The Debt Crisis and its Impact on the Development of Southeast Asian Countries

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Editors' Note:

Due to space constraint, *KASARINLAN* did not include the tables in this article. However, those who would like to get their copies may write us and we will mail photocopies of the tables.

I. Genesis of the Debt Crisis

The creation of the debt crisis in Southeast Asian countries involves an international cast of characters: the less developed countries (LDC); the developed countries (DC); the central and international commercial banks in the First World; the transnational corporation (TNC); and the International Monetary Fund (IMF) and the World Bank (WB).

The beginning of the crisis was the 1972 oil crisis. During this time, oil prices had pushed up inflation at a faster rate than the real interest rate. In 1971-1980, the average real interest rate derived from the London Interbank Offer Rate (LIBOR) on US Dollar deposits minus the US wholesale price increase was 0.8 percent; real interest rates were negative on average for the decade[1]. With interest rate low compared to inflation, LDCs tended to borrow more, figuring that the prices for their exports would be huge while payment interest would be low. International commercial banks encouraged LDCs to borrow more and more with little regard to future consequences.

Banks lent excessively to LDCs, notably those in Southeast Asia and South America. The amount of loans they provided at this time was obviously impudent given the level of exposure these banks have to countries with debt servicing difficulties. In fact, for the US banking system as a whole and some of the largest US banks in particular, exposure to developing countries poses a substantial potential of vulnerability. The high leverage of the nine largest banks in the US at the beginning of the debt crisis can be shown in terms of their loans being twenty times as large as their capital.[2] Significantly, these banks' central governments did not intervene. What this shows is that these banks, as agents of the TNCs and the global capitalist community, were and are much more powerful than their central governments.

The TNCs, for their part did not need much prodding. The banks' lending (both from off-shore and local sources) had paved their way. This liquidity was advantageous to the TNCs' policy of financing their foreign investments in LDCs. The TNCs had excellent credit ratings and could easily compete with local business for this capital. It is well known that a large part of the TNCs' source of fund for investment is from savings in LDCs. The local business has to compete with TNCs even for funds generated within its own country. It is said that for every 0.41 cents foreigners directly invested in the Philippines, they borrowed $100 from the local banks during the period 1960-1977. The case of Thailand is not much different. It is found that the Japanese and the American subsidiaries borrowed 57% of their long-term loans from local sources in Thailand.[3]

To properly lay the ground work for TNCs, all the LDCs targetted for loans were made to follow an export-oriented development policy by the IMF and the World Bank, the surrogates of American Capitalism and the Asian Development Bank, the instrument of Japanese Capitalism as well as other capitalist countries to penetrate Southeast Asia. Thus, LDCs had all recently experienced a kind of division in their population. On the one side were the farmers (more or less no different than they were generations ago) who are indifferent or quite unaware of the subjugation of their country by the capitalist community. On the other side was a western-educated and westernized elite with a stronger bond to the capitalists in the First World than to their own countrymen. This bond centers around capital. In this context, the LDC is a peripheral body to the central locus of capital and which has abundant labor but lacks the necessary capital and technology for production. The central body controls the capital and technology and provides it to the peripheral body. The peripheral body, in return, must trade on terms favorable to the central. Thus, the introduction of capital into the LDCs necessitates an export-oriented development policy. Such a policy means that foreign capital would be used to develop the necessary infrastructure (building ports, bridges, transport equipment, power station, dams and irrigation projects, as well as buying military hardware) for further industrialization. The instant development and the artificial peace and order enforced by a strong state could then be used to attract further TNC involvement in the hope of increasing export and foreign exchange earnings. The growth-oriented development strategy that demands heavy investment in infrastructural building often has implicit goals beyond that of economic development pursuits. For example, the development of infrastructure in rural areas serves a dual purpose. Not only does it allow the physical production itself but at the same time, it also strengthens the central government's control over these areas. To properly exploit the cheap labor force and provide a peaceful context for production, a strong authoritarian government is required. Thus, infrastructure development has

Jose F. Bartolome

extended the control of the government to areas of potential or actual insurgency.

