THE DEVELOPING COUNTRIES OF EASTERN ASIA: 1

Bulletin articles on developments in the international economy do not usually refer in any detail to the less developed countries, instead focussing mainly on New Zealand's major trading partners. This article and a forthcoming companion article attempt to redress this imbalance somewhat by discussing the major developing economies of the eastern Asian region — The People's Republic of China, Hong Kong, South Korea, Taiwan and the members of ASEAN[1], namely Indonesia, Malaysia, the Philippines, Singapore and Thailand. The intention is not to discuss opportunities for increased trade between New Zealand and these countries — although to a certain extent they follow from the growth and development prospects of the Asian economies; nor is it to attempt to draw lessons for New Zealand from the experience of these countries — some may be implied, but a more careful analysis is required than is possible here. Rather, the aim is simply to provide some reasonably broad-ranging background information on economies which are becoming increasingly important to New Zealand and to the world economy.

After some general comments on the developing countries of eastern Asia as a whole, this first article provides a broad-brush picture of the development, current economic situation and prospects of South Korea, Taiwan, Singapore and Hong Kong. The other five countries will be considered in the subsequent article. The four countries covered here make up a convenient sub-group in that they comprise the 'newly industrialising countries' (NICs) of the region. They have followed broadly similar development strategies, emphasising the exporting of manufactured goods, and have recorded the fastest economic growth rates in the region.

Table 1 shows how the developing countries of eastern Asia have become increasingly important trading partners for New Zealand over the last decade. In the year to June 1983, exports to the nine countries considered totalled just over $1 billion, amounting to 13.9 per cent of total exports compared to 5.6 per cent of total exports in 1972. Exports to this group of countries grew at an average annual rate of 23 per cent over this period, compared with a 14 per cent average annual growth for all New Zealand exports.

Imports from these countries totalled $900 million in the year to June 1983, 14.5 per cent of total imports compared to 3.9 per cent in 1972. Much of the increased share of imports from these economies is accounted for by only two countries, Singapore and Indonesia. Imports from Singapore increased from 0.7 per cent of total imports to 6 per cent, and imports from Indonesia increased from 0.1 per cent to 3.5 per cent of total imports. A large proportion of this is oil. Most of the rest of the increase in the group's import share is accounted for by South Korea and Taiwan.

A third feature of New Zealand's trade with these countries over the last decade is that the balance of trade for the group as a whole, and for most members of it, has been in New Zealand's favour. The exceptions are Singapore, Indonesia (since 1979) and Hong Kong (in the most recent year). There is no necessary economic reason why trade between two countries or groups of countries should balance, but such two-way imbalances are nevertheless frequently the focus of international politics and trade diplomacy — particularly when trade barriers are perceived to be important. Further expansion of New Zealand's exports to the eastern Asian region may be partly dependent, in some cases, on easier access for imports from those countries.

Closely related to the growing share of New Zealand and world trade accounted for by the Asian developing economies is the fact that these countries have achieved considerably higher rates of growth in real GNP and real per capita GNP than most other countries. Table 2 sets out the populations, GNPs and growth rates for the nine Asian economies considered.

During the 1970s only Middle East and Latin American developing countries achieved similar or

1 The Association of South East Asian Nations

TABLE 1
ASIAN DEVELOPING COUNTRIES: TRADE WITH NEW ZEALAND
(1972 figures are for the calendar year; 1983 figures are for the June year)

	% of Total Exports 1972	% of Total Exports 1983	Exports ($m.) 1983	% of Total Imports 1972	% of Total Imports 1983	Imports ($m.) 1983
China	0.2	2.4	173.9	0.5	0.6	39.2
Hong Kong	0.8	1.5	109.6	1.6	1.9	119.2
Indonesia	0.2	1.8	133.9	0.1	3.5	215.8
Malaysia	1.1	1.5	106.2	0.6	0.3	20.9
Philippines	1.3	1.2	83.8	—	0.1	6.1
Singapore	0.8	2.0	148.9	0.7	6.0	371.4
South Korea	0.2	1.5	108.2	0.1	0.9	58.3
Taiwan	0.4	1.4	99.1	0.2	1.0	60.3
Thailand	0.6	0.6	46.8	0.1	0.2	10.2
	5.6	13.9	1,010.3	3.9	14.5	901.4

Source: RBNZ, IMF Direction of Trade Statistics.

TABLE 2
ASIAN DEVELOPING COUNTRIES: POPULATION, GNP AND GROWTH

	Population (millions) Mid 1981	GNP (US$b.) 1981	GNP per Capita ($US) 1981	Average Annual Growth Rates: Population 1970–1980	Average Annual Growth Rates: Real Per Capita GNP 1970–1980
China	991.3	299.8	300	1.5	4.1
Hong Kong	5.2	26.3	5,100	2.3	7.2
Indonesia	149.5	78.8	530	2.4	4.8
Malaysia	14.2	26.1	1,840	2.5	5.1
Philippines	49.6	39.0	790	2.7	3.7
Singapore	2.4	12.8	5,240	1.5	6.7
South Korea	38.9	66.1	1,700	1.7	7.5
Taiwan[1]	17.6	38.2	2,160	2.0	7.3
Thailand	48.0	36.9	770	2.6	4.2

Source: World Bank Atlas, 1981, 1983.
[1] Figures for *Taiwan* are for 1980 and the period 1970–1979.

better growth rates. But more recently, weaker oil markets and external financing problems have constrained the performance of these economies, so that the developing countries of eastern Asia have become clearly the fastest growing region. The prospect for the rest of the 1980s is for this to continue, albeit at slower growth rates than achieved in the past.

