

Edited by Cranley Onslow

Asian Economic Development

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ASIAN ECONOMIC DEVELOPMENT

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Foreword by Sir Sydney Caine

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FOREWORD

BY SIR SYDNEY CAINE

IN the last generation and especially since the end of World War II there has been a very great increase in conscious and theoretical discussion of the process of economic development. This is not because nobody was interested in the subject earlier or that nobody took any steps to encourage economic development; the whole history of modern times and particularly in the last century or so is evidence against that. What is new is the much more careful examination of what can be done by political authorities to bring about development, especially in what are generally called the under-developed countries, i.e. those in which the pace of development has in recent times been less rapid than in, say, Europe and North America. The attitude has been that it is no longer something which can be left to happen, with such occasional pushes and prods as governments may feel disposed to give, but must be a major preoccupation of governments. Equally, of course, it is expected that the governments of the more developed countries should accept a major preoccupation with the stimulation of 'growth', which is of course basically the same process.

Granted that this is a major task of governments, there has been a good deal of discussion as to how best to do it, whether on the basis of carefully worked out plans enforced by a central authority through suitable controls or largely by a private initiative operating within a favourable 'climate' established by suitable government policies. Different writers on the subject have taken different theoretical standpoints and the governments of different countries have adopted different policies. In the considerable volume of writing on the subject there has been a very strong tendency for those who lean towards the planning solution to discuss in terms of plans rather than achievements,

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i.e. showing how the plans *ought* to work, and equally for those who lean to the free enterprise or *laissez-faire* solution to explain equally theoretically how the beneficent hidden hand of classical economics *ought* to work.

What is comparatively lacking has been the really close study of what has happened in practice in different countries with different policies. The great merit of the studies which Mr Onslow has collected together in this volume and commented upon is that they try to look at the actual facts of achievement and not at what theory, whether of planning or free enterprise, would lead one to expect. The studies are concerned with a number of countries in southern and south-east Asia, which although very far from uniform in social or political structure do have substantial common features, each of them written from the point of view of a national of the country itself with a genuine sympathy with the aspirations of his country, but with a reasonable degree of objectivity and critical approach. They do give, therefore, some basis on which it is possible to begin to form a judgment about the relative success of different techniques aimed at the encouragement of economic development. Mr Onslow in Part II of the book has suggested the conclusions which seem to him to emerge. Whether or not one agrees with all of Mr Onslow's conclusions there can be no doubt that this kind of comparison of real facts rather than of theoretical possibilities is a most desirable development and one which I hope will be widely followed.

Clearly any conclusions emerging from this particular set of studies must be tentative. The processes which are being described are still in full play. Their long-term results can as yet be only dimly discerned and later experience may either confirm, disprove or qualify conclusions which appear to emerge at this still early stage. It is to be hoped that much fuller comparative reviews will follow. In the meantime anybody seriously interested in the actual processes which do go on rather than in the theoretical processes which might go on in a model world will find a great deal of interest in these studies.

EDITOR'S INTRODUCTION

FOR some years past there has been a growing dissatisfaction with the rate of economic progress in many parts of the less developed world.¹ Concurrently, there has been a growing feeling that part of the blame for the failure of economic performance to match political promises must be attributed to the official policies of the leading Western nations. This dissatisfaction and this feeling have now become widespread. But it has been very difficult to judge whether or not they are justified, if only because of the absence of a sufficient amount of impartial evidence.

This book is an attempt to remedy that deficiency. It consists, in the first place, of a series of individual studies of the economic progress, since 1945, of six Asian countries – Burma, Ceylon, India, Malaya, Pakistan and Thailand. These countries have been chosen primarily because they form a contiguous group, accounting altogether for some three quarters of the population of Asia outside Communist control. Each of the studies has been contributed by a leading economist who is a national of the country concerned. All the contributors were asked to express their personal opinions as freely and as vigorously as they wished, and I am most grateful to them for responding so liberally to the challenge.

These studies, which were completed at various times between January 1963 and February 1964, are arranged in alphabetical order in Part I of the book. Part II consists of a comparative analysis of the evidence thus presented. The aim of this analysis has been to examine critically the objectives and the

¹ I have generally used this phrase, and its antithesis, 'more developed', throughout, in preference to more conventional terms such as 'backward', 'under-developed' or 'developing'. All economies are to some extent developed, and developing: the differences are only differences of degree.

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experience of the six countries as a group: for though there are clearly wide differences in individual circumstances within the group, there also appear to be many economic problems which are common to all.

