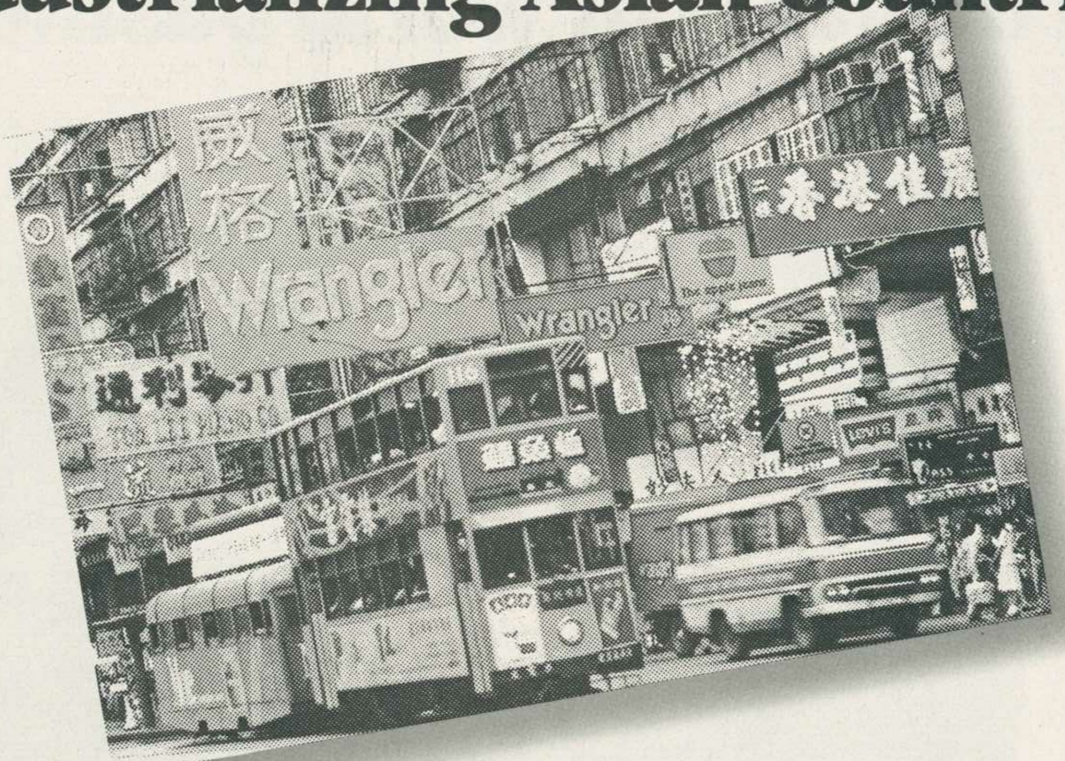
Economic Relations with the Newly Industrializing Asian Countries



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Newly industrializing Asian countries which neighbor Japan, such as South Korea, Taiwan, Hong Kong, and Singapore are recently attracting the world's attention for their rapid industrialization and economic growth. These countries have been industrializing through a process similar to Japan's, but in a much shorter period. Their industrial structure has been rapidly approaching that of Japan. But there are still many major obstacles they must overcome before developing into full-fledged industrial nations. The obstacles are serious in that their industrial structures are similar to Japan's. The most crucial phase in their industrialization process is just beginning.

Rapid Industrialization through Export-Oriented Policies

These countries had, until very recently, many advantages over Japan from a competitive point of view. They had, among other advantages, high-quality but inexpensive labor, a primary factor for the comparative competitiveness of their industrial products.

All they had to do at that time was to establish a mechanism that could make the most use of this comparative strength. And the countries which were able to do it are presently the newly industrializing countries (NICs).

This circumstance is evidenced by the fact that it became possible for these countries to continue rapid industrialization only after they shifted their industrial structures from their traditional protectionist-motivated industry for import substitution to free trade and export-oriented structure.

Many Asian countries suffered foreign currency shortages in the late 1950s following sharp increases in imports and stagnant exports following World War II. Therefore, they promoted industry to produce substitutes for goods they had once imported.

But this protectionist-oriented industry soon reached its limits in several years when its domestic market was saturated. The results were sharp rises in production cost due to wide-spread protectionist measures, deteriorated trade balances, obstacles to expanding exports, the decline in entrepreneur daring, lower operation rates, and increased unemployment.

To overcome these problems the present NICs adopted the policy of promoting free-trade and export-oriented industry. Apart from Hong Kong, which has been a free trade port since its outset, Taiwan began to change to free-trade, export-oriented industry around 1958 through industrialization policies which included lower import duties and a system to exempt raw materials for manufacturing export goods from import duties. Then South Korea, following the example of Taiwan, forcefully carried out a similar policy beginning around 1964. Singapore, too, began to take the same course in 1967 when it adopted the Economic Expansion Incentive Law.

