

# Two Decades of Asian Development: Prospects for the 1980s

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Growth performances of East and Southeast Asian countries over the 1960s and 1970s were nothing short of spectacular (Table 1). One notable fact about the developing countries in the region is that not only have average growth rates been high over the past two decades, but vigorous growth trends have been maintained or quickly recovered since the first oil shock period (Tables 2, 3). This growth performance stands out against the background of the turmoil and stagnation of the world economy over the 1970s. It should also be noted that some countries have even shown signs of growth acceleration. These facts seem to allow us to be quite sanguine about growth prospects for the region's developing economies over the 1980s.

In presenting this optimistic view of

sustained growth in East and Southeast Asia in the 1980s, we presume that the experience of Japan's postwar growth is relevant and worth reckoning with. Reviewing policy debates in the late 1950s and early 1960s, we notice that pessimistic assessment of growth prospects for the Japanese economy was dominant, citing balance of payments bottlenecks as one immediate constraint, and traditional socio-economic conditions as another, more fundamental barrier to higher economic growth. Looking back from a vantage point of history, it is clear that pessimistic views of Japan's growth potential have proven wrong: the dynamic process of economic growth driven by high investment has not only overcome short-term balance of payments ceilings on growth, but transformed what at first seemed like insurmountable "structural" rigidities in the economy, thereby unleashing new sources of economic growth in the process. Today it is clear that what was once regarded as a hindrance to economic modernization, such as strong communal traditions, actually has had a unique role to play in Japan's economic management both at the micro (company) level and at macro (national) economic level.

It is true that international economic conditions were more favorable over the 1950s and 1960s when Japan achieved rapid growth of 10% per annum supported by strong export expansion. Japan took full advantage of open and expand-

ing world trade environments by successively promoting new export industries that were first established and nurtured under infant industry protection. Equally important, oil price stability was a very favorable factor in Japan's rapid growth. We cannot expect a return to the situation of the 1950s and 1960s; developing countries may have to face increasingly limited access to advanced country markets and continual price hikes in energy resources. It would be wrong to be too pessimistic, however. Growth performances over the 1970s, achieved under less than ideal international environments, should give us basic confidence about the productive efficiency and administrative capability of East and Southeast Asian countries. We believe the developing economies in the region possess strong growth potential and that supply side factors will prove of fundamental importance in their actual growth performances.

The very fact that East and Southeast Asian countries have registered high growth rates over the past two decades testifies to the dynamic efficiency and stability of the mechanism of capital accumulation in the region. In evaluating growth prospects over the 1980s, the central task will be to identify the possible adverse effects of a less favorable international economic environment on the efficiency and stability of the existing growth mechanism.

The World Bank, in its 1980 World Development Report, put forward the view

**Table 1. Macroeconomic Performance of East and Southeast Asian Countries**

	1950-1960					1960-1970					1970-1977				
	$\Delta Y/Y$	I/Y	I/ $\Delta Y$	$\Delta I/I$	$\Delta E/E$	$\Delta Y/Y$	I/Y	I/ $\Delta Y$	$\Delta I/I$	$\Delta E/E$	$\Delta Y/Y$	I/Y	I/ $\Delta Y$	$\Delta I/I$	$\Delta E/E$
Hong Kong	9.2	9.2	1.00	...	...	10.1	21.0	2.08	7.4	11.1	8.0	22.1	2.76	9.2	6.3
Singapore	...	...	...	...	...	8.8	23.4	2.66	20.5	7.1	8.6	39.8	4.63	5.6	10.7
Taiwan	7.6	17.6	2.32	13.7	9.3	9.2	23.3	2.53	16.2	21.7	7.7	28.3	3.68	8.4	15.7
Korea	5.1	11.4	2.24	...	7.1	8.6	23.2	2.70	23.6	29.3	9.9	27.2	2.75	11.8	25.9
Malaysia	3.6	12.2	3.39	...	...	6.5	18.0	2.77	7.2	5.8	7.8	23.1	2.96	10.4	7.9
Thailand	5.7	15.6	2.74	4.9	5.4	8.2	22.5	2.74	15.4	10.2	7.1	24.8	3.49	6.4	7.0
Philippines	6.5	15.3	2.35	7.0	3.9	5.1	20.1	3.94	8.2	5.8	6.3	26.9	4.27	11.4	5.7
Indonesia	4.0	...	...	1.9	4.9	3.9	11.1	2.85	4.6	3.6	8.0	18.7	2.34	15.0	9.2
Pakistan	2.4	11.6	4.83	...	...	7.2	17.2	2.39	6.9	8.1	3.8	16.2	4.26	-0.6	-3.0
India	3.8	14.2	3.74	11.6	0.6	3.7	17.8	4.81	5.8	2.5	3.1	19.7	6.35	5.1	6.7
Sri Lanka	3.9	13.4	3.44	5.4	2.2	4.8	16.1	3.35	6.6	1.2	2.9	16.3	5.62	0.9	1.4
Bangladesh	...	...	...	...	...	3.7	11.0	2.97	11.1	2.8	2.3	8.1	3.52	-4.5	5.4
Brazil	6.9	20.1	2.91	8.2	1.7	5.4	21.3	3.94	6.9	5.6	9.9	23.2	2.34	12.6	7.7
Mexico	5.6	18.2	3.25	8.4	4.5	7.2	20.8	2.89	9.6	5.4	4.9	22.3	4.55	5.2	2.3
Japan	8.0	51.7	6.46	12.9	11.0	10.9	36.5	3.35	14.6	15.4	5.0	34.3	6.86	2.0	12.7

