Colonial Revenue Policies and the Impact of the Transition to Independence in South East Asia

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Abstract
The purpose of this paper is twofold. The first part examines trends in revenue policies across South East Asia in the early decades of the twentieth century. It is argued that, by the 1920s, there were quite striking differences in revenue policies and performance across the region. The paper examines the reasons for these differences, paying particular attention to the conflicting demands placed on the various colonial administrations by conditions within the colonies, as well as by the changing priorities of the metropolitan governments. The second aim of the paper is to examine the impact of the transition to independence on revenue policy and performance. It is often thought that in most parts of Asia, the advent of political independence led to a greatly expanded role for government in the economy. While it is true that many newly independent countries had ambitious plans for government as the lead actor in promoting rapid economic development, in fact in several countries in South East Asia, it proved very difficult to increase revenues in real terms. The reasons for this are explored in the paper.

Keywords
taxation, colonialism, independence, economic nationalism

Introduction
By 1900, five colonial powers were active in East and South East Asia. Three were European. The British controlled from Delhi the vast South Asian subcontinent which extended from the Khyber pass in the west to the borders...
of Burma with China, and with the independent Kingdom of Thailand in the east. In South East Asia, they controlled most of the Malayan peninsula, including the strategic port of Singapore, which was developed into an important British naval base. The Dutch governed the huge Indonesian archipelago, from Sumatra to New Guinea, and the French controlled the contiguous territories of Vietnam, Cambodia and Laos, a region known as French Indochina. After the defeat of Spain by American forces in 1898, President McKinley decided to impose an American administration on the Philippine islands. The fifth colonial power in Asia in 1900 was Japan. As the only Asian country to acquire colonial possessions in the twentieth century, Japan has been called an “anomaly” in the history of colonial Asia (Peattie 1984:6). The island of Taiwan, or Formosa as it was known during the Japanese colonial era, was annexed from China under the Treaty of Shimonoseki, and an administration was established under a Japanese Governor General in March 1896.

Of the pre-colonial states in South East Asia, only Thailand remained free of direct colonial control, but at the cost of surrendering considerable autonomy in economic policy. A number of treaties were signed with major powers in the latter part of the nineteenth century which obliged the government to keep tariffs low, and permit greater trade with other parts of the rapidly growing world economy. British and French advisers were located in the main ministries and exercised considerable influence over trade, fiscal and exchange rate policy. While making these concessions, the overwhelming concern of the Thai government was to avoid direct colonial control, and this had important implications for fiscal policy after 1900, which are discussed in the paper.

The first part of this paper examines trends in revenue policies across South East Asia in the early decades of the twentieth century. It is argued that, by the 1920s, there were quite striking differences in revenue policies and performance across the region. The paper examines the reasons for these differences, paying particular attention to the conflicting demands placed on the various colonial administrations by conditions within the colonies, as well as by the changing priorities of the metropolitan governments. The second part of the paper examines the impact of the transition to independence on revenue policy and performance. It is often thought that in most parts of Asia, the advent of political independence led to a greatly expanded role for government in the economy. While it is true that
many newly independent countries had ambitious plans for government as the lead actor in promoting rapid economic development, in fact in several countries in South East Asia, it proved very difficult to increase revenues in real terms. The reasons for this are explored in the paper.

**The Evolution of Tax and Revenue Policies: 1900-1942**

By the first decade of the twentieth century, these five colonial powers were each trying to establish effective administrative structures which prioritised the centralization and reform of fiscal systems (Elson 1992:149-54). Independent Siam also carried out major reforms of government revenue policy (Ingram 1971: Chapters 8 and 9). On the revenue side, the metropolitan powers wanted tax systems under the direct control of the colonial administrations which were sufficiently buoyant to provide enough revenues to fund current expenditures while at the same time providing a surplus for investment. Old practices of revenue farming were eliminated over the last decades of the nineteenth and the early twentieth century in favor of more “modern” revenue systems relying on trade taxes, on domestic excises and sales taxes and in some cases on corporate and individual income taxes. As Butcher (1993:42) argued, the state in South East Asia by the early twentieth century was a very different institution from what it had been a century earlier when revenue farms were a useful means for often rather weak indigenous governments to secure more income, usually by appointing the commercially powerful Chinese as tax farmers. By the early twentieth century a very different view of the fiscal functions of the state was taking hold, a view based on the idea of a strong central state taking responsibility for both revenue raising and expenditures.

Although all the colonial powers wanted to strengthen their fiscal powers, each were influenced by a different set of pressures which affected revenue policies. First there were ethical concerns, especially about the impact of taxes and other imposts on the incomes and living standards of the indigenous populations. In Indonesia, the policies adopted after 1901 were expressly intended to improve living standards, especially in Java where it was widely believed there had been a decline in the last part of the nineteenth century. In the Philippines where American colonization was very unpopular with large segments of the American public, McKinley
instructed Governor Taft, to promote the “happiness, peace and prosperity of the people of the Philippine Islands” (Hutchcroft 2000:277). This reflected the strongly moralistic view that the administration took of its new colonial mission. Fear of rural unrest was also a concern to most colonial governments; as will be argued below this fear was justified in the case of Burma where rebellions in the 1930s were at least partly triggered by heavy rural tax burdens. In addition, the British and French home governments, under pressure from domestic lobbies, viewed colonies as captive markets for the sale of goods and services produced in the home economy. It was realized that impoverished colonial populations would not provide buoyant markets and could indeed become serious liabilities.

But at the same time as colonial administrators were under pressure to lighten tax burdens, or at least make them more equitable, they were also facing demands for higher expenditures. The ethical policies pursued in both Indonesia and the Philippines involved more government provision for infrastructure, education and public health. Foreign companies operating in sectors such as agricultural estates and mining grew in number and importance after 1900. Most of them expected the government to provide roads, railways and ports so that their produce could reach world markets quickly and cheaply. Metropolitan governments were reluctant to give direct grants to their colonies not least because of increasing demands from their home populations. Relative to GDP, social transfers (government spending on welfare, unemployment, pensions, health and housing subsidies) increased between 1890 and 1930 in France, the Netherlands, the United Kingdom, the USA and Japan, although they were much lower in Japan than in the other countries (Lindert 2004: Table 1.2). One way for colonial governments to fund expenditures on capital works without increasing taxes was to borrow, and most governments in Southeast Asia did borrow to fund some projects although the amounts were often limited by the conservative attitudes of colonial administrators.

