on balance if this expression is negative.

The existence of divergence in productivity and income among sector/regions is not conclusive evidence that "backwash" effects in one sector/region outweigh the "spread" effects. It is possible that the development of the export sector, with very high rates of growth there, and much slower rates of growth in the traditional sector, with consequent divergence, might nevertheless reflect a situation in which spread effects of expansion of foreign trade outweigh the backwash effects. That is, the level of investment and rate of growth in the traditional sector/region, while lower than in the export sector, may nonetheless be higher than if no development were taking place at all in the modern sector. It should also be remembered that higher percentage rates of growth in the poorer region will not immediately produce

convergence of per capital income if the initial levels of per capita income are very far apart.

The neo-classical literature, we have seen, always assumed that "spread effects" of the development of new regions would outweigh backwash effects. (The analysis was applied to international rather than interregional relationships, but the essential nature of the argument is the same in both cases). Thus, Marshall maintained that the study of economic development was essentially a branch of the theory of international trade, and Robertson referred to foreign trade as "an engine for growth". Something of this viewpoint appears in our own times in the writings of Douglass North and others. At the first UNCTAD conference, on the contrary, the developing countries presented the opposite view.

At first blush one would expect that the growth of employment and income in a new region would always raise income, employment, and output in the old one. The growth of the market would provide the basis for expanding exports from the older regions. It would provide a release from any population pressure, or simple redundancy of the labor supply, through migration to the new region. Finally, frontier development would provide an outlet for investment, maintaining the marginal efficiency of capital at a relatively high level, and maintaining per capita incomes in the old region through transfers of profits, dividends, interest, and rents from the frontier, as in the case of United Kingdom investment abroad during the nineteenth century.

Indeed, one might be inclined to ask how "backwash" effects could occur at all. There seem to be five possible ways in which the development of a new sector/region could lead to backwash effects on the old one. (1) Resources may be discovered in the new sector/region which are essentially the same as in the old one, but more readily available and cheaper to produce, leading to the production of the same products in substantially increased volume, and lowering the price of these products below average cost of producing them in the metropolis. If the old region has no other resources, natural or human, with which to develop alternative industries, backwash effects could then occur. The case of the Maritimes provinces in Canada may be one in point. Coal and other timber were discovered else where and could be produced at lower cost in other parts of the country, and the shipbuilding skill, which was another part of the resource base, proved to be unimportant with the shift from wooden sailing ships to iron steamships. (2) Technological change or a change of taste, combined with movement to a new sector/region, may have a similar effect in displacing the resources or products of the older region. For example, hydro-electric power may, in a new region, replace high cost coal in the old one. Again, if there is no other resource bases, natural or human, on which to build alternative industries, the net effect will be a "backwash" one. (3) Opening up the new region, by virtue of a more rapid rate of growth and higher marginal productivity of skilled workers there may lead to the

immigration of people with relatively high levels of need-achievement, higher degrees of training and skills, and the like. Such a process is easily observed whereever lagging regions exist, as in the case of the Brazilian northeast, the Italian or Mexican South, the Thailand northeast, etc. (4) If managerial, technical and scientific skills are imported into the new sector/region from a third one, so that these skills are not produced in either the new or the old region, and the proper educational facilities are not provided. This is the case of the foreign "enclave" development in Southeast Asia. Investment in the "frontier" of Sumatra in the nineteenth century may have had net backwash effects on Java, since the high-level technical, managerial, entrepreneurial and scientific skills were brought in from European countries and the United States. A few people with low-level skills migrated from Java to Sumatra, leaving Java less well supplied with skills than before. (5) If the flow of capital from the traditional to the modern sector/region has such an accelerating effect on the growth of income in the frontier, that the capital flow is never reversed, because it never succeeds in reducing the gap between returns to investment in the modern sector/region and in the traditional one.

The importance of the time period is apparent. How short can the period of unfavorable repercussions be, and still warrant the use of the term "backwash"? There is a difference between genuine backwash and transition. For

example, New England lost much of its boot and shoe, textiles, pulp and paper industries, but now is better off for that, having turned to electronics, carbon black, and other scientifically oriented industries.

In examining this list of possible sources of "backwash effects," only the third and fourth seems relevant to the case of Southeast Asia. It is extremely doubtful whether the combination of these two factors would have resulted in an actual reduction of investment or output in the traditional sectors of the Southeast Asian countries, as investment in the modern export sector increased. It seems more likely that the growth of the export sector did have net spread effects to the traditional sector, but that these were not powerful enough to offset the impact of the population explosion on per capita incomes, once the population explosion was underway.

