

Dynamic Development

By Chuji Kikutani

The dynamism of the economy of the Asian region, as seen against the historical background, is illustrated in Fig. 1. The figure depicts in general terms the historical development of the economies of Japan, the United States, newly industrializing economies (NIEs) in Asia and the ASEAN countries.

The term Asian NIEs used here refers to South Korea, Taiwan, Hong Kong and Singapore, and the ASEAN countries means Thailand, Malaysia, the Philippines and Indonesia. Asia in this article refers to the region extending from East Asia to Southeast Asia.

During the 1950s Japan was the sole industrialized country in Asia. It was only in the 1960s that the industrialization of the Asian NIEs began. At the initial stage, the Asian NIEs began producing items that they had previously imported for their domestic markets. In the 1970s they shifted to export-oriented industrialization, by producing goods targeted at overseas markets. From producing only light industrial goods at first, they have now begun to produce heavy industrial goods. In the 1970s, the ASEAN countries began to follow the Asian NIEs in industrialization.

Fig. 2 affords a glimpse, taking as an example the machinery industry, of how Japan, the Asian NIEs and ASEAN countries boosted their industrial competitive power during 1966–1985. It shows that the level of the ASEAN countries' competitiveness in 1985 corresponded with that of the Asian NIEs' in 1966 and that the Asian NIEs' competitiveness in 1985 roughly corresponded with Japan's in 1966.

Growth record

Japan's economy grew phenomenally during the 1960s. The high growth of the NIEs' economies followed in the next decade and has continued up to the present. The ASEAN economies also started to take off in the 1970s.

The economies of the NIEs and ASEAN slowed down or even suffered minus growth in 1985 due to a slump in their exports to the United States and the stagnant prices of their primary products, but they have rapidly recovered since 1986.

In 1988, growth of the NIEs' economies leveled off, though at a high level, while the ASEAN economies grew remarkably. The NIEs and ASEAN owed the high growth of their economies to sharp increases in their exports. For example, South Korea's GDP in real terms grew an average 9.5% a year in 1965–1980 and an average 8.2% in 1980–1986, while its exports grew an average 27.3% in 1965–1980 and an average 13.1% in 1980–1986. Among ASEAN countries, Malaysia saw its real GDP grow an average 4.8% and exports rise 10.2% in 1980–1986. Comparative figures for Thailand show its GDP up 4.8% and exports rising by 9.2% in the same period.

Generally speaking, the NIEs have attained export-led economic growth more conspicuously than ASEAN. But in the ASEAN countries, too, economic growth is now being led by exports.

During the 1981–1985 period, South Korea's exports contributed to its economic growth by 44.8%, its fixed capital formation by 32.9% and its private consumption by 43.3%. During the same period, exports contributed by 80.7% to Taiwan's economic growth and private consumption spending by 47.5%. Comparative figures for Hong Kong were a hefty 171.5% and 70%, respectively. (The

total of expenditures does not make 100% because imports, which serve as a minus factor, are not counted here.)

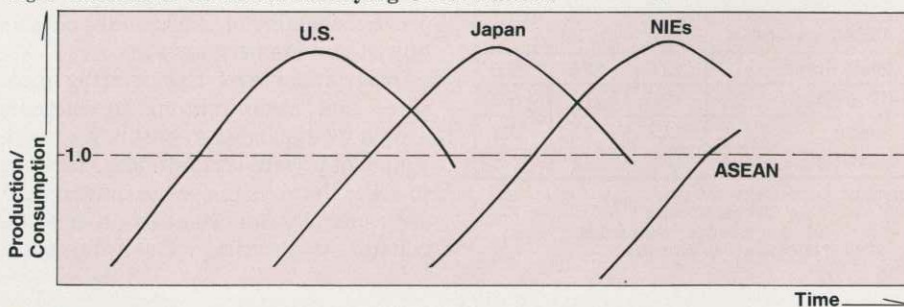
The composition of exports by the NIEs and ASEAN has changed too. Industrial products accounted for a little more than 60% of South Korea's exports in 1965, but the share has now expanded to more than 90%. The share of industrial products in Taiwan's exports has risen from 40% in 1965 to over 90% at present.

