

# Economic Relations in the Asian-Pacific Region

EDITED BY

*Bruce Dickson & Harry Harding*

THE BROOKINGS INSTITUTION  
*Washington, D.C.*

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*report of a conference cosponsored by the Chinese Academy  
of Social Sciences and the Brookings Institution, June 1985*

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## Editors' Preface

IN EARLY June 1985, the Brookings Institution and the Chinese Academy of Social Sciences cosponsored a conference entitled "Economic Relations in the Asian-Pacific Region: Trends and Prospects." This was the third in an ongoing series of joint conferences organized by the two institutions. The first, held in Williamsburg, Virginia, in 1981, considered political and security matters in Asia. The second, which took place in Peking, in 1982, examined global economic problems.

The most recent conference, convened at the Wye Plantation in eastern Maryland, considered the economic policies and prospects of key countries and territories in the Asian-Pacific region and the impact of those internal developments on important economic relationships in the region. In a sense, the Wye conference served to integrate the topics of the first two meetings—Asia and economics—into a single agenda.

The Wye conference brought together twelve scholars from the United States and nine scholars from the People's Republic of China who shared an interest in trade patterns and economic trends in the Pacific Basin. A list of the participants and of the papers presented at the conference appears at the end of this volume. Four sessions of the conference focused on the economic policies of the primary Pacific economic actors: the United States, China, Japan, and the newly industrialized countries of East and Southeast Asia. Two of the most important types of commodities involved in Asian-Pacific trade were also considered: labor-intensive manufactures and advanced technology. At a final, less structured session, participants discussed the implications of the conference findings for Sino-American economic relations and for economic cooperation in the Asian-Pacific region.

Like its predecessors, the Wye conference was a valuable and effective way of introducing Chinese scholars to the methodologies and conclusions of American social science, building contacts between American scholars and their counterparts in China, and, above all, exchanging opinions and perspectives on policy-related



issues of vital interest to both countries. The relaxed setting of the Wye Plantation facilitated a candid and lively discussion. Indeed, the disagreements voiced within each delegation were almost as stark as the differences between the Chinese scholars and their American colleagues.

The discussions at Wye were so fruitful that we at Brookings feel it appropriate to share the results with a wider audience. It is our hope that the views expressed in this book will not only capture the views of a specific moment, but will also reflect the more enduring economic developments in China and the rest of the Asian-Pacific region, indicate some important trends in recent Chinese scholarship, and symbolize the expanding academic dialogue between China and the United States.

This book weaves together excerpts from the formal papers presented at the conference with paraphrases of the comments made during the subsequent discussions. Excerpts from the papers are identified by the name of the author. Because the conference was off the record, however, the paraphrases of the oral remarks show only the nationality of the speaker. We are solely responsible for selecting the excerpts and for the paraphrasing of the comments made at the conference.

The result is a revealing international dialogue, organized around the central themes that dominated the discussions. First, we consider the prospects for the export-oriented economies of East Asia, the impact of Japanese and American economic policies on regional growth, and the threat of protectionism to regional trade. Second, we offer a detailed review of China's dramatic economic reform program and its "open economy" policy and assess the likely impact of these developments on neighboring countries, particularly Japan. We conclude with a brief discussion of the prospects for cooperation and dialogue in the Asian-Pacific region and for Sino-American relations.

The Brookings Institution is grateful to the Ford Foundation for financial support of the conference. A post-conference tour for the Chinese delegation, capably conducted by the National Committee on U.S.-China Relations, was sponsored by the U.S. Information Agency. Julia Sternberg and Susan Nichols provided invaluable organizational, secretarial, and editorial assistance. Theresa Walker edited the final manuscript.

*December 1986  
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Bruce Dickson  
Harry Harding



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# Regional Economic Trends

IN AN analysis of the general pattern of economic relations in the Asian-Pacific region, many members of the Chinese delegation strongly criticized what they perceived as growing protectionist sentiment in the United States. They urged the United States to keep its markets open to absorb the exports that China hopes will finance the purchase of advanced foreign technology. Many American participants, however, felt that their Chinese colleagues applied a double standard to the issue of protectionism, in that they criticized the United States and other developed countries for restricting imports, while defending the right of China and other developing countries to do the same. The opinion of most of the American scholars was that the North-South dialogue must produce reciprocal trade concessions, whereby both developed and developing countries agree to open their markets to goods and services from abroad. The Chinese participants did not accept this viewpoint but argued that the protection of infant industries in developing countries differed in purpose and outcome from the protection of older, inefficient industries in more advanced nations.