Given the emphasis that all the colonial powers were placing on the reform of tax policies, it might have been expected that there would have been some convergence of revenues per capita by the latter part of the 1930s in South East Asia. But this was far from being the case. As late as 1938, when most economies in the region were recovering from the ravages of the depression, per capita government revenues still showed considerable variation. In British Malaya, which was for budgetary purposes...
divided into the three jurisdictions of Straits Settlements, Federated States and Unfederated States, per capita revenues were much higher than elsewhere in the region, with the partial exception of Taiwan where per capita revenues were higher than in the Unfederated States, although not in the other parts of British Malaya (Table 1). In the Philippines, tax collection fell by more than half between 1896-7 and 1902/3 (Hord 1907:11). The Americans implemented a number of reforms which led to a growth in revenues, and by 1938 revenues per capita were above the Netherlands Indies, Burma, Thailand and Vietnam.

The first three decades of the twentieth century saw considerable growth in output in most parts of East and South East Asia, which facilitated the growth and diversification of government revenues. Not surprisingly, there was a significant relationship between export growth and revenue growth in all colonial territories. Long run elasticities of both government revenues and expenditures with respect to exports were close to unity in most parts of the region, which indicates that they increased in the same proportion as export revenues (Booth 2007b: Table 6). But the channels through which export growth impacted on revenue growth varied across the region. Taxation of exports accounted for only a small proportion of total revenues in most colonies; the main exception was the Federated Malay States, where it accounted for around 15 per cent of total revenues. The corporate income tax was quite an important revenue source in the Netherlands Indies, but not elsewhere.¹ In independent Thailand, non-tax revenues accounted for a substantial part of total revenues. In the Straits Settlements they accounted for over 70 per cent of all revenues.² These non-tax revenues varied across time and space; they included profits from government enterprises, and also revenues from forests, and civil administration. In the following section, I examine different revenue sources in more detail.

¹ Some very profitable companies operating in the Netherlands Indies tried to avoid paying taxes to the colonial government. For a discussion of the conflicts between Royal Dutch Shell and the colonial government see van Zanden and Marks (2012:126-8). These authors argue that Royal Dutch Shell did everything they could to hide the magnitude of the profits they were making in the colony, and also mobilized support in the Netherlands to get the export tax rescinded.

² The 1938 figures were exceptional, in that there were large revenues from "other sources", but in previous years even without this additional source of revenue, less than half of all revenues were derived from taxes.
Table 1. Revenues per Capita: (US $) 1938 and 1952

| Country                  | 1938 | 1952 |
|--------------------------|------|------|
| Straits Settlements      | 29.7 | 58.8 |
| Federated Malay States   | 17.2 | 42.9 |
| Taiwan                   | 11.9 | 26.5 |
| Unfederated States       | 9.8  | 1.5  |
| Philippines              | 4.2  | 11.7 |
| Burma                    | 3.8  | 8.8  |
| Indonesia                | 3.7  | 10.3 |
| Thailand                 | 3.5  | 8.4  |
| Vietnam                  | 1.5  | 2.7c |
| USA GNP Deflator         | 100.0| 199.3|

a. After 1945, the federated and unfederated states were amalgamated into the Federation of Malaya.
b. Figure in brackets includes local government revenues.
c. Data refer to 1950.

Sources: Taiwan: Mizoguchi and Umemura (1988:288); Vietnam: 1938: Bassino (2000:286-88); Netherlands Indies: Creutzberg (1976), population data from van der Eng (2002); Philippines: Commonwealth of the Philippines (1941), Table 100 and Birnberg and Resnick (1975); Thailand: Ingram (1971:329-337); Burma: Andrus (1948: Table 37); Federated Malay States and Straits Settlements: Department of Statistics (1939), with additional data from Fraser (1939), Appendix A.

1952: International Monetary Fund, *International Financial Statistics* various issues between 1952 and 1958, with additional data for Federation of Malaya from Markandan (1960: Table 30); Central Bank of the Philippines (1956); Bank Indonesia (1956). Exchange rate for Taiwan in 1952 from Sato et al (2008:369). Other exchange rates from Bidwell (1970).

**Types of Revenue Policies**

*Taxing Agriculture*

Given that agricultural output accounted for a significant part of total output in most parts of South East Asia until well into the twentieth century, it might have been expected that agricultural taxation would have been given
high priority by colonial authorities. One way of taxing agriculture was to levy a tax on agricultural land. In Taiwan, the Japanese administration, aware of the role land taxes had played in Meiji Japan, devoted considerable resources to drawing up land cadastres so that land taxes could be levied (Ho 1984:355). But in fact land taxes in Taiwan never accounted for as high a proportion of total government revenues as they had done in Japan, especially prior to 1920. They were also a lower proportion of value added in the agricultural sector than in Japan (Table 2). Detailed cadastral surveys were also carried out in Burma and Java, and in some of the more settled regions outside Java, on the basis of which land taxes were levied as a fraction of the income which cultivators were assumed to be deriving from the land.

Furnivall, who had extensive knowledge of the Burmese land revenue system and studied the Dutch colonial land tax in Java in the 1930s, argued that the Javanese tax was simpler, and that the pressure of the tax on cultivators was lighter than in Burma (Furnivall 1934:21). This argument is supported by the evidence on land tax revenues as a proportion of agricultural value added (Table 2). The percentage was consistently higher in Burma

Table 2. Land Taxes as a Percentage of Gross Value Added in Agriculture: 1900-1939

|        | 1900-9 | 1910-19 | 1920-9 | 1930-9 |
|--------|--------|---------|--------|--------|
| Japan  | 7.2    | 4.8     | 2.2    | 2.4    |
| Java   | 4.3    | 2.8     | 2.7    | 4.7    |
| Taiwana | n.a    | 1.0     | 1.6    | 2.0    |
| Koreab | n.a    | .       | 0.1    | 0.8    |
| Burmae | 9.3    | 7.4     | 5.9    | 10.1   |

a For Taiwan the last column refers to 1930/38.
b For Korea the figures refer to 1916/19, 1920/29 and 1930/38.
c For Burma the averages refer to 1901/2 and 1906/7; 1911/12 and 1916/17; 1921/22 and 1926/27; 1931/32, 1936/37 and 1938/39.