An example is the Lam Nam Oon irrigation project in Northeast Thailand where the Thai government has wrestled with insurgents for control of the vicinity. The government's problem was solved by building a dam which soon flooded the contested area. Though the water was used for irrigation, the fact that the cost of the project far exceeded its benefits attests to its political purpose.[4]

Randolf David, in one of his papers described how the Marcos government chose martial law as part of its export-oriented development policy:[5]

> In 1969 "massive demonstration protesting (the Marcos government policies) were attracting enough attention to scare away potential foreign investors. At about this time, the great strides being taken by its neighbors in the region, especially South Korea and Taiwan, instilled in the Marcos government, and in the country as a whole, the atttitude that what the nation needed was a political will to develop. . . Thus, the authoritarian option, whose developmental effectiveness was being abundantly demonstrated elsewhere in the Asian Region, became an increasingly attractive one. Seen from this angle, the declaration of martial law would appear as a political imperative that was in search of a regime."

Such a regime as it also exists in Thailand, Malaysia Indonesia and Singapore, can easily justify the build-up of military hardware by raising the fear of Communism. In Thailand in particular, the large amount of external borrowings was made to strengthen the Thai military. The shift of the US government's aid policy to Thailand from grants to loans particularly since the end of the Vietnam War and the Defense Loan Act of 1976 authorized the Thanin regime to externally borrow up to 20,000 million bahts for military purposes. This fact, coupled by the approval of the purchase of "Fighting Falcon" or F-16/A 100 aircrafts have certainly increased the Thai external debt burden thereby causing more pressures on the balance of payments situation in the 1980s and the 1990s.[6]

Another unproductive use of loan money is what Khor Kok Peng termed as "luxury or prestige" projects (e.g. the Penang Bridge project). In his paper, *Malaysia's External Debts, Prestige Projects and Capital Flights,*[7] he listed a number of projects initiated by Malaysian Government agencies that involved substantial foreign loans and which have added on the nation's external debt problem.

Khor Kok Pheng also identified capital flight as an aggravating problem to a country in debt crisis. He cited two major forms of capital flights in Malaysia: by individual Malaysians' purchase of personal property (house, apartments, land) abroad and by Malaysian companies' heavy investment in overseas projects. He also described two basic relationships between debt and capital flight:

