

ECONOMIES OF NON-COMMUNIST ASIA

15 March 1955

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Mr. Charles F. Baldwin, Deputy Assistant Secretary for Far Eastern Economic Affairs, Department of State, a career Foreign Service officer, was graduated from the School of Foreign Service of Georgetown University. After his release from the Navy in which he served as an officer for four years during World War II, he served as commercial attache at the U. S. Embassy in Santiago, Chile; economic counselor at the Embassy at Oslo, Norway; U. S. political adviser at Trieste; and economic counselor at the Embassy in London. Earlier Mr. Baldwin had a tour of duty in Australia. Just prior to his appointment as Deputy Assistant Secretary of State, he was consul general at Singapore, with the rank of Minister. Mr. Baldwin has had experience in both Government and private business. This is his first lecture at the Industrial College.

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DR. WILLIAMS: There is a well-known slogan with which I am sure a certain proportion of the audience will heartily agree: "Join the Navy and see the world." Another one might be devised, "Pass the Foreign Service examination and see the world."

When you have a man who has spent about a quarter of a century in the Foreign Service and also several years as an officer in the Navy, he has really been around. Our speaker this morning has seen the international situation from a number of capitals in Europe and Latin America, and just before he came to his present position as Deputy Assistant Secretary of State for Far Eastern Economic Affairs, he was Consul General at Singapore.

I have never been to Singapore but I have been to many movies so I know something about that seething center of international intrigue. I am sure if the speaker wanted to, he could tell us a great deal about what is going on over there, including maybe stories of beautiful oriental spies that he has heard through his subordinates.

This is the first time Mr. Baldwin has been here at the Industrial College and I consider it quite an honor to me to be the one to welcome him to this platform. Mr. Baldwin.

MR. BALDWIN: Dr. Williams, General Niblo, ladies, and gentlemen: I have never been so acutely aware of my advanced years as during this delightful introduction when I was reminded that I had to learn about beautiful foreign spies from my subordinates. Perhaps I can tell you about beautiful foreign spies in the question period.

Because of its kind, my talk today will disappoint any of you who enjoys listening to public talks which are punctuated with abundant statistics or with abstruse dissertations on economic theory. You have books and reports to satisfy your appetite for those forms of knowledge.

I shall try today to present to you a picture of the economic scene in the Far East in a manner which I have found useful in considering the overall problems facing us in that critical and important area. By

the Far East I mean the area which includes Burma on the West, and extends through Japan and the Philippines on the East. That is the conventional State Department definition of the Far East. I hasten to define the area that I talk about because there are almost as many definitions of the Far East and Asia as there are those who use those terms. I shall not discuss India because it is not included in that geographic area and because I know it has been ably discussed here by our former Ambassador to India, George Allen.

If any evidence is needed to prove the inseparability of economic and political forces, the Far East can supply it in abundant quantities. The Communists are well aware of that important relationship. They understand the extent to which economic developments direct or influence political forces in Asia and they use economic weapons as an important part of their means of fighting against the free world in the Far East. They well know that it is difficult, if not impossible, to create a structure of political stability upon a foundation of economic instability in the Far East. We can be reasonably certain that any efforts by us to increase the economic strength of that area will be fought by the Communists and that they will overlook no opportunity to strengthen their own economic influence in the region.

The general picture of the economies of the Far East which I would like to sketch for you today is really two economic scenes, each of which represents a stage of general economic development. When you travel by train from Kyoto to Kobe in Japan, you will find that the landscape, as General Niblo well knows, resembles somewhat the outskirts of Pittsburgh, or Gary, Illinois, a scene which epitomizes the peak of Asian economic development and industrialization and one of the two major segments of Asia's economy, a segment occupied by the only industrialized Asian country--Japan. You will see the other extreme of the Asian economic picture if you journey through parts of Indonesia, Borneo, Burma, and Thailand, where you will find the soil being tilled almost exactly as it has been cultivated for thousands of years. You will find wooden plows, sometimes drawn by water buffalo and sometimes by the farmer's wife if he has one. You will witness there almost equally rudimentary forms of trade and transportation and other characteristic evidences of economic underdevelopment.

