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ADJUSTMENT IN EAST ASIA: SOUTH KOREA AND TAIWAN

Gustav Ranis

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Adjustment in East Asia: South Korea and Taiwan

Gustav Ranis
Frank Altschul Professor
of International Economics
Yale University

I. Introduction

It is common-place nowadays to lament the fact that the brilliant post-war era of rapid growth in income and trade which we had begun to take for granted ended with the first oil shock in 1973 and to recognize that all kinds of calamities have befallen the entire world but especially the third world ever since. This inventory of problems ranges from lower growth to higher inflation, from lower productivity gains to higher interest rates, and from lower aid levels to higher protectionism. While the South/North complained strenuously about each other's inadequacies in the 50's and 60's most observers would be truly ecstatic if we could count on a return to the economic environment of that era. But this is highly unlikely. It is much more likely that the 1950-73 period will someday be seen as an unusually favorable "blip" in the overall experience of our weary globe and that we shall have to count on facing a return to an environment which continues to be much less expansionary and as a consequence much less friendly to newcomers to the club, than we had become accustomed to in the post-war era.

Adjustment to any deterioration of the international environment of the kind we have experienced since 1973 is, of course, inevitable. The question is always how did the adjustment, in fact, take place in different parts of the third world, what does this imply about the permanence with which the deterioration is viewed and what can be learned for the exercise of available policy options in the future. Especially if the deterioration is not just a temporary aberration this matter takes on major importance.

There are only four fundamental ways in which a developing country can adjust to a worsening of the international situation: 1) it can "pull in its belt" and lower its growth target; 2) it can try to borrow more abroad; 3) it can try to reduce its imports via import substitution; and 4) it can try to increase its exports by taking a larger share of a shrinking global export volume. Most countries will probably attempt some combination of all of the above; but the difference in relative weights that can be observed are nevertheless both striking and instructive.

The least developed or the really poor countries where most of humanity resides are essentially restricted to some combination of 1 and 3. Even in the hey-day of the "vent for lending" created by the petro-dollar surpluses of the early 1970's Euro-Dollar market institutions and commercial banks much preferred the NIC's; and those still largely agricultural and natural resource oriented poor

countries, faced with recession and staggering terms of trade losses, could do little to prevent large reductions in export earnings--not to speak of increasing them. While the fate of these countries--past, present, and future--especially in the context of stagnant or declining aid levels--represents perhaps the most serious adjustment problem on the world's agenda, it is not the subject of this note. Nor are we primarily concerned with the majority of the NIC's or Near-NIC's, mostly located in Latin America but also found in Asia (e.g. the Philippines, Malaysia, Indonesia) and Africa (e.g. Nigeria, Kenya) whose adjustment has mainly been via trying to combine options 2 and 3 above. Our focus, instead, is on the minority of NIC's located in East Asia, especially South Korea and Taiwan whose adjustment to the same international deterioration has been mainly to combine options 1 and 4. There is a general consensus that the East Asians have "done better" than almost anyone else, and certainly better than the other NIC's and Near-NIC's a result we might not have been led to expect--given their greater exposure to the vagaries of the international business cycles.

It is this which makes the East Asian countries especially interesting for it raises the question of the transferability or non-transferability of their experience. Moreover it, in turn, raises the following basic questions: if the East Asians have, in fact, done better, is this mainly due to favorite treatment received--in relative terms--from the rest of the world, or to their own actions, i.e. the adjustment options selected and the

specific policies deployed in pursuing them; and secondly, if the differential outcome is, in fact, mainly a consequence of their own actions, are these relevant lessons to be learned which might still be useful today for the other NIC's. Section II is devoted to an examination of recent East Asian adjustment experience; in this context we will also find it instructive to also point out some contrasts within the East Asian group, i.e. between South Korea and Taiwan. Section III, finally, presents some brief conclusions of possible relevance for international as well as national policy-makers concerned with the overall problems of debt and adjustment in the third world.