After they adopted new policies, their industrialization rapidly accelerated and continued for a long period. For example, the average annual growth rate of Taiwan's manufacturing industry was 9% for the five years between 1953 and 1958, during which it was producing substitutes for imported goods. But the growth rate was a high 15% for the long 19-year period from 1958 to 1977 prior to the second oil crisis.

In line with this trend, the net annual growth of per-capita income jumped from 3% to 6% and the annual employment growth rate also went up remarkably from 2% to 4%, with industry rapidly absorbing surplus labor.

This fast progress by these countries was mainly made possible by low wages. And in the process of developing free-trade, export-oriented industry, they became able to produce products which could compete with those produced by advanced countries. Helped by low wages, they exported such labor-intensive products as clothes, cotton textiles, toys, wigs, Christmas goods, plastic goods, plywood, electronics goods, and electrical appliances.

It is not an easy task to compare wage levels of countries, since there is a lack of sufficient statistical data and difficulties of exchange conversion. But based on various data from the United Nations and others, it is estimated that the average monthly wage of a U.S. manufacturing industry worker was around $390 in 1960, compared with $5 for a South Korean, $20 for a Taiwanese, and about $55 for a Singaporean. There are no data available for the wages of Hong Kong's workers in the manufacturing industry for 1960, but, given the level of per-capita income in Hong Kong, it can be estimated at around $30, which is something between Taiwan's and Singapore's. At that time Japan's average was $70. Therefore, excluding the comparatively high level of Singapore, the wage levels of the other Asian countries were far less than 10% of that of the United States, and were less than 30% of that of Japan. The use of low-wage labor surely served as the driving force for their progress. This relatively low level of wages in the Asian countries continued throughout the 1960s, sustaining exports centering around labor-intensive products.

Of course, the labor costs of many Asian countries, including most of the ASEAN countries, were as low as or lower than those of the NICs. Why, then could other Asian countries not industrialize as fast as Singapore, Hong Kong, Taiwan, and South Korea by concentrating on production of labor-intensive products? It can be said that they tried to follow the example of the four successful countries and turn their industries into free trade and export-oriented ones, but they had to basically maintain their protectionist policies because of various domestic and foreign circumstances.

Complementary Economic Relations in the 1960s

At this stage, a noticeable thing happened. The economies of Japan and NICs became complementary, supplying each other effectively with what the other wanted. At first, Japan exported machines needed for the NIC's industrialization and contributed to their accumulation of capital goods. The accumulation grew increasingly year after year, which in turn greatly helped expand Japan's exports. On the other hand, exports of textile goods and other labor-intensive products from the NICs to Japan also increased. Thus, from a Japanese point of view, the NICs supplied Japan with low-priced goods.

At the same time, Japan actively made direct investment in these countries. By so doing, Japan gained access to cheap labor, which it could not get at home, to manufacture goods in these countries for export to the other part of the world as well as to make parts and semi-finished goods to be assembled into finished goods in Japan. For the NICs, this Japanese investment meant a transfer of capital as well as production and management technology, effectively providing what they lacked.

Advancement of Industrial Structure and Competitive Economic Relations

But reciprocal relations between Japan and the NICs changed into competitive relations in the mid-1970s. Rapid employment promotion and wage hikes in the NICs were responsible for the change.

For example, real wages in Taiwan accelerated year after year as yearly average wages progressively increased 1.4% between 1953 and 1958, 3.3% between 1958 and 1965, 6.5% between 1965 and 1970, and 8.9% between 1970 and 1979. The rate of increase for the last period is especially remarkable in that the period included 1973 and 1974, during which real wages dropped by 9% due to the oil crisis. This pattern of progressive wage hikes was also seen more distinctively in South Korea, and similar trends were clearly noticeable in Hong Kong and Singapore, too.

In these circumstances, the comparative competitiveness of their products because of the low labor costs declined rapidly. Such major mass-produced and labor-intensive export items as clothes, wigs, shoes, toys, sundry goods, and plywood lost their competitive advantage. And production of these items was gradually taken over by the ASEAN countries with lower labor costs.

Consequently, the NICs were forced to shift their industrial structures to a more capital-intensive and technology-intensive structure. This was reflected in efforts spearheaded by the South Korean and Taiwan governments in the 1970s for developing their countries' heavy machinery and chemical industries. Their efforts have been made on many fronts, such as steel, petrochemicals, fertilizers, machinery, and cars. Hong Kong is not at present thinking of such large-scale industries as steel, petrochemicals, fertilizers, and cars, as its domestic markets are limited. Instead, Hong Kong is making efforts to make their textile, electronic appliance, and toy industries, which have so far been developed on low-cost labor, more technology-intensive and high value-added. Singapore's position is similar to Hong Kong's, but it is trying to make its auto parts and other industries more technology-intensive and skilled-labor-intensive by introducing foreign capital and up-to-date technology. At the same time, Singapore, which has an oil refinery base, is much interested in having a petrochemical industry.