Backwash Effects vs. Technological Dualism

It is important to distinguish between genuine backwash effects and technological dualism. The general theory of technological dualism and the population explosion has been presented in some detail elsewhere.[1] For those who are not acquainted with the concept, a very short summary of it must suffice here. In most underdeveloped countries investment has been concentrated in the "modern" sector: plantations, mines, oil fields, and the financing, transport, and processing operations associated

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[1]Benjamin Higgins, Economic Development: Problems, Principles, and Policies (Second Edition, New York, 1967).

with these. Because of the highly capital-intensive nature of this investment, it has provided less increase in employment than in output and exports. Yet it was accompanied by a "population explosion," because industrialization brought public health measures, law and order, improved transport (which reduced the dangers of famine) and possibly an "increased demand for children." Thus the process of industrial investment meant rapid growth of the number of people who had to be employed in the other main sector: peasant agriculture and the small or cottage industries, plus the finance, transport, and processing connected with these, together labelled the "rural" sector. While good land was abundant, the rural sector could absorb increased numbers without a fall in per capita income, widespread under-and-unemployment. But as good land gave out diminishing returns to labour on the land, work-spreading devices, underemployment, unemployment, and low-productivity appeared in the rural sector. Technological progress was increasingly confined to the industrial sector, where skilled labor was scarce and labor-saving innovations worthwhile. In the rural sector, where labor was redundant, there was no incentive to introduce labor-saving devices. The gap in productivity and income grows wider and wider.

Thus technological dualism is a matter of too little investment in the modern sector relative to the rate of growth of the labor force in the country as a whole, rather than too much such investment and genuine backwash effects.

It is not always easy to distinguish between the "technological dualism" process--that is, investment in one region which has favorable effects on other regions, but does not create sufficient job opportunities to permit migration in excess of natural population growth from lagging regions, so that gaps increase--and genuine backwash effects, in the sense that investment in lagging regions is actually lower than it would be if no investment were taking place in the leading regions. It does not seem likely that investment in the modern sector of Southeast Asian countries has actually reduced investment in the traditional sector; on the contrary, it has probably led to some increase in investment in the traditional sector as well. Unfortunately ~~However~~, because of the population explosion that accompanied this investment, the absorption of labor into the modern sector was never more than a small fraction of the growth of the total labor force, leading of necessity to increasingly labor-intensive undertakings in the traditional sector and consequent stagnation of per capita income there. It could perhaps be argued that the net effect was one of "backwash" through the process of population explosion. However, it's clear enough that if the same population growth took place without the investment in the modern sector, the traditional sector would be less well off than it is now.

The explanation of continuing poverty in Southeast Asia is that the growth of the export sector in Southeast Asian countries led to a particularly virulent form of technological dualism rather than to widespread improvement of levels of

living and welfare. In most of these countries the modern sector was really an extension of the economy of the mother country, with only loose links to the traditional sector of the colony.

PROSPECTS FOR SOUTHEAST ASIAN DEVELOPMENT

PART II

CHAPTER VIII

THE ROLE OF TRADE IN SOUTHEAST ASIAN DEVELOPMENT

Two opposing tendencies affect the prospects for expansion of foreign aid for Southeast Asian countries. There is an unfavorable tendency towards replacement of major exports of the region by synthetics or other substitutes, combined with a low or negative income-elasticity demand for some of the exports in advanced countries. The favorable tendency is the rise in per capita income in Asia and other developing countries. We know rather little about income-elasticities of demand for such commodities as sugar and rice as incomes rise from, say, $100 to $200, or from $200 to $300. While the income-elasticity of demand in advanced countries for sugar and rice is low, or in the case of sugar even negative, it may be fairly high in the developing countries of Asia. The relative weight of these two opposing tendencies in the future is difficult to foresee, and consequently it is not easy to predict the long-run trend of demand for major exports of Southeast Asia. More study is required.

We shall not endeavor here to review the prospects of individual commodities; these are discussed in another paper. What may be said in general, however, is that Southeast Asia has no clearly "strong" export except petroleum, and possibly bauxite. The prospects for natural rubber may justify one more replanting if costs can be sufficiently reduced by replacing low-yield strains by high-yield strains; otherwise, synthetic

Table I: Gross National Product Per Capita 1961 (in U.S. Dollars)

Southeast Asia		Latin America	
Malaya	$368	Venezuela	$644
Philippines	188	Argentina	533
Ceylon	123	Uruguay	413
South Vietnam	111	Chile	348
Thailand	101	Mexico	297
Indonesia	99	Brazil	268
Cambodia	77	Paraguay	129
Burma	61	Bolivia	87
Laos	52		

Source: Adapted from P.N. Rosenstein-Rodan, "International Aid for Under-developed Countries," Review of Economics and Statistics (1961), pp. 107-38.

