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Transformation of Industrial Structure and the Role of Trade and Investment

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I. Structural Shift towards Industrialization

As pointed out previously, the 1980s saw an acute difference in the growth performances of the Asian (East and Southeast Asian) and Latin American developing countries. Until the end of 1970s, both areas were proceeding with industrialization relatively well. Or in other words, they were showing good growth performances based on industrial expansion. Their growth process, however, diverged drastically with the start of the 1980s.

From the viewpoint of world economic growth, the period has not been a good one. The earlier half was characterized by a worldwide recession in the aftermath of the second oil price hike in 1979 and the sharp increase in interest rates that followed. Growth in the two regions was, of course, adversely affected. Asian countries, however, with the exception of the Philippines, handled the situation comparatively well. In contrast, the Latin American developing countries were among the hardest hit. Similarly, in the world economic recovery after 1985, while Asian countries have been quick in capitalizing in the improvement in the world market, the economy of the Latin American countries has still not recovered. This chapter attempts to analyse the causes of such differences in performance in the light of industrial development and export growth. "Export-led growth" will receive particular attention.

Table 1 indicates the growth performances of major countries in the Pacific Basin. The countries are divided into four groups. U.S. and Japan are the major developed countries. Korea, Taiwan, Hong Kong, and Singapore form the Asian NIEs (newly industrializing economies), Thailand, Malaysia, the Philippines and Indonesia are the ASEAN 4 group. Mexico, Brazil, Argentina and Chile are the major Latin American developing countries.

The U.S. in the 1980s maintained, or slightly increased her growth momentum. It is well known that her robust domestic demand brought about an ever-increasing trade deficit. This market expansion, however, worked as a support to prevent the world trade from further declining. Asian NIEs as well as Japan benefitted from it to a large extent. Japan's growth rate, on the other hand, decreased by about one third from that of the previous decade. The slowdown, together with the undervalued yen promoted exports and discouraged imports, and Japan started to record a series of large trade surpluses. The Plaza Agreement of September 1985 allowed the yen rate to go up sharply, and Japan's imports started to rise. Main beneficiaries have been Asian NIEs, followed by ASEAN 4. The large trade surplus, however, must still be rectified.

In the industrial structure, both groups have been for some time shifting their emphasis on services. In the U.S., the service sector gained 4% in its share of production, while the manufacturing sector lost ground to it. The trend is less apparent for Japan, but even there, the share of services has been gradually increasing, while the manufacturing sector barely maintains it. Industrialization, therefore, cannot be considered as a driving force for economic growth any more, although its strong linkages may well be associated with the service expansion.

Asian NIEs during this period, in spite of various setbacks, experienced steady growth. They benefitted, as mentioned above, from the U.S. and Japanese market expansion. Their growth is very often described as an "export-led" one, and it is evident that export expansion played an important role. Recently, however, their growth pattern has started to show a change toward less emphasis on exports. The success of export-led growth, seemingly, has now produced elements that work against itself. The higher income and diversified industrial structure of these countries have reached a stage at which the policy need not be continued. "Graduation" is now the issue for the Asian NIEs.

There also, with the share of the manufacturing sector around 30% of total GDP, industrialization appears to be losing ground to services. Yet manufacturing still shows faster than average growth in Korea and Taiwan. Industrial development will no doubt play an important role there still in the 1990s. But, with graduation looming ahead, it is conceivable that the nature of industrial development will change to new growth mechanisms. Experience tells us, that after a certain stage, modernization and sometimes replacement of industries with low productivity by new industries with high productivity become more important. The two countries show signs to have reached this stage already.