II. Adjustment in East Asia

There can be little doubt that, overall, the East Asian NIC's have adjusted well, by any relative standard, to the shocks administered by the international system since the mid-70's. If we compare growth rates of real per capita GDP, which is still considered a good "bottom line" indicator, we may note that in the wake of the first oil crisis, 1974-79, Taiwan and Korea either maintained or actually increased their growth rates while that in the other NIC's declined somewhat. The contrast is even sharper in the wake of the second oil crisis when, with the exception of Mexico which had by then become a major oil producer, the other NIC's experienced a substantial decline in growth rates while Taiwan

certainly maintained a respectable rate of advance. South Korea, on the other hand, for reasons which have to do both with unusual domestic instability, i.e. the Park assassination and some economic factors which we will turn to later, did not do quite as well. We will, in fact, find it useful not only to compare East Asians with the other NIC's but at the same time to point out differences between South Korea and Taiwan, which are often mistakenly viewed as having had identical policies and identical relative success in adjusting.

If we look at how the attempt to maintain growth rates was generally financed we may note that in all NIC's a fairly substantial increase in public and publicly guaranteed debt was registered in the post-73 period (see Table 8) with a further but relatively much smaller jump apparent in the post-79 period when we know there was a substantial diminution of available OPEC surpluses and a gradual disenchantment on the part of commercial banks with Third World lending set in. However, given marked differences in the size and the early initial conditions of these countries we really must also turn to a comparison of the export performance and of the increasing debt in relation to that export performance as a way of adjusting to the new post-73 international conditions. Tables 2 and 3 leave little doubt that the adjustment options of the East Asians clearly included trying to increase their share of a relatively endangered total export market.

While the East Asians, of course, are much smaller economies, the change of the export orientation ratio from the 50's to the 80's is quite remarkable and has no equivalent among the other NIC's (see Table 3). When we look a bit more closely below the surface we know that much of this increase in exports is due to manufactured export (see Tables 4 and 5). Moreover, within manufactured exports, as Tables 6 and 7 indicate, the consumer non-durable goods exports were increasingly important early on in the East Asian NIC's, declining somewhat in the more recent period, while they have become increasingly important in Colombia and the Philippines, but, of course, always much lower based.

A comparison of the annual growth rate of manufactured exports (Table 5) and that of consumer non-durable exports (Table 7), incidentally, also indicates the continued greater emphasis in Taiwan on labor-intensive exports and a relatively earlier shift towards more capital-intensive and durable and consumer exports in Korea. Similarly as we examine the record of the debt burden, i.e. total debt service as a percentage of exports (Table 9) we may note not only the large contrast between the East Asian NIC's and the three other NIC's, but also a much heavier reliance, relatively speaking, by South Korea relative to Taiwan on the inflow of foreign debt to finance the maintenance of an acceptable growth rate. The same point, i.e. that Korea stands some place midway between Taiwan and the other NIC's in terms of its overall performance, and thus has much to offer by way of instruction, is also indicated by the relative resort to inflation as a consequence of trying to maintain

growth in the face of adverse international conditions. As Table 10 demonstrates, inflation rates in the 70's and early 80's in Korea are generally comparable to those of the other NIC's, while those of Taiwan are substantially lower.

We may thus draw one general conclusion, i.e. that adjustment focussing heavily on the capture of an increasing share of new export markets was resorted to by the East Asians especially in the realm of manufactured exports. We may conclude, moreover, however, that South Korea was somewhat less successful than Taiwan and resorted somewhat more heavily to debt financing and inflation to keep the process going. The other NIC's, on the other hand, resorted much more and more fully to foreign financing, while trying harder to maintain traditional growth rates.

A full perusal of the tables presented, moreover, demonstrates one other important fact from which perhaps an even more important lesson should be drawn, namely that many of the differences in performance during the most recent decade have their roots in a substantially different performance during the early post-war period of development. It will, in fact, be our basic working assumption that a differential ability of various NIC's in different parts of the world to adjust to the adversity of the most recent decade is very much related to differences in structure which emerged much earlier, differences which were masked by the relatively favorable international environment of that quarter century.

Our argument that the differential performance since 73 is based on decisions taken earlier within the various NIC's of the Third World is supported by the fact that, contrary to some people's views, the relatively better performance of the East Asian NIC's during the recent decade cannot be reasonably placed at the doorstep of a differentially favorable, or better a differentially less punitive, set of international forces facing them. The same reduction in international demand, the same deterioration of the terms of trade, the same rise in the interest rates since 1979, the same increase in protectionism facing the Latin American and the other Asian NIC's, Indonesia, Malaysia, Philippines etc. faced the East Asian "Gang of Four". In fact, we could safely state that the East Asian NIC's were considerably more vulnerable to the shocks of that era, given their almost total dependence on imported oil. If anything, it may be said that due to the initially greater success in exports of the Korea's and Taiwan's of the NIC world the resistance of the rich to imports, as indexed by quotas, voluntary or otherwise, was much more directed towards the East Asians than towards the other NIC's. What we therefore need to explain is just why the East Asians were able to overcome relatively well the adversity of the post-73 period. This is a task to which we shall now turn, drawing on the differences between Korea, the intermediate case and Taiwan, perhaps the best case of adjustment, in the process.