Sources: Japan and Indonesia: van der Eng (2006: Table 4); Taiwan and Korea: Mizoguchi and Umemura (1988:232-36, 288-91); Burma: National Planning Commission (1959), Statistical Appendix, National Planning Commission (1960a), Statistical Appendix, National Planning Commission (1960b), Statistical Appendix; Thailand: Central service of Statistics (1940). Data on Net Domestic Product from agriculture in Burma: Aye Hlaing (1965:288).
Table 3. Land Taxes per agricultural worker and per hectare (US $)

| Country/region | Per worker | Per hectare |
|----------------|------------|-------------|
| Java (1930, 1937) | 1.20       | 1.34        |
| Taiwan (1937)    | 1.98       | 3.12        |
| Korea (1937)     | 0.91       | 1.94        |
| Burma (1931)     | 3.43       | 1.73        |
| Thailand (1937)  | 0.52       | 0.66        |

Note: Tax data are three year averages centered on the years shown.

Sources: Java (including Bali and Lombok): Land tax from Creutzberg (1976), Table 4; Arable land from Central Bureau of Statistics (1947), p. 46, with a markup for 7.5 per cent for Bali and Lombok. Labour force data from Mertens (1978), Appendix Table 1.4.
Taiwan: Mizoguchi and Umemura (1988:288); agricultural labour force and cultivated area from Hayami, Ruttan and Southworth (1979: Table T4).
Korea: Mizoguchi and Umemura (1988:292); agricultural labour force from Grajdanzev (1944:85); cultivated area from Hayami, Ruttan and Southworth (1979: Table K-4a).
Burma: Tax and arable land from National Planning Commission (1960a), Statistical Appendix; Labour force data from Walinsky (1962), Tables 1 and 2.
Thailand: Tax and labour force data from Central Service of Statistics (1940); land data from Ramssson (1977:37).

than in Java or Taiwan or indeed in Japan itself between 1900 and 1939. Land taxes per agricultural worker were also higher in Burma than in other parts of Asia in the 1930s (Table 3). Given these trends, together with the growing alienation of land to Indian moneylenders, it is not surprising that rural unrest was growing in Burma and erupted into open revolt by the early 1930s. In his study of rebellions in Southeast Asia, Scott (1976:149-50) attributed the Saya San rebellion in Burma to tax burdens that were widely viewed as inequitable, especially as agricultural prices fell in the 1930s.

Van der Eng (2006: Table 4) has estimated that the land tax was a smaller percentage of gross value added in agriculture in Java than in Japan until 1920, although between 1920 and 1940 the percentage was higher in Java. Land taxes per agricultural worker were by the 1930s lower in Java than in either Burma or Taiwan (Table 3). A combination of ethical concerns
over unfair tax burdens on the rural population, and fear of rural unrest were probably the main reasons why both land and other taxes such as capitation levies were not increased after 1900. A survey of economic conditions among the indigenous populations of Java and Madura published by Huender in 1921 found that it was ‘disquieting’ that taxation was not increasing more rapidly but argued that people had been ‘taxed to the utmost limit’, and given the prevailing low level of incomes, it was not possible to squeeze more from them (Penders 1977:96). Outside Java, Bali and Lombok, little progress was made with land taxation before 1942.

In French Indochina, cadastral surveys were far less accurate and the assessment of land taxes a hit-or-miss affair, and often very inequitable. Thompson (1937:194) claims that no effort was made to re-classify land until 1910, when Cochin-China reclassified rice fields. Head taxes continued to be levied on rural populations until well into the French era using pre-colonial systems which were far from equitable. Popkin (1979:142-49) points out that the French tried to make changes to the ways in which taxes were assessed in villages, but they faced huge problems at the village level, where local power structures were largely intact and continued to assess and collect taxes according to old, inequitable procedures. It was only in the 1920s that French officials began to press for reform of head taxes which were ‘a terrible sum for the poor’ and trivial for the rich (Thompson 1937:194). Although formal tax revenues per capita were low in Vietnam compared with other parts of Southeast Asia, it is probable that informal levies continued to be levied on rural populations until the 1930s. The burden of taxation on the poorer segments of rural society could have been heavier than in other parts of colonial Asia.

In the Philippines, agricultural land was under-taxed in the Spanish era, and this continued under the American administration (Luton 1971:143). To the extent that land was taxed at all, it was the responsibility of local governments firmly under the control of large landowners, who were hardly in favour of land taxes, or indeed other taxes whose incidence fell on agricultural producers. Only in the larger cities did taxes on land contribute significant amounts to local budgets (Corpuz 1997:235). In Thailand, reforms initiated by King Mongkut lightened the land tax in order to encourage farmers to increase land under rice (Sompop 1989:62-3). By the 1930s, land taxes per agricultural worker and per hectare were low compared with neighbouring Burma, and also with Java and Taiwan (Table 3).
Farmers were given remissions as agricultural prices fell through the early parts of the 1930s. The data appear to confirm Ingram’s argument that Thai farmers were lightly taxed in comparison with other parts of Southeast Asia (Ingram 1971:243). But land taxes were not the only impost on rural populations. From the early 1900s onwards all Thai citizens as well as the Chinese paid the capitation tax, and revenues were roughly equal to the land tax.3

The other tax which fell on agricultural producers was the export tax, although in fact export taxes were not widely used on agricultural commodities before 1940.4 In the FMS, most of the revenues from export taxes were from tin exports, with rubber accounting for only a small share. In Thailand, export taxes on rice were only levied after 1950; Ingram argues that in the 1930s, the agricultural sector was lightly taxed (Ingram 1971:243). In the Netherlands Indies, a special export cess on native rubber was levied in the mid-1930s as a means of reducing smallholder production. In 1936, the tax amounted to almost 19 per cent of total tax revenues of the central government (Central Bureau of Statistics 1947:133). But it caused considerable hardship for native producers. O’Malley (1979:241) argued that even after world rubber prices started to rise in the mid-1930s as a result of the international restriction scheme, many farmers found their incomes reduced. Outbreaks of violence occurred in some parts of Sumatra, and the Dutch authorities removed the special cess in 1937.

