"Japanese Policy and the East Asian Currency Crisis: Abject Defeat or Quiet Victory?"

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Abstract:

The abiding impression of Japan's involvement in and response to the East Asian currency crisis is one of sorry failure. Japan stands accused of purveying a defective developmental state model of growth to the East Asian states--over-dependent for its functioning upon exports, inflows of capital, and lack of transparency in governance--and then proceeding to undermine this model due to its own domestic economic difficulties and neglect of the economic welfare of other countries in the region. In addition, to triggering the onset of the crises, Japan is also believed to be culpable for prolonging them by providing inappropriate economic leadership in the region--represented most clearly by its failed proposal for the AMF, and its reluctance to stimulate its domestic economy and act as the primary 'absorber' of East Asian exports. As a consequence, Japan's position of economic dominance and nascent political leadership role in the region is seen to be under attack following the currency crises.

This research paper, whilst agreeing that Japan has not necessarily provided effective crisis management or short term rescue packages for East Asia, attempts to re-evaluate some of the criticisms of Japan's role, and argues that over the longer term Japan is continuing to exercise considerable covert economic leadership in the region. Examination of Japanese policy-makers' perceptions of the East Asian crisis reveals that they see the region as hit above all by currency crises which have transmuted into economic ones, but that the basic model of export and FDI-powered growth in the region is still fundamentally sound. Moreover, Japanese policy-makers contend that Japan is neither responsible for the occurrence of the crises, and nor are the US-prescribed solutions of the expansion of domestic demand in Japan likely to hold the key to the immediate restoration of growth in East Asia. Instead, they quietly lay the blame for the crises upon China for undercutting the competitiveness of East Asian exports and moving ahead of the NIES-4 in the regional production cycle.

Hence, Japanese policy-makers have acted to support the IMF in its approach to eliminating speculative bubbles and restoring good financial management in the region, but have directed their own efforts to attempts to re-gear the existing developmental model through the extension of trade and financial credits, and the technology necessary to improve the competitiveness of East Asian exports and to enable these economies to move up the production chain. The paper then moves on to show how these policies have gradually begun to work in Japan's favour, as it has been able to restore a measure of confidence in Japanese economic leadership, to slow the onslaught of convergence theory on the East Asian developmental model, and to set its own agendas in multilateral approaches to the crises. Hence the final outcome of the economic crisis in East Asia may actually be the strengthening of the Japanese model of capitalism, the position of Japanese corporations, and developmental state model, rather than the defeat of these actors and concepts as many commentators have predicted.

Keywords: Japan; East Asia; China; currency crisis; AMF; developmental state.

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Introduction: Japanese rout or resurgence?

The abiding impression of Japan's involvement in and response to the East Asian currency and economic crises since mid-1997 has been one of sorry failure.[1] Mass media and academic opinion in the much of the West, East Asia, and even Japan itself has expressed disappointment (or perhaps in the case of certain Western commentators, a sense of smug satisfaction) in the apparent failure of Japanese government and business to respond effectively to the crisis, despite Japan's vital geopolitical and economic interests in the region and emergent claims to regional leadership.[2] Hence, although, as will be noted later, the definition of the term leadership may differ on the Western and East Asia sides, Japan stands accused first of failing to provide appropriate leadership to halt the onset of the 'domino effect' of collapsing currencies, starting with Thailand, Malaysia and the Philippines in July 1997 and then spreading to Indonesia and South Korea in August and November of the same year. This failure of leadership is seen to be epitomised with Japan's initial support for and then eventual abandonment of the proposal for the Asian Monetary Fund (AMF) in December 1997. From US and European Union (EU) perspectives, Japan's backing for the proposal demonstrated an irresponsible streak in its leadership aspirations in the region, as the AMF threatened to undermine the necessary conditionality of IMF financial assistance and international 'consensus' towards managing the currency crises. From the perspective of the East Asian states, regardless of the varying degrees to which they genuinely expected a Japan

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[1] East Asia is defined here as consisting geographically of Northeast and Southeast Asia, and economically as the Newly Industrialised Economies-4 (NIES-4) (South Korea, Taiwan, Hong Kong, Singapore), the Association of South East Asian States-4 (ASEAN-4) (Malaysia, Thailand, Hong Kong, Singapore), and China.

[2] For critical US and Japanese views of Japan's response to the crises, see Edward J. Lincoln, 'Japan's financial mess', *Foreign Affairs*, vol. 77, no. 3, May/June 1998, pp. 58, 65; Funabashi Yôichi, 'Tokyo's depression diplomacy', *Foreign Affairs*, vol. 77, no. 6, November/December 1998, pp. 26-36; Kent E. Calder, 'Japan's crucial role in Asia's financial crisis', *Japan Quarterly*, vol. 45, no. 2, April-June 1998,

or regional-led rescue package, Japan's decision, after having expended so much diplomatic energy upon it, to abort the AMF proposal in the face of US and IMF opposition signified another bungled Japanese attempt at leadership in the region.

In addition to the charge of neglecting to prevent the onset and deepening of the crisis, a common accusation levelled at Japan is that it has failed to outline a future pathway to allow the region to escape from the crisis and return to the high levels of economic growth witnessed in the early 1990s. Again, from the East Asian perspective, Japan's seeming submission to the US and IMF-dictated rescue packages represents Japan's inability to defend effectively its own model of the 'developmental state' which it is partly responsible for transferring to the region, and to guide the East Asian states to a new route for development in the next millennium. These sentiments are echoed by US and European observers--keen so recently to discover the secret of East Asian economic success, but now queuing up to point out to regional leaders how they have been sold a moribund economic model by Japan and to press for economic convergence on Anglo-American lines.[3]

The supposed failure of Japan's economic leadership also carries for many commentators the implication of the abdication of its political leadership role in organising any nascent East Asia regional grouping. The extent of Japan's ambitions for regional leadership or hegemony should not be exaggerated. For it is clear that the underlying Japanese strategy has always been to maintain economic dominance in East Asia, but at the same time has aimed to keep the US and other 'non-Asian' powers

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pp. 4-9; Heribert Dieter, *Crises in Asia or Crisis of Globalisation?*, CSGR Working Paper, no. 15, 1998, pp. 16-18, http://www.warwick.ac.uk/fac/soc/CSGRpublications.html.

engaged economically and politically in the region through the open regionalist project of Asia Pacific Economic Cooperation (APEC), rather than the closed East Asian Economic Caucus (EAEC).[4] Nevertheless, Japanese policy-makers and businessmen are still aware that the East Asian currency crises do involve a struggle between the major powers to shape the economic and political order in East Asia, and that in the aftermath of the crises Japan's risks political marginalisation as the US, and increasingly China, exert their presence in the region. Thus, at the official unveiling of Japanese Finance Minister Miyazawa Kiichi's US$30 billion financial assistance package for East Asia at the G7 (Group of Seven Leading Industrial Nations) and Central Bank Governors meeting in Washington DC in November 1998, one Japanese Ministry of Finance (MOF) official was reported to have remarked that: 'The US, Japan and China are seeking influence over the region [East Asia]…The Miyazawa Initiative is certainly a policy that intends to return the focus on what Japan can do in Asia'.[5]

Taken as a whole, then, these criticisms of Japan's role in the crisis indicate abject defeat for Japanese economic and political leadership in East Asia, and somewhat desperate Japanese attempts to claw back ground lost to regional rivals. However, the aim of this paper, whilst being in agreement with many of the above sentiments concerning the shortcomings of Japanese leadership, is to step back from some of the criticisms levelled at Japan, and, with the benefit of a more sober perspective offered by the prolongation of the currency and economic crises into their second year, and knowledge of Japanese leadership style, to begin to re-evaluate the exact extent of

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[3] Donald K Emmerson, 'Americanizing Asia?', *Foreign Affairs*, vol. 77, no. 3, May/June 1998, pp. 49-50.

[4] Glenn Hook, 'Japan and contested regionalism', in Ian G. Cook, Marcus A. Doel and Rex Li (eds), *Fragmented Asia: Regional Integration in Pacific Asia*, Aldershot, Avebury, 1996, pp. 12-28; Funabashi Yôichi, *Ajia Taiheiyô Fûjion*, Tokyo, Chûô Kôronsha, 1995, pp. 276-333.

Japan's defeat, as well as its successes, in determining the economic and political order in East Asia.

This investigation is prompted by the realisation that, despite the initial triumphalism between late-1997 and mid-1998 of the IMF-designed package of measures to restructure the East Asian economies, by the second half of 1998 sites of quiet resistance to the comprehensive acceptance of IMF measures and sites resilience of the East Asian developmental state model are now reemerging. Prime Minister Mahathir Mohamad's Malaysia stands at the extreme end of the spectrum of sites of resistance to the 'Washington Consensus' or 'Wall Street-Treasury Complex' approach to the currency crises, with its bold, but as yet not fully-tested, efforts to avoid IMF loans and conditionality by imposing exchange controls on the ringgit and massively re-inflating the economy through government spending.[6] But even those countries firmly under IMF economic tutelage--Thailand, Indonesia, and South Korea--can perhaps be increasingly located on a middle level of resistance to the IMF. For although Thailand, Indonesia, South Korea have swallowed a good deal of IMF economic medicine since 1997, the evidence from IMF letters of intent in December 1998, allowing the loosening of fiscal and monetary policies in these states, suggests a troubled reaction to the IMF austerity measures and a limited re-diagnosis by the IMF itself of the measures necessary to resolve the currency crises. Taken together, this mixture of active and passive resistance by the East Asian states to IMF-imposed rescue packages indicates a stubborn attachment to existing development models and the emergence of the type of counter-

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[5] *The Nikkei Weekly*, 16 November 1998, p. 27.

[6] Jagdish Bhagwati, 'The capital myth: the difference between trade in widgets and dollars', *Foreign Affairs*, vol. 77, no. 3, 1998, pp. 7-12.

reaction that Richard Higgott has detected with regard to the East Asian rejection of convergence theory and a regional order guided by the US and APEC.[7]

In turn, it can argued that it is actually Japan which has done a good deal to undergird this campaign of resistance to the total ascendancy of the 'Washington Consensus' in the management of the East Asian crisis. This is partly evidenced by the positive reaction of the East Asian states to the Miyazawa Initiative since November 1998, encouraged as they are by the promise of softer conditionality than IMF loans. But this is arguably just the most prominent of a range of less-visible, but nevertheless slowly effective, Japanese initiatives which have aimed to resuscitate the model of East Asian developmentalism and sustain over the long term Japan's economic and political presence in the region.

Therefore, this paper sets out to argue that the battle for the economic and political soul of East Asia has not yet been lost by Japan, and, indeed, that in the coming year it may yet be possible to see a resurgence of Japanese influence. As stated noted above, this paper certainly does not seek to argue that Japanese businessmen, and, most particularly, policy-makers have covered themselves in glory or not encountered severe setbacks in their hesitant and distracted response to the currency crisis. But it is still possible to assert that Japan has exercised a vital leadership role in the crisis both through headline-making and cash-dispensing proposals such as the Miyazawa Initiative, but even more importantly through Japan's distinctive style of low-key political and economic diplomacy in East Asia which has enabled it to begin to put in

[7] Richard Higgott, *The Asian Economic Crisis: A Study in the Politics of Resentment*, CSGR Working Paper, No. 2, 1998, http://www.warwick.ac.uk/fac/soc/CSGRpublications.html.

place the necessary conditions which its policy-makers believe can rekick-start East Asian developmentalism. This style of leadership is in fact so low-key that it can become indistinct, and resembles what Alan Rix has termed 'leading from behind' and Reinhard Drifte as 'leadership by stealth'.[8] Furthermore, it may be possible to argue that Japan's reaction to the East Asian currency crises reveals a depth of quiet leadership which approximates to a form of structural power, where Japan, by dint of its core position and presence in the East Asian regional economy, is able to the set the agenda of not only neighbouring states, but also imperceptibly even that of the US as well.

