

**THE ROLE OF ECONOMIC PLANNING IN THE  
DEVELOPMENT OF SOUTHEAST ASIA**

**CENTRE FOR NEWFOUNDLAND STUDIES**

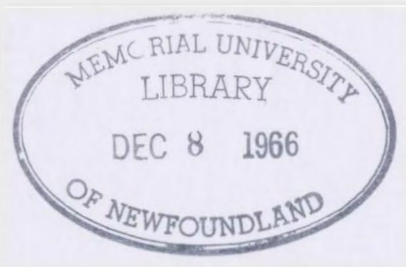
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THE ROLE OF ECONOMIC PLANNING IN  
THE DEVELOPMENT OF SOUTHEAST ASIA  
(with special reference to Burma)

by

Yi Yi Chit Maung, B. Com. (Rangoon)

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This thesis has been examined and approved by;

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## ABSTRACT

Since the Second World War, economic planning by a central authority has become increasingly popular in developing countries. The governments of the newly independent nations of Southeast Asia believe that to achieve a rapid economic growth, each country must operate on a planned basis. Economic planning was accepted as an essential means for guiding and accelerating economic development.

### Scope of the Thesis

This thesis attempts a general survey of economic planning in eight countries namely: Burma, Thailand, Malaysia, Indonesia, Laos, Cambodia, Vietnam and the Philippines. The basic problems faced in the process of economic planning as well as effectiveness of the plans in Southeast Asian regions are considered. As countries in Southeast Asia have similar economic, social and cultural characteristics, certain generalizations can be made with regard to their basic development problems.

Economic planning implies a substantial degree of centralization<sup>in</sup> policy-making particularly if the aim, in part, of such planning is improving the climate for private enterprise and perfecting the operations of relatively free markets. In Southeast Asia, although a certain amount of government planning

exists in all the countries, the content of their plans varies considerably. Intensive study of the plans of each individual country is beyond the scope of the thesis; therefore, only basic aspects of economic planning are considered on a regional basis. However, as Burma was the first country in Southeast Asia which attempted comprehensive planning on the aggregate as well as the sector level, the experience of economic planning in Burma is discussed in some detail.

The research covers the period from the end of the Second World War until 1960. Thereafter, the role of economic planning in Southeast Asia has increased in importance. However, as great variations now exist in the approaches, formulation and execution of plans, it is not appropriate to make generalizations on the basis of the experience in planning of Southeast Asia as a whole after 1960.

#### Objective of the Thesis

The main objective is to analyse the reasons the countries in Southeast Asia relied heavily on central planning for their economic development and how successful they have been in their attempts to achieve rapid economic planning.

In other words, this thesis is to analyse:

1. The basic problems facing the Southeast Asian countries.
2. Why the governments attempted to solve the problems through economic planning.



3. The experience of Burma in her attempts to achieve rapid growth through a comprehensive economic planning.
4. The effectiveness of economic planning in the region as a whole.
5. The reasons why national plans have failed to achieve their objectives.
6. Possible solutions for some of the problems these nations have faced in planning.

The writer has obtained most of the necessary materials from United Nations publications, especially those of the Economic Commission for Asia and the Far East. Research on the experience of economic planning in Burma was based mainly on the data provided by the Central Statistics and Economics Department, Ministry of National Planning, and annual government publications such as Economic Survey of Burma. Detailed analysis of the experience of other Southeast Asian countries could not be undertaken due to the limited amount of information available.

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## CHAPTER I

BASIC PROBLEMS IN SOUTHEAST ASIA

Southeast Asia is comprised of eight countries south of China and east of India and Pakistan -- that is, Burma, Thailand, Cambodia, Laos, Indonesia, Veitnam, Malaysia, and the Philippines. The population of the area is approximately 200 million; the average rate of population growth is about 2.4 percent per annum.<sup>1</sup> All the countries in Southeast Asia are predominantly agricultural and the proportion of the labor force engaged in agriculture varies from 65 percent to 85 percent. Low per capita income is a serious problem: the region has average per capita incomes of approximately \$111 per year. Thus, policy to promote rapid growth is becoming increasingly popular in Southeast Asia as in other underdeveloped countries. In trying to promote economic growth, Southeast Asian countries are faced with various obstacles, social, economic and political in nature. Hence, before any discussion of policy and plans for economic development, basic problems prevailing in the area should be analysed in some detail.

## A. SOCIAL AND CULTURAL PROBLEMS

Climate, history and culture in Southeast Asia are

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<sup>1</sup> Source - Statistics and Reports Division; U.S. Agency for International Development. Population and the rate of growth until 1961.

totally different from those of the Western countries. Most of the areas in the region have civilizations that were old when the West was still young. To a western observer, the problem may not be so much "one of economic growth within an existing social framework, but the replacement of one civilization by another."<sup>2</sup>

As Kuznet had said: "The major capital stock of an industrially advanced nation is not its physical equipment; it is the body of knowledge amassed from tested findings and discoveries of empirical science and the capacity and training of its population to use this knowledge effectively."<sup>3</sup> Social factors -- the social response to economic factors and the readiness to undergo economic change -- influence the productivity and capacity of labor for economic development. Various degrees of resistance to economic change are to be found in most parts of Southeast Asia today. Some of the poorer sections of the people appear unfavorable or indifferent to new forms of industrial production and unfamiliar ways of life. Even in the small upper class, prestige is attached to the ownership of land, a military career, diplomacy, or some other traditional

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<sup>2</sup> Cairncross, A.K., "Economic Development and the West," Three Banks Review, December 1957, p. 63.

<sup>3</sup> United Nations, Process and Problems of Industrialization in Underdeveloped Countries, New York, 1955, p. 5.

occupation. Industry or business as a career is considered to be unworthy of an educated man's attention.

It has been observed that the strong family loyalties act as an obstacle to economic development. In most underdeveloped countries, including Southeast Asia, the term "family" has a different and wider connotation than customary in more industrialized societies. "Family" includes many distant relatives and in many ways refers to a group more akin to a clan than the family in a narrow sense. A man has obligations towards much larger number of people. The institution of an extended family is feature of a subsistence or near-subsistence economy in Southeast Asia. There are some social virtues of this kind of a family system, but on the other hand, it makes a man unwilling and unable to work hard because he knows that if he succeeds in improving his position he will have to maintain a larger number of relatives. At the same time the system minimises the inducement for people to improve their own position because they can count on being provided with the means of subsistence at a level not very different from the majority of their kinsmen. Thus the supply curves of labor may be backward sloping with respect to income because the personal incentives are dulled by the necessity of contributing all the work while sharing the fruits. Also, where personal obligations to family and friends count heavily, the new worker in an industrial enterprise may not easily develop

a sense of responsibility to the factory where he works or to the industry as a whole. For example, in most Southeast Asian countries where unemployment is severe, the practice of putting relatives on the payroll, even though they are incompetent, can have a serious effect on a large enterprise and may be disastrous to a small one.

Economic development requires an open class structure in which social mobility is possible so that a strong middle class can come into being in which entrepreneurial and professional skills prevail. In most underdeveloped countries, and Southeast Asia is no exception, class structure is very rigid; the middle class is very weak. The majority is in the low income class which comprises of over 50 percent of the population but takes up less than 10 percent of the total national income; and a few people (less than 5 percent of the population) in the upper class which takes up over 50 percent of the total national income. As the middle class is customarily engaged in commerce, industry, and other professions such as law, medicine, science, teaching, accounting, engineering, and government, these energies and abilities can be beneficial to economic growth. However, only about 20 percent of the population can be considered as middle class in Southeast Asia, and social mobility is very rigid. This has a considerable effect on the growth of the area.

In Southeast Asia, the majority of the people are Buddhists and quite a high percentage are Moslems. Buddhism strongly emphasizes self denial, asceticism, abstinence and cultivation of spirit. To be too ambitious and greedy is sinful, and to build shrines and pagodas is the most virtuous act of all for a Buddhist. As Walinsky said, "No title in the Burmese society is so revered as that of a 'Pagoda Builder'.... even the poor may aspire in a humble way to this honor although the pagoda they build may be only three feet high."<sup>4</sup> This sort of attitude checks the motivation to work hard, to earn more and more for fear that the sin of greed may come in; instead encouragement is given to unproductive investment in pagodas (building of pagodas, apart from solving, temporarily, the unemployment problem, has no economic benefit to the economy). The majority of the people in the low income group have no ambition, whatsoever, to improve their wellbeing, and are happy and contented in living in the subsistence level. "The Burman is typically improvident....He displays little concern for his future security, but spends freely to enjoy life to the fullest possible degree....Rare is the man, no matter how low his income, who will not manage to buy a piece of gold and jewelry for his wife."<sup>5</sup> Thus, religion is partly responsible

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<sup>4</sup> Walinsky, Louis J., Economic Development of Burma, 1951-1960; Twentieth Century Fund, New York, 1962, p. 389.

<sup>5</sup> Ibid., p. 390.



for their attitudes and although religion may have served as a part of economic advance in many western countries (for example, the Protestant Ethic), it has in many ways hindered the economic growth in Southeast Asia.

## B. ECONOMIC PROBLEMS

### 1. Labor Problems.

Problems concerning labor should be discussed as a factor of production influencing the growth of a nation. However, before the qualitative aspects of labor are discussed, quantitative aspects of labor such as population problems should be given some consideration as being important in helping or hindering economic growth.

One cannot regard Southeast Asia as a densely populated area because on the average, its population density is approximately 143 persons per square mile as compared with 347 in India, 403 in Ceylon, 660 in Japan, and 830 in Taiwan.<sup>6</sup> However, the rate of growth of population in the area is 2.4 percent which is quite high and cannot be ignored. Where population is growing as rapidly as in Southeast Asia, there is a need for new capital formation in schools, housing, hospitals, transportation systems, etc., that is social capital

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<sup>6</sup> Source - Statistics and Reports Division, U.S. Agency for International Development.

items, if economic conditions are to remain constant, let alone improve. Progress is held back because most of the money saved after meeting essential consumption needs has to be used just to prevent retrogression. Also, in Southeast Asia, the composition of the population is such that a low proportion is in the working age group. For example, according to the United Nations estimates, the number of persons of dependent ages per 1,000 persons of working age (15 to 64) is approximately 90 in the Philippines against 55 in the United States and 51 in Sweden.<sup>7</sup> High birth rates play an important part in this result. Also, the death rate is falling in Southeast Asia, which is one of the causes of the increasing rate of population growth. Life expectancy remains very low so that the young who are fed and educated frequently do not live long enough to repay what society has invested in their upbringing.

Rapidly increasing population has brought about a severe unemployment problem in Southeast Asia. The sample survey conducted in the Philippines in May 1956 had indicated that the level of unemployment was 1.2 million or about 13 percent of the labor force.<sup>8</sup> This situation was probably illustrative of the experience in other Southeast Asian countries.

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<sup>7</sup> United Nations, Economic Survey of Asia and the Far East, 1961, E.C.A.F.E., Bangkok, 1962, p. 13.

<sup>8</sup> National Economic Council, The Five-Year Economic and Social Development Program, For FY 1957-1961, Manila, 1957, p. 5.

One of the causes of unemployment or underemployment in Southeast Asia is immobility of labor. The majority of the labor force are farmers who will not move out from their farms although the marginal productivity of labor on many farms may be negative. They are unskilled for industrial work and are not willing to become trained as they do not want to leave their homes. Thus there is overpopulation and underemployment in the rural sector and a need for skilled labor in the industrial sector. The minority of young people from rural areas who are ambitious enough to seek employment in industrial or business sector are quite unskilled and find it difficult to adjust themselves to the systematic life of an industrial worker, resulting in low levels of productivity. On the other extreme, there are people with abilities as economists, lawyers, physicists, chemists, etc., who have obtained their advanced education from industrial western countries, and who are underemployed when they return because their countries are not ready to make best use of their resources for cultural, financial and political reasons. Thus most Southeast Asian countries are faced with absolutely unskilled people on one hand, and skilled people which the country is not developed enough to use, on the other hand. What seems required are skilled workers to make use of the present resources efficiently. But these kind of workers are scarce in Southeast Asia. Thus there is a wastage of human resources.

## 2. Entrepreneurial Problems.

Another problem is the scarcity of entrepreneurial and managerial abilities. As Adler and Krishnaswamy commented, "In recent years, a great deal of attention has been given to the supply of entrepreneurship as a strategic factor, which aside from capital, determines the rate of growth and development."<sup>10</sup> In Southeast Asia, due to social and cultural attitudes, lack of capital, or lack of knowledge and skills, entrepreneurship, that is willingness to take risk and innovate, is lacking. People who have money would rather own real estates and jewelery than go into the industrial field mainly because of ignorance of the returns that can be obtained through investment. Some who have natural entrepreneurial talent do not have financial means to make use of their talent. Therefore, one problem is to have the two groups of people get together. It is probably easy to seek out the entrepreneurial talent but to get the money holders to finance them can be quite difficult because money markets and banking habits are not very developed in Southeast Asia.

To make matters worse, public administration at all levels is a major deficiency in Southeast Asia's development.

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<sup>10</sup> Adler, J.H. and Kishnaswamy, K.S., "Comments on Professor Bye's Paper," Economic Development in Latin America, edited by Ellis, H.S., St. Martin Press, New York, 1961, p. 126.

This deficiency had its origin in the colonial administration inherited from the British (in Burma and Malaysia), French (Laos, Vietnam, and Cambodia), and Dutch (Indonesia), and the Americans (The Philippines). After their independence, most of them suffered from the loss of qualified staff which led to the misplacement of officials. For example, administrative staff were put into technical fields in which they have no background. Also, as Walinsky has stated, "Staff management and supervision were highly inadequate and unsystematic.... the typical office gave the impression of a badly kept archive which was being used temporarily as a hiring hall."<sup>11</sup> There were also problems of overlapping of organizational and staffing arrangements and procedural weaknesses which are wasteful in many ways.

### 3. Land Problems.

Richness in natural resources is one of the determinants of economic growth. Casual observers would claim Southeast Asia as very rich in natural resources: agriculture, fisheries, timber, minerals, and water resources. This is hardly true in present situation. There is no doubt that Southeast Asia had very rich resources, but many such as minerals, oil and timber resources were exploited before the Second World War by the Colonial powers. For example, Burma had very rich oil resources

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<sup>11</sup>. Walinsky, op. cit., p. 407.

during the British rule; most of the oil was extracted at that time and now the present government is left with a few exploitable fields, and has been searching for more oil for some years with little success. The same is the situation in other minerals such as tin, copper, lead, etc.

Some countries in Southeast Asia, Indonesia for example, have a wide variety of resources. However, as Higgins has stated, "it is by no means clear how adequate the quantity, quality and the location of these resources are when considered in relation to 80 million people (90 million now) and an annual rate of population of at least 1.5 percent (2.3 percent now).... there is thus no clear evidence that Indonesia has the natural resources required to produce a per capita income for 80 million people comparable to that of the more advanced European countries, at least with present levels of managerial and technical skills."<sup>12</sup> For example, United Nations estimates showed that Indonesia recently has barely maintained food production per head at 1953-1957 levels.<sup>13</sup>

In relation to its population, Southeast Asia has a smaller endowment of natural resources than most underdeveloped countries. Population increase remains high but food production

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<sup>12</sup> Higgins, Benjamin, "Indonesia's Development Plans and Problems," Pacific Affairs, Vol. XXIX, No. 2, June 1956, p. 111.

<sup>13</sup> United Nations, Economic Survey of Asia and the Far East, 1963 E.C.A.F.E., Bangkok, 1964, p. 120.

has risen at the annual rate of 0.5 percent as against population increase of 2.4 percent per year.<sup>14</sup> It is only in the continental Southeast Asian countries such as Burma, Cambodia, Laos, Thailand, and the Republic of Vietnam that food supply has outpaced population growth. This food situation is disturbing, not only from the basic standpoint of low nutritional standards, but also for the planning of economic development. In all Southeast Asian countries, agricultural output consists of food products and agriculture's contributions to the Gross Domestic Product ranges from 40 percent to 55 percent. Food consumption is an even higher proportion of national expenditure because the region, after being a net food exporter before the Second World War has become an increasing net importer of foodstuffs, thus straining resources of foreign exchange which are urgently needed for purposes of economic development. Therefore, the richness of natural resources in Southeast Asia is commonly exaggerated.

There is little doubt, however, that the land in Southeast Asia is fertile and suitable for growing agricultural crops. This factor, together with the lack of capital and technology, makes the countries in Southeast Asia specialize heavily on agricultural export commodities: Burma, Thailand, Cambodia, and Veitnam rely heavily on their rice exports to

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<sup>14</sup> United Nations, Economic Survey of Asia and the Far East, 1963, (E.C.A.F.E., Bangkok, 1964), p. 199.

pay for their imports; and Malaysia, Indonesia and the Philippines on rubber and sugar products. This lack of diversification in export trade is dangerous to economic development of the area. Each country is trying to be self-sufficient in agricultural products and plans to improve its agricultural sector so that it can curtail agricultural imports.

The future prospects of the agricultural product exporting countries are not bright, and there is the danger of economic instability as a result of the heavy reliance on agriculture. For example, in 1955 nearly 80 percent of Burma's export was agricultural products; when the price of rice in the world's market fell during that period, Burma's foreign exchange earnings fell sharply; imports had to be cut down unexpectedly leading to excess demand within the country and inflationary pressures. The majority of the population, being mainly agricultural suffered greatly during that time and the Eight-Year economic plan of Burma was disrupted. At present, all the countries in Southeast Asia have plans to diversify products. Expansion of output in agricultural commodities for exports frequently proves difficult or troublesome because of occasional insufficiencies in market demand. Emphasis on ways and means to increase raw material production can be harmful because agriculture commodities usually have inelastic demands and also because substitutes for those products can often be produced by developed countries at cheaper prices.



#### 4. Problems in Capital Accumulation.

Inadequate capital funds is perhaps the most serious drawback in all underdeveloped countries especially those countries in Southeast Asia. To quote Kindlebeger, "Capital is regarded not only as central to the process of development but also strategic. The process of capital formation is interacting and cumulative: capital formation increases income which makes possible more capital formation....Once the process is started it feeds on itself. The rich get richer and the poor get children."<sup>15</sup> The main problem in Southeast Asia is that of poverty. Per capita income ranges from \$50 to \$200 per annum<sup>16</sup> which is desperately low. Low income leads to low consumption and saving, very limited ability to undertake and sustain investment which will again lead to low income; thus these countries are faced with the vicious circle of poverty.

