

FAR EASTERN ■ ECONOMIC

APRIL 10, 1971

review

15



SHEIKH MUJIB

BANGLA DESH AND THE GENERALS

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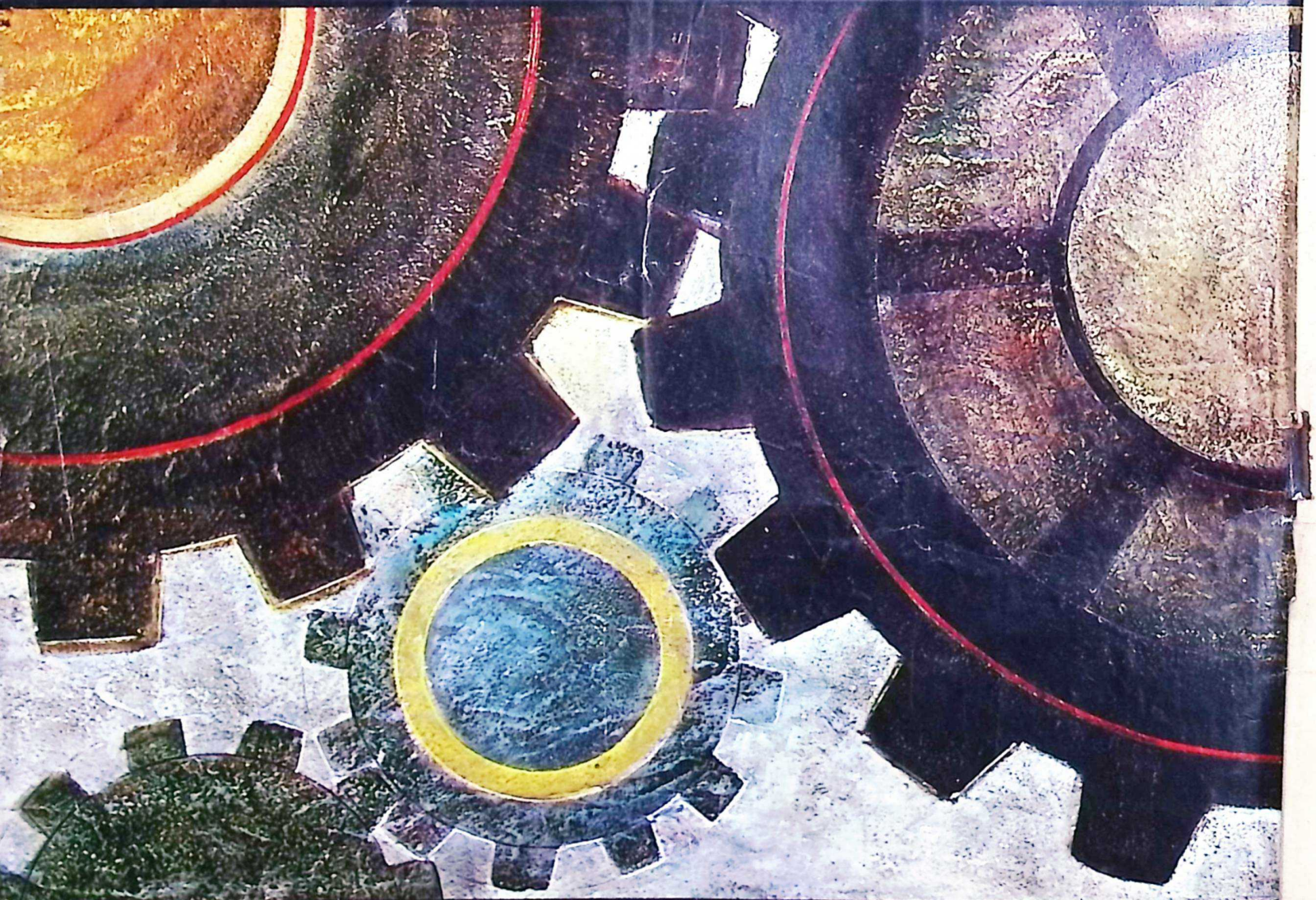
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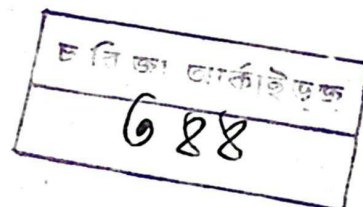
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THE COOKIE CRUMBLES

SPARE a thought for the poor Chinese cadre. The cultural revolution taught him that politics must come first. But if he accordingly despises profits, he stands a fair chance of suffering Peking's anger. Translate the cadres' dilemma to the field of foreign relations, and ponder the problem of the Chinese diplomat who wishes to keep his revolutionary cake, as well as eating the profits to be gained by pursuing national interests. This dilemma must be acute. In recent months, China's ministry of foreign affairs has been systematically using aid and trade to promote China's foreign interests while successfully appearing innocent of sordid commercial interests. The 750 million people, and the market they are believed to constitute, can be effective lures to the most hardheaded.

Compared with the lack of gratitude shown by those who have benefited from American and Soviet aid and other largesse, China is working miracles with the five loaves and two fishes it has to dispense. The Ceylonese were thrilled recently when China's ministry of trade knocked five shillings off the price per ton of the rice which it had agreed to supply. Nobody in Colombo appears to have stopped to work out how much cheaper this grain will be than that purchased at prevailing world prices. Thailand had cut its export tax by 25% to boost sales when Bangkok rice prices began to slip. This reduction means a minimal difference between the Peking and the Bangkok price. Peking had given nothing away; it had clinched a deal on a falling market — and still managed to look open-handed.

The rosy tint of the spectacles through which the hardheaded Japanese businessman views the China market is even more remarkable. Japan's exports both to South Korea and to Taiwan are running well above those to China, although the latter jumped by 46% last year. Nevertheless, four of Japan's five major steel corporations have meekly complied with Chou-En-lai's demand that firms wishing to trade with China should sever close connections with those two substantial markets (as well as ridding themselves of substantial American links). Even the fifth, New Japan Steel, is trying to avoid "irritating" China. Of course Japan's steelmakers have problems in their domestic market and fear American protectionism will reduce future export quotas to the US. But no economic logic can justify the restriction of steel sales to South Korea or the rejection of a chance to sell 6,000 tons (for railways) to Taiwan. China's leaders have made it quite clear that their aim is self-reliance. Only a fool would hope for a moment that they would allow China to become dependent on any foreign steel industry.

Nor can JAL (Japan Air Lines) convincingly justify its decision to withdraw from the Japan-Taiwan co-operation committee in the hope of getting routes into China and of flying some of the 2,500 passengers going to Canton Fairs who have hitherto boycotted JAL (instead they flew by Luft-hansa and UAA!). In exchange for these two birds in the bush, JAL stands to lose about 40 flights to Taiwan a week — and the lucrative onward flights to points south. It is possible that Toyota, Nissan or another Japanese car manufacturer will sell a car plant to China. For that matter, the contract could equally well go to Fiat. But hopefuls should remember that every Chinese province except Tibet is now boasting of its home-made vehicle plant, and that Rumania is paying off its debts to Peking with trucks.

China should be recognised. Trade may bring Peking into the community of nations more effectively than any vote in the UN. But no one should be dazzled by the prospects of lighting 750 million lamps; China's foreign trade accounts for a tiny proportion (perhaps 3%) of its GNP. In terms of trade China has relatively little to offer, and should not be able to gain political advantages by disrupting present healthy trading patterns. If China traders are realistic, they can present Peking with a straight choice — between ideological rectitude and gains to the national interest. In its present mood, Peking looks as if it will always plump for the latter. Indeed, so "pragmatic" is today's China that it has so far stood idly and silently by while West Pakistan's troops mow down revolutionary peasants who have portraits of Mao hanging in their huts.

FAR EASTERN ROUND-UP

A Weekly Summary of Events in Asia
March 31 to April 5

CAMBODIA

31. The government had begun the task of organising its all-volunteer army of 20,000 men, acting president of the council of ministers Sirik Matak said. It was also getting down to clean up corruption, a priority project. Said Matak: "The discontent of several officers will not stop me."

CHINA

1. China's National People's Congress might hold its first meeting for six years in May, according to American journalist Edgar Snow.

3. China accused Japan of stepping up economic exploitation of Southeast Asian countries as a prelude to political and military infiltration. The New China News Agency claimed Japan, by means of government aid and private investment, was systematically gaining control of strategic raw materials in the area, including Philippines copper, Thai rubber and Singapore oil products.

INDIA

31. India had cleared all its outstanding repayment obligations to the IMF (International Monetary Fund), having paid the last instalment of about US\$55 million on March 29. For the first time in two decades, India was now free of drawings from IMF — reflecting the overall improvement in India's foreign exchange reserves.

Parliament unanimously approved a resolution demanding the immediate cessation of force and "the massacre of defenceless people" of East Bengal by the Pakistan government. The resolution called upon all peoples and governments throughout the world to take urgent and constructive steps to prevail upon the Pakistan government "to put an end immediately to the systematic decimation of people which amounts to genocide".

4. Premier Mrs Indira Gandhi said in the existing situation in East Pakistan it was neither proper nor possible for India to keep quiet. She said India had never interfered in the internal affairs of any country, but it had always raised its voice against colonialism and repression and for freedom.

INDONESIA

2. The government had banned the travel of all foreign diplomats within Indonesia, except for a few specified

holiday areas, until the middle of July at the end of the general elections, foreign office sources disclosed.

JAPAN

5. Japan planned to send a ministerial-level member of the ruling Liberal Democratic Party to China to pave the way for normalising Tokyo-Peking relations, Premier Eisaku Sato said. He said the proposed envoy did not have to be a "present cabinet minister but he should be one selected from the leading faction of the ruling party who can be trusted".

LAOS

5. China had sent another 4,000 to 6,000 troops into northern Laos in recent months, Pentagon sources in Washington reported. The sources estimated Peking's military strength there had risen to between 18,000 and 20,000 men, about double last year's number.

PAKISTAN

1. East Pakistan leader Sheikh Mujibur Rahman had been flown under arrest to Lahore, West Pakistan, to be tried for treason, according to a London Daily Telegraph report. The paper said there was speculation that Mujib might have been summarily executed already. But it said that if he was imprisoned and was to be tried it was expected the charges would be of conspiring with Indian and other foreign sources to finance a break-away movement.

Armed Indians had infiltrated the border areas of East Pakistan, a foreign office spokesman charged. The spokesman also said Pakistan had taken a very serious view of the resolution passed by the Indian parliament, calling for an immediate end to the use of force in East Pakistan. "This constitutes blatant interference in the internal affairs of Pakistan," he said.

SINGAPORE

31. The Royal Air Force handed over full control of its Seletar air base to the Singapore government as part of the partial British military withdrawal from the Malaysia-Singapore area. The remaining two RAF bases — Changi and Tengah — will be turned over to the government before the end of the year.

SOUTH KOREA

3. The government and party of President Park Chung-hee "are scheming to

establish a generalissimo system", opposition New Democratic Party presidential candidate Kim Dae-jung claimed. Kim said he could present evidence for his accusation and claimed that the government party had sent researchers to a certain country to study its generalissimo system. He did not identify the country.

SOVIET UNION

4. National output in the Soviet Union and the communist countries of Eastern Europe, excluding Yugoslavia, increased in 1970 by more than 7.5% compared with a growth of 5% in 1969, according to a survey by the United Nations Economic Commission for Europe. The survey attributed the rise in the overall growth rate to the faster growth of the Soviet economy which expanded at a rate of 8.5% last year compared with less than 5% in 1969.

TAIWAN

4. Taiwan's new foreign minister, Chow Shu-kai, said in Washington he believed China would never reciprocate the US's goodwill gestures because Peking interpreted concessions as weakness. He said China was set on seizing leadership of the non-aligned countries.

UNITED NATIONS

3. The US was becoming more and more impatient with the growing costs of membership in the United Nations, a senior US state department official disclosed. Attributing this to "parliamentary excesses" — "the same issues are debated year after year" — he said small nations also posed a problem for the UN. Only 20 member nations were developed countries, more than 60 were so poor that they contributed to the UN at the minimum assessment rate of 0.04%, and yet "all have sovereign equality and one vote apiece", he said, and suggested "reducing the importance of voting by relying more on consensus procedures".

VIETNAM

2. Australian Premier William McMahon said in Canberra he would examine the possibility of establishing an international body on war crimes in Vietnam. However, he said he could not understand how any trials could be conducted on atrocities committed by the North Vietnamese.



REGIONAL AFFAIRS



BANGLA DESH AND THE GENERALS

BY T. J. S. GEORGE

Jessore: This second largest city, 24 miles from the Indian border in what was East Pakistan — now Bangla Desh — died last week. Its railway station and bus stands were still; roads were deserted, shops and houses boarded up, offices and installations abandoned. In some areas, the stench of decaying bodies filled the air.

The responsibility for the military situation which has developed in this tragic province remains uncertain — whether President Yahya Khan himself took the decision to move in the troops, or whether he is the puppet of his generals, is shrouded in the silence covering everything connected with East Pakistan in Islamabad. But the effects are clear.

The death pall enveloping Jessore and the positions held by Yahya's troops on one hand and Sheikh Mujibur Rahman's Mukti Fauj (liberation forces) on the other seemed typical. A four-day battle had ended in apparent victory to the Mukti Fauj. Three battalions of West Pakistani troops had entrenched themselves in key areas including a road junction which controlled the main entrance to the city. When it was all over, it looked as though the troops had ruled the

roost for four days, knocked the city down, then decided to withdraw to the cantonment.

Their withdrawal meant the Mukti Fauj could exercise control over the now lifeless and largely deserted city. The cantonment itself — and the road to Dacca — were firmly in the hands of the troops. If they wanted, it seemed probable they could still come out into the city and take over by terror.

But this would require not just small platoons but large numbers of troops fully backed by armour. The Mukti Fauj's main weapon is unity. Its civilian volunteers, though armed only with dilapidated 303s and crude bombs, were supposed to maintain constant watch — and could relatively easily surround and annihilate a small group of government troops. Besides, the troops need to conserve their firepower, for supplies are hard to come by.

Supplies are one of the most acute problems facing the West Pakistani troops. Sizable battalions will have to be stationed in every town in the province if they wish to exercise effective control throughout Bangla Desh. Neither the available troop strengths nor the acute

problem of finding food supplies in a terribly hostile environment permit this. This is probably behind their apparent strategy of holding the major cities and merely launching periodic forays into selected areas elsewhere.

The Mukti Fauj is thus able to declare many areas as liberated — which in turn allows journalists into the country to collect first hand information. The West Pakistani authorities are still maintaining a news blackout so complete that they have not even produced a photograph of Sheikh Mujib whom they claim to have arrested, or arranged for a radio broadcast by Dacca's military governor General Tikka Khan, whom the Mukti Fauj claims to have killed. By contrast Sheikh Mujib's forces seem anxious to keep areas bordering India liberated to preserve communications with the outside world.

As soon as Jessore was declared liberated reporters and cameramen camping in Calcutta went into the city. At the border post I saw Indian and Pakistani security guards standing together and chatting. Officially they would not let us walk across the border along the road. So we had to make a concession to continuing protocol and walk across a paddy field some 50 yards from the post. On the Pakistan side there was of course no question of passports and visas. Until a month ago Indians would have been subjected to all kinds of harassment, but this time Indian correspondents were greeted with embraces and cries of "Joi Bangla".

It is hard to come by transport to Jessore city. The few jeeps and cars Mujib's people have are busy transporting foodgrains, cigarettes, medicines, chewing gum, baby food, petrol and anything else smuggled across the Indian border by groups of students on either side. We were supposed to hitch a ride on anything that moved including a fire engine.

As we were about to get into a ramshackle old car which had offered us a lift half the way, we saw a military-green jeep of the East Pakistan Rifles roaring down the road to the checkpoint. It carried a detail of four fully armed soldiers. As the jeep stopped and a crowd surrounded it, a corporal stood up on the seat, took a small piece of paper from his pocket and read out a statement from an East Pakistan Rifles major commanding the area that Jessore and some adjoining towns had been liberated. The crowd went into wild shouts of Shadhin Bangla (free Bengal).

The soldiers on the jeep looked as

though they came straight from the battle front. They were excited, angry, tired. As soon as the announcement ended the local people started bringing loaves, tender coconuts, oranges and biscuits for the soldiers. They grabbed the food and wolfed it down as the crowd kept shouting slogans.

On the road to Jessore life seemed normal except that people in wayside villages gathered on the roads, shouting slogans and asking for news. The Bangla Desh flag fluttered from every shop and passing vehicle.

When we reached the road junction at Jessore, the atmosphere was different. Rows of thatched huts stood charred in the blazing sun, some of them still containing pots and pans and burned chapattis (round cakes of leavened bread). Beside one hut in the field lay a dead body, half eaten by a dog which was still nibbling a leg. Across the road in another field there were half a dozen more bodies. The West Pakistani troops had mortared the huts and shot the inhabitants as they withdrew. Among the victims were four women who, we were told, had been dragged out of their houses, raped and then sprayed with bullets.

Now only men were on the streets, keeping vigil. Most families had already fled to the countryside; some were waiting in makeshift refugee camps away from the streets and practically out of view. Old women and mothers with babies in their arms and cloth bundles on their heads were still making their way to these camps.

As an Indian, they were willing to talk and take me around. At one point, a local student, who entertained us with tea and sweets, asked a colleague of mine whether I was a Punjabi. The West Pakistani troops here are all called Punjabi soldiers and the Punjabi has become

the symbol of Bengali hatred. I quickly said I was from Kerala, the communist citadel of India — and was relieved to see the smiles become warm again.

It was a depressing tour. Although morale was incredibly high among the Bengalis and it is certain they will fight to the last man to retain their identity, it was clear that they were oppressed with a feeling of desperation. A police inspector, describing the battle that had taken place, broke into tears. So did many men in the refugee camp. We had given a lift to a very old man and as we dropped him near his house, he silently got down and walked away sobbing heavily. His son had been killed the previous day.

The people we talked to invariably appealed, "Please help us, please tell the world to help us, please rush us ammunition." A sergeant, in tears, said Bangla had become a wretched country and Bengalis would be wiped out.

The desperate pleas for help naturally struck sympathetic chords in India. In West Bengal particularly the urge to rush to the aid of brethren across the border is intense. Without waiting for the government to take a policy decision, volunteer organisations in Calcutta started sending supplies unofficially — almost certainly including arms and ammunition. Islamabad has already protested that armed infiltrators are crossing the border from India to assist the secessionist movement.

Politically India is in a dilemma. Events in East Pakistan affect it closely, but it is conscious of the complexities involved in any firm policy line. The All-India Congress committee this week adopted a resolution calling on Indians to give full support to the people of East Pakistan. Swaran Singh, India's foreign minister, accused Islamabad of "nothing but naked barbarism" in repressing

"unarmed and defenceless people". But Prime Minister Indira Gandhi, allowing that it was neither proper nor possible for India to keep quiet, said that while India has always raised her voice against repression, it has never interfered in another country's internal affairs. Indians should keep their emotions in check and try to be constructive, she said. Her problem is to avoid taking any action which could be construed as being inspired by India's traditional confrontation with Pakistan.

It is clear, however, that Mrs Gandhi is under tremendous pressure to recognise the People's Republic of Bangla Desh. All political parties have pledged support for the people of East Bengal and her own Congress party's leaders have urged recognition, as well as raising a volunteer force.

Basically, India has three choices: to avoid involvement, apart from diplomatic pressure to stop the killing (but this could alienate both the people of East Pakistan and India's own West Bengali citizens); to send in unofficial supplies of arms and ammunition (although this would help the Mukti Fauj, nobody could be sure who would receive the arms — and there is believed to be a growing Naxalite force in East Pakistan); or to recognise Bangla Desh and go all out to help it militarily — even sending in troops, engaging Pakistani troops in the West and around Kashmir and mounting a naval blockade (but such action could precipitate a major international crisis, involving the US, the Soviet Union and China).

Nevertheless, opinion seems to be growing in India that the dangers of decisive action now are less than the dangers of watching the civil war in Pakistan continue. If the killing goes on for long, the leadership of the liberation movement will almost certainly slip from the hands of the moderate Mujib and the Awami League and go to the extremists. The longer the struggle lasts and the severer the repression, the greater will be the danger of a fundamental radicalisation of the movement and its take-over by Naxalite groups.

China's embarrassment was obvious and Peking has so far refrained from direct comment. It quoted Pakistan's protests against Indian "interference" subtly to convey its attitude. Peking wants to keep its options open, preferring Pakistan to achieve its own solution. It evidently does not support a separate East Pakistan and would probably back Islamabad against any Indian intervention.

China could be in as great a dilemma



Road to Jessore, cut by the Mukti Fauj to inhibit army movement.

The Hindustan Standard

as India. Peking may even be waiting, in the hope that its silent non-involvement may help radicalise Bangla Desh. But if this is what Peking is silently angling for, the Chinese must realise that its present stance will not endear it to the liberation movement — not even the Naxalites.

LAOS

Better Believe it, Dick

BY ARNOLD ABRAMS

Vientiane: After the last bedraggled South Vietnamese units had completed their retreat from Laos — but before post-invasion recriminations had begun — the operation's dismal results were sensed here in the invaded country's capital. Prince Souvanna Phouma, a sophisticated if helpless observer of the long Indochina conflict, probably knew best of all. The Laotian prime minister sat glumly in his office and with a weary sigh pondered a question about the battle results.

First he gave the mandatory reply: "It is too early to tell, of course." But it wasn't, of course, so he told. In slow, measured tones, Souvanna spoke of new hardships he feared for his wartorn country.

"I anticipate more North Vietnamese pressure," he said, indicating that whatever damage ARVN forces had done to the Ho Chi Minh Trail was temporary at best. At worst, Souvanna said, Saigon's move might mean still more North Vietnamese expansion into Laotian territory.

Laos, as Souvanna well knows, is little more than a sideshow in the Indochina struggle. Nevertheless, the prince's early sense of despair underscored the generally grim assessments that subsequently surfaced — privately in Saigon and more publicly (after some silly initial posturing about everything going "according to plan") in Washington.

Naturally, Richard Nixon tried to paint as rosy a picture as possible. He insisted the invasion could not be judged in "traditional terms of victory and defeat," and that press coverage was distorted because it concentrated on more sensational negative aspects.

This was true enough, given the essentially murky character of the fighting, the ambiguity of the invasion goals and limitations of the mass media (whose attempts at wider coverage were restricted — not solely for security reasons — by US officials). Still, whatever the operation's fundamental goal — ostensibly a time-buying disruption of the



Something for everybody.

main enemy supply route — South Vietnamese forces paid a high price for it. Saigon acknowledged more than 5,000 ARVN troops killed or wounded, which amounted to a brutal 25% casualty rate. The actual casualty rate may have been closer to twice the official one.

Nixon showed no distress about that. Instead, he spoke of the invasion force leaving Laos with "higher confidence" and "greater morale" because "they know they have given much more losses to the enemy". This drew laughs from US advisers at Khe Sanh. They had seen the battered, hang-dog state of most ARVN units racing back across the border with enemy forces in hot pursuit.

The drive was mounted, Nixon said, to ensure continued American troop withdrawals, to reduce the threat to remaining American forces and to boost ARVN capabilities, in that order. The point was not lost on South Vietnamese in Saigon, where Nixon's remarks received considerable play in the press.

"Your president could be more tactful in discussing his purposes," one Saigon inhabitant told an American, his tone polite but edged with bitterness. "It is our blood that is flowing in Laos." Reminding him that more than 50,000 Americans had lost their lives in Vietnam did not allay his anger.

The seeds of such bitterness have borne fruit among Saigon officials as well. Although government propagandists continued to trumpet about a glorious victory in Laos, other views soon surfaced.

Vice President Nguyen Cao Ky, for example, reportedly called the invasion a mistake (a move probably based on his political aspirations as well as personal

conviction). And some South Vietnamese officers started to grumble about insufficient American air support.

US officials had their knives out too. The American Command, sources said, urged President Nguyen Van Thieu to commit more reinforcements and stay on another month in Laos. The point was to do more lasting damage to the trail. Thieu refused, these sources said, because of the potential political effects of more ARVN casualties on his reelection campaign next autumn. Why not? His decision made political sense.

So the combination of ignominious South Vietnamese retreat and bitter recriminations among allied commanders left Hanoi at least a clear psychological victor in the Laos engagement. This certainly was significant, but it need not prove as fatal to Saigon as some observers suggest.

The invasion's dismal outcome established one overriding certainty: as the US withdrawal continues, Saigon is most unlikely to mount a more forceful effort in the future against the Ho Chi Minh trail.

That prospect, although not encouraging, need not stop Vietnamisation from proceeding, nor should it prevent pacification from progressing. It means simply that enemy supplies will continue to flow southward and the war will go on with military victory well beyond Saigon's reach.

This may be hard for South Vietnamese leaders to swallow, but it should not cause undue consternation in Washington. Nixon, of course, has been fore-swearing military victory since he assumed office. Now he may begin to believe his own words.

THAILAND

Returning a Favour

BY RAYMOND WHITE

Chiengrai: The Yaw village in a remote mountainous region of Mae Chan district, 20 miles from the Burmese border, is seldom bothered by tourists. The Yaw, like many hill tribes of the Burma-Lao-Thai border area, are mountain farmers and traders. Yet here the similarity ends.

The village is at the base of the mountain where the remains of the Chinese Nationalist 93rd Division live. These former soldiers of the Kuomintang fought a losing battle against the Chinese communist armies in the late 1940s. Since then, they have constantly sought a place to live as well as a sufficient means of livelihood.

Their travels have taken them into Burma, Laos, and now Thailand. Their need to survive has pitted them in fierce battles with government troops of more than one country as well as with opium smugglers jealously guarding their own areas of operation.

Although the few existing reports on the political outcasts tell of about 500 men, their true strength is well over twice that number. Five years ago, they set up a procurement officer in the Yaw village to obtain essential goods. Caravans which may include as many as 100 horses make their way down the mountain to the Yaw village in a five-hour journey to obtain supplies. The return trip may take more than seven hours.

The officer in charge of obtaining the supplies is Captain Yang Te-hai, a battle-tested former regular, who has seen action against Chinese communists, Burmese soldiers and communist hill tribes. He lives with his attractive Burmese wife and two children in a modest, sparsely furnished hut in the Yaw village.

Captain Yang speaks candidly of the situation of his men inside Thailand. His Mandarin is spoken with a heavy Yunnan accent: "We are not allowed to enter into the mainstream of Thai life nor are we able to return to China. Most of us have had no word on our families and friends for over 20 years. After Mao's death the situation between China and the West will get better, but for us, things will not quickly improve."

The 42-year old captain lives on a monthly income of little more than Baht 200 (US\$10) which he claims is adequate. But he points out that his soldiers are without nationalist Chinese support, and have a difficult life.

His neighbour, Li Ching-kwei, also spoke in Mandarin of the hard life of the Chinese soldiers. They often have to leave the hillside in search of work and although some income is derived from opium trading, their leader, General Tuan, now forbids them to grow it. The 70-year-old General Tuan recently entered the Chiengrai hospital for treatment of diabetes. He was subsequently removed to Chiangmai for further care.

Yang's Burmese wife and Li's Yaw wife are typical examples of the inter-marriage prevalent in the area. And the glass of hot water which Captain Yang offers his guests is revealing of his low standard of living.

"Almost all the Chinese on the mountain would love to return to China," Captain Yang said. "Even our mountain school teaches subjects in Chinese Mandarin." He paused to look at his son. "The future isn't clear. But for as long as the Thai government lets us remain



Raymond White

Chinese child awaiting supplies in Yaw village for KMT troops in mountains.

here we're willing to return the favour in any way we can."

The favour was returned as recently as last year when the former Chinese regulars routed communist Meo guerillas and sent them into retreat across the Lao border with heavy casualties.

And it seems likely that such valuable assistance to hard-pressed northern Thai border officials will ensure the former regulars continue to receive tacit approval to remain in their mountain home.

CAMBODIA

The Spirit of Survival

BY ROBERT NORTON

Phnom Penh: Malraux has remarked on the "precariousness of artistic survival" — the curious way in which time selects what remains, what vanishes, the ex-

posure of objects to pure chance. What chance leaves intact, man then moves in to destroy: warfare and vandalism have followed the uncovering of Cambodia's great temples and pilgrim's way (as Malraux knows well, having in his youth attempted to make off with Khmer sculptures). But men have also made conscientious efforts to ensure the precarious existence of art treasures.

In Cambodia's National Museum, energetic steps are now being taken. Its cool basement has been used to store hundreds of thousands of iron, bronze and stone images and artifacts in moisture-proof bags for the duration of the war. The pieces, dating from Angkor and earlier, were originally housed in provincial museums; now they have been transferred to Phnom Penh for safe keeping.

Before the war the danger to the Khmer artistic heritage lay mainly in pilfering art works for sale on the international market by buyers and sellers. Since the looting of national treasures in the name of "art" doesn't carry the moral opprobrium other forms of theft do, the looting had to be stopped entirely by Cambodian vigilance rather than any international co-operation. When the Indochinese War was brought to the very doors of Angkor, the Cambodians believed that world opinion would alone be effective in neutralising the area containing what the Cambodian government called "artistic and cultural heritage of the human race".

Like most nations Cambodia signed the 1954 Hague Convention for the protection of cultural heritage in times of armed conflict. The protocol calls on member nations to respect all monuments in areas of armed conflict, forbids the use of such sites for military purposes and charges any occupying power with responsibility for conserving and safeguarding such cultural heritages against pilferage, vandalism and destruction.

In June of last year the Cambodian government launched international appeals to signatories of the convention, to UN Secretary General U Thant, and to UNESCO — all of which produced little more than polite concern.

A similar "neutral" appeal was made by Bernard Groslier, a member of the Ecole Française d'Extreme-Orient, which has been restoring the monuments for the past 70 years, to put the area under the protection of an international corps of unarmed guards. Groslier pointed out that not only was much of the restoration work on the sites in a critical stage of renovation, but even in



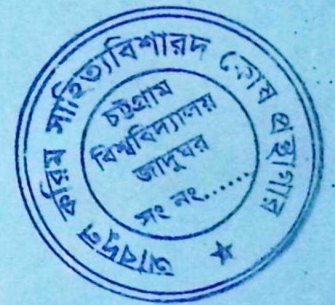
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Simple things like courtesy tend to get lost in the crowd of today. In the heritage of Japan, however, they are a matter of character, not ceremony.

