TOWARD ECONOMIC INDEPENDENCE OF SOUTHEAST ASIA

— Prospects and Problems —

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SINCE THE BEGINNING of this decade there have been significant changes in the framework within which Southeast Asian countries[1] aspire to achieve economic growth. The first such change has been the breakdown of the East-West Cold War framework upon which these countries heavily relied hitherto, as well as the appearance of China on the stage of the United Nations and ESCAP. The second is a kind of growing economic and social imbalances, along with symptoms of change in the established pattern of the international division of labor in the region, which has been based principally on the exportation of primary products ever since the last century, but which has experienced the advances of the United States and Japanese multinational corporations since the mid-sixties. These changes have produced corresponding political reactions in various Southeast Asian countries, as well as changes in the course of economic policy, hitherto growth-oriented.

It was at such a moment of general re-adjustment that Japan's Prime Minister Tanaka toured five Southeast Asian countries in January 1974, and was greeted by anti-Japanese demonstrations by students and general citizens in Thailand and Malaysia, and blood-shedding anti-Japanese riots and fire attacks on Japanese firms in Djakarta. In October 1973, a year after the boycott movement of Japanese goods, Thailand had already seen the falling of the Thanom Kittikachorn military regime as students and general public demanded constitutional government. These countries are thus faced with the need to reappraise their development policies, which in turn must require neighboring big powers with close relations with them, particularly Japan, to reevaluate their approaches to the region. Throughout these violent changes we can observe the sincere desire of the people of these countries for economic independence and for participation by every citizen in the development process. In order to come to a clearer understanding of such a situation in this part of the world we will first consider the externally-oriented and dependent

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[1] Southeast Asia embraces here the three countries of Indochina, Burma, and the five ASEAN countries. Since countries in East Asia share common problems, however, these are also taken into account in this article. All statistical data used here are from the United Nations and ESCAP (the former ECAFE), unless otherwise mentioned.

form of development the countries of this region followed during colonial times, then move on to consider the effects of the two major development strategies they pursued following their political independence. We will examine what problems they solved and what problems they did not solve, what new tendencies are in the offing now to deal with new national objectives, and what course of action Japan should adopt as a developed member of this region.

I

It was only after the end of World War II that Southeast Asian countries presented themselves as an independent and coherent entity on the scene of man's history. Until then these island and peninsular states, with a total population of 270 million scattered in the tropics from east of India to south of China, had all been subjected to colonial rule, with the sole exception of Thailand. Within the framework of their respective ruling empires, they followed their own paths of growth in supplementing either European or American economies. As Filipino economist O.D. Corpuz has put it, it was a "forced development" that these countries had to go through [10, Chapter 2].

About the beginning of the present century, Southeast Asia was already divided up into two distinctive parts. One produced agricultural materials, tropical foodstuffs, and mineral resources that Western countries needed. The Philippines produced and exported sugar, copra, and tobacco, Indonesia sugar, copra, tea, rubber, and tin, and Malaya rubber and tin. Export figures for these products showed high rates of growth, particularly during the 1920s. The Philippines' sugar production increased from the 1909–13 average of 3.7 million quintals to 7 million quintals in 1926, while its copra production showed a threefold increase during the same period, starting from 1.27 million quintals. Indonesia also increased its sugar production from 13.5 million quintals to 20 million quintals during this period, and doubled its tea production. In the same manner rubber production in the Malay Peninsula showed a ninefold increase from 32 thousand tons to 299 thousand tons, meeting the demand from advanced countries and supporting their industrialization. Between the two world wars 90 per cent, 49 per cent, and two-thirds of the exports of the Philippines, Indonesia, and Malaya respectively went to Europe and the United States.

In sharp contrast to these three countries Burma, Indochina, and Thailand concentrated on producing and exporting rice. This was in short supply in the former group, more inclined as it was to export-oriented cash-crop production. The Irrawaddy Delta was hardly cultivated in the middle nineteenth century, but the people who migrated there from Upper Burma produced enough rice to export as much as 2.5 million tons in 1913 and 3.4 million tons in 1925 [11, Chapter 22]. According to W. A. Lewis's calculation, Thai earnings from rice exports also increased from 8 million dollars in 1883 to 43 million dollars in 1913 [6, Chapter 1]. Rice production in French Indochina increased from 54 million quintals prior to World War I to 61 million quintals in 1926. The Southeast Asian economies thus developed with a heavy orientation toward monoculture within the framework of the international division of labor, and depended on the European and U.S. economies.

These export-oriented monocultural economies suffered their first major damage at the time of the Great Depression. Their exports declined by 30 to 50 per cent, many producers and processors of export products went bankrupt, unemployment increased, and landowning peasants gave up their small plots of land to become tenants or agricultural laborers. During this period there were also various moves to industrialize and diversify export commodities, aimed at attaining "independent economies." These took place in various places, such as the Kingdom of Siam, where a middle-class revolution took place in 1932. Out of these movements were born Asian leaders who looked towards Japan as it advocated the "New Order" to resist the Western powers. Shortly thereafter, however, World War II broke out, and as Japan advanced over all Southeast Asia, it became clear that Japan had no objective in mind other than that of making the region its raw materials supplier, totally against the expectations of the countries concerned. Since Japan was not able to sustain such an economic system during a period of "total war," products stockpiled in the region, necessary manufactured goods fell into in short supply, and inflation advanced as depression continued, all bringing sufferings to the peoples of the region. The "Great East Asian Co-Prosperity Sphere" went down the drain as a miserable failure.[2]