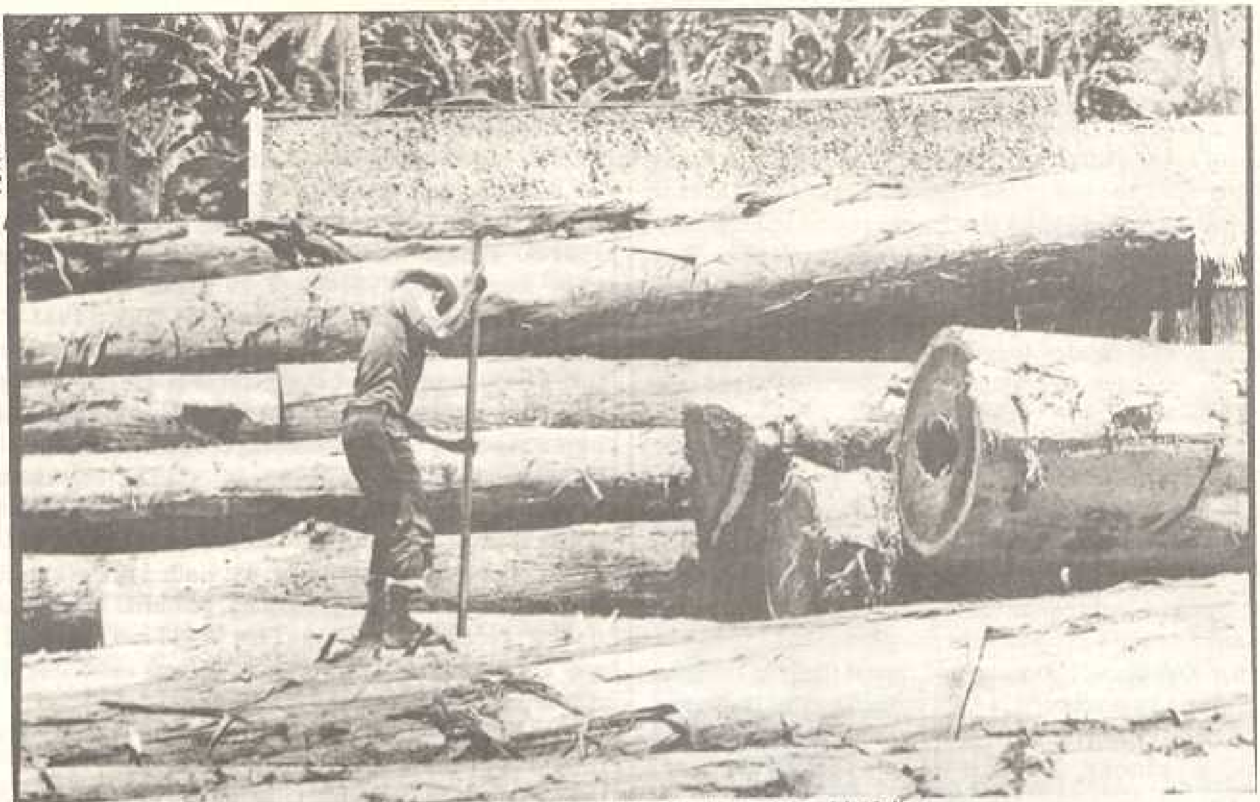
> Firstly, capital flight depletes the level of domestic funds available for investment, thus requiring the country to borrow from abroad. Secondly, the loans obtained from abroad could then fall into the hands of individuals or institutions which "recycle" these funds into investment *abroad* instead of making use of the foreign loans for investment *within* the country.

The debt situation after the first oil shock proceeded very smoothly as real interest rates for developing countries were actually negative for a three-year period between 1973-1975. IMF's estimate for 1971-1980 indicates that the real interest rate were on average negative. The high interest rates were caused largely by the unusual mix of monetary and fiscal policies adopted by the United States in 1981-82 that resulted in the average interest rate of outstanding long-term debt of developing countries to rise from 4.5% in 1973-1977 to 8.5% in 1981-82. For funds borrowed commercially at a typical rate of LIBOR plus 1% spread, the corresponding rise was from 8.8% to 16.8% , in nominal terms, and from -1.6% to 11.3% in real terms.[8]

The conditions after the second oil shock became quite difficult. After 1980, with commodity prices slumping and the US interest rates rising, the developing countries were paying high real rates as opposed to the earlier negative rates. The total cost of servicing Third World debt in 1978-80 was 4% of the total debt. Today it is closer to 13%. Higher interest rates have made the problem very difficult. In addition, with the 1981-82 recession, developing countries' exports declined and have thus, worsened the situation.[9] It is estimated that the increase of debt of the non-oil developing countries between 1973-82 is 482 billion US dollars. Such increase was due to the oil price increase in excess of US inflation during 1974-82 which was 260 billion US dollars, real interest rate in excess of 1961-80 average which was 41 billion US dollar, terms-of-trade loss during 1981-82 of 79 billion US dollar, export volume loss caused by world recession during 1981-82 of 21 billion US dollars.[10] Hence, statistically it can be mentioned that a very large part of the increase in developing countries' debt may be attributed to the impact of global causes that were exogenous to the developing countries themselves such as higher oil prices at the beginning in 1973, abnormally high interest rate from 1981 onwards (which was caused by the selfish interest of the First World as exemplified by the actions of the monetary authority of the United States), declines of terms-of-trade of the developing countries due to unequal trading practices between the First World and the Third World, and the decline of LDCs' export volume associated with the rise of protectionism in the First World.