Source: World Bank, *World Tables*, The Second Edition (1980)

Note: Y, GDP; I, Gross Investment; E, Exports, in real terms  $\Delta x/x$ , annual average percentage change



**Table 2. Macroeconomic Performance of the East Asian NICs in the 1970s**

Year	71	72	73	74	75	76	77	78	79	80
<b>Real GDP Growth Rate</b>										
Korea	10.1	6.1	15.3	8.3	8.1	13.9	10.1	11.3	7.1	-3.4
Taiwan	12.8	13.2	12.9	1.1	4.8	13.6	9.8	13.4	7.8	6.8
Hong Kong	5.0	9.7	16.4	1.8	2.2	18.8	10.2	10.2	8.6	9.0
Singapore	12.5	13.4	11.5	6.3	4.1	7.5	7.9	8.6	9.4	10.2
<b>Change in CPI</b>										
Korea	12.1	11.9	3.1	23.8	26.3	15.4	10.2	14.4	18.1	28.6
Taiwan	2.7	3.0	8.3	47.4	5.3	2.5	7.0	5.8	9.0	19.0
Hong Kong	3.4	6.1	18.2	7.0	0.5	3.4	5.8	5.9	11.6	15.5
Singapore	2.0	2.1	19.5	22.4	2.6	-1.9	3.2	4.8	4.0	8.5
<b>Debt Service Ratio</b>										
Korea	19.2	18.2	15.1	10.1	11.3	9.3	9.0	10.5	13.5	...
Taiwan	4.4	4.0	3.5	2.6	3.8	3.5	4.3	4.4	4.0	...
Hong Kong	0.02	0.01	0.01	0.01	0.04	0.05	0.1	0.8	0.1	...
Singapore	0.7	1.1	0.6	0.6	0.7	0.8	0.8	2.3	1.3	...
<b>Change in Exchange Rate (vis-a-vis US \$)</b>										
Korea	-17.9	-6.9	+0.4	-21.8	0	0	0	0	0	-36.3
Taiwan	0	0	+5.1	0	0	0	0	+5.3	-0.3	+0.2
Hong Kong	+5.8	+0.2	+10.7	+3.1	-2.2	+7.2	+1.2	-4.1	-3.1	-3.6
Singapore	+5.8	+2.8	+11.8	+7.0	-7.7	+1.4	+4.8	+7.5	+0.2	+3.0

Source: ADB, Key Indicators of Developing Member Countries of ADB (April 1981)

**Table 3. Macroeconomic Performance of the Southeast Asian Countries in the 1970s**

Year	71	72	73	74	75	76	77	78	79	80
<b>Real GDP Growth Rate</b>										
Malaysia	...	9.4	11.7	8.3	0.8	11.6	7.8	7.5	8.5	7.6
Thailand	4.7	4.8	9.4	5.4	-7.1	8.7	7.2	10.1	7.0	6.0
Philippines	4.9	4.8	8.7	5.3	6.6	6.7	6.9	5.9	5.8	5.2
Indonesia	...	9.4	11.3	7.6	5.0	6.9	8.8	6.9	4.9	6.9
<b>Change in CPI</b>										
Malaysia	1.6	3.2	10.5	17.4	4.5	2.6	4.8	4.9	3.6	6.7
Thailand	2.1	3.9	11.8	23.3	4.1	...	8.4	8.8	10.3	19.9
Philippines	15.1	10.0	14.0	33.5	8.1	6.2	7.9	7.6	18.8	17.8
Indonesia	4.4	6.4	31.0	40.6	19.1	19.8	11.0	8.1	...	15.2
<b>Debt Service Ratio</b>										
Malaysia	2.6	2.7	2.6	2.5	3.3	4.5	6.6	8.8	4.7	...
Thailand	3.2	2.7	2.6	1.9	2.4	2.4	2.8	3.7	4.2	...
Philippines	6.8	10.0	8.7	5.2	7.1	7.1	7.5	13.4	13.0	...
Indonesia	7.8	7.6	6.3	3.9	7.4	8.6	11.5	13.0	13.5	...
<b>Change in Exchange Rate (vis-a-vis US \$)</b>										
Malaysia	+6.2	+2.4	+13.0	+5.7	-11.9	+2.1	+6.7	+6.7	+0.8	-1.5
Thailand	0	0	+2.6	0	-0.1	0	0	+0.1	-0.2	-1.0
Philippines	0	-5.4	+0.9	-5.0	-6.1	+0.9	+0.8	-0.1	-0.5	-2.4
Indonesia	-9.8	0	0	0	0	0	0	-50.6	-0.3	0