While we certainly should not attempt a full analysis of the Korean growth path and the policy packages that have been in place since the early 1950's it is instructive to quickly review what went

on at an earlier stage in order to better understand her performance in recent years. In both Korea and Taiwan the period of the 50's had very similar characteristics though admittedly the initial conditions in Taiwan with respect to climate and agricultural infrastructure were somewhat more favorable. As is well known, both systems experienced an early import substitution subphase during which entrepreneurial experience was accumulated along with a substantial strengthening of the rural infrastructure through land reform, irrigation etc. on top of a preexisting initially good colonial heritage based on Japanese colonial investments.

In the 1960's both Korea and Taiwan shifted from import substitution to an export substitution policy mix which may be summarized as one of high labor intensive growth in manufactured goods directed towards international markets, with a substantial shift in the policy mix towards a greater market orientation. Such greater market orientation is not to be confused with *laissez faire* but represents a shift of government policies towards indirect rather than direct controls and a type of intervention which takes the form of working through the market. This combination of entrepreneurial maturation and policy change led Korea and Taiwan to a very substantial increase in industrial exports as they were able to translate their unskilled labor surplus into the conquest of internationally competitive consumer non-durable goods markets. The policy change included import equalization, the replacement of multiple exchange rates by unified rates, a major devaluation,

interest rate reform, a change in the treatment of foreign investment, all accompanied by negligible increases in real wages, a capital output ratio below 3 and most rapid increases in the most labor intensive exports.

By the late 60's and early 70's some divergence in policies and performance may be noticed as between these two East Asian NIC's. While Taiwan maintained a more or less strong emphasis on the labor intensive and non-durable consumer goods exports trying to capture an ever larger share of these markets the response in South Korea to the quadrupling of oil prices was in part accelerating the growth of the petro-chemical and other heavy industry, in part the acceptance of substantial budget deficits and the abandonment of the previous high interest rate policy for the sake of using the interest rate as a preferential subsidy tool for particular preferred industries. As a consequence fixed investment doubled between 1975 and 1978 accompanied by a strong shift to the Middle East in terms of construction projects and the subsidized exportation of the more capital intensive goods while there was still substantial labor surplus to be absorbed. As a consequence real wages began to rise prematurely the capital-output ratio now exceeded four, and the export composition shifted into watches, optical instruments, metal products, nonmetallic minerals and machinery. All of this was

accompanied by a relative neglect of food producing agriculture, thus larger food imports and a greater reliance, as we have already seen on foreign capital inflows.

The same period of the 70's in Taiwan may be viewed as substantially different in terms of an acceleration of the labor intensive manufactured export expansion process, a greater willingness to let the growth rate slip a bit and, except for one year, (74-75), a resolute policy of maintaining surpluses in the government budget and generally avoiding the sharp inflation experienced in Korea. While monetary expansion was not very restrictive in either country, roughly thirty percent a year, the difference in fiscal restraint was marked.

Korea may be said to have embarked on a secondary import substitution and export effort before her unskilled labor surplus had been fully absorbed and exported, to this end she was ready to use price controls and direct intervention through the subsidization of particular exports in a range of fairly heavy industry at a relatively early stage. In summary, while Korea responded to the multi-fiber agreements in textiles and the quotas in footwear by strong government intervention to encourage the heavy and chemical industries in the 1970's, Taiwan was less quick to change her policy stance, maintaining a relatively realistic exchange rate, higher real rates of interest etc. To the extent the Taiwanese government was importuned, as every government is, to provide special favors to special industries or industrialists in response to the

international deterioration, it was more likely to resort to individual firm oriented action rather than the overall inflation caused by government deficits and the low interest rate policy adopted by the Korean authorities.