As long as exports were greater than or equal to interest costs, the situation were supposed to be under control. This is the so-called "Simonsen's criterion". The criterion was proposed by Mario Henrique Simonsen, a former Planning Minister of Brazil. The logic of this criterion is that "there is an automatic 'inherited' increase in debt by the amount of past debt multiplied by the interest rate, because this amount is the interest due on past debt. If the country is achieving a balanced foreign account (current account) excluding interest, then its debt will grow by this amount. That is, its debt will grow by the interest rate. If the ratio of debts to exports is to avoid increase (maintaining a constant relative debt burden), exports must also grow by at least this rate. As a consequence, exports should grow at a rate no less than the interest rate."[11] The interest rate as expressed in terms of LIBOR plus 1% was 12.0% compared with the nominal export growth of non-oil LDCs which was 36.4% in 1974 when the crisis was not apparent. However, in 1981 the LIBOR plus 1% was 17.5% which is about three times the nominal export growth rate of non-oil LDCs. Hence, it is more than obvious that the crisis is already in the critical stage. By 1982, the situation was even worse, LIBOR plus 1% was 14.1% and the nominal export growth rate of non-oil LDCs was negative at -3.8% .[12] There is no indication as far as evidence can be found that the situation is getting better now.

This was the beginning of the period referred to as the recession of the world economy. Such economic developments are often spoken of in meteorological terms: "There has been a change in the global economic climate and the forecast is not very sunny." This metaphor denies any causal relationship between the activities of the global capitalistic community and the global economic situation of the time. In this terminology, TNCs and DCs simply react to changes in the economic weather. And in the early 1980s, the reactions of the more


Jose F. Bartolome

"The central body controls the capital and technology and provides it to the peripheral body".

developed countries in the temperate northern climate made the weather very gloomy in the tropics.

Having embarked on an export-oriented development policy fueled by massive foreign loans, the LDCs could not meet the export levels necessary to service these loans. Protectionism of the DCs and their manipulation of commodity prices eroded the world market for LDCs' export commodities. The only way to service the debts was to borrow anew. The LDCs fell into a vicious cycle of borrowing to pay interest on earlier borrowings and thus the debt crisis was created.

In fact, as early as 1970, Indonesia was one of the countries that was trapped in this vicious cycle. The representatives of the major industrial countries, meeting in Paris in 1970, agreed to restructure Indonesia's debt over 30 years and thus, annual installments began on January 1, 1970. Relief was provided on all debt with maturity over 180 days incurred before July 1, 1966, including rescheduled principal from agreements in 1966, 1967 and 1968, plus moratorium interest on that principal accrued through 1969. No new moratorium interest would be charged on the 30 annual installments, and interest on debt under existing contracts or agreements would be payable only in the second half of the 30-year period. Furthermore, Indonesia would be given a limited option to defer part of the principal due during the first eight years, beginning January 1, 1992. If that option were exercised, deferred payments would bear interest at 4% per year, payable annually, with repayments in annual installments to be made no later than 1992-1999. Significantly, the agreement provided for a limited revision of these arrangements at any time after 1980.[13]

II. Illiquidity or Insolvency

To assess the severity of an LDC's debt situation, a distinction between illiquidity and insolvency must be made. If a LDC is diagnosed as illiquid, this would imply that its debt is largely sound, that its projected deficits are of a size that is consistent with reasonable magnitudes of financing by its exports and that, its ability to service the debt will improve eventually. Insolvency, on the other hand, implies that external deficits are so large that there is no plausible way they can be financed, that the country's debt is bad and default is inevitable.

The distinction is never clear cut and is open to debate. The WB and IMF hold the position that the problem is one of illiquidity, simply because the alternative would imply default which is unthinkable for them because of the injurious effect this would have on the global financial community. And this is the justification for IMF intervention. It is argued that, with even a minimal growth rate, a LDC can remain solvent if the IMF makes strenuous adjustments on its economy and imposes an austerity program.

By reinterpreting the WB/IMF diagnosis of illiquidity, it can be shown that this illiquidity is due to the irresponsible management of the central banks or the monetary authorities in the developed countries at the center of the capitalist system. According to the government policy of developed countries such as Germany, England, the U.S. and Japan, the central banks, commercial banks and other members of the financial intermediaries must maintain an appropriate level of world liquidity in order to keep themselves active in the international trade. Thus, the implication that if the LDCs are illiquid today, it is because of their monetary authorities' failure to do this. The failure is due partly to commercial banks, who like the TNCs, persistently follow their own objectives of garnering short-term profits rather than complying to their government's monetary policy.

