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Three Decades of Development in the Pacific Basin: An Overview

Shigeaki Fujisaki, Nobuaki Hamaguchi, Tatsufumi Yamagata

This chapter presents a review of the economic performance in the Pacific Basin during the past three decades. Strong emphasis is placed on the marked difference in the performance of Asian (East and Southeast Asian) and Latin American countries during the 1980s.

The Latin American countries were, historically, early-comers in industrialization compared to Asian countries. They had already reached a higher stage of development and had a longer experience of industrialization than the Asian countries in the early 1960s. At that time, industrialization had just started in many Asian countries, the major part of which had been subjected to colonial rule until the end of World War II and had to start the development process after the war. Even now, Latin Americans are still enjoying much higher living standards based on per capita GNP than most Asians.

Until the end of the 1970s, both areas were showing a relatively good growth performance. In fact, some countries in both regions recorded an annual growth rate of 10% during the 1965 – 80 period. The world economy suffered from the increase in oil prices in the 1970s, but at least the first crisis provided a good opportunity for industrial development in these countries. The continuous economic expansion after the first oil price hike was often ascribed to increased inflow of foreign borrowings. At the same time, the international interest rates were relatively low throughout the 1970s. Such conditions which were favorable for these countries, however, were no longer present in the early 1980s.

Worldwide recession in the aftermath of the second oil crisis in 1979 was followed by the sharp increase in international interest rates and reduced international capital flow. These drastic changes adversely affected the economies in both regions. In particular, the highly indebted countries in Latin America were the hardest hit and a marked difference in the economic performance of both regions gradually appeared during the 1980s.

After the severe recession until 1982, sound growth without inflation returned in the industrialized countries, despite exchange rate adjustment since 1985 and the crash in major stock markets in October 1987. In East and Southeast Asia, production, especially manufacturing, had grown very rapidly: export increase was remarkable and price stability was maintained. Presently some economists are even referring to the "graduation" of Asian NIEs (Korea, Taiwan, Singapore and Hong Kong) and the possibility that ASEAN 4 (Indonesia, Malaysia, the Philippines and Thailand) may join the NIEs group. In contrast, production growth stagnated, export increase was less pronounced and inflation accelerated in Latin America. In some countries the real per capita GNP is lower than a decade ago. Why has the economic performance of Asian countries been so much better than that of the Latin American countries during the 1980s?

I. Major Achievemens in the Pacific Basin

In this section we will review the major achievements in the Pacific Basin during the past three decades. The following aspects will be emphasized: economic growth, per capita GDP, production structure, exports, and inflation.

1. Economic growth

The Asian and Latin American countries have recorded a high economic growth rate since 1960s (Table 1). But in the 1980s, a distinct contrast developed between them. Asian NIEs maintained an overall steady growth while ASEAN 4 also recorded a higher growth rate than Latin America. In Latin American countries, which, until then, had enjoyed higher living standards on the average compared to ASEAN 4, growth stopped. Some countries even recorded negative growth rates.

2. Per capita GDP

We can see in Table 2 the economic evolution of the region. The per capita GDP of Asian NIEs, which exceeded $1,000 in 1976, increased to $4,000 in 1987 in nominal terms. This sharp increase resulted from an export-led development strategy, by selling NIEs' goods to the vast US market. Among ASEAN 4, only Malaysia had a GDP per capita similar to that of the Asian NIEs, while the GDP in most of the other three countries was still below the $1,000 line in 1987. The group as a whole had a per capita GDP $740 in 1982, which decreased slightly, mainly due to the economic stagnation in Indonesia and the Philippines. The per capita GDP of Latin America exceeded $1,000 in 1975, as in the case of the Asian NIEs, in 1981 it reached a peak of $2,600. Since then the GDP has continuously decreased in contrast to Asian NIEs. We must keep in mind, however, that the level of income of Latin America has never been reached by any ASEAN 4 country. The group of developed countries reached a GDP of $10,000 level in the early 1980s. Japan experienced the fastest growth of GDP per capita, near $20,000 in 1987, taking advantage of the yen appreciation from 1985. Mainland China, with its continuous population growth, was unable to reach the growth figures of Asian NIEs and some of ASEAN countries.

3. Production structure

Economic performance depends on the structure of production. One notable observation is the difference in the growth of the manufacturing output as a contribution to the GDP between Asian NIEs and Latin America. The share of the manufacturing sector increased markedly in Asia, both in Asian NIEs and ASEAN 4, between 1965 and 1987. On the other hand, in Latin America, it changed only marginally, though its absolute level was still higher than that of Asian countries, even in 1987 (see Table 3).

4. Exports

Export performance also shows a large difference. Asian exports expanded much faster during the earlier part of the 1980s than those of Latin America although there are some exceptions (Table 4). The structure of merchandise exports also changed radically between 1965 and 1987 in East and Southeast Asia (Table 5). Both regions experienced a rapid expansion of the exports of manufactured goods. But while machinery and transport equipment have become major export items in the Asian countries except in Indonesia and the Philippines, the volume of such exports has not increased appreciably in Latin America except for Brazil and Mexico.

5. Inflation

Price indicators show another contrasting aspect between Asia and Latin America (see Table 6). In general, the rate of inflation in Latin America has been exceedingly high. Oceania and ASEAN 4 have experienced some inflation but to a considerably lesser extent, and in Asian NIEs, Japan and North America prices have been stable. In Latin America, the annual CPI (Consumers' Price Index) recorded a rise of around 50% during the period 1974 – 80. The inflation rate, however, reached triple digits in the early 1980s, and has accelerated afterwards. In Asian NIEs, CPI change reached double digits during the period 1978 – 81, after which there was a gradual decrease, and since 1984 the CPI changes have remained under 2%. Japan was seriously hit by the first oil price hike and the CPI change recorded a peak of 23% in 1974, but the effects of the second oil price hike were relatively limited except in 1980. In North America, the second oil price hike affected the economy more severely than the first one and double digit CPI change was recorded in 1979 – 81. In contrast with Japan and North America, Oceania has been suffering from double digit CPI changes almost each year since the first oil price hike. ASEAN 4 has also experienced higher CPI changes since then.

II. Adjustment to External Shocks — First Half of the 1980s —

In the early 1980s, both regions were subjected to external shocks in the form of dollar appreciation, sharp increase in real interest rates and decrease in their exporting commodity prices, and so on. The impact has been particularly serious for the Latin American countries due to the large amount of accumulated debts. Through the adjustment process to the shock, the difference in the growth performance of the both regions has gradually become apparent.

1. "Dual Problems" — high interest rates & the overvalued dollar —

The deterioration of the world trade and macroeconomic environment in the early 1980s was basically due to the U.S. macroeconomic policy: inflation stabilization since the late 1970s and a subsequent policy mix of tight money and lax fiscal policy. At first, this combination resulted in the deepest recession since the 1930s rather than in a decline of inflation. In turn, the depression led to deflation. Even though the policy mix eventually resulted in a continuing expansion of the economy, it generated two problems — high interest rates and an overvalued dollar in the first half of the 1980s.

