

## Chapter II Development Stages and Trade in East Asia

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シリーズタイトル(英)	IDE Spot Survey
シリーズ番号	10
journal or publication title	Economic Outlook for East Asian Economies over the Next Decade - Is Continuous High Growth Possible?-
page range	[7]-11
year	1997
URL	<a href="http://hdl.handle.net/2344/00010419">http://hdl.handle.net/2344/00010419</a>

# Chapter II

## Development Stages and Trade in East Asia

### 1. Development Stages of East Asian Countries and Regions

A country's stage of economic development can be defined in various ways, e.g. in terms of the sophistication of its industrial structure. The "fairness" of environmental levels and income distribution can also be included in the standard when measuring economic development. Here, however, the stage of economic development for each East Asian country and region is surveyed according to per capita GDP.

#### NIEs toward Industrialized Economies

In Table 2, the GDP, population and per capita income of East Asia in 1996 are shown together

with those of Japan, the United States and the EU. In each of the NIEs countries and regions, per capita income in 1996 exceeded 10,000 dollars<sup>4</sup>. Per capita income of Singapore exceeded 30,000 dollars, surpassing that of the United States and the EU. Per capita income of Hong Kong was over 24,000 dollars, exceeding that of the EU<sup>5</sup>. Singapore and Hong Kong are "city-state" economies without primary industries, which are characterized by low productivity increases. Hence, both economies achieved high average annual growth of 8.5 percent and 6.5 percent, respectively, over the 10-year period from 1986 to 1995, which obviously lifted the per capita income of both economies to a high level.

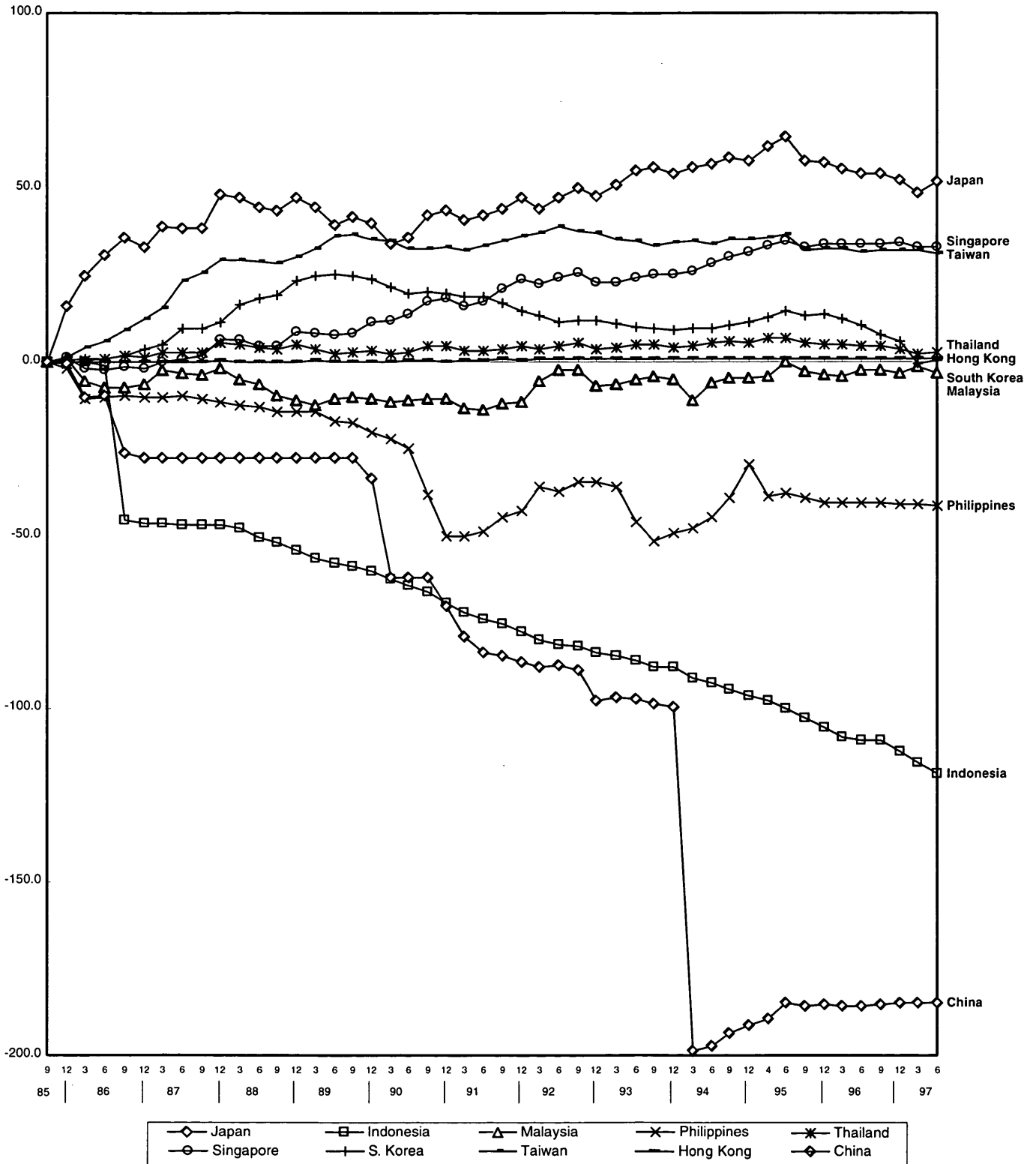
**Table 2. GDP, Population and Per Capita GDP of East Asian Economies, 1996**