## Prospects for the Developing Economies of East Asia

*Excerpt from  
the paper by  
Lawrence B.  
Krause*

THE DEVELOPING countries of the Asian-Pacific region began to significantly outperform other less developed countries (LDCs) during the difficult economic period after 1973. In these years a series of economic disturbances, including a sharp jump in oil prices in 1973–74, a normal cyclical recovery, a second rise in oil prices, a sharp increase in interest rates, a prolonged and deep worldwide recession, a debt crisis for LDCs, and now an atypical recovery affected all countries. The impact of these forces upon different countries depended in part on their productive structures and in part on their policy responses to the disturbances. The experience of this region seems to suggest that the countries of East and Southeast Asia are more adaptable than countries else-

where. This particular “comparative advantage” is most valuable during periods of severe economic disturbance.

For one thing, the good economic performance of Japan, especially in earlier years, has had beneficial spillover effects on its neighbors in the Pacific Basin. For example, Japan bought raw materials, transferred technology, and provided some capital and tourists, which in turn enhanced growth prospects for other countries.

However, these spillover effects could not have occurred if the other countries in the region had not been open to foreign influences. Compared with developing countries in other parts of the world, the LDCs in East and Southeast Asia have introduced more outward-oriented policies. Thus it is not by accident that these countries have maintained rapid growth of exports and have a high ratio of trade to gross national product (GNP). Singapore and Hong Kong are at the extreme of conducting completely free trade practices. A policy of liberalizing imports as one ingredient of an export-led growth strategy has been followed since the early 1960s in Taiwan and the mid-1960s in South Korea. The countries of the Association of Southeast Asian Nations (ASEAN) that export natural resources do maintain some protection for manufactures, which ranges from moderate in Malaysia to fairly restrictive in Indonesia. However, the protection is comparatively less strong than in LDCs elsewhere with similar economic structures and stages of development. None of the countries of ASEAN envisions its development in a context of self-sufficiency. Instead these countries maintain an outward orientation.

The better economic performance of these East Asian countries is also enhanced by their pattern of trade concentration in the Pacific Basin. Two distinct patterns emerge. The newly industrialized countries (NICs) specialize in manufactured goods and sell from 50 percent to 70 percent of their exports within the Pacific Basin. The United States is by far their largest market. The other LDCs export primarily natural resources and sell from 50 percent to 80 percent of their exports within the Pacific Basin. For them, Japan is the largest market. Thus, regardless of specialization, the Pacific Basin provides a major market for these countries. The rapidly growing intra-LDC trade in the region, possibly enhanced by ASEAN, also forms part of the picture.

While not directly related to international trade, several other factors can help to explain the region's relative economic success. One consideration relates to economic ideology. All of the governments and their societies have been prepared to take a

market-oriented approach to their economic development consistent with classical economic principles. Their labor markets reflect this approach. Artificial devices to push up money wages have generally been avoided, and wages have risen only in response to real labor scarcities. In addition, while permitting foreign economic influences to enter their countries, the host countries still maintain control. Classical economic principles also played a part in keeping these countries from becoming excessively indebted to foreign banks, a problem that has bedeviled other LDCs.

These countries have also adopted governmental policies that emphasize the promotion of economic growth and either ignore or pay less attention to distribution issues. They have concentrated on ways to facilitate industrial catch-up. In some countries, such as Singapore and South Korea, this emphasis has led to an active, almost intrusive, role for the government. In Hong Kong, by contrast, the government achieved the same objective by leaving private enterprises alone to manage by their own devices. Promoting growth often meant accepting market signals, such as maintaining a realistic exchange rate. Moreover, as one country first stated growth as a government objective and then achieved it, other neighboring countries followed suit.

Furthermore, it appears that private entrepreneurs were available in these societies to seize opportunities. Some observers have noted the great importance of overseas Chinese as entrepreneurs throughout the region. Only South Korea is an exception, but it too has strong Chinese cultural roots. Although it is not clear whether entrepreneurial instincts or a system of family ties is most significant in raising capital for new ventures, it is apparent that an important cultural pattern is clearly at work.

Finally, the political systems of these countries have been marked by general stability. When this stability has been shattered, such as in South Korea in 1980 or in the Philippines recently, the economy has suffered. Political stability promotes economic advance by reducing uncertainty and by encouraging saving and forward planning. However, the stability can be sustained only when a society builds a consensus on goals and priorities, which is accomplished through various institutional devices in each country.

The entire region is aware of the importance of international trade to continued prosperity and is greatly concerned by the specter of protectionism. Protectionism has been rising and if this trend is continued for much longer, it could undermine economic prosperity. The best way to prevent protectionism is actively to

promote a more liberal and open trade system. Thus the countries in the region support a new round of the General Agreement on Tariffs and Trade (GATT) negotiations and view GATT as the best hope for achieving more open markets and simultaneously guarding against renewed protectionist threats.