Table II: Percentage Changes in Per Capita Incomes, 1860-1960

Country	Annual Percentage Change 1860-1913	1913-1960	1860-1960
North America	1.65	1.41	1.54
Oceania	0.52	1.25	0.84
Northwest Europe	1.31	1.34	1.33
Soviet Union	1.00	3.72	2.26
Southeast Europe	1.14	1.59	1.35
Latin America	0.89	1.55	1.20
Japan	1.54	2.59	2.03
Far East	1.12	0.63	0.89
Southeast Asia	0.52	0.16	0.38
China	0.13	1.83	0.92
Total	1.52	1.52	1.52

Source: Adapted from L.J. Zimmerman, Poor Lands, Rich Lands: The Widening Gap (New York: Random House, 1965), p. 34.

rubber seems destined to replace natural rubber in world markets. Tin is facing increased competition from other metals. Coconut products are being displaced by detergents, vegetable fibers by steel cables and synthetics. When it comes to tea, coffee and sugar, competition from other parts of the world and limitations on the expansion of total consumption are the major factor. Here income-elasticities of demand in developing countries may prove to be of paramount importance.

If we set the target increase in income at 6% (to yield a rise in per capita income of approximately 3%) and if we assume that the increase in national income bears a constant relationship to the expansion of foreign trade (an optimistic assumption at best) then according to the ECAFE projections only petroleum exports are likely to grow enough between now and 1980 to achieve the income targets. If the more modest target of a 5% growth of income, or a 2% annual increase in per capita income is accepted, then sugar, but only sugar, may be added to the list. A 6% target for increase in income means doubling income in 11-1/2 years, and a 5% target means doubling income in 14 years. The ECAFE projections are for 20 years from 1960. Thus if exports are to expand by 6% for 20 years, the index for 1980 should be about 300; and if it is to expand by 5%, it should be about 250. As may be seen from Table only petroleum and sugar meet even the lower of these two targets. Moreover, the ECAFE projections are on the optimistic side. They are based on projections of world demand, assuming generally that the Asian countries can maintain their competitive position relative to other exporters, and abstracting entirely from all problems on the supply side. Yet supply problems, as well as marketing problems, clearly exist.

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Intra-Regional Trade

At time of writing data on the share of trade with other countries in Southeast Asia as a proportion of total trade were not available. However, ECAFE has published figures of the share of intra-regional trade (excluding Japan) in the total trade of countries in the ECAFE region (presumably including Australia). Only five commodities constituting major exports of Southeast Asian countries find 20% or more of their market within the ECAFE region as a whole. The highest proportion appears in the case of rice: 67% of ECAFE rice exports (including Australian?) finds its market within the ECAFE region. In the case of petroleum, 31% of exports are marketed within the ECAFE region. The other three are cotton fabrics (21%), sugar (20%) and tin (20%). In order to assess the true importance of the Asian market for these commodities, however, one would also need to have figures of re-exports of these commodities, either in crude form or after further processing.

It is clear that intra-regional trade is a small portion of the total trade of the region, and that expanding foreign trade of the region is a small part of the region's development problem. In short, in terms of the overall development problem of Southeast Asia, the possibilities inherent in the expansion of intra-regional trade are of the second order of smalls.

This fact does not mean that the possibilities for expanding trade within the region, or the possibilities of import replacement within the region as a whole on the basis of some kind of common market, or the possibilities of improved allocation of resources within the region through the removal of restrictions on intra-regional trade, should be ignored. It does mean, however, that these possibilities should be

considered within the context of a broader program for the reconstruction and development of the region as a whole.

Looking simply at the raw figures of intra-regional trade, the importance of some accurate prognosis as to the fate of rice exporting countries is immediately apparent. The figures suggest that Indonesia, for example, might abandon its apparently vain effort to achieve self-sufficiency in rice, and concentrate more on exporting petroleum and tin to other countries in the region, while importing rice from Burma, Thailand and Vietnam. Indonesia is not an efficient rice-producer, even in terms of yields per hectare; and in terms of yields per man-year, Indonesia, and especially Java, is clearly a very inefficient rice producer indeed.

Moreover, it is also clear (see Table) that Southeast Asia as a region is an inefficient agricultural producer as a whole. The comparative disadvantage of the region is greatest in precisely that sector where the largest share of the labor force is engaged. It thus becomes of the utmost importance to have accurate information--as distinct from brave hopes--as to just how much efficiency in rice production can be improved in Southeast Asian countries. It is not only a question as to whether the comparative advantage in rice exports is clearly greater in the present rice exporting countries than it is in, say, Indonesia. It is also important to know whether any comparative advantage that exists reflects greater productivity per-man-year in rice production in the rice exporting countries of Southeast Asia than in the rice importing countries of Southeast Asia, or whether the comparative disadvantage of Indonesia, say, in rice production reflects rather the relatively high productivity in Indonesia in the production of petroleum, tin, bauxite and rubber. It is also important to know whether the comparative

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advanrage of Southeast Aiaa in rice production can ever hope to rival that of Australia, Japan, the United States and Italy, where yields per hectare are currently considerably higher, and yields per-man-year are very much higher, than in Southeast Asian countries.

