

# Asian Economies in 1979

## Forecasts of Higher Inflation and Slower Growth

A slower growth rate and higher inflation has been forecast for the market economies of the world; including those of the Asian region. Most forecasts also see a definite slowing down in the rate of world trade this year. All major European countries, however, are expected to surpass their low growth performances of last year with a growth rate of 3 to 4 percent; but these gains are likely to be offset by a down turn in the U.S. economy. The U.S. growth rate is expected to decline to 2.4 percent from last year's 3.8 percent. The probable demand for imports in leading trading nations are therefore most likely, in these conditions, to be further restricted and a growth rate of only 3.7 percent in volume of world traded goods has been forecast for 1979.

For the Asian region in particular the prospects in 1979 do not appear very bright with the anticipated sluggish growth rates for most Asian countries and growing protectionism in the developed countries, which take most of this region's exports. Inflation is also expected to worsen in this region largely because of the higher oil prices.

An *Asian Wall Street Journal* survey quoting several leading government officials and private economists backs this view. One such typical view was that of K. H. Yu, chairman of Taiwan's Council for Economic Planning and Development:

*"The slackening world economy will force many countries to cut their imports. This will definitely have an impact on our economy. Our exports will increase at a slower rate this year, and it seems impossible for us to repeat the booming export performance of last year"*.

Although growth in several of the Asian nations are expected to slow down this year by a percentage point or two yet many expect

increases in their growth rate to be in the range of 5 to 9 percent, which of course is less than that of 1978. This is in contrast to some of the Western European countries, which are not expected to even match the low U.S. projection of less than 3 percent. However, despite the high GNP rate growth achieved in 1978 by most of these Asian countries they still need an economic expansion which will create noticeable improvements among the vast mass of their people.

Protectionist actions by the industrialised countries are more likely in 1979 than at any time in the past, was the pessimistic note struck by A. W. Clausen, President of the Bank of America, when he addressed the Federation of Korean Industrialists in mid-March this year.

*"Protectionism always seems more appealing during economic slumps, and it appears that the economies of the industrialized nations are in a prolonged period of slow growth that will not be easily improved", he noted.*

*The world currently is particularly vulnerable to protectionist pressure because of the sharp increases in the price of oil in the early 1970s and the subsequent recession, "the worst in four decades", he said.*

*Mr. Clausen warned that the U.S. is specially susceptible to protectionist temptations. "Among the causes of rising protectionist pressure there is growing concern about the country's trade deficit with Japan, Taiwan, Hong Kong, and Korea. The combined trade deficit with these nations is larger than the aggregate trade gap with the Organization of Petroleum Exporting Countries", he said.*

Even more frustrating than in the case of the industrialised world is that of the Asian countries which are finding that the rate of inflation, in most cases, is moving up faster than those of their growth rates and so threatening to undermine whatever progress they are achieving. (See estimates in diagrams, prepared by the *Wall Street Journal* on page 19.)

A brief view of the economic prospects of some of the Asian nations is given below.

### Japan

In Japan, economic growth in 1979 is expected to reach 6.3 percent from the previous year's 6 percent according to official forecasts. Steady consumer spending and increased private investment are likely to stimulate economic growth. The OPEC oil price boosts during 1979 are expected, as in all other Asian countries, to affect growth rates and add to inflationary tendencies. Greater inflation is expected, with rates moving up to 4.9 percent from 4 percent last year. Japan would have to pay higher prices for essential raw materials, while domestic consumer prices are expected to rise further. There are also fears that a possible lowering of the value of the Yen may make exports more expensive. Exports from Japan fell in volume terms through most of 1978 and this trend has continued into this year, but the overall export performance will depend on whether the Yen climbs in value late in the year.

### Singapore

Singapore's growth is expected to slow down this year to 6.8 percent from an official rate of 8.6 percent in 1978. Singapore's economy is heavily dependent on shipping, airlines and tourism and will therefore, be affected by global inflation, more costly sea and air transport and a general slowing down of the world economy. According to forecasts the country's exports are expected to increase this year. In imports, however, an even faster increase is anticipated as Japanese manufacturers investing in Singapore are expected to bring in high value capital investment equipment.

