

POLICY IMPLICATIONS FOR SOUTHEAST ASIA IN THE LOW GROWTH DECADE OF THE 1980s

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If, as earlier argued in "Perspective and Prospects for Southeast Asian Growth in the 1980s" (Oshima, 1980), the industrialized countries may be in for an era of low economic growth, we had better begin to discuss various policy alternatives if only to be better prepared to meet slowdowns such as those that have occurred, or are projected to occur, in 1980, 1981 and 1982. Many countries such as Japan are reviewing their long-range plans with the view to cutting down projected growth rates. It is better in an uncertain age to target for lower growth of GNP, investment, savings, exports, imports, and so on, and avoid deficits or incur surpluses which can always be spent in the next period.

In the decade 1971-81, the average growth of GNP in industrialized countries was down to the historic levels of 3 per cent (during the past century), which was lower than the average growth of 5 per cent in the 1950s and 4 per cent in the 1960s. One cannot rule out the possibility that the first half of the 1980s will be down to 2 per cent. A recent IMF estimate for the 1982 GNP implies that the average growth rates for the industrialized countries for 1980, 1981 and 1982 will amount to no more than 1 per cent, so that to achieve an average growth of 2 per cent from 1980 to 1985 (inclusive), these countries will have to grow at a rate of 3 per cent in 1983, 1984 and 1985 — a difficult feat in view of the nature of the present contraction which a recent issue of *International Business Week* termed the "most miserable and baffling" since the Great Depression. Even with a solid recovery in the second half of 1982, and with interest rates falling substantially, the key variable — investment — may take some time to recover. With enormous over-capacities in the industrialized countries in most of their basic industries, (for example, in the bellwether of modern industries — iron and steel), the present unused capacity may be as high as 40 to 50 per cent of total capacity depending on how stand-by equipment is defined and treated (with similar margins of underutilization in such other bellwether industries as petrochemicals in the non-metallic sector and

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automobiles in the non-processing industries). Even a strong recovery from 0.5 per cent growth in 1982 GNP to 4 — 5 per cent in 1983, 1984 and 1985 may not produce shortages for some time to come in steel, petrochemicals, automobiles, etc., in the industrialized economies. Right after the oil crisis and recession of 1974/1975, the U.S. economy grew at an average rate of 4.8 per cent in 1976, 1977 and 1978, but excess capacities were not wiped out.¹

The present crisis may be “baffling” because long-term forces (many of them institutional and non-measurable) are involved. And these may take many years to understand and correct. This is the case not only with the over-capacity in the basic industries — a product of the decades of the 1950s and 1960s during which the industrialized countries were making up for the under-capacity due to the depressed decade of the 1930s and to the militarized decade of the 1940s.² Additionally, over the decades of high employment and growth, management and labor unions have adopted a series of practices which have retarded the growth of productivity and brought about inefficiency in many of the industrialized countries. This comes out clearly in the comparative studies of U.S./European and Japanese management and industrial relations practices. The differences in the growth of productivity between Japanese and U.S./European industries are understandable if these studies are examined. Finally, the government has in the past decades piled up social security obligations whose costs for the next few years are expected to be so enormous that the budgetary deficits are projected to grow at a rate of \$20 billion for each of the years up to the end of 1985 in the U. S. And from this year on, there will be a major boomerang effect on the industrialized countries' exports as the huge imports of the 100-odd developing countries (whose imports were probably doubling in each of the three previous decades) begin to taper off. In sum, many of the forces underlying the present slowdown are the outcome of decades of high growth and they are deeply embedded in the structure and institutions of the West. Some years will elapse before adjustments can be completed.

Perhaps the foregoing is too gloomy a perspective for the 1980s, ignoring the bright side of the 1980s such as the emerging third

¹ See Appendix Table on the movement of indexes of world production. Note that the data refer to actual production and not capacities which may be much greater.