During this period of outward-oriented development societies with characteristics of their own emerged in Southeast Asia. First, there were established highly hierarchical regimes directed by modernizing elites and supported by foreign powers. As advanced nations of the West moved into the region, they allied with kings, sultans. chiefs, and other traditional leaders to establish "indirect rule," and gradually created growing bureaucratic systems in order to promote "modernization." (Only in Cochin-China and Burma were the old monarchies destroyed, to be replaced by direct colonial rule, which serves as a remote explanation of strong anti-foreign feelings in these two areas even today.) Second, the plantation and hacienda systems of these societies flourished, run as they were mainly for agricultural development by Europeans, natives, or third-country entrepreneurs, while production by small holders also made progress. In such a dual development landowners and plantation owners enhanced their position to that of political power wielders, leading their countries towards modernization in cooperation with the bureaucracy. These landowners are often described as "feudal" landlords resisting "modernization." On the contrary, only during this era of export-oriented agricultural development did they become for the first time a firm ruling class. (In Lower Burma, for instance, landowners consolidated their holdings during the war years from 43 per cent of the total agricultural land in 1928 to 58 per cent in 1935.) Third, there developed in this period the so-called "plural societies" peculiar to Southeast Asia. It is true that native inhabitants were not always able to adjust themselves sufficiently to such a rapid introduction of a money economy. Huge

2 Economic conditions in Southeast Asia during the Great Depression as well as the economic structure under the "Great East Asian Co-Prosperity Sphere" are described in detail in [5].

labor forces were therefore drawn from the overpopulated countries of China and India. These labor forces subsequently came to collect export-destined agricultural products, served as usurers to peasants and acted as commercial brokers to handle imported consumer goods flowing in from industrial countries, thus achieving a firm grip over the distribution system from the focal points of the newly-arising colonial cities. Need for labor in new plantations was also met by temporary immigrants from these countries.

Fourth, Southeast Asia's development in this period was based on big cities. These cities, dominating the countryside, were closely connected to the industrialized regions of the world [7]. In Indochina, the ancient capital of the kingdom of Vietnam (Nguyen Dynasty) Hue was replaced by Hanoi-Haiphong and Saigon-Cholon. In Burma, Mandalay decayed and Rangoon became the important capital of the British colony. In the Malayan Peninsula, Raffles established Singapore in 1819 and Kuala Lumpur, newly founded by overseas Chinese, flourished. In Indonesia, Djakarta emerged as the capital, replacing the role of Surakarta and Djogjakarta.

The hierarchical relations between the capitalist-landowner-bureaucrats, foreign brokers and the small-peasant-agricultural-laborer class were thus firmly established on the lines of the monocultural structure of the economies, dominated by the big cities. On this hierarchy were to operate rather authoritarian, bureaucratic-plural societies in collusion with foreign elements (first with the West and then with Japan).

II

Such economies and societies with outward-oriented and monocultural structures were severely challenged by anti-Japanese movements supported by the middle-class and the peasantry during World War II, i.e., by such movements as Indochina's Viet Nam Doc Lap Dong Minh Hoi (Viet Minh), Thailand's Anti-Japanese Free Thai Movement, the Philippines' Hukbalahap, Malaya's Malayan People's Anti-Japanese Army (MPAJA), and Burma's Anti-Fascist People's Freedom League (AFPFL). These anti-Japanese movements were necessarily characterized by a strong orientation toward social revolution, owing to the predominant part played in them by peasants, who were placed in the lowest rank of colonial societies. But the United States, once it had obtained supremacy over the region after World War II, tried to refute the advancement of communism into underdeveloped areas by interfering in the Korean Conflict, by "aid to underdeveloped areas" through the Point-Four Program, and by concluding mutual security treaties with Korea and Taiwan as well as by setting up the Southeast Asian Treaty Organization (SEATO), thus instituting a series of measures to "contain China." Anti-Japanese forces aiming at social reform which had emerged in World War II were now either crushed with force of arms as in Malaya and the Philippines or assimilated into the traditional elite groups (as in Thailand, Burma, and Indonesia). We may generalize by saying that the post-World War II Southeast Asian modernizing elite selected anti-communism as the ideological basis of national consensus within the framework of the Cold War system to achieve high economic growth with foreign assistance.

(In this respect Indonesia belatedly adopted this path after the September 30 Incident in 1965.) Only in Indochina did people take the path of social reform rather than economic growth, and continued to resist big power interference through waging war.

Following World War II a good part of Southeast Asia thus inherited the mono-cultural economic structure of the colonial period and consolidated it further. Although the Korean Conflict and the Indochina War raised the price of primary commodities and brought a measure of economic stability to the region, the 1950s saw the beginning of deteriorating terms of trade for primary commodities against manufactured goods to be worsened by as much as 20 per cent between 1954 and 1963. The end of the war boom, the appearance of new synthesized products and substitute goods as a result of technological advances in industrial countries, and the low income elasticity of primary products all contribuetd to this new development. It further aggravated the global North-South problem and brought forth the creation of UNCTAD, but its ultimate consequences were temporarily postponed in this region by the large dollar inflow caused by the Vietnam war.

Throughout the 1960s Southeast Asia and the Far East together received U.S. aid to the extent of 1.6 to 1.7 billion dollars a year. To South Vietnam alone U.S. aid amounted to 5,017 million dollars between 1961 and 1970. During the 1960s each inhabitant of this region received on average about five dollars of official aid a year. In South Vietnam and Laos it came up to twenty-three to twenty-five dollars, and in Korea up to about ten dollars, far more than the average due to their direct war commitments. Even those countries with less per capita official aid received great benefits as regards export promotion as a result of U.S. military expenditure. According to an estimate by the Japanese Foreign Ministry, this amount reached 2 to 3 per cent of GNP in the Philippines, South Korea, and Taiwan (or 54 to 110 million dollars), and 5 to 6 per cent of GNP in Thailand (or 200 to 220 million dollars) around the middle of the 1960s. In Thailand direct expenditure related to U.S. armed forces alone amounted to 231 million dollars on average between 1967 and 1969, which meant 20 to 25 per cent of the country's annual investment.

Such a big inflow of external funds greatly contributed to high growth rates of the various economies during the 1960s. Hong Kong, Taiwan, South Korea, and Thailand all achieved annual growth rates of 9 to 10 per cent, followed by Singapore's 7 per cent, and Malaysia's and the Philippines' 6 per cent. They all showed good performances during this decade, except Indonesia, the three countries of Indochina, and Burma. But this inflow of funds further accentuated the outward-oriented character of these economies. The Four-Point Program itself, which was the origin of U.S. aid to this area, was already aimed at creating markets for goods produced by those industrial economies that recovered through the Marshall Plan and MSA projects, at "modernizing," and at preventing nationalistic movements and forces of social reform (together called "communism") from taking hold in the area. Japan as the sole industrialized nation in the area played a positive part in this "aid" phenomenon and made a great profit out of it.

