REALITIES OF SOUTHEAST ASIAN DEVELOPMENT

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Economists working on developing countries have all too often taken refuge from the difficulties of a global analysis of a particular economy by studying in depth one aspect or one industry. No doubt, this micro approach helps to preserve academic credentials untarnished, but it does little for, and is often positively harmful to, the teaching of development economics. It is, for a number of reasons, more difficult to teach the problems of growth in developing countries than for the mature industrial countries of the Atlantic economy. For one thing the economic literature available is meagre in quantity and not seldom dubious in quality. At best there will be a collection of essays on one single economy: each article compartmentalized and usually unrelated to the others or to a common theme. No region's post-war economic development is more poorly documented than that of Southeast Asia, and any book that attempts to provide a coherent analysis of the whole area must at least be welcomed for making an attempt. Such a volume has recently been published by Professor David Fryer: Emerging Southeast Asia: a Study in Growth and Stagnation.¹

The author was Senior Lecturer, later Reader, in Geography at the University of Malaya from 1961 to 1966, and he then moved to become Senior Economic Advisor to the Ministry of Overseas Development in the Wilson Administration. His Minister when he first arrived was Arthur Bottomley, and his book is at least an interesting indication of the workings of the mind of one Labour Government specialist appointment. Since 1968 he has been Professor of Geography at the University of Hawaii. Because he is primarily a geographer rather than an economist the book was almost bound to suffer certain limitations but this is not the main reason why it is so unsatisfactory. There are two general criticisms to be made at the outset: the first is Fryer's almost total lack of understanding of the processes by which economic, social and political developments act and react upon each other; and the second is the highly selective documentation of the economies of the area. The effect of the latter produces a notable imbalance in his analysis and allows him to insert ambiguities and misleading facts. There is, for instance, a heavy emphasis on Malaysia and Singapore, with a joint population of only twelve and a half
million, and this is justified by the argument that these two economies are the most prosperous in the whole region covered. But it can equally be argued that the economy with the greatest backwardness and most numerous obstacles to development deserves most attention. Throughout his discussion of the different economies, moreover, he consistently exaggerates mining and agriculture at the expense of the trading and industrial sectors. Thus, out of 71 pages on Indonesia, only five are devoted to non-mining secondary industry and three to trade. Some of the implications of this emphasis are discussed later, but here it can be pointed out that this type of approach is closely related to the author's political prejudices, set out clearly enough in the opening chapters. His concern is with the "dark shadow" and the "Chinese colossus" which must be prevented at all costs from falling on Southeast Asia. It is assumed that China is the source of all anti-western politics in the area, and implicitly suggested that the peasant masses of Southeast Asia are just so many rows of cabbages, incapable of responding to exploitative systems in the manner of Americans before 1776 or the occupied peoples of Europe during the second World War. This implicit suggestion is deeply insulting and quite untrue.

Professor Fryer's political naivety, which leads him into absurdly biased postures, is further illustrated by a truly remarkable argument concerning the nature of the power transfer in the post-war years. For the most part, he suggests, the peoples of this vast region show no great sense of personal attachment to the nation states that have been created since 1945. Why should they, since:

... the real architects of independence were the leaders of the socialist and organized labour movements in the respective imperial homelands, not the miniscule elites who directed the so-called national revolutions. Only the former possessed the will, the resources and the experience to create genuine mass movements; the appeal of the nationalists, in contrast, was always to the middle class, the intelligentsia and particularly the student population and to the other privileged groups—an appeal, moreover, usually made in uncompromising communal, not national, terms, and which left the great mass of the population largely unaffected.

Fryer footnotes this extraordinary statement by quoting Nirad Chaudhuri on the experience of India where "real resistance to foreign rule . . . was never the people but the country and its oppressive climate." Fryer certainly cannot be referring to Indonesia, Indochina and parts of Burma. The Philippines and Thailand did not evolve to effective independence on socialist and labour movements from any source; and it is absurd to imagine the leaders of Britain's organized labour movement telling the Singapore Chinese leaders what they should be wanting. On the other hand, the government of
Malaya was passed over peaceably to a network of Malayan aristocratic families presiding over the majority (fairly evenly divided between Malay and Chinese) who have been relatively prosperous since the second World War under the fortuitous world markets for rubber and tin. Compared with the bloody struggles for independence in Indonesia, Burma and Indo-China, Malaya virtually had independence thrust on her. It is tempting to believe Fryer sees the whole of Southeast Asia through the eyes of the expatriate in Malaya, which he was for several years. It is certainly difficult to see how Aneurin Bevan et al., created mass movements in the colonies, but much more pertinent is the fact that anybody who can so tragically underestimate the pre-independence role of men like Sukarno and Ho Chi Minh is bound to underestimate their role after independence. Disparate as the ethnic groups of Indonesia are, when the outer island; had the opportunity to make a run for it and secede from the Republic in 1965 they chose to stay together. Even Sukarno's harshest critics have marvelled at his ability to weld a nation out of such a conglomeration as that left behind by the Dutch. But it cost time, effort, and resources to lay down this essential pre-condition for development. Burma's historic ethnic struggles continue because of the absence of a truly national figure who can articulate the needs of all groups and find common ground amongst them. The earlier Buddhist-oriented government failed to win over the non-Buddhists while the present Army administration has its own vested interests. It is the great nationalists of the developing countries who have done the social engineering alone from which can spring new, truly independent, economies. It is not surprising, after all this, that there is nothing to be expected from communist economic experiments:

In heeding the communist siren-song, the peasant accomplishes his own downfall; the communists have no effective solution to agrarian evils, nor indeed do they offer any real prospect of marked improvement in the lot of the urban worker.

Again it is not clear what he is referring to. Perhaps the North Vietnamese peasantry supporting a huge war economy? It can hardly be the post-Fanshen Chinese peasant. He qualifies his observation by saying "It is true that under certain conditions communist governments have shown an ability to generate a high rate of economic growth". Where? What conditions? Why not in Southeast Asia?

