ports for 1975 were $5.08 billion), the trade deficit for this period was only $922 million.

Concern Over Deficit

There is growing evidence, however, that South Korea's major international creditors remain concerned about the level of the trade deficit, and are strongly suggesting that the government take definitive measures to further reduce it. Rumors of a devaluation of the South Korean won recently grew so insistent that Minister of Economic Planning Nam Duck-woo was forced to publically deny that his government was planning a devaluation to spur exports and reduce imports.

In the past, South Korean officials and businessmen have been known to strongly resist measures suggested by the International Monetary Fund and commercial creditors to moderate their vigorous industrial growth plans as a means of balancing the domestic budget and reducing payments deficits. These South Korean leaders fear that such austerity measures would exacerbate domestic recession. President Park seems to have renewed such resistance in his New Year's message to the country. Publicizing the country's Fourth Five Year Plan, Park's message stressed the need for the development of heavy industry and raising living standards of the South Korean population — measures which will necessitate heavy long-term investment from abroad.

The large increase in South Korea's sales abroad provided the basis for a big upturn in production, particularly of consumer-oriented manufactured products, which were up 30 per cent over 1975 levels during the first half of 1976, while plywood was up 30.1 per cent and light industries (mainly electronics) were up 29 per cent.

The Debt Picture

The reduction of the trade and current account deficits last year partially relieved Korea of the pressure to borrow short-term very heavily on the international markets. Over the past two years Korea had fallen into severe debt trouble as a result of a tremendous fall in terms of trade it suffered and its huge increase in current account deficits. Last year, however, the combined current account deficits for the first two quarters was only $292.4 million, a far smaller quarterly rate than that experienced in 1974 and 1975, when the yearly current account deficits were $2.02 billion and $1.88 billion respectively.

The increase in exports also helped the country increase its foreign exchange holdings, which stood at $2.59 billion at the end of October. The total at the end of October 1975 was only $1.36 billion.

As for the debt problem, the reduction of deficits and increase in foreign exchange holdings seems to have alleviated the danger of large-scale defaults on payments, at least for the present. While estimates on South Korea's total debt differ widely, the most reliable places it at $12 billion — a considerable portion of which is short-term, high-interest debt used to finance the huge payments deficits of the last three years. Officially, Korea was to pay a 12.8 per cent debt service ratio last year. It is not known how much in combined principal and interest was actually paid, but one estimate placed the amount of total debt payments to be paid in 1976 at $1.024 billion.

Taiwan: A U.S. Dependent

Perhaps as much as any other country, Taiwan strongly benefitted from the reflationary upturn in the U.S. economy during 1976. Chiefly as a result of a nearly $1 billion increase in exports to the U.S. during the first 11 months of 1976 over 1975 levels, this export-oriented nation reversed its trade deficit of the last two years and reattained a surplus in trade such as had characterized the economy before the "oil shock" of 1973-74. This strong recovery in exports enabled Taiwan to maintain a favorable payments position and easily meet its relatively small debt service payments.

However, 1976 showed Taiwan to be dangerously overdependent on the United States as a market for its exports — a dependence which will likely spell severe troubles for Taiwan in the coming year, since the consumer-oriented reflationary upturn that occurred in the United States during 1976 will almost surely not be repeated. Despite some attempts to diversify its export markets, a full 51 per cent of Taiwan's exports went to the United States and Japan last year, and now the markets of both countries for Taiwan's consumer-product dominated exports will signigicantly shrink. In addition, Taiwan's strong export recovery has recently provoked calls in several western countries, particularly the United States for protectionism against products from Taiwan (and other countries as well); the imposition of import quotas in the West could further reduce what is already expected to be a shrunken market.

Massive Increase in Exports

The key to Taiwan's recovery last year was the massive increase in exports, textiles and small electrical machinery to the United States. During the January through November period, exports to the United States amounted to $2,715 million, a full 37 per cent of Taiwan's total exports during the same period, and these two categories of products made up a significant portion of the sales. Together with plywood and furniture, textile and small electronics components dominate the economy of Taiwan, accounting for 54 per cent of all exports in 1976. The increased sales to the U.S. resulted in a trade surplus with the U.S. of $1,113 million, up from the small 1975 total surplus of $119 million. The surplus with the United States enabled Taiwan to register a surplus in total trade for the January-November period of $481.2 million, a signigicant recovery from the 1975 deficit of $570.2 million.