But even in these underdeveloped countries which comprise the other major segment of the general Asian economic picture--the opposite extreme of the much more highly developed scene which is Japanese--signs of progress belie Kipling's oft-quoted prophecy that the

twain of the East and West shall never meet. In one day in Borneo, I have seen Dyaks eking out a marginal existence by the most primitive methods only a few score miles away from a modern oil field and refinery operation. The economic meeting of the primitive East and the modern West is taking place and the results foretell what can be done with the economic potentialities of the Far East, given enough time, competent planning, steadily improving execution, and adequate resources of capital and technical knowledge.

The possible future economic achievements of the Far East loom large in the current struggle for that area between communism and the free world. Communists well know the economic value of the prize which would fall into their hands by gaining control of the remaining free countries of the Far East. They would have the productive force generated by a total population of about 280 million people. They would have vast resources, including about 65 percent of the world's production of tin, about 90 percent of its natural rubber, a large portion of the world's output of rice, very substantial reserves of petroleum, vast stands of timber, and other valuable natural resources which as yet are in a relatively low state of development. These are valuable assets to the free world. If they should be permitted to fall into Communist hands, they would weigh heavily against us in the balance of world resources.

Perhaps the most valuable Far Eastern asset, Japan, is being eyed covetously by the Communists who have undoubtedly given a very high priority among their political objectives to the task of pulling Japan out of the orbit of the free world. Partly because it is the only highly industrialized Asian country, Japan is a particularly important prospective victim of Communist attentions.

Japan emerged from World War II with its economy badly damaged by the stresses and strains of the preparations for and the waging of a war. The country's industrial machine was largely obsolete. Synthetics had greatly reduced the world demand for silk. The loss of former Japanese territories of Korea, Formosa, and on the mainland of China meant the loss of sources of food, raw materials, and markets for manufactured products.

This accentuated the severity of Japan's traditional economic problem--the problem of supporting a rapidly growing population, now about 90 million and increasing at the rate of 1.5 million per year--in an area less than the size of the State of California, and capable of producing only a few of the basic raw materials required for industrial purposes,

and only about three-fourths of its food requirements. At the end of the war, this problem appeared to be an almost hopeless one. Japan's economic collapse seemed to be almost unavoidable.

Collapse was averted by a combination of circumstances, the most important of which were the more than 2 billion dollars of United States postwar aid to Japan and the large sums of money which the United States has been spending in Japan since 1950 for military purposes. These so-called "special expenditures" have consisted of money spent by American military personnel, and expenditures in Japan on goods and services for United States and friendly forces in Korea and other parts of the Far East. In one year, 1953, these expenditures totaled 785 million dollars. This year they will be somewhere in the vicinity of 580 million dollars. The total of such expenditures since 1950 has exceeded Japan's total trade deficit during that period.

Thus postwar Japan has been able to enjoy a standard of living which was not justified by the realities of the basic economic situation of the country. Visitors to Japan since the war have seen many evidences of great economic activity in many parts of the country. The Japanese are industrious and the influx of dollars provided a strong stimulant. Construction work increased rapidly. The production index rose to 180 as compared with 140 in 1938. (The base years used for this index are 1934-36.) Consumption rose to an average level from 5 to 10 percent above prewar, and the rapid commodity turnover tended to distract attention from the inflationary price trend. Imports increased until they reached a total of 2.4 billion dollars in 1953. Unfortunately, there was not a parallel gain in exports which in the same year amounted to only 1.3 billion dollars, leaving a deficit in Japan's overseas trading account of 1.1 billion dollars. Special dollar expenditures and invisible earnings, however, brought the net deficit down to only 200 million dollars.

The disequilibrium between Japan's exports and imports continues to be the most significant indication of the gravity of the country's basic economic problem--the necessity of finding means of increasing exports by at least 700 to 800 million dollars per year. United States military spending in Japan must be considered only a temporary factor in Japan's balance of payments. The cessation of Korean hostilities, the partial withdrawal of our forces from Japan and Korea, and reduced offshore procurement in Japan have already decreased the level of United States spending considerably and the trend is expected to continue.