It was in the form of "war reparations" that Japan participated in the "aid" programs of industrialized countries in the latter half of the 1950s. Almost all official aid subsequently offered by Japan went to Asian countries. In the mid-sixties Japanese aid changed its form from grants in the name of reparations to export credit in which "yen credit" played a big role. Whatever its form, however, Japanese aid was almost always closely related to securing overseas markets for Japanese goods. As of 1972, 93 per cent of Southeast Asia's imports from Japan were finished and semi-finished goods, while 83 per cent of its exports to Japan were raw materials, energy, and foodstuffs, thus firmly establishing the system of the so-called "vertical international division of labor."

Specialization on primary products with low value-added, deteriorating terms of trade, and the fact that import-substituting industrialization actually increased imports (see below) were combined to cause a large deficit in the international balance of trade, which amounted to an annual average of 3,962 million dollars between 1960 and 1970 for all the Asian countries concerned. And it was still on the rise. As of 1971 Japan was the biggest exporter to these nations, occupying 30 per cent of their total imports valued at 15.4 billion dollars, and was the second biggest importer from these nations (next only to the United States), importing 23 per cent of their total exports of 11.4 billion dollars. Thus Japan must bear a big share of the responsibility for this expansion of one-sided trade.

Such a development of externally-oriented primary product economies created serious problems for this region. One of these was that as the external official debt of the seven Southeast Asian countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, South Korea, and Taiwan) increased from 2,176 million dollars at the end of 1961 to 11,200 million dollars ten years later, their debt service payment correspondingly increased from 224 million dollars to 731 million dollars during the same period, thus pressing heavily on their international payment situation as well as serving as an inflationary factor. This pattern of outward-oriented development also lowered the rate of intra-regional trade from 28 per cent of total exports in 1955 to 21 per cent in 1970. But still further problems were to arise out of the rapid advancement of multinational corporations into the countries of the region after the mid-sixties, and its effects upon their development policies.

III

The post-World War II pattern of development, looking outward and concentrating on primary products, does not mean that industrialization did not take place in Southeast Asian countries we have been considering. On the contrary, from about 1960 on they placed industrialization at the core of their development strategy and made vigorous efforts in this direction. We can observe two distinct stages in this particular process of industrialization. The first was the import-substituting industrialization stage during the 1960s, and the second the export-oriented industrialization stage starting around 1970. Both of these development strategies attempted to achieve rapid industrialization through the help of private foreign investment from advanced nations. With the exception of Burma and the war-torn

Indochinese countries, most of the countries under our consideration followed this path.[3]

The strategy of the first stage consisted of two measures. The first was to develop domestic industries as quickly as possible, taking the then existing pattern of domestic demand and shifting from importation of foreign goods to domestic industrial production in meeting this demand. To do this, various barriers were built against importing consumer goods, such as protective tariffs and import quotas. The second measure was based on the idea that the growth and expansion of manufacturing industries should serve as the direct motivating power for economic development. It thus gave top priority to manufacturing and provided strategic industries with various kinds of favorable treatment in taxation and in the import of equipment, raw materials, and semi-finished goods.

Once these measures had promoted domestic industries, they would not only improve the trade balance but also increase employment and spread its effects to other sectors of the economy, thus serving the role of the leading sector of the entire economy.

Industrialization by import substitution made its way in such sectors as electric appliances, automobiles, and textiles, at a rather high rate throughout the 1960s. During this decade the ratio of investment to GNP showed a remarkable increase, from 7.9 per cent in 1960 to 13 per cent in 1970 in Indonesia, 10.9 per cent to 28.1 per cent in South Korea, 13 per cent to 20.8 per cent in the Philippines, and from 15.7 per cent to 25.7 per cent in Thailand. The average annual growth rate of the manufacturing sector between 1960 and 1970 was as follows: 20.8 per cent in Singapore, 17.5 per cent in South Korea, 10.9 per cent in Thailand, 10.4 per cent in Malaysia (West), and 6.5 per cent in the Philippines. Such high rates of growth in manufacturing as well as of mining industries lifted the growth rate of other sectors such as construction and public utilities (electricity, gas, and water); and in general we may say that the main reason for the rapid growth of Southeast Asian economies at this time was the development of these sectors.

But industrialization along these lines did not serve to bring about general economic and social development in this region. Rather, the late 1960s saw growth rates tapering off.

The following are the primary reasons for this. Snice import-substituting industrialization developed in accordance with the *then existing* pattern of demand, production necessarily tended to cater to urban wealth by producing luxury goods and consumer durables. This in turn limited the growth of the domestic market to those who could afford those goods, making it difficult to reach the general public. Also, once industries accomplished import substitution fairly completely, there were no longer a great number of commodities to be substituted for, making opening up of new markets extremely costly.

The second reason for slacking industrialization toward the end of the 1960s was as follows. Import-substituting industries must depend on the importation of

[3] It is said that Indonesia under Sukarno's leadership adopted an inward-looking development strategy, but if one is to think of its dependence on foreign official aid, it was clearly only a variation of our outward-oriented pattern.

input materials, equipment goods, and intermediate goods. In many countries import-substituting industry often meant the knockdown system of consumer durables manufacturing, and progress in industrialization did not necessarily mean lower import figures. Instead, it tended to increase imports. And, on the other hand, exports were not emphasized, and trade deficits mounted. Difficulties followed in allocating limited foreign reserves, and the rate of manufacturing expansion went down.

Let us go on to the third reason. The policy of import substitution was carried out with the use of foreign funds and foreign capital goods. This increased national debts and pressed hard on current accounts. Industrialization achieved through funds brought in from abroad, together with foreign technology, managerial resources, and input materials must necessarily tend to be capital-intensive, yielding a low employment coefficient[4] and thus offering no effective solutions to the pressing employment issues in today's developing nations.