As this process progresses, the NICs industrial structures more and more resemble Japan's. Their products have begun to compete with Japanese products in the international market making Japan feel anxious not only about "being caught up with" by its neighbors but also about the "boomerang" effect. Even when the economies of Japan and the NICs were in a complementary relationship, Japan's labor-intensive industries manufacturing textiles and various sundry goods gradually lost market to these countries. But during this period, Japan itself was growing rapidly and could cope with this competition from the NICs by readjusting its industrial structure. This was because at this stage Japan still could benefit greatly from the complementary industrial structures.

Problems Japan Will Face When 'Caught Up With'

But Japan has almost nowhere to turn when the NICs achieve the development of their heavy machinery, chemical, and high value-added product manufacturing industries. Those industries being developed, such as steel, petrochemicals, machinery, cars, and shipbuilding, are really the major pillars that have supported Japan's economy. There are not so many new production areas which will be able to replace them in the future. Japan's economy, reaching maturity, can no longer be readjusted as flexibly as before when it enjoyed a high growth rate.

At this stage the advancement of the Asian NICs in major fields pose great threat to Japan. Although the wage levels in these countries rose sharply, as mentioned above, they are still half or two-thirds of these in Japan. Japanese heavy machinery, chemical, and industrial products are placed at a disadvantage when competing with the same industries in areas where lower wages are in effect. At the moment, Japanese enterprises, which are equipped with plant and equipment built before the oil crisis at a much lower construction cost, are now narrowly winning in the competition with the NICs which have newly-built plant and equipment. But it is feared that Japan will be completely caught up with on many fronts soon after these plant and equipment are depreciated.

Problems of The Asian NICs in Catching Up With Japan

However, the NICs are facing far greater problems than Japan. They have now reached the stage in which they have to promote development of heavy machinery, chemical, and high value-added product manufacturing industries in the same way as Japan did. But the population of South Korea, the biggest of the four countries, is only about one-third of Japan's, Taiwan's is one-seventh, and Hong Kong and Singapore's are less than 5 million each. Furthermore, their income levels are less than half the Japanese level. Therefore, their domestic markets are too small for a large-scale heavy industry market.

When they try to export their products on the world market, they not only confront the big problem of the present world-wide recession but also have to face Japan and other industrialized countries which already dominate world markets. It is also difficult for them to find outlets for their products in Japan, which manufactures competitive products in many areas.

Another major problem is with their technological level and related industries. The problem is that they have not yet created enough industrial organizations and related industries because they have achieved their industrialization in only 20 compared years, with the 100 years Japan took.

For example, South Korea is trying to promote its domestic car manufacturing industry. But it is facing a problem of high prices for parts. Prices of locally produced parts are said to be almost twice as high as those of its foreign counterparts and production costs for South Korean cars are much higher than those for foreign-made cars of the same type.

Hong Kong, which has given up its efforts for developing heavy machinery and chemical industries, is also faced with the lack of related industries, technology, and skilled labor for developing high value-added industries in textiles, toys, and electronic parts.

The outlook on conditions for the NICs is not always bright. Their advantage over Japan will decline because their wage levels are expected to rise further. Prices of naphtha in South Korea, which has placed its petrochemical industry in a strong competitive position, are expected to rise close to those of Japan as its industry advances. They are also facing competition from the developing countries in the area of labor-intensive products. Lacking domestic oil resources they were severely hit by the oil crisis. Therefore, the NICs need more than free-trade economic policies which brought about their rapid industrialization in the 1960s. At the same time, they have to adopt protective policies to build their own heavy machinery and chemical industries. But the smallness of their domestic markets is a limiting factor in their development.

Multinational Efforts for Industrial Readjustment

The NICs, all of which have resource structures similar to Japan's, had no choice but to follow the Japanese development pattern. As their industrial structures became more sophisticated, it seems their economies and the Japanese economy have lost the complementary relationship in many areas and are likely to become extremely competitive. In such a situation, both are in difficulty. But it is more difficult for the late-starters than for the early-starters to compete in a race, especially when they are geographically close to Japan which has an industrial structure similar to theirs and which has firmly established itself as a world economic power. Their real ability will be displayed when they overcome the difficulties. Under such a circumstance, it seems imperative that both Japan and NICs should endeavor to readjust their industries in such away as to make their economic relationship as complementary as possible beyond their national borders. ●