ASEAN countries, except for the Philippines, also showed steady growth, if not slower than in the previous decade. Export expansion substantially contributed to it. In the former half of the decade, overall export growth rate for the group was negative at -0.1% . The largest single reason for this drop, however, was the plunging petroleum and other commodity prices. Hardest hit was Indonesia whose total exports decreased by 20% from 1980 to 85. Exports of manufactured goods, which had been gradually on the rise during the 1970s, however, more or less maintained their expansion momentum and compensated for the poor performance of

Table 1. ECONOMIC GROWTH AND INDUSTRIAL STRUCTURE

	GDP Growth (Annual Average, %) 1980-86		Industrial Structure (%), 1986			Industrial Growth (Annual Average, %) 1980-86			
			Industry (Manufacturing)		Services	Agriculture		Industry (Manufacturing)	Services
			Industry	Manufacturing	Services	Agriculture	Industry	Industry (Manufacturing)	Services
USA	3.1	2	31	20	67	3.1	3.2	4.0	3.0
Japan	3.7	3	41	30	56	1.0	5.0	7.8	2.9
Korea	8.2	12	42	30	45	5.6	10.2	9.8	7.2
Taiwan	7.2	6	51	43	43	0.6	7.7	8.6	7.5
Hong Kong	6.0	0	29	21	71	—	—	—	—
Singapore	5.3	1	38	27	62	-3.5	4.4	2.2	6.1
Thailand	4.8	17	30	21	53	2.9	5.0	5.2	5.6
Malaysia	4.8	21	38	21	41	3.0	6.0	5.8	4.5
Philippines	-1.0	26	32	25	42	2.0	-3.5	-1.7	-0.6
Indonesia	3.4	26	32	9	42	3.0	1.8	7.7	5.6
Mexico	0.4	9	39	26	52	2.1	-0.1	0.0	0.4
Brazil	2.7	11	39	28	50	2.0	1.6	1.2	3.8
Argentina	-0.8	13	44	31	44	2.3	-1.7	-0.4	-0.8
Chile	0.0	10	37	21	53	3.1	0.7	-0.2	-0.9

Source: IBRD, *World Development Report*, 1982 and 1988; Directorate-General of Budget, ROC, *National Income in Taiwan Area*, 1987; Census and Statistics Department, Hong Kong, *Estimates of Gross Domestic Product*, 1966 to 1986, 1987; ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1987; Ministry of Finance, Malaysia, *Economic Report*, 1988/89.

Notes: Industrial structure is given in nominal terms, excluding Malaysia (at 1978 constant prices), and Chile (at 1977 constant prices).

primary goods. In this regard, therefore, ASEAN 4 can be considered to have successfully followed an export-led growth path in the 1980s, which may have been strengthened. Industrialization coupled with export promotion will continue to be the major source of development for these countries for some more time.

The Latin American countries, in contrast, suffered a great deal from the world economic setback. Active industrial development in the 1970s was very often coupled with a large inflow of foreign borrowings. It made sense when the international interest rates were low, which was the case in the 1970s. But the 1980s saw a sharp increase of the rates, and serious economic difficulties arose from the accumulated debt. In order to service it, imports had to be reduced, by one third on the average, but in some cases by one half. Inflation soared with all the adverse effects on development. Also, Latin America failed to capture the expanding U.S. import market, leading to a decline in operation rate in industries. The table shows that the manufacturing sector stopped growing completely in Latin America. The net result was a very low, if not negative, growth in the 1980s. The thrust of restructuring efforts there has been pointed to the revitalization of export sectors, while trying to revive industrialization. The debt problem, however, is still a major threat to future development.

II. Export-led Growth

“Export-led” growth refers to a pattern of growth based on the interrelated expansion of industrial production and exports. The Asian and some of the Latin American developing countries followed this pattern in the 1970s. Their performances, as seen in the previous chapter, diverged radically in the earlier half of the 1980s as the Asian countries managed to sustain growth unlike their Latin American counterparts.

In this section it is suggested that two key factors are the basic elements of export-led growth. One is the supply factor in the Asian and Latin American developing countries for the expansion of exports of manufactured products. And the other is its counterpart on the demand side of market outlets.

1. Export-based industrialization—supply factor

Export-led growth is reflected by the rapidity of export expansion and the rise of exports of manufactured goods. This has been, and will be, one of the major factors in the changing world trade scene. Table 2 lists the export industrialization rates (the proportion of exports of manufactured goods to total exports) for the Asian developing countries. Although the absolute level is very different, all of them show a rising rate. In 1984/85, the rate exceeded 90% for Asian NIEs. Singapore is an exception, but this is mainly due to her traditional status as an entrepot. Her exports in consequence include re-exports of primary commodities. Also significant is her exports of refined petroleum to the neighboring countries.