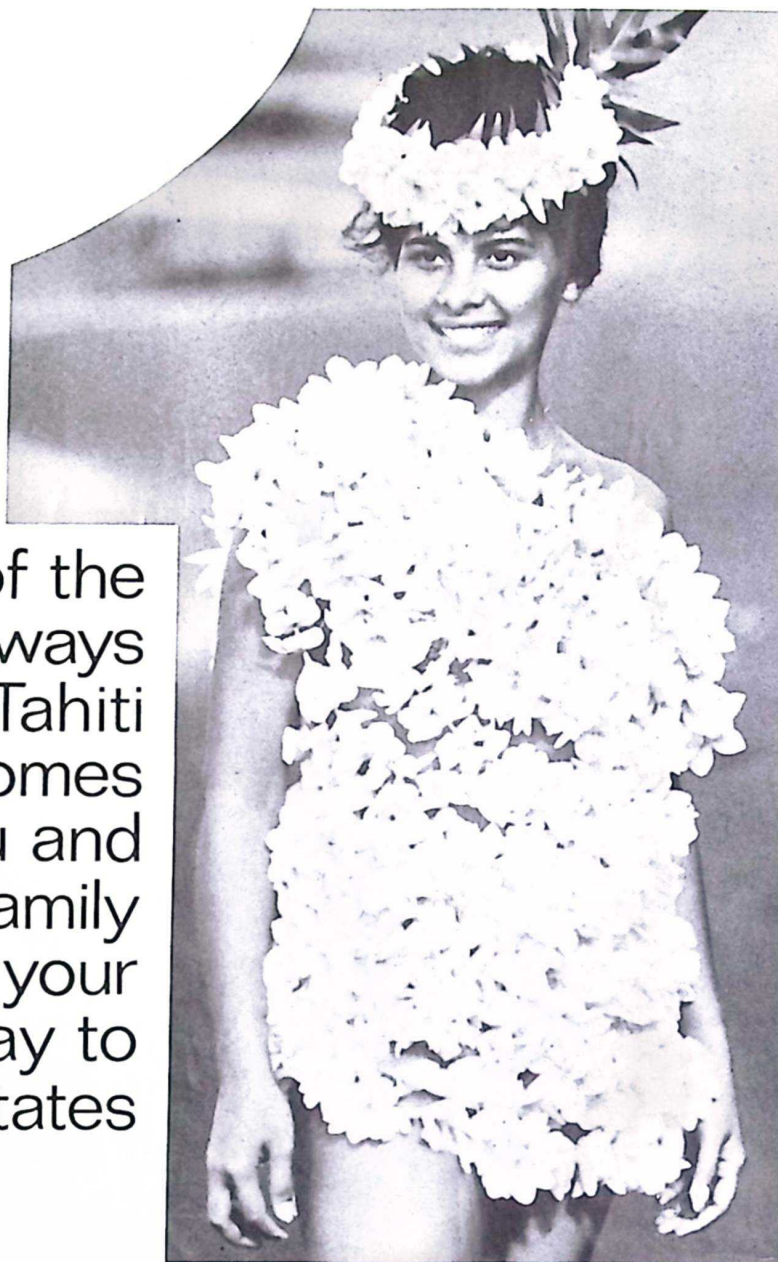
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UTA

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completely restored monuments only slight damage could cause the edifices' total collapse. Although UNESCO did dispatch a specialist in the preservation of historical monuments, and sent moisture-proof bags to store artifacts, no other concrete actions were taken to rescue the Khmer monuments and works of art.

It was then that the Cambodian government decided to take unilateral action. Militarily, it forbade the use of any arms or ammunition in or near the historic sites. Since the communists have taken refuge in the temples, Cambodian units are forbidden to even enter the area. Next a COPROBIC (National Committee for the Protection of Cultural Heritage in Time of Armed Conflict) composed of governmental agencies which have an interest or responsibility in the sites, the ministries of tourism, information and public works and the military, was formed. Although it is composed largely of government personnel COPROBIC strives to remain neutral, even going so far as refusing to name the present occupiers of the temple areas in its communiqués. In fact, although some restored temples and conservatories in the provinces have been damaged and pillaged the government has refrained from making this public for fear of politicising the issue.

Dividing the country into three administrative units, COPROBIC has attempted the removal of all art treasures by air and truck to the capital. The conservatory at Siem Reap (where the treasures of Angkor were housed) were removed to nearby secure Battambang province from where they were flown to Phnom Penh. The larger and more cumbersome ones — mostly of stone — had to be left behind and were buried to protect them from damage and pilferage.

All temples and sites of cultural importance are now clearly delineated with the blue and white shield of neutrality, including the National Museum in the capital.

Receiving the artifacts from all over the countryside was a strain on the museum's staff, which has been in the process of cleaning (a laborious and meticulous process) the artifacts before storage. The curator of the museum, Chea Thay Seng, an intense man with the preoccupied air of a scholar, is at the moment not only safeguarding the treasures but also directing restoration work on Khmer art works the museum was treating before the war began.

The doors and windows of the museum are sandbagged, but this pre-

Robert Norton



National Museum workers restoring Appara the Celestial Dancer.

caution is for the protection of the treasures within rather than "defending" the building from attack. Marked with blue and white shields, the museum is neutral and no plans are made for its defence — which would result in the destruction of much of the building's contents.

In the museum's restoration rooms, figures worn by time are restored with the attention to minute detail that characterised the originals by descendants of their creators. To give a celestial dancer an arm or foot on which to stand, mortar is mixed with earth dyes to produce the exact colour, shade and patina of age of the original. The restored limb matches its centuries-old parent so exactly that it is impossible to discern which is the original.

To provide the museum with operating revenue artisans reproduce images made from actual plaster casts of the originals, which are then sold to tourists. Unfortunately, there are no tourists these days, at just the time when funds are most needed for both restoration as well as reconstruction.

OKINAWA

Rainy April

BY KOJI NAKAMURA

Tokyo: Japanese and American negotiators working on the planned reversion of the Ryukyu Islands to Japan early next year are facing a major obstacle which until now has rarely been exposed to public scrutiny. The big problem is the military facilities and installations on Okinawa which are relevant to the US-Japan Security Treaty, under whose mantle the Ryukyus will rest after reversion.

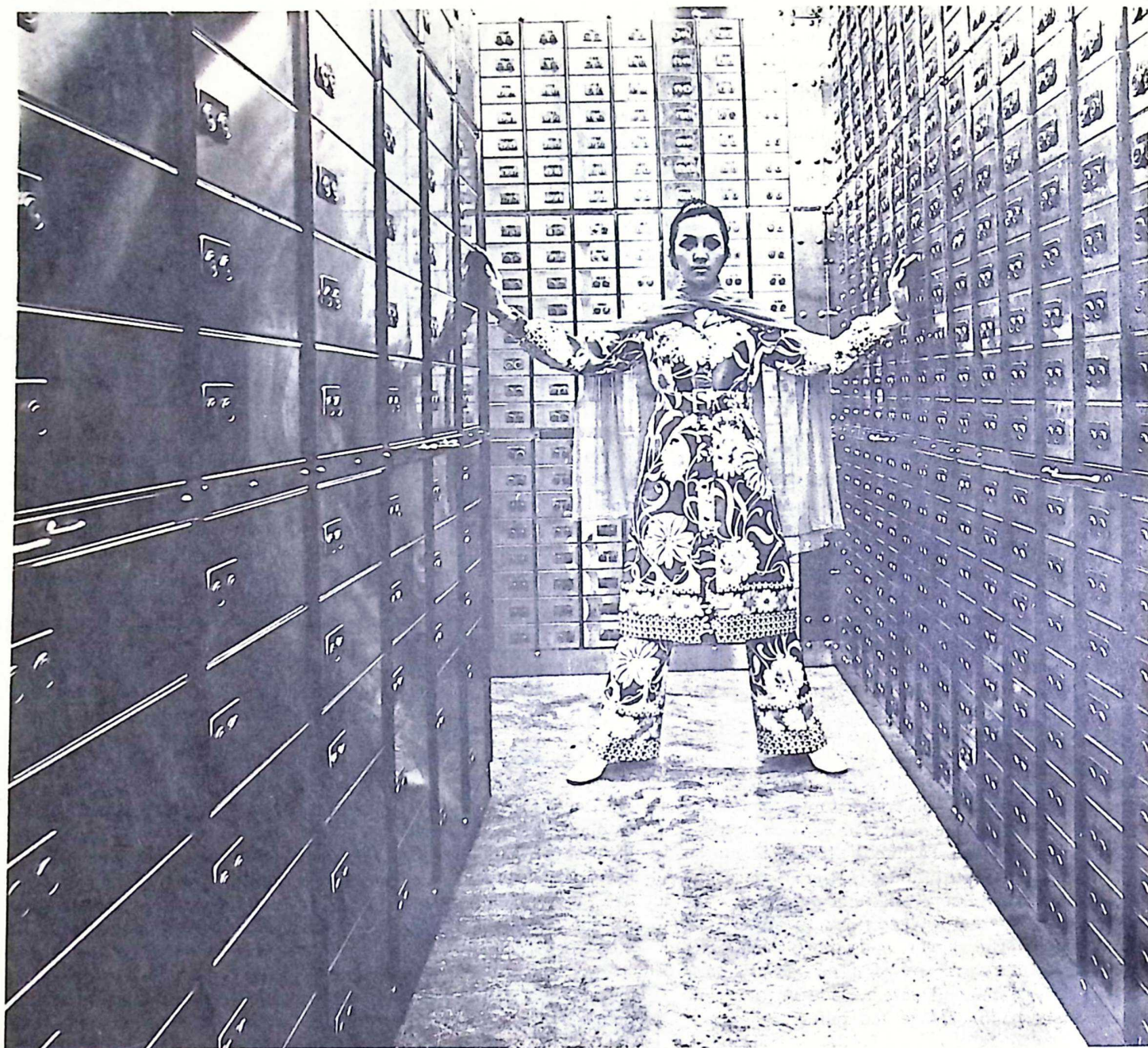
To the US, any weapons removal which might undermine base facilities or combat capability would conflict with the "two basic conditions" reportedly agreed upon by Tokyo and Washington some time ago: That reversion should not prejudice base functions or result in any financial burdens on the US.

The Okinawa facilities causing concern between the governments are understood to include nuclear capability, American spy aircraft, chemical and biological weapons, psychological warfare units, intelligence training and — almost predictably — the Green Berets.

It is strongly believed in informed circles in Tokyo that sophisticated nuclear warheads or bombs will remain on Okinawa after reversion. The US has neither admitted nor denied the presence of such weapons on the island except in regard to the long-removed (and obsolete) Mace-B missiles and a few Nike-Hercules types which will be transferred to the Japanese mainland minus nuclear warheads. Conflict in debate may arise too over the future of Oura naval port near the Okinawan capital of Naha: some Tokyo sources say structural work now underway at the base may be designed to service submarines equipped with multi-warhead Poseidon missiles.

The second category concerns the Strategic Air Group. Three SR-71 "super spy planes" are known to be based at Kadena field on Okinawa. Though there has been no "official" confirmation, the Mach-3 aircraft almost certainly take turns for weekly flights over inland China. Japanese defence sources downgrade the value of these missions — pointing out that information can be had from satellites without becoming involved in these

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The name behind the name.

In fashion, what's behind the scenes is often as important as what's in front of the camera. All the great designers, all the famous manufacturers, all the biggest buyers, rely on the services of a bank. A bank like The Chartered. While we confess not to know much about the midi or the maxi (except as an appreciative onlooker), we do know a lot about the textile industry. Especially in Hong Kong. From the financing of new plant and machinery; introducing buyers to manufacturers; providing import and export credit lines. Everything. From the business point-of-view. If this is your industry, talk to a bank who is big in it behind the scenes.



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Traveller's Tales

• A COUPLE of our recent book reviews have drawn attention to unacceptable lapses of scholarship in recent books published by the American "Concerned Asian Scholars". This Traveller has also criticised the excesses of ignorance, misrepresentation and bias to which commitment has pushed certain academics. They are busily creating a credibility gap just as wide as that which surrounds the hawkish apologists – or indeed the US presidency – a gap they lament vociferously. Their works are not so much the products of scholarship as of religious intolerance in which the polemist is willing to skate round, ignore, or twist any fact which favours the opposition (the role of the US in Indochina). Some letters to the editor in recent Reviews go far to prove my point.

The war is horrible, a ghastly, bloody series of catastrophic mistakes and crimes. But they have not all been committed by one side. A scholar's determination to make greys into blacks reduces confidence in him as a scholar and creates suspicion of his case. This Traveller feels that "committed scholar" is a contradiction in terms.

There is no denying the existence of the credibility gap – which was duly Vietnamised by the incursion into Laos. There may have been some very brave ARVN units in Laos; some South Vietnamese officers may have put up a tremendous show with personal acts of courage that would have been well worth international press and TV coverage. But we shall never know. Instead of being realistically brutal and imposing a complete secrecy blackout, or alternatively giving the attack as much publicity as all previous operations, a half-cock, incomplete embargo was followed by a general policy of revealing as little as possible, and of misleading when necessary. As a result, newsmen relied almost entirely on US helicopter pilots for accounts of the Laos fighting – and they probably saw the worst. The one authentic hero to emerge was a wounded American, Sergeant Dennis Fuji, who stayed on at a besieged ARVN ranger base, directing air strikes, artillery and Cobra gun ships. As a result of the clampdown, all Saigonais are convinced casualties were far worse than those announced.

• THE power of Mao Thought continues to inspire a variety of achievements in many fields. The victory of the Chinese men's team in the world table-tennis championships at Nagoya has probably thrown some ideological shadow on the women, who lost the Corbillon Cup to the Japanese, and who may now have to go into some thought reform. In the current edition of *China Reconstructs*, Ni Chih-chin describes how he broke the men's world high jump record at 2.29 metres not because of his physical constitution, but due to the guidance of Mao Tsetung Thought which crystallised his thinking: "Sports for me – or for the people? I (had) failed because I was too much concerned with myself." He learned to "break the old" by ignoring the "bourgeois authorities" which advised athletes to relax before and after competition. With "a higher state of mind" he "felt differently" about the jump bar and he ends: "But to me 2.29 metres is only a new starting point. For the revolution, I will go on to top new heights."

• IN the same edition, the Thought of Mao is credited with turning a potentially disastrous harvest in Hupeh into a bumper crop, with technical innovations in the textile industry, with raising wool production in Sinkiang, and with helping scientists to find a non-mercury catalyst.

• RECENTLY Mao Thought also assisted in finding a way of keeping vegetables fresh without refrigeration – by simple natural methods. This was not the first example of such an invention, as the writings of a famous Confucianist scholar of the Yi Dynasty in Korea witness.

The scholar returned home one day and was appalled to find the young members of his family engaged in building an underground vegetable store (possibly similar to that just developed in China). He put a quick stop to the project. "It is not that I did not know of these things," he reproved them, "but if Heaven had intended us to eat fresh greens in winter, it would have provided them." The news report from China did not report whether the latest innovation met with similar Confucianist opposition against preserved vegetables.

• THE goose and the gander partake of different sources in Taiwan. Seemingly

without the slightest embarrassment, President Chiang Kai-shek (who will never see 80 again) made a speech last year calling on aging functionaries to perform a final national service by retiring to make way for new blood. (A similar contradiction exists in Peking where, after the cultural revolution, designed to bring in new blood and give more power to youth, the average age of the central committee increased from 56 to 61.) Taiwan's youth movement got another shot in the arm recently when the provincial assembly finally agreed to accept the provincial government's long-standing request for an age limit of 61 on candidates for mayor and county magistrate. The regulations will bar the incumbent mayors of Kaohsiung and Taichung, the two largest cities (Taipei is a special municipality), from seeking re-election.

Meanwhile, rumours are rife that the Gimo himself may not stand for another six-year term when the national assembly convenes again. But the odds are that Chiang, still alert at 83, will succumb to pleas from his subalterns that he cannot vacate his post at such a critical time.

• UP and up goes the political temperature in Indonesia. Nationalist Party Chairman Hadisubeno has been reported as asserting that 10 Suhartos, 10 Nasutions or a waggonload of generals could not topple one Sukarno. This provocative remark by the *enfant terrible* of Indonesian politics was obviously designed to exploit lingering Sukarnoist sentiments for the vote on July 3.

But Hadisubeno's opponents have smilingly reminded their supporters that he himself owes his appointment as chairman of the PNI to the interference in party affairs by at least one of the waggonloads of generals – in April 1970 at the PNI Convention in Semarang.

• AFTER recently unveiling a bust of a comely "Marianne" – the symbol of France – for which Brigitte Bardot had posed, Jean-Jacques Servan-Schreiber, secretary general of the radical party, called for copies of the "bust" to be lodged in all the 38,000 town halls of France. JJ-SS added that BB's charms should be used to promote the export of agricultural products. Agricultural? ... That must be the "farm fatale" approach to trade promotion.

From page 11

"highly dangerous flights" — yet it's believed the aircraft regularly survey Soviet-Chinese border areas and locations related to Chinese nuclear development, space technology and ICBM experiments.

The chemical and biological warfare matter presents a nasty dilemma, since removal of the remaining 12,850 tons of poisonous gas from Okinawa (150 tons was removed, amid bitter disputes between the local government and the US forces, in January) still involves great danger as far as Ryukyans are concerned.

Biological weapons also are thought to be based on the island, and the US Army's 267th Chemical Company is understood to be still operational.

In the psychological warfare sector, the 7th Psychological Unit prepares leaflets and documents designed to promote anti-communist sentiments and to defeat whatever will-power people in "enemy" territories may direct against the United States.

As for special intelligence training centres, a number of foreign troops, among them Thais and South Koreans, are known to have undergone intensive training there.

Green Berets? When the Vietnam War was at its height, a known 9,000 Green Berets, among the elite of US fighting men, were undergoing training on Okinawa. Although their number is now believed to have been cut substantially, facilities and equipment remain for use "whenever the need arises".

The Pentagon believes that as long as the People's Republic of China remains the "potential enemy" of the US, no concessionary measures to offset national feeling in Japan will be considered. Troops now stationed on Okinawa also have "extra-territorial rights", according to US Marine Commandant Leonard Chapman. Chapman believes his troops — the Third Marine Corps — will be completely immune from any restrictive measures included in the Reversion arrangements.

Yet the Koza incident last November, when 5,000 demonstrators burned American vehicles and clashed with Kadena airbase personnel following the acquittal of a soldier charged over the road death of an aged pedestrian, seems unlikely to be the final act of rebellion against the colonial masters. A scheduled general strike by Okinawa trade unions on April 28 (Okinawa Day) is likely to be the biggest yet — and observers in Tokyo do not rule out tough demonstrations against the US presence.

Djakarta: Official campaigning for Indonesia's first general election in 16 years begins on April 27. But no one in Djakarta — local or foreign — is willing to hazard a guess at the outcome of the July 3 voting.

The reluctance to forecast can be summed up in the comment of one Indonesian observer who has closely followed events for the past decade: "Ask me to make a prediction on the outcome of an election in India or Malaysia and I will do so — and be reasonably confident of being near the mark. But here in my own country, what have I to go on? There are more than 20 million new voters and the balance of nearly 40 million have not voted since 1955. There is no guide. And the Indonesian is a very polite person. He will nod agreeably when asked to vote one way or the other. But when he finds himself alone behind that curtain, no one but himself will tell him how to vote."

Despite the "expert's" indecision, workers for Golkar (Golongan Raya — Functional groups), the new organisation upon which President Suharto has chosen to stand — but by no means fall — are predicting they will exceed their target of 131 seats, of the 360 up for competition, by 20 or more. With the backing of 75 military and 25 civilian appointed members, Golkar then would hold more than half of the 460 seats in the DPR (House of Representatives).

Golkar is not a political body in the normal sense of the word. It is more a conglomerate of widely diffused being a loyalty to President Suharto. Its theme is "development before ideology".

Behind Golkar is a high powered and youthful co-ordinating secretariat "acronymed" Sekber (sekretariat bersama) which has as its headquarters a new building just off the west side of Merdeka Square in central Djakarta. While Golkar will be plugging "more of what we have had in the past five years", the platforms of the major opposition parties — PNI (Nationalist Party)

Indonesia: TH

and the Moslem NU (Nahdatul Ulama) — remain something of a mystery, even unto themselves. There's plenty of ideological chatter but neither has a programme offering more hope for Indonesia's rehabilitation than Golkar's practical accent on development. Part of the major opposition parties' problems lies in defections to the military-intellectual-youth combine which is Golkar. The new party's workers make no secret of the fact they have meddled in other parties' affairs. There was successful pressure about a year ago from military pro-Golkar elements for the election of Hadisubeno as chairman of the PNI in favour of the more reserved Hardi. This has been interpreted as a move to narrow the PNI's appeal.

Other consequences of direct or indirect Golkar interference are seen to have been the continuing splits in the Moslem Parmusi and NU ranks and the election of Rosihan Anwar as chairman of the PWI (journalists' association) over allegedly Moscow orientated journalist-politician B. M. Diah.

Some observers feel such dabblings in other organisations' affairs cannot help the Golkar image. But Home Minister Amir Machmud sees no wrong in it. Intimidation, he said recently, was a "natural phenomenon in campaign tactics". A Golkar member was more explicit: "Perhaps our tactics were a bit tough but with time getting short a little extremism was necessary to bring more moderate elements to the fore."

The result of Golkar's efforts as he saw it was that although "all nine parties will be competing against us, we will have taken something from all of them". "Taken" is something of an understatement in the case of Parmusi, which now includes elements of the banned Masjumi party. Parmusi's "appointed" head is Mintaredja, a minister of government.

Italian-financed petrochemical plant: The opposition has come up with no riposte



GOLKAR DREAM

By Bob Hawkins

A new weapon in Golkar's campaign is its own newspaper, *Suara Karya* (Voice of the Workers), launched early last month. After two weeks it claimed a daily circulation of 23,000 and forecast it would be self-supporting within three months. In Djakarta there appears to be growing press support for the Golkar line. Even *Indonesia Raya*, edited by Mochtar Lubis — often keener to be cussed than consistent — is showing more approval.

Golkar naturally has at its disposal all the advantages of the administration machine. But it also claims campaign funds are flowing in, mostly through "private donation". Much is coming from Chinese business interests who see Golkar as the only choice open to them.

A recent article, reporting that a "tightly knit group of Chinese . . . closely linked to some army generals and some presidential advisers" was dominating the economy, caused a storm in the right wing Djakarta press. The tone was racial; the charges that the government was leaving itself open to Peking infiltration and was allowing the interests of the indigenous businessman to be threatened.

President Suharto was sharp and pointed in his reaction — along with Bakin (military intelligence) chief Sutojo Juwono. Suharto even seemed willing to sacrifice some popularity among Indonesians when he made the point that the Chinese businessman's superior commercial acumen and financial resources had to be put to the best use for the development of the country. It seemed that if they too should benefit to a high degree, that — for the moment — was an unavoidable consequence. Chinese appreciation for defending their role is being translated into more funds for Golkar.

Another source of income for the Golkar's "development before ideology" theme.



government party is a swinging new nightclub — the Golden Gate at Djakarta's facelifted Kemajoran airport. A large airy, plush restaurant by day, the scene of a highly professional topless — near bottomless — floor show by a willowy blonde "Parisienne" Australian at night, the crowds are flocking in, not all unwittingly, to help fill Golkar's coffers.

Although official electioneering is confined to 60 days preceding voting day, campaigning has been going on for months. Foreign Minister Adam Malik took time out recently from affairs of state to travel to north Sumatra where he will be Golkar's leading candidate in his home province. Last week he was off again on a whirlwind four-day tour of west and south Kalimantan. There he "explained" the meaning of the July 3 election to people certainly more interested in development than abstract ideology.

It is in the rural areas, where the bulk of the nation's voters are to be found, that Golkar's biggest test will come. Resounding victories in urban areas will be danger value only if Golkar's group in the new DPR, due to be convened on October 28, is not truly representative of Indonesia's 26 provinces. It remains to be seen if the well-drilled Sekber Golkar machine has made serious inroads in the rural areas, traditionally more subject to the influence of regional and religious groupings.

Golkar's way to these people is through each government-approved village head. But as one Indonesian political observer pointed out, as well as the village leader there is the local schoolteacher (a comparative intellectual), the ulama (religious instructor) and the land owner. "Who is the villager going to listen to?" he asked. And he pondered: although campaigning is banned in mosques and churches, what is to stop the religious leader from telling his congregation the way to vote on the Friday evening before the Saturday election?

One of the biggest question marks hanging over the election is the direction — or directions — the more than 20 million new young voters will take. In Djakarta the non-student youth mood seems to have a detached air about it. The taxi driver, almost absent-mindedly, will say: "Ah, Golkar — Suharto's party." A young accountant, just old enough to have shared in his exhilarating student upsurge back in 1966 which provided the armed forces with enough impetus to de-Sukarnoise the nation,

O. G. Roeder



Suharto: Sharp reaction.

says: "Everything is much better today. Now we can express our political beliefs without fear. We can even vote against the government too." So, which way will he vote? "I don't want to say," he replies with a smile.

One reasonably certain aspect of the election is that if Golkar fails to achieve 231-plus in the DPR, no other party will do so without the support of the 100 appointed members. If Golkar does not achieve its target it could mean the end of this organisation — in its present form — even before it has gone through a politicisation process. Golkar organisers acknowledge that only after the election will the true test of their party's durability come. A successful showing, they say, will transform it from what it is today — a convenient alliance of myriad pro-government facts — into a political party in the real sense of the word. With DPR control in their hands, they see a long consolidation period ahead, well into the 1970s after Suharto has sought and been granted a second five-year term in 1973.

On the other side of the fence Golkar says it is hoping to see a polarisation of forces into two groupings at the most. Suharto's workers claim their incursions into the affairs of other parties have not been so much to woo them but to make them more amenable to co-operation with the post-election Suharto administration, and to mould more national forces, better equipped to wield the reins of power should the electorate ever be prepared to hand them its mandate.

For the immediate future Golkar's dreams are as realistic as Suharto's proven policies of the past five years. But its longterm ambition to get race and religion out of Indonesian politics is as wishful as British Premier Edward Heath's belief that he's doing the right thing in selling arms to Capetown.

JAPAN-CHINA

Fujiyama Gets Clout

BY KOJI NAKAMURA

Tokyo: Where does Eisaku Sato, the bitterly anti-communist prime minister of Japan, stand on the "China problem"? His recent performances in the Diet have been full of statements which either reflected the highly complex political background or indicated the dilemma in which he is deeply involved.

In the closing stages of a China debate by the budget committee, he declared that his repeated statements both in and out of the Diet that normal relations with Peking would not be established "while I am in office" should not have been made at all. For a prime minister whose term as president of the ruling Liberal Democratic Party technically lasts until autumn next year, such an inactive position would leave the China issue completely frozen. He declared: "I stand to correct myself. I will hereafter exert my utmost efforts for the settlement of this issue."

The question, however, was what he meant by the "settlement".

Publicly, it appears the prime minister is inclined to a "One China, One Taiwan" formula. He has said time and again that Japan is morally committed to honour the Japan-Taiwan Peace Treaty whatever Tokyo's relations with Peking might be. While he is aware that this is unacceptable to Taiwan or China it should mean, as far as Japan is concerned, that the pro-Peking force has gained ground to the extent he cannot ignore any longer. There is now apparent equilibrium between the two opposing forces. In a way, the current balance between the two forces may be transitional, pending further growth. Only recently have political and economic leaders increasingly turned their attention to Peking even at the "sacrifice" of Taiwan where Japan has left a substantial investment balance estimated at \$500 million and with which it trades to the tune of some \$600 million annually.

Against such a background, Sato is known to have initiated a "know China better" move. It was he who caused Kin-kazu Saionji, self-exile and self-appointed Japanese liaison man in Peking for the past 12 years — and who has just returned to Tokyo — to be invited to a forum by the LDP's sub-committee on China.

Sato now is understood to feel Fujiyama can be the political pipeline be-

tween the two countries. The prime minister has also discussed with the Japanese ambassador to France the advisability of choosing Paris as contact venue between representatives of the two governments.

Two factors stand out as responsible for the change in Sato's attitude: one is the apparent change in the American climate; the other is mounting pressure from both the business world and the political arena.

The domestic economic pressure on Sato has come from powerful business leaders who finance his political existence. For instance, Masao Anzai, chairman of the largest fertiliser manufacturer, Showa Denko, is known to have personally approached Sato to discuss the creation of "better relations" with China — a vast market for his company's products. Kazutaka Kikawada, president of Tokyo Electric Power Company and spokesman for powerful economic organisations such as Keizai Doyukai (Committee for Economic Development) and Sanken (Industrial Study Group), is also understood to be a strong proponent of better Sino-Japanese relations. Toyota Motors, Japan's largest car manufacturer, is weighing the advisability of terminating its investment and trade relations with Taiwan and South Korea in accordance with Chou's strong insistence that companies having close economic ties with either Taiwan or Seoul would be barred from China. Many industrial manufacturers and commercial houses are doing the same.

Sato is vulnerable at the hands of his financial patrons and is bound to accede to their demand as long as it does not run counter to treaty or moral commitments to Washington.

As far as the political pressure is concerned, Sato — a master politician — seems to have detected the direction of the intra-party and national winds. He



"Pipeline" Fujiyama: No longer ignored.

seems to have realised that China could be the best stage to enact his last political drama. Already some 30% of the total LDP membership of the two houses has subscribed to normalisation of Tokyo-Peking relations promoted by a supra-partisan parliamentary group (though it includes a few "Trojan horse" elements and some who wish continued relations between Tokyo and Taiwan).

The group, led by Fujiyama, is enlarging its sphere of activities through concerted campaigns with other groups such as those organised by the Japan Socialist Party, Komei Party, Sohyo (General Council of Japan Labour Unions, whose total membership is estimated at five million) and other civic and non-political organisations. Apparently, Fujiyama's group is growing in importance and clout: Sato is reported to have told his associates he can ignore it no longer.

SOUTH KOREA

Sizing Up a Pledge

BY CHANG DOO-SUNG

Seoul: While a crucial measure of success — or failure — of US President Richard Nixon's "Vietnamisation" policy was being tested in the labyrinthine jungles of Laos, a less publicised version of the doctrine was being quietly pursued in South Korea.

In the wake of the much heralded "Freedom Vault", a South Korea-US joint military exercise whose features included airlifting 750 US paratroopers from North American bases to South Korea, the US forces command in Seoul announced two drastic measures that gave some indication of what an application of the Nixon Doctrine outside Indochina would be like. The first was the withdrawal of US combat troops to the rear from their previous forward defence positions along the western portion of the 150-mile demilitarised zone. The second marked the formal conclusion of the withdrawal of 20,000 US troops from South Korea by officially closing down the US 7th Division, reducing the number of US troops here to 43,000.

The similarity with what is happening in Indochina ends with the withdrawal aspect, however. For the question being asked here was not whether South Korean troops were strong enough to beat North Koreans when American airpower and logistic support were provided; for South Korea, technically at least, has a cease-fire with North Korea.

The question was, rather, whether the

US would be willing to provide support similar to that being given in Indochina now or in Korea 21 years ago, when a state of war recurs here. A liberal dose of assurances that it would have been coming from Washington, culminating in Secretary of State William Rogers' recent policy statement that "the US defence commitment to Korea remains firm".