Plan of the paper

In order to establish the degree to which the Japanese government and business interests have been able to recover from initial failures in leadership and exert influence over international policies to manage the East Asian crisis, it is first necessary to backtrack and consider in more detail exactly in what areas and why Japan was seen to have met defeat. Specifically, the paper aims to examine more rigorously the type of accusations already noted above that Japan has been in some ways both a precipitator of and non-solution to the currency crises. Having outlined the extent of Japan's alleged defeat in these areas, the paper then moves on to consider how Japanese views of the underlying causes and nature of, and its own responsibility for, the currency crises differ from those of international commentators. This account of the Japanese analysis of the origins of the currency crises then helps to reveal Japan's muted but strong counter-criticisms of aspects of the IMF and US approach to restructuring the East Asian economies, and

[8] Alan Rix, 'Japan and the region: leading from behind', in Richard Higgott, Richard Leaver, and John Ravenhill (eds), *Pacific Economic Relations in the 1990s :Cooperation or Conflict?*, Boulder, Colorado: Lynne Rienner, 1993, pp. 62-82; Reinhard Drifte, *Japan's Foreign Policy for the Twenty First Century: From Economic Superpower to What Power?,* London, Macmillan, 1996.

highlights Japan's own preferred solution to the crises which essentially involves the revival, with modifications and better governance, of the existing East Asian growth model. After elucidating the emergent Japanese strategy to resolve the crises, the paper then goes on to describe Japanese policy-makers' low-profile and patient approach to re-equipping the East Asian economies for growth, and how this strategy has begun to achieve some successes as Japanese influence is felt in the region in the fields of financial institutions and supervision, developmental policies, agenda-setting bilaterally and in multilateral institutions, the role of the yen, and consolidation of the Japanese business presence. Finally, the conclusion draws together the main arguments of the paper and discusses the characteristics of Japanese economic and political power in the region, and the future course of Japan's role in East Asia's economic recovery.

Japan as a problem

Japan has long been identified as a 'problem' in Asia-Pacific trading arrangements and partial confirmation of this view seems to have been offered with its role as both the prototype and propagator for a flawed model of developmentalism in East Asia which came ultimately unstuck with the onset of the currency crises.[9] The basic charges that have laid at Japan's door is that it transferred a vulnerable growth strategy to East Asia which was dependent upon exports on the demand side and inward foreign direct investment on the supply side; that this developmental model, whilst producing spectacular growth results over the short term, was unsustainable over the long term; and that, somewhat ironically, it was Japan itself which was partly responsible for

[9] John Ravenhill, 'The "Japan problem" in Pacific Trade', in Higgott, *et al*, *Pacific Economic Relations in the 1990s*, pp. 106-32. For the classic exposition of the Japanese developmental state model, see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Stanford, California: Stanford University Press, 1982.

undermining its own growth model in East Asia as it became fixated on its domestic economic problems and neglected to guarantee the next stages of development in the region.

The process of transfer

Japan clearly was not responsible alone for the initiation of this export and FDI-driven model of growth. Commentators have pointed out that since the early 1980s the East Asian states, which were to later metamorphosise into the NIES-4 and ASEAN-4, had been obliged already to liberalise capital controls to attract FDI and to switch to export-oriented growth strategies.[10] However, Japanese government policy and transnational corporations (TNC) undoubtedly have played a decisive role in instigating the process which has propelled this growth strategy forward. Although Japan has always worked in the post-war period to organise the East Asian region economically and to its benefit through the extension of FDI and Official Development Assistance (ODA), Japan's role in the transfer of the developmental model to East Asia and economic integration of the region was enhanced substantially following the Plaza and Louvre Accords of 1985 and 1987, designed respectively to raise the values of the yen and NIES-4 currencies against the US dollar. The objective of the Plaza Accord and appreciation of the yen (rising from 250 yen to the dollar in mid-1985 to 150 yen to the dollar by mid-1986) was to reduce the US's burgeoning trade surplus with Japan and to begin to force the latter to move away from its own export-oriented growth strategy, dependent on the US overseas market, and switch to reliance upon domestic demand. Indeed, the release by Prime Minister Nakasone Yasuhiro's administration of the Maekawa Report in 1986, with its emphasis upon the promotion of domestic demand, seemed to signal Japanese acceptance of the need for fundamental restructuring of its economic growth strategies.[11] But in the end, the accord was to prove unsuccessful both in reducing the US's trade deficit with Japan (which has reached a record high of US$74 billion in January 1999), and in altering the Japanese conviction in the validity of the export-oriented developmental model.

The unintended and greatest impact of the Plaza Accord and the appreciation of the yen was to provoke a massive upsurge in Japanese investment in East Asia, as well as in the US and Europe (Table 1). Japanese TNCs had embarked upon large-scale investment programmes in the region in the textile, electronics, and chemical industries since the 1970s due to a combination of factors, including: the first major appreciation of the yen following the 'Nixon Shocks' and an end to fixed exchange rates; the increase in energy and production costs inside Japan after the first 'Oil Shock'; rising domestic labour costs and growing public pressure to move heavy polluting industries offshore; and the imposition of import restrictions on Japanese goods in Southeast Asia. However, as Table 1 illustrates, the post-Plaza Accord period saw Japanese FDI in East Asia rocket upwards, increasing nearly eight times in value between 1985 and 1989, and remaining at the high level of around US$6 billion to US$11 billion between 1990 and 1996. The majority of Japanese FDI was directed towards the NIES-4 until the early 1990s, but as production costs in these states began to rise following the upward alignment of their currencies due the Louvre Accord, the flow of FDI shifted thereafter to the ASEAN-4.

[10] Richard Robison, Richard Higgott, and Kevin Hewison, 'Crisis in economic strategy since the 1980s; the factors at work', in Richard Robison, Kevin Hewison, and Richard Higgott (eds), *Southeast Asia in the 1990s: The Politics of Economic Crisis, Hemel Hempstead,* Allen and Unwin, 1987, pp. 1-15.
[11] Funabashi Yôichi, *Tsûka Retsuretsu*, Tokyo, Asahi Shimbunsha, 1988, p. 127.

Typically around 40 to 60 per cent of Japanese FDI in both the NIES-4 and ASEAN-4 has been devoted to the formation of production capital in the electronics, automobile, and metallurgy industries. A growing number of Japanese medium-sized firms and component manufacturers have transplanted operations to East Asia, and by 1994 the largest percentage of Japan's total world wide investment in production capital was concentrated in East Asia (approximately 42 per cent in East Asia, as opposed to 38 per cent in the US).[12] In part, Japanese investment was attracted to these states by their good economic fundamentals of the openness to technology, relatively high educational standards, economies of scale and growing domestic markets, and improving infrastructure (often accounted for in the first place by high inputs of Japanese ODA). But this expansion of FDI was clearly driven in the main by the appreciation of the yen and TNC attempts to establish lower cost production bases in East Asia for the export of their finished manufactures to the US and other third countries, as well as to produce semi-finished manufactures and components to be exported for assembly in and re-export from Japan. Hence, the primary impact of the Plaza Accord was to release huge flows of Japanese production capital into East Asia, which were to then circumvent US efforts to rein in Japan's ability to conduct an export-led growth strategy.

As well as persuading Japanese TNCs of the advantages of moving large sections of their production capacity offshore, the appreciation of yen and related government attempts to alleviate its impact on Japan's export-led growth strategy contributed to the outflow of Japanese capital by expanding hugely its available stock, whilst holding down its price. Following the Plaza Accord and a clear decline in the profitability of

[12] JETRO, *Sekai to Nihon no Kaigai Chokusetsu Tôshi 1997*, Tokyo, JETRO, 1997, p. 25.

Japanese businesses, between 1986 and 1987 MOF engineered falls in Japanese interest rates in order to inject liquidity into the financial sector, lower the cost of investment to Japanese corporations, and subsequently raise their international competitiveness. The policy certainly worked over the short term to assist in the preservation of Japanese competitiveness and the ability of corporations to continue with export-led growth, but also produced two unplanned, but related consequences. Firstly, the low cost of capital generated a huge speculative bubble in Japan, the disastrous effects of the collapse of which in late 1989 still affect deeply the Japanese economy at the present time. Secondly, the trend in the expansion of Japanese FDI was reinforced, as surplus capital which could not be absorbed in the domestic market, backed by the relative strength of the yen and taking advantage of the liberalisation of capital controls in US, Europe, and East Asia, sought new investment opportunities in all three core economic regions. From the mid-1980s onwards, Japanese bank lending to East Asia rose rapidly. For instance, Japanese outstanding loans to South Korea, Taiwan, and the ASEAN-4 are estimated to have increased 76 per cent between 1993 and 1996, and by 1996 Japan stood as the largest source of banks loans to every state in the region except Taiwan and the Philippines (Table 2).[13] As already noted above with regard to the strategy of Japanese manufacturing TNCs in East Asia, a large proportion of Japanese investment in the region has tended to be concentrated directly in production capital, but non-productive or portfolio capital in the financial, real estate and service sector has also been important. On average around 44 per cent of Japanese banks loans in East Asia were made to Japanese subsidiaries operating there, which suggests a large portion of this bank lending may have been devoted to increasing production capacity in the

[13] Ron Bevacqua, 'Whither the Japanese model? The Asian economic crisis and the continuation of the Cold War politics in the Pacific Rim', *Review of International Political Economy*, vol. 5, no. 3, Autumn

region. Another 42 per cent was ploughed into large domestic East Asian firms, and is likely to have contributed to both the build-of production capacity and to the portfolio capital-enhanced speculative booms that were coming to light by late 1996.[14]

Export-led growth

As indicated at the start of this section, the first overall outcome of this flow of Japanese capital into East Asia and relocation of production by Japanese TNCs was to promote the transfer and growth of the export-oriented model of developmentalism in the region. Japanese manufacturing TNCs and banks can be seen to have transferred the model by the direct transplant of subsidiaries to East Asia which serve as production bases for exports inside the East Asia region, to Japan, and outside the region to Europe and North America. Additionally, Japanese corporations, through the *keiretsu*-type links of Japanese manufacturers to subcontractors in the recipient East Asian states which rely for their business on supplying Japanese exporting firms, and through the provision of investment to build-up East Asian domestic production capital, which is dependent for its viability on earning export remittances, can be said to have encouraged the growth of indigenous export-oriented industries.

From the Japanese business and government perspective, represented most vocally by the Ministry for International Trade and Industry (MITI), and suffering something of a bout of amnesia concerning the fact that the outflow of Japanese FDI was in large part occasioned by political intervention in the markets, this process of the transfer of the

1998, pp. 413-4.

[14] Bevacqua, 'Whither the Japanese model?', pp. 413-4.

export-oriented model of developmentalism has come to be justified by variations of the 'flying geese' and 'production cycles' models

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The counter position to the production cycles and 'flying geese' model has been put forward most effectively by Mitchell Bernard and John Ravenhill in their now well-known description of 'complex production links'. They point that, even though in accordance with the outflow of FDI the transfer of production technology may also take place between Japan and East Asia, the cost of industry start-ups and the mastering of new technologies are so great that these countries ultimately remain dependent on Japanese technology and cannot close the production cycles to create their own fully-fledged export industries.[15] Instead, they contend that Japan has put in place (possibly quite deliberately according to Walter Hatch and Kôzô Yamamura) in East Asia a system of hierarchical complex-production links which are connected vertically backwards to Japan due to the dependence on exports of Japanese technology, and vertically forward to the US due to its continuing position as the main external export market for East Asian manufactures.[16] Thus, in accordance with this view, much of the intra-regional investment and trade within East Asia can actually be accounted for not by independent trade between individual states in finished products in which they enjoy a comparative advantage, but trade controlled by or linked to Japanese subsidiaries

[15] Bernard Mitchell and John Ravenhill, 'Beyond product cycles and flying geese: regionalization, hierarchy and the industrialization of East Asia', *World Politics*, vol. 47, no. 2, January 1995, pp. 171-209.

based in East Asia and consisting of products such as components for eventual assembly in Japanese-made manufactures which are then exported to other regions. Although few Japanese scholars have adopted wholesale Bernard and Ravenhill's analysis, some do echo their work by emphasising the seeming reluctance of Japanese TNCs to transfer vital technology to East Asian subsidiaries and so devolve economic control away from Japanese headquarters.[17] Thus, the implication of these criticisms of the flying geese model is that it does not deliver complete economic development to those East Asian states to which Japanese FDI is directed, and brings with it an in-built vulnerability and lack of sustainability due to its reliance on the US as the market of last resort.

Japanese and more critical interpretations of the 'flying geese' model then offer widely differing explanations of its long-term benefits for East Asian development. The actual reality of the situation may in fact be the emergence of a hybrid of both models, with complex production links on an increasingly horizontal plane. It is arguable that the cost of modern production technology may leave the East Asian states dependent to a degree upon Japanese technology, but that the production links may become less hierarchical over time as the East Asian take advantage of these technologies, and as Japanese TNCs are forced to devolve research and development and decision-making power to local subsidiaries so as to respond more flexibly to local market conditions.[18] But whatever the eventual outcome of the flying geese model, continued faith in its validity in much of Japan goes a long way to explaining Japan's reaction to the East Asian currency crisis

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[16] Walter Hatch and Kôzô Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance*, Cambridge, Cambridge University Press, 1996.
[17] Yamashita Shôichi, 'Japanese investment and technology transfer in East Asia', in Hasegawa Haurkiyo and Glenn Hook (eds), *Japanese Business Management: Restructuring for Low Growth and Globalization*, London, Routledge, 1998, pp. 61-79.

described in later sections. Moreover, both supporting and critical views of the developmental model are clearly united in their stress upon Japan's role in transferring to East Asia a model which is powered forward by, and dependent for its sustainability upon, export demand.