More than a year ago, the Japanese Government attempted what has been called an austerity program in an effort to arrest inflation and reduce the foreign trade gap. The program included more stringent credit controls to reduce nonproductive use of the country's resources, decreased government spending, and measures designed to reduce imports and stimulate exports. After some months these measures began to show gratifying results which were reflected in changing consumption trends, a slowing down of the rise in wholesale prices, and a narrowing of the gap between exports and imports. The gains were, however, by no means painless. They were accompanied by conditions which accentuated the political unattractiveness of the disinflationary program. These conditions included a reduction in the amount of investment capital available for (a) the expansion and modernization of industry, (b) land reclamation, and (c) other economic development purposes. They also included an increase in unemployment.

Nevertheless, the program has continued in effect and was largely responsible for the improved relationship in 1954 between Japan's exports and imports and for the fact that the country's balance of payments shows a 100-million-dollar surplus for the year. The medicine tasted bad; it made the patient uncomfortable; but it brought about improvement in the malady.

There are additional internal steps which Japan could take to improve its economic position. One is to put out the welcome mat for foreign investors who appear willing to put both money and know-how into Japan for a fair return; another is to improve the use of available domestic capital by imposing selective credit controls as contrasted with largely quantitative controls which have been imposed to date.

The United States has endeavored in various ways to assist Japan to solve its economic problems since the war. The most substantial aid has been the postwar outright aid totaling close to 2 billion dollars of reconstruction assistance and the subsequent special dollar expenditures. In addition, the United States has been endeavoring to bring Japan into the membership of the General Agreement on Tariffs and Trade, (GATT), and thus obtain the benefits of most-favored-nation treatment and of multilateral negotiations designed to reduce barriers to international trade.

Japan's efforts to increase exports have not only been handicapped by the high production costs resulting partly from the rising prices of imported materials and partly from low productivity, but also from the

inability to benefit from the multilateral reductions in the tariffs of many countries as a result of negotiations under GATT. At the present time, negotiations which, we hope, will enable Japan to become a full participant in the GATT are under way at Geneva.

It is hoped that these and other measures to increase Japan's exports, including a continuation of the disinflationary program, will gradually but steadily reduce the proportions of Japan's serious economic problem; a problem which, if continued, would not only jeopardize the country's internal political stability, but might make the Japanese Government and people more responsive to overtures of the Communist world.

Although the potential for trade between Japan and Communist China is limited by the fact that Communist China and the Soviet bloc have very few commodities available for export which are of importance to Japan, pressure is increasing in Japan for relaxation of controls on this trade. It must be remembered that Japan controlled both ends of prewar mainland trade, whereas now it must deal with Communist China through a cumbersome, inefficient state trading setup, and that the bulk of Manchurian soybeans--which were the backbone of prewar Sino-Japanese trade--are now going to the USSR. Trade with mainland China has been increasing somewhat and will probably continue to increase slowly, but it is not the solution to Japan's basic economic problem, and there are a great many people who know this.

As the Japanese work for the improvement of their economy, their eyes inevitably turn to the countries of Southeast Asia whose markets and resources are so important to Japan's economic well-being. The interdependence between Japan and those countries is one of two reasons why the economic development of Southeast Asia is, in the opinion of many of us, so important an element in the struggle against communism in the Far East. The other reason is the importance of preventing the Chinese Communists from convincing the peoples of Southeast Asia that the Communist road toward the goal of economic well-being furnishes a better and faster means of reaching that goal than does the democratic road.

That is the doctrine which the Communists have been preaching in Southeast Asia. The claims of economic improvement which the Chinese Communists have been making are dangerous propaganda indeed as it falls upon the ears of the common man of Southeast Asia whose intellectual horizon is limited, who has no deep belief in the principles of

democracy as we understand them and little knowledge about or fear of contemporary communism, but who does yearn for a better way of life and for a higher standard of living.