But there seems to be a clear difference of views regarding the scope and quality of that commitment held by the respective leaders in Seoul and Washington — a difference likely to come well to the fore if there is any strong pressure towards "nativisation" of security roles under the Nixon Doctrine.

The US government has long endeavoured to persuade Seoul officials that, regardless of the troop level it maintains here, it would promptly come to South Korea's aid if another war should threaten this country.

"Focus Retina" and "Freedom Vault", the two military exercises conducted here during the past two years under the auspices of the Pentagon, and hailed by one US military spokesman as the "Nixon Doctrine in action", was the clear expression of just such a commitment, Washington has been saying. Rogers tried to buttress this assurance when he said recently in the foreign policy report to the US Congress: "The strong Korean forces of about 600,000 men, augmented by US forces remaining in Korea and by US capabilities elsewhere in the region, constitute a highly visible deterrent to North Korea."

But South Korean leaders are nervous. They believe that clear-cut hostilities in the order of the last war are less likely in the immediate future than Vietnam-type intrusion from the North. The presence of a sizable force of US combat troops therefore makes a great difference, they argue, in terms of the usefulness and solidity of the American commitment.

Thus when the official de-activation of the 7th Division was announced, leading Seoul daily papers expressed editorially the general "hope" that its withdrawal heralds no additional US troop cuts in the next few years. Official views on defence matters in Seoul run along the same lines.

South Korea is generally reckoned to have the fourth largest army in the world, with an increasing number of battle-tested Vietnam veterans bolstering its officer corps. Its military strength has come a long way since 1950, when its poorly trained and miserably equipped soldiers had to face well train-



Down come the US paratroopers in "Freedom Vault": But cross-Pacific leap-frog is no substitute for continuous presence.

ed North Koreans with Soviet made equipment. But the question nagging South Korean military leaders is how well — with no military industrial facilities to speak of — would that army fare in case of another onslaught from the North?

Washington has tried to diminish such worries by promising to provide a five-year, US\$450 million, military aid programme for modernising the South Korean army's equipment. Part of the programme is the establishment of an M16 plant. The South Korean defence ministry recently announced that it had concluded an agreement with Colt Industries, the original developer of the M16 automatic rifle, to set up a \$15 million plant in South Korea. Its capacity was not disclosed for security reasons, but sources close to the ministry suggested the plant would be capable of replacing "within several years" the World War II-type M1s currently used by most of the army.

But it will take more than rifles, however modern, to appease the fears in Seoul occasioned by the fading of the US military presence. And "Freedom Vault" has not closed the gulf between Washington's and Seoul's concept of the "visible deterrent".

HONGKONG

To Him That Hath

BY DAVID BAIRD

Hongkong: Tact has never been bureaucracy's most obvious quality and the Hongkong variety is no exception. Within recent weeks new pay scales have been announced for three important sections of the community. Two groups, the teachers and the nurses, immediately mounted protest campaigns. The

third, the upper echelons of the civil service, kept discreetly — and presumably contentedly — silent.

The contrast in reactions was understandable. For while the civil servants scored increases of up to 6.25% back-dated one year, starting pay for teachers was slashed 20% and changes in nurses' wage scales could entail cuts of 9% to 23%. The situation was a good deal more complicated than that, of course. And on most points the government had an answer, if not always a satisfactory one, for the critics. But the proximity of the announcements could not fail to point up once again how rarely the less influential members of society, no matter how vital their role, can hope to be heard.

In the long-winded budget debate in the colony's legislative council, the subject which most occupied members' minds and tongues was that of water charges — and not of the likely effect on domestic consumers if prices were raised but the impact on industry.

In contrast to their eloquence on this issue, the councillors have generally abstained from public comment on the new pay scales. The nurses and teachers, however, have had plenty to say. Branding their new pay scale "totally unacceptable", male nurses have formed a delegation to negotiate for a better deal; and Miss Sheila Lu, spirited leader of the Hongkong Nurses' Association, has pointed out that the changes will only make the current shortage of nursing staff even more acute. Miss Lu was in the vanguard of the fight for equal pay for female nurses which came to an end last year with the government's pledge to achieve this, in seven stages by 1975.

All serving officers will continue to receive their present salaries, moving into the new structure when they are promoted. "In no case would this mean less salary than at the time of promotion", said a government spokesman. But, as Miss Lu has pointed out, some of those promoted will ultimately be worse off simply because the maximum pay has been reduced for certain grades. Thus the new pay for a nurse will range from HK\$889 to \$1,602 compared to the old male pay scale of \$1,044 to \$1,811. Female nurses, who fought for equal pay on the basis that their wages would rise to the existing level for males, feel they have been short-changed.

Trainee teachers share the nurses' emotions in this respect. They expected to start their working life after graduation on salaries of around \$1,000 a month. But the new starting scale will

be some \$150 less than this. The government claims the new scales will produce a higher standard of teaching and "adequately reward" those with heavy responsibility. In both government and aided schools, teachers would find they had new opportunities for promotion and higher pay. This may be so, but for the sake of a handful of dollars the authorities have antagonised hundreds of trainees — students of three colleges have boycotted classes in protest and plan further action — and made recruitment more difficult.

Both the students' associations and the Hongkong Teachers' Association have complained at the "contemptuous" treatment the government has given their suggestions. And, while the authorities regard the new scales as "a new deal", the recipients find them insufficient to meet the colony's steadily rising living costs.

Hongkong's top civil servants, in contrast, are nicely cushioned against tiresome inconveniences like rent increases — in 1970 private rents went up 22% over 1969 on average and are still climbing — as they live in heavily subsidised accommodation. Educational problems also tend to be "academic" — special allowances enable them to send their



Hongkong's nurses are already in short supply: Yet the new pay scales could mean cuts in already slender wages.

happy offspring to school in Britain. Soaring prices in restaurants and service industries are not so troublesome for 322 superscale civil servants. Little more than a year ago their pay was bumped up by between 5% and 19%, and the latest lift gives them \$250 to \$400 extra a month.

The reasoning appears to be that business pays its executives more than government; to retain its bright boys, government clearly has to reward them well.

At the same time the gap between the upper echelons and the bottom is grow-

ing wider rather than narrowing. Today Hongkong's Colonial Secretary commands a salary higher than that of Britain's senior ministers, while lowly clerks are lucky to get \$500 a month. A well-proportioned girl can get six times that in one of the topless bars here. As always in figures-conscious Hongkong, it's the rich — and the richly endowed — who get the pleasure.

AUSTRALIA

Patchy Orientation

BY JOSEPH WATERS

Melbourne: The uncertainties surrounding attitudes to Asian studies in Australia mirrored in the conflicting exhortations made to delegates to the Congress of Orientalists in Canberra. Sir Paul Hasluck, Australia's governor general, deplored the desertion of scholarship for the "lesser" more fashionable task of academic journalism and urged, "Someone has to keep shop for eternity".

Australians, he continued, needed to learn not about the Asia of today, but about the five or six thousand years before Australians were around. At the moment, anybody who was interested in a "neighbouring country" tended to be viewed as an oriental expert. He asked visiting scholars to help Australia's universities to become correctly "orientated".

All fair enough — but it contrasted markedly with the concerns of the congress's chairman Professor A. L. Bashman. Remarking that a series of seminars on recent developments in Asia had been organised specifically to banish the "ivory tower" image from Asian studies, he claimed no country outside Asia could equal Australia's interest in what was going on there.

Assuming that this interest must be reflected in the educational system further down the scale, it is worth looking at Australia's record in a vital aspect of any general appreciation of Asia — Asian language-teaching.

In 1967 there were only 370 matriculation students who sat the examinations in an Asian language as against the 15,000 who took French — although Australia sells twice as much to Asia as it does to the whole of Europe. This imbalance has been under some kind of mild scrutiny by the Australian government and under much sharper scrutiny by concerned educationists for the last few years. Early in 1969, the minister for education and science appointed a

committee "to make a comprehensive survey of the current situation regarding the teaching of Asian languages and other aspects of Asian life and cultures". The committee has now completed its enquiries but its report has not yet been tabled in the federal parliament.

When it does it may reveal a disquieting picture. Of the Asian languages generally taught in Australian schools, Malay and Japanese are by far the most popular with Chinese a decidedly poor runner-up. In 1969, in all Australian schools there were 3,500 studying Malay, 1,111 Japanese and a mere 265 Chinese — and of the last number, most were either Chinese-speaking Asian students or students of Chinese parentage. There were no more than eight schools in Australia teaching Chinese.

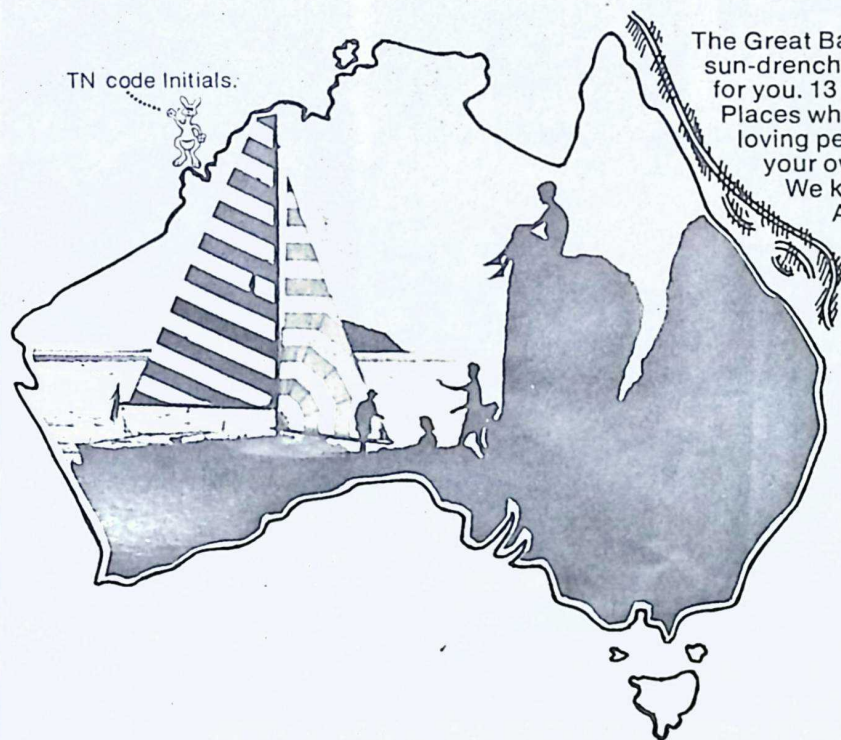
In the most populous of the Australian states, New South Wales, until 1969 there were officially no classes at primary level in Asian languages. For the previous 40 years it had boasted only one school consistently teaching Japanese. By 1969 there was some slight improvement, with five government schools and one non-government school teaching Japanese. Malay was doing better: 25 schools were teaching it with 50 teachers available to give the courses. In 1970 there were 1,753 students from 52 schools registered to take examinations in Malay.

All in all, this is quite an encouraging picture; but Dr A. J. Garrick, director of the Institute of Languages at the University of New South Wales, complains there is little point in the department of education having 50 teachers of Malay when the examination system actually discourages such studies.

Asian studies, within the educational system, are not totally dead — but the situation is far short of ideal considering Australia's relationship with the Asian continent. There is concern amongst many progressive educationists and a few businessmen at the inadequacy of Asian studies in the educational structure. Secretary of the Victorian Universities and School Examinations Board T. Timpson told listeners at a symposium last year: "Oriental and Asian studies have been very late and very slow developing in our universities." Only the unusual and far-sighted student, preparing to be a teacher, could see a future in such studies. He added: "Australians have a lack of conviction about the importance of their Asian neighbours. We pay lip service to the statement that we must get to know them but there are only a few who are willing to do it."

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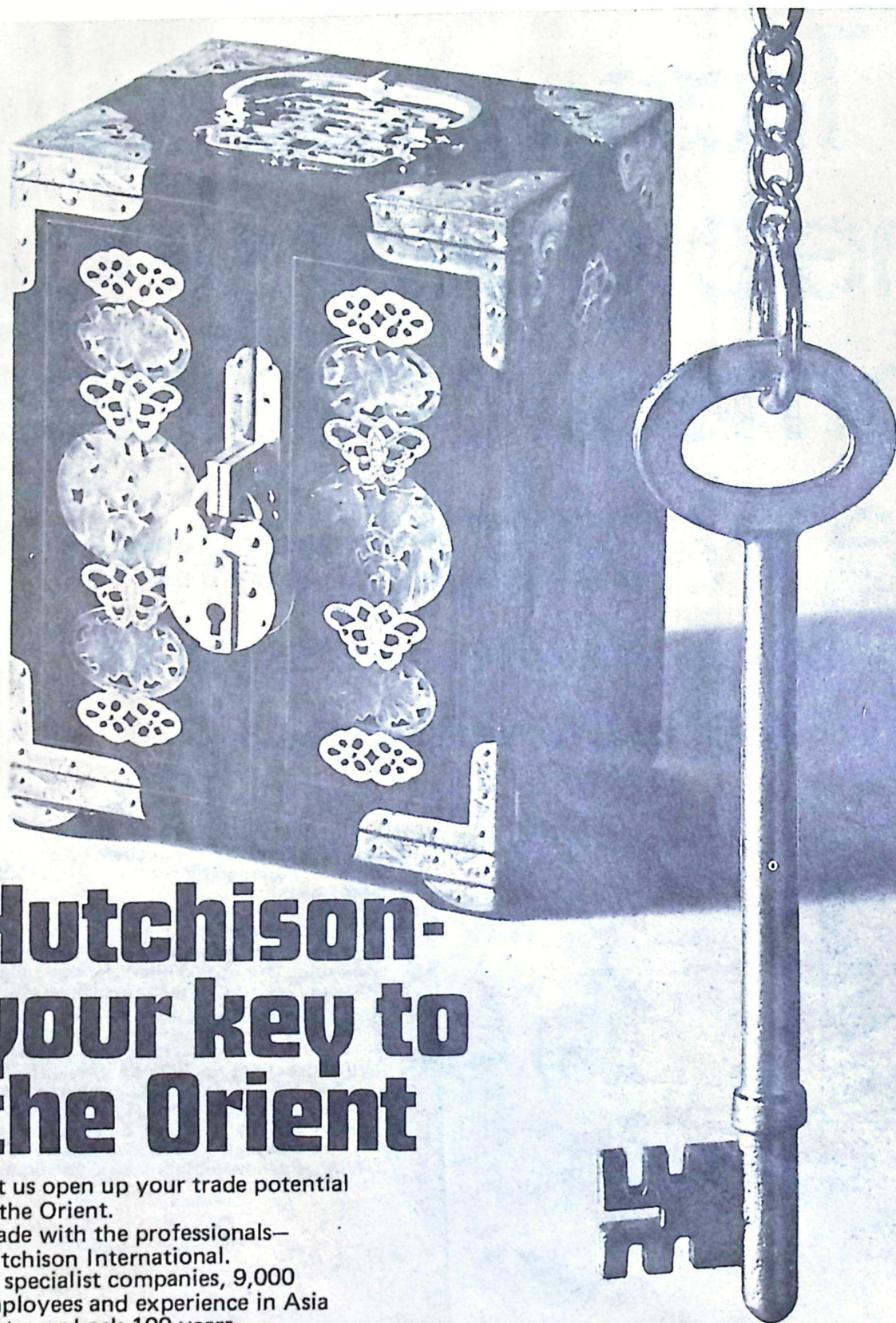
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CHINA-SOVIET UNION

Both Moscow and Peking have compelling reasons to forget their differences. Yet freshly-minted verbal sallies from Peking have greeted the communist summit in Moscow. Neither is prepared to start serious bargaining

Leo Goodstadt
Hongkong

Might and Right

UNTIL the Pakistan army decided Chinese-made tanks were the most effective response to the eastern wing's demand for autonomy, Peking had everything sown up on the diplomatic front. The North Vietnamese were eating out of China's hands. Prime Minister Chou En-lai had visited Hanoi to promise Chinese backing for the Indochinese in the strongest (though still far from specific) terms yet expressed by China's government. North Korea was chugging along nicely in step with its giant neighbour.

On the East European front, Rumanian hearts had fallen for China's charms. With Peking's economic aid to the Rumanians estimated at between US\$200 and \$300 million, China was owed more than mere thanks. A Rumanian government delegation to Peking obliged with a declaration that without China's participation, "no question of great importance in the present world can be solved". The Rumanians did not say this principle applied to the communist bloc — meeting without Peking for the communist summit in Moscow. More important, they tactfully refrained from saying China's participation in the conference was unnecessary.

Even the Russians were seeing sense. The bitter anti-Peking propaganda barrage went on. The camps in which Chinese cadres learn to take part in manual labour were said by Pravda, to pick one dramatic illustration, to be located "where man has not set foot for thousands of years and even wild beasts do not live". Yet the lure of a market containing 700 million potential customers has proved just as seductive to Moscow as Washington is beginning to find prospects of trade with China.

The Soviet Union has tried consistently to get solid trade agreements set up with China at the start of each five-year plan period, the latest of which started in both countries in January. Total trade, which in 1970 was a mere US\$47 million, will treble this year thanks to five months' hard bargaining. Furthermore, after Peking finished throwing out titbits to whet British, French and even American appetites for Chinese orders for their jets, reports from Moscow indicated the Russians are on the last lap of sewing up an aircraft deal with China.

The eruption in East Pakistan, carrying with it the possibility of a protracted guerilla war between West Pakistan troops and sketchily armed Bengali peasants was a turn of ill luck for the Soviet Union on the eve of the communist summit meeting. Pakistan is so vital a border area to Peking that Chou sent off fulsome greetings to General Yahya Khan on his country's national day although armed clashes had broken out already in East Pakistan. For years, this troubled wing of the country has been ripe for the plucking, since the Bengal peasants were reading Mao's works and adorning their huts with his portrait long before the present crisis. Yet Peking dared not exploit this situation, for the west wing is what counts strategically.

Moscow has worked hard to promote an Asian collective security system to include India and Pakistan — and China,

too, say the Russians — without success. But any false step by Peking could drive West Pakistan into Moscow's arms, leaving the far western flank of China dangerously exposed. The battles between West Pakistan regiments and East Pakistan militia and civilians have given Moscow a number of interesting options. New Delhi might be induced to step up support for East Pakistan's calls for independence. Or the Russians could offer discreet assistance to the East Pakistanis. The situation is hardly comfortable for Peking after supporting the West Pakistan-dominated military government for so long.

But Peking has some cards of its own to play. Hanoi feels it can only be the loser in the Sino-Soviet split. Its policy, inherited from Ho Chi Minh's "last will and testament", is to heal this gaping wound in the side of world communism. Le Duan, the effective head of the North Vietnamese government, stopped off in Peking on his way to Moscow. Chou publicly reminded his guest of what Chinese support means. The Soviet army is too far away to bail Hanoi out of sudden



Until Pakistan exploded, China's diplomacy was sitting pretty.

defeat should the tide of the war somehow start running against the Indochinese communists.

In its Chinese neighbour, Hanoi has a solid "rear area" to fall back on. This point Chou En-lai got across with his assertion that "Vietnam, Laos, Cambodia, Korea, China and other Asian countries, strengthening their unity and fighting together" would defeat the Americans. Le Duan attributed part of the credit for the casualties inflicted on South Vietnamese forces operating in Laos to Chinese help. Mao Tse-tung, Lin Biao and Chou sent off cables of congratulations on the outcome of the Laotian campaign to North Vietnam, another hint of what Peking has to offer.

A flattering editorial on Russian achievements in Hanoi's leading daily marked the 24th session of the Soviet communist party congress. This article showed the North Vietnamese still feel free to follow an independent diplomatic line. But their priority during the Moscow communist summit must be to seek a Sino-Soviet reconciliation, even if a halt to the quarrelling involves substantial Russian concessions.

For its part, Peking pulled off one of the smartest coups

to date in the war of words with its arch-enemy, Moscow, shortly before the communist summit. With mere "paper tigers" such as the United States, concocting the invective to denounce the latest American sins is left usually to some hard-pressed scribbler in the official news agency. The star talent apparently is reserved for tussles with the Russian "revisionist clique". The Sino-Soviet border clashes of 1969 saw some superb prose from Peking, putting the Chinese case with an adroitness the Russians never managed to equal. Now China has performed a similar feat in commenting on the current communist summit meeting in Moscow — which Peking, understandably, has been prevented from attending by pressing engagements elsewhere.

The document giving the Soviet leaders a new roasting was far too subtle to denounce the summit openly. After all, close friends of China — the North Vietnamese and the North Koreans — found life dull enough at home to justify a trip to Moscow for the proceedings. China's message was wrapped up neatly in a long analysis of the Paris Commune which tried to introduce a totally proletarian government a hundred years ago.

A first trot through the article's ideological jargon leaves the outside observer puzzled. Its arguments can be interpreted in so many ways that its targets seem to be as much domestic as external. The document can be read as a justification of the key role now played by the army in China's administration since "the people's army" is described as "the bulwark of the dictatorship of the proletariat" — the hallmark of the truly Marxist state according to the Chinese. Further, the troops' main job is defined as "preventing the restoration of capitalism", which is what the Cultural Revolution was all about.

But this section seems to camouflage the true message. The essay on the Paris Commune talks about Chairman Mao Tse-tung's theories on the need for violent revolution to achieve a communist revolution. However, physical force was always a second-best choice for Mao. As he stated in the middle of his guerilla period: "A bloodless transition is what we would like and we should strive for it." Again, the article fudges the question of precisely who should control the revolutionaries' weapons, whereas Mao himself insists guns must remain under the communist party's command.

On closer examination the article seemed intended for East European consumption, where the "revisionist Soviet lackeys" have forfeited, as Peking sees things, the right to call themselves communists. The centenary of the Paris Commune was used as a platform to make three basic points about political life in the Soviet Union and its satellites. Unless the people take up arms against the bourgeois bureaucrats who have taken control and smash their administration, a socialist society will remain a pipe-dream. Secondly, the government must be in the hands of the masses. Otherwise the struggle for socialism will be subverted, and "revisionism" will start the country back on the road to capitalist exploitation.

Finally, a major test of a nation's fidelity to the Marxist



Brezhnev: Consigned to the same dustbin as Khrushchev. The venom of Peking's attack ensured Russian response.

was labelled not merely "social-imperialist" but "social-fascist" as well. Despite an insistence on the need for armed struggle to support world revolution, Soviet defence spending and its participation in the arms race was denounced as a "monstrous apparatus of violence". Moscow was accused of using its military power to bargain with "US imperialism" and split the globe into spheres of influence. This attack sounds like standard Peking rhetoric but the wording was designed to remind the Russian taxpayer how much the country's armed forces take out of his pocket. Abuse of the Soviet authorities was imaginative and included some freshly-minted verbal salleys.

The author of the piece was not named. However, since the article is festooned with extracts from Mao Tse-tung's works but not attributed to him, the Chairman himself seems to have had a hand in its composition. Formal quotations from his Thoughts are included, of course, but he has used this device to cover his tracks in penning previous articles to protect a modest anonymity.

The Paris Commune article provoked screams of outrage from the Soviet Union. But the fuss died down before the international communist conference began its deliberations. Soviet Party Leader Leonid Brezhnev spoke in critical terms of China in addressing the summit but was restrained by normal Moscow standards. His remarks implied Moscow regretted the dispute with China, would like to reach a settlement with Peking but felt compelled to defend its own position.

The serious attack on the Chinese was left to Poland's Edward Gierk who argued China was cutting itself off from the rest of the international communist movement through its ideological extremism. A relatively junior Soviet official also spoke out against Peking, alleging it was "splitting on the Soviet Union's experience in building communism". The opening round of the conference proved pretty tame.

For both nations, 1971 is a bad year to be at loggerheads. The Chinese have declared their concern about US military activities in Indochina which could menace their southern border regions. To maintain full-scale military defence systems along the northern border to counter Soviet frontier pressures and, at the same time, in the southern provinces to respond to an American threat is an enormous burden on the Chinese economy. In addition, large numbers of troops have been taken off military duties — to their continuing irrita-

Le Duan attributed part of the credit for the casualties inflicted on Saigon's forces in Laos to Chinese help.



tion, Chinese radio broadcasts reveal — to keep the civilian administration going.

The Soviet Union has its headaches. Moscow must prop up the ailing economies of Eastern Europe. Polish rioting last year demonstrated how even communist leaders can drown in a sea of popular discontent if they failed to satisfy their constituents' demands. Egypt and the Arab-Israeli crises are a further drain on Soviet resources.

While China's industry and agriculture are chugging along satisfactorily, several provinces have broadcast warnings of possible crop failures for the first time in a decade because of drought. Peking is taking a very moderate line towards the peasants. This policy will go some way towards reassuring the Soviet Union. One factor leading to the breach between the two countries was Khrushchev's criticism of the China's communes as a rash and inevitably abortive attempt to repeat Russian experiments in transforming peasant agriculture too rapidly.

A Shantung province broadcast has confirmed recently that radicals demanded the abolition of the peasants' private plots last winter, the first step to nationalisation of the communes whose land and assets are still their members' property and largely controlled by them. A host of articles from Peking has condemned extremists seeking to wipe out spare-time production by villagers which supplements their incomes. While condemning every tendency to neglect basic agriculture (grain) for more profitable private farming, the Chinese authorities have refused to let the radicals crush the last vestiges of private enterprise in the countryside or rush heedlessly into nationalising the communes.

Restraint of this sort after the drama of the Cultural Revolution may soothe Russian fears about a Chinese plan to



Women fighting in the Paris Commune struggle: Peking has used the centenary to launch a subtle verbal battle against the Soviet Union.

outbid the Russians by being more "communist" than the country which witnessed the first communist revolution. China's diplomatic successes among Western nations, the chances of its obtaining a seat in the United Nations this year and US President Richard Nixon's shift away from outright hostility towards Peking must combine to make the Soviet Union more interested in mending its fences with China.

On the Chinese side, fear of a Tokyo-Washington-Moscow line-up and the strategic importance of its border with the Soviet Union make less belligerent attitudes towards "Soviet revisionism" worth consideration. The dilemma is that both sides have a great deal at stake. Both claim right — and might — on their side. Neither nation yet feels compelled to start the serious bargaining which could put a stop to their public disputes even if they would agree to differ in private.

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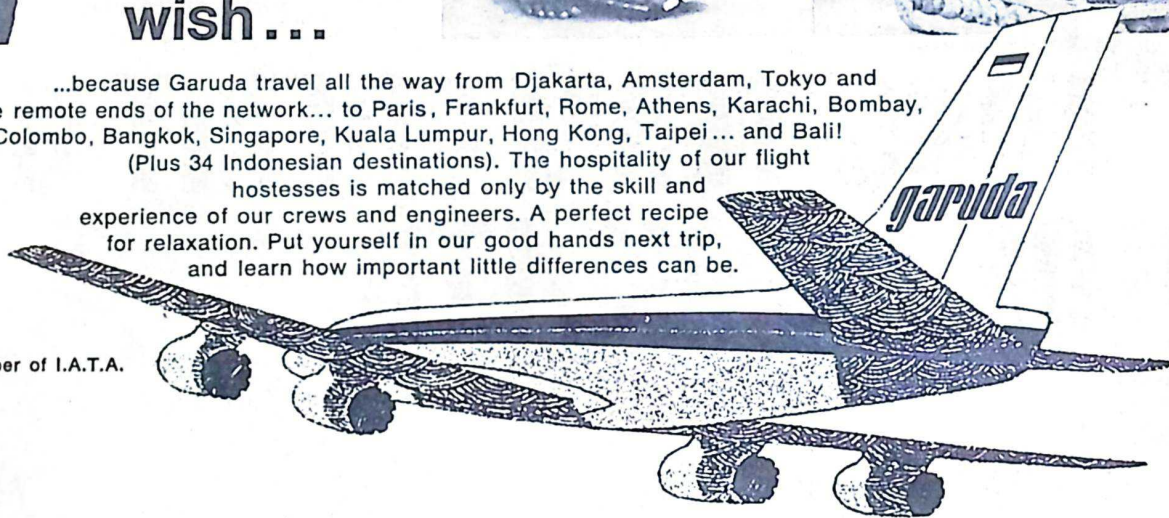
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ASIA THROUGH EUROPE'S EYES

The duel between the United States and Russia, in which Europe was caught in the storm's eye, is being replaced by a multipolar superpower balance in which Japan and China join. The new eye centres on the Pacific

Gene Gregory
Geneva

Pacific Basin Balancing

IN striking contrast to the loud noises being made by Britain's Tory leadership about the Russian naval build-up in the Indian Ocean and points further eastward into Asia, the development has been greeted with a benign calm in other European chanceries. While British Secretary for Defence Lord Carrington complained in a House of Lords debate on the defence budget that the "Russians are increasing their options in the area at the expense of ourselves and other countries," French Minister of Defence Michel Debré, with Gallic aplomb, dismissed the matter quickly and cryptically: "There is little cause for fear and even less for surprise."

Recognising that the Soviet Union has compelling political and economic reasons for entering the Indian Ocean in force, Europeans view this as nothing more or less than natural and classic great power behaviour, the effects of which will be neither more nor less consequential than its manifestation elsewhere. They tend not to believe that the Russians are deeply concerned with ideology or revolutionary agitation in Asia — any more than they have been in the Middle East.

Just as the Brezhnev Doctrine and the currently much-touted European security scheme find their antecedents in Imperial Russia patterns of diplomacy, Russia today cannot avoid being the global sea power the Tsars sought to be. This does not mean that the Soviets will not use their power at sea to intervene where challenged directly or indirectly by limited war or guerilla action in Vietnam, Yemen or Somalia; but few serious European observers believe Soviet sea power is likely to become an instrument of aggression in a multipolar nuclear world.

Likewise, as for the flow of Middle East petroleum, it is generally held that neither Europe nor Japan has any cause for concern about Soviet tampering. In any future conventional war, Moscow would be able to shut off the flow whether or not it controlled the area prior to the outbreak of hostilities. The strong probability is that in peace the oil will be forthcoming and in war it will not, no matter whether the Soviets or Arabs control it. If anything, most Europeans, East as well as West, have reason to welcome a deeper Soviet involvement in Asia.

When Soviet Party Leader Leonid Brezhnev announced at the international communist conference in Moscow in June 1969 that the Soviet Union intended to promote the creation of a new collective security system in Asia, he left little doubt that one of Moscow's major preoccupations in the coming years would be filling the gap left by the reduction of British and American military involvement to contain China's expansionist ambitions. If Europe remains the primary and immediate concern of the Soviet Union, the Asian security proposal signalled a secondary and longrange major commitment of Soviet power in Asia. On the one hand, while in no way subscribing to a Soviet-sponsored Asian security pact or believing for a minute that much Asian support will be found for such a scheme, most observers would agree with former French foreign minister and premier Couve de Murville that "Russia is

prudent, avoids risks and, where possible, unnecessary entanglements". Such an influence on the Asian scene can only inspire hope.