The sharp increase in the real interest rates and reduced international capital flow adversely affected developing countries, in particular, the highly indebted Latin American countries. The debts grew for each region after the oil price hike, especially in the case of Latin America (see Table 7). The debt problem in the 1980s was primarily a Latin American problem.

The combination of overvalued dollar and enormous expansion of U.S. budget deficit resulted in the large U.S. current account deficit. High dollar rates also undermined the competitiveness of the U.S. manufacturing industry by favoring exporters in the East and Southeast Asian countries, which, including Japan, boosted their exports to the United States during this period. Japan's share of U.S. import from the Pacific Basin increased by 25% in 1985, and Asian NIEs' by 15%. In contrast, Latin America's share declined by 13% (see Table 8).

2. Adjustment to external shocks

Many developing countries during the period faced severe balance of payment problems. Sudden cuts of money inflow resulted from the world economic crisis. Gross new loan disbursements exceeded debt services including debt repayments and interest payments (see Appendix of this chapter). Thus, the financial flow moved to the opposite direction and the indebted developing countries had to transfer their resources to creditor countries. In Latin America this transfer was made possible by the reduction of the internal demand, which, in turn, reduced imports in order to create a trade surplus. In the East Asian countries, the resources to be transfered abroad were generated by export promotion. Both of them aimed at adjusting their balance of payments to decrease the debt servicing burden but the macroeconomic impacts of the two ways of adjustment show a striking contrast.

East and Southeast Asian countries displayed their strength as exporters, especially the export of manufactured goods, between 1980 – 87, except for the Philippines and Indonesia. The same observation can be made by examining the export dependence ratio, or export to GDP ratio (Table 9).

Export growth in Brazil, Colombia and Chile was comparable to that of East Asia. But the volume of exports of manufactured goods increased very slowly and primary commodities are the predominant sector in many countries of Latin America. Export to GDP ratio remained almost unchanged below 20% and imports were curtailed. Different patterns are seen in Chile, Colombia, Uruguay, and Mexico, where recently, the export ratio has increased significantly. In most of the countries, investment and saving ratio have still not fully recovered from the deterioration in the early 1980s (see Table 10).

Extremely high inflation which brings about wide-spread uncertainty is another unsettling factor in the economic management of many Latin American countries. High inflation discourages investment and saving, as well as production in general, and the higher the inflation, the more active speculation becomes.

In the first half of the 1980s, many Latin American countries tried to control inflation by aggregate demand management, or the so-called *orthodox* policy. Indeed, this approach had a significant effect on the adjustment of the balance of payments, but inflation remained very high, even though economic growth was hampered in this process. Therefore, in the second half of the same decade, in such countries as Argentina and Brazil the so-called *heterodox* approach was adopted, with the aim of eliminating an inertial root of inflation. These policies which were initially very successful, substantially reduced a monthly inflation rate of about 20 – 30% to almost zero. Their effect, however, was only short-lived. The inflation returned, and even worse, it returned as "hyper-inflation."

III. Structural Adjustment since 1985

After the Meeting of the Group of Five held in September 1985 (Plaza Agreement), exchange rate realignment took place. The Japanese yen appreciated rapidly until the early part of 1989. Asian NIEs' currencies have also appreciated gradually, Korea's won exchange rate went up by 30.3% after the Meeting, and New Taiwan's dollar by 43.8% (see Table 11).

Changes in relative price among countries naturally affected the world-wide structure of supply and demand. The governments of the G5 began to adjust their domestic demand in accordance with the agreement of G5. The direction of merchandise trade also changed drastically in response to the changes in the supply and demand.

Another type of structural change is about to take place in Latin America. A series of schemes were proposed to relieve large external debts there, and some of them are already being implemented. The issue involves not only the recovery of a sound world financial market, but steady economic development in each of the debtor countries.

1. Change in trade structure

Major structural changes have taken place in the United States and Japan. Now that the United States cannot maintain rapid import growth, Japan is requested to play the role of sponge, or "absorber."

Table 1. REAL GDP GROWTH

(%)

	1965–80	1980–87	1985	1986	1987	1988
Korea	9.5	8.6	5.4	11.7	11.1	12.2*
Taiwan	9.7	7.4	4.3	10.6	12.4	7.9*
Hong Kong	8.6	5.8	−0.1	11.2	13.5	7.4*
Singapore	10.1	5.4	−1.6	1.7	8.8	11.0*
Indonesia	8.0	3.6	2.5	4.0	3.6	—
Malaysia	7.4	4.5	−1.0	1.0	5.2	6.9*
Thailand	7.2	5.6	3.2	3.5	6.3	11.0*
Philippines	5.9	−0.5	−4.1	1.5	5.1	6.7*
Argentina	3.5	−0.3	−4.5	5.8	1.6	0.5
Bolivia	4.5	−2.1	0.1	−2.9	2.4	2.5
Brazil	9.0	3.3	8.4	8.1	2.9	0.0
Colombia	5.6	2.9	3.8	5.9	5.4	4.0
Costa Rica	6.2	1.8	0.7	5.3	4.5	3.0
Chile	1.9	1.0	2.4	5.3	5.4	6.5
Ecuador	8.7	1.5	4.8	3.4	−8.7	8.0
Guatemala	5.9	−0.7	−0.6	0.3	3.1	3.5
Jamaica	1.3	0.4	−5.5	2.5	5.8	3.0
Mexico	6.5	0.5	2.6	−4.0	1.4	0.5
Peru	3.9	1.2	−1.7	3.8	−6.6	−4.0
Venezuela	3.7	0.2	1.3	6.8	3.0	5.0
Uruguay	2.4	−1.3	0.2	7.0	5.3	0.0
Latin Am. total	n.a.	1.4	3.6	3.9	2.5	0.7

Source: IMF, *International Financial Statistics*; ECLAC/UN, *Preliminary Overview of the Latin American Economy 1988*; World Bank, *World Development Report 1989*; Republic of China, Executive Yuan, *Taiwan Statistical Data Book*; Current Affairs Department, IDE, *Ajia doko nenpo (Asia Affairs 1989).*
* GNP growth rate.

Table 2. PER CAPITA GDP IN SELECTED COUNTRIES

(Nominal term; US$)

	Korea	Singapore	Taiwan	Hong Kong	Thailand	Philippines	Malaysia
1965	106	511	n.a.	511	131	189	312
1970	272	916	n.a.	801	180	195	382
1975	599	2,495	961	2,138	350	376	784
1980	1,637	4,862	2,319	5,444	716	729	1,780
1985	2,114	6,911	3,097	6,140	742	602	1,992
1987	2,883	7,623	4,816	8,244	879	604	1,935

Table 2. (Continued)

	Indonesia	Japan	U.S.A.	Mexico	Brazil	Chile	Venezuela	Colombia	Peru
1965	51.2[a]	921	3,599	472	602.9[b]	783	978	322	368
1970	77	1,953	4,917	701	432	800	1,144	351	462
1975	225	4,479	7,320	1,463	1,191	708	2,175	554	898
1980	495	9,071	11,786	2,685	2,053	2,475	3,943	1,290	995
1985	522	10,975	16,594	2,260	1,687	1,320	3,577	1,219	n.a.
1987	n.a.	19,530[c]	18,396	n.a.	2,305	n.a.	2,716	1,217	n.a.

