

# Development in the Asia-Pacific Region

By Kenichi Kamiya

## The current situation

During the 1980s the newly industrializing economies (NIEs) in Asia achieved an average annual growth of 8.3%, approximately three times higher than the 2.8% per annum international growth rate for the same period. The average annual growth of the Association of Southeast Asian Nations (ASEAN) was about double that of the world economy, reaching 5.7% in the latter half of the decade.

The region's NIEs began to achieve this remarkable growth after adopting market-oriented economic policies. Foreign capital was aggressively introduced under policies that guaranteed enterprises freedom of economic activity. This was made possible by the remarkably harmonious relationship that has linked the massive U.S. market and Japan's industrial might with the advantages offered by this region: high-quality labor resources, entrepreneurial spirit and the strong motivation of the populace.

Another important factor is the "time-compression" effect. This refers to the way developing countries have benefitted from the accelerated assimilation of technologies and systems developed through sustained efforts. The developing countries are thus able to introduce the most advanced technology and systems at any given time.

The creation of this environment and the growth of interdependence among the countries of the region led to a "flying geese" pattern, with the NIEs following Japan and ASEAN striving to catch up with the NIEs. The diversity and political stability of Asia has also played a significant role in this development. ASEAN members have gained confidence after years of rapid growth, and they have achieved a rapid transition from commodity-based economies to industrialized economies.

A new source of vitality for the Asia-Pacific region has been the transition to market economic systems in the "new frontiers" of China and the Indochinese countries, notably Vietnam. The dynamic economic development of the Asia-Pacific region is vitally important not only

to the region itself but to the entire world economy. However, there are a number of problems that could become obstacles to the region's development unless appropriate action is taken.

## Obstacles and solutions

There are both domestic and international obstacles that potentially hinder growth. Domestic factors vary according to the developmental stages of individual countries. In general, the main problems are likely to be the failure of infrastructure and labor to keep pace with rapid growth, the immaturity of supporting industries, the inability of underdeveloped financial and capital markets to satisfy an expanding demand for funds, widening regional imbalances, and energy and environmental problems. International factors include the current stagnation of the world economy and the emergence of protectionism and regionalism, as well as an epidemic of regional conflicts following the end of the Cold War and the resulting arms buildup in Asia.

Since space is limited, I will focus on a the most important issues that we must confront.

## Infrastructure development

The first problem is inadequate infrastructure. The Asia-Pacific countries have achieved remarkable development in a short period of time and there has also been a rapid increase in foreign investment, particularly during the late 1980s. The development of infrastructure, including airports, seaports, roads and electric power systems, has failed to keep pace with this development.

I am currently coordinator of the JANCPEC Triple T Task Force, which was established under the auspices of the Pacific Economic Cooperation Council (PECC). The Task Force was created to study problems relating to transportation, telecommunications and tourism, hence the acronym "Triple T." Since transportation and telecommunications are used to convey people, goods and information, the infrastructure used in both the country

of origin and the country of destination needs to be at the same developmental level. Self-help efforts by individual countries must therefore be backed by appropriate international cooperation between the countries of this region.

Japan needs to increase its cooperation at the financial and technological levels through the provision of Official Development Assistance (ODA), placing sufficient emphasis on human resource development and technology transfers in order to encourage self-help efforts by the countries concerned. There is also room for improvement in ODA implementation systems. At present Japanese ODA is provided through a total of 18 government ministries and agencies, but access to this system needs to be simplified.

In addition, both Japan and recipient countries need to make greater use of private sector funds. In the past Japan has provided, in principle, its ODA in the form of bilateral assistance. But from now on positive consideration should be given to provide coordinated assistance and cooperation with high growth countries in Asia that have started to accumulate capital. Possible recipients of this type of assistance might include the Indochinese countries. Prime Minister Miyazawa has already proposed this type of assistance while in Indonesia during his visit to ASEAN countries in January 1993.

## Investment and technology bottlenecks

Asian countries have a large hard-working labor force and abundant natural resources. They are developing a highly-educated middle class. All owe their economic takeoff to the positive acceptance of foreign capital and the adoption of open-door policies and liberalization programs. Japan must maintain its role as an active provider of direct investment and technical assistance. However, there are obstacles to this role.

