A Pacific Century?

The U.S. Ambassador to Japan, Michael Mansfield, has frequently been quoted as predicting that the 21st century will be a "Pacific century." He means that, after the turn of the century, the center of world economic activity will have shifted from the Atlantic Ocean to the Pacific Ocean. The implication for the United States is that it will have to turn from the nations across the Atlantic for the advancement of its political and economic interests to those across the Pacific, since that is where the future lies.

To what extent is Mansfield's belief foresight based upon astute observations of reality? The answer to this question should be of considerable interest to U.S. policymakers and businessmen who appreciate the significance of the rest of the world to the U.S. economy.

Growth record
The nations on the western rim of the Pacific Basin—Japan, Korea, Taiwan, Hong Kong, Thailand, Malaysia, Singapore, Indonesia, and the Philippines—have been the world's fastest growing in the last twenty years. The average rate of output growth for the region as a whole was 8.0 percent, compared to 3.5 percent for the United States, 4.5 percent for Europe, and 6.0 percent for Latin America. The difference in growth rates, over twenty years, has meant that the region's share of world output has almost tripled from 5.5 percent in 1960 to 16 percent in 1980.

Considering the growth of the region as a whole, however, conceals the performances of the individual countries. These countries differ widely in ethnic and racial origin, culture, geographic size, natural resources, and stage of economic development. Taking into account these characteristics but focusing on their growth performances, one may divide the nations into three groups for discussion.

Stages of development
First, in terms of stage of development and the size of its economy, Japan stands out by itself among the nations in the region. Its phenomenal growth in the last thirty years is a familiar story. From a defeated, broken nation at the end of the war, it has risen to become the third largest economy—after the U.S. and the U.S.S.R.—in the world, in terms of national output. During the two decades prior to 1974, Japan achieved an average growth rate of more than nine percent a year. However, after the first oil shock of 1973-74, its annual growth rate dropped sharply to only 4.4 percent. As a result, Japan's average annual growth rate from 1961 to 1981, encompassing the oil shock, dropped to 7.4 percent.

In contrast, the so-called newly-industrialized countries (NICs) in the region—Korea, Taiwan, Hong Kong, and Singapore—form a second group. Over the same twenty-year period, Korea's average annual output growth was 8.4 percent, Taiwan's 9.2 percent, Singapore's 9.0 percent, and Hong Kong's 9.4 percent. Without exception, these growth rates exceeded, by a considerable margin, the annual output growth rates of all other nations in the world in the same time period. Moreover, these nations recovered strongly from the 1973-74 oil shocks. They resumed their vigorous growth at average annual rates of 7.7 percent, 8.4 percent, 7.9 percent, and 9.7 percent respectively. Another common feature of the countries in this group is that they, like Japan, are all virtually devoid of natural resources such as fertile soil, oil, mineral deposits and timber. Their outstanding economic growth is largely due to a hardworking population striving to better their living in an essentially market-oriented, open-economy setting.

The third group consists of Thailand, Malaysia, Indonesia, and the Philippines. Unlike the others, they are richly endowed with natural resources. Together with Latin America and Africa, nations in this group hold enormous reserves of natural resources hidden under dense jungles or on thousands
of uninhabited islands. Relative to economies in the other countries, the economies in this group have been slower to "take off." Nevertheless, during the last decade or so, these countries have also begun vigorous industrialization and have made notable progress in textile, electric and electronic industries. During the last twenty years, Thailand achieved an average annual growth rate of 7.4 percent, Malaysia 8.0 percent, the Philippines 5.8 percent, and Indonesia 5.5 percent.

Trade and industrialization
The rapid economic growth of the nations in the western Pacific region has been closely associated with the fast expansion in world trade over the last twenty years. Indeed, the most successful countries in the region have been those that emphasized the development of export industries which then served as the "cutting edge" of economic development. The necessity to compete on the world market forced these industries to become more efficient, to employ more advanced technology and management, to hold down labor and other costs, to adapt their products to the tastes of the world market, and to lobby their national governments against over-valued currencies. These industries, in turn, exerted an ever widening ripple effect in upgrading the economic performances of other sectors of their national economy.