*Excerpt from  
the paper by  
Gu Yuanyang*

DURING THE past forty years, significant economic development has occurred in East and Southeast Asia. Even when the West was experiencing stagflation and serious economic crisis, many countries and areas in the region were able to maintain a certain momentum in their economic development.

The direct manifestation of the sustained economic growth in East and Southeast Asia is the steady increase of per capita GNP. In 1984, the per capita GNP of Brunei exceeded \$12,000 (U.S.), and it was \$6,500 for Singapore, \$5,000 for Hong Kong, \$3,000 for Taiwan, nearly \$2,000 for South Korea, \$1,857 for Malaysia, \$805 for Thailand, \$720 for the Philippines, and \$580 for Indonesia.<sup>1</sup>

To be sure, the polarization of wealth among the people and the enlarged income differentials between town and country have become a common social problem in East and Southeast Asia. Despite this problem, the development and prosperity of these regions have attracted the attention of people in many countries and have tempted them to find the reasons behind them. In my view, many factors are responsible for the sustained medium-to-high economic growth rate of East and Southeast Asia, but the main reason lies in the strategies and policies they have formulated and implemented in the course of their economic development. The emerging NICs and regions in Asia lack natural resources and have small markets. But, drawing on the experience of the Western countries after World War II, they have stressed investment in human resources and gradually attained superiority in this aspect. Combining this superiority with Western capital and technology, they have developed export-oriented processing industries with imported materials, turned out semifinished products, and assembled spare parts, generally by imitating and creating quality products. Thus these countries and areas, though latecomers, have surpassed the old-timers in the international market.

Despite past achievements, the engine of economic development in East and Southeast Asia—that is, the strategy in which trade plays a leading role in promoting economic development—is faced

1. *Asian Wall Street Journal*, October 22, 1984.

with many troubles. First of all, in the days to come, the rate of increase of world trade will not surpass that of the 1960s or 1970s. Second, because the Western countries have adopted a policy by which they want to ensure economic recovery on the one hand and keep the inflation rate low on the other, there will be a lower rate of economic growth in the future. Third, against a background of big deficits and high rates of unemployment, Western countries, the United States in particular, will place even harsher restrictions on imports from developing countries. Finally, the economic recovery of Western countries has not helped the prices of primary products to pick up. Instead, it has resulted in "nonsynchronistic" growth of the economy and prices. Low-speed economic growth and the new technological revolution will make it difficult for prices of commodities to rise significantly. East and Southeast Asia can neither control nor influence these and other external forces that limit economic growth. Their outward-oriented economic policies and strategies for economic development have resulted in a "pan bottom" economy, which is quick to heat up and quick to cool down. When there is an economic boom and brisk demand in the West, then East Asia will enjoy increased exports, leading to economic growth. But when their exports dwindle, the East Asian countries and regions will encounter a recession throughout their economy.

The rate of economic development in East and Southeast Asia from the late 1980s until the end of this century will depend on whether or not the economic policies practiced now will continue to be effective, and on whether their structural readjustments will be successful in resolving the various internal and external contradictions, economic or noneconomic in nature, that these countries encounter. At present, the newly industrialized countries and areas in Asia are faced with several threats. First, the competitiveness of labor-intensive products manufactured in the region has been gradually reduced in the world market as a result of increases in the wages of workers and in the costs of production. These goods may be displaced by products from other developing countries. Second, by combining their electronic technology with engineering technology the developed countries have turned from mechanization to automation, rejuvenating some traditional industries and increasing the threat to Asian labor-intensive exports. Furthermore, the Western developed countries are imposing more and more restrictions on the labor-intensive products exported by East and Southeast Asian countries and areas. Faced with these pressures, the newly industrialized countries and areas in Asia

began their "second industrial revolution" or "industrial updating" in the mid-1970s, with the aim of switching from labor-intensive industries to technology- and knowledge-intensive industries and from a strategy of "building up the country by means of export trade" to a strategy of "building up the country by means of high technology." To this end, they have taken a greater interest in importing advanced equipment and technology, carrying out research, increasing investments in new industries, setting up scientific-industrial centers, and developing highly technology-intensive and low energy-intensive industries that turn out products with high added value and with very little pollution.

The economic recession in the Western countries and the falling off of prices of raw materials have adversely affected the ASEAN countries because they are increasingly dependent on the Western developed countries. In reforming their economic policies and readjusting their industrial structure, they have to rely mainly on foreign capital, equipment, and technology to establish and develop their own industrial system based on domestic products. But, by rejuvenating some traditional industries and developing new industries, they hope to remedy gradually their lopsided economic structure.