ASEAN 4 countries lag behind NIEs in this respect. Still a very rapid rising trend

Table 2. INDUSTRIALIZATION RATIO OF EXPORT

	(%)				
	1970	1980	1985	1986	1987
USA	70.1	67.9	74.6	76.5	77.9
Japan	93.3	95.6	97.1	97.3	97.3
Korea	76.7	89.9	91.4	92.0	92.8**
Taiwan	76.1	87.9	90.5	91.0	91.8
Hong Kong	92.9	92.4	91.6	92.1	92.4
Singapore	30.5	53.9	58.4	65.4	71.7
Thailand	10.7	29.0	39.3	44.6	—
Malaysia	7.4	19.0	27.3	37.3	39.8
Philippines	7.6	37.0	57.1	58.0	—
Indonesia	1.4	2.4	13.2	19.5	24.3
Mexico	32.5	11.9	27.1	30*	—
Brazil	14.2	38.6	44.8	41*	—
Argentina	13.9	23.2	21.4	26.4	—
Chile	4.4	9.7	7.4	9.2	—

Source: IDE trade data retrieval system (AIDX).T).

Notes: Industrial export is defined as SITC 5-9 (excluding SITC 68).

*IBRD, *World Development Report*, 1988.

**Trade statistics of each country.

was discernible for them, even during the world recession period between 1980 and 1985. It is noteworthy that Indonesia with her rich natural resource endowment also follows the export industrialization path, although she is still at the lowest stage in it. The rise certainly can be interpreted as one of the driving forces in the change of the regional trade pattern.

In Latin America, there was a substantial progress in this respect in the 1970s. Mexico was an exception, but this was mainly due to the large expansion of petroleum exports, in terms of both quantity and value. In the 1980s, however, the progress became slower, in spite of the acute need of foreign exchange. Mexico again is an exception, but her export industrialization rate only returned to the level attained in 1970 due chiefly to the decline of the oil prices.

Policy packages in these countries are among the most influential factors that affected their relative performance. Export-led growth package simultaneously aims at two objectives, industrial development and export promotion. The two objectives reinforce each other, and, under optimum conditions, form a virtuous circle. With more exports, more foreign exchange flows in, which leads to larger import capability. Given the very high dependence on imported capital goods in most of the developing countries, larger development efforts are required. Larger production base is created, which generates a larger volume of exports.

The two objectives, however, also have an element contradictory to each other. Promotion of industrial development very often requires a degree of protection,

Table 3. EXCHANGE RATE MOVEMENT AND INFLATION RATES

	Exchange Rate per US\$			Change of Exchange Rate (%)	Inflation (WPI Base) (%)
	1980	1985	1988	1980-88	1980-88
USA	—	—	—	—	19.0
Japan	226.74	238.54	128.15	-76.9	-13.8
Korea	607.43	870.02	731.47	17.0	30.5
Taiwan	36.015	39.849	28.589	-26.0	-3.8
Hong Kong	4.976	7.811	7.808	36.3	87.8**
Singapore	2.1412	2.0002	2.0124	-6.4	-15.0*
Thailand	20.476	27.159	25.294	19.0	24.7
Malaysia	2.1769	2.483	2.6188	16.8	27.5**
Philippine	7.511	18.607	21.095	64.4	215.5*
Indonesia	627.0	1110.6	1685.7	62.8	97.8*
Mexico	23.0	256.9	2273.1	99.0	4676.0*
Brazil	0.053	6.2	39.23*	99.9	878.2*
Argentina	0.00018	0.60181	2.1443*	100.0	33096.6*
Chile	39.00	161.08	247.49	84.2	430.9**

Source: IMF, *International Financial Statistics*, every issue; Central Bank of China, *Financial Statistics*, every issue; Census and Statistics Dept., Hong Kong, *Monthly Digest of Statistics*, every issue.

Notes: 1. Exchange rate is period average (r.f.).

2. Change of exchange rate is calculated by IMF Method.

*1987 or 1980-87.