The most important question of all, however, is "what is the fate of a country condemned to specialize in the production and export of rice, for lack of anything better to do by way of economic development?" All we know would suggest that concentration on rice exports would mean a condemnation to continuing poverty. On the other hand, we do not really know very much about the effect on the balance, volume and terms of trade of rice exporting countries of an Asian population growing by, say, 2% a year on its present enormous base, and with per capita incomes rising, let us say, by 2% a year at the same time. Clearly, the question needs more careful study than the present writer has been able to give it.

The rice exporters of Southeast Asia--Thailand, Vietnam, Burma--are all too small in terms of their present population to have much industrialization on the basis of their own domestic market. Ceylon as an exporter to more advanced countries, also belongs to the category of "small" countries, with only limited capacities for industrialization through import replacement. Given an integrated Southeast Asia, could the present rice exporting countries become, in effect, the Saskatchewan or the Western Australia of the region? The experience of Canada, Australia and New Zealand shows clearly that high levels of living can be achieved on the basis of exports which consist mainly of raw materials and foodstuffs, or raw materials and foodstuffs carried through one or two stages of processing, provided the structure of <u>production</u>

changes sufficiently to reduce to low figures the proportion of the total labor force engaged in primary production. Within this process, the share of the labor force engaged in primary production in large regions (like the Province of Saskatchewan) can remain reasonably high, provided this region is engaged in large-scale mechanized modern agriculture serving the whole economic unit (in this case, Southeast Asia) and the world market as well. Within the economic unit as a whole, however, structural change must take place if high levels of living are to be attained in all sectors and regions within it.

Need for a "Big Push" and Structural Change

When all is said and done, there is no avoiding the conclusion that what Southeast needs most is a "big push" and rapid structural change. The region has never had either. With the possible exception of Malaya and Taiwan, the general form of economic policy during the period of colonialism was not such as to provide the required big push and structural change; and where Taiwan is concerned, the level of per capita income when World War II began does not indicate enormous success of Japanese colonial policy. Since the war, Southeast Asia has received less foreign aid per capita than any other major region in the world, with Indonesia (the major country of the region) receiving the least aid per capita of all member countries of the United Nations. The policies pursued by the national governments since World War II have also failed to provide the "big push" and rapid structural change.

It is important to understand that neither the expansion of trade through economic integration, nor improved resources allocation within the peasant agricultural sector through greater freedom of trade (it is

hard to imagine exactly what this might mean) will solve the problem of poverty in the traditional peasant agricultural sectors of these countries. Even if per capita income were doubled in the traditional sector, the people remaining in it would still be poor. So long as the bulk of the population is employed in the traditional sector, the countries will be poor.

When one thinks of "improved allocation of resources" within the traditional peasant agricultural sector, it must mean reducing or abandoning the production of something else. If we decide, for example, that Burma and Thailand really do have a comparative advantage in the production of rice, even if traditional peasant agricultural methods are retained, exactly what is it that the traditional peasant agricultural sectors of Burma or Thailand could give up in order to produce more rice, and bring substantial increases in income in the process?

Clearly, the only solution to the problem of poverty in these countries is to get people out of peasant agriculture. Of course, it may prove desirable for some of these countries to continue exporting rice, but with fewer people in the rice-growing sector and with higher man-year productivity, while the workers transferred from the peasant agricultural sector produce more of other things, following the general format of development in Australia, Canada and New Zealand. This whole process, however, requires the provision of employment opportunities outside of peasant agriculture. One cannot imagine any expansion of employment in a modern industrial sector, brought about by a Southeast Asian Common Market in itself, which would absorb the whole of the increase of the Southeast Asian labor force in that modern industrial sector.

Industrialization of Southeast Asia requires import replacement for the region as a whole, or the increase in exports to advanced countries, or a combination of the two.

The whole problem of economic reconstruction and development in Southeast Asia is made all the more difficult by the region's unfortunate experience with colonialism, and by the disruption and mismanagement of economic development during the post-World War II period. Vietnam is literally a war-torn country. Indonesia has suffered so much economic mismanagement, so much capital consumption, and so much disruption of the pattern of decision-making, that it, too, should be thought of as a "war-torn country," in order to get some conception of the magnitude of the reconstruction problem there. The same may be said of Cambodia and Laos, although in these countries there was less to disrupt. Burma, too, has suffered a severe disruption of the decision-making process. Thailand needs a transition to a more modern and more democratic form of decision-making if the aspirations of the people are to be satisfied over the next 20 or 30 years. Ceylon's problems are perhaps more purely economic, although there, too, destructive nationalism and inner-directedness constitute serious barriers to effective decision-making.

