Economic nationalism challenges U.S. investment policy in the Pacific Basin

by Ramtanu Maitra

U.S. economic forecasters and management consultants have told their clients during the past few years that "the major growth opportunity" abroad, the place where "the smart money is going," is Southeast Asia. They point to the members of the Association of South-East Asian Nations (ASEAN)—Indonesia, Thailand, the Philippines, Malaysia, and Singapore—as heading for economic takeoff.

Indeed, this sub-region and its 240 million people have the world's fastest economic growth. But if current trends continue, American business will not be aboard. The investment patterns of U.S.-based multinationals, along with current policies in Washington, indicate that policy makers still regard this area as primarily a supplier of raw materials.

Former U.S. Ambassador to Japan James Hodgson, a leading light in the American Enterprise Institute, told *EIR*, "Resource-rich countries like Malaysia or Indonesia should not follow the Japan or Korea model to heavy industry. Instead, they should concentrate on resource development."

The current administration, merging a raw-material orientation with geopolitical schemes, envisions those ties centered around the offshore oil deposits in the South China Sea, a scheme in which Peking is supposed to play a large role.

Raw materials or industrialization?

The nations of the region, however, do not view themselves as forever remaining drawers of water and hewers of wood. Indonesia, Malaysia, and the Philippines all see their current exports of raw materials, including oil, as a financial means to the goal of industrialization. Korea and Japan, not Zaire, are the model for their future.

The gap between those two views has already brought Washington into conflict with the Southeast Asian nations. As part of its program to upgrade its population's skill levels, Indonesia decreed last fall that it would reduce its sales of logs, currently 20 percent of its non-oil exports, and increase exports of processed lumber. President Marcos of the Philippines made a similar move in April, announcing an end to all log exports as of May 1. Djakarta's current industrial plan includes the giant $2.7 billion Krakatau steel complex, a $2 billion Asahan aluminum complex, and various projects for metals and minerals processing (e.g., sponge iron rather than mere iron ore), vehicle and ship manufacturing, and a number of machine-based industries. Indondesia intends to turn its 155 million people into the engine of industrial power; it is not content to be what Richard Nixon termed "the greatest [raw-materials] prize of them all."

Oil, at $16 annual billion revenue, provides 80 percent of Indonesia's exports. President Suharto decreed that as of this past January, any foreign company providing a major construction or infrastructure project had to agree to exporting an equivalent amount of non-oil Indonesian goods. The only exemptions are those firms that help Indonesia use such projects to upgrade its own industrial level by making them joint ventures with government-owned companies.

The U.S. Ambassador to GATT (General Agreement on Tariffs and Trade), Michael Smith, immediately labeled the above policy (known as counter-trade) "foul play." Acknowledging that it does not violate GATT rules, Smith nonetheless declared, "We told them [the Indonesians] that we find counter-trade to be against the spirit of GATT. It is close to barter trade, which is a concept which we thought died about 150 to 200 years ago." One U.S. embassy official told the

Asian Wall Street Journal, "If Indonesia wants to play this game, they are going to find a chilly reception when they ask for another $2 billion in foreign aid this year."

At the same time, the Washington-supported International Monetary Fund/World Bank specified that if Indonesia wants loans, it has to end subsidies on consumer goods such as rice and sugar, and abolish the 40 percent subsidy of domestic petroleum products which supplies both cheap kerosene for cooking and energy to growing industry. Under the pressure of falling oil prices, the Suharto government capitulated in January to these demands, for fear that a drop in petroleum income and a loss of foreign aid would end any possibility for financing industrialization.

Malaysia's nation-building effort

A similar conflict prevails in Malaysia, a nation of 15 million. Last July, Dr. Mahathir bin-Mohammad, a medical doctor, became Malaysia's first Prime Minister from a "commoner" background, and the first not to have been educated in Britain. Mahathir, who has established close economic cooperation with Indonesia's Suharto, makes no bones about being openly anti-British; he believes most of Malaysia's miseries today are the legacy of British colonial rule, which turned the country into one large tin-mine and plantation.

Mahathir strengthened the industrializing direction of the current 1980-85 Five-Year Economic Plan, which he had helped to draft. Malaysia is increasing oil output, as a way to finance the overall goal of the plan: a restructured economy. Agriculture had comprised 31 percent of Gross National Product in 1970 and now is down to only 22 percent; it is to be reduced to 17.8 percent by 1985. Manufacturing is to rise from the current 20 percent level to 24 percent of GNP by 1985. At present the government is financing infrastructural projects in ports, telecommunications, transport, and electricity as the foundation for those manufacturing ambitions.

Mahathir believes that for Malaysia's nation-building to succeed, control of the economy has to be taken from its current controllers, the British and the overseas Chinese. Acting quickly after taking office, Mahathir used the government-owned National Equity Corporation to make an unprecedented early-morning buying spree last summer on the London Stock Exchange. Paying market prices, Malaysia bought the majority of Guthrie Corporation, the major plantation owner in Malaysia, and later bought out Dunlop Holdings and Barlowe Holdings, and forced negotiations with another. The giant British-owned mining company, Amalgamated Metal, active throughout Southeast Asia, gave up its majority share to a Malaysian bank to prevent an outright takeover.

Despite the fact that full commercial prices were paid, Britain retaliated by unilaterally altering the London Stock Exchange rules to prevent further similar buyups. Britain also reduced the subsidies for foreign students from developing countries studying in London, of whom a large proportion are Malaysians.

Malaysia attacked the latter move as "racially motivated," and, in response to the Stock Exchange rules change, imposed a practically total embargo on imports of major supplies from Britain. In the midst of an uproar in the Thatcher cabinet—Defense Minister Nott rushed to Malaysia, followed by then Foreign Minister Carrington—Mahathir refused to attend the meeting of the Heads of Government of the British Commonwealth, saying "membership in the Commonwealth never produced much help, particularly from certain Commonwealth countries." No one needed to ask whom he was referring to.

In this nationalist battle against the legacy of colonialism, in which the United States would seem to have much to gain through the development of Malaysia, Washington nonetheless took the side of Britain, and began to undermine the Malaysian economy. Washington suddenly announced a decision dump from its stockpile 200,000 tons of tin over a 20-year period, thus exerting pressure on the tin market. Tin provides 15 percent of Malaysia's non-oil export income, and Malaysia, along with Thailand and Indonesia, account for 60 percent of world tin supply. The American move buffered London's changes in the trading rules in the tin futures market also aimed at punishing Malaysia. In an effort to keep the price up, Malaysia cut back tin production 22 percent. The upshot, as with Indonesia, is that America has been put into the position of seeming to oppose these countries' industrialization efforts.

A similar situation applies in the Philippines, where Washington supports World Bank and IMF pressure on President Ferdinand Marcos to slow the pace of 11 planned industrial projects, to lower tariffs to protect infant industry, and to open the nation for a resource-extraction free-for-all.

The economic China Card

Nationalists in Southeast Asia are equally upset about Secretary of State Alexander Haig's apparent continued support for Chinese predominance in Southeast Asia. This concern reflects geopolitical considerations—Mahathir has repeatedly declared China a "bigger threat than the Soviet Union or Vietnam"—but also the fact that the Overseas Chinese who dominate businesses in Southeast Asia are seen as an obstacle to industrial nationalism. The Chinese, making up only 3 percent of the Indonesian population, nonetheless have monopolized business and small-scale manufacturing. In his 1969 book, *The Malay Dilema,* Mahathir wrote, "Seeing how the Chinese had destroyed the self-reliance of the Malays in craftsmanship, skilled work, and business, the British encouraged Chinese immigration [in the 19th century] until the Malays were completely excluded from these fields of employment." Throughout Southeast Asia, colonial rulers used the Chinese minority brought from the mainland to act as a buffer between themselves and the indigenous population, using them as a financial and bureaucratic caste over the natives.

At the same time, Peking continues to support subversive Maoist groups throughout Southeast Asia, often made up of ethnic Chinese.

The U.S. government policy of supporting Britain and China, and its clampdown on government efforts to promote industry (as in the Indonesia counter-trade case) have caused the nationalists of Southeast Asia to look elsewhere for aid in their nation-building efforts. Economic leaders in the region have pointed out the divergent pattern of investments in the area between the American multinationals and those of Japan. The overwhelming majority of American investment in Southeast Asia is in oil or other resource-extraction ventures. Japanese investment, while also prominent in oil and resources, is even more evident in manufacturing enterprises.

In a recent speech, Mahathir told his countrymen to "look east" for economic cooperation. Speaking at a February 8-9 meeting of the Malaysia-Japan Economic Association, Mahathir asked Japanese businesses to support extensive new training programs for Malaysians in Japanese schools and factories. The Prime Minister said Japan was "a much better example for developing Malaysia" that the United States and Europe. "We find the first question other [Western] investors ask," said Mahathir, "is whether they will have a controlling interest, reflecting, of course, their belief that the Malaysians are not quite suitable for running industries." Mahathir has re-introduced Japanese language training in the public schools for the first time since World War II.

Indonesia is cooperating with Japan in joint ventures in more than 200 projects worth over $3.5 billion, mostly in capital-intensive manufacturing industries, such as auto plants, steel, diesel engins, generators, hydroelectric, bicycles, and ships. A similar pattern can be seen in the Philippines.

The nations of Southeast Asia intend to industrialize. They look upon Japan, Korea, and the industrial sector of India as their models. Cooperation with Japan is complemented by middle-level technology cooperation with Korea and India, including a nuclear-power cooperation agreement with India and France.

SWEDEN

Olof Palme and the Malmö International

by William Engdahl

Former Swedish Socialist Prime Minister Olof Palme (1969-76) has been challenged on national television to debate whether his policies are not in fact fascist. The challenge, which has created an uproar in the Scandinavian country, came during an April 14 prime-time program, "Magasinet," on TV-2.

Kerstin Tegin-Gaddy, Chairman of the Swedish national political party, Europeiska Arbetarpartiet (EAP—European Labor Party), sparked a nationwide press controversy during a 30-minute program on the EAP where former Prime Minister Palme made what is now regarded widely as a major political blunder. Palme appeared on the show to denounce the party of Tegin-Gaddy, calling it a "tiny fascist-like sect." Tegin-Gaddy, before the nation's largest viewing audience, challenged Palme to a public debate on the issue of whose policies are fascist—the EAP's or Palme's. The Palme-linked daily *Aftonbladet* subsequently acknowledged Palme's blunder. "Was this the week in which TV's 'Magasinet' paved the way for the EAP's political success in Sweden?" the paper asked.

EIR has compiled an extensive political intelligence dossier background documenting the fact that Palme, posing as a left-liberal internationally, is a hand-picked protégé of the same neo-Nazi circles running drugs and terrorism. The following is a small part of this dossier.

Palme's background

The person of Olof Palme is most useful for clarifying the relationship between certain "ultra-left" political operations run out of the Socialist International and the European ultra-right fascist aristocracy which, following a 1951 conference in southern Sweden, became known as the Malmö International.

Palme is most known abroad as a progressive cham-