SOUTH KOREA

The thrust of development strategy in Korea has always been outward looking, centred on rapid growth in the production of manufactured goods for export. After the Korean war, the growth performance of South Korea has been remarkable, with real growth averaging 8.6 per cent per annum in the 1960s and 9.5 per cent in the 1970s (7.5 per cent on a per capita basis, as shown in table 2). Korean exports have increased from around US$40 million in 1961 to almost US$21 billion in 1982, an average annual increase of 33 per cent. About 94 per cent of exports in 1982 were manufactured goods. Exports and imports taken together now amount to over 90 per cent of GNP compared to about 24 per cent in 1962.

The Korean Government played a key role in this development process, using selective fiscal and credit policies to channel resources to the priority sectors identified in successive development plans. Korea's first Five Year Development Plan was implemented in 1962, and the Fifth Five Year Plan, which in many ways reflects a marked change in the Government's role, runs from 1982–1986. As an indication of the extent and rapidity of the reallocation of resources, agriculture, forestry and fishing now contribute only about 18 per cent of GNP compared to 39 per cent in 1961, while the manufacturing sector now accounts for 36 per cent of GNP compared to 15 per cent in 1961.

The choice of an export-oriented growth strategy, originally concentrating on labour-intensive manufactured goods such as light consumer products, was conditioned by two factors: firstly, South Korea is a relatively small country with limited areas of arable land and few natural resources, but with relatively abundant labour; and secondly, in the years following the Korean war, income levels were so low that the size of the domestic market was thought to be too small to guarantee the optimal use of modern machinery. By the early 1970s, however, some change in emphasis was considered necessary if high growth rates were to be maintained. Tighter labour market conditions were pushing up real wages, reducing the competitiveness of Korean exports, and it had become clear that major export markets would not continue to absorb ever-increasing volumes of labour-intensive manufactured goods for which new exporters, particularly other developing Asian economies, were emerging. Following the 'Heavy and Chemical Industry Plan' of 1973, there was therefore a shift towards production and export of capital-intensive goods. Chemical and heavy industry goods amounted to 51 per cent of exports in 1982 compared to only 15 per cent in 1971.

The shortage of raw materials and the mode of development have resulted in Korea being highly dependent on imports. In 1982 raw materials and fuel accounted for 64 per cent of total imports and capital goods another 26 per cent. As with most developing countries, import requirements have generally exceeded export sales over the last two decades (a situation exacerbated by the oil price shocks), with the resulting current account deficits being funded by foreign aid, foreign direct investment and, especially in more recent years, foreign borrowing. Indeed, Korea has become one of the four largest sovereign borrowers (the other three being Brazil, Mexico and Argentina) with external debt of US$37 billion at the end of last year (compared to $86 billion, $85 billion and $39 billion for the others). But compared to the other major debtor nations, Korea is in a much more favourable position with respect to its ability to service its external debt. Unlike these other countries Korea has a much larger and more dynamic export base. Korea's debt servicing costs (excluding amortisation) have been estimated at 17 per cent of exports in 1982, while for the same year the corresponding debt servicing ratio for Latin American countries as a group was over 30 per cent.

The extensive use of foreign funds has in fact been the second main strand of Korea's development strategy, a deliberate policy based on the inadequacy of domestic savings to finance sufficient investment for rapid economic growth, especially in the earliest stages of development. This was in spite of a strong upward trend in domestic savings over the last two decades, whereby total savings increased from 3 per cent of GDP in 1960 to 14 per cent in 1970 and now amount to about 22 per cent.

An undesired accompaniment to the rapid economic growth has been persistent double-digit inflation

TABLE 3
KOREA: RECENT ECONOMIC PERFORMANCE

		1978	1979	1980	1981	1982
Real GNP growth	(%)	11.3	7.1	− 3.5	7.1	5.3
Consumer Price Inflation	(%)	14.5	18.3	28.7	21.3	7.2
Export Growth	(%)	26.5	15.7	17.1	20.1	1.0
Current Account Balance	(US$bn.)	1.1	4.2	5.3	4.7	2.6
External Debt	(US$bn.)	15.8	21.2	27.4	32.8	37 (e)
Debt Service Ratio (excluding amortization)	(%)	5.4	6.9	11.6	13.1	17 (e)

through virtually all of the last two decades, fuelled by rapid monetary growth. The narrowly defined money supply grew at an average annual rate of close to 29 per cent over this period. The first oil shock increased the rate of consumer price inflation to around 25 per cent in 1974 and 1975, and also resulted in a temporary deterioration in the current account deficit and the rate of growth. All these effects were soon reversed, however, as Korea took advantage of the emerging recovery of the developed countries and the newly-acquired spending power of the Middle East to record another large increase in export growth between 1976 and 1979. Investment expenditure also accelerated sharply in this period, with the emphasis on chemical and heavy industries, and the inflation rate returned to a more normal average of 14.5 per cent.