² In ways analogous with the “baby boom” of the 1950s and 1960s following the low birth rates of the 1930s and the 1940s and now succeeded by the “bust” in the 1970s and into the 1980s.

industrial revolution (of electronics and bio-engineering) which may speed up the progress of innovation, particularly in the field of service industries in the industrialized countries and of agriculture in the developing countries, or the strong, financial position of households in the industrialized countries (unlike the early 1930s). Or the prospects that the oil shortage of the 1970s may have been transformed into a long-term oil glut for the rest of the 1980s as the response to the high oil prices has rapidly raised energy supplies and cut down oil demand. Southeast Asia is fortunate to be near the most dynamic growth area of the world — East Asia — with Japan, Korea, Taiwan, Hong Kong, and Singapore shifting out many of their labor-intensive industries as real wage rates continue to rise while the growth rate of labor supply slows down as a result of the demographic transition in the 1960s and 1970s (1950s for Japan.)³ But these are long-term forces which may not have substantial impact to offset the decline of exports to the industrialized West and Asia perhaps some time until the latter 1980s.

The thrust of the paper is to argue that preparations must be made to consider new strategies and policies for an era of slow growth in case the world economy does move into a slowdown such as in the 1930s. Southeast Asia (and East Asia too) should be adequately prepared to switch to new strategies suitable for a low growth era, instead of proceeding as though the present recovery will bring back the halcyon decades of the past. I argue further that in the "baffling" times of great uncertainty in the industrialized world, when forecasters in the West have been wrong year after year, and economists, unsure about the future, are unable to come forward with assured solutions, it is prudent for LDCs to expect the worst and to take the lower forecasts of future GNP instead of the higher ones. It is better to try to avoid deficits whether they be in the balance of payments, government budgets, investment accounts and so on, just as prudent households do with their budgets in times of difficulties.

It appears now that policies in 1981 and 1982 in Southeast Asian countries were based on econometric projections by various prominent institutions (Chase Econometrics, World Bank, Center for Pacific Basin Studies, Wharton Economic Forecasting Associates, and the Institute of Developing Economies) which were too high —

³ Southeast Asia can also purchase cheaply from Japan high technology machines and from Taiwan, Korea, Singapore and China low technology machines and equipment, not to speak of learning about appropriate institutions of management, industrial relations, marketing, and so on. On the oil glut, see *International Herald Tribune*, August 30, 1982.

6.5 per cent to 8.5 per cent for the 1980s (or up to mid-1980s). Details of the methodology of the models are not available but all these models were probably assuming moderate rate of growth of industrialized countries, perhaps close to 4 per cent and the exceptionally good performance of Southeast Asia, during the late 1970s. Perhaps sufficient allowance may not have been made for the lag between low growth rates in the West and their importation of primary exports from Southeast Asia. At any rate, these rates of 6.5 per cent for slow growing countries and 8.5 per cent for fast growing countries for the 1980s do not now seem plausible (at least up to mid-1980s) and these projections may have to be scaled down.

Even if it is not revised downward, planning in Southeast Asian countries should not proceed on the assumption of rapid growth. For example, in the Philippines 1983-1987 Plan, the assumption was that the economy will grow on the average by 6.5 per cent yearly,⁴ even though the Philippine economy grew in 1980 and 1981 at an average of only 4.4 per cent and will do no better in 1982. If the assumed rate of 6.5 per cent GNP growth proves to be too high in the 1983-1987 plan period, investments targetted will be higher than actual savings and additional foreign borrowings will be necessary. This also appears to have happened in the 1978-1982 plan.⁵ Similar changes in the current plans for the other Southeast Asian countries must be made if deficits and shortfalls are to be avoided. But more than quantitative adjustments to five-year plans (both current and future) should be considered if the 1980s begin to appear as an era of low growth rates for the industrialized countries defined to be between 3 and 2 per cent.⁶ The strategy may have to be changed

⁴ From the World Bank's *Philippines: Selected Issues in the 1983-1987 Plan Period*, as reported in the *Far Eastern Economic Review*, July 16-22, 1982, Hong Kong, pp. 40-42 and *Business Day*, August 23 & 24, 1982.