Source: ADB, Key Indicators of Developing Member Countries of ADB, (April 1981)

that structural adjustment is needed for developing economies to realize growth potential to the maximum under a drastically different international economic environment. Particular attention is paid to the need for oil-importing developing countries to fundamentally improve their balance-of-payments (BOP) position through decreased dependence on imported oil and through export diversification. In the wake of the first oil shock, oil-importing developing economies maintained high rates of investment and economic growth by financing current account deficits with external borrowings. Continued reliance upon external financing is no longer feasible in the wake of the second oil shock, with much higher initial levels of debt outstanding and greatly increased real costs of borrowing. Improving the BOP position, therefore, is an urgently needed precondition for sustained growth in the 1980s.

In what follows, we examine the growth prospects of East and Southeast Asia by classifying the region into four East Asian NICs (newly industrialized countries; Korea, Taiwan, Singapore and Hong Kong) and four Southeast Asian

countries (Thailand, the Philippines, Malaysia and Indonesia). Let us first trace their past growth performance.

High rates of economic growth in Korea and Taiwan over the 1960s and 1970s were characterized, from a macroeconomic viewpoint, by a virtuous circle between export growth and investment and, in relation to industrial structure, by parallel growth of export-oriented light industries and import-substitution heavy and chemical industries. Expansion in manufactured exports not only presented profitable investment opportunities for export-oriented industries but offered incentives to creation or expansion of industries supplying raw materials and intermediate products to export industries. Such investments in turn resulted in the further strengthening of export capacity and competitiveness through enhanced productivity in the industrial sector. This mechanism of a virtuous circle between export and investment brought about a continuous rise in export and investment ratios to GDP and the upgrading of the industrial structure toward technically sophisticated branches of manufacturing. Economic planning and

government intervention was a crucial aspect of the institutional setup within which high economic growth was attained over the past two decades. Industrial policies combining export promotion and infant industry protection contributed to the parallel growth of light and heavy manufacturing industries.

Economic management in Singapore and Hong Kong was almost completely in line with the doctrine of laissez-faire and free trade. Government intervention was kept to the minimum and dynamic growth was maintained through flexible and prompt response by private business to changes in international economic environments. Foreign enterprises, with complete freedom guaranteed, contributed to the rapid growth of the two city-state economies by providing funds, technology and an international marketing network. Both economies have experienced a gradual shift to high value-added products in manufacturing and, at the same time, strengthened their role as regional centers in commerce, finance and information services. High rates of economic growth in neighboring countries have continued to generate ever-increasing demand for such international service.

Growth performances of the Southeast Asian countries over the past two decades show a non-uniform pattern reflecting varying growth rates in industrial and agricultural production across countries and over time. A high rate of overall growth around 8% per annum was recorded when industrial growth in excess of 10% and agricultural growth in the order of 5% were simultaneously achieved—in Thailand throughout the 1960s and 1970s and in Malaysia and Indonesia over the 1970s. In the Philippines, in contrast, the aggregate growth rate went no higher than 5-6%, despite an average 5% growth in agriculture, because of sluggish industrial growth at about 7% per annum.

The major part of manufacturing growth in Northwest Asia has been accounted for by expansion of domestic markets. In the 1970s, however, there appeared a rapid increase in manufactured exports, indicating a shift to a new pattern of industrial growth. One important factor behind this new development has been the decision on the part of multinational enterprises to relocate labor-intensive processes, like the apparel and electronics industries, to Southeast Asia in response to increased wage costs in the East Asian NICs. This represents a replay of the East Asian experience in which new opportunities brought about through international market mechanisms induce transformation of the industrial structure and make governmental economic management more market-oriented and administratively efficient. In order to



capture this new opportunity and increase efficiency in investment allocation throughout the entire economy, the Southeast Asian countries have to meet the task of eliminating inefficiencies in existing manufacturing sectors and of removing disincentives toward export industries resulting from protective measures accorded to domestic market-oriented industries. Accelerated growth in industrial production, as experienced in East Asian NICs, could well be repeated in Southeast Asia if there is a determined shift in the direction of industrial policy from import substitution to export expansion.