The second oil price shock and the subsequent world recession, including the effects of increased protectionism in the developed countries, had a much more serious effect on the Korean economy. Korea was probably the hardest hit of the eastern Asian developing countries. The inflation rate accelerated sharply to 29 per cent for 1980, the economy contracted in that year for the first time since the Korean War, the current account deficit increased from US$1.1 billion in 1978 to $4.2 billion in 1979 and $5.3 billion in 1980 (from 2.3 per cent of GNP to 6.9 per cent and 9.4 per cent), and the public sector deficit also increased sharply. In addition, a number of serious underlying problems were also shown up by these developments. The history of continuous double digit inflation and the fastest wage increases among the eastern Asian economies had already been resulting in a gradual decline in the competitiveness of Korean industry, while a review of industrialisation policy forced by the oil price increase showed that the shift towards heavy industries had achieved only limited success. Many of these industries had excessively high costs and produced relatively poor quality products, and capacity utilisation was extremely low. Furthermore, the traditional method of credit allocation was making the stimulation of investment more difficult. With regulated interest rates kept below market rates, domestic enterprises relied on credit financing rather than internally generated funds, and the strength of the demand for credit was such as to lead to credit rationing which discriminated in favour of large, influential borrowers. Finally, higher international interest rates were interacting with the international recession and the accelerating recourse to foreign borrowing, to push up Korea's external debt servicing burden and further strain the balance of payments.

These then were the sorts of issues faced by the Fifth Five Year Plan, and also by Korea's IMF-supported adjustment programme which saw some very significant policy changes made between 1980 and 1982. In terms of stabilisation policy, the main measures were a 30 per cent depreciation of the Korean won over 1980, a considerable tightening of fiscal and especially monetary policies, increases in interest rates, and sharp rises in energy prices (together with other strong conservation measures).

As for structural policies, a range of reforms have been introduced which have as their underlying rationale the recognition that the Korean economy has become too complex to be adequately managed in the traditional (i.e. government-directed) way. In the financial sector, the major commercial banks under Government control have been denationalised and the growth of non-bank financial intermediaries is being encouraged to promote competition, establish market interest rates and increase the supply of funds available to small and medium-scale enterprises. Trade liberalisation is taking place through increases in the proportion of unrestricted imports (from 69 per cent in 1980 to 77 per cent in 1982) and through an overhaul of the tariff system involving a reduction in tariff rates and moves towards uniformity in tariff rates. Anti-monopoly and fair trade laws have been introduced to eliminate cartel arrangements, price fixing and other restrictive practices. A comprehensive reform of the tax system has been implemented along IMF-recommended lines in order to improve equity and efficiency. A thorough review of investment and export incentives have taken place, with the main aim of making these more uniform and hence less distortionary. Finally, the emphasis of industrialisation strategy has shifted away from capital-intensive industries towards the promotion of high technology and 'skill-intensive' ones, and several major heavy industries which had suffered from an over-expansion of capacity have been streamlined through Government-directed mergers and rationalisation.

With adjustments such as these behind it or at least underway, the Korean economy has improved significantly and its prospects now look decidedly better than they did two or three years ago. Consumer price inflation dropped sharply to around 7 per cent in 1982 and to just over 3 per cent in 1983; economic growth of 7.1 per cent and 5.3 per cent was recorded in 1981 and 1982 and growth reached 7.5 per cent in 1983; the current account deficit narrowed to US$2.6 billion last year from $4.7 billion in 1981, and fell to $1.6 billion in 1983.

This is not to say that all difficulties have been overcome, of course — several problems remain, requiring continuing efforts to promote industrial restructuring and maintain international competitiveness. An example of the Government's concern to preserve competitiveness by continuing to bear down on inflation and inflation expectations, and also to reduce the importance of the public sector in the economy, is that the Government has frozen its 1984 budget at the nominal 1983 level. This will reduce the budget deficit from 3.1 per cent of GNP in 1983 to around 0.8 per cent in 1984.

Overall, Korea has shown itself willing and able to adapt to changing circumstances, both domestic and external, and the target growth rate of 7.7 per cent per annum set in the Fifth Five Year Plan does not appear to be too over-optimistic. The Plan sees a number of factors contributing to growth of that order in the period to 1986. Firstly, an increase in the domestic savings ratio is possible because of more rapid growth in the labour force than in the total population, reducing the average number of dependants per worker. Current growth rates are 3 per cent and 1.5 per cent respectively. The savings ratio is relatively low compared to some of Korea's main competitors (especially Japan and Taiwan), and the Plan envisages this being raised to about 30 per cent, helping to reduce the reliance on external borrowing. Secondly, productivity is projected to continue to increase through resource re-allocation within the manufacturing sector and from agriculture to manufacturing. Thirdly, there is a heavy emphasis on the use of the most advanced technology for all industrial development.