⁵ The 6.5 per cent of the 1983 to 1987 plan may have also been based on the average of 1977-1981 period which was nearly 6.0 per cent. But this was before the May 1982 statistical revisions which lowered estimated figures of GNP for 1980 and 1981 by nearly one-fifth. With the 1980 and 1981 revisions and the revisions which may have to be extended to the 1977, 1978, 1979 estimates (which is usually the situation in national income computations when benchmarks are changed), the actual average growth rates for 1977-1981 may fall to 4.5 per cent and 5 per cent. If so, it is no wonder (as the World Bank paper notes) that instead of savings rising to 25 per cent of GNP, it was only 22 per cent and the country had to borrow the difference of 3 per cent from abroad in order to finance the investments of 28 per cent of GNP.

⁶ I would take the lower figure since surpluses are easier to handle than deficits .

POLICY IMPLICATIONS FOR SOUTHEAST ASIA

with new policies and changed emphasis. Some of the elements of the strategy for the 1980s are discussed below.

Heavy Industrialization

Shortages of funds, both internal and from abroad, will make the establishment of heavy and capital-intensive industries well-nigh impossible in each Southeast Asian country, and present plans for big projects will have to be dropped. There will be no funds forthcoming from outside banks or multinational companies for heavy industries with so much over-capacities. Instead, renewed effort should be directed to the planning of regionally cooperative joint ventures (such as in the ASEAN) in iron and steel, chemical and petrochemical, aluminum, copper, paper and pulp, glass, heavy engineering and other projects. This will not only save foreign exchange and investment funds but also economize on experienced, high-technology manpower — the factor which is most difficult to find in LDCs for the operation and research for further development of heavy industries, as the postwar experience with the failure of heavy industries in LDCs suggests.

Regional joint projects may make possible large-scale and efficient operations without which net savings in foreign exchanges may turn out to be negative. This is because of "cost-cascading" — i.e., the higher costs of upstream heavy industries imposing their costs (through secondary import substitution measures) on downstream export industries whose products cannot be exported. The outstanding case of this is that of India where the traditionally efficient Bombay textile manufactures became increasingly unable to export in the 1960s and 1970s (losing out to Hong Kong, South Korea and Taiwan) as they were forced to buy the obsolete textile machines made by their own engineering industries and high cost man-made fibres of their petrochemical industries.⁷

⁷Taiwan has put on sale their new petrochemical complex because of the high cost of raw materials. The complex must be operated with large subsidies if the textile exports are not to decline. The same difficulties face Korea's petrochemicals (and also Japan to a lesser extent). All these face problems of high energy costs for their aluminum smelter and high pulp costs for their paper and pulp. Both Taiwan and South Korea have postponed plans to enlarge their iron and steel complexes until the mid-1980s, uncertain as to what the new technologies which Japan's steel industry is working on will do to their expanded steel capacities. As in India, self-reliance has been abandoned in heavy engineering and both Taiwan and Korea are working toward joint ventures in automobiles and other fields. Korea's big heavy engineering complex at the time I was in Seoul a few months ago was operating at one-quarter capacity and the decision as to whether to scrap or modify a large part has not been made.

Regional projects will make possible the establishment of heavy industries as joint venture with leading manufacturers in the industrialized countries. With so much over-capacities, country projects will not attract joint ventures with suitable partners. It is difficult to see how countries in Southeast Asia without experienced high-level manpower for high technology industries can produce heavy industrial products without cost-cascading when countries like India, China, Korea, Taiwan, and Mexico could not. Even on a regional basis without joint venture, costs may be too high and in the long run, these industries may become technologically obsolete.