Taxing Trade

Even if export taxes were low in most parts of South East Asia before 1940, import taxes were often an important source of revenues. By the latter part of the 1930s, export and import taxes together accounted for almost 40 per cent of total government revenues in the Federated Malay States, and over 30 per cent of the general budget revenues for Vietnam, and for Thailand (Table 4). In the Philippines and Indonesia, where tax systems were more diversified, trade taxes were a lower percentage of total government revenues, but still quite significant. In Taiwan, customs duties were a

3 Statistical Yearbook of Thailand no. 20, pp. 275-79.
4 The extent to which the incidence of an export taxes falls on domestic producers rather than foreign buyers depends on the elasticities of domestic supply and foreign demand. It has been argued in the context of most South East Asian agricultural exports that these are such that the incidence of export taxes falls largely on domestic producers.
small part of total tax revenues in the latter part of the 1930s, smaller than either the land tax or excises on the sale of sugar and alcohol (Grajdanzev 1942:134). This probably reflected the fact that most of the island’s trade was conducted with Japan. Singapore was a free port and there were no taxes on imports or exports, although excises were levied on a range of imported products, including alcoholic drinks, tobacco and gasoline, and accounted for most of the revenues from taxation.

**Table 4.** Percentage Breakdown of Government Revenues: 1938

| Country    | All taxes | Land taxes | Income taxes | Excises | Trade taxes |
|------------|-----------|------------|--------------|---------|-------------|
| Burma      | 81.4      | 33.0       | 11.6         | 14.0    | 22.2        |
| Philippines| 64.0      | n.a        | 28.3 (19.3)  | 17.1    | 15.9        |
| Indonesia  | 62.8      | 6.7        | 22.0         | 13.8    | 16.1        |
| Vietnam    | 58.7      | n.a        | 10.0         | 17.0    | 31.7        |
| Thailand   | 52.8      | 6.3        | 8.6 (6.5)    | 5.9     | 30.5        |
| FMS        | 49.3      | 0          | 0            | 11.1 (8.3) | 38.2 |
| SS         | 34.4      | 0          | 0            | 27.1 (9.2) | 0 |
| Taiwan     | n.a       | 5.6 (9.3)  | 14.7         | n.a     | n.a         |

Note: Figures in brackets for the Philippines refer to the license and business tax; for Thailand the capitation tax, and for the SS and FMS the opium revenues. For Burma, the FMS and the SS, stamp duties and other licence fees are included in tax revenues. For Taiwan they refer to an estimate of total land taxes assessed at the central and local level given in Grajdanzev (1942:136).

Sources: Vietnam: 1938: Bassino (2000:286-88); Netherlands Indies: Creutzberg (1976:67; Central Bureau of Statistics (1947:133)); Philippines: Commonwealth of the Philippines (1941: Table 102); Thailand: Central Service of Statistics (1940: 274-79); Burma: Andrus (1948: Table 37); Federated Malay States and Straits Settlements: Department of Statistics (1933:238-41); Taiwan: Grajdanzev (1942:136).

By the latter part of the 1930s, there were striking differences across South East Asia in the role of income taxation. In both the Straits Settlements and the Federated Malay States, there were attempts to tax incomes during the First World War, but the revenues raised were small and the resistance fierce from both the European and the Chinese business communities...
Arguments for and against income taxation continued but the business communities across British Malaya managed to prevent the imposition of either corporate or personal income taxes until 1942. The situation across the straits in Indonesia was very different. By the late 1930s, taxes were levied on both corporate and personal incomes and wages. They amounted to over one fifth of all government revenues in 1938 (Table 4). Estate companies operating in both colonies complained to the Dutch colonial authorities about what was seen as an ‘unfair’ tax, but the Dutch were unmoved.

In the Philippines, the *cedula* and the *industria* had evolved by the late nineteenth century into roughly graduated taxes on personal and business incomes, but the American administration was determined to modernize the revenue system and introduce more equitable taxes on income and profits. They immediately ran up against powerful interests in both the business and the agricultural sectors. The proposed tax on corporations was dropped from the 1904 Revenue Law, as was the tax on legacies and inheritance (Luton 1971:137). A low tax on corporate incomes was imposed in 1913 but the license and business tax was the main burden on the business sector and was often arbitrary in its incidence. It still accounted for around 20 per cent of total revenues in the late 1930s, compared with under ten per cent for income taxes (Table 4). In Taiwan, receipts from income taxes, including taxes on profits and dividends, grew quite rapidly in the inter-war years, and by 1938 accounted for around 15 per cent of total revenues, a higher fraction than in any colony except Indonesia. But they were much lower than revenues from non-tax sources including government monopolies (Grajdanzev 1942:134-5).

In French Indochina, the Doumer reforms of the late nineteenth century were intended to centralize and modernize the revenue system. Following French post-revolutionary practice, indirect taxes were favoured over direct taxes. This was not popular with the indigenous populations; according to Thompson (1937:184) they preferred the older direct taxes. It seems probable that the net effect of the Doumer reforms was to add to the tax burden of many Vietnamese. Income taxes were imposed in the

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5 The *cedula* was a form of graduated head tax; exemptions were only given to the clergy, paupers and privates in the army and navy. A citizen had to produce proof of payment for most forms of public and private contracts and for engaging in non-agricultural activities (Corpuz 1997:391).
early twentieth century but only accounted for around ten per cent of total government revenues in Vietnam by 1938, which was a slightly lower proportion than in Burma (Table 4). In independent Thailand, an income tax and a tax on business and the professions were imposed in the 1930s, and although revenues grew rapidly they only accounted for two per cent of total government revenues in 1938. The older head tax accounted for a further 6.5 per cent of revenues. A reform of the revenue system was enacted into law in 1938 which was intended to shift the burden of taxation from the rural farmer to business and high income groups in urban areas. But as Ingram (1971:184) pointed out, there was little change in the structure of taxation and non-tax revenues before the war and accelerating inflation posed new problems for government revenue collection.

The Role of Opium and Other Monopolies

One of the most controversial aspects of revenue policy in most parts of South East Asia was the reliance on revenues from opium sales. The British, French and Dutch regimes were all, by the early twentieth century, justifying their colonialism in terms of a ‘civilizing mission’, bringing enlightened standards of government to the benighted populations of Asia. How could they justify deriving often substantial revenues from a narcotic whose sale and consumption was increasingly controlled, if not completely banned, by governments in the metropolitan countries? In the Philippines, where the American administration was committed to replacing the “repressive” Spanish revenue system with one which would enhance economic and social uplift, the opium levy was seen as especially reprehensible, although it had only accounted for about 3.3 per cent of total government revenues in the fiscal year 1896/87, by which time other monopolies including that on tobacco had been abolished (Corpuz 1997:191-4). The Americans were the first colonial power to cease deriving government revenues from the sale of opium. They also fought hard for the prohibition of opium trading, except for medical purposes, throughout Asia in the early part of the twentieth century, although other colonial powers, including the British, were reluctant to support more than its ‘gradual’ withdrawal (Foster 2003:112).

