Chapter V

Economic Forecasts of NIEs

Trends in Exports

Assuming the conditions outlined in Chapter 4, the exports of goods and services from the NIEs are expected to continue strong in the future, but to gradually decline in the rate of growth. The rate of growth of exports of South Korea should remain at the double digit level up to 1998, then move at around 8 percent. Domestic exports of Singapore should start recovering in the second half of 1997, then grow by an average annual 11 percent. The rate of growth of exports of Hong Kong was a low level of 4.8 percent in 1996, but is expected to rise to 8 to 9 percent later.[10] Exports of Taiwan should grow by an average 6 percent a year or the same rate as the growth of global trade. Table 4 shows the actual rates of growth of exports of goods and services from the NIEs (average annual rates of growth for 1986 to 1995) and the average annual rates of growth of the assumed exports for different time spans. Table 4 also shows the rates of growth of exports of goods and services from other East Asian countries.

Most of what South Korea exports consists of items competitive with the products of the industrialized countries such as heavy machinery, chemicals, and semiconductor memory chips. From this viewpoint, if South Korea achieves higher growth, it will enter a stage of development where incomes rise and, simultaneously, wages are increased and therefore competitiveness with the industrialized countries falls.

The reason why Singapore and Hong Kong have achieved high rates of export growth among the NIEs is the role of the two economies as centers for trade and business for the surrounding countries. The ASEAN4 and China are in the early stages of economic development in East Asia and, as mentioned later, are projected as enjoying high rates of growth in the future as well. The ASEAN4 form the hinterland for the continued high level of economic growth of Singapore and China constitutes the same for Hong Kong. This should support the higher rise of exports of the two economies in the next 10 years.

Table 4. Annualized Expansion of Rates of Real Exports of Goods and Services of East Asian Economies

(%)

	1986-1995	1996-2000	2001-2005	1996-2005
South Korea	13.2	10.6	8.5	9.5
Taiwan	9.1	6.5	6.0	6.2
Hong Kong [2]	15.1	8.2	8.7	8.5
	(8.5)	(5.5)	(6.7)	(6.1)
Singapore [3]	16.5	10.1	11.0	10.5
Malaysia	15.0	12.2	13.0	12.6
Thailand	17.0	9.0	12.0	10.5
Indonesia	9.6	9.6	11.0	10.3
Philippines	9.8	17.6	15.1	16.3
China	14.4	14.6	12.0	13.3

Notes: (1) Figures for 1986-1995 are annualized expansion rates of actual figures. Annualized expansion rates for periods after 1996 are calculated from assumed or forecasted figures by the PAIR project team, IDE.
(2) For Hong Kong, figures in the first row are growth rates of total exports of goods and services. The figures in ( ) are growth rates of "theoretical" exports of goods and services, i.e., domestic exports + "theoretically" Hong Kong's value-added portion of re-exports + service exports).
(3) For Singapore, only domestic exports of commodities are counted.

The conversion of the Taiwanese industrial structure to heavy machinery and chemicals differs from that in South Korea where private large companies (chaebol) play a central role and has been achieved through the promotion of publically run companies. Therefore, private industry in Taiwan is more diversified than in South Korea and is made up of small and medium sized enterprises. On the one hand, this meant that Taiwan failed to benefit that much from the 1995 boom in the semiconductor memory industry due to 16 mega bit chips (South Korea enjoyed 9.0% economic growth in 1995 due in part to memory production by its large companies), but on the other hand kept the impact of the 1996 recession in semiconductor memories on Taiwan light. Considering the structure of Taiwanese industry, that is, the groups of small businesses, Taiwanese exports are assumed as growing by an average annual 6 percent starting in 1998 – the same rate of growth as world trade.

South Korea to Suffer From Problems in Foreign Balance

Table 5 and Figure 5 show the results of forecasts of economic growth in the NIEs from 1996 to 2005. Table 6 shows the average annual growth rates for the NIEs for 1986 to 1995, 1996 to 2000, 2001 to 2005, and 1996 to 2005. Table 7 shows the rate of inflation in the NIEs in the same time frames.