Now I must speak about this other segment of the Asian economic scene, the underdeveloped countries of Southeast Asia; the economies of these countries are not identical. All of the countries, however, present some common and fundamental characteristics--all have agrarian economies; all have a low per capita income which prevents the formation of enough domestic capital to keep pace with the need for investments for purposes of essential economic development; all need greater economic diversification to reduce their excessive dependence upon a few sources of income; all have bountiful resources and a sufficient population to provide the necessary labor force and consumption demand to support the process of economic development.

The basic economic problem of these countries is to raise the income of their people and thus be able to obtain the additional resources which they need for more ample economic progress. From our standpoint, the achievement of that objective is highly important for the reasons which I have already mentioned. Malaya and the Philippines have the highest per capita incomes in Southeast Asia--the figure approximates 200 United States dollars a year. The figure for Ceylon is about one-half that amount. In Thailand, Free Viet-Nam, Cambodia, and Laos, it ranges from \$60 to \$75, while in Burma it is even lower, about \$50. Ours is approximately \$1,900 per year. It is obvious that in areas of rapidly increasing populations such incomes can barely satisfy basic human needs and leave little or nothing for savings.

These basic problems of low productivity and low incomes have an acute political significance in those countries of the Far East which have achieved their independence since the war. Among the many problems of the governments of those countries has been that of satisfying the economic aspirations of their people; thus preventing the hope which political independence brought to them from being replaced by bitter disillusionment and resentment.

I would say perhaps the biggest problem of Southeast Asia is that of finding some means of tiding the peoples in these newly independent countries over the formative years, the infant years of their national life. By doing this they will see that through independence and by means of democratic methods they really can achieve the kind of life, the standard of living, that their leaders have told them will follow if they pursue the course of democracy.

The economically underdeveloped countries of the Far East, previously mentioned, fall into two categories: Those which, since the last war, have been victims of direct Communist aggression, such as Korea, the former Associated States of Indochina, and Taiwan; and the remainder, which includes the so-called neutralist countries of Burma and Indonesia as well as the Philippines, Thailand, and Malaya. These latter countries are committed to the struggle against communism and are bearing a large burden of military expenditures.

War or the threat of war is the dominating factor in the economies of the first group of countries. Korea is painfully struggling to recover from the shattering effects of the massive destruction of the war, added to the disruptions caused by the physical division of the peninsula and by the earlier problems resulting from the repatriation of the Japanese who had been key figures in the prewar economy of the country.

With massive aid from the United States--which this year alone will total some 700 million dollars--strenuous efforts are being made to bind the wounds of war and develop an economy capable of supporting a tolerable standard of living and a large defense organization. Korea has the largest, best equipped, and most battle-tested military force in free Asia. Economic progress has been achieved and production generally is above preinvasion levels. Despite heavy financial aid, however, chronic inflation continues to exist and very substantial further aid on our part in the future will be needed.

The problems created by the heavy defense establishment in Taiwan have been complicated by the shortage of the island's resources and its rapidly growing population. Large amounts of United States aid are needed to encourage and assist Taiwan in developing the kind of local industries which will supplement the essentially agrarian economy and hold in check the inflationary forces created by the large expenditures on the military establishment. In Taiwan, as in Korea, the weight of the pressure of the military defense establishment burden on a limited and weak economy would collapse that economy quickly without very large amounts of United States assistance.

To the west, Cambodia, Laos and Viet-Nam face extremely serious economic problems caused in part by outright Communist aggression following upon the economic disruption caused by the Japanese occupation. Under these conditions, the low per capita income of these countries has not increased, the gross national product has declined considerably, and heavy foreign trade deficits exist. All three countries, however, have

important natural resources and other requirements for a viable economy if internal security can be established and the threat of aggression checked.

Still westward of these three countries lies the rice bowl of Southeast Asia, which is owned by Thailand and Burma. Both countries have extensive natural resources, but the economy of both is still largely dependent upon the production of rice. About 92 percent of Thailand's agricultural area is devoted to rice, which accounts for about two-thirds of the country's exports and for about one-fourth of its governmental revenue.

Before the war, Burma was the world's largest exporter of rice, but current production is still more than 10 percent below the prewar figure. There is in both countries a large accumulated rice surplus. The effect of that surplus has been relatively more serious in Thailand where the effects of decreased rice exports coincided with the fall in price of two other important Thailand exports, rubber and tin, and caused an unfavorable trade balance which has not yet been corrected despite the imposition of import and exchange controls.