On the basis of this examination, it has been possible to draw a number of conclusions which may be of value, not only to those directly concerned with the economic future of this part of Asia, but also for more general purposes. In the long run, the future peace and prosperity of Asia is certainly of greater international importance than that of any other part of the less developed world, because of the total population involved. But in the short term, other areas, and Africa in particular, are now entering much the same stages of economic development and facing problems similar to those which have been experienced in South and South-East Asia during the past two decades.

It must, however, be stressed at once that the conclusions I have drawn are not necessarily ones with which all the individual contributors would agree. In some cases, indeed, my own conclusions conflict directly with those contained in the original studies, just as some conclusions in one study conflict with those in another. In so far as this involves any criticism of the views of individual contributors, no discourtesy is intended: where I have felt it necessary to draw attention to apparently fallacious arguments, the reader remains free to judge the validity of these criticisms.

The limits of this necessarily brief analysis have also made it impossible to deal with every aspect of the whole subject of economic development. For obvious reasons, the treatment is highly selective. Some of the argument is closely compressed, and I have tried to avoid complex technicalities. Nevertheless, the conclusions set out in Part II are advanced in the belief that they are valid, and that they are supported both by the evidence of the studies as a whole and by general economic reasoning.

The major concern of the book as a whole is with the factors underlying economic development, and with the economic and social effects of actual policies. The reader may therefore like to keep these two subjects chiefly in mind when reading the studies in Part I. Even if he then disagrees with some or all of the conclusions drawn in Part II, I believe he will still find this a

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valuable exercise. I hope he will also agree that the problems of economic development and the policies pursued in this important region present formidable difficulties and dilemmas of major relevance to the contemporary scene.

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PART I

Six National Studies

U TUN WAI was born in 1922, and educated at Rangoon University, Bombay University (B.A.), Yale University (M.A., Ph.D.) and the London School of Economics.

He was Lecturer in Economics, Rangoon University, from 1947 to 1949, when he joined the Staff of E.C.A.F.E. In 1955, he joined the International Monetary Fund, and served as Assistant Chief of the Finance Division and Chief of the Statistics Division before becoming Chief of the North West Africa Division in 1962.

He has published two books and a number of articles on economic affairs.

BURMA

BURMA emerged from World War II in a very bad condition after being fought over twice; once at the beginning of the war when the Japanese conquered the country and again at the end when the allies liberated it. The scorched earth policy and the fighting damaged or destroyed not only residential buildings but much of Burma's productive capacity. It is estimated that of the national capital (excluding land) amounting to Kyats¹ 3,500 million at prewar prices approximately half was lost by 1946.²

As a result of the war, the real gross domestic product in 1946-47 was only 61 per cent of the prewar level (see Table 1). Agricultural output was 59 per cent of 1938-39 and the production of minerals was negligible. Real income *per capita* had, of course, fallen by a larger amount because of the increase in population. Besides direct physical damage, wartime economic factors were also responsible for the extremely low output immediately after the war. For example, in agriculture the Japanese occupation had cut off Burma from her traditional export markets which had provided an outlet for about half the annual rice crop before the war. Therefore, there was no incentive to produce rice for export and by 1945-46 the acreage under rice (paddy) had declined to half that of 1938-39 and production had become geared to national subsistence only.

After the war, the authorities, therefore, faced the tremendous task of rehabilitating the economy to its prewar level and in later years of promoting economic development. To achieve this, all the postwar governments have relied on planning of one kind or another. In fact, efforts at economic planning began even before Burma obtained its independence when

¹ One kyat = 1s. 6d. sterling = \$0.21 U.S.

² *Economic Survey of Burma*, 1951, p. 1, presented in Parliament by the Honourable Minister of Finance and Revenue, August 30, 1951.

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Bogyoke Aung San convened the Sorrento Villa Conference in June 1947 to discuss problems of rehabilitation. Since then there have been four plans (including the current second Four-Year Plan) which have been implemented with varying degrees of success.

TABLE I COMPOSITION OF GROSS DOMESTIC PRODUCT¹
(In millions of kyats at 1947-48 prices)

<i>Industrial origin</i>	1938-39	1946-47	1951-52	1956-57	1961-62 ²
1 Agriculture and Fisheries	1,907	1,147	1,440	1,753	1,813
2 Forestry	360	298	266	344	379
3 Mining and Quarrying	273	12	34	84	117
4 Rice Processing	182	90	119	144	147
5 State Marketing	633 ³	227	248	493	490
6 State Transport	117	47	48	76	89
7 State Banking	—	—	1	12	21
8 Other Public Utilities	31	8	10	31	68
9 General Government	153	216	314	487	626
10 Rental Value of Housing	165	149	162	203	230
11 Other Industries and Services	1,124	828	994	1,307	1,499
a Total in millions kyats	4,945	3,022	3,636	4,934	5,479
b Index 1938-39 = 100	100	61	74	100	111

Source: Ministry of National Planning, *Economic Survey of Burma* (annual).