Let us examine the growth prospects of East and Southeast Asian countries in the 1980s from the viewpoint of dynamic efficiency of investment allocation. For the East Asian NICs, the central task in maintaining the momentum of growth in the face of rising wage costs is to transform the industrial structure toward higher value-added products. Korea and Taiwan face a dual challenge of maintaining competitiveness in traditional export industries and promoting new activities in the skill-and-technology-intensive branches of heavy manufacturing. Dynamic efficiency of investment at this stage of industrial development critically hinges on the extent and speed with which skill formation and technological innovation can be realized, both in more sophisticated product ranges of light manufacturing and in technologically advanced branches of heavy manufacturing, such as iron and steel, shipbuilding, electronics and machinery.

The parallel growth between export-oriented industries and import-substituting industries achieved over the 1970s was largely based upon input-output linkages between textiles and plastic-related exports and petrochemical industries as suppliers of raw material and intermediate goods. In the 1980s the nucleus of a parallel growth pattern will emerge based upon input-output linkages between assembly industries (like shipbuilding, automobile and general and electric machinery) and the iron and steel industry, and upon technical linkages between the machinery and electronics industries (mechatronics). Both Korea and Taiwan are currently pursuing capacity expansion in iron and steel and shipbuilding, attempting to introduce technical and managerial innovations to the automotive industry through joint ventures with Japanese automakers, and trying to strengthen domestic R&D capabilities in electronics and information technology by establishing science and technology centers.

Those new areas of manufacturing activities, which are expected to become new leading sectors over the 1980s, are mostly efficient in use of capital and energy and are considered to be well suited for the

**Table 4. Forecasts of Growth Potential in East and Southeast Asia**  
(Annual Average Growth Rate of Real GDP over the 1980s)

	High Case*	Low Case*
Taiwan	10	8
Korea	8	6.5
Singapore	9	8.5
Hong Kong	7.8	6.2
Thailand	8	6.5
Philippines	7	5
Malaysia	9	7
Indonesia	7	5.5

\* High and Low Cases are estimated upon different assumptions on world trade volume and country specific factors.  
Source: Econometric Research Unit, Institute of Developing Economies

present decade, characterized by higher costs of capital and energy than the previous two decades. However, efficiency in technology-intensive and assembly-type industries critically hinges on accumulation of technical know-how through production experience and the formation of supply networks between parts manufacturers and assemblers. This involves a time-consuming process of organization-building and mutual adjustments to commonly shared goals. There are natural limits to shortening the time period needed for technological maturation and social coordination of productive activities. The new version of parallel growth between light and heavy industries will, therefore, get off to a rather gradual start.

Singapore and Hong Kong will take full advantage of the high adaptability in their economies and will strengthen their role as regional service and information centers, while at the same time upgrading their manufacturing sector toward knowledge- and technology-intensive activities. Expected continued rapid growth in surrounding Asian countries and China's more active involvement in external economic transactions will serve as major stimuli to sustained growth for both these service-oriented economies.

Mention has already been made of conditions for a more efficient investment allocation for Southeast Asian countries over the 1980s. In their case, main macroeconomic policy objectives, i.e. efficiency, stability and equity, seem to point to the same conclusion as to the choice of strategic industries. Promotion of export-oriented, labor-intensive manufacturing is regarded as a central element of development strategy over the 1980s. In Southeast Asia, unlike East Asia, the issue of stability could be of utmost importance in evaluating growth prospects for the 1980s—in terms of macroeconomic stability with regard to price level and BOP situation; and in terms of social

and political stability with regard to income distribution and absolute poverty. Examining growth prospects for Southeast Asian countries over the 1980s the focus of analysis on stability of the growth process will be placed on BOP development (in its macroeconomic aspect) and on the employment situation (out of socio-political considerations). If these countries succeed in fundamentally improving their BOP position through expansion of manufactured exports they will be able to benefit from a virtuous circle between export growth and investment, with a supporting flow of external financing more readily accessible as they enjoy high credit standing in international financial markets. Social and political stability brought about by an improved employment situation will diminish country risk in the eyes of international investors and will therefore strengthen the above-mentioned virtuous circle.

Recovery of the advanced industrialized economies from the second oil shock is very slow and world trade continues to be weak, with no signs of a quick return to buoyant international economic environments. East and Southeast Asian economies, with a high degree of dependence upon export demand, cannot avoid deceleration of growth over the current deflationary transition period. From a long-term viewpoint, however, the region's economies still stand a very good chance of achieving high growth rates over the coming few decades, at least in comparison with those in other regions. The trend of industrialization is still very strong in the region and, therefore, growth potential remains basically sound (Table 4). It is all the more important for the region's developing economies to pursue appropriate development strategies as spelled out in previous paragraphs, and for developed economies to extend cooperation both on the supply side and on the demand side in order to realize maximum growth potential. ●