The British had good reason for their reluctance, as the opium levy was an important source of revenue in all parts of British Malaya. Indeed Bayley and Harper (2004:33) argued that British rule in both Burma and Malaya was “supported by narco-colonialism on a colossal scale”. This is an
exaggeration, although there can be no doubt that, as late as 1919, opium was a very important revenue source in all parts of British Malaya. In the Unfederated States, especially Johore and Kedah, revenues from opium comprised over 40 per cent of total revenues in 1919 (Lim 1967:351). But the reliance on opium fell after 1920, as revenues from other sources including customs duties increased. In Kedah the opium monopoly only accounted for around 12 per cent of revenues in the late 1930s. A similar decline took place in the Federated Malay States, where opium revenues accounted for around 20 per cent of total revenues in 1920, but had fallen to under ten per cent by the late 1930s. The Straits Settlements were more reliant on opium revenues, mainly because of the absence of customs revenues, or revenues from income taxation. In the latter part of the 1930s, they still accounted for more than 20 per cent of total budget revenues (Department of Statistics 1939:238).

The other colony where opium revenue was an important, if controversial, source of government revenue was French Indochina. In the first decade of the twentieth century, gross receipts were around 25 per cent of total revenues accruing to the general budget, although the net revenues were considerably lower (Descours-Gatin 1992:223-5). The opium regie was in effect a government monopoly which meant that the government had to bear the cost of buying and processing the opium; one estimate was that these costs amounted to around 30 per cent of the gross revenues (Guermeur 1909:178). Both gross and net receipts declined as a proportion of total revenues after 1910, and after 1913 revenues from all monopolies (salt and alcohol as well as opium) declined as a proportion of total revenues accruing to the central budget. Bassino (2000:286) estimates that in Vietnam, revenues from monopolies fell from around half of all revenues in 1913 to around 19 per cent in 1940. As in British Malaya, the reason for the decline was not an absolute fall in receipts from monopolies, but a rapid growth in other revenues, especially those from customs duties and indirect taxes.

In Indonesia, revenue farms were an important source of income for the colonial government until the end of the nineteenth century, and the opium farm was the most important (Diehl 1993:199; Chandra 2010). Reforms after 1900 led to the conversion of opium farms into a government

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6 The previous year, the opium levy accounted for almost 24 per cent of all revenues in the Straits Settlements; the fall in 1938 was due to the jump in miscellaneous receipts.
monopoly, which yielded a diminishing proportion of total government revenues, especially after 1914. Chandra (2010) estimates that the gross revenues from the opium *regie* fell from 13.5 per cent of total revenues in 1914 to 1.7 per cent by 1939. Once again the main reason was the increase in revenues from income and excise taxation and trade taxes, at least until 1930, although over the 1930s government revenues fell in absolute terms. Much the same trends occurred in independent Thailand where revenues from sale of opium were around 20 per cent of total revenues in 1905, and fell to less than ten per cent in the late 1930s. In terms of nominal baht, there was little change in opium revenues after 1900, while revenues from other tax and non-tax revenues grew rapidly.

One reason why taxes on opium, and indeed other “sin taxes” including monopolies and excises on alcohol and tobacco, however obnoxious to liberal opinion, were favoured by colonial governments was that they were seen as a tax on the Chinese, who were considered more affluent than the indigenous populations, and were usually very reluctant to pay income tax. But in fact the evidence indicates that many among the indigenous populations in South East Asia consumed opium, alcohol and tobacco. In Indochina, Descours-Gatin (1992:214) estimated that the Chinese were only 22 per cent of all opium smokers in Cochinchina and a much smaller percentage in other parts of Vietnam, although they were around 60 per cent of all smokers in Cambodia. In Indonesia, data for the 1930s show that indigenous Indonesians accounted for most of the licensed opium smokers, although Chinese dominated among unlicensed users (Central Bureau of Statistics 1947:143). The assumption among colonial officials appeared to be that users were relatively affluent, although that might not always have been the case, and dependency on opium could well have reduced many users, whether Chinese or indigenous, to penury.

**Borrowing Policies**

In most parts of South East Asia over the first four decades of the twentieth century, increased government revenues led to increased government expenditures. But expenditures did not always move in step with revenues, and in Vietnam, the Philippines and Indonesia the elasticity of expenditures

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7 Chandra (2010) shows that the net profits from the *regie* fluctuated between around 70 to 80 per cent of total revenues which is roughly the same as in French Indochina.
with respect to exports was slightly higher than revenues (Booth 2007b: Table 6). This partly reflected the tendency to run deficits in years when revenues fell sharply, as they did in the early part of the 1930s. It also reflected the fact that in boom periods when exports were growing rapidly it was easier for governments to access loan finance to fund increases in expenditures, especially for capital works which benefited the export sector. It has been estimated that over the period 1900-25 loans covered about 21 per cent of the cost of all public works carried out by the central and local governments in French Indochina (Simoni 1929:141). In Indonesia, the ethical policy led to a rapid increase in budgetary expenditures and a widening deficit by the end of the second decade of the twentieth century. By 1923, the public debt amounted to 21 per cent of GDP and debt service charges around six per cent of exports. Through the 1920s, the government implemented a more austere spending policy, but by the early 1930s, the debt to GDP ratio had increased, not just because of heavier borrowing but also because of a contraction in nominal GDP (Booth 1998:146). By 1935, public debt per capita was more than fifteen dollars (Table 5).