The Philippines suffer from distortion of the decision-making process by a kind of corruption, excessive concentration of income, wealth and power, which is more directed towards deciding what should be done rather than who should do it. In contrast to the oft-cited corruption in the United States during the late nineteenth century (with which Philippines corruption is frequently compared), whereas United States corruption took the form mainly of deciding who was to build the railroads,

canals, dams, roads, power plants and schools, which at least meant that these development projects were undertaken and completed, in the Philippines, corruption tends to divert resources away from developmental channels into channels preferred soley for their capacity to enrich the power elite. In Indonesia corruption (in the Western sense of the term) has proceeded so far that it is a question whether the term is any longer meaningful. And no Southeast Asian country can claim that policy decisions in the economic development field are made solely in terms of effectiveness in achieving stated national objectives. There is obviously a danger that foreign aid funds provided on the requisite scale might be dissipated if the decision-making process is left entirely to existing governmental apparatus in these countries.

To put it bluntly, Southeast Asian needs for a few years a kind of "~~benevolent neo-colonialism~~". The magnitude of the reconstruction and development problem is so great that special measures are needed to meet it, and a special organization is required to carry out these measures effectively. Economic integration can help in carrying out this process; but obviously coordinated planning and agreed specialization are more important for the future growth of the region than programmed tariff reductions, or even these plus removal of other restrictions on trade and provisions for the free movement of labor and capital among Southeast Asian countries. Capital, entrepreneurship, managerial, scientific and technical skills must all be imported from abroad during an initial reconstruction period of perhaps ten years. Economic leadership must be provided at four levels: within the top echelons of government, where final decisions are made; at the level of the Schumpeterian innovating

entrepreneur; at the technical planning level in both the public and private sectors; and at the level of implementation of individual development projects. Outside assistance is likely to be needed at all four levels. To provide such assistance without violation either of national sovereignty or of national sensitivities will require a fresh approach and a tailor-made institutional framework.

Chapter 8: CONCLUSIONS: THE PROBLEM OF RECONSTRUCTION IN SOUTHEAST ASIA

The magnitude of the reconstruction task in Southeast Asia can best be grasped by thinking of the entire region as war-devastated. Viet Nam, of course, is war-devastated in fact; but even the Philippines has not recovered its pre-war position in all sectors, and from an economic point of view Indonesia is the most "war-devastated" of all. Indeed Indonesia may well provide the most dramatic example of economic retrogression since Rome--or at least since sixteenth century Portugal and Spain. Dutch colonial administration, we have seen, did little or nothing to pave the way for a transition to an independent, modern, industrialized nation. Most Dutchmen thought of Indonesia as a perpetual colony, with a modern sector which was really an extension of the Dutch economy, and a subsistence agriculture sector where the bulk of the Indonesians would continue to find a livelihood, happy in the enjoyment of their traditional culture. Before this colonial economy could recover from the great depression of the 1930's, it was embroiled in war, occupation, revolution, and civil war. The series of governments since independence did nothing to transform the economy; consequently, Indonesia remains essentially an economic colony today. Independence was followed first by confusion and then by systematic neglect of economic development. To the ravages of actual war have been added the ravages of gross mismanagement, reaching their height during the Sukarno regime. The dispossession of foreign investors has served only to reduce the productivity of the modern sector, without changing the basic structure of the economy. President Sukarno, while talking of "continuing the revolution," pursued a course which

actually guaranteed the preservation of the basic structure of the colonial economy, while at the same time infecting it with rot.

Thus the Indonesian economy has been on the downgrade for at least forty years--and in some ways for four hundred. Nothing approaching a positive development policy has been systematically pursued in Indonesia since the 1920's, when the "ethical system" brought its combination of support to large-scale, foreign, private enterprise and "gentle pressure" in the traditional economy. Even that policy failed to raise Indonesian levels of living. Dutch policy during the 'thirties was a holding operation at best. The period since independence has been one of net deterioration and net capital consumption, particularly in the vital plantation, mining, and social overhead sectors.

What is in many ways worse is the net disinvestment in human capital. The improvement at the elementary school level will have its impact on Indonesian productivity only at some time in the future. The expanded output of Indonesian Universities does not yet provide an effective offset to the losses of entrepreneurial, managerial, scientific and technical skills through the emigration of foreign enterprises and curtailment of technical assistance programs. In fields such as these quality is more important than quantity. Quality is not only a matter of professional training but also of experience and commitment. Whatever their faults, the public and private officials of the colonial regime were at least committed to expanding output and sales of the modern sector. With the foreigners and most of the Chinese gone, with the more efficient and enterprising "native capitalists" suppressed, too many of the Indonesian officers and bureaucrats who replaced them were committed to power and opulence, without any accompanying commitment to efficiency and growth of

the enterprises under their control. In a aystem where no official can live on his basic salary moral standards governing economic behavior became exceedingly vague.

With prices rising at 20 percent per month in mid-1966--about 1,500 percent per year compounded--the hyperinflation was approaching the proportions of the classical German case. No "gradualist" approach to stabilization is likely to work. Another currency reform unbacked by strict control over the amount and pattern of spending could be worse than useless,, bringing no basic improvements and further undermining confidence in such measures. Restoring production in the modern sector, taking full advantage of opportunities for rapid expansion (as in the petroleum sector) and at the same time bringing some quick improvements in living levels to instill confidence in the new regime is a gigantic task, and one that Indonesians cannot undertake alone.

