

INSTITUTE OF CURRENT WORLD AFFAIRS

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Dear Mr. Rogers:

The Ninth ECAFE Conference,<sup>1</sup> held from January 13 to February 14 in the beautiful mountain town of Bandung, West Java, highlighted both the economic vulnerability and the political realism of the newly independent countries of Asia. The proceedings contained a number of lessons for all participants.

The free Asian countries found reaffirmation that their participation in a United Nations organization such as ECAFE yields concrete though very slowly accumulating results in attacking specific economic problems.

The western industrial powers present found an informal but clear unity of opinion among the representatives of dependent, raw material producing economies. They were presented with a strong argument that their economic power must be used with foresight and a realistic understanding that the instability of South Asian economies is also a threat to the industrial west.

The representatives of colonies could look to Indonesia, India, Pakistan, Burma, Ceylon and the Philippines and see that independence means essentially the freedom to struggle against overwhelming economic problems. They could see that their free neighbors join in the struggle with impressive pride and dignity.

And, finally, Russia learned that five-year old countries are not children, who will sacrifice small, positive gains for the sake of a hopeless political battle against such giants as Britain and America.

The real substance of the Ninth ECAFE Conference was the technical work of its sub-committees and working parties on concrete problems of housing, transport, electric power, flood control, small industries and cooperatives, the mobilization of capital, and technical assistance. What began in 1947 as primarily an information gathering and disbursing agency, has obviously become something much more. ECAFE's achievement record can be seen in the pilot industrial projects, study groups, technical advisory groups, trade promotion conferences and publications arranged under its auspices. In these spheres, the immeasurable but undeniable value ECAFE was apparent to all, except the Russian delegate who spoke of "minor technical points of little value." The Russian delegate of course wanted to talk only on matters of political-economy in the broadest sense; one reason for

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1. ECAFE (Economic Commission for Asia and the Far East) is a regional commission under the United Nations Economic and Social Council. Regular members are Indonesia, India, Pakistan, Burma, Philippines, Thailand, the United States, the United Kingdom, USSR, France, the Netherlands, Australia, New Zealand, and China (Formosa).

this is that Russia does not participate in any of the Commission's technical bodies.

The Bandung Conference did not take place in an atmosphere of rosy optimism, for the ECAFE region is still in the depths of a severe economic depression following the Korean War boom of 1950-51. Precisely because of this oppressive fact, the conference served important additional functions. As one of the Indonesian delegates said, it gave problem-plagued leaders a chance to air their troubles and complaints. In addition to this, it gave them a chance to hear that other Asian countries share these problems. This realization in itself is a political fact of great potential importance. On the opening day of the plenary session, Minister U Kyaw Myint of Burma claimed, "I think this commission has served to bring into prominence a psychological affinity on a regional scale based on many common needs, hopes and aspirations hitherto unknown." The fact that ECAFE has been misleadingly called "The Parliament of Asia" should not hide the fact that common ECAFE experience lays the groundwork for regional cooperation outside of ECAFE.

#### Russia States a Problem

Into the great mass of technical reports and statistics of the Bandung Conference, Russia injected the expected dose of drama. In attempting, rather clumsily, to shift the level of the conference from technical matters to the basic structural problems of South Asia's political economy, Russia stimulated a revealing and worthwhile discussion.

The Russian attack on "American monopolists" and "colonial exploitation" was delivered first in the January session on Industry and Trade, then carried on in the session devoted to the Economic Situation in Asia.

It was no surprise to see the western powers, their colonies, or their close friends reject the Russian arguments with either vehemence or wit. The representative from Malaya and British North Borneo drew the best laugh of the conference when he told the Russian delegate that his country would be very glad to subject itself to considerable Russian economic influence, if only Russia were capable of exporting something more useful than caviar. But the comment made little sense coming from a colony.

Of much greater importance was the refusal of the free Asian countries to follow Russia's lead. This refusal was partly a matter of disagreement with the Russian analysis of their situation, partly a matter of pride, and partly a matter of practical politics.

