A century of growth, crisis, war and recovery, 1870–1970

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Introduction

This chapter surveys the economic development of Southeast Asia over the century from 1870 to 1970, a century which saw the rapid integration of many parts of the region into the world economy, followed by the great depression of the 1930s, the Japanese occupation from 1942 to 1945, and the transition to independence, which was in some former colonies peaceful and in others violent and prolonged. Although many economic historians consider that the first era of globalization came to an end in 1913, I suggest that in Southeast Asia it continued until 1929, when the world depression had a serious effect on many parts of the region. Not only did Southeast Asia’s commodity trade grow rapidly between 1870 and 1930, but there were substantial movements of people, both within the various colonies, and between them and the two huge population reservoirs of India and China. Last but by no means least, there were considerable flows of capital, both public and private, into Southeast Asia. These increased flows of goods, people and capital left deep and lasting legacies to the independent governments in the region.

When the Suez Canal was just completed in 1870, and Southeast Asia’s trading links with rapidly industrializing Europe and North America were expanding, the various parts of the region were not greatly dissimilar in economic structure and in the level of their economic development. In contrast to the ancient civilizations of China and India, which had larger populations and, especially in the case of China, much higher agricultural densities, densities were still quite low in most parts of Southeast Asia. Only the “inner core” of the Netherlands Indies, comprising the islands of Java and Bali, and the delta region of North Vietnam could be considered densely settled.1 Although trading links with the outside world had been established for many centuries and an urban and commercial tradition certainly existed in most parts of the region, most of the population of Southeast Asia was predominantly rural and agricultural, with their basic needs of food, shelter and clothing and other manufactures being satisfied from their own labour, or that of their immediate family and neighbours.2 There was considerable economic change after 1870, but the fundamentally agrarian nature of much of the region persisted until 1942, and into the post-1950 era.

Economic growth and structural change

By 1870, most of Southeast Asia was under the control of European powers, and even nominally independent Siam (as Thailand was known until 1939) had conceded considerable autonomy in
economic policy-making under the provisions of the Bowring Treaty which went into effect in 1856, and subsequent treaties with other foreign powers. Between 1870 and 1913, rapid world trade expansion led to an increase in exports from many parts of Southeast Asia. The region followed the classic colonial pattern of exporting a few primary commodities and importing consumption and capital goods from the colonial power and from other developed countries, although there was also some intra-regional trade, especially in rice. By the early twentieth century, the Philippines, British Malaya and the Netherlands Indies had all become net rice importers, dependent on supplies from surplus regions in Thailand, Burma and South Vietnam.

For 1870 to 1913, estimates of per capita GDP show growth for most of Southeast Asia. Thailand apart, growth continued until 1929 (Table 3.1). The most rapid growth was in Singapore where per capita GDP more than trebled between 1870 and 1929, and in modern Malaysia (until 1942 the federated and unfederated states plus North Borneo and Sarawak, together with Malacca and Penang), where per capita GDP more than doubled. Elsewhere growth rates were lower but only in Thailand was there little progress in per capita terms after 1913. All the main Southeast Asian economies suffered some decline in per capita GDP after 1929 as a result of the global depression, which severely affected demand for tropical exports. But by 1938 per capita GDP was still well above 1913 levels everywhere except Thailand.

The growth in output that took place in most parts of Southeast Asia between 1870 and 1930 was driven mainly by agricultural growth, both for domestic consumption and for export. By 1930, Southeast Asia was exporting ever larger quantities of a number of traditional agricultural staples with which the region had long been associated, including sugar, rice, coffee, tea, spices, hard fibres and coconut oil. In addition, the cultivation of new crops such as rubber and palm oil was expanding rapidly, and by the 1930s, smallholder producers in Indonesia were accounting for almost half of total production of rubber (Creutzberg 1975: 94). The increase in agricultural output was associated with considerable expansion of cultivated land, although only in a few cases, such as sugar in Java, did increased yields per unit of land contribute to growth in output. For the most part, the growth in agricultural output occurred by replicating known production

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<td>132</td>
<td>175</td>
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**GDP per capita (1990 International Geary–Khamis Dollars)**

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<tr>
<th>Year</th>
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<th>Philippines</th>
<th>Thailand</th>
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<td>685</td>
<td>904</td>
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<td>1,694</td>
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*Sources: Maddison (2003: 180–5) with data for Singapore after 1913 from Sugimoto (2011: 185) and for the Philippines after 1913 from Hooley (2005).*

*Notes: Index: 1913 = 100. The estimates for Malaysia and Singapore refer to the modern states of Singapore and Malaysia, which includes Sarawak and Sabah. The figures for Burma after 1913 refer to 1921, 1931 and 1936 respectively.*
technologies over more land. In some regions, such as the delta region of lower Burma, the expansion in rice production was the result of considerable migration of people from the densely settled rural heartlands to frontier regions.  

Non-agricultural sectors of the economies of Southeast Asia also grew over these decades. This was partly due to the growth of export production, including mining as well as agriculture, which brought with it rapid expansion in transport, trade and financial services, as well as in processing industries. This diversification led to a considerable change in the economic structure of the various national economies. By the late 1930s, the agricultural sector accounted for at most around half the national product in those countries for which figures are available (Burma, Thailand, Indonesia, the Philippines). In Indonesia, 66 per cent of total output is estimated to have originated from non-agricultural activities (Table 3.2).

