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### **Regional Responses to the Southeast Asian Financial Crisis: A Case of Self-Help or No Help?**

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# REGIONAL RESPONSES TO THE SOUTHEAST ASIAN FINANCIAL CRISIS: A CASE OF SELF-HELP OR NO HELP?

By

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The views expressed are strictly personal.

*Unless otherwise stated, all \$ refer to US\$.*

## **REGIONAL RESPONSES TO THE SOUTHEAST ASIAN FINANCIAL CRISIS: A CASE OF SELF-HELP OR NO HELP?**

### **Abstract**

The currency crises of the 1990s, particularly the one that hit Southeast Asia since the devaluation of the Thai baht on July 2, 1997, are suggestive of the relevance and pervasiveness of contagion or negative spillover effects that are largely regional in scope. As such, one of the mantras since the onset of the Southeast Asian financial crisis has been the need for “regional solutions to regional problems”. Given that the two focal institutions in Southeast Asia, viz. the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation (APEC) were perceived as being successful in their past attempts in problem-solving, there were high expectations that such regionalism would be key in finding solutions to the Southeast Asian financial crisis and mitigating the after-shocks. Accordingly, this paper evaluates the regional responses to the crisis, taking stock of both preventive and curative initiatives of significance. While the focus is on ASEAN and APEC, consistent with the concept of ‘loose’ or ‘non-institutionalised’ regionalism in Southeast Asia and the larger Asia Pacific regions, other ad hoc unilateral or bilateral initiatives of significance by other Asian member countries in APEC are also examined, particularly those by the region’s dominant economic power, Japan.

## 1. Background and Introduction

Until 1997, Southeast Asia had been among the most dynamic regions in the world over the past two decades or so. Notwithstanding some questions being raised about the sources and sustainability of the region's long-term growth (Krugman, 1994 and Young, 1994, 1995), the short-to-medium-term economic prospects of the Southeast Asian countries were generally taken for granted.

The region was in a celebratory and self-congratulatory mood in the 1990s. This sense of triumphalism peaked in 1997, as the Association of Southeast Asian Nations (ASEAN) celebrated its 30<sup>th</sup> Anniversary in Kuala Lumpur (KL) with Laos and Myanmar as the newest members of ASEAN.<sup>1</sup> This expansion was of particular significance, as it was seen as an important step towards the long-cherished goal of ASEAN's founding members - Indonesia, Malaysia, the Philippines, Singapore and Thailand - of making the association an all-inclusive body, incorporating all countries of Southeast Asia (i.e. ASEAN-10)<sup>2</sup>. The association was also basking in the success at having created new institutions that would allow its members to be plugged into the international forum outside of the United Nations (UN) framework. These included the ASEAN Regional Forum (ARF) in 1991<sup>3</sup>, which is an arena for dialogue between the major and regional powers on strategic issues, and the Asia-Europe Meeting (ASEM) in 1996, which draws together European and Southeast Asian leaders with the aim of supplementing the existing ASEAN-EU dialogue process.

With the gradual but continuing progress towards regional economic integration among countries in the Asia-Pacific region via the Asia-Pacific Economic Cooperation (APEC) forum, in which ASEAN members have been active participants, the region seemed well on track for continued success. Action plans from both the ASEAN and APEC processes were widely circulated and discussed. Specifically, APEC was moving towards implementing its programs aimed at

achieving the 2010/2020 targets for free trade and investment in the Asia Pacific region, while ASEAN was working towards the broad goals laid down in its 'Vision 2020', which is essentially a road-map for ASEAN in the 21st century<sup>4</sup>. While there remain important questions of cause-and-effect between rapid economic growth and closer economic cooperation, these regional alliances were generally seen as proximate causes for the economic dynamism of the member countries.

Against this background, APEC and ASEAN were often held up as role models for South-South and North-South economic alliances (Rajan 1995). The overall atmosphere in the region changed dramatically by mid 1997, when something that started with a speculative attack on the Thai baht, rapidly degenerated into a full-fledged economic - and, in some cases, a socio-political - crisis of regional proportions.

One of the mantras since the onset of the crisis has been the need for "regional solutions to regional problems". Nowhere was this more relevant than in Southeast Asia, given the high expectations generated by the actual or perceived successes of regional cooperation through ASEAN and APEC pre-crisis as noted above. Accordingly, the aim of this paper is to take stock of major initiatives in the region in response to the Southeast Asian financial crisis.<sup>5</sup>

#### *Road Map of this Paper*

The remainder of this paper is organised as follows. The next section highlights the significance of regional contagion and the various channels through which such spillovers may occur. Sections 3 and 4 outline the responses by ASEAN and APEC respectively. The penultimate section highlights the ad hoc unilateral measures of significance by other Asian members of APEC to help the crisis-hit Southeast Asian economies. Invariably, particular emphasis is on the specific response by the region's dominant economic power, Japan. The final section

concludes with a discussion of the future of regional economic cooperation in the larger Asia Pacific region in general and a detailed evaluation of the role of ASEAN in particular.

## **2. Regional Contagion Effect<sup>6</sup>**

In 1992-93, Europe was faced with the very real possibility of a collapse of the European Exchange Rate Mechanism (ERM), which, in fact, began outside the ERM area, in Sweden and Finland. The Italian lira and British pound were withdrawn from the ERM, three other currencies (viz. the Spanish peseta, Irish pound and Danish krona) were devalued, and there was a substantial widening of the bands within which the currencies could fluctuate. 1994-95 saw the onset of the Mexican currency and financial crisis, the collapse of the peso, and Mexico being pushed to the brink of default. There were also some spillover effects in Argentina and Brazil (the so-called 'Tequila effect').

Then, in 1997-98, the world experienced the effects of the Southeast Asian crises, which started with the Thai baht and spread to a number of regional currencies, including the Indonesian rupiah, Malaysian ringgit and the Philippine peso, as well as the Korean won (the so-called 'Tom-Yam effect'). The four hardest-hit Southeast Asian countries (viz. Indonesia, Malaysia, Thailand and the Philippines) and Korea, experienced an aggregate sharp reversal in aggregate capital flows of almost \$130 billion (bn) between 1996 and 1998 (Table 1)<sup>7</sup>.