I realize how difficult it is to get ASEAN to cooperate on this kind of effort. But the proliferation of heavy industrial projects on a country basis for instance in Taiwan and South Korea (with their failures) is not going to be financially possible (even if desirable) in an era of low growth and high capacity in the industrialized countries. The chances may be better on a regional and on a joint venture basis. If so, heavy industries can be the key to the quick passage of ASEAN into an industrial society, making possible the establishment of efficient lower stream industries, some of which may be labor-intensive for exports and others more capital-intensive for domestic consumption, as discussed below.⁸ But ASEAN countries in a low growth era may begin to realize that regional cooperation may be the cheapest way to avert disasters in an era of high growth of labor supply and worsening income distribution.⁹

Labor-Intensive Industries

Peak rates of labor force growth will occur at various points of time in the 1980s as the 1960 babies come into the labor market, as the female participation rate grows, and as the retirement age lengthens with rising life expectancy. Labor absorption rates in agriculture are likely to be lower than in the past decades as the growth of traditional agricultural exports tapers off in the worldwide slowdown and as self-sufficiency in domestic food needs is met. The service sector cannot be counted on to absorb as much labor as it did in the past decades since the growth of tourism will slacken, and as the expansion of government and personal services

⁸This discussion on heavy industries is from my paper "Issues in Heavy Industrialization in Asia" (mimeographed), April 1982.

⁹As one ASEAN economist noted in private conversation, all this may be a "blessing in disguise" since ASEAN is forced to cooperate.

will taper off.¹⁰ Since capital-intensive industries are least absorptive of labor, there is no other major source of labor demand than the more labor-intensive industries, most of which are light industries.

The importance of these labor-intensive industries is that they are not only for export but are also for domestic consumption, especially as wage goods, and are located not only in urban areas but also in rural areas. Hence, it pays for governments to shift the resources saved from foregoing plans for heavy and capital-intensive industries to the development of efficiency and quality in these industries in order to generate jobs, and to reduce prices and improve quality for domestic consumers as well as for exports. And in the latter case, policies to increase exports among neighboring countries among LDCs in South-South trading may be worthwhile.

These labor-intensive industries are not only found in the textile, food, wood, chemical and other sectors but also in the light and medium-engineering/machinery sector — in smaller machines such as farm equipment, in sub-contracting of components and parts, and in the lower-stream metallic and non-metallic processing sectors. Most of these industries are inadequately and insufficiently developed in Southeast Asia and efforts to develop them must be carefully worked out through a good system of industrial policies. These are the industries which generate a great number of jobs in manufacturing in such newly industrialized economies as Taiwan and South Korea, as well as in older industrialized economies not yet at the frontier of industrial technologies (Australia, Italy, Ireland, New Zealand, Austria, Scandinavia, Canada, USSR, East Europe, etc.) — accounting for two-thirds to four-fifths of total manufacturing employment. But for ASEAN agro-economies to move into the industrialized society, a great deal of time and effort is required, analogous to government assistance in agriculture in the form of extension, manpower development, irrigation facilities, etc.

¹⁰ See "Postwar Growth of the Service Sector in Asian Countries: A Macro Comparative View," *The Philippine Review of Business and Economics*, Nos. 3 & 4, September-December 1979 where it is speculated that the rapid growth of the service sector in the Philippines, Indonesia, Thailand, and Malaysia may have been due partly to the pile-up of workers unable to find employment in agriculture and industry. If so, since there is a limit to such pile-ups, the unwanted workers will become openly unemployed. On labor force explosion and absorption, see *Economic Development and Cultural Change*, January 1971 and the *Malayan Economic Review*, October, 1971 and the *Philippine Economic Journal*, Nos. 1 & 2, 1976.

ASEAN industrial policy should establish *long-range* industrial planning in which the heavy and costly industries are jointly developed while regional specialization is promoted in some of the other industries, with the view that beyond the 1980s, many of the industries now flourishing in the new and old industrialized countries may become internationally non-competitive since the labor force in these countries will be approaching zero growth. The slow growth of the world economy may be the time to develop the industries for the 1990s when high growth may return once more. There is no need to think of industrialization in terms only of garments and shoes, on the one hand, and petrochemical and metal smelting complexes, on the other. Most industries are in the middle stream in 20th century industrialization whose technologies have created a vast array of labor-intensive industries in the machinery/engineering sectors (which now absorb nearly one-half of the labor force in the manufacturing sector of the industrialized countries compared to a century ago of less than one-fifth).