An initial task in efforts to promote economic development is to discover which elements in the vicious circle are the basic causes and to determine how this vicious circle can be dealt with so as to induce sustained economic growth. In the decade of the fifties, very little improvement has taken place in the productive capacity or the consumption level of

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<sup>15</sup>. Kindlebeger, C.P., Economic Development, 1958 Economic Handbook Series, p. 35.

<sup>16</sup> Malaya is the only exception where per capita income in 1960 was \$280. See Walinsky, L.J., The Planning and Execution of Economic Development, McGraw-Hill Series in International Development, 1963, p. 190.

the average resident of Southeast Asia except in education, health and communication. The most important difficulty is that of low income itself which makes it impossible to devote a large enough proportion of income to increase productive capacity. Capital is lacking in sufficient amounts to make substantial investment possible.

Accumulation of capital depends on savings and investment. According to E.C.A.F.E. estimates, the level of net saving from 1950-1959 was 15 percent of the Gross National Product in Thailand, and 13 percent in Burma (where one percent was foreign savings), which is quite high. Savings had been very low in Indonesia which managed to save only 3.2 percent of the Gross National Product where .4 percent was foreign saving, and the Philippines saved only 3.6 percent where 1.6 percent was foreign savings.

TABLE 1.1

Level of Net Saving, 1950-1959 (% of G.N.P.)<sup>17</sup>

Country	Foreign Saving	Net Domestic Saving	Net Total Saving
Burma	0.1	13.6	13.7
Federation of Malaya	10.2	17.5	7.3
Indonesia	0.4	2.8	3.2
Philippines	1.6	2.0	3.6
Thailand	1.8	9.3	11.1

<sup>17</sup> United Nations, Economic Survey of Asia and the Far East, 1961, E.C.A.F.E., Bangkok, 1962, p. 43.

Although there had been a sharp increase in Burma, it still remains inadequate for sustained growth. Domestic saving rose sharply in Burma and the rise in aggregate saving only reflects a change from foreign lending during 1951-1952 to foreign borrowing in 1957-1959. Indonesia however, is facing a decline in the aggregate of domestic savings. In Thailand and the Philippines foreign investment has played a very considerable role amounting in each case to over 1 percent of Gross National Product. Foreign saving provides underdeveloped countries with additional resources for increasing their investment. However, the dependence on foreign saving should not become too permanent since the capital has to be repaid at a later stage and the repayment can become a restraint on further growth.

Greater reliance might be put on domestic saving. However, domestic saving in Southeast Asia is influenced by low levels of per capita income. Population has some influence on the trend of saving; the higher the rate of population growth, the greater will be the proportion of a given increase in total output which has to be spent on consumption. Hence, less will be available for saving. There is also some correlation between exports and savings. In the Philippines, Indonesia, Burma and Malaysia, the rate of savings has risen with the rise in exports.<sup>18</sup>

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<sup>18</sup> United Nations, Economic Survey of Asia and the Far East, 1961, E.C.A.F.E., Bangkok, 1962, chart 2-1, p. 53.

Thus in Southeast Asia, due to low per capita income, a high rate of population increase, and the falling trend of agricultural exports, the prospects for increased domestic saving are not too bright. The only way to increase national saving is by direct or indirect government intervention. The level of private saving can be influenced by fiscal and government measures and by expenditures in the public sector itself. The government can encourage private household saving by encouraging banking habits, by fostering the growth of financial markets and by tax policies. However, in practice, these measures may not be too productive because in most parts of Southeast Asia, development of banking habits is a gradual change which involves a change in the social and cultural attitudes of the people; establishment of effective financial markets is difficult without widespread public support; and the distribution of income is such that the majority of the population is in the low group. In Southeast Asia, corporation income is a very small portion of national income; therefore, corporate saving plays a very minor role in total savings.

However, savers are not necessarily investors. Prospective investors cannot proceed with their plans unless there are channels to assure a flow of saving to them. This is a problem in the typical underdeveloped country because agriculture dominates the economy and because often neither the government nor the private sector save enough to meet the

cost of investment projects. Further, agricultural finance is likely to become serious with the type of reforms that have been introduced in Southeast Asia.<sup>19</sup> There is a further problem of financing the small entrepreneur whose access to financial institutions is limited.

The government's ability to finance an all inclusive program of investment depends very largely on whether or not it is in a position to secure an excess of revenue over expenditure. The share of government in national product has increased in most countries of the region. Most of the countries in the region have incurred budget deficit in recent years and the size of the deficit had been increasing in all countries except in the Philippines and Thailand where emphasis has been on increasing the role of private sector. The Indonesian Government, though it did not increase its investment, was having financial difficulties in meeting expenditure during 1957 to 1959 and government saving became negative. The reason for the deficit financing in this case is to be found in heavy military expenditures. It is evident then that a country cannot rely totally on the government's ability to invest or finance investment. In addition, investment in Southeast Asia has sometimes not been used in such a way as to obtain maximum potential benefit. Misallocation of investment has occurred

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<sup>19</sup> United Nations, Economic Survey of Asia and the Far East, 1961, E.C.A.F.E., Bangkok, 1962, p. 58.

in several directions by way of overemphasis on less essential infrastructure and on heavy industries such as the steel industry whose output is not yet badly needed in these small underdeveloped countries.

Foreign exchange earnings play a most important role in capital accumulation and the problem of shortage of foreign exchange is a very serious one in Southeast Asia. Capital accumulation on any scale is possible only with previous investment in productive uses, and the necessary machinery and equipment must be purchased from abroad with foreign exchange. There tends to be acute foreign exchange shortages in all Southeast Asian countries. The main cause is the outflow of funds to pay for imports of goods and services and in the form of remittances abroad. There is believed to be a sizeable unofficial leakage of the latter in Southeast Asia especially in Burma, Indonesia and the Philippines.

Hence, one dilemma faced by underdeveloped countries in Southeast Asia is scarcity of foreign exchange, and rather low capacity to obtain more. The problem can be overcome in part at least if economic assistance from advanced countries can be obtained. However, much foreign aid is high only in Laos, South Vietnam and Cambodia and is chiefly in the form of military assistance from the United States. The rest of South-

east Asia receives very little foreign assistance.<sup>20</sup>

### C. POLITICAL PROBLEMS

Krause had said "Political instability deters development because it raises uncertainties as to the future that serve to effect adversely economic and other decisions made in the present."<sup>21</sup> Political instability is an outstanding factor in Southeast Asia. All the countries in the region, with the possible exception of Thailand and the Philippines, have problems of national integration, and regional, linguistic or religious clashes, frequent changes of government, external threats of aggression and internal threats of subversion so that energies cannot be fully turned to the drive for economic development. In Indonesia, for example, leaders have been so preoccupied with reconstruction, establishment of law and order, organizing government administration and jockeying for political power that they appeared to be less development minded than some countries in the region. That country's inherent tendencies towards instability, aggravated since the war by political pressures, have made "austerity" policies difficult to introduce and execute. In Burma, as Walinsky has said:

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<sup>20</sup> Benham, Frederic, Economic Aid to Underdeveloped Countries, Oxford University Press, London, 1961, pp. 37-42.

<sup>21</sup> Krause, Walter, Economic Development, San Francisco, 1961, p. 49.

"It would be difficult to overestimate the extent to which insurrection and civil disorder retarded Burma's economic development."<sup>22</sup> These factors were responsible for low production in extractive industries -- agriculture, mining and timber. Because of them, trains and inland water transport did not run at night, water supplies were frequently interrupted and oil pipelines were rendered completely inoperative. Thus, even in towns, production and commerce were adversely affected.

The problems mentioned above are illustrative of the obstacles hindering the rate of growth of Southeast Asia. Countries in this region are in a very depressing situation. Although the region as a whole is not yet facing severe population problems, the rate of population growth is quite high. Gross domestic product per capita is low and investment not a high percentage of Gross National Product.

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<sup>22</sup> Walinsky, L.J., op. cit., p. 382.



TABLE 1.2

Southeast Asia Population, Gross Domestic  
Product and Investment Rates.<sup>23</sup>

Country	Population (1961)			Gross National Product, 1960	
	Total millions	Rate of Growth	Density per sq. mile	Per Capital \$	Investment % of G.N.P.
Burma	22.6	1.8	90	57	18
Cambodia	5.0	2.2	70	106	14
Indonesia	95.2	2.3	160	69	n.a.
Laos	2.3	1.5	20	60	n.a.
Malaya	7.1	3.2	140	280	n.a.
Philippines	28.7	3.2	250	144	10
Thailand	26.2	3.0	198	94	15
Vietnam, S.	14.4	2.4	220	85	10

TABLE 1.3

Southeast Asian Countries Average Annual Aggregate  
Rates of Growth as Compared with Select Advanced Countries.<sup>24</sup>

1950-1959

Burma	5.1	Taiwan	7.1
Cambodia	4.0	Japan	9.1
Indonesia	3.6	Germany	7.5
Philippines	6.0	Austria	5.7
Thailand	5.0	United States	3.3

<sup>23</sup> Source: Statistics and Report Division, U.S. Agency for International Development.

<sup>24</sup> United Nations Economic Commission for Asia and the

To promote rapid economic growth so as to catch up with the western world, a drastic autonomous force is needed. The countries in the region can no longer take their own time in developing; a short cut method of growth is obviously necessary. The governments in the region have generally considered economic planning as the solution to their problems. Hence the following chapters will be devoted mainly on the effectiveness and the role of economic planning in Southeast Asia, taking Burma as a case study.

## CHAPTER II

THE INCREASING ROLE OF DEVELOPMENT PLANNINGIN SOUTHEAST ASIA

In the course of the last few years, the governments of the newly independent nations in Southeast Asia have become increasingly aware of their economic and social problems, and thus more concerned with policies which would minimize these problems. They believe that the changes required in their countries are structural, not marginal; therefore the price system alone cannot cope with their problems. The process of developing through private enterprise and the market mechanism takes time -- longer than most governments of underdeveloped countries choose to give. Thus government intervention in the private sector has been increasing with years. "It is not only socialists who are interested in planning. An increasing number of thinking men and women are coming to the conclusion that centralized control is a better method of organizing production,....They believe that planning is an essentially more efficient method of organizing economic life."<sup>1</sup>

## A. NECESSITY OF GOVERNMENT INTERVENTION IN SOUTHEAST ASIA.

1. Failure of Market Mechanism.

Any economy, if left totally to the private sector,

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<sup>1</sup> Durbin, E.F.M., Problems of Economic Planning, Routledge and Kegan Paul Ltd., London, 1955, p. 45.

will lead to a non optimum allocation of resources. Investors in a market economy maximize private, not the social, net marginal product. External economies and diseconomies are not taken into account by the private sector. This leads to a divergence in the social and private cost. Thus government intervention is necessary to narrow the gap between social and private cost by using benefit cost calculations, shadow pricing, etc.

All economies in actual life depart from the idealized conditions of perfect competition. This is particularly apparent in Southeast Asia. The lack of sufficient statistical data makes it difficult to obtain information as to consumer demand. The unstable economic and political situation makes forecasting almost impossible. Because of the low level of technological skill, information on alternative productive techniques is not easy to obtain. Entry into some occupations is limited by social factors and by lack of educational opportunities. Access to capital is limited due to the lack of capital markets.

It is too big a risk, too costly and too time consuming to leave the economy entirely in the hands of the private enterprise operating under automatic market mechanism. "Complete Laisser-faire has few supporters and we need not waste time in flogging a dead horse."<sup>2</sup>

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<sup>2</sup> Wilson, Thomas, Planning and Growth, London, 1964, p. 4.

"The functioning of the traditional economies left alone may perpetuate stagnation, wide fluctuation....the market mechanism with its imperfections cannot be solely relied on for mobilizing and utilising effectively the available resources to achieve maximum possible rate of growth."<sup>3</sup>

A planned economy is an economy with "open eyes." Because of its central authority it can survey the whole industrial field and is thus able to see what no individual producer can ever see and give weight to aspects like employment and the infrastructure which are of no limited interest to an individual producer.

## 2. Income Levels and Distribution.

As discussed in the last chapter, many areas in Southeast Asia are currently in a vicious circle in which poverty generates a low rate of saving and investment. An autonomous force is needed to break this vicious circle. In Southeast Asia, public investment must make up a large fraction of the total investment, since the majority of population lives at the subsistence level. Most government investment is financed by borrowing either at home or abroad and with or without inflation.<sup>4</sup> Capital requirement for growth has to be met by

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<sup>3</sup> United Nations, Economic Bulletin for Asia and the Far East, Vol. XII, No. 3, December 1961, New York, 1961, p. 1.

<sup>4</sup> Mason, E.S., Economic Planning in Underdeveloped Areas; Government and Business, New York, 1961, p. 7.

heavy taxation and public borrowing from domestic and foreign sources. This will call for a large public expenditure program which makes some sort of planning inevitable.

Income distribution among economic classes and geographical regions as well, tends to be unequal. Market mechanism which tends to make rich people richer and poor people poorer can never solve this problem. "Some form of government intervention to reduce income inequalities is essential in all countries, where regional differences are likely to be of greater importance."<sup>5</sup>

### 3. Productivity of Factors of Production.

Government intervention is required in expanding the productivity and availability of factors of production. To illustrate, labor may not be fully employed or natural resources may not be efficiently exploited due to lack of complementary investment. It is unlikely that simultaneous expansion of complementary facilities in the early stages of development will take place without the direction and encouragement of the government. A spring into sustained growth requires a "big push" which essentially calls for careful planning of the expanded use of resources. This can only be undertaken by the government.

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<sup>5</sup> Myrdal, G., Economic Theory and Underdeveloped Regions, London, 1958, p. 26.

Institutional obstacles and ignorance tend to make the labor force immobile in many parts of Southeast Asia. This is particularly true in agriculture. In such countries, because marginal productivity for agricultural labor is usually zero or even negative, there is a problem of putting this labor to work more productively. Only government can bring about a better distribution of such resources.<sup>6</sup> One private enterprise will not be concerned with the training of labor force for other employment.

Social overhead capital and other preconditions necessary for development are lacking in many areas of Southeast Asia. There are insufficient roads, railways, airports, and port facilities. Power sources are lacking, capital formation is inadequate, the people are illiterate and public health poor. As discussed previously, social and religious customs and beliefs inhibit economic activity and prevent the development of a business and managerial class. "If it left to the automatic process of price mechanism, development -- if it does come -- will be measured in decades, not years."<sup>7</sup> The gap between per capita incomes in economically advanced countries and Southeast Asian countries has been widening rather than narrowing.

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<sup>6</sup> See Mason, op. cit., p. 53.

<sup>7</sup> Mason, ibid., p. vi.

The extremely rapid rate of growth achieved by Soviet Russia and China are not unnoticed by the countries in Southeast Asia. Hence government intervention in Southeast Asia is a matter of necessity rather than choice.

Dr. Nkrumah is reported to have said: "Capitalism is too complicated for underdeveloped countries."<sup>8</sup> The nineteenth century experience with development in the western world is not at all relevant to development in the underdeveloped areas today. The situation and conditions now are very different from that of 19th century. Widening of the gap between the advanced countries and underdeveloped countries and public pressures for haste, are two reasons sufficient to justify planned economic development. The case for planning is clear enough, provided the range of state activities be determined. The State will have to play a large role in the development of many underdeveloped countries, particularly in Southeast Asia. The critical and controversial issue is to decide how large the role of the government should be.

#### B. THE ROLE AND NATURE OF ECONOMIC DEVELOPMENT PLANNING.

##### 1. Basic Reasons for Planned Economic Development in Southeast Asia.

Post-war Southeast Asia had complete transformation in the political status because all the countries in the

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<sup>8</sup> Wilson, T., Planning and Growth, London, 1964, p. 11.



territory gained their independence by 1959. Practically all countries in Southeast Asia are now receiving guidance from a plan of some sort for further development.

All countries in the region with the exception of Thailand were formerly colonial territories. The present governments are filled with the popular enthusiasm that surrounds local heroes who succeeded in striking off the foreign tyrants' yoke: there is a natural disposition to look to such leaders for the economic as well as the political benefits of freedom. Therefore in Southeast Asia, although some current wealth and income are in private hands, governments planning is considerable in the attempt to set economic development in motion.

Since their independence, there has been an unchallenged assumption in Southeast Asian nations that development should be planned. "They have newly won independence and are anxious to make their mark in the world. They are no longer satisfied to be hewers of wood and shawers of water -- producers of raw materials for industrialized nations."<sup>9</sup> With the development of mass media of communication such as radios, movies, newspapers and magazines these people have become economically awakened and have started comparing their lot with that of people in industrially advanced areas.

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<sup>9</sup> Mason, op. cit., p. vi.

Dr. R. Gadgil, one of India's eminent economists has said that "Today, it is only a very rich country like the United States which can afford to talk of free enterprise and even indulge in it and yet not suffer economically."<sup>10</sup> In Southeast Asia where resources are scarce, where efforts are being made to obtain rapid change and where change in the past has been slow and dragging, a short cut method is undoubtedly needed.

"National unity is weak in a newly developing country and development plans may become an integrating force drawing the people of the country toward national unity as they are drawn into the development effort."<sup>11</sup> As discussed previously, most countries in Southeast Asia have problems of national integration, regional and linguistic clashes (rich regions, industrial and business areas and cities are flourishing and progressing rapidly due to external economies, backward and forward linkage, while some regions remain poor, primitive and neglected.) This is particularly true in Burma and Indonesia. People in the poor, backward regions are dissatisfied and frustrated and this results in economic social and political instability in these areas. Hence a preparation for development

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<sup>10</sup> Gadgil, D.R., Economic Policy and Development, Poona, India, No. 30, p. 84.

<sup>11</sup> Hagen, E.E., Planning: Economic Development, Irwin's Series in Economics, Homewood, Illinois, 1963, p. 17.

by national planners whose interest is for the development of every region in the country (i.e. structural change) is essential.

Some countries in Southeast Asia have become so involved with planned economic development mainly because "the providers of international aid have usually been inclined to suppose that their money will be used to better effect when a national plan has been prepared."<sup>12</sup> This is the attitude of the World Bank and most advanced western countries. Planning in Laos, Veitnam, and Cambodia arose chiefly from the need to secure foreign aid.<sup>13</sup> Their plans will be described briefly in the next section.

"In countries like Burma and the Philippines economic planning resulted from the conviction that 'planning is essentially an attempt at working out rational solution of problems' and that planning means 'utilizing more effectively, the potential resources available to the community'.... In other countries such as Indonesia it came from the idea that a development plan would give more substance to political independence."<sup>14</sup>

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<sup>12</sup> Wilson, T., Planning and Growth, Macmillan & Co., Ltd., London, 1964, p. 2.

<sup>13</sup> United Nations, Economic Survey of Asia and the Far East, 1956, E.C.A.F.E., Bangkok, 1957, Chapter 2, p. 49.