**Table 1**  
**Net Capital Flows to Indonesia, Malaysia, Thailand, Philippines and South Korea**  
*in aggregate, 1995-99 (\$ billions)*

Type of Capital Flow	1995	1996	1997	1998 <sup>e</sup>	1999 <sup>f</sup>
Current Account Balance	-40.6	-54.8	-26.1	69.2	44.6
External Financing	83.0	99.0	28.3	-4.2	7.8
Private Flows	80.4	102.3	0.2	-27.6	0.3
Equity Investment	15.3	18.6	4.4	13.7	18.5
Direct	4.2	4.7	5.9	9.5	12.5
Portfolio	11.0	13.9	-1.5	4.3	6.0
Private Creditors	65.1	83.7	-4.2	-41.3	-18.2
Commercial Banks	53.2	62.7	-21.2	-36.1	-16.0
Nonbanks	12.0	21.0	17.1	-5.3	-2.3
Official Flows	2.6	-35.3	28.1	23.4	7.6
Resident Lending/Others <sup>a</sup>	-28.3	-27.3	-33.7	-22.9	-21.0
Reserves (exc. Gold) <sup>a,b</sup>	-14.1	-16.9	31.5	-42.1	-31.4

Notes: a) minus denotes increase  
b) including resident net lending, monetary gold and errors and omissions  
e) estimates  
f) forecast

Source: International Institute of Finance (IIF)

August 1998 brought the devaluation of the Russian rouble with negative repercussions on the Turkish currency and those of several other fragile regional economies in transition, such as Belarus, Georgia, Kazakhstan, the Kyrgyz Republic and Moldova (the so-called 'Vodka effect'). Two weeks into 1999, the Brazilian real was the latest casualty. The resignation of central bank president Gustavo Franco was accompanied by a devaluation of the Brazilian real by about 8.5 percent. As the speculative pressures on the currency persisted, the real was allowed to float freely. By the first week of March, the real had lost nearly half of its value in terms of the

dollar since the beginning of the year, with some selling pressures on Argentina and other smaller economies in the region (the so-called 'Samba effect').

These currency-cum-financial crises of the 1990s are suggestive of the relevance and pervasiveness of contagion or negative spillover effects that are largely regional in scope (thus, also referred to as 'neighbourhood effects').

Following IMF economist Paul Masson, we may describe 'contagion' as a situation where a crisis in one country leads to a jump to a 'bad' equilibrium in a 'neighbouring' country (Masson 1998). What is less clear is the rationale for this. Four possible reasons are often suggested. The first two have to do with the 'real' side of the economy, while the latter two have to do largely with the 'financial' side of the economy and require some elaboration.

First, and most direct, is the need to remain competitive relative to other economies with similar areas of comparative advantage. Huh and Kasa (1998), and Corsetti, et al. (1998) formalise the logic of this attack-induced competitive devaluation in the case of Southeast Asia (i.e. regional countries' competitiveness vis-à-vis third markets as a result of currency depreciations). The broad similarity of comparative advantages of the Southeast Asian economies - Thailand and Malaysia particularly - has been shown to hold, at least ex-post (as measured by the index of revealed comparative advantage) (Kellman and Chow 1993).

Second, there may be extensive and growing trade, investment and other intra-regional interdependencies. Hence, for instance, it is commonly noted that Japanese FDI in the region has developed an intricate division of labour based on both horizontal and vertical differentiation in the Southeast Asian region<sup>8</sup>. The phenomenon of 'reverse investments' has led to an intensification of intraregional investments in the 1990s<sup>9</sup>.

Third, most extra-regional institutional investors, such as mutual funds, tend to lump together sub-regions in the non-industrialised world, i.e. region-specific or

dedicated funds instead of making country-specific evaluations and investments. Insofar as the entire region is looked upon as an investment class rather than individual/country-specific emerging markets (i.e. 'risk clusters'), a weakness or attack on one country/currency automatically leads to a reassessment of 'fundamentals' and the probability of a similar fate inflicting the regional countries with broadly similar (*actual* or *perceived*) macroeconomic stances. This is popularly called the 'wake-up call' argument. Alternately, this wake-up call behaviour may also refer to the sudden awareness about how little the market participants truly knew/understood the regional economies, thus causing an indiscriminate downgrading of overall estimations of the risk-return trade-offs.

Fourth, losses in one market may lead an open-end mutual fund to liquidate positions in other regional markets. This so-called 'portfolio adjustment' behaviour may occur for a number of reasons. These include, an anticipation of increased redemptions, the need to cover losses in other crisis-hit market ('cash-in' effects), and the need to reduce portfolio risks and increase their liquidity position ('flight to safety' effects).

Masson defines only the third situation as pure contagion, with the first and the fourth referred to as 'spillovers'. He refers to the external shocks that impact all regional countries (for instance, a change in US interest rates, recession in Japan, etc.) as 'monsoonal' effects. Whatever the exact transmission mechanism and definition, the important point is that economic policy slippages in any one country reverberate rapidly to other countries in the region. Accordingly, it is particularly important to ensure that there is some sort of 'peer pressure' or 'club spirit' that promotes the pursuit of sustainable and prudent macroeconomic policies in each country in the region and also stresses the importance of regional cooperative arrangements and actions to tackle such crises.

Against this analytical background which emphasises the importance of

'regionalism', the rest of this paper explores the regional responses to the crisis in Southeast Asia. We focus initially on the two focal regional associations, viz. ASEAN and APEC, before considering other ad hoc unilateral and bilateral arrangements.

### **3. ASEAN's Response**

Since its inception in 1967, ASEAN has primarily been a means of reducing political and security tensions in the region, a role it fulfilled quite admirably. ASEAN's success in being able to maintain a high degree of peace and security in the region has led to a natural reorientation of the Southeast Asian countries and therefore, the organisation, towards economic issues. On a global basis too, the post-cold war world has emphasised the increasing importance of economic power vis-à-vis ideological, political and security issues. As such, since the 1990s, ASEAN has gradually but increasingly been looked upon as a vehicle for deepening regional economic linkages, epitomised by the launch of the ASEAN Free Trade Area (AFTA) in 1993<sup>10</sup>.

Given this gradually shifting focus of ASEAN to economic issues, one would have expected the organisation to play a leading role in regional initiatives to tackle the crisis. The rest of this section discusses ASEAN's response to the regional crisis.

#### **3.1 The ASEAN Economic Surveillance Process**

The ASEAN finance ministers endorsed the idea of a regional surveillance process in Manila in November 1997 to complement and supplement the Fund's global surveillance role. The ASEAN Surveillance Process (ASP) was initially under the charge of the Asian Development Bank (ADB) and recently transferred (at least partially) to the ASEAN Secretariat in Jakarta. The overall objectives of the ASP are

broadly as follows<sup>11</sup>:

- a) to assist ASEAN members in spotting a potential crisis and responding to it accordingly;
- b) to assess the vulnerability of ASEAN members to financial disruptions and crises;
- c) to improve the coordination of ASEAN members' economic policies through the dissemination of sound practices that meet international standards; and
- d) to promote a 'peer monitoring' environment among ASEAN members through a review of potentially vulnerable sectors.

Conceptually, the ASP was envisaged to involve not only conventional macroeconomic indicators, but also to examine the regulatory and supervisory functions in the financial sector, corporate governance issues and various measures of external indebtedness. Three issues of potential concern in the effective implementation of the ASP immediately come to mind and are discussed below<sup>12</sup>.

#### *Technical Capacity and Human Resource Training*

The Fund's first deputy managing director, Stanley Fischer has reportedly noted that "we need to recognise that data must be processed by human intelligence. We therefore need to improve our ability to interpret data."(Fisher 1998). In this light, the ADB Institute (ADBI) in Tokyo<sup>13</sup> and the recently established IMF-Singapore Regional Training Institute (STI)<sup>14</sup> are both playing useful roles in terms of providing training of regional officials in various aspects of and techniques in economics and finance. Opportunities for cooperation between these institutes and regional bodies - such as Asia Pacific Economic Cooperation (APEC)<sup>15</sup>, Pacific Economic Cooperation Council (PECC)<sup>16</sup> - have also been exploited. For instance, the ADBI has worked closely with the PECC (with its Secretariat in Singapore) in conducting a series of workshops on financial sector development for officials from

the larger East Asian region.