On the other hand, assuming that the LDCs are insolvent, the exploitation of LDCs, by the First World is implicit. For how did they become insolvent? These countries are engaged in production and trade, yet their balance of trade position become worse and worse. This is because the exchange with the Centers of Capital is never equal: the price for capital and technology is dear but once it is introduced, the Center takes and gives little in return.

With the industrial and agro-industrial sectors under the TNCs' control, the LDCs are forced to import the technology and production inputs to produce exports. To make more, they have to buy more and the LDCs cannot sell enough to pay for what they buy. The terms of trade worsen, eventually leading to insolvency.

The problems of insolvency seem also to confront Singapore which acts as a comprador for the Centers of Capitalist World by linking the First World countries with the countries in Southeast Asia. Singapore now faces a serious economic problem as her economy had a negative growth rate in the past two years. If the present global crisis cannot be solved, one can envisage that Singapore's economy would face severe hardship in the future.

From the above information, it is clear that:

(1) There is an exploitative nature in the international trade. Through international trade by means of the TNCs, the TNCs' governments and international organizations (such as the IMF and the World Bank) transfer resources out of the Third World to the Centers of Capital in the First World.

(2) There are contradictions in the policies of the First World countries themselves and this is manifested in the forms of high interest rates and inflation.

(3) The fundamental objectives of lending is far from achieving development *per se.* On the contrary, several factors emerge which point out to the fact that capital is being exploited for narrow self interests on the part of the First World, the indigenous governments and the local westernized and profit-oriented elites:

3.1 Loans are often used to support authoritarian governments, build up a strong military apparatus and exercise control over the population for the purpose of serving the First World and its interests.

3.2 The westernized elites in the Third World countries have a tendency to identify themselves with the interests of the First World to the extent that they have lost their sense of belonging and the will to generate an independent form of development for their own nations. Ironically, local elites do play a great part in the use of capital as well as in the appropriation of benefits at the expense of the majority of the people of their country. This can be seen from the manner in which capital is spent, e.g. in prestigious projects and in the flight of capital out of the Third World countries.

(4) Loans are political tools to support the interests of political groups and channels for loans acquisition is based on the willingness of the borrowers to ideologically conform to the conditions laid down by lenders.

(5) Moreover, lending agencies tend to exercise control over the use of loans. Such control is often comprehensive in nature, and seen from another perspective, lending is a very useful disguise for unconditional trade between the borrowers and the lenders. For example, within the project cycle for a foreign loan, control is exercised from the moment of project identification, project pre-feasibility study, feasibility study to project implementation. Lending agencies and their governments have much to gain from the fees of consultants and the purchase of capital goods to carry out these "development projects". It is no wonder that nations of the Third World are confronting a debt crisis.

Jose F. Bartolome

III. Debt Figures

The magnitude and structure of the debt problem can be outlined as follows[14]

(1) The total size of the debt is US$ 600 billion;
(2) More than 100 developing countries are seriously affected by the debt crisis;
(3) About US$ 300 billion of the debt is owed to official agencies;
(4) The remaining US$ 300 billion is owed to banks.;
(5) The private banks number about 1,000 and are located mostly in the First World;
(6) Of the US $300 billion bank debt, 75% is owned by 200 large banks in 10 developed countries;
(7) In the United States, nine banks account for 66% of all US loans to developing countries; and
(8) The seven nations of Mexico, Brazil, Argentina, South Korea, Chile, the Philippines, and Peru own 60% of the debt.