	GDP		Population		Per Capita GDP	
	bil. US\$	Ratio <sup>(1)</sup> to JPN's GDP	mil.	Ratio <sup>(1)</sup> to JPN's pop	US\$	Ratio <sup>(1)</sup> to JPN's one
South Korea	484.8	11	45.5	36	10,655	29
Taiwan	272.7	6	21.5	17	12,701	35
Hong Kong	154.6	3	6.3	5	24,497	67
Singapore	94.1	2	3.0	2	30,954	85
<b>NIEs</b>	<b>1,006.2</b>	<b>22</b>	<b>76.3</b>	<b>61</b>	<b>13,184</b>	<b>36</b>
Malaysia	98.1	2	21.2	17	4,634	13
Thailand	184.0	4	61.0	48	3,018	8
Indonesia	225.8	5	196.8	156	1,147	3
Philippines	82.4	2	69.9	56	1,179	3
<b>ASEAN4</b>	<b>590.3</b>	<b>13</b>	<b>348.8</b>	<b>277</b>	<b>1,692</b>	<b>5</b>
China	815.4	18	1223.9	972	666	2
<b>East Asia</b>	<b>2,411.8</b>	<b>52</b>	<b>1,649.0</b>	<b>1310</b>	<b>1,463</b>	<b>4</b>
Japan	4,599.7	100	125.9	100	36,545	100
United States	7,576.1	165	278.9	222	27,167	74
EU	8,586.7	187	373.4	297	22,998	63

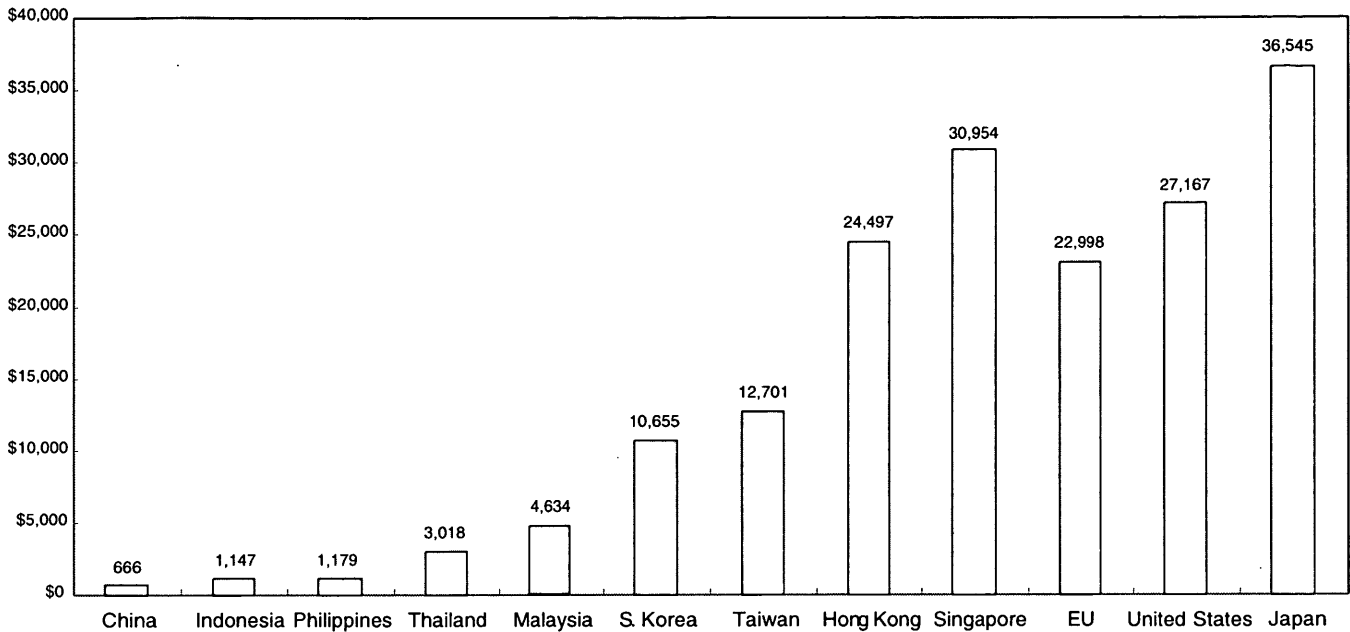
Note: (1) Ratio of GDP, population and per capita GDP of each economy to those of Japan (JPN).