Nevertheless, concerns remain that the overall level of technical training of Southeast Asian policy-makers to deal with these increasingly sophisticated economic and financial sector problems that crop up in a globalised economy, remains far from adequate. - If the ASEAN surveillance mechanism is expanded or extended to include APEC economies, it would provide greater opportunities (and resources) for developing Asia Pacific economies to benefit from the expertise of the more advanced members such as US, Canada, Japan, Australia (APEC's role is the particular focus of Section 4).

#### *ASEAN's Non-Interventionist Policy*

Another possible constraint on the potential effectiveness of the ASP has to do with the *real-politik* of ASEAN. Substantial asymmetries in the sizes and the levels of economic development of member nations on the one hand and the ASEAN policy of strict non-intervention in one another's affairs (economic and particularly political) on the other, may make it extremely difficult to operate a regional surveillance mechanism effectively. This is so, as criticisms of a country's misguided and unsustainable economic policies may be perceived as being incompatible with the hitherto cherished 'ASEAN spirit'<sup>17</sup>. One cannot be sure whether the inclusion of a larger grouping like APEC will help ease some of these asymmetries, escalate it, or have little effect (due to the so-called 'convoy problem', whereby the speed of the ship is limited by the speed of the least willing member).

#### *Transparency and Timeliness of Economic Data*

Another potential impediment to a well-functioning surveillance mechanism has to do with the lack of transparency in economic data and general public

documentation of economic and financial activities in the region. To be sure, the authorities in the region have tended to be less than forthcoming about their economic and financial situations, and have used economic data as a strategic tool rather than a public good. The need to establish benchmarks for timely and accurate data is essential if foreign investors and lenders are to be able to make rational and economically-viable decisions with reasonably accurate perceptions of risks and benefits<sup>18</sup>.

While the IMF's recent data dissemination standard aimed at encouraging timely, accurate and publicly available macroeconomic data from member countries is an important step in the right direction, there is a need to encourage its widespread/universal adoption, particularly by countries in Asia.

#### *Progress Towards the ASP*

In view of the above, it is not surprising that progress towards the initial implementation of the ASP had been rather sluggish. The ASEAN secretary general, Rudolfo Severino, reportedly stated in late 1998 that the ASEAN Secretariat's inability to manage and supervise the mechanism and the reluctance by some member countries to reveal 'too much' information and data, have been the primary reasons for the slow progress (Nath 1998b). While there has been increased momentum towards the implementation of the ASP since then, available details suggests that the above-noted factors have constrained the speed at which the ASP has been implemented, while the initial ambitions/scope of the project also seem to have been down-sized.

To date, an ASEAN Surveillance Coordinating Unit (ASCU) was established in the ASEAN Secretariat in Jakarta, Indonesia. The ASCU is to be responsible for the preparation of surveillance reports for both ASEAN Select Committee (which consists of deputies of finance ministers and central banks) as well as the finance

ministers. The ADB and ASEAN have signed an agreement for technical cooperation in which the former will provide a grant of \$707,000 to finance the technical training of the ASEAN Technical Support Unit (ASTU) to be based in ADB's headquarters in Manila for a two year period. The ASTU will provide technical support to the ASCU as it undertakes the regional surveillance process (ASEAN 1999b).

### **3.2 ASEAN's Response to the Social Dimensions of the Crisis**

The IMF has, in a recent preliminary analysis, confirmed anecdotal evidence of the marked deterioration in poverty, inequity and unemployment in the crisis-hit economies in Asia (Gupta and Associates 1998). In response to the deteriorating socio-economic environment on October 30, 1998, the ASEAN Secretariat announced the establishment of an ASEAN Action Plan on Social Safety Nets. The Action Plan comes under the portfolio of the ASEAN Task Force on Social Safety Nets, a newly established body (ADBI, 1999). It aims at assessing and monitoring the social impact of the crisis, identifying the requirements of the socially-disadvantaged, and enhancing the effectiveness with which economic and social services are delivered to the target groups. There is to be a particular focus on rural development and poverty.

### **3.3 The Hanoi Plan of Action**

The Hanoi Plan of Action (HPA) was adopted at the Sixth ASEAN Summit. In addition to the re-confirmation of ASEAN's commitment to promoting social development and addressing the social impact of the financial and economic crisis, the plan called for the following:

- a) strengthening of macroeconomic and financial cooperation;
- b) enhancing economic integration through measures such as the acceleration

- of the implementation of AFTA, implementation of the Framework Agreement on ASEAN Investment Area (AIA);
- c) promoting science and technology development and developing information technology infrastructure;
  - d) promoting human resource development;
  - e) protecting the environment and promoting sustainable development;
  - f) strengthening regional peace and security;
  - g) enhancing ASEAN's role as an effective force for peace, justice, and moderation in the Asia-Pacific and the world;
  - h) promoting ASEAN awareness and its standing in the international community; and
  - i) improving ASEAN's structures and mechanisms.

The HPA is the first in a series of plans of action leading to the actualisation of ASEAN Vision 2020 adopted in the Second ASEAN Informal Summit held in December 1997. The HPA has a six-year time frame stretching from 1999 to 2004. It will be reviewed on three-yearly basis, coinciding with the ASEAN Summit Meetings. While the HPA has been touted by the ASEAN leaders as a 'bold plan', there is little by way of mechanics of implementation. There was some expectation that the respective governments would spell out individual action-plans in more detail. Indications are that no such follow-up has actually taken place as yet. Against the background of this seeming inaction, scepticism regarding the usefulness of the Hanoi Summit and the HPA, abounds. For instance, Reyes has noted that "(t)he surest way to raise doubts about the boldness of any plan is to label it 'bold'" (Reyes 1999)<sup>19</sup>.

#### **4. APEC's Response**

In a speech at the Tenth APEC Ministerial Meeting held in KL on 15

November 1998, Rodolfo Severino, secretary-general of ASEAN drew a clear link between ASEAN and APEC:

Clearly, ASEAN cannot deal with the crisis all by itself. As a unique body for regional economic cooperation including both developed and developing countries, APEC would be a suitable forum for addressing the crisis...and putting forward concrete courses of action.<sup>20</sup>

In this light, this section examines the role and response of APEC to the crisis.

Since coming into existence in 1989, APEC has focused on trade and investment liberalisation. The above, together with business facilitation and economic-technical cooperation, have formed the three pillars of APEC activities. A growing number of other sector-specific initiatives (including transportation, telecommunications, tourism, science & technology, etc.) have augmented these three core activities (Adlan 1998). At the fifth APEC summit in November 1997 in Vancouver, the APEC leaders endorsed and called for a quick implementation of the Manila Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability. The Framework, which was agreed upon earlier in that month, included the following initiatives:

- a) a cooperative financing arrangement that would supplement IMF resources;
- b) enhanced economic and technical cooperation, particularly in strengthening domestic financial systems and regulatory capacities; and
- c) a mechanism for regional surveillance to complement the IMF's global surveillance.

