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**Dynamism and Expansion of the Economies of the
Pacific Rim (White Paper on International Trade
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(White Paper on International Trade 1989)**

1. This is an English translation of the chapter on "Dynamism and Expansion of the Economies of the Pacific Rim" in the "White Paper on International Trade 1989".
2. The "White Paper on International Trade" is an annual Japanese Government report published by MITI analyzing international trade trends.

Section 3: Dynamism and Expansion of the Economics of the Pacific Rim

(Economic and Trade Structures in the Pacific Rim)

Japan and the Asian NIEs in the Pacific Rim have maintained high economic growth since the 1960s. Especially after the beginning of the 1970s, the rate of growth in Asian NIEs has accelerated, whilst that of the Japanese economy has slowed somewhat. Following in the footsteps of Asian NIEs, the ASEAN countries and China also experienced rapid economic growth after the 1970s.

The trade structures of the Pacific Rim nations are characterized by strong ties among regions. Figure 3-17 indicates the degree of export ties within the Pacific Rim regions and those with the EC. The degree of export ties between two countries indicates the relative weight of exports from country A to country B in country B's total import ratio to world trade, which is an index for the strength of trade relations between two countries. While the degree of exports ties among the Pacific Rim nations is generally high, that of the Pacific Rim nations with the EC is low in both directions. It is also known that (1) Japan is strongly tied to other Asian countries, reflecting Japan's role as a capital-furnishing country; (2) Asian countries are more strongly tied to Japan than they are to the United States through their exports, and Japan contributes significantly as an absorber of exports from the other Asian countries; (3) Asian NIEs are strongly tied to the ASEAN countries and China, and vice-versa, and they are increasingly providing markets to each other; (4) Even with their strong historical ties with Britain, Australia and New Zealand are more strongly tied to the Asian nations through their exports than they are to Britain, and their trade relations with the Asian countries are becoming stronger. As such, the Pacific Rim nations are strongly tied through trade. At the same time, however, their relations are characterized by a dynamic nip-and-tuck race, and this stimulation through keen competition is serving as a major factor for the high economic growth in the Pacific Rim nations (Figure 3-18).

(Structural Changes and the Deepening Division of Labor in the Asian NIEs)

The Asian NIEs are now experiencing a rapid expansion in their domestic demand levels. Taking Korea and Taiwan as examples, an analysis of the relative prices of color TVs and automobiles to the average monthly wages of workers (automobile or color TV prices divided by the average monthly wage of workers) (Figure 3-19) indicates the following facts: (1) The relative prices of these two commodities have continued to drop. In 1974 the prices of color TVs were higher than the equivalent of eight months of the average wage of workers in Taiwan. However, in 1987 a color TV cost slightly more than the one month's average wage. (2) Along with the fall of relative prices, the rate of ownership of these commodities is sharply increasing. The ownership-rate of color TVs in Taiwan is even higher than that of Japan. Such increased consumption levels suggest that the results of the sustained period of economic growth are gradually penetrating into people's lives and the scheme of economic growth has shifted from one dependent on external demand to one led by domestic demand.

In regard to the contribution ratio of the exports of the Asian NIEs by region (Figure 3-20), Japan's contribution ratio is steadily increasing, and, in fact, the Japanese contribution ratio exceeded that of the U.S. in 1988. Japan has clearly contributed as an absorber of exports of the Asian NIEs. Moreover, exports of Asian NIEs have been rising sharply and their exports within the region exceeded those to the U.S. in 1988.

The import value of electric home appliances in Taiwan (Figure 3-21) showed a 58.8% increase in 1988, reflecting the steady expansion of the durable goods market in Taiwan. With this rapid increase in imports, the region's import structure has undergone a gradual change. For instance, Japan's share of the total imports of Taiwan dropped sharply in 1987 and 1988, whereas the share, as well the value, of imports from the U.S. have rapidly increased. Also, imports from Asian NIEs and ASEAN countries have also shown a significant rise. As for exports, the total amount of exports showed a decline when compared to the previous year. Under the rapid deterioration in the export environment, such rapid export expansion as Taiwan experienced previously has ended. There are also regional differences in exports. Exports to the U.S. have remained level while exports to Japan, Asian NIEs and ASEAN countries have sharply increased.

(Rapid Industrialization and Establishment of a New Form of Division of Labor in ASEAN Countries)

In ASEAN countries, the ratio of industrial goods to total exports has expanded sharply since 1986. In 1988, industrial products accounted for 57% and 44%, respectively, of the total exports of Thailand and Malaysia. By extricating national economy from export structures that depend strongly on oil and primary products, the degree of dependency on the price fluctuations of these export items has diminished, and thus economic stability has increased.

In addition, by exporting industrial products, which have a higher demand elasticity among export goods, it can be expected that exports will grow as the world economy expands.

The amount of foreign capital accepted by ASEAN countries also shows a rapid increase (Figure 3-22). It is also noticeable in recent years that Asian NIEs have expanded their direct investments in ASEAN nations in the process of their economic structural adjustments (Table 3-23). The amount of direct investment made by Asian NIEs is greater than that of Japan and the U.S. in Malaysia, Indonesia and the Philippines. It is obvious that Asian NIEs are playing increasingly important role capital-furnishing countries to ASEAN countries.