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The geographical area which Fryer's book includes spans 3,300 miles latitudinally from the Burmese-Indian border to the jungle
frontier between Indonesian and Australian New Guinea, and 3,100 miles longitudinally from the northernmost part of Burma to the island of Timor, east of Java. It embraces a population of 270 millions, 117 millions of which are on the mainland of Southeast Asia. It is very likely the most culturally, politically and economically diverse area of its size in the world with the different combinations of pre-requisites for development that this must imply. Moreover, social and economic changes varied greatly amongst these countries in the years following their achievement of independence. With war in Indo-China effectively shattering the economies of South Vietnam, Laos, and now Cambodia, at the same time encouraging a tourist trade and certain peripheral manufactures in Bangkok, Manila, and Singapore to service a huge, high-spending American occupation force, part of the economic changes in the last five years must obviously be regarded, in some respects, as artificial.

Fryer claims that "examination of most economic criteria strongly suggests a division of Southeast Asia into two major economic units, Malaysia and Singapore, Thailand and the Philippines on the one hand, Burma, Indonesia and the Indo-China states on the other". The economic criteria he chooses are per capita income, rate of growth, and per capita foreign trade. There is no attempt to describe poverty and distributions of income and wealth; or to comment on the meaning of per capita gross national product statistics. For instance, Singapore (with the highest number of millionaires per head of population in the world) has a per capita gross national product ($US560) twice that of Malaysia ($280) and ten times that of Burma ($50). But it is quite clear that the ordinary Singaporeans do not enjoy anything like twice the standard of living of the Malaysians. Furthermore, looking at the life of the average Malaysian one might be forgiven for wondering how anyone could exist on less than one fifth of that purchasing power. The truth is that per capita product or income data tells us little about total welfare and overall development. The statistical collection of this information is heavily dependent upon what appears to be passing through the market, and what quantities of output are admitted by village leaders. It is no coincidence that there is an almost perfect rank correlation between official per capita gross national product statistics and degree of reliance of primary exports in predominantly peasant economies. While Burma is self-sufficient and Indonesia in good years substantially self-sufficient in food production, Malaysia has spent, until very recently, 20 per cent of her large export earnings on food imports. Moreover, there are parts of Burma and Indonesia which have only marginally entered the exchange economy, yet extrapolations of their presumed populations are included in per capita assessments. It is
apparent from the data Fryer supplies that near free market exchange rates have been utilized to calculate income in United States dollars. In countries with chronically over-valued currencies this is not the clever move so claimed by economists who want to see "what the free market cost of a thing is". The bulk of household purchases in these self-sufficient rural economies has nothing to do with what is occurring in the foreign trade sector, and the labour effort expended on the actual acquisition of such articles bears no relation to the labour effort that would be required to purchase the dollars with which a "free market" economist would have equated them. Finally, if the end product of economic activity is to incorporate notions of welfare it must be pointed out that poverty and unemployment is considered by travellers to be the most shocking in the Philippines, which happens to be high up in the per capita product league, and has had the fastest rate of "growth" of any country in this area since the second World War. The peasantry in the Philippines have a record of rebellion which should not require elaboration. The average standard of living of any mass of people in this area is very likely highest in Malaysia and lowest in central parts of Java (alone containing seven times the population of Malaysia). The ranking of real incomes between these extremes must remain highly speculative.

Fryer's second economic criterion is the rate of growth. Apart from the statistical limitations already mentioned there are conceptual factors which must be of central concern to development economists. If there is one clear distinguishing feature of Burma and Indonesia it is that these two countries have experienced the first stage of a revolution and its accompanying social mobility. To the new leaderships, unlike those of Singapore, Malaysia, Thailand and the Philippines, the ultimate goal was the removal of an exploitative system, not merely the exodus of its white-skinned high priests. The process of re-allocating resources under government control (administrative talent, bank credit, and professional personnel) involves an economic effort and cost which cannot be entered statistically. The benefits following from these changes cannot easily, or indeed meaningfully, be monetized. It can be strongly argued that these changes are as significant to "development" (and certainly to "welfare") as is the expansion of exports through a social structure which affects a low export multiplier, or at best a stock of foreign exchange reserves which the government dare not use for fear of the liberalizing consequences. This is no idle debate. More and more development economists are expressing concern that there is a positive correlation between statistically expressed growth rates and observable poverty amongst developing countries: that polarity of income and wealth increases with "growth" due to the greater concentration of the economy's
resources in the hands of a few. The Philippines and Thailand are assuredly contributing to this correlation and Malaysia has recently exhibited a similar trend although she started from a more favourable standard of living.

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It is however with Fryer's third economic criterion, per capita foreign trade, that ambiguities and false hopes abound. It is one thing to believe that "trade is an engine of growth" and quite another to believe that trade, as structured by the colonial past, is an engine of growth. Because this book is based on the theme of the desirability of exploiting traditional exports it is worthwhile examining the colonial legacy in these countries with reference to this point.

Southeast Asia has been a leading supplier of industrial raw materials, chiefly rubber and tin, for a long time and is now hastily developing its oil and other mineral resources. But the dependence on foreign trade is far from uniform. Malaysia exports 47 per cent of her gross national product, Indonesia 11 per cent, the Philippines 14 per cent, Thailand 20 per cent, and Burma around 10 per cent. Both Malaysia and Indonesia are big exporters of rubber and tin, but whereas these exports amounted to 32 per cent of the former's gross national product (in 1968), they accounted for less than 4 per cent of the latter's (in 1967). Malaysia's economic fortunes, therefore, closely follow world prices of tin and rubber, which provide 26 per cent and 42 per cent, respectively, of total export earnings. Because of the very sharp rise in world prices in 1950 for example Malaya's gross national product stood 70 per cent higher than in 1949. For every one cent fall per pound of rubber, there is a fall of $US 22.4 per ton. Thus Malaysia "lost" $1,800 million between 1962 and 1968 due to a fall in the price of rubber. Due to the nature of the ownership of much of the rubber and tin industries and of the exporting agencies the export multiplier is small. European estates still control 50 per cent of rubber output and the big agency houses exert a very strong influence on the development of the rubber industry. The Chamber of Mines also includes a powerful expatriate lobby and has an expatriate president. The repatriation of profits of these foreign investors and a high marginal propensity to import constitute leakages which effect a low export multiplier, so that the advantages (and disadvantages) of windfall profits and losses are less than one might otherwise suppose. Nevertheless, if established trading patterns are to be used as an engine of growth these leakages must be deducted from profits before the benefit to the economy can be estimated.