One of the main economic problems which South Korea faces is its tendency to run deficits on its foreign balance (trade and current account). In 1996, South Korea suffered its worst trade and current account deficits ever – US$15.3 billion and US$23.7 billion. There are basically two policy measures which can be taken against such a deficit on the foreign balance. One is the devaluation of the South Korean won. The other is the suppression of imports by calming domestic demand. The former policy, as seen in Figure 3, would be difficult to adopt in view of the fact that the won has already been devaluated against the U.S. dollar down to the 1985 level and an increased inflow of foreign currency is expected along with the internationalization of the financial market pledged upon membership in the OECD. That is, the only way to deal with the deficit on the foreign balance is to tighten up on fiscal and monetary policies and cool down domestic demand.

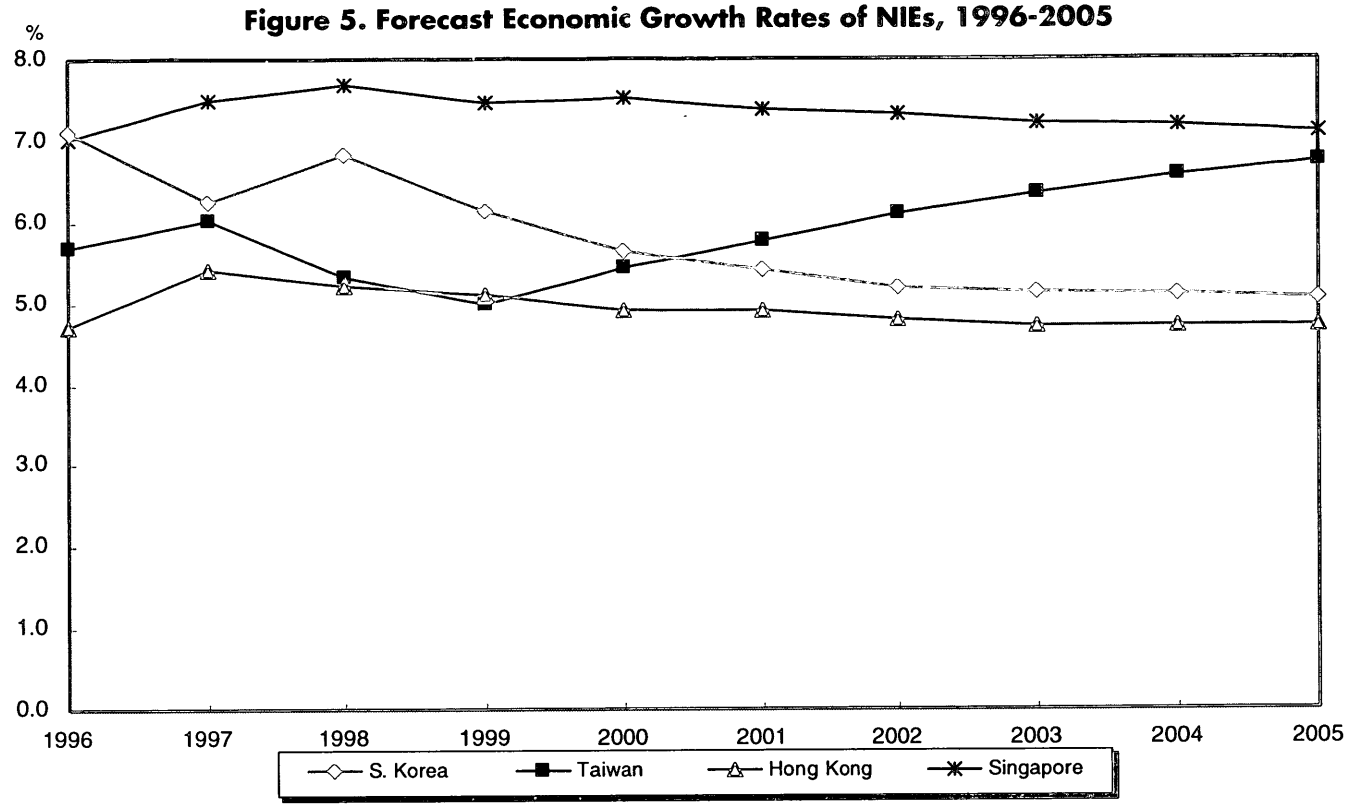
Reflecting the policy against the deficit on the foreign balance and the recession in semiconductor memories, the rate of economic growth in South Korea will fall to 6.2 percent in 1997 for a continued decline as in the previous year. In 1998, the semiconductor memory industry should recover in strength causing investment to pick up and economic growth to return to 6.8 percent. The fiscal austerity measures taken to improve the foreign balance will probably be continued in 1998 on as well. As shown in Table 5, the South Korean rate of economic growth will continue to fall up to 2005.

