

The Commonwealth Economy in Southeast Asia

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FOREWORD

SINCE the war the term "underdeveloped country"—John Stuart Mill used the expression "backward country"—has come into widespread use. In fact, the connotative function of this term has almost superseded its denotative function. The countries of the world have, in effect, been distributed between two quite vaguely defined classes, the developed and the underdeveloped, the members of either of which may have little more in common with one another than possession of an attribute or two. Thus, as a rule, countries in which per capita incomes are relatively high are described as developed; countries in which they are low are labeled underdeveloped. Such a system of classification, though not without value, is too primitive and hence too arbitrary to contribute greatly to analysis. Moreover, it blankets out the great heterogeneity of both the relatively more and the relatively less developed parts of the world. It passes over all too lightly such facts as that in some so-called underdeveloped countries average income may be five or six times as high as in others, or that in some of these countries the rate of natural increase may be two or three times what it is in others. It is coming to be recognized, therefore, that use must be made of numerous

classificatory criteria so that the heterogeneity of the "underdeveloped" (as of the "developed") world may be taken adequately into account, descriptively and analytically.

A very real contribution to the business of making students as well as publicists aware of the heterogeneity of the so-called underdeveloped world is made by Professor T. H. Silcock in the present study, one of a number being brought out under the auspices of the Duke University Commonwealth-Studies Center and treating of economic and political problems of countries with earmarks of underdevelopment. Not only does Professor Silcock deal with a very distinct part of Asia—Malaya, Singapore, Sarawak, Brunei and North Borneo—; he also demonstrates that each of these countries, two (i.e., Singapore, Malaya) situated on or at the extremity of the mainland and the others located in the northern portion of Borneo some five hundred miles from Malaya, differs from the others.

The diversity of these lands is reflected, for example, in their population density, ranging from that of Singapore, which is nearly comparable in density with Hong Kong, to that of Sarawak and North Borneo, which resembles the Belgian Congo in sparseness of population. It is reflected as well in differences in average income, which, while higher in Singapore than elsewhere in Asia (exclusive of Israel), is quite low in Sarawak and Borneo, though superior to that found in many parts of Asia. These lands resemble one another in that each rests upon an economic base which, though somewhat unique, is relatively narrow and not greatly variegated. In his first chapter Professor Silcock describes in considerable detail the characteristics of each of the Commonwealth lands under analysis, highlighting similarities and dissimi-

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larities and indicating their significance for the future course of economic development in this region.

Each of the countries is confronted by a somewhat unique developmental problem. There is, of course, a need everywhere for capital, in Singapore to offset a very high rate of population growth and to undergird trade more strongly with industry, in the Federation to get more industry started and generally to give support to the newly established Federation's protectionism, and elsewhere to facilitate the exploitation of natural wealth. There is need everywhere, especially outside Singapore, for skilled personnel, just as there is need for the maintenance of suitable external marketing connections. There is everywhere a population problem, with Singapore overcrowded and with Malaya likely to become overcrowded in the future, but with the Borneo lands still short of enough people to carry through their development most effectively. Nonetheless, despite these similarities, the inhabitants of each land are confronted by a particular set of concrete developmental problems, since each land possesses a somewhat unique collection of resources, exploitation of which is handicapped also in several instances by ethnic and cultural diversity and political strife. These problems and the circumstances giving rise to them are carefully and judiciously treated by Professor Silcock, together with divers means available for surmounting these problems, particularly in his third and fifth chapters.

The countries under discussion are as advanced as they are because, through the medium of a now somewhat irrationally condemned relationship—that which connected Britain and her colonies—superior techniques and capital and personnel flowed into these lands from abroad and raised the level of their economic performance above that found in neighboring countries. The old relation-

ship has now been replaced in varying measure by that realized, or eventually to be realized, within the framework of the Commonwealth and the sterling area—a relationship that emphasized local autonomy, co-operation, and complementarities. The new relationship is discussed by Professor Silcock in his second chapter, in which he examines “the Commonwealth impact” and contrasts this impact with that experienced under an earlier colonial or protected status. He also points (late in his third chapter) to the educational, scholarly, technical, commercial, and related contributions which the United States can make to the development of these lands and to the accentuation of a beneficial Commonwealth impact. The significance of Europe’s expanding free trade area for the development of Malaya and Singapore is dealt with in the fourth chapter.