Indonesia's exports on the other hand, are more diversified, and
their share of gross national product has fallen markedly from the pre-war level of 35 per cent in 1939, to about 11 per cent in the erratic 1960s. The overcrowded island of Java with 65 per cent of the country's population is the rice granary of the nation as well as being a producer of tea and coffee. At the turn of the century surveys showed that the policies of forced cultivation and unbridled laissez-faire had caused extreme rural poverty. The Dutch colonial administration's half-hearted attempts to rectify this through the introduction of small scale industry provided independent Indonesia with an established small and medium scale secondary industry with a comparatively high potential productivity. For instance, the cottage weaving loom introduced in 1926 had seven times the productivity of the previous loom which is still widely used in Malaysia. (The output of small scale industry in Indonesia is not covered by official statistical services). But the enormous profits from exports could not be utilized for anything resembling adequate diversification of the economy because they were in private, and predominantly western, hands. Moreover, the powerful Dutch manufacturing lobby argued successfully that little could be manufactured in Indonesia which could not be produced more cheaply by mechanized industry in the Netherlands. The lobby found an ally in the governor-general of the then Dutch East Indies who claimed that western capital and knowledge did not suit the abilities of the Indies' people. Thus the proponents of diversification failed and population pressure on land grew in Java. The larger island of Sumatra which began producing and exporting raw materials in the 1920s, carries 16 per cent of the population but now earns around 73 per cent of the country's foreign exchange. Any drive to expand exports would require Sumatran cooperation and generosity towards Java. These deep demographic and economic imbalances inherited from the colonial era naturally parallel the political imbalances. The army rebellions in Sumatra in 1956 and 1957, together with the increasingly apparent constraints on economic independence imposed by the role of the western commercial banks and western dominance of the export trade, ushered in the period of the ill-thought-out "Guided Democracy".

The Philippines share few of the economic characteristics of other Southeast Asian countries. Its agricultural sector is on a more diversified cash crop basis and is controlled by large Philippine landowners in the style of the Latin American haciendas. The Laurel Langley agreement, due to expire finally in 1974, gives the Philippines certain commodity privileges in the American market. This, together with American expenditure in the Philippines, a very elastic supply of cheap labour, and a regressive taxation system favouring profits, has encouraged a fast rate of industrial growth about double
that of primary production increase. With an overseas market secured, profits could be re-invested in the country itself rather than exported abroad. The termination of the Laurel Langley agreement might prove a watershed for Philippine development but so far her economic experience has been atypical of Southeast Asia.

Both Thailand and Burma have been long-standing rice exporters through the influence of British commercial policy. Although Thailand was never a colony in name, its money supply, tax revenue, and choice of exports were effectively under British control. The story of Burma's economy has been, until recently, the story of Burma's rice production. Fryer gives the impression that the market forces encouraging rice production are of the same nature and strength now as in the late nineteenth century. He compares the long pre-war market forces with the results of post-war "socialist" alternatives; but he neglects to point out that long before independence the rich lowland areas were used up and rice growing was being extended to marginal land in the highlands. The desperate indebtedness of the lowland peasantry reflected a situation of agricultural involution, whereas the Thai rice industry had not pressed its land and credit-worthiness resources so intensively. The economic position of the pre-war Burmese peasant would not resemble a situation of strong market incentives recognizable by any economist. Elsewhere Fryer admits this himself:

It (the land tenancy problem) burst on the country with great swiftness; still of modest proportions by 1930, in the ensuing decade it was to become a flaming issue and a powerful stimulant to militant nationalism.

He adds that this tenancy problem was peculiar to the heavy rice areas. His description is as powerful as any I have seen but it is his inability to relate it to post-war events which makes his story disjointed and unsatisfying. Like Indonesia, Burma fought a physical struggle for independence which brought with it a degree of social mobility as well as a search for an independent economy. Even so, initially she attempted to industrialize on the proceeds of exploiting rice production. The plan was over-ambitious and the administration inexperienced. But statistics show that the intensified rice effort partly stumbled on the declining world price of rice. Since 1956 Burma has increasingly withdrawn from world market opportunities and its governments have been preoccupied with a reallocation of resources as well as with non-economic goals. The states of former French Indo-China have suffered continuous turmoil since the second World War, and with the exception of Cambodia's French-owned rubber industry (partly flattened by American tanks in 1970 and partly held to ransom by the South Vietnamese general Do Cao Tri, killed in a
helicopter accident in 1971), there has been a general trend back to rural self-sufficiency whenever physically possible.

Fryer borrows his economic philosophy for this book from Hla Myint's article "The Inward and Outward Looking Countries of Southeast Asia" and it is as well to examine the premises of such a division. Myint is a Burmese economist-in-exile at the London School of Economics. He is naturally emotionally involved in the development of his own country and is very much alive to the bungling and schizophrenic economics of both U Nu and General Ne Win. Myint's natural conservatism as well as his economic training have led him to fall back on the orthodox solution of the private incentive system and the exploitation of existing lines of production. He states at the beginning of his article that all countries of Southeast Asia desire to reduce their dependence on agriculture and foreign enterprise. But he does not indicate at all what priority this desire is accorded by the governments of these countries, or what personal effort the elites of these countries ought to be prepared to make to achieve them. He never makes it clear, for instance, that the indigenous elite of Malaysia, Thailand and the Philippines have largely appropriated the vested interests, directly or indirectly, of western businesses, and that unless new directives are enforced nothing much will change because what is profitable for foreign private enterprise will, in most cases, be profitable for national private enterprise. The idle desire for national economic development is thus circumscribed by personal greed.

