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Asian Economic Prospects

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Asian Economic Prospects 1/

In surveying the economic prospects for Asia, it is worthwhile to reconsider a few of the stereotyped ideas that have tended to contribute to excessive pessimism in the past.

Exports

One of these is the idea that because of such things as protectionism in the developed countries, the allegedly universal tendency of commodity prices to almost always decline and seldom rise, the stagnant demand for primary goods, etc., the less developed countries cannot expand their exports.

It is interesting to note that this same pessimistic prognostication was applied to Japan back in the early 1950's. It used to be said, for example, that Japan would not be able to sell the goods produced by her cheap labor in the American market to any substantial degree, because the U. S. would immediately impose restrictions on imports from Japan once the sales reached substantial proportions. Various actions taken by the U. S. to persuade the Japanese to impose voluntary quotas on exports to the U. S. of such things as tuna fish, plywood, stainless steel tableware and clinical thermometers were cited as proof of this.

But the statistics show that in 1966, the U. S. imported \$3 billion worth of merchandise from Japan. This compares with Japanese exports to the entire world of only \$1.3 billion a year in 1951-53. Last year, Japan's global exports approached \$10 billion, having doubled between 1955 and 1960 and doubled again from 1960 to 1965. Some people thought the Japanese were rash when back in 1961 they projected that by 1970 their exports would reach 230 per cent of the 1960 level, or a little over \$9 billion. They passed that 1970 target with room to spare in 1966.

What of some of the other countries?

In 1966, Korea, which had long been considered an almost hopeless case as far as exports were concerned, with earnings stagnant at around \$20 million to \$30 million a year, achieved an export gain of 43 per cent over the previous year. That brought Korean exports to \$250 million, seven times what they were in 1960.

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1/ Remarks delivered to the Citizens Conference on Asia, Mayflower Hotel, Washington, D. C., May 12, 1967.

This dramatic performance put in the shade countries such as Taiwan, which had a mere 19 per cent growth in exports in 1966, with a three-fold rise between 1960 and 1966. Hong Kong had a 16 per cent increase in exports in 1966, and Pakistan enjoyed a gain of 14 per cent. Thailand had a very respectable 9 per cent increase, and the Philippines followed close behind at 8 per cent. It is true that last year's gains owed something to the stimulus of the war in Vietnam, but the fact is that all of these countries were enjoying a respectable, and in some cases dramatic, rate of export growth before the war in Vietnam heated up to its present temperature.

Unfortunately, war or no war, there are a number of countries in Asia whose exports have not been growing vigorously. A number of them actually experienced declines in their sales abroad in 1966. These include India, Indonesia, Ceylon, Cambodia, Burma and Vietnam. Because of these declines, total exports for Asia, excluding Japan, rose only a modest 4 per cent in 1966. However, it is necessary to ask, why did some countries do so well while others did so poorly. It is difficult to agree that the less developed countries cannot expand their export earnings when so many of them show that impressive gains can be made. This supports the idea that the export performance of a country is at least as dependent upon that country's own policies as it is upon the policies of its trading partners.

### Economic Growth

A second pessimistic widespread idea holds that the less developed countries are stagnating if not actually getting poorer economically. One frequently hears the old saw "the poor get poorer and the rich get richer" applied to countries. This may be related to the assumption that poor countries find it very difficult to generate savings to finance new investment and without new investment they cannot increase their income to the point where they can generate savings.

Of the ten Asian countries for which we have reasonably reliable data on real GNP, six of them had growth rates of 5.5 per cent or better in the 1960-66 period. This meant that their real per capita growth exceeded the 2.5 per cent target which was set as the goal of the Alliance for Progress in Latin America. Taiwan led the list with a growth rate of nearly 10 per cent, followed closely by Japan with a 9.3 per cent rise. Korea had an increase of 7.9 per cent and Thailand 7.3 per cent. The other two fast growers were Malaysia and Pakistan. On the other end of the scale Burma had a 2 per cent growth rate, and if the facts were known, Indonesia would probably show a negative rate. For 1966 alone, Korea headed the list with a 12 per cent growth rate, followed by Thailand with 9 per cent, Japan with 8 per cent and Taiwan with a 7.5 per cent rate.