Source: IMF, *International Financial Statistics.*
[a] 1967.
[b] 1966.
[c] GNP per capita.

Table 3. PRODUCTION STRUCTURE

(%)

	1965				1987			
	Agri-culture	Industry	(Manu-facture)	Service	Agri-culture	Industry	(Manu-facture)	Service
Korea	35	25	(18)	37	11	43	(30)	46
Taiwan	27	29	(20)	44	6	48	(40)	46
Hong Kong	2	24	(15)	58	0	29	(22)	70
Singapore	3	24	(15)	74	1	38	(29)	62
Indonesia	56	13	(8)	31	26	33	(14)	41
Philippines	26	28	(20)	46	24	33	(25)	43
Thailand	32	23	(14)	45	16	35	(24)	49
Malaysia	28	25	(9)	47	21	35	(19)	44*
Argentina	17	42	(33)	42	13	43	(31)	44
Brazil	19	33	(26)	48	11	38	(28)	51
Colombia	30	25	(18)	50	19	35	(19)	53
Chile	9	40	(24)	52	6	39	(21)	56*
Mexico	14	27	(20)	59	9	34	(25)	57
Peru	18	30	(17)	53	11	33	(23)	56
Venezuela	6	40	( )	55	6	38	(22)	56
China	39	38	(30)	23	31	49	(34)	20
New Zealand					8	31	(21)	61
Australia	9	39	(26)	52	4	33	(17)	63
Canada	6	41	(27)	53	3	35	(19)	62
United States	3	38	(28)	59	2	30	(20)	68

Source: World Bank, *World Development Report 1989*, 1989; Republic of China, Executive Yuen, Council for Economic Planning and Development, *Industry of Free China*; Republic of China, Executive Yuen, Council for Economic Planning and Development, *Taiwan Statistical Data book*, 1987.
* 1983.

Table 4. AVERAGE ANNUAL GROWTH RATES OF EXPORTS

(%)

	1965 – 80	1980 – 87
Korea	27.2	14.3
Singapore	4.7	6.1
Hong Kong	9.5	11.4
Indonesia	9.6	2.7
Philippines	4.7	– 0.4
Thailand	8.5	10.2
Malaysia	4.4	9.7
Argentina	4.7	– 0.3
Brazil	9.3	5.6
Colombia	1.4	7.5
Chile	7.9	4.3
Mexico	7.6	6.6
Peru	2.3	– 0.8
Venezuela	– 9.5	– 0.4
Australia	5.5	6.0
New Zealand	4.2	4.5
Canada	5.4	6.3
United States	6.4	– 0.5
China	5.5	11.7
Japan	11.4	5.8

Source: World Bank, *World Development Report 1989*, 1989.

Table 5. STRUCTURE OF MERCHANDISE EXPORTS

(%)

	1965					1987				
	I	II	III	IV	V	I	II	III	IV	V
Korea	15	25	3	56	27	2	5	33	59	25
Singapore	21	44	11	24	6	17	11	43	29	6
Hong Kong	2	11	6	81	44	2	6	22	70	34
Indonesia	43	53	3	1	0	54	18	3	24	5
Philippines	11	84	0	6	1	14	24	6	56	6
Thailand	11	84	0	4	0	2	45	12	41	18
Malaysia	35	59	2	4	0	25	36	27	13	3
Argentina	1	93	1	5	0	4	65	6	25	3
Brazil	9	83	2	7	1	22	33	17	28	3
Colombia	18	75	0	6	2	33	46	1	20	4
Chile	89	7	1	4	0	69	23	3	6	0
Mexico	22	62	1	15	3	44	9	28	19	2
Peru	45	54	0	1	0	71	11	3	16	n.a.
Venezuela	97	1	0	2	0	91	1	2	6	n.a.

Source: World Bank, *World Development Report 1989*, 1989.
Note: I: Fuel, minerals and metals; II: Other primary commodities; III: Machinery and transport equipment; IV: Other manufactures; V: Textile and clothing.

Table 6. CONSUMERS' PRICE CHANGE

(%)

Year	Asian NIEs	ASEAN 4	China	Japan	North America	Latin America	Oceania
1965	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1966	n.a.	n.a.	n.a.	4.9	3.2	n.a.	2.7
1967	n.a.	n.a.	n.a.	4.1	2.9	n.a.	4.4
1968	n.a.	n.a.	n.a.	5.4	4.2	n.a.	3.8
1969	n.a.	n.a.	n.a.	5.3	5.4	n.a.	3.3
1970	n.a.	n.a.	n.a.	7.4	5.6	12.2	4.3
1971	n.a.	7.6	n.a.	6.4	4.1	13.5	6.7
1972	n.a.	7.3	n.a.	4.9	3.6	20.9	6.0
1973	n.a.	21.9	n.a.	11.7	6.2	36.3	9.5
1974	n.a.	31.8	n.a.	23.3	10.9	40.0	14.4
1975	16.0	11.3	n.a.	11.7	9.4	57.6	15.8
1976	7.7	12.2	0.3	9.4	6.0	61.5	14.1
1977	7.8	9.4	2.6	8.2	6.6	40.4	12.2
1978	10.3	7.9	0.8	4.2	7.7	38.6	8.5
1979	14.1	16.0	2.1	3.7	11.0	53.8	9.6
1980	12.3	16.8	7.4	7.8	13.2	56.0	11.1
1981	17.2	12.1	2.5	4.9	10.6	57.5	10.4
1982	6.3	8.2	2.1	2.8	6.5	84.6	11.8
1983	3.9	7.7	1.2	1.9	3.5	130.8	9.7
1984	2.1	11.0	2.8	2.2	4.3	180.8	4.2
1985	1.5	6.0	8.8	2.0	3.5	274.7	7.9
1986	1.7	n.a.	6.0	0.6	2.2	64.5	n.a.
1987	2.0	n.a.	7.4	0.1	n.a.	198.9	n.a.

Source: IMF, *International Financial Statistics*, various issues; ECLAC, *Preliminary Overview of the Latin American Economy*, various issues.

Table 7. AN OVERVIEW OF LDC DEBTS

(Billion of U.S. dollars)

	1973	1977	1980	1984
Non-oil developing countries	130.1	280.3	475.2	710.9
Debt in 1980 dollars	290.1	413.4	475.2	768.5
Long-term and short-term debt by area				
Africa (excluding South Africa)	n.a.	30.8	50.9	70.7
Asia	30.0	68.7	114.6	179.3
Europe	14.5	37.6	67.2	76.6
Middle East	8.7	21.9	36.3	56.2
Western Hemisphere	44.4	109.1	192.6	310.5

Source: Dornbusch, R., *Dollar, Debts, and Deficits*, MIT Press, 1986.

Table 8. IMPORTS OF NORTH AMERICA BY PROCEEDING COUNTRY OR REGION

(As a % of total imports value)

Country/Region Year	1965	1970	1975	1980	1985
North America	55.55	59.13	58.17	45.55	40.28
Japan	14.00	18.48	16.20	19.77	25.46
Asia NIEs	2.82	6.04	7.77	11.32	14.84
ASEAN	4.43	3.05	5.32	6.26	3.82
China	0.07	0.05	0.27	0.73	1.50
Latin America	20.46	10.30	9.93	14.07	12.62
Oceania	2.67	2.95	2.33	2.32	1.48
Total	100.00	100.00	100.00	100.00	100.00

Source: UN, OECD.