It is often asserted that, up to 1940, industrialization in Southeast Asia was largely restricted to agricultural and mineral processing for export, but this is not strictly correct. While there can be little doubt that processing activities had an important impact on the growth of industry and on the formation of a wage labour force in many parts of the region, there was also some growth in manufacturing for local consumption. The increase in incomes that occurred in the latter part of the nineteenth and the early twentieth centuries gave rise to demand for new consumption goods which could be produced locally such as processed foodstuffs (including beer and other alcoholic drinks), cigarettes, newsprint and western clothing. Although little positive encouragement was given to local production before the 1930s, through tariffs or other forms of protection, those manufactures that enjoyed some measure of natural protection through high transport costs began to be locally produced, often by Chinese or Indian entrepreneurs.

However it was with the depression of the 1930s that colonial governments in various parts of Southeast Asia began seriously to consider industrialization as a policy goal. As Shepherd pointed out, the collapse of export markets in the early 1930s resulted in a widespread conviction among many colonial civil servants, especially in Indonesia and Indochina, that the colonial economies

<table>
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Notes:  
a 1903.  
c 1929.  
d Figures for the Philippines refer to 1902, 1918, 1928 and 1938.
must be diversified, in order to reduce dependency on a narrow range of primary commodities which were extremely vulnerable to world market fluctuations. “Among the solutions offered none was seized upon with more enthusiasm than industrialization” (Shepherd 1941: 5). Apart from the impact of the world slump on markets for tropical primary products, the other factor that goaded colonial governments in Southeast Asia into greater concern about industrial development was the extraordinary success of Japan’s great export drive during the early 1930s. Most colonial governments reacted to the flood of cheap Japanese manufactures by increasing tariffs and quotas, particularly on textile goods. The main intention of these measures was to provide protection for exports from the mother countries, but a secondary consequence was to encourage local production of manufactures. Increasingly colonial officials reasoned that if Japan could industrialize using its abundant supplies of cheap labour, why not Java, or Indochina?

The decade of the 1940s saw the Japanese Imperial Army sweep through the region, inflicting humiliating defeats on the colonial powers in Burma and British Malaya, and in the Philippines and the Netherlands Indies. Although the Japanese were initially greeted as liberators in some parts of Southeast Asia, disillusion rapidly set in as food supplies were requisitioned and local people were forced to work on various government projects; young men in particular were often forced to move far from their home regions, and mortality rates were high. After Japan’s defeat in 1945, the returning colonial powers had to deal with nationalist movements which were in some places inspired by communist ideology. The Americans honoured previous pledges to grant the Philippines full independence in 1946, and Burma was granted independence shortly after the rest of British India in early 1948. After the Americans exerted pressure, the Indonesian declaration of independence, signed by Sukarno and Hatta on 17 August 1945, was finally recognized by the Dutch in late 1949. In all three countries per capita GDP in 1950 was below 1938 levels (see Table 3.1).

In Burma and Indonesia, per capita GDP recovered only slowly in the two decades from 1950 to 1970; in Burma it was still lower in 1970 than in 1938, while in Indonesia it was only slightly higher. Paauw (1960: 209) argued that in Indonesia there had been structural retrogression after 1950, in the sense that the share of the labour-intensive sectors, including smallholder agriculture, and small-scale manufacturing and services in total output had increased. In other parts of the region, these two decades saw some growth. Particularly striking was the accelerated growth in Thailand, where after decades of economic stagnation, per capita GDP more than doubled between 1950 and 1970. After slow growth in per capita terms through the 1950s, growth also accelerated in the 1960s in both Singapore and Malaysia. By 1970, marked inequalities in per capita GDP were already obvious across the region. There were also differences in economic structure. In both the Philippines and Thailand, the non-agricultural sectors of the economy grew quite quickly after 1950, and accounted for more than 70 per cent of total GDP by 1970. The share was also over 70 per cent in Malaysia. But although by the 1960s, the industrial and service sectors were expanding, with the exception of Singapore the pace of growth was slower than in Taiwan and South Korea, let alone Japan. It was only when foreign, and particularly Japanese, investment in manufacturing in Southeast Asia accelerated after 1970 that the manufacturing sector not only grew more rapidly but also began to account for a growing share of exports.

Diversification of employment

In spite of the growth of output of non-agricultural sectors in many parts of Southeast Asia after 1900, agriculture still employed at least 60 per cent of the labour force in most colonies in the latter part of the 1930s (Table 3.3). With the exception of British Malaya, and especially the Federated Malay States, most agricultural employment was on smallholdings; large-scale estate agriculture

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offered full-time employment to only a small proportion of the total labour force. Much of the non-agricultural employment was in small-scale industries and petty trade. The “modern” or large-scale manufacturing sector employed only about 300,000 people in Indonesia in 1939, from an estimated labour force of 24 million. In Burma, Spate (1941) estimated that employment in the “factory” sector (including ricemills) was around 100,000 in the late 1920s, but contracted in the 1930s. In Indochina, Robequain (1944) estimated that a maximum of 120,000 workers was employed in modern industry by the late 1930s.9 Even if a rather larger share of the 601,000 workers employed in manufacturing in the Philippines in 1939 was in large-scale enterprises, compared with Indonesia or Burma, it is unlikely that more than one million people were employed in the factory sector in the whole of Southeast Asia in the late 1930s.10