**CPI.

either by tariff or by quantitative restriction. The protection, through resources mobilization and currency overvaluation, works as a hindrance to export promotion. In order to compensate or reduce it, measures with export subsidy effects are resorted to. The more ambitious industrial promotion becomes, the larger export promotion is necessary. Apart from the possibility of being countervailed, such a combination inevitably makes the economic management very difficult. Careful balance must be maintained between the two types and directions of distortion.

In this regard, experience tells us that the balance is often disrupted with over-emphasis on industrial development. When such a situation occurs, inflation for one thing tends to increase. Table 3, which shows the trend of exchange rates and inflation between 1980 and 1988, suggests that such a situation occurred in major Latin American countries.

2. Market factor—demand side

Market outlet is another important factor in export-led growth. In spite of the recent expansion in inter-developing country trade, the bulk of Asian and Latin

Table 4. TRADE MATRIX

(Million US\$)

From \ To		Japan	USA	ANIEs	ASEAN4	China	Latin America ⁷	World
Japan	1970	—	6,015	2,642	1,395	569	498	19,318
	1987	—	84,231	39,300	9,521	8,249	3,669	229,055
	(87/70)	—	(14.0)	(14.9)	(6.8)	(14.5)	(7.4)	(11.9)
USA	1970	4,569	—	1,485	846	—	4,533	42,590
	1987	26,901	—	15,719	5,551	3,460	25,506	243,610
	(87/70)	(5.9)	—	(10.6)	(6.6)	—	(5.6)	(5.7)
ANIEs	1970	746	2,029	501	288	33	51	6,380
	1987	20,404	62,497	15,887	10,954	12,032	1,769	177,678
	(87/70)	(27.4)	(30.8)	(31.7)	(38.0)	(364.6)	(34.7)	(27.8)
ASEAN4	1970	1,260	904	789	111	22	24	4,607
	1987	13,386	10,487	10,668	2,067	1,167	140	51,480
	(87/70)	(10.6)	(11.6)	(13.5)	(18.6)	(53.0)	(5.8)	(11.2)
China	1970	228	420	533	67	—	2	2,305
	1987	6,392	3,030	15,087	989	—	337	39,464
	(87/70)	(28.0)	(7.2)	(28.3)	(14.8)	—	(168.5)	(17.1)
Latin America ⁷	1970	663	3,585	76	15	4	1,015	11,916
	1987	4,928	36,584	15,087	483	939	5,040	83,116
	(87/70)	(7.4)	(10.2)	(198.5)	(32.2)	(234.8)	(4.96)	(7.2)
World	1970	15,401	35,956	6,894	5,413	3,648	11,096	312,011
	1987	135,150	405,206	145,287	41,456	39,806	62,189	2,354,400
	(87/70)	(8.8)	(11.3)	(21.1)	(7.7)	(10.9)	(5.6)	(7.5)

Source: IDE trade data retrieval system (AIDXT); IMF, *Direction of Trade*, various issues.

Notes: 1. ANIEs: Korea, Taiwan, Hong Kong, and Singapore; ASEAN4: Philippines, Thailand, Malaysia, Indonesia; Latin America 7: Mexico, Venezuela, Peru, Colombia, Chile, Brazil, Argentina.

2. Figures are basically export values at F.O.B. prices.

3. Figures for 1987 include estimates.

American exports finds an outlet in developed countries. In 1987, Korea sent 67% of her exports to Japan, U.S., and EC 9. The corresponding share was 48.2% for Hong Kong, 71.3% for Taiwan, 44.9% for Singapore, 64.4% for ASEAN 4, and 33.6% for China. The market conditions are very similar for the Latin American countries. The proportion of exports going to the three markets reaches 87.3% for Mexico and exceeds 60% for seven major Latin American exporters except Colombia.

U.S. importance as the major market is conspicuous. U.S. is the single largest market for all the four Asian NIEs, Korea, Hong Kong, Taiwan, and Singapore. ASEAN 4 and China export more goods in total to Japan, due mainly to her resource import. For the export of manufactured goods, however, U.S. is still the largest market, absorbing 29.0% and 22.2%, respectively in 1985.