Table 5. Forecast Economic Growth Rates (GDP) of East Asian Economies, 1996-2005 (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
South Korea	7.1	6.2	6.8	6.1	5.6	5.4	5.2	5.1	5.1	5.0
Taiwan	5.7	6.0	5.3	5.0	5.4	5.8	6.1	6.4	6.6	6.7
Hong Kong	4.7	5.4	5.2	5.1	4.9	4.9	4.8	4.7	4.7	4.7
Singapore	7.0	7.5	7.7	7.5	7.5	7.4	7.3	7.2	7.2	7.1
NIEs(2)	**6.3**	**6.2**	**6.3**	**5.8**	**5.7**	**5.6**	**5.6**	**5.6**	**5.7**	**5.7**
Malaysia	8.2	7.8	7.8	7.6	7.6	7.6	7.5	7.4	7.4	7.4
Thailand	6.2	4.4	6.5	7.5	8.2	8.5	7.8	7.7	7.7	7.7
Indonesia	7.8	7.5	6.8	8.2	9.6	10.7	10.3	10.5	6.4	9.0
Philippines	5.5	6.4	6.8	7.2	7.6	7.7	7.8	7.8	7.7	7.8
ASEAN4(2)	**7.0**	**6.4**	**6.9**	**7.7**	**8.6**	**9.1**	**8.7**	**8.8**	**7.1**	**8.2**
China	9.7	10.3	9.8	9.6	9.1	9.0	8.9	8.5	8.4	8.4
East Asia(2)	**7.6**	**7.6**	**7.6**	**7.6**	**7.6**	**7.7**	**7.6**	**7.5**	**7.1**	**7.3**

Notes: (1) Figures for 1996 are actual or government estimates except for Thailand and the Philippines, for which estimates by the PAIR project team are adopted.
(2) Figures for 1997-2005 are forecast figures of the PAIR project, IDE.
(3) For group GDP, 1996 fixed US dollar denominated GDP of each country or region are added. Growth rates of groups are those of these GDP.

Figure 5. Forecast Economic Growth Rates of NIEs, 1996-2005



Note: Figures are from Table 5.

Table 6. Annualized Economic Growth Rates (GDP) of East Asian Economies

(%)

	1986-1995	1996-2000	2001-2005	1996-2005
South Korea	8.8	6.4	5.2	5.8
Taiwan	7.9	5.5	6.3	5.9
Hong Kong	6.5	5.1	4.8	4.9
Singapore	8.5	7.4	7.2	7.3
NIEs	8.1	6.0	5.6	5.8
Malaysia	7.7	7.8	7.4	7.6
Thailand	9.4	6.6	7.9	7.2
Indonesia	7.8	8.0	9.4	8.7
Philippines	3.4	6.7	7.8	7.2
ASEAN4	7.5	7.3	8.4	7.9
China	9.9	9.7	8.6	9.2
East Asia	8.5	7.6	7.4	7.5

Note: (1) Refer to the footnotes of Table 5.
(2) These are two ways to express a period for which an annualized growth rate is calculated. For example, when it is calculated for the last decade; 1985 is time=0, 1986 is time=1, ..., and 1995 is time=10. The one way to express this ten year period is "1985-1995" and another is "1986-1995." In this report, the latter way is adopted to express a period.