Trade not only leads growth, but is also led by growth. The region has been a rapidly expanding market for products of the rest of the world as well as a growing source of supply of goods desired by the rest of the world. Over the last twenty years, total trade (exports plus imports) of the nations in the region grew at an average annual rate of 17 percent, compared to 14 percent for total world trade. As a result, from about 10 percent in 1961, the region's share in total world trade rose to 17 percent in 1981. With respect to the United States, the region's share in total U.S. foreign trade increased from 15 percent in 1961 to nearly 25 percent in 1981, while Western Europe's share declined from 32 percent to about 25 percent in the same period.

Hand-in-hand with the region's rising importance in international trade has been a drastic change in the composition of the commodities in the region's exports. This change reflects rapid industrialization and the transformation of the production structure in many of the nations. A quarter of a century ago, Japan was a third-rate industrial nation, eagerly absorbing foreign technology and struggling to pay for its much needed imports. Today, it is an industrial giant. By one account, Japan now takes 23 percent of the U.S. automobile market, 90 percent of motorcycles, 25 percent of television, 50 percent of radio and audio equipment, and 30 percent of cameras.

Farther down the industrial scale, but no less impressive in the extent of their economic transformation, are the NICs in the region. For instance, in the early 1950s, industrial products accounted for a mere 10 percent of Taiwan's total exports. Now they account for 90 percent. Over the past decade, Taiwan and Korea have vigorously upgraded their industrial technology. They are becoming significant exporters of electric and electronic equipment, steel, ships, automobiles, precision instruments, and petrochemical products. These advanced industrial products now account for about 40 percent of Taiwan and Korea's exports. An example of their rising competitive strength is that Korea and other NICs reportedly won 13 major international bids in 1981 to build 43 ships despite competing offers from Japan's ship-building industry.

In the meantime, both Korea and Taiwan have concluded or have been negotiating joint ventures to expand their automobile production facilities far beyond what their respective local markets could possibly absorb. The huge investments involved could only be justified by the expectation of rapidly expanding export markets, plus any ripple effects expansions of these industries might bring to the rest of their economies.

The aggressiveness with which the NICs in the region have expanded into industries
hitherto dominated by the advanced indus-
trial nations foreshadows still more competi-
tive pressures from these countries in the
years to come.

Gathering clouds
Rapid economic growth and industrialization
have thrust the Pacific nations to the front
stage of the world economy and benefited the
nationals of these countries by improving
their standard of living. But certain develop-
ments may cast a shadow on the prospect of
the region's continued growth.

First, world inflation since the mid-1960s has
infected the western Pacific as well. Until
recent years, most nations in the region—
except Indonesia, Korea, and the Philippines
—were able to maintain remarkable price
stability or, at least, relatively low rates of
inflation. They were jolted by the first oil
shock of 1973-74, but quickly contained the
inflationary pressures. They have been much
less successful since the second oil-price in-
crease in 1979. With the notable exception of
Japan, inflation rates have stayed at double-
digit levels in several of these nations and
brought new economic and social stresses
with which the nations have yet to deal.

Second, rapid economic growth in the region
took place during an era of unprecedented
expansion in world income and output. since
the mid-1970s, world economic growth has
slowed and the world economy is now in the
midst of the second general recession in a
decade. Among the nations in the region,
Japan and the Philippines have felt most
strongly the impact of this world recession, as
reflected in their significantly reduced out-
put-growth rate. Other nations in the region,
however, have been able to maintain surpris-
ingly strong growth —10 percent in Hong
Kong and Singapore, and 8.5 percent in
Indonesia, in 1981. Nevertheless, given the
uncertainty associated with world economic
growth in the years ahead, it is doubtful that
the region will be able to sustain the same rate
of vigorous growth.