It is even more so for the Latin American countries. Proximity has been a great stimulus for the inter-American trade and Mexico, a neighboring country, relies for about 60% of her trade, both exports and imports, on U.S. Half of Venezuelan, and 42% of Colombian exports go to U.S.. The corresponding values are 27% and 22% for Peru and Chile. Only Argentina has a low level of dependence at 15%.

Table 4 is an abbreviated trade matrix for the Asian and Pacific region in 1970 and 1987. Over the 17 year period, world trade as a whole expanded from 312 to 2,354 billion dollars, representing a 7.5 times increase. Asian countries expanded their trade, both imports and exports, much faster than the world average. For Japan, the figures were 11.9 times for exports and 8.8 times for imports, for Asian NIEs 27.8 and 21.1 times, and for ASEAN 4 11.2 and 7.7 times, respectively. China also recorded 17.1 and 10.9 times expansion.

Latin American developing countries did not fare well during the 1970–87 period. Both their export and import growth fell short of the world average at 7.2 and 5.6 times. Lack of rapid import growth is particularly important, for import is a major source of capital goods. It should be added that the table does not indicate the reduction in imports in the 1980s. Because of the large debt accumulation, surplus in trade balance had to be spent on servicing and amortization. And yet most of the Latin American countries show a large deficit in current account.

U.S. lagged behind in export expansion. Her exports grew only 5.7 times during the period. Her imports, however, went up much faster, actually twice as fast as her exports during the period (11.3 times). This disparity swayed her trade balance from a very comfortable surplus in 1970 to a large deficit in 1987. Judging from the rapid pace of import expansion from the Asian developing countries, it is certain that U.S. provided the necessary market for their export expansion, and was the major supporter of export-based industrialization.

As such, the growth of U.S. imports will to a large degree control the pace of export expansion of these countries. With the U.S. government's pledge to reduce the "twin deficits," however, a slowdown appears inevitable. It is an open question now for Asian and Latin American developing countries where to find markets for the exports of manufactured goods. Two tentative answers can be presented here. First, even in the event of overall slowdown of U.S. imports, Asian developing countries can export to the market faster than the rest of the world, resulting in a cut into other countries' shares, which is exactly what is happening. From 1985 to 1987, Korea raised her share in U.S. market from 3.3% to 4.1%. In the case of Hong Kong, the increase was from 2.9% to 3.2%, and for Taiwan from 4.6% to 5.6%.

The second answer is the diversification of export markets. Here the expansion of Japan's imports is a prerequisite. This is actually happening. Japan's imports of manufactured goods showed a shift from steady but very slow growth until 1985 to rapid expansion since then. The yen appreciation starting in 1985 following the Plaza Agreement triggered off the sudden shift, but the longer-term change in Japan's industrial structure in her domestic economy scene also contributed to it by paving the way.

Also promising is the expansion of intra-NIEs and NIEs-ASEAN trade which has been increasing recently. The NIEs including Singapore are gradually replacing Japan as the source of ASEAN's imports of intermediate commodities. This may further involve capital goods. NIEs-China and ASEAN-China trade expansion is also expected, although not represented yet in the trade matrix. The emerging economic link between China and Korea, however, appears set for future development.

III. Relation between Direct Investment and Trade

Direct investment serves two purposes. First, it is a capital investment, and, as such, promotes production. Employment and linkage effects are expected to follow. Secondly, it can lead to export expansion. This is not achieved automatically, but when combined with local labor and appropriate policy package, many export-oriented direct investments are made.

In the earlier stages of development, direct investments were invited to establish import-substituting industries. With the formation of the manufacturing sector, and the completion of the easy phase of import substitution, developing countries aimed at achieving two new goals; further strengthening the industrial base, and starting to export. Since the two objectives support each other, and conflict with each other, as already pointed out, most countries chose in-between paths. The role that foreign direct investment was expected to play at this stage underwent a subtle change in emphasis in the process of this policy shift toward export promotion.

This is most apparent in ASEAN countries. Moves on the part of foreign investors to set up export bases in ASEAN countries started in the early 1970s. Semiconductors in Malaysia are among the most notable cases, but other labor-intensive products and processes also found the best production sites there. After 1985, the trend accelerated markedly, as seen in Table 5. Japan for one intensified direct investment activities in ASEAN countries following the major currency realignment. Expansion of NIEs investment is also apparent. With the disappearance of large surplus labor and the resultant rapid wage increase, NIEs started to transfer low-productivity industries abroad.