The first problem occurs when the countries which receive direct investment lack the necessary supporting industries. If this is the case, the growth of Japanese

investment is paralleled by an increase in imports of intermediate and capital goods. As a result, the recipient countries experience trade deficit increases with Japan. Secondly, if there is a shortage of skilled workers, wages rise and companies start to engage in head-hunting. Thirdly, problems occur where countries with underdeveloped infrastructures are unable to improve their infrastructure quickly enough to cope with a rush of Japanese investment. If direct investment and technology transfers continue, investment friction may occur.

Many issues need to be confronted, including harmonization with industry in the region, the improvement of local content ratios, the localization of staff, particularly the active recruitment of local personnel for management positions, the establishment of personnel systems and regulations and management method guidance. It is also important to transfer technology as quickly as possible. An even more important problem is to solve these issues without slowing down economic growth.

Today, Japan is no longer the sole locomotive for regional development. Japanese industry should focus as much as possible on high-tech areas in order to avoid competition with other countries in the region. Japan should also increase its imports of electric appliances, apparel and other items from its Asian neighbors. In view of the fact that some countries in the region, notably the Asian NIEs, are already developing heavy and chemical industries, Japan should gradually work toward the formation of a regional division of labor through regional sourcing of supplies in certain capital-intensive sectors, such as oil refining, petrochemicals and steel production.

This approach would also help to alleviate economic friction with the United States. Exporting to the U.S. has become the main driving force for economic development in the Asian countries. By increasing its imports, Japan could share this burden, while the Asian countries could use payments for their exports to Japan to increase their imports from the United States. The end result for the U. S. would be a reduced trade deficit. The development of this kind of interdependence would stabilize Japan's position in Asia and allow a more balanced relationship with Europe and the United States.

## Human resource development

The ASEAN countries rapid economic development has created serious shortages of skilled workers and technicians. Although the human resource development situation differs in each Asian country, a common characteristic of all countries is control of the rapidly growing economies by a small elite of people who have received their higher education in Europe and North America. Promotion of these people is essential to speedy economic development.

However, when a country reaches a certain stage in the economic takeoff process, it becomes necessary to improve the quality and expand the scope of the workforce as a whole. In other words education systems need to be improved and expanded at the elementary and intermediate levels. In 1989 Japan devoted only 5.85% of its ODA to education and this should be increased. Japan also needs to increase its intake of foreign students, and from the viewpoint of effective aid implementation, needs to take urgent steps to train development experts, not only in Japan but also in the developing countries.

## Financial and capital market development

The next issue is fund-raising. Rapid economic growth has brought an increased demand for funds in the Asia-Pacific region. The normal fund-raising methods for private enterprises include borrowing from banks, procurement of funds from the capital market through stock and bond issues, and equity investment by partners. In most Asian countries borrowing from banks was the main method until the mid-1980s. Bank finance was provided primarily on a short-term basis, perhaps because the main source of funds was overseas Chinese money. There is now a vital need for the establishment of financial systems that can supply industry with stable, long-term funds.

In the period since the mid-1980s, this region has gradually reformed their financial markets through measures that include the liberalization of interest rates and foreign exchange transactions. They have also started to channel effort into the development and improvement of stock



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markets. While there has clearly been a significant improvement in the region's financial and capital markets, there is still room for further improvement in such areas as liquidity, disclosure and supervision of insider trading rules and other regulations.

I believe that advice from Japanese financial experts, including personnel from the Ministry of Finance, the Bank of Japan, the Tokyo Stock Exchange, city banks, securities companies, trust banks and life and non-life insurance companies, could provide valuable and practical advice in these areas.

For many years the NIEs and the ASEAN countries have been aggressively introducing recruiting foreign capital. The mood of economic stagnation that has spread through the developed countries over the past couple of years has actually increased inflows of international money into the Asia-Pacific region, which is increasingly viewed as a source of business opportunities. Countries like Malaysia and Thailand are now hastening to establish international financial markets with advantageous exchange control and taxation systems to compete with the markets of Hong Kong and Singapore. JMI

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