<sup>14</sup> United Nations, Economic Bulletin for Asia and the Far East, Vol. XII, No. 3, December 1961, New York, 1961, p.1.

Most countries in Southeast Asia are in the transitional stage where the process of sustained growth has not started. Although it does not follow that in the region government domination and planning will inevitably bring about the achievement of self sustained growth, the forces favouring government initiation and domination are currently very strong.

## 2. Emphasis on Government Role and Central Planning.

Planning appears to have been widely accepted as an essential and pivotal means of guiding and accelerating economic development. Many countries of the region have accumulated considerable experience in economic development planning and some experience has also been gained in the implementation of such plans. In Southeast Asia, with the possible exception of North Vietnam, there are no completely planned and completely unplanned economies; planning is obviously a matter of degree. "Most countries in the region have different shades of "mixed economy" in which planning contains two important elements: the government's direct utilization of saving to carry out investment and management of resources for production, particularly in providing economic and social infrastructure, and the government's measures to facilitate, stimulate, guide and even control private activity."<sup>15</sup>

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<sup>15</sup> United Nations, Economic Bulletin for Asia and the Far East, Vol. 12, No. 3, 1961, New York 1961, p. 1.

The government and civil service are educated in a strong socialist tradition; thus the ideology of public intervention is powerful. Since independence, Southeast Asia has accorded an enthusiastic reception to national planning to regain as yet even the prewar standard of per capita incomes. In countries where comprehensive plans had not been formulated, individual development projects were increasingly provided for by the private sector with government encouragement.

In the period after the war, the governments of the countries in the region have been forced to assume direct responsibility for pulling their economies out from stagnation. Efforts to break the vicious circle of low income, low productivity and low savings obviously have economic and social ramifications. For example, to raise productivity in agriculture, institutional changes in land ownership and the division of produce from land are essential. The provision of social overhead capital is not attractive to private enterprises because of its long period of gestation, and low pay-offs. Both the economic characteristics of investment and the social changes needed, make the predominance of the public sector inevitable where social capital is concerned.

However, although all those countries have expressed the need for planning, the role of the government sector and the extent of planning varies from country to country. "In

the majority of the countries, the plans deal only or mainly with the major programmes to be implemented in public sector and in several of them lay down production and investment targets for the private sector."<sup>16</sup>

The share of the government in the national allocation of the total supply of final good and services has increased considerably in all Southeast Asia countries. To illustrate, in Burma in 1951, total government expenditure was 14.4 percent and the net claim of the public sector was 13.4 percent of the Gross Domestic Expenditure, but had increased to 27.9 percent and 26.7 percent respectively in 1958. Government expenditure in Indonesia and Thailand was 16.2 percent and 10.8 percent respectively in 1951 but was increased to 19.7 percent and 14.2 percent in 1958. The Philippines was the only country where little increase in government participation has occurred.

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United Nations, Economic Survey for Asia and the Far East, 1960, E.C.A.F.E., Bangkok, 1961, p. 54.

TABLE 2.1

Share of Public Sector in Gross National Expenditure.<sup>17</sup>

(% of gross national expenditure)

Country and Year	Total Government Expenditure	Net Claim of the Public Sector
<u>Burma</u>		
1951	14.4	13.4
1958	27.9	26.7
<u>Indonesia</u>		
1950	16.2	16.2
1958	19.7	19.7
<u>Thailand</u>		
1950	10.8	10.8
1958	14.2	12.1
<u>Philippines</u>		
1950	11.2	10.0
1958	11.4	10.5

Statistics for other countries are not available.

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Although the importance of the role of the government is realized, the share of the government in Southeast Asian

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<sup>17</sup> Source - United Nations, Economic Survey of Asia and the Far East, 1960, E.C.A.F.E. Bangkok, 1961, p. 54.

countries (with the exception of Burma) is not so large as in the advanced countries. "In countries with per capita incomes of less than \$100, the share of government runs from six or seven to about fifteen percent. In Western countries with per capita incomes of say \$800 and above the figure customarily varies between 20 and 30 percent."<sup>18</sup> The reason is the low taxable capacity of the population.

### 3. General Categories of Planning.

Economic planning can broadly be divided into two categories. One category is where the state seeks to ensure that the general economic environment is favourable to growth; this takes the form of creating the environment in which business enterprises operate, laying down the rules, building the necessary institutions and preserving law and order. E.O. Reischauer comments that the state's "chief contribution was in providing unity and stability, a system of universal education and specific institutions such as modern economic and banking systems."<sup>19</sup> Another category is that the government may propose a certain rate of growth for total output and may go on to prescribe rate of growth for particular industries. This is planning by means of targets and programmes. In this category, the government may work towards the target just by

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<sup>18</sup> Mason, op. cit., p. 5.

<sup>19</sup> Reischauer, E.O., Journal of Economic History, September 1955, New York, p. 308.



planning a series of investments for public sector, and leave the rest to the private sector. This concept is represented by Indonesia today although some projects regarded these as being in the public sector fall within the scope of private sector in other countries.<sup>20</sup> Or, the government may interfere more actively as is the case in Burma.

Most countries in Southeast Asia seem to assume that at least some targets for output will be helpful. Even countries which are adopting the free enterprise system such as the Philippines have targets for the increase in the level of employment, equalizing the distribution of income expanding and diversifying production exports etc. in their plans,<sup>21</sup> and work towards these targets by improving taxation, educational levels and the transport and communication system etc. In countries such as Vietnam, Laos, and Cambodia, where targets were set, plans became a mere expression of desire of the governments.

"Planning of this type (by means of target and goals) must not be regarded as an alternative to planning of the first type (creating a general economic environment for growth). Planning of the first kind will always be required.

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<sup>20</sup> Kindlebeger, C.P., op. cit., p. 140.

<sup>21</sup> National Economic Council, The Five-Year Economic and Social Development Program, For FY. 1957-1961, Manila, 1957, pp. 4-5.

however, much or little there may be of the second type."<sup>22</sup>

There is little use in preparing ambitious targets for output if nothing is done to ensure the general economic environment favourable to growth.

#### 4. General Description of Plans in Southeast Asia.

To many countries in Southeast Asia, the first plan usually represented national aspirations and, as it brought into focus national objectives of development, it tended to arouse enthusiasm of the people and to enlist their support towards the common goal.

By 1960, all the countries in Southeast Asia, with the exception of Thailand, were operating on a planned basis.<sup>23</sup> However, adoption of planning in the region is essentially a post-war phenomenon. The first development plan formulation in the region was started by the Philippines and Burma in 1948. The duration of the plans ranges from two years (Cambodia and Southern Vietnam) to eight years (Burma). The scope and comprehensiveness of plans vary widely among countries of the region. The first plans were almost invariably a summation of a number of individual projects in the public sector many of which are already implemented. Some of the plans contain certain targets such as rate of growth in national income

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<sup>22</sup> Wilson, T., op. cit., p. 11.

<sup>23</sup> Thailand started formal economic planning in 1961.

(Burma) and the extent of absorption of the unemployed (the Philippines) and others such as Cambodia, Laos, South Vietnam do not provide targets due to lack of necessary statistical data on national income and employment.<sup>24</sup>

(a) Planning Agencies.

In most cases the broad policy aspect of planning is entrusted to a specially constituted board usually called a council (e.g., National Economic Council). Membership consists of Cabinet Ministers and other top government officials with the Prime Minister usually acting as chairman.<sup>25</sup> Planning agencies or units - variously referred to as planning commissions, planning boards, planning secretariats - are given responsibility for drafting the plan and making subsequent progress reports. Although in most cases the technical experts in the planning agency are permanent employees, the agencies in some countries have utilized the services of short term consultants from various ministries or from abroad. The latter has been done for example in Burma and Indonesia.

(b) Coverage.

Plans in the region differ in their coverage. The

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<sup>24</sup> United Nations, Economic Bulletin for Asia and the Far East, Vol. XII, No. 3, December 1961, New York, 1961, p. 2.

<sup>25</sup> United Nations, Economic Survey of Asia and the Far East, 1956, E.C.A.F.E., Bangkok, 1957, p. 47.

countries in the region can be divided into three groups:

"those which have integrated multisectoral plans embodying plan objectives and policy and instruments; those which have well formulated plans mainly for public investment, mostly in social overhead; and those which have a string of isolated projects."<sup>26</sup> The Philippines' planning machinery falls in the first group as the country has sufficient statistics and well-formed bodies concerned in varying degrees with the formulation, coordination, and implementation of planning. Countries such as Burma during the late 1950's would fall under group two; Cambodia would fall under group three as its planning agencies appear to have a rather limited scope with respect to formulation, coordination and execution of plans. For instance, in Burma during that period, the Ministry of National Planning was mainly concerned with the implementation of programmes through the annual budgeting process rather than with the formulation of plans.<sup>27</sup> "In Cambodia, the Ministry of Planning is in charge of preparing plans but due to lack of proper coordination there is a great divergence between the Ministry's targets and those put forward by the government departments which are supposed to carry on."<sup>28</sup>

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<sup>26</sup> United Nations, E.C.A.F.E., Formulating Industrial Development Programme (Development Programming Techniques Series No. 2; Bangkok, 1961), p. 102.

<sup>27</sup> Since the failure of the Eight Year Plan, the Burmese Government decided to change their method of planning.

<sup>28</sup> Formulating Industrial Development Programme, op. cit.. p. 104.

(c) Major Objectives and Effectiveness.

In most countries in the region, the achievement of a certain rate of economic growth was the major objective. Other objectives were regarded as a subordinate to the main one. However, some countries, for example Indonesia (and Thailand after 1960), placed more emphasis on internal economic stability than on growth. In countries where population pressure is severe (e.g. the Philippines) more stress was laid on employment objectives.

In addition to the broad aims mentioned above the development plans of the countries in the region emphasized greater agricultural output, development of basic facilities, rapid industrialization and more employment. Generally, most plans now in effect contain a projection of the national and per capita income over the period.

Cambodia's Two Year Plan, formulated in 1955 for the two year development period of 1956/57, stated its objectives as: to provide basic social and economic facilities, increase output of rice, undertake a general economic survey, and to attract foreign investment. This plan relied too much on foreign investment and aid because 90 percent of the planned expenditure was to be financed by the United States, French and Chinese aid. It provided for an increase in total outlay of 3,500 million riels (i.e. \$108 million United States) --

TABLE 2-2

Southeast Asian Countries: Economic Development Plans

Country	Name of Plan	Date of Adoption	Period Covered
1. Cambodia	Two Year Equipment Plan	December 23, 1955	1956/57
2. Vietnam (Southern)	Two Year Development Plan for Industry; Three Year Plan for Agriculture	Industry, 1954 Agriculture, 1953	Industry 1955/56 Agriculture 1955/57
3. Burma	The Eight Year Plan; The Four Year Plan	1952 1956	1962/60 1956/60
4. Indonesia	The Five Year Plan	January, 1956	Jan. 195 Dec. 196
5. The Philippines	Rehabilitation and Develop- ment Programme; The Five Year Economic Development Programme; The Three Year Programme for Social Development	1948  1956 1959	  1956/57 1960/61 1959/60 1961/62
6. Laos	First Five Year Plan	1954	1954/59
7. Malaya	The First Five Year Plan The Second Five Year Plan	1956 After 1960	1956/60
8. Thailand		After 1960	

29 United Nations, Economic Survey of Asia and the Far East, 1956, E.C.A.F.E.

TABLE 2-2

East Asian Countries: Economic Development Plans<sup>29</sup>

Plan	Date of Adoption	Period Covered	Policy Board	Planning Agencies
Five Year Plan	December 23, 1955	1956/57	Supreme Council for Planning and National Development	National Planning Board
Development Plan; Three Year Agriculture	Industry, 1954 Agriculture, 1953	Industry, 1955/56 Agriculture, 1955/57	-	Planning Bureau
Five Year Plan; Three Year Plan	1952 1956	1962/60 1956/60	Economic & Social Board	Ministry of National Planning
Five Year Plan	January, 1956	Jan. 1956 - Dec. 1961	Economic & Planning Council	National Planning Bureau
Industrial and Development Programme; Five Year Economic Programme; Five Year Programme Development	1948 1956 1959	1956/57 to 1960/61 1959/60 to 1961/62	National Economic Council	Office of National Planning
Five Year Plan	1954	1954/59	-	Ministries
Five Year Plan Five Year Plan	1956 After 1960  After 1960	1956/60		

Survey of Asia and the Far East, 1956, E.C.A.F.E., Bangkok, 1957, p. 46.

38 percent of the amount was for the improvement in production; 38 percent for reconstruction and rehabilitations; 19 percent for social overhead expenditure; and 5 percent for research surveys and development of tourism.<sup>30</sup> It is difficult to evaluate the success or failure of Cambodia's plan because the plan was not well organised, no detail information was provided and no targets stated.

After achieving its independence in 1954, various ministries in Laos redrafted the First Five Year Plan.<sup>31</sup> However, due to lack of basic data and trained personnel, no targets were set. Thus their Plan was just an attempt to develop their country on a systematic planned basis, and the expression of their desires. Although external aid has been received on a substantial scale, particularly from France and the United States, full and effective resources utilization for the country's development is likely to take a long time.

To diversify exports, and to increase productivity and income in the rural areas the Federal Government of Malaya embarked on the General Development Plan for the five year period 1956 to 1960. This plan envisaged total investment

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<sup>30</sup> United Nations, Economic Survey for Asia and the Far East, 1956, E.C.A.F.E., Bangkok, 1957, p. 69.

<sup>31</sup> Ibid., p. 133.



by the public authorities of Malayan \$1,150 million (i.e., approximately \$383 million, United States) about double the amount invested during 1951-1955. However, actual investment fell short of the target by about 15 percent due to financial stringency, lack of skilled personnel and the world wide recession of 1958-59, although amounts allocated to projects which were given top priority such as public utilities, rubber planting, land development and social overhead facilities were fully spent.

Indonesia's Five Year Plan<sup>32</sup> (January 1956-December 1960) was designed mainly to raise living standards by increased production, and to change the structure of the economy in a way consistent with independence. Indonesia's plan, unlike those in other countries has national income targets until 1975. The plan was rather modest for a country which was preparing for its take off. Net capital formation was estimated at 6 percent per annum. With an incremental capital output ratio of 2:1, the expected annual increase in Gross National Product was 3 percent. As population growth was estimated at 1.7 percent per annum, increase in per capita would be only 1.3 percent per annum. It was also suggested that 40 percent of the increased income was to be set aside every year for new capital formation so as to raise the standard of living. At the end

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<sup>32</sup> Garis-Garis Besar Rentjana Pembangunan Lima Tahun, 1956-60 (Djakarta, Biro Perantjang Negara, 1956).

of the first Five Year Plan (i.e., 1960) capital formation was expected to reach the level of about 8 percent of the national income. By 1965 (at the end of the Second Five Year Plan) it was hoped that capital formation will reach 12 percent of the National Income. Thus by 1975, the level of capital formation of 20 percent of the National Income was expected. At that time, the increase in National Income should approximate 5 percent per annum or an increase in per capita income of 3 percent.

Indonesia's planning looks impressive on paper. However, its estimate of future government financial resources, the list of projects related to expected revenues, and certain projections of private investment are admittedly guess work. Planning difficulties have arisen due to the lack of effective control over government expenditure (and consequently over the supply of money), and lack of coordination of the Planning Board and inexperienced planning staffs.<sup>33</sup>

The Philippines Five Year Economic Development Programme<sup>34</sup> and Three Year Program for Social Development<sup>35</sup> were aimed at raising the levels of production, employment and

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<sup>33</sup> See Mason, op. cit., p. 62.

<sup>34</sup> National Economic Council, The Five Year Economic and Social Development Program for FY 1957-1961, Manila, 1957.

<sup>35</sup> National Economic Council, The Three Year Program for Economic and Social Development FY 1959-1961, Manila, 1959.

real income. The plans put emphasis on balanced growth, expansion in domestic demand, diversification of exports, and the proper role of the private sector. The Five Year Plan aimed at an annual rate of growth in aggregate national income of 6 percent. This, however, was subjected to periodic revisions with increased experience and availability of information. Agriculture production was expected to increase by 4 percent, manufacturing industry at 14 percent and mining industry at 8 percent per year.

Total investment (public and private) was estimated to amount peso 5.2 billion (\$2.6 billion United States); peso 3.2 of private investment and 2 billion of investment in public sector was proposed. Recommendations were made to improve the monetary and fiscal policy and to create incentives for private investors. Investment in the public sector would require \$327 million (United States) in foreign exchange, some 33 percent of the total public expenditure. Should the proposed investment pattern occur, some 300,000 new jobs would be generated annually, or a total of 1.5 million jobs from 1957-1961.

The Phillipines' plans, on the whole, were not a complete success as the National Economic Council of the Philippines was a mixed representation of Congress and Executives, whose interests conflict greatly. Each government executive

sought his own self interest and there was no coordination among them. However, the failure of the plans does not mean that there was no central direction of development in the Philippines. Planning of a sort was carried out.

According to Professor Mason, "The Burmese experience with planned development is more promising than the Philippines or Indonesia, and....in the course of time the Burmese will possess an effective planning process. However, they still have a long way to go."<sup>36</sup> Burma's plan was designed mainly to restore postwar level of production and to develop basic facilities. Description and evaluation of Burma's plans require a separate study which is the content of the next chapter.

On the whole, none of the plans in Southeast Asia met with total success although they did not meet with total failure. Experience shows that, in such underdeveloped countries, where planning is very necessary, it is even more difficult to execute. A comprehensiveness of a plan depends chiefly on the stage of development of the economy, the availability of statistical data and the supply of qualified planners.

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<sup>36</sup> Mason, op. cit. p. 64.

## CHAPTER III

THE ROLE OF ECONOMIC PLANNING IN BURMA

## A. BRIEF DESCRIPTION AND HISTORY OF BURMA

Walinsky described Burma as "shaped roughly like a diamond kite some 500 miles across and 800 miles from north to south....bounded on the land side by East Pakistan, India, China, Laos and Thailand."<sup>1</sup> Burma has an area of 262,000 square miles with population of nearly 23 million.

Burma was under the British rule from 1885 to 1947 apart from about 2 years Japanese occupation during the Second World War. The earliest British administrators in Burma adopted a policy of free enterprise, that is the laissez faire policy. There was very little government interference in the economic affairs, except to collect taxes, maintain law and order and a certain amount of social improvement. To the British, Burma was a "business concern and a profitable one."<sup>2</sup>

Burma is rich in agricultural, fishery, forestry, mineral and water resources; the most important of which are food resources. She has never had a serious food problem. Her fertile land makes growing of rice the most important

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<sup>1</sup> Walinsky, L.J., Economic Development of Burma 1951-1960, New York, 1962, p. 3.