Most workers enumerated as “employed in manufacturing” in censuses were occupied in producing manufactures either in the home or in small workshops, typically employing fewer than 10 people. Rural manufacturing was often dominated by women workers. In Thailand weaving, cookery and pottery were considered female jobs; this was also the case in Burma and Indonesia. In the Philippines, the 1939 census found that manufacturing employed 7.9 per cent of the male labour force but almost 25 per cent of all female workers. Embroidery, dressmaking and native textile manufacture together employed more workers than any other sub-sector of manufacturing, and almost all were women. Women also dominated in hat and mat manufacture. These occupations were often contracted out to home-workers, and this could be combined with child care and other domestic chores. Critics such as Kurihara (1945: 19–22) pointed to the low wages typically received by women workers, and the lack of any worker protection. But clearly many thousands of women were prepared to work under “bad” conditions in order to supplement household incomes, as indeed they continued to do after independence.

The persistence of a large handicraft sector in Southeast Asia up till the end of the colonial period and beyond is surprising in that it runs counter to the “de-industrialization” hypothesis which has had much attention in Southeast Asia, as well as in South Asia and Africa. Resnick (1970: 58) argued in the case of Burma, Thailand and the Philippines that, as these economies became more involved in producing agricultural products for the world market in the last part of the nineteenth century, and as imports from industrial Europe and North America increased, many indigenous industries “were fragmented and displaced”. Quoting authorities such as Homan van der Heide and Ingram, Resnick argued that traditional industries such as weaving and spinning, iron and metal making, pottery and earthenware, paper making, and sugar manufacturing all declined, although the regional impact was uneven because of poor transport. While

<table>
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<th>Country/Year</th>
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<th>Other</th>
<th>Total</th>
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<tr>
<td>Taiwan (1930)</td>
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<td>Korea (1930)</td>
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<td>6.3</td>
<td>14.1</td>
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<td>Thailand (1929)</td>
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<td>Indonesia (1930)</td>
<td>68.0</td>
<td>10.4</td>
<td>19.6</td>
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</table>

Sources: Japan: Grajdanzev (1944); Korea: Suh (1978, table 2); Taiwan: Grajdanzev (1942: 33); British Malaya: Vlieland (1932: 99); Burma: Saito and Lee (1999 table 1.6); Indonesia: Mertens (1978, appendix table 1.5); Philippines: Kurihara (1945: 16); Thailand: Ingram (1971: 57, 144).
this might have been true, there can be little doubt that, even allowing for the demise of some cottage industries, by the early twentieth century, the labour force in several Southeast Asian economies was becoming more diversified in terms of sources of income. By the 1930s, over 30 per cent of the labour force was employed in non-agricultural occupations everywhere except in Thailand (Table 3.3). In British Malaya a large proportion of the non-agricultural labour force consisted of migrant workers from China and India but this was not the case elsewhere.

In Indonesia, Burma and the Philippines, indigenous workers accounted for well over 85 per cent of the total labour force and many of these had found employment in both manufacturing industry and a range of service occupations, including trade and transport, and government service. Although Chinese workers were important in both trade and the professions in Indonesia by the 1930s, they only comprised a minority of the labour force in these occupations. Many workers who were still mainly employed in agriculture would have taken on other jobs in the off-season, and certainly would have been familiar with the cash economy as sellers of output and buyers of inputs, and as wage workers, creditors or debtors. Only a minority, even outside Java, would still have been living in a traditional subsistence economy. Increasingly, this was true of other parts of Southeast Asia as well.

Thus people in many parts of Southeast Asia were already familiar with the monetized economy by the 1950s when political independence arrived. But, largely as a result of the slow growth, or even declines in per capita GDP in the 1960s and 1970s, changes in the structure of employment took place only slowly. By 1970, the proportion of the labour force employed in agriculture was still around 65 to 70 per cent in most parts of the region. The role of migrant Chinese and Indians in the economies of Southeast Asia also remained important after independence, although in Burma the military government which assumed power in the early 1960s adopted an aggressive policy which resulted in the departure of most Indians. In Indonesia, over 100,000 Chinese left for China, and others decided to move to other parts of the region or to other parts of the world. By 1970 it is likely that Chinese comprised less than 2 per cent of the population, although questions regarding ethnic origin were no longer asked in the post-independence censuses.

Demographic change, urbanization and the emergence of the plural economy

The countries of Southeast Asia experienced much faster population growth in the latter part of the nineteenth century and the early decades of the twentieth century than either China or India. In all cases the annual average growth in population was well over 1 per cent, and in those regions that attracted substantial in-migration such as British Malaya it was over 2 per cent per annum. This rapid growth was due to a combination of high fertility, falling mortality compared with other parts of Asia and Africa, and especially in Burma and Malaya, high in-migration. It seems probable that an important explanation for lower mortality in nineteenth century Southeast Asia compared with either India or China was the greater abundance of land and food supplies relative to population, although by the 1920s colonial governments were also taking greater responsibility for public health measures, including programmes to promote the health of babies and young children. In addition, the colonial regimes in most parts of Southeast Asia prevented the kind of recurrent wars and rebellions that took a heavy toll of human life in China in the middle decades of the nineteenth century.