Latin American countries were not slow in adopting such a foreign investment policy. Most notably, Mexico started the world famous "maquiladora" system in the early 1970s. Brazil also benefited much from automobile exports from factories operated with foreign participation. As a matter of fact, a large portion of the Latin American manufactured exports originate in direct investment.

Although foreign investments played a similar export-expansion role in both regions, their relative importance shows a sharp contrast. While they became accepted as a large source of exports in Asia, the majority of the Latin American counterparts is still engaged in domestic market oriented ventures. Various factors are involved in the difference. Market size and factor endowments are clearly

Table 5. DIRECT FOREIGN INVESTMENT TO ASEAN (Approval)

	(Million US\$, %)													
	1984			1985			1986			1987			1988 Jan. - June	
	Amount	Share		Amount	Share		Amount	Share		Amount	Share		Amount	Share
Singapore														
from World	626	100.0		404	100.0		546	100.0		670	100.0		408	100.0
from Japan	78	12.5		111	27.5		226	41.4		278	41.5		187	45.8
from USA	378	60.4		194	48.1		204	37.3		252	37.6		123	30.1
Indonesia														
from World	1,107	100.0		852	100.0		826	100.0		1,457	100.0		2,032	100.0
from Japan	112	10.1		120	14.1		329	39.8		532	36.5		169	8.3
from USA	94	8.5		143	16.8		154	18.6		72	4.9		14	0.7
from NIEs	722*	65.2		112	13.1		123	14.9		164	11.3		490**	24.1
Malaysia														
from World	118	100.0		131	100.0		203	100.0		298	100.0		293	100.0
from Japan	27	22.9		33	25.2		23	11.3		92	30.9		90	30.7
from USA	9	7.6		37	28.2		7	3.4		24	8.1		37	12.6
from NIEs	24	20.3		31	23.7		47	23.2		68	22.8		62	21.2
Philippines														
from World	234	100.0		132	100.0		78	100.0		167	100.0		245	100.0
from Japan	34	14.5		26	19.7		22	28.2		29	17.4		32	13.1
from USA	102	43.6		58	43.9		22	28.2		36	21.6		80	32.7
from NIEs	14	6.0		6	4.5		8	10.3		38	22.8		113	46.1
Thailand														
from World	104	100.0		69	100.0		119	100.0		323	100.0		569	100.0
from Japan	38	36.5		6	8.7		64	53.8		140	43.3		255	44.8
from USA	12	11.5		27	39.1		5	4.2		22	6.8		47	8.3
from NIEs	21	20.2		12	17.4		14	11.8		80	24.8		86	15.1

Table 5. DIRECT FOREIGN INVESTMENT TO ASEAN (Approval)

	1984		1985		1986		1987		1988 Jan. - June	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
ASEAN										
from World	2,189	100.0	1,588	100.0	1,772	100.0	2,915	100.0	3,547	100.0
from Japan	289	13.2	296	18.6	664	37.5	1,071	36.7	733	20.7
from USA	595	27.2	459	28.9	396	22.3	406	13.9	301	8.5
from NIEs	781	35.7	161	10.1	192	10.8	350	12.0	751	21.2

Source: MITI.

* includes the large investment (\$594 million) in a seamless-pipe factory from Hong Kong to Indonesia.

** includes the large investment (\$235 million) in a pulp factory from Taiwan to Indonesia.

Table 6. DIRECT FOREIGN INVESTMENT
(Net Disbursement)

	(Million US\$)			
	1984	1985	1986	1987
Korea	73	200	325	418
Taiwan	131	260	260	11
Singapore	1,210	809	479	982
Thailand	400	162	261	182
Malaysia	797	695	489	575
Philippines	9	12	127	186
Indonesia	222	310	258	307
Mexico	390	491	1,523	3,248
Brazil	1,556	1,267	331	1,087
Argentina	268	919	574	- 19
Chile	67	62	57	97

Source: IMF, *International Financial Statistics*, March 1989.