Source: Processed from Statistical Yearbook of each country and region, Main Economic Indicators, OECD, and International Finance Statistics, IMF.

**Figure 3. Percent Changes in Exchange Rates of Currencies of East Asian Economies and Japan for U.S. Dollar from the Rates in September 1985**



Sources: From September, 1985 to March, 1997, *International Financial Statistics*, IMF except for Hong Kong and Taiwan. For the same period, *Monthly Digest of Statistics* for Hong Kong and *Financial Statistics* for Taiwan. For the figures for June 30, 1997, *Far Eastern Economic Review*, July 10, 1997.

**Figure 4. Per Capita Income (GDP) of East Asian Economies, United States, EU and Japan, 1996**

Note: Figures are from Table 2.

The per capita incomes of Taiwan and South Korea in 1996 were over 13,000 dollars and 11,000 dollars, respectively. South Korea, which had the lowest per capita income among the NIEs, officially acceded to the Organization for Economic Cooperation and Development (OECD) in December 1996. South Korea's accession to the OECD, known as the "group of industrialized nations," reflects the transition of NIEs to industrialized nation status. The International Monetary Fund (IMF) changed the "I" in "NIEs" from "Industrializing" to "Industrialized" in its 1997 World Economic Outlook and officially recognized the transition of NIEs from "developing economies" to "industrialized economies."<sup>6)</sup>

### Industrializing ASEAN4 and China

Prior to the reverse oil shock of 1986, when the price of crude oil dropped by 50 percent from 27 dollars per barrel to 14 dollars per barrel, the ASEAN4 were highly dependent on crude oil and other primary product exports. Each of the

ASEAN4, while watching the NIEs achieve high growth through the introduction of foreign capital, observed its own economy to stagnate as the prices of primary goods plummeted. Under these conditions, two of the ASEAN4 (Thailand and Malaysia) greatly relaxed regulations on foreign direct investment (FDI) in the latter half of the 1980s and began FDI and export-led high growth. In 1996, as shown in Table 2, the per capita income of Malaysia and Thailand exceeded 4,500 dollars and 3,000 dollars, respectively. The economic growth of these two countries from 1986 was high – the annual averages for Thailand and Malaysia from 1986 to 1995 were 9.4 percent and 7.7 percent, respectively. Malaysia's exports over this period reflect the progress in industrialization. While primary products accounted for more than half of total exports in 1985, manufactured products accounted for some 80 percent of total exports in 1995. From the viewpoint of per capita income, at least Malaysia and Thailand could be considered "middle-income countries" of East Asia.<sup>7)</sup>

Indonesia and the Philippines lagged behind Thailand and Malaysia in terms of FDI-led industrialization. As they did not promote large-scale deregulation of foreign capital until the beginning of the 1990s, industrialization and high growth under the positive FDI-export cycle did not start until the middle of the 1990s. Reflecting this, the per capita income in these countries first broke the 1,000 dollar barrier in 1995, rising to 1,100 dollars in 1996 (see Table 2).

China achieved high average annual growth of 9.9 percent from 1986 to 1995 as it underwent transition to a market economy and introduced FDI. As shown in Figure 3, however, the renminbi (RMB) drastically depreciated against the dollar three times over this 10-year period: during the

reverse oil shock of 1986 (crude oil was China's principle export at the time); around 1989 following the Tiananmen Square incident; and at the start of 1994 following the rapid increase of imports in 1993. Thus, despite the high growth over the last 10 years, the per capita income of China on a dollar base did not reach 700 dollars even in 1996 (Table 2). China's per capita income is therefore about half that of Indonesia and the Philippines. Figure 4 shows the per capita income in US dollars for East Asian countries and regions, along with that of Japan, the United States and EU, making it possible to easily see the differences in the stages of economic development among East Asian countries and regions in terms of per capita income.