Myint argues that the outward-looking countries of Malaysia, Singapore, the Philippines and Thailand, see a way to economic diversification and independence in expanding output of exports, rather than by attempting industrialization in a stagnant situation. He believes that since Burma and Indonesia chose the inward-looking approach they are behind the other countries. This is a dangerously superficial thesis as actual performance depends heavily on the fortuitous progress of export commodities on the world market. It is too readily assumed that the colonial economic system allocated resources in some "optimal" manner. To the extent that the colonies were a cheap supply arm of the metropolitan economy, one might say that resources throughout the colonial empire were optimalized according to the profit maximization goal of the capital-owning class in Europe. But if the boundaries of the empires were altered, or if the empires were to exchange European "mother economies", the existing allocation of resources in the colonies (and indeed in the mother economies too) could no longer be considered optimal according to the above-
mentioned goal. Thus the distribution of resources in developing countries at the time of independence was not governed by some absolute economic law: it had been determined by politically and militarily won overseas markets and by the way big European oligopolies had internalized their rates of return over a variety of commodities and colonial states.

The much-vaunted comparative advantages theory, a major prop in Myint's argument, must be seen in this light. There were no such things as international price ratios determining the allocation of resources in a colonial economy, except only after huge market imperfections and political privileges had played themselves out. The price relatives facing primary producers after a measure of effective economic independence were bound to be different, and the size of the difference would depend on the ability of the new sovereign government to realize the international market price ratios, as well as on the extent of original market imperfections. This may, or may not have re-enforced the pattern of production established under colonialism.

But let us suppose that the reduction of world market imperfections on achieving independence led to the strengthening of traditional exports according to the goal of maximizing current earnings. There are several points of crucial importance to future development still to be made.

First, the stock of all economic resources is not fully utilized in the ex-colonial economy. Unexploited minerals and excess labour are two resources most commonly discussed. But the factor of indigenous entrepreneurial ability was also seriously under-utilized in the colonial period when privileges and monopolistic practices of foreigners flourished. (Since the advent of colonial regimes invariably meant the destruction of petty trade and commerce it can even be said that colonialism had the effect of reducing the stock of this economic resource.) Because of the monopolistic nature of colonial economic activities, the structure of the economy at the time of independence rarely allowed for the full utilization of this entrepreneurial ability. Moreover, never having been exercised in modern large business this latent ability cannot successfully be utilized in such establishments without some experience. On the other hand, were incentives to be created in new agricultural or manufacturing activities this previously unused resource might contribute to an enlarged national income with only a moderate allocation of accompanying factors of production. Simply by creating new incentives, in effect the government can appear to increase the stock of economic resources. But while the colonial pattern of production is maintained, especially under the supervision and management of commercial banks and foreign trading houses, the effective demand for the nation's true stock of realizable resources will remain below the level of their full employment.
preneurial resources need not be released only through a re-direction of physical resources. Altering the socio-economic parameters in agriculture through land reform can bring about a new pattern of incentives conducive to immediate growth. The possibility might also be considered that even if the re-directing of incentives is at the cost of a temporary loss of output, it is worthwhile if the newly employed entrepreneurial factor generates greater output than was lost.

It is desirable that the new opportunities are socially and culturally in sympathy with the existing way of life of the participants. The attempt in Indonesia to create an indigenous group of producers and traders through the granting of lavish credit and importing privileges to ex-soldiers and nationalists failed mainly because of the social and cultural dis-orientation of the participants, many of whom came from peasant backgrounds. The neglect of entrepreneurship as a valuable economic resource has been partly due to the mesmerization of the disciples of comparative cost theory with visible and concrete resources. But it is also due to the practice of regarding entrepreneurship only in its exceptional Schumpeterian sense. It does, in fact, pervade society at all levels.

Second, comparative advantages theory provides no guarantee of an adequate income in the future. If comparative advantages are to be related at all to reality they must be assessed in the light of the possibility of population and labour force out-running the expansion of other resources, and of the decline in the relative price of labour-intensive commodities.

As the population increase is faster in developing countries than elsewhere, factor proportions are likely to re-enforce the comparative advantages of labour-intensive production, assuming the wage rate can fall. At the same time, given trends in income and price elasticities of demand for manufactures and primary products, price relatives are likely to move such that a greater amount of labour effort will be required to purchase the same imports in a typical developing country. Thus it cannot be definitely concluded that reliance on comparative advantages will facilitate a reproduction of the labour force of the same physical quality. If such a situation could be predicted, clearly it would be easier to take remedial action sooner than later. Although the short-run income from exploiting traditional exports might be greater than the short-run income from diversifying the economy, the total discounted cost of diversifying immediately might be less than the total cost of diversifying later when population pressure has caused various diseconomies. Myint of course would argue that greater short-run income means more financial resources to ease the process of change. That this does not automatically follow is discussed later.
Further, there is irony in Myint's proposal that Southeast Asian countries should industrialize on the continued expansion of established exports because it was his own country, Burma, which attempted to do just that in the 1950s. Burma increased the volume of her rice exports, which accounted for 70 per cent of total exports, to a peak in 1956 and maintained them at a high level for the remaining 1950s. But the terms of trade moved so sharply against her that although her real exports increased by almost 40 per cent between 1952-54 and 1959-61, her capacity to import was the same at the end of the period as at the beginning. In spite of the much greater export effort the share of exports in gross national product fell from 26 per cent to 18 per cent. She was unable to maintain the burst of industrialization that occurred before 1956 because her planners had assumed, at the very least, a constant world price for rice. It is little wonder that her government never attempted an export drive again. Thailand by contrast continued with rice export promotion and she was thus able to enjoy the unpredictable price increases of the early 1960s. But Thailand is in a dangerous position now due to the attempts of Malaysia and Indonesia to gain self-sufficiency in the next few years through irrigation projects and higher yielding seeds. (Malaysia became self-sufficient in rice for the first time in 1970.) Should Thailand's rice trade be decimated while her industrial investment is being concentrated in Bangkok and its environs, her government will have to devise a new growth strategy if it wishes to retain the loyalties of its peasants, especially those in the northeast who, according to Fryer, supply about 40 per cent of Thailand's rice. Recently the price of rice has fallen and the share of rice exports in Thailand's total exports declined from 33 per cent in 1967 to 20 per cent in 1969.