Total outstanding debt from all countries in the world was 135.4 billion US dollars in 1974 and by 1983 it amounted to 597.6 billion. Total debt is made up of public and publicly guaranteed debt and private non-guaranteed debt. In 1974, total debt broke down to 103.8 billion and 31.5 billion respectively and in 1983 it was 495.2 billion and 102.4 billion. Interest payments amounted to 4.1 billion dollars in 1974 and jumped to 34.3 billion by 1983. The ratio of total debt service to gross national product (TDS/GNP) for all debtor countries was 1.6% in 1974 and had reached 10% by 1983. The debt service to exports ratio, which is the conventional measure of debt severity, was 8.5% in 1973 and went up to 19.1% by 1983.

For all of East Asia and the Pacific, total debt was 19.4 billion dollars in 1974 (public/publicly guaranteed: 13.9 billion; private non-guaranteed: 5.4 billion) and 92.240 billion in 1983 (public/publicly guaranteed: 73.9 billion; private non-gurantee: 18.2 billion). Interest payments rose from 443.9 million dollars to 5.0 billion in the same period. Total debt service to exports ratio increased from 3.9 to 8.7%.

The same measurements indicated the degree of severity in the individual countries of Southeast Asia. In Thailand total debt amounted to 1.1 billion dollars in 1974 (public/publicly guaranteed: 512 million; private non-guaranteed: 648 million) and reached 9.7 billion by 1983 (public/publicly guaranteed: 7.1 billion; private non-guaranteed: 2.6 billion). Interest payments increased at a much faster rate, from 27.9 billion dollars in 1974 to 530.7 billion dollars in 1983. Total debt service to gross national product ratio increased from 0.4% to 2.4% while the debt service to exports ratio increased from 1.9% to 11.3%.

In Malaysia, total debt amounted to 866 million dollars in 1974 and jumped to 10.6 billion in 1983. Interest payments were 54.4 million dollars in 1974 but reached 668.7 million by 1983. The change in the total debt service to gross national product ratio was from 1.3% to 3.5% and in the debt service to exports ratio was 2.5 to 5.8%.

In Singapore, total debt was 513.2 million dollars in 1974 and rose to 1.2 billion by 1983. Interest paid by Singapore was 25.1 million in 1974 and 116.4 million in 1983. The debt service to gross national product ratio increased from 0.9 to 2.4% and the debt service to export ratio from 0.6 to 1.3%.

In Indonesia, total debt was 6.3 billion in 1974 and jumped to 21.7 billion dollars in 1983. Interest payments were 80.0 million in 1974 and 1.2 billion in 1983. The change in the ratios: total debt service to gross national product from 1.2 to 3.4% and total debt service to exports 3.9 to 12.8%.

In the Philippines, total debt was 2.2 billion dollars in 1974 (public/publicly guaranteed: 1.0 billion; private non-

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Jose F. Bartolome

guaranteed: 1.2 billion) and hit 13.6 billion by 1983 (public/publicly guaranteed: 10.3 billion; private non-guaranteed: 3.3 billion). 42.9 billion dollars were paid in interest in 1974 and 650.3 billion in 1983. The total debt service to gross national product ratio increased from 1.2 to 8% and the debt service to export ratio from 4.9 to 15.4%.

On every measure, the debt servicing abilities of developing countries have deteriorated considerably after 1974 as their debt increased. The ratio of debt to GNP more than doubled from 14% in 1970 to a peak of 20.5% in 1982. Moreover, interest payments on debt increased from 0.5% of the GNP in 1970 to 2.8% of the GNP in 1984 and accounted for more than half of all debt service payments in that year. These averages conceal wide regional and country differences.

Debt service payments increased from $9.3 billion in 1970 to $100 billion in 1984. The rise reflects both the increased amount of debt and also the higher level of interest rates. Also, for many countries, the appreciation of the dollar has increased the cost in servicing their debts in terms of domestic currency.

Debt Projections

The World Bank has also made projections for the debt service of the same countries for the year 1991. By that year, the World Bank expects the projected public and private debt service of all countries to be 4.3 billion dollars. The projected figure for East Asia and the Pacific is 10.5 billion dollars. Public and private debt service of the various Southeast Asian countries for the year 1991 is projected as follows; Thailand, 1.0 billion; Malaysia, 1.6 billion; Singapore, 108.3 million; and Indonesia, 3.1 billion. The World Bank was not willing to make projections for the Philippines because of the country's currently unstable conditions. However, the projected public debt service of the Philippines in 1991 will be 1.5 billion.