In Taiwan, the early years of the Japanese occupation were difficult in that the domestic revenue base was far too weak to sustain the development expenditures which the new colonial power felt were essential to develop the island’s agricultural potential. Subsidies from the Japanese government and government debt issue covered over half of all budgetary expenditures until 1897, and round one third until 1903 (Chang and Myers 1963:447). Direct subsidies ended in 1904, but as Ho (1971:290) has pointed out, other forms of budgetary assistance continued until 1914. Thereafter, Taiwan was considered fiscally self-sufficient, although the financial crisis of 1927 led to another bond issue being floated to recapitalise troubled banks (Moulton 1931:176). By the late 1930s the budget surplus in Taiwan was around four per cent of GDP (Mizoguchi and Umemura 1988:289). It was British Malaya that had the highest debt per capita in the mid-1930s among the Asian colonies (Table 5). This reflected the tendency for the government to resort to borrowing to maintain expenditures as revenues fell in the early 1930s. But no Asian colony surpassed the debt per capita achieved by Egypt in the 1930s, or indeed by some of the less developed countries in Europe such as Portugal.

It might have been expected that independent Thailand would have taken a bolder approach to borrowing for capital works, and indeed
government debt, and debt service charges did grow in the early part of the twentieth century. But the comparative survey of fiscal policies carried out by Schwulst in 1931 found that Thai officials were determined to liquidate the outstanding government debt. Since 1927, substantial sums were taken from current revenues to set up a fund for the purpose of retiring outstanding debt (Schwulst 1931:46). The policy of reducing the debt, both in absolute terms and relative to total budgetary revenues continued through the 1930s.8 The total government capital liability at the end of the fiscal year 1938/9 was 5.7 million pounds, which was about half what it had been a decade earlier. Debt charges fell from a peak of 12.3 per cent of total budgetary revenues in 1931/32 to 5.8 per cent in 1938/9.9 By 1935, total public debt per capita was lower than in the Philippines and much lower than in the Netherlands Indies, British Malaya and India (Table 5).

To what extent did this conservative approach to fiscal policy and foreign borrowing in Thailand affect economic growth? Most discussions of pre-war economic policy-making in Thailand argue that while the ultra-cautious policies achieved their objective of reducing dependency on foreign loans, they also retarded growth (see e.g. Warr and Nidhiprabha 1996:29). These authors, like several others, have stressed the influence of the British advisers in urging caution regarding the implementation of costly public works projects which would have necessitated foreign loans, although the evidence suggests that it was senior Thai officials who made the final decisions. The most famous example of “development deferred” was probably the decision not to implement the ambitious irrigation projects in the central plains which were first suggested by the Dutch expert, J. Homan van der Heide, in the early years of the twentieth century.10 Ingram (1971:196-7) argued that in 1903 when the first report from van der Heide was presented to the Thai government, the baht had just been linked to gold, and the government’s priority was to build railways. The newly appointed British financial adviser opposed embarking on an expensive new irrigation system in addition to railways, which the Thai military viewed as essential.

8 Because of falling export values in the early 1930s, the debt service to export ratios increased to around six per cent in 1935. It fell after that (Sompop 1989:176).
9 These figures are taken from Central Service of Statistics (1940).
10 For a complete list of Homan van der Heide’s published and unpublished writings on Thailand see Feeny (1982:230).
Table 5. Public Debt per Capita (US $)

| Country      | 1935 | 1955 |
|--------------|------|------|
| British Malaya | 18.21 | 27.39 |
| Indonesia    | 15.45 | 3.79 |
| India        | 12.11 | 17.64 |
| Philippines  | 4.99  | 23.87 |
| Thailand     | 2.76  | 4.15 |
| Egypt        | 31.62 | n.a  |
| Portugal     | 60.21 | 41.93 |

Sources: 1935: British Malaya: Department of Statistics (1936) and Federation of Malaya (1956:90); Indonesia: Creutzberg (1976: Table 7); India, Thailand Egypt and Portugal: United Nations (1948); Philippines: Central Bank of the Philippines (1956:111); 1955 data from International Monetary Fund International Financial Statistics, various issues between 1957 and 1960.

for defence of the realm. Although van der Heide subsequently proposed a modified programme at lower cost, it was only in 1916 that a much less ambitious irrigation project was begun, funded from current revenues. Subsequent analyses have argued that deferring irrigation development slowed agricultural growth, and especially the growth of rice output. Feeny (1998:428) has estimated that the van der Heide proposal would have generated an internal rate of return of around 22 per cent which was way above the cost of borrowing at the time.

The Rocky Road to Independent Economies

All parts of South East Asia achieved independence, or a large measure of self-government, in the eleven years from 1946 to 1957. The nature of the transition to independence varied considerably. In the Philippines, the Americans honoured previous promises and transferred sovereignty in 1946. In Burma, independence was granted in January 1948, in spite of the unstable political situation following the assassination of Aung San. In Indonesia, the Dutch government, convinced that the 'loss of the Indies' would ruin the already weakened Dutch economy, was determined to defeat the nationalist forces led by Sukarno and Hatta. Ultimately, with
considerable pressure from the Americans who were reassured after the Madiun affair that the Indonesian nationalists were not pro-communist, the Dutch reluctantly conceded independence in late 1949. In Indochina, where the Americans were convinced by French arguments that the main independence force was under Communist control, the struggle continued to 1954, when the Geneva agreements divided what had been Indochina into four independent countries. In British Malaya where an armed struggle against communist insurgents lasted well into the 1950s, self-government was finally granted in 1957.

After independence, most Asian leaders were inclined to blame colonial economic policies for their backwardness and poverty. As Myint (1967) argued, nationalist politicians in South East Asia were determined to utilise the revenues from export production to improve the incomes and welfare of their indigenous populations, who, it was claimed, had benefited little from export growth in the colonial era. But they were divided on policies. Socialist ideas had considerable influence, and economic planning in some form or other, was adopted by most post-independence governments, although with varying results. Some nationalist politicians thought that foreign capital still had an important role to play in export production, while others wanted to expropriate foreign owners, nationalise key export industries, and build up a class of indigenous entrepreneurs as rapidly as possible, even if this meant slower economic growth. Myint classified such policies as ‘inward-looking’ and argued that the governments of Burma and Indonesia in particular ‘were unwilling to employ positive economic incentives to expand export production, not only for the foreigners, but also for their own nationals’ (Myint 1967:4).