On the demand side, with only fairly slow growth foreseen in the industrial countries, it is hoped that relatively rapid export growth will nevertheless be achieved by increasing Korea's share of world trade through the diversification of products and markets and increased attention to product quality. In addition, the other developing countries of Asia should themselves provide a growing market for Korean exports. Finally, the domestic market is now strong enough to serve as an alternative base for expansion in times of sluggish economic activity abroad. Indeed, growth of the domestic economy was a major factor in Korea's performance in 1982 and the first half of 1983.

TAIWAN

There are many broad similarities between the development of South Korea and that of Taiwan. Like Korea, Taiwan has relatively limited areas of arable land and few natural resources, but relatively abundant labour. Similarly, rapid economic growth in Taiwan — averaging 7.3 per cent per annum between 1953 and 1960, 9.6 per cent over the 1960s and 9.5 per cent over the 1970s — followed from a development strategy based on the production and export of manufactured goods. Two-way trade amounts to an even larger proportion of Taiwan's GNP than it does for Korea. Exports (in US$ terms) increased at an annual average rate of around 25 per cent during the 1960s and around 29 per cent during the 1970s. With the original emphasis on labour-intensive manufactures, the resulting employment growth and rising real wages has spread the benefits of economic growth widely.

Of necessity, Taiwan's imports have also increased rapidly in the course of its development, with raw materials and capital goods accounting for 90 per cent to 95 per cent of total imports. However, that expansion has been slower than in the case of exports. Consequently, since 1971 Taiwan's trade balance has been positive in every year except 1974 and 1975, and its current account balance has also usually been favourable. This is partly a reflection of the growth in domestic savings, which had already increased to around 20 per cent of GNP by the mid 1960s from around 9 per cent a decade earlier, and which have averaged around 32 per cent of GNP since 1972. The need for overseas finance to fund high rates of investment has therefore been lower than in many other rapidly developing countries.

Before the late 1960s, foreign aid had been an important source of overseas funds for Taiwan, and as with Korea, much of that aid was not project-related but was instead tied to major policy changes. In the early 1960s, policy changes included land reform, import liberalization, devaluation and fiscal and monetary reform. Especially as Taiwan 'graduated' from aid eligibility, foreign direct investment was encouraged as a means of attracting additional overseas savings, rather than relying as heavily on overseas borrowings as Korea, for example, did. Taiwan's overseas debt at the end of 1982 was less than US$8 billion, compared to exports of over US$22 billion in that year.

The make-up of Taiwanese exports has altered over the last three decades according to changes in the emphasis of largely Government-directed industrial development. From around 80 per cent of exports in the mid 1950s, food, beverages and tobacco products declined to 56 per cent in 1961 and 17 per cent in 1971, while exports of clothing and textile products increased to 15 per cent in 1961 and became the largest component of exports, with a 31 per cent share, in 1971. Exports of machinery and electrical equipment and precision instruments started to grow rapidly in the late 1960s, reaching 18 per cent of total exports in 1971 compared to 1 per cent ten years earlier. By the late 1970s, these products became the largest category of exports, accounting for around 26 per cent, while the proportion accounted for by clothing and textile products declined to 23 per cent and that of food, beverages and tobacco fell to 10 per cent.

The first major shift in the direction of industrial development reflected in the above figures occurred from the late 1960s. The fifth Four Year Plan (1969–1972) stressed the need for the industrial sector to be restructured away from labour-intensive and towards capital-intensive production for the same sorts of reasons as underlied the similar Korean shift a few years later (i.e. rising real wages eroding competitiveness, protectionism and relatively slow export market growth, and emerging competitors). A second reorientation was forced by the first oil shock, when a 7 per cent decline in export volumes in 1974 highlighted the need for further diversification. The emphasis was consequently shifted towards skill and technology-intensive development and away from heavy industries, although investment in a chemical and petro-chemical complex and an integrated steel mill nevertheless proceeded.

As with Singapore and Hong Kong, but in contrast to South Korea, Taiwan was affected more obviously by the first oil shock than by the second. The rate of real economic growth fell to 1.1 per cent in 1974 from close to 13 per cent in the three preceding years, and remained relatively low at 4.2 per cent in 1975. The balance of payments deteriorated sharply in 1974 and 1975 and the rate of consumer price inflation soared to 48 per cent in 1974 from 8.3 per cent in the previous year. Although monetary growth had been rapid in the preceding decade (an average of 22.5 per cent per annum between 1963 and 1972), a large proportion was absorbed through 'financial deepening' —reflected in increases in

TABLE 4
TAIWAN: RECENT ECONOMIC PERFORMANCE

		1978	1979	1980	1981	1982
Real GNP Growth	(%)	13.9	8.1	6.6	5.5	3.8
Consumer Price Inflation	(%)	5.8	9.8	19.0	16.3	4.0
Unemployment Rate	(%)	1.7	1.3	1.2	1.4	1.4(e)
Export Growth[1]	(%)	35.5	26.9	23.0	14.1	− 1.8
Trade Balance	(US$bn.)	+ 1.66	+ 1.33	+ 0.08	1.41	+ 3.31
Current Account Balance	(US$bn.)	+ 1.67	+ 0.24	− 0.97	+ 0.50	+ 2.19

the ratio of the money supply to nominal GNP — and the rate of inflation had been low. Consumer prices increased at an average rate of only 2.9 per cent in the decade to 1972.