Despite the planning and even sixteen years after the end of World War II, the real gross domestic product of Burma is now only 11 per cent above that of 1938-39. The rate of recovery from the ravages of war has been rather slow and often quite erratic; it was only in 1956-57, ten years after obtaining independence, that the prewar level of production was reached (see Table 2). The average rate of recovery between 1946-47 and 1956-57 of 5.4 per cent per annum cannot but be considered slow because problems of recovery with idle agricultural

¹ Year beginning 1 October except for 1938-39 which is year beginning 1 April.

² Estimates.

³ Refers to private marketing which has been replaced by State Marketing.

BURMA

land, though difficult in the Burmese context, are usually minor in comparison with problems of genuine growth. It is, therefore, not surprising that in the subsequent period 1957-58 to 1961-62 the average rate of growth of 2.2 per cent per year was much smaller than the rate in the earlier postwar years.

TABLE 2 GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

<i>Year</i> ¹	<i>In millions of Kyats at 1947-48 prices</i>	<i>Index 1938-39 = 100</i>	<i>Percentage change over previous year</i>
1938-39	4,945	100	—
1946-47	3,022	61	—
1947-48	3,557	72	18.1
1948-49	3,200	65	-9.7
1949-50	3,038	61	-6.2
1950-51	3,431	69	13.1
1951-52	3,636	74	7.3
1952-53	3,899	79	6.8
1953-54	4,046	82	3.8
1954-55	4,294	87	6.1
1955-56	4,456	90	3.4
1956-57	4,934	100	11.2
1957-58	4,770	96	-4.0
1958-59	5,106	103	7.3
1959-60	5,513	111	7.8
1960-61	5,408	109	-1.8
1961-62	5,479	111	1.8

Source: Ministry of National Planning, *Economic Survey of Burma* (annual).

Admittedly, political difficulties and lack of law and order caused by the insurgency beginning in 1948-49, were partly responsible for the slow rate of growth in Burma in the postwar period as a whole, but economic factors played a major role. It is the purpose of this essay to study the role of planning, the range of economic problems which confronted the country, and the policies adopted; all of these have influenced the postwar

¹ Year beginning October 1 except for 1938-39 which is year beginning April 1.

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rate of growth. Some conclusions are also given so that they may serve as a guide to future economic policy.

PLANNING AND PERFORMANCE

The Two-Year Plan and the Insurgency

The Two-Year Plan of Economic Development, announced in April 1948, was the country's first attempt at planning. However, it was not a full-fledged plan but merely a list of physical targets considered achievable within the next two years. It did not have any financial framework and no attempt was made to relate the Plan to the government budget. It envisaged that by 1951-52 the level of agricultural output would reach the pre-war level. For industry, it enumerated a number of desirable projects but they were not supported by any technical studies for feasibility or cost-benefit calculations.

The Plan was never implemented in a formal sense because the insurrections broke out in the second half of the year and the attention of the government was diverted to restoring law and order in the country. However, there were a number of policy statements in the plan which guided the AFPFL governments in the course of their ten year rule. For example, the desire to promote economic growth through socialistic principles was followed. The Plan's objective of redistributing land and securing a fair share of the output led to the Land Nationalization Act which was passed in 1948, even though it was only in later years that it was gradually enforced; the proposal to set up a State Agricultural Bank was implemented in 1953. Furthermore, 11 out of the 12 industrial projects recommended in the Two-Year Plan were incorporated in later plans and have been implemented in course of time.

The insurgency and lack of law and order affected the country for more than a decade but were most serious for about three years. During 1948-49 and 1949-50 the lines of communication and transport facilities were so poor because of destruction by the insurgents that the volume of exports was limited as much by this factor as by the low level of agricultural output. The government had to deploy part of its armed forces to provide escorts for trains and boats in order to ensure that the agricultural products were exported.

The economy became more disorganized during the peak of the insurgency when even the villager was reluctant to cultivate in fields further away from the village or travel widely for trade. The real gross domestic product fell in both 1948-49 and 1949-50 to 61 per cent of the prewar level (*see* Table 2), and the earlier efforts at reconstruction were vitiated. The effect of the insurgency was seen not only in the foregone opportunity to produce goods and services, but more importantly in the large scale destruction of capital equipment which reduced the ability of the economy to grow rapidly. Trains, steamers, and bridges were blown up by the insurgents and it is estimated that from the outbreak of the insurgency until August 1950 about Kyats 426 million of government property was destroyed or looted.¹

The Eight-Year Plan and the Korean War Boom

By 1951, the government was no longer fully occupied with the problem of law and order, and it began to devote its attention to economic planning and development. A group of American engineers and economists, financed initially by the US ECA programme, began preparing an Economic and Engineering Survey of Burma; their Preliminary Report was submitted in January 1952 and the Comprehensive Report in August 1953.