Investment-dependent growth

Although there is again strong disagreement between Japanese defenders of the East Asian developmental model and its critics about the benefits and vulnerabilities of investment-dependent growth, there is a shared belief between both camps that Japan has also played a significant role in transferring this supply half of the model to the region. As noted above, the progenitor and supporter of the export growth strategy in East Asia has been inflows of foreign capital, which enable the states of the region to acquire the capital and technology to overcome bottlenecks in production and raise their international competitiveness, as well as to finance current account deficits without reliance on government borrowing.

Defenders of the developmental model acknowledge that Japan has assisted in the evolution of investment-dependent growth on the supply side due to the massive influx into the East Asian states of Japanese production and portfolio capital. Prior to 1997 Japanese observers were aware of the risks of over-dependency on foreign capital in the region and Japanese FDI's possible contribution to speculative bubbles in East Asia. But on the whole, they viewed Japanese investment as a positive factor because of its

[18] Kanetsuna Motoyuki, 'Nihon kigyô no gurôbaru nettowâkuka: kaigai kyoten no jiritsusei to tôgô', in Yokoyama Masaki and Wakui Hideyuki (eds), *Posuto Reisen to Ajia: Ajia no Kaihatsushugi to Kankyô-*

general concentration in the build-up of the production capital of both Japanese and domestic manufacturing corporations in the region. For the Japanese side, then, the expanded flows of investment in the region, originating from other developed states, from inside the region itself, but most particularly from Japan, represented the completion of the 'virtuous circle' of export and investment-led growth which had served it so well in the past, and which equated to the scenario of development that the Japanese government had sponsored indirectly through the World Bank's 1993 *East Asian Miracle* report.[19]

The critics of the model, many enjoying the luxury of hindsight following the events of 1997, counter that Japanese FDI was one of the factors which has made the East Asian states the type of unstable investment 'junkies' first identified by Paul Krugman.[20] Japan, it is argued, in essence shifted its investment bubble to East Asia, with the states of the region then becoming over-dependent on the supply of Japanese capital and any drop in its supply. Moreover, even if it is accepted that a large proportion of Japanese FDI is concentrated in production capital formation, the massive inflows of Japanese investment have worked to have compound the potential for speculative bubbles in the region by encouraging the East Asian states to open their financial markets further to the seeming benefits of foreign capital, and by creating the impression of economic dynamism which has attracted volatile 'hot money' portfolio investments from other developed states taking advantage of the dollar-pegged currencies of East Asia and concomitant lack of exchange risks.

Heiwa, Tokyo, Chûô Keizaisha, 1996, pp. 129-63.
[19] *The East Asian miracle: Economic Growth and Public Policy*, Oxford, Oxford University, 1993.

Features of governance

In addition to the transfer of a developmental model to East Asia based on export and investment-oriented growth, Japan is also believed to have given a particular stamp to the characteristics of the management and governance of the economies of the region. Once again the defenders and critics of the model differ in their assessment of the benefits of these characteristics, but agree roughly in identifying them as government intervention to subsidise declining industries and promote nascent export industries, the establishment of government institutions and banks to support the export trade, and the sharing of information between the public and private sectors.

Japanese advocates of the model deny that it is one which is specifically 'Japanese', and point to the wide diversity of political, social, and economic systems in the region.[21] But there is a common perception (expressed with a measure of quiet pride) that the characteristics which involve government and private sector co-operation are a broad reflection of and borrowing from their own country's experience of rapid and successful development in the post-war period. Furthermore, there can be no doubt that the Japanese government has tried to promote and propagandise the model through the industrial policy advice it conveys to East Asian states, its ODA policies in the region, and the sponsoring of *the East Asian Miracle* report.

At the same time, critics have hammered these characteristics as the worst features of the developmental state, point to the problems that they have generated in Japan's own debt-laden economy of late, and snipe that Japan has only been keen to disown the label

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[20] Paul Krugman, 'The myth of Asia's miracle', *Foreign Affairs*, November/December 1994, pp. 62-78.
[21] http://mofa.go.jp/mofaj/gaiko/economy/asia/as_gs/index.html.

of a 'Japanese' model in the light of recent economic setbacks in East Asia.[22] For government intervention and private-public sector cooperation they read market imperfections, protection of failing banks and corporations, barriers to free trade, endemic corruption, and 'crony capitalism'--all features of defective governance which in reality undercut the World Bank and Washington consensus-favoured vision of growth in the region, based on sound financial management, the liberalisation of markets, and removal of barriers to free trade.

Japan's destruction of its own developmentalism model?

Thus, the critics of Japan's involvement in the East Asian economy have argued that it has instigated in the region a model of developmentalism supported primarily by the shaky supports of export demand and investment supply. Following the experience of 1997, the critics now contend that not only was Japan responsible for purveying this precarious model of development to East Asia, but also that it was responsible for bringing the model crashing down by sweeping away its twin pillars of exports and investment flows.

A number of suggestions have been put forward to explain Japan's undermining of the export side of the growth model. Firstly, the pattern of trade between Japan and East Asia was seen to be unsustainable and to have generated chronic current account deficits for states like Malaysia and Thailand. This is due to the fact that Japan has exported high cost production capital and technology to East Asia but only in return for lower value added imports from these states, such as components for screwdriver

[22] For criticisms of Japan's role in purveying a limited model of development to the region, see Bernard Argogyaswamy, *The Asian Miracle, Myth, and Mirage: The Economic Slowdown is Here to Stay,*

assembly. Japan was therefore seen to be a limited export market for the East Asian states in terms of achieving the types of high value export remittances which can drive growth, forcing the states to rely more on their export markets for manufactured products within the region and in Europe and the US. However, the argument then runs that Japan was also influential indirectly in reducing the export, and thereby growth, opportunities for the East Asian states in these key markets due to the near 60 per cent decline in the value of the yen against the dollar between April 1995 and April 1996. The depreciation of the yen, following as it did the devaluation of the Chinese yuan in 1994, meant the relative appreciation of the East Asian states' dollar-pegged currencies, and a subsequent relative decline in the competitiveness of these states' exports versus Chinese and Japanese exports in all key markets.[23] Finally, Japan is seen to have narrowed further the opportunities for the East Asian states to export due to its own economic slowdown and reduced demand for products from the region following the collapse of its bubble economy and gradual slide into recession throughout the 1990s.

Having created a situation whereby the East Asian states were increasingly unable to fuel growth through exports, Japan is next believed to have contributed to choking off the supply of their foreign investment lifeblood. The repatriation of profits from Japanese TNCs operating in East Asia counterbalanced inflows of FDI and contributed to the general trend in deterioration in the current account deficits of the region, whilst Japan's massive inputs of FDI in the first place had indirectly promoted an investment environment conducive to speculative bubbles.

Westwood, Connecticut, and London: Quorum Books, 1998, p. 7.

The end consequence of Japan's encouragement of ever increasing inflows of capital into the region, whilst creating an environment which limited the prospects for the expansion of East Asian exports in order to pay for these inflows, was to indicate the possibility of balance of payments problems for each of the states of the region, to erode investor confidence, and then finally to trigger the currency crises of 1997 onwards. In turn, the inept response of the East Asian states to the systematic annihilation of their currencies by international speculators has been ascribed to the lack of flexibility and transparency in economic governance derived from the Japanese model.

Japan as a non-solution

Japan's critics point out that having proceeded to demolish its own model of developmentalism, it has then failed to provide the correct leadership to restore stability and growth in the region and guide the East Asian states out of the economic wilderness. Japan's inability to provide a solution to the crises has been seen with regard to the abandonment of the AMF proposal and attempts to establish a regional financial framework in order to halt the onset of further crises; its apparent lack of resolve to recreate the demand and supply conditions to stimulate growth in the region; and its unwillingness to resist US attempts to dismantle the Japanese economic model in the region and restructure it along lines acceptable to the US and other Western powers.

[23] Bevacqua, 'Whither the Japanese model?', p. 418; Kan Shû (C. H. Kwan), *En to Gen Kara Miru Ajia Tsûka Kiki*, Tokyo, Iwanami Shoten, 1998, pp. 73-6.

Japan and the AMF

Japanese attempts to provide financial assistance to East Asia began with the visit of the Thai Finance Minister, Thadong Bidaya, to Tokyo between 17 and 18 July 1997, seeking assurances from twenty one leading Japanese banks that they would not call in their loans, and pledges from MOF that it would be prepared to intervene if necessary to purchase the baht under the bilateral currency defence agreement signed between the two countries in April 1996. Miyazuka Hiroshi, the Japanese Finance Minister, and Sakakibara Eisuke, MOF Vice-Minister for International Affairs, stated that Japan would investigate support for Thailand, although they stressed also that assistance would be provided in line with IMF conditions.[24] Concurrently, Japan was also seen to take an active role in multilateral efforts to assist Thailand with its sponsorship of an IMF, World Bank, Asian Development Bank (ADB), and G-10 conference held in Tokyo between 11 and 12 August. The conference raised US$16 billion, Japan and the IMF each providing one quarter of this amount. Contributions from the World Bank, ADB and other Asia-Pacific states accounted for one half, whilst the US and Europe were not forthcoming with any direct assistance. In September at the annual IMF-World Bank and Central Bank Governors' meeting in Hong Kong, the ASEAN states, concerned at the relative lack of US interest in stabilising their currencies compared to its quick intervention in the Mexican crisis of 1994, initiated talks with Japan over the creation of a regional AMF. The US and Europe expressed strong opposition to the AMF proposal because of fears that it would undermine the IMF as the only international body with sufficient international support to mount a credible rescue package in the region. But despite these objections, MOF embarked upon research into

[24] *Nihon Keizai Shimbun*, 30 July 1997, p. 5.

the establishment of a US$100 billion AMF, again stressing that it was designed not to supplant but to supplement the IMF due to the tough conditionality that would be attached to any loans. Sakakibara was despatched to the Philippines, Indonesia, and Singapore in late October on a round of quiet shuttle diplomacy to investigate the depth of support for the AMF in the region, and Japan further hinted at its intent to provide financial leadership in the region following the Bank of Japan's (BOJ) joint intervention with the latter two states to buy the rupiah on 3 November.[25] Sakakibara was also despatched to the US between 2 and 9 November to discuss the AMF proposal with his opposite number at the US Treasury, Lawrence Summers. In the meantime, Japan continued to back the IMF package offered to bolster Indonesia's currency the previous month: pledging the largest individual contribution of US$5 billion, and with Prime Minister Hashimoto Ryûtarô personally contacting President Suharto to urge his acceptance of IMF conditionality.

Japanese support for a fully-fledged AMF, though, came to an end after the US intensified its pressure on Japan and the ASEAN states to desist from the proposal, and it produced its own counter-proposals to expand the lending power of the IMF. The result was that at the Manila Meeting of Asian Finance and Central Bank Deputies held in Manila between 18 and 19 November proposals for an independent AMF were in effect defeated, in favour of a US-backed 'New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability'. The 'Manila Framework' created a fourteen member regional body which was to meet in order to co-ordinate within East Asia and the Asia-Pacific methods and amounts of financial assistance to be provided

[25] *Asahi Shimbun*, 4 November 1997, p. 9.

via the IMF. The first meeting of the Manila Framework group was held in Tokyo between 26 and 27 February 1998. But although the meeting certainly marked progress in regional financial cooperation, at the same time it was also clearly a toothless substitute for the AMF as first envisaged by the leaders of certain East Asian states.

Following Japan's retreat from the AMF proposal, it maintained its strong backing for IMF attempts to contain the spreading financial crisis. In November, Hashimoto again confirmed personally to Suharto that Japan would only consider providing financial assistance if Indonesia accepted IMF conditions. Japan re-emphasised this point to South Korea later in the same month as it contributed US$10 billion to the IMF-led package to rescue the won.

Hence, Japan, despite its uncharacteristically energetic economic diplomacy, had by late 1997 dropped plans for a true regional financial framework and appeared to be sticking rigidly to the IMF line in its allocation of assistance to the East Asian states. Japan's support for the AMF at the start of the crisis has been viewed as a frustrated bid by it to establish a vehicle for regional financial dominance and to exclude the influence of the US. But arguably this is a misinterpretation which distorts the true nature of Japanese policy and the setbacks that it suffered. Undoubtedly, Japanese policy-makers did see the AMF as a means to enhance their status in East Asia, but this does not necessarily imply the exclusion of the US or IMF from influence in region. Dennis T. Yasutomo points out that Japan has been a consistent supporter of the IMF and other international institutions: recognising that they are dominated by the US-centred norms, but at the same time working to magnify its influence within them by securing enhanced voting shares and financial contributions, rather than by open confrontation or attempts at exclusion.[26] Japan's diplomatic style of presenting itself as a good citizen and supporter of the international system, does not suggest that it would attempt readily to undermine the IMF by setting up a fully independent AMF. Indeed, when Japan's policy is chronicled in detail as above, it is clear that from the very beginning of the crisis, and well before the idea of the AMF was floated, it supported IMF conditionality as a necessary measure for the immediate stabilisation of currencies in the region. Moreover, it is not likely that Japanese policy-makers were being disingenuous when they stressed that the AMF should also employ conditionality similar to the IMF. Japan can, then, be seen as a committed supporter of IMF-style conditionality and the institution of the IMF itself, but this then begs the question as to why Japan expended so much apparent policy-making energy on the AMF proposal?