We mention the following as the fourth factor. Such funding for industrialization from abroad had to be concentrated in urban areas where a semi-educated and trained labor force and the necessary socio-economic infrastructure could be found. In economic terms, this naturally further accelerated the urban and rural discrepancies created since the colonial era and encouraged the emigration of the rural population into the cities.

At this point there were put forward some sober reflections on and criticisms of the strategy pursued hitherto of import-substituting industrialization in Asia as well as in Latin America. Around 1970 many Southeast Asian countries replaced this policy with an "export-oriented" or "export-substituting" industrialization policy, which gave priorities to the domestic processing and export of primary products and to the accumulation of foreign reserves. This new strategy received considerable inspiration from the development of export-oriented light industries within such bonded areas as Taiwan and South Korea, but it was in *The Southeast Asia's Economy in the 1970s*, a report published by the Asian Development Bank at the end of 1970, that this idea was given theoretical treatment.

The basis of this new outward-oriented development strategy is found in the "green revolution," which has been spreading rapidly over Asia ever since the middle of the 1960s.

"Green revolution" is a name given to various high-yield species of wheat, rice, and other kinds of grain developed by COMMYT in Mexico and IRRI in the Philippines. These new species produce far better results per unit of land than traditional ones: 60 to 100 per cent more can be harvested in the case of rice, and 80 to 250 per cent more in the case of wheat. In the case of IR-8 rice in particular the yield is double the ordinary figure, about four tons per hectare. The new species were introduced rapidly in South Asia first, but in Southeast Asia, too, they were to be found in 1970–71 in 49.8 per cent of the total rice paddy average in the

4 The employment coefficinet (as defined as employment/output) of the ECAFE region went down to 0.49 in 1966 (1955=1.00), showing a much larger drop than that of the world during the same period (0.69 in 1966 for the world). See [15, p. 29, Table I-2-2].

Philippines, 73.8 per cent in Taiwan, 24.5 per cent in Malaysia (West), 19.8 per cent in South Vietnam, and 11.3 per cent in Indonesia.[5]

The industrialization strategy of export processing attempts to introduce these high-yield varieties so as to achieve a higher agricultural productivity and to transfer the surplus so obtained for industrialization purposes. Investment effort in this context is to be concentrated on agricultural processing catering to foreign markets and on simple capital good production for agricultural use. The processing and export of primary goods should thus improve the balance of payment situation which had deteriorated during the import substitution stage, should do away with "enclave" industrialization and promote the kind of industrialization which would utilize domestic resources. In this sense this is a much more stable and healthy development policy than import-substituting one.

But from the outset this course of development has been faced with a number of problems.

First, this region was visited by drought and other extraordinary meteorological phenomena in 1972 and 1973, so that those new species that were vulnerable to aridity, humidity, and insect pests suffered a great loss. In Thailand, the Philippines, and Indonesia foodstuff prices soared and the export of foodstuff was forbidden throughout 1973. Since modernized, intensively cultivated farm areas deal with a limited number of species of crop, local outbreaks of blight and insect pests can easily spread through the entire area, causing great damage. One instance of such a phenomenon was the big drop in rice production in the Philippines in 1971 due to damage caused by a virus. Agricultural development is naturally basic to economic development in general, but excessive dependence on agriculture leads to dependence on the weather. This is particularly true when one realizes that "abnormal weather" is closely related to the destruction of the ecological system as a result of underpopulated areas being increased while intensively cultivated agricultural areas are rapidly expanded, and of concentrated investment in specific sectors plundering natural resources. (For instance, deforestation without re-planting and soil-preserving efforts will impoverish the soil and cause floods.)

Secondly, the fact that these new species have been introduced mainly by big and wealthy farmers (so-called progressive farmers) may cause social unrest. It is sometimes asserted that the new species are neutral to the economy of scale, but in fact they do require irrigation and a large amount of modern input materials such as fertilizers and agricultural chemicals, which in developing countries can be afforded with government assistance only by landholders, plantation owners and other wealthy farmers. In a way the large-scale agricultural operations that have prevailed since colonial days have made it less difficult to introduce "green revolution," especially in South Asian countries. But as a result of the introduction of these new species within the framework of a general policy of agricultural modernization, landowners, and wealthy farmers are more interested in expanding farmland under their direct management, being encouraged to chase out tenants and to

[5] These figures include improved existing species. See [8].

concentrate landholdings. This is about to cause the so-called "third generation"[6] problems of green revolution or those of "violent social changes" in South Asia. In Southeast Asian countries where comparatively small-scale farms predominate, this stage has not yet been reached, though in the Philippines, for example, we can already observe this kind of phenomenon.

Thirdly, since the green revolution is a rapid modernization of agriculture in a capital-intensive manner and calls for economies of scale, agricultural operations will see more use of machinery, causing the decline of employment in villages. Thus it provides no effective solution to one of the biggest problems in developing countries, that of unemployment and underemployment. In the Philippines it is reported that mechanization is promoted in fear of an agricultural laborers' movement [1].

Fourthly, it is forecasted that the demand and supply relations of agricultural products will grow tighter towards the end of this century, as a result of increasing populations in developing areas and improving dietary patterns in intermediate countries. This will push prices of agricultural goods upward, exerting a favorable effect on production, but it will also urge advanced nations (the EC and Japan) to continue their present policy of domestic agricultural protection at the same time. With the "oil crisis" of 1973 aggravating their balance of payment situation, the trend will be towards their further protection of domestic agriculture and the attainment of agricultural self-sufficiency. On the other hand rising prices of agricultural input materials in advanced industrial countries are expected to have a big bearing on Southeast Asian countries, who look to the former for the supply of these materials.

Southeast Asian countries must by all means achieve modernized agriculture and higher agricultural productivity by doing away with the traditional dependence on natural irrigation by flooding. But we must also admit that the course of modernization we have outlined above relying heavily on foreign markets and foreign resources as well as domestic landowners and wealthy farmers, does face serious obstacles at the moment. In fact, a series of grave economic and social imbalances have come to reveal themselves in these countries.