This Eight-Year Plan, also known as the KTA Plan and the Pyidawtha Plan, had the object of roughly doubling the gross domestic product in real terms between 1950-51 and 1959-60; the gross domestic product by the latter date would have increased by 31 per cent above the prewar level but *per capita* production by only 4 per cent above prewar because of the increase in population. The planners envisaged that it would be necessary to invest a total of K7,500 million over the planned period of which K4,020 million would be in the public sector and approximately K3,470 million in the private sector. Investment expenditures were roughly divided between rehabilitation projects with a capital-output ratio of 2:1 and new development projects with a capital-output ratio of about 2.5:1.²

¹ See Honourable Finance Minister, *Budget Speech* 1950-51.

² No further statistical details are available, but practically all rehabilitation projects were in the government sector.

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The average rate of investment planned for the period was 21.2 per cent of gross domestic product which was rather ambitious.

The Plan's objective of doubling output between 1950-51 and 1959-60 did not appear ambitious because there was unused agricultural land and the over-all level of production was still much below prewar. But, the assumption of the plan that it was necessary to have a very large investment programme in overhead social capital (infrastructure) and that these expenditures could be financed by the maintenance of the high level of rice prices prevailing during the Korean war boom was most unrealistic.

The desire to restore some of the infrastructure capital destroyed by the war and the insurgents is understandable. However, it should have been evident that if the objective was merely the restoration of prewar output with more or less the same composition of goods and services, then a capital investment of $\text{K}7,500$ million was not necessary because only half the prewar capital of $\text{K}3,500$ million was destroyed, and even after making allowance for a doubling of price of capital imports from abroad, the figure needed was less than $\text{K}7,500$ million.

The planners were most optimistic in the trend of agricultural prices especially for rice. The Korean war had caused prices of raw materials to rise rapidly in 1950-51 and rice prices also rose and continued to rise even when some raw material prices had fallen sharply in the spring of 1952. This undoubtedly led the planners to project a secular rice shortage and to predict that even in 1958-59 when production would have increased the price of rice would be only 14 per cent less than the peak price, that total export receipts would double, and that there would be balance of payments surpluses throughout the period of the Plan.

Although the planners did not realize that rice prices would break in course of time following the collapse of the boom, I pointed out in the summer of 1953 (at the time the KTA group published their Comprehensive Report) that by 1959-60 rice prices would be about 60 per cent of the level in 1950-51 and that the total value of export would be only about 10 per cent larger because despite the quantum increases in exports there would be this large decline in prices. Based on this and my

estimates for import demand, I concluded, unlike the planners who had projected surpluses in Burma's balance of payments that there would be deficits beginning with 1954.¹ All of these forecasts have been proved correct in subsequent years.

The capital investment programme of the Eight-Year Plan never reached the levels projected. In the beginning it was because of the physical bottlenecks in implementation such as decisions for ordering the right equipment and constructing the factories. Later, when the export boom collapsed it was due to the financial limitations of foreign exchange shortages. Foreign exchange reserves fell continuously from K1,269 million at the end of June 1953 to K628 million at the end of February 1955.

At this stage it became obvious to the government that the Eight-Year Plan was unrealistic and it therefore took drastic measures to stop the drain on foreign exchange. Cuts were made in the budget allotments for both current and capital expenditure for the remaining half of the fiscal year 1955-56. Many projects were abandoned or postponed and some orders for equipment were even cancelled. Only those projects on which work had started or on which unavoidable commitments had been made were allowed to be continued. For the private sector, the value of all import licences issued but not yet used was reduced by half and the system of Open General Licences was temporarily suspended. These measures put an end to the ambitious Eight-Year Plan.

The performance of the Eight-Year Plan fell short of its targets. As compared with an original investment programme of K7,500 million over eight years from 1952-53 to 1959-60, actual investment was only K5,174 million, a short-fall of 30 per cent. If the changes in prices of capital imports are taken into account (increases between 1952 and 1958 of 13 per cent for capital goods from the UK and of 26 per cent for capital goods from Japan) then the real performance was even more unfavourable.

In Table 3, the comparisons have been confined to the three operating years of 1953-54 to 1955-56 before the Plan was abandoned because the first year of the Plan, 1952-53, was

¹ See U Tun Wai, 'Outlook for Burma's Balance of Payments'. A paper read to the Burma Research Society on August 12 1953 and published subsequently in *Journal of the Burma Research Society*, December 1954, pp. 35-40.