There was a great deal of truth in Russia's basic argument. Stripped of political invective, the analysis dwelt on obvious but important facts: that the politically independent countries of Asia are economically dependent on the eccentricities of overseas demand for their raw materials, that there is a growing lack of balance between the prices of raw materials and finished products, that foreign business interests maintain a powerful hold within the region, and that the western powers have shown no inclination to bring the prices of raw materials and capital goods into a balance more favorable to

Asian countries. The free Asian delegates obviously agreed with this basic line of thought, though they naturally resented a western power such as Russia explaining this situation to them breathlessly, as if it were a genuine Marxist-Leninist discovery.

Unfortunately the Russian argument was not stripped of political invective, and it was here that it succeeded in profoundly antagonizing Asian delegates. While agreeing with the rather bookish Russian analysis of their situation, the free Asian countries could not agree with the Russian proposals. Specifically, Russia advised ambitious programs of heavy industrialization (including heavy metallurgical industries) and the complete protection of native enterprises, all without the help of foreign aid or investment.

The Russian proposal is theoretically and practically fantastic, even if we assume the end of relatively free political institutions in the area.

The scarcity of capital is a key problem for the former colonies of the ECAFE region. In general, there are two sources for this sorely needed capital: investment by the governments themselves and reliance on foreign aid or investment. In a major speech delivered after the close of the ECAFE conference, Finance Minister Sumitro claimed that without foreign capital or aid, a satisfactory level of public investment in a country such as Indonesia would demand thirty-five percent of total government receipts. The Indonesian government assumes that twenty percent is a maximum and minimum figure in the present situation; the remaining fifteen percent must come from outside sources if development is to proceed toward the present modest goals. The Indonesian government does not need advice from the Soviet Union to realize that the pattern of foreign investment must be directed and controlled. At the ECAFE conference, strong statements from India, Pakistan and Burma also criticized the Russian proposal and its implication that their governments were not capable of controlling and guiding foreign investment. To them, the problem is not one of eliminating, but of attracting foreign capital.

The conclusion seems warranted that the Russian delegation came to Bandung either woefully ignorant of Asian conditions or with no intention of winning friends. The first possibility was advanced by the sharp-tongued Pakistan delegate, Mr. Khaleeli:

I must confess a feeling of disappointment at the manner in which some had carried on the debate... Some refuse to recognize that we of Asia have come of age and that bogeymen to not frighten us so easily. We were also offered plenty of advice, all free of cost, but based, unfortunately, on a total lack of appreciation of the realities of our situation, whether in the political, social, or economic field.

One of the Indonesian delegates offered a private opinion that Russian sources of information on Asia were obviously inadequate. This thought has been verified by past communist mistakes in South Asia, especially the abortive and miscalculated revolts of 1948. At first glance, it

could hardly have been anything but ignorance which led the Russians to propose high tariff barriers against foreign imports which compete with native products, when such barriers already exist at rather high levels.

There is of course the possibility that the Russian efforts were not intended to win official friends at the conference, but were instead directed entirely at the press and public opinion in the ECAFE countries. Russian charges received good coverage in the leftwing and nationalistic press in Djakarta, and there is a close parallel between the Russian arguments at Bandung and the line followed by the Indonesian Communist Party in opposing the present Wilopo government. This possibility suggests a basic orientation of the communist parties in South Asia, a problem I will comment on in a future letter.

#### America and Britain Avoid a Problem

Actually, the Russian performance at Bandung was of importance principally because it revealed that the free Asian countries are of independent mind. America and Britain also got a taste of this independent mindedness in the discussion of commodity price agreements. This rather quiet discussion concealed a conflict of the greatest significance between the industrial countries and the producers of raw materials.

The Indonesian attitude, as described by Mr. Darmawan, is the product of bitter experience. As a producer of primary products vital to western industry--especially tin and rubber--Indonesian experienced a boom when the U.S. began to stockpile strategic materials after the outbreak of the Korean War. By early 1951, the price of rubber had climbed to well over twice its level in early 1950. Production expanded and Indonesia was in a temporarily enviable financial position. Largely because of excises on exports--which totaled nearly fifty percent of total government receipts in 1951--the foreign trade balance and balance of payments for that year were extremely favorable.

Early in 1952, President Truman announced that rubber stockpiling had almost reached a satisfactory level. This statement, coupled with increasing rubber production, sent rubber prices on the skids. By mid-year several hundred thousand tons of rubber were reportedly piled up at Indonesian harbors, and government receipts tumbled rapidly. For the year 1952, Indonesia showed a disastrous trade and balance of payments deficit. The best estimate pegs the budget deficit for 1952 at over four million Rupiah, or approximately US\$350,000,000.