Third, rising protectionism during the last
decade has darkened the prospect for in-
creased world trade. In contrast to the 1950s
and the 1960s, when trade barriers were
rapidly lifted, nations—especially the indus-
trial nations—have become increasingly
fearful of foreign competition and have insti-
tuted various restrictions against imports in
order to protect domestic industries. Most
damaging to the developing nations in the
region have been the so-called “Multifiber
Arrangements,” whereby the exporting na-
tions have agreed to limit the growth of their
textiles and clothing exports to the participat-
ing importing nations in return for the latter’s
agreement to allow some export growth to
take place. This has forced the developing
nations to diversify into the production and
export of other products —only to find restric-
tions waiting for the other sectors as well.

Sixty percent of Korea's major exports in
1977 were reportedly subject to some form of
import restrictions by industrial nations. But
the restrictions are not leveled against imports
from developing nations alone. Japan's
exports—such as automobiles, steel, and
electronics—have also encountered rising
trade barriers in the other industrial nations.

Unless the rising tide of protectionism is
reversed, the growth of world trade will be
thwarted, and all exporting and importing
nations alike will suffer. Under these circum-
stances, it may not be realistic to expect the
Pacific nations to sustain the impressive out-
put growth rates of the last twenty years.

Conclusion
The concept of a "Pacific century" reflects a
measure of euphoria based on the region’s
growth experience of the last two decades.
However, times have changed, and the de-
cades ahead may not be as favorable to Pacif-
ic growth as the last two. However, as a
slogan and clarion call, the concept could
nevertheless serve a useful purpose by calling
attention to the rising importance of the Pa-
cific nations in the world economy as well as
to the opportunities and challenges that the
region presents to businessmen and policy-
makers all over the world.

Hang-Sheng Cheng
### BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

#### Selected Assets and Liabilities

<table>
<thead>
<tr>
<th>Large Commercial Banks</th>
<th>Amount</th>
<th>Change from 11/3/82</th>
<th>Change from year ago</th>
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<tbody>
<tr>
<td>Loans (gross, adjusted) and investments*</td>
<td>161,716</td>
<td>- 25</td>
<td>8,291</td>
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<tr>
<td>Loans (gross, adjusted) — total#</td>
<td>142,079</td>
<td>- 70</td>
<td>9,516</td>
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<td>Commercial and industrial</td>
<td>45,422</td>
<td>- 96</td>
<td>5,588</td>
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<td>Real estate</td>
<td>57,482</td>
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<td>Loans to individuals</td>
<td>23,395</td>
<td>19</td>
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<td>Securities loans</td>
<td>2,211</td>
<td>- 67</td>
<td>293</td>
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<td>U.S. Treasury securities*</td>
<td>6,628</td>
<td>- 20</td>
<td>1,131</td>
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<td>Other securities*</td>
<td>13,009</td>
<td>65</td>
<td>2,356</td>
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<td>Demand deposits — total#</td>
<td>40,787</td>
<td>- 1,378</td>
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<td>Demand deposits — adjusted</td>
<td>28,811</td>
<td>153</td>
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<td>Savings deposits — total</td>
<td>32,560</td>
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<td>2,829</td>
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<td>Time deposits — total#</td>
<td>99,634</td>
<td>- 862</td>
<td>14,066</td>
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<td>Individuals, part. &amp; corp.</td>
<td>89,424</td>
<td>- 791</td>
<td>11,985</td>
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<td>(Large negotiable CDs)</td>
<td>36,662</td>
<td>- 934</td>
<td>4,209</td>
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#### Weekly Averages

<table>
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<th>Week ended 11/10/82</th>
<th>Week ended 11/3/82</th>
<th>Comparable year-ago period</th>
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<tr>
<td>Member Bank Reserve Position</td>
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<tr>
<td>Excess Reserves (+)/Deficiency (−)</td>
<td>139</td>
<td>81</td>
<td>65</td>
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<tr>
<td>Borrowings</td>
<td>39</td>
<td>39</td>
<td>142</td>
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<tr>
<td>Net free reserves (+)/Net borrowed(−)</td>
<td>100</td>
<td>42</td>
<td>— 77</td>
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</table>

* Excludes trading account securities.

# Includes items not shown separately.

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