In a most interesting final chapter Professor Silcock isolates the determinants of economic development which seem to be of most relevance to the areas about which he is writing. He examines these in the socio-economic context of the areas and shows, for example, that while there is great need for business education, this education needs to be accommodated to the forms of business organization in use among the Chinese, Indians, and others. He delineates the role which government may play in fostering economic development in Southeast Asia. And so on.

The reader of this volume is bound to have his appetite whetted for more about the interesting parts of the world treated therein. He will find, at the close of the last chapter, a fairly long list of books and articles, subdivided into nineteen categories and sufficiently annotated to indicate the nature and the quality of the contents of the pieces listed.

This judicious, carefully written, and forward looking volume reflects in its conception and in its rich and thoughtful detail the close acquaintance of its author with the countries discussed and with their problems. It reflects his extensive knowledge of the economies of Southeast Asia and his experience in the conduct of surveys (e.g., of Sarawak), and with the Economic Commission for Asia and the Far East. It manifests his concern with the implications of economic theory for the discovery of workable developmental policies. It reflects finally his many years of experience, in a varied professional association with the University of Malaya as professor of economics and university administrator, with the educational problems of Southeast Asia, and with the potentially great role that education can play in the unfolding of this region's economic potential.

Since the Commonwealth-Studies Center is concerned exclusively with the encouragement of research, specific theories or interpretations of Commonwealth affairs appearing in these publications do not constitute an expression of the view of the Center or of the Carnegie Corporation, which has furnished financial support to the Center. The respective authors of the several publications are responsible for the conclusions expressed in them.

JOSEPH J. SPENGLER

INTRODUCTORY STATEMENT

I AM GRATEFUL to Duke University for the opportunity first of giving these lectures in the United States and now of presenting them to the public. At the time I was first invited to give them, Malaya was still a protected Federal State, but by the time they were delivered it had become an independent member of the Commonwealth. While they were in press the first full-scale international conference, a meeting of the United Nations Economic Commission for Asia and the Far East, was held on independent Malayan soil. It seemed appropriate that the lectures should deal with Malaya's growth to independent status.

As an economist, I had to deal primarily with the economic aspects of this development; and this implied dealing with the economy of Malaya as a whole, a united economy undergoing marked changes as a result of this political transformation.

It soon became clear that even Malaya was too narrow. The economy of Singapore has many external links, but the links with the three territories

in northern Borneo include a common currency and common political institutions. Moreover, in some respects these territories are closely similar to Malaya at an earlier stage of political and economic development.

For these reasons I decided to attempt to deal with the economy of all the Commonwealth territories in the region. The emphasis, however, was uneven. Neither North Borneo nor Hong Kong could be omitted in surveying the general pattern, though my personal knowledge of these territories is slight. I have included them within the over-all survey of the region, but the analysis and examples are drawn mainly from Malaya, Singapore, and Sarawak.

Yet in dealing with the region's economy I have not found it practicable to treat it merely as a case study in the increasingly fashionable subject of economic growth. The timing of the lectures virtually compelled me to deal with Malaya's rapid progress to self-government. It might have seemed appropriate to draw a parallel between economic and political growth: to show an economic structure supporting and drawing strength from a political structure, and both developing in harmony. The facts, however, do not support such an approach.

The process of political development appears to foster institutions and relations in the economic sphere which become inappropriate, once the controlling power is no longer there. A discontinuity in economic growth seems likely, a discontinuity which is

closely related to the process of political development that prevails in all the countries with non-European populations in the Commonwealth.

Such a discontinuity is not necessarily harmful. The fact that independence involves substantial changes in economic structure may stimulate new attitudes and relationships that will provide new momentum. But this is sufficiently unlikely to make it worthwhile to examine in some detail why the discontinuity occurs.

For the discontinuity is not simply a breaking of ancient chains, as a simple nationalist might suppose. It differs from this almost as much as it differs from the optimistic picture of an orderly method of political growth, tried out over centuries among nations with English (or at least European) peoples, and now miraculously proving its efficacy even for nations less fortunately endowed.