**Table 3. Exports and Imports of Commodities of East Asian Economies, United States, EU and Japan, 1996**

	Exports		Imports	
	bil. US dollar	Ratio to JPN	bil. US dollar	Ratio to JPN
South Korea	129.7	32	150.3	43
Taiwan	116.0	28	101.3	29
Hong Kong	27.6	7	45.4	13
Singapore	73.5	18	79.8	23
<b>NIEs</b>	<b>346.8</b>	<b>84</b>	<b>376.8</b>	<b>108</b>
Malaysia	78.2	19	78.4	22
Thailand	55.7	14	72.3	21
Indonesia	45.1	11	39.1	11
Philippines	20.6	5	32.2	9
<b>ASEAN4</b>	<b>199.6</b>	<b>49</b>	<b>222.0</b>	<b>64</b>
China	151.1	37	138.8	40
<b>East Asia</b>	<b>697.5</b>	<b>170</b>	<b>737.6</b>	<b>211</b>
Japan	411.1	100	349.2	100
United States	624.5	152	791.3	227
EU	2,108.9	513	1,982.2	568

Notes: (1) For Hong Kong and Singapore, only domestic exports are counted as exports. For these two economies, imports are retained imports, i.e., total import minus re-exports.  
(2) JPN stands for Japan.

## 2. *East Asian Exports and Imports*

Table 2 measures the sizes of the economies of East Asian countries and regions in 1996 in terms of GDP and compares them with the size of the Japanese economy. The size of the NIEs economies, while the largest in East Asia at one trillion dollars, is only 22 percent that of Japan. Those of the ASEAN4 and Chinese economies do not exceed 13 percent and 18 percent, respectively, that of Japan. The size of the East Asian economies as a whole, however, has reached 52 percent, or more than half, that of Japan.

Table 3 shows the amount of commodity exports and imports of East Asia, Japan, the United States and EU in 1996. According to this table, the commodity exports of NIEs totaled 84 percent those of Japan in 1996. This table defines exports in the narrow sense and therefore does not include the re-exports of Hong Kong and Singapore. If re-exports are included, the exports of the NIEs exceed those of Japan. Looking at the huge exports of NIEs and how they have come to compare with those of Japan, it is easy to understand why the "bashing" of the NIEs as the "second Japan" occurred in the United States and Europe in the latter half of the 1980s. The exports of ASEAN4 and China, which were large in comparison with the size of their economies, totaled 49 percent and 37 percent, respectively, those of Japan in 1996. The exports of East Asia as a whole (in the narrow sense) amounted to 1.7 times those of Japan, while also exceeding the commodity exports of the United States in 1996. If we see the East Asian share in world commodity exports<sup>8</sup>, it was 5 percent in 1975, 9 percent in 1985 and 14 percent in 1995. In other words, East Asia has become a huge supplier of commodities to the world.

According to Table 3, the imports of NIEs even in the narrow sense (excluding imports for re-

export) also exceeded those of Japan, albeit by only 1.08 times in 1996. As the NIEs import market grew to exceed that of Japan amid high economic growth, NIEs bashing started to ease up in the United States and EU in the 1990s.

The sizes of ASEAN4 and Chinese imports were also large, reaching 64 percent and 40 percent, respectively, that of Japan in 1996. Imports of East Asia as a whole reached 2.1 times those of Japan and just under those of the United States (93 percent) in 1996. If we see the East Asian share in world commodity imports<sup>8</sup>, it was 6 percent in 1975, 9 percent in 1985 and 15 percent in 1995, indicating increasingly important market in the world.

All of the East Asian countries and regions examined here are members of the Asia Pacific Economic Cooperation (APEC). The region's demand absorption capacity (i.e. the region has an import market double that of Japan and still growing) is why the weight of Asian countries and regions in APEC is increasing and the United States is focusing on East Asia.

### Notes:

4. The per capita GDP of all NIEs countries and regions reached the 10,000 dollar barrier in 1995.
5. In terms of per capita income, Singapore surpassed the United States and Hong Kong surpassed the EU in 1995.
6. World Economic Outlook (IMF), May 1997, p. 8. IMF also moved Israel into the "advanced economies" category in 1997, in addition to the NIEs.
7. If the "I" in "NIEs" is taken as "industrializing," Malaysia and Thailand can literally be called NIEs.
8. The East Asian share of world exports, including both domestic exports and re-exports, was 5 percent in 1975, 10 percent in 1985 and 17 percent in 1995. The East Asian share of world imports, including imports for re-exports, was 6 percent in 1975, 10 percent in 1985 and 18 percent in 1995.