Exports of ASEAN countries by region (Figure 3-24) indicate that the Japanese contribution rate is greater than that of the U.S. Excluding mineral fuels, Japan's contribution rate has been rising steadily since 1975. Japan serves as an absorber of exports of ASEAN countries as well. Furthermore, exports headed for Asian NIEs are increasing at a rapid pace. Asian NIEs are the second-largest market for ASEAN countries, and in 1988 their contribution rate recorded the highest figure among all regions, including Japan. Moreover, the goods exported from ASEAN countries have also changed. Traditionally, the primary export items of ASEAN countries to Asian NIEs were primary goods and mineral fuels. In recent years, however, the share of industrial goods is rising sharply (10.5% in 1970, 43.1% in 1986). Such an increase in exports of industrial goods from ASEAN countries to Asian NIEs suggests that the division-of-labor relationship between ASEAN countries and Asian NIEs has gradually shifted from an interindustrial division of labor, which is an exchange of industrial materials and industrial products, to an intra-industrial division of labor, which is a mutual exchange of varied industrial products.

The trade of electric machinery in Malaysia illustrates well the trade structures of ASEAN countries (Figure 3-25). Malaysia's trade in semiconductor devices and super-small ICs by region show that, for the U.S., exports largely exceeded imports, supporting the fact that Malaysia is playing a role as a semiconductor supplier to the U.S. Meanwhile, exports of these products headed for Asian NIEs are also increasing. It is worth noting that Malaysia is serving as a semiconductors supplier for Asian NIEs. On the other hand, imports of super-small ICs from ASEAN countries exceed exports in marked contrast to other regions. The amount of IC imports from ASEAN countries has reached almost the same level of imports from the U.S. and Asian NIEs. Based on these data, it can be said that the division of labor based on the manufacturing process is being formed for super-small ICs, and even for electric machinery as a whole, within ASEAN countries.

For each region, Malaysia's imports of semiconductor devices and cathode-ray tubes for TVs exceeded exports of these products. Thus, it is known that the electric machinery industry in Malaysia is largely dependent on imported parts. In particular, exports of super-small ICs headed for the U.S. and imports of parts for semiconductor devices from the U.S. have shown a similar trend, reflecting the structure in which Malaysia imports parts from the U.S. and exports finished products to the U.S. Changes in imports by region also indicates an interesting shift. As imports of cathode-ray tubes from Japan have slowed down, those from Asian NIEs have shown a significant increase. This means the change in parts-supplying countries due to changes in price competitiveness stemmed from exchange rates and the improve quality of products made in Asian NIEs.

Changes in electric-machinery exports from Malaysia to ASEAN countries (Figure 3-26) show that semiconductors and parts for TVs and radios are rapidly expanding for all ASEAN nations. This reflects the fact that a parts-supplying network is being established within the ASEAN region. Exports of TVs and radios are also expanding, and the trade of finished goods among ASEAN countries is becoming more brisk.

As such, the trade structure of the ASEAN countries used to be a vertical one governed by an interindustrial division of labor with advanced countries. Recently, however, with the development of an intra-industrial division of labor within Asian NIEs and ASEAN countries, their trade has gained a more stratified structure. This deepening relationship of mutual dependency among ASEAN countries suggests that the economic structures of Asian countries are becoming more independent.

(China's Open Economic Policy and Stronger Ties to Asian Countries)

China has been expanding its indirect trade with Korea.

The following problems still remain to be solved in order to achieve stable development in the Pacific Rim nations. First, smooth capital circulation is necessary. In the Pacific Rim regions, the U.S., Canada, Australia, and New Zealand are suffering from a shortage in savings, and, thus, are depending on foreign-capital imports. Under such circumstances, Japan's role in supplying stable capital to the Pacific Rim nations is becoming increasingly important. It is necessary for Japan to actively promote economic cooperation through Official Development Assistance (ODA) and other governmental measures. Moreover, Japan is expected to provide a wide variety of assistance and cooperation to the Pacific Rim nations, including the promotion of infrastructure improvement, human-resource development to

support a solid foundation of economic development, the facilitation of smooth development and the efficient utilization of energy, and the fostering of supporting industries.

There is an imminent industrial process in which developing countries stimulate the industrialization of underdeveloped countries through the expansion of their domestic markets and the shift of the intra-industrial division of labor associated with the sophistication of the industrial structure and capital transfers available. This reflects the fact that it is indispensable for developing countries to make optimum use of such relative advantages as the inexpensive labor of developing nations in improving the performance of their domestic industries in order to maintain or even strengthen their international competitiveness. Recently, such a favorable cycle of mutual stimulation for industrialization has emerged in Asian countries. In this sense the Pacific Rim nations have become a yardstick for growth in the international economy. This mutual-stimulation process is progressing through the action of the price mechanism and is based on the free transfer of goods and capital. Therefore, the most critical role Japan should play in the development of the Pacific Rim nations is to maintain the free trade system and maintain the GATT and IMF systems, which are preconditions for the continuing development of growth.

The Japanese economy is increasingly important to the Pacific Rim nations. There are rising expectations for Japan's massive economic power to provide capital, managerial resources, and technology. This is why the other Asian countries are urging Japan to aggressively promote economic cooperation through ODA and other forms of financial assistance. On the other hand, it is expected that Japan should assume the role as an absorber in the Pacific Rim nations by providing a huge open market. Now that the United States is being forced to amend the constitutional weakness of its economy based on excessive consumption, Japan, for its part, is expected to continue to facilitate domestic-demand expansion. Japan should contribute to the stable and balanced development of Asian countries and the Pacific Rim nations through both supply-and-demand activities.