Since 1979 the policy divergence between Korea and Taiwan has substantially lessened. Korean policy makers apparently realized, even before the second oil shock hit them, that they had better get back on the export substitution track they were on before 1968. They adjusted their policy mix towards a lower growth of the money supply, reform of a credit reform back to a uniform and higher real interest rates, resumed import liberalization and a return to a lighter industry and export mix. While this policy adjustment was temporarily set back by the second oil shock and the Park assassination of 1979, it was resumed after 1980 in an effort to resume higher growth with price stability. The 80-86 Fifth Five Year Plan, for example, targets import liberalization increases from 77 to 90 percent, non-tariff protection to gradually give way completely to tariffs, tariffs to move towards greater uniformity and a gradual down phasing. Interest rate differentials have already been reduced, with the intention to have real rates rise during the period. The notion of strategic industries which would get preferential credit and preferential tax treatment is being played down at present. The exchange rate has been much more flexible since 1980. As a consequence of all this, growth rates have, in fact, increased, inflation has declined and the debt problem seems to be less serious now than it was at the end of the 70's.

While Korea has thus demonstrated its policy and entrepreneurial flexibility the consequences of the differential past followed by the two East Asian NIC's during the 70's can be demonstrated with the help of Table 11. We may notice in 1981 that for the labor intensive non-durable goods categories, items 1-6, as well as for machinery, item 17, which contains a lot of non electrical machinery, Taiwan was a much more important exporter than Korea. With respect to the heavy industries, on the other hand, Korea had a relatively larger export volume. In addition one should notice that in the labor intensive sectors, capital intensity was substantially higher in virtually every instance in the case of Korea while the situation was generally reversed in the case of the quantitatively less important heavy industries. Moreover as we would expect wage rates were uniformly lower in the case of Taiwan although this may be as much due to a greater use of unskilled labor relative to skilled labor as to differences in wages by particular categories of skills. In any case, Table 11 demonstrates that in spite of the return to the export substitution policy path of Korea the heavy hand of history still dictates a substantial differential in performance between these two relatively well performing East Asian NIC's . But what is more important for our main purposes here is the demonstration that there exists a wide gradation of experience across the developing world and that policy mixes which give rise to different adjustment capacities are neither monolithic or unalterable over time. In the final section we turn to some of the conclusions that may be drawn from the adjustment experience previously outlined.

III. Conclusions for Policy

The fact that everyone has to adjust to a more severe international environment is by now a generally accepted proposition. What is less generally accepted is how much energy should be expended in trying to improve that environment and how much to attempt to adjust to it. This is a question which cannot be fully addressed in the context of this note. But it is true that the deterioration of growth rates in the advanced countries and the advent of higher interest rates and a less plentiful supply of foreign capital are not likely to constitute short term aberrations from a favorable long term trend but, in fact, a return to a less favorable long term trend. The question of what path of adjustment will be chosen by other NIC's and Near-NIC's in the years ahead then becomes relevant. It is not, in other words, "bad times" which separate countries from each other but their capacity to adjust to the "bad times". Moreover, this capacity to adjust at a particular moment in time is not just a function of decisions today on the part of policy makers but also a function of the past, i.e. the flexibility acquired and the increased options made available to a particular society. Taiwan, as we have seen, adopted the most pervasive reforms in interest rates, exchange rates, protection rates etc. in the early 60's and experienced the lowest rate of inflation and one of the lowest rates of debt accumulation in the developing world.

It is thus, in our view, no accident that the most severe debt problems have been concentrated among the newly industrializing countries of Latin America while some of the East Asian countries have been in a better position to "muddle through" with a relatively smaller reliance on foreign capital. In large part, as we have seen earlier, this has to do with differences in the structure generated during the 60's and 70's, i.e. in the extent of export orientation, in the manufactured export share, in the composition of these manufactured exports, and in the consequent differential reliance on capital imports and inflation. The other NIC's have generally tended to continue to rely on their relatively more abundant natural resources supplemented by foreign commercial bankers to finance a more protected and less flexible development path. The East Asian NIC's, in contrast, gradually switched to a greater reliance on the mobilization of their human resources, unskilled and skilled, and their entrepreneurial resources, which meant that they were able to adjust much better in terms of seizing a larger share of a certain total export pie in the wake of the post-1973 crisis. While much of the rest of the developing world has responded to the deterioration by pulling inward even more, the East Asians may be said to have not yielded to this third wave of export pessimism which is understandably very tempting.

