

COMMENTS

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I agree with Professor Hong's assertion that a series of protectionistic policy measures adopted by the developed countries have been a severe hindrance to the export oriented industrialization of the Asian NICs.

However, it can not be thought that the protectionistic approaches in the developed world will be moderated in the near future. If so, the Asian NICs may have to consider what they should do themselves, on the assumption that the protectionistic trade environment will not easily change in the future. I think that what the Asian NICs have to try is to modify their extremely import-inducing industrial structures.

The non-durable consumers goods and durable consumers goods of the Asian NICs have a huge trade surplus on one hand, and the trade deficit of the intermediate goods and capital goods is very large on the other hand. This contrastive trade balance among trade goods classified by end-use reflects the fact that the industrialization of the Asian NICs has been characterized by processed goods export with high import content of intermediate goods and capital goods. That is to say, manufactured commodities which the Asian NICs export, are mostly final goods at the end of roundabout production processes, and consequently their import content is extremely high. I think that the trade balance of the Asian NICs can not be expected to improve as long as this kind of processed goods export industrial structure continues to exist.

It goes without saying that the policy to modify this structure is so-called secondary import substitution centering around heavy and chemical industrial sectors. But at the same time, small-and-medium size ancillary industries and sub-contracting industries surrounding export industries, have to be promoted to be established. In summary, I think that the Asian NICs themselves have to make effort to try to restructure extremely import-inducing industrial framework in order to improve the trade balance *vis-à-vis* the developed countries.

My second comment is concerned with the problem of trade imbalance of the Asian NICs relative to Japan. I think that interpretation of this problem is a little complicated. Frankly speaking, I myself think that trade imbalance was unavoidable for a successful operation of the export-oriented industrialization of the Asian NICs.

We may say that causal mechanism of the export oriented industrialization of the Asian NICs is as follows. First of all, the Asian NICs promoted the export of final manufactured goods under the export incentive schemes. And they used their export earnings to import capital and intermediate goods, and the resultant capital formation further strengthened the international competitiveness of their manufactured exports, which in turn increased their capacity to import capital goods and invest.

This mechanism of reciprocal inducement between export expansion and capital for-

mation via capital goods import was the key to their success. But the problem of this mechanism is in the fact that the most important supplier of capital goods to the Asian NICs is Japan, but the main importer of final goods of the Asian NICs is not Japan, but U.S.A. and the EC countries.

As a result trade surpluses of the Asian NICs *vis-à-vis* U.S.A. and the EC countries become bigger on one hand, their trade balance relative to Japan shows accumulatively huge deficit. Conversely speaking this fact, the Asian NICs cannot attain trade surpluses *vis-à-vis* U.S.A. and the EC countries without trade deficit *vis-à-vis* Japan. As a matter of fact, the Japanese component of the Asian NICs's export was very intensive.

Thus, I think that trade deficit of the Asian NICs relative to Japan has been one of the factors which have supported their successful development of the export-oriented industrialization.

My third and final comment is on the future prospect for the trade balance of the Asian NICs. It is true that the absolute value of trade deficit in the Asian NICs has become cumulatively huge. But this is partly a reflection of the fact that their size of economy and trade has enlarged. It is worth noting here that the export-import ratio of the Asian NICs has increased very sharply in these years. Not only the export-import ratio relative to the world, but also the ratio relative to Japan improved significantly. This may be said to be a result of the reciprocal mechanism between export and capital formation via import of capital goods, on which I have already mentioned. The export-import ratio of the industrial products of the Asian NICs *vis-à-vis* Japan was less than 5% in the middle of the 1960s, but the ratio in Korea and Taiwan sharply increased to reach around 50% in recent years. This ratio is still less than 100%, but we have to notice that the ratio has significantly increased in a relatively short period.

In connection with this problem, I would like to mention here the following. You may know, but Taiwan's trade balance of the industrial product relative to the world, began to show a surplus at the beginning of the 1970s. And, according to the revised prospects of the Korea's 5 Years Development Plan, her current balance will attain a surplus after 1986.

I think that there will be no reason that Korea will suffer from the trade deficit *vis-à-vis* Japan, even after Korea's current balance *vis-à-vis* the world shows a surplus.

As for Professor Dorodjatun's paper, I have no knowledge on current economic issues of the Indonesian economy, then I am sorry I cannot comment on his paper itself. Professor Dorodjatun said that world wide recession and a declining trend of energy price had the significant negative influence on the balance of payment and national budget of Indonesia and impeded her industrial development effort and, then Professor Dorodjatun mentioned in his paper a gloomy prospect for attaining the target of industrial employment creation in Repelita III.

But, I think that even if the industrial stagnation due to recession and oil price decrease did not occur, employment absorption capacity of the industrial sectors in Indonesia has not originally been so large. According to our estimate, the employment elasticity of Indonesia's industrial production was the smallest in the ASEAN countries.

The reason seems to be found in the fact that leading industrial sectors in Indonesia have been the petro-related, large scale capital-intensive industries, and the following leading industrial sectors were the large scale, relatively capital intensive, import substituting in-

dustries, including fertilizer, cement, pulp & paper. Employment absorption capacity of these industrial sectors are weak. From the standpoint of employment absorption, smaller size and more labor-intensive industrial sectors have to be promoted further.

Most of the large scale, capital intensive enterprises concentrate in Jakarta, then the growth-diffusion effect of this sector is limited on one hand, and small-scale cottage type of industries is not only labor-intensive, but also locates extensively all over the country on the other hand.

In addition to the high growth of population and labor forces, it is reported that the land subdivision and fragmentation due to the increase of man-land ratio produces the landless agricultural workers in enormous number in Indonesia.

In this sense, the transformation of Indonesia's industrial development plan toward more employment oriented and more decentralized one seems to be required. Frankly speaking, high economic growth which was supported by great amount of oil money in the 1970s seems to have concealed this kind of crucial development problem in Indonesia.

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