

A Dream of Growth

By Han Seung-Soo

There is growing concern about what sort of role the Asian NICs—Korea, Taiwan, Hong Kong and Singapore—should play in a changing international economic environment. There has been a series of demands from advanced countries, particularly the United States and the EC countries, in recent years that the NICs should assume more responsibility in the making of a freer and fairer international economic system. At the recent OECD Council of Ministers meeting, the issue was even sharpened by the stance of some countries that NICs should be made to join the OECD to take similar responsibility as others in the organization.

In a sense, it can paradoxically be said that the pressure on the Asian NICs originates from their very success in economic growth and expansion. The pressure is said to be nothing but the expression of envy and caution on the part of those whose economic growth has been sluggish. Although the basis of economic growth and expansion may not be the same for all the NICs, one cannot deny that the success of their growth strategy, i.e. outward-looking policy, owed a great deal to the existence of a relatively free trading regime that had operated during the postwar period until the early 1970s. More specifically, the Asian NICs benefited greatly from the vast export market, particularly the United States market, and from the inflow of foreign savings from the United States and Japan.

Japan's advantage

In this respect, Japan may be the country that benefited most from the existence of the free trading regime during the postwar period. Asian NICs, as latecomers, could not fully utilize the benefit of a free trading regime from the start. Korea, for example, began to benefit after it embarked on an outward-looking development strategy in the early 1960s. Taiwan started to benefit from a freer regime from the 1950s.

The international economic issues of the day can be said to be: (1) the resolution of tensions between the rich and poor countries, the North-South problem, (2) the competition between countries with a different economic ideology and system, the East-West conflict, and (3) the problem of reducing protectionist pressure and making appropriate adjustment in the market economies, the conflict within the Western system.

The focus of attention has moved from one to the other over the years. During the immediate postwar period, the East-West system conflict was the pressing global issue. During the 1970s, when resource nationalism was the prevalent mood of the decade, the North-South confrontation on the new international economic order was the dominant issue of the decade. Entering the 1980s, the intra-Western system conflict has become the major issue of the day.

The intra-Western system conflict was characterized initially by the trade conflict among major advanced industrial market economies; among the United States, Japan and the EC countries. The conflict then spread from trade to other economic sectors such as finance, services and construction.

The intra-Western system conflict has been particularly marked in the economic relationship between the United States and Japan. Their trade disputes and economic frictions have been rapidly spilling over to other countries in Asia, particularly the NICs. The process and type of pressure on the NICs from the United States, for example, is undeniably a repetition of what the United States has done to Japan in the past.

Although all members of the world community have a responsibility to make the world a prosperous place to live in, there is a certain limit to the positive role the Asian NICs can play in boosting the world economy. This emanates from two reasons. First, the size of the NICs' economies is still small and therefore ineffec-



The Olympic Stadium and newly built highways in Seoul, symbolizing the emergence of the NICs as major players in the world economic order.

tive in producing any marked impact on the world economy. For example, the Asian NICs combined have less than 4% of the United States GNP and a little over 10% of Japan's GNP.

Second, the Asian NICs are export-oriented and very open. Almost 60% of the Asian NICs' economic activities depends on exports. This implies that their growth heavily relies on favorable external conditions; their economies affected by, rather than affecting, world economic conditions. They have played the role of derivatives, rather than that of primary impetus to the world economy. In time of world recession, for example, what these countries, particularly Korea, do is to stimulate the domestic market to overcome some of the external-oriented difficulty.

Longer perspective

Instead of expecting a short-term stabilization or revitalization role of the Asian NICs in the world economy, their economic performance should be viewed with a long-term perspective and in the context of system competition. The ideology has now been much overshadowed by practicality and the capability of the economic system to bring greater economic and social well-being to the people. In this connection, it may not be too far wrong to say that it was not the already

developed industrial market economies that showed the countries in the Eastern bloc that the market economic system functions better than theirs. Rather, it was the economic performance of the Asian NICs which proved to them that their socialist system needs some basic revamping. China's change of policy is a case in point. The Soviet Union appears to be moving in a similar direction of economic management.