However, no substantive steps seem to have been taken since to follow-up on the implementation of any of the above initiatives. In the latest APEC Summit in Kuala Lumpur, APEC leaders endorsed the Miyazawa Plan and the joint Japan-US initiative (to be discussed in the next section). Apart from vague statements about

the need to strengthen the international financial architecture, little else pertaining directly to the economic crisis (either curative or preventive measures) came out of the summit<sup>21</sup>. Even with regard to this, the APEC leaders agreed that the reform of the international financial architecture was best done at the G-22 forum, which comprises industrialised economies (G-7) as well as developed ones<sup>22</sup>.

## 5. Ad hoc Unilateral and Bilateral Measures

The preceding discussion highlights that the roles of ASEAN and especially APEC in dealing with the crisis, have been limited. The lack of formalised institutional structures has meant that Southeast Asia has had to depend heavily on bilateral relations and initiatives to solve problems. It is therefore useful to explore the extent to which the regional economies (fellow members of ASEAN or APEC) have directly (i.e. unilaterally/bilaterally) come to the assistance of the crisis-hit economies in Southeast Asia.

In addition to committing \$5 billion to Indonesia as part of the IMF-led rescue package to the country (Table 2), Singapore has provided food aid to Indonesia and has proposed a trade financing scheme valued at about \$3 billion (\$5 billion exactly) to aid in Indonesia's recovery<sup>23</sup>. Singapore, along with other countries such as Malaysia, also provided direct cash and in-kind humanitarian aid to Indonesia.

**Table 2**  
**IMF-led International Financial Assistance *Committed* to Thailand and Indonesia,**  
**(\$ billions)**

Country and Source of Assistance	Amount (\$ billions)
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<u>Indonesia:</u>	
IMF	11.2
World Bank	5.5
ADB	4.5
Countries	21.1
USA	3.0
Japan	5.0
Australia	1.0
China, P.R.C.	1.0
Hong Kong	1.0
Malaysia	1.0
Singapore	5.0
Others	4.1
<b>Total</b>	<b>42.3</b>
IMF <i>disbursements</i> as of January 17, 1999	8.8
<u>Thailand:</u>	
IMF	34.0
World Bank	1.5
ADB	1.2
Countries	10.5
Japan	4.0
Australia	1.0
Brunei	0.5
China, P.R.C.	1.0
Hong Kong	1.0
Indonesia	0.5
Korea	0.5
Malaysia	1.0
Singapore	1.0
<b>Total</b>	<b>17.2</b>
IMF <i>disbursements</i> as of January 17, 1999	3.1
<u>Mexico:</u>	
IMF	17.8
World Bank and Inter-American Bank	2.8
BIS/G10	10.0
USA	20.0
<b>Total</b>	<b>50.6</b>

Source: IMF (1999), and Goldstein and Hawkins (1998).

The Malaysian and Philippines central banks have signed a bilateral trade payments arrangement (BPA) in July 1998 to reduce the dependence on the US dollar for bilateral trade (Nath 1998a). Malaysia has been attempting to establish similar BPAs with Indonesia and Thailand, and the ASEAN secretary general has emphasised the need to actively encourage such BPAs among other regional countries (ASEAN 1999a).

Australia has announced that it will contribute some \$30 million (more

precisely, A\$50 million) over the next three years to selected crisis-affected Asian economies to assist in the strengthening of their economic governance structures, particularly their financial institutions. The targeted countries are China, Indonesia, Korea, Philippines, Thailand, Vietnam and Papua New Guinea (Ngoo 1998).

While these measures are well intentioned, they are really more symbolic than substantive. Invariably, when one thinks of unilateral responses by regional economies (viz. other Asian ones that are members of APEC), the focus must be on Japan, which constitutes of 70 percent of East Asia's aggregate GDP. It is to this issue that we now turn.

### **5.1 The Role of Japan**

As will be apparent from the discussed below, Japan has taken a pro-active approach in responding to the Southeast Asian crisis. According to Bessho (1999), Japan has sought to redefine its identity, both in terms of its past and post-war values such as pacifism and human rights. This process has compelled Japan to engage the larger East Asia more squarely, and has made it more willing to take initiatives in political and security as well as economic areas.

Before evaluating the role of Japan in aiding the crisis-hit Southeast Asian countries, it might be useful to highlight the US response to the Mexican peso crisis. It has often been noted in the case of the Mexican peso crisis, that the US provided some \$20 billion in financial assistance to Mexico on a unilateral basis, and also pressed the IMF for a quick commitment and disbursement of aid (Table 2). This facilitated the popularly termed 'V-shaped' or immediate recovery of the Mexican and regional economies<sup>24</sup>. Sachs (1995) has even suggested that the Mexican bail out by the US may be broadly interpreted as a successful instance of the functioning of an international lender of last resort<sup>25</sup>.

There are a number of reasons for the US administration's 'benign' stance

taken towards Mexico during the peso crisis. First, the US administration had trumpeted the success of Mexican economy pre-crisis, as it pushed for the signing of the North American Free Trade Area (NAFTA). Second, Mexico was seen as a strategic partner in the US administration's push towards a Free Trade of the Americas. Third, there was a fear of negative trade and migration repercussions if Mexico did go into a prolonged free-fall. Fourth, about one third of loans to Mexico (as of June 1994) were by American banks (Table 3)<sup>26</sup>.

**Table 3**  
**Nationality of Banks Providing Loans (\$ billions) to Southeast Asia**  
**as at June 1997 and Mexico as at June 1994**

<u>From</u>	Japan (1)	Germany (2)	France (3)	USA (4)	UK (5)	Hong Kong (6)	Total <sup>1</sup> (7)	1/7 (%)	(2+3+5)/7 (%)	4/7 (%)
<u>To</u>										
Indonesia	23	6	5	5	4	6	61	37.7	24.5	6.6
Thailand	38	8	5	4	3	18	99	38.3	16.1	4.0
Malaysia	10	6	2	2	2	3	33	30.3	33.3	8.5
Philippines	2	2	3	3	1	4	17	11.8	35.2	6.1
										17.6
										7.4
Mexico (June 1994)	4	4	20	20	16	0	71	5.6	32.4	28.2

Note: 1) Includes countries not listed in this table.

Source: Goldstein and Hawkins (1998).

Conversely, the linkages between the crisis-hit Southeast Asian economies and the US were not perceived as being anywhere nearly as economically or strategically significant. On the other hand, about one third of bank loans to Southeast Asia on average have been by Japanese banks (Table 3), and there have been many other forms of economic linkages between Japan and Southeast Asia (summarised in Table 4)<sup>27</sup>. Accordingly, Japan has been the largest single country contributor to the Fund-orchestrated financial assistance packages to the crisis-hit Southeast Asian economies, just as the US was in the case of Mexico. The

US meanwhile contributed only \$3 billion to Indonesia directly in aggregate and none to Thailand, even these being heavily tied to the IMF conditionalities (Table 2).