IV

Before we go into the various social and economic imbalances facing Southeast Asian countries, let us view the effect of the establishment of multinational corporations in these countries since around 1960 within the framework of the above-stated two strategies of development. Many such corporations, especially those from Japan and the United States, have made rapid inroads, utilizing the flow of "aid," and are causing big changes to the economies and societies of the region, formed as they were through rapid "modernization" since the last century.

6 W. P. Falcon of Harvard University defines "second generation" problems as "marketing, distribution and resource allocation," and the "third generation" ones as "violent social changes." Although the green revolution is being faced with "second generation" problems now, his warning is that the "third generation" ones will plague them before long. See [3, pp. 698–710].

In the 1960s each country in Southeast Asia aimed at industrialization and provided various incentives for foreign investors, so that it would be able to take advantages of their capital, technology, know-how, and managerial skills. Incentives thus provided were extremely large in scope and included tax holidays; other favorable treatment in taxation (for example, allowing depreciation or exemption); lowering or exempting customs duties for raw materials, intermediate goods, equipment, and machinery, and other export and import duties; providing capital for social overheads such as utilities in connection with industrial complexes to be constructed; and allowing freedom of movement for both capital and personnel.[7]

As a result of these incentives, U.S. and Japanese multinational corporations have made particularly rapid advances. Fierce competition among industrialized nations seeking the productive elements of developing regions and markets for finished goods has played a role in this regard, especially since the latter half of the 1960s. The accumulated value of direct private U.S. investment in Asia (including South Asia) was 898 million dollars in 1960, and this subsequently increased at an average annual rate of 17.6 per cent (much faster than its rate of increase to all developing countries of 10.6 per cent) and reached 2,477 million dollars in 1970. If we look at the eight Southeast Asian countries of South Korea, Hong Kong, Taiwan, the Philippines, Thailand, Malaysia, Singapore, and Indonesia, the balance of U.S. direct investment as of 1972/73 was as much as 2,152 million dollars.

Japan had restricted its overseas investment throughout the 1960s in one way or another (it was only completely liberated from such restrictions in July 1971). But as its balance of payments turned favorable in the latter half of the 1960s and its foreign reserves mounted, overseas investment started to increase like a rushing torrent. The average annual flow of private capital to developing countries was only about 80 million dollars a year between 1961 and 1967, but it showed a 100 per cent increase per annum between 1968 and 1970 to amount to 1,109 million dollars in fiscal 1972. As of March 1973 the total Japanese investment overseas on an authorization basis was 6,772 million dollars, of which 1,390 million dollars were destined for Asia. The above-mentioned eight countries alone were to receive 1,153 million dollars. According to an estimate given by the Japanese Ministry of International Trade and Industry in 1971, Japanese overseas invesmtents will reach the 26 billion-dollar level in 1985, Asia's share being about one-third. But the recent upsurge of overseas investment has made this estimate look too conservative. In October 1973 the Industrial Bank of Japan published its own estimate

[7] A typical case of incentives provided to attract private foreign investment during this period can be seen in Thailand's Industrial Investment Promotion Act of 1962. This act provided the following incentives to those firms who acquired the Promotion Certificate: (1) permission to acquire practically unlimited ownership of land, (2) income tax exemption for five years, (3) free entry of foreign technicians and other necessary personnel, (4) no foreign exchange control in forwarding principal, profit, or interest abroad, (5) exemption of import duties for necessary materials, machinery, and equipment for industrial construciotn, and exemption of business tax, (6) exemption of customs duties for imported raw materials, (7) imposition of protective tariffs for products of registered firms, and import restrictions, (8) exemption of export duties for products of registered firms, and (9) assurance of not nationalizing registered firms.

which forecast that Japan's overseas investments would be valued at 42.5 billion dollars in 1980, Southeast Asia occupying about a quarter of the total or 10.5 billion dollars. Either way, we may assume that Japan's overseas investments will reach the 20 billion-dollar level within a few years, which corresponds with the total of Japan's overseas assets lost through World War II. In the background of such a rapid advancement of Japanese corporations overseas we see vigorous competition with U.S. multinational corporations for markets, the need to utilize cheaply the human resources of the developing world, the need to seek industrial sites overseas owing to pollution issues in Japan, and, last but not least, Japan's need to secure necessary natural resources. As a result we see Southeast Asian cities inundated by publicity and billboards of Japanese firms and Japanese products. It is well known that the former Thai Minister of Economy, Bunchana, described this phenomenon by saying that "the Japanese businessman comes to Bangkok by Japan Air Lines, drives a Japanese car, patronizes a Japanese-run hotel, eats at a Japanese restaurant and sells transistor radios."

At the moment the total foreign investment in the aforementioned eight Southeast Asian countries amounts to 5,763 million dollars, a higher figure than the total of the 1969 gross national products of both Malaysia and Singapore put together. While this has created urban prosperity and a high growth rate of the economy, it has produced various new problems. For instance, national medium- and small-scale enterprises have been feeling the pressure (as in the case of Indonesia's household textile industry going bankrupt), and the ecological system has been disturbed through deforestation and the export of timber. Restrictive commercial practices of incoming firms in imposing export limits and export market allocations on host countries within the framework of the corporations' global strategy has come to be viewed as conflicting with the need of national economies in their development efforts, which now emphasize exports. Foreign firms have also often encouraged corruption in "soft societies" in the region. (In Thailand, when Field Marshall Thanom Kittikachorn and General Praphas Charusathien, deputy prime minister, were expelled in October 1973, it emerged that both Mrs. Thanom and Mrs. Praphas had each been appointed as directors to thirty Japanese companies. It is reported that the total assets their families left in Thailand amounted to 12 billion bahts which were as large as one-third of national budget.) But the most crucial issue is whether or not the advancement of these foreign multinational firms serves to solve the various grave problems of Southeast Asia or, on the contrary, serves to aggravate these problems further.