More important, Europeans are quite content to see the focus of the world balance of forces shift to the Pacific Basin, after having been in the eye of the storm of Soviet-American conflict for the past quarter century. While the competition with the United States for global influence continues, Soviet strategists have become obsessed, on both state and party levels, with the growing Chinese ideological challenge, military power and avowed aim to carve out for itself an exclusive role in Asia.

In responding to this challenge, as the Russians have worked to expand their presence in East Asia and to increase its political and economic influence, they have been propelled into closer contact with the emergent Japanese superstate. This triple confrontation — with the US, China and Japan — inclines Russia to greater circumspection, even when vigorously defending its direct national interests in Europe and Asia.

The trend toward multipolarity in East Asia promises a wide range of benefits to Europe, some of which have already become apparent. In Western Europe, the Russians have become the plaintiffs seeking a new formula for regional security, just as they are in Asia. A more flexible Soviet position vis-a-vis West Germany has led to a whirlwind round of seemingly successful negotiations of long-standing differences, and opened the door at least a bit wider to a Berlin settlement on terms acceptable to the Western powers, Walter Ulbricht's noisy protestations notwithstanding.

But perhaps even more important for the long run extenu-



Germany's Willy Brandt: Russia's preoccupations with Asia may open the door to a Berlin settlement.

ation of the unnatural and deleterious schism that divides Europe, a whole range of possibilities for economic and technical co-operation between East and West Europe, still considered wild dreams just two years ago, now seems within reach.

At the same time, the Soviet involvement in Asia tends somewhat to dilute the Brezhnev doctrine of limited sovereignty for "fraternal" socialist states. The intrinsic dynamics of the global game which superpowers must play in the emergent multipolar world tend at once to diminish the importance of a glacis of client states, while enhancing the necessity of a force for deterrence in all parts of the world to prevent other powers from unduly increasing their strength or options in the momentous contest taking place to establish a new world balance of forces. Combined with the compulsion to meet rising expectations of people throughout the socialist bloc, this process should play an important role in achieving greater liberalisation in Eastern Europe, even under the Soviet aegis.

Historically, no other group of nations has had more experience in balance of power politics than the Europeans. If anything, their acute awareness of the subtle ties of this most complex of human contests has been sharpened since the second world war. While the constraints of a bipolar world on West European countries have been a tolerable price to have paid for the time and assistance needed to rebuild their countries, they are no more content to continue in the role of client states than are the East Europeans. Neither is keen to remain passive members of one or another power bloc, nor are they prepared to go on living with the terrible risks which a world divided in two necessarily entails.

A major part of French policy in recent years is explained, not by the cantankerousness of Charles de Gaulle, but by this essential characteristic of nation state behaviour. Likewise, the Ostpolitik of West Germany's Chancellor Willy Brandt is much more understandable as a manifestation of the national aspirations of a healthy nation seeking to preserve and extend its vital interests by attempting to assuage a divisive conflict that imposes intolerable limitations and risks, than as an expression of some vague, soft-hearted affinity of German socialists for the Soviet Union.

In this context, the preoccupation of the United States and the Soviet Union with Asian affairs is welcomed by Europeans who need time to sort out their own problems and

forge a new European constellation of power really capable of playing an essential role in the world balance. But the salutary coincidence of the emergence of Chinese and Japanese power, which shifts the focal point of great power interaction from Europe to the Pacific, has further consequences which enhance European capabilities for manoeuvre and independent action.

As superstates in the making, both China and Japan are no longer Asian powers in the strict sense; both have a global outlook — the one ideological, the other economic — and both have global ambitions. While the political implications of Japan's global strategy are not so immediately apparent, the return of China to the international arena since the Ninth Party Congress in April 1969 has already had a visible impact on the European political balance.

By conspicuously returning its ambassadors to Tirana, Belgrade and Bucharest a full year before appointments were made to the Soviet Union and other East European countries, and at a time when these three states were threatened by a Warsaw Pact implementation of the Brezhnev Doctrine, Peking gave positive impetus to China's image as a helpful deterrent to Soviet ambitions in the area.

Simultaneously, the Chinese gave quiet encouragement to Rumanian hopes for closer Balkan co-operation by implicit support for Albania's sudden switch to a good neighbour policy and recent impressive infusions of relief and economic aid to Rumania itself. At the time of the floods in Rumania, Peking dramatically contributed US\$26 million in relief, more than 10 times as much as the Soviet Union, and followed up last November with a sizable longterm interest-free credit. While the amount of the credit was not disclosed, two days later Party Chief Nicolae Ceausescu hinted that it was of a similar order to the flood relief grant.

China's solicitude for Albania, Yugoslavia and Rumania was bound to make a strong impression throughout Europe. In sharp contrast, the normalisation of relations with the Soviet Union and other Warsaw Pact members is still having the greatest difficulty getting off the ground. If anything, since the end of last year, Soviet propaganda intended for East and West European consumption has become more virulent in its attacks on China's European role.

The Russians and their linked East European propaganda machine have expressed their dismay that China should dare base its relations with the socialist countries on the principles of peaceful coexistence — a principle which in the Soviet lexicon is supposed to apply to relations with "capitalist" countries only. While there is understandable concern with Chinese efforts "to sow discord among the countries of the socialist community and encourage opposition to the Soviet Union", it is Peking's inroads among West European communists inside or outside the established parties and the sudden wave of diplomatic contacts established with non-communist countries that has drawn the most vehement invective from the Russian camp.

Clearly, the Russians have reason to protest, however much in vain. For, at the moment, even with its dual approach of diplomacy and political agitation within the host countries, West Europeans openly welcome the return of the Chinese diplomats. Just as South and Southeast Asian states may see the Russians, far from their home base, less as a threat than as a counterbalance to the neighbouring Chinese and Japanese, so the Europeans take more comfort than uneasiness from the reappearance of the Chinese. While it may well be true, as the Budapest daily Nepszabadsag complains, that "with China's establishment of normal international contacts, Peking's position vis-a-vis Moscow will be improved", it



China has encouraged Albania's Enver Hoxha in his sudden switch to a good neighbour policy.

New Nation

is also true that these contacts give European countries some important cards to play with the Russians.

As Paul-Marie de La Gorce, a close collaborator of French Prime Minister Jacques Chaban-Delmas, pointed out in Paris recently: "It is not at all exaggerated to believe that a certain opportunity presents itself for those Western countries that wish to develop relations with People's China, since the prudence with which China conducts its diplomatic relations — which has been verified in numerous cases — and its concern for a certain equilibrium renders it susceptible of finding in Europe interlocutors that it no longer has in countries dependent on Soviet authority and that it has not yet been able to find in Washington."

As for the threat of the development in Europe of Maoist communist power, de La Gorce goes on to say that it is very modest indeed. If the Chinese are giving the confused and undisciplined extreme left any assistance at all, it has been extremely discreet and reserved — and has not been rewarded with much success. On the contrary, if anything, the so-called Maoist influence has weakened the communist forces generally, through divisive power plays and internal ideological haggling.

If the extreme left should consolidate its forces and develop a broader following, there would be a change in official attitudes toward China, as would follow any radicalisation or sinicisation of the established communist parties. But this is absolutely not the case at the moment, and there appears to be little likelihood of either eventuality in the near future. In the words of de La Gorce, "there are presently no internal reasons inhibiting the development of relations between China and European countries to the extent the latter wish to do so".

While China has not yet taken a positive stand on European unity, it has consistently opposed Soviet policies designed to influence the direction of European integration. Chinese opposition to the Moscow-Bonn pact and to Soviet proposals for a European security arrangement, together with their backing for closer Balkan co-operation, presage Chinese support for any scheme that would diminish Soviet influence in Europe. While the extent to which China can influence European events may be limited, in the play of multipolar forces on a global scale, for the West Europeans the present Chinese posture would seem to constitute added insurance against the risk of "Finlandisation" — just as it seems to have been some measure of protection for Albania, Rumania and perhaps Yugoslavia against an application of the Brezhnev Doctrine à la Czechoslovakia. While no European political leader is likely to take refuge in Chinese support to the extent Enver Hoxha has, the fact that Albania has had seemingly greater independence and considerable assistance as a result of its relations with China is a lesson that has not been totally lost on other European countries.

The coming visit of Japan's Emperor Hirohito to Europe signals still another dimension to the extension of the quadrilateral pattern of power to the European scene. There seems no doubt that Japan's political and economic influence in Europe will increase greatly in the 1970s and 1980s. What kind of role the Japanese will play, however, is still unclear, and may depend largely on just how Europe responds to the growing Japanese economic challenge. Whether or not Japan continues to rely on US nuclear protection and foregoes building a military establishment of global significance, its great economic power will give it a potent political voice in world, and therefore European, affairs. Without question, it will play the role of a major power, and will be treated as such by Europeans as well as by the three nuclear nations.



Hirohito's coming visit to Europe marks the extension of the quadrilateral pattern of power to the European scene.

As Kuala Lumpur Radio commented recently, to safeguard her trade routes, Japan has recently increased her naval and air strength in response to the expansion of the Soviet fleet in the Indian Ocean and the Straits of Malacca. At the same time, the Japanese are rethinking their economic aid programmes on a global basis, with a worldwide set of priorities in which Asia will play a proportionately smaller role. The counterpart of these moves is a greater Japanese economic presence in Europe, with all the consequences this will have for the new balance of power there.

In a fundamental and momentous way, therefore, the pattern of superpower relations in Europe in the 1970s will change as radically as in East Asia. Just as the Soviet Union is likely to play a more important role on the Asian scene, whether or not anything comes of its vague proposal for an Asian security pact, so China and Japan will increasingly make their influence felt on the course of European politics and economic development. Relationships will most probably be more genuinely multilateral and more complex than in the past. All four superpowers are likely to act independently rather than in concert, showing a greater flexibility, manoeuvrability and circumspection in their policies as each confronts new and complicated limitations and constraints.

Europe, both East and West, although likely to pursue more independent policies, will have an interest in improved relations with both Peking and Moscow, as with Washington and Tokyo. If the Europeans go very far in expanding relations with any one power, they may cause some uneasiness in the others; but they also will gain new room for manoeuvre and added impetus for further unity.

The evolving four-power balance in East Asia, as it extends to Europe, will create new opportunities as well as new problems. One must certainly expect increased fluidity, competition and manoeuvre. Yet, as in East Asia, the new balance may tend to reduce tensions at least somewhat, and to militate against direct confrontations between the major powers. What kind of Europe is likely to emerge in such a world is still anybody's guess, but the evolving multipolar situation may well, over time, offer a better climate for the integration of Western and Eastern Europe free of either direct US or Soviet involvement. Certainly, such a multipolar world will be one much more to the liking of Europeans generally, and one in which their penchant for delicate balance of power diplomacy should serve them well.

All of these Securities have been sold. This announcement appears as a matter of record only.

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March 23, 1971.

INTERNATIONAL SHIPPING

The shipping revolution is with us, universally recognised as essential. In the Reginald Grout Memorial Lecture delivered in London last week, an expert assesses the gains — and the price — of innovation

Kerry St. Johnston

The Cost of the Elixir

THE admiral himself lay frog cold in a room as hot as a Turkish bath and was not truly alive but caught in the hinge of the door between life and death, and groaned as it swung to and fro and let others in and out, but never him."

This could be said to describe the situation of international liner shipping companies in the mid-1960s. The chilling knowledge that they too lay on as irrevocable a threshold, with all the pulls of tradition and caution and nostalgia urging them back towards a now less certain continuance of existing patterns of life, but with those very uncertainties thrusting them forward towards new patterns of life, challenging, uncomfortable, costly, dangerous. Around them was indeed the prospect of that door swinging to and fro letting others in and out; letting some competitors in with new methods, new technologies, new capital and cost structures; letting other old competitors out, submerged or at least merged because of obsolescence, rising costs, increasing pressures both political and commercial.

Here then were the making of the dilemma of the century, dated circa 1965. Although it is now a matter of six-year-old history, it is as well to examine rather more closely some of the ingredients of that dilemma since in them lies the main clue to what is the central theme in this paper.

The maritime nations of Europe and Japan had emerged over a period of half a century as a grouping, whose members ranged the seas under various conference-type banners, often in bitter competition but always with the same objective of stable trading conditions unfettered by excessive unilateral political pressures. The second world war dealt the fleets of these maritime nations appalling blows, from which it took a decade to recover.

That decade was spent in re-erecting not only their fleets but also their practices, even though the seeds of political and economic change sown as a result of the war were soon to have a profound impact upon the international liner shipping scene. There is no question but that this was the right and only thing to do; to bring back some trading order into a then chaotic world, to re-establish the orderly routines of operation and commercial procedure upon which liner shipping has its foundation and its justification, and to re-educate its customers around the world into accepting and appreciating the service it provided.

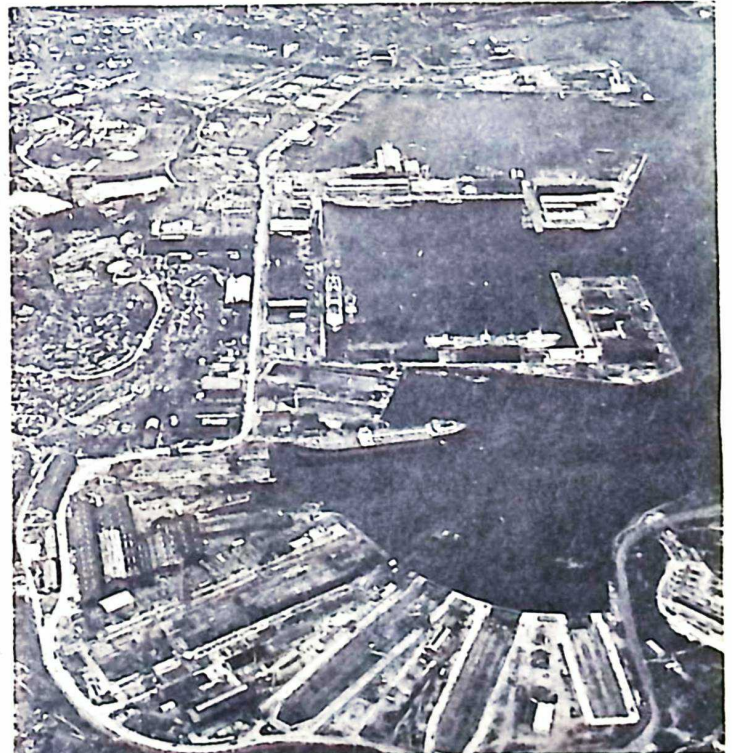
The next decade, 1955 to 1965, was, if one can ever generalise about these things, a period when liner shipowners of the maritime nations busied themselves internally with improving their competitive performance both commercially and technically; that is to say a period of consolidation. Externally however their overwhelming preoccupation was attempting to restrain the monstrous worm of American regulatory zeal that finally turned in the late 1950s. The impact of that zeal was immediate and potentially disastrous to those liner operators engaged in trades into and out of the United States, while the jurisdictional and trading principles thereby breached had inevitably to be resisted and chal-

lenged, both in their immediate context and because of their worldwide implications, particularly among the developing nations. Again, the course of this Alice in Wonderland struggle is now history, but one may hazard the opinion that its magnitude and its apparent attack at the very roots of the structure of liner shipping had even wider repercussions.

First of all, the defence of the conference citadel occupied a disproportionate amount of strictly unproductive time on the part of many of the best brains in international shipping for many years. Secondly, the defensive mechanism bred a much closer working relationship with shipper bodies, excellent in itself yet having the perhaps inevitable effect of entrenching in a quasi-political environment the negotiation of administered rates. That is to say, successfully defending the right to prevent rate-making by unilateral regulatory agencies ironically resulted in its defenders accepting stricter understandings regarding their own freedom to make rates.

What did all this lead to? On the liner shipowner side it was thus:

- Administered Liner Conference rates, fixed for a period of time to permit stable trading conditions, have always run the risk of lagging behind rates geared only to market pressures.
- The entrenchment of these rate-making processes, which occurred in the early Sixties as the price of stability in the conference system, added to the palaver surrounding their



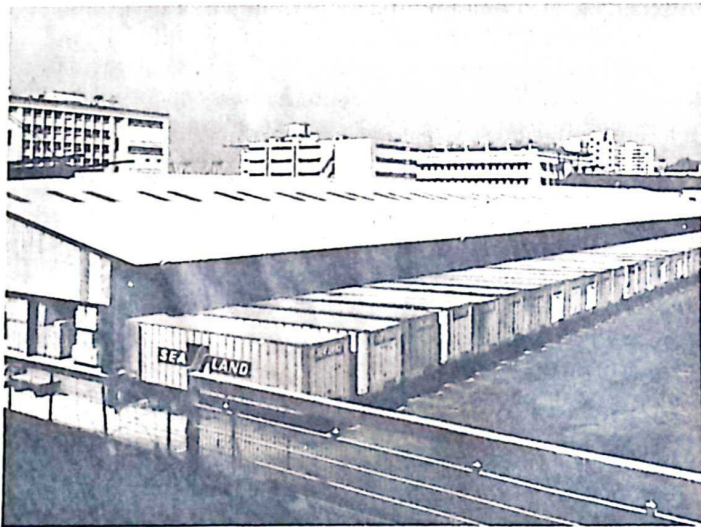
Until recently, shipping costs were generally calculated in terms of shipbuilding costs: Ocean freights and attendant transport charges were an insignificant part of the total.

negotiation and administration, and thereby intensified the risk of their rate levels lagging behind.

- Because of this, a progressive erosion of profit margins was to be expected, even during a period of gently increasing costs.
- Translate this into a period of galloping inflation and the erosion is likely to be complete.

Against this picture, it is now necessary to discuss the parallel development of shippers and traders using liner services. First, the decade immediately following the war saw the progressive re-establishment and re-education of shipper-shipowner relations in the field of conference-style trading. The cost of shipping cargo from one end of the world was sufficiently low to cause shippers to come to regard rate stability as standard and, but for periodic bursts of expostulation when rates did rise, to support the principle of it. It did, however, cause a dangerous side-effect. The relative insignificance, in total cost terms, of ocean freights and attendant transport charges, tended to result in too many shippers allowing the arrangements of transportation to become an almost clerical function, which, 15 years later, was to have its own side-effects.

Meanwhile, during this decade of re-establishment, many of the new political forces released as a result of the war were



The container revolution has meant that expensive new fleets have had to be ordered at a time of worldwide financial stringency.

beginning to make themselves felt. New nations, new aspirations, new fleets, new attitudes to trade with a tempting bias towards bilateralism, bred action and reaction, much of which had to be absorbed by the sometimes creaking mechanism of the Conferences, whose memberships were then almost exclusively made up of "haves" but whose future success and survival were now to depend on their skill in finding a means of accommodating the "have-nots".

Then followed the American regulatory imbroglio as a result of which rate-making was invested with this new aura, at best of increased consultation and formalism, at worst of blatant political muscle. This naturally gave shippers internationally a significant say in rate levels, which few would say was other than a good and inevitable thing. Mounting feeling had by then become evident that increases in liner rates in the Fifties and early Sixties had been imposed in too arbitrary a fashion by conferences generally. This was explicitly supported by European governments and led to governmental involvement in the oversight of rates in some countries, notably Australia, New Zealand, South Africa and India. This in turn bred bodies such as CENSA (Committee of European National Shipowners' Associations) and CES

(Committee of European Shippers), deliberately designed to promote better consultation, and thereby to improve the degree of trust between shippers and conferences and to render progressively unnecessary the involvement of governments. It is nevertheless fair to conclude that, from that date, compromise would become a key ingredient in the negotiation of rate increases, and compromise at the lower end of the bracket.

What has been said so far should suffice to describe the situation reached in the early Sixties. Indeed it is not fanciful to suggest that preoccupation with that situation may have allowed a new emerging economic pressure to remain largely unheralded for rather too long. It was this.

The gradient of rise in shipping costs had been perceptible and steady but comparatively gentle. The one area, namely the United States, where this was not true had had the force of its shipowners' utterances muted by building subsidies and operating differential subsidies. Thus the liner shipping community, and its customers, had become used to what almost amounted to a cost plateau, within which each could afford to operate. This is perhaps chief among the reasons why the significance of the new balance of power between conferences and their customers may have been underrated. It was not to be so much longer, as a result of a superficially unconnected event.

This was a series of land-based developments within United States waters, designed to take advantage of lower per ton mile costs in ships around the coast rather than overland. The essentially high-cost nature of the United States coastline and the long internal distances within the country lulled the maritime nations of the world into regarding this development, with some relief, as a particular rather than general phenomenon, until, that is, two things simultaneously became apparent.

First, the gradient of international shipping costs had started to become noticeably steeper and secondly these American coastal operators began to display unmistakable signs of going international. Their grounds for doing so were apparent, in that they were offering through transport from door-to-door, not just sea transport with every other sector of the journey totally unco-ordinated. They had realised that all costs in the world of transportation, particularly those involving labour, would soon rise fast and, paradoxically, faster in the traditionally low cost areas where the base had been so low. Eliminate, they said, multiple handling of individual packages; mechanise; systematise; and charge a fair rate for the complete job.

Worldwide reaction suddenly followed. Whether it was the threat of competition or a shortage of breath from ascending the steepening cost gradient will never be precisely known. Likely a mixture of the two, since there is no greater spur to rapid economic assessments leading to investment decisions than the threat of having your business filched from under your nose. Investment decisions were made in 1965, initially by the British, then by the Japanese and Continental owners, all in the sultry but compelling heat of the economic climate.

"What men call gallantry, and gods adultery,

Is much more common where the climate's sultry".

Whatever else historians may call it, the strategic decision was, at the time, inevitable. Now with half a decade past, one may assert that the strategic decision was bold and timely and right.

In what remains of this paper, an attempt will be made to show that this is not just brave talk and that certain new truths emerge in this new era of liner shipping.

Costs have risen in the whole field of transport at an

unprecedented rate in the last seven years. Transport and distribution costs are no longer an insignificant "on cost", peripheral to central tasks of production and sales. Ironically those new nations with natural and burgeoning ambition to participate more in international shipping and trade have been among the first to feel these pressures upon the primary produce which tends to form their staple export business. All shippers, however, have been affected and many, but by no means all, have by now begun to embrace transport and distribution within the higher levels of management in their companies. When a lot is being spent but in an area of increasing sophistication, there is a lot that can either be wasted or be saved.

Despite efforts to streamline conventional shipping services, to modernise cargo handling methods both on ships and in ports, and to contain the rise in costs, it has just not been possible to keep pace. In short, international liner shipping, whether conventional, unitised or containerised, has moved on to a new and higher cost plateau.

But at least the fleets of conventional and semi-conventional fleets exist and were built up, year by year, over 15 or 20 years, with the result that they could be depreciated at an averaged rate of replacement even though replacement costs are spiralling as fast as any other area of cost. This is, alas, not the case with the new container fleets of the world.

At the clock's strike, whole fleets of new expensive vessels plus containers and equipment had to be ordered, because, like the advent of the steamship or the jet airliner, the inexorability of the competition and the economic pressures made the change a very fast one. Indeed, chief among reasons for this speed of change was the need for shippers to transfer to the new system wholesale not piecemeal. Apart from any other implication, depreciation must now be made upon a brand new fleet of ships, all bought on the same day, and unfortunately at a time of high shipbuilding costs.

To this, in a period of worldwide financial stringency, has to be added a severe programme of capital repayments in those early years, which are the years of planning, of development costs, of transition, and of the build-up of support. Thus even ignoring accelerated obsolescence of conventional vessels, the speed of this change placed a peculiarly severe financial burden on the innovators, which has clearly had to be balanced by considerable savings in operating costs. What is more they have to be viable in price and service, whether looked at as a customer with cargo to transport at a price he can afford or as a ship operator with a profit to be made on his capital.

The demand for general cargo carriage is growing as international trade grows. The demand for a through transportation service also grows with the need to eliminate costly and time-consuming delays arising from multiple handlings and the previously unco-ordinated sectors of a transport journey. Costs in all sectors of a shipper's distribution have risen, therefore the shipper must opt for the system that stands the best chance of containing these otherwise uncontrollable elements in his international transport costs. The ship operator, no less immune to rising costs, must likewise opt for that system, if he is to stay in business and if he is to stand a chance of providing the service his shippers need at a sustainable price.

The switch from conventional ships and cargo handling methods may have been precipitate, it may have been costly, but it was in the nick of time. Its implementation began to gain real momentum just as the first seismic rumblings of the current cost explosion were evident. That this was so has made it no easier for the innovators, engaged at the same

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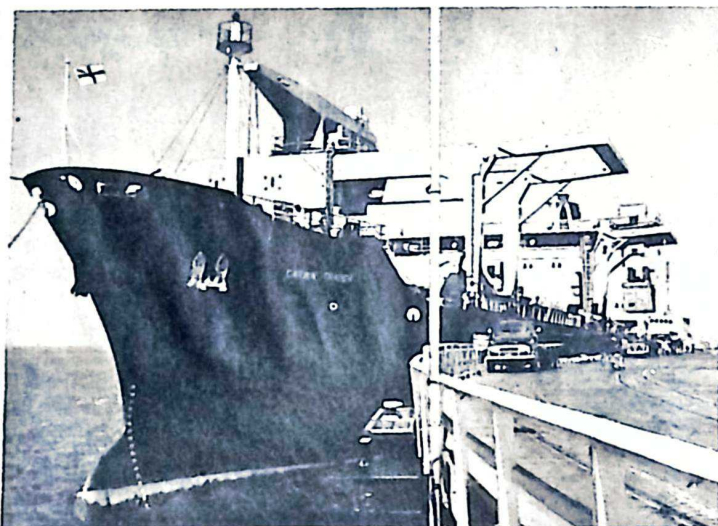
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time in bringing their new endeavours to birth. What might have seemed daunting enough in development and operational terms, merely acquired this added dimension, this added obstacle to surmount. Some, in their early days have made a better fist of it than others; all have made their mistakes; yet all those who have been through this process of innovation now recognise certain truths.

First, the whole character of international liner shipping has had no choice but to change. On the main trade routes there is every prospect that the new fleets will, on a comparable basis, turn in incomparably better results. That is to say, the decision to innovate was fundamentally right. Enough evidence is by now available for us to know that this much is so. What is less certain is which of the new types of vessel will, over their lives, earn the best rate of profit. This is of acute interest to the liner operators, but there is nevertheless one worldwide common denominator now established beyond any peradventure, common to all the types of vessel, common to all the through transport systems — the container itself.

This leads on to the second truth. Around the world, shippers have at last got, in the container, an elixir, a unit of distribution which is about as important and permanent as the discovery of the wheel. It can be predicted that this unit



Australia's Darwin Trader: Container ship and bulk carrier in ore. Specialist vessels may largely oust conventional cargo vessels.

will outlast all the present vehicular means of transporting it, will generate whole families of ancillary equipment and distributive machinery, and will initiate a whole new folio of commercial custom and practice in the marketplace.

As with all elixirs, however, there is a snag. A large part of this paper has been devoted to describing the position of increasing bargaining strength assumed by the shippers of the world in the last 20 years. In such circumstances, it will no doubt be tempting to use that strength to keep rates of freight down to levels satisfying short-term emotional, economic or political ends but not allowing ship operators a proper return on their capital. To indulge this temptation excessively in the future could bring the container era and the whole structure of liner shipping down about the ears of those whom liner shipping seeks to serve.

This is the clue to the final truth: international liner shipping has been very, very cheap for many years. Increasing sophistication in the world of rate-making plus the influence of the United States has succeeded in keeping it very, very cheap. Now that the carrying revolution has had to occur, however, the situation has changed, and the world has to recognise that it has changed. New types of specialist vessels are being progressively introduced, for bulk liquids, for heavy

and awkward lifts, for motor vehicles and for some primary produce, and any of these, though perhaps particularly primary produce, may in the process partially or wholly displace parcel selling and therefore liner carriage. Yet ordinary conventional cargo liners, however efficiently managed, will find it progressively difficult to live on the main trade routes not merely against the new fleets, but with or without the new fleets.

Radical change, brought about by inexorable economic forces, has its price. That price, for the development and sustenance of liner shipping to new standards of speed and service, will in the 1970s have to be higher than before. The trend towards larger ships, and therefore larger operating groups, may be superficially unattractive, but will soon lead to the main trading centres of the world being linked by these services which will be of a general standard that will not have been seen before.

It is superficially paradoxical to say so, but the trade routes supporting the apparently costly new services are likely to have to pay a rather lower price than those left with conventional services. As has been said earlier, the costs of conventional, multiple-handling services are less easy to contain than fully unitised, mechanised services.

On some routes, both methods may co-exist, for example where a significant quantity of heavy or awkward or dangerous cargo wishes to move. There one will almost certainly see the shipper of FCL (Full Container Cargo) shipping his goods for 100 units, the shipper of LCL (Less-than-full Container Cargo) for 110 units, and the shipper of conventional cargo for 120 units. The justification for this trend, which is already showing signs of emerging, is not hard to find.

The FCL shipper's cargo has least handlings, is in the most desirable form for a container service, and the price charged him reflects therefore a sort of volume discount but with that discount within the reach of very many general cargo shippers, not just the giants. The LCL shipper's cargo by definition needs more handling along the route and a part of those costs should reasonably lie where they fall.

The conventional shipper's awkward, heavy or dangerous cargo always used to pay some premium towards covering some, but certainly not all, of the extra costs connected with transporting his goods, and now he is likely to pay a rather higher premium, again in line with the axiom of costs being now forced to lie more where they fall. Thus the principle of absolute rate parity between all classes of vessels regardless of type or speed will be modified to meet the new economics of liner shipping.

The implications of all this will require a new maturity on the part of shippers and shipowners alike. It is easy to say that, because both parties live or die by international trade, both will acknowledge the inevitability and justice of this process. It is equally easy to prove that international transport costs have moved to a new and higher cost plateau, that this is a new fact of life, and that the continuance in existence of liner-type shipping in the world depends upon recognition of it. Yet it will not be so easy actually to achieve the required degree of balanced judgement, restraint and cool appraisal in the rate-making processes of the immediate future.

Nothing, however, is more important than that it should be achieved since stable trading conditions are at stake, without which no one, least of all a trading nation like Britain, can really prosper. Thus the courses of the two parallel developments we have charted have now come together, namely the 20-year evolution of a new style and balance of conference activity and the six-year revolution in methods of carrying and pricing general cargoes.



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LETTERS TO THE EDITOR

ADDRESS LETTERS TO THE EDITOR, REVIEW, PO BOX 160, HONGKONG. BRIEF LETTERS ARE PREFERRED.

Kudos

Public opinion does count for something in Hongkong then. At last the Hongkong government is going to do something about the ghastly pollution of its rural areas. I see that 49 tanneries which for years have poured their stinking effluence into local waterways are to be moved. For years the problem was ignored. Only when the Review commented on the desecration of the New Territories (Review 46, 1970) did a newspaper campaign begin to stop this scandal. May I compliment the authorities on their bowing to public demand but chide them for not taking action on their own initiative long ago. Only a population as patient as that of this colony could have tolerated their tardiness over so many reforms so obviously needed.