Note: The figures correspond to the item "direct investment" in the balance of payment.

among the most important. But the policy environment also has an effect. The balance between industrial and export promotion was discussed earlier in this chapter, and direct investment responds to the signal in the same way with local firms. Inasmuch as the policy package is geared to domestic production, foreign investment as well as local producers follow it.

Disbursement figures in Table 6, however, show some change for Latin America. The years 1986 and 1987 witnessed a phenomenal increase of direct investment in Mexico, while a recovery from a trough is seen for Brazil in 1987. Part of it may be attributable to the debt equity swap. But the "investment boom" in Mexico, for example, is as large as to dwarf that in ASEAN countries. In the face of her slow economic growth, it is likely that a large part of the new investments will be diverted to the export business, presumably for the U.S. market. If it is the case, Mexico is seen as follow the ASEAN pattern of investment and trade.

IV. Prospects for Asian and Latin American Trade

Whether the current rapid export expansion can continue in the future for Asian developing countries is a question in anybody's mind. Also, whether Latin American countries can go back to the export-led growth path needs attention. In trying to answer these questions, two aspects need to be considered. One is the supply side condition governing the individual country's capacity, and necessity, to export. The level of already achieved economic development, or the degree of structural transformation, appears to be the key elements here.

This paper analyses only one aspect in this connection, the need to promote

employment, since other papers will address this issue. Comparative advantage of developing Asian countries still lies in labor-intensive and land-intensive types of commodities. Export-led growth generates both export expansion of those goods and employment creation. In other words, while labor is abundant and there is a need for productive employment, export of manufactured goods is the likeliest means to achieve this objective. After a while, however, successful development following this course exhausts redundant labor-force, and a new type of policy package has to be devised.

Asian NIEs are already well into the transformation. In both Korea and Taiwan, labor shortage is increasingly felt along with rapid wage increases. In response, for example, outward direct investment is expanding at a fast rate. In a broader context, the change in the nature of economic growth places emphasis on productivity improvement rather than on employment promotion. This lessens the significance of export-led growth somewhat.

ASEAN 4 countries show a different pattern, reflecting the difference in their level of development. As a group, however, labor supply is still plentiful, and export-led growth looks possible at least for the next decade, although preparation for the new phase of development may become necessary in this period. Current policy package, therefore, remains valid for some time to come.

Latin America also shows changes, but the minimum common denominator would be necessary to reestablish an export-led growth. For this purpose, a thorough policy revision seems necessary. Debt burden of course is a major obstacle which cannot be solved by the efforts of individual countries alone. But the policy shift is also a condition for mobilizing support from outside.

The other aspect is the market question. Can the world market absorb further increase of their exports? The exports from NIEs and ASEAN in the year 2000 would exceed those in 1987 by 400 billion dollars. How can they be spread? In the face of a possible import slowdown in major markets, this issue looks more difficult to solve.

A simple exercise however suggests that it can be solved. Given the structure of export destination in 1987, one fourth of incremental export expansion, or 100 billion dollars, is aimed at the U.S. market. Assuming a 4% import growth there, however, only 45 billion dollars worth incremental increase would arise from them. A market share increase of 4% adds another 30 billion dollars. Still a shortage of 25 billion dollars is left.

Japan with her faster import increase will absorb a major portion of this difference. Currently 15% of exports from NIEs and ASEAN find their destination in Japan. This is translated into an additional 60 billion dollars in 2000. Against this expectation, a 7.5% overall import growth in Japan will add 67 billion dollars to their exports. A 4% market share increase as in the case of U.S. market brings about another 16 billion dollars. In total, the Japanese market takes up 23 billion dollars worth of more imports than expected. This brings down the difference to only 2 billion dollars which can be well taken care of with more active intra-regional trade and the start of large scale trade with the Eastern bloc countries.

In conclusion, Asian countries have a good chance to carry on export-led growth into the year 2000. The major conditions for this are (i) an annual import growth at 4% in the U.S., (ii) at 7.5% in Japan, and (iii) a worldwide market share increase of 4% for NIEs and ASEAN combined. For Latin America, the debt burden and the necessity to revise policies preclude this type of exercise.