V

The first of such problems is the imbalance between land and population in the region. The annual rate of population increase in the region is 2.1 per cent for South Korea, 2.7 per cent for Indonesia, Malaysia, and South Vietnam, and 3.0 per cent for the Philippines and Thailand, while the available cultivable amount of land per head of the agricultural population is 0.68 hectares in Malaysia (West), 0.25 hectares in Indonesia, 0.42 to 0.47 hectares in the Philippines and Thailand,

and 0.21 hectares in South Vietnam (the average for the entire Southeast Asia comes to about 0.2 hectares). These figures apply to the early 1960s, and we must expect those relating to cultivable land to decrease toward the year 2000. For countries having about 60 to 80 per cent of their population occupied in agriculture and deriving one-third to one-fourth of their national income from this sector, such a limitation in agricultural land per head (or land shortage) and the accompanying decline of the land-to-population ratio as the latter grows present serious problems [2, pp. 204–5].

Moreover, as mentioned above, major areas of arable land in Southeast Asian countries are for cash crops destined for export. According to the most optimistic forecast issued by FAO in 1971, of the countries of the region only Thailand could produce enough foods to satisfy domestic needs [4]. Bearing in mind that there will be some limit to the growth of productivity brought about by the so-called green revolution, the food shortages already clearly evident in this region are bound to become more serious in the near future.

Furthermore, the distribution of available land has been extremely imbalanced since colonial days. A survey carried out around the beginning of the 1960s showed that in Thailand only 5.4 per cent of the farmers with more than ten hectares of land controlled 22.3 per cent of the agricultural land, and in the Philippines 5.6 per cent controlled 33.2 per cent in the same way. On the other hand, 48 and 41 per cent of the farmers who owned less than two hectares cultivated only 16 and 12 per cent respectively of the agricultural land in these countries. In Indonesia and Malaysia, where an overwhelmingly large portion of farmers are small holders, 88 and 67 per cent of farmers with less than two hectares cultivated only 52 and 33 per cent of the land respectively. And an Indonesian survey in 1963 showed that landless agricultural laborers constituted 27 per cent of the entire agricultural population. Here is land starvation in its literal sense, as well as the source of social unrest in the villages of Southeast Asia. The land issue, which brought about anti-Japanese movements during the colonial age, that subsequently turned to forces demanding social reforms in China and Vietnam, is revealing itself with even greater urgency to the impoverished peasantry of Southeast Asia.

The second problem is the issue of chronic underemployment and seasonal unemployment in villages. This second problem derives from the first. Under ECAFE's definition of unemployment as "the condition under which an individual with the existing wage rate is unable to satisfy his job preference," there were 699,000 unemployed in the Philippines in 1971, and 446,000 in South Korea in 1970. In Malaysia and Indonesia the unemployment rate reaches 6 to 7 per cent of the total labor force.

Disguised unemployment in villages is still more prevalent. Those agricultural laborers who can secure employment only during the busy agricultural season as well as surplus hands in the family belong to this category. In spite of the lack of a uniform definition of latent unemployment—as is the case with unemployment generally—a Korean survey in 1970 suggested an unemployment rate among the rural population of 0.4 per cent during the busy season but of 44.4 per cent during the slack season, the average being about 30 per cent. As a result, population emigration, especially of the young, occur as people are "pushed out" from rural areas because of the lack of employment opportunities.

Here we come to the third problem: the imbalance between city and rural area. Cities, which have been parasites on, and supporters of, the outward-oriented development system as poles in the growth of the countries concerned since the colonial era, strengthened their positions remarkably during the period of the 1950s and 1960s in which the "aid" system was established. In the Philippines and Thailand, the average urban income are 251 and 304 respectively when the average rural income of each country is set at 100. Poor farmers have been attracted by the cities' employment opportunities and charmed by their urban civilization, thus causing the phenomenon of rapid urban expansion. Bangkok had a population of only 781.000 in 1947, but this subsequently increased to 1,633,000 in 1960 and again to 3,075,000 in 1971. Djakarta also saw its estimated population swelling from 2,906,000 in 1961 to 4,500,000 ten years later. During the same timespan Manila's population increased from 2,346,000 to about 3,000,000. In 1950 the ratio of rural to urban population for all Southeast Asia was 6.7 to 1. This went down to 3.3 to 1 in 1970, and it has been estimated that it will go down still further to 1.6 to 1 in 1990 [16].

This rapid urban growth is not necessarily dependent on industrial development but on the inflow of the rural population. The inflated slum towns and the third sector economy that result from this serve to accelerate the imbalance of the national economy. According to a U.N. investigation [13], 30–40 per cent of the inhabitants of Manila and Djakarta and 25 per cent of the 400,000 inhabitants of Kuala Lumpur are said to dwell in slum areas. Seoul also has slum settlers to the extent 30 per cent of its population (i.e., 440,000 families). Everywhere slum towns continue to grow, while such third sector industries as commerce and the service industries are expanding with extraordinary rapidity. The share of the third sector in the gross national product is 53 per cent in South Vietnam, 29 per cent in Indonesia, 38–40 per cent in South Korea and Malaysia, and 43 per cent in Thailand. This kind of hypertrophy of unproductive population has raised the cost of such social services as housing, sanitation, and transport, causing inflation (increase of food demands and declination of local economies) as well as environmental problems [12] in both urban and rural areas (superconcentration of the population on the one hand and population scarcity on the other).

The fourth problem is that of the widening gap between the rich modernizing elite and the mass of people. According to an ECAFE survey, the situation in Thailand is such that the richest 10 per cent of the population receives 34.5 per cent of the income in rural areas and 29 per cent of the income in urban areas. The lowest 40 per cent of the population receives only 14 per cent in rural areas and 17 per cent in urban areas. During the 1960s the Thai situation deteriorated slightly in the villages while it improved in the cities as industrialization made itself felt.[8]

[8] Between 1962/63 and 1970 the uppermost 10 per cent of rural population increased its share of income from 34 per cent to 34.5 per cent, while the share of the urban population decreased from 35.0 per cent to 29.5 per cent. The share of the lowest 10 per cent dropped from 3.0 per cent to 2.5 per cent in the villages and rose from 1.5 per cent to 2.5 per cent in the cities. See [14, Table 4].