Burma, on the other hand, has been more fortunate in having a favorable trade balance since the war because it has a more diversified economy. Burma has also made substantial progress in economic planning and has achieved a 5-percent increase in gross national product each year since 1950. Recently, the impact of spending on developmental projects has accentuated the danger of inflation.

Here again, as is somewhat the case of Japan, we see an illustration of the fact that for almost every action in the economic field, there is produced a reaction. Very often actions that are taken for helpful, beneficial, and constructive purposes produce reactions which are unpleasant, sometimes almost intolerable. In Burma, which has done an excellent job in the field of economic planning, there is now beginning to appear some signs of growing inflationary pressures resulting from investments for economic development purposes. An accentuation of this situation might impose restraints upon the courses of action which the country needs to pull itself up from its relatively low economic position.

Economic progress in Burma since the war has been impeded by internal instability resulting partly from difficulties experienced by a newly independent government and partly from guerrilla operations. One or both of those causes of internal unrest and weakness have also caused problems in Malaya, Indonesia, and the Philippines.

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Malaya is an important producer of numerous raw products and one of the principal world suppliers of rubber and tin, and its economy is highly vulnerable to fluctuations in the world prices of those commodities. It is the most important dollar producer of the British Commonwealth, and its internal security is a matter of both political and economic interest to the British Government, which since 1938, has waged war against a relatively small number of uninformed Communist guerrillas who have terrorized the country and inflicted heavy damage. The reestablishment of law and order is essential to Malaya's further economic progress and better economic diversification.

While I am not certain that I can with propriety divert you with stories of beautiful spies in Singapore, I could, if I had time, tell you in some detail about the guerrilla warfare which has been waged in Malaya since 1948 and which illustrates graphically the difficulty of coming to grips with the impediments to political and economic development which can develop in the absence of law and order in the Far East. Scattered through the jungles of Malaya, uninformed Communist terrorists have "pinned down" much larger numbers of British emergency forces, well trained and with all the requirements for military success. During seven years of effort, it has not been possible to weed out of Malaya this festering growth which has impeded the country's economic progress and its political stability. It is a very dramatic and very important illustration of one of the basic problems which the free world faces in Asia.

Malaya's southern neighbor, Indonesia, is the greatest world source of natural rubber, one of the three great producers of tin, and an important producer of petroleum. Those three products accounted for two-thirds of Indonesia's exports in 1954 and furnished the greater part of the cash income of the people. Falling world raw material prices commenced a heavy drain on the country's foreign exchange reserves in 1952 and, while the drain has been checked, the general economic situation continues to be difficult and deficit financing has created inflationary pressures. Sound planning, diversification, increased productivity and, of course, the typical Asian need for more investment capital are needed badly in this large and extremely important country.

The former internal security problem of the Philippines has greatly decreased and considerable economic progress has recently been accomplished. There has been a steady increase in the production of almost all the important commodities and a steady rise in industrial output since the war. The gross national product rose 25 percent between

1950 and 1953. Domestic prices have been relatively stable and no dangerous inflationary trends are evident. The government has shown keen interest in economic planning and in means of attracting foreign investment capital. There is a gratifying and growing awareness of the country's economic needs among both public and private Filipinos. Considering the fact that the Philippines were in a serious economic situation not long ago, the islands today are certainly one of the brighter spots on the Asian economic scene.

In my remarks about Japan, I mentioned some of the remedial measures which that situation requires. What are the most effective remedies which can be administered to give greater health and strength to the rest of Asia, to the underdeveloped countries which I have been discussing? These remedies are, I think, four in number:

First and most essential is additional financial resources. The last Colombo Plan Report, while citing progress in economic development in the Colombo Plan countries, spoke feelingly of the continued shortage of resources which keeps wide the gap between what has been done and what needs to be done. In no country of the area except Japan is there sufficient internal capital to finance developmental needs. In some countries there has been an increase in indigenous capital--much of it in the hands of local Chinese--but the demand vastly exceeds the supply. Dependence upon external sources of investment capital is therefore a common characteristic of these countries.