The likely answer is that Japanese policy-makers saw the AMF as the only available means to bridge the gap between the positions of the US-IMF 'Washington Consensus' and East Asian states towards the crises. Since the start of the crises, Japan shared the alarm of ASEAN that the US and IMF has paid insufficient attention to the region's difficulties, but at the same time was itself concerned (quite rightly as it turned out) that the East Asian states would resist the harsh conditionality of the IMF. Policy-makers were also aware that the limitations of Japan's own financial resources due to its ongoing recession, coupled with East Asian and US suspicion of any attempt by it to mount a rescue plan alone which would look like the exertion of regional hegemony, ruled out the possibility of a Japanese-centred rescue plan.[27] Consequently, the AMF

[26] Dennis T. Yasutomo, *The New Multilateralism in Japan's Foreign Policy*, London, Macmillan, 1995.
[27] *Nihon Keizai Shimbun*, 17 July 1997, p. 7.

seemed to be the only practical option available to Japan which would enable it to mediate an international financial rescue package under the cover of a multilateral framework; to allay East Asian and US concerns about Japanese hegemonic aspirations in the region; and to replicate the type of conditionality demanded by the IMF and US which could keep both engaged in the region.

Japan can perhaps be said to have succeeded in its aims in some respects by at least provoking the opposition of the US and IMF and concentrating their attention on East Asia in the same way that they had concentrated on Mexico in 1994. However, the US and IMF's ability to shoot down the idea of the AMF does signify a measure of Japanese defeat, and inevitably Japan's compromise plan fell between two stools.

Once again, from the East Asian side, Japan was viewed as having submitted in the face of US and IMF pressure. The strongest advocate of an AMF-type arrangement for the region had been Mahathir, who remarked at the ASEAN and South Korea-China-Japan summit in December 1997 in Kuala Lumpur that Japan lost the will to be 'lead goose' in the region.[28] Other East Asian leaders were less optimistic about the prospects for an AMF, but nevertheless were disappointed by Japan's quick abandonment of the proposal. As noted in the introduction, the US and European sides chided Japan for what they saw as its misguided or even reckless policy to challenge the IMF. Japan was thus criticised for providing both too little and the incorrect type of leadership in the region. Even China decided to get in on the act: reversing its usual complaint that Japan

[28] *Nikkei Weekly*, 22 December 1997, p. 24.

was reluctant to provide economic leadership in the region, and choosing instead to criticise its leadership ambitions as suddenly revealed in the AMF.

Japan's inability to restore the demand and supply sides of the model

Criticism of Japan's failure to halt the onset of the crisis in late 1997, was then matched in the first half of 1998 by criticism of its apparent disinclination to stimulate supply and demand conditions in the region along the lines envisaged by the US, European states, and a growing number of the East Asian states themselves.

The earlier description of the believed causes of the currency crises has emphasised the role of the depreciation of the yen in undercutting the export competitiveness of the economies in the region and bringing the model of East Asian development crashing down. Despite the economic havoc that the decline of the yen against the US dollar was thought to have wreaked upon East Asian exports, Japan appeared powerless to prevent further depreciation. By August 1998, the yen had reached a new eight year low of ¥147 to the dollar, and suspicions were raised that Japan's real policy was one of neglecting the decline of yen in order to eliminate East Asian competition and to export its way out of recession. The image of Japan's ruthless prioritisation of its economic self-interest, even if it meant the sacrifice of former economic apprentices in East Asia, was reinforced by the Japanese government's obvious resistance to US demands that it should resolve the economic crisis by increasing domestic demand and acting as the principal 'absorber' of exports in the region. The resistance of MOF to further full-scale domestic stimulus packages (faced as it is over the long run by greater budget deficits due to the ageing of the Japanese population) is well known, and it seemed to be fiscal rectitude over the economic health of the region in terms of importance. However, in all bilateral and multilateral lateral meetings in which Japan participated from mid-1997 onwards, the nagging US and European request was for Japan to stimulate domestic demand through financial restructuring and fiscal expansion, and thereby haul both the Japanese and East Asian economies free of recession. The theory that Japan should act as the locomotive of growth in the region also took root in the East Asian consciousness: Thailand in particular urging continuously in the Japanese press that Japan should expand imports from the ASEAN-4.[29] The new Obuchi Keizô government, formed in August 1998, eventually acceded to US requests, or *gaiatsu* (external pressure), with the announcement the following month of a new stimulus package. But this was not before Japanese leaders had endured the ritual humiliation at ASEAN, G-7, Asia-Europe (ASEM), and APEC meetings of being forced to defend unsuccessfully their economic strategy in the face of near total international condemnation.

Likewise, Japan was seen to have done little to restore the supply side of the growth equation in East Asia. As will be seen later, many Japanese banks and manufacturing firms have stayed engaged economically in the ASEAN-4 and NIES-4 following the outbreak of the crises. In 1997 Japanese FDI in East Asia did continue to rise by 0.9 per cent (Table 1), although overall levels of investment have declined throughout the late 1990s. Added to this, Japan's incompetent handling of domestic banking scandals and

[29] *Nikkei Weekly*, 15 September 1997, p. 20.

crashes, seemed to deny it the any qualifications to advise and assist in the financial recovery of the wider region.

Roll-back of the Japanese model?

The failure of Japanese efforts to restore growth in the ASEAN-4 and NIES-4 also seemed to signal the bankruptcy and abandonment of the Japanese-style economic model itself. Japan's declining influence over economic management in the region was represented by Prime Minister Hashimoto's efforts to keep Indonesia on board the IMF rescue package. Following the failure of US efforts to persuade Indonesia to adhere to IMF conditions, the task was entrusted to Japan due to its special diplomatic, economic, and ODA relationship with the Suharto regime. Hashimoto visited Suharto personally in mid-March 1998, accompanied by the Chairman of the Liberal Democratic Party (LDP) Policy Affairs Research Committee, Yamasaki Taku, and two opposition party politicians. Yamasaki stressed that Japan sought to employ mutual understanding and an 'Asian mentality to break the deadlock in negotiations', and Hashimoto was able to secure Suharto's agreement to co-operate with the IMF and a diplomatic prize to take to the April meeting of ASEM in London.[30] But despite the triumph of such 'Asian values' and Japan's careful cultivation of the Suharto regime since the 1960s through the disbursement of ODA, the limitations of Japan's influence over this state were ultimately revealed by Indonesia's descent into further economic and political chaos the following May.

[30] *Asahi Shimbun*, 14 March 1998, p. 2.

Japan's exercise of both moral and economic leadership in the region reached an apparent nadir in June 1998 when it was confronted over the issue of EVSL (Early Voluntary Sector Liberalisation) at an APEC trade ministers' meeting in Kuala Lumpur. Japan found itself uncomfortably isolated as the US and other East Asian states united to pressure it to liberalise its marine and forestry product markets, whereas it preferred to defer the issue to the World Trade Organisation (WTO). MITI officials at the meeting were reported to have expressed dismay that the US had succeeded in bringing the East Asian states into line with its arguments for the rapid liberalisation of trade in the region, and attributed this to the influence of role of IMF restructuring plans in forcing upon the East Asian states a US-inspired neo-liberal trade agenda.[31] Thus, to Japanese government officials the ESVL negotiations represented a US-led attempt to divide the ASEAN-4 and NIES-4 states from Japan and begin to roll-back the Japanese model of growth.

Japan's politics of resentment?

Although Japan's quiet diplomatic style precludes the open expression of discontent at international summits, and lends itself to much internal soul-searching and self-criticism over the often reactive nature of its policy, there is no doubt that Japanese government officials and businessmen have been irritated by the apparent defeats that they have suffered at the hands of the US and other major powers. Even though Japan has contributed US$42 billion and was the largest donor to the financial rescue effort in East Asia, it had received little positive recognition for its role by mid-1998, and was accused of falling back on the type of 'chequebook diplomacy' that had been insufficient

[31] *Asahi Shimbun*, 26 June 1998, p. 15.

to achieve international stability during the Gulf Crisis. Compounding Japan's sense of humiliation was the US-China summit of June 1998, during which Presidents Bill Clinton and Jiang Zemin cozied up to each other, whilst taking the extraordinary step of commenting in a bilateral setting on the deficient management of Japan's. China's self-proclaimed stoicism in refusing to allow devaluation of the yuan, and rather hypocritical implied criticism of Japan for failing to act as a responsible member of the international economic community by allowing the yen to drop, all supported apparently by the US President's praise of China's role in the East Asian economic crisis, particularly rankled with Japan. In spite of its position as an economic superpower, Japan was made to look ineffectual by both the US and China, and the image of its total defeat consolidated both domestically and abroad.

Japanese annoyance and the desire to deflect criticism are typified by MOFA's complaint on its Japanese language homepage that: 'the attempt to foist responsibility upon Japan for the crisis is an assertion which is both unconstructive and based upon a poor understanding of the actual circumstances in the region. The most important task is to gain a correct understanding of the economic situation and to resolve the crisis by cooperation between all the countries involved, including the US and Europe.'[32] Thus, Japanese policy-makers have certainly been aware of and resented the impression that they have been outplayed in the short term contest for influence in East Asia. However, as the next sections will suggest, the differing Japanese perceptions of the origins of the crises have given its policy-makers some confidence that over the long-term Japan's influence may be resurgent.

[32] http://mofa.go.jp/mofaj/gaiko/economy/asia/as_gs/index.html [Author's translation].

Japanese views of the causes of the currency crises

Declining export competitiveness

The division of responsibility between MITI, MOF, and the Japanese Ministry of Foreign Affairs (MOFA), for dealing with political and economic relations in East Asia means that Japan's position regarding the currency crises has been opaque and subject to the usual type of immobilism identified in its policy-making.[33] MITI and MOF appear to have been more combative towards US and IMF policy in the region. To some extent, MOF seems to have been hamstrung internally by divisions between its International Finance Bureau, looking to assert Japanese leadership in East Asia, and the more cautious Budget Bureau, keen to rein in government borrowing for financial assistance in the region. MOFA, as its epithet of the 'branch consulate of the US embassy' in Kasumigaseki-cho (the centre of government in Tokyo) denotes, has been more pro-US and IMF in its stance.[34] But it too has shown dissatisfaction with the US response to the crises and the damage done to Japan's international standing in the region.

Japanese analysts agree without hesitation that one of the twin factors which has triggered and prolonged the currency crises in East Asia has been the weakening export competitiveness of the states in the region. They concur that the model of growth, which Japan was partly responsible for transferring to the region, is reliant upon export-generated demand and that the inability of the states to export both before and prior to currency crisis has undermined investor confidence. In turn, they also acknowledge that

[33] J. A. A. Stockwin, 'Dynamic and immobilist aspects of Japanese politics', in J. A. A. Stockwin, Alan Rix, Aurelia George, Daichi Itô, and Martin Collick, *Dynamic and Immobilist Politics in Japan*, London, Macmillan, 1988, pp. 1-21.

lying behind the decline in exports has been a decline in competitiveness attributable to the pegging of the East Asian currencies to the dollar and to falling demand in markets such as Japan. Hence, there is some acceptance that the yen's depreciation and the recession in Japan contributed to the problems of East Asian exporters by undercutting their competitiveness in Japan and other markets, and, conversely, that a rise in the value of the yen and the stimulation of the domestic market in Japan to absorb East Asian exports would certainly be of benefit in restarting export-led growth in the region. In particular, the similarity of Japan's trade pattern to that of the NIES-4, and especially South Korea, in manufactures such as electronics and automobiles, means that a falling yen could have contributed to a deterioration in the competitiveness of the current account deficit of these states.

But even though Japan is prepared to admit some responsibility for the weakening of the export-demand side of the model, it is not prepared to take it all, and offers a different interpretation of the region's economic difficulties. Firstly, policy-makers deny outright that the depreciation of the yen is a policy favoured by the government or one deliberately engineered by it in the late 1990s. They argue that the yen's rate is determined overall by market forces, and that the flip-side of the low yen is a high dollar driven by the US's own stock market boom; which certain policy-makers might criticise clandestinely as a dangerous speculative bubble and the mismanagement of the US economy. Secondly, they point out that the rapid depreciation of the yen, whilst certainly not helpful to the East Asian economy or desirable, is something of a 'red-herring' in explaining the export problems of the region. As will be explained below, the

[34] For an example of one MOFA official's view of the crisis, see 'Tsûka kiki de towareru Nihon no shisei', *Gaikô Fôramu,* February 1998, pp. 26-37.