Malaysia has been fortunate so far with the price of rubber and tin. But synthetic rubber output has been rising rapidly from the levels of 1939, and it is expected that by 1970 67 per cent of the world's rubber output will be from synthetics. Already 70 per cent of synthetic rubber is consumed in technologically advanced America and other industrialized countries will undoubtedly follow this trend. However, total demand for rubber since the second World War has been so strong that synthetic production did not cause a clear long-term decline in prices in the 1950s. On the contrary over that period Malaya's rubber exports increased 8 per cent in volume but 187 per cent in value. Nevertheless, the price slipped steadily in the 1960s from 25.13 cents per pound in 1962 to 17.41 cents per pound in 1968, although it rose again in 1969 and 1970.

If western Europe turns strongly to synthetics, the Soviet Union, which has greatly increased its purchases of Malaysian rubber, could
find itself (perhaps with China) in an oligopsonistic position. This is likely to lead to a fall in price, and with the threat of going synthetic herself, Russia will be able to wield some power over Malaysia. It is believed that already her bargaining power is such that she was able to extract silence from Malaysia (otherwise a very anti-communist country) over the Czechoslovakian issue.\textsuperscript{13}

The third objection to Myint's strategy of development through promotion of traditional exports is the uncertainty about the magnitude of the opportunity cost involved in expanding primary production to finance later industrialization. Before the advent of high-yielding rice seeds agricultural productivity was notoriously difficult to improve, while land extension and reclamation was always very expensive. If the terms of trade are moving against agricultural produce this can be interpreted as meaning that the cost of such investment must be discounted over fewer years than otherwise. When the traditional primary export is rubber the risk attached to further investment is greater because rubber trees take about seven years to mature. Thus if the further exploitation of exports depends on new investment with a long gestation period uncertainty about future profitability must lower the value of such investment relative to its opportunity cost. Malaysia was lucky with rubber. Thailand would be foolish to invest in expensive irrigation projects to increase her capacity to export rice when her customary clients are moving towards the use of higher-yielding seeds. Also, should the policy of primary export promotion be seen to have failed in accumulating savings in (say) 10 years the economy does not simply return to its base position to attempt industrialization. Over the 10 year period the population would have risen, and urbanization would probably have presented external diseconomies which public expenditure is obliged to eliminate or alleviate. Investment of a fixed sum in industry at the earlier date would have "gone further" than at the later date; or the opportunity cost of investing in primary export will be greater at the earlier period than at the later one. To have been successful the primary export promotion drive must have returned, at least, the difference between the costs of industrialization at the earlier and later dates, and the latter will include the costs of rising expectations, social frustrations and urban demands.

Finally, there remains the problem of effecting the changes involved in moving from primary export promotion to industrialization. Myint says nothing to indicate the manner in which this might be done, and Fryer scarcely recognizes the issue. The timing of this far-reaching change must be determined in part, at least, by speculation. Even supposing econometricians can extrapolate patterns and trends in final demand given the full range of propensities, it is anybody's guess as
to when further laboratory discoveries completely supplant rubber, tin, natural fibres, and so on. All this makes future demand for natural industrial raw materials highly unpredictable. But even more difficult than the question of when to make the change is the means with which to facilitate it. Malaysia is the outstanding example of this problem, but the other South-east Asian countries face this problem also. Myint believes in the importance of financial incentives to the private sector, whether national or foreign, in order to obtain foreign exchange. He blames the lack of incentives for the failure to promote growth in Indonesia and Burma because these two countries were obsessed with fear of a foreign stranglehold. Since the production and/or trade of main primary exports is still largely controlled by western companies, each operating in several countries, the export promotion drive inevitably has to assure foreign enterprise of at least a degree of future security; unless nationalization is to be contemplated. Foreign enterprises in this field operate through the internationally-based "foreign commercial banks" which are traditionally concerned with short and medium term loans. These banks control a large share of the total banking system. In Malaysia, for instance, they dominate private deposits, and in 1969 they had reserves and net foreign assets in their own vaults amounting to $US 105 million. In addition through the recent introduction of measures involving depositing part of their liquid reserves with the Central Bank their claims on the Central Bank have increased to almost half of international liquid reserves (including IMF drawing rights) under the control of the monetary authorities in Malaysia. The large amount of convertible reserves these banks hold is partly due to the fact that Malaysia had so far been a "safe deposit box" for the banks' liquid reserves in this part of the world. Up till now Malaysia's currency has been more than 100 per cent backed by reserves (although by law only an 80 per cent backing is required). Petrified by the example of monetary inflation in next door Indonesia, Malaysia has used her strong foreign exchange reserves to attract foreign investment into industry rather than spend them directly on industrial investment. Were the government to urge the commercial banks to invest long term in industry it would require a radical policy change at overseas headquarters which face greater considerations than that of simply adapting to the changing plans of the Malaysian government. Were the government to order a certain percentage of reserves to be used for industrial investment this would be seen as the beginning of "socialism", and there would be a reduction of international reserves held in the country. This would affect the attractiveness of investment in Malaysia to foreigners and so force a further radicalization of investment directives.

In the event Malaysia has given the appearance of having over-
come this constraint. The commercial banks have invested in the private industrial sector, principally that part foreign-owned. Indeed the external assets of Malaysian branches of the commercial banks went into the red in 1967-68 as a result of overseas headquarters lending to them. The cause of this lies in the pioneer industries programme of the 1960s which provided tax and tariff incentives to foreign investors. This means that the industrialization programme must be determined by what is profitable to the international firm and to the less important domestic firm. A great deal of the foreign investment which took place was designed to guarantee markets of consumer goods in Malaysia previously supplied from overseas. But such investment is always in danger of reaching saturation point and does not constitute a co-ordinated industrial plan. Moreover, it is nonsense to suggest that this must coincide with the long run maximization goals of the country. Since 1967 Malaysia has operated an active discriminatory tariff protection policy which has increased her power of choice, but there will always remain the need for industries which in themselves are not highly profitable but which provide all sorts of external economies to other industries. Furthermore, foreign enterprise tends to be capital-intensive, and the government is becoming increasingly concerned with unemployment. But a programme of public industrial investment would involve using foreign exchange reserves and this is easily interpreted as the beginning of the inflationary process.

