

The Northeast Asian Economies

By Makoto Sakurai

It is only in the last year or so that substantial international attention has been paid to the Northeast Asian economies. Even now, the exact scope of this "Northeast Asia" remains undefined, but it is generally seen as centering on China, North and South Korea, the Siberian and Far Eastern parts of the Soviet Union, and Mongolia, with some other areas included or not included depending on the researcher. In some cases, people have interpreted this very liberally to include Taiwan and even Hong Kong and Vietnam. Even in its narrowest definition, Northeast Asia is a broad expanse of area with great cultural, social, economic and political diversity.

There are a number of reasons why Northeast Asia has come into the lime-light, but three stand out. First is the economic dead end faced by the socialist economies of Asia. Except for China, which instituted open economic policies as early as 1978, the socialist economies of this region have clearly planned their way into grinding stagnation. At the same

time, the rapid advances achieved by the Asian newly industrializing economies (NIEs) and the ASEAN countries have highlighted the socialist economies' economic brain death and made it all the more painful for these countries.

In addition, Eastern Europe's march away from socialism, while not directly impacting the Asian situation, has had major reverberations in Asia. In Mongolia, for example, the political climate has been sharply altered; and North Korea is moving to repair the diplomatic rift with Japan and to strengthen bilateral economic ties. Vietnam has also moved determinedly to adopt more open economic policies and a *doi moi* program of economic liberalization since the mid-1980s. The socialist countries have started adopting more open economic policies in an effort to revitalize their economies, and this has drawn attention to the Northeast Asian region.

The striking success achieved by the Asian NIEs and the ASEAN countries is the second reason that Northeast Asia has gotten so much attention recently. The Asian NIEs and the ASEAN countries were already turning in the most outstanding performances of any developing region in the 1970s, but this was further accelerated with the yen's appreciation since the mid-1980s. Although difficult to prove, it is very likely that this burst of success has influenced Northeast Asia, and hopes are that Northeast Asia will be able to repeat this successful experiment.

The third factor drawing attention to Northeast Asia is that Asia's economic success since the mid-1980s has been achieved in a pattern of close interdependence with expanded intraregional trade and investment. Trade and direct investment are now recognized as the two most important engines of economic development in Asia, and there is very considerable interest in how the socialist economies of Northeast Asia will manage to integrate their economies into this

trade- and investment-based mechanism of Asian interdependence.

Yet even as the Northeast Asian economies are embarking on new paths to development, they also face a number of problems. Thus it is well worth looking at these issues and what Japan can do to facilitate their integration into the world economy.

Features characterizing Asian development

Overall, Asian economic growth rates accelerated in the second half of the 1980s. At the same time, the benefits spread from the Asian NIEs to the ASEAN countries as a whole. In retrospect, it is clear that this acceleration was powered by expanded intraregional trade and by direct investment from Japan and the Asian NIEs, and also that there are strong linkages between trade and investment. While trade and direct investment were working to create a regional production-sharing network in manufactured goods, this region also took the lead in developing an international production-sharing network.

As such, it may be argued that Asian development is today trade- and investment-led, and the Asian economies are more dependent on trade (as a percentage of GDP) than other economies or regions are. However, this trade- and investment-led economic development has been limited to certain countries and areas and has not encompassed all of the Western Pacific economies. Instead, it has centered on Japan and has also included the Asian NIEs of South Korea, Taiwan, Hong Kong and Singapore; the ASEAN countries of Thailand, Malaysia and Indonesia (but not the Philippines, as political unrest there has kept the Philippine economy from living up to its strong potential over the last decade); China's coastal provinces and some of the warmer northeastern areas; and perhaps even Vietnam (although there is some ques-



Photo: Nihon Keizai Shimbun

Work on an oil pipeline in western Siberia in the Soviet Union.

tion about whether Vietnam is already included or is only now coming to be included) in light of its efforts to promote *doi moi* since the mid-1980s.

Primary impetus for this economic development was provided by the yen's appreciation in 1985 and the efforts by some Asian NIEs to coordinate their currencies beginning in 1987. Both of these factors have stimulated increased investment by Japan and the Asian NIEs in the rest of Asia and have radically altered the economic structures not only of the host countries but also of the investing countries.

In Japan, for example, manufactured imports, which accounted for only 31.0% of all imports in 1985, have since risen to over half (50.3%) of all imports as of 1989. Likewise, Taiwan has been able to rectify its very high export dependence on the United States and reduce exports to the United States from 48.8% of all exports in 1984 to only 36.2% as of 1989. Taiwan's case is especially significant in that currency coordination and stepped-up direct investment have enabled it to expand its exports to the other Asian NIEs and ASEAN countries from 14.3% of all exports in 1984 to 21.3% as of 1989. At the

Table 1 The Northeast Asian Economies

	Population (millions)	GDP (\$ billion)	Per-capita GDP (\$)	Export value (\$ billion)	Inflation rate (%)	External debt (\$ billion)
China	1,143.3	413.0	325	62.1	2.1	45.4
Taiwan	20.5	159.8	7,990	66.8	4.1	—
Hong Kong	5.9	64.0	10,939	82.0	9.8	—
South Korea	43.0	211.9	4,968	65.0	9.4	34.0
North Korea	21.3	21.5	1,069	19.0	n.a.	n.a.
Mongolia	2.2	4.0	1,850	0.8	n.a.	7.1
Japan	124.2	2,830.0	22,879	287.0	3.0	—

Source: Compiled from "Asia 1991" (Far Eastern Economic Review) and other sources.

same time, Taiwan's exports to Japan have also increased, going from 10.5% in 1984 to 13.7% in 1989.