Japanese government certainly sees the dollar peg as harmful to the East Asian economies because of its elimination of exchange risk and promotion of speculation, and because the growing shares of intraregional trade--reaching up to 40 per cent by 1997--argue that the individual states of the region would be better positioned to use a common unit or mixed basket of currency exchange which is not tied solely to one export market in the US. However, MITI and MOFA stress that the depreciation of the yen relative to the dollar and East Asian currencies should not affect East Asian competitiveness so greatly, as Japan's exports both inside and outside East Asia consist primarily of technology and capital goods on the higher echelons of the production cycle, which do not compete directly with those goods produced by other states in the region, and especially by the ASEAN-4 where the currency crises originated in the first place.[35] As other independent analyses point out, Indonesia, Thailand, and the Philippines take a supplementary economic role to Japan, exporting primary goods to Japan in exchange for capital goods, and thus are not in direct competition (Diagram 1). It is probably only Malaysia, having shifted the share of its primary exports from nearly 70 per cent in the 1980s to 20 per cent in the 1990s, and having broken into export markets for those goods also produced by Japanese TNCs, such as colour television sets and air conditioners, which has been hit by the yen's depreciation.[36] Thirdly, in addition to its defence that Japan was not responsible for 'crowding out' East Asian exports, the Japanese government has attempted to argue that Japan was actually working before the crisis to expand export opportunities for the region prior to the outbreak of the crises. Japanese imports from the NIES-4 and ASEAN-4 were both on the rise between 1995

[35] http://mofa.go.jp/mofaj/gaiko/economy/asia/as_gs/index.html.
[36] Kan Shû, *En to Gen*, pp. 78-9.

and 1996, and only began to drop markedly in the second half of 1997 after the onset of crisis (Table 4).

Japan's self-exoneration of major blame for the onset of the crisis is accompanied by a clear idea of where the true blame for the decline in East Asian competitiveness lies--China. Reluctant to spell this out explicitly for fear of a Chinese diplomatic backlash, MITI has resorted to implicit explanation by showing in the *White Paper on International Trade* of its special corporation Japan External Trade Organisation (JETRO) that the decline in certain key ASEAN-4 exports to the US and Japan that have taken place since 1995, and especially in the labour intensive industries such as clothing and footwear, are matched by large Chinese increases in exports in the same areas (Table 5).[37] Although there is not necessarily an identifiable or direct causal correlation between these increases and decreases in Chinese and ASEAN-4 exports, MITI's implicit point is that exports from China are seizing the ASEAN-4's traditional markets. The increases in Chinese exports are attributed by MITI in part to the devaluation of the yuan in 1994.[38] The Nomura Research Institute and Hong Kong-born economist, C. H Kwan has questioned how far the devaluation of the yuan has been responsible for China's growing competitiveness, given that ASEAN-4 exports saw no significant slowdown for two years following the yuan devaluation. But at the same time, he emphasises that gains in productivity and inputs of foreign capital in China have accounted for its moving ahead of the ASEAN-4 in terms of international competitiveness.[39] MITI and other Japanese commentators may not be entirely ingenuous to claim that it is Chinese products *per se* which are damaging the NIES-4, as

[37] JETRO, *Sekai to Nihon no Bôeki 1998*, Tokyo, JETRO, 1998, pp. 44-5.
[38] http://www.miti.go.jp/report-j/g82-2j.html.

many of these Chinese exports may in fact be accounted for by exports from Japan's own TNCs producing offshore in China.[40] But even so, the argument is that as China slipstreams in the wake of the other Asian geese, protected by its relatively closed market and investment environment, it has at times managed to surge ahead of the ASEAN-4 in the production cycle, to capture their markets, and to cause a malfunctioning of the economic growth model.

Nevertheless, despite this analysis of the problems of export competitiveness of the East Asian states, policy-makers in Japan do not see the model as a total write-off. The key to recovery is still the basic model of the developmental state in the region and export growth on the demand side. Export growth can be restarted through economic stimulus packages in Japan and continued growth in the US, but even more importantly through the promotion of the intra-regional exports which accounted for so much growth in the region prior to the currency crises and could sustain growth long-term. In turn, the ability of the East Asian states to access these internal and external markets is dependent on raising their export competitiveness, which can be done, not by abandoning the developmental model and moving towards full trade liberalisation, as the 'Washington Consensus' would suggest, but by reordering the model in such a way that the region's economies follow each other more smoothly up the production cycle without overtaking or colliding with each other as China has threatened to do with the ASEAN-4, and increasingly the NIES-4. For Japan, the key to reordering the model and regaining export competitiveness is thus the further accumulation of production and technological

[39] Kan Shû, *En to Gen*, pp. 5-6.
[40] For more details on re-exports from China and its protected markets and investment environment, see Shaun Breslin, *'Made in China': The Growth of Chinese Trade*, CSGR Working Paper, No. 19, December 1998, http://www.warwick.ac.uk/fac/soc/CSGRpublications.html.

capital in the region, and particularly in the ASEAN-4, in order to allow them to fly clear of Chinese competition.

Misuse of FDI

The issue of production capital and FDI leads on to the second Japanese explanation of economic slowdown in East Asia. MITI and MOF do indeed identify the rise and then sudden collapse of inflows of capital into the region as one of the triggers of the crisis. But they stress that it is not the inflows of capital *per se* which represent a defect in the developmentalism model, but rather the misuse of these inflows, and that Japanese capital (despite evidence of the tendency towards reckless investment in Japan itself in the late 1980s) bears little responsibility for creating dangerous speculative bubbles in the region. Japanese government publications emphasise that a large proportion of Japanese FDI in East Asia has been directed to the formation of productive capital, either by the presence of Japanese subsidiaries in the region or by lending to East Asian banks for investment in domestic manufacturing firms.[41] In contrast, they argue, the unstable speculative climate was created by East Asian states' policy of pegging their currencies to the dollar, which eliminated exchange risks for hedge funds based in the US and Europe, and by US pressure for the states in the region to liberalise currency controls before they were fully-equipped to deal with the pressures of global finance. Hence, for the Japanese side, their flows of FDI really were the 'virtuous' component of the supply side of the developmentalism model, as it furnished the East Asian economies with the tools for export-led growth, whereas the true responsibility for

[41] JETRO, *Sekai to Nihon no Kaigai Chokusetsu Tôshi 1997,* pp. 26-7.

initiating the crisis lies with other investors who misdirected capital to non-productive uses.

Japanese criticisms of the IMF and US long-term approach towards the crises

In line with its analysis of the misuse of FDI as one of the chief culprits for triggering the currency crises, the Japanese government has fully backed the IMF since mid-1997 in its attempts to restore immediate currency market stability and to stamp out further speculative bubbles. Hence, the Japanese government, whether through the agency of the IMF or the aborted AMF, has insisted that financial assistance should only be extended accompanied by measures of conditionality that implement banking reform and enhance transparency. But at the same time, as the crises have persisted, and despite Japan's usual reluctance to express anything but veiled criticism of the IMF, the differences between the Japanese and IMF-US approaches towards other aspects of the crisis have become clear.

The most basic difference is the Japanese perception that the onset of the currency crises in mid-1997 really reflected temporary problems in liquidity, rather than deep-seated problems in solvency, as the IMF has attempted to argue. As explained above, the Japanese government takes the view that export-led growth has been and continues to be sustainable in East Asia over the long term due to the expansion of intra-regional exports and investment, and thus that the states of the region should be able to earn sufficient foreign exchange remittances to sustain and correct current account deficits.[42] The Japanese government’s conviction in the past and future viability of the

[42] JETRO, *Sekai to Nihon no Bôeki 1998*, Tokyo, JETRO, 1998, p. 59.

developmentalism model means that, although it acknowledges that the currency crises were certainly generated in their initial phase by investor anxiety about declining export growth, leading to the drying up of vital capital inflows on the supply side, this problem of liquidity should not equate to one of insolvency because of the long-term prospects for growth in the region. Hence, viewed from the Japanese perspective, the East Asian states in mid and late-1997 were really facing what should have been a temporary liquidity crunch and a slowdown in growth brought on by adverse, but transitory, export market conditions, misuse of FDI and neglect of certain key components of international competitiveness, and poor financial governance and unregulated speculation. In turn, Japanese policy-makers have viewed the developmentalism model as fundamentally sound and capable of continuing to deliver solvency and growth. As will be outlined below, they argue that growth could have been resumed soon after the onset of the currency crises, and indeed can still be resumed at the present time, with only limited modifications made to the developmentalism model, and with the provision of the necessary financial assistance, whether via the IMF or AMF, to tide the East Asian economies over the worst of their liquidity problems.

From the Japanese perspective, then, the currency crises in mid-1997 should have been just temporary blips in the generally smooth progression of the developmentalism model in East Asia. However, the IMF's decision to regard the crises as originating in problems of insolvency, and to tackle them by insisting on major structural reforms and the virtual dismantlement of the developmentalism model, has instilled in certain Japanese policy-makers the suspicion that the IMF has overstepped the mark and made the blunder of converting temporary currency crises into full-blown economic ones. The

IMF's strategy to achieve currency stability and restart growth in the region has been to reduce private and public consumption and inflows of investment. This entails boosting exports and reducing imports through a combination of reduced government spending, higher taxation, and higher interest rates—all orthodox IMF measures intended to eliminate insolvency. In addition, the IMF has insisted upon a range of structural reforms in the governance of the political economies of the region, including the break-up of industrial conglomerates, changes in banking practices, and price controls. The Japanese government has concurred with these reforms so far as they have been designed to stamp out speculative bubbles, enhance transparency, and redirect investment to more productive uses. But at the same time, the fear is that the IMF's macro and micro-economic reforms have actually compounded the crises short and long term. Over the short term, the IMF's insolvency-busting methods have been seen as simply inappropriate to deal with what was a problem of liquidity. IMF policies of high interest rates and the break-up of domestic corporations are believed to have hampered the ability of the East Asian states to search for ways to boost exports, just at the very time when they were under pressure to do so in order to overcome the liquidity crunch. Instead, the East Asian states were forced to undertake structural reforms in the midst of the crisis, leading to a loss of export momentum, and pitching them from initial currency crises into economic crises. Moreover, the IMF's continued stress upon restructuring is believed to have hindered the chances for the economic recovery of the region because it has been seen to attack the very foundations of the developmentalism model, which has accounted so successfully for the expansion of East Asian exports in the past.

Thus, as the East Asian currency crises have developed into economic crises and IMF reforms have failed to provide a quick cure for the problems for the region, MITI and MOF have become more openly critical of the Washington consensus. The combative MITI minister, Yosano Kaoru, in an official speech in Singapore on 23 September 1998, designed to lay out Japanese plans for the revitalisation of the ASEAN economies, remarked that the IMF had played an important role in the currency crisis, but that its response had been one of 'trial and error' and that it needed to develop a more flexible policy towards the region.[43] Likewise the Economic Planning Agency (EPA) of Japan, under the management of MOF, noted in its annual *White Paper On The World Economy in 1988* that with regard to the East Asian currency crises: 'It may be questioned whether the remedies applied by the IMF were appropriate? Perhaps the policies for macroeconomic stabilisation were too restrictive. Conversely, would economies have recovered without austerity programmes? Was it appropriate to demand structural reforms in the very midst of the crisis?.'[44] Japanese dissatisfaction with the IMF was also evident at the time of the G7-Central Bank Governors' held meeting in Washington in October 1998. At that time MOF sources were quoted as stating that the IMF in East Asia had imposed, 'inappropriate and unnecessary conditions which it should now reflect upon', and that its demands for, 'reductions in government expenditure and the raising of interest rates invited a devastating chain reaction and made the economic confusion worse.'[45]

[43] *Asahi Shimbun*, 24 September 1998, p. 9 [Author's translation].
[44] http://www.epa.go.jp/98/f/19981120f-kaigai-e.html [Author's translation].
[45] *Asahi Shimbun*, 7 October 1998, p. 11 [Author's translation].