If this analysis is generally accepted what are the policy implications for specific action, national and international? On the national front the adjustment experience of the East Asian NIC's indicates, to me at least, that there is nothing as important as creating an entrepreneurial capacity to "roll with the punches".

This has meant that in East Asia no matter how hard hit, by quotas and other kinds of restrictions, the newly expanding export sector, there was a capacity to move around the quotas, shift to new products, export to new markets, emphasize new specifications, i.e. fill the many holds in the SITC categories and, as indicated above, gradually shift from an exclusive concentration on advanced country markets to less developed country markets in a relative sense. Korea, for example, in 1975, exported only 19 percent of its manufactured goods to other developing countries; by 1980 this was almost 32 percent. Similarly in the case of Taiwan the figures change from 23.5 percent to 34.2 percent. As long as a labor surplus condition obtains there is a clear indication that developed country markets are favored; once labor surplus is mopped up it is clear that a natural orientation towards other markets will develop, quite in line with competitive advantage theory.

Certainly no radical reforms can be expected nor are desirable, not in the midst of what is still a bad recession globally and certainly no wholesome imitation of what transpired in the very different East Asian countries should even be contemplated. Every country is very different, as we have seen, even among the East Asian NIC's and this is certainly true for the other NICs of the developing world. Moreover all prototypes are grey rather than white and black merging into each other, with Brazil having many characteristics similar to those of Korea, for example. But one can observe a tendency of policy reformers in some NIC's to reexamine previous

decisions apparently made to try to "skip" the labor intensive export substitution phase and move directly into a range of secondary import cum export substitution activities in a more sophisticated range of products. What is needed in my view is a selective restructuring of domestic policy in that general direction and over a considerable period of time, with a clear maintenance of the trend even if there are some oscillations around it, i.e. a clearly demonstrated desire to avoid the stop/go pattern which is so destructive of a system's growing capacity to adjust.

With respect to the international community, I believe this requires a change in the way in which the international funding and organizational instrumentalities currently in place, function to help NIC's negotiate longer term adjustment packages. In other words, an improved method of carrying on the entire business of capital flow and policy review is required. It is possible to work towards a more arm's length relationship from some of the most powerful donor agencies as well as one that is capable of generating the requisite freshness, intellectual independence and policy maker attention in both rich and poor countries. The issue as it is commonly posed right now is one of either more liquidity, desired by the NIC's, versus more austerity as desired by the international community led by the IMF. In our view it is a question instead of the appropriate use of temporarily larger levels of liquidity to effect longer term real structural change once it is agreed upon by the recipient country. There is a large spectrum of international creditors and donors running from commercial to investment banks to bilateral

donors, multilateral donors, the IMF and the World Bank, all dealing with the same individual NIC's and all presumably with the same interest in improving its adjustment capacity, and not simply in paying lip service to reform. Foreign capital can make it possible to avoid reform as well as be very helpful in making reform possible if there is prior agreement at the technical level by all the parties concerned. In fact conditionality can only work if there is such general agreement all around on the merits of any restructuring package. What we have had instead is a combination of cynicism, friction and failure in many developing countries.

What is needed ideally is to place the entire discussion of adjustment capacity and the role of foreign capital and conditionality on a different plane, less confrontational, more long term and more multilateral in the true sense of the word. There is need for all the parties to come to agree with each of the NIC's on both the prospects and the actions required in such a non-paternalistic and truly multilateral setting. Of course, improving the international environment would help and there is no implication here that one should not continue to work very hard in that direction. But whether or not there are more opportunities provided by that environment the centerpiece of that debate should not be about more or less liquidity but relate to how we can better administer a larger volume of liquidity in line with an assured change in structure on the part of individual developing countries.

Meaningful policy change takes time and it takes resources, both to provide policy makers with long term reassurance before and negatively affected groups with salve for their wounds after any action has been taken. Recognition of the long term nature of the problem and of the long term requirements for having foreign capital inflows help effectively restructure systems is an essential prerequisite for the resumption of growth in much of the third world, bound to benefit both the rich and poor countries. The imposed wholesale reduction of imports and austerity are very unlikely to have as salutary an effect as the possibility of import liberalization linked to increased imports linked temporarily to foreign capital ballooning as part of a fundamental restructuring of the entire system, to cite one example. Conditionality requires full agreement on the domestic policy package which makes sense in each country case and full credibility with respect to the international mechanism if a process which has become increasingly friction ridden and unproductive over the past decades is to be saved.