After increasing only marginally in 1975, the volume of Taiwan's exports expanded by 35 per cent in 1976, and exports continued to grow rapidly through to 1980. The trade and current account balances swung back into surplus between 1976 and 1979, the inflation rate fell back to 5.2 per cent in 1975 and averaged 6 per cent between 1976 and 1979, and real GNP growth rose strongly after 1975, averaging over 11 per cent in the four years to 1979. The rapid export growth as the world economy recovered after the first oil shock was facilitated by a reduction in the rate of increase in real wages and by the Taiwanese government's active assistance to export industries for the diversification of both products and markets. Indeed, Government-supported structural adjustment underpinned much fixed capital formation in the period to 1979. As in the past, priority industries also benefited from credit at regulated rates allocated by the largely state-controlled banking sector.

The second oil price shock and the subsequent international recession, prolonged and deepened by the adoption of demand restraint measures in many of the major economies, had a less sharp, but what may in the end be a more far-reaching, effect on Taiwan than the first shock. The growth rate slowed from 13.9 per cent in 1978 to 3.8 per cent in 1982, the current account went into deficit in 1980 and the rate of inflation increased to 19 per cent in the same year. Despite the downturn, however, unemployment remained low. Underemployment, on the other hand, worsened as working hours were reduced.

The main factor behind the economic slowdown has been the weakening of export receipts. Merchandise exports grew by 14 per cent in 1981, compared to increases of 27 per cent and 23 per cent in 1979 and 1980, and then fell by 2 per cent in 1982. Although the direct effect of this on the external accounts was offset in 1981 and 1982 by a more rapid decline in imports, with the trade and current account balances improving again in those years, the indirect result has been to discourage investment.

Investment may also have been discouraged by high real interest rates. Monetary policy became restrictive in 1981 in line with the Government's emphasis on inflation control. Consumer price inflation was reduced to 16.3 per cent in 1981 — this rate would have been considerably lower had it not been for a poor harvest — and to 4 per cent in 1982. But at these lower inflation rates, regulated interest rates increased sharply in real terms and were thought to be contributing to the decline in private investment. Consequently, monetary policy was eased somewhat in 1982, and administered interest rates were reduced by several percentage points over the year. Target M1 growth was raised to 15 per cent for 1982 (from an actual growth rate of 12 per cent in 1981), seemingly an expansionary rate in the light of the moderate inflation and real growth rates.

Fiscal policy, in contrast, was tightened in the fiscal year starting July 1982, after a two-year experiment with heavy deficit spending. With the hope of making more funds available for private investment, public investment and investment by state-owned enterprises has been curtailed. Several other new incentive measures have also been adopted in an effort to foster investment in high value-added industries of the skill and technology-intensive type. These include moves designed to attract capital and to ban certain competing imports.

In the first nine months of 1983, export growth started to recover rather more quickly than had been expected, with a 10 per cent increase recorded, compared to the same period in 1982. This mainly reflects the consumption-led recovery in the US, Taiwan's largest export market. Real GNP growth has picked up correspondingly, with a 4.5 per cent increase at a seasonally adjusted annual rate in the first quarter of 1983 (compared to a trough of 3.5 per cent for the second quarter of 1982) followed by increases of 6.3 per cent and 7.5 per cent in the second and third quarters of 1983. For 1983 as a whole, the growth rate is estimated at 6.9 per cent. Underlying this recovery pattern, however, is the fact that domestic demand, and private investment in particular, remain sluggish. A recovery in investment spending is regarded as a necessity if Taiwan is to sustain a high rate of economic growth over the next few years.

SINGAPORE

Singapore is by far the smallest of the Asian NICs, with a land area of 618 sq. km. and a population of 2.5 million. (Hong Kong, at 1,062 sq. km. and with a population of around 5.2 million is the next smallest in the group.) While Singapore's early economic history was dominated by its role as an 'entrepot' economy (essentially, a distribution centre for trade between other countries), it has now developed an extensive industrial base, and is also the second most important financial centre (after Tokyo) in Asia.

Singapore has nearly no natural resources of its own and no primary sector, but it was recognised in the late 1950s that entrepot trade (the main source of income at the time) would not be a viable vehicle for growth. The rate of unemployment at the time was estimated at 13.5 per cent and was rising. The pace of industrialisation was therefore stepped up, with an initial bias towards import substitution. By the early 1970s the unemployment problem had been largely solved. However, the industries which had developed were characteristically relatively small, low skill, labour-intensive industries, and as labour supplies became increasingly tight the opportunity was taken to dismantle remaining protective barriers and to encourage more actively export-oriented foreign investment in industry and in the services sector.