A similar pattern is evident in the ASEAN countries too. Unprocessed or primary products accounted for 89.5% of Thailand's exports in 1962, but their share had dropped to 42.7% in 1985.

Asian countries used to export their products mostly to the United States, but their export market is now being diversified. In 1986, the NIEs exported to the U.S. \$50.5 billion worth of goods, about half of their total exports. The U.S. share sagged to 37% in 1987 and 31% in 1988, though in terms of value their exports to the U.S. expanded to \$65.2 billion in 1987 and \$67.3 billion the following year, due to the bullish business environment in the U.S. In comparison, their exports to Japan have steadily increased both in terms of value and share, from \$13.8 billion (11% of total exports) in 1986 to \$21.2 billion (12%) in 1987 and \$26.8 billion (13%) in 1988.

The NIEs' exports to their Asian neighbors have also expanded. Exports within the NIEs jumped to \$22.4 billion (10% of total NIEs exports) in 1988 from \$5.9 billion (5%) in 1986. Their exports to the ASEAN countries rose from \$6.4 bil-

Fig. 1 Industrial Growth in the Flying Geese Pattern



Note: When production/consumption exceeds 1, substitution of imported goods is completed and exports begin.
Source: Statistics of each country

lion (5% of their total exports) in 1986 to \$14.5 billion (7%) in 1988.

The ASEAN nations' export trade has shown a similar tendency. ASEAN exports to the U.S. increased in value from \$8 billion in 1986 to \$11.8 billion in 1988. But their share of the U.S. market sagged from 21% to 18% in the same period. On the other hand, ASEAN exports to Japan have sharply risen in terms of both value and share. Their exports to Japan, excluding mineral fuels, increased from \$2.1 billion (6% of their total exports) in 1986 to \$8.2 billion (13%) in 1988.

ASEAN exports to the NIEs have also risen in both share and value—from \$8.2 billion (21%) in 1986 to \$15.5 billion (24%) in 1988. Exports within ASEAN rose in terms of value from \$1.5 billion in 1986 to \$2.3 billion in 1988. But the share of the ASEAN internal market remained at 4%.

Changing structure

The intensity of exports from country A to country B can be represented mathematically in the following formula:

$$\frac{\text{A's exports to B} / \text{Total of A's exports}}{\text{Total of B's imports} / \text{Total world imports}}$$

If the answer to this equation exceeds 1, the scale of A's exports to B is comparatively bigger than the scale of B's total imports.

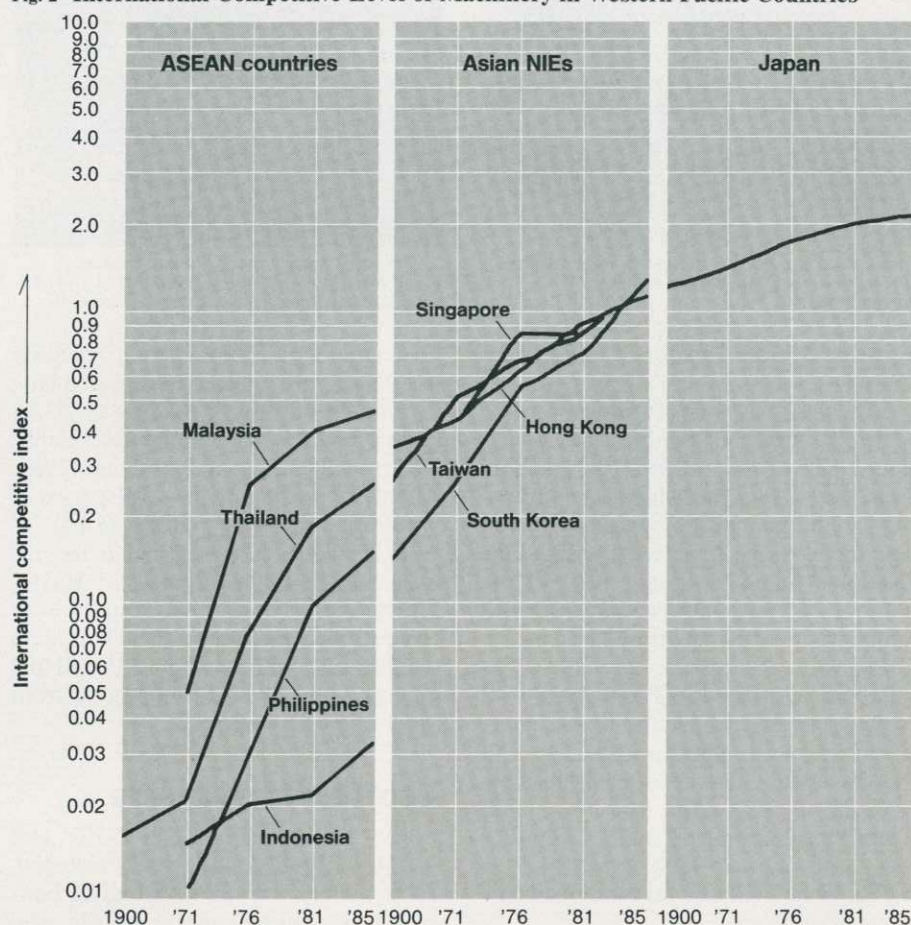
If this equation is applied to Japan, the intensity of Japan's 1987 exports to the NIEs, ASEAN and China combined stood at 3.44, compared with 2.09 for that to the U.S. and Canada combined, and with 1.02 for that to the EC.