**Table 4**  
**Significance of Japan and the Yen to Southeast Asia (%), 1997**

	Proportion of Debt denominated in yen	Proportion of Exports Destined to Japan	Proportion of Imports Sourced from Japan	Proportion of In-Coming Tourists from Japan	Proportion of FDI from Japan
Indonesia	39.5	21.0	18.0	16.6	6.8
Korea	54.0	15.0	25.6	13.4	23.1
Thailand	23.0	10.8	19.2	42.9	7.9
Malaysia	15.0	12.6	21.9	5.0	9.9
Philippines	25.0	16.2	20.6	7.1	36.8
China	32.0	17.4	20.3	23.0	19.0
Average	31.4	15.5	20.9	18.0	17.3

Source: Bhaskaran (1998).

#### *The Asian Monetary Fund Proposal*

In one of the first unilateral responses by an Asian country to the crisis-hit economies, the Japanese government proposed an 'Asian Monetary Fund' (AMF) in August 1997. The stated aims of the AMF were to provide a pool of available funds to be quickly disbursed to alleviate the regional currencies under acute selling pressure, as well as to provide emergency balance of payments support for the crisis-hit economies, akin to the US Treasury's Exchange Stabilisation Fund (ESF) for Mexico. The AMF was enthusiastically welcomed by most East Asian economies. While the bulk of financing would have been from Japan, according to Wade and Veneroso (1998), Japan had received pledges to contribute to the AMF from Hong Kong, Taiwan and Singapore<sup>28</sup>. Contributions to the AMF were estimated to have reached some \$100 billion. However, as they note, "(t)he United States Treasury pulled out all the stops to kill the proposal, and it died" (p.19), as the US appeared to see it as a threat to its influence in Asia<sup>29</sup>. This is in sharp contrast to US policy response to Mexico during the peso crisis, in which the Treasury tried to 'strong-arm'

the IMF, Europe and Japan into contributing to the ESF<sup>30</sup>.

### *The Miyazawa Initiative*

In the second major Japanese initiative, the Japanese finance minister, Kiichi Miyazawa, announced a \$30 billion package of measures to aid the crisis-hit Southeast Asian economies on September 30, 1998<sup>31</sup>. Broad aspects of the Miyazawa Initiative are as follows<sup>32</sup>:

- a) half the package has been earmarked for the medium- and long-term financial;
- b) needs of the regional economies while the other half is meant for meeting short-term capital requirements (such as trade financing and other measures to relieve the acute credit crunches faced by small and medium-sized enterprises in particular, the financing of social safety nets and providing for financial sector bad debts);
- c) the funding for the short-term measures is being made available through Japan's foreign exchange reserves (estimated at about U\$210 billion as of October, 1998). The long-term financing is to be funded from a separate budget by the Ministry of Finance (MOF);
- d) apart from direct aid, which is to come from the EXIM Bank of Japan (JIXEM) and yen loans through the existing Overseas Economic Cooperation Fund (OECF), indirect aid to the region will be through provision of bank loans and acquisition by JIXEM of bond issued by the Southeast Asian countries; and
- e) bank loans to and sovereign bond issuances by Asian countries are to be guaranteed by the JIXEM and also possibly through the World Bank and the ADB (though this is unclear at this stage).

This initiative was originally meant to target the four crisis-hit Southeast Asian economies, but has since been expanded to include Vietnam and possibly

other transition economies in Southeast Asia. A major difference between the Miyazawa Initiative and the AMF one noted above, is that the latter involved large-scale multilateral cooperation (including the US), while the former is primarily, if not solely funded by Japan on a bilateral basis<sup>33</sup>.

In addition to the above, at the recent APEC Finance Ministerial Meeting in Malaysia, the Japanese foreign minister offered to guarantee approximately \$16-17 billion in sovereign debt which would be used to keep regional economic recovery on track. The following instruments are to be used<sup>34</sup>:

- a) creation of a \$3 billion credit guarantee fund for sovereign bond issues by crisis-hit Asian economies in the ADB (referred to as an 'Asian Currency Crisis Support Facility');
- b) provision of \$230 million to subsidise interest payments;
- c) legislation passed in April 1999 which will allow the JIXEM to guarantee sovereign bonds to be issued by emerging economies, or to purchase them directly.

#### *Other Japanese Initiatives*

At the Hanoi Summit, Prime Minister Keizo Obuchi announced the establishment of a special facility amounting to \$5.15 billion over three years with preferential interest rates (Mori 1998). As in the case of much of Japanese assistance, the aid will be provided on a bilateral basis and will be tied to projects with the understood aim of stimulating both the regional economies as well as Japanese companies simultaneously<sup>35</sup>. It was also announced that the Japanese would contribute some \$4.2 million to a UN 'Human Security Fund' to help the region overcome the social effects of the economic crisis.

All of this is in addition to the \$30 billion Miyazawa Initiative aid package for Asia, \$44 billion of on-going aid that Japan has pledged since 1997 (Keizai Koho

Center, 1998) and a \$5 billion joint aid package with the US, World Bank and ADB. Thus, in terms of overall size, Japanese aggregate investment in this region has been very generous on paper, comparable to the resources provided by US to Mexico. The problem in the case of Japanese assistance though has been the extremely long time lag in implementation. For instance, Malaysia's Prime Minister, Mahathir Mohamad has recently reportedly stated of the Japanese package of assistance to Malaysia that, "(b)y the time Malaysia eventually gets to see the money, the crisis will be over. Japan has to think about the effectiveness of its money."(Business Times, 1999)

### **5.3 Joint Japan-US Recovery Initiative**

Even before details of the Miyazawa Initiative could be worked out, including a detailed time frame for its disbursement, the US announced a joint \$10 billion initiative with Japan to aid Asian economies in crisis. This announcement was made by US vice president, Al Gore at the sixth APEC summit held in KL. Once again, details remain very sketchy, with early indications being that the US would contribute \$3 billion in credit finance (to be equally divided between Indonesia, Thailand and Korea) and an additional \$2 billion in insurance and loan guarantees through the US Overseas Private Investment Corporation. The stated intention was the establishment of an 'Asian Growth and Recovery Program' to mobilise private sector financing to facilitate corporate debt restructuring<sup>36</sup>. The other \$5 billion is reportedly to be divided between Japan, the World Bank and the ADB<sup>37</sup>.

It is interesting that the initiative seems to have been hastily agreed upon by the two economic superpowers at the last minute, as there were no details of the proposal available at the summit. Indeed, just a day before the announcement, a Japanese Finance Ministry representative in Washington DC is reported to have said that "(w)e haven't seen any US plan in concrete terms" (Lachica, 1998). Cynics

would argue that the primary intention of the US administration in 'hurriedly' coming up with the proposal, was to 'get in on the act' and illustrate their 'commitment' to the region, rather than allow Japan to go it alone (which, by all accounts, Japan seemed prepared to do). To date, there has not been any follow-up to this proposal.