Japanese scepticism about the merits of all IMF reforms has also been matched by scepticism about US-prescribed cures for the currency crises. Officials in Japan certainly acknowledge that the US has played an important role as leader in the crisis and that it has performed a service for East Asia in keeping its markets open and absorbing large quantities of imports from the region after the currency crises struck. However, they also perceive very clearly that the US's role as an absorber of East Asian exports is a result not of economic altruism, but simply the US's chronic imbalance in domestic consumption and investment, and an economic boom built on the shaky foundations of the Wall Street bull market. The Japanese are even less welcoming of US pretensions to lecture them on the role Japan should play in resolving the East Asian currency crisis. The US has demanded successive Japanese stimulus packages to boost domestic demand and imports from East Asia. But this seems to fly in the face of economic rationality and is unlikely to have much immediate effect in pulling the East Asian states out of trouble, given that Japan was not the major export market for these states even before the currency crises hit. This type of US pressure is even harder to tolerate because of the US's obvious unwillingness to provide with its own resources any significant amount of financial assistance to the region. The US's total input into bailout schemes for Thailand, Indonesia and South Korea at US$8 billion is less than a fifth than that of Japan, and in contrast to the Japanese Diet's quick agreement to increase contributions to the IMF to deal with future crises, the US Congress has been slow to approve increased funding even for IMF packages. In many ways, the currency crises has looked to be a repeat of the Gulf Crisis of 1990-91, when, despite talk of partnership, the US dictated policy and Japan was expected to pay for it. Hence, as one MOF official remarked concerning the East Asian crisis at the US-Japan finance ministers' summit in September 1998: 'The US is content to open its mouth on these issues, but never its own coffers.'[46]

Japanese strategy to resolve the currency and economic crises

Japan's faith in the continued viability of the East Asian developmentalism model has meant that, whilst its policy-makers have paid lip service to many of the IMF and US long term prescriptions, its own principal economic strategy for the region has been to jumpstart growth through efforts to regear the existing model and improve the general competitiveness of the NIES-4, and especially ASEAN-4. On the demand side, the Japanese blueprint for the region, as devised by MITI, has been to keep intraregional exports ticking over and sustain manufacturing networks during the worst of the currency crises by the provision of large-scale trade credits. As of November 1998, the Japanese government had pledged US$22.5 billion via the Export-Import Bank of Japan for the facilitation of private sector regional trade, including two-step loans and short-term trade insurance. In addition, even though its argues that declining imports from East Asia may not have been the origin of the currency crisis, Japan has promised to take on an increased burden as the 'locomotive' of growth in the region in the future, with the announcement by the Obuchi government in November 1998 of a ¥16 trillion (US$124 billion) domestic stimulus package which promises to increase trade with the region.

In conjunction with these efforts to allow the developmentalism model to weather the initial shock of the currency crises, the next stage in MITI's plan has been to ensure the

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[46] *Asahi Shimbun*, 23 September 1998, p. 11 [Author's translation].

model's long term recovery from economic crisis by upgrading the competitiveness of each of the economies of the region, so that they can move on to the next stage in the production cycle and move clear of damaging competition from below. The Japanese interpretation of shortfalls on the export-demand side caused by declining competitiveness, brought on by the misuse of investment and China's rapid climbing of the production cycle, dictates that the key to boosting growth is to restore competitiveness by the more efficient application of investment and education. As Japanese officials note, the fundamentals of the region, comprising openness to foreign investment and emphasis upon education remain excellent, but assistance is still needed to enable each of the states to haul themselves up onto the next technological rung of the development ladder. Hence, the Japanese government has launched a US$1.72 billion programme for structural reforms in the ASEAN states, which will pay for employment creation and the dispatch of policy advisors. Japan has also promised US$32 million under the Japan-ASEAN Programme for Comprehensive Human Resources (a package originally announced by Prime Minister Hashimoto in 1996 and known as the Hashimoto Initiative), which will improve the technical skills of personnel ASEAN and equip these states for industrial expansion in new industries. Furthermore, as Japan's own budget problems increase in the 1990s and it is forced to curb the rate of expansion of its ODA, the government has pledged that the emphasis of its aid programmes will shift from quantity to quality, and consequently from big ticket infrastructure projects to the development of human resources and industrial technology.

Much of Japan's strategy on the investment supply-side overlaps with measures taken on the demand side. The first step has been to enable the East Asian states to overcome the credit crunch resulting from the currency crises by the extension of the trade insurance mentioned above and by the introduction of the new Miyazawa Initiative. Miyazawa's plan offers up to US$30 billion to guarantee sovereign bonds issued by East Asian states, which can then be used to recapitalise ailing banks and corporations in the region. The conditionality is less stringent than IMF programmes and the clear intention of the Miyazawa Initiative is to give the East Asian states the necessary breathing space to reorganise their export and investment policies in order to re-launch a revamped developmentalism model. Finally, over the longer term MITI and MOF are backing the continuation of the previous growth model by moves to redirect Japanese ODA and particularly yen loans towards the greater build up of technology and productive capital in the region.

The success of Japanese strategy?

Japan's money may not always be able to buy it love in the battle to shape the future political economy of the East Asia region, but by the end of 1998 it certainly seems capable of at least buying it sufficient influence to reverse the string of diplomatic and economic reverses which it had been seen to experience since the onset of the currency crises. East Asian states have been and continue to be critical of Japan's seemingly inadequate response to the currency crises and abandonment of the AMF. But since the announcement of the Miyazawa Initiative, Thailand, Malaysia and Indonesia have been queuing up for further Japanese financial assistance, and to some extent have shown their willingness to buy back into the developmentalism model purveyed by Japan.[47]

Evidence of this is provided by the EVSL negotiations held at the APEC summit in Kuala Lumpur in November 1998. At the summit the East Asian states continued to chastise Japan publicly for its reluctance to use its economic power to rescue the region economically, and for its continued opposition to EVSL in the marine and forestry sectors. But what was more significant from the Japanese perspective was that the East Asian states stopped short of forcing the EVSL issue onto the APEC agenda and secured the compromise of deferring a decision to the World Trade Organisation (WTO). The EVSL compromise was portrayed as something of a diplomatic victory in the Japanese press because, even though it made Japan look like a delinquent Asia-Pacific citizen, it enabled Japan and the other Asian states to resist effectively US pressure for convergence. MOFA denied that the offering of financial assistance to the East Asian states under the Miyazawa Initiative and support on EVSL were related, but the Japanese government had clearly pursued a campaign to enlist the East Asian states on its side in APEC forum by the dispatch the month before of MITI Minister Yosano to Indonesia, Malaysia and Singapore for talks with Asian leaders on EVSL and to promote the Miyazawa plan.[48]

Thus, Japan was able eventually to assert its own agenda in APEC, to slow down the US push for the dismantlement of the developmentalism model in the region, and to

[47] For instance, despite Malaysia's refusal to accept IMF assistance, in December 1998 it succeeded in issuing a US$570 million bond guaranteed by the Japanese government. By January 1999, the Japanese government had also promised to provide US$1.5 billion in loans to the Indonesian government, US$1.85 billion to Thailand, and US$2.4 billion to Indonesia.
[48] http://www.mofa.go.jp /policy/economy/apec/1998/brief13.html; *Asahi Shimbun*, 21 September 1998, p. 3.

avert the diplomatic humiliation at the combined hands of the US and East Asian states which it had so feared earlier in the year. Having stopped the rot in its diplomatic and economic position, the Japanese government has also shown signs of regaining leadership in the region and facing down the US and China. In December 1998 Obuchi Keizô visited Kuala Lumpur for the Japan-ASEAN summit meeting, bringing with him four new initiatives promising financial support for retraining human resources and reactivating industries in the ASEAN states worth US$5 billion. The initiative won approval in Southeast Asia, and the degree of latent diplomatic support for resurgent Japanese financial leadership across the whole of the region was also shown by the proposal of South Korean Prime Minister, Kim Jong Pil, when visiting Japan in December 1998, for a revival of the AMF with Japan at its head, although the South Korean Finance Ministry later denied that this was an officially sanctioned idea. In turn, encouraged by signs of new East Asian support for a regionally based response to the currency and economic crises, Miyazawa hinted at the possibility of a new AMF proposal in December 1998 when he stated that in order to support the IMF there was still a need for a regional fund.[49] Here Miyazawa again seems to have putting its toe in the diplomatic water to test support, but the very fact that Japanese policy-makers were prepared to do so indicates that they feel that the idea of a regional fund with Japan as the leaders is not an entirely dead letter.

The overall outcome of these Japanese initiatives has been that it has begun to forge ahead of the US in the regional leadership stakes. The US has been distracted increasingly by the spread of the currency crisis contagion to Brazil and across Latin America and been forced to yield more responsibility for organising the East Asia

[49] *Yomiuri Shimbun*, 16 December 1998, p. 20.

region to Japan since mid-1998. Although the Japanese government made sure that there were more extensive bilateral consultations at the time of the announcement of Miyazawa Initiative than at that of the AMF, the initiative still seems to have caught the US off-guard. It was forced hurriedly to announce support for the plan, but also to try to match Japan with the launch of its own US$5 billion assistance fund, and by proposing a joint US-Japan fund worth a further US$5 billion. But the US's insistence on stronger conditionality compared to the Miyazawa Initiative meant that its proposals did not have an enthusiastic reception, and, as the influential *Nihon Keizai Shimbun* remarked, all the US was trying to do was to, 'hitch a free ride on the back of Japan's ideas'.[50] Indeed, the US's belated support for, and free-riding upon, the Miyazawa Initiative looks very much like a repeat of the Latin American debt crisis in the mid-1980s, when the US first raised opposition to the Japanese idea at the time (again proposed by Miyazawa) that debt could be swapped for bonds, but then hijacked the idea and made its own with the creation of 'Brady Bonds' in 1989.[51] Japan has also shown itself to be less susceptible to US pressure on other economic rescue measures for the region. Confident that the US and markets would not allow the yen to drop any further, MOF held its nerve until the value of the yen rose in late 1998, so eliminating further US criticism of Japan's exchange rate policy as a cause of the currency and economic crises. Likewise, the stronger yen has allowed Japan to rebuff Chinese pretensions to economic leadership through its supposed refusal to allow a devaluation of the yuan. Japan's diplomatic position versus China was strengthened overall in the run up to Jiang Zemin's first official state visit to Japan in December 1998, and Japanese leaders felt

[50] *Nihon Keizai Shimbun*, 19 November 1998, p. 12 [Author's translation].
[51] Yasutomo, *Japan's New Multilateralism*, p. 71; Eric Helleiner, 'The challenge from the East: Japan's financial rise and the changing global order', in Philip G. Cerny (ed.), *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, Aldershot, Edward Elgar, 1993, p. 218.

emboldened in stonewalling the usual Chinese demands for wartime apologies and greater transparency in US-Japan security arrangements.

Internationalisation of the yen

Following its steady rehabilitation from economic defeat in East Asia since mid-1997, Japanese policy-makers now seem increasingly ready to take another and more fundamental step to assert economic leadership in the region by allowing the further internationalisation of the yen. Although the use of the yen in international trade has expanded by over three times in the period 1985 and 1995 and accounted for 47 per cent and 25 per cent respectively of export and imports settlements between Japan and East Asia in 1997, the use of the dollar was still high at 50 per cent and 25 per cent for exports and imports.[52] The large proportion of dollar denominated trade was partly a result of the large amount of primary imports from East Asia, traditionally calculated in dollars, but also the reluctance of the Japanese government to allow the greater use of the yen and lose control over macroeconomic policy, as well as fears that it could be seen to be trying to rebuild a yen bloc and Greater East Asian Coprosperity Sphere in the region. However, as outlined above, Japanese analyses attribute the outbreak of the currency crises to the policy of the East Asian states of pegging their currencies to the dollar. In order to prevent further currency crises, MITI, JETRO, as well as certain sections of MOF's International Finance Bureau, have advocated the increased use of the yen as a medium of exchange which reflects more accurately the growing importance of intraregional trade and investment linkages. In May 1998 at the APEC

[52] http://www.miti.go.jp/press-j/f-menu-j.html.

Finance Ministers' meeting, the then MOF Minister, Matsunaga Hikaru, announced for the first time the Japanese government's official commitment to the internationalisation of the yen. Reacting to this, in June of the same year the governing Liberal Democratic Party (LDP) established a subcommittee on financial issues which investigated a range of measures to internationalise the yen, including: the promotion of short term money markets in Japan, tax reductions on transactions in yen, and the denomination of ODA in yen. MOF also established a committee of specialists to investigate the yen's internationalisation, and on his visit to Europe in January 1999 Prime Minister Obuchi stressed that the yen would become an international currency to balance the dollar and newly introduced euro. The Japanese have pursued this plan through the agency of ASEM Finance Ministers' meetings, and in Frankfurt on 15 January 1999 Miyazawa proposed a dollar-euro-yen currency basket system for the emerging markets of East Asia and Latin America.[53]

Consequently, rather than marking the defeat of Japan and the yen as the mainstay of financial and economic integration in the region, and despite the awareness of policy-makers of the economic and political risk attached to the internationalisation of the yen, the currency crises seem to have finally convinced them of the inevitably of its greater use and that the next century will become a contest of strength between the yen, dollar, and newly-introduced euro.

[53] *Yomiuri Shimbun*, 17 January 1999, p. 2.