In sum, in an era of low world GNP growth and high labor force growth in Asian developing countries, the need for long-range industrial policy both for regional groupings and for each country becomes urgent. And here the type of industrial policy so successfully followed in postwar Japan may be suggestive, even though many of the practices and procedures may not be applicable to individualistic countries such as the U. S.¹¹ Many aspects may be applicable with modifications to Southeast Asian countries with social values and institutions similar to those of Japan. In any case, industrial policy in Southeast Asia has to be improved considerably from the present rather chaotic practices, if Southeast Asia is to avoid costly and disastrous mistakes.

Agricultural Development

Studies will be required to determine to what extent the post-war expansion of traditional primary exports in Southeast Asia has

¹¹See Chalmers Johnson, *MITI and the Japanese Miracle: Growth of Industrial Policy, 1925-1975*, Stanford, 1982.

The purpose of studying the successful experience of other countries is not necessarily to imitate. (Institutions in one country are much more difficult to transplant to another country than material technologies). It is to find out what goals can be accomplished and how they were achieved and then to devise ways of getting to the desired goals through means and institutions more suitable. Even the institutions which are easily transplantable (such as quality control circles to improve quality in the United States) need to be modified to suit the U. S. environment. This problem is taken up in the "Applicability of Japanese Development Experience to Southeast Asia," *Philippine-Japan Economic Relations Seminar*, April 1982, School of Economics, University of the Philippines.

become excessive during the high growth era. Moreover, with lower growth of output and population in the developed countries, there will be a need for cutbacks which may shift marginal producers to other agricultural areas (perhaps to feed the rapidly growing population in the LDCs for the 1980s). It may be that the big increase in rice production in the 1970s with the introduction of new varieties, the expansion of new acreage and multiple-cropping may taper off in the 1980s and yield increases may still fail to match the growth of total population. Further, with rising per capita income and policies for more equitable distribution of income, per capita staple food consumed may rise. At any rate, the marginal lands taken out of cultivating traditional exports may be shifted to non-staple crops for domestic consumption and the demand for these is certain to rise with higher per capita incomes and their better distribution.¹²

There is still much to be done before rural development started in the 1970s can be substantially completed. It was with the rapid progress of mechanization of rice farming in Japan in the 1950s and Taiwan in the 1970s that these countries moved successfully into the industrial society while the failure to complete rice mechanization in the latter 1970s was one of the major sources of South Korea's present troubles. India and China's slow postwar growth is largely due to the shift of resources from agricultural development to heavy industries from the latter 1950s and these countries have shifted back to give agriculture and light industry top priority in the last few years. With half or more of the population in agriculture, the rise in incomes of rural families (via higher yields and more crops per hectare and more nonfarm employment) is of top priority to raise domestic demand for industrial output (of both consumer and producer goods). Without this rise in demand, long-term full employment is impossible to achieve for countries like India and China with three-fourths of the population in agriculture, and very difficult for Southeast Asia with half of the population in agriculture.¹³

Public Works

The rise in unemployment may be the time for extending and improving physical infrastructure. To hold down imports, intermediate technology and indigenous materials may have to be used. Thus, this may be the time for building small-scale infrastructure

¹²These speculations need to be checked with projections based on what we know of trends in demographic growth and food demand elasticities.

¹³The details of this discussion are found in my paper "Postwar Growth of East Asia: A Model of Labor-Intensive Growth," School of Economics (mimeographed), June 1982.

especially outside the large cities and in the towns and rural areas. The past decades have seen an impressive build-up of large-scale irrigation, roads, buildings, harbors and so on, and there may be a need to shift emphasis to construction of small-scale roads, canals, irrigation, schools, hospitals and electrification in the rural areas. In a labor-intensive strategy directed inwards to cater to domestic demand, the emphasis in the infrastructure program must be away from the metropolis and to the hinterland in order to serve the needs of domestic commerce. The 1980s may be the time to redress the balance from the excessive concentration in the metropolis during the past three decades, and here the experience of Taiwan may be suggestive.