The intensity of the NIEs' exports to ASEAN in the same year stood at 3.34, that of ASEAN's to the NIEs at 3.62, and that of the NIEs, ASEAN and China combined to the U.S. and Canada combined at 2.07 and to the EC at 1.03. The equations show the increasing intensity of the NIEs' and ASEAN's exports within their regions and to Japan.

The pattern of interregional economic activity in Asia has been changing in quality, too.

If the export of any particular item is expressed as Xi and the import of the item is expressed as Mi, the coefficient of trade specialization, which gauges the ex-

Fig. 2 International Competitive Level of Machinery in Western Pacific Countries



Note: If this index exceeds 1.0, the international competitive level of a product is above the world average, and if the index is yet to reach 1.0, the competitive level of the product is below the world average.

Source: Yearbook of International Trade Statistics, U.N.

tent of trade specialization, is given as $(X_i - M_i) / (X_i + M_i)$.

According to this formula, the coefficient of Japan's trade specialization with the NIEs and ASEAN moved toward zero in 1985-1988 with regard to chemical products, iron and steel, metal products, general machinery, electric equipment and appliances and precision machinery. On the other hand, the coefficient during that period moved toward minus as far as products with high labor intensity such as beverages, furniture and clothing or products of materials-based industries are concerned. This article presents only the example of Japan, but similar trends in trade specialization are seen between the NIEs and ASEAN.

A horizontal division of labor is also evident in the heavy and chemical industries and metal processing industry. A transfer of labor is proceeding in light in-

dustry and in materials-based industries, however. Behind the change in the coefficient of trade specialization probably lies an increase in overseas investment.

Between 1970 and 1986 there was little change in the composition of NIEs' exports to the ASEAN countries: the share of industrial products to the NIEs' total exports to ASEAN stood at 65.2% in 1970, 68% in 1980 and 68.1% in 1986. On the other hand, the share of industrial goods in the ASEAN members' total exports to the NIEs stood at 10.5% in 1970 and 43.1% in 1986. The comparable figures for primary products stood at 79.9% in 1970 and 36.4% in 1986.

Overseas investment

Asian countries, particularly ASEAN members, owe the current acceleration of their favorable business cycle to an increase in direct investment from abroad,



Senior officials of ASEAN were among speakers at this investment seminar geared toward Japanese corporations.



A plant run by Aderans, a Japanese wig maker, in Thailand. Such ventures are increasing as a result of economic trade missions by Japanese corporations.

particularly from Japan and even from the NIEs.

The sharp increase in direct investment in ASEAN countries by Japan, South Korea and other NIEs resulted from increases in the value of the investing countries' currency exchange rates and increases in their labor costs. The booming world economy, which absorbed exports from investment recipient countries, was also instrumental.

Following the currency exchange rate adjustment under the Plaza Accord of September 1985, the value of the Japanese yen soared, going up an average 46% in 1988 alone. The value of South Korea's won, as of June 1989, had risen 33% against the U.S. dollar from the 1986 average, partly due to U.S. requests for a higher won. Similarly, Taiwan's yuan had risen 31%.