Table 9. EXPORT RATIO (upper) AND IMPORT RATIO (lower) TO GDP IN THE 1980S

	1980	1981	1982	1983	1984	1985	1986	1987
Argentina	6.9	9.4	13.5	14.7	n.a.	n.a.	n.a.	n.a.
	9.0	9.9	10.2	9.8	n.a.	n.a.	n.a.	n.a.
Bolivia	25.0	26.7	35.7	26.7	22.8	19.4	23.8	n.a.
	16.7	20.0	26.2	20.7	17.9	18.0	25.6	n.a.
Brazil	8.3	9.0	7.8	11.3	13.4	11.9	8.5	8.5
	10.6	9.4	8.6	8.9	7.8	6.9	6.0	5.5
Chile	22.8	16.4	19.4	24.0	24.3	29.1	30.5	n.a.
	27.0	26.8	21.3	21.3	25.3	26.3	26.7	n.a.
Colombia	16.2	11.9	10.9	10.5	11.9	13.8	18.8	19.1
	15.6	15.4	15.2	13.2	12.5	12.5	12.1	12.4
Mexico	12.6	11.9	17.4	19.5	17.8	15.4	17.2	19.7
	13.5	13.6	11.2	9.4	9.7	10.3	12.6	12.6
Peru	26.9	19.9	20.2	23.3	22.2	25.7	n.a.	n.a.
	23.0	24.4	23.8	23.1	17.7	18.8	n.a.	n.a.
Uruguay	15.0	14.7	14.0	24.2	24.5	24.0	23.4	20.6
	21.3	18.6	17.2	22.5	20.4	20.0	18.1	18.6
Venezuela	33.6	31.4	25.8	25.5	28.3	25.5	20.7	22.3
	25.4	25.6	28.9	14.6	17.0	16.0	20.6	21.5
Korea	33.7	36.6	35.6	36.5	37.5	36.2	40.8	44.9
	41.5	41.9	38.1	37.7	37.8	35.7	35.0	36.4
Taiwan	52.9	52.2	50.6	54.0	57.6	56.1	60.6	60.4
	54.1	50.0	45.4	45.0	46.1	41.7	39.8	40.4
Philippines	20.2	18.9	16.5	19.6	21.8	20.7	24.5	23.0
	26.0	24.4	23.3	26.3	21.9	17.7	18.4	22.1
Malaysia	57.5	52.3	50.9	51.2	54.3	54.9	57.2	62.8
	55.0	58.5	59.6	56.9	52.4	49.7	50.9	49.2
Thailand	24.5	24.9	24.9	22.4	24.5	26.0	28.2	28.1
	29.9	29.7	25.0	27.5	26.6	26.6	25.0	25.5
Indonesia	30.5	27.8	24.2	27.7	26.4	22.9	22.1	26.0
	22.2	24.3	24.3	28.8	21.4	20.9	21.8	23.2

Table 9. (Continued)

	1980	1981	1982	1983	1984	1985	1986	1987
Japan	14.9	16.2	16.5	15.5	16.8	16.5	13.2	12.7
	15.8	15.7	15.7	13.6	13.9	12.7	8.8	8.9
U.S.A.	10.2	9.7	8.7	7.9	7.6	7.1	6.9	7.6
	10.7	10.3	9.5	9.5	10.4	10.1	10.2	10.9

Source: IMF *International Financial Statistics* and Council for Economic Development, Republic of China *Taiwan Statistical Data Book 1988.*

Table 10. SAVINGS RATIO (upper) AND INVESTMENT RATIO (lower) IN THE 1980s

	1980	1981	1982	1983	1984	1985	1986	1987
Argentina	20.4	17.8	21.3	22.8	n.a.	n.a.	n.a.	n.a.
	22.8	18.2	18.0	17.9	n.a.	n.a.	n.a.	n.a.
Bolivia	13.5	7.4	23.8	16.0	15.9	10.7	14.9	n.a.
	14.4	12.2	14.3	10.0	11.0	9.3	16.7	n.a.
Brazil	20.2	21.9	19.5	18.1	22.1	21.7	21.1	22.7
	22.4	22.3	20.2	15.6	16.5	16.7	18.5	19.7
Chile	16.8	12.4	9.4	12.5	12.5	16.5	18.7	n.a.
	21.0	22.7	11.2	9.8	13.6	13.7	14.9	n.a.
Colombia	19.7	17.0	16.2	17.1	18.4	20.3	24.7	25.8
	19.1	20.6	20.5	19.9	18.6	19.0	18.0	19.0
Mexico	27.2	27.3	27.4	30.3	29.7	26.3	22.7	25.8
	28.1	29.0	21.2	20.3	21.6	21.2	18.1	18.6
Peru	21.6	17.7	18.9	17.2	20.3	21.0	n.a.	n.a.
	17.7	22.1	22.6	17.0	15.8	14.1	n.a.	n.a.
Uruguay	11.1	11.4	11.3	11.6	14.0	12.2	12.7	11.3
	17.3	15.1	14.4	10.0	9.9	8.2	10.0	9.3
Venezuela	33.0	28.6	22.7	22.8	27.1	26.7	20.2	25.0
	24.8	23.2	25.8	11.7	15.6	17.4	20.2	24.3
Korea	23.4	23.7	24.2	27.8	30.5	31.1	34.7	37.0
	31.1	29.1	27.4	28.9	30.8	30.0	28.8	29.1
Taiwan	33.1	32.4	30.4	32.0	33.0	32.4	37.0	38.8
	34.3	30.3	25.2	23.0	21.5	17.9	16.2	19.6
Philippines	24.7	24.1	22.6	22.5	18.8	16.2	17.2	18.6
	30.7	30.6	28.3	26.7	17.0	13.9	12.9	14.6
Malaysia	32.9	28.8	28.6	32.1	35.5	32.7	31.5	37.8
	30.4	35.0	37.3	37.8	33.6	27.6	25.3	24.2
Thailand	24.1	22.8	21.3	20.1	21.1	20.5	21.8	23.8
	27.2	24.7	21.0	23.3	23.9	23.5	21.5	20.9
Indonesia	29.2	33.3	27.7	28.3	30.5	28.3	24.3	29.1
	20.9	29.8	27.9	29.4	25.5	26.4	26.2	26.3
Japan	31.3	32.0	30.9	30.1	31.1	31.9	32.0	32.3
	32.2	31.2	30.1	28.3	28.3	28.5	28.2	29.1
U.S.A.	15.7	16.6	13.6	13.3	15.2	13.2	12.5	12.7
	18.9	19.6	16.8	16.9	19.7	18.6	18.4	18.2

Source: IMF *International Financial Statistics* and Council for Economic Development, Republic of China *Taiwan Statistical Data Book 1988.*

Table 11. REGIONAL EXCHANGE RATES

(GDP Weight; Local Currency per US$)

Year	Asia NIEs	ASEAN4	China	Japan	North America	Latin America	Oceania
1980	0.75705	0.58846	0.51023	0.95053	0.98656	0.00281	0.59792
1981	0.81831	0.60849	0.58042	0.92455	0.98882	0.00406	0.60226
1982	0.87384	0.63941	0.64443	1.04419	0.99140	0.00943	0.68412
1983	0.93160	0.77838	0.67276	0.99568	0.99133	0.03144	0.77026
1984	0.95984	0.90143	0.79000	0.99572	0.99553	0.15786	0.80360
1985	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
1986	0.99219	0.99991	1.17574	0.70647	1.00142	1.94179	1.01848
1987	0.91215	0.98826	1.26744	0.60636	n.a.	1.44816	0.97232

Source: IMF, *International Financial Statistics*.
Note: The authors acknowledge Mr. Ohno's help to calculate this table.