Much of the foreign in-migration to Southeast Asia in the colonial era was from the vast population reservoirs of India and China; by the 1930s these “foreign Asians” comprised more than half the population of British Malaya, including Singapore, and around 10 per cent of Burma. In comparison with migration streams across the Atlantic to the USA, the numbers moving into
Southeast Asia were quite large. Huff and Caggiono have estimated that, between 1911 and 1929, gross migration into Burma, British Malaya and Thailand was over twice as high as gross migration into the USA. Although net migration was much lower than in the USA, reflecting the fact that a high proportion of the migrants into Southeast Asia returned home again, net inward migration still amounted to around 1.55 million over these years. Migrant Asians were a much smaller percentage of the total population in Indonesia, where the Dutch had imposed controls in the early twentieth century, although Chinese migrants were important in particular regions, such as the East Coast of Sumatra, where they comprised a considerable part of the estate labour force. In Thailand and the Philippines, Chinese migrants integrated themselves into the local community more successfully and usually took Thai and Spanish names, as well as adopting local religious practices. Thus they were not always enumerated separately in censuses.

In addition to foreign in-migration, there is abundant evidence that indigenous populations moved out of densely settled agricultural areas to colonize new lands everywhere in the region and that this movement was in some cases facilitated by the introduction of individual land rights in the latter part of the nineteenth century. Much of this population movement was unassisted by government, although the Dutch in Indonesia after 1900 began a programme of officially sponsored migration from Java to the outer islands, especially Sumatra. This policy continued into the post-independence era. Both Dutch and French officials also facilitated the movement of workers from densely settled regions in Java and North Vietnam to estates areas in Sumatra and South Vietnam respectively. Most colonial governments in Southeast Asia wanted to establish a rural economy based on landowning smallholders, but as the demand for tropical agricultural products boomed in the early twentieth century, conflicts over land between large commercial estates and smallholders became more frequent. While colonial regimes did not always side with the former, they were often under pressure from powerful metropolitan interests to ensure that commercial estates did get access to land.

Thus by the early twentieth century, Southeast Asia was characterized by an increasingly mixed and mobile population, and the contours of the “plural society” plain to see. As Furnivall (1948: 304–5) pointed out, the various ethnic groups in Southeast Asia mixed but did not combine. Each group had its own economic role, and very often also a separate language and religion. They came together in the marketplace, but socially they remained distinct. Furnivall admitted that traces of a plural society were evident in several societies outside the tropical world including Canada, the United States and South Africa. But he thought that the process of differentiation had gone further in Southeast Asia than elsewhere. In spite of some attempt to impose controls on in-migration from China in particular, by the 1930s, when the severe economic downturn reduced in-migration in most parts of Southeast Asia, the plural society and economy were well entrenched. Post-colonial governments were to wrestle with its legacy for most of the last half of the twentieth century.

The extent of urbanization itself varied considerably in Southeast Asia by the early twentieth century. Huff (2012: table 1) finds that by 1930, Batavia (as Jakarta was then known) was the largest city in the region, with a population of 533,000, followed by Singapore, Manila, Bangkok and Rangoon, all with populations in excess of 400,000. British Malaya was the most urbanized colony with 18 per cent of the population living in the largest five towns. Elsewhere the proportion was considerably smaller. A further feature of most colonial cities in Southeast Asia was that they often contained a high proportion of non-indigenous peoples. For example only 60 per cent of the urban population of Burma in 1931 were indigenous Burmese; the percentage for Rangoon was even lower. In the four largest cities of Java (Batavia, Surabaya, Semarang and Bandung), over 20 per cent of the population in 1930 were European, Chinese or other foreign Asians, while in Medan indigenous Indonesians were only 54 per cent of the population.
In Malaya, where the urban population comprised 35 per cent of the total in 1947, the Chinese predominated in most urban areas.20

As well as having better access to infrastructure, urban populations usually got better access to educational and health facilities. It is widely held that colonial governments in most parts of Asia and Africa neglected education except to the extent that it was necessary to provide clerks for the civil service and the private sector. In India in particular, but also in parts of Southeast Asia, the colonial authorities by the early years of the twentieth century were already alarmed at the growing “educated unemployment”, as well as the evidence that increased education went hand in hand with the growth of nationalism, and in some cases crime. The reason that parents scrimped and saved to educate their children in most colonies was not a belief in the virtues of a “western” education for its own sake, but rather a conviction that such education was the only means to social and economic advancement in a colonial society, although as more young people gained access to such education the value of their qualifications as a passport to “modern” employment inevitably declined.

Nationalists in many parts of Southeast Asia saw education in vernacular languages as a means of encouraging national consciousness, but also wanted more scientific and technical education in order to catch up with the industrial economies (Furnivall 1943: 51–2). After 1950, there was rapid expansion in both secondary and tertiary education in most parts of the region, albeit usually from a low base. The former British colonies, and the Philippines continued to teach in English, although this often disadvantaged indigenous students, especially from rural backgrounds. Because of the American legacy, the Philippines had more university-educated people than most other parts of Asia; in 1955, numbers of science and technology graduates relative to population was higher than in South Korea and Taiwan, and only slightly below Japan (Booth 2007a: 194).

Increasing links with the international economy

From 1830 to 1938, the share of Southeast Asia in total exports from Asia (excluding Japan) grew steadily while that of both China and India fell.21 This reflected both the rapid growth of large-scale production of export crops by estates, and the growth of smallholder production. In addition foreign investors began to invest not just in agricultural estates, but also in the extraction of mineral resources including coal and petroleum. By 1938 Southeast Asian economies accounted for over half of all foreign direct investment in Asia. Colonial Indonesia was the largest recipient of foreign investment in absolute terms although in per capita terms it was surpassed by both British Malaya and the Philippines (Booth 2004: table 6; Lindblad 1998: 12–23).