III. Conclusion

In summary, the introduction of capital into LDCs, on the terms of TNCs, international commercial banks, the IMF, World Bank and Asian Development Bank, etc. has made debt in the LDC inevitable. The contribution of capital, either by loan or aid, has served to build up a kind of economy in the LDCs that will service the Centers of Capital. The restructuring of LDC's economy to export orientation links it to the global capitalist economy. This linkage ignores the cultural and resource conditions of the LDC and its inherent potential for self-reliance. The linkage has created massive debt in the LDC and, at the same time, eroded the countries' ability to service it.

These LDCs must now operate in an international monetary system which assigns higher values that what are actually deserved by the currencies of its trade partners and competitors. They must follow the rules of the free market while developed countries have the power to erect impenetrable barriers to its export products.

The only solution, therefore, would seem to be a delinking from trade with the capitalist system. Such a suggestion is, of course, unacceptable to those controlling the Centers of Capital and the elites in the LDCs which whom they do business. More so, the system is already thoroughly entrenched. Delinking can be done only by a step by step retreat. The aim of this retreat would be to establish only a partial linkage with the Centers of Capital. Perhaps the first step towards partial linkage would be a reorientation of the methods currently practiced to alleviate the debt crisis. This specifically implies making the objectives of the IMF and the World Bank, etc. more sensitive to the TNCs and commercial banks, and the selfish benefits of the First World countries or the Centers of Capital.

Maybe, it is appropriate here to recall "the Arusha Initiative" which is an outcome of the South-North Conference on "The International Monetary System and the New International Order" in Tanzania in 1980. At the Conference, it was recognized that the monetary system agreed upon at Breton Woods in 1944 has broken down and that it is imperative that a new monetary system be negotiated by the entire community of nations. There is also a need for IMF facilities to be enlarged and improved and IMF conditionality criteria be reformed as well as for the establishment of a new mechanism of appeal and arbitration in cases of dispute between the Funds and its member countries. In addition, it was agreed upon that new mechanisms outside the IMF are urgently needed for massively increased and qualitatively improved resource transfer.[16]

The Second Report of the North-South Commission which was prepared by the Commission headed by Willy Brandt makes some proposals for the IMF.[17] The report criticizes the IMF for its practice of devaluing LDC currencies and demanding budgetary cuts in social expenditure as conditions for new loans. The Commission recommends that "IMF conditionality be made more appropriate to the situation of the concerned countries." The IMF's adjustments should put more emphasis on production, growth, employment and equitable income distribution.

Concerning the World Bank, the Commission calls for longer term program aimed at improvement and structural adjustment. It suggests that the World Bank expand credits for "comprehensive development programmes in the field of rural growth, education and health services. In this context, (the Commission) stresses the importance of investments in human performance instead of emphasis as until now on financing capital costs". The Commission also urges that official development aid assistance from developed countries be increased to 0.7 per cent of their gross international product.

Although it is not possible to expect initiatives from the First World, a restructuring of the TNC's and DC government's policy is necessary. The TNCs must be forced by the Third World people to adopt a more far-sighted policy for their investments in the Third World; a policy that considers more than just short-term profit. Similarly, central governments of developed countries must be persuaded to abandon protectionistic trade measures while enacting measures that curb the reckless activities of their banking system and the TNCs.

Finally, LDCs should begin the process of organizing together to realize their inherent potential for self-reliance. The countries of Southeast Asia, in particular, are already growing in terms of production and economic strength. If they were to cooperate, that strength would increase. There is the potential to develop markets and trade within the Third World and to organize among themselves to prevent the unfair exploitation from the First World. Three measures are proposed for this end:

1. Expand trade with socialist countries through the barter system. By trading through the barter system, the Third World Community can develop its own market economy independent of outside capital thereby avoiding further debt.