There are real difficulties in transferring to countries where the Europeans are the entrepreneurs and civil servants a pattern of political development which worked well enough when they were the whole population. I have attempted to analyze these, for the area of Southeast Asia with which I am familiar, in these lectures to an American audience, not only because I hope this may improve American understanding of the non-European parts of the Commonwealth, but because I believe it may stimulate American acts and attitudes that will help the Commonwealth to solve its own problems.

I have retained the informal style used in deliver-

ing the lectures, but have included some extra material. I have also added as Chapter IV a short paper on Malaya and the European Free Trade Area, which amplifies a point in Chapter III. Permission to publish this in the United States simultaneously with its publication in England as part of a study of the Commonwealth and the European Free Trade Area has been generously given by the United Kingdom Council of the European Movement, the publishers of the latter study.

Chapter V is a short essay on economic development of countries of the type found in Southeast Asia. Although based on a lecture given at the International Economic Association's postgraduate course in Singapore in 1956, it has been substantially rewritten for the *Malayan Economic Review* and is, therefore, like Chapter IV, rather less informal than the first three chapters. My thanks are due to the editor of the *Malayan Economic Review* for permission to reproduce it here.

Inevitably, anyone who works in a region which is not well documented is more than usually indebted for information and stimulus to personal contacts, and it is a pleasure to record some of my debts here. For increased understanding of the general pattern of Southeast Asian economics I am indebted to fellow consultants and colleagues at the United Nations Economic Commission for Asia and the Far East, especially Mr. U Tun Wai now of the International Monetary Fund, Professor Shigeto Tsuru of Hitotsubashi University and Mr. T. Y. Wu of the ECAFE

Secretariat. My former Vice Chancellor, Sir Sydney Caine, and my colleagues in the University of Malaya, especially Dean Lim Tay Boh and Ungku Abdul Aziz, have informed and corrected me, and I have learned from the questions and presuppositions of my students. I have drawn on the deep knowledge concerning the economies of Malaya and Singapore of Dr. F. C. C. Benham, Mr. O. A. Spencer, and Mr. B. A. St. J. Hepburn. Some of these economists and government officers would dissent, perhaps sharply, from some of my analysis; and they cannot, of course, be held responsible for my errors.

Finally, I wish to express my thanks to Miss Margaret Flinter for generous and skilful help in the typing and preparation of the manuscript.

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May, 1958

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*The Commonwealth Economy
in Southeast Asia*

The Basic Pattern

THE COMMONWEALTH ECONOMY in Southeast Asia must be seen in relation to Southeast Asia as a whole, a region not without importance in the modern world because it is a region of potential instability and of potential prosperity. It is a region of comparatively small countries, mostly with new and not very strong governments, and it is rather overshadowed by the great masses of India and of China, both of which have substantial minority populations scattered through the region. Most of the economies of these countries follow the colonial pattern of specialization on a comparatively small number of primary export products. This specialization made them in the past highly dependent on trade with the more developed countries of the West. The United States, for example, still relies heavily on the region for rubber and tin and a number of other less important products.

Formerly, this trade was secured by the control over most of the countries of the region exercised by

the Western powers: the French in the area known as Indo-China, the Dutch in Indonesia, the Americans in the Philippines, and the British in most of the rest of the region. Before the Second World War only Thailand in the whole area had retained its independence, and Thailand's dependence on international trade was only indirectly safeguarded by colonial rule, which safeguarded the trade of the region and hence insured the surplus which enabled several of the countries to buy Thailand's rice.

I am not here to defend this colonial structure which brought the countries of the region considerable instability along with a higher standard of living, taking good years with bad, than the rest of Asia. It was in any event inevitably a temporary phase, though the colonial powers (with the exception of the United States) were not particularly conscious of this. I am concerned rather to discuss the current needs of the region arising out of this colonial phase and particularly out of its disintegration. But the parts of the region with which I am particularly concerned are those within the Commonwealth of Nations, whether as colonies in the last stages of colonialism or as independent countries.

Apart from their specialization, there are some other basic features which most of the Southeast Asian countries have in common. All of them have rates of population growth which are high by the standards of the rest of the world, some of them very high indeed; for example, Singapore's rate of approximately $3\frac{1}{2}$ per cent per annum and the equal or