<sup>2</sup> Furnival, J.S. "Twilight in Burma," Pacific Affairs, March 1949, pp. 4-5.

single occupation. Burma was and still is the world's largest exporter of this important staple food. In addition to fertile farm lands, she has rich and diversified mineral resources, vast forests, natural waterways and power sites, a growing population and labor force and evidence of the capacities of her people for education and work.<sup>3</sup>

Burma was the third nation in the British Empire to attain independence and became a federally organized republic on January 4, 1948. The reason for this urgent demand for independence by the Burmese was that the people, especially students and "white collar class" of middle echelon Burmese, realized that although Burma was a relatively rich country and a profitable colony, the Burman "remained relatively poor".<sup>4</sup> The social services of health and education left much to be desired in quality and distribution throughout the country. For example in the 1940's, two-thirds of the rice lands were held by non-resident landlords.<sup>5</sup> There were other political and administrative complaints. Thus in 1947, although the Burmese were offered for consideration membership in the Commonwealth, the Burmese, led by the A.F.P.F.L. (Anti-Facist People's

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<sup>3</sup> Walinsky, op. cit., p. 88.

<sup>4</sup> Trager, Frank N., Building a Welfare State in Burma 1948-1956, New York 1958, p. 2.

<sup>5</sup> Harvey, G.E., British Rule in Burma, 1824-1942, London, 1946, pp. 59, 66.

Freedom League) chose complete independence.

#### B. THE POST-WAR ECONOMIC SITUATION IN BURMA

Burma had suffered greatly during the Second World War. Railways and waterways were stripped of their rolling and floating stock, mines flooded, oil refineries dynamited, oil wells sabotaged, bridges blown up, ports blocked, roads damaged and power stations were demolished. Monetary estimates of the extent of damage have varied considerably. However, a paper prepared by Robert R. Nathan Associates, consulting economists to the government, concluded that "approximately Kyats 14 billion (nearly \$3 billion United States) in current prices would seem to be a reasonable statement of Burma's physical damages."<sup>6</sup>

The immediate post-war period, the production in almost all the major industries of Burma was very low (see table). The reasons for this decline in total output were the actual destruction of capital and equipment in the course of military activities; the stoppage of many industries during the war because of wartime conditions and insecurity; and the isolation of Burma during the war which reduced the demand for the main crops. Also 2 million acres of paddy lands had

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<sup>6</sup> Robert R. Nathan Associates Inc., Burma's Preparation Claims Against Japan (Rangoon, June 1954), p. 2.

reverted to jungles and hundreds of thousands of agricultural refugees in the towns.<sup>7</sup>

TABLE 3.1  
Gross National Product and Income<sup>8</sup>  
(Estimates Rs. million)

Year	38-39	46-47	47-48	48-49	49-50
G.N.P. at 1938-39 Prices	1,190	707	879	795	691
Agriculture	513	314	389	369	317
Mining	128	2	6	7	3
Timber	61	27	35	23	16
Gross National Income at 1938-39 prices	1,112	669	826	791	651
Percent of 1938-39	100	60	74	71	58

Note: Approx. Rs. 5 = \$1. (U.S.)

Thus national income immediately after the war was less than two-thirds of the prewar level. Income per head had fallen still more due to a rise in population since the war.

This was the situation when General Aung San went to London in January 1947 to sign an agreement which ensured independence within one year. When Burma became independent

<sup>7</sup> Walinsky, op. cit., p. 59.

<sup>8</sup> Ministry of National Planning, Economic Survey of Burma, 1951, Rangoon, 1952, Table 111, p. 3.



on the 4th January 1948, the Constitution Assembly approved the written Constitution which stated that Burma would have a planned economic development dedicated to the material and cultural uplift of the people, and to their protection from monopoly exploitation, insecurity and abuse. Soon after independence, the National Government adopted an independent economic policy aimed at establishing a socialist state in Burma and promoting economic development on a planned basis. Great emphasis was laid on the industrialization of the country because it was considered that a predominantly agricultural economy tended to have low productivity and low per capita incomes. And, of course, an agricultural economy which is a net exporter tends to be unstable due to economic fluctuations in the rest of the world. It was felt that industrialization would increase the productivity of labor and raise the standard of living of the people.

For the Burmese leaders, the basic objective of overall economic planning "is none other than a steady and energetic effort to be exerted by us to exploit the immense natural wealth of the country to benefit the citizens totally to create conditions of contentment and happiness."<sup>9</sup> In a government publication, the view was expressed that the aim of the government was "to create a new foundation for our new

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<sup>9</sup> U Nu, Towards a Welfare State, Rangoon 1952, p. 36.

society, an economy capable of dynamic growth for the indefinite future."<sup>10</sup> These tasks, however, were quite stupendous because war damage was extensive in Burma. Great portions of her natural resources were already exploited and the nation at that time did not possess the technical, administrative and financial resources for building a modern economic society.<sup>11</sup>

### C. THE TWO YEAR PLAN

Since independence, importance of planning has been stressed and economic planning has played a major role in the development of Burma. The Burmese Government firmly believed in economic planning as an effective and short cut way of achieving growth. The Constitution openly stated that "the economic life of the Union shall be planned with the aim of increasing the public wealth, of improving the material conditions of the people and raising their cultural level, of consolidating the independence of the Union and strengthening its defensive capacity."<sup>12</sup>

The first major conference on planning was held by the late General Aung San at the Sorrento Villa, in Rangoon

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<sup>10</sup> Pyidawtha: The New Burma, Rangoon, 1954, p. 12.

<sup>11</sup> Trager, op. cit., p. 6.

<sup>12</sup> The Constitution of the Union of Burma, Rangoon 1948, Section 41.

June 1947 to discuss the problems of rehabilitation of Burmese economy to its prewar level. The Conference was divided into the Statistical Section, the Planning Section, the Finance Section, the Ways and Means Section, and the Co-ordination Section. A National Planning Board was set up to survey the economic resources of the country, and to draw up an overall plan as well as sectoral and departmental plans.

The tragic assassination of the national heroes, including General Aung San, left the implementation of "Sorrento Plans" to the Economic Planning Board (a subsidiary of the National Planning Board).<sup>13</sup> This Economic Planning Board was charged with preparing a restricted Two Year Plan of Economic Development. They drew up the Plan within a short space of two months and announced the Plan in April, 1948. "The Plan incorporates most of the valuable materials from the 'Sorrento Plans', but not all...."<sup>14</sup>

The Two Year Plan of 1948 was, until 1960, the first and the only attempt at comprehensive economic planning made by independent Burma without any assistance from foreign advisors. It was Burma's first attempt to formulate specific ways and means of achieving the principles and goals stated in

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<sup>13</sup> Thet Tun, A Review of Economic Planning in Burma, B.R.S.F.P., January 1960, Rangoon, 1960, p. 490.

<sup>14</sup> Economic Planning Board, Two Year Plan of Economic Development for Burma, Rangoon, 1948, p. 1.

the Constitution.

The overall aim of the plan was vague. It stated its aim as "the maximum development which is considered practicable during the next two years (meaning 1949, 1950), bearing in mind the limitations of men and resources."<sup>15</sup> However, in effect the planned period extended beyond the immediate two years. The planners stated that the Two Year Plan was to lay down the foundations of a planned economy. As these plans were made immediately at the time of the granting of independence there was not much time to study the available resources and potentialities in the country.

# 1. Sector Targets

## (a) Agriculture.

The Plan set 1951-52 as a target date for regaining the prewar rice position in production and export. In addition to this target, it stipulated three basic policies of the Government: (1) to eliminate landlordism and redistribute land, (2) to insure the cultivators a fair share of its produce and (3) to become self-sufficient in a number of agricultural products.

In order to carry out their policies, the Plan recommended, firstly, the allocation of unrented land to tenant

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<sup>15</sup> Two Year Plan, op. cit., p. 2.

farms and the provision of government loans for reclamation of paddy lands which had reverted to jungles; and secondly, the formation of a central state agricultural bank for crop loans, cattle loans, improvement loans and cattle insurance. Proposals were made for the granting of at least K50 million (\$10.5 million, United States) of credit for the 1948-49 season.<sup>16</sup>

Targets were also set for other agricultural products, but no recommendations were made as to how these targets were to be achieved.

(b) Industrial and Power Development.

In connection with industrial development it was suggested that all basic industries be established and developed as state enterprises. For consumer goods industries, "first consideration was to be given to their development on a State owned basis."<sup>17</sup>

The need for resource surveys was recognized and the rehabilitation of former industries was given high priority. The Plan specifically recommended the immediate setting up of:

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<sup>16</sup> Walinsky, op. cit., p. 65.

<sup>17</sup> Two Year Plan, op. cit., p. 5.

a tile factory, paper and chemical industries, a spinning and weaving factory, a sugar factory, saw mills, a soap factory, pilot dairy farms, a coal mine in Kalewa, a steel rolling mill, rice mills, a rubber factory and pottery works.

Proposals regarding electric power development were very ambitious. Emphasis was placed on hydroelectric power as a source of energy with recommendations for surveys of Bawgata Chaung and Singdin Falls in Akyab district. The creation of an Electric Supply Board and the supply of electricity from the various state owned generating stations for a number of towns were also proposed.

(c) Other Fields.

In forestry, one aim was to achieve prewar output by 1951-52. It was also hoped that complete nationalization of forests and the formation of a State Timber Board to control the milling and export of timber would be carried out.

The Plan mentioned the urgent need to restore transport and communication facilities, extension of railway lines, and the highway networks and the development of air transport. The Burmanization of services in the Inland Water Transport and Communication Departments of the Government was also stressed.

In the field of labor, the plan called for the

strengthening of the Factory Inspectorate, the opening of more labor offices and employment exchange, establishment of wage councils, the publication of a Labour Gazette and the registration of technical and scientific personnel.

The Plan recognized the need for financial reconstruction and stated that "financial policy shall be brought in line with the general policy of state socialism."<sup>18</sup> Creation of a state commercial bank, inauguration of a decimal currency, the reorganization of the audit department, a savings campaign and compulsory life insurance for state employees, were recommended.

## 2. Effectiveness of the Plan.

The Two Year Plan was more or less an expression of wishes of the national leaders of the desirability of regaining the prewar level of living in the nation, rather than a plan with methods for accomplishing this goal. No aggregate targets for output and investment were set. Although the plan listed the projects the government wished to establish, no attempt was made to estimate the available source of funds to finance those projects. The Plan was naive in its expectations as to what might be achieved within a two year period and made no attempt to appraise or provide for the cost of programmes

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<sup>18</sup> Two Year Plan, op. cit., p. 12.

recommended. It was merely a mixture of aims and projects rather than a systematic comprehensive plan.

Some policies and targets were too ambitious for a newly independent nation greatly damaged as it was by war. The target date (which was 1951) set for the prewar level of production was unrealistic. In effect, the planned period went beyond the immediate two years. The Land Nationalization Act which was passed in 1948 had to be passed again and was implemented only in 1953. The Plan's proposal to set up a State Agricultural Bank was implemented also in 1953. Regarding the plan's target for teak, actual production and export eventually were far behind the target due to several reasons. These included the sensitivity of the extraction process, lack of law and order, and the loss of teak markets during the war. Even in 1958-59 teak export was only one third of the prewar level. In the field of industry, all the projects listed in the plan were implemented at dates much later than schedule. Although the surveys for power development were carried out to a limited extent, they did not lead to implementation.

Thus, the Two Year Plan was merely a first attempt to develop the country on a planned basis. It should be emphasized that although the Plan was officially announced, it was not implemented to any marked degree due to the countrywide



insurrection in 1949 which nearly destroyed the National Government.

Any progress which might have been made under the Two Year Plan was stopped by the insurrection. The economic well being of the country was adversely affected. By the end of 1950, it was estimated that the damage inflicted by the insurrection to public property amounted to K425 million (i.e., \$8.5 million, United States), extra defense expenditure amounted to K1,000 million (\$200 million, United States) and that damage to private property amounted to K1,000 million.<sup>19</sup> Total output which had risen from 61 percent of the prewar level in 1946-47 to 72 percent the following year declined to 65 percent in 1949/50.<sup>20</sup> Thus four years after the war, the Burmese economy was driven back to the early post war output level.

To sum up, it is appropriate to quote U Thet Tun: "The Two Year Plan of Economic Development, drawn up during a short space of two months, admittedly handicapped by inadequacy of data and knowledge of country's resources, was not a fully fledged plan in the true sense of the word. It was more of an enunciation of the economic aspirations of a newly born state and of the economic principles to guide the

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<sup>19</sup> Walinsky, op. cit., p. 69.

<sup>20</sup> Walinsky, ibid. .,

process of advancement towards those objectives....The Plan, of course, was never implemented as scheduled as country wide insurrection broke out soon after the announcement of the Plan. Even if it had been, it is hard to see how the ambitious targets of the Plan in agriculture and forestry sectors could have been achieved."<sup>21</sup>

#### D. INCREASING ROLE OF ECONOMIC PLANNING

To demonstrate the national importance of economic planning, the Prime Minister took charge of the portfolio of the Ministry of Planning and assumed the presidency of the National Planning Board. The Board was assigned the duty of surveying the resources of the country, evolving plans for its economic development, and coordinating and supervising the activities of the Ministries in the execution of the plans. It was presided over by the Prime Minister and members included Ministers of the Government. However, the National Planning Board could not operate effeciently and effectively, mainly because of its large size. The Board soon became defunct and remained merely as an accommodation centre for statistical, economic and industrial research workers. In order to take over some of the functions of the National Planning Board, the Economic Council was formed under the chairmanship of the Minister of Industry and Commerce. The duties of the council

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<sup>21</sup> Thet Tun, op. cit., p. 492.

were "to formulate and submit government plans and advice, and make recommendations in economic matters; and to submit plans and programmes for the nationalization of industries."<sup>22</sup>

During the first half of 1951, the Planning Ministry invited a group of British economists to assist both the Ministry of National Planning and the Union Bank of Burma. The experts made the following recommendations:<sup>23</sup>

1. An economic survey to acquire basic statistical data.
2. A study of the types of industry suitable to Burma.
3. A long term plan for economic development.
4. Agricultural rehabilitation and the provision of social capital.
5. A survey of man power resources.
6. Preparation of a new budget to accelerate departmental planning and spending.
7. Reform of the currency system.
8. Revising import control machinery.

As well, in a short period of time, the experts did some groundwork for planning in the way of national income estimation. Their results were the publication of the first "Economic Survey of Burma" and of "Conference Papers on Current Economic Problems of Burma" in 1951.

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<sup>22</sup> See Constitution of Economic Council, Government Printing Press, Rangoon, 1950.

<sup>23</sup> Ministry of National Planning, Conference Papers on Current Economic Problems of Burma, 1951, Rangoon 1951, pp.2,7,8.

## E. THE EIGHT YEAR PLAN

### 1. Description.

After the survey of British economists, the Burmese Government engaged the Knappen, Tippetts, Abbet engineering firm; Pierce Management Inc., mining engineering firm; and Robert R. Nathan Associates Inc., consulting economists, in late 1951. These firms were engaged with funds provided under the U.S. Technical Cooperation Programme to draw a comprehensive economic plan for Burma. Their contract included the preparation of economic and engineering surveys; the preliminary draft was to be submitted in early 1952 and the final draft in August 1953.

In January 1952, the group of consultants submitted a preliminary report and recommendations called the K.T.A. Report. Most of their recommendations were later endorsed by the Government at the "All Burma Pyidawtha Conference" in August 1952. In August 1953, the consultants submitted their final Comprehensive Report on the economic and engineering development of Burma. Hence the K.T.A. (Knappen, Tippet, Abbett) Plan, which was also known as the Pyidawtha or the Eight Year Plan, set its plan period as January 1952 to September 1959. Recommendations of various groups including United Nations technicians, Social Service Mission, Ministries, and other agencies of the government, made a considerable contribution to it. "The Government envolved its development

programme in the light of the overall recommendations of consulting engineers and economists, and specific programmes proposed by other consulting engineers and economists, and specific programmes proposed by other consulting groups by various government agencies."<sup>24</sup>

The United States assisted Burma in the planning and execution of major projects (in agriculture, public health and medicine, education, housing, industrial research and transport) by providing \$20 million (U.S.) aid. Burma had received aid valued at approximately \$900,000 annually from the United Nations. Since 1952, when Burma joined the Colombo Plan, she had also received \$1.78 million (U.S.) from that source.<sup>25</sup>

## 2. The Aggregate Targets

### (a) National Income Targets

The maximum possible increase in total output within the eight years was estimated. It was concluded that output could be doubled by the end of the decade. The national output target was set at Kyat 700 million (i.e., \$1.48 billion, U.S.) by 1959/60 which would be 30 percent above the prewar level and

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<sup>24</sup> Ministry of National Planning, Economic Survey of Burma, 1953, Rangoon, 1954, p. 57.

<sup>25</sup> Ministry of National Planning, Economic Survey of Burma, 1957, Rangoon, 1958.

78 percent above the 1951 level.<sup>26</sup> To achieve this target meant about 8 percent annual increase in the Gross Domestic Product.

TABLE 3.2

Gross Domestic Product Goals in 1950-51 Prices.<sup>27</sup>

G.D.P.	1938-39	1950-51	1959-60 estimated	% increase in 1959-60	
				on 1938-39	on 1950-51
Total (m Kyat)	5,337	3,710	7,000	31	88
Per Capita (K)	326	201	340	4	69
Consumer purchases (% to G.D.P.)	63.3	72.6	66.6		

Note: \$1 (U.S.) = Kyat 5 (approximately)

It was estimated that a net capital formation for the entire period of K7,500 million would be required. An assumption was made that two thirds could be financed domestically and one third by borrowing from abroad.<sup>28</sup> As there was an improvement in rice export prices at that time, the advisors felt that Burma would have no difficulty in financing its investment programme. Foreign exchange available

<sup>26</sup> Knappen, Tippetts, Abbett, Preliminary Report on Economic and Engineering Survey, Rangoon, 1952, p. 172.

<sup>27</sup> K.T.A., Comprehensive Report, Vol. 1, Rangoon, 1952, Table 11.1, p. 22.

<sup>28</sup> Ibid., Table 111.7, p. 50.

for the export of rice would be sufficient to finance the whole programme.