### South Korea

South Korea's growth rate is expected to come down to 9 percent from a high of 12.5 percent last year. Economic growth is to be restrained by the Government in order to help to keep down the rate of inflation, which reached 14.4 percent in 1978. The rate is expected to be held down to 12 percent this year. The rate of inflation, however, appears to be going above that of 1978 and possibilities of maintaining its 12 percent target in 1979 seemed difficult. Exports are expected to continue at highest possible levels with the Government calling for a 22 percent rise to \$15.5 billion.

### Taiwan

Taiwan which recorded the highest economic growth rate in the region last year, as much as 12.8 percent, is expected to reach a growth rate of 8.5 percent in 1979. Its inflation, which is import-induced, is expected to rise from 5.8 percent to almost 9 percent. Apart from higher raw materials prices, inflation is further boosted by the sharp increase in Taiwan's money supply. In 1978 money supply rose by 33 percent and this trend continued into 1979, along with Taiwan's enormous trade surplus which totalled \$126 million in the first two months of this year.

## Hong Kong

In Hong Kong too inflation is the biggest problem for the economy and is expected to reach 9 percent in 1979. The Government has attempted various measures such as raising of bank lending rates but still consumer spending has remained unaffected. Here rising inflation is caused by the growing incomes of families who are spending quite freely; and also the declining value of the Hong Kong dollar which has brought on a big trade deficit. The economy is expected to slow down with weaker conditions in the export markets, impact of higher oil prices abroad, protectionism and growing competition in export markets from Taiwan, South Korea and the ASEAN countries.

## Philippines

The Philippine's economy is expected to record a slight upward growth, from 5 percent in 1978 to 5.5 percent this year. Export inputs are expected to rise by 12 percent this year as compared with 8 percent last year, though a rise is anticipated in import prices too. The rate of inflation is expected to go up to as much as 17 percent from an 8 percent increase last year, mainly because of higher oil prices. The Government is also releasing pent-up inflationary forces by relaxing controls that had held some prices at artificially low levels. While a recent round of wage increases have helped consumer spending, rates on services such as transport and electricity have been increased and prices of items such as cement and rice have also been raised. These price rises are causing a degree of discontent among the labour unions.

## Malaysia

The Government of Malaysia appears to be taking all possible measures to maintain stable prices and contain inflation. Late last year, for instance, when it seemed that consumer prices would get out of hand tax subsidies were announced and steps taken to encourage savings, all with the hope of countering the inflationary tendencies in the economy. The rate of inflation is expected to remain at almost the same levels as last year, which was around 5 percent. A growth rate of 7.2 percent is expected this year as against the rate of 7.9 percent last year. Externally the country's main exports of tin, rubber and palm oil continue to be in demand, though the prospects for rapid growth in international trade seemed dim. The Government has thus stepped up domestic spending and kept up its expansionary policy.

## Indonesia

The highest rate of inflation for the region during 1979 is expected to be recorded in Indonesia. Inflation is expected to soar between 20 and 25 percent with the effects of last year's devaluation being felt. Prices have increased by an average of 2.1 percent a month since the Rupiah was devalued in November 1978. The fuel price rises and also the cuts in domestic subsidies are expected to further inflationary tendencies. Also the Government had to increase its 1978/79 budget by 43 percent to take into account the deflation. Furthermore,

the prices of imported raw materials have risen nearly 50 percent since November and this is leading to increases in prices of essential food items like sugar and bread. Overall export prospects seem brighter with better prices for rubber and tin, while higher oil prices could also boost export earnings.

## Thailand

As in many of the other countries of the region fears of inflation seemed to be very real in Thailand too. Activities in certain sectors such as construction are expected to slow down and the GNP growth is expected to drop slightly from 9 percent in 1978 to 8 percent this year. Consumers would have to pay higher prices for cement, sand, steel and other building materials which can all have an inflationary impact.

Once again in Thailand too, higher oil prices and sources of oil supply are causing concern for the economy. The Government has forecast a 9 percent rate of inflation this year, the same as in 1975, but the less optimistic view is that it could go well above 10 percent. The country's exports particularly of rice, tin and tapioca are expected to remain strong while earnings from tourism are anticipated to rise by as much as 15-20 percent; it is possibly on these anticipated foreign exchange earnings that this year's 9 percent growth in the country's economy has been based.

## China

China's modernisation programme and increased activities in almost all sectors of the economy indicate that production will increase as much as or even faster than in 1978. The overall rise in the GNP, however, would depend on two important factors; namely the weather for agricultural activities and foreign financing for investment in the massive industrialisation and modernisation programme China has planned. In sectors such as tea, coal, transport and power, particularly massive investments are planned and may well exceed those of last year.