The same trends have also been evident in the ASEAN countries. Manufactured goods accounted for 39.6% of all Thai exports in 1980 but 65.8% in 1989. The equivalent figures for Malaysia are 22.6% in 1980 and 54.0% in 1989, for Indonesia 4.1% in 1980 to 29.0% in 1988, and 39.7% in 1980 and 67.1% in 1989 even for the Philippines.

Although Asia's economic growth has been powered by trade and direct invest-

ment and the resulting interdependence, these have not been the only factors at work. Deregulation and liberalization have also been significant factors, as have political and social stability. Just as deregulation and liberalization have reenergized their economies, political and social stability have facilitated the establishment of international production-sharing networks. Both aspects have been equally essential for the strengthening of trade and direct investment ties.

Economic conditions today

Defining the Northeast Asian region as including China, Taiwan, Hong Kong, North and South Korea, Japan and Mongolia, there are major GDP disparities between Japan at \$2,830 billion and the other six and even among the other six (from China's \$413 billion to Mongolia's \$4 billion). The Siberian and Far Eastern regions of the Soviet Union are also sometimes included in this region, and their total GDP is estimated to be around \$80 billion. In population terms, the region ranges from China's 1.1 billion to Mongolia's 2.2 million. Except for China and Japan, which has 124 million, most of the economies rest on small population bases. Here, too, the Siberian and Far Eastern regions of the Soviet Union have only about 10 million, and none but China is a population power (Table 1).

Looking at the social indicators for all but North Korea (for which data are not available), all of the Northeast Asian



Soviet cars ready for shipment to China.

Photo: Nihon Keizai Shinbun

economies are either industrial economies or at least closer to industrial than to developing economies in terms of literacy rates, telephones per thousand population and other areas. All, for example, have over 70% literacy—which is a very respectable figure even in comparison with the ASEAN countries—and all but China are close to or over 90%. While China has only one telephone per 134 people and Mongolia one per 38, China is still doing better than Indonesia and Mongolia is doing much better than Thailand or the Philippines (Table 2).

Judging from the Asian NIEs and ASEAN countries' experience with development in the 1980s, Northeast Asia's economic development will be largely determined by how much progress the Soviet Union, Mongolia and North Korea make in adopting open economic systems and proving attractive to direct investment. China initiated open economic policies in 1978 but the government has moved since 1988 to reassert its control over the economy in an effort to deal with the inflation and other problems that have come to the fore. Reinforced with the Tiananmen incident of 1989, these policies appear to be in place even today. In the Soviet Union, *perestroika* has run into considerable difficulties and the country seems to be sinking deeper into economic chaos. While the momentum for open economic systems is still strong

in the Siberian and Far Eastern regions, the nationwide economic difficulties seriously impede progress in these regions as well.

Taking its cue from the democratization of Eastern Europe in 1989, Mongolia instituted wide-ranging political reforms in 1990. The country is also moving ahead vigorously with economic reforms, but the economy is still small (slightly over two million people with a total GDP of only about \$4 billion), and the fact that Mongolia is landlocked means that most of its trade is likely to be with its immediate neighbors, the Soviet Union and China. North Korea has made a number of positive initiatives since last year to improve its economic situation by strengthening its economic ties with Japan, but it is not yet clear what kinds of economic relations North Korea will be able to forge with the other East Asian economies or how it plans to develop these relationships.

Shifting roles

South Korea and Taiwan are moving vigorously to enhance their economic links with China. Although this does not show up in the official statistics (for obvious reasons), there is considerable trade and investment through Hong Kong. Higher wages in Korea have meant forfeiting the advantage in labor-intensive industries to the ASEAN countries and China, and Taiwan is also experiencing an even faster loss of comparative advantage as a result of rising wage levels combined with the Taiwanese dollar's appreciation. These two economies are also seeking to expand their economic links with the Soviet Union, and a significant step was taken in 1990 when South Korea and the Soviet Union established formal diplomatic relations.

There are numerous economic difficulties facing the Northeast Asian region. To cite just a few, (i) international relations and even domestic political and social arrangements are being shaken by the changes under way in the region's socialist economies, (ii) the long stagnation under central planning means that the passage to open economic policies will



A Japanese plant in China, which is likely to concentrate on labor-intensive industries in view of its abundant labor pool.

Photo: Nihon Keizai Shimbun

prove very stressful even if such policies are forthrightly adopted and unflinchingly implemented, (iii) a long time will have to be spent reforming the political and social arrangements to accommodate these economic and social changes, and (iv) these economies' physical infrastructures are sadly lacking and massive capital investment will be needed within market-oriented economic arrangements to outfit the economies to compete openly.

Once this is realized, it becomes clearer how each of the Northeast Asian economies fits in. With its abundant labor pool, China will likely end up concentrating on labor-intensive industries and using this capability to improve its economic cooperation with the Soviet Union and Mongolia. South Korea and Taiwan will find it possible to build on strong trade and investment positions to upgrade their own industrial structures. And the Soviet Union will be a major player by virtue of its wealth of natural resources.

What of Japan? Japan has a major role to play in terms of economic assistance and capital cooperation. Vast amounts of money will be needed to develop the region's resources, and Japan is the only country in the region that can possibly provide the capital needed. At the same time, it is hoped that Japan's experience as a successful latecomer to industrialization and development can provide some role-model hints for the other Northeast Asian economies.

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Table 2 Northeast Asian Social Indicators

	Literacy rate (%)	Population per telephone
China	72.6	134.0
Taiwan	92.9	3.0
Hong Kong	88.1	2.1
South Korea	98.0	9.4
North Korea	n.a.	n.a.
Mongolia	89.5	38.0
Japan	99.7	1.8

Source: Compiled from "Asia 1991" (Far Eastern Economic Review) and other sources.