If East and Southeast Asia carry out this reform and readjustment smoothly, the adverse effects imposed on them by the world economy will be reduced. They will be in a better position to seek a new opportunity of survival through scientific and technological advances and development in the face of ever fiercer competition in the world. They have already made some progress in the reform and readjustment of their economies. If this trend continues, then by the end of this century the average economic growth rate in East and Southeast Asia could reach 4 percent to 5 percent or even 5 percent to 6 percent. Though that cannot match the figure in the 1960s or 1970s, East and Southeast Asia will then become the new center of production and trade in the world.

However, the readjustment and change of industrial structure and trade patterns in Asia is no easy job. The creation of new industries and the updating of other ones will still have to rely largely on equipment and technology imported from the United States, Japan, and other developed countries, as well as on access to their markets. If the developed countries fear the enhanced competitiveness of the developing Asian-Pacific countries, they may take no interest or even actively stand in the way of the economic reform and readjustment of the less-advanced parts of



the region. If that happens, it will be difficult for these countries and areas to realize their ambitious objectives of development. The prospects for future economic growth in East and Southeast Asia, a bright spot in the gloomy picture of the world economy, will surely dim. Clearly, the North-South question is of vital importance for East and Southeast Asia. In predicting the prospects for economic development in these regions, it is necessary to study the present state and the future possible development of North-South relations in Asia.

*Excerpt from  
the paper by  
Wang  
Zengzhuang*

How is it that the Asian-Pacific region has developed so fast? Its success is often attributed to rich human and natural resources, but these factors are peripheral to sustained development rather than the key to high economic growth. In fact, countries and areas poor in natural resources took the lead in attaining such expansion. Evidently, one of the most important contributing factors is the importation and application of advanced technology. By absorbing foreign capital and technology, the developing Asian-Pacific countries and areas have acquired much-wanted production techniques and managerial skills at a relatively low cost, whereas they themselves have the necessary capabilities for absorbing and applying such techniques and skills, thus attaining quick economic growth. Such is the path Japan has taken, and the developing Asian-Pacific countries and areas are still in this process.

The export-oriented development strategy based on importing foreign capital and technologies and expanding foreign trade has also brought many problems to the economies of the developing Asian-Pacific countries and regions. For instance, quite a few countries and areas lean so heavily upon foreign trade, with their external economic relations centering so much around the United States and Japan, that their economies are susceptible to many destabilizing factors, such as the adverse impact of the economic crises in the capitalist world and the control and maneuvering by American and Japanese multinational corporations. Problems of this kind deserve close attention, though they have not yet seriously affected economic development. Given their proper solution, the economies of these countries will continue to develop at a fairly fast rate.

The new technological revolution centering on microelectronics, which is emerging on a global scale, is providing new opportunities for the economic development of the Asian-Pacific region. The United States and Japan will maintain their lead in

new scientific discoveries and breakthroughs. But the close economic ties between the developing Asian-Pacific countries and areas on the one hand, and the United States and Japan on the other, make it quite feasible for new technologies to be transferred from the latter to the former. As a result, the developing Asian-Pacific countries and areas are likely to be among the greatest beneficiaries of this new technological revolution. They have a considerable industrial base, abundant intellectual resources, and the capacity to absorb new technology and train the necessary specialized personnel.

However, the new technological revolution will cause certain problems in the economies of developing Asian-Pacific countries and areas. First, the new technological revolution will bring forth numerous new industries and new products and thus change the patterns of the international market so that the demands of developed countries for traditional labor-intensive products that are low in manufacturing technique will decrease gradually to the point of market saturation. Second, owing to the application of new technologies, such as microelectronics and robots, certain traditional industries that have been phased out in the developed countries will begin to come back and cause these countries to adopt protectionist measures against competition of similar products from developing countries and areas. Third, as labor-intensive industries use not only a great deal of labor but also much energy and raw materials, the fairly rapid increase in labor costs in these countries and areas and the greatly inflated prices of petroleum and other imported raw materials will raise the overall costs of their products, making them less and less competitive.

Confronted with these problems, the developing Asian-Pacific countries and areas, especially Singapore, South Korea, Taiwan province, and Hong Kong, began in the late 1970s or early 1980s to take countermeasures aimed at restructuring their industries toward greater sophistication and diversification, with the development of electronics as their core. Viewed from a historical perspective, it is only a matter of time until the new technological revolution and the trends of industrial restructuring in Singapore, South Korea, Taiwan province, and Hong Kong engulf the other ASEAN countries.

#### *Comments*

AMERICAN PARTICIPANT. If the international environment worsens, should the East Asian countries change their policies of outward-oriented growth? I feel that even in a hostile environment, an outward orientation is more beneficial than an inward-looking one.