Estimates were also made of the probable division of investment between the public and private sector. Fifty-four percent of the total investment or K4,020 million was to be invested by government sector for public productive and social net capital formation.<sup>29</sup> It was hoped that unplanned private investment would make up the remaining. Regarding the allocation of total net capital formation, K5,500 million or 73 percent would be for productive investment (private and public) and K2,000 million or 27 percent would be for investment in the social capital.<sup>30</sup>

The capital-output ratio assumed by the Plan was less than 2.5:1. Investment expenditure were divided almost equally between rehabilitation expenditures which was expected to yield a capital-output ratio of 2:1 and development expenditure was estimated to yield at a higher capital-output ratio of 3:1.

### 3. Sector Programming

#### (a) Agriculture

The Five Year Agriculture Plan resulted from the

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<sup>29</sup> Ibid.

<sup>30</sup> Walinsky, op. cit., p. 144.

Pyidawtha conference in 1952. The programme was concerned mainly with the expansion in acreage of paddy cultivation and the improvement of methods of cultivation. The goals of the plan were to make Burma virtually self-sufficient in food stuffs; to increase national income and foreign exchange via exports; to provide employment for the rural population; and to contribute to higher levels of consumption.<sup>31</sup>

In 1955, the Government realized that the Five Year Agriculture Plan was inadequate; thus it authorized the Agricultural and Rural Development Corporation (A.R.D.C.) to form the Land and Agricultural Planning Commission. "It provides a comprehensive survey... of resources... the framework for agricultural development... specific recommendations... for an integrated... plan both for the short and long run. The report is currently (Fall 1956) being reviewed by various agencies of the Government."<sup>32</sup> Prices of paddy and milled rice were to be fixed by the State Agricultural Marketing Board (S.A.M.B.); irrigation, flood control and drainage were introduced so that farmers could grow two crops per year; the use of more efficient technique of production (mechanization) and fertilizers were suggested.<sup>33</sup>

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<sup>31</sup> Trager, op. cit., p. 40.

<sup>32</sup> Ministry of National Planning, Economic Survey of Burma, 1956, Rangoon, 1957, p. 49.

<sup>33</sup> Trager, op. cit., p. 48.



In connection with the irrigation programme, the K.T.A. engineers called for four projects, two of which were major ones. The programme aimed at increasing the gross acreage irrigated by nearly 1.7 million acres at an estimated total cost of K450 million (i.e., \$94.5 million, United States).<sup>34</sup>

(b) Forestry and Mining

Forestry was not specifically emphasized at the Pyidawtha Conference in 1952. The K.T.A. Reports stated that the forestry situation had been left to an F.A.O. expert and the Burmese officials in the Forestry Department for thorough study.<sup>35</sup> The Forestry Department has followed a strict policy of conservation and controlled exploitation. Out of 262,000 square miles, about 150,000 square miles, of Burma is forest area and is government owned.<sup>36</sup>

The mining consultants recommended the rehabilitation of Bawdwin Mines of Burma Corporation (chiefly producing lead, zinc and silver), the Mawchi Mines (a big tungsten-tin producer); and the oil fields of the Burma Oil Company at Chauk. They also recommended the development of the Kalewa coal deposits and the establishment of a zinc smelter and refinery at Myingyan. The total cost of all these was estimated at K155 million.<sup>37</sup>

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<sup>34</sup> Walinsky, op. cit., pp. 138-139.

<sup>35</sup> K.T.A., Final Report, Vol. II, Chapter XXIV.

<sup>36</sup> Burma: The Seventh Anniversary, Rangoon, 1955, p. 150.

<sup>37</sup> Walinsky, op. cit., p. 142.

## (c) Transportation and Communications

The K.T.A. Plan recommended that K1,765 million be spent on transportation and communications between 1954-60, with half of it on highways. The highway programme was mainly for the rehabilitation and reconstruction of the main trunk and district roads and the improvements on farm-to-market roads. Similarly, the railway programme was mainly for the renewal of rails, restoration and improvements of track and reparation of major bridges. The ports and waterways programme called for the reconstruction of wharves and docks at the port of Rangoon. Provision was also made for the purchase of four vessels. The air transport programme was concerned chiefly with the necessary airport improvements and the eventual replacement of the DC<sub>3</sub> domestic fleet. Thus the whole programme for transportation and reconstruction. The details are found in the table which follows.

TABLE 3.3

K.T.A. - Planned Expenditure for Transportation and Communication.<sup>38</sup> (in million Kyats)

Highways	K819
Ports and Waterways	568
Railroads	273
Airways	75
Telecommunications	30
	<hr/>
	1,765

## (d) Industry

The consulting engineers recommended the setting up of various plants: a fertilizer factory, bamboo pulp and paper mill, a steel products plant, forest products, a sulfuric acid plant, a jute bag and twine mill, cement mill expansion, rice bran oil plant, and an asbestos-cement plant. The total of Kyats 229 million (\$45 million, United States, approximately) was planned for investment in those plants.

The leaders and their advisors were convinced that Burma should industrialize in order to diversify the economy and reduce the dependence on foreign sources of manufactured goods. The K.T.A. consultants believed that "the needs of economic development programme demand more efficient private organization as well as more efficient public organization. The government can assist greatly in developing improved efficiency in the sphere of privately organized enterprise."<sup>39</sup> "Development in the fields of mining and industry,... should be set up and run on a businesslike basis and that same basis should apply to the new autonomous enterprises they (the government) set up or sponsor."<sup>40</sup>

4. Effectiveness of the Plan

## (a) Output and Investment Targets

The target of nearly 100 percent increase in the

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<sup>39</sup> K.T.A. Preliminary Report, op. cit. p. 222.

<sup>40</sup> K.T.A. Ibid., p. xx.

the Gross Domestic Product by 1959-60 (within the eight year period) called for approximately an 8 percent increase of Gross Domestic Product per annum. This is a remarkable rate for any economy as was demonstrated by the actual implementation of the plan. The target of K7,000 million Gross Domestic Product by 1959-60 was not achieved. In fact, Gross Domestic Product in real terms in 1959-60 barely surpassed the prewar level and fell short of the plan by 19 percent. Besides, the increase in population kept it some 15 percent below the prewar level.

TABLE 3.4

Eight Year Plan: National Income Targets and Achievements<sup>41</sup>

Gross Domestic Product (1947-48 prices) million Kyats

	Eight Year Plan	Actual Achievement
1950/51	3,431	3,431
1959/60	7,000	5,513
Percent Increase	106	61

Per Capita Production (1947-48 prices) Kyats

1950/51	186	186
1959/60	340	265
Percent Increase	81	42

Per Capita Consumption (1947-48 prices) Kyats

1950/51	133	133
1959/60	244	171
Percent Increase	83	28

<sup>41</sup> Economic Survey of Burma 1957, 1960, Table 11 & IV, K.T.A. Comprehensive Report, op. cit.

Actual gross capital formation was 83 percent of that envisaged in the original plan. Public capital formation was nearly 90 percent and private capital formation nearly 77 percent of the original targets. Net capital formation, private and public, was 84 percent of that originally scheduled.

Table 3.5 indicated that actual investment was quite close to that of the targets. However, whether funds were invested in appropriate sectors or projects in accordance with overall economic well-being, will be considered later.

TABLE 3.5

Public and Private Capital Formation,  
Programmed and Actual 1952 - 1959/60<sup>42</sup>

(Kyats million)

	Original K.T.A. Programme	Actual	Actual as % of Programmed
Gross Capital Formation	10,672	8,862	83
Public	5,225	4,680	89.6
Private	5,450	4,180	76.7
Net Capital Formation	7,500	6,297	84

(b) Sector Programmes

Targets were accomplished only in a few sectors.

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<sup>42</sup> K.T.A. Comprehensive Report, Table 111-7, p. 50,  
Economic Survey of Burma 1956 and 1960.

These included: crude oil production, railway passenger traffic and the acreage sown to sessamun (a grain). Output of other grains fell considerably short of expectations. There was overestimation of the export of rice as well as other agriculture products.<sup>43</sup> Although the overestimation of other products were less serious, achievement of the paddy acreage and rice export targets were crucial to the success of the programme.

The Plan was very vague so far as expected investment by private sector was concerned. Expected investment in the public sector was planned and classified sector by sector. However, too much emphasis was laid on social overhead expenditure (more than half of the total expenditure was allocated to highway and communication development). A United Nations Economic Advisor to Burma correctly stated that "there seemed to be altogether too much emphasis within the programme on "accessories" like transport, communication and electrification (72 percent of the total planned expenditure) and too little emphasis on truly productive investment in Agriculture, Irrigation, Forestry, Mining, and Manufacturing (28 percent)."<sup>44</sup> Primary productive capital take up only 20.7 percent of the total expenditure while secondary productive capital take up

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<sup>43</sup> Thet Tun, op cit., Table 10.

<sup>44</sup> E.F. Schumacher, "Some Notes on Burma's Economic Development," A Memorandum submitted to Economic & Social Board, Rangoon, February 1953.

35.9 percent, and social and administrative capital as much as 43.4 percent.<sup>45</sup> Walinsky attempted to justify the emphasis on social overhead expenditure as being necessary due to wartime damage,<sup>46</sup> but on balance it would appear that the plan placed too much emphasis on social as opposed to productive capital outlays.

There was a lack of discipline and priorities in the manufacturing industries programme. Similarly, lack of discipline and poor coordination hindered the electric power programme. The programme adopted did not place sufficient emphasis on the primary agricultural, forestry and mining sectors. The land nationalization programme was vague and ineffective; rice milling improvement left to the private sector was adversely affected by lack of effort; recovery targets for teak production and exports were not set; the Kalewa mining project was clearly not economic; the steel and pharmaceutical industry projects lacked adequate economic justification; the acquisition of Viscount aircraft for international air travel was hasty and unwise; the housing programme was poorly conceived; the superimposing of the Soviet gift projects in the plan was unreasonable.<sup>47</sup>

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<sup>45</sup> Thet Tun, op.cit., p. 506.

<sup>46</sup> Walinsky, op. cit., p. 379.

<sup>47</sup> Walinsky, ibid., p. 379.

## (c) Other Defects in the Plan

## (i) Overestimation in Administrative Efficiency

The economic consultants, being from an advanced country, took administrative efficiency for granted and assumed that there would be sufficient administrative and supervisory efficiency in implementing their Plan. They adopted Keynesian multiplier theory and expected it to work effectively in an underdeveloped economy like Burma, leading them to place too much emphasis on investment.

There was also the problem of specialized manpower (the shortage of administrative, managerial and technical experience and skills). However, this deficiency is not so serious when compared to the limitations imposed by inefficient administration and organization.

## (ii) Assumption on Internal Peace

Another serious defect in the Plan is the assumption that "civil order will be fully established by the beginning of 1954 and that peace will prevail thereafter."<sup>48</sup> However, internal peace was not restored and there was a serious reduction in the acreage of rice and other agriculture products.

Walinsky argues that "it cannot be said that poor judgment was exercised in adopting this assumption....there

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<sup>48</sup> K.T.A., Preliminary Report, op. cit., p. 5.



can be little doubt that vigorous action by the government could have achieved the result required, and the planners had been given reason to expect that the Government would pursue such a programme.<sup>49</sup> He cited an incident that when one of the officials of the Robert Nathan consulting firm questioned the validity of security assumption, Prime Minister U Nu had said, "It is true that we cannot know (whether security will be effectively established by 1954 or not). But, on the other hand, how can we know that it will not be so? We will proceed on this basis."<sup>50</sup>

(iii) Over Optimistic Forecast of the World Price of Rice

The main reason for failure of the Eight Year Plan lay in the overoptimistic forecast of production and export proceeds of rice. Burma is an export surplus economy, and rice accounted for over 70 percent of total export. The United Nations F.A.O. experts forecasted at that time that prospects for the price of rice over the next few years were highly favourable. Thus the consultants assumed that the export price of rice would not decline below £50 sterling per ton by 1959/60. As Burma's rice production was also assumed to

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<sup>49</sup> Walinsky, op. cit., p. 377.

<sup>50</sup> Walinsky, ibid.

be increasing they expected the export earnings from rice to provide with adequate supplies of foreign exchange. They were certain that Burma could finance the K7,500 million of net investment called by the Plan entirely with her own resources.

During 1954 and 1955, there was a downward movement in the price of rice and Burma underwent an unfavourable experience. The price of rice in the world market declined to £32 by 1957/58. Thus just as the implementation of the development programme was gaining momentum, foreign exchange earnings fell. The Plan had assumed that huge surpluses in the Comprehensive Government Budget would result in accumulated foreign exchange reserves. But, in practice, the Comprehensive Government Budget in most years registered a deficit instead of the planned surplus. As foreign expenditure remained high foreign exchange reserves fell continuously from K1,185 million in the second half of 1953 to K516 million in the second half of 1955.<sup>51</sup>

The drop in the price of rice on the world market led the government to take rash action. Subsidies which had led to an increase in paddy acreage were discontinued. The decline in the price of rice imposed a serious blow on the Government's confidence in plans, in its ability to carry them out effectively, and even in economic development itself.

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<sup>51</sup> Ministry of National Planning, Economic Survey of Burma, 1957, Rangoon 1958, Table 31, p. 45.

TABLE 3.6

Foreign Exchange Earnings and Expenditure<sup>52</sup>

Year	Rice Exports		Receipts Total Exports		Payment net of non trade receipts		Excess of Receipts	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
1952-53	1,134	993	1,394	1,267	965	1,019	429	248
1953-54	1,428	754	1,782	999	1,342	1,435	440	-436
1954-55	1,445	660	1,765	913	1,505	1,153	260	-240
1955-56	1,544	889	1,884	1,181	1,624	941	260	-240
1956-57	1,634	839	2,004	1,152	1,697	1,478	307	-326
1957-58	1,705	713	2,105	1,018	1,747	986	358	32
1958-59	1,772	680	2,207	980	1,762	925	445	55

Because the plan took for granted that investment could be financed easily through the revenue earned from rice exports, government officials paid very little attention to the possibility of foreign exchange shortage. They were also led to put less emphasis on increasing domestic production in sectors like agriculture, timber, and mining, and particularly to formulate specific programmes to achieve prewar export levels in these basic products.

As foreign exchange reserves fell, the government

<sup>52</sup> Central Statistics and Economics Department,  
Ministry of National Planning, Rangoon.

took drastic measures to improve the foreign exchange situation. This included tightening of import control, suspension of existing licence, and additional foreign exchange controls. However, these measures met with very little success. The Government increased the sale of rice by reducing the price and by entering into trade agreements (mostly barter) with a number of countries.<sup>53</sup> Some orders for equipment were cancelled while others were deferred. Thus although not officially done, the economic framework of the Eight Year Plan, for all practical purposes, was abandoned in 1955.

#### 5. Three Year Implementation Programme

Having encountered unfavourable experience in the long term plans, the consultants turned to a revolving Three Year Implementation Programme. Targets for each were to be adjusted in the light of the previous year's performance, and the financial prospects of the year ahead. This type of programming is specially suitable for a country like Burma where future conditions are uncertain due to her heavy dependence on one primary export commodity. However, it is more of a flexible programme; not a comprehensive plan. For example, the programme may have an investment target, but an investment target has no significance in itself if, as is usually the case, its implications on output, income etc. are not calculated.

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<sup>53</sup> United Nations, Economic Survey for Asia and the Far East, 1957, E.C.A.F.E., Bangkok, 1958, p. 63.

## F. THE FOUR YEAR PLAN

### 1. Description

In early 1956, the Ministry of National Planning converted the Three Year Implementation Programme into a Four Year Plan (beginning 1956-57 and ending 1959-60) for various political and technical reasons. The Four Year Plan ending 1959-60 would coincide with the life of the New Parliament and would thus leave a well-organized state for the succeeding government. Its completion date would also coincide with the end year of the original Eight Year Plan and would permit a comparison of results achieved at the end of the decade with the original targets of the Eight Year Plan.

The fact that Burma needed a comprehensive four year plan was agreed upon by not only the Burmese Government but also by the consultants from the United States as well. However, there was a conflict in the contents of the Four Year Plan.

In June 1957, the foreign economic consultants issued the "Blue Book" (as it was known) in which they revised the Four Year Plan prepared by the Ministry of National Planning in 1956. The investment targets were raised by 20 percent for each year.

At about the same time, the Prime Minister U Nu issued directives for the formulation of a new Four Year Plan.

Improvements in law and order and internal security were emphasized. However, the Prime Minister's directives were very general and vague, and were mainly based on his speculations as to what should be done to have a more efficient administration in the country.

None of the several versions of the Four Year Plan were officially announced. However, since the Plan of Ministry of National Planning was used as a framework in the budgeting of the capital expenditures of the government, it deserves a special study.

## 2. Objectives and Targets

The Four Year Plan was considered a flexible one, subject to adjustment in annual budget in the light of developing circumstances.

The objectives proposed in the Four Year Plan were to lessen economic instability and to strengthen the base of the economy. Economic stability was given preference over economic growth. This is a very reasonable objective as the Burmese economy was highly unstable after the foreign exchange crisis resulting in a sharp decline in the world rice prices.

Among the targets was one for strengthening the country's balance of payments position at the end of the period.

An increase in foreign exchange was the dominating factor in the formulation of the Plan.

(a) Investment Policy

As the Four Year Plan inherited a considerable number of projects already commenced under the Eight Year Plan, the extent for which investment criteria could be used was limited.

With the amount of funds available for new investment, quick maturing projects were given the first priority because of its low capital-output ratio and short period of gestation. There were various reasons for this criteria. In the first place because of its quick maturity, the impending problem of repayment of foreign loans can be solved in a shorter time. Also, the deficit balance of payment problem may be solved quickly and stability could be maintained.

The application of balance of payment criteria led to the choice of projects which would earn foreign exchange, and projects resulting in import substitution, such as light consumer goods, was given preference.

Under the Four Year Plan, attempts were made to alter the previous emphasis on social overhead expenditures. Construction expenditures were scaled down considerably. Social service expenditures were kept within modest limits in order

to free more resources for investment in economic production. However, expenditure on the maintenance of law and order were kept up because of the country's need for internal security.

(b) Expenditure Programmes

The revised Four Year Plan called for a capital expenditure of K2,510 million for the four year period 1956-57 to 1959-60. It was estimated that K1,380 million would be required in foreign exchange and K1,130 in domestic currency. The programme envisaged an increase of almost 50 percent in the volume of public investment as compared with that of the preceding four years. Expenditures on agriculture, mining and transport were greatly increased.<sup>54</sup>

An estimate was made of financial resources calculated on the basis of prospective foreign exchange earnings and foreign loans already assured. The plan also made provision for large scale imports for private use throughout the four year period. It also estimated the foreign exchange resources available for capital investment programme by deducting consumer imports and foreign exchange component of public current expenditure from the total foreign exchange earnings.