It has frequently been argued that most colonies tend to trade disproportionately with the metropolitan power, and that most foreign investment also originates from the metropole. This “colonial” pattern of trade is supposed to have imposed a considerable cost on the colony in that it was not able to buy imports (usually manufactured consumer goods and capital equipment) in the cheapest market and sell their exports (usually primary products) in the dearest. While some colonies in Southeast Asia did trade extensively with the metropole, important changes were taking place by the early twentieth century. The Netherlands’ share of Indonesia’s export trade was under 40 per cent, as was France’s of Indochinese trade (Booth 2007a: table 5.2). By 1939, only 14 per cent of Indonesia’s exports were going to the Netherlands. Among the Southeast Asian colonies, only the Philippines had the expected high percentage of total trade with the USA by 1939. Even allowing for the fact that the Netherlands was not a major trading nation, and its industries were relatively undeveloped, its low and declining share of Indonesia’s trade between 1900 and 1940 is rather remarkable. The major source countries for Indonesia’s imports after 1900 were the UK, the USA, Germany and, increasingly, Japan. Japanese imports of
cheap manufactures to most parts of Southeast Asia grew rapidly after 1920, with the notable exception of Indochina, where apparently it was deliberate French colonial policy to keep out Japanese products and increase France’s share of the colony’s imports.22

A frequent criticism of the export-led growth which occurred over the decades from 1870 to 1930 was that it did not lead to any appreciable improvement in living standards for the great majority of the population. This was in spite of the fact that in many parts of Southeast Asia indigenous populations responded vigorously to the opportunities that international trade presented, and rapidly increased their production of export crops as diverse as rice, corn, coffee, copra, rubber, pepper and spices. In some regions, real incomes and living standards did probably improve, but in some places per capita consumption of basic staples such as rice appears to have declined, especially in the interwar years (Booth 2007a: table 7.1). In addition many smallholder producers became increasingly indebted to rural money lenders, often Indian or Chinese.

There would appear to be several reasons for this paradox. In the first place, most Southeast Asian economies were penalized by deteriorating commodity terms of trade after 1913; the deterioration appears to have been especially severe in Indonesia, where the income terms of trade (the purchasing power of export earnings in terms of imports) also declined after 1928 (Booth 1998: table 2.1). A second reason for the failure of trade to promote more broadly based development in Southeast Asia concerns the size of the so-called “drain”, or unrequited export surplus. It has been argued that this was unusually large in several parts of Southeast Asia after 1900, and was sustained at a high level in Indonesia for an entire century, from 1831–40 to 1931–40.23 A third reason for the failure of trade to lead to growth concerns the investment policies of the government and the private sector. To the extent that both governments and private individuals preferred to use the increased income accruing from trade for consumption or for low-yielding investment, the longer run impact of trade on growth would be reduced.

I look at the issue of government investment expenditures in more detail below. As far as the drain argument is concerned, in many parts of the region the ratio of commodity imports to exports fell sharply after 1900, and in most countries were less than 75 per cent of exports. These export surpluses were used to fund considerable outward flows of profits. The standard colonial defence was that these profits represented a “fair return” on the foreign resources, both capital and expertise, which the undeveloped colonies had to import if they were to develop. The nationalist response was that they represented the monopoly profits of enterprises from the metropolitan countries which were granted protection from both domestic and foreign competitors, as well as payments to the civilian and military colonial bureaucracies whose presence benefited the colonies little, if at all.24 In the rather special case of Burma, it has been argued that the “phenomenal” trade surplus was due, in part at least, to the very large population of Indian labourers, money lenders and other businessmen, who repatriated their earnings to India (Andrus 1948: 182). In addition the Burmese government made large contributions to the British Indian budget in Delhi which were not balanced by expenditures in Burma.25

After 1950, the share of Southeast Asia in all exports from the tropical world fell compared with 1937, and only began to increase again after 1980. The share of Burma, Indochina and Indonesia in total exports from Southeast Asia fell after 1950 while the share of British Malaya and Singapore, Thailand and the Philippines increased (Booth 2004: tables 3 and 4). These figures support Myint’s assertion that after 1950, the countries of Southeast Asia divided into the inward-looking and the outward-looking groups (Myint 1967). The former reacted to what many nationalists saw as a colonial trade regime by adopting policies that penalized exporters and deterred foreign investment in export sectors. The latter group, while taxing exports, pursued exchange rate and investment policies which were more supportive of export production on the part of both smallholders and large foreign-owned companies.
The changing role of government

By the early years of the twentieth century, most Southeast Asian governments were deriving the bulk of their revenues from land taxes, and non-tax sources such as government charges and royalty payments and revenues from state monopolies, including opium. While some governments tried to reduce reliance on "vice taxes" such as those derived from sales of alcohol and narcotics, others continued to rely on them for a substantial part of government revenues. The three components of British Malaya (Straits Settlements, Federated States, Unfederated States) were deriving a substantial proportion of all their revenues from opium and alcohol in the early decades of the twentieth century, although reliance did fall after 1920, and by 1938 the proportion of total revenues derived from opium revenues in the Straits Settlements and the Federated Malay States had fallen to under 10 per cent (Booth 2007b: table 1). Direct taxes on personal and corporate incomes were a small part of total revenues everywhere except in Indonesia and Burma, and to a lesser extent the Philippines. Land taxes were important in some territories, although they required accurate cadastral information which was not available in many parts of Southeast Asia. Elsewhere cruder taxation devices such as head taxes remained important.