2. Avoid strict ideological alliance with the West. By accepting western capital and choosing to operate in a free trade system, LDCs are making an ideological choice. This choice, which puts all its faith in free trade and capital as the only path to development, is but one alternative. Western capitalists and Third World elites stand to gain so much from *laissez faire* trade. They see a development approach which puts social concerns before capital as a threat to their interests. But development for the masses is the priority, not the interests of the elites, and different ideological choices must be considered.

Apart from the elites, the vast majority of the people in LDCs have no conception of their countries' debt crisis and balance of payments position. By putting all faith in a free trade system, this majority becomes open to exploitation in the name of development. But true development is in raising the standard of living of the majority of the people. Therefore, LDCs must make ideological choices and follow development plans which stress social development over capital development.

3. Maintain Southeast Asia as a zone of peace. Concurrent with the capitalization of Southeast Asia has been the further build up of foreign and domestic military in the region. This build up is justified as necessary to protect the "sea routes" from "the other side". In less abstract terms, the military is there to protect trade interests and linkages with the West as well as Japan. If these interests are threatened, either by another foreign power or by indigenous powers, the West will choose war. War easily and inexpensively serves the purpose of keeping LDCs fragile and dependent. Therefore, Southeast Asian countries must take their responsibility in maintaining the peace which is in their best interest.

Notes:

[1] IMF, *International Financial Statistics Year book,* 1982 as quoted in William R. Cline, *Systemic Risk and Policy Response (Washington, D.C.: Institute for International Economics, 1984), p. 11.*

[2] *Ibid.,* p. 21 - 26.

[3] See Edberto M. Villegas, "Reforms in the Philippines Financial System and Contradictions within the US Capitalism", (The Philippines in the Third World Papers Series No. 31). (Quezon City: Third world Studies, University of the Philippines, July 1982), p. 5; and Warin Wonghanchao and Jeerasak Pongpisanupichit in M. Datta (ed.), *The Asia-Pacific Market: Its Promises and Challenges* (New Jersey: Rutgers University, forthcoming).

[4] Warin Wonghanchao, "Economic Evaluation of the Lam Nam Oon Project," (Bangkok: Chulalongkorn University Social Research Institute, 1986), p. 7.

[5] Randolf S. David, "Transnationalization, The Global Crisis, and Foreign Debt: the Philippines Experience," (a paper presented at the Third Meeting of the Southeast Asian Network of the United Nations University Asian Perspective Project, 23-27 October 1985, Penang).

[6] Wiwatchai Atthakor, "The External Debts Crisis in Thailand," (a paper submitted to the third meeting of the Southeast Asian Network of the United Nations University Asian Perspective Project, 23-27 October 1985, Penang).

[7] Khor Kok Peng presented the paper to the third meeting of the Southeast Asian Network of the United Nations University Asian Perspectives Project, 23-27 October 1985, Penang.

[8] IMF, *World Economic Outlook,* 1982, p. 173.

[9] *The Journal of Energy Development,* Vol. 9, No. 1, 1984, p. 4.

[10] William R. Cline, *op, cit.,* p. 13.

[11] See Mario Henrique Simonsen, "The Financial Crisis of Latin America" (Rio de Janeiro" Getulio Vargas Foundation, 1983) as quoted in William R. Cline, *op. cit.,* p. 7.

[12] *Ibid.,* pp. 6-7.

[13] *Coping with External Debt in the 1980s* (Washington D.C.: The World Bank, 1985), p. xix.

[14] *The Journal of Energy and Development, op. cit.,* p. 1.

[15] For example, the total debt outstanding in 1980 was reported at 540 billion US dollars while the adjusted figure should be at least 610 billion us dollars. In 1983, the reported figure was 761 billion US dollars and the adjusted one should be 843 billion US dollars. The under-reporting is consistently so ever since the World Bank published the figures. See *Coping with External Debt in the 1980s, op. cit.,* p. ix.

[16] "Editorial Note" in *Development Dialogue,* 1980:2, p. 3.

[17] *North South II: The Common Crisis* (A Summary of Conclusions and Recommendations of the Second Report of the North-South, Commission) (Bonn: Frederich-Ebert-Stiftung, 1983), pp. 18-22.