### Relationship Between Exports and Growth

It is not an accident that these countries that have enjoyed high rates of growth of GNP have also had a very good export performance. There is a growing recognition that the development of a healthy international trade is a key factor in the economic growth process. <sup>1/</sup> The once popular notion that the way to develop was to build a protective wall to foster the growth of industries that would substitute domestic production for imports is rapidly being discredited as more and more countries find that a growing economy means growing import demand. Growing import demand cannot be satisfied without foreign exchange resources, and generally they must come from export earnings. And to export successfully, a country needs to have a productive sector that is efficient and competitive.

### New Attitudes Influence the Outlook

The residents and the officials of the countries whose growth rates have been below average are beginning to ask why their performance is inferior to that of other countries in the area. They are no longer satisfied with the cliches and stereotyped answers which blame everything on some external factors or on the oversimplified fact that they are "underdeveloped." They are looking for better answers.

One of India's leading journalists who specializes in economics recently said that India was beginning to take notice of the countries in Asia that were doing so well--Japan, Taiwan, Thailand, and now, Korea. He said it was impossible to avoid noticing the contrast between the economic progress in these countries, which had made extensive use of market prices, private profit incentives and interest rates to achieve the optimum allocation of economic resources, and the results achieved in those countries, including India, which had relied more heavily on governmental controls and direction of the economy. As a result, he felt that there was going to be increasing pressure in India for liberalization of the economy and increased emphasis upon private enterprise.

In assessing economic prospects, one of the most important factors to consider is the attitudes that influence policy decisions. The views of the Indian journalist are but one of a number of indications that Asians are increasingly coming to understand the importance of the role of individuals in the development process. They can see that the individual, whether he be a farmer, a laborer, a small businessman or a tycoon performs better when he has a strong incentive to work and invest. They can see that free prices can be an effective allocator

<sup>1/</sup> See Robert F. Emery, "The Relation of Exports and Economic Growth" mimeographed (Federal Reserve Board), May 1966. (To be published in a forthcoming issue of Kyklos.)

of scarce resources. With even the communist countries discovering the importance of profits and adequate rates of return on capital, it would be hard for the Asians to avoid recognizing that profits and interest are not evils that must be extirpated.

This is not to say that we can expect dirigisme to wither away overnight in the countries where it is firmly entrenched. Indonesia, for example, is currently quite interested in moving to a more liberalized economic system, but the government employs a very large number of people to operate enterprises and administer controls. It is never easy to abolish jobs and add to unemployment, even if it seems evident that this can really help create conditions that will bring prosperity. Those who hold the positions that would have to be eliminated are never without influence, and, quite understandably, they are seldom pleased at the prospect of losing either their power or their salaries. The first step is recognition of the problem; the second is arriving at a clearer understanding of the possible solutions; and the third, and most difficult, is applying the remedy. Even a country which has been as deeply committed to thoroughgoing governmental direction of the economy as Burma is now beginning to recognize that the economy is performing far below its potential and that there must be something wrong with policy. This is an interesting sign of the times.

If we take these changing attitudes into consideration, the prospects for Asia are even brighter than the economic statistics suggest. However, the economist cannot ignore the non-economic factors that impinge so strongly upon economic developments. The war in Vietnam is exerting a great influence on the economies of many of the Asian countries, and there can be no ignoring the fact that its outcome will have a great deal to do with determining the future of Asia.

The answers to Asia's problems are not all economic. Indeed, we frequently place greater faith in the role of economic factors than the record justifies. Vietnam is not now being wracked by war because of economic factors, and Indonesia was saved from going over the political brink in 1965 in spite of, not because of, the economic conditions that prevailed there. Therefore, in assessing the economic prospects of Asia in the years immediately ahead, it is necessary to understand not only the recent economic trends, the changes that are taking place in ways of thinking about economic problems, but also the political and intellectual climate that will determine in the years immediately ahead the fundamental political orientation of the Orient.