The traditional view of the colonial state was that of a "nightwatchman", whose main functions were the collection of revenues and the maintenance of law and order. But by the early twentieth century, several governments in Southeast Asia were taking a much more proactive view of their responsibilities. The Dutch launched the "ethical policy" in 1901, which emphasized the development of rice agriculture through improved irrigation, expanded access to education and greater movement of people from the densely settled islands of Java and Bali to land settlement projects in Sumatra and Sulawesi. French policy in Indochina placed great emphasis on mise en valeur through infrastructure development, while in the Philippines, the American government saw "native upliftment" as the main justification for its colonial mission, a mission which was far from popular in the USA. The Americans saw their role as preparing the Philippines for self-government, and placed special emphasis on expanding access to education. Even the supposedly laissez-faire British recognized that the full development of the agricultural potential of Peninsular Malaysia would require heavy investment in roads, railways, ports and electrification, and substantial sums were spent on these sectors after 1900.

By 1930, there was considerable variation both in government expenditures per capita, and in the breakdown of government expenditures by sector. In 1929, government expenditures per capita (in dollar terms) ranged from 29 dollars in the Federated Malay States to three dollars in Vietnam (Booth 2007b: table 4). A comparative study carried out by an American official in the Philippines in 1931 found that the Philippines was devoting around one-third of total expenditures to education and health, and around 18 per cent to public works and agriculture, and most of the balance to administration and debt service. In the Netherlands Indies a much greater share, around 77 per cent, was going on administration, defence and debt service, and a correspondingly small proportion on health and education. The Federated Malay States, which had by far the largest expenditure in per capita terms, was devoting around half the budget to education, health, public works and agricultural development.

The very different patterns of budgetary allocation that were clear by the 1920s in Southeast Asia were reflected in very different out-turns regarding expenditure on both infrastructure and social welfare. By the 1930s, Java and Peninsular Malaya had extensive road and rail networks; in terms of kilometres of road per unit of area these two regions compared very favourably with the Japanese colonies of Taiwan and Korea. Other parts of Southeast Asia, including independent Thailand, were by the 1930s less well endowed with infrastructure.

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neglected road building. In the Philippines, more emphasis was given to road development. But the roads and railways which were constructed were often designed to benefit foreign enterprises, and their benefits to local populations were limited, especially when feeder roads linking settlements to railheads and main roads were not constructed. Virtually everywhere, provision of electricity and piped water was restricted to urban areas, and usually only to large-scale industry and to the more affluent residential neighbourhoods.

By the late 1930s, there was also considerable variation among the various colonies in Southeast Asia, and in independent Thailand, in infant mortality, and crude death rates, as well as in educational enrolments and per capita GDP (Table 3.4). Infant mortality remained high in Burma, Java and Indochina, although in all these colonies there had been some decline since the turn of the twentieth century, mainly due to government public health initiatives. It was lower in the Philippines and British Malaya; in both these colonies it was little different from Taiwan. But government health programmes often tended to be limited in terms of geographical reach, and also in terms of ethnic group (Booth 2012: 162–71). Typically, by the latter part of the 1930s, infant mortality rates among European children in Southeast Asia were only slightly higher than those in West Europe and the USA. Among babies and children of the Chinese, mortality rates were considerably higher than among Europeans, but lower than among the indigenous populations. While babies and children in urban areas usually had better access to medical care than those in rural areas, in some urban areas infant mortality rates remained very high. On the basis of the 1931 census in British Malaya, Vlieland (1932: 110) found that infant mortality rates in urban Singapore were considerably higher than in the more rural Federated Malay States. This reflected the poor housing and overcrowding which increased the risk of premature death for many babies and children in Singapore at that time. Overcrowding and poor housing in Singapore, and most other cities in the region, became a major challenge for most governments in the post–1950 era.

The advent of political independence inevitably raised expectations on the part of indigenous populations across Asia, who looked to their governments to provide improved infrastructure and

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Table 3.4 Development indicators: East and South East Asia, late 1930s

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita GDP, 1938 (1990 international dollars)(^a)</th>
<th>Infant mortality rates</th>
<th>Crude death rates</th>
<th>Educational enrolments as % of total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>1,542</td>
<td>139</td>
<td>23</td>
<td>11.54</td>
</tr>
<tr>
<td>Malaya(^b)</td>
<td>1,426</td>
<td>147</td>
<td>21</td>
<td>7.76</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1,318</td>
<td>142</td>
<td>21</td>
<td>11.36</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,171</td>
<td>225–250</td>
<td>28</td>
<td>4.01</td>
</tr>
<tr>
<td>Thailand</td>
<td>826</td>
<td>n/a</td>
<td>22</td>
<td>10.65</td>
</tr>
<tr>
<td>Burma</td>
<td>740</td>
<td>232</td>
<td>30</td>
<td>5.45</td>
</tr>
<tr>
<td>Indochina</td>
<td>n/a</td>
<td>190</td>
<td>24</td>
<td>2.47</td>
</tr>
</tbody>
</table>


Notes:

\(^a\) For the Philippines, Malaya, Taiwan and Indonesia, GDP data are three-year averages centered on 1938. For Thailand and Burma the data refer to 1938 only.