Kowloon

JAMES KOO

Typo

Philip Dion writes a laudable indictment of The Indochina Story (Review 8). However, his error 6 paragraph refers to adherents of Hoa-Hoa-ism. Does he mean to say Hoa-Hao-ism? (Error 1 in error 6?)

Seoul

GARY S. MOE

Facto

When a reviewer flies off the handle as emotionally as Philip Dion did reviewing The Indochina Story, one can be certain that a very sore nerve has been touched. Of matters of fact and "absurdities" the most amusing and surely the most bizarre absurdities are Mr Dion's. For example, it is difficult to think absurd or far-fetched President Nixon's now-obvious strategy of "winding down" the war in order to prolong and ultimately win it militarily.

But he is at least not without some sense of reality, for he concludes by admitting the book's accuracy as a description of American genocide against an Asian people — thereby acknowledging that this "indictment of America, its mentality, its leaders, its people," etc is fundamentally relevant to why the US is in Vietnam in the first place.

Of equal ingenuousness is the seemingly related appeal in the Traveller's Tales column (any relation to Mr Dion?) for "an objective search for the truth". It would seem that by failing to somehow qualify its findings of genocide, the Committee has given up the "quest after knowledge". One hears this sort of thing from the US government quite regularly. It is hard to understand

why the column's author should wish to claim that what is happening in Vietnam is not genocide — even the American army is belatedly adjusting to that reality. In any event, it is almost charming after all these years to find someone who will defend America's ventures as "taken with the most idealistic of motives and with the best of intentions" against those radical Asian scholars who "must damn the whole war lock, stock and barrel..."

Of course, one can simplify arguments to a consensus; one can decide that virtue lies on one side of an issue and not the other; one can, in short, conclude that morality is held by one protagonist in a war of aggression. If Britain lost its empire partially for want of a good propagandist, this man was clearly born too late.

Oakland, California

JON LIVINGSTON

You argue (Traveller's Tales, Review 8) that the Americans intervened in Vietnam "with the best of intentions" and that it is "manifest nonsense" to claim that they are there for "imperialist reasons".

I feel you are bandying the word "imperialist" about in a very crude, Marxist sense. No doubt some of the radicals you attacked have argued that the war in Indochina is being fought for economic reasons, for concrete exploitation, the American industrial-military complex needing the war to pump funds into the American economy. I have never subscribed to such Machiavellian theories myself, although it is interesting to note that the American recession has coincided largely with Nixon's statements of intention to run down the war and withdraw.

I think the Americans are there for imperialist reasons, but of the psychological variety. It is surely imperialist to be a Superpower, to believe that one's way of life is the best and to seek to impose that way of life by force of arms on others — not for military or economic reasons but because that's the way it ought to be. In that sense the Russians are imperialists and the Chinese are not (at least only propaganda-wise).

London

MERVYN DALTON

Anatomy

After reading Traveller's Tales (Issue 8) I can only agree with the "America Asia Scholar" who called you an "asshole of the State Department".

New York

PHILIP S. DEAN

Pseudonyms are accepted, but letters intended for publication in these columns must bear the writer's signature and address.

Making Images

I read with interest the article on image makers in Review 11. Mr Dannhorn's remarks are general and inconclusive but basically he is promoting public relations practices. His views however are not objective since he is the manager of the PR division of a large company in Bangkok. He approached the truth when he remarked that businessmen are not convinced of the value of PR. In fact a separate PR operation is unnecessary. All company employees should be conscious of their company image when dealing with the public. A courteous and helpful attitude is all the PR needed by a company or government. This is in accordance with the British Institute definition. PR consultants are only concerned part time with a company whereas employees are on the job constantly.

If PR practitioners were so vital, Mr Dannhorn would not have spare time to write articles or spend time (and client's money) visiting various meetings and conventions throughout Asia. Because PR is relatively new in Asia, local companies have been convinced that outsiders can do this job better than their own employees. Actually, many advertising companies just use public relations departments as a means of extricating yet more money from clients.

Singapore

D. RICHARDS

Civil War?

Mr Ky Soth, Cambodia's consul general in Hongkong, in Review 13 disputes my contention that civil war currently is being waged in Cambodia.

Perhaps Mr Soth will explain why Phnom Penh — until at least late autumn, 1970 — maintained an official policy of censoring the dispatches of foreign correspondents which made mention of Khmers fighting for Sihanouk's government-in-exile. Perhaps the Cambodian government did not want foreign readers — and even Cambodian diplomats — to know that the Cambodian conflict is more than "simply a national fight in legitimate self-defence."

How many Khmer troops oppose Phnom Penh? Sihanouk in one interview observes China has given him just enough guns to supply all his soldiers. In a second interview he notes China has supplied him with 30,000 guns. Sihanouk apparently believes his Front of Kampuchea has some 30,000 Khmers under arms, a figure that jibes with other independent reports. Phnom Penh can marshal some 200,000 troops.

Hongkong

JONATHAN UNGER

BOOKSHELF

The Same Old Story

Japan's Postwar Defence Policy, 1947-1968 by Martin E. Weinstein. Columbia University Press, 1971. US\$7.50.

THE debate about the role of Japan in the Asia and Pacific region often seems to have been resumed precisely where it left off 26 years ago at the conclusion of World War II. Japan in fact seems to be picking up exactly where it left off then. In order to stabilise the Asian region and guarantee its own security and prosperity, the argument runs, Japan had launched a war of expansion in the 1930s; for the same reasons Japan is strengthening its defence forces and increasing its military budget in the 1970s. Just how this full circle of circumstances has come about is the story related by Weinstein in a slim but thoroughly researched and well-reasoned volume.

While speculation continues that Tokyo is already far into a course carving a dominant and domineering role in Asia, Weinstein provides insights for a more accurate analysis of postwar developments. Japanese leaders, he points out, have been consistently following a path designed to ensure a comfortable pocket of economic development for their country. Insurance has come in the form of American protection from outside threats, which have been few exactly because the US has been present in force. The Japanese, in fact, have had to struggle to keep that protection and comfortable pocket and are far from eager to give up either. Strangely enough, their struggle has been with the Americans as often as with internal elements.

Their deftness in sounding out and steering through the tricky channels of US foreign policies came through early in the postwar years. The clash of Russian and American interests and objectives and the resulting Cold War allowed Japan to change its status quickly from one of defeated enemy and military dependency to that of ally. While the clash promised dangers, Tokyo soon cast its lot with the US and offered the novel notion that Japan held a strategic value for Washington's own security. Weinstein's analysis shows that this was not guesswork, but realistic assessment of current events, to which Washington acquiesced of its own accord. The Japanese also correctly assumed the US-Soviet split was not transient and would take on larger proportions in the Far East as Russia continued to occupy North Korea and the Kurile Islands.

Weinstein's picture of those islands, and of Korea, in the Japanese vision of threat and security is revealing. And Russia's role in them adds a few valuable notes to the largely academic but still relevant debate over Soviet intentions in the last stages of the war and the late 1940s. Japanese defence policy for the last half century, says Weinstein, has been based on its geographical relation to its neighbouring islands and the jutting Korean peninsula. "In Friendly hands they form an inner defence perimeter. In hostile hands they are a threatening encirclement". (No doubt China views Korea in the same way, which may ensure its future as a pawn for other larger powers and offer little hope for its ever being reunified).

Russia, which unlike the US, did not demobilise after the war, had large contingents of troops in the islands, the closest of which is five miles from Hokkaido, and also in North Korea. The Russians had abrogated their treaty of neutrality with Japan during the war and in 1954 attempted to set up a Germany-type occupation of Japan, with a Russian co-commander in chief equal in rank to General MacArthur. In 1947 their continued presence in the islands gave the Japanese good cause to call on the US for security guarantees.

But by 1951, with developments in China, Korea and Vietnam, Japan's leaders saw that the possibility of war between Russia and the US was an even more serious threat. Weinstein relates how they resisted John Foster Dulles' attempts to rearm Japan and involve it in the anti-communist campaign, and from that point on retained US protection without becoming a brother-enemy of the Soviet Union. Successful as they have been, Weinstein notes, Tokyo's "defence planners still see Japan as caught between the superpowers, almost as vulnerable militarily and economically as in 1947."

Japan still maintains a low defence expenditure percentage of its GNP — until recently only .9% — and the government sees few reasonable alternatives to a strategy which has served it well for over two decades. Weinstein concludes present arrangements "could be quickly rendered ineffective either by the Japanese voter or by a dramatic shift in American Far Eastern policy, most especially an American decision to withdraw from the defence of South Korea."

This is a realistic conclusion to a realistic and valuable study. Weinstein goes a long way towards redeeming the sad image of American scholarship in Asian affairs and sets a standard others would do well to follow. Apparently fluent in Japanese — several translations are his own — he has drawn much of his thesis from Japanese sources, which

constitute fully half of his reference materials. Free from accusations or rantings his book is a healthy example of what bi-cultural and bi-lingual studies can and should produce. — PHILIP DION

Coffee Break

Papua and New Guinea by Colin Freeman and David Holdsworth. *Rigby*, Adelaide; New Guinea by James L. Anderson and Donald Hogg. *Reed*, Sydney; Papua New Guinea by Hank Curth. *Jacaranda*, Brisbane; In One Lifetime by Maslyn Williams. *Cheshire*, Melbourne.

THROUGHOUT the Sixties a variety of writers and photographers — some old New Guinea hands, other visitors for a few days — tried their skills at capturing in pictures and words the story of this backward land. Few of the pictorial works earned a place in New Guinea watchers' minds although Olaf Ruhen's *Mountains in the Clouds*, J. K. McCarthy's *Patrol Into Yesterday* and a work by longtime patrol officer, Jim Sinclair, are still well remembered.

Recently a virtual avalanche of works appeared on Papua-New Guinea, almost all pictorials, virtually all covering the same ground. But while the confusion of who wrote what — observe the titles — will never be disentangled, each work is well worthy of the coffee table or doctor's waiting room status.

Photographically, best of the bunch is Anderson's and Hogg's. But while Hogg's text is racy and entertaining, it bears little relevance to the pictures it runs between.

There's something unfortunately posed about Curth's shots. But his book's main attraction is the seven-inch record of Sounds of New Guinea slotted inside the front cover. A lot of patience and travel has gone into making this disc — a variety of traditional songs and bush sounds which make fascinating listening.

Although Freeman's and Holdsworth's product is a rather less spectacular volume, its much reduced price compared with the others probably make it the best buy.

Williams' product covers the scene in greater depth, making efficient use of archive shots, taking the reader into the lives of Papuan and New Guinean families and personalities and casting an eye on the many Australian administration projects designed to lay the foundation for an economy which will shore up the independent nation which almost certainly must emerge within the decade.

There were other pictorials last year on Papua-New Guinea. Almost certainly there'll be more to come. Few will make a dollar for their authors. But, somehow, a pictorial production on this strange country always holds a certain amount of appeal. — RH

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Chairman's International Survey for the Year 1970

Once again China, India and Indonesia all had good grain harvests. In all three countries the recent improvement in grain output has, in part at least, been the reward of earlier policy decisions which diverted greater resources and attention to agriculture. China and Indonesia have also achieved an improvement in industrial production, but in India, which was obsessively preoccupied with political manoeuvring, industry still continued to stagnate. Pakistan was already struggling with political difficulties because of the earlier failure to prevent a widening of the economic disparity between East and West Pakistan. During the summer northern and central parts of the East Wing suffered severe flood damage and in November the southern coastal districts and islands were struck by one of the most devastating cyclones ever recorded. It was sadly ironic that earlier in the year an International Bank team had tentatively selected a number of large schemes of flood control and coastal defence in these areas for support by the Aid Consortium. Some of the enormous loss of life might have been avoided if much greater attention and larger funds had been devoted in recent years to the building of coastal embankments. Nevertheless the cyclone was a reminder of the way in which these countries are always to some extent at the mercy of natural phenomena.

Despite these disasters Pakistan provided in December the unusual spectacle of a military administration conducting free elections to select a successor government. It seemed possible that as a result dominant political influence might be transferred from relatively

advanced West Pakistan into the hands of neglected East Pakistan, which had earlier shown every sign of wishing to obtain considerable, if not complete, autonomy. In Indonesia, Thailand and elsewhere military men also wrestled with the problems of permitting greater political participation without losing the benefits of strong and consistent government. In the area as a whole many of the latest generation of generals in office seemed to be politically more adept and sensitive than their civilian counterparts.

In Malaysia, after some hesitation, the Government resumed the general elections which had been partially completed in 1969 and achieved favourable results which enabled it to contemplate with much greater equanimity the resumption of parliamentary activity. It nevertheless felt compelled to forbid public discussion of the most fundamental issues, while setting itself to resolve or at least to ameliorate them. In Ceylon elections once again served to place the opposition in office. The unflinching regularity with which this occurs suggests that some problems in Ceylon, notably that of subsidies, are such that no government can hope to avoid popular disillusionment, whether it tackles them or not. It may be that bold and courageous action when a party first gains office could not reduce its chances of winning a subsequent election and might even enhance them. The experience of Ceylon demonstrates the way in which a premature pursuit of welfare can damage or destroy the prospect of achieving it.

International relations in South and East Asia

remained less stable and apparently immutable than in earlier years. The Asian countries which attended the Conference of Non-Aligned Nations in Lusaka in September, represented a considerable diversity of standpoints and suggested a widening of interest in ideas of non-alignment or neutrality in South East Asia. The war in Vietnam spilt over more openly into Cambodia and Laos. Following the coup in Cambodia, the Vietnamese Communist forces first became engaged in fighting the Cambodian army and then their Cambodian bases were attacked by South Vietnamese and American units, so that the main weight of the fighting moved westwards. This caused alarm in Thailand and led a number of countries, meeting at the invitation of Indonesia, to call at a conference in Djakarta for the withdrawal of all foreign troops from Cambodia.

Events in Cambodia also completely nullified tentative steps by the United States to improve its relations with the People's Republic of China. Several other countries in South East Asia and elsewhere, however, decided that they should recognise the Government of the People's Republic, either formally or informally, and the claim that it should represent China in the United Nations was much more widely supported. Chinese relations with the Soviet Union along their lengthy common borders were very strained in January, although talks continued in Peking. They became less frigid later in the year. In July it was announced that talks would be held on navigation on the Sino-Soviet border rivers and an appointment was made to the post of Chinese Ambassador in Moscow. The Russians, whose attitude to the situation in Cambodia was equivocal, left no doubt about their intention of building up an active political and naval presence in the Indian Ocean and South East Asia. This in turn seems to have induced American interest, for the first time, in facilities in the Indian Ocean. The new British Government, as expected, decided to maintain a "modest" military presence in Singapore and Malaysia, so long as this was welcome to the two countries as part of joint defence collaboration with Australia and New Zealand. Meanwhile the Japanese quietly and steadily extended their economic interests, especially in Indonesia and Malaysia.

The newer Asian regional organisations of a more political character did not display great activity. The political attitudes of the members of ASEAN became somewhat less diverse, but the organisation itself gave its most concentrated attention to co-operative action to promote the tourist industry, which has begun to develop well in some countries and should provide

substantial income as well as a stimulus to modernisation. An ECAFE meeting in Kabul in December considered suggestions for an Asian clearing union, for trade expansion, for an Asian reserve bank and for sub-regional economic groupings. The countries represented showed some interest in the first two proposals. Freer regional trade would be especially valuable. Unfortunately the trend in the past 20 years has been to restrain the regional flow of goods and to reduce the international division of labour, rather than the other way around. There is no doubt that it would be generally advantageous if this trend could be reversed.

The price of one of the most depressed of regional products, tea, somewhat revived. That of rubber fell back again during the year and a new commodity organisation, the Association of Natural Rubber Producing Countries, was formed with Ceylon, Indonesia, Malaysia, Singapore, South Vietnam and Thailand as members. Its purpose was to reduce price fluctuations and to establish a regional joint market based on the Malaysian-Singapore market – to be effective it will have to insist on uniform quality and trade practices. A similar proposal for a Pepper Community to promote exports and stabilise prices was agreed on by India, Indonesia and Malaysia during the summer and the Asian Coconut Community began its work – production of coconuts has fallen heavily over the past two years. The fourth International Tin Agreement, drawn up in May, gave greater freedom to the buffer stock manager and in October the price range was raised at a time when London prices were approaching £1,550 a ton – they subsequently fell back on fears of American stockpile sales.

Economic and trade policy in the United States caused some concern in the area, in Japan and Australia as well as in less developed countries. President Nixon himself appeared to regard liberal trade policies as an important factor in controlling inflation. He had also, however, to try to reduce the external payments deficit and may have felt under an obligation to give some assistance to the American textile industry, while there was a somewhat more protectionist trend in Congress. All the Asian countries exporting consumer goods were potentially affected by American demands for restraint on import growth, but the brunt of negotiation during the year was borne by the Japanese Government, which was itself torn between obligations to the American Government and awareness of the wisdom of ensuring orderly growth, and the vigorous resistance of its own textile industry. The future of American tariff and import quota policies

remained unresolved at the end of the year. UNCTAD reached agreement in principle during October on a generalised system of preferences for manufactured goods from less developed countries. This should give these countries certain advantages. The offers made by the richer countries, however, include exceptions for textiles and some other goods, and the countries which gain most from the system will be those which are already the most efficient exporters.

American efforts to control inflation were paralleled in Western European countries and in Japan, Canada and Australia. This reduced the rate of growth of the economies of these countries, and the rate at which international trade expanded. In Canada gross national product increased by about 3 per cent in real terms. Exports, but not imports, grew rapidly and, in combination with a capital inflow, induced the authorities to allow the Canadian dollar exchange rate to float. This resulted in practice in a revaluation of about 5 per cent. The rate of inflation eased substantially, but there was a large rise in unemployment. In Australia tight credit conditions checked the rate of price increases in the autumn. Gross national product in real terms rose by $5\frac{1}{2}$ per cent in 1969/70, but this rate fell back to under $4\frac{1}{2}$ per cent in annual terms towards the end of 1970. Exports in 1969/70, especially of minerals, grew more rapidly than imports and there was a very large favourable trade balance with Asian countries and Oceania which more than offset the deficits on trade with Europe and America. Unemployment remained low, but labour was less scarce.

Towards the end of the year, although inflation had by no means been eliminated, credit and other restraints were eased in the United States, Japan, Canada and some other countries, though not in Britain, and stronger economic growth was expected in 1971. The earlier process of adjustment had a widespread effect on stock markets, which fell heavily in the spring. Amongst the major markets, only New York recorded slightly higher average share prices at the end of the year than at the beginning. Montreal recovered most of the fall, but Tokyo and Sydney still remained depressed. Amongst lesser markets, that in Hong Kong reflected the continued steady growth of the economy, despite these external influences – turnover more than doubled and average prices rose by over 44 per cent.

Hong Kong

The economy of Hong Kong prospers by selling products and services to the leading trading

nations and by attracting their tourists. During 1970 conditions in the major markets were depressed by efforts to contain inflation, while future prospects included possibilities of greater protectionism in the United States, increased impediments to exports to Britain and a substantial handicap, as against its closest competitors, if Hong Kong should fail to secure "developing" status under the UNCTAD proposals for a generalised preference scheme. Domestic exports nevertheless grew by over 17 per cent, comfortably above the average annual rate of growth for the previous decade, to reach a level more than twice that attained four years earlier, in 1966. Re-exports, now well under a fifth of total exports, expanded less vigorously, but still rose by 8 per cent. Imports almost maintained their recent rate of growth at 18 per cent. The deficit on visible trade was a little over one-seventh of the import bill and invisible earnings, which more than offset this deficit, remained buoyant. The number of tourist visitors increased by over one-fifth and hotel building continued actively. There are at present some 45 hotels suitable for tourists, 10 more are building and a further 10 are planned. At the end of the year moreover the American economy seemed to be moving ahead again, protectionist legislation had for the moment been postponed and maintenance of "developing" status appeared probable.

Domestic exports reflected changing consumer preferences. Demand for many types of cotton and woollen clothing declined and, although exports of clothing made of synthetic fibres greatly increased, on balance growth was well down on 1969. There was a further large overall expansion in sales of wigs, but reduced demand for human hair wigs and the cheaper synthetic products seemed likely to lead to a consolidation of the industry. Other exports to show large increases were toys, some cotton and synthetic textiles, jewellery and imitation jewellery, and transistor radios, while a new product, sophisticated computer components, achieved substantial sales. In general there was continued diversification of exports, and some reduction in the predominance of clothing and textiles. The United States, as in 1969, took just over two-fifths of domestic exports. Sales to Britain hesitated, but those to Scandinavian and Common Market countries, except France, rose by well above the average, as did exports to some African Commonwealth countries, to South Africa and Australia and to several neighbouring territories. Trade with Taiwan rose very substantially in both directions. Japan, our fourth largest customer, increased her purchases of local products by more than two-

fifths, the bulk of the increase being in consumer goods. Japan and China remained the largest sources of supply, but demand for the basic foodstuffs and textiles supplied by China was much less buoyant than for the type of product bought from Japan. Imports from Britain increased by almost a quarter. For re-exports China remained much the largest source and Japan much the largest customer.

Bank advances rose by nearly a quarter and deposits by almost as much. Further foreign banks set up representative offices. Stock market business is now served by two exchanges and, although turnover again more than doubled and prices maintained a strongly rising trend, total business would not seem to justify such duplication. New and "rights" issues, for which we provided the great bulk of the underwriting, again increased substantially to HK\$570 million. Besides heavy capital expenditure by manufacturing industry and utilities, notably the electricity and bus companies, there was massive investment in shipping services and shipping – Hong Kong shipping companies own some of the world's largest and most modern fleets. Container shipping increasingly used existing facilities in the port and a start was made with the new special terminal at Kwai Chung. The proportion of machinery and other capital goods within the whole import bill rose considerably in 1969. In 1970 the value of capital imports for local use was half as much again as in 1969. The increase applied to construction and office machinery, to commercial vehicles and, especially, to industrial machinery. Local production of machinery has also expanded. This trend is related to changing demand abroad, but equally reflects recognition of the need to ensure that productivity keeps ahead of rising labour costs.

For some years the wages of industrial workers have risen in real terms by six or seven per cent a year and, if industry is to maintain this steady and highly desirable improvement in standards of living, it must provide more capital equipment for its work force and increasingly automate its operations. Industrial employment and the number of unfilled vacancies reported by industry has steadily increased. There are still many people in service and retail trades who could be attracted into manufacturing industry and the development of container operations may reduce the numbers engaged in stevedoring and related trades, although increased construction activity should provide employment for many of these. There are also more young people seeking employment. Labour is nevertheless in practical terms scarce and management has to devote

increasing attention to the better use of the time, skill and energy of the workers it has; to do this requires new machinery, but also improvements in plant layout, working methods and conditions, standards of safety and relations between management and work-people. Owing to the demand for labour, workers who are dissatisfied with their pay and conditions can and do change their employment. This induces a steady improvement in wage rates and eliminates the less efficient employers. A high turnover of staff nevertheless has disadvantages which it is profitable to avoid, while dissatisfied labour can never be fully productive. The Labour Department is introducing new legislation on industrial relations, conditions of work, working hours and holidays and a Labour Court is being set up which may reduce disputes over the interpretation of contracts of employment, although it is not designed to assist the discussion of grievances, wages and conditions.

Proper management of industrial labour includes provision for the training of craftsmen, technicians, foremen and supervisors. Some concerns already provide for apprenticeship and training at work, although there are not enough schemes of this sort. The Government's general programme of education has reached a stage at which it is possible to provide free primary education and to insist that children are sent to school. The new objective is to meet the demand for secondary education and as a first step the number of secondary school places is to be more than doubled by 1976 to over 200,000. The Government is also now able to increase provision for technical education. At the higher levels the Polytechnic should provide for 4,000 full-time and 20,000 part-time students by 1974. The first technical institute was opened in October and will train craftsmen and junior technicians. It will also relieve a little the acute lack of provision for the training of technical teachers and instructors. Early establishment of a second technical institute is being considered and others will be required, as will the proposed preliminary stage of junior technical, or pre-vocational, schools. None of this however will be effective without much more on-the-job training in industry itself.

The Productivity Council and Centre have pressed on with extensive training and consultation programmes, and the more widely industry, and especially small manufacturers, can be persuaded to use these the better. Information and advice on quality control, technical developments and the improvement of standards of design in relation to safety and efficiency, as well as to appearance, are also

needed. The Federation of Hong Kong Industries, the Productivity Centre and government departments provide testing and advice services to assist manufacturers to achieve higher standards. The Federation's design competitions, for which the first awards were made early in the year, and the introduction of good design labels related to functional and safety standards, should be of value, as will the establishment of design awards in the field of packaging. Training facilities in design are available from the Technical College and the Extra-Mural Department of Hong Kong University and the University proposes to develop a course in product design. Hong Kong products have begun to win international recognition and awards for safety or design. This is welcome since there is no doubt that quality and good design, both functional and aesthetic, will be of crucial importance in the future expansion of sales overseas, in technical products no less than in clothing and other fashion goods.

With the reduction of the normal working week people now have more leisure time and this is likely greatly to increase. Leisure however is worse than useless if it cannot be enjoyed. Large numbers of playgrounds, parks, gardens, games pitches, swimming pools and beaches have been made available. But the urban districts, and especially the older tenement areas and resettlement estates, are still very cramped. As the older areas are re-developed and new towns are laid out, more generous provision has to be made for services, including shopping centres and markets, and for recreation; and efforts have to be intensified to prevent the processes and by-products of industrialisation, and use for leisure itself, from damaging the considerable areas of unspoilt countryside and coastline still available. Developments such as the Education Department's adult education and recreation centres and evening institute also acquire increasing value; there are at present twelve centres and two more in prospect, while the institute organises well over 700 general and practical background education classes at more than 70 places in both urban and rural areas.

A shortage of the more expensive housing and of shop and factory premises developed in 1969. Government restrained residential rent increases, and a sharp expansion of building provided more industrial space. Rising prosperity seems likely to exert a steady pressure of demand for better housing. Government itself has been able to give greater attention to the quality of housing, transport, health and other services, as basic needs have been met. Maintenance of adequate services becomes

more difficult the more crowded the cities are. The proposed underground railway system would undoubtedly ease congestion on the roads and, with the new flat-rate bus fares, might also induce people to move out of the central areas of Kowloon. Some redevelopment of old tenement areas has been started and the earlier resettlement estates will also probably have to be re-developed, rather than converted, if better amenity is to be provided as well as better accommodation. Such developments require heavy expenditure, while their benefits, real though they are, are difficult to express in money terms. Commitments for public works, including housing, hospitals and clinics, schools, further water supply, roads and the extension of Kai Tak runway, already amount to over HK\$4,500 million and new projects will depend, in the last resort, on the continued growth of trade.

China

During 1970 efforts were made to consolidate the political, social and economic situation in order to launch the Fourth Five-Year Plan in 1971. It was necessary to re-establish a clearly defined civilian chain of command. This could not be achieved rapidly since a widespread jockeying for position, both at the centre and in the provinces, had first to be resolved. It seemed that some military commanders, who had stepped in to restore order after the confusion of the Cultural Revolution, would retain the civilian authority they had acquired. In the 1940's all members of the Party were in effect soldiers, but a distinction subsequently developed between administrators and military professionals. After the Cultural Revolution, some senior former Party cadres retained or regained positions of influence, but generally in association with military men. The Army did not seem monolithic and military commanders of the regions and provinces appeared to enjoy more independence than had been the case before the Cultural Revolution.

The relationship of the Army and a revived Party remained unclear, although official journals affirmed that "the Party... must govern all other organisations such as the Army, the Government and the masses' organisations." In practice it seemed probable that the Party in the Army would dominate the Party as a whole and itself conduct the reconstruction of civilian units. Campaigns to restore respect for the Party would not therefore diminish Army control. The first reconstructed Provincial Committee was formed in December and the Communist Youth League was revived, no doubt to contain and discipline surviving Red Guards. The Central

Committee, meeting in August and September, called for a careful study of the philosophical works of Chairman Mao, with emphasis on materialism as against idealism and metaphysics. This should have required a more wide-ranging consideration of policy and a shift from the collections of improving and idealistic stories and aphorisms to which the Army had reduced Mr Mao's pronouncements, but its main immediate effect seemed to be a renewed outbreak of self-abasement by civilian cadres.

There was also discussion of the future relationship of Party Committees and the interim administrative bodies known as Revolutionary Committees. The intention seemed to be that these should execute decisions of the Party Committees, in much the same way that the State Council, or Government, implements proposals of the Central Committee of the Party. It seemed in any event that the membership of the Revolutionary Committees would be dominated by the Party Committees at the same level. There was, for the first time since 1966, public reference to a meeting of the State Council, and in September it was announced that the Fourth National People's Congress would be convened "at an appropriate time." This has nominally been the supreme state authority. Congresses of activists, that is staunch supporters but not members of the Party, were held in a number of provinces, presumably with a view to selecting members for the NPC. A new state constitution was also under discussion. Its main purpose seemed to be to make Mr Mao once again formally head of state and to assert that the most fundamental right and duty of citizens was to support Mr Mao, his designated successor Marshal Lin, and the leadership of the Party.

At a lower level the "mass organisations" displayed a greater vitality than had perhaps been expected. With the Army and rehabilitated Party cadres, they had been partners in the triple alliances from which the Revolutionary Committees had been formed. They were groups of mostly young workers and others who had acquired a taste for political activity during the earlier struggles. They behaved as if they expected the Revolutionary Committees to perform as genuine political coalitions in which they could demand equal representation and rights as against rival mass organisations and the representatives of the Army and the cadres. They added to the factionalism about which there were frequent complaints and some were so unruly and demagogic that they had to be suppressed. Most of their representatives were eliminated as the Army took action to restore discipline and reconstruct the Party, but the

more effective were incorporated into the ranks of the new Party organisations. On the other hand former cadres, who had been harried and humiliated, were most reluctant to take up office again. When they did do, because refusal might be regarded as counter-revolutionary, their enthusiasm had declined.

The problem for the central authorities has been to strike a balance between professional administration and contact with peasants and workers, and between central direction and local initiative. Mr Mao's dictum that "it is imperative to grasp typical cases well" is directed at officials who lose touch with the real situation in the field. For this reason local officials have been required to spend time in the villages and engage in manual labour, so that they can appreciate more fully problems dealt with in their paper work. More urban intellectuals, in technical and professional fields as well as administration, have also been sent into the villages, where they are cheaper to maintain and perhaps, if discontented, easier to control. It is hoped that this will make them more aware of fundamental aspects of an overwhelmingly agricultural economy and will also enable them to show the peasants by example that much can be done to meet their needs and solve their problems by the application of logical thought and imaginative improvisation. Educated people may also, of course, introduce disturbing urban ideas and standards, and, if there were renewed economic difficulties, the combination of discontented intellectuals and peasants might prove difficult to handle.