Despite sincere efforts of the new regime to design better policies and to administer them effectively, foreign aid on the usual scale and administered in the usual way could still disappear into the gaping maw of the Indonesian bureaucracy. It is hard to predict who would gain control over the use of aid funds, but it is still possible that a "Javanese compromise" would be worked out for its allocation, unless there is a degree of control by the donors that would be awkward for the United States, or any other donor country, to exercise alone. And Indonesia cannot afford to compromise any longer.

Indonesia is obviously in the sorriest state, from a purely economic point of view, of all Southeast Asian countries; but Southeast Asia as as whole is a peculiarly troubled region. No Southeast Asian country has yet carried through a truly effective development program. The Philippines

suffers from corruption and government neglect of development too; a vigorous private enterprise sector brought rapid growth during the post-war reconstruction period and for a few years afterwards, but now the Philippines economy has bogged down. In Thailand the picture is much the same as in the Philippines, with economic and political problems concentrated in the Northeast but spreading. Malaysia still enjoys some growth and has a relatively stable parliamentary democracy, but future growth will become increasingly difficult as the strength of rubber and tin as leading sectors wanes. Burma is virtually stagnant, and the three countries of Indo-China are a maze of problems.

Professor Clair Wilcox, in summarizing his survey of economic development planning in the region, writes:

> In recent years the annual rates of growth among the countries of Southeast Asia have differed, but all of them have declined... This fact cannot be taken, however, as evidence that development planning has failed. Each of the countries has drawn up one or more development plans. But in none of them has concern with economic development been central. In none of them have the plans been comprehensive or fully adequate. In some, they have never been put into effect. In others, execution has been partial or spasmodic.[1]

It is hardly necessary to add that Southeast Asia is the region of the world which currently constitutes the greatest menance to world peace. For all these reasons, and also to avoid the loss of face for Indonesia that would be involved in treating her alone as the special case that she obviously is, there is much to be said for dealing with the enormous problem of Indonesia within the framework of a program designed for Southeast Asia as a whole.

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[1] Clair Wilcox, The Planning and Execution of Economic Development in Southeast Asia (Cambridge: Harvard University Press, Center for International Affairs, Occasional Papers No. 10, January 1965), p. 33.

Implications for Foreign Aid Policy

The economic and political situation of Southeast Asia calls for a drastic revision of U.S. aid policy in the region. Except for Taiwan, the countries of the region have failed to receive from the West the help they have needed, since World War II as during the century preceding it. With $7.00 per head in American aid in the entire period 1946-1962, Indonesia is at the bottom of the list in these terms. Thailand, with $13.00 per head, is not much higher up. Even the Philippines, which might have been regarded as a special responsibility of the United States, received only $48.00 in comparison, for example, with $417 for Israel, $215 for Greece, $141 for Liberia and $89 for Chile. Only Taiwan, with $183 per head during the period, received relatively generous treatment, and as noted above it is Taiwan that shows the best record among the countries covered. When the international agencies are added, the picture is if anything worse, in relative terms. The multilateral programs have also neglected Southeast Asia, as compared to other regions. Indonesia, for example, has yet to receive a loan from the World Bank.

It could of course be maintained that absorptive capacity of Southeast Asia was low during these years. But here we are confronted, as so often in the field of economic development, with circular causation. Failure to obtain significant amounts of aid helped to keep absorptive capacity low. In particular the opportunities to use massive technical assistance to raise capacity to absorb capital assistance were not seized. In any case, absorptive capacity has clearly risen a great deal in recent years.

Needless to say, while a sharp increase over past years is called

for--even President Johnson's proposals may prove too little and too late, if the figures are not increased and if massive aid awaits termination of the war in Viet Nam--the amounts involved are miniscule in comparison with the costs of that war. A generous appraisal would not put total absorptive capacity of the region above $2 billion per year for the next five years. About half of this amount should come from domestic effort, leaving $1 billion per year in total aid. It would be hoped that the American contribution would not exceed fifty percent of the total; so we are talking about the modest sum of $500 million per year.