But the Philippines saw the opposite result. The richest 10 per cent occupied 39.3 per cent of the income in 1956 and 40 per cent in 1965, while the share of the lowest 10 per cent decreased from 2.1 per cent to 1.2 per cent during the same period of time. If one takes the lower half of the population, its share again went down from 18.5 per cent to 17.3 per cent. The biggest problem area of economic development in developing countries does not lie in the shortages of domestic savings as has been claimed by exponents of the theory of "the vicious circle," but rather in the fact that existing domestic savings are distributed extremely unequally and that they are not invested properly for productive purposes.

Multinational corporations that have come to Southeast Asia within the framework of the two stages of the post-World War II development strategy were unable to offer effective solutions to imbalances such as we have observed between population and food, an increasing labor force and employment opportunities, cities and rural areas, and wealthy elites with positive relationships with growth and the masses of people with an ever-stronger sense of poverty. Nor is this all. They have rather served to further widen these gaps. In fact, multinational enterprises which are located in cities and associated with the rich elites (government officers, landowners, merchants of Chinese origin) have widened these gaps by promoting capital-intensive industries and agriculture. In a way, we may say that they have faithfully followed the modernization path of the colonial days onwards. It is as a result of this that today's Southeast Asian countries are experiencing the rise of economic nationalism and attempt to achieve social justice in economic terms. In political terms they are beginning to pursue vigorously a neutral posture.

VI

Let us first take up the issue of rising economic nationalism. The very tolerant policy of inducing foreign capitals dominant during the 1960s has shown clear symptoms of change since the beginning of this decade.

The first such symptom is the change of attitude of these countries from enthusiastic acceptance of any foreign capital (with some reservations as regard to the Philippines) to a more selective attitude favoring export-related industries or those sectors which would employ domestic resources and labor. This change is related to the completion of a cycle of import-substituting industrialization and to a realignment of development policy. In Thailand it was announced, on the occasion of the promulgation of the country's third five-year plan, that the number of priority business categories would be limited from 160, as had been the case hitherto, to 34. In Singapore 45 items were eliminated from the list of pioneer industries and the authorities stopped applying pioneer status to those firms that catered to the domestic market. Indonesia forbade the further introduction of foreign capital into 39 listed industries at the end of 1970 and in 1971. In this general atmosphere of protectionism in November 1972 Thailand issued the Foreign Enterprise Control Act which restricted the activities of foreign firms in 58 categories of business (in particular in agriculture, fishing, and forestry, allegedly the leading sector of present-day development, and those with low technological intensity such as commerce and service industries), and pointed towards giving greater priorities to the reallocation of income to nationals rather than an overall rise in the growth rate.

The second such symptom is the restriction on the share of foreign capital in joint ventures. The majority control principle in terms of stocks has been established in Thailand and Malaysia as well in the Philippines. South Korea also set the fifty-fifty rule in 1973. In Indonesia only enterprises with a capital value of more than 2.5 million dollars have been allowed to be owned completely by foreign capital since 1971, the joint venture form being urged for smaller enterprises. But, after the anti-Japanese riots in the spring of 1974, Indonesia established the majority control principle.

Thirdly, there is a marked tendency to restrict the areas of activity of foreign personnel and to replace them with native managers and staff. Following the Foreign Enterprise Control Act, Thailand announced the promulgation of the Foreigner Occupation Restrictions Act at the end of 1972, which forbade employment of foreigners in thirty-nine categories of business. Thailand also attempts to promote greater employment of Thais of staff status by refusing to renew visas within the existing Immigration Law. Indonesia and Malaysia are urging foreign firms to implement technical trainings programs to promote employment of nationals.

The demand for the establishment of permanent sovereignty over natural resources is the fourth symptom. In Southeast Asia there are no such conspicuous conflicts with multinational corporations over the control of natural resources as in Middle Eastern oil-producing countries, since (for one thing) Indonesia's oil is already nationalized. But the Philippines will not renew the Laurel-Langley Agreement, the basic accord governing privileged commercial relations with the United States which grants, in exchange, parity to those Americans who are involved in exploiting the Philippines' natural resources and who work in the field of public utilities. The Philippines have also restricted the export of timber, advocating the principle of resources preservation. These moves, as well as such claims on the Law of the Sea as the demand for expansion of the territorial waters to twelve nautical miles in the Strait of Malacca, and the demand made by the Philippines and Indonesia regarding their intra-island waters being considered territorial seas, can be seen as a part of developing nations' joint claim for the establishment of permanent sovereignty over natural resources.

These moves in the direction of economic independence are naturally derived from the evolution of these economies. But, in more global terms, we can discern in the background the increasingly loud voice of the Third World. Advanced nations become more heavily dependent on natural resources found in developing countries as they move increasingly towards heavy and chemical industries. As multinational corporations advance into Asia and Africa, host countries come to have more options and increase their bargaining power. And the feeling of solidarity is being strengthened, as can be seen in the seventy-seven-country group Lima Declaration of 1971. These are all signs of the stronger position of "south" countries, which in turn gives supporting power to the economic nationalism of Southeast Asian countries.

Let us now take up the increasing interest in social justice. This can be seen as the other side of the coin of rising economic nationalism. As the development policy pursued during the 1960s, with its heavy dependence on foreign capital, served to widen such social inequities as regional imbalance (between urban and rural areas, between modernized agricultural areas and non-intensive agricultural areas), class inequalities (between the wealthy strata of overseas Chinese merchants and high-ranking bureaucrats with strong connections with foreign capital on the one hand and the general mass of people on the other), and racial inequities (above all between overseas Chinese with firm control over the distribution sector and native inhabitants), the realization of greater social justice became more and more urgent.

At the General Conference of ECAFE in March 1972 the issue of better adjustment between economic growth and social justice was taken up and discussed. Greater interest in social justice was observable around this time in various Southeast Asian countries. The Thai third five-year plan (1971–76) mentioned the correction of regional discrepancies between rural and urban areas as a principal objective, while in the Philippines a more equitable distribution of income has been advocated as a means to greater "economic prosperity." The New Economic Policy of Malaysia (its second five-year plan starting in 1971) lists the correction of racial inequalities in economic terms as one of its two principal objectives (the other being increased employment opportunities). For example, the policy includes a plan to achieve an appropriate racial distribution among people employed in commerce and manufacturing, setting a goal at 47, 34, 9, and 11 per cent respectively for Malays, Chinese, Indians, and others. In Indonesia, too, the levelling off of economic inequalities between "indigenous people" and "non-indigenous people" (the latter meaning overseas Chinese merchants) is the biggest task for the present regime.