In 1979, to counter the steady erosion of the country's comparative advantage in labour intensive exports, and to counter increased protectionism in major markets, a three year policy intended essentially to hasten the phasing out of low value-added industries and to further diversify the industrial base was adopted. Under the programme, domestic firms are now no longer offered protection against foreign competition — there are virtually no restrictions on external trade, and there are no controls on either current or capital flows. However, the centrepiece of the programme was the 'wages correction policy'. This was accompanied by a comprehensive worker skills development/retraining programme, and was also supplemented by financial and other incentives for capital intensive industries.

One effect of the programme was to raise nominal wages by 20 per cent per annum over the three years it was in operation. The full effects of the measures will only be seen in a long-term context, but it is already apparent that major shifts in the allocation of resources for production have occurred. For example, at the end of the programme in 1981 value added per worker and fixed capital per worker were estimated to be 179 per cent and 187 per cent higher in real terms than in 1979. The success of the restructuring programme was largely assured by the continued strong capital inflow which together with the financial and other incentives and support from the Government allowed a rapid shift to more capital intensive modes of production. Rapidly rising labour productivity neutralised most of the increase in labour costs and the rise in real wages is not considered to have had any impact on the level of employment or on prices.

As a result of the relative freedom afforded by this environment the services sector has shown strong development and diversification. As well as being an important exporter of manufactures and the main regional warehousing and technical services centre, the country is now an important international financial centre, the base for the US$100 billion Asian Dollar Market.

Foreign capital and skills played an important role in the earlier transition from an import-substitution to an export-oriented economy, but they have been even more crucial in the ongoing restructuring process — domestic managerial, technical and financial resources alone would not have permitted as efficient and as rapid a transformation of the industrial structure as is underway. Unlike many other NICs, Singapore has not had to resort to large overseas borrowings to finance its development efforts.

The stance of fiscal policy has been of primary importance in maintaining foreign investor confidence as well as the continued development of the country's role as an international financial centre. Low inflation, financial stability and a strong currency have been accompanied by consistently firm demand management policies. Control of inflation has remained a prime objective, and despite sharply increased housing and infrastructural expenditure in recent years, the government, through its own fiscal surpluses and through the substantial surpluses of the Central Provident Fund (a compulsory national superannuation scheme), has maintained a strong contractionary influence on domestic liquidity.

In the financial sector, the operations of the Monetary Authority of Singapore (MAS) are constrained by the close links between domestic and international financial markets and by the presence of the Asian Dollar Market (ADM). The ADM was set up in 1968 and is now the largest external currency centre in Asia outside of Japan. Total assets/liabilities, after growing by 50 per cent per annum over the previous three years, expanded by 20 per cent in 1982 and now exceed the US$100 billion mark.

The Authority's main commitment is to a stable exchange rate; this precludes control of either the money supply or domestic interest rates. Growth in domestic liquidity is largely demand determined, with monetary policy measures affecting more the composition (as between domestic and foreign components) than the level. With the sustained fiscal surpluses and the accumulation of Government securities by the Central Provident Fund, the MAS's role in monetary management has been mainly to inject funds into the system. The non-bank private sector holds a negligible amount of Government securities, and there is therefore no great scope for traditional open market operations. More typical monetary policy instruments have been the rediscounting of commercial bills and US dollar/Singapore dollar swap operations.

While the sustained high levels of growth achieved since independence in 1965 provide the main pointers to the country's recent economic performance, other economic indicators are equally noteworthy. Although real GDP growth has averaged more than 10 per cent per annum, domestic inflation has been kept below that of Singapore's trading partners, there has been an overall balance of payments surplus (i.e. on both current and capital accounts) every year since 1967, and consistent fiscal surpluses have ensured that a tight rein is kept on the domestic component of liquidity. Increases in money demand are in large part met from

TABLE 5
SINGAPORE: RECENT ECONOMIC PERFORMANCE

		1978	1979	1980	1981	1982
Real GNP Growth	(%)	8.6	9.4	10.3	9.9	6.3
Consumer Price Inflation	(%)	4.8	4.1	8.5	8.2	3.9
Unemployment Rate	(%)	3.5	3.3	3.1	2.9	2.6
Export Growth[1,2]	(%)	10.8	13.7	16.0	14.5	3.2
Current Account Balance	(US$bn.)	− 0.6	− 0.7	− 1.6	− 1.41	− 1.3
Current Account/GDP	(%)	− 7.9	− 7.5	− 13.8	− 10.9	− 8.7
External Debt	(US$bn.)	0.7	0.7	0.6	0.6	0.6
Debt Service Ratio	(%)	2.3	0.6	0.4	0.3	0.3

external sources, and the authorities have therefore been able to accumulate substantial international reserves and to safeguard the strength of the domestic currency.

The share of investment in GDP has been progressively increased, and by 1982 the ratio of investment to GDP (46%) was more than double that in 1965. Foreign investment provided for most of this increase but more recently a rising domestic savings ratio (the product of the fiscal surplus and a relatively high savings propensity in the private sector) has allowed for an increasing domestic share in total investment. The savings ratio reached 37 per cent in 1982.