In 1970 however the economic situation showed further improvement. Immense efforts were made in the winter to induce peasants to undertake traditional works of flood control, irrigation, drainage, reclamation and terracing. Hundreds of thousands of men provided labour for some of these works. High-yielding seed strains of the kinds successful elsewhere in Asia were introduced in some areas. These require more elaborate techniques of cultivation, feeding and protection. They also require more labour, as does the increased use of double cropping, and to offset this mechanical aids are being introduced – especially rice-transplanters, both manually and power operated. Summer wheat in North China was affected by drought, but overall the grain harvest may have been larger, although the official description was "a fairly big advance," a phrasing which usually implies disappointing results. Much the same was said of industrial crops – China could use larger supplies of cotton, and has hitherto had to restrain planting in favour of food grains. The pig population, which declined dramatically in the

early 1960's, recovered well and greater supplies were available for export. China nevertheless has some way to go before attaining the targets of the 1956 Twelve-Year Agricultural Programme.

For much of the year small-scale widely spread local industries were promoted in terms which reflected the slogans of the Great Leap, but with greater emphasis on avoiding waste. Stress was laid on the need to accustom country people to industrial processes and on dispersal for military reasons. It was also hoped to gain some industrial development, without use of state funds, by investment of commune reserves accumulated after recent better harvests. These local industries were to produce fertilisers, farm tools and other supplies and to process farm products. Reports spoke also of the installation of thousands of water-mills and miniature hydro-electric stations to provide power for irrigation pumps, flour mills and processing machinery. Some of the raw materials and equipment used came from reserve stocks of urban plants. Even if the experiment was profitable, these reserves may now be exhausted and there are signs of renewed attention to larger-scale manufacturing. Production increased in various industries, especially light industry producing consumer goods, and shipbuilding. Many primitive coal-pits were opened and output, which had been inadequate, improved. Oil production expanded to the point where it was claimed to cover local demand. There was some investment in local transport facilities – one purpose of dispersing industry had been to reduce demands on transport.

The most striking new product during the year was an earth satellite. Its chief value lay in demonstrating again to the Chinese people that with thought and concentrated effort nothing is impossible. But it also reminded the outside world of China's potentialities. Relations with many countries, most strikingly North Korea, improved and a start was made with the largest single Chinese aid project, a railway over 1,000 miles long through Tanzania and Zambia. Diplomatic relations were established with several countries, including Canada and Italy. Although frustrated by the two-thirds rule, a majority in the United Nations voted for the seating of the Peoples' Republic. Trade expanded, with larger imports of machinery producing a deficit. Trade with Japan was especially buoyant, but concern was expressed that the enormous growth in the Japanese economy might lead to over-confidence and an expansionist policy. Relations with the United States were set back by events in Indo-China. Those with Russia eased, but may earlier have

influenced the dispersal of industry and the decision to expand the Navy.

The slogan "Walking on two legs" is used in China to express a policy of developing both large industry, which needs heavy state investment for equipment, expansion and infrastructure, and small-scale industry, which can be financed by the communities who use its products. The same need for balance applies to the use of indigenous and modern methods in industry, agriculture and medicine. It applies to education. This has to turn out enthusiasts with enough simple technical knowledge to enable them to lead the peasantry to use modern methods. It also has to supply sophisticated industry and science with highly-trained specialists: this was reflected in the revival of university courses. In agriculture lack of capital can be replaced by hard labour. But here too a balance must be struck. There was constant exhortation to emulate Tachai, a village on poor, dry, hilly, stony land transformed by sacrifice, self-reliance and hard work without thought of personal gain. But this Spartan ideal was balanced by trying to ensure that "the income of commune members is increased year by year." This involved greater emphasis on consumer goods, whose relative price is deliberately kept down so that peasant and urban incomes keep in step, continued toleration of private plots and the principle of "distribution according to labour." Although the population growth rate seems recently to have been at an encouragingly low figure, which reduces the pressure slightly, the problem always is to keep up the pace. There was therefore a constant barrage of admonition against complacency, indifference, slackness, laziness, timidity and the irrepressible tendency of peasants after harvest to relax and celebrate.

Japan

The success of the Liberal Democratic Party in gaining seats in the elections in December 1969 strengthened Mr Sato's position and in October he was re-elected President of the party for a fourth term of office. The Government continued to take a firm line with extremist disturbances and it became increasingly clear that it had public support in doing so. It had been feared that the determined minority opposed to the renewal of the Security Treaty with the United States might succeed in causing some disruption in the summer, but, in the event, the authorities had little difficulty in containing the demonstrations. In discussing the future preoccupations of the Government Mr Sato directed attention to domestic problems, including the control of inflation, the modernisation of agriculture, the reform of the

structure of the universities to eliminate legitimate student grievances, housing programmes and measures to check the rapid deterioration of the environment. Meanwhile the country celebrated its enormous economic success with Expo '70 at Osaka. This was visited by over 64 million people, almost all Japanese, and was a financial success.

The Security Treaty was automatically extended on 23 June. It seemed evident that popular doubts about the treaty and popular interest in the subject had greatly abated over the previous year. Consideration of the treaty was linked to the issue of self-defence. Japan spends only about 1 per cent of its national income on defence, as against over 7 per cent by Britain and over 11 per cent by the United States, and the resources so saved have made economic expansion much easier. The growing economic strength of Japan and its increasing investment in the Far East and South East Asia was a source of concern to China, but, despite unsatisfactory political relations, Japanese exports to China proved to be immensely buoyant. The USSR on the other hand continued to display interest in the possibility of Japanese investment in the Soviet Far East, though it flatly rejected Japanese suggestions that islands off the coast of Hokkaido might be returned. During the second half of the year lengthy and difficult attempts were made to reach agreement on restraints on Japanese textile exports to America. Textile products provide a declining proportion of total Japanese exports, but are nevertheless a valuable source of foreign exchange. The Japanese position is delicate both because the United States is its largest overseas market and because Japan itself operates a system of import quotas.

Further steps were taken to reduce import controls. By the end of March the number of products under restraint had been reduced to 98 and it was proposed to free 60 of these by December 1971. Import tariffs on motorcars were also to be reduced. The value of exports increased during the year by over a fifth and imports by well over a quarter. The balance of payments remained in surplus and the gold and foreign exchange reserves rose from US\$3,496 million to US\$4,399 million. In an effort to moderate this growth, which aroused foreign expectation that the yen might be revalued, restraints on Japanese tourist expenditure abroad were eased again and Japanese investment trusts were permitted to buy stocks quoted on some major foreign exchanges up to a total in the first instance of US\$100 million a year. The process of liberalising investment restraints was accelerated. From 1 September

full foreign participation was allowed in eight industries and in another 315 foreigners were to be permitted to hold up to half the capital of new concerns, though not of existing companies. Amongst the 315 partially liberalised were banks, but these remained subject to other controls. The limit on portfolio investment by foreigners in any Japanese company was at the same time raised to 25 per cent.

The steps taken to tighten credit proved to be somewhat more effective than had been expected. Wholesale prices, which rose more rapidly in 1969 than in any year since 1959, levelled off in May and fell back thereafter. Consumer prices continued to rise and late in the year were over 8 per cent above levels twelve months earlier, while wage rates in nominal terms were about 18 per cent higher. Consumer spending, however, became distinctly less buoyant and inventories began to rise steeply. By the winter the electrical goods, automobile and steel industries were cutting back production, in some cases very considerably, and diverting their sales effort to overseas markets. The target for steel production was reduced to 92 million tons, although this was still 6 per cent up on the previous year. At the same time capital investment slackened off to levels very little above those in 1969. Firms began to report sharp reductions in profits, and year-end bonuses to employees rose at a lesser rate than in 1969. Total bankruptcy liabilities for the year as a whole increased by over a quarter. The Bank of Japan's discount rate was therefore reduced on 28 October from 6.25 to 6 per cent and restraints on commercial bank lending were subsequently eased.

These difficulties in most cases involved a reduced rate of growth rather than a decline, while the shipbuilding industry, under pressure of demand from both foreign and domestic owners, was short of berths for large vessels for which it raised its prices. The rate of growth of gross national product in real terms was about 11 per cent, a result anticipated by the Government at the beginning of the year. There are nevertheless some very substantial problems facing the economy. There is an increasing shortage of labour. The population was estimated at 104.6 million on 1 October, only $5\frac{1}{2}$ per cent up on the 1965 census figure, and increasing numbers of young people are spending longer at school. There are in consequence far more jobs on offer than new entrants and wages have been rising very rapidly. Some Japanese firms have therefore been seeking to transfer labour-intensive operations to other countries with a surplus of manpower. Much Japanese industry however is still very

inefficient by advanced standards and there is scope for much greater output with the existing labour force. Productivity in manufacturing industry is on average under a third of that in the United States, while in mining it is under a fifth. Many people also retire at a much younger age than in most Western countries.

Many Japanese businesses are small by international standards. This has been a source of concern to the Ministry of International Trade and Industry which has tried to promote mergers as the prospect of reduced restraints on direct foreign investment and on imports has become more imminent. There have been some large mergers – in March two steel companies united to achieve a combined capacity estimated at 31 million tons a year. In the car industry, however, where sales growth in the home market has fallen away rapidly, three of the smaller units seemed likely to find themselves in partnership with large American firms. There is also the problem of the subsidised farming industry, which produces embarrassing quantities of expensive and unsalable rice. Above all there is increasingly urgent need, and an increasingly urgent public demand, for much greater expenditure on housing, roads, sewerage, hospitals and schools, on effective urban planning and on steps to control pollution. There is no doubt that Japan will have to divert energy and resources from purely economic ends on a very large scale if it is effectively to control destruction of the environment by urban and industrial sprawl and by the waste products of industry.

The Philippines

The conduct of the 1969 election campaign provoked vigorous demonstrations in Manila and elsewhere in which students were prominent. Despite a reaction to the violence of extremist elements, the strength of moderate feeling was sufficient to induce the President to reorganise his Cabinet and to accept the resignation of the head of the Constabulary. He also announced that he would not stand for a third term of office and called for reform and disbandment of the "private armies" of politicians. Amongst those advocating change were leaders of the Roman Catholic Church, who were encouraged by a visit by the Pope in November. Elections for a Constitutional Convention were held on 10 November. Because of popular pressure, serving members of Congress and other public officials were not allowed to stand, party activity was forbidden and electoral expenditure was restricted. Many of those elected wished to introduce constitutional changes which might induce a healthier political climate, but it is by

no means certain that, when the Convention is formally opened in June 1971, they will be found to outweigh those interested in preserving the existing system.

Inflationary election expenditure, accompanied by rapidly rising prices, a large balance of payments deficit and the imminent maturity of much short-term dollar debt, led the government to apply for an IMF stand-by credit and to take severe deflationary measures. The peso was allowed to float on 21 February and rapidly moved to more than P6 to the U.S. dollar. 80 per cent of earnings from the export of copper, timber, sugar and copra had however still to be exchanged at P3.90. The immediate effect was to reduce imports, hold up exports and deflate the money supply. Congress then passed an export tax, the split rate for the four commodities was lifted and export earnings and tax revenue rose. Outstanding external debts were successfully re-scheduled and there was a balance of payments surplus for the year of US\$27.2 million, as against a deficit in 1969 of \$67.6 million. International reserves rose to \$236.6 million as against \$125.9 million in December 1969 and the peso was held at P6.435 to the dollar from September. The trade balance was helped by a continued rapid expansion of copper exports and by considerably improved rice, maize and sugar crops – it was even possible to take up some of the American supplementary quota for sugar. Prices for coconut products were firm, but a good crop was damaged by unusually severe typhoons.

Manufacturing industry, however, suffered from the credit squeeze and its over-dependence on imported supplies. Unemployment continued to grow and domestic prices rose by 22 per cent during the year, despite a price control act, causing considerable labour unrest. Wages would appear to have fallen behind the cost of living over the past decade, even though new statutory minimum wages were enacted in the summer. The growth rate of the economy was thought to have fallen to 4.4 per cent. The government gave consideration to establishing economic relations with Communist countries and there was renewed discussion of the relationship with the United States and demands for revision of the bases agreement, though the announcement of the intention to return the Sangley Point naval station provoked local protests at the potential loss of income and employment. The Philippines needs foreign aid and investment to finance basic development and to create viable industries. The International Bank took steps to form an aid consortium at a meeting in Paris in October, but American and European private capital remained cautious

in view of the increasing tendency to restrict rather than to encourage foreign investment.

Vietnam

The centre of military activity shifted away from the more populous areas of South Vietnam, the Army increasingly took over the brunt of the fighting from American troops, and terrorist activity became less general. Security in the country districts continued to improve and it was possible to make further progress with the restoration of communications and other facilities. In Saigon in the early part of the year there were demonstrations by students and war veterans and some industrial unrest, which later subsided. Elections for provincial and other councils were held in June and for half of the Senate in August. There were no less than 17 lists of 10 candidates each in the Senate elections and two-thirds of the electorate voted. One of the three successful lists was composed of opponents of President Thieu, but he appeared to become increasingly confident during the year. Elections for the Presidency are due in September 1971.

The new land reform bill, designed to transfer rice land free of charge to the cultivator, became law in March. Four-fifths of compensation was to be in interest-bearing bonds, repayable over eight years, with the rest in cash. It was expected that American assistance would be forthcoming to meet the cost, estimated from US\$470 million according to the rate of exchange used. Title was transferred to 50,000 tenants in the last three months of the year and it was hoped, if sufficient funds were available, to complete transfer to the remaining 800,000 tenants by the end of 1972. It was also proposed to make credit and new techniques and machines more easily available to farmers.

The rice crop improved to over 5 million tons, but considerable imports were still necessary to reduce manipulation of the market. A project to quadruple the fish catch was begun. New proposals were under discussion at the end of the year to encourage investment, to set up a heavy industrial centre at Danang, and to turn Cam Ranh into a free port. Japanese concerns especially showed interest in participating in industrial development and several projects were started with Japanese participation to assemble cultivators and other light agricultural machinery. New products included newsprint and motorcars using imported mechanical parts. Work was begun on a new large thermal power station for Saigon and improved security made it possible to contemplate repair of the Danhim hydro-electric installations near Dalat.

The economy remained however highly

artificial. Exports expanded rapidly, but their value was still a tiny fraction of the import bill. This was met by American aid and by earnings from expenditure within the country by United States troops. Aid was maintained at a high level, but earnings declined as American units were withdrawn. Measures to reduce imports and control inflation encountered prolonged resistance from political groups and in September the Senate rejected the President's request for special powers to enable him to improve tax collection, to devalue the piastre and to promote economic growth. They did however pass a Bill which enabled the Government to introduce a parallel exchange rate of VN\$275 to US\$1, retaining the standard rate of VN\$118 only for such things as American official purchases and payments to students abroad. In September overdraft rates were doubled to 24 per cent a year and importers were required to make very large deposits when applying for import licences. These severe measures seemed to be effective. Import speculation was checked, the black market rate for the U.S. dollar fell back from VN\$440 to VN\$390, having already been over VN\$400 in February, and bank deposits rose. It seemed probable however that some inflation and stagnation would continue.

Thailand

The government began to adjust its policies to reduced American commitment in South East Asia and the spread of open hostilities into Cambodia. The Prime Minister announced in August that the Thai contingent in South Vietnam would be brought home and mobile units were set up to protect communications in frontier areas. Activity by Vietnamese was reported from provinces bordering Cambodia. It was decided not to send units to serve with the Cambodian army, but other aid was given and the railway link was reopened. There was satisfaction when North Vietnam offered to revive arrangements to repatriate Vietnamese from the north east. Measures to reduce discontent in this area made progress. The centre of dissidence shifted to the north, amongst the Meo minority, and the extreme south, where there was greater co-operation with Malaysia against the Malayan Communist Party and Malay guerrillas. Chinese road building across Laos towards northern Thailand caused anxiety and efforts were made to promote Accelerated Rural Development programmes in the north. Speculation was stimulated by Field Marshal Thanom's declared intention not to seek re-election as prime minister in 1972 and by the arrival in Paris from China of the former Regent

and Prime Minister, Nai Pridi Phanomyong.

A general effort was made to re-negotiate trade relationships and agreements were made for the first time with European Communist countries. Boundaries for oil prospecting on the continental shelf were discussed with Cambodia and a Japanese proposal was considered for an oil pipeline across the Kra Isthmus. The reduction of American expenditure, which had led to much investment in Bangkok, combined with a buyers' market for rice, created concern about the balance of payments and a wish to re-orient development policy. Thailand undoubtedly needs to diversify export products and markets, to control quality and to improve services such as Bangkok Port, which is affected by silting. External reserves fell in 1969 and 1970. There was continued anxiety over the balance and predominance of Japanese trade and investment and this gave point to proposals for new aliens legislation, with the basic aim of somewhat restricting new entrants. On 30 June decrees were issued imposing duties on luxury and other goods with a view both to reducing imports and the prospective budget deficit. Parliament, which displayed considerable independence, narrowly approved these decrees only after excluding the new duties on cement and petroleum products.

In the 1970/71 Budget almost three-fifths of expenditure was allocated to social and health services, education and economic development and a quarter to defence and internal security. The anticipated deficit, to be met by internal borrowing was thought likely to add about 10 per cent to money supply. Oil refinery capacity was increased during the year, but, apart from a petro-chemicals plant, no large-scale industrial development was contemplated. Promotional privileges for import-substitute plants, which have proved uneconomic, were cut back and much more attention was paid to producing and processing local agricultural and mineral products, with a view to raising rural incomes. Greater effort was directed into smaller public projects showing quicker returns, such as feeder roads and irrigation and electricity networks, so as to get full benefit from the major works already completed. Economic growth in the 1960's was rapid and energy consumption multiplied almost six times. The economy continued to grow in 1970, though perhaps at a slower rate, and prices remained remarkably stable. Thailand has substantial foreign exchange reserves and there seems no economic reason why it should not successfully adjust to reduced American spending and the new conditions in the rice trade.

Malaysia

Much thought was devoted during the year to restoring the communal harmony and balance on which the prosperity and future of Malaysia depends. During the first part of the year the country was still run by the National Operations Council. An advisory National Consultative Council was set up to hold private discussions amongst leaders of communities, professions, political parties and other groups, in the hope of reaching a consensus on the political framework within which progress could be made. In July the NOC introduced emergency ordinances designed to inhibit the raising of issues likely to inflame racial feeling. There was a substantial revival of confidence after the anniversary of the May 1969 disturbances had passed off quietly. The postponed elections were held in East Malaysia in June and the government succeeded in securing just enough support in Parliament to command the two-thirds majority necessary to amend the constitution. The Tunku then announced that Parliament and the State Assemblies would be convened in February 1971, that the curfew would be lifted and that restrictions on political discussion would be eased. He retired in September and Tun Razak was appointed Prime Minister. The new cabinet was carefully balanced, with some new members, including the Chinese chairman of the left-wing Sarawak United People's Party.

Contacts with Singapore became more cordial and diplomatic relations were restored with the Philippines. There was much closer co-operation with Indonesia. Tun Razak and President Suharto exchanged visits and a treaty of friendship and an agreement on territorial waters in the Straits of Malacca were signed. An effort was made to achieve a greater degree of co-ordination between Thai and Malaysian forces engaged against Malayan Communist Party guerrillas who had become more active along the border since the 1969 disturbances. The British decision to retain a modest presence in the area was well received and five-power military exercises to test the logistics of future collaborative defence were held in West Malaysia. The general foreign policy of the new government nevertheless moved appreciably in the direction of non-alignment. Tun Razak took part in the Lusaka Conference and then visited Yugoslavia and Rumania. Admission of the People's Republic of China to the United Nations was supported in principle and the idea was mooted that eventually a neutralised South East Asia might be guaranteed by China, Russia and America. The development of trade relations with Eastern European countries and the Soviet Union made progress.

Trade was less buoyant than in 1969. Provisional figures suggested that the value of exports had increased by under $1\frac{1}{2}$ per cent, though imports had risen by nearly 14 per cent. The favourable balance of trade therefore declined somewhat to about £145 million. This was still however sufficient to keep the current account balance of payments in surplus. Prices of rubber declined sharply up to October before making a slight recovery. The average RSS1 spot prices were about 56 cents a lb as against 70 cents in 1969. This weakness was due to reduced purchases by China and to uncertainties about stockpile disposals and strikes in the United States. Tin prices fluctuated considerably but were on balance somewhat higher, while volume of shipments was little changed. Export receipts from rubber declined by about 14 per cent and those from tin rose only by 3 per cent, but timber earnings rose by nearly 18 per cent to a total approaching that from tin. There was also a very large rise in the average price of palm oil, so that exports, which increased by 11 per cent in volume, earned three-quarters as much again as in 1969; it seems improbable that these exceptionally profitable prices will be maintained.

The substantial increase in imports reflected a revival in domestic investment and an inflow of external capital. The average percentage growth of private investment over the years 1965-1969 was 4.3, but in 1970 it rose to 18 per cent. In earlier years much investment went into tin mining, mostly for new dredges and modernisation of existing equipment, and into the oil palm and timber industries. Much recent investment however has been in manufacturing and has involved a large increase in imports of machinery. During 1970 the net value of manufacturing production rose by almost a quarter. Revenue from tourists has been rising rapidly and there are large plans for development, especially of the hill stations and of islands off the coast, some of which have considerable potential. International communications have also been developed. The satellite station at Kuantan was opened in April and Malaysian International Shipping Corporation began operations on the Far East-Europe route with a freighter of 12,959 tons.

A high proportion of industrial development in Malaysia in recent years has been in import-substitute industries, which unless unusually efficient tend to raise internal costs generally. Industrial wage rates are mostly below those in Singapore and Hong Kong, though above those in some other Far Eastern territories. It should therefore be possible to make labour-

intensive export industries profitable. Penang in particular is taking steps to attract export industries and tourists, as well as to recover some of its former entrepôt trade. There is also considerable scope for more processing of local products where this will attract sales, as is the case with Standard Malaysian Rubber. Caution has however to be exercised in order to ensure that export markets are not lost to the raw material, such as timber, without being gained for the processed product. The oil palm industry, which has grown so rapidly that Malaysia has become the world's largest exporter, is now going on, with government encouragement, to the production of refined palm oil.

Gross national product is believed to have risen in 1970 by over 5 per cent and consumer spending by well over 6 per cent. Nevertheless money supply increased by only $2\frac{1}{2}$ per cent and prices remained remarkably steady. Despite the considerable increase in private investment the stock market stagnated as a result of earlier speculative excesses and in consultation with Singapore the government took steps to regulate the market more effectively. The budget in December raised a number of import and excise duties and doubled the surcharge on all imports, except machinery and industrial raw materials, while abolishing the payroll tax. The second Malaysian Five Year Plan was due to start in January 1971, but was under revision at the end of the year, no doubt with a view to providing for more rapid development and a greater effort to stimulate employment. It was expected to continue to concentrate on agriculture and the village economy and to provide for increased government initiative where necessary in industry and commerce.

West Malaysia

The government has promoted agricultural diversification and small-scale handicraft and industrial development in the villages. It has also made substantial efforts to increase the local production of the staple food-grain, rice, by introducing more modern methods, including irrigation and double-cropping. Unfortunately in its early stages the main irrigation scheme, in the Muda Valley, has suffered from consumer resistance to the strain of rice grown, as well as from problems of organisation and peasant conservatism. One source of employment in rural areas disappeared during the year when two iron mines closed owing to inability to compete in the Japanese market. Diversification has included the cultivation of sugar, cocoa, and oil palm, which has proved highly profitable but requires meticulous organisation, as well as more small-holder rubber. Constant research is

undertaken to develop new processing and cultivation methods which will make natural rubber more competitive, including the production of crumb rubber and the use of new fertilisers, pesticides and tapping systems. A chemical stimulant has recently been introduced which when applied to the bark of rubber trees greatly increases yield without apparently doing as much damage as stimulants previously tried: its long term effects are as yet unknown. Many of these new techniques are however more suitable for estates than for small-holders.

The policy of the government is to maintain a high rate of economic growth, but at the same time "to encourage wider distribution of the benefits of progress." Tun Razak has made it clear that he is concerned to tackle problems of poverty in general and of rural poverty in particular and not just the needs of one community. The government is however well aware that Federal and State intervention to promote industry and to give experience and opportunities to those less accustomed to commercial and industrial activity has to be undertaken with great delicacy if it is not to waste resources and to discourage and hold back the enterprising, in which case it will merely impede growth without benefitting those it is designed to bring forward. This is especially so since it is by no means clear that the disparity between urban and rural incomes in West Malaysia is greater than in neighbouring countries. The problem in the rural areas, as with any traditional agricultural society, is that the modernisation essential to secure higher standards of living requires a very difficult process of adjustment.

East Malaysia

The elections in East Malaysia passed off more successfully for the Federal Government than it perhaps expected and made the return to parliamentary government much easier. In Sabah the Alliance secured all 16 parliamentary seats. In Sarawak both votes and seats were well divided. After the election the leader of the main party in the Sarawak Alliance brought off a considerable political coup by forming an alliance with the moderate leadership of SUPP, which had received the largest number of votes, though not of seats. This coalition provided the Federal Government with the two-thirds majority it had wanted in Parliament and enabled it to represent a wider spectrum of political attitudes. Armed activity by some hundreds of Communist terrorists continued in parts of Sarawak and the security forces mounted considerable operations to try to eliminate them.

Timber continued to be much the largest item of domestic export from East Malaysia. The Sarawak Government began to review licensing policy and the Sabah Government resumed 30,000 square miles of concessions and transferred them to the Sabah Foundation, a body in which all citizens in good standing were, it was announced, to be given free shares. The more easily accessible stands of timber have already been heavily depleted and shipments grew less rapidly than in earlier years. The new Malaysian Plan includes proposals to link Tawau and Lahad Datu to the east-west road and studies are being made of the possibility of a railway from Tawau to Kota Kinabalu. Either project might open up new timber areas, but extensive replanting seems nevertheless to be essential. Exports of wood manufactures from Sarawak increased and a fertiliser factory and an antimony smelter started production. The Sarawak Government is introducing a pepper marketing scheme with the stated aim of securing better returns. Price fluctuations depressed rubber exports from both states, but led to a steep rise in the value of palm oil exports from Sabah. 1,650 acres were planted to oil palm in Sarawak. There was a considerable drop in the trade surpluses of both states, due largely to heavy imports of transport equipment and machinery.

Singapore

The President died in November and was succeeded by Professor Benjamin Sheares, a distinguished gynaecologist. In April a Presidential Council, including some leading citizens who were not members of the People's Action Party, was set up to perform some of the functions of a second chamber. There were seven by-elections in April designed to introduce new PAP members into Parliament. Five were uncontested, but a newly-formed opposition group, the United National Front, secured almost a third of the votes cast in two constituencies. Dr Goh Keng Swee became Defence Minister again and was succeeded as Finance Minister by one of the new members. Mr Hon Sui Sen, former head of the Economic Development Board and later of the Development Bank of Singapore. The Prime Minister took part in the Lusaka Conference and then made an extensive tour of countries in South Asia, Africa and Western Europe, as well as the United States, the USSR and Japan. He promoted efforts to develop Singapore's relations with her immediate neighbours and also made it clear that he believed that the British intention to maintain some forces in the area would contribute to stability.

The published adverse trade balance increased during 1970, owing to a much larger recorded rise in the value of imports than of exports. The figures give a distorted picture, owing to the omission of trade with Indonesia, and have in the past understated the extent of the deficit by recording onward shipments, but not entry, of Indonesian rubber. Since the value of trade with Indonesia was believed to have declined and average rubber prices were lower, the actual deficit may have risen less than appeared. There was a distinct decline also in exports to West Malaysia. The main growth in exports in recent years has been in crude materials and oil fuels, as a result of the expansion of oil refinery and distribution operations. Domestic manufactured exports have increased in value, but have provided a reduced proportion of total exports. Imports from the three most important suppliers of consumer and industrial goods, Japan, the United States and Britain, expanded considerably. As the entrepôt trade falls away again it seems essential for Singapore to try to promote domestic exports and it is surprising that the Government has hitherto not felt able to start an export credit insurance scheme.

An increasing shortage of labour, caused by the success of investment promotion and a building boom, led the Government to revise incentives for industrial investment in favour of large sophisticated capital-intensive projects, as against labour-intensive undertakings. Important projects were announced by British and Dutch manufacturers of electronics and pharmaceuticals. The major oil firms continued to expand their refineries and lubricant plants and consideration was given to the development of a petro-chemicals industry. Prospects for heavy shipbuilding seemed less promising and proposals for a dock at Sembawang capable of taking ships of 400,000 deadweight tons were postponed. There was however great activity in the construction and servicing of light vessels, off-shore rigs and other oil exploration equipment and indeed signs that too many yards might be competing for the limited skilled labour. The largest source of investment continued to be the United Kingdom. There was unhealthy activity in new issues on the Stock Exchange and measures were taken to regulate the market. Banking legislation was also revised, with provision for a monetary authority. There were almost a third more tourist visitors than in 1969. In view of the prospect, however, that luxury hotel accommodation might exceed immediate demand, some projects were abandoned.

1970 was a more prosperous year than had

perhaps been expected in view of the reduced buoyancy of international trade. There were nevertheless some signs of over-heating. Prices rose and it proved impossible to continue to hold down wages. It seemed that heavy expenditure on capital equipment for industry, hotels, offices, public services and infrastructure might strain the balance of payments. There was also danger of undue expansion in some industries, both in relation to demand and to the available labour force. There was a substantial shortage of engineers, technicians and skilled labour, and it would seem that the proposed shift towards technical and vocational education should be supplemented by more training and up-grading of labour within industry itself. Almost one-third of government expenditure is spent on defence and this must be a strain, although national service has valuable educative side effects and took large numbers of new entrants off the labour market at a time when unemployment was a major concern. Singapore has been lucky as well as resourceful. From 1963 the entrepôt trade fell away because of confrontation but British military expenditure increased substantially. From 1966 reduced British expenditure and lost prospects of a Malaysian common market were offset by a revival of entrepôt services to Indonesia and by the oil exploration boom. Indonesia is now increasingly anxious to service its own trade and mineral exploitation. It may nevertheless be expected that Singapore will find plenty of opportunity to exercise its talent for providing vital services for its neighbours.

Brunei

The two-year notice of termination of the 1959 agreement with Britain was due to take effect on 30 November. The Sultan's father, the Seri Begawan Sultan, Sir Omar Ali Saifuddin, visited London in the summer, after the British election. It was subsequently announced that the British Government had agreed to keep Gurkha troops in Brunei for some time and that the Sultan would arrive in London in November for talks. Agreement was reached at these talks on a temporary arrangement by which the United Kingdom would retain responsibility for the Sultanate's defence and external affairs and would station a Gurkha battalion in Brunei. More permanent arrangements would be made in the light of the results of the five-power defence talks to be held in Singapore early in 1971.