Table 12. DIRECT FOREIGN INVESTMENTS TO ASEAN 4

(Million US$; %)

	1986	1987		1988	
Korea	23.0	29.9	(30)	203.5	(581)
Taiwan	55.4	362.8	(555)	2,192.6	(504)
Hong Kong	62.8	282.8	(350)	820.7	(190)
Singapore	150.0	130.8	(−13)	684.6	(423)
ASEAN Total	231.4*	806.3	(248)	3,901.4	(384)
Japan	620.1	1,578.2	(155)	3,760.5	(138)
U.S.A.	197.9	*232.3	(17)	1,517.2	(553)
World	2,034.5	3,646.0	(79)	12,482.7	(242)

Source: Current Affairs Department, IDE, *Ajia doko nenpo 1989 (Asia Affairs 1989)*, IDE, 1989.
Note: Numbers in parentheses are annual growth rates.
* excluding Indonesia.

Japanese domestic demand has grown in accordance with the structural adjustment agreed upon at the G5 meeting. The volume of imports of Japan has grown drastically since the 1985 G5, especially from Korea, Taiwan and Thailand. But Japan is still demanded to increase its imports.

Asian NIEs are also about to increase imports. In addition to their currency appreciation and wage increase, there are signs that Asian NIEs will boost their domestic demand. While diversifying their export markets toward Japan, Europe and some socialist countries, they started at the same time to receive each other's exports.

Export composition of ASEAN countries also changed with the increase in the share of manufactured goods. For instance, the share of the major 7 primary commodities of Thailand (rice, rubber, etc.) decreased from 31% of total exports in

1987 to 27% in 1988. The ratio of the export of manufactured goods to total exports in the Philippines rose to 83% in 1988 (January to November). Rapid expansion of non-oil exports resulted in the increase in the ratio in Indonesia up to 59% in 1988 (January to November). Destination of manufactured exports tends to be diversified toward the United States, Japan and Europe.

2. Direct investment from Japan, Asian NIEs to ASEAN

The rapid yen appreciation triggered a large capital outflow from Japan. Japan transferred part of her production base to the United States and ASEAN 4, especially Thailand and Malaysia. Thailand received 47,704 million Bahts in 1987 as direct foreign investments (DFIs) from Japan, on amount which was 3 times as large as the figure for 1986. On the whole, total DFIs to Thailand in 1987 were 4 times as large as in 1986. As the deficiency of the infrastructure in Thailand was a hindrance to foreign investment, Malaysia has become the alternative, to absorb foreign capital. Due to wage increase, DFIs from Asian NIEs to ASEAN 4 are now increasing. Especially, Taiwan's presence in ASEAN 4 is becoming conspicuous. She was the top investor in the number of projects in 1988 in Thailand, though in value terms Japan remains the major investor. Similarly, in Malaysia, Taiwan surpassed Japan in the DFI value in January and February in 1989. The Philippines, where social stability is being restored, is about to become another production base for Asian NIEs, especially Taiwan and Hong Kong, due to the close proximity.

As a whole, ASEAN 4, received total DFIs amounting to $12.5 billion in 1988 compared with $2 billion in 1986 and $3.6 billion in 1987. Of these, DFIs from Asian NIEs to ASEAN 4 accounted for $0.2 billion in 1986, $0.8 billion in 1987 and $3.9 billion in 1988. Thus one third each of DFIs in ASEAN 4 in 1988 comes from Japan, and Asian NIEs (see Table 12).

DFIs have been an important factor for the expansion of the manufacturing sector in ASEAN 4. Forecasts for the Thai and Malaysian economic growth in 1989 have been revised upward several times. Though the forecasts for the Philippines have been recently revised downward by the government from 6.5% to 6.0%, ASEAN 4 as a whole is growing rapidly, including Indonesia, which is now promoting the production of non-oil manufactured goods.

3. The debt problem

In the second half of the 1980s, net financial inflow to developing countries has been continuously negative in both Asia and Latin America. The underlying situation for the two regions, however, is very different.

As mentioned earlier, adjustment to debt problem was made on the supply side (exports) in East Asia and on the demand side (imports) in Latin America.

Improved current account balance made it possible for the East and Southeast Asian countries to increase repayments, often even in advance. The Philippines and Indonesia may not be placed in the same group as Korea, Malaysia and Thailand, but are implementing structural adjustment toward this direction.

In the Latin America group, some distinctions should be made. Since around 1985, an outward-looking growth pattern has become apparent in Mexico, Chile and Colombia. Export ratio to GDP has been increasing, along with the increase of savings and investment ratio (Tables 9 and 10). In other countries, however, the economic environment deteriorated with the abrupt rise of consumers' price. It is interesting to note that political stability was somehow maintained in the former group, while in the latter countries a democratic regime where by a civilian government replaced military rule is still in an early stage, for example, in Argentina and Brazil.

IV. Remaining Issues

During the 1980s, a marked difference in the economic performance between Asian and Latin American countries appeared. The difficulties which the Latin American countries have been facing mainly result from their accumulated debts. Therefore, how to relieve the large amount of external debts and supply necessary funds to support a minimal growth rate are the main issues there.

In contrast, the Asian countries have, in general, enjoyed steady economic growth, with some exceptions like the Philippines. It remains to be determined whether their recent successful development can be sustained. The world economic environment which is rapidly changing may not always be favorable for them in the future. There are some bottlenecks in their economies which prevent these countries from achieving steady growth as well. In this section, we merely point out some issues to be considered. The following chapters will present more detailed discussions.

1. Trade friction

The United States withdrew the application of General System of Preference for Asian NIEs in February this year, and partly for Thailand. The USTR also criticized some countries in EC and Asia about their trade barriers by specifying areas of retaliation. Since many Asian countries adopted an export-oriented strategy, restriction of markets will represent a severe constraint on their growth.

2. Economic reform in socialist countries

Most of the socialist countries in the world now intend to give more room to the market mechanism in their economies. Asian socialist countries like China and Vietnam are following suit. Their larger participation in the world trade is likely to affect the region's division of labor among Asian NIEs and ASEAN countries. Although the recent political development in China may delay the process, the fundamental course is unlikely to change in the long run.

3. Two bottlenecks

As a result of the rapid transfer of the production base of Japan and Asian NIEs to ASEAN 4, the production infrastructure in these countries may become overheated, especially in Thailand. In fact, some potential investors have to seek alternative export bases in the region. Shortage of skilled labor is another limitation for ASEAN countries to attract foreign investors. Asian NIEs which had already experienced and overcome these two problems, were able to sustain steady growth. They also are key factors in order for ASEAN 4 to catch up with the Asian NIEs.