A Southeast Asia Development Authority

In designing institutions to deal with the special case of Southeast Asia, and particularly the special case of Indonesia, we are in the fortunate position of being able to draw upon several sets of pertinent experience. First--inevitably--one thinks of the Marshall Plan, in terms of scale, of provision for international collaboration while protecting national sovereignty, of efficiency of implementation, of control over use of funds. Second, there is the Organization of American States and the Alliance for Progress, with its original Committee of Nine, its Inter-American Development Bank and now its CIAP, providing for review of development programs by organizations representing the total membership, and providing a high-level secretariat recruited from all member countries to conduct studies and analyze plans. Through the Inter-American Development Bank, it also provides some degree of internationalization of financing. There is within Southeast Asia itself the Mekong River Project, providing for execution of a large-scale development project affecting five Southeast Asian countries, with a combination of

bilateral and multilateral financing, under the general supervision of a special organization associated with the Economic Commission for Asia and the Far East. Less well known but germane is the original Libyan Stabilization and Development Agency, established to meet a somewhat similar case of temporary inability of a developing country to meet its financial or its personnel problems, by providing for international capital and technical assistance within a special format, donor countries having a degree of control over allocation of funds roughly proportional to their share of the capital, without impinging on the basic sovereignty of Libya. Finally, there is within Indonesia itself the relative success of "turnkey projects" in which donor countries provide supervision and technical skills as well as capital, in contrast to the failure of foreign aid projects relying heavily on Indonesian domestic financing, administration, and technical personnel.

Requirements

If Southeast Asia (and Indonesia in particular) is to get on the move economically, and cease to be the world's ripest field for Chinese Communist propaganda and infiltration, several things are necessary.

1. A sound macroeconomic plan for stabilization and development, broken down into main sectors and regions, and also broken down into time periods, a 10 to 20 year perspective plan, a 3 to 5 year implementation program, and a 1 year stabilization program. The plan should include provision for reducing glaring regional gaps in productivity and income. It should suggest concrete and effective measures for checking inflation and attaining equilibrium in the balance of payments. Most of the countries in the region, including Indonesia, have within

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their borders the expertise needed to prepare such a plan. However, for various reasons the men with the right kind of training have been unable to acquire experience in the preparation and implementation of development plans. This statement applies with special force to Indonesia, where the political situation has been such as to keep the best qualified people under a shadow. It would be well to attach a small number of experienced development planners to the planning teams, in order to bring experience of other countries to bear, to add to the total manpower available for the task, and to increase the confidence of the donor countries and organizations in the plans and help induce them to provide the necessary capital and technical assistance to carry out the programs.

2. The implementation program must be broken down into a set of integrated projects, each one well designed in itself, and justified in a manner likely to attract foreign funds. Foreign technicians are likely to be needed to assist in the preparation of project proposals, and put them in a form that will make them "bankable."

3. There will have to be strict budgetary control. The only safe system would be one in which every payment would require the signature of a representative of the donors as well as of the government of the recipient country.

4. There will have to be expert technical supervision of the execution of the projects. The best device would probably be to have joint supervision of all projects, with responsibility shared between national and foreign technicians.

5. The program must include some projects of a kind that will bring immediate improvements in levels of living so as to assure popular support

for the program and stave off disruptive revolutions. Commodity surplus disposal can play an important role here, and will have the beneficial side-effect of helping to stem inflation. Not only food but also textiles should be made available. Urban housing also needs attention. Expansion of education and health facilities should also be considered.

Some of the bigger development projects will also have domonstration effects. The people of the Asahan Valley in Sumatra have been waiting for thirty years for the completion of the much-talked-of multi-purpose power project. There is something of the "cargo cult" in the attitudes toward this project, and its completion may transform the lives of the people less than they think; but there is not doubt that both the construction and the operation of the power plants and related facilities could bring significant changes in the lives of the people. (When the author visited the Asahan Valley in 1953 the Governor of the Province said, "if one more official mission comes to review the Asahan Project with nothing being done they are likely to be shot!") Much the same is true of the proposed Sumatra Highway and the Javanese iron and steel projects.

In the case of Indonesia, a complete tool kit must be ready for use all at once. Emergency aid to bring immediate improvements in living conditions is no doubt necessary; but such aid must be regarded merely as a device for providing a breathing spell during which really effective action can be prepared. Effective action will require one final currency reform, this time backed by monetary, fiscal, foreign trade, foreign exchange and foreign aid policies that will guarantee the maintenance of the value of the currency both at home and abroad. The Indonesian case is entirely different from the Brazilian one, where substantial real

economic growth took place despite inflation and the whole economy was geared to price increases in a rather systematic and effective fashion. There, concern for maintaining the productive apparatus and avoiding too traumatic a shock was justified; stabilization over three years was a sensible goal. But Indonesia has no economic system to shock by sudden stabilization; the modern sector is almost completely demoralized now and the traditional sector almost completely independent of monetary changes. The inflation is, moreover, much more violent and uncontrolled. There must be an effective perspective plan, broken down into a series of implementation programs of three to five years, and a firm development budget for the first year. There must be a combination of domestic and foreign financing that is clearly non-inflationary. There must be sweeping institutional reforms, especially in the banking system and in the management of plantations, mines, transport, etc. And all these measures should be introduced on the same day and rigorously adhered to thereafter. No occasion must be given for one more loss of confidence.