Despite the world recession the external sector has continued to provide a major impetus to growth until very recently, but in 1982 activity was maintained by buoyant domestic demand. The current weakness in oil markets has been a mixed blessing, since Singapore possesses a large petroleum refining sector. Real GDP is estimated to have increased by 4 per cent in 1983, after 6.3 per cent growth in 1982. Consumer price inflation remains moderate (currently 1–2 per cent, down from 8.5 per cent in 1980) and unemployment has been reduced to around 2.6 per cent. The current account deficit has improved markedly from almost 14 per cent of GDP in 1980 and is likely to have been under 4 per cent of GDP for 1983, while the overall balance of payments surplus has been quite stable over the past few years. External public debt is relatively low by international and regional standards —4.7 per cent of GDP in 1982 — and probably declined further in 1983. The external public debt service ratio (as a percentage of exports of goods and non-factor services) was only 0.3 per cent in 1981 and 1982, although it is estimated to have increased marginally to 0.5 per cent in 1983.

In conclusion, Singapore's economic history has been marked by firm but flexible demand management and external policies, which have in turn reinforced confidence in the country and its currency by domestic and foreign investors and the international banking community. Despite the almost complete lack of natural resources, it has managed consistently rapid annual increases in output and income, without undue inflationary pressures or balance of payments problems. Although the basis for this was set by its fortuitous geographical location, its early entrepot role and the quality of its labour force, the most important continuing factor has been the substantial degree of consensus between the Government, the private sector and foreign investors on the scope and direction of economic policy. In the words of the IMF, the Singapore economy serves as 'an excellent example of the virtues of financial prudence and free trade'.

HONG KONG

Like the other Asian city-state NIC, Singapore, Hong Kong's early development occurred through entrepot trade. It served first as the base for British opium traders, and then for other British trading ventures with China. The preconditions for Hong Kong's industrialisation were set in the late 1940s, when the labour force was expanded by a considerable inflow of refugees and as capital and technical resources were relocated from Shanghai and other Mainland industrial cities. Light industries (in particular textiles and clothing) quickly developed to utilise the immigrant workforce, and by the mid-1960s Hong Kong had become a major developing country exporter — accounting for a quarter of the total exports of the then 86 developing country members of UNCTAD.

A long period of political stability allied to the 'laissez faire' policy of the Government has underpinned the development and growth of Hong Kong's economy. Industry is not protected or subsidised and there are almost no controls on current and capital transfers. Rapid growth in the services sector (financial institutions and tourism in particular) over more recent years has reduced the share of manufacturing in GDP to around 25 per cent. Although there is still significant engineering and construction activity connected with the port, light industry predominates. This sector accounted for 72 per cent of total domestic exports in 1982, with textiles and clothing the largest single group (in terms of both employment and the value of output), and the electronics industry the next largest. There is a minimum of Government intervention in the labour market — there is no minimum wage law for instance — and Government industrial labour regulations are generally concerned only with health and safety issues.

The economy is highly open by international standards, with the ratio of domestic exports to GDP being around 60 per cent. The level of domestic activity has thus been considerably affected recently by the world recession as well as by the protectionist measures of some OECD countries. GDP growth averaged 9.6 per cent over the ten years to 1981, but then fell to 2.4 per cent in 1982. Entrepot trade has been rather less affected by the world recession — much of this trade is with China, and the continued progress of the 'four modernisations' programme has steadily boosted Chinese exports through Hong Kong, while reducing intermittent surges in China's imports and demand for technical services through Hong Kong. Hong Kong's main trading partners are the United States with about 19 per cent of total trade (including re-exports), China with 17 per cent and Japan with 14 per cent. These countries have also invested heavily in both industry and the services sector — United States investment is about 47 per cent of total foreign manufacturing investment in Hong Kong while Japanese firms account for a further 30 per cent. China has a considerable presence in the services sector.

The Government has maintained for some time a policy of attempting to relate the growth rate of the public sector to the growth in national income, but has not in general been successful. Although the two growth rates have occasionally converged, there has been a steady rise in the relative size of the public sector — from an estimated 14.2 per cent of GDP in fiscal year 1976/77 to around 24 per cent in 1982/83. The Government nevertheless has managed to run budget surpluses for all but two of the past twenty years (deficits were recorded in 1965/66 and 1974/75). The single largest area of expenditure (around 20 per cent) is in public works — land reclamation, port and airport works, transport and construction. There is almost no public domestic debt, and public foreign debt is confined to a single loan from the Asian Development Bank (HK$285 million outstanding in early 1982) plus two similar amounts of public-guaranteed debt of two Government corporations.