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APPENDIX

In Appendix Table 1, *Financial Transfers* are defined to be *Net Capital Flows* (Gross Capital Flows – Principal Payments) minus *Investment Income Payments. Total Financial Transfers* are decomposed into *Debt-related Financial Transfers*, which cover net long- and short-term capital inflows minus interest payments, and *Other Financial Transfers* which cover net direct investment, portfolio investment, remittance of direct investment income, and official unrequited transfers.

This distinction is important, because the usual measure of financial transfers cover only *Debt-related Financial Transfers* and does not always fully capture the balance of payments situations of capital-importing countries.

Latin America

In Argentina debt-related financial flow has been negative since 1981 when interest payments almost doubled. Payment arrears which accumulated in the period 1982 – 84 were partly paid in 1985 – 86. Capital drain from Argentina is accentuated when we consider other capital transactions including direct investment, portfolio investment, dividend and official transfers. The flow has also been negative since 1985, partly due to the redemption of securities and decline of direct investment. Bonds have been issued to cancel external obligations since 1982 and long-term capital inflow mainly consists of borrowing by the Central Bank for balance of payment financing (1982 –) and rescheduled debt (1985 –).

We can observe a similar situation in Brazil. Total net financial inflow has been negative since 1982, mainly due to the large amount of interest payments which

Appendix Table 1.

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Argentina	25	−341	−199	−267	−334	−282	−8	−147	−280
	3	−438	−186	−84	−213	−222	77	47	−375
	22	97	−13	−183	−121	−60	−85	−194	95
Bolivia	13	56	62	30	41	117	128	180	190
	103	58	69	23	14	53	124	171	178
	−90	−2	−7	7	27	64	4	9	12
Brazil	687	1,403	2,749	2,528	4,449	3,608	5,315	2,392	5,639
	643	1,260	2,488	1,834	3,858	3,073	4,814	2,085	5,368
	44	143	261	694	591	535	501	307	271
Chile	−79	−149	5	20	−244	30	−167	222	1,194
	110	−48	31	22	226	−6	−173	220	1,060
	−189	−101	−26	−2	−470	36	6	2	134
Colombia	189	203	74	−35	99	−149	−115	−303	−182
	203	206	99	−49	92	−91	−6	−209	−107
	−14	−3	−25	14	7	−58	−109	−94	−75
Costa Rica	58	94	37	44	121	91	181	246	264
	33	72	23	31	94	54	147	205	231
	25	22	14	13	27	37	34	41	33
Ecuador	107	173	70	−35	−70	127	112	315	347
	29	29	40	11	22	80	184	312	379
	78	144	30	−46	−92	47	−72	3	−32
Guatemala	−11	16	4	23	36	94	173	181	291
	−12	28	29	28	47	72	213	120	207
	1	−12	−25	−5	−11	22	−40	61	84
Jamaica	57	66	35	61	83	185	−29	−81	−166
	11	9	60	109	111	235	5	−52	−79
	46	57	−25	−48	−28	−50	−34	−29	−87
Mexico	301	319	165	873	1,701	3,187	3,218	31	739
	326	317	207	895	1,811	3,184	2,806	−1,318	−53
	−25	2	−42	−22	−110	3	412	1,349	792
Peru	4	−121	37	227	872	846	986	625	−285
	98	−41	31	205	839	571	829	580	−281
	−94	−80	6	22	33	275	157	45	−4
Uruguay	28	89	26	11	113	85	83	206	21
	20	83	12	−5	91	−9	48	130	−80
	8	6	14	16	22	94	36	76	101
Venezuela	−478	−238	−656	−408	−1,311	192	182	1,490	2,544
	131	298	129	392	−112	411	630	1,823	2,663
	−609	−536	−785	−800	−1,199	−219	−448	−333	−119
Korea	733	755	369	392	1,304	1,754	1,359	732	1,114
	583	656	273	292	1,186	1,676	1,129	609	1,042
	150	99	96	100	118	78	230	123	72
Philippines	231	242	241	234	792	923	919	252	1,295
	188	169	192	112	754	745	806	174	1,232
	43	73	49	122	38	178	113	78	63
Malaysia	−19	155	144	72	341	306	79	−212	−71
	75	123	123	181	243	66	108	−129	115
	−94	32	21	−109	98	240	−29	−83	−186

NET FINANCIAL TRANSFERS

(Millions of SDR)

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Argentina	2,778	717	−1,624	−2,380	−4,672	−2,904	−2,819	−2,345	−1,531
	2,718	440	−2,760	−4,043	−5,518	−3,476	−2,782	−2,100	−1,017
	60	277	1,136	1,663	846	572	−37	−245	−514
Bolivia	216	34	270	−195	−177	−46	−257	111	191
	178	−20	209	−215	−188	−81	−273	67	115
	38	54	61	20	11	35	16	44	76
Brazil	681	2,067	2,133	−1,869	−5,100	−6,361	−10,716	−7,724	−4,580
	−501	1,129	1,104	−2,225	−4,765	−6,384	−10,182	−6,203	−3,865
	1,182	938	1,029	356	−335	23	−534	−1,521	−715
Chile	1,236	1,814	2,864	−744	−1,109	88	−650	−892	500
	1,036	1,708	2,599	−1,037	−1,145	139	−620	−1,058	−1,095
	200	106	265	293	36	−51	−30	166	595
Colombia	516	541	1,314	1,165	258	−542	650	−503	−1,532
	528	569	1,279	1,135	171	−667	18	−595	−1,209
	−12	−28	35	30	87	125	632	92	−323
Costa Rica	161	464	−16	−123	−24	−205	−64	−74	58
	145	350	−74	−155	−122	−357	−270	−206	−126
	17	114	58	32	99	152	206	132	184
Ecuador	259	353	40	216	−388	−702	−1,043	−190	212
	260	365	53	234	−401	−702	−1,059	−170	196
	−1	−12	−13	−18	13	0	16	−20	16
Guatemala	166	−102	153	239	189	173	134	−109	289
	103	−159	85	206	109	159	−47	−170	150
	63	57	68	33	80	14	181	61	139
Jamaica	−166	19	−71	70	42	153	68	−195	−73
	−90	77	−59	44	53	131	2	−194	−81
	−76	−58	−12	26	−11	22	66	−1	8
Mexico	973	3,825	13,979	−2,602	−10,945	−10,849	−10,314	−5,618	−4,864
	905	3,158	12,111	−3,728	−10,451	−10,130	−9,850	−5,530	−6,742
	68	667	1,868	1,126	−494	−719	−464	−88	1,878
Peru	−467	−322	−322	962	−186	18	−524	55	203
	−314	−259	−356	875	−298	3	−582	−62	113
	−153	−63	34	87	112	15	58	117	90
Uruguay	310	478	493	811	7	−160	−411	−227	6
	163	255	444	820	6	−180	−508	−318	−14
	147	223	49	−9	1	20	97	91	20
Venezuela	2,499	364	−1,131	−2,792	−5,582	−5,018	−4,305	−2,321	−1,180
	2,745	−422	−1,038	−4,069	−5,652	−4,731	−4,242	−2,271	−1,093
	−246	786	−93	1,277	70	−287	−63	−50	−87
Korea	3,265	2,993	1,545	821	−459	−366	−1,227	−6,085	−9,053
	3,239	2,951	1,421	845	−552	−758	−2,337	−6,532	−9,233
	26	42	124	−24	93	392	1,110	447	180
Philippines	918	1,578	1,174	1,095	−453	−404	−2,511	−1,382	−1,139
	913	1,691	1,027	1,109	−628	−575	−2,608	−1,564	−1401
	5	−113	147	−14	175	171	97	182	262
Malaysia	−534	474	1,561	2,369	1,935	789	−217	−528	−2,496
	−285	638	419	426	742	585	−6	−734	−1,361
	−249	−164	1,142	1,943	1,193	204	−211	206	−1,135

Appendix Table 1.