## **6. Summary and Discussion of Regional Cooperation**

To sum up, there have been some substantive regional initiatives proposed in response to the crisis in Southeast Asia, both preventive as well as curative in nature. These include the Miyazawa and the joint US-Japan initiatives, the ASEAN Economic Surveillance Process (ASP), the ASEAN Action Plan on Social Safety Nets, and the APEC (Manila) Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability.

In addition to the above, there have been a number of other ad hoc proposals by various governmental and non-governmental bodies in Asia. The list of proposals (which is not necessarily exhaustive), includes:

- a) the establishment of an Asian Bank for Reconstruction and Development (ABRD) to finance major projects in the region for long-term growth, including human resource development (Hong Kong Democratic Foundation, 1998).
- b) the creation of an Asian BIS to facilitate cooperation between regional central banks and to take on the role of a de facto regional lender of last resort during crises periods<sup>38</sup>;
- c) possible EU type monetary integration, including a single currency over the longer-term by the Philippines government<sup>39</sup>; and
- d) a proposal by the Taiwanese government for a collateralised bond obligations (CBO) scheme, which is aimed at mitigating the risks of investing in corporate debt by mixing it with safe government bonds, thus encouraging

liquidity flow into the region (Business Times 1998).

It is therefore apparent that the region has by no means been short of useful ideas and proposals to deal with the current regional crisis and help reduce the chance of future crises from occurring or intensifying to such an extent as happened this time. However, the real challenge has been one of implementation of the various proposals. It is on this count that the regional bodies such as APEC in particular, but also ASEAN (despite its relatively greater proactivity), seem to have been found wanting, and an objective evaluation of the regional responses to the crisis suggests that the report card has been rather dismal.

Consequently, apart from the multilateral assistance from the IMF, World Bank and ADB, substantive cooperation in the region in response to the crisis has been limited to ad hoc unilateral and bilateral initiatives<sup>40</sup>. Each response, taken on its own, does not seem to have made much impact on containing the crisis. This is not to say the efforts have been without merit. Rather, the problem has been one of lack of coordination in certain areas and, in many respects, absence of strong concerted effort from the governments of the countries involved. Many of the proposed measures which were widely publicised and potentially effective, were not carried through in a timely and effective fashion, if at all.

The crisis and performances (or lack thereof) of the region's focal institutions, ASEAN and APEC have revealed the need for a much clearer definition and demarcation of the roles of these associations. The concept of 'overlapping' or 'concentric circles' of membership of regional alliances was much touted and in vogue in East Asia pre-crisis<sup>41</sup>. It seems however that this overlap in and lack of clear demarcation of responsibilities have contributed to some confusion and 'buck-passing' as far as their responses to the crisis is concerned. This partly explains the relative inaction of the regional alliances during the crisis.

Undoubtedly, the global prestige of APEC has taken a severe battering and

will not be regained until the region overcomes this crisis (as has ASEAN's, which is discussed later in this section). APEC is still a rather loose, young and geographically elusive organisation and much cannot probably be expected of it. While the inclusion of the major powers of the US, Japan and China as members of APEC has been as an important feature of the APEC landscape and given its world-wide prominence, it has also probably acted to constrain the type and speed of actions that can be taken by the organisation<sup>42</sup>.

The tensions between these key powers in their bilateral relations also resonate in their regional relations with other regional countries. For instance, as noted, the demise of the proposal for an AMF (being rejected by the US and IMF), could be attributed to the attempt by the US to limit the role of Japan in the region; while Japan has hitherto not been able to act in a leadership role commensurate with its economic supremacy in the region, at least partly because of the tensions with China<sup>43</sup>.

At the December APEC Leaders' Meeting in Kuala Lumpur, almost all of the leaders concurred that the G-22 (an ad hoc group of countries established by the US in April 1998) is an appropriate forum to deal with the crisis. There are only thirteen members which are common to both the APEC and G-22<sup>44</sup>. Since not all of the ASEAN members are in G-22/G-26, there would be some complications if G-22 is to be the main forum to deal with the crisis. Assuming the continued operation of the G-22/G-26 grouping (which currently remains unclear), in the absence of concrete steps at a global level to restructure the international financial architecture, urgent research is needed to explore the feasibility and membership issues of the G-22 forum and its role vis-à-vis APEC and other regional associations.

More flexible and smaller sub-groups of like-minded countries within APEC to discuss particular issues may help overcome some of APEC's current unwieldiness due to its large size and diversity of members (Wilson, 1999). In this

light, the Manila Framework Group (MFG) set-up to deal with regional financial and monetary affairs noted previously, seems to be a useful step in the right direction. Such sub-groups will allow the inclusion of some non-APEC countries with shared interests in Asia and elsewhere on particular issues (therefore being consistent with the notion of 'open-regionalism'), while ensuring that APEC itself remains focussed on the primary goals of trade and investment liberalisation.

In the final analysis, the following observation of APEC by Wilson (1999) is apt:

APEC finds itself again in need of a champion....It is vital that APEC's members continue to be made aware of the potential it has as a mechanism for cooperating on a broad range of issues. In the current environment, with many of the region's economies still preoccupied with domestic problems, the audience is more sceptical than usual and the task of proving APEC's worth is likely to require a forceful and concerted effort.

### **6.1 An Evaluation of the Role of ASEAN**

Unlike APEC, ASEAN on the other hand does not face some of these issues and difficulties, with very clear geographical scope (in terms of membership and issues). In light of this, as well as the fact that four of the five crisis-hit economies in East Asia are in Southeast Asia, it was probably not unreasonable to have expected much more from ASEAN. Consequently, the organisation has come under particularly sharp criticism for its perceived inactions and pensiveness in dealing with the crisis. Before concluding this paper, therefore, it would be useful to briefly evaluate the specific role of ASEAN.

ASEAN's response to key events prior to the crisis has been below

expectations. For instance, when the region was covered in smoke created by indiscriminate burning of forests, there was no immediate action to alleviate the problem<sup>45</sup>. Accordingly, many analysts and observers have suggested that ASEAN has lapsed into irrelevance. Such a conclusion, while understandable, given the sense of self-triumphalism in Southeast Asian in particular pre-crisis, is however unwarranted. ASEAN's success ought not to be measured only in terms of how it has been able to respond to the recent crises in the region (both environmental as well as economic/financial). For the last thirty years, ASEAN has served usefully as a forum to engage the member countries in international discourse on regional and even global political and security issues. The confidence nurtured through these meetings resulted in the formation of a parallel forum for security issues, ARF and a partnership with Europe through the ASEM previously noted.

In spite of the differences between some of the members, there has never been the possibility that the regional tensions and minor conflicts would escalate into war. This perhaps is part of the understanding and pragmatism that has been established among members over the last three decades. Further, the resultant economic and socio-political instability caused by the Southeast Asian currency crisis could have fuelled projectionist xenophobia, in the process, derailing the primary economic goal of ASEAN regarding real sector liberalisation and integration. To the contrary, ASEAN has in fact maintained focus on the more functional agenda of trade and investment, with there being a hastening of the pace of regional integration (liberalisation) in these areas<sup>46</sup>. ASEAN finance ministers and central bankers have significantly intensified intra-regional consultations as well as those with other key economies in the larger East Asian region (such as China, Japan and Korea) since 1997. ASEAN has been among the drivers in APEC's Manila Framework of November 1997<sup>47</sup>.