Table 7. Annualized Inflation Rates (GDP Deflator) of East Asian Economies

(%)

	1986-1995	1996-2000	2001-2005	1996-2005
South Korea	6.4	4.8	4.7	4.8
Taiwan	2.7	3.0	3.0	3.0
Hong Kong	8.1	5.1	4.2	4.7
Singapore	3.2	2.6	2.7	2.6
NIEs	4.8	3.9	3.8	3.9
Malaysia	3.0	3.8	3.7	3.7
Thailand	4.6	5.3	5.2	5.3
Indonesia	8.1	6.9	6.2	6.6
Philippines	9.0	6.9	6.8	6.8
ASEAN4	5.9	5.5	5.2	5.4
China	9.7	7.6	6.6	7.1
East Asia	6.1	5.4	5.2	5.3

Notes: (1) Refer to the footnotes in Table 5.
(2) Inflation rates of groups are weighted average of those corresponding economies. Weights are US dollar denominated 1996 GDP.

Focus in Taiwan Will Be Investment Trends

In stark contrast to South Korea, Taiwan enjoyed a large surplus in its trade and current account balance in the mid-1980s to the 1990s. In other words, Taiwan has been a major supplier of investment in the world. This can be said to show that private investment has its own domestic cycle in Taiwan. The rate of growth of investment in Taiwan will fall in 1998 and 1999 but should bottom out in 1999 and then start rising. The fluctuations in the projected rate of growth of investment can be said to reflect the friction which will occur when the major public companies in Taiwan's heavy machinery and chemical industries and financial industry are privatized over the seven years from 1995 and the later rise in efficiency. Reflecting these investment trends, Taiwan's economic growth rate, as shown in Table 5, will bottom out in 1999 and then pick up in speed of increase.

Hong Kong to Achieve 5% Growth

Hong Kong will achieve an economic growth rate in the 5 percent range from 1997 to 1999 as shown in Table 5. This will be due to the continued investment in infrastructure such as the construction of the new airport and the double-digit growth in trade of China through Hong Kong. The two should start calming after 2000 however. Therefore, the rate of economic growth in Hong Kong will drop to under 5 percent from 2000 to 2005 as shown in Table 5.

Singapore to Achieve 7 Percentile Growth

The economic growth rate of Singapore from 1997 to 2005 is expected to fluctuate from 7.1 percent to 7.7 percent (see Table 5). The average annual growth rate in the next 10 years from 1996 to 2005 is projected to be 7.3 percent. This represents

a slowdown of over 1 point compared with the 8.5 percent rate of average annual growth in 1986 to 1995 (see Table 6).

Singapore has never allowed itself to be hampered by limited domestic supplies of capital or labor and in the past has introduced both from overseas when necessary. In view of this, Yamaji (1997) has constructed a supply oriented model where supplies of factors of production (capital and labor) are not restricted by domestic resources for Singapore. In this supply oriented model, labor is determined from the demand side so as to allow the growth rate of labor demand to be simultaneously projected with the rate of economic growth in this model. By comparing and studying the projected rate of increase of labor demand with the actual past rate of increase in employment, it is possible to take into account the possibility of realization of the rate of economic growth forecast by this supply oriented model.

The average annual rate of growth of Singapore for 1996 to 2005 shown in Table 6 is 7.3 percent. The rate of increase of labor demand corresponding to this rate of growth is an annual 3.2 percent for the same period. Since the rate of increase of employment in Singapore in the 10 years from 1986 to 1995 was 3.3 percent, in so far as the government policy with regard to the entry of foreign workers in the labor market does not change, the average annual rate of economic growth of 7.3 percent can be achieved from 1996 to 2005.[11)]

According to Table 6, the average annual growth rate of the NIEs for 1996 to 2005 is forecast as reaching 5.8 percent or 2.3 points below the 8.1 percent rate for the previous 10 years. According to Table 7, the rate of inflation of the NIEs for 1996 to 2005 is projected as 3.9 percent. This is approximately 1 percent below the 4.8 percent annual rate for the previous 10 years. Prices will therefore stabilize in the future.

Notes

10. These figures are for overall exports (domestic exports + re-exports + services).
11. Yamaji's (1997) Singapore model does not take into consideration the quality of the labor and capital. Considering the past improvements in the level of education in Singapore and measures to promote foreign direct investment in Singapore, where only potentially profitable investments can continue, economic growth in the annual average 7 percent range is said to be more plausible from 1996 to 2005.