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East Asian initiative needed in crises

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The economic crises in East Asia have left countries in the region with many lessons to learn. This should come as no surprise, given that the crises were totally unexpected. The lessons are: that banking management was too fragile, financial supervision was inadequate, exchange rate policies failed, and that responses in dealing with the growing information society and globalization have been too slow. Asian countries hit by the crises are striving to reconstruct and reinforce their economies while learning from these lessons. I believe many of the countries will prove successful in achieving their goals.

In addition to the lessons to be learned by each Asian country, the

crises have raised an issue of great importance that needs to be tackled by East Asia as a whole. That issue is whether it is necessary for East Asia--like North America and Europe--to strengthen its regional cooperative ties. And if it is necessary, what form would such a cooperative stance take?

Looking back on the East Asian crises, it is regrettable that no initiative for joint regional action was taken to deal with the crises in each stage of prevention, detection, initial response and support for reconstruction.

True, countermeasures were discussed by the Association of Southeast Asian Nations and the Asian Development Bank with a view to dealing

with the crises. But these efforts failed to bear fruit as joint regional action.

Japan, for its part, committed itself to financial support totaling \$64 billion to help revive East Asian countries hit by the crisis. The idea of an Asian Fund, which Japan proposed, failed to obtain strong support from East Asian countries as a whole--partly due to lack of preparation--and ended without success in the face of opposition from the United States and the International Monetary Fund.

China expounded the idea that it not devalue the yuan, which it asserted would help to prevent the situation from deteriorating, but it fell short of presenting measures to ride out the crises.

Although the crises directly affected East Asian countries such as Japan, China, South Korea, Hong Kong, Taiwan and ASEAN member nations, no joint effort was made to resolve them. As a result, initiative for dealing with the crises was taken by the IMF. Ironically, however, the IMF faced a barrage of criticism from countries in the region against the measures it took. One reason for this was that countries in the region had no alternative but to put their own interests first by stamping out the flames of crisis that fell upon themselves. A more fundamental factor was that East Asia had no mechanism for coping with

its own problem.

ASEAN was established in 1967 by five neighboring Southeast Asian nations to protect their interests against uncertainties caused by changing relations between the United States, Japan and China. The Asia-Pacific Economic Cooperation (APEC) forum came into being at the suggestion of North American and Oceanian countries seeking to strengthen their ties with East Asian nations in the wake of impressive progress by the economies of the region. In this sense, neither ASEAN nor APEC functions to represent the interests of East Asia.

East Asia has structural features different from those of North America and Europe. The environment that surrounds it prevents the East Asian region from establishing vertical integration along the same lines as the North American version, which centers on the United States, or horizontal integration as found in Europe, sustained by political will. East Asia is diverse in many ways and needs to develop and maintain political and economic relations with regions outside its borders.

But at the same time, the fact remains that trade and capital movements within East Asia have been steadily increasing. In view of the contagion of crises witnessed in the latest turmoil, it cannot be denied that East

Asian economies have certain characteristics in common.

East Asia needs to implement a mechanism intended not to establish an exclusionary economic zone but to prevent economic crises and tackle those crises jointly in a way that utilizes the vitality inherent in each country's economy.

In concrete terms, two schemes should be considered.

The first is establishment of an economic consultative forum comprising deputy-level officials of finance ministers and central bank governors from East Asian nations. The forum, which would meet several times a year, would provide a chance for countries in the region to hold in-depth discussions on the economic data of each nation to enable recommendations and requests to be exchanged in a fair and frank manner.

It is also to be hoped that the countries conduct a joint study on how best to devise appropriate foreign exchange rate policies, to consolidate and improve the system of settling payments and to maintain the health of private companies' balance sheets. Naturally, the forum would cooperate with the ADB, IMF and other international institutions when necessary. It should not, however, be merely another example of an international bureaucratic machine, but should serve a

real purpose.