\(^b\) GDP and crude death rate data refer to the territory covered by modern Malaysia (British Malaya plus Sabah and Sarawak less Singapore). Infant mortality rates refer to the Federated Malay States only. Educational enrolments refer to British Malaya including Singapore.
better services including health and education. In many parts of the region, infant mortality rates
did decline after 1950 and educational enrolments improved. Socialist ideas had considerable
influence, and economic planning in some form or other was adopted by most governments. But
it often proved difficult to raise sufficient revenues to fund ambitious government spending
programmes, especially after the impact of the Korean War on commodity prices subsided in
the mid-1950s. By 1954 government revenues per capita in real terms were lower in both
Indonesia and the Philippines than in 1938, and they were only slightly higher in Burma and
the Malayan Federation (Booth 2013: table 7). The problem was especially acute in Indonesia,
where per capita GDP still had not returned to its pre-1942 peak by 1960, and successive
governments had difficulty increasing tax and non-tax revenues. Persistent government deficits
were funded by borrowing from the central bank, with inevitable consequences for inflation.

Conclusions

A number of conclusions can be drawn from this survey. The first is that economic growth, in the
sense of increasing per capita GDP, does appear to have occurred in Southeast Asia between 1870
and 1940. Paradoxically, the slowest growth was in Thailand, the country that managed to remain
free of direct colonial control. The second conclusion is that the growth that occurred did lead to
structural change in the economies of the region. Industrial growth did occur, as did growth in
trade, transport, financial services and public services. To a limited extent, employment opportu-
nities outside agriculture did increase for the indigenous populations of the region even though
many managerial, technical and administrative jobs were monopolized by nationals of the colonial
power, other Europeans and Americans, and migrant Asians, who were mainly Chinese and
Indians. The third main conclusion is that export growth played a crucial role in driving economic
growth. Increasingly, not only large foreign-owned companies but also millions of smallholder
producers became involved in the production of crops for export. While this did increase their cash
incomes, it also made them more vulnerable to the vagaries of world markets for tropical products.

A fourth conclusion is that governments, far from adopting a laissez-faire, or “nightwatch-
man”, role, were, by the early twentieth century, taking a more proactive role in building
infrastructure and in the provision of educational and health facilities for the indigenous populat-
ions. The extent to which government raised revenues and spent those revenues on activities that
would now be thought of as developmental varied considerably, both over time and between
colonies. But there can be no doubt that governments did take an increasing role in taxing and
spending in the first part of the twentieth century, and that the results were obvious not just in
terms of infrastructure but also in terms of access to educational and health facilities. By the 1930s,
several governments were taking a more activist role in promoting industrial growth.

A fifth conclusion relates to the impact of economic growth and structural change on living
standards in Southeast Asia. Here the evidence suggests that the outcomes varied considerably.
In the Philippines the emphasis of the American administration on “uplifting the natives” paid off
in terms of access to education, and to health care. By the late 1930s infant mortality rates were
lower than in most other parts of Southeast Asia, and probably lower than in most other parts of
Asia and Africa, and literacy rates were higher The record in other parts of Southeast Asia was
much more patchy. By the 1930s, migrants from China and India comprised the majority of the
population in British Malaya, and were a significant minority elsewhere. The Chinese in particular
often had better access to both educational and health facilities, which gave them considerable
advantages in the post-independence era.

The last conclusion relates to the legacy of colonialism for post-colonial governments. After
independence most countries in Southeast Asia had to struggle with rising expectations from their
populations in terms of provision of public goods, while at the same time dealing with the consequences of the 1940s on economic output. Per capita GDP was lower in most parts of the region in 1950 than a decade earlier and in several countries recovery was slow. In Burma and Indonesia, governments responded to the economic challenges of independence by adopting policies that discriminated against exports and discouraged investment, both foreign and domestic. It was hardly surprising that popular resentments boiled over into social unrest and open rebellion. They were usually suppressed by military force, but the consequences of these tensions persist until the present day.