Yet certain alterations in financial institutions and their criteria for lending are necessary for an industrialization programme over which the government can exert proper choice and control. The returns to industrial investment are slow in coming, and the present banking structure and the rampant laissez-faire of quick profits from traditional exports, advocated by Myint and Fryer, cannot accommodate them. Thus the system which encourages maximization of returns from the existing pattern of production militates strongly against these dividends being used for the more viable development of the country. Malaysia is now in a position of having to openly declare, through enacting new legislation, a rejection of the rigid colonial monetary policy and financial structure. In the eyes of foreign bankers and investors this will be seen as a radical step. In the end, of course, Myint and Fryer do not believe that use of comparative advantages can be of more than temporary benefit, but neither is sufficiently tough-minded to point out the factors which rule out even its temporary benefit to some countries as well as the problems of gravitating towards new political and financial institutions and a new set of incentives to industrialize.
Fryer is most useful when discussing the sources of relative economic advantages and disadvantages of estate and smallholder agricultural production. He explains convincingly that the organizational and technical supervision of the powerful European agency houses, which dominate estate rubber in Malaysia, produce returns internal to the industry higher than those in the smallholder rubber industry. To one who believes that a developing country's best chance of expansion is through maximizing traditional export sales this is, of course, further proof of the valuable contribution of large scale European-owned production.

Clearly with lower costs a re-investible surplus is maximized. But the argument ignores the weaker multiplier effects of low wage-cost industries in general. This may not be true of the Malaysian rubber industry in the past where wages have been comparatively high; but there is a danger in the introduction of higher productivity agriculture of weaker employment and income generating forces which lower even further the profitability of import-replacing investment. It is worthwhile restating the point with an example of outstanding productivity improvements which may well prove anti-development. The introduction of "miracle" rice seeds requires higher factor costs per acre and therefore more working capital. To an already indebted peasantry with poor credit-worthiness, the risks of implementing the innovation are greater than for the bigger farmer or landowner, especially since greater output means a lower product price. Apart from the violence this has already caused in India and Java, the loss of income and employment is bound to affect mass demand and hence the profitability of manufacturing investment. The Director-General of the Food and Agricultural Organization at the 1970 World Food Congress pointed out that it was no good spending precious resources on increasing rice yields by modern applications unless mass purchasing power rose at the same time. This may be an exceptional example but it illustrates well enough the thesis that low cost, highly saleable, production does not necessarily contribute much to a dynamic economy unless it provides external economies through greater mass purchasing power to potential industries: having won the re-investible surplus the problem remains what to do with it.

The conflict between the introduction of improved agricultural technology and the maintenance of income of the masses can be largely resolved by the use of co-operatives. Fryer diagnoses correctly the failure of the co-operatives in Southeast Asia to provide, as cheaply, the services of the traditional middle-men, only one of whose services was money-lending. But he exhibits confusion over the solution. He believes the failure was due to the absence of "a determined and enlightened aristocracy or intelligentsia" and that exploitation by the
middle-men was superseded by exploitation by the state marketing agency. And then he writes:

Co-operatives will work in Southeast Asia so long as they are firmly controlled and supervised from above; but once the hand of government is removed interest among members speedily declines . . .

This implies that there is a reserve of honest administrators at a level above that of the state marketing agency; or else he is conjuring up mythical new governments to supplant the present ones. In fact, unwittingly, he has put the case squarely for a cultural revolution; but so long as he ignores the peasants themselves and thinks in terms of "aristocracy" and "intelligentsia" he will never be able to see this. He clearly has no understanding of the possibility of organizational resources being released through democratization of the co-operatives.

Curiously—at one point Fryer slips in a discussion on incentives in China's communes. He is correct in pointing out that after the dislocations in agriculture due to the Great Leap Forward Chinese peasants were given plots for vegetable and protein products which they could sell fairly freely at commune "fairs". But he is wrong in assuming that private plots did not exist before the communization process started in 1956. Indeed they even existed in some form during the period 1956 to 1962. Peasants' private plots were, for instance, liable to tax under the 1958 agricultural taxation regulations. This economic liberalism did not affect cereals, and they were marginal in as much as the plots were to be tended after hours. It was, on the whole, highly successful, and travellers in the early 1960s remarked upon the plentiful supply of pork and fowl in the towns. The well run and supervised fairs provided better incentives to these peasants than the desperate indebtedness in the "free" market peasant economies in the non-communist Third World towards which Fryer is so ambivalent. It is generally accepted by development economists that the windfall gains (and losses) of the free market do not provide as strong incentives to tenant and indebted cultivators as the chance of a guaranteed, decent existence. In the event economic administration in China proved flexible and adaptable.

The conflict between employment and mass income on the one hand, and greater productivity on the other, extends into the secondary sector, and with urban unemployment reaching "flashpoint" levels, politicians are increasingly concerned with finding some employment for the people, especially those of indigenous racial origin. Frequently this conflict manifests itself in a policy which pendulates between capital-intensive and labour-intensive investment, with a total disregard for the influence of neo-classical economic principles on long-term investment. Fryer is clearly lacking in sensitivity for this
problem and upbraids ambivalent nationalist politicians who are allegedly demanding both a modern industrial society and a traditional cottage based industry. He stubbornly concludes:

Industries that have to depend on an illiterate labour force, and that can only survive in areas where incomes per head are markedly below the national average can hardly claim to be worthy of preservation.

If one were to start with the premise that what is most worthy of preservation is the labour force (literate or illiterate) it might be possible to avoid clouding the issue of development with such a pompous and misleading conclusion. The question of feasible alternatives remains. Economists are beginning to doubt whether the introduction of large scale mechanized industry will create the modern economy as they wish to see it. The pioneer industries and incentives schemes of Thailand, the Philippines, Malaysia and Singapore have attracted capital-intensive foreign investment which has fallen behind expectations on employment creation. Much of this investment is "once and for all" in that it manufactures goods for the same company which once supplied them from overseas. Unless the market expands there will be no new investment later on. If the method of production is capital-intensive, or as in the case of textiles and bricks even labour-displacing, the overall employment and income increase will be disappointing. In Singapore an 8.8 per cent growth rate of gross national product will provide a 2.2 per cent growth of total employment on the basis of recent experience, and this will just hold the line on the existing high levels of unemployment. But it is doubtful whether Singapore can maintain this rate of overall expansion. As a result there is talk of establishing a new industrial estate with less capital-intensive industry. A month after the May 1969 riot in West Malaysia the Malaysian government set up a capital investment committee to speed up investments which were likely to be more employment creating. If the region as a whole is to reap the benefits of external economies from the new industries, instead of allowing foreign investors to maximize their own monetary returns, governments might have to place technological constraints on foreign investment.