Looking ahead, the crisis in Southeast Asia has forced the focus back to the

important questions of appropriate organisational structures for and degree of institutionalisation of ASEAN. If ASEAN is to play a more constructive and proactive role in tackling such crises periods (periods of extreme tension) in the future, a more fundamental question of institutionalisation needs to be addressed. The unique characteristic of ASEAN hitherto has been that the extent of its effectiveness is mirrored in the relationships between the ASEAN leaders. ASEAN needs to evolve from an organisation that is based on informal networks and ties between its leaders, to a group with institutionalised mechanisms<sup>48</sup>. While this will take time, the effect of the crisis has been to bring the issue to the fore and emphasise its importance.

The region's leaders need to come to a consensus as to what are the next steps for ASEAN (Henderson, 1999). If the priority is to strengthen it, more resources would need to be dedicated to the Secretariat and its work. ASEAN could develop to become a 'community' like the European Union (EU) or possibly the less institutionalised Organisation for Security Cooperation in Europe (OSCE)<sup>49</sup>. A detailed evaluation of the appropriate institutional structure for ASEAN (or APEC) is well beyond the scope of this paper. Suffice it to note here that the answers to these issues depend directly on the role and scope for ASEAN envisaged by the heads of the regional government, which therefore needs to be clearly defined and articulated in the first instance.

However, for now, given the major domestic problems faced by the large powers in ASEAN, a realistic scenario for the next few years would be probably be for ASEAN to continue to 'muddle' through with 'bold' pronouncements but minor institutional alterations. It is therefore unlikely that ASEAN will be able to move forward on these issues until economic recovery has taken place. Indeed, it may also be the case that the cultural, political, social, economic and historical diversity of the region is too great a barrier for institutionalised multilateralism in the

near future, if at all (Acharya 1997). If this is true, perhaps one ought not to expect much from ASEAN by way of substantive actions in the non-trade economic sphere for some time to come.

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<sup>1</sup> The admission ceremony for Laos and Myanmar into ASEAN was held on 23 July 1997 in Subang Jaya, Malaysia, one day before the start of the 30th ASEAN Ministerial Meeting.

<sup>2</sup> Cambodia joined ASEAN in a special ceremony in Hanoi in April 30, 1999, making the vision of ASEAN-10 a reality.

<sup>3</sup> For recent discussions on ARF and its impact, see Ball (1999), Ball and Kerr (1996) and Peou (1999).

<sup>4</sup> The ASEAN Vision 2020 was the outcome of the second Informal Summit in Kuala Lumpur (KL), Malaysia in December 1997. The focus of the vision is on forging closer economic integration within ASEAN, with the stated aim of bringing into reality the KL Declaration in 1971 of making ASEAN a “zone of peace, freedom and neutrality”.

<sup>5</sup> The focus of the paper is on what we feel are the major initiatives taken regionally in light of the crisis. There may well be a number of other training and related programmes, seminars, etc., initiated by regional institutions. Space limitation precludes a detailed listing of all such programmes.

<sup>6</sup> This section draws on Rajan (1999).

<sup>7</sup> This reversal was primarily due to net (short term) lending by commercial banks, which had averaged about \$60 billion in 1995 and 1996, but averaged -\$28 billion over the next two years. Similarly, official reserves varied sharply from an increase of about \$19 billion in 1996 to a decrease of \$32.5 billion in 1997, to a rise of about \$41 billion in 1998. To a lesser extent, portfolio flows have also been variable, while, in contrast, foreign direct investment (FDI) flows have remained extremely stable.

<sup>8</sup> See for instance, Aoki (1998).

<sup>9</sup> Both intraregional trade and investments have been due mainly to Singapore and Malaysia. Intraregional investment in particular has been spurred by Singapore’s drive in recent years to build the external dimension of its economy to complement and supplement the domestic economy.

<sup>10</sup> For a historical perspective, see Sandhu (1992). For recent discussions of ASEAN and AFTA, see the special issue of the *ASEAN Economic Bulletin* (1998).

<sup>11</sup> See the “Executive Summary of Workshop on Economic Monitoring of Financial Systems in East and Southeast Asia” by the Asian Development Bank Institute (ADBI), 1998.

<sup>12</sup> Some may question the potential utility of any such mechanism per se, given the possible ‘multiple equilibrium’ nature of currency crises. However, even in such cases, ‘bad fundamentals’ are a necessary (if not sufficient) condition for such currency and financial crises (see Rajan 1999, and references cited within). As such, surveillance mechanisms do have an important role to play in reducing the chances of them from occurring. The surveillance mechanism could be based on a composite leading indicators system a la Kaminsky (1997) and Kaminsky and Reinhart (1996).

<sup>13</sup> The ADBI was established through the joint efforts of the ADB and the government of Japan (which provides the finances) to promote and facilitate the dissemination of research

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and best practices on economic development policies among member countries of ADB (i.e. Asia).

<sup>14</sup> The IMF-STI is a joint effort between Singapore and the Fund to provide policy-related economics training to government from developing countries in the Asia and Pacific region. The institute is jointly funded by the IMF and the government of Singapore.

<sup>15</sup> The twenty one members of APEC are Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam - which are all members of ASEAN - as well as Australia, Canada, Chile, China, Hong Kong, Japan, Korea (South), Mexico, New Zealand, Papua New Guinea, Peru, Russia, Taiwan and the US.

<sup>16</sup> PECC, established in 1980, is a tripartite, non-governmental organisation that promotes economic cooperation in the Asia Pacific region. In addition to the APEC members, it includes Colombia and Peru.

<sup>17</sup> During the ASEAN foreign ministers' meeting in July 1998 in Manila, both Thailand and the Philippines were keen on moving away from strict non-intervention towards greater engagement (so-called 'flexible engagement'). They faced opposition from the other members on the issue (see for instance, the interview with the Philippine's foreign secretary, Domingo Siazon, *Asiaweek* (1998).

<sup>18</sup> The theoretical basis for the need to provide accurate and timely economic data and related information is provided by the new capital-crisis models (see Rajan, 1999).

<sup>19</sup> On the other hand, Koh (1998) has argued that the Hanoi Summit was successful for several reasons. First, the ASEAN leaders put their differences aside and forged a new sense of unity with three concrete steps: the Hanoi Declaration, the Hanoi Plan of Action and a 'Statement on Bold Measures'. Second, the leaders did not deny the extent of the problems. They acknowledged their policy mistakes and recognised that some of their institutions needed reform and restructuring. Third, the leaders also accepted the responsibility to put their houses in order, and facilitate the return of confidence and thus investment to the region.

<sup>20</sup> Available from the ASEAN Secretariat's homepage <http://www.aseansec.org>. [Accessed Feb 1999].

<sup>21</sup> See the APEC Economic Leaders' Declaration, "Strengthening the Foundations for Growth", November 18, 1998.