The Legislative Council was dissolved in April and new members were subsequently nominated by the Sultan. The State continued to be governed by the Sultan, the Seri Begawan

Sultan and a Council of seven nominated and ex officio members, including the British High Commissioner. It was expected that under any new arrangements the High Commissioner would in future have purely diplomatic functions. The only opposition party in existence displayed little activity and the Government seemed to be held in popular esteem, which was reflected in the welcome given to the change of the name of Brunei Town to Bandar Seri Begawan in October.

Work was begun on the very large natural gas liquefaction plant at Lumut. This is designed to produce 4 million tons of liquid gas a year and contracts provide for the sale of a minimum of 65 million tons to Japan over 20 years. The plant will cost US\$120 million and to build it large numbers of labourers have had to be imported, as well as skilled workers, engineers and technicians. Production is expected to start towards the end of 1972. Exploration for further oil and gas sources proceeded actively and a new strike was made 22 miles off shore. Brunei Shell's production rose to 142,000 barrels a day. The considerable capital costs incurred by Shell to increase oil production led to a drop in tax receipts. This shortfall was expected to continue in 1971 and the budget provided for a deficit. Development should however lead to higher royalty and tax revenues in later years. The favourable balance of trade was maintained, with slowly rising oil exports and somewhat higher imports of capital equipment. The Government continued to undertake substantial development expenditure on the airport, water supply schemes, Muara Port, electricity generating plants, sewerage works and roads.

Indonesia

Preparations for the 1971 elections were continued although there were many who doubted the wisdom of diverting attention from economic development. The Government tried to ensure that the outcome of the elections should not weaken its position and seemed well placed to achieve this. The press and students focussed attention on the problem of corruption. A number of arrests were made and a Presidential Committee with wide powers to investigate the subject reported in July. Thereafter the personal holdings of senior officials and the workings of the national oil corporation, Pertamina, a particular target of criticism, were investigated. The Indonesian armed forces have promoted a wide range of economic undertakings. It is intended to reduce the size of the Army and in the process no doubt to separate its military and economic activities – the head of Pertamina was amongst many senior

officers retired from military duties during the year. It is also intended to reduce the civil service and to re-organise state corporations. Salaries in the public services, hitherto so low as to make irregularities inevitable, were raised by 50 per cent and a further large increase is proposed. It was claimed that security had greatly improved and one potential focus of opposition, the first President of Indonesia, Dr Sukarno, died during the summer.

President Suharto visited the United Nations and a number of foreign countries. In the United States and at the Lusaka Conference he stressed his determination to follow an independent policy. Relations with Malaysia and the Netherlands improved markedly. The Soviet Union and Western countries arranged to re-schedule debts owed by Indonesia on generous terms. Debt repayment must nevertheless constitute a very heavy burden for the future. The USSR agreed to resume work on its earlier aid projects, while in December the Western consortium promised US\$640 million in aid for 1971/72 under easier conditions. There was a continued inflow of private investment. For both foreign and domestic investors, depreciation rates and the period during which losses might be carried forward were improved and maximum corporation tax rates were reduced, though with some extension of the dividend tax. Efforts were begun to get companies to base their operations in Indonesia itself and Pertamina undertook to build a communications and office centre with housing for foreign oil company employees. It is also hoped to develop Tjilatjap as a centre for oil-based and other industry.

In April import restrictions were somewhat eased and exchange transactions were simplified to a general rate of rupiah 378 to US\$1, with, until December, a special rate for imports under aid agreements. The general exchange rate remained stable and there was an inflow of funds, since interest rates though reduced were still surprisingly high. In order to encourage development of a money market, Bank Indonesia began to issue three month negotiable bearer certificates at $3\frac{3}{4}$ per cent discount; from the end of December these were to be sold by tender. The level of time deposits increased by a quarter during the year. Exports of oil rose by over 16 per cent in value and of other goods, despite lower prices for rubber, by over 17 per cent to a combined total estimated at US\$1,163 million. Imports, 31 per cent of which were capital goods, increased by nearly a quarter to US\$1,130 million.

In January increased prices for petrol and paraffin provoked violent student

demonstrations, but it was officially claimed that price inflation had been kept to under 9 per cent during the year, as against 10 per cent in 1969, even though money supply had risen by almost two-fifths as a result of greater economic activity. With inflation checked and government controls reduced, industrial output and capacity began to expand, especially in textiles and rubber processing. Products are mostly essential consumer goods, but include fertilisers and cement, while motorcars and motor-bicycles are assembled. There was increased production or substantial development in copper, nickel and bauxite mining and four new oil strikes were recorded with an anticipated combined production of 100,000 barrels a day. The rice crop, as a result of improved seed strains and more water and fertiliser, is thought to have been almost 1 1½ million tons, a level which still necessitates substantial imports. In order to achieve even better crops credit facilities are being improved, and very substantial progress has been made with the restoration and extension of irrigation schemes.

Most Government development expenditure was allocated to communications and power supplies and over 1,850 miles of roads were rehabilitated. Resources were also devoted to family planning, public health, water supplies and education, though much more needs to be done. There is extensive unemployment and at the same time a lack in both urban and rural occupations of men with any technical training. Twelve technical schools were started and 120 other vocational schools were restored or extended during the year, while increased facilities were provided at university level. There is a great need for wider use of modern methods and more local initiative, especially in the villages. The Government has tried to persuade unemployed university graduates to work in village community projects. It hopes to stimulate local expenditure by offering villages matching grants for projects to improve irrigation, roads, and storage, milling and marketing facilities, which are badly needed as rice production increases.

India

The difficulties which beset a minority government compelled Mrs Gandhi to concentrate on the task of remaining in office and consolidating her position. This she did with increasing confidence, but inevitably policies were taken up or avoided for reasons of political advantage rather than for their intrinsic importance. The Act purporting to nationalise the 14 largest commercial banks was held by the Supreme Court in February to be

invalid because it discriminated against the owners. It was promptly replaced by a new Act which avoided this pitfall. Later, in December, the Court quashed the presidential order withdrawing recognition of the former ruling princes and ending their privy purses and privileges, on the ground that privy purses were property and as such absolutely protected by the Constitution. This was generally regarded as an issue on which Mrs Gandhi could expect popular support. Parliament was thereupon dissolved and arrangements were made for central and West Bengal elections to be held in the spring.

In March the government suffered a setback in elections to the Upper House, but voting for these was indirect and may have reflected the factionalism of politicians rather than popular opinion. In subsequent state and central by-elections the ruling Congress was much more successful and in the state elections in Kerala in September secured the largest share of seats—32 as against 9 for the undivided party at the previous election. This result was brought about more by a change in electoral alliances than by a movement of votes, since the Marxist Communist Party still received many more votes than Mrs Gandhi's supporters, but it was a triumph nevertheless. The ruling Congress seemed to be the only party with electoral support widely spread over India and therefore the only party with a chance of achieving a coherent overall majority in the Lower House, although efforts were made by the opposition Congress to form a broadly based electoral alliance. There is little doubt that India would benefit from having a government again which could concentrate on policy rather than survival.

Mrs Gandhi secured an increasingly dominant position within her own party and this, if she is successful in the elections, should make for more decisive government. She reshuffled her cabinet in July, transferring the finance portfolio to Mr Chavan and herself taking the home ministry and control of a number of other important matters, such as industrial licencing, intelligence and the appointment of officials. The opposition Congress did not seem to make progress, except possibly in Tamil Nadu and Gujerat. Almost all the other parties showed as much tendency to split as Congress and a number of states suffered from chronically unstable governments, including the largest state, Uttar Pradesh, where Mrs Gandhi had at the end of the year failed to prevent formation of a government by a coalition of opposition groups. Further concessions were made to regionalism and several new states were set up or accepted in

principle; the creation of larger numbers of smaller states does not however necessarily weaken the centre. There were alarming communal disturbances, especially in Western India, but much the most unstable state was West Bengal, whose left-wing coalition government collapsed in March in a welter of strikes, riots and political murder. The imposition of president's rule led to some improvement, but not enough to encourage the revival of existing industrial activity or the new investment the state badly needs.

Because of this political instability full advantage was not taken of the more favourable economic situation. The average standard of living, especially in the countryside, may have risen, but certainly not by as much as might have been hoped after the stagnation of the 1960's. Too great a priority had to be given to sharing the cake and too little to increasing its size. Some policies seemed indeed designed to inhibit growth – notably a new industrial licencing policy intended to prevent the largest industrial concerns from expanding into a wide range of activities and the long-standing tendency to deny firms in certain industries the right to make fuller use of existing installed capacity.

Other policies worked in a manner not envisaged when they were first proposed. Steps were taken to funnel four-fifths of imports through state trading corporations by the end of the year. In some cases the practical effect was to impose an additional intermediary between the manufacturer and his original source of supply, so reducing flexibility and contributing to inflated prices. Cotton prices in particular rose in November over 90 per cent above the support price in reaction to a failure to respond rapidly to a shortage. Nationalisation of the leading commercial banks led to a large increase, as had been intended, in the number of accounts and branches, though not always in the areas with fewest facilities, and to an increase of advances to agriculture and small-scale activities which led to a higher rate of credit expansion. This may however have gone into stocks and consumption rather than into production. At the same time deposits rose more slowly than in the previous year, so that already by February the Reserve Bank had to tighten controls on lending to the priority sectors.

The monsoon was the fourth good one in succession and should make possible another relatively satisfactory grain crop; that for 1969/70 was over 99.5 million metric tons as against 95 and 94 million tons in 1967/68 and 1968/69. There were signs however that

the rise in wheat production might be slackening off and there was a distinct shortfall in the use of fertiliser. The production of pulses, an important source of protein, was less than in some earlier years, while that of several commercial crops, including cotton, remained at inadequate levels; yields for cotton are little over a third of the world average. Owing to the rapid growth of population even the food-grain results cannot be regarded with complacency and substantially increased allocations for agriculture and for irrigation and flood control were made in the annual plan for 1970/71.

The recovery of industrial production was sluggish. Increased rural demand was therefore reflected in rapidly rising prices after a period of relative stability. Many industries continued to produce well below capacity. Both local and foreign capital seemed to be reluctant to embark on new investment. Import duty on machinery was raised to 35 per cent and delays in securing industrial licences continued. The government felt unable to support measures to attract new foreign investment, except for a few highly sophisticated products, and instead pressed for foreign holdings in existing concerns to be reduced to a maximum of 40 per cent. The larger and therefore probably more dynamic Indian firms were excluded in principle from developing capacity to produce a wide range of products, where this did not require very heavy capital investment. This seemed likely to impede development on just those labour-intensive industries which might best help to reduce India's growing unemployment problem. Mrs Gandhi herself pointed out in parliament that the alternative to allowing large concerns to expand might be stagnation.

The Indian rate of savings is lower than in many other Asian countries, a situation to which the quite exceptionally severe rates of direct tax on higher income levels must certainly contribute. These rates were raised even further in Mrs Gandhi's Budget in the spring. On balance however her proposals suggested that she might wish to shift the burden of taxation more on to expenditure. If carried further this might produce a more satisfactory savings position. The intention to reduce the level of deficit spending under the Fourth Plan as against the Third Plan and the subsequent annual plans may help to reduce inflationary pressure which should also encourage savings.

In the public sector the steel plants, which have enormous accumulated losses, continued to produce well below capacity, even though there was a shortage of steel. Mrs Gandhi decided in April that a new steel plant should be granted to each of three southern states. No

significant new reserves of oil were found and plans for petro-chemical plants remained under consideration. The plan for 1970/71 provided for a much smaller increase in expenditure on industry and minerals than for other sectors, including electricity, social services and transport, and, in the Fourth Plan as a whole, targets for fertilisers, alloy and special steels, sulphuric acid, crude oil, iron ore and paper were reduced. In general the states, notably the Punjab, where progress in industrial production has been most marked have been those least favoured with large-scale state sector industrial projects.

The growth of Indian exports remained inadequate by world standards. Export earnings are still heavily dependent on jute and cotton manufactures and on primary products such as tea and iron ore, though engineering goods have begun to make a more substantial contribution. The two main exports received some badly needed encouragement; export duties on jute goods were modified and those on tea were abolished, while world prices for tea improved. In 1969/70 foreign exchange reserves rose steeply owing to a sharp fall in imports. During 1970 however imports began to rise again, while for much of the year exports were below those in 1969. Both probably reflected improving consumption and industrial activity within India. If the elections should lead to a government with a secure majority it is possible to hope that it may pursue, in practice if not in theory, a more rational economic policy in order to take advantage of the opportunities, which undoubtedly exist, for economic expansion.

Ceylon

Elections for a new House of Representatives were held on 27 May. The United National Party, which had held office since 1965, received more votes than any other party, but retained only 17 seats. Mrs Bandaranaike's Sri Lanka Freedom Party won 91 seats out of 151 and her allies in the United Front, the Lanka Sama Samaja and Communist parties, 25. In coalition the three parties had therefore the two-thirds majority needed to change the constitution. The new government proposed to create a socialist democratic republic, using the Lower House as a constituent assembly, and to abolish the Senate, which however can delay change. There were also proposals for elected committees in businesses, government offices and territorial districts, designed to associate the public more closely with administration, while large numbers of senior civil servants and managers of state corporations have already been replaced. The

performance of most state corporations has been unsatisfactory – it is to be hoped that these changes do not reduce their efficiency still further.

The UNP had given priority to increasing agricultural and industrial production and achieving self-sufficiency in foodstuffs. Real gross national product a head, which was stationary in 1965, began to grow – in 1968 by 6 per cent and in 1969 by 3½ per cent, despite a severe drought and declining tea prices. This improvement however did not immediately benefit personal incomes throughout the population and the halving of subsidised rice supplies, even though the remaining ration was free, was unpopular. Wages rose sharply in 1967, but between May 1968 and May 1970 consumer prices outdistanced minimum wage rates in agriculture and industry by 15 per cent. Unemployment also proved intractable, not least amongst the new educated classes.

The United Front by contrast set less store by economic growth and advocated restoration of the full subsidised rice ration, a comprehensive scheme of social insurance, and extensive nationalisation, Ceylonisation, and control or guidance of banking, industry, commerce and plantations. It also promised additional expenditure on education – this should if possible be concentrated on technical education, since there is already an excess of arts graduates. Diplomatic relations with Israel were suspended and recognition was extended to East Germany, North Korea, North Vietnam and the Vietcong. These actions seemed, despite a rice loan from China, to have an adverse net effect on foreign aid and on attempts to re-schedule existing debt, while support for the boycotting of trade with South Africa ran into the difficulty that that country is a major customer for high quality teas.

On taking office the government complained of a critical shortage of foreign exchange, as did the UNP in 1965, and of the burden of foreign debt. It has shown caution in implementing its programme. The second measure of rice was restored to the ration, so increasing foreign debt obligations, but at a higher price than had been expected. No immediate steps were taken to nationalise foreign banks or to stop them accepting Ceylonese accounts. The FEEC system, a form of selective devaluation which has raised consumer prices, was maintained. The budget in October provided for a capital levy, more progressive income tax rates, some increases in turnover taxes and in excise and import duties, and higher port and postal charges, but the only unexpectedly harsh proposal was a compulsory savings scheme,

linked with ceilings on company dividends and individual incomes. It was however intended that all import and export trade should be handed over in the New Year to a new State Trading Corporation, and all wholesaling to the Co-operative Wholesale Establishment, while selling prices were being fixed for consumer goods. These proposals are unhappily reminiscent of the disastrous "Burmese Road to Socialism."

There was fortunately a distinct improvement in the performance of export commodities. In particular the long decline in prices for tea was checked. As a result the balance of payments deficit was substantially reduced despite increased rice purchases. Severe cuts in imports, especially of raw materials, machinery and transport equipment, contributed to this fall, but affected production and employment in manufacturing industry as stocks ran down. Some existing import-substitute industries are certainly uneconomic and the government believes that Ceylon should concentrate on small industries which are labour-intensive or use local machinery and raw materials, and on those larger industries efficient enough to succeed in export markets. The desire to avoid expensive foreign technology also led to the design, planning and supervision of the massive Mahaweli irrigation and power scheme being placed in untried local hands. This may prove a false economy – in some fields experience and sophistication, even if foreign, pay in the long run.

Mauritius

The coalition government formed by the Labour Party, the Parti Mauricien Social Démocrate and the Comité d'Action Musulman remained in office with a large majority. There were however divisions in the PMSD, some of whose members opposed participation in the coalition. The radical Mouvement Militant Mauricien won a by-election in September with a large majority on a high poll. This may compel the government to take up a more radical posture, though in the long term its electoral support will depend on its success or failure in providing employment. The high prices received for the large 1969 sugar crop produced a degree of prosperity, and the relative stability of internal prices meant that there was little industrial action. The population growth rate was believed to have declined again – percentage growth had already fallen from 3.2 in 1962 to 1.62 in 1968 and 1.55 in 1969.

The sugar crop suffered cyclone damage and was 576,200 metric tons, 14 per cent less than 1969. The London market price rose by half

during 1970, but total earnings fell by about £3 million. The 1971 crop was affected by some lack of rain in December. The longer term future was overshadowed by the prospect that Britain, which buys over 70 per cent of total exports, might enter the EEC, which has a large sugar surplus. Capital expenditure by estates was abnormally low in 1969, but revived in 1970. More molasses was produced and was sold for better prices. Fibre production declined and another factory closed, while the value of the tobacco crop fell by nearly two-fifths.

Production and acreage of tea has begun to go ahead and should be stimulated by firmer tea prices, while some progress has been made with rice cultivation. The main items in the government's development budget for 1970/71 were £2.2 million for tea and £3.4 million for an irrigation scheme covering 85,000 acres.

The balance of payments surplus for 1970 was expected to be about £2.5 million as against £4.3 million in 1969 and £1.6 million in 1968. Bank rate was reduced to 6 per cent in July, while for exports other than sugar re-finance was made available below bank rate. Over 20,000 tourists visited Mauritius in 1969 and 30,000 were expected in 1970. The government promised support for a hotel building programme which is expected to provide 1,200 extra beds within three years. The closing of Suez has diverted some traffic to Mauritius, including cruise liners. Producers of wigs, toys and industrial gloves have already taken advantage of the Export Processing Zones Act, which is designed to attract investment into labour-intensive export industries. It offers very substantial tax and other advantages to supplement the attraction of cheap and adaptable labour. A factory to produce 100,000 tons of fertiliser a year, two-fifths for export to Réunion and the rest for home consumption, should be in production in 1972 and a fish canning factory in May 1971. Other projects are being investigated and there are encouraging prospects of increased industrial activity.

Conclusion

There are fashions in planned ways of achieving industrial development in Asian countries. One nostrum which has begun to lose its attraction is that of "import-substitute industries." As was noted at the Second Asian Conference on Industrialisation in Tokyo in September, a number of countries have recently realised that these industries may actually increase imports and have begun to try other specifics. The two most favoured have been "export-oriented industries" and industries based on indigenous supplies. The latter, in theory, avoids the need

for imported raw materials and components, though not of course for imported capital equipment. The former should dispose automatically of the difficulty that import-substitute industries, being protected, only produce at very high prices; always provided of course that exports are not themselves subsidised by high prices in a captive home market.

It was also noted at the Tokyo Conference that planning would not ensure development unless backed up by very effective implementation. But one reason why poorer countries lag behind is that they seldom have the managerial knowledge and experience which such implementation requires; while, if they do have men of the necessary calibre, they ought to be running industry itself, instead of sitting in secretariats. Sophisticated managerial knowledge and experience is the scarcest of all resources in poor countries. It is essential for the effective use of skilled manpower, capital equipment and raw materials, and is more difficult to transfer than technical knowledge. Where it is locally available it should not be hampered by the intervention of officials and ministers, who, however intelligent and well meaning, must in the nature of things be amateurs. Where sophisticated management is not locally available, but all the other factors required for efficient manufacture of a particular product are, the most sensible course is to throw the field open to foreign enterprises with the necessary experience who believe that they can, without subsidy or protection, make an investment in the product profitable.

Complexity is even more difficult to handle than scale and those who seek to manage the whole economy of a country, especially a large one, are certain to make more and larger errors of judgement than if effective management decisions are taken less comprehensively. One advantage of expanding industry by way of many relatively small private undertakings is that learning by experience is nationally less dangerous at this level, provided, of course, that proprietors are not shielded from the necessity to be efficient by subsidies or by internal or external protection. Moreover the more concerns there are, the more people will learn to take entrepreneurial decisions.

Some manufactures must be produced on a large scale in order to be competitive, because of the need for heavy capital, research and development expenditure. In these cases it is usually sensible to buy such goods on the international market. For instance large quantities of some products are used in Hong Kong industry which could only be produced

and consumed locally at the cost of lower overall efficiency. An industry which is to sell overseas must have free and immediate access to the most competitive sources of machinery, raw materials and other factors of production, including technical and managerial talent. The ability to make balancing investment, or small technical changes, or even to secure minor items needed for maintenance quickly, can often be of great importance to efficiency. Even when they appreciate the manufacturer's needs, planning and licencing officials will, by their very existence, prevent quick action and waste time and energy which should be spent on promoting production and sales. This is especially so where, as recently in India, such matters as the import of raw materials have been put into the hands of ponderous state monopolies.

Planned economies with large public sectors have additional disadvantages. State industrial plants have almost invariably been decided upon by people who will not have to make them run profitably and for reasons which often have nothing to do with economic efficiency; but, having been put up, few states can bring themselves to allow them to stand idle. The pyramids, the favourite method by which Ancient Egyptian planners provided employment to keep people out of mischief in the agricultural off-season, had the great advantage that once built they did not have to be operated and maintained. The products of modern state heavy industry on the other hand, however uncompetitive, have to be forced on other local industries by putting up licencing and tariff barriers to competitive imports.

Large-scale industrial and commercial units can achieve economies of scale, though it is by no means certain that they will always do so – it has been shown recently for instance that it is not the four biggest American airlines which produce the best results, but the much smaller medium-sized airlines. Large state corporations too can be run efficiently, but it is highly improbable that they will be – it is far too easy to escape the discipline of competition. In Ceylon for instance average productivity in state concerns is only 57½ per cent of the average in private enterprises. State industry is, therefore, usually a drag on the efficiency of industry and the national economy as a whole. In India states compete to be awarded these large plants, but it is very doubtful if they confer real benefit even on the states which secure them. It is noticeable that the Punjab, whose development is concentrated on the private sector and which has no large state industries, has an economic growth rate many times the Indian average and an income per head which is over twice that of India as a whole.

Japan's shipping problems...Cambodian rubber cultivation...20-year plan for Burma...Philippines' sugar worries...More Mekong development

Memo

JAPAN'S SHIPPERS: FAR FROM SATISFYING DEMAND

DESPITE the boom in Japanese shipbuilding, the country's shipping lines carry a small share of Japan's total foreign trade. Although its aggregate merchant tonnage accounts for 14.6% of the world total, and though it is growing by over 13% a year, the fleet carries only 38.8% of Japan's exports and 48.1% of its imports.

Chartered foreign vessels carried last year 17.3% of export goods and 12.7% of import commodities. The rest had to depend on foreign vessels operated by more than 30 non-Japanese shipping companies now based in Japan. The country's shortage of vessels particularly for imports of bulk commodities (oil and other mineral ores), most of which are virtually nonexistent in Japan, is the cause of a chronic and structural disease: a heavy deficit in the shipping account in Japan's international payments balances.

The deficit has risen steadily, from US\$497 million in 1965 to nearly double that figure in 1970. In the debit, a major factor was the freightage payable to foreign operators (chartered and non-chartered) which accounted for over 50%. Such excess payments over receipts create less impact on the national coffers now, given the surpluses in the external balances, than in the past (when trade surpluses were always more than neutralised by excess spending in non-trade areas); but render the industry vulnerable should the surpluses decrease.

Japan's shippers have found their profit margins hit by the competition for the country's export cargoes — and some carriers under the Japanese flag have even sailed half empty. This has exacerbated the industry's already severe problems.

While freight rates are standardised on the basis on freight agreements, inroads by non-conference ships and effects of the freight war have hurt the less competitive Japanese operators. Generally speaking, the industry has re-

covered from the severe depression of the early Sixties through mergers and reorganisation. But the unsuccessful "ship Japanese" campaign is still managing to obstruct efforts fully to containerise the industry in which Japan still lags far behind the US.

Part of the problem in expanding container operations is US opposition. No sooner had Japanese shippers started considering containerised services across the Pacific, than American operators objected that the programme (seven ships on the Japan-New York route, to be operated jointly by several major firms) would "run counter" to American domestic laws on "fair trade" practices.

Similar charges are bound to arise as Japan competes increasingly against American operators who now enjoy a commanding position in the Pacific Basin area. While efforts must be made to increase container capacity, competent observers feel the basic need for the industry is fuller loading of Japanese ships in order to improve the still basically inadequate reserve and liquid positions.

TOURISTS DESPITE STRIKES IN INDIA

SCORES of foreign correspondents and cameramen in India to cover the parliamentary elections are sore that they could not do their jobs satisfactorily because of wildcat strikes in the state-owned Indian Airlines, which operates all domestic routes. IA flights have been seriously upset by what employees say is a policy of "work to rule". Many flights have been cancelled and others are delayed by several hours.

BUSINESS REVIEW

In spite of this an recent government release revealed India had more foreign tourists in 1970 than in the previous year. A total of 280,821 foreign tourists came last year, recording an increase of 14.8% over the corresponding figure of 244,724 for 1969. Of these 206,531 tourists came from affluent countries — America, Europe, Japan and Australasia. Earnings in foreign exchange from the tourists in 1970 are estimated to be Rs380 million as against Rs330 million in 1969.

The 1970 figures indicate that after the traditional markets of the US and Britain, tourist movement from France and Germany was increasing fast. Arrivals from France recorded an increase of 39.2% with 16,832 arrivals over the previous year's figure of 12,094. Compared to 1968 is figure of 8,786, tourist traffic from France almost doubled during the year.

Arrivals from Germany increased from 9,862 in 1968 to 14,222 in 1969 and to 16,685 in 1970. Canadians numbered 7,026 in 1970 compared with 4,846 in 1969 and 3,575 in 1968. The percentage increase in 1970 over the corresponding figure in 1969 was 45% — almost double 1968's rise. American tourists in 1970 totalled 65,819, a percentage increase of 14.1 over the previous year's figure of 57,682.

Rubber: PHASING RECOVERY

BY ROBERT NORTON

Phnom Penh: Probably the biggest loss to the Cambodian economy caused by the war has been the stoppage of rubber cultivation. In 1969 rubber exports amounted to some US\$21,000,000 or roughly 40% of the total Cambodian exports. Unlike rice cultivation, which still continues in most parts of the country, all activity having anything to do with rubber has been halted. This is largely

due to the location of the plantations. Situated in the eastern region where the well-drained basaltic soil helps the trees flourish the area is also the most hotly-contested and therefore insecure area of Cambodia.

Before Prince Sihanouk was deposed it was an open secret that the French planters, who controlled more than half of the total hectares of rubber planta-

tions, were paying taxes directly to the Vietnamese communists occupying the border areas. Although there have been feelers to the Cambodian government about the possibility of allowing the French to reopen the plantation at Chup, most observers here feel the present government is not about to tolerate the tacit re-establishment of French-guerilla relationship that Sihanouk winked at in the past.

Despite wide fluctuations in the international rubber market in the last few years, Cambodia has had little trouble marketing its rubber. This is largely because of the high quality rubber produced in the country's rich red soil as well as modern methods which have been constantly introduced by the industry. Although gathering latex and processing it into crude rubber is still essentially a hand operation requiring many man-hours, the Cambodians have experimented with new and more productive methods of bleeding and have grafted highly productive strains, bringing a considerable rise in the yield per hectare.

Cambodians, unlike the Thais who find it perennially difficult to unload their poor-quality rubber produce on the world market, made heavy investments and before the war engulfed the nation were reaping just rewards. Successful rubber cultivation requires a great deal of investment before returns can be realised since seven full years are required before latex is finally produced in a tree and maximum yield is only reached in the 15th year.

And despite claims that synthetic rubber is driving the rubber prices down, natural rubber is more and more being used to reinforce synthetic rubber. The menace from the rubber market is not excess, but shortage, since world consumption has been rising rather than falling.

A large part of the Cambodian success story regarding rubber cultivation had been the somewhat liberal policies of the former government. Unlike most other sectors of the economy neither rubber nor rice production was put under state control, encouraging many "family plots" to operate. Although 45,590 hectares were run by French companies and the state controlled another 5,279, some 19,131 hectares were run by the private sector in the last few years. Since the French companies, and to a lesser extent the Cambodian government, picked up the tab for experimentation with stock improvement and cheaper methods of latex production, the private sector was able to

benefit from innovations in production with little cost for investment. And rubber cultivation is profitable. According to a rentability calculation, a family with three hectares of rubber trees has an average revenue markedly higher than the same area of land used for the cultivation of other crops, including pineapple, coconut, palm, coffee, cocoa and rice.

The complete halt to all rubber production has thrown roughly 20,000 workers out of work, but as in other sectors of the economy this large pool of unemployed has been sopped up by the ever-expanding Cambodian army.

Although it is difficult to estimate the exact damage the war has had on plantations, future reconstruction costs (mostly of rubber treatment factories which have been almost totally destroyed) are estimated at US\$14-15 million. Since the abandonment of the plantations over a long period of time results in a sharp decrease in yield per tree, future losses caused by diminishing latex yield are impossible to calculate. Some Cambodians place the figure as high as \$130 million and claim it will be 15 to 20 years before full production, but this figure reflects the costs of total replacement of all trees — of little likelihood since the present communist strategy seems to be one of depriving the present government of rubber revenue, but not completely destroying the country's rubber producing capacity for an entire generation.

Last year the Lon Nol government created a General Commission of Hevea (rubber) Cultivation which has been drawing up plans to resume production as soon as security in the area permits the resettling of the former population. The plan is divided into three phases. Phase one is the repair of factories and

other destroyed installations and the maintenance of the trees.

Phase two is a short-term programme which will go into effect as soon as the plantations have resumed normal activity. This programme will include the creation of both public and private organisations composed of controlled production with that of small holders. The third phase is a long-range project which envisions the extension of rubber production into the fertile but largely under-populated areas of Kompong Cham, Kompong Thom, Kratie and Ratanakiri provinces. Eventually this will provide some 60,000 new jobs, but Cambodians are aware that this phase — requiring vast field studies and huge investments — will come about only well after peace returns to Cambodia.

PLANNING

Plan for a Plan

BY A CORRESPONDENT

Rangoon: The Burmese Way to Socialism has been remarkable for its lack of integrated national economic planning, but the nine-year-old omission seems about to be made good. Ne Win's BSPP (Socialist Programme Party), in a document titled "Guide to Economic Planning", has set guidelines for a 20-year economic plan from 1971-72.