There is scope for the application of intermediate technology and although it is only now becoming fashionable, at the beginning of the United Nations' Second Development Decade, it was practised before the war by the Dutch East Indies government and was the economic thinking behind the Economic Urgency Programme, the Mechanization of Small Scale Industries Programme and the Five Year Plan (1956-1960) in Indonesia. Fryer is wrong when he says that even the 200 year-old flying shuttle is absent in the great majority of domestic weaving looms in the region. This "improvement" be-
came obsolete in Indonesia in 1926 with a loom, constructed in Bandung, which had seven times the productivity of the former loom. There are now thought to be over a quarter of a million of these looms in Indonesia. There are also 30,000 power looms with about 26 times the productivity of the "improvement" (or 52 times if two shifts are undertaken). The extensive modern textile industry in the Philippines was built up since 1945 through strong protection.

The author is weakest when discussing the industrialization that has occurred because his book is written around his knowledge of agriculture and mining. But even in the little he says there are misleading statements.

The Philippines is the most industrially advanced country of Southeast Asia and has witnessed a very rapid industrial growth since 1950, yet out of a total of 40 pages devoted to this country, 20 are given to the agricultural sector, 2 to mining and services industries, and 2 to manufacturing. The reader is told where manufacturing is located and given a highly dubious statistic on manufacturing employment. But there is no discussion on why certain industries were established, their rate of development, and their chances of long term viability since the Laurel Langley agreement, giving reciprocal privileges in each other's market to Philippine and American businessmen, ends in 1974. Indeed the Act is not even given a mention. For a book which draws fast conclusions on the difference between growth and stagnation this is a very serious omission.

Unfortunately Fryer does not provide data on the progress of Malaysian industrialization. Since his information is already several years old and he is talking in general terms only, he has neglected to describe the path of Malaysia's industrial expansion. This has allowed him to conclude that the construction industry does not marginally affect the manufacturing situation when in fact in 1968 it contributed over a quarter of the total industrial output. Cement output increased 250 per cent between 1960 and 1968 largely due to the residential and tertiary industrial expansion. From 1968 there have been signs that the construction industry has reached a saturation point and might even be in decline.

Fryer is right to be cautious over Singapore's industrial achievements. Manufacturing has been expanding rapidly (at 18 per cent per annum), but there are disturbing signs of over-investment in some industries. One estimate puts capacity utilization of pioneer industries in 1969 at less than 50 per cent. Fryer points out that Singapore's export-oriented manufacturing requires wages to be held constant.
while wages in Hong Kong and Japan are rising. But there is a very interesting side issue involved here. He gives clear warning about Japanese investment in Southeast Asian manufacturing increasing at such a rate that even conservative-minded governments are showing concern. He explains in no uncertain terms that Japan is safeguarding her economic miracle against the inevitable rise in her own wages by establishing consumer goods industries in Southeast Asia, which will then provide a permanent market for Japan's sophisticated machinery and capital goods industries.

In many ways such a policy makes good economic sense; but Japan's apparent determination to reserve for itself the capital-intensive complex industries and to foist off on neighbouring Asian countries the simple manufacturing in which Japan itself is increasingly uncompetitive, and yet to retain control of such industries, is beginning to cause apprehension.

This apprehension is likely to increase with time but will very likely remain ineffective. Japan is simply exporting her surplus capital because the rate of profit is declining at home with rising costs. Her balance of payments surplus is still growing and the re-investment of this surplus at home would be expected to strengthen wage demands.

After his introductory politics Fryer is expectedly hard on Sukarno's Indonesia. Much of what he says is true and well known, but there are some serious errors of fact. He is all too aware, being an economic geographer, that the run down of the estates meant consuming capital. But capital of a new kind was being laid down in other sectors. Large and small scale industry was growing throughout the 1950's. In the past western economists frequently recognized the existence of Indonesia's secondary industry only in reference to its under-utilization. This is partly due to the fact that much of it is in establishments employing less than 10 workers and is thus not covered by official statistics. However, by 1965, due to some years of mismanagement of the economy, under-utilization was so great that the country's industrial capacity, in all sizes of establishments, was probably realized. One of the effects of this past state of ignorance has been to lead commentators to confuse capacity with output. (Indonesia's weaving industry was operating at about 10 per cent of capacity in 1964 and 1965.) Fryer writes that the targets for 160,000 spindles and 120 million metres of cloth were not met. By 1960, 123,600 spindles were installed, by 1964 213,000 and by 1969 480,000. He records a total of 200,000 improved handlooms; whereas there are more than a quarter of a million. The capacity of the power loom industry in 1960 was 272 million metres and that of the improved handloom industry 220 million metres. Today the combined capacity output is about
890 million metres. Even with the lower capacity Fryer has doubts whether its use would not impose heavy burdens on the consumer since domestically produced cloth cannot compete with imports. Maybe, with those who have purchasing power; but until the Indonesian labour force is employed (on whatever capital there exists) the issue is hardly likely to be tested. Having spent years trying to assess how much of the Indonesian textile industry would be competitive with foreign textiles, given "realistic" exchange rates, and having had to give away the exercise, one can only be astonished at this bland statement. There is no doubt in my mind that the large Chinese-owned integrated establishments could compete with Japanese textiles if adequate and regular supplies of raw materials were available and the exchange rates resembled reality. It is then simply a matter of estimating a suitable tariff level to protect the next (say) 30 per cent most efficient manufacturers; and so on. In the world there are not many national textile industries that can compete with Japanese textiles without some protection.

Fryer is wrong when he says that in the decade after 1956 no serious attempt was made in Indonesia to grapple with major structural defects in the economy. The monetary reform of 1959 had widespread consequences while the allocation of foreign exchange for essential imports provided the textile industry with one of its most prosperous periods in 1960 and 1961. Fryer states that the acute balance of payments crises and periodic suspensions of all imports had disastrous consequences for manufacturing industries and that then the final folly was the confrontation of Malaysia. But confrontation began in September 1963. It is a thoroughly misleading implication. Apart from confrontation and later disturbances the only disastrous periods suffered by Indonesian manufacturers were during the adoption of the western prescription for all evils—credit restriction. There was never a suspension of all imports before mid 1965 and Indonesian manufacturers enjoyed their best years during import restrictions which were specifically designed to protect them.