After making necessary adjustments for imports, the plan estimated a deficit of some K420 million foreign

<sup>54</sup> Transmittal, "Four Year Program, 1956/57 to 1959/60," Ministry of National Planning, Rangoon, February, 1957.



exchange and about K340 million of domestic currency. However, taking the prospective foreign loans into account, they believed that the indicated foreign exchange deficit was well within the total resources anticipated.<sup>55</sup> To be on the safe side, Government action was suggested to improve tax enforcement, strengthening the tax structure, improving the efficiency of the state owned boards and corporations, and adjusting the price policy of the state enterprises. Other measures were to be used to mobilize resources as well.

"If the proposed level of capital expenditure is accepted, the Government must accept the responsibility for adopting the policies and measures necessary to provide the resources without further inflation."<sup>56</sup>

#### (c) Sector Programmes

Agriculture and irrigation received great emphasis. Its share in total investment was doubled relative to that of the preceding four years. Sown acreage in paddy was planned to increase from 10.4 million acres in 1956/57 to 12 million acres in 1959/60; groundnut acreage from 855,000 to 1.2 million in 1959/60.

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<sup>55</sup> \$25 U.S. Loan, Additional P.L. 480 arrangement of K300 million, K210 million Soviet Credit, K80 million West Germany Credit, World Bank Loans.

<sup>56</sup> Four Year Plan, op. cit.

TABLE 3.7  
Selected Targets in Agriculture<sup>57</sup>

<u>Sown Acreage</u> (000 acres)	1956/57	1959/60 (Targets)
Paddy	10,385	12,000
Groundnut	855	1,200
Jute	8	150
Virginia Tobacco	5	6
<u>Production</u> (000 tons)		
Paddy	6,362	7,200
Groundnut	195	300
Jute	8	50
Virginia Tobacco	1	1

Investment in forestry and mining was larger, although their share of total investment was still low due to the lack of available projects. In forestry, emphasis was on increasing teak production while cutting down the production of non-teak logs.

Targets were set to increase the production of tin, lead, zinc, coal, building and road materials. However, production of tungsten and mixed tin and tungsten were not expected to increase greatly.

<sup>57</sup> Economic Survey of Burma, 1957, Rangoon 1958, Table 9, p. 15; Central Statistics and Economics Department, Rangoon, Burma.

Industry and power retained their share of total investment because investment in those sectors was largely in continuation of committed projects.

TABLE 3.8  
Four Year Plan Targets (Selected Products)<sup>58</sup>

Forestry Production	1956/57 Output	1959/60 Target
Teak	178,077	324,000
Non-teak	704,904	560,000
Minerals		
Tin ores and concentrates	488	2,100
Tungsten ores	502	600
Mixed tin and tungsten	1,989	600
Lead ores and concentrates	27,040	33,600
Zinc concentrates	15,681	22,000
Coal	-	10,800
Building and Road Materials	208,000	521,000

### 3. Effectiveness of the Plan

As was mentioned previously, the Four Year Plan was not officially adopted. The Prime Minister firmly believed that the Government had made blunders by undertaking a large-

<sup>58</sup> Economic Survey of Burma, 1960, Rangoon, 1961, Table 11, p. 21; Table 16, p. 25 and for targets - C.S.E.D., Rangoon.

scale development programme without first re-establishing law and order in the country. He confused economic planning with administration and implementation by calling for a new Four Year Plan emphasizing efficient administration and internal security. In his speech,<sup>59</sup> he declared that the government would henceforth give priority to law and order. He also declared that production and export of primary agriculture was to be restored and investment in state-owned ventures was to be slowed down. He suggested the need for improvement in efficiency in government boards and corporations and as well the expansion of private sector.

It is clear that the pending Four Year Plan painstakingly developed by the Ministry of National Planning and the advisors was practically useless. Increased outlays for law and order, fire prevention, etc., would have to be financed by additional resources not previously contemplated in the Four Year Plan. Thus the Prime Minister decided to seek special attention from the United States Government for the law and order programme.

Although the Four Year Plan prepared by the Ministry of National Planning was not officially adopted, it served

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<sup>59</sup> Premier Reports to the People on Law and Order, National Solidarity, Social Welfare; National Economy and Foreign Affairs, Government Printing Press, Rangoon, 1957.

as a useful guide in the preparation of the annual capital budget. Government expenditure was based on the available financial resources calculated in the Plan. However, the financial resources realized fell short of the Plan estimates in the last two years. During the last three years of the Plan, the level of planned capital expenditure exceeded the budget but the actual expenditures made came closer to expenditure planned than to expenditure budgeted.

TABLE 3.9

Targets and Actual Achievements in Agriculture<sup>60</sup>

	Target 1959/60	Actual 1959/60
Sown Acreage (000)		
Paddy	12,000	10,667
Groundnut	1,200	1,086
Jute	150	25
Virginia Tobacco	6	8
Production (000 tons)		
Paddy	7,200	6,916
Groundnut	300	275
Jute	50	4
Virginia tobacco	1	1.3

<sup>60</sup> Economic Survey of Burma 1962, Rangoon, 1963, Tables 7 and 8; Targets: Central Statistics and Economic Department, Ministry of National Planning, Rangoon.

The targets set in agricultural acreage and output were not achieved except in the case of Virginia tobacco. This is presumably because the irrigation programme was not carried out as it appears to have been beyond the executive capacities of the responsible departments.

Targets for timber were not achieved whereas targets for non-teak was surpassed. Achievements in the mining sector were quite encouraging, except the Kalewa Coal project.

TABLE 3.10

Achievements in Forestry and Mining Sectors<sup>61</sup>

	1959/60	
	Target	Actual
Timber Production		
Teak	324,000	250,474
Non-teak	560,000	660,842
Minerals		
Tin ores and concentrates	2,100	1,091
Tungsten ores and concentrates	600	371
Mixed tin and tungsten	600	1,068
Lead ores and concentrates	33,600	32,184
Coal	10,800	-
Zinc concentrates	22,000	18,428

<sup>61</sup> Economic Survey of Burma 1962, Tables 11 and 18;  
Targets: Central Statistics and Economic Department, Rangoon.

Attempts to scale down expenditures on transport and communications were not altogether successful. This was on account of heavy commitments and the need to rehabilitate transportation facilities destroyed by the insurgents then active in the countryside. Some plans for social capital facilities -- such as the aircraft acquisition programme -- required a more specialized personnel and better management arrangements were available.

From independence in 1948, until 1960, Burma made three attempts to develop the country on a planned basis. Due to political, technical and economic reasons as discussed above, none of the plans met with complete success. Problems and defects of planning in Burma as well as that of other countries in Southeast Asia will be discussed in the next chapter and suggestions for improvements in planning machinery will be put forward.

## CHAPTER IV

REASONS FOR UNSUCCESSFUL DEVELOPMENT PLANNING IN THE REGION

## A. THE DEGREE OF SUCCESS IN PLANNING

The urgent need for planning was emphasized in the previous chapters. All the countries in the region realized the need and attempted to develop their countries on a planned basis since their independence. However, the success of their plans has been inhibited by various reasons. Their rate of growth of national income was still very low.

Since the achievement of a certain rate of growth was usually the principle objective in most Southeast Asian countries, the degree of success in their plans could be partially measured by comparing the planned rate of growth with the actual rate of growth.

With the probable exception of Burma, none of the planned targets could be regarded as ambitious. Their rates of population growth were over 2 percent per annum. This would call for at least a 5 percent rate of growth in aggregate National Income in order to grow as fast as some of the advanced countries. With the exception of Indonesia and Malaya, all the Southeast Asian countries set their targets above 5 percent per annum. However, except in the Philippines, the actual rate of growth achieved fell short of the planned targets in



all the countries of the region. This was very disappointing indeed; but in view of the difficulties and problems they faced in the formulation and execution of their plans, the progress they made was quite impressive.

TABLE 4.1

Southeast Asian Countries: Planned and Actual Rates of Growth<sup>1</sup>

Country	Period	Population Growth	National Income Growth	Per Capita Income
Burma	P 1952/53-59/60	1.2	7.4	6.2
	P 1956/57-59/60	1	7.4	5.4
	A 1950/51-59/60	2.3	5.9	3.6
Cambodia	P 1956/57	-	-	-
	A 1951 - 1959	2.5	4.0	1.5
Indonesia	P 1956 - 1960	1.7	3.0	1.3
	A 1956 - 1959	2.7	2.1	-0.6
Malaysia	P			
	A 1956 - 1960	3.1	3.9	0.8
Philippines	P 1956/57-60/61		6.0	
	P 1959/60-61/62	3.1	5.9	2.8
	A 1951 - 1959	3.2	6.0	2.8
Thailand				

Note: P - Planned; A - Actual

<sup>1</sup> United Nations, Economic Bulletin for Asia and the Far East, Vol. XV, No. 3, December 1964, New York, 1964, p. 3.

## B. REASONS FOR THEIR FAILURE

The reasons for their inability to achieve the targets were many. Factors affecting their plans which were more or less beyond the control of the planners will be discussed under "exogenous factors". Apart from these factors, there were many other problems both in formulation and implementation of plans which caused actual results to deviate from the targets.

### 1. Exogenous Factors

Most of the problems outside those of formulation and implementation of plans have already been discussed in previous chapters. There are, however, particular factors which were directly responsible for the effectiveness of the plan. As these factors caused disappointing results in planning, they will be given special attention.

#### (a) Unfavourable Trends in Foreign Trade

Export performance of the countries in the region in the decade of 1950-1960 was very unsatisfactory. The rate of growth of the volume of exports was 2 percent per annum which was much less than the growth of exports in other parts of the world.<sup>2</sup> The basic cause of slow growth in the

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<sup>2</sup> Latin American and African countries' rates of growth in export was 6 percent per annum. Ibid., p. 15.

export sector was the decline in demand for the main primary export products of the countries in the region. Most countries tried to overcome the difficulties by means of export diversification. Nevertheless, on the whole, no substantial progress in exporting took place. Even in the beginning of the present decade, primary products still accounted for about 80 percent of the total export. On the other hand, the volume of imports expanded in the 1950's at the annual rate of 4.3 percent which was more than twice as high as the volume of exports.<sup>3</sup> Increase in imports was mainly due to increasing needs for capital goods in carrying out their development plans. Since the primary export sector still remained the strategic determinant of import capacities of all the Southeast Asian countries, increasing imports could be carried out only through a deficit balance of payment.

The deteriorations in the terms of trade had a serious effect on their plans, since all the countries in the region were export oriented economies, heavily dependent on the export of one or two primary products. Failure of Burma's Eight Year Plan due to a fall in the price of rice was already discussed. Another most recent example was the experience of Malaya. In the Malayan Second Five Year Plan, gross output

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<sup>3</sup> United Nations, E.C.A.F.E., Economic Bulletin for Asia and Far East, Vol. XV, No. 3, New York, 1964, p. 17.

was expected to grow 4.1 percent annually bringing about an annual increase of 0.8 percent in per capita income. Although the plan allowed for the decline in the price of rubber, the actual decline was faster than expected. Thus, even though the annual growth of gross domestic product was 4.6 percent at constant prices, it stood as low as 1 percent at current prices leading to a decline of per capita income of more than 2 percent annually.<sup>4</sup>

The unfavourable balance of trade led to a rapid decline in foreign exchange reserves. Successful implementation of their investment programmes would necessitate a high increase of import of raw materials and capital goods. Due to chronically unfavourable terms of trade, most countries were faced with foreign exchange shortage which led them to cut down their planned investment expenditure. Usually, this would result in the inability of fulfilling the investment targets, and thus the required rate of growth. Even a relatively stable economy such as the Philippines had experienced this problem.<sup>5</sup>

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<sup>4</sup> United Nations, E.C.A.F.E., Economic Bulletin, ibid., p. 5.

<sup>5</sup> National Economic Council, The Five Year Economic and Social Development Programme, for FY, 1957-61, Manila, January 1957, p. 5.

## (b) Inefficient Agriculture Sector

Agriculture's contribution to the Gross Domestic Product ranged from 34 percent to 54 percent in the countries of the region. From 1950 to 1960, the rate of increase in agricultural production declined.<sup>6</sup> The region as a whole, which was once a food exporter had become an importer of food. This was partly due to a rapid rate of population growth. This poor performance in the agriculture sector was one of the serious blockages in the countries' attempt to attain the target rate of growth.

Low productivity in agriculture was a striking feature in Southeast Asia. Problems in agriculture were of economic as well as of human nature. Agricultural productivity depends mainly upon the techniques used, availability of strategic inputs, and size of the farm. Heavy pressures on land, unsatisfactory conditions of land tenure, and the creation of numerous intermediaries led to fragmentation of holdings, rack-renting, and chronic agrarian unrest.<sup>7</sup> This resulted in incredibly low levels of productivity per worker as well as per acre.

All the countries recognized the need for

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<sup>6</sup> United Nations, Economic Survey of Asia and the Far East, 1963, E.C.A.F.E., Bangkok, 1964, p. 122, Table VI.1.

<sup>7</sup> United Nations, Economic Bulletin, Vol. VIII, No. 3, November 1957, New York, 1957, p. 26.

industrialization as it was emphasized in their plans. Except in the Philippines, most countries had not reached intensive development in consumer goods industries until 1960. The inefficient agricultural sector had made them difficult to industrialize as effectively as they planned. In Southeast Asia, the agricultural sector was the key to the functioning of the whole economy. Labor for the industrial sector must be drawn from the agricultural sector; food production should be increased to feed the industrial workers as well as the growing population; foreign exchange to finance the import of capital goods was obtainable through the export of primary goods. Thus the growth of the whole economy is greatly dependent on the agricultural sector. So long as the agricultural sector remains inefficient, the growth of the whole economy will be stagnated.

(c) Insufficient Capital Acquisition

One problem facing all countries in the region was capital shortage. Supply of capital depends upon domestic savings and foreign savings. Ways of acquiring adequate savings for investment purposes was a crucial and a continuing problem to the planners.

Overspending of the Budget was a very common problem. For example, in Indonesia's Five Year Plan, almost all Ministries overspent their budget. As the Central Bank

had very little control over the money supply (due to lack of good monetary markets) the Government deficit was running at the rate of 2 billion rupiahs (i.e., \$40 million, U.S.) by the spring of 1957.<sup>8</sup> With the supply of money, price level and foreign exchange out of their control, the planning process in Indonesia encountered great difficulty. It was frequently maintained that planning was absurdly irrelevant for the needs and possibilities of Indonesia.

In order to increase investment, the planners must make an effort to increase domestic or foreign saving or both. In Southeast Asia, except in Malaya and Indonesia, domestic saving has been less than the total investment, indicating the heavy dependence on foreign savings.<sup>9</sup> Countries which have reduced its dependence on foreign exchange had done so at the cost of declining investment (e.g. Burma).

On the other hand, there was a problem in obtaining an adequate amount of foreign assistance. Apart from the question of debt servicing capacity, some countries were unwilling to obligate themselves to other nations by accepting financial assistance from them. In addition, due to political and economic instability, and inconsistent policies towards external investment, the inflow of foreign capital to Southeast

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<sup>8</sup> Mason, op. cit., p. 63.

<sup>9</sup> United Nations, Economic Bulletin for Asia and the Far East, December 1964, New York, 1964, p. 9.

Asia was very limited. In fact, the total amount of foreign assistance to Southeast Asian countries has been constant in the past few years.<sup>10</sup>

Even in cases where savings was obtained (either from domestic or foreign sources), capital investment has very often failed to achieve the expected results. Misuse of funds and investment in uneconomic projects have occurred. This was due to the deficiencies in technical capacities and entrepreneurial abilities in the Southeast Asian countries.

(d) Highly Unstable Political Situation

With the probable exception of Thailand and the Philippines, all the countries in Southeast Asia were politically unstable since their independence. This situation made it difficult for the planners to formulate and implement their plans. The experience of Burma was discussed in the last chapter. In Indonesia also, one of the main causes of slow economic growth was internal instability and insecurity. Armed gangs especially in South Sulawesi, Atjeh, and Western Java led to a delay in reconstruction of roads, bridges and railroads. Production of agricultural crops in some areas were reduced leading to a reduction in exports. This insecurity discouraged foreign investment and reinvestments

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<sup>10</sup> Ibid., p. 22.



in many areas. Some plantations have been abandoned altogether because of the security situation. All this was a serious obstacle to economic development planning in the sense that it drove the resources away from development to defence. During 1953, the Ministry of Defence spent nearly 1 billion rupiahs (\$20 million, U.S.) more than estimated in the budget, it spent three times that of Ministry of Economic Affairs and four times as much as the Ministry of Education. The Ministry of Interior spent almost Rp. 500 million (i.e., \$10 million, U.S.) more mainly because of the deterioration of security situation.<sup>11</sup>

In Laos,, Vietnam and Cambodia, their highly unstable political situation had prevented an embarkation on the development programme. The Governments had desires for planned economic development but as they were more involved in maintaining internal security and political stability, they had very little time and funds for economic development. In most countries in Southeast Asia, the problem of maintaining political stability was more severe than the problem of slow economic growth.

## 2. Problems in Plan Formulation

### (a) Inadequate Statistical Information

Success or failure of a plan depends on the

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<sup>11</sup> Higgins, Benjamin, Indonesia's Economic Stabilization and Development, Institute of Pacific Relations, New York 1957, p. 109.

availability of statistical data. To formulate a plan for general rate of development, data on national income, savings, investment, export, imports, capital coefficient and population over a period of several years are needed. In most countries of the region, such information, if available, was not accurate and reliable. To draw a comprehensive development plan for the main sectors of a country, additional data such as statistics of output, income and employment, price indices and wage rates, income and price elasticity of demand and labor productivity were needed. Up to date and reliable data on these were not at all available in countries such as Cambodia, Laos, and South Vietnam. Hence they were neither prepared nor well equipped to formulate a successful comprehensive plan. In Burma, Thailand, Malaysia, Indonesia and the Philippines, relatively adequate statistics could be available for comprehensive planning. However, they were of an imperfect character. Therefore, large errors in estimation were made in setting targets, savings rates, employment rates, investment and national income growth.

Lack of statistics was one of the main obstacles facing the planners both in the process of formulation and in evaluating actual achievements. Unsuccessful planning in Burma was partly due to inadequate statistics. The Eight Year Plan attempted the elaborate system of planning by setting targets for national income, per capita income and consumption.

Investment and expenditure schedules were drawn, and implicit capital-output ratios were calculated. In calculating all these, some of the data in 1931, had to be used because the last complete census were made in that year and 1953-54 census were confined to towns and outlying villages. It was unreasonable for planners to embark on a comprehensive development with out-dated information.

It was also observed that formulation of the Indonesian Five Year Plan was delayed partly due to inadequate knowledge of Indonesian resource patterns especially those of the outer islands.