While there has been some private foreign investment since the war, much of it from companies that already had made large investments in oil, rubber, tin, and other projects, the flow of capital has been a trickle compared with the need. There are still substantial foreign investments in these countries (British capital in Malaya and Borneo, Dutch capital in Indonesia, some American and other foreign capital throughout the area) but new capital is needed. Until local conditions, meaning primarily, the Communist threat and the attitude of local governments toward private investment, become more attractive to private capital, the need will have to be filled from nonprivate sources if at all.

From the end of the war to 30 June 1954, the United States made available to the countries of the Far East in nonmilitary aid 5.695 billion dollars, of which 5.226 billion dollars were in the form of grants. Japan was the largest recipient with 2.49 billion dollars, while the Philippines received 805 million dollars.

Despite this infusion of funds, much of which was spent to repair war damage, the unsatisfied need for economic development capital continues. There is a limit to the capacity of the countries to absorb additional capital without producing damaging inflation, but that limit has not yet been reached.

The second remedy for these underdeveloped countries is an essential counterpart to financial resources--one which is needed to make certain that resources are effectively used, namely, sufficient competent technical personnel. The lack of technical skill and knowledge is a crying need throughout much of the Far East, again with the exception of the Japanese. It hampers the accomplishment of projects for which resources can be found and it hampers the effective governmental planning of developmental programs which would entail their utilization of additional resources.

The ability of these underdeveloped countries not only to step up the tempo of their general economic development, but to diversify their economies and thus make them more resistant to the fluctuations of world prices and demand depends upon a proper combination of money, competent planning, and skilled technical execution. With this combination, the agricultural foundation of the economies of these countries can be strengthened, transportation and power facilities increased, and appropriate secondary industries developed as a prelude to later and more advanced economic progress.

We have been wise in placing so much emphasis upon technical assistance in the Far East and we and other countries, including Canada, Australia, and New Zealand which have also been active in this field, could profitably increase our efforts. Untold sums of money could be poured into the Far East only to be wasted if there is not sufficient technical competence to insure that the funds are constructively spent.

The third remedial measure will be to increase economic cooperation of all kinds among the countries of the area. A start has already been made in that direction by ECAFE (the United Nations Economic Commission for Asia and the Far East) and the so-called Colombo Plan (the Committee for Economic Development in South and Southeast Asia). The activities of these organizations--one operating within the framework of the United Nations; the other, the Colombo Plan, originally a British Commonwealth Plan, but which has since become very largely Asian in coloration and motivation--have made the free Asian countries better acquainted with each other's economic problems and produced tangible

examples of regional economic cooperation. The opportunities here are not limitless.

The countries of the Far East are much less complementary economically than are, for example, the countries of Europe. Except for rice and a few other commodities, the underdeveloped countries are not important buyers of each other's principal products. This is an important point to remember in connection with a good deal of the discussion today about regional economic cooperation in Asia. It is badly needed, but the opportunities are not unlimited. These countries are economically complementary to Japan and there is an urgent need for further economic cooperation between them and Japan.

Finally, the most essential ingredient in the economic remedy will be freedom from fear and from communism. In the case of such nations as the Republic of China, Korea, the Philippines, Thailand, and the Indochina countries, efforts to build up a defense against the Communist aggressor represent a heavy financial burden for those countries, and, of course, a heavy one for us. It also represents a heavy psychological burden which is far from conducive to the conditions under which plans for economic development can best prosper.

I could with accuracy have added another ingredient--time. Economies in a relatively low state of development cannot develop overnight. Economic growth should be steady; if it is pushed too rapidly, damage will result. Unfortunately, the tempo of political events in the Far East is rapid and economic progress lags behind. The problem is to accelerate this peaceful economic development without exceeding the speed limit of prudence. The job must be tackled and it cannot be done without substantial United States assistance, unless it is done with the kind of assistance which would aid the Communist cause and impair ours. I am convinced that there is far too much at stake in this situation for us to permit that to happen.

Thank you very much.

(The discussion was off the record)

(15 Apr 1955--250)S/gmh