As for the issue of runaway inflation there is little agreement that hyperinflation has occurred in Indonesia, at least until 1965, if what is meant by hyperinflation is anything resembling Cagan's definition. If Fryer is referring to Professor H. W. Arndt's article in the Bulletin of Indonesian Economic Studies, it ought to be pointed out that the merits of this article are debatable, and that the article was statistically fallacious in parts of its analysis. For those who are still wondering why the Indonesian economy did not collapse during years of inflation the answer is simple: inflation did not operate against all sectors at the same time until 1965 when imports of industrial materials simply stopped. Because of the compensating measures that were introduced
some industries enjoyed their highest profits during inflation, and their fastest capacity expansion soon afterwards.

It is difficult, as Fryer admits, to comment meaningfully on economic changes in Indo-China. There have been complete reversals of foreign trade patterns of these countries and American economic aid has been enormous. United States economic aid to South Vietnam amounted to a total of $442 million between 1955 and 1960, and then increased to a maximum in 1966 alone of $706 million; or about $44 per capita. Aid has also been bungled. Fryer tells us that after 1965 textiles poured in under the US programme until in 1967 stocks of textiles in South Vietnam were the equivalent of three to five years' normal consumption. This brought the domestic textile industry to a standstill. An examination of industrial development in these countries, such as it is, would suggest that copper wires and cables, and steel tube furniture, were to be the significant "key growth" industries of developing countries in the 1970s.

It is a sad commentary on the literature of developing economies that *Emerging Southeast Asia* is the only comprehensive study of the economy of the region. It is written from a viewpoint which might have been excusable twenty years ago when all that was known of these countries' economies was their colonial pattern of production and trade. But Professor Fryer's emphasis on the technicalities of agriculture and mining does not do justice to developments in other fields that have occurred since the second World War. Nor does he show any sensitivity to the non-technical ingredients of development.

The good time that expatriates have had, and indeed still do enjoy, in Malaysia frequently causes them astigmatism when they turn their attention further afield to the strong currents running through the rest of Southeast Asia. To many of these people Malaysia was, for a long time, an oasis of peace and stability in a chaotic region of the world. They saw the country's comparative prosperity run alongside the continuance of colonial economics, so the two were obviously related. And what exists today was presumed to exist tomorrow. The riots of May 1969 are supposed to have had little or nothing to do with economic facts of life. They were merely acts of Malay chauvinism perpetrated against the industrious, thrifty and blatantly successful Chinese.

The cosseted and privileged European in Malaysia is bound to see the world in such simplistic terms, given his environment. His failure to encompass a larger number of relevant variables may be put down to human nature, but the fact remains that his way of life
frequently leaves him intellectually flabby. Worse, he is aided and abetted in his flimsy analysis by the virtual bankruptcy of economics as far as it concerns the Third World. True, development economists (through no effort on their part) have been given a new lease on their careers with the supposed Green Revolution which is based on the new high-yielding dwarf wheat and rice seeds. It is back to the drawing board with new digits to play with. But apart from this development, which could well prove to be a box of all kinds of unexpected tricks, the economic future of developing countries can be seen to be increasingly in the hands of political innovators of all colours. It may be just as well, if the principal theme running through a book such as *Emerging Southeast Asia* is the bland, undiscriminating assumption that those countries which stick with colonial patterns of production until some (undisclosed) future date are the ones which will prosper.

In several places the author has used the term "modern world". It is an unfortunate phrase at the best of times, but if it has any meaning to an economist, moving into the modern world would mean emerging from a neo-colonial economy, dependent on a few major primary exports, to a more diversified economic basis. If this is so, then any conclusion about the growth or stagnation of Southeast Asian economies towards that goal is premature.

NOTES


9. *Malayan Economic Review*, Vol. 12, No. 1, April 1967. Inward and outward looking countries are discussed in greater detail in Barend A. de Vries' *Export Experiences of Developing Countries* (John Hopkins Press, Baltimore, USA, 1967). De Vries, however, was more selective in his conclusions than Myint. For instance, he found that a structural condition for success in expanding exports is a combination of a relatively small share in markets for major exports and the existence of a diversi-
fied export package as reflected in a relatively large minor export component. (p. 44). Malaysia does not fit this export market structure; Indonesia does. But de Vries stresses the harm to exports, especially to minor exports of inflation. Indonesia's politically and militarily determined inflation seriously harmed exports of tea, coffee and sugar. He also emphasized the appropriateness of industrialization in countries with large domestic markets. De Vries was most careful in qualifying his remarks on observed correlations. The analysis progressed ultimately through Fryer to undiscriminating dogma.


Fryer, op. cit., p. 140,

Russian merchant ships are already using Singapore's facilities and it is thought to be only a matter of time before Malaysia, piqued that Singapore was chosen as the location of the British force, will accept Russian naval vessels.

Mr M. L. Dantwala of the Indian Economic Association presented an optimistic paper to the 28th International Congress of Orientalists in Canberra in January 1971, entitled "From Stagnation to Growth: Relative Roles of Technology, Economic Policy and Agrarian Institutions." It was a spirited attack on the more cautious economist but unfortunately he included several contradictions and fell victim to the partial analysis he earnestly condemned in others. Another view was presented at the same conference by Mr W. Ladejinsky of the World Bank, entitled "Agrarian Reforms in India, the 'Green Revolution' and its Effects."

Fryer, op. cit., p. 74.
Fryer, op. cit., p. 114.
Fryer, op. cit., p. 113.
Fong, op. cit.
Fryer, op. cit., p. 13.
P. Cagan ("The Theory of Hyperinflation", in Inflation, R. J. Ball and P. Doyle, (eds.), (Penguins, 1969), pp. 117, 118) defines inflation "beginning in the month the rise in prices exceeds 5 per cent as ending in the month before the monthly rise in prices drops below that amount and stays below for at least a year."