

INTRODUCTION

IPPEI YAMAZAWA

NORTH-South trade is the term used to describe trade between developed and developing countries. Traditionally it used to be the exchange between primary products and manufactures, but this pattern has in recent times undergone drastic changes. Exports of labor-intensive manufactures were already emerging from such early starting developing countries as Hong Kong, Taiwan, and the Republic of Korea in the 1960s, but in the 1980s these commodities are supplied by the second tier of developing countries, such as ASEAN and China in Asia, while Korea and Taiwan have shifted to export capital- and technology-intensive manufactures. Their imports from developed countries also changed from consumer goods to intermediate and capital goods. Japan has been one of the major suppliers of these goods in Asia and these exports have added to Japan's trade surplus.

Structural changes in North-South trade have been accelerated by global economic adjustment in the 1980s. In Asia, trade friction between the United States and Japan and the accompanying rapid currency alignment since September 1985 provided a direct opportunity for Japanese firms to relocate their production overseas, first to Korea and Taiwan because of their undervalued currencies pegged to the U.S. dollar until the middle of 1987, and then to ASEAN countries after the currencies of Taiwan and Korea began to appreciate. As their own trade frictions with the United States has developed, Korean and Taiwanese firms themselves now plan to relocate some of their labor-intensive production to ASEAN.

Structural changes are also indicative of longer-term trends. Efforts by those Asian developing countries to catch up and industrialize have expanded and consolidated the industrial foundations of the Asia-Pacific region as a whole. Open markets and liberalized capital flows are accelerating global economic integration, and creating an environment in which firm activities tend readily to cross national borders.

Structural changes have been reflected not only in commodity trade but also in foreign direct investment (FDI), technical transfer, and other forms of business activities. FDI by developed country firms used to prevail in captive mines and plantations for primary production, but nowadays FDI has spread to manufacturing activities and takes a variety of forms such as full-ownership investment, joint venture with local firms, production cooperation under OEM contracts, and technical transfer under licensing agreement without any capital involvement. These changes in the business environment have given rise to diversification of firm activities across international borders.

The present issue of *The Developing Economies* gives an overview of some

important aspects of the structural changes in North-South trade in the 1980s. The editorial plan for this issue first developed from an international symposium on "North-South Manufactures Trade: Factors for Recent Development" held by the Institute of Developing Economies in March 1988. Four papers are selected from the symposium papers but three other papers are added in order to broaden the scope of our overview.

The first two papers analyze changes in North-South trade from the Japanese point of view. Nakakita's paper analyzes the globalization of Japanese firm activities, a major initiator of structural changes in the manufacturing trade in Asia. By means of a new data base he identifies both the globalization of firm activities and the acceleration of their diversified forms since September 1985, together with their effects on reshuffling Japan's export and import trade in manufactures with her Asian partners. Kohama-Urata's paper focuses on a major external factor causing structural changes in Japan's trade, the rapid appreciation of the yen over the last few years. They examine its impact on both export and import trade, on manufacturing production and employment, and identify a long-run trend of Japan's industrial restructuring in the recent changes.

The paper by Hiemenz overviews EC's trade with ASEAN in the 1980s. Trade in the ASEAN countries, in general, has been expanding through the last two decades. He analyzes major factors affecting the ASEAN-EC trade and extends his analysis to its future prospects. He concludes that the ASEAN-EC trade in manufactures will continue to expand alongside the further industrialization of the ASEAN countries.

The next pair of papers examines the industrialization of Korea, another active player of structural change in North-South trade. Ohno's paper calculates changes in factor contents of Korean export and import throughout the 1970s and identifies parallel development of both export expansion of labor-intensive manufactures and import substitution of capital-intensive manufactures. By means of provisional input-output data for 1983 he extends his analysis to the 1980s. Tran's paper focuses on another important aspect of Korean industrialization, transfer of foreign technology in the Korean synthetic fiber-making industry, a strategic supporter of the country's textile export expansion and itself the first to succeed in import substitution of capital- and technology-intensive intermediate goods production. Based on his field survey of both Korean purchasers and Japanese suppliers of technology, Tran identifies alternative forms of technical transfer, FDI, or licensing agreement without equity ownership, depending upon bargaining balance of corporate development between purchasers and suppliers. But even in the former case, Korean firms controlled management and hastened its localization.

The last pair is concerned with trade policies of a greater number of developing countries. Laird-Nogués's paper focuses on the large group of developing countries suffering from a common difficulty, the highly indebted countries (HICs). They look at the HICs' performance of manufactured exports to developed countries in the 1980s. After pointing out both trade policy liberalization on the HIC's side and the protectionistic trends on the side of developed countries, they discuss

the probable effect on the HIC's debt problem of a removal of import barriers by the latter countries in the early 1980s. Hirata's paper overviews the trade and industrial policies of East and Southeast Asian countries engaged in export-oriented industrialization. He assigns to export promotion policy a more positive role than the mere offsetting of export deterrents caused by various domestic distortions in the conventional prescription.

The topics covered by the present issue are selective and mainly confined to East and Southeast Asia. Nonetheless they present the central aspects of the structural changes in North-South trade in the 1980s.