A number of factors affected the revenue performance of the newly independent countries in Asia. First, in most former colonies, per capita GDP only returned to pre-war levels in the late 1950s (Table 6).11 Thus debates about the appropriate role of government were taking place in the context of sometimes quite severe economic decline. Struggles against the Japanese, and in the case of Indonesia and Indochina, the returning colonial powers, had led to devastation of infrastructure which affected

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11 It should be noted that the estimates of GDE prepared by Sato et al. (2008:353-54) show that, although there was a steep fall in per capita GDE between 1942 and 1950, there was a rapid recovery after 1950, and the 1942 level was regained by 1955.
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Table 6. Per capita GDP in Pre-war Peak, 1950, 1955 and 1960 (1990 international dollars)

| Country          | c. 1942 | 1950 | 1955 | 1960 |
|------------------|---------|------|------|------|
| Malaysia (1942)  | 1673    | 1559 | 1460 | 1530 |
| Philippines (1939)| 1606    | 1070 | 1358 | 1476 |
| Taiwan (1942)    | 1502    | 924  | 1250 | 1492 |
| Korea (1940)     | 1442    | 770  | 1054 | 1105 |
| Indonesia (1941)| 1252    | 840  | 986  | 1019 |
| Thailand (1938)  | 826     | 817  | 945  | 1078 |
| Burma (1938)     | 740     | 396  | 467  | 564  |
| India (1943)     | 698     | 619  | 676  | 753  |

Source: Maddison (2003:182-5).

mines, plantations and whatever industries had existed prior to 1942. The lower per capita GDP affected tax collections, especially income and excise taxes. Trade taxes were also affected as export and import volumes and values fluctuated, often around a downward trend. In addition, with the departure of many colonial civil servants, administrative systems staffed by inexperienced officers struggled to cope with the tasks thrust upon them. The problem of administrative capacity was in some cases aggravated by rapid inflation, which eroded public sector salaries. In Thailand, Warr and Nidhiprabha (1996; 23) argued that the inflation of the 1940s led to a sharp decline in the real value of government salaries, and in spite of nominal increases after 1950, their real value never returned to pre-war levels. Not surprisingly many tax officials were tempted to take bribes, especially from Chinese businessmen unwilling to pay taxes.

There was also considerable prejudice among many nationalists against those taxes whose incidence was seen to fall mainly on the “poorer” groups within native society, such as land taxes. In several former colonies revenues from such taxes fell steeply as a proportion of total revenues. In Burma, where land taxes accounted for around one third of government revenues in the late 1930s, the proportion fell to around two per cent in 1950/51 and increased only slightly over the 1950s (Central Statistical and Economics Department 1963:286). In Indonesia, revenues from land taxes also fell as a proportion of total revenues. Many nationalist politicians in
both countries regarded land taxes as unfair, and many cultivators were reluctant to continue paying what were seen as ‘colonial’ imposts. In addition the declining revenues also reflected administrative problems. Over the 1940s, land cadastres were not updated, and by the early 1950s in many parts of South East Asia, title to land was unclear, and not infrequently the subject of bitter disputes.

Newly independent governments also often found that export taxes were an easier way of taxing agricultural producers, both large estates and smallholders, who after 1950 were producing an increasing share of total exports. In a few regions, export industries recovered their pre-war vitality quite quickly. In Thailand, the volume of rice exports returned to the 1930s average by 1951 (Ingram 1971: 38). In 1955 the so-called rice premium was introduced, which became both an important revenue source and a substantial burden on smallholder cultivators (Ingram 1971:243-61). By 1952, per capita exports from the Malayan Federation, as it had become, were among the highest in the world, and considerably higher than in many countries in Africa and Latin America which had been largely untouched by the war (Woytinsky and Woytinsky 1955:63-4). In the early 1950s, most primary-exporting countries, including those in South East Asia, benefited from the impact of the Korean War boom on commodity prices, and the public finances received a considerable, albeit temporary, boost from trade taxes. In the Malayan Federation, revenues from import and export taxes amounted to almost 55 per cent of total government revenues in 1952. In addition the government had also begun to levy income taxes (Markandan 1960:50).

Growing revenues together with some inward flows of development aid led to higher government expenditures in most parts of South East Asia. Even when allowance is made for the decline in the purchasing power of the dollar between 1938 and 1952 of about 50 per cent, revenues in real dollar terms were above 1938 levels in 1952 (Table 1). But after 1950, as a result of rapid inflation and a reluctance in several former colonies to adjust nominal exchange rates, many Asian countries had overvalued exchange rates which did not reflect the purchasing power of their currencies. A better indication of changes in the real value of per capita revenues can be derived from the data in the local currencies, deflated by appropriate local price indices. Per capita revenues in 1954, when the impact of the Korean War on commodity prices had subsided, were below the 1938 level in the
Philippines and Indonesia, although higher in real terms in the Malayan Federation, Burma and Thailand (Table 7). Given the decline in real GDP which had taken place in Burma, the improvement in real revenue collections per capita should be seen as a remarkable achievement, although it was not to last beyond the 1970s. In Thailand the improvement, in spite of rapid inflation over the 1940s, was the result of increased taxation on exports, and especially on rice.

Of all the former colonies in Asia, Indonesia faced the most difficult struggle in increasing government revenues and expenditures after 1950. In 1938, the revenue system was more diversified than most others in Asia, and trade taxes accounted for only 16 per cent of total revenues (Table 4). By the mid-1950s, when prices of rubber and other commodities had fallen from their peak in the early 1950s, real per capita government revenues were lower than in 1938 (Table 7), and the reliance on trade taxes had increased. The assessment and collection of other taxes after independence proved difficult, because of the slow recovery of the economy, and because of political and administrative difficulties, aggravated by mounting inflation. By the late 1950s the government was resorting to the inflation tax (printing money) as a means of acquiring a larger share of a stagnating national output (Booth 1998:165-66). This had a temporary effect of increasing expenditures per capita in real terms, but inflation accelerated. High inflation and an increasingly overvalued exchange rate led to increased smuggling of exports from many regions outside Java to neighbouring countries, which further reduced government revenues. By the early 1960s, the government of President Sukarno, while professing a commitment to “Indonesian socialism”, in fact presided over a fall in government expenditure relative to GDP, and a weakening of government control over the private sector, especially outside Java (Booth 1986:17).

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12 It is difficult to get data for Taiwan, although it would appear that real per capita government revenues fell steeply after 1940. The GDP deflator rose from 0.125 in 1940 to 237.053 in 1948 (1960=100). Tax revenues in current terms fell after 1944, so the decline in real terms was much greater (Sato et al. 2008:338).