One must take particular note of the fact that such movements toward economic nationalism and social justice have become unavoidable as a result of rising mass movements in Southeast Asia, and that they receive strong backing from these movements.

The movement to boycott Japanese products organized by Thai students under the leadership of the National Student Center in November 1972 drew keen attention to the entire area of Southeast Asia. Japanese goods were boycotted for ten days, demonstrations were staged, appeals and protests were forwarded to both the Thai and the Japanese governments, and ultimately the Foreign Enterprise Control Act and the Foreigner Employment Control Act resulted. As such the movement was quite effective. While fiercely criticizing "economic domination" by Japanese firms, this movement revealed corruption and bribery between Japanese firms and top government officials as we mentioned above. A year later it developed into the anti-military junta demonstrations demanding the promulgation of a Constitution, and ultimately led to the transfer of the country's leadership into civil hands. During the past few years Malaysia and Indonesia also have seen frequent riots and fire attacks against overseas Chinese merchants who control the distribution of goods. Generally speaking, antagonistic feelings against foreign capital and the wealthy and privileged domestic elements who prosper in collaboration with this capital are quite marked. And this is combined with economic nationalism, which refuses the formula of "industrialization equals Japanization" and demands social justice, expressing deep doubt over "growth without development." These feelings are thus strengthened and perpetuated. Critical movements such as those brought about by intellectuals and the mass of people at the time of Prime Minister Tanaka's tour of Southeast Asian countries have been deeply rooted in this general contemporary trend.

VII

British economist Joan Robinson once wrote that "As we see nowadays in South-East Asia or the Caribbean, the misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all" [9, p. 45]. People are about to rise out of the persistent poverty and hunger, illness, and ignorance that have beleaguered this region ever since colonial days. And this new tide has come to take the form of a strong desire to achieve more equitable distribution of development's fruits, and greater equality of wealth, income, and opportunities. These demands are in fact supported by the development of global communication as well as of the educational demands accompanying the progress of a money economy. For instance, let us consider the popularity of transistor radios in Southeast Asian countries. During the period 1965–70, growth in the ownership of transistor radios increased from 1.25 million to 13.79 million in Indonesia and from 1.96 million to 4.01 million in South Korea. This indicates that over one-tenth of the population owns transistor radios in each country. In the same period, the number of those owning them increased by slight less than three times, in the case of the Philippines, for example, from 0.62 million to 1.63 million. Now in every corner of the region people are able to receive world-wide news. Take, for example, the trend in the rate of school attendance. In the ESCAP region the proportion of school-going population between the ages of five to twenty-four increased from 25 per cent in 1960 to 34 per cent in 1970, and is expected to rise to 45 per cent in 1980. The changes behind these demands are thus irreversible and form the basis of people's genuine desire for democracy and independence.

Southeast Asian countries stand at a crossroad at this moment. In economic terms import-substituting industrialization and the policy of dependence on foreign capital have failed. In political terms we are witnessing the military defeat and retreat of the United States who confused nationalism with communism in Southeast Asia and tried to suppress people's desire for independence. At such a point in time, at the end of November 1972, immediately after China joined the United Nations, the ASEAN Conference of Foreign Ministers issued the so-called neutralization declaration of Southeast Asia to establish "a zone of peace, freedom, and neutrality in Southeast Asia with no interference from outside." At the same time these countries are trying to diversify their foreign relations by having trade and diplomatic ties with such big powers as China, the Soviet Union, and EC countries, as well as with their hitherto important economic partners of the United States and Japan. Following the decision of Malaysia which established the diplomatic relations with China in May 1974, other countries in this region will sooner or later establish foreign ties with China to attain a better balance in their foreign relations so as to achieve genuine neutrality. In this respect, the issue of armed guerrilla activities in these countries has been looked upon as an obstacle to normal diplomatic relations, but once it is realized that they originally were the forces fighting for social reforms and national independence during the time of Japanese occupation, it will be quite possible to unite their energy still more firmly in an effort to construct the various national economies, but it will depend on how economic nationalism and social justice are realized in these countries. And as members of the developing part of the world and of the Third World, Southeast Asian countries and China do share a common set of interests in many phases of their development strategy such as the formation of a domestic market, the adoption of a labor-intensive technology, and the pursuit of economic development with social equity.

Furthermore, when the Indochina war is finally terminated completely, the ASEAN countries will cooperate with those countries of Indochina, which have been war-battered and disrupted by the interference of foreign powers, as well as with Burma, to establish firmly a system of cooperation. The establishment of such a system, embracing such a large geographical area, must definitely prove a constructive element in the ASEAN countries' efforts to achieve economic independence, which they all seek so eagerly.

The regional system of cooperation in Southeast Asia has only recently made a start with little progress in concrete terms, except for the cases of the Coconut Community, the ASEAN paper project, and some others. Rather, the international division of labor within the region as engineered by multinational corporations seems to be more conspicuous, as for example in the automobile industry. But the century-long development pattern of dependence on foreign elements is about to be dramatically changed by people's grass-root desire for democracy and independence. Sooner or later the region will build itself into an independent economic unit. This in fact is in harmony with the general trend of the world towards a multi-polar structure. And industrially developed nations in this region will not be able to regard these countries merely as suppliers of raw materials and markets of finished goods and capital—or as an object of profit-making—but will be forced to develop more mutually beneficial economic relations. In particular, Japan has to reflect on and reform its own attitude towards the national independence, welfare of the people, and social justice, which Southeast Asian countries are today aspiring to achieve, and to adjust itself to this new tide in Asia. For this, Japan must be truly independent vis-à-vis the superpowers, and construct within its own boundaries a welfare-oriented society. Then and then only will Japan be able to forge solidarity with these countries to work for common prosperity.

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