Table 1

ANNUAL GROWTH RATE OF REAL PER CAPITA GDP (%)

	1950-55	1955-60	1960-65	1965-70	1970-74	1974-79	1979-81
Taiwan	5.4*	3.1	6.1	6.5	7.8	7.7	4.2
S.Korea	5.9	0.4	3.6	7.6	7.9	8.3	0.5
Mexico	2.4*	2.7	3.6	3.3	3.2	2.4	6.2
Colombia	2.4	0.5	1.5	3.0	3.7	2.6	-0.4
Philippines@	4.5	1.8	2.5	1.8	3.7	4.0	0.9

- Notes: 1. computed using the compound formula
 2. @growth rates for real per capita GNP

- Sources: 1. Taiwan: Statistical Yearbook of the Republic of China, 1982, 1980.
 2. *computed from World Tables 1980.
 3. All others: computed from IMF International Financial Statistics Yearbook 1982, 1980.

Table 2

ANNUAL GROWTH RATE OF EXPORTS (%)

	1950-55 (51-55)	1955-60	1960-65	1965-70	1970-75	1975-80 (75-79)	1979-81
Taiwan	5.3	12.4	21.3	22.0	15.4	16.3	8.9
S.Korea	-12.9 (53-55)	16.4	23.5	33.8	23.7	17.5 (75-79)	13.5
Mexico	5.5*	3.6*	6.5	5.8	2.8	12.0 (75-79)	n.a.
Colombia	-4.5 (53-55)	4.9	2.1	4.1	5.9	8.3 (75-79)	n.a.
Philippines	10.6 (53-55)	0.6	11.4	-0.1	2.6	12.3	5.6

- Sources: 1. Taiwan: Statistical Yearbook of the Republic of China, 1982, 1975
2. *computed from World Tables 1980.
3. Philippines: for years 1975-81: computed from 1982 Philippine Statistical Yearbook.
4. Korea: for years 1975-81: computed from 1983 Economic Statistics Yearbook (Korea).
5. All others: computed from country tables of the UN Yearbook of National Accounts 1980, 1969.

Table 3

EXPORT ORIENTATION RATIO
(exports/GDP)

	1950	1955	1960	1965	1970	1975	1977	1979	1980	1981
Taiwan	10.3*	8.2	11.3	18.7	29.7	39.3	49.2	53.9	53.7	53.4
S.Korea	4*	1.8	3.3	8.6	14.3	27.6	34.8	30.0	36.6	39.9
Mexico	17.0	16.7	10.6	9.5	7.7	6.7	10.3	11.2	12.6	11.9
Colombia	10.8	12.0	15.7	11.3	14.2	15.1	17.4	16.2	15.7	11.2
Philippines	13.4	12.7	10.6	17.2	19.1	18.6	19.0	18.8	20.4	19.0

Note: computed from exports and GDP in current prices

Sources:

1. *from 1980 World Tables
2. Taiwan: Statistical Yearbook of the Republic of China, 1982, 1978
3. All others: from IMF International Financial Statistics Yearbook 1983, 1980

Table 4

MANUFACTURED EXPORTS AS A PERCENTAGE OF TOTAL EXPORTS

	1962	1965	1970	1975	1979	1980	1981
Taiwan	50.46	46.00	78.62	83.65	90.54	90.81	92.25
S. Korea	18.15	52.03	74.91	76.81	81.46	80.09	81.30
Mexico	12.9*	14.12	29.98	29.48	20.05	10.97	8.12@
Colombia	2.85	6.20	7.95	20.06	19.61	19.62	27.24
Philippines	4.62	5.59	6.38	11.60	20.84	20.25	22.80

Note: Manufactured exports are defined as SITC codes 5+6+7+8-67-68.

- Sources: 1. 1983 UNCTAD Handbook of International Trade and Development Statistics, Table 4.1
 2. *computed from 1962 UN Yearbook of International Trade Statistics.
 3. @computed from 1981 UN Yearbook of International Trade Statistics.
 4. 1962 figures computed from the UN Commodity Trade Statistics, Statistical Series D.
 5. Taiwan: 1983 Taiwan Statistical Data Book.