Consolidation of Japanese FDI and business presence in East Asia

The immediate reaction of a number of Japanese TNCs when faced with the onset of the currency crises was to consider withdrawing both portfolio and productive capital from the East Asia region, leading to a decline in Japanese investment in the NIES-4 and relative stagnation across the whole of the region. However, the retreat of Japanese corporations from the region is likely to prove short-lived. On 10 October 1997, the Thai Prime Minister, Chavalit Yongchaiyudh, met with representatives of the leading Japanese TNCs, Honda, Mitsubishi, Mitsui and Suzuki, in an attempt to persuade these corporations to stay engaged in the region.[54] Most of the evidence since then points to the fact that adherence by the TNCs' management to long-term production strategies in the region, and MITI's provision of trade credits, has boosted the resolve of Japanese firms to maintain their presence. JETRO surveys have shown that Japanese TNCs manufacturing in East Asia have adapted to the changing economic conditions brought on by the currency crisis in number of ways. The worst affected Japanese corporations have been those in chemical, steel, and automobile industries which produce and sell locally in East Asia. Hit by falling local demand as the economic crisis has progressed, they have been forced to rationalise production and seek new markets overseas in Japan, Europe and Australia. However, those Japanese firms procuring components locally for assembly and then export overseas, as in the textile and general and precision machinery industries, have found that the devaluation of local currencies has boosted their competitiveness and encouraged Japanese parent firms to further investigate the transfer of production to East Asia. Firms which import components from Japan for local assembly and then re-export them as finished manufactures, such as in electronics industry, have found that the devaluation of local currencies has increased their component costs and obliged them to increase local procurement and local sales.[55] Hence, one of the consequences of the currency crises is that it is over the medium to long term it is actually likely to sustain relatively high levels of Japanese FDI in the region and the further build-up of production networks--all of which should lead to the consolidation of the central position of Japanese TNCs in East Asia.

Conclusion

This paper has demonstrated that in spite of the image of Japan's hapless diplomatic and economic defeat in the East Asian currency crises since mid-1997, the emerging reality by early 1999 is that Japan has recovered much of the diplomatic ground lost and is now beginning to set once again the economic agenda in the region, not just for the East Asian states themselves but also for the US. Japanese confidence in the validity of the developmental state concept has meant that it has worked quietly to rehabilitate the growth model through a mixture of demand and supply measures and that its relative financial generosity has begun to bring the East Asian states back on board its vision of development. Moreover, it is likely that Japan will increasingly have the playing field in East Asia to itself as the US and IMF become increasingly bogged down in the financial quagmire in Latin America where the economic fundamentals really do appear to be poor.

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[54] *Asahi Shimbun*, 10 October 1997, p. 11.
[55] JETRO, *Sekai to Nihon no Bôeki 1998*, Tokyo, JETRO, 1998, pp. 83-4.

Clearly it can still not be said yet with any confidence that Japan has succeeded fully in snatching victory from the jaws of defeat and its credibility as a regional leader still hangs in the balance. Much will depend on whether or not Japanese analysts have the economic prescription for the region right, and how far Japan has the political will to keep its promises to finance the region through the worst of the crisis and begin to assume a new role as an engine of growth. Certainly Japan has been known to disappoint, with promises of ODA at times of crisis in the past often going eventually unfulfilled--as in the case of Prime Minister Fukuda Takeo's 1977 pledge of US$1 billion in aid to assuage Southeast Asian concerns about Japan's growing dominance of its markets which had generated anti-Japanese riots in 1974--and the suspicion this time around is that some of the financing under the Miyazawa Plan is not as great as its seems once double counting with other forms of assistance has been included.[56]

Nevertheless, Japan may now be able to re-establish its position as a regional leader over the long term, and undeniably its position at the centre of the East Asian political economy is not easily lost and provides it with a good deal of structural power. For whether Japan is seen to possess or lack dynamism in setting policy for the region, its presence cannot be ignored and continues to shape the destiny of the states of the region. Thus, in conclusion, the actual outcome of the East Asian currency may not be to undermine Japan's leadership in the region, but, against all expectations, to actually consolidate it.

[56] William. R. Nester, *Japan and the Third World :Patterns, Power, Prospects*, New York: St. Martin's Press,1992, p. 127.

Table 1: Japanese FDI 1985-1997

	FY 1985		**FY 1986**		**FY 1987**		**FY 1988**		**FY 1989**	
	US$m	% share	US$m	% share	US$m	% share	US$m	% share	US$m	% share
NIES-4	718	5.9	1,531	6.9	2,580	7.7	3,264	6.9	4,900	7.3
South Korea	134	1.1	436	2.0	647	1.9	483	1.0	606	0.9
Taiwan	114	0.9	291	1.3	367	1.1	372	0.8	494	0.7
Hong Kong	131	1.1	502	2.2	1,072	3.2	1,662	3.5	1,898	2.8
Singapore	339	2.8	302	1.4	494	1.5	747	1.6	1,902	2.8
ASEAN-4	596	4.9	553	2.5	1,030	3.1	1,966	4.2	2,782	4.1
Indonesia	408	3.3	250	1.1	545	1.6	586	1.2	631	0.9
Malaysia	79	0.6	158	0.7	163	0.5	387	0.8	673	1.0
Philippines	61	0.5	21	0.1	72	0.2	134	0.3	202	0.3
Thailand	48	0.4	124	0.6	250	0.7	859	1.8	1,276	1.9
China	100	0.8	226	1.0	1,226	3.7	296	0.6	438	0.6
East Asia	1,414	11.6	2,310	10.4	4,836	14.5	5,526	11.8	8,120	12.0
US	5,395	44.2	10,165	45.5	14,704	44.1	21,701	46.2	32,540	48.2
Europe	1,930	15.8	3,649	15.5	6,575	19.7	9,116	19.4	14,808	21.9
World Total	12,217	100.0	22,320	100.0	33,364	100.0	47,022	100.0	67,540	100.0

	FY 1990		**FY 1991**		**FY 1992**		**FY 1993**		**FY 1994**	
	US$m	% share	US$m	% share	US$m	% share	US$m	% share	US$m	% share
NIES-4	3,355	5.9	2,203	5.3	1,922	5.6	2,419	6.7	2,865	7.0
South Korea	284	0.5	260	0.6	225	0.7	245	0.7	400	1.0
Taiwan	446	0.8	405	1.0	292	0.9	292	0.8	278	0.7
Hong Kong	1,785	3.1	925	2.2	735	2.2	1,238	3.4	1,133	2.8
Singapore	840	1.5	613	1.5	670	2.0	644	1.8	1,054	2.6
ASEAN-4	3,242	5.7	3,083	7.4	3,197	9.4	2,398	6.7	3,888	9.5
Indonesia	1,105	1.9	1,193	2.9	1,676	4.9	813	2.3	1,759	4.3
Malaysia	725	1.3	880	2.1	704	2.1	800	2.2	742	1.8
Philippines	258	0.5	203	0.5	160	0.5	207	0.6	668	1.6
Thailand	1,154	2.0	807	1.9	657	1.9	578	1.6	719	1.8
China	349	0.6	579	1.4	1,070	3.1	1,691	4.7	2,565	6.2
East Asia	6,946	12.2	5,865	14.1	6,189	18.1	6,508	18.1	9,318	22.7
US	26,128	45.9	18,026	43.3	13,819	40.5	14,725	40.9	17,331	42.2
Europe	14,294	25.1	9,371	22.5	7,061	20.7	7,940	22.0	6,230	15.2
World Total	56,911	100.0	41,584	100.0	34,138	100.0	36,025	100.0	41,051	100.0

	FY 1995		**FY 1996**		**FY 1997**		
	US$m	% share	US$m	% share	US$m	% share	% change
NIES-4	3,236	6.3	3,540	7.4	3,142	7.7	-3.6
South Korea	449	0.9	416	0.9	443	1.0	6.7
Taiwan	455	0.9	521	1.1	450	1.0	-13.6
Hong Kong	1,147	2.2	1,488	3.1	695	1.6	-53.3
Singapore	1,185	2.3	1,115	2.3	1,824	4.1	63.6
ASEAN-4	4,138	8.1	4,951	10.3	5,695	12.9	15.1
Indonesia	1,605	3.1	2,416	5.0	2,514	5.7	4.1
Malaysia	575	1.1	572	1.2	791	1.8	38.3
Philippines	717	1.4	560	1.2	523	1.2	-6.4
Thailand	1,240	2.4	1,404	2.9	1,867	4.2	33.0
China	4,478	8.7	2,512	5.2	1,987	4.5	-20.9
East Asia	11,852	23.1	11,003	22.9	11,094	25.2	0.9
US	22,649	44.1	22,015	45.8	20,203	45.8	4.2
Europe	8,586	16.7	7,376	15.4	6,769	15.4	-7.9
World Total	51,392	100.0	48,041	100.0	44,088	100.0	0.2

Source: Japanese Ministry of Finance.

Table 2: Leading economic nations financing of East Asia in June 1997 (US$ billion)

	Leading economic nations	Japan	US	Germany	United Kingdom	France
Thailand	69.4	37.7	4.0	7.6	2.8	5.1
Indonesia	58.7	23.2	4.6	5.6	4.3	4.8
Malaysia	28.8	10.5	2.4	5.7	2.0	2.9
Philippines	14.1	2.1	2.8	2.0	1.1	1.7
South Korea	103.4	23.7	10.0	10.8	6.1	10.0
Taiwan	25.2	3.0	2.5	3.0	3.2	5.2
Hong Kong	222.3	87.4	8.8	32.2	30.1	12.8
Singapore	211.2	65.0	5.2	38.4	25.2	15.4
China	57.9	18.7	2.9	7.3	6.9	7.3
Total	791.0	271.3	43.2	112.6	81.7	65.2
Share of total	100.0	34.3	5.5	14.2	10.3	8.2

Source: Kan Shû (C. H. Kwan), *En to Gen Kara Miru Ajia Tsûka Kiki*, Tokyo, Iwanami Shoten, 1998, p. 30, abstracted from BIS reports.

Table 3: East Asia Trade Matrix 1997 (US$ millions)