(b) Lack of Coordination Between the Planning Agencies and Other Bodies

In formulating an effective plan, planning agencies, outside experts and community should work together. Usually, there were no coordination among the various agencies.

Formulation of a comprehensive development plan for Indonesia took four years partly due to a lack of clearly defined relationship of the National Planning Bureau (which was responsible for Indonesia's development planning) and other government agencies. They met very rarely during the first two years. The Minister of Finance, who was responsible for the general direction and formulation of the plan, had a wide range of other responsibilities and was thus unable to

give continuous attention to matters concerning planning. In addition, the authority and responsibilities of the officials were not clearly defined. Relationships between the Indonesian research staffs and the foreign experts were not clearly defined. This lack of coordination and inefficient administrative set up hindered the formulation of plans in Indonesia.<sup>12</sup>

Informed observers attributed the failure of the Philippines' Five Year Plan to an ineffective Planning process, lack of coordination among the subsidiaries of the National Economic Council and lack of active interest and participation of the governmental agencies.<sup>13</sup>

The Four-Year Plan 1956-60 of Burma was not put into effect because the decision making authority failed to cooperate with the Ministry of National planning in formulating the plan. Direct and continuous contact with the decision making authority is essential. The Prime Minister must take an active part in drawing the plan; not just accepting or rejecting the plan after it was drawn.

Cooperation of the private sector was essential for effective formulation of the Plan. In its Five Year Plan,

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<sup>12</sup> Higgins, op. cit., pp. 42-45.

<sup>13</sup> Mason, op. cit., pp. 61-62.

the Indonesian Government failed to announce policies concerning the opportunities for the private sectors both domestic and foreign. In other countries as well, the private sector was usually ignored in most cases although they expected the private sector to fill in the gap between government expenditure and total expenditure required. Their plans did not make detailed classifications of activities the Government intended to undertake and the fields in which the private sector was expected to take up. Thus private and public sectors competed for scarce resources leading to wastage, misdirection of resources and the creation of bottlenecks. The Planners could do very little to improve the situation because there were problems of demarcating the specific fields or direction of investments for the two sectors. In addition, the planning authorities found it difficult to make a realistic forecast relating to the private sector. Due to lack of active co-operation of the private sector, the planners could not easily devise appropriate policies in attracting private investment to help in the fulfilling of private plans and targets.

Considerations of external assistance in the plan was also essential. Foreign investors were reluctant to invest their funds in most Southeast Asian countries partly because the governments were undecided in their policies towards foreign investors. Very few specific policies for foreign investors were expressed in their plans. For instance,

the Indonesian Government was undecided as to what extent it wished to rely on foreign investment in achieving its development objectives. Without precise policies in such matters the successful formulation of an effective development plan would not be possible. In addition there were problems of coordination between the operations of the assisting international agencies and the national development operations especially in the working out of the administrative (and technical) details of projects chosen for external participation.

So far as the coordination in the contents of the plans were concerned, their parts were usually not well integrated. There was still a preoccupation with project and sector planning. Very often, their plans consisted merely of an enumeration of unrelated segments. However, with the improvement in statistics, more and more countries were moving towards the stage of aggregate planning which resulted in greater coordination among sectors.

(c) Too Much Stress on Capital Investment

Most of their plans laid too much emphasis on the importance of capital accumulation. As most planners were either foreign experts or foreign trained local experts, the importance of human investment, administrative and technical efficiency, social and cultural changes were usually underestimated. They formulated an ideal plan paying very little

attention to the implementation side and predicted the expected exact outcome of their plans. Usually such ideal plans were not put into practice and if adopted at all, they always fell short of the targets. In formulating the plan, they seem to forget that they were dealing with people and society, not with an exact physical science. Most of them were so fascinated by interindustry schemes such as linear programming which are suitable only for highly advanced countries. Such defects in the formulation of plans created serious problems in implementation also. A practical plan should have administrative, social, technical and financial feasibility.

### 3. Problems in Plan Implementation

#### (a) Lack of Administrative and Technical Staffs

In both the formulation and implementation of plans, adequate number of efficient officials were required. Very often, even when qualified planners were available in the planning centre, it was not always possible to arrange for administrative personnel of requisite training in the field of implementation. Failures in coordinating the process of plan formulation and implementation were very often responsible for failures to achieve planned targets.

Shortages of managerial, professional and skilled personnel both in the private and government sectors were among

the handicaps encountered in the implementations of development programmes of the countries in the region. Implementation of Indonesia's Five Year Plan was delayed mainly due to administrative reasons such as delays in recruiting shortage of public administration experts, and lack of clear cut effective direction.<sup>14</sup>

The Five Year Plan of the Philippines also stressed the importance of public administration as a "major responsibility in the realization of the goals of economic social development."<sup>15</sup>

In Burma's Eight Year Plan, the K.T.A. consultants made an estimation for additional skilled manpower requirements for the development of both the public and the private sectors.<sup>16</sup> However, the requirements were so large that it could not be met. Various types of specialized manpower such as mechanics, agricultural engineers and extension credit workers were needed in the agricultural sector. In the industrial field, the need for supervisors and technicians was great. Such shortages in specialized manpower were met through the hiring of foreign specialists. However, this solved only the technical problem. As far as the supervision and administrative problems were

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<sup>14</sup> Higgins, op. cit., pp. 42-45.

<sup>15</sup> National Economic Council, The Five Year Economic and Social Development Program of the Philippines, Manila, 1951, p. 46.

<sup>16</sup> K.T.A. Comprehensive Report, Vol. I, op. cit., Tables VII-2 and VII-3, pp. 96-98.



concerned, foreign specialists found it difficult to adjust themselves to eastern ways of life and the eastern system of work. They usually forced the western system of work to the local workers thus creating additional personnel problems. As a result, the manpower deficiencies were more difficult to meet on the administrative, supervision and coordination fronts.

Problems in implementation partly arose from the inefficient management of public enterprises. Public utility enterprises were important in most of the countries because they provided a source of foreign exchange. They were also important for the execution of most of the public development programmes and for stimulating and assisting private development in agriculture, mining and industry. Satisfactory management of these enterprises was of tremendous importance in carrying out the plans effectively. Performance of most public enterprises was very disappointing. Political overloading of staffs, government tolerance of feather bedding and lack of discipline created disguised unemployment in many enterprises.<sup>17</sup> These problems arose due to lack of experience in the choice of executive officers of various enterprises, failure to delegate internal authority and operational responsibility. From the president of the enterprise to the office clerk, display of initiative and self-reliance was lacking. Most of them were

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<sup>17</sup> Walinsky, op. cit., pp. 488-495.

appointed for political reasons and were thus uninterested or lethargic in their work. Due to very little incentive to exercise initiative and severe punishments for mistakes, the operations of most public enterprises were slow.

Coordination among government agencies was very poor. It was found that in 1955 the lagging timber exports of Burma were not due to declining production and sales but "to the inability of the State Timber Board to arrange with the Union of Burma Shipping Board to carry timber on Government owned vessels."<sup>18</sup>

The Ministers had little appreciation of the problems involved in public enterprise operation. No efforts were made to improve the skills and policies required to manage them effectively. The staffing of the board of directors of these enterprises was entirely without relation to the ability and experience needed.

(b) Financial problems

Ineffective mobilization of domestic savings was one of the serious handicaps in the implementation of a development plan. In Southeast Asia, the governments did not practice enough fiscal policies to raise domestic savings which

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<sup>18</sup> Walinsky, op. cit., p. 455.

were needed to bridge the gap between total planned investment and the available domestic savings. Foreign exchange earnings were usually not forthcoming as the planners had anticipated.

For example, implementation of Burma's Eight Year Plan came to an abrupt stop due to a shortage of foreign exchange when the price of rice in the world market fell sharply. Thus, during 1954-55, the capital programme was cut back sharply from its initial level of K980 million to roughly K500 million. The Government was so involved in correcting their foreign exchange deficit that the deficiency in domestic finance was greater after 1955 than before 1955. The Governments with their conservative financial policies was unwilling to impose a heavier tax load on the masses of people in agriculture. They refused to face the fact that substantial increases in tax revenue could not be achieved in any other way. The Government, without reluctance, increased duties on luxury goods, liquor and tobacco. Nevertheless, they were unwilling to tax in ways that might pinch a substantial number of voters or to reduce or eliminate costly subsidies or favours which insured continued political support for their party. Such political consideration made them lack the determination to make necessary efforts to increase revenues.

In most of their plans, foreign assistance played a very large role.<sup>19</sup> However, most of the foreign assistance

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<sup>19</sup> For example, foreign aid accounted for more than 50 percent of the capital expenditure in the Four Year Plan of Burma.

available to Southeast Asian countries were in the nature of loans which they were committed to pay back at a future date with interest. Most of the foreign aid was military aid to Cambodia, Laos and South Vietnam from the United States. Foreign aid was not forthcoming probably because foreign policies of most Southeast Asian countries were vague. Due to many political reasons the governments were reluctant to commit themselves by accepting aid from advanced countries. This has been apparent especially in Burma and Indonesia. Most of the countries in the region thus ended up by taking a variety of foreign loans to solve their financial problems which usually led them to overborrowing.

(c) Promoting Private Action

Most of the development programmes in the region put great reliance on the private sector. Unfortunately, in actual implementation of their plans, private investment was not forthcoming as anticipated. Indirect means of implementation through monetary and credit policy was not at all effective in Southeast Asia. This was mainly due to underdeveloped money and capital markets. The banking habit was not fully developed; people had more preference to cash than bank deposits.

Bank rate policy had limited effectiveness. For example, in early 1954, the Central Bank of the Philippines reduced its discount rate from two to one and one-half percent

to stimulate private economic activities. However, interest rates of the commercial banks went up instead of down.<sup>20</sup> Open market operations were not successful. Its success depends greatly on the existence of a sizable amount of government securities and upon their marketability. Government securities of most of these countries were not very attractive because of their low rate of interest and earnings. Generally corporate securities of sound credit yields varied from 8 to 12 percent per annum as compared to 4 to 5 percent on government securities.<sup>21</sup> Lowering of reserve requirements was not effective, as most commercial banks held reserves much higher than that required by the Central Bank. Selective credit control was not widely used except in the Philippines where the Central Bank had initiated a policy of discouraging residential building and construction, and encouraging credit for agriculture and industrial production. Thus in Southeast Asia, private action could not be promoted through monetary and credit policy.

The only way of promoting private action apart from direct government intervention was through fiscal policies and taxation. Present policies do not create enough incentive

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<sup>20</sup> The Central Bank of Philippines Annual Report  
1954, Manila, 1954.

<sup>21</sup> United Nations, Economic Bulletin for Asia and the Far East, Vol. VII, No. 3, November 1956, New York, 1957, p. 42.

for sufficient mobilization of private investment. Taxation policies as discussed earlier were based on political and cultural rather than economic considerations. Such deficiencies in fiscal policies and the inability of monetary policies to promote sufficient action made implementation of economic development programmes extremely difficult.

All the problems discussed above are major general problems which had direct influence on the formulation and execution of planning in Southeast Asia as a whole. There are other important problems, specific in nature, and are peculiar to an individual country. Dealing with such problems would involve a wide and detailed research work on each individual country in Southeast Asia. As this would go beyond the objective of this thesis, they will not be considered here. General suggestions and recommendations to overcome the problems discussed will be brought forward in the next chapter.

## CHAPTER V

SUGGESTIONS AND RECOMMENDATIONS

## A. FORMULATE A PRACTICAL PLAN

Most governments associated economic development with plans strictly for investment and capital accumulation. Their plans were too idealistic and impractical considering the existing natural, human and financial resources. The success or failure of a plan mainly depended upon the choice of a suitable period for planning, the size of the agencies responsible for planning and their techniques of planning. Judging by the experience of Southeast Asia, the following suggestions might be useful in solving the problems in plan formulation.

1. Choose Correct Period for Planning

Most of the countries in the region plunged into comprehensive economic planning immediately after independence where political, economic, and social conditions were very unsettled. Due to changes in governments, management and administration of most departments were disorganised. During such periods of transition when there were political, administrative and economic instability, the governments should be contented with project planning, and reconstruction. Comprehensive planning should be adopted only when sufficient stability was maintained.

## 2. Availability of Requisite Data

Availability of statistical data was very limited. Attempting to draw a comprehensive development plan without even knowing the country's potentials would be like walking in the dark. Therefore, broad strategies of development appropriate to the countries concerned should be first realized by carrying out qualitative explorations such as surveys of basic problems, characteristics and conditions of the country. These surveys could be made without much financial difficulty by a qualified specialist who is well acquainted with the country concerned. In addition, quantitative surveys on natural, human and financial resources; geological and soil surveys; and surveys of market for goods and service industries potentials must be made.

Formulating a plan with inaccurate data could be very dangerous. Therefore, in order to check on production, employment and balance of payments statistics, every country should have a small research section in its central statistics agencies. This research section should be given the responsibility to keep up to date figures on population and labor force, national incomes, savings and investment data.

The shortage of trained personnel limited improvements in the quality of data available. Thus the governments should seek assistance from international agencies



for the provision of professional and technical personnel for necessary surveys. The United Nations experts recommended that the Economic Commission for Asia and the Far East should play a useful role by making the services of experts available to these countries.<sup>1</sup> If extensive surveys were not possible due to lack of funds, sample surveys could be very useful. They would give planners the idea of the nature of the problems they faced and thus guide them to solutions.

Although reliable statistics are essential, the country's development cannot wait for the building up of statistical information. The flow of statistics should be expected to improve as a country develops. Planners should go on with their planning activities on project planning and aggregate planning to a certain extent with the existing statistical data and simultaneously improve its statistical information.

### 3. Planning Agencies

Most countries called in outsiders such as foreign experts or local specialists in assisting or preparing for a development plan. However, a permanent organization responsible for planning would be essential because economic

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<sup>1</sup> United Nations, E.C.A.F.E., Economic Bulletin for Asia and the Far East, December 1964, Vol. XV, No. 3, New York, 1964, p. 83.

planning should be a continuous process. A planning organization must exist at the very outset of the planning process so that its staff may increase in experience and capability as time goes on. Therefore, a separate entity usually called the Planning Ministry should be created for the actual preparation and formulation of the plan. This Ministry should not be under any Ministry; its responsibility should be to ensure efficient planning in all sectors of the economy.

In all the countries in Southeast Asia, planning authority was usually entrusted to a board or a council headed by the Prime Minister with Cabinet Ministers as members. However, members of the Planning Council should be concerned only with economic planning and serve only as an advisory board to the Ministry of Planning. The planning staffs should be attached to the Ministry and not to the Council. Technical aspects of plan formulation are to be left totally to the qualified experts in the Ministry. Thus foreign advisors and consultants should work under the Ministry and have no direct relationship with the Planning Council. The Council should have a final decision making authority and be responsible for the making of suitable recommendations to guide the Ministry towards effective planning. Therefore, to have the Council Members well informed, top ranking civil servants such as the chairman of the Central Bank and economic and technical advisors from the Planning Ministry must be invited to sit in on the meetings.

It would be impossible for the Planning Ministry to take full responsibility for effective planning. Various Government agencies and departments must also contribute significantly to the planning process. Therefore, drafts of plans for specific sectors such as agriculture, mining, industry, transport and education should be prepared by the respective Ministries and Departments. The staffs of the Planning Ministry are to review, appraise and coordinate the several sector plans in terms of consistency, their relation to one another, financial, administrative and technical feasibility and finally their relationship to the major goals. This process of review, appraisal and coordination should be carried out in close cooperation with various departments so as to strengthen the plan and to establish a smooth working relationship.

#### 4. Qualified Planning Staff

One criterion for an effective plan is the need for an efficient planning staff. The planning staffs should know precisely what was required of them; they must be able to do the following:- form consistent targets and have an understanding of the responses of private and business sectors; be well informed about their country's economic and technological problems in development; derive meaning from scanty data available; and have knowledge of the local conditions combined with good economic judgment. Therefore, provisions for

appropriate training of at least the high level officials in planning organization would be necessary in order to make them more efficient participants in planning team work. It should be noted that the task of planning required not only economists and statisticians, but also engineers and scientists as well as administrators. Administrators could be drawn to a certain extent from different government departments and technicians from private enterprises.

5. Improve Relations With the Public

Usually the planning agencies did not have adequate links with the rest of the community. A sound plan depends greatly upon the information obtainable and the opinion of select people from the general public. The planning body should have close contact with outside opinion through bodies such as universities, business associations, trade unions, etc. so that such bodies could contribute to the flow of information, and their opinions vital for the plan. The planning body must have a flow of current data relating to events and opinions in different segments of the economy and thus be able to judge the responses of farmers, businessmen, workers, and other groups of different policy measures.

Most countries in the region placed heavy reliance on the private sector. At this stage, without full and active cooperation of the private sector, successful planning would be impossible.

## 6. Target Setting

Plans in Southeast Asia had failed to achieve their targets mainly because some of their targets were too idealistic and impractical and because they were set by 'the rule of thumb', without sufficient considerations of the conditions in the country. Targets must be consistent with the objectives. Aggregate and other targets should be derived from the objectives. The choice of planned objectives of a country depends mainly upon the basic characteristics of the economy, economic and social problems confronting the country, the stage of economic planning, political consideration and also on the availability of statistics.

Characteristics of most Southeast Asian countries were such that low per capita income, low standard of living, and poor social overhead facilities persisted. Therefore targets for increasing the per capita consumption and per capita income should be emphasized. Investment targets should be concentrated mainly on improving the infrastructure in select fields. In countries which had severe population pressure such as Indonesia and the Philippines, high level of unemployment usually prevailed. Therefore, certain employment targets should be set. The transfer of population from agriculture to industry might also serve as an objective.

It is important that investment targets be related

and consistent with income targets; otherwise, over-investment could result. Such over-investments could lead to inflation, shortage of capital and balance of payments difficulties. Consumption targets could not be fixed independently of income and investment targets. Employment targets should be derived from income and investment targets. Thus, it is important that aggregate targets be well coordinated. Coordination of such targets could be sought through National Income Accounts, capital-output ratios, the saving-income coefficient, and export-import coefficients.

Targets must be set in the light of funds likely to be obtained to finance the plan. As the common problem in Southeast Asia was shortage of capital, setting of targets without determining the available sources of funds and without analysing the reliability of such sources would be irrational. Without reliable financial backing no plan would be operative. Targets and objectives set would then be a mere expression of desires of the planners.

In setting the sector targets, it would be appropriate to set targets for the production and consumption of final goods and services. Calculations for the requirements and supply of intermediate and capital goods as well as transport and energy services for the production of such goods should be made. After estimating the sectoral production targets,

final output targets were to be revised. The planners should determine the various projects to fulfill these targets. Total investment requirement could be obtained by the summing up of investment requirements for all the projects. Aggregate targets and sector targets should be adjusted until they were mutually consistent with each other.