Table 5

ANNUAL GROWTH RATE OF MANUFACTURED EXPORTS (%)

	1962-65	1965-70	1970-74	1974-79	1979-81
Taiwan	23.8	41.7	41.7	22.9	22.1
S.Korea	116.2	43.1	55.8	28.7	19.9
Mexico	8.8	13.7	31.1	4.1*	-1.7*
Colombia	37.6	12.4	59.0	10.1	11.5
Philippines	18.8	13.4	38.5	29.5	15.3

Notes: 1. Growth rates computed with the use of compound formula.
 2. Manufactured exports are defined as SITC codes 5-6+7-8.

Sources: 1. *computed from 1981 UN Yearbook of International Trade Statistics.
 2. Taiwan: for years after 1970: 1982 Statistical Yearbook of the Republic of China.
 3. All others: computed from the UN Commodity Trade Statistics, Statistical Series D for each year.

Table 6

CONSUMER NONDURABLE EXPORTS AS PERCENTAGE OF MANUFACTURED EXPORTS

	1965	1970	1975	1980	1981
Taiwan	37.5	41.2	43.7	(1979) 33.0	32.6
S. Korea	48.2	49.5	49.6	39.7	39.5
Mexico	14.2	13.5	16.6	15.6*	15.4*
Colombia	46.7	38.0	41.0	44.7	42.5
Philippines	12.1	9.0	16.1	31.2	34.3

Note: Consumer nondurables are defined as SITC codes 61-64+65-84+851-892

- Sources: 1. *includes SITC codes 61 and 64; computed from 1981 UN Yearbook of International Trade Statistics.
 2. Taiwan: for years 1975-81: The Trade of China, 1975, 1979, 1981 and 1982 Statistical Yearbook of the Republic of China.
 3. All others: computed from the UN Commodity Trade Statistics, Statistical Series D for each year.

Table 7

ANNUAL GROWTH RATE OF CONSUMER NONDURBLE EXPORTS (%)

	1962-65	1965-70	1970-74 (70-75)	1974-79 (75-79)	1979-81
Taiwan	14.9	44.4	31.9	23.6	20.1
S.Korea	145.1	43.9	51.7	27.0	16.7
Mexico	-5.0	12.5	45.7	-0.2*	-3.8*
Colombia	36.4	7.9	65.0	11.3	6.6
Philippine	12.0	6.9	64.6	43.6	23.1

- Notes: 1. growth rates computed with the use of compound formula.
 2. consumer nondurables are defined as SITC codes 61+64+65+84+851+892.

- Sources 1. *computed from 1981 UN Yearbook of International Trade Statistics and excludes SITC codes 61 and 64 (data not available).
 2. Taiwan: for years after 1970: The Trade of China for each respective year.
 3. All others: computed from the UN Commodity Trade Statistics, Statistical Series D for each year.

Table 8

TOTAL DEBT SERVICES AS A PERCENTAGE OF EXPORTS

PUBLIC/PUBLICLY GUARANTEED DEBT* (US\$ BILLIONS)

	1972	1974	1976	1978	1979	1980	1981
Taiwan	0.78	1.11	2.23	2.94	3.08	(early 1982) 5.50@	
S.Korea	2.89	4.36	6.82	11.36	13.93	16.27	19.96
Mexico	3.92	8.31	15.93	25.62	29.24	33.59	42.64
Colombia	1.63	2.09	2.45	2.77	3.34	4.05	5.08
Philippines	0.88	1.10	2.12	4.21	5.13	6.41	7.39

Notes: 1. *disbursed only.

Sources: 1. World Debt Tables 1982-83
 2. Taiwan: World Debt Tables 1980-79
 @from 1983 Annual Supplement of the Quarterly Economic Review of Taiwan and does not indicate if private non-guaranteed debts are included.

Table 9

	1972	1974	1976	1978	1979	1980	1981
Taiwan	4.5**	3.4	3.9	4.6	4.2	(1982) 4.0***	
S.Korea	19.4	11.0	10.4	11.3	13.7	12.6	13.7
Mexico@	22.3	18.8	31.1	54.6	62.3	31.8	28.2
Colombia	21.4	21.3	12.6	11.6	15.0	10.9	23.1
Philippines	23.6	12.6	14.6	26.5	23.2	12.5	18.3

Notes: *for both public and private debt.

@excludes debt service for private non-guaranteed debt

**computed using merchandise exports from IMF (IFS)
Yearbook 1979.

Sources: 1. World Debt Tables 1982-83.