The second proposal is establishment of an emergency financing scheme. The East Asian crises were triggered by sudden inflows and outflows of huge amounts of short-term funds. In an effort to halt the capital outflows, monetary authorities in the region initially intervened in markets, but then abandoned their intervention in the face of rapid depletion of foreign exchange reserves.

This led to a currency depreciation far greater than was necessary for adjustment and a serious shortage of liquidity in foreign exchanges. A natural consequence of that was a sharp rise in debt service burdens that resulted in a series of bankruptcies. Businesses could not acquire funds to cover imports of raw materials, parts and capital goods. Export-oriented firms found it difficult to obtain letter-of-credit facilities. Core sectors of the emerging economies suffered a great blow, leaving crucial scars on the balance sheets of banks and businesses.

To prevent such a chain of events from recurring, it is advisable to establish a system that enables sufficient funds to be promptly provided to a country experiencing a sudden outflow of short-term capital as the first wave of a crisis. The funds provided would be used to prevent an excessive drop in currency value and to help

maintain vital import and export industries.

This mechanism could also serve as the IMF's regional vehicle. Even in that case, to guarantee the high-level maneuverability that is a prerequisite for success, East Asian countries must make larger financial contributions and ensure greater voting rights to secure the degree of autonomy needed for the scheme. East Asian countries hold a total of \$600 billion worth of official foreign exchange reserves, an amount sufficient to make the system work. In view of mounting calls for regional cooperation that resulted from the crises, I believe it is highly possible to establish the proposed emergency financing scheme.

But when considering cooperation within East Asia, there are two issues that cannot go untouched, no matter what the purpose and content of such cooperation. The first issue is how to ensure a cooperative relationship between Japan and China within the system, and the second is how to maintain constructive involvement by the United States.

Japan-China relations are currently good, but that by no means rules out uncertainty in the future. Given the instability carried over from the past and the possibility of changes in their relative balance of power, there

is the potential for great tension between the two countries. In other words, Japan and China entertain a sense of both superiority and inferiority toward each other simultaneously and have no answers how to sort them out.

The relationship between Japan and China stretches back some 2,000 years, an unprecedented length in world history. But the length of the relationship does not necessarily ensure its continuing stability.

After all, human beings are influenced by memories of the recent past and prospects for the near future. I, for one, consider that a necessary first step in securing future Japan-China relations is the creation of an environment that enables the two nations to start constructive dialogue.

Japan should apologize sincerely for the damage it inflicted on China during 15 years of war between the two countries. China, for its part, should put a stop to education aimed at cultivating animosity toward Japan using just a chapter of history. If the difference in historical assessment of incidents like the Nanking Massacre is still at issue, the two countries should launch a joint fact-finding investigation immediately.

The Chinese people are urged to consider their attitudes to crimes committed by Western imperialist

countries that invaded China ahead of Japan. The Japanese people, for their part, should work out an answer to the question of who should compensate for Japanese victims during the 15 years of Sino-Japanese war.

Various scenarios can be conceived as to how Japan-China relations will hold up in the context of East Asia. There is a possibility that Japan and China will compete against and antagonize each other in the struggle for leadership of the region. But the two countries could undoubtedly share the view that a hostile relationship between them would prove a major disadvantage for both countries and for East Asia as a whole. An essential task is for the two countries to foster next-generation leaders who can formulate policies based on that perspective.

U.S. involvement in East Asia will continue to be absolutely necessary in the foreseeable future. East Asia needs such involvement from the viewpoint of promoting economic ex-

changes in such areas as trade, technology and management and ensuring security in the region.

At the same time, if East Asia provides an open and expanded market for the United States and continues the reflux of funds to the United States, it will greatly serve the interests of the U.S. economy. And if East Asia remains politically stable and friendly toward the United States, it will contribute to lessen the burden of the United States as a world leader.

Relations between East Asia and the United States should take the form of a continuing mutually beneficial relationship.

I am of the opinion that the mechanisms for cooperation on crisis prevention in East Asia that I have presented would be instrumental in achieving that goal.

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