Organization

The essential features of any organization set up to carry out the program are that it should be international and that responsibility for planning, budgetary control, project preparation and supervision should be shared between the recipient and the donor countries. The organization could be set up within the framework of the United Nations, within the framework of OECD, or as a new international body (perhaps OVERSEA, for Organization for the Valorization and Economic Reconstruction of Southeast Asia, borrowing a latin language expression for general economic improvement and development). It would not matter too much which format was

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chosen, but the present writer's preference is for working with the UN. Through the years ECAFE has built up an enviable relationship with its member nations. ECAFE now enjoys the confidence of the member governments, has an excellent research staff, and has proved its ability to handle large projects through the success of the Mekong River Project. Since the United Nations has the broadest membership of all international organizations, it is less subject than any to accusations of "neo-imperialism" of a particular brand. The fact that the U.S.S.R. is a member, in this context, is an advantage even from the American point of view..

For illustrative purposes, then, let us suppose that OVERSEAS is set up as an adjunct of ECAFE. Nominally, the head of the organization would be the Secretary General of the United Nations, operating in this case through the Executive Secretary of ECAFE. The Executive Secretary would act as Chairman of the Board of Directors of OVEREA. Each donor country and each recipient country would have one Director, with voting power proportionate to the contribution to capital. Here it might be well to follow the LADB format, each member having so many votes as such, with additional votes for each share of capital subscribed, so as to dilute somewhat the power attached to subscriptions. There should be a limit to share in capital subscriptions, so that no country would havemore than (say) one third of the total votes. The recipients would make their subscriptions in local currency, the donors in foreign exchange, preferably in transferable funds. The Organization should be able to dispose of at least one billion dollars a year for at least five years, in grants, soft loans, commodity surplus disposal and technical assistance.

Below the Board of Directors would be a Secretariat headed by two

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Co-Directors, one representing donor countries and one representing recipient countries. These would have offices at ECAFE headquarters in Bangkok, would be able to draw upon the technicians on the ECAFE staff, and would have a small technical staff of its own. There would then be two Assistant Directors for each country, once again with one representing the recipient country and one representing the donors. These would have offices in the recipient country, perhaps in the Ministry of Planning or the Ministry of Finance, or in the office of the Prime Minister. The Assistant Directors for Indonesia, for example, might haveoffices with BAPENNAS, the Planning Agency, and would have a high-level staff of Indonesians and foreigners to do general planning. It would also have specialized technicians, provided by ILO, UNESCO, FAO, TAO, other UN agencies and bilateral programs to work with Indonesian counterparts on project-preparation. There would also be a staff, perhaps provided by OPEX, to work with Indonesian counterparts on accounting and budgetary control. Finally, there would be a supervisory staff to direct implementation of projects, with Indonesians and foreign Co-Supervisors for each major project.

At no point would funds be turned over to recipient governments as such; the funds would remain in possession of the Organization and would be dispensed by the Organization.

If the governments of the donor countries are unwilling to provide large-scale assistance in the form of subscriptions to capital of an Organization over which they will not have complete control, an alternative would be for each donor country and agency to select certain projects from the program and provide funds for those projects. However, in this case it would be well for the funds to be administered by the

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Organization to assure proper use of funds and effective supervision of execution of projects. The simple truth is that effective reconstruction and development of Southeast Asia requires a modicum of sacrifice of sovereignty to an international organization by donor and recipient countries alike.

Economic Integration

Within such a program, agreed specialization and programmed tariff reductions, perhaps leading ultimately to a Southeast Asian common market, could make some contribution to accelerated growth of the region--just as the European Common Market proved helpful after the Marshall Plan had been launched. But the contribution of more liberal intra-regional trade policy by itself, without a massive effort for reconstruction and development, is unlikely to be noticeable, and would probably be swamped in population growth.

Southeast Asian Development and World Peace

The implications of such a program go far beyond the economic development of Southeast Asia. By providing an example of Creative Co-existence, with the U.S.S.R. and the OECD countries co-operating in the common cause of bringing a more ample life to the people of Southeast Asia, the teeth will be drawn from the Chinese dragan. Once surrounded by prosperous and progressive nations, each with an economic, political, and social system of its own choosing and reflecting its own values, traditions, goals, and ambitions, with the enthusiastic support of Communist and non-Communist countries alike, China will find no market for its owr brand of Communism, and Chinese imperialism will encounter strong opposition from neighboring countries, in the future as in the past.

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Organization Chart for OVERSEAS

The Secretary General of the U.N.

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The Executive Secretary of ECAFE
Chairman of the Board of Directors

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The Board of Directors
(1 for each donor and each recipient country)

Co-Director for Donors

Co-Director for Recipients

Headquarters Staff

Assistant Director of Indonesia
(Indonesia)

Assistant Director of Indonesia
(Donor Countries)

Overall Plannings Staff

Budgetary Staff

Control and Accounting Staff

Project Preparation Staff

Supervisory Staff

(Ditto for other countries)

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