## India

The accumulation of external resources by the Indian economy (a record US \$ 6.5 billion in foreign currency reserves) appears to have given policymakers a sense of complacency regarding the country's development prospects. The increasing petroleum prices and worldwide inflation, however, have left their impact in 1978 and despite its export earnings of \$ 6.9 billion last year India's trade deficit which stood at US \$ 417 million in 1977 went up almost 2½ times to reach US \$ 1,050 million in 1978. India's growth rate also suffered a resultant decline with a decrease from a level of 7.2 percent in 1977 to a rate of 3.5 percent last year. India is banking much on her export earnings, and on engineering goods alone expects to top the US \$ 1 billion mark in 1979-80 as against US \$ 875 million in 1978.

Furthermore, although since 1970 food production increases have actually outstripped population growth, this progress in agriculture has not helped much as there continues to be a widespread lack of money and purchasing power in rural India. And out of the 6 million people entering the labour force each year, the modern industrialised sector can absorb only about half to one million. The question is what could be done with the remaining 5 to 5½ million.

The accumulation of external resources by the Indian Economy is a temporary phenomenon and is likely to disappear by the end of her Sixth-Plan Period in 1983, is the view of the World Bank in its report on the Indian Economy to the members of the Aid Consortium, meeting in Paris in June. The Bank feels that India's external resources could disappear as a result of adverse developments such as a decline in the flow of remittances, crop failures or a deterioration of India's terms of trade.

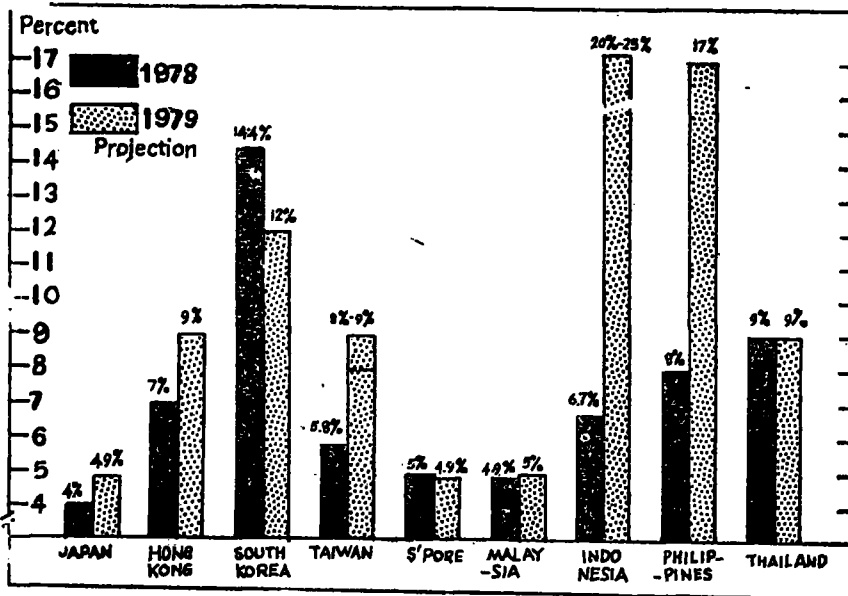
The Bank emphasises that the foreign aid requirements of the Indian economy would continue to increase rapidly and it would need a rising volume of foreign aid. The World Bank's report stresses the importance of direct programmes for creating employment and reducing poverty like land reforms, agricultural credit, rural development and public works. It regrets that agrarian reform in India has lost "even the little momentum it had".

On the industrial front, the shortage of steel, coal, power and transport have worsened and a spate of strikes have been recorded. True, the import policy has been liberalised; but the anxiety to reduce the huge trade deficit has led to liberal exports of essentials at the cost of domestic supplies. The psychology of inflationary pressure built by the Government has aggravated the imbalance between demand and supply. The Industry Minister, who had been breathing optimism on the industrial front, has now admitted that unless the bottlenecks in port, railways, energy, and road transport are removed planned growth in the current year will be off. The danger is, however, far greater. The industrial undertakings in the public sector are the backbone of the country's industrial structure; but instead of putting them to the maximum use, they have been made the cockpits of ideological struggle and inter-ministerial wrangles, states India's *Financial Express*.