The time dimension of the target would vary with the duration of the plan. However, interim targets within the plan period could be desirable. Targets should be revised annually so that they would be consistent with the changing economic and political conditions of the country. Very often, they tend to be a mere projection; targets of such nature should be avoided.

A capital budget which shows the requirement of capital and the sources of domestic and foreign capital must be included in the development programming. In addition, effective foreign exchange budgeting was essential in all Southeast Asian countries. Most countries have a foreign exchange problem and balance of payments difficulty. Therefore it was important to make the best possible use of available foreign exchange resources and correct assessment of the likely future availability of such resources.

For effective foreign exchange budgeting, a forecast

of the future supply of foreign exchange should be projected by forecasting the markets for export industries. Uncertainty of demand and wide market fluctuations should be taken into account in making such forecasts. In addition, foreign exchange requirements for 'normal' purposes as well as special developmental purposes should be calculated. This could be done by estimating direct import requirements of various investment projects in the development programme, and estimating further import requirements after taking import substitution into account. Finally, the development programme should be adjusted so as to balance the foreign exchange budget. This would mean directing foreign exchange resources into their most essential use. For countries like Burma and Indonesia, where the balance of payments deficit was very severe, keeping a balanced foreign exchange budget should be one of the aims of the plan.

## 7. Priorities

In formulating a development plan, the planner must decide which sectors should be given greater priority. Generalizations could be made to a certain extent so far as the countries in Southeast Asia were concerned. An effective development plan for any of those countries should give special attention to improvement of the agricultural sector, for development of infrastructure, and industrialization, especially in import substitution industries.



(a) Agricultural Sector

Governments should pay particular attention to the improvement in agriculture because productivity in the agricultural sector was very low. Since their independence, the necessity to improve the agricultural sector was expressed in all their development plans.<sup>2</sup> However, their policies centered mainly around national extension service, community development schemes, and even on the acceleration of cooperative and collective farming. In all their agricultural development plans, measures for land reformation were emphasized. Nevertheless, they had paid very little attention to increase in productivity through improvements in the system of farming, in the techniques of production and through improved utilization of land and water resources.

Planners and policy makers must determine the right size of farms to be distributed to the farmers to have a better man-land ratio. Very often bottlenecks occurred due to a shortage of strategic materials for agriculture. Therefore, to have adequate supplies of agricultural inputs, calculations of the amount of fertilizers, insecticides, seeds and other small items of capital equipment, must be made before hand. If such materials were not available domestically, imports of

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<sup>2</sup> United Nations, E.C.A.F.E., Economic Bulletin for Asia and the Far East, Vol. VIII, No. 3, November, 1957, New York, 1957, p. 28.

adequate quantities of such items must be given priority. As problems in production have occurred due to the shortage of water in the dry seasons, the planners should pay close attention to necessary irrigation schemes. The practice of multiple cropping should be encouraged so that the farmers diversify production and are also able to increase the productivity of land.

Heavy capital investments in agriculture could not be made in Southeast Asia due to shortage of capital. Therefore instead of adopting highly capital intensive techniques such as mechanized farming, labor intensive techniques should be used. It would be appropriate to adopt the Japanese technique of rice cultivation where productivity could be raised with very little capital investment.

The planners should bear in mind the severe limitations in agricultural expansion caused by the unfavourable relationship between the farmers and the distributors. Appropriate policies for selling and distribution should be made. If the relationship could not be improved with policies and regulations, the government should take over the responsibility of distributing the main agriculture products.

To reduce dependence on one or a few predominating export crops, plans for diversification of agricultural crops

should be emphasized. Practice of multiple cropping could be encouraged and incentives be given to farmers to grow agriculture products other than what they normally grow.

It is important that realistic targets of production be set in agriculture. There must be sufficient information available on the response of various crops in different regions so as to improve practices such as irrigation and application of fertilizers. Reliable methods of collecting current statistics on the sown area and production of various crops should be worked out before setting the targets. If such information is not available, targets of production might reflect hopes and desires rather than realistic possibilities.

(b) Infrastructure Development

Adequate infrastructure development was essential for a rapid growth in agriculture as well as for the building up of foundations for industrialization. The governments of Southeast Asian countries had allocated a high percentage of their expenditure to social overhead facilities, but most of its expenditures in this field were misallocated. Prestige expenditures on lavish airports, building of model towns, introduction of television were made mainly for window dressing and political purposes. Ill advice of consultants had led them to invest in the development of hydroelectric power from uneconomic sources and the training of physicists, chemists

and economists (in advanced countries) whose services were not yet needed in the region. Thus although large expenditures were made for social overhead facilities, they did very little to help the infrastructure development.

Priority should be given to the programme of mass education as investment for the improvement of basic education is absolutely necessary. Improved and effective education at the primary, secondary and technical levels would increase the people's will to develop, as well as improve their organizational capacity. The experience of Japan during the Meiji period should be noted here. When the percentage rate of school attendance increased from 28 percent in 1823 to 98 percent in 1910, the extent of Japanese willingness to work and their ability to manage had increased. The proportion of salaries paid to the foreigners fell from 58 percent in 1868-72 to 23 percent in 1883-87.<sup>3</sup> At the present stage, less emphasis should be given to expensive training of advanced scientists, engineers and lawyers.

Communication systems can be improved by improving the roads, railways and port services for select areas. The planners should choose a number of towns and villages which

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<sup>3</sup> Koichi Emi, "The Growth of Japanese Economy in the First Half of the Meiji Period," Hitosubashi Journal of Economics, June 1963, p. 8.

have potential for development. Choice of such areas must be made on an economic rather than on a political or historical basis. Modest improvements on the communication network should be made in and around the areas chosen. High quality paved roads all over the country, lavish port facilities and unnecessary purchases of railway carriages and aeroplanes should be avoided.

Expenditures on the improvements of the drainage system, the building of dams and appropriate irrigation are very essential for most countries in Southeast Asia. Such expenditures could have a direct effect on the productivity of farmers and thus the productivity of agricultural production which the countries placed great reliance on.

#### (c) Industrialization

Industrialization could be achieved together with the increased productivity in agriculture. Although statistics in most countries indicated that rapid industrialization had been made, there was a great deal of misinvestment in the industrial sector. Setting up steel mills without having enough iron scrap or iron ore to work on, purchasing unsuitable machineries, and building factories in wrong locations occurred. Thus before planning to invest in an industrial project, analysis must be made with regard to availability of raw materials, suitable machinery and choice of suitable location.

For the import substitution purposes, rapid industrialization should be made in consumer goods industries. At the present stage, the countries should be more practical by continuing their reliance on the industrialized nations as the suppliers of capital goods. Top priority should be given to industries which are not very capital intensive and those industries for which raw materials would be domestically available. In other words, primary industries and consumer goods industries should be encouraged and highly capital intensive industries should be ignored for the time being.

#### B. FOR EFFECTIVE IMPLEMENTATION

A mere announcement of the plan could not be regarded as an adoption of the plan if the policies and measures were not put into operation. Decisions must be made as to what type of functions the government should presume and what should be left to the private sector in the process of attaining the announced goals. Administrative, technical and organizational efficiency must be reassured. Alternative plans should be prepared just in case the present plan could not be implemented due to factors which were beyond the country's control. Lastly, periodical evaluation of actual achievements should be made.

##### 1. Stimulate Private Action

The governments should decide from the outset, how

much of the planned investment should be left to a private enterprise. To promote domestic as well as foreign investment in the private sector, the policy makers must state clearly on what terms and in which projects private investment would be welcomed. Doubts concerning profit distribution, price controls, taxation and nationalization policies should be cleared. In case of private foreign investment, definite announcement of partnership and employment regulations, transfer of capital and profits, procedures of nationalization and above all, industries which do not welcome foreign capital, would be essential.

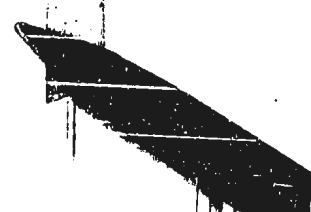
There were difficulties in drawing an exact line of demarcation between sectors for public investment and those for private investment. It would be best, however, that the social overhead capital such as means of transportation and communication, education and health facilities be undertaken by the government. The former should also be responsible for investment in primary industries and other 'key' industries which are essential to the countries but are beyond the capability of the private investors. Manufacturing industries and some service industries should be left to the private sector as they could be operated more efficiently on a profit making basis. However, even such industries should not be left totally to the private sector. The governments should indirectly channel

the resources into required sectors through effective fiscal policies and other measures.

Private investment could be indirectly encouraged by opening opportunities for the private investors through publication of findings in market surveys, building industrial sectors, development corporations and development banks, and financing technical training. A substantial investment in the maintenance of law and order in improved public services would also stimulate private investment.

It was extremely important that the private funds were invested in the right sectors. Appropriate monetary and fiscal policies should be applied in order to direct or induce private funds into a desirable field. The governments could direct private enterprise by import and exchange control measures such as licence quota and authorization, which can make it illegal or unprofitable for private enterprise to do a number of otherwise profitable ventures. The governments could mobilize private investors by means of appropriate taxation policies and subsidies in such a way that private enterprises found it most profitable to conform with the wishes of the government.

Most traditional monetary policies were inoperative in Southeast Asia. However, selective credit control policies





could be effective if they are well applied. Thus a more stringent control over the commercial bank lending policy would be necessary in order to direct savings from unproductive purposes to investments loans for productive industrial enterprises under the national development programme.

## 2. Organizational, Administrative, and Technical Efficiency for Effective Plan Execution

To carry out a plan effectively, responsibility for the execution of each project or each sector programme should be assigned to the most appropriate agency for that purpose. For example, the execution of agricultural programmes should be assigned to the Ministry of Agriculture, the execution of power projects to the Ministry of Industry and so on. If, for instance, the Ministry of Agriculture was not capable of assuming full responsibility of implementing the agriculture plan, a new organization such as Rural Development Corporation should be created to execute the plan effectively.

The planners must make sure that the leadership, staff and the conditions of the organization that assume the responsibility are qualified and efficient. Appointments and promotions in accordance with seniority, political reliabilities and political obligations should be avoided. Appointments of staffs should be made open to persons who have the necessary qualifications, integrity, and enthusiasm in their work. If

necessary, already appointed staffs should be retrained in the technical and administrative field so that they could work in harmony with the policies of the plan.

Effective performance would not be possible without clearly delegated authority and responsibility. Administrative procedures and set up must be arranged in such a manner that employees must be able to function to their best. Budgeted funds should be available on schedule to make fast action possible. Periodical evaluation of actual achievements would be necessary. Thus an evaluation organization as a branch of the Ministry of Planning is urgently needed. This evaluatory must be in close contact with the respective departments responsible for implementation so as to make effective coordination and supervision.

### 3. Prepare Alternative Plans

There might be some sudden drastic changes in the economic and political conditions (external or internal) which would require major changes in the actual execution of the plans. Thus it would be best that planning agencies have alternative plans ready to meet the likely changes in conditions and policies. The planning staff should know exactly what is required to them, that is what form of alternatives of development policies they have to prepare. In preparing alternatives,

reference must be made to different levels of resources required, different possibilities of external and internal resources available and varying distributions of development expenditures. The preparing of programmes should be limited to what was really necessary and be strictly within the range of practical possibility.

Plan formulation and plan implementation are very much related. If the plan formulated is not realistic, feasible implementation cannot be possible. A clear line of demarcation cannot be drawn as to what should be done for effective plan formulation and what steps are necessary for successful implementation. Some suggestions and recommendations are necessary basic steps to be taken for the countries concern, but they would by no means be sufficient. Every country will have problems of their own in which generalization cannot be made. Dealing with such problems involve a detail study of each country in Southeast Asia which is beyond the scope of this thesis.

## CHAPTER VI

SUMMARY AND CONCLUSIONS

The basic problems of the countries in Southeast Asia are cultural, economic and political in nature. The most important appear to be low income, shortage of skilled personnel, inefficient agricultural sectors and political instability. These factors were mainly responsible for the slow rate of economic growth actually achieved before planning began. The governments were aware of the problems. They were also aware of the widening gap between their countries and advanced countries. Thus, the governments concluded that a short cut method of development was essential, that is, central economic planning. Awareness of defects in market mechanism had been increasing. The rapid economic development in Communist China and the Soviet Union through central planning was not unnoticed by the governments in Southeast Asia. Hence, although the degree of government intervention differed from country to country, the role of economic planning has increased rapidly since the Second World War.


The experience of economic planning in Burma was studied in this thesis in some detail as she was one of the first nations in Southeast Asia to attempt comprehensive planning in a formal manner. Her approach to planning

has been analysed. On the whole, it was found that Burma at that time was not yet ready for comprehensive planning: the main reasons being the absence of internal peace, lack of diversification in exports, and administrative and technical deficiencies. As most Southeast Asian countries have similar cultural and economic characteristics, the consequence of comprehensive planning in Burma is widely applicable to other countries.

By comparing the planned rates of growth and the actual rates of growth of most countries, it is found that economic planning had not been successful in Southeast Asia. However, these failures did not prove that achieving economic growth on a planned basis is unsuitable for Southeast Asian countries. Failure of the plans was mainly due to the unstable political situation, unfavourable terms of trade, and inefficient agriculture sectors. In addition, the governments were constantly faced with problems of inadequate statistical data, shortage of administrators and technicians, and other organizational problems. Such defects, combined with a lack of sufficient cooperation by the private sector and the shortage of actual available funds for investment made the plans difficult to execute. There are other problems which are peculiar to individual countries, but these are not considered in this thesis.

Most of the problems faced in Southeast Asia were of structural in nature. The private sector was not strong enough or active enough to overcome the problems all by itself. The urgent need for government intervention and planning was obvious. However, the objectives of the plans should not have been centered around such factors as high rates of capital accumulation, and rapid industrialization. Simpler plans would have been advisable. Emphasis should have been placed first of all on obtaining all the necessary statistics and other data. More appropriate objectives would have been concerned with the improvement in agricultural sector, promoting infrastructure development, and the development of import substituting consumer goods industries. The importance of efficient planning agencies must not be underestimated. The planning agency must be well equipped with qualified administrators and technicians under an appropriate organisational set up. Above all, the governments should have more patience in solving the problems.

Economic planning is necessary in Southeast Asia and it is to be hoped that the limited success achieved in the period under consideration in this thesis has not discouraged the governments concerned from further efforts in planning. If lessons have been learnt and remedies are applied, economic planning should be much more successful in Southeast Asia in future years.



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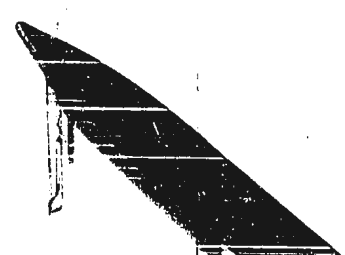
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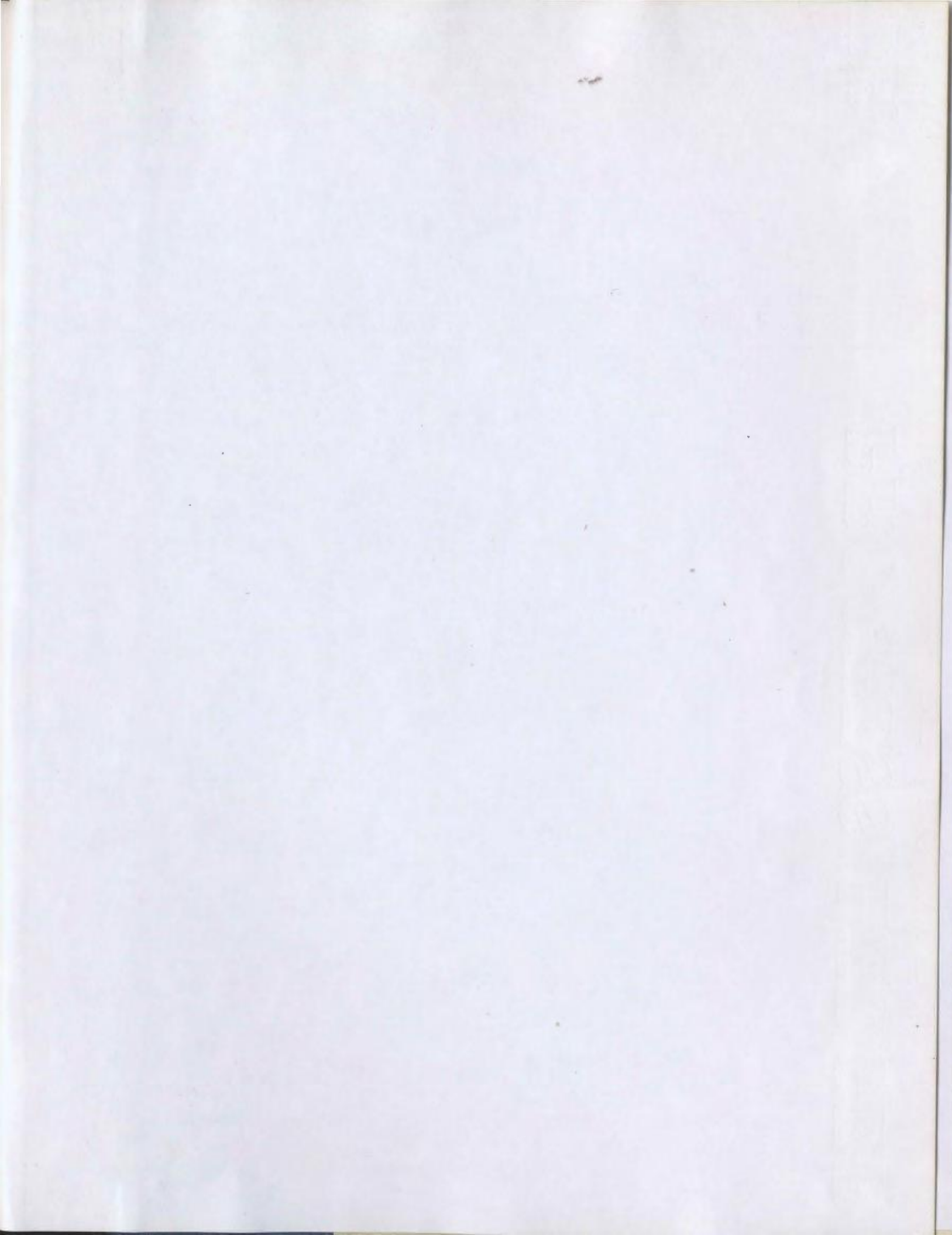
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