The effect of such a sudden boom and quick depression on the government's development program is of course tremendous. There is justified criticism that Indonesia spent and bought unwisely with her sudden wealth in 1950 and 1951. Orders were placed for goods which were to be delivered and paid for far in the future. Non-essential expenditures skyrocketed along with necessary government investments in capital goods. The government spent almost at will, it seems, and luxury goods flooded into the country eating up dollars needed for development. By the end of 1952, strict import restrictions were put in force and Indonesia's first real budget had been created by

Finance Minister Sumitro. There is every hope that Indonesia will not aggravate her own difficulties again in the future.

The fact remains, however, that the depression itself has been the result of factors entirely outside Indonesia's control. No Indonesian government can plan its expenditures with any certainty as long as the volume of export duties remains a completely unpredictable factor.

The final solution to this problem—if there is going to be a solution—will lie in the development of a more balanced economy in Indonesia, and in countries with similar inherited structural weaknesses in their economies. This is ultimately the task of the South Asian governments themselves, aided by ECAFE and various types of financial and technical assistance. Development, however, depends on large scale purchases of capital goods abroad at prices which remain high and fairly constant, while raw material prices jump and skid in an alarming manner. These two facts taken together constitute a problem which Indonesia would like to see solved through ECAFE or any other available channel.

At Bandung neither the United States nor Britain saw any immediate need for price agreements which would set some stable relationship between the prices of raw materials and finished goods. The American delegate made a careful statement that his government was "always willing to discuss international arrangement for giving greater stability to the markets for individual primary products, whenever such arrangements seemed to have a reasonable chance of commanding support from both producing and consuming countries." The United Kingdom representative was more to the point and asked that the problem of price stabilization of raw materials not be tied too closely to the problem of the prices of finished goods.

There is an uncomfortable logic in the American and British positions. This was admitted to me by an Indonesian delegate, who claimed that he had no illusions that he was dealing with anything but businessmen. Raw material price agreements are to the immediate advantage of the industrial powers, as well as to countries like Indonesia. The price of tin has already been given a certain stability through specific agreements, and there has been preliminary discussion of similar action on rubber. As the British delegate said, there is no real sense in Indonesia delaying such beneficial action in order to attain her maximum objective of stabilized terms of trade. Furthermore, there is no indication that the industrial powers would be able to enforce price agreements on finished goods even if they saw their necessity.

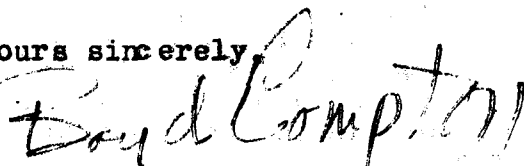
It was some sort of victory, then, when the conference adopted a resolution stating the need for "an adequate, just and equitable relation" between the two classes of commodities. ECAFE resolutions, however, are in no way binding on the member countries. An Indonesian delegate admitted to me that he has little hope for stabilized terms of trade while Indonesia's bargaining position remains politically and economically weak. The idea of joint regional action on this problem remains attractive but for many reasons it is a remote possibility.

The current discussion of a United Nations blockade of Red China brings the dilemma of the raw material producer into sharp focus.

A country like Ceylon is forced to accept the "realistic" arguments of the western powers at Bandung; she is too weak to do otherwise. But then she may be forced to abandon a businesslike attitude herself and stop selling rubber at advantageous prices to Red China. It is small wonder that many South Asians see the United States as either a businessman or a power politician, as the occasion demands. When events verify such a view, friends of the west lose standing and support in such countries as Indonesia and Ceylon, and the long-range interests of the western powers, particularly the United States, are damaged.

The picture of South Asian development that emerged at the Bandung ECAFE conference is encouraging only in a limited focus. The basic economic weakness and vulnerability of the underdeveloped countries will remain a distressing fact for many years. It is a tribute to the realism of free Asian governments—and an indication of their conservatism—that Russian proposals for complete autarchy and unaided national development were not taken seriously. There must have been the uncomfortable realization, however, that these proposals will remain exceedingly attractive to leftwing and nationalistic opposition groups at home, as long as the present conditions of distress and dependence continue.

Yours sincerely,



Boyd Compton

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