The 1988 unit labor cost (wage index/labor productivity index) was up 65% against the 1985 index in Japan, with rises of 45% in Taiwan and 20% in South Korea.

The NIEs' direct investment in ASEAN countries—on an approval basis—has outpaced that of Japan.

The NIEs' direct investment in Malaysia in January–September 1988 increased to \$709.3 million (35.3% of total investment in the country) from \$101.3 million in 1986, with Taiwan being the largest investor among the NIEs. The 1988 figure topped Japan's \$561.1 million (27.9%).

In Indonesia, their investment has sharply increased: from \$84.3 million (10.5%) in 1986 to \$1,373.4 million (34.1%) in January–November 1988. Japan used to invest an enormous amount of money in Indonesia for gigantic projects, but its investment in 1988 had come down to \$233.4 million (5.6%).

In the Philippines, too, the NIEs' investment has outstripped Japan's. As investment in the country recovered in

1988 after years of stagnation resulting from economic and political instability, investment from the NIEs rose to \$132.5 million (33.1%) in January–November 1988 from \$8 million in the whole of 1986. Japan's investment in the same period of 1988 stood at \$105.9 million (26.4%).

In Thailand, however, Japan has remained by far the largest investor. Japan's investment in Thailand in January–September 1988, amounting to \$535 million (56.6%), easily exceeded the NIEs' \$146.2 million (15.5%), which itself was up from \$14.3 million in 1986.

Increased imports

The economies of the NIEs and ASEAN are basically export-oriented. Their imports are now expanding, however, buoyed by an increase in fixed capital formation including direct investment from abroad and by an increase in consumption demand resulting from economic growth, which has brought about higher living standards.

The NIEs' total imports amounted to \$156.5 billion in 1987, up 34.2% from the previous year, and \$209.3 billion in 1988, up 33.7%, exceeding Japan's imports of \$149.5 billion in 1987 and \$187.4 billion in 1988. ASEAN's total imports in 1987 increased to \$43 billion, up 19.1% from the previous year, and to \$56 billion in 1988, up 30.2%. Total 1988 imports by Japan, the NIEs and ASEAN combined thus surpassed the U.S.' \$441.6 billion, reflecting the fact that the Asian region has become a huge import market.

Consumer spending and fixed capital formation, together with exports, served as the locomotive for the NIEs' growth in 1988.

South Korea's 1988 GNP grew 12.1% from the previous year. In parallel, final consumer spending in South Korea has

steadily increased on a year-by-year basis—by 7.3% in 1986, 7.7% in 1987 and 8.5% in 1988. Growth of fixed capital formation, however, has been on a downswing—15.4% in 1986, 13.6% in 1987 and 10.6% in 1988.

In Singapore, the real economic growth rate in 1988 was 11%, while consumer spending rose 13.4% and fixed capital formation a robust 77%, as compared with a meager 3.9% growth in the previous year. By way of comparison, these figures were 7.3%, up 14% and up 16% for Taiwan, and 7.4%, up 7.8% and up 12.6% for Hong Kong.

Domestic demand grew conspicuously in ASEAN member countries, notably in Thailand and Malaysia. The official 1988 domestic demand figure for Thailand is not yet available. But high domestic demand in Thailand is evident from the fact that despite a \$3.4 billion deficit in its trade balance, the country's economy grew 11% in real terms. Malaysia's economy grew 8.1% in real terms, and its fixed capital formation grew about 18% and consumer spending 16%.

Projections by the Research Institute on the National Economy puts the NIEs' economic growth by the year 2000 at an average 7% and that for ASEAN at 4.8%, and the growth of NIEs' exports during the period at 9.7% and that for ASEAN at 11.7%. All the figures surpass projections for the United States and the EC.

Given the present circumstances, the NIEs' and ASEAN's economies are expected to continue to grow. Among the factors contributing to their economic expansion are less dependency on the U.S. as an export market, expansion of inter-regional trade in Asia, growth of domestic demand, the increasing weight of Japan's role as an absorber of manufactured products, increases in fund recycling and direct investment from Japan.

Barring any change in these trends, which is unlikely, the good business cycle will bring about another good cycle. ■

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