The plan apparently is to be styled by the recently reconstituted BSPP Economic Planning Committee headed by Ne Win, and will be split into five four-year stages. The priorities laid down by the "Guide to Economic Planning" are: Expansion of agricultural, meat, fish and timber production to increase exports of these products.

- Establishment of industries based on

Farm productivity is on the up and up — in roadside hoardings.

David Baird





Come and look Kathmandu in the eye.

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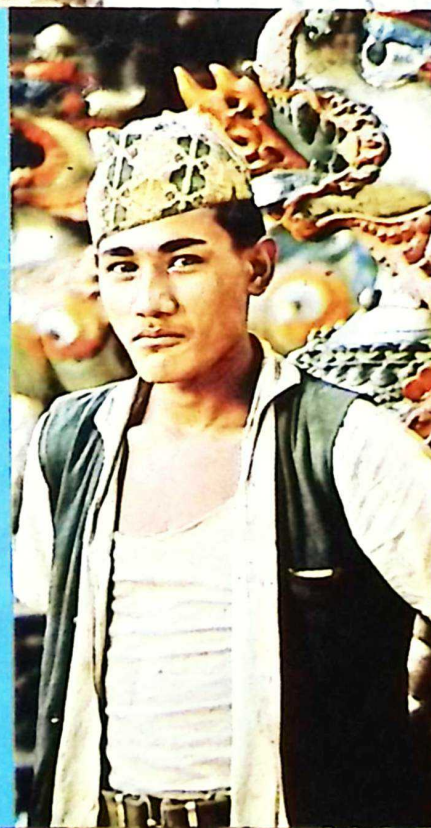
There's a monastery on a hilltop just outside the city of Kathmandu where the temples have huge, dream-like eyes painted on them.

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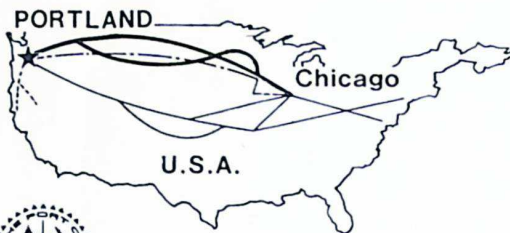
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these products to produce important substituting consumer goods.

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The guide also fixes production targets for different sectors of the economy for the first four years. The GNP is to increase by 19% at the end of the first plan period (1974-75), and per capita output and consumption by 8% and 9% respectively from the base year of 1970-71. Agricultural production is to increase by 16%, meat and fish by 440%, teak 11%, crude oil 52%, minerals 386% and industrial production by 20%. No specific targets are set for power, construction, transport, finance, trade, social affairs and general administration sectors, but an indication is given of what should be done to improve efficiency, avoid wastage, combat corruption and increase production.

State organisations and co-operatives are to be the main arms of the plan; private enterprise is to be allowed only in areas such as farming on hillsides, domestic animal breeding, cottage industries and retail distribution (under strict state supervision) of uncontrolled goods — all regarded as too petty for state agencies or co-operatives. Private enterprise will be banned from the fishing, mining and chemical industries, power generation and supply, banking and credit, foreign trade and wholesale distribution.

The guide thus is a plan for a plan. It gives merely a strategy of development based on the BSPP's economic philosophy which is characterised by strong Marxist distrust of market mechanisms and private enterprise. But pending the formulation of a plan, it will serve as the basis of all economic measures to be taken by the Revolutionary Government from next year.

The guide's targets may or may not be achieved — much depends on the availability of suitably trained, dedicated and honest technical and managerial personnel and a disciplined labour force. But the guide holds promise, at least, of a brighter economic future.

A much-needed dose of realism has also been injected into Burma's bid to raise agricultural production and achieve self-sufficiency in important areas of the economy. At the recent rallies organised for Peasants' Day, the usual exhortations were heard for the rural population's support in building a prosperous socialist state. But more vital to the peasants' was the later announcement that the Trade Ministry was raising the purchase prices of 12 crops.

Action was clearly needed on this

score because of the previous lack of incentive to grow crops which the government sees as essential if the economy is to be put on its feet. Despite improved irrigation, agricultural loans, more fertilisers and calls for greater effort, production of many commodities has actually decreased.

Because of declining sales of rice — still the main foreign exchange earner with 50% of the total — the peasants have been encouraged to cultivate such crops as pulses, maize and jute. The results have been disappointing. Between 1964-65 and 1969-70 the population went up 12% but production rose only 9%. And while the population continues to increase — birth control is virtually unknown in Burma — production may actually fall, according to last year's budget report.

Burma's continuing decline in foreign exchange reserves made some move to boost production more and more pressing. Price increases include 5% to 20% for pulses, 14% for sugarcane and — most importantly — up to 50% for cotton. Self-sufficiency in textiles is one of the government's principal targets but progress has been slow.

The country's cotton mills need 70,000 bales a year but could only obtain half that amount because acreage under cotton actually dropped to 50% of what it was in 1963-64 (670,000 acres). With new mills coming into production, further incentives were needed.

At the same time the campaign goes on to organise the peasantry into an effective revolutionary organisation. More than 5.7 million peasants of a total 17 million are now reported to be organised under 9,294 primary peasants' councils. But even Central Peasants' Council Chairman Colonel Thaung Kyi admits that all is not well with these bodies. He says a large number have not met regularly for such reasons as communications difficulties, inability of some members to give time to the work and plain lack of interest.

DEVELOPMENT

Exploring the Mekong

BY LANCE WOODRUFF

Bangkok: Born in the high mountains between Tibet and Szechwan, Asia's most political river — the Mekong — flows out of China through Burma, Thailand, Laos, Cambodia and Vietnam carrying a livelihood to millions as it continues on its course to the sea.

For both food and transportation it



Lance Woodruff

Japanese and American professors study Mekong model to plan excavation.

serves as the focus of life for countless people along its main channel and tributaries. Historically the river has been both a boon and a bane to these people, but today there are increasing attempts to make it a more positive economic factor even as the threat of floods is eased through large-scale dam construction, carried out under the auspices of ECAFE (Economic Commission for Asia and the Far East) through the Mekong Committee composed of Cambodia, Laos, South Vietnam and Thailand. The committee is now conducting major projects whose completion dates are in the 1980s and is considering others which might not be complete for another 100 years.

Asian and Western specialists at the Asian Institute of Technology in Bangkok, last year commissioned by the Mekong Committee to study navigation problems in the Mekong River, recently recommended that the international body excavate a wider, deeper channel in a rapids-troubled section of the river at Keng Kabao, a Lao village 33 kilometres upstream from the Laotian town of Savannakhet. The rapids are one of the worst navigational hazards along the Mekong between Savannakhet and Vientiane, a stretch which carries 60,000 tons of goods each year. The indications are that much more river commerce will be in store if the enlarged channel becomes a reality.

In March, April and May the river's discharge drops from its maximum volume of 30,000 cubic metres a second to as little as 1,000 cubic metres, and this low flow makes shipping through the rapids almost impossible. In the past

engineers have tried to remove rocks and other obstacles blocking the navigation channel through the rapids, but when rock was moved from one point, an effect was registered elsewhere.

The Mekong Committee commissioned the Asian Institute of Technology to build a model to research the excavation proposal with a grant of US\$30,000, which was used for building detailed concrete models of the riverbed and channel. Co-operating in the venture are an American, a Japanese and two Thai professors.

ECAFE Executive Secretary U Nyun views the Mekong River as a sleeping giant, and the fact that others believe as he does is borne out in the international support which has come to a focus in the Mekong projects, which altogether have been financed by Australia, Cambodia, Denmark, France, Germany, India, Italy, Japan, the Netherlands, Pakistan, the Philippines, the United Kingdom, the United States and the United Nations Development Programme.

SUGAR

Souring Grains

BY BERNARDINO RONQUILLO

Manila: Filipino sugarcane planters and millers are getting worried over the possibility the sugar they are shipping to the American market will get sour soon. With an annual quota of 1,126,020 short tons in the US, the Philippines is today the leading overseas supplier of the world's biggest consumer of sugar. Because 60% of its total production has to be sold overseas and only the premium American market can absorb the high-cost Philippine sugar, Filipinos have no alternative market at the moment.

Annual output is now approaching 2.2 million tons compared to the annual average of 1.8 million tons during the last five years. It is expected to rise to 2.4 million tons by 1974 or earlier. The Philippines therefore has to retain its present quota as a minimum goal. The maximum target is to secure a larger quota.

But many factors have come up to reduce Philippine chances of even maintaining its quota in the US. A sugar bonanza in the US which has spurred mainland producers to seek a larger quota for themselves. A strong lobby by Latin American producers to secure larger quotas has begun. If granted it will be at the expense of the Philippines and other suppliers. And the US State Depart-

ment's changing attitude toward Cuba and the new US House Committee on agriculture which includes some well-known protectionist congressmen indicate a change in the US market.

Just as serious a roadblock to Philippine chances of maintaining its favoured position in the American market is the poor image of the Philippines in the US, especially as far as the top policymakers in Washington are concerned. This image has developed mainly as a result of the mounting surge of economic nationalism measures in the Philippine Congress. While all these measures were apparently designed to satisfy the clamour for reforms in the social and economic systems and ostensibly to put more businesses and factors of production and distribution in Filipino hands, some of the major pieces of legislation already approved can easily be interpreted as "anti-American".

One measure which has already passed the senate requires reciprocal air rights from foreign governments whose airlines have been granted landing rights in the Philippines. This is directed mainly at the US, which has so far not allowed Philippine Air Lines to exercise "fifth freedom rights" — rights to fly the northwest Pacific route from Tokyo to the US west coast via Honolulu. Pan American Airways and Northwest Airlines would likely face cancellation of frequencies they have already and deprive them of Jumbo jet or 747 facilities.

Not only would Philippine tourism



Sugarcane ready for harvesting: 60% still goes to a changing US market.

suffer a severe blow, but the sugar industry, the country's top dollar earner, might not be able to maintain its quota and therefore its US\$200 million annual contribution to the economy. The US Sugar Quota Act of 1965, now up for revision, specifically provides that the US may cancel the quota of any country that discriminates against US interests.

The other side of the industry's image concerns planters' relations with workers. In the last several months planters were charged in newspaper exposes as "exploiters" of labour. They have admitted that over 20% of workers may still be underpaid or receiving less than the minimum wage required by law.

While in other countries the growing of sugarcane is highly mechanised, in the Philippines the industry is labour intensive with a ratio of at least one worker to a hectare against one worker to every 10-20 hectares in other countries.

Steps are now being taken to police the industry so payment of the floor wage will be observed strictly. In time, according to industry spokesmen, better utilisation of surplus labour on farms may be affected as planters and millers make greater efforts to industrialise and create new job opportunities, enabling them to upgrade efficiency as well as elevate salary standards.

Contrary to common belief, the industry is not controlled by a few "hacenderos" — big sugar landowners. In the 1969-70 crop, for instance, some 30,000 planters were involved in growing sugarcane on about 353,000 hectares, which actually places the average size of a sugar farm at just around 11 hectares. Thus the cost of producing sugar is still high.

What makes the Philippine system of sugar growing unique is that it is virtually a co-operative enterprise between planters and millers. In other producing countries both the growing and milling are handled by syndicates or combines.

One big project both the millers and planters have agreed on will establish and maintain a foundation for workers — not only to insure maximum income and benefits from work on the farm but to provide other opportunities to advance skills and income power through retraining programmes and vocational and technical schools. The programme also includes the creation of consumers co-operatives and co-operative credit unions to enhance the welfare and interests of workers and the industry as a whole.

All these securities having been sold, this announcement appears as a matter of record only.

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Up and Down

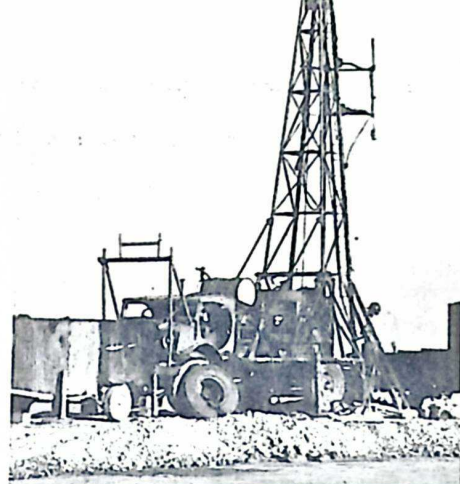
BY ROBIN BROMBY

Wellington: The search for minerals and oil in New Zealand began in earnest in 1969 and 1970 with a rash of exploration companies floating issues on the stock exchange. The New Zealand investor could not part with his money fast enough, visions of a quick profit spurred on by the find of crude oil by an international consortium off the western coast of the North Island. Issues were wildly oversubscribed and share prices rocketed to new price peaks; the prospecting companies, meanwhile, exuding optimism.

Now the same shares are at rock-bottom prices, local investors have lost huge sums of money and one company particularly is almost a dirty word. Yet paradoxically the prospects for an economic mineral and oil exploitation industry have never been better.

The end effect of this situation will be that foreign capital will have to be encouraged to finance exploration for which New Zealand capital is no longer readily available. So discouraged have local sharebuyers become that large parcels of New Zealand Petroleum Limited are being sold to American investors — thus gradually reducing local control.

The giant American oil company Magellan cancelled plans to let New Zealanders buy shares in its exploration subsidiary here when it saw the share market slump. Practically all the oil concessions are now in the possession of foreign companies, mainly Australian and American but with some



A nickel mining site: The "find" turned out to be four years old.

French, Dutch and British interests represented.

Shell-BP-Todd have already discovered the Maui offshore field which in the view of oilmen will eventually produce more natural gas and oil than the huge Bass Strait field in Australia. This consortium is keeping the details of Maui a very tight secret until a price for the natural gas has been negotiated with a top-level government committee. But authoritative sources confirm that two permanent deep-sea drilling rigs have been ordered by the consortium signifying there is a huge reserve in the field.

While foreign companies take the pickings of oil areas, the Australian and Japanese are about to leap into New Zealand's mineral industry. Australian companies are now negotiating joint ventures with small New Zealand mining companies; the Japanese have made approaches to the government about setting up ilmenite and silicon ventures.

New Zealand investors appear to have been discouraged by the miners' poor share market performance but the Australians and Japanese have obviously

been encouraged by progress so far. A huge platinum deposit has been uncovered in the far north, gold and silver are now being mined in small quantities and scheelite mining is just about to get off the ground.

Most local companies involved are all small and few have a paid up capital anywhere near US\$1 million. A great deal of this money has been spent on exploration and drilling. The only place these companies can go for an infusion of the vast amounts of capital needed to sink shafts and build processing mills is the large overseas companies. An attempt in the current climate by any of these companies to raise further money by issuing more shares locally would probably fall flat on its face despite the already proven deposits.

The situation has been made worse by the irresponsible statements that are an inevitable part of the mining business. Other oilmen shuddered when the president of Texas-based Republic Oil Company announced that his company's small and unpromising concession areas in New Zealand could be compared to the oil fields of Texas and that looking for oil in this area was "hunting in elephant country". This was followed within days by an Australian company, Western Compass, claiming it had discovered a valuable nickel and copper sulphide area. Government scientists hastily assured the public this "find" had already been examined four years previously and was considered not worth extracting.

But should the foreign owned companies come to control highly profitable oil and mineral deposits in the future, New Zealand is likely to see a repetition of the bitterness which in the past has been aimed at large overseas enterprises.

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April 1, 1971

Quotations for Selected Asian Shares

AUSTRALIA

Industrial	Yield %	Closing April 2, Bid/Asked
Ampol Petroleum	8.20	0.61/ 0.65
Aust. Cons. Industries	6.33	1.58/ 1.60
Bank of N.S.W.	3.38	6.06/ 6.10
Broken Hill Proprietary	1.66	14.85/14.90
Colonial Sugar Refining	2.08	6.00/ 6.06
Dunlop Australia Ltd.	9.57	1.15/ 1.18
G. J. Coles & Co.	7.59	0.79/ 0.80
Rothmans of Pall Mall	8.16	1.96/ 2.00
Aust. Ind. & Mining	—	1.00/ 1.01
Woolworths	8.00	0.75/ 0.76

Mining

Broken Hill South	3.35	3.28/ Nil
Carr Boyd Minerals	—	Nil / 1.00
Consolidated Goldfields	1.95	7.70/ 7.80
Conz, Riotinto of Aust.	0.88	11.30/11.40
Great Boulder	—	3.10/ 3.12
Hamersley Holdings	—	5.40/ 5.50
Metals Exploration	—	5.30/ 5.60
M.I.M. Holdings Ltd.	3.92	3.75/ 3.78
Mt. Lyell	7.47	2.00/ 2.05
North Broken Hill	4.15	1.80/ 1.82
North Flinders Mines	—	0.65/ 0.77
Pacific Copper	—	1.85/ 1.90
Peko-Wallsend	1.23	11.20/11.30
Poseldon	—	41.00/41.50
Queensland Mines	—	22.80/23.00
Renison	3.92	9.00/ Nil
Samlin	—	5.20/ 5.40
Tasminex	—	Nil / 1.15
Triako Mines	—	0.38/ 0.40
Western Mining Corp.	0.37	5.18/ 5.20
Western Nickel	—	0.95/ 1.05

Oil

Ampol Exploration Ltd.	1.95	1.28/ 1.32
Beach Petroleum	—	0.40/ 0.50

JAPAN

	Closing April 3 Yen	Yield %	Price-earnings ratio times
Ajinomoto	307	3.26	11.9
Bank of Tokyo	183	2.93	13.0
Bridgestone	294	3.40	7.2
Calpis	1350	1.11	17.4
Canon	260	2.88	15.3
Citizen Watch	125	7.20	8.6
Dai Nippon Printing	284	2.82	11.7
Dalwa House	660	1.51	16.8
Dowa Mining	159	3.14	11.1
Ebara Mfg.	290	2.93	12.3
Elsal	520	1.92	8.8
Eldai	702	1.78	14.6
France Bed	311	3.22	16.9
Fuji Photo Film	410	1.83	10.4
Fujitsu	381	1.57	22.7
Hitachi	119	6.30	8.8
Hitachi Koki	453	1.87	11.2
Hitachi Mach.	197	3.81	11.2
Honda Motor	170	5.29	4.4
Honen Oil	99	4.04	11.4
IHI	91	6.59	8.2
Japan Gasoline	680	1.84	8.7
Kajima Const.	314	3.66	12.3
Kaneka	290	2.59	8.8
Kao Soap	305	3.28	8.0
Kashiyama	555	1.80	20.7
Komatsu	212	4.01	11.4
Matsushita Elec.	526	1.90	11.3
Matsushita Elec. Wks.	610	1.64	17.6
Midoriya	270	3.70	10.5
M'bishi Edogawa Chem.	89	6.74	8.0
M'bishi Estate	206	2.91	19.7
Mitsui and Co.	196	3.57	12.2
Mitsui Real Estate	535	1.40	25.6
Mitsukoshi	318	3.14	13.0
Morinaga Milk	115	5.22	9.1
NCR	603	4.83	16.4
Nippon Elec.	229	2.84	14.8
Nippon Hodo	1010	1.14	16.4
Nippon Kogaku	417	1.80	14.6
Nippon Musical	516	1.94	10.2
Nippon Oil	114	5.26	8.4
Nippon Steel Corp.	56	8.93	9.9
Nomura Securities	210	3.33	7.8
NYK	110	3.64	22.4
Olympus Optical	206	3.64	12.4
Pioneer Elec.	832	1.20	10.9
Ricoh	315	2.38	8.1
Shiseido	1081	1.15	14.9
Sony	3900	3.80	53.0

HONGKONG

	Closing Sale Rate April 2	High	Rates 1971 Low	Yield %
Taisei Const.	224	4.46	11.5	
Takeda	311	2.73	7.2	
Toa Road	590	2.03	18.8	
Tokio Marine	321	1.71	22.7	
Toray	114	6.58	5.6	
Toshiba	72	8.33	9.3	
Toyo Kogyo	206	3.88	13.2	
Toto	650	1.23	20.1	
Toyota Motor	376	2.13	9.0	
Yamaha	645	1.16	18.0	
Dow-Jones Avg.		2,384.73		
Up on week		9.68		
New Tokyo Stock Ex. Index		175.62		
Up on week		2.05		
H.K. Bank	172.00	193.00/159.00	3.01	
London Reg.	166.00	177.00/141.00	3.12	
Bank of E.A.	112.00	119.00/104.00	3.57	
Lombard Ins.	45.00	45.00/43.00	6.67	
China Ind.	9.00n	9.00/9.00	Nil	
Hutchison	20.50	23.20/20.30	5.60	
Hutchison-Boag	6.00	6.90/5.60	7.00	
Allied Invest.	7.10	8.70/7.10	7.04	
H.K. Invest.	13.60	14.80/13.10	5.14	
Loan & Invest Ex.Div.	4.50	5.85/4.20	4.88	
Vic Int'l Inv.	10.70n	10.70/10.70	1.12	
I.P.S.C.	6.40	6.75/5.80	2.18	
Wheelock	14.20	15.70/13.20	5.63	
U. Waterboat Ex.Div.	15.00n	15.00/13.50	10.00	
Asia Nav.	6.30	7.50/6.30	2.38	
H.K. Wharf	32.50	33.00/29.80	4.30	
H.K. Dock	11.10	11.50/9.95	4.05	
China Prov.	41.00	43.25/40.25	5.36	
Talkoo Dock	79.00	85.50/77.00	7.08	
H.K. Land Ex.All	99.00	114.00/94.00	5.30	
H.K. Realty	2.625	3.00/2.575	4.57	
Humphreys	34.50	38.00/34.50	6.37	
Local P. & P.	40.00	40.00/38.25	6.87	
H.K. Hotels Ex.Div.	27.50	32.00/27.40	5.57	
City Hotels	22.90	28.00/22.90	6.98	
Wynnecor	10.80	14.00/10.80	7.40	
Asso. Hotels	7.85	9.35/7.70	9.55	
Chi. Est.	17.40n	1800.00/17.30	5.75	
H.K. Dev. Ltd.	6.50	6.80/6.20	9.23	
Star Ferry	15.50	16.70/15.20	5.48	
Yaumati	66.50	73.00/66.00	6.76	
H.K. Tramway	14.30	15.60/14.00	6.64	
K.M.B.	39.00	45.00/37.00	4.48	
C.M.B.	34.25	34.50/34.00	5.25	
Peak Trams	38.00n	38.00/37.00	6.58	
(P. Pd.)	19.00n	19.00/19.00	6.58	
China Light	35.75	37.50/34.50	3.74	
H.K. Electric	23.60	25.30/23.00	4.23	
Macao Electric	5.00n	7.20/4.30	Nil	
H.K. Tele. Ex.All	25.50	55.50/24.50	3.92	
H.K. Gas	17.30	19.40/16.90	6.35	
Jardine	33.25	35.00/31.00	2.85	
G.I. Cement	28.80	32.25/28.40	Nil	
Metal Ind.	7.45	7.75/7.10	9.06	
Amoy Can.	53.00n	54.00/53.00	7.55	
A.E.C.	8.50	10.10/8.50	7.05	
B & S Industries	14.50	16.80/14.30	4.82	
Watson	102.00	106.00/98.50	6.37	
San Miguel	75.00	83.50/74.00	6.66	
HAECO	88.50	93.00/85.00	5.64	
Dairy Farm	61.00	65.00/57.50	5.16	
Lane Craw.	27.00	28.30/26.00	5.55	
Sincere	12.20	13.40/12.00	3.27	
China Emp.	75.00	75.00/58.00	2.00	
Sun Co. Ltd.	4.80	5.70/3.30	5.21	
K.S. Hong	430.00n	440.00/420.00	3.95	
Wing On	180.00	187.00/177.00	4.44	
China Ent.	35.00	46.00/32.75	6.11	
H.K. Const.	22.50n	22.50/17.50	4.44	
Vibro (Holdings)	4.80n	4.80/4.80	Nil	
Paul Y. Const.	6.10	7.25/6.10	9.01	
Gammon (H.K.)	16.20	17.50/16.20	4.62	
Zung Fu	6.40	6.75/5.90	7.81	
Ch. Engineers	6.45	6.75/6.30	9.23	
Yangtsekiang	4.55	4.85/4.50	10.43	
Textile Corp. Ex.Div.	7.75	9.15/7.60	7.74	
Nanyang Mills	15.30	16.20/15.30	9.80	
S. Sea Textile	20.80	22.30/20.40	9.61	
T.A.L.	18.00	20.60/18.00	9.44	
Winsor	15.30	17.10/14.70	9.47	
Smart Shirts	12.30	13.50/12.00	8.13	
Tajmahal's	7.00	7.40/7.00	10.00	
Nan Fung Textile	5.15	6.15/5.00	12.42	
Rubber Trust	10.80	13.00/10.80	13.88	
A. Rubber	2.75	3.30/2.75	10.90	
Shanghai Kel.	2.00n	2.30/1.90	12.50	
Sungala	2.85n	2.90/2.85	12.27	
n - Nominal				

Dividends Declared

Talkoo Dock	Fin.	\$2.00
Gammon (H.K.)	Fin.	\$0.50
S. Sea Textile	Bonus 1 for 10	
	Fin.	\$1.00
A. Rubber	Bonus	\$0.50
H.K. Aircraft Engineering	Int.	\$0.07
Engineering Co. (H.K.)	Fin.	\$3.80
Slater, Walker Securities	Bonus	\$1.00
	Fin.	18%
		(4.50 new pence)

Hang Seng Bank Index

(July 31, 1964 = 100) Daily closing prices at H.K.S.E.

Mar. 29, Monday	205.40
Mar. 30, Tuesday	209.83
Mar. 31, Wednesday	210.81
Apr. 1, Thursday	210.38
Apr. 2, Friday	210.01

Turnover for the week ending April 3 was:

Hong Kong Stock Exchange	\$50,948,000.
Far East Exchange	\$68,860,000.
Kam Ngan Stock Exchange	\$19,800,000.

H.K. Open Market Transactions

March 29-April 3

HK\$ per US\$1	High	Low
Tel. Transfer	6.03375	6.01625
Demand Draft	6.02625	6.00875
Notes (Big)	6.02125	6.005
HK\$ per tael, forward		
Gold (99% fine)	294.00	290.875

Foreign Exchange Rates in Hongkong

March 29-April 3

HK\$	Closing	High/Low	T.T.
Australian \$	6.76	6.775/6.75	6.836
Belgian Franc*	12.20	12.20/12.20	12.25
British £	14.55	14.55/14.55	14.614
Burmese Kyat*	40.00	40.00/40.00	129.00
Camb. Riel*	6.00	6.00/6.00	†
Canadian \$	5.99	5.99/5.97	†
Ceylon Rupee*	40.00	40.00/40.00	102.80
French N.F.	1.095	1.095/1.095	1.10
W. German DM	1.665	1.665/1.655	1.671
Indian Rupee*	50.00	50.00/48.50	81.40
Indo. Rupiah*	1.62	1.62/1.62	†
Italian Lira*	0.94	0.94/0.94	†
Japanese Yen*	1.65	1.65/1.61	†
Korean Won*	1.80	1.80/1.80	†
Laotian Kip*	1.10	1.10/1.10	†
Malaysian \$	1.96	1.96/1.96	1.984
Neth. Guilder	1.675	1.675/1.675	†
New Zealand \$	5.95	5.95/5.95	6.858
Pakis. Rupee*	57.00	57.00/56.00	128.30
Philippine Peso	0.86	0.86/0.86	†
Singapore \$	1.96	1.96/1.96	1.984
S. Afr. Rand	8.00	8.00/8.00	8.552
Swiss Franc	1.40	1.40/1.40	1.413
Taiwan NT*	15.20	15.20/15.00	†
Thai Baht*	28.20	29.30/28.20	29.00
Viet. Piastre*	1.71	1.71/1.71	†

* 100

† not listed; calculated at the end of transactions.

SOURCES

Share Quotations — Australia: By courtesy of Commercial Investment Co., Ltd., Hongkong; Japan: By courtesy of Nomura International (HK) Ltd.; Hongkong: Weekly Report, Hongkong Stock Exchange, Ltd. Share Index — By courtesy of Hang Seng Bank Ltd., Hongkong. HK Open Market Transactions — Daily Commodity Quotations, Hongkong. HK Foreign Exchange Rates — Deak & Co. (Far East) Ltd., Hongkong.

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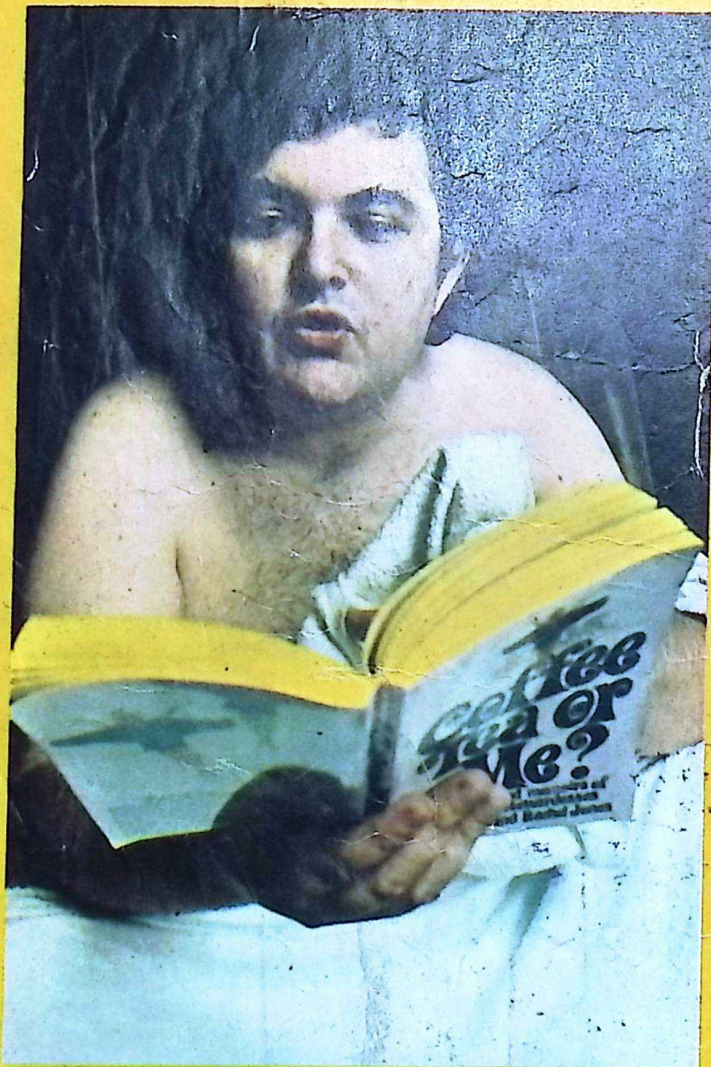
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