Spurred on by the sales abroad, the overall domestic production registered significant gains. Synthetic fibers production as of October was up an average of 27 per cent (measured in metric tons). Machinery and electrical products, including sewing machines, air conditioners, washing machines, transistor radios, and television receivers were up an average of 42 per cent (measured in unit output). Production and transportation equipment, mainly bicycles and motorcycles, also rose sharply.

The recovery of exports and consequent trade surplus led to a significant growth in Taiwan's foreign exchange reserves. As of September the reserves stood at $2.55 billion, up from the September 1975 total of $1.99 billion. With an estimated total debt of only $3.2 billion and a debt service ratio for 1976 of only 6.5 per cent, Taiwan was easily able to meet its international payments.

People's Republic of China: Oil Will Lead the Way

1976 was likely a bad year for the economy of the People's Republic of China in light of political developments and natural catastrophes. Quantitative figures for 1976 are much scarcer than for any recent year and highly unreliable, which is explained by the revelations that have been published since the anti-Maoist coup in October. Those have told of massive disruptions of industrial production in many sectors, stoppages in some factories that continued for most of the year, and substantial violence among groups of workers.

But despite the often cautious post-October Western evaluations of China's future economic course, it is now clear that China will be seeking to return to the program championed by Teng Hsiao-ping over a year ago — for crash foreign development of China's oil by the West in order to make possible billions of dollars of capital imports in thenextseveral years. There are indications that in 1975, just before Teng's purge, a deal was under consideration involving U.S. technology and assistance for oil development, in the multi-billion dollar range, including an arrangement for China to receive much of it as long-term credit. Nothing has been heard since, but Teng's imminent return to power may revive this plan.

Teng had also been negotiating with the Japanese for a long-term contract for the export of Chinese oil to Japan in return for steel and other capital goods during the fall of 1975. Reports circulating at the time speculated that China might export up to 50 million tons by 1980. The deal fell through in early 1976 when Maoist factional pressure forced Teng out.

The news that Nippon Steel's Inayama, and a representative from the Idemitsu oil company, will lead a major delegation to China in February makes it quite likely that some major deals will be concluded along the lines delineated over a year ago. The major question mark is the state of China's economy itself. Not only did economic growth in 1976 stall, but oil production, which had increased at 20 per cent per year from 1963-1975, fell to only 13 per cent in 1976. Any long-term agreement to provide Japan sizeable quantities of oil would probably require that China receive Western aid to develop its offshore fields rapidly. China's new leadership has made clear where its desires lie; the only question is its ability to rapidly fulfill them which has been placed in jeopardy by the damage done to the economy in recent years.

Fukuda's 'Reflationary' Budget: Neither Fish Nor Fowl

The Carter Administration and its backers have been pressuring Japan to run a highly reflationary budget. They insist that Japan reduce its high 1976 trade surplus and use domestic public works as a substitute demand. As a result, according to the mythos, Japan should be able to increase its imports from the developing sector and thus help the U.S. and West Germany bring about a wondrous worldwide recovery.

In fact, officials at Treasury and Chase Manhattan Bank told NSIPS that, on a long term basis they want Japan to restructure itself fundamentally away from its postwar export orientation and to a domestic public works buildup and *longterm trade deficit financed by overseas borrowing*. Under such a policy, they believe the New York banks can shift loans from Third World and weak OECD countries to strong U.S., Japan and the BRD. The officials neglected to say how long Japan would remain "strong" under such a policy.

Fukuda's budget

The new Prime Minister Takeo Fukuda personally supports the Carter Administration policy and has tried to the extent possible to implement it in his new budget. In fact, the real issue in Fukuda's year-long campaign to oust predecessor Takeo Miki was Fukuda's support for the Rockefeller-Carter economic policy vs. Miki's support for the alternative approach of the pro-development wing of Japanese industrialists discussed below. However, simple reality — amplified by the business community's recognition of it — has severely crimped Fukuda's ability to carry out Rockefeller's intentions.

In terms of overall size Fukuda's budget is not really reflationary.

At $95 billion, the proposed budget is 17.3 per cent above 1975 budget (which was 14 per cent above 1974). Public works projects are 20 per cent above 1975 at $14 billion. At $28 billion — with local bonds the total in 1977 will be $44 billion — Fukuda has kept national bond issues to 30 per cent of budget, a little higher than 1975 ratio. Running such a huge deficit at this point is no longer additional stimulus but simply preservation of what has become the built-in norm necessary to sustain at least minimal levels of consumer spending. Only an increase in the ratio to 35-40 per cent would represent new stimulus. This Fukuda cannot do.

Within the new budget, according to Jan. 4 *Nikkei*, Fukuda has ordered the Finance Ministry to effect a shift away from social spending toward public works. Within