Notes
1 These densely settled regions often accounted for a high proportion of the total population; for example in 1930 Java’s population was estimated to be over 40 million, compared with only 19 million in the rest of the Netherlands Indies, although Java had only 7 per cent of the land area.
2 For an account of Southeast Asian development in the “age of commerce” see Reid (1993). In another essay, Reid (2001) has argued that after 1700, the percentage of the population in urban and non-agricultural occupations in Southeast Asia probably contracted.
4 Maddison’s figures on economic growth in Thailand are taken from Sompop (1989: 251).
5 A valuable discussion of growth and technical change in the world sugar industry is given in Evenson and Kislev (1975: chapter 3). After the mid-1920s, falls in world prices meant that the real value of yields per hectare fell compared with the 1921–5 peak (Booth 1988: 222–3). For a discussion of the evolution of the sugar industry in Java in the Dutch colonial period, see Boomgaard (1988).
6 The classic discussion of the expansion of rice cultivation in Burma is by Adas (1974). See also Owen (1971) and Siamwalla (1972).
7 For an extensive discussion of the reasons for the increase in Japanese exports to Asia, and the response by colonial governments, see the papers in Sugiyama and Guerrero (1994). See also Booth (2003).
8 Industrialization was harder to achieve in open and land-abundant economies such as peninsular Malaysia, where exports of natural resource exports kept the exchange rate too high to make most domestic manufacturing profitable (Hu 2002). In Indonesia, a cotton textile industry only developed in the 1930s after controls were placed on imports from Japan (van der Eng 2013).
9 Useful overviews of industrialization in Southeast Asia before 1940 can be found in Shepherd (1941) and Mitchell (1942). For additional material on Indonesia, see van Oorschot (1956: 856), for Burma, see Spate (1941: 78), and for Indochina see Robequain (1944: 303). Norlund (1991) discusses the case of Vietnam.
10 An analysis of the 1939 census data for the Philippines is given in Kurihara (1945: 15–22). A valuable analysis of the 1930 census data on employment can be found in Mertens (1978).
11 See Booth (2007a: tables 6.2, 6.3 and 6.4). It is striking that indigenous workers comprised a larger proportion of the labour force employed in government and the professions in Indonesia, the Philippines and Burma than was the case in Korea and Taiwan in the 1930s, where Japanese nationals were more dominant.
13 Given the increasing importance of wage labour as a source of income after 1900 for the indigenous populations, as well as for migrants, one might ask why worker organizations were so slow to form in colonial Southeast Asia. For a discussion of this see Thompson (1947), especially chapter 1.
14 The population of China actually fell between 1850 and 1870 as a result of wars and civil strife; the estimated population in 1850 of 412 million was only regained in 1905; in India population grew but at a slow rate. See Maddison (2003: 160).
15 For a comprehensive discussion of health policies in colonial Malaya, see Manderson (1996).
17 The methods used by estates companies to induce labour to move, and the impact on the welfare of workers, were highly controversial especially in colonial Indonesia. For a review of the issues in Indonesia, see Houben et al. (1999) and Kaur (2004: chapters 4 and 5).
18 A classic discussion of land tenure issues in Southeast Asia at the end of the colonial era is given by Pelzer (1945). See also Booth (2007a: chapter 3). Valuable discussions of land tenure issues in colonial Malaya are given in Lim (1977: chapter 4) and Sundaram (1988: chapter 4).

19 Sundrum (1957: 121) and Baxter (1941: 21).

20 An overview of urbanization in Southeast Asia before 1950 is given in Huff (2012).

21 See Booth (2004: table 2). The growth of exports from British Malaya was particularly rapid; see Drabble (2000: 39).

22 For further discussion of Japanese exports to Southeast Asia in the interwar years, and of the response of different colonies see Booth (2003).

23 See Booth (1998: 210–14) for a discussion of the Indonesian current account surplus. For an alternative view which argues that current account surpluses were less damaging to the Indonesian economy, see van der Eng (1993). Further discussion of the drain in Southeast Asia can be found in Golay (1976).

24 For an argument along these lines in the case of British Malaya, see Khor (1983), especially chapters 4 and 5.

25 On the provincial contract system see in particular Shein Maung et al. (1969). For an estimate of the “imperial drain” as a proportion of national income in Burma, see Booth (2007b: table 9).

26 An account of the differing attitudes to revenues from opium in different colonial regimes can be found in Foster (2003). Further discussion of the role of opium in government revenues in colonial Southeast Asia is given in Booth (2013).

27 For a discussion of the evolution of the fiscal system in Indonesia in the last part of the Dutch colonial era, see Booth (1990). An overview of the attempts by the American administration to reform the fiscal system in the Philippines is given in Luton (1971).

28 In the Philippines, the cedula was a head tax levied in the Spanish era which became a “kind of personal registration and identity certificate” in the American period. Like most head taxes it was regressive in its incidence (Doeppers 1984: 57). In Vietnam, the French implemented a mixture of head taxes and land taxes in rural areas; most authorities considered the resulting system to be highly regressive. See Popkin (1979: 142–9).

29 The literature on the ethical policy is extensive; good introductions are given in Boomgaard (1993) and Cribb (1993).


31 Schwulst (1932: 42–59). Schwulst’s main findings are summarized in Booth (2007b: table 7). In spite of the evidence that both the Straits Settlements and the Federated Malay States had higher per capita expenditures than other colonies, critics argued that the British authorities were running what were still in effect nightwatchman states. Emerson (1964: 306) argued that in the Straits Settlements “the government has not interpreted its function more broadly than in terms of the police power”. Emerson was especially critical that the government did not assume “any responsibility for the adequacy of the lives of its subjects”, beyond basic sanitation and “a minor degree of education”. Huff’s more recent study argued that the colonial government in Singapore “conceived of its role as primarily to enforce law and order and secure property rights” (Huff 1994: 168).


33 For a critical discussion of infrastructure development in colonial Malaya, see Kaur (1985), especially chapter 6.

34 An attempt to construct a Human Development Index for the 1930s is given in Metzer (1998: 57). Of the 36 countries which he ranked in terms of per capita GDP, literacy, educational enrolments and life expectancy, the Philippines was twenty-second. This was higher than Thailand and India (the only other Asian countries ranked), and higher than any Latin American country except Chile.

35 In Indonesia, many local governments built schools and health clinics from local taxes in cash, kind and labour. People were willing to pay taxes for specific projects whose benefit accrued to local people. Paauw (1960) discusses these local revenues in more detail.

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