## Pakistan

The mounting inflation both locally and abroad has added to Pakistan's problems. The regime of President Zia-ul-Haq has shown worry about the fast erosion of real incomes especially at the lower levels. Pakistan's Institute of Development Economics warned recently that "the escape routes from the present economic imbroglio are cluttered with too many obstructions. The Economy is finding it increasingly difficult to escape

## INFLATION RATE



**JAPAN :** Figure for 1978 represents official estimate for year ending March 31, 1979. Projection for 1979 represents official estimate for year ending March 31, 1980. OECD has estimated calendar 1978 and 1979 inflation at 4% for both years.

**HONG KONG :** Figure for calendar 1978 and projection for calendar 1979 are both official.

**SOUTH KOREA :** Calendar 1978 figure is official estimate, but economists' private estimates range from 17% or 18% to "over 30%". Calendar 1979 projection is Government target.

**TAIWAN :** Calendar 1978 figure is official. Calendar 1979 projection is from economists. Government sees 5% inflation, but this is considered optimistic.

**SINGAPORE :** Figure for 1978 is official. Projection for 1979 is based on private estimates.

**MALAYSIA :** Figure for 1978 and projection for 1979 are both official.

**INDONESIA :** Figure for 1978 is official. Projection for 1979 is based on estimates of private economists and businessmen.

**PHILIPPINES :** Figure for 1978 and projection for 1979 are both estimates by Center for Research and Communication, a privately funded economic research organization.

**THAILAND :** Figure for 1978 based on various consumer price indexes. Projection for 1979 is from Government economists.

from the vicious circle of poverty and low incomes that permit low savings which in turn keep incomes at a low level. Even worse, the policymakers seem to be suffering from a sheer lack of will to break through the vicious circle".

The economic situation has not been improving according to these warnings and there has been a proposal to scale down the fifth Five Year Plan by about 19 percent, to Rs. 171 billion. There are also reports that the Government is unable to cope with its debts servicing ability as none of Pakistan's creditors have responded so far to its requests for relief

on current year debt repayments. The country's foreign debt liability is said to have reached US\$ 7 billion. Also, up to December 31, 1978, deficit financing had touched Rs. 6.5 billion and by conservative estimates was expected to reach the record level of Rs. 8 billion at the close of the current financial year on June 30.

Pakistan's gross national product, however, was expected to record a growth rate of 6 percent during the current fiscal year 1978-79, as against 10 percent in the previous year. The commodity producing

sector; the services sector; agriculture, particularly wheat and rice production; and the industry sector, were all expected to record a 4 to 7 percent growth rate during the current year.

### Bangladesh

The effects of inflation were being felt in Bangladesh too and this was expected to leave its impact on the country's growth rate in 1979. Grain production in Bangladesh increased as much as 10 percent in 1978, and with favourable weather a further increase was expected this year. Food prices, however, have continued to rise in the early months of 1979. A kilogramme of rice, which cost taka 3.75 (US\$ 0.12) in January this year, rose to taka 4.75 by the end of March. In Bangladesh, however, the rate of growth in its GNP would depend much on the stability of the newly elected Government, the weather and a prudent use of foreign aid, apart from the effects of increased fuel prices and growing inflation the world over in 1979.

A vice-president and senior economist of the Bank of America's Asia Division, who visited Bangladesh recently sums up the country's 1979 prospects as follows:

The last fiscal year was the best the country has ever had. Growth was of the order of 7.8 percent. This year could be nearly as good, once again dependent on at least three factors: (1) increased agricultural production, due to favourable weather plus improved fertilizer, seed, pesticide and irrigation programmes; (2) improved industrial output helped by the import liberalization scheme and a domestic construction boom and (3) a significant pick-up in domestic investment, both public and private, the latter in response to shifts in tax, credit and import licence policies designed to spur investment. Meanwhile, exports are expected to grow, responding to new concessional export financing programmes as well as strong foreign demand.

Most of the economies of these Asian countries are basically agricultural and rural based and it is on this sector that much of their future development will depend. A recent ADB survey commenting on the outlook for rural Asia over the next decade states that it could be "a continuing lack of employment opportunities for the rural workforce; an unsatisfactory performance of production and distribution systems for food, and other rural products relative to the demands and needs of consumers". This same survey strikes a note of caution on a more immediate problem, namely, that of the rising petroleum prices, when it states that "the continuing climb of oil prices will induce greater instability in the economies of Asian countries and may severely constrain their economic growth". The general outlook in 1979 for the Asian region as a whole would depend much on how governments face up to these problems.