Institutional Improvements: The Key to the 1980s

In my view, the most urgent need for the 1980s is to take stock and examine critically the whole range of institutions which were hurriedly brought in to meet the demands for modernization and development, or were extensions or continuation of practices from the colonial past. In the hectic decades of independence and of rapid world economic growth, there was little time to examine and be more discriminating. And even if some of the institutions and practices taken over were known to be inadequate, there was not the time to search for others.

The importance of key institutions in economic growth is not to be minimized. As the foremost scholar of modern economic growth, Simon Kuznets, has emphasized, satisfactory and sustained growth is the result of the interplay of technology and institutions. All the capital spent on the import of technologies could go to waste without appropriate institutions to use them, as the experience of many countries in the postwar decades attest, the most conspicuous being Iran. What needs to be emphasized is that nations can grow in the long run even when the capital expenditures slow down, if institutions are improved; or stated differently, given the capital and technology, the economy can grow if institutions are improved, since through better institutions the capital and technology can be better utilized.¹⁴ If so, a major source of growth in the 1980s may

¹⁴ Postwar Japan may serve as the best example of a country much of whose growth may be traceable to institutional improvements, (e.g. land reform, agricultural cooperatives, management and industrial relations, bureaucracy, schools, mass media, etc.). I advanced this view in "Reinterpreting Postwar Japanese Economic Growth," *Economic Development and Cultural Change*, October 1982.

turn out to be better institutions. Institutions whose improvements can be highly favorable to growth are indicated below.

First and foremost in the public sector, there is no gainsaying the fact that institutions in the public sector in Southeast Asia have become substantially more efficient in the past couple of decades since I started travelling frequently in East and Southeast Asia. And yet much more can be done to cut costs without lowering the quantity and quality of public services. At least this is my impression when one looks at the improvements in the public services of East Asian countries in the past decades (including Singapore). Since the years of rapid expansion of government revenues during the high growth era may be over, a hard look at the efficiency of government institution may yield large savings so necessary for other purposes. The lower efficiency and quality of public services add substantially to the costs of production and of living which more than offset the lower taxes paid by business and households (when comparing East and Southeast Asia), and even offset lower wage rates. It may be worthwhile to send teams of officials from Southeast Asian countries to study practices and institutions in countries like Taiwan, South Korea, Singapore and Hong Kong (which are more relevant to Southeast Asia than the highly mechanized public service institutions of the West) to look at their postal systems, schools, police, public utilities, transport, health, finance and other administrative agencies. For industrial and agricultural administration, I would suggest Japan, Taiwan and South Korea.

As regards economic sectors, much can also be saved and economized by improving institutions. For example, the growth of a network of comprehensive cooperatives and farmers associations in East Asia has meant that economies of scale for their small farms can be attained cheaply — in marketing, in common use facilities, in bulk purchase, in credit extensions, in the use and maintenance of irrigation, and so on. And these institutions have in turn forced government services to be more efficient and of improved quality (as when all the members of the farmers' association in Taiwan villages meet at night to hear and discuss with the extension agents). Or appropriate institutions of industrial relations, management and labor unions in Japan have succeeded in motivating the workers to high levels of productivity and quality production, besides savings from costly strikes and lockouts in the West, in India and in the Philippines.

The passage into industrial society from a predominantly agricultural society will call for new institutions and adjustments of old

ways of doing and thinking — even more than when Southeast Asia moved from traditional to commercial agriculture. Since the new technologies are already in existence in the West, their modification may not take much time. But the appropriate institutions in the use of the new technologies may take much time to modify and the slow growth era of the 1980s may be the time to focus on institutional development — to get ready for faster technological progress in the 1990s. Government resources squeezed out of improvement in routine activities can be devoted to the R and D of institutions.

