

World Economic Overview: An NIE Perspective

Narongchai Akrasanee

Speech presented at the "International Automatic Industry Forum," San Francisco, December 1 - 3, 1989.

The Current Economic Development of NIEs

Generally, NIEs (Newly Industrialized Economies) refer to the economies of the Republic of Korea, Taiwan, Hong Kong, and Singapore. But in this paper "NIEs" also include Thailand and Malaysia.

The year 1989 will see a general slowdown in the growth of NIEs, although growth rates will remain higher than in most other countries. At the same time, their inflation rates will tend to be higher than they were in 1988, and export and import growth will slow down.

The NIEs have enjoyed many years of high economic growth, with little disruption. In 1988 three countries achieved double-digit growth between 11 and 12 percent: the Republic of Korea, 12.2 percent; Singapore, 11.0 percent; and Thailand, 11.0 percent.

This strong NIE growth performance has been due to high export growth. Exports of three of the six NIEs grew more than 30 percent in 1988. Hong Kong, Singapore and Thailand, and Korea and Malaysia also experienced double-digit export growth that year. However, Taiwan's export growth registered only 5.7 percent due to the NT dollar's appreciation and the high wage costs that followed so many years of rapid export growth and economic expansion.

NIE reliance on exports as the engine of economic growth is well known. The ratios of (merchandise) exports to NIE GNPs ranged from about 30 percent for Thailand—to between 40 and 60 percent for the Republic of Korea, Taiwan, and Malaysia—to more than 100 percent for Singapore and Hong Kong. Thus, as export growth slowed down in 1989, economic growth rates suffered—in most cases depending on the extent of the slowdown in export growth. In fact, Korea's exports declined in 1989; its growth rate fell from 12.2 percent in 1988 to 7.2 percent in 1989. Hong Kong and Singapore registered a steep drop in their export growth rates and in their economic growth rates. Thailand and Malaysia had slightly lower export growth, and their 1989 economic growth rates were also slightly lower. Nevertheless, in 1989 Thailand was able to achieve double-digit growth again—which had not been expected—because export growth was still strong. Export growth in 1989 in Taiwan did not change very much, and neither did its economic growth rate.

This focus on NIE economic and export growth is not intended to show that the economic growth of NIEs depends solely on export growth. However, my intention is to point out that export growth is of vital importance to NIEs. And the world economic outlook of importance to the NIEs concerns how it will affect NIE exports.

World Economic Outlook and NIE Economic Performance

NIE export performance is strongly influenced by problems relating to global imbalances. Indeed, as long as these imbalances remain large, NIEs cannot expect to achieve the levels of export performance they experienced in the 1970s and 1980s. There are signs of improvement over the medium- and long-term, but in the next few years a series of adjustments are expected to take place, which should result in lower world export growth and hence lower NIE economic growth. Of the several imbalances in the world economy,

those relevant to NIE export performance are:

- (1) macroeconomic savings and investment balances;
- (2) trade imbalances;
- (3) disparities in the level of economic development, including poverty and foreign debt problems; and
- (4) differences in economic doctrines.

The first two types (imbalance of savings investment, and trade) are interrelated, and the major players are the United States, Canada, Australia, and New Zealand on the deficit side, and Japan, West Germany, and most NIEs (particularly Taiwan and the Republic of Korea) on the surplus side. Most members of the European Community are also on the deficit side. To cite some examples, the United States has been running a current account deficit of more than \$100 billion a year for several years now. In contrast, Japan and West Germany have had a current account surplus of more than \$100 billion each, also for several years in a row. And the current account surpluses as of Taiwan and the Republic of Korea in 1988 together totaled \$24.5 billion, about 20 percent of the United States' current account deficit for the same year.

The current account balance is the combined result of savings and investment behavior and the performance of trade in goods and services. Deficit countries, such as the United States and Canada, have had relatively low saving rates, with exports growing more slowly than imports for many years. By contrast, in Japan, West Germany, and NIEs, savings and export growth rates were much higher than investment and imports.

With the major exceptions of Japan and West Germany, most other OECD countries are deficit prone, and the deficit situations have compelled them to apply fiscal and monetary restraints in order to reduce the deficit. At the same time, they have tended to interfere in trade, applying both market-opening measures and retaliatory measures against the "unfair" trade practices of exporting countries. Their exchange rates have also been adjusted downward to encourage exports and discourage imports. The outcome of these measures has been a slowing down of world economic growth and the growth of world trade, both of which have had adverse effects on the export and economic growth performance of the NIEs.

As the deficit countries have had to restrain their growth and imports, the surplus countries of West Germany, Japan, and most of the NIEs have had to encourage domestic demand and to liberalize trade. Their exchange rates have also been adjusted upward. These measures have had surplus-reducing effects on the countries applying the measures. The measures also stimulate growth, offsetting the growth shortfall due to the slowdown of export growth.

Economic imbalances in the form of disparities in the level of economic development (manifested by debts and poverty in mainly Latin America and African countries) means that there are limited export opportunities for NIEs in these countries. At present, the Third World Debt is estimated at \$1.2 trillion. Furthermore, as the problems of debt and poverty in Latin America and Africa are the result of fundamental problems in the functioning of individual economic systems, there is very little that the world economic community can do to alleviate them. The debt and poverty problems and the efforts to solve these problems have acted as full factors on world economic growth and hence on world exports, including NIE exports.

The economic doctrines of different countries are another global economic issue which is a form of economic imbalance. Basically, countries can be divided into two camps: market economies, and socialist economies. To date, the socialist countries have been virtually outside the world market, mainly because they lack convertible currencies. Although China has recently opened its economy to foreign trade, generally the socialist economic system has left a sizable hole in the market potential world trade and, hence, NIE exports up to now. Indeed, current developments in Eastern Europe and in the Soviet Union, which reflect more political liberalization, could result in a more liberal socialist economic regime. And

although a more liberal economic regime will not produce trade opportunities overnight, it will certainly create long-run trade opportunities for the OECD countries and NIEs.

The global issues of interest to NIEs are those which affect trade opportunities. Macroeconomic and trade imbalances have slowed down their export growth. NIEs also are responsible for correcting the imbalances, mainly by means of trade liberalization and domestic demand expansion, both of which have been carried out—especially by the Republic of Korea and Taiwan. The effect of the adjustment process was slower NIE economic growth in 1989 compared to 1988. And the forecast for 1990 (because of the ongoing adjustment process) is for another year of slower growth rates by NIE standards, differing much from 1989. However, because domestic demand expansion is keeping up, growth rates will still be high by world standards.

For the period beyond 1990, NIEs are concerned about whether the adjustments to correct imbalances will be prolonged and whether they could produce more trade interference and hinder GATT efforts to liberalize trade. The moves by the European Community toward a Single Market by the end of 1992 and by the United States to enter into a number of Free Trade Agreements (FTAs)—such as those with Israel and Canada—are seen as measures by these countries to interfere with foreign trade. And this growing trade interference, in conjunction with prolonged debt and poverty problems, does not bode well for the export-oriented economies of the NIEs.

Conclusion

In conclusion, I would like to say that in the short run, as NIEs try to accommodate and to participate in the global macroeconomic and trade adjustments process, the effect will be their slower economic growth. Further, in the medium and long run, although NIEs are concerned about growing trade interference and prolonged debt and poverty problems, they are optimistic about export potential following the opening up of Socialist economies.

© Copyright 1989 *Thailand Development Research Institute*