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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

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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 most 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 the other NICs 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 shipbuilding 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 industrial nations foreshadows still more competitive 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 developments 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 increase 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 output-growth rate. Other nations in the region, however, have been able to maintain surprisingly 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 increased world trade. In contrast to the 1950s and the 1960s, when trade barriers were rapidly lifted, nations—especially the industrial nations—have become increasingly fearful of foreign competition and have instituted 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 nations have agreed to limit the growth of their textiles and clothing exports to the participating 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 restrictions 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 circumstances, it may not be realistic to expect the Pacific nations to sustain the impressive output 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 decades ahead may not be as favorable to Pacific 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 Pacific nations in the world economy as well as to the opportunities and challenges that the region presents to businessmen and policymakers all over the world.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 11/10/82	Change from 11/3/82	Change from year ago Dollar	Change from year ago Percent
Loans (gross, adjusted) and investments*	161,716	– 25	8,291	5.4
Loans (gross, adjusted) — total#	142,079	– 70	9,516	7.1
Commercial and industrial	45,422	– 96	5,588	14.0
Real estate	57,482	– 52	2,246	4.1
Loans to individuals	23,395	19	95	.4
Securities loans	2,211	– 67	293	15.3
U.S. Treasury securities*	6,628	– 20	1,131	20.6
Other securities*	13,009	65	– 2,356	– 15.3
Demand deposits — total#	40,787	–1,378	213	.5
Demand deposits — adjusted	28,811	153	817	2.9
Savings deposits — total	32,560	15	2,829	9.5
Time deposits — total#	99,634	– 862	14,066	16.4
Individuals, part. & corp.	89,424	– 791	11,985	15.5
(Large negotiable CD's)	36,662	– 934	4,209	13.0

Weekly Averages of Daily Figures	Week ended 11/10/82	Week ended 11/3/82	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (–)	139	81	65
Borrowings	39	39	142
Net free reserves (+)/Net borrowed(–)	100	42	– 77

* Excludes trading account securities.
\# Includes items not shown separately.

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