13 Taxes on imports and exports accounted for around one third of total government revenues in 1952; if revenues from the sale of foreign exchange certificates are included, the proportion rises to 54.7 per cent. By 1954 the percentage had fallen to around 40 per cent (Bank Indonesia 1955:67).
Elsewhere, official approaches to the role of government in the economy varied, but most politicians and senior bureaucrats in Asia in the 1950s would have agreed with the argument of Goh Keng Swee, the architect of Singapore’s economic policies from the late 1950s onwards, that newly independent nations had to make a radical break with the “laissez faire” policies of the colonial era, and that more activist and interventionist policies were essential (Goh 1976:84). Government revenues and expenditures in both Malaysia and Singapore increased relative to GDP until the 1980s but fell back sharply thereafter. The Singapore strategy, which was promoted after the island nation broke away from Malaysia in 1965, was to develop infrastructure, including public housing, through state enterprises rather than through direct budgetary subsidies. By 1970, Malaysia and Singapore had the highest ratio of current government revenues to GDP; and both these economies were also able to save a significant share of current revenues to cover capital expenditures (Table 8). The conflict-ridden countries of former Indo-China, by contrast, were unable to fund current expenditures from revenues and were very reliant on aid inflows.

Table 7. Revenues per Capita and Inflation: 1954 (1938 = 100)

| Country            | Revenues/capita | Prices |
|--------------------|-----------------|--------|
| Indonesia          | 1449.3          | 2340   |
| Thailand           | 2445.7          | 1391   |
| Burma              | 460.8           | 380    |
| Malayan Federation | 443.7           | 371    |
| Philippines        | 310.7           | 329    |

Note: Price indexes for Burma: GDP deflator; for Indonesia: Average retail prices in Jakarta of 30 home produced and imported products; for Malayan Federation: Cost of living of Malays and Chinese; For Thailand: Cost of Living index in Bangkok and after 1951 GDP deflator; for the Philippines: Cost of Living of lower income groups in Manila.

Sources: International Monetary Fund, *International Financial Statistics* various issues between 1952 and 1956, with additional data for Burma from Central Statistical and Economics Department (1963); Malayan Federation: Markandan (1960); Central Bank of the Philippines (1956); Bank Indonesia (1956). Price indices for Indonesia from Central Bureau of Statistics (1961:229-30); for Burma from Ministry of National Planning (1960a); for Thailand from Ingram (1971).
Table 8. Current Revenues as a Percentage of GDP and Government Savings as a Percentage of Government Revenues, 1970

| Country   | Current Revenues/Gross Domestic Product | Government Savings as a % of current revenues |
|-----------|----------------------------------------|---------------------------------------------|
| Malaysia  | 24.4                                   | 15.7                                        |
| Singapore | 23.2                                   | 38.5                                        |
| Taiwan    | 22.3                                   | -2.5                                        |
| Burma     | 19.7                                   | -4.5                                        |
| South Vietnam | 17.7                              | -51.2                                       |
| Thailand  | 14.8                                   | 11.5                                        |
| Cambodia  | 12.3                                   | -132.8                                      |
| Philippines | 10.8                              | 8.5                                         |
| Indonesia | 10.3                                   | 16.5                                        |
| Lao PDR   | 9.5                                    | -122.8                                      |

Note: Current revenues are tax and non-tax revenues excluding all aid grants and foreign borrowings.

Sources: World Bank (1976:444-5).

Taiwan and Burma both managed to achieve revenue/GDP ratios of around 20 per cent until 1970, although revenue mobilization declined in Burma over the 1970s and 1980s. In Taiwan, GDP growth accelerated as a result of a successful export-led growth strategy which by 1980 had transformed the economy into a manufacturing power-house. Singapore, Thailand and Malaysia also achieved rapid economic growth and structural change through the 1970s, and beyond. But how much of this success was due to revenue policies, or indeed other policies implemented in the pre-1950 era, remains a matter of debate.

Conclusions

In his study of tax efforts in Africa, Mkandawire (2010:1663) argued that “colonization has left institutional arrangements and practices that have proved remarkably resilient over the years”. In the Asian context, this statement would seem to need some qualification. It is true that the former colonies with the highest revenues per capita in the late 1930s (the three compo-
nents of British Malaya, and Taiwan) all managed after 1950 to achieve quite strong revenue performance and after 1960 rapid economic growth. Indonesia on the other hand, which probably had the most diversified revenue system of any Asian colony before 1942, struggled after independence to construct a revenue system which met the country’s development needs. Reliance on trade taxes increased, but these depended crucially on export growth and favourable prices. As export prices and government revenues fell, unbalanced budgets funded through printing money fuelled inflation which in turn made revenue collection more difficult. The vicious circle was broken only after 1967. The Philippines also, in spite of a more peaceful and orderly transition to independence, low inflation and continued support from the USA, was also unable to increase revenue collection much beyond ten per cent of GDP in the 1950s and 1960s. Thailand after 1950 continued to pursue a conservative budget policy; the relatively low revenue/GDP ratio was matched by low government expenditures and a cautious approach to government borrowing. For many years, Thailand was praised for its prudent fiscal policies, but by the late 1980s, the consequences in terms of poor educational attainment and inadequate infrastructure were all too obvious.

The countries of what had been French Indochina had the most troubled and prolonged transition to independence, and beyond. Revenues per capita had been low in the 1930s. After 1954, there seemed some hope that the countries could put aside past grievances and focus on accelerated economic development. South Vietnam did make some progress, but the increasingly destructive war was a drain on the public finances. In Cambodia and Laos, the modest economic achievements of the 1960s were lost as the war spread over their borders. By 1970 the gap between current revenues and expenditures was very large, leading to greatly increased aid dependence.

On balance the South East Asian experience does suggest that the colonial legacy had some impact on post-independence revenue performance across the region, but it is also clear that other factors impinged on revenue performance, including inflation, resistance to taxation on the part of political groups whose power increased in the post-independence era, and civil war. In addition, there continues to be debate about how important revenue performance really was in determining rapid economic growth in the post-colonial era. Perhaps the most that can be said is that domestic revenue performance determines expenditure performance, and that the
more successful economies across South East Asia in the three decades after 1950 did manage to increase budgetary expenditures both on a per capita basis and relative to GDP. To the extent that increased expenditures were devoted to developmental ends such as improved infrastructure, and human resource development, they would have accelerated economic growth. This was the case in Taiwan, Malaysia and Singapore, but only to a lesser extent elsewhere.

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