Importer / Exporter	**World**	**EU**	**APEC**	**East Asia**	**NIES 4**	South Korea	Taiwan	Hong Kong	Singapore	**ASEAN 4**	Malaysia	Thailand	Philippines	Indonesia	**China**	**US**	**Japan**
World	5,475,400	1,921,010	2,381,692	929,485	536,135	124,110	114,425	178,880	118,720	222,510	79,000	60,170	40,730	42,610	170,840	867,460	304,410
	100.0	**35.1**	**43.5**	**17.0**	**9.8**	**2.3**	**2.1**	**3.3**	**2.2**	**4.1**	**1.4**	**1.1**	**0.7**	**0.8**	**3.1**	**15.8**	**5.6**
EU	2,047,915	1,219,558	367,664	124,054	72,065	16,060	17,298	23,573	15,134	33,431	10,050	8,601	5,727	9,053	18,558	157,349	40,375
	100.0	**59.6**	**18.0**	**6.1**	**3.5**	**0.8**	**0.8**	**1.2**	**0.7**	**1.6**	**0.5**	**0.4**	**0.3**	**0.4**	**0.9**	**7.7**	**2.0**
APEC	2,495,554	367,290	1,820,968	710,663	409,546	86,986	82,624	150,936	89,000	170,503	65,013	43,564	31,147	30,779	130,614	590,821	206,358
	100.0	**14.7**	**73.0**	**28.5**	**16.4**	**3.5**	**3.3**	**6.0**	**3.6**	**6.8**	**2.6**	**1.7**	**1.2**	**1.2**	**5.2**	**23.7**	**8.3**
East Asia	965,910	133,028	715,585	374,027	201,157	27,023	23,800	103,626	46,708	82,134	36,973	19,352	13,352	12,457	90,736	191,818	113,493
	100.0	**13.8**	**74.1**	**38.7**	**20.8**	**2.8**	**2.5**	**10.7**	**4.8**	**8.5**	**3.8**	**2.0**	**1.4**	**1.3**	**9.4**	**19.9**	**11.7**
NIES 4	563,667	75,252	412,703	230,366	85,107	9,962	10,170	49,392	15,583	60,927	30,214	13,259	9,451	8,003	84,332	114,421	45,400
	100.0	**13.4**	**73.2**	**40.9**	**15.1**	**1.8**	**1.8**	**8.8**	**2.8**	**10.8**	**5.4**	**2.4**	**1.7**	**1.4**	**15.0**	**20.3**	**8.1**
South Korea	131,757	14,139	88,540	47,727	20,830		5,024	10,044	5,762	12,815	4,153	2,664	2,175	3,823	14,082	21,546	14,019
	100.0	**10.7**	**67.2**	**36.2**	**15.8**		**3.8**	**7.6**	**4.4**	**9.7**	**3.2**	**2.0**	**1.7**	**2.9**	**10.7**	**16.4**	**10.6**
Taiwan	121,081	16,445	92,464	46,548	35,949	2,366		28,688	4,895	9,973	3,035	2,562	2,242	2,134	626	29,552	11,692
	100.0	**13.6**	**76.4**	**38.4**	**29.7**	**2.0**		**23.7**	**4.0**	**8.2**	**2.5**	**2.1**	**1.9**	**1.8**	**0.5**	**24.4**	**9.7**
Hong Kong	188,063	27,677	141,148	82,017	9,719	2,797	1,996		4,926	6,714	1,721	1,867	2,209	917	65,584	40,949	11,414
	100.0	**14.7**	**75.1**	**43.6**	**5.2**	**1.5**	**1.1**		**2.6**	**3.6**	**0.9**	**1.0**	**1.2**	**0.5**	**34.9**	**21.8**	**6.1**
Singapore	122,766	16,991	90,551	54,074	18,609	4,799	3,150	10,660		31,425	21,305	6,166	2,825	1,129	4,040	22,375	8,275
	100.0	**13.8**	**73.8**	**44.0**	**15.2**	**3.9**	**2.6**	**8.7**		**25.6**	**17.4**	**5.0**	**2.3**	**0.9**	**3.3**	**18.2**	**6.7**
ASEAN 4	219,326	33,862	165,308	75,890	54,880	7,925	9,715	10,436	26,804	14,606	4,838	4,591	2,567	2,610	6,404	44,653	36,273
	100.0	**15.4**	**75.4**	**34.6**	**25.0**	**3.6**	**4.4**	**4.8**	**12.2**	**6.7**	**2.2**	**2.1**	**1.2**	**1.2**	**2.9**	**20.4**	**16.5**
Malaysia	80,632	11,506	62,691	34,989	27,677	2,615	4,228	4,408	16,426	5,379		2,991	1,119	1,269	1,933	14,790	10,046
	100.0	**14.3**	**77.7**	**43.4**	**34.3**	**3.2**	**5.2**	**5.5**	**20.4**	**6.7**		**3.7**	**1.4**	**1.6**	**2.4**	**18.3**	**12.5**
Thailand	58,134	9,179	41,555	19,310	12,895	1,082	1,927	3,323	6,563	4,572	2,674		691	1,207	1,843	11,503	8,741
	100.0	**15.8**	**71.5**	**33.2**	**22.2**	**1.9**	**3.3**	**5.7**	**11.3**	**7.9**	**4.6**		**1.2**	**2.1**	**3.2**	**19.8**	**15.0**
Philippines	28,284	4,402	22,272	6,743	4,769	511	1,375	1,153	1,730	1,676	862	680		134	298	9,815	4,558
	100.0	**15.6**	**78.7**	**23.8**	**16.9**	**1.8**	**4.9**	**4.1**	**6.1**	**5.9**	**3.0**	**2.4**		**0.5**	**1.1**	**34.7**	**16.1**
Indonesia	52,276	8,775	38,790	14,848	9,539	3,717	2,185	1,552	2,085	2,979	1,302	920	757		2,330	8,545	12,928
	100.0	**16.8**	**74.2**	**28.4**	**18.2**	**7.1**	**4.2**	**3.0**	**4.0**	**5.7**	**2.5**	**1.8**	**1.4**		**4.5**	**16.3**	**24.7**
China	182,917	23,914	137,574	67,771	61,170	9,136	3,915	43,798	4,321	6,601	1,921	1,502	1,334	1,844		32,744	31,820
	100.0	**13.1**	**75.2**	**37.1**	**33.4**	**5.0**	**2.1**	**23.9**	**2.4**	**3.6**	**1.1**	**0.8**	**0.7**	**1.0**		**17.9**	**17.4**
US	687,581	140,827	429,935	124,092	81,143	25,067	23,234	15,115	17,727	30,144	10,828	7,357	7,427	4,532	12,805		65,673
	100.0	**20.5**	**62.5**	**18.0**	**11.8**	**3.6**	**3.4**	**2.2**	**2.6**	**4.4**	**1.6**	**1.1**	**1.1**	**0.5**	**1.9**		**9.6**
Japan	421,067	65,737	311,467	172,355	102,640	26,097	29,022	27,257	20,264	48,023	14,524	14,615	8,694	10,190	21,692	118,383	
	100.0	**15.6**	**74.0**	**40.9**	**24.4**	**6.2**	**6.9**	**6.5**	**4.8**	**11.4**	**3.4**	**3.5**	**2.1**	**0.7**	**5.2**	**28.1**	

Source: JETRO figures compiled from International Monetary Fund, *Direction of Trade Statistics 1998,* Washington DC, IMF, 1998.

Note: East Asia comprises NIES 4, ASEAN 4, and China.

Table 4: Trends in Japanese trade with US, NIES 4, ASEAN 4, China between 1995 and first half of 1998 (US$ million)

	1995	1996	1997	1st half of 1997	2nd half of 1997	1st half of 1998
World						
Exports	442,937	412,433	422,881	205,172	217,710	192,957
Imports	336,094	350,654	340,408	172,459	167,949	142,937
Total	779,031	763,087	763,289	377,631	385,659	335,894
Trade surplus	106,843	61,779	82,473	32,713	49,761	50,020
US						
Exports to US	120,859	112,277	117,669	57,437	60,321	58,655
% total exports	27.3	27.2	28.0	28.0	28.0	30.4
Imports from US	75,408	79,724	76,051	38,919	37,133	35,248
% total imports	22.4	23.0	22.3	23.0	22.1	25.0
Total trade with US	196,267	192,001	193,720	96,356	97,454	93,903
% total trade	25.2	25.2	25.4	26.0	25.3	28.0
Trade surplus	45,451	32,553	41,618	18,518	23,188	23,407
East Asia						
Exports to East Asia	186,547	174,925	171,591	84,033	87,557	65,157
% total exports	42.1	42.4	41.0	41.0	40.2	34.0
Imports from East Asia	115,520	123,397	118,267	59,436	58,831	48,919
% total imports	34.4	35.2	35.0	35.0	35.0	34.2
Total trade with East Asia	302,067	298,322	289,858	143,469	146,388	114,076
% total trade	39.0	39.1	38.0	38.0	38.0	34.0
Trade surplus with East Asia	71,027	51,528	53,324	24,597	28,726	16,238
NIES 4						
Exports to NIES 4	111,037	101,792	101,592	49,398	52,194	40,208
% total exports	25.1	25.0	24.0	24.1	24.0	21.0
Imports from NIES 4	41,219	41,006	35,389	18,173	17,216	14,728
% total imports	12.3	12.0	10.4	11.0	10.3	10.3
Total trade with NIES 4	152,256	142,798	136,981	67,571	69,410	54,936
% total trade	20.0	19.0	18.0	18.0	18.0	16.4
Trade surplus with NIES 4	69,818	60,786	66,203	31,225	34,978	25,480
ASEAN 4						
Exports to ASEAN 4	53,579	51,243	48,214	24,751	23,463	15,256
% total exports	12.1	12.4	11.4	12.1	11.0	8.0
Imports from ASEAN 4	38,379	41,841	40,812	21,244	19,568	16,357
% total imports	11.4	12.2	12.0	12.3	12.0	11.4
Total trade with ASEAN 4	91,958	93,084	89,026	45,995	43,031	31,613
% total trade	12.0	12.3	12.0	12.2	11.2	9.4
Trade surplus with ASEAN 4	15,200	9,402	7,402	3,507	3,895	-1,101
CHINA						
Exports to China	21,931	21,890	21,785	9,884	11,900	9,693
% total exports	5.0	5.3	5.2	5.0	6.0	5.0
Imports from China	35,922	40,550	42,066	20,019	22,047	17,834
% total imports	11.0	12.0	12.4	12.0	13.1	13.0
Total trade with China	57,853	62,440	63,851	29,903	33,947	27,527
% total trade	7.4	8.2	8.4	8.0	9.0	8.2
Trade surplus with China	-13,991	-18,660	-20,281	-10,135	-10,147	-8,141

Sources: JETRO, *Sekai no Bôeki to Nihon*, Tokyo, 1995-1998.

Table 5: Competing categories of goods exported by ASEAN-4 and China

1. Categories of goods whose export by the ASEAN-4 to the US fell by over US$1 million (1995-96) and whose export to the US increased

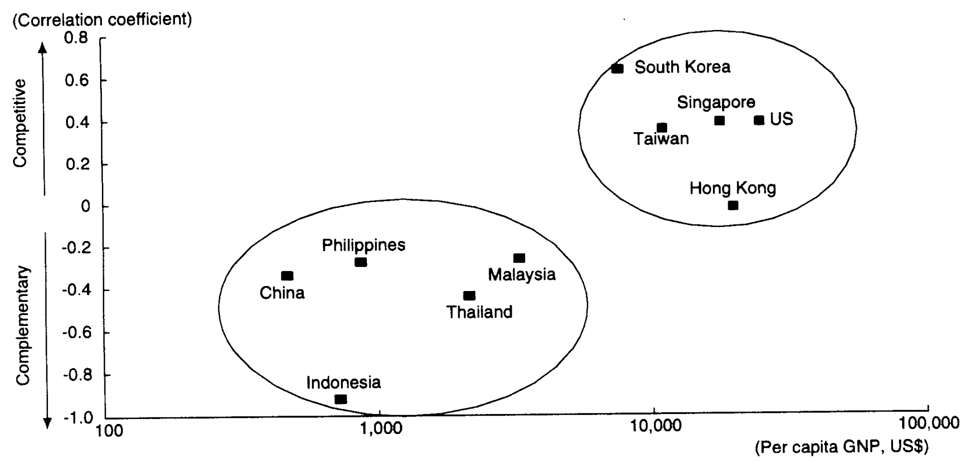
MALAYSIA		
Categories of goods	**Decrease (Malaysia)**	**Increase (China)**
Synthetic fibre clothes	-3,130	2,230
Cotton clothes	-5,040	43,230
Woollen clothes	-19,520	2,260
Infant clothes	-3,820	4,810
Children's clothes	-4,360	45,320
Table and kitchenware	-6,510	600
Iron and steel piping	5,180	2,660
Tin alloys	-3,600	7,560
Stationery	-7,740	22,120
Lamps	-1,110	121,160
Electrical components	-33,680	2,560
Watches	-4,420	1,670
THAILAND		
Categories of goods	**Decrease (Thailand)**	**Increase (China)**
Fish products	-6,590	22,990
Silicon dioxide	-1, 410	100
Plastic tubing and fittings	-1,340	7,380
Plastic products	-1,230	5,030
Gloves	-3,810	13,860
Cotton clothes	-4,240	34,120
Footwear	-4,100	37,480
Steel wire	-1,970	3,340
Iron and steel piping	-1,290	10,890
Chain link	-1,230	3,620
Metal castings	-1,450	8,570
Taps and valves	-2,670	9,330
DC motors	-1,940	8,320
Syringes	-1,060	2,660
Fishing reels	-19,010	8,670
Propelling pencils	-1,360	3,320
INDONESIA		
Categories of goods	**Decrease (Indonesia)**	**Increase (China)**
Printed matter	-7,510	13,400
Cotton fabrics	-1,130	5,880
Menswear	-4,740	21,280
Footwear	-28,900	21,090
Copper piping	-2,260	7,560
Glass mirrors	-1,990	64,820
Taps and valves	-3,780	9,730
Bicycles	-2,460	3,390
Clocks	-18,370	4,480
PHILIPPINES		
Categories of goods	**Decrease (Philippines)**	**Increase (China)**
Fish products	-3,900	15,930
Film	-7,210	820
Menswear	-1,150	10,090
Office equipment	-1,710	810
Clock components	-1,160	160

2. Categories of goods whose export by the ASEAN-4 to Japan fell by over ¥100 million (1995-96) and whose export to Japan increased

MALAYSIA		
Categories of goods	**Decrease (Malaysia)**	**Increase (China)**
Electrical circuits	-176	1,100
Lenses	275	548
THAILAND		
Categories of goods	**Decrease (Thailand)**	**Increase (China)**
Fish products	-271	1,543
Woollen clothes	-770	7,012
Fans	-2,773	7,012
Lenses	-223	548
Keyboard instruments	-369	3,003

Source: JETRO, *Sekai to Nihon no Bôeki 1998*, Tokyo, JETRO, 1998, pp. 44-5.

Diagram 1: Trade structures--correlation between Japan and other Asian countries in 1993



Note: trade composition is based on a three category classification (primary commodities, machinery and other manufactures) for both exports and imports (a total of six categories)

Source: Kan Shû (C. H. Kwan), *En to Gen Kara Miru Ajia Tsûka Kiki*, Tokyo, Iwanami Shoten, 1998, p. 77; World Bank, *World Development Report 1995*.