Concluding Remarks

The slowdown in world economic activity comes at an unfortunate time for Southeast Asia. In addition to the labor force “explosion,” the inequality in the size-distribution of family incomes during the 1970s has not been falling over the high levels of the previous decades. Nor can one expect declines to occur until the mid-1980s (with the possible exception of Malaysia). East Asia was most fortunate as it became fully employed during the high growth decades of the 1960s and 1970s with export of labor-intensive manufactures (for Japan and Hong Kong as early as the 1950s). With full employment and rapid mechanization, their distribution of income improved substantially, although it worsened for South Korea in the latter 1970s as it shifted to heavy industrialization.¹⁵

The foregoing suggestions for policy changes are intended to keep policies and strategies in a labor-intensive direction — labor-using in order to create employment, and capital-saving in order to economize foreign exchange, savings and high-level manpower. Fortunately, a labor-intensive strategy is also favorable for income distribution. This is because capital tends to be spread more evenly between industries, occupations and regions. When \$2 billion is expended on an iron and steel complex, the employment effect is no more than in the thousands of workers compared to tens and perhaps hundreds of thousands when the \$2 billion is spread over a large number of enterprises and industries. Moreover, a much larger proportion of the incomes in the labor-intensive case is received by lower income workers and proprietors. Thus, there is nothing mysterious about the lower income inequalities achieved in the post-

¹⁵ Details on this topic are found in “Perspectives on Trends in Asian Household Income Distribution”, *Economy and Finance in Indonesia* (Ekonomi Dan Keuangan Indonesia), March 1982, pp. 91-120. For Philippines, Thailand, Malaysia, and Indonesia, the trends indicated either a constancy or a slight rise into the early 1980s.

war decades in East Asia which adopted labor-intensive technologies and improved institutions, ensuring the efficiency of production in agriculture and industry, and thereby rapid economic growth. Its speedy movement into the industrialized society brought forth declines in birth rates and the completion of the demographic transition.

The 1980s are crucial for Southeast Asia. If the slowdown in the world economy is substantial and Southeast Asian economies stagnate under conditions of unemployment and worsening income inequalities, all the weaknesses in the social fabric will reappear as the diversities and heterogeneities assert themselves once more like they did in the 1950s and early 1960s. In my view, it is a delusion based on a misreading of the growth experience of countries such as South Korea, Taiwan, China, India, and Japan to think that the way out is the capital-intensive direction. That delusion can become tragic as the problems of stagnation, unemployment and income inequalities become compounded by a capital-intensive strategy, and this is so even if there is no substantial slowdown of the world economy in the years ahead.¹⁶ But I believe that even with a usually large slowdown (like a 1 per cent GNP growth of the industrialized countries), there can be a solution, particularly if the industrialized countries such as the U.S. and Japan cooperate in inducing ASEAN countries to work together in establishing regional projects.

¹⁶ If the economists of India, South Korea and Taiwan are pressed hard regarding the damage caused by their strategy, they argue that the need for capital-intensive industries was to produce military hardware — in the case of India and Taiwan because of the alleged possibility of invasion from China and in the case of South Korea from the North.

**Appendix Table — Annual Growth Rates of World Population
and Production, 1955-1980**

Population	1.9%
GDP (excluding services)	5.0%
GDP per capita	3.0%
Manufacturing	5.6%
Light Manufacturing	4.3%
Heavy Manufacturing	6.5%
Electricity, Gas and Water	7.2%
Basic Metal Industries	4.0%
Paper, Printing and Publishing	4.5%
Non-metallic Mineral Products	6.1%
Metal Products, Machinery and Equipment	6.7%
Chemical, Petroleum and Plastic Products	7.8%

Sources: Data on world population and world GDP from *UN Statistical Year-Book*, various years. Data on production indexes from *UN Yearbook of Industrial Statistics 1978*, and updated by using *UN Monthly Bulletin of Statistics*, February 1982.

Notes: Light manufacturing industries = (ISIC 31) Food, beverages & tobacco + (32) Textile & wearing apparel + (33) Wood products & furniture + (342) Printing & publishing + (355) Rubber products + (356) Plastic products, nec + (39) Other manufacturing.

Heavy Manufacturing industries = (341) Paper & paper products + (351) Industrial chemicals + (352) Other chemical products + (353) Petroleum refineries + (354) Petroleum, coal products + (36) Non-metallic mineral products + (37) Basic metal industries + (38) Metal products, machinery and equipment.

POLICY IMPLICATIONS FOR SOUTHEAST ASIA

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