Japan is said to be going through its second opening since the black ships of Commodore Perry arrived. Japan's economic success has become the very cause of outside pressures. All the figures are directed to Japan's huge trade surplus. Japan has now become the holder of the largest net foreign assets in history. Japan's per-capita income has already surpassed that of the United States. That Japan has played a very significant role as a supplier of capital and consumer goods in the Asian NICs cannot be denied. The relatively easy access to Japan's capital goods and intermediate technology by Asian NICs in the past was one of the determining factors in facilitating the rapid growth of these countries.

Providing a market

As the stage of economic development of Asian NICs progressed, their expectation of Japan's role in their development began to change. It is now commonly desired that Japan should make its domestic market more accessible to products from these countries. Japan can and should play the kind of active role which was performed by the United States in the past in stimulating the dynamism of the region. This can be accelerated by stimulating the domestic market, by eliminating various nontariff barriers and by rationalizing distribution channels in order to facilitate the import of products from its Asian neighbors. There are still consumer barriers, business barriers which must be removed as soon as possible. With the decline of the role which the United States took in the past, it is Japan that should take the lead in providing the market for exploiting the economic potentiality of the region.

In this respect it is very significant to note that there is a growing awareness on the part of Japanese intellectuals and economists that Japan should seriously consider playing the role of an import absorber. This is the view expressed by the Japan Forum on International Relations and by such scholars as Professor Toshio Watanabe. I should like to support their thesis in propagating the role of Japan as an import absorber.

However, it is not only in the field of visible trade that Japan should take the initiative. Japan should also lead other countries in making other markets such as the construction and financial markets more accessible to foreigners. Although there is concern in Japan about providing advanced technology to Asian NICs because of the boomerang effect, Japan would eventually benefit more from technology transfer as it continues to develop new and advanced technology. Japan has the soundest economy in the world today and therefore has the heaviest responsibility for making Western economic relations function properly.

The United States has been a very important export market to most countries in the world including Japan for many years. The United States economy was the locomotive of the world economy for some time but is now going through a rather difficult phase. The twin deficits of the federal budget and trade have become the major factor constraining the expansion of the United States economy.

The large trade deficit is attributed to the very low private-sector surplus (savings minus investment) and the large federal budget deficit. The trade balance would far better were the budget deficit to be cut.

Tattered regime

There are two options that are open to the United States and either of them would adversely affect the economic expansion of Japan and the Asian NICs. The first option is to continue with the present course; that is, a budget deficit leading to a trade deficit followed by protectionistic measures and consequently a reduction in the United States import

demand from abroad. The second option is to change course; that is, an increase in tax and/or a budget cut, leading to budget balance followed by a reduction in overall demand and consequently a reduction in demand for imports. Of these two options, the second is preferable if only for the sake of reducing the damage to an already tattered free trading regime.

Although it may not be too effective, it is about time that the Asian NICs began to seriously consider playing a more positive role in keeping a free and fair trading regime in the world. They have already begun to open their domestic markets to foreign products by reducing tariff and nontariff barriers and by increasing the ratio of import liberalization. Graduation from GSP status, although imposed on by others initially, is also accepted as a foregone conclusion. The Asian NICs are also very serious about protecting intellectual property rights. All of them, particularly Korea and Taiwan, have also been very cooperative in the realignment of their exchange rates. Financial and other services markets are becoming internationally open. The capital market is also being liberalized.

The Asian NICs, contrary to a generally held perception, have been doing their share and discharging the responsibility that the world has been expecting them to take. Their determination and effort to join in the ranks of free and fair trading nations through various liberalization measures within such a short span of time should be properly appreciated.

It is often predicted that the Asia-Pacific region will become the growth pole of the world economy in the coming decades. The advanced industrial countries, NICs and the ASEAN countries all have responsibilities in making the dream come true. In so doing, their objective may be the same but the role they play cannot be. It is because of this fact that much closer cooperation among nations in the region is required. ■

Han Seung-Soo is a member of the National Assembly of the Republic of Korea. He was formerly a professor of economics at Seoul National University.