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Thailand	229	134	192	274	459	358	447	861	976
	144	65	102	184	278	340	378	770	858
	85	69	90	90	181	18	69	91	118
Indonesia	226	310	330	169	−621	−791	734	−435	−191
	205	295	407	600	441	−118	1,412	726	1,045
	21	15	−77	−431	−1,062	−673	−678	−1,161	−1,236

Source: IMF *Balance of Payments Statistics.*
Note: upper: total net transfers, middle: debt-related financial transfers, lower: other financial transfers.

range from 9 to 11 million SDR annually and to a scarcity of new money inflow in Brazil. Other financial transfers have also been negative since 1982, except for 1984, thus accentuating a net outflow of debt-related capital.

Interest payment burden is also serious in Mexico. There is an outflow of more than 10 billion SDR related to external debt, although a large amount of loans for the support of the balance of payments was drawn in 1983 – 84. Non-debt capital movement also became negative in 1983 – 86 due to the purchase of US securities by Mexican residents and decrease in direct investment in Mexico, although the latter recovered actively in 1987.

A peculiarity of the debt structure in Venezuela was the high dependence on short-term credit. In 1980, the short-term debt accounted for 52.7% of the total debt stock. Venezuela managed a short-term financing by a current account surplus, in reborrowing long-term credit for repayments of short-term debt, or by the reduction of the foreign exchange reserve. The reverse oil shock in 1986 resulted in the current acount becoming negative, while the long-term and short-term financial flows were also negative, thus requiring maximal reserve reduction. It is obvious that such a situation cannot continue. More importantly, the creditworthiness of Venezuela based only on fuel resources is being reconsidered. It seems that all of these factors required the implementation of an austerity policy when the new government came in power, which brought about a violent public reaction.

Also in Chile and Colombia debt-related financial flows are basically negative. However the situation of external debt is relatively sound in these two countries. Colombia is the only country in Latin America which has never experienced debt rescheduling and interest payments and principal repayments are regularly made. Colombia has been considered to be creditworthy due to its resource endownment and the government commitment not to reschedule the debt, which enabled Colombia to receive continued lending. International financial institutions also provided an important support.

The problems faced by Chile were similar to those of other Latin American countries, namely large interest payment obligation and sharp decline of long-term capital provided, which forced Chile to reschedule a part of its foreign debt in 1984.

(continued)

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Thailand	1,256	1,272	1,399	448	1,150	1,339	226	−1,334	−361
	1,060	971	1,033	120	620	713	−899	−1,653	−850
	196	301	366	328	530	626	1,125	319	489
Indonesia	−1,149	−1,292	−803	2,483	2,327	−487	−1,709	971	−214
	448	862	1,639	4,942	4,810	1,880	106	1,591	576
	−1,597	−2,154	−2,442	−2,459	−2,483	−2,367	−1,815	−620	−790

But in 1986– 87 portfolio investment in Chile increased markedly and a non-debt net capital inflow was reversed and became positive. After 1985 Chile reduced its outstanding debt through a debt-equity swap operation and the debt-buyback scheme, recently.

In contrast, external debt management has been very drastic in Peru. Payments arrears had accumulated since 1983 and new long-term inflow practically disappeared. As for the non-debt capital movement, sustained inflow of official transfer offsets a reduction of direct investment. Interofficial transfer, or grants are also important for Bolivia, Costa Rica, Ecuador, Guatemala and Jamaica.

East and Southeast Asia

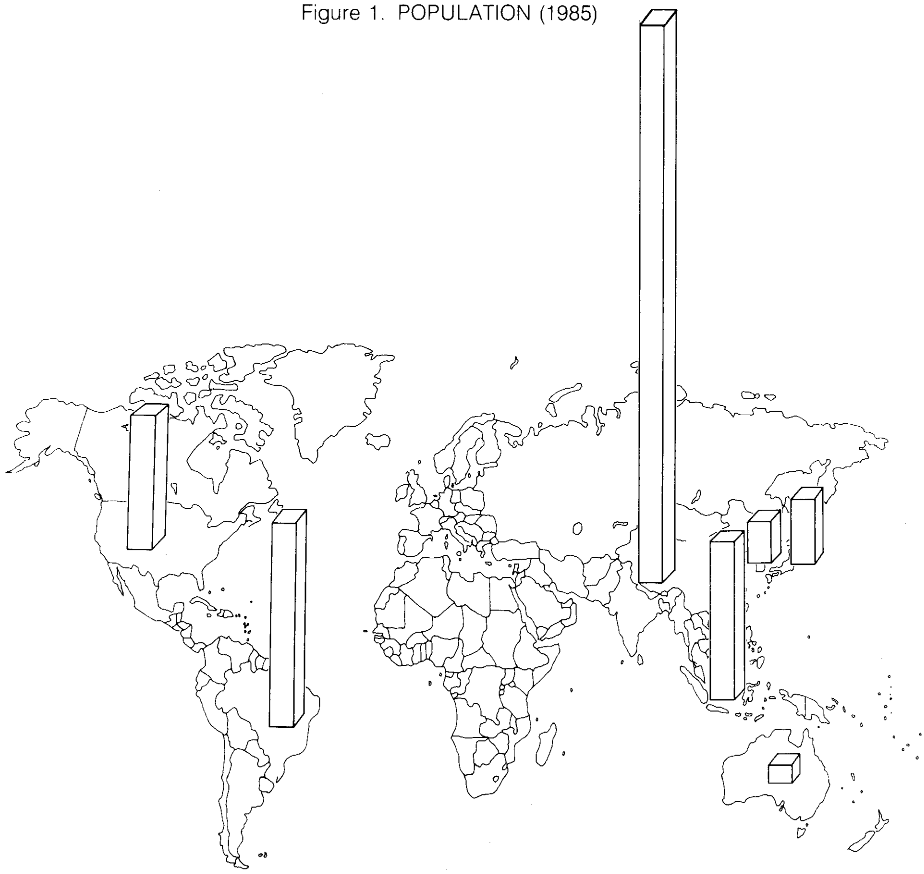
The East and Southeast Asian developing countries were also hit by the same changes in the international economic environment and they also had to honor their debt service obligation.

