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THE ASIAN FINANCIAL CRISIS: UNDERSTANDING JAPANESE ASSISTANCE TO SOUTHEAST ASIA*

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Semenjak krisis kewangan melanda Asia Tenggara, Negara Jepun telah menawarkan dua pakej bantuan yang bernilai US$3.5 bilion – satu amaun yang begitu besar dan luar biasa untuk membantu negara-negara yang terlibat. Namun begitu, tiada satu kajian pun yang cuba menganalisiskan tujuan di sebalik bantuan tersebut. Artikel ini akan membicara secara mendalam fakta-fakta yang mendorong negara Jepun memberi bantuan yang begitu besar.

INTRODUCTION

Since the Asian financial crisis began, Japan has offered two major packages, the New Miyazawa Initiative and the Obuchi plan, worth a total of US$3.5 billion,[1] to help alleviate the crisis to Southeast Asian countries. This is a significant amount for three reasons. First, none of the big powers have pledged anything comparable. The United States was supposed to contribute US$5 billion as part of a US$10 billion joint initiative with Japan but to date has not given the money. Neