BOOK REVIEWS

Indonesia and the Philippines: American Interests in Island Southeast Asia. By Robert Pringle, New York: Columbia University Press, 1980, pp. 290. $9.00, paper.

Reviewed by EDWARD MASTERS

A public opinion survey conducted in the United States in late 1980 showed that half of those polled knew little or nothing about the Philippines, our major former colonial possession and a long-standing Pacific ally. An appalling 82 percent knew little or nothing about Indonesia, the world's fifth most populous nation and one of great importance to US national interests. The survey revealed that three Americans in ten did not know that the Philippines was once a US colony, and a majority was not aware that Indonesia is a significant supplier of petroleum products to the United States.[1]

This disturbing lack of knowledge about two important countries and misinformation or absence of information about Asia in general show that the American public has not been adequately informed by its leaders or the media about the growing importance of Asia to our national interests. Few know, for example, that during the 1970s US exports to the five members of the Association of Southeast Asian Nations (ASEAN) — Indonesia, Malaysia, Philippines, Singapore and Thailand — grew at an average annual rate of 22 percent. US investment expanded from $370 million in 1966 to $5 billion in 1980. In 1977, for the first time, the value of our trade with Asia surpassed that of our trade with Europe. Asia is where the action will be for the remainder of this century and probably beyond, and it is important that all Americans have a better understanding of this region. In this case, familiarity is likely to breed not contempt, but rather a deeper appreciation of our neighbors across the Pacific and a better awareness of ways in which our relations can and must be developed to our mutual benefit.

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1. Statistical data are from Watts, William "Americans Look at Asia: A Need for Understanding," paper prepared for a conference on November 12, 1980, under the auspices of Potomac Associates, School of Advanced International Studies, Washington, D.C.

Robert Pringle, an American Foreign Service Officer with extensive academic and US government experience in Southeast Asia, has made an important contribution to improved understanding through his perceptive and timely analysis of US relations with Indonesia and the Philippines, two nations with a combined population nearly as great as that of the United States and covering a much larger total geographical area. In addition to their size and extensive natural resources, these two nations are important to the United States because of their key locations astride major transportation and communications routes linking the China Sea with the Indian Ocean and mainland Asia with Australia. Hostile or irresponsible governments in Indonesia or the Philippines would greatly complicate American security interests and create major problems for Japan, the bulk of whose oil originates from or passes through the Indonesian archipelago.

Pringle explores US national interests in the two countries with particular attention to what he sees as six key policy areas: political stability, the importance of US bases, human rights, American economic interests, the unique developmental problem of Java, and crucial environmental concerns. He correctly bats down what he calls the "stability shibboleth" on the grounds that stability *per se* does not always serve US national interests.

The author's discussion of the/land/food population problem on the island of Java should be required reading for all specialists in economic development. Pringle sees no quick fix for the endemic problems of this, one of the world's most densely populated islands. Of special concern is the fact that two million new workers enter the Indonesian labor market each year, with perhaps only half obtaining suitable jobs. Similarly, the author's description of burgeoning environmental problems is sobering indeed. He notes that two–thirds of Java's forests have disappeared since 1940 and that 5 percent of that island's once–arable land has been abandoned due to erosion. The seriousness of this problem is compounded by the fact that Java's population has doubled during the past forty years.

One can only applaud Mr. Pringle's comment that training people in the region "to the level when they can train themselves" will pay huge dividends for the countries concerned. The achievements of the so-called "Berkeley Mafia" — the group of Indonesian economists given higher university training in the United States by the Ford Foundation — show what can be done. Penalized for their American educations during the final years of the Sukarno regime, this small group of technocrats played the key role under Suharto's "New Order" in straightening out the economic mess left by the previous government and setting Indonesia on the road toward rational economic development.

Training programs sponsored by the US government have achieved similar, though perhaps less spectacular, results. For reasons which have never been clear to me, the American government a few years ago discontinued the General Participant Training Program, administered by AID, to provide graduate–level university education to selected students from developing nations. One supposedly informed official offered that this program trained only members of the elite and did not serve basic human needs. I believed then and still believe that one of the best ways to help meet the basic needs of any group is to ensure adequate training for those officials in developing nations who will play key roles in the allocation of resources and in the preparation of development plans. It is encouraging that the Reagan Administration has resumed this important program, although still on a far too limited scale.

Pringle makes a useful contribution to the better understanding of two other complex and controversial issues — US bases in the Philippines and the problem of human rights — but one would wish he might pursue these further in a companion volume or article in light of more recent information and developments. The author notes that "Japanese, Chinese and Southeast Asian anxieties would be aroused by any sudden withdrawal" by the US from the Philippine bases. I fully agree. Although reluctant to say so publicly, even strongly non–aligned countries in Asia value our "over–the–horizon" presence.

Pringle believes the bases will remain a "volatile and contentious issue" in US–Philippine relations. Recent events indicate this may not necessarily be the case. The 1979 agreement between the two governments reaffirmed Philippine sovereignty over the bases and, despite some reservations, the United States agreed to a number of steps to give substance to this principle. Of perhaps even greater long–term significance is the provision for a "complete review and reassessment" of the base agreement every five years to assure that it continues to serve the interests of both parties. This unlocking of an agreement otherwise scheduled to continue without review or recourse until 1991 should, if handled with sensitivity on the American side, serve to defuse this emotional issue substantially. I strongly endorse Pringle's recommendation that more of the work at the important ship–repair facility at the Subic Bay naval base should be gradually turned over to Filipino contractors. This would help reduce the residual post-colonial image of the United States, and also expand the constituency of those Filipinos deriving direct benefit from the bases.

The second problem area, human rights, is more complex and considerably more controversial. The author observes that the US, in meeting the human rights objectives of the Carter Administration, "was not willing to take a strong stand on the issue" and made only "token changes" in our security relationships abroad to advance this cause. As one who was deeply involved in carrying out this program, I would agree with Pringles's second observation but take exception to the first. The fact that we did not make a great deal of noise about our efforts to advance the cause of human rights in Indonesia — except for occasional unhelpful official press leaks in Washington — does not mean that we failed to take a strong stand, but that we felt our efforts could best succeed by confining our activities to official bilateral or multilateral rather than public media channels. It is precisely for this reason that we achieved a substantial degree of success. The key question is whether we wanted publicly to put certain nations on some sort of international hot seat, or whether we wanted to exert our best efforts to reduce human rights abuses — in other words, whether our basic objective was to strike poses or to achieve results. I believe the outcome shows that steady and quiet diplomacy was the best approach to the human rights situations in Indonesia and the Philippines.

On the second point, I fear Pringle may have fallen for the canard that US aid somehow gives us "leverage" through which we can force aid recipients to take actions they would not otherwise contemplate. Many years of work in developing nations have convinced me that this so–called leverage is extremely limited and, on sensitive political issues, virtually non–existent. If we object to certain policies or actions of foreign governments or if we merely wish to show our moral indignation, then we simply should not give aid to the offending governments. We should not, however, assume that limiting or terminating our assistance (or threatening to do so) will force foreign governments to end what we view as human rights violations. In fact, in some cases termination of our aid removes what is otherwise a moderating influence.

Three additional issues identified by the author require brief comment. Without spelling out just what he means, Pringle calls for us to "remove ambiguities" in the US-Philippine Mutual Defense Treaty. If this means we should go for a NATO–type automatic commitment, then I find this unrealistic — and probably undesirable — in today's climate of domestic US opinion. I suspect the Filipinos, pragmatic by nature, know exactly what our commitment does and does not mean. It is probably best to let this sleeping dog lie.

In a different context, the author observes that both the Philippines and Indonesia have in recent years "shifted to an authoritarian, single–center system of government." While this may be an accurate description of what has occurred in the Philippines, it is not in the case of Indonesia. As one who was in Indonesia during the latter years of the Sukarno regime, I submit that it would be difficult to find a more authoritarian system than Sukarno's "guided democracy." The present Indonesian government, despite its imperfections, is less authoritarian and more responsive to public opinion than its predecessor, and has done a far better job of meeting the truly basic human rights to adequate food, adequate shelter and an improving life style.

Finally, Pringle's comment that the army crushed the Indonesian Communist Party following the abortive 1965 Communist coup attempt ignores the strong and spontaneous reaction of other elements, particularly politically active Muslim groups which had long chafed under growing Communist intimidation and terrorism.

Perhaps Pringle's most important conclusion — one which runs throughout his treatise — is that "nationalism ... sooner or later is the determining political force throughout the region." I share the view that, while various forces can disrupt the free play of nationalism, it will eventually emerge. In this vein, it behooves the United States to avoid actions which would pit US prestige, policies and programs against nationalistic sentiment. One of the best examples of this in recent years was our handling of the 1966-67 Indonesian power struggle between former President Sukarno and Suharto's "New Order." Our "low profile" policy during this important period kept us out of the way and gave free sway to local forces. It must be recognized, however, that this policy worked so well in part because no external elements were providing significant assistance to Sukarnoist forces.

Pringle shoots down the idea that either Indonesia or the Philippines will become "another Iran." He believes the "likely short–term outlook for the island area is continued national cohesion and evolving regional detente," but he finds the longer term less certain, and concludes that while in one sense this area in a powderkeg, in another it shows a strong tendency to maintain national unity. This conclusion is not as precise as one might like, but recognizing the complex factors involved, it may be the best possible. If I interpret Pringle correctly, he would put more weight on the national unity factor than on the powderkeg. So would I.

Like other observers, Pringle is troubled by the way the US bureaucracy is organized (or not organized) to cope with these challenges. He concludes that we need greater foreign policy sophistication in Washington, reinvigoration of our language– and area–training programs, closer integration of the intelligence function and foreign policy formulation, and creation of a more effective central planning system, including greater capacity to draw on groups outside the government. With the possible exception of his comments on the intelligence function, one can only agree. In that case too close an integration of intelligence–collecting and policy–formulating agencies can, as we have seen in the recent past, lead to abuses. Friction between intelligence collectors and analysts on the one hand and formulators of foreign policy on the other need not be disruptive.

I would add four additional thoughts on possible ways to improve our performance. First, we must stop the process of reducing willy–nilly the staff an ambassador has to carry out his duties. The demands on our personnel are growing as political and security problems become more complex, US overseas trade and investment expand, and more Americans travel abroad. American businessmen, tourists, journalists and others expect the full support of our missions abroad, and they have the right to expect that support. This is not possible with dwindling or static personnel resources. During my tour as Ambassador to Indonesia, one important phase of our consular workload increased by 400 percent. Our requests for additional staff were rejected, and, in fact, cuts were imposed on the mission. The quality of our support to the public inevitably suffered. Staff reductions overseas are all too often taken in political and economic sections, which play a crucial role in supporting an ambassador and policy–makers in Washington, rather than in consular, commercial or administrative areas which provide more tangible benefits to the American or foreign public. This, together with the fact that other agencies frequently do not make proportionate reductions, leads to a situation in which State Department personnel overseas, who represent the only agency which sees the totality of our interests and policies abroad, are rapidly becoming the housekeepers for agencies with more parochial views.

Second, inter–agency coordination works far better abroad than in Washington. The ambassador, through the mechanism of his Country Team, and drawing on a presidential letter underscoring his paramount position, is able to mold the various bureaucratic interests under his control into a reasonably effective unit. In Washington the system breaks down and bureaucratic rivalries, contests for turf, and budgetary competition take over. It should not be beyond the capacity of reasonable people to devise some system to duplicate in our nation's capital the Country Team system which functions so successfully overseas.

Third, it is next to impossible to have a coherent, effective foreign policy if long–term, endemic issues must be addressed in annual budgetary cycles. Repeatedly we have seen good programs curtailed prematurely — to the dismay of our friends — because priorities shifted in Washington. Without infringing upon Congress's responsibilities, better ways must be found to permit multi–year funding for projects and programs for which others make commitments on the assumption that we will stay the course.

Finally, above and beyond our bureaucratic problems, the US government needs to devote more attention to the sensitivities of foreign leaders. This, in part at least, would offset dwindling US financial resources, for in Asia style is frequently as important as substance. Some of our problems abroad have sprung from imagined slights and indifference, but more often than not the neglect has been real. Taking Pringle's two countries, our problems are undoubtedly compounded by the fact the Philippine President Marcos's last official visit to Washington was in 1966 and President Suharto's came in 1975. Leaders of such important nations can only assume that their lack of personal contact with our top leaders in Washington reflects uninterest here. Fortunately, President Reagan has now invited both Marcos and Suharto to Washington.

Robert Pringle has written a thought–provoking, incisive book. It should be read and studied, not only for its insights into the complicated cultures of archipelagic Southeast Asia and our relations with those cultures, but also for the lessons it provides for our policies in other parts of the world.

Banks and the Balance of Payments: Private Lending in the International Adjustment Process. By Benjamin J. Cohen, in collaboration with Fabio Basagni, Montclair, New Jersey: Allanheld, Osmun & Co., 1981, pp. 243. $31.50, cloth.

Reviewed by DOROTHY MEADOW SOBOL

The process of international reserve creation has changed dramatically during the past decade. With private bank lending an important source of balance of payments financing, the international credit markets have become a key source of reserve growth for the world economy. Private banking institutions, not official monetary agencies, now make most of the crucial decisions regarding access to international liquidity and the financing of payments deficits.

This transformation of international liquidity creation raises a number of potential problems for the international adjustment process, and suggests some policy options. The substance of these problems and policy prescriptions are the subject of Professor Cohen's new book, *Banks and the Balance of Payments: Private Lending in the International Adjustment Process*, which was written in collaboration with Mr. Fabio Basagni.

In Professor Cohen's view, the process of international liquidity creation underwent a definitive change following the 1973 explosion in world oil prices. This led to a sharp expansion in the supply of loanable funds available to the international credit markets. The eurocurrency market

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in particular has been the most obvious manifestation of the increased internationalization of private financial intermediation.

What concerns Professor Cohen most is the impact this new unregulated source of payments financing may have on the effectiveness of international monetary management by national governments and multilateral agencies. More specifically, he fears that this new process of liquidity creation may have adverse effects on the balance between adjustment and financing policies, inducing some countries, for example, to postpone needed adjustment measures if access to market financing is readily accessible.

In addition, he is troubled by the potential effect of this new process on the supply and rate of growth (not on the composition or distribution) of monetary reserves in the international system as a whole. Because the limits of reserve creation are now set by market judgments of the credit worthiness of individual countries rather than by multilateral evaluation of the needs of the system as a whole, there is a danger that, at times, financing can be made available to countries in quantities and on terms which might be inappropriate from a systemic point of view. As a result, the international monetary system may be subject to abrupt discontinuities and inefficiencies, raising the possibility, for example, of lending booms which could stimulate inflation.

To test his hypotheses, the author examines case histories for ten countries which approached the private markets for balance of payments finance during the mid–1970s. The countries studied include: Argentina, Brazil, Italy, Korea, Mexico, Peru, Spain, Turkey, the United Kingdom, and Zaire. Not surprisingly, he concludes that the private markets have been neither "an unalloyed blessing nor an unmitigated curse" (p. 113).

The results in each case were dependent on the situation the individual country faced. For some countries, such as Argentina, Italy, and Korea, Professor Cohen found that private lending helped smooth the impact of severe balance of payments problems on the domestic economy. For other countries, however, such as Peru, Turkey, and Zaire, private financing of deficits was not always consistent with sound overall objectives for the international system. In these instances, banks lent more money than they should have based on overly optimistic assumptions about the future earnings prospects for these countries.

Of perhaps greatest interest is Professor Cohen's finding that in seven out of the ten cases studied, the IMF was called in to impose discipline; the private creditors lacked authority to enforce any policy conditions of their own. This suggests, the author contends, that the IMF is increasingly serving as a de facto certifier of debtor international creditworthiness.

Professor Cohen's policy prescriptions are on the modest side, in recognition of the lack of political will among the national governments to allow the IMF to function as a world central bank. To deal with the adjustment problem, he prescribes closer coordination of lending policies between the private sector banks and the IMF than currently exists. But, he rightly underscores, nothing would damage the role of the IMF more than to be seen as operating in favor of either the borrower or lender, that is, the IMF must take care not to bail out a member in private debt or tempt a private lender, feeling protected by its guarantees, to lend without caution in borderline cases. Although the IMF cannot therefore exert direct influence over the lending policies of private banks, considerable margin still exists for cooperative efforts between the two sectors. While limited, this cooperation can nonetheless contribute importantly to the adoption of sound policies on the part of borrowing countries.

As for the international liquidity problem, Professor Cohen argues in favor of imposing reserve requirements on banks operating in the euro-currency markets as a means to reduce the net availability of funds. Aware that not all countries impose reserve requirements in the management of their domestic monetary policies, the author is willing to let central banks agree among themselves to a range of instruments, whether reserve requirements or capital or liquidity ratios. The main point is that the results must maintain roughly similar competitive conditions among countries between the domestic and international banking markets.

To help reduce the gross availability of funds, the author suggests that the IMF borrow from the private markets, either through direct loans from banks or through the issuance of its own bonds or notes. The strategy here would be to absorb some of the supply of loanable funds, lend the funds to deficit countries, and thereby limit the total amount of financial resources available for international lending by private institutions.

While attractive in theory, the author is well aware that this idea has not yet found favor either within the IMF or the national governments. The IMF staff cite technical problems which make the author's prescription difficult, but it is the national governments that make decisions about the IMF's course who continue to be reluctant to allow the IMF formal money-making powers. Thus far, they have been willing to grant the IMF only limited ability to control international liquidity.

This reluctance to allow the IMF to function as a world central bank means that the main focus of control over the gross availability of loanable funds will remain where it has always been, namely, with the national governments. For this reason, Professor Cohen would like to see more coordination of national monetary policies than currently prevails among the countries whose currencies are used in international lending. Collectively, he believes, these countries could limit the availability of funds if individually they were to take more explicit account of international considerations in the formulation of their domestic policy objectives and if they were to look beyond the perspective of national interest in the surveillance of private lending institutions.

For all its excellent argument and presentation, there are two weaknesses in Professor Cohen's analysis. The most significant is that the book presents more survey than careful analysis of the issues which trouble the author. Fewer but more detailed case studies might have helped in this respect. Another weakness is that he does not treat the significant changes which have been wrought in the international financial markets during the past two years as result of widespread inflation and the second round of oil price hikes.

Another, perhaps more substantive criticism, is that the author seems to imply that there was a time when international reserve creation was qualitatively different, when official monetary agencies exerted more control over the creation of international liquidity. The fact is that the IMF never exerted much influence over the total quantity of reserves created either before or after 1973. Prior to 1973, it was the outflow of private capital from the United States which contributed to the bulk of official reserve growth. Therefore, it is somewhat misleading to suggest that the nature of international liquidity creation is so very different today from what it was during the 1950s and 1960s. There has never been a time when liquidity creation was based on any overriding systemic interests pursued through multilateral management.

All in all, Professor Cohen's book makes an extremely lucid and useful contribution to understanding the functioning of the international credit markets in the current period. It should be read for the insights and creative proposals he offers toward solving the dilemmas facing international credit markets.