<sup>22</sup> In addition to the G-7 countries (Canada, France, Germany, Italy, Japan, the UK and the US), the other fifteen economies comprising the G-22 are Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Korea, Malaysia, Mexico, Poland, Russia, Singapore, South Africa and Thailand. The role of G-22 is discussed again briefly in the concluding section.

<sup>23</sup> Technical difficulties and misunderstandings have thus far precluded implementation of the bilateral trade-financing guarantee scheme. See Ibrahim (1998).

<sup>24</sup> The export boom in Mexico, buoyed by bullish growth in the US, was also a major factor for Mexico's quick recovery.

<sup>25</sup> See also Fischer (1999) for a detailed discussion of the meaning, need and drawbacks of having an international lender of last resort.

<sup>26</sup> On the other hand, Japanese banks, not having exposure of any significance in the region, did not participate actively in the Mexican bailout (Table 3) In fact, according to Katada (1998), the Japanese banks were asked to contribute \$1.2 billion, but this figure was negotiated down to \$0.4 billion and the Bank of Japan was asked to contribute between \$0.6 billion to about \$1 billion. In the end, their contributions were negligible, if anything. The

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same source also indicated that part of the reason for Japan's non-participation was that the new Mexican Administration did not seem to be aware of the 'appropriate channels' through which to communicate their concerns and requests to the Japanese Administration. At the same time, the Mexicans were fully aware of the US' commitment to bail them out.

<sup>27</sup> While the largest exposure to East Asia by major US banks such as Chase Manhattan and JP Morgan have been less than 60 percent of their respective equities, Japanese banks such as Fuji and Sumitomo Trust have been above 100 percent of their respective equities. Two reasons for the banks large exposure to the region seem relevant. First, the Japanese banks, which had been negatively impacted by the Latin American debt crisis, had moved away from Latin American region since the mid and late 1980s. Second, Japanese loans were used to finance Japanese FDI that moved into East Asia. See Keenan and Snyder (1998) and Katada (1998).

<sup>28</sup> There is some question about the reaction of PRC China to the AMF proposal, with Wade and Veneroso suggesting that China supported the scheme, while Bergsten (1998) suggests that it was against it.

<sup>29</sup> See Altbach (1997). The AMF proposal was rejected at the fifth APEC meeting in Manila.

<sup>30</sup> See Katada (1998).

<sup>31</sup> To be sure, one ought to refer to this as the 'new' Miyazawa Plan, to differentiate it from the plan announced by Miyazawa in 1988 in response to the Latin American debt crisis of the 1980s. According to Katada (1998), this was the forerunner to the famous Brady Plan.

<sup>32</sup> The following is taken from Kwan (1998).

<sup>33</sup> It has been reportedly stated rather bluntly by a senior Japanese Ministry of Finance (MOF) official "(t)his is our money and no one can say anything about what we are going to do with it!" (quoted in Montagu-Pollock, 1999). Indeed, it is notable that while the ADB and World Bank are to help with the disbursements of the fund, the Japanese excluded the IMF (which was perceived as being an instrument of US foreign policy).

<sup>34</sup> Based on Miyazawa (1999).

<sup>35</sup> See Marshall (1998), and Vatikiotis and Hiebert (1998).

<sup>36</sup> This is significant, as about 50 percent of Indonesia's external debt are private corporate debt, the figures being slightly over 70 percent for Thailand and about 90 percent for Korea respectively. See Nomura Securities (1998).

<sup>37</sup> See Montagnon and McNulty (1998).

<sup>38</sup> See Sasaki (1996) and Grenville (1998). The Asian BIS concept was put forward initially in 1995 by the former Governor of the Reserve Bank of Australia, Bernard Fraser. It had been envisaged that the region would build on the Executive Meeting of East Asia and Pacific Central Banks (EMEAP) which was aimed at enhancing regional mechanism to mount joint defenses against speculative attacks on regional currencies.

<sup>39</sup> See A. Nath (1998a,b). The ASEAN has commissioned a study on the feasibility of this proposal.

<sup>40</sup> The contribution of the EU warrants mentioning. At the second ASEM Summit held in London on April, 1998, the ASEM Trust Fund was initiated. The Fund is to provide selected East Asian countries with technical assistance and advice on restructuring their financial sectors and on measures to deal with the growing social problems caused by the crisis. China, Indonesia, Malaysia, Philippines, South Korea, Thailand and Vietnam are eligible.

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<sup>41</sup> See for instance, Rajan (1995) and Rajan and Marwah (1997).

<sup>42</sup> For detailed discussions of some of these issues, see papers in Aggarwal and Morrison (1998).

<sup>43</sup> See Ishihara (1998).

<sup>44</sup> The following economies belong to APEC only: Brunei, Chile, New Zealand, Papua New Guinea, Philippines and Taiwan. The following belong to G-22 only: Argentina, Brazil, Germany, India, Italy, Poland, South Africa and the United Kingdom. Among the G-22 non-APEC countries, India is a dialogue partner of ASEAN and a member of the Indian Ocean alliance (see Asher and Sen (1999).) The G-22 has since been expanded to include the following smaller European countries, Belgium, Netherlands, Sweden and Switzerland, thus becoming G-26.

<sup>45</sup> The costs of the haze - which originated in bush, ground and forest fires in the Indonesian provinces of Sumatra and Kalimantan and contained a blend of dangerous chemical substances before spreading to most of the rest of Southeast Asia - is estimated to have caused some US\$1.8 billion in damage in Indonesia alone. Significant health and other costs (such as loss of tourism revenues) were incurred by its neighbors, viz. Malaysia, Singapore, Brunei, Southern Thailand and Southern Philippines (see AEF, 1998). A Regional Haze Action Plan has been established in response to the environmental problems, as has a ASEAN Specialised Meteorological centre in Singapore.

<sup>46</sup> Specifically, at the Hanoi Summit, the following trade liberalisation measures were agreed to:

- a) maximising the number of tariff lines whose CEPT tariff rates shall be reduced to 0-5 percent by the year 2000 (2003 for Vietnam and 2005 for Laos and Myanmar);
- b) maximising the number of tariff lines whose CEPT tariff rates shall be reduced to 0 percent by the year 2003 (2006 for Vietnam and 2008 for Laos and Myanmar); and
- c) expanding the coverage of the CEPT Inclusion List by shortening the Temporary Exclusion List, Sensitive List and General Exception List.

<sup>47</sup> Indeed, Plummer (1998) has noted that "APEC will continue to be 'nested' in ASEAN in that the subregional organization is playing a central role in molding the direction of APEC to be consistent with the goals of ASEAN economic cooperation."

<sup>48</sup> Although there are been some efforts to deal with ASEAN-wide problems such as the haze, and piracy, these responses have been ad-hoc in nature with seemingly limited effectiveness.

<sup>49</sup> Suggestions that ASEAN move towards replicating the institutional practices of the EU but not necessarily becoming an EU-type organisation has been recently made by Wanandi (1999). For possible replication of the OSCE framework, see Acharya (1997).

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