2. Taiwan: World Debt Tables 1980, 1979.

***from 1983 Annual Supplement of the Quarterly
Economic Review of Taiwan.

Table 10

ANNUAL RATE OF OF INFLATION (%)

	1970-71	1973-75	1975-77	1977-79	1979-81
Taiwan	2.9	24.6	4.7	7.7	17.7
S. Korea	12.5	24.8	12.7	16.3	24.9
Mexico	5.1	19.4	22.2	17.8	27.1
Colombia	10.7	23.6	26.5	21.2	27.0
Philippines	12.5	20.2	7.1	13.1	15.5

Notes: computed from CPI using compound formula.

Sources: data for CPI from:

1. Taiwan: 1982 Statistical Yearbook of the Republic of China.
2. All others: IMF International Financial Statistics Yearbook 1983.

Table 11

Comparative Export Performance in 1981: Korea and Taiwan

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	Exports (In Billion Dollars)		Capital-Intensity ^{3/} (In Thousand 1981 \$)		Wage Rate ^{3/} (In Thousand 1981 \$)	
	Korea	Taiwan	Korea(1981)	Taiwan(1976)	Korea(1981)	Taiwan(1976)
1. Misc. Manufactures ^{1/}	1.7	4.3	7.0	5.6	2.7	1.9
2. Wood Products	0.5	1.2	9.0	6.4	2.6	2.0
3. Electronic Products	1.8	2.8	5.6	5.3	2.8	2.2
4. Metal Products	1.1	1.0	8.3	5.8	3.1	2.0
5. Clothing & Footwear	4.9	4.4	2.3	4.0	2.1	1.8
6. Textiles, natural ^{2/}	1.3	1.2	7.9	8.8	2.4	2.0
7. Textiles, synthetic	1.2	0.9	9.6	29.7	2.5	2.5
8. Steel Products	1.4	0.4	17.4	10.6	3.6	2.7
9. Transport Equipment	2.0	0.8	20.6	20.9	4.3	2.4
10. Rubber Products	0.5	0.2	12.6	7.3	3.7	2.3
11. Basic Chemicals	0.36	0.3	53.1	55.5	4.7	3.3
12. Sugar Refining	0.2	0.02	66.1	29.0	5.4	4.6
13. Fertilizer	0.2	0.0	48.2	64.2	5.8	4.3
14. Cement	0.34	0.07	69.4	101.2	5.5	5.1
15. Nonferrous Metal	0.1	0.04	28.6	35.7	3.8	2.8
16. Iron & Steel	0.4	0.05	75.5	154.0	4.5	3.4
17. Machinery	0.9	2.2	13.5	11.2	3.3	2.4
18. Petroleum Product :	0.1	0.4	113.1	118.3	8.4	4.3
All Manufacturing	21.0	22.5	11.7	12.0	3.0	2.2

Source : Korean Traders' Association, Foreign Trade Statistics, and Inspectorate General of Customs, The Trade of China (Taiwan District).

- Notes :
1. Including nonmetallic mineral products (except cement), precision instruments and plastic products.
 2. Including natural fiber yarn and fabrics and other textile products except synthetic fiber yarns and fabrics.
 3. 1981 prices for Taiwan were obtained by applying the WPI for all commodities (158.42) and WPI for capital goods (143.35) with 1976 base year and the exchange rate of 36.8 NT\$ per dollar. (The exchange rate of 682.7 won per dollar was applied to Korea.)

ERRATA

Adjustment in East Asia: South Korea and Taiwan

Gustav Ranis

- Page 9, last sentence: Sentence should read, "The policy change included import liberalization, the replacement of multiple exchange rates by unified rates, a major devaluation, ..."
- Page 12, line 8: Sentence should read, "They adjusted their policy mix towards a lower growth of the money supply, reformed their credit structure back to a uniform and higher real interest rate, resumed import liberalization, and returned to a lighter industry and export mix."
- Page 13, line 2: Line should read: "...flexibility the consequences of the differential path followed by the ..."
- Page 16, line 5: "holds" should read "holes".
- Page 16, line 15: "competitive" should read "comparative".
- Page 16, line 18: "wholesome" should read "wholesale".
- Page 17, line 4: Sentence should read, "What is needed, in my view, is a selective restructuring of domestic policy in the general direction of undoing the "skipping" and over a considerable period of time. Moreover, consistency is needed, i.e. the clear maintenance of a policy trend even if there are"