The most successful case is that of Korea. Korea was able to service its debt without interruption in 1981–83, while at the same time increasing borrowing from the World Bank, Japan and the United States. But the recent strong export growth made it possible for Korea to almost double repayments, without increasing borrowing. Non-debt financial flows have been positive since 1983, partly due to the expansion of portfolio investment (1983–85) and direct investment in Korea (1985–).

The increase of interest payments was rather moderate in Malaysia and Thailand. These countries were able to continue debt servicing, supported by sufficient borrowing until 1984, from the World Bank, Hong Kong and ADB in Thailand, and in Malaysia from the World Bank and Japan especially. Since 1985 up to now, the two countries have increased further debt repayments, while reducing financing from abroad.

In the Philippines grant aids received from the U.S. government as a rent for the military bases have been a very important element in the non-debt financial

Figure 1. POPULATION (1985)



(millions)

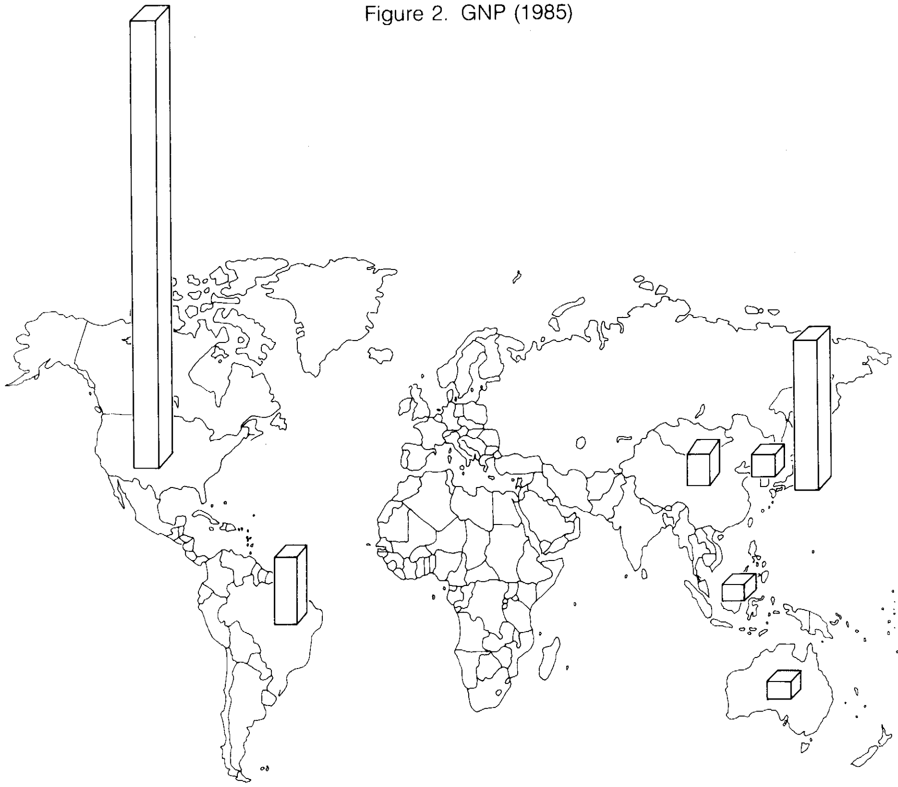
	NIES	ASEAN	JAPAN	OCEANIA	N.AMERICA	CHINA	L.AMERICA
Population	68.1799	285.42	120.75	19.01	239.28	1050.4	367.74

Source: IMF, **International Financial Statistics**

inflow, in addition to the increase of direct investment since 1986. Financial flow of debt category has been negative since 1983 because it does not cover a total of interest payments and repayments in spite of the sizable amount of loans extended to the Philippines.

Indonesia is a particular case. Although debt-related capital flows were always positive, the total net capital flows sometimes became negative, because remittances of direct investment income, mainly from the oil sector, were considerably large.

Figure 2. GNP (1985)

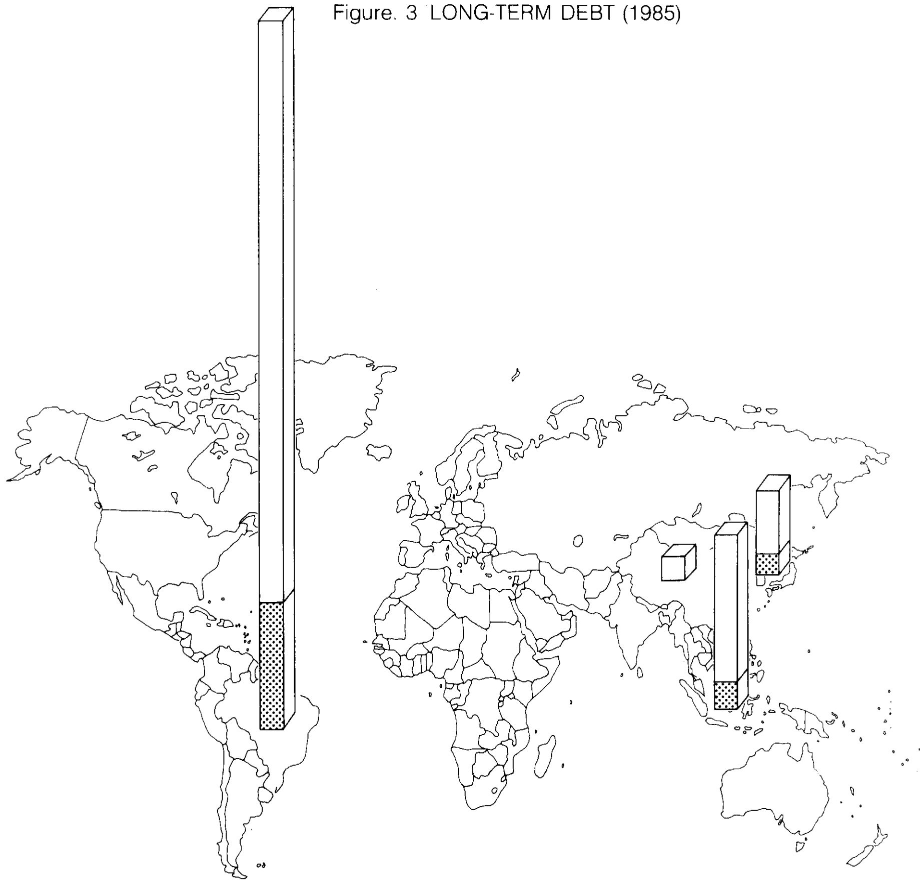


(US$ millions)

	NIES	ASEAN	JAPAN	OCEANIA	N.AMERICA	CHINA	L.AMERICA
GNP	196083	179177	1329974	174359	4013300	283373	611290
per capita	2876	628	11014	9172	16772	270	1662

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

Figure. 3 LONG-TERM DEBT (1985)



Private Non-guaranteed

(US$ millions)

	NIES	ASEAN	CHINA	L.AMERICA
Long-Term Debt	38062	78695	10303	315905
Private Nonguaranteed	7959	13138	0	55252
LTD/GNP	0.194116	0.4392025	0.0363584	0.5167841
Debt Outstanding per capita	558.25837	275.71648	9.8086443	859.04443

Source: World Bank, **World Debt Tables**, various issues