Turning to the financial sector, a notable feature is that Hong Kong has no central bank. The functions which such an organisation would undertake are divided between various Government agencies and the two note issuing banks (the Chartered Bank and in particular the Hong Kong and Shanghai Banking Corporation). The Hong Kong dollar has until very recently been allowed to float, with Government intervention being confined only to regulating severe fluctuations. However, the

TABLE 6
HONG KONG: RECENT ECONOMIC PERFORMANCE

		1978	1979	1980	1981	1982
Real GNP Growth	(%)	10.0	9.3	11.7	10.9	2.4
Consumer Price Inflation	(%)	7.0	11.6	15.5	15.4	10.6
Unemployment Rate	(%)		3.4	4.3	3.1	4.0
Export Growth[1,2]	(%)		28.0	22.1	6.0	− 5.5
Trade Balance	(US$bn.)		− 2.0	− 2.7	− 2.9	− 2.6
Current Account Balance	(US$bn.)		− 0.5	− 1.1	− 1.5	− 1.1
Overall Balance	(US$bn.)		+ 1.6	− 2.0	− 2.4	+ 0.1
Current Account/GDP	(%)		− 2.7	− 4.9	− 6.2	− 4.3

[1] Growth in exports valued in US$
[2] Excluding entreport trade

financial scene has recently been dominated by a crisis of confidence, and the Government has been forced several times to intervene heavily to moderate the Hong Kong dollar's downward slide — at one point in September 1983 the currency fell 14 per cent in 48 hours against the US dollar. The following month it was pegged against the US dollar and since then has been held generally steady at HK$7.80 per US dollar.

In recent years rapid growth in various monetary aggregates has accompanied a relatively high rate of inflation — 16 per cent in 1980 and 15 per cent in 1981. By 1982 more moderate growth in the money supply together with weaker commodity prices and falling property prices and rentals were reflected in an inflation rate of 10.6 per cent.

The relatively small current account deficit is expected to have declined further in 1983 due to an improvement in the trade balance — total imports (by value) grew only 3.3 per cent in 1982 after rising 23.9 per cent the previous year, while total exports (domestic plus re-exports) grew 4.3 per cent in 1982 following a 24.4 per cent increase in 1981.

There has been some criticism in recent years of the lack of effective control exercised by the Government over credit creation by banks and other financial institutions, and several moves since 1981 have seen it extend its supervisory and regulatory authority. Excess credit creation has diverted resources from manufacturing to real estate and other speculation and fuelled Hong Kong's rate of inflation. The bubble burst in late 1982, under the combined impact of the world recession and renewed political uncertainty. Sharp declines in the exchange rate, in prices on the stock market and in property prices followed, and several property-developing companies and finance companies closely associated with the property market found themselves in financial difficulties. These events triggered a continuing outflow of capital, to Singapore, Australia, Taiwan and Japan in particular, and the inflow of foreign investment is estimated to be steadily declining. Hong Kong's development as one of the world's leading financial centres followed from the comparative absence of foreign exchange controls, its 'time zone' position (between Japan and Europe), and its political stability. But without the latter, it is possible that these services will progressively shift to Singapore and Tokyo as 1997 approaches. (This is the date when the lease on the 'New Territories' — the mainland enclave — expires).

The economy has regained some stability in recent months. After a year of weak domestic and foreign demand, production has been stimulated by the revival in the US economy and by brighter export prospects elsewhere. The manufacturing sector has also been aided by the weaker Hong Kong dollar, and in consequence an increase of 5.7 per cent in real GDP is estimated for 1983. However, many decisions on longer term investment have been deferred as more definite indications of the form of Hong Kong's political future are sought. A lack of progress in talks between the United Kingdom and China has contributed towards the present unsettled climate for investment. Foreign investment has slackened, the capital outflow continues, and some Hong Kong manufacturers have begun relocating their factories in other South-East Asian countries, which have the advantages of lower establishment and production costs, more generous quotas from the industrial countries and a less uncertain political future.

CONCLUSION

The newly industrialising countries of Asia — South Korea, Taiwan, Singapore and Hong Kong — are all highly dependent on export earnings, so that their recent performance has been depressed by world economic conditions, although generally still strong compared to most other countries. Similarly, their prospects will be greatly influenced by the course of the international recovery now in train. At this stage, it appears likely that economic growth in the industrial countries will decelerate over the next eighteen months — it remains only moderate outside North America — and there continue to be some grounds for concern over its longer-term sustainability. In these circumstances, the maintenance of relatively high rates of economic growth in the Asian NICs requires both the revival and the ongoing redirection of private investment. Industrial restructuring away from labour-intensive manufacturing, and also in some cases away from certain heavy capital-intensive sectors, remains the major long-term objective.

In Singapore, Korea and Taiwan, policies to promote skill-intensive, high-technology industries have been adopted, but in Hong Kong little has yet been done to shift away from the production of light consumer goods, despite reduced immigration flows and consequent real wage rises. There, political uncertainties dominate the investment outlook. Like Singapore and Hong Kong, Korea has recently opted for policies which promote the working of market forces in the allocation of resources in its increasingly complex economy.

Overall, the four Asian NICs have established a reputation for sound economic management, pursuing flexible policies which they have been able to adjust as circumstances warranted. This flexibility has been a major factor in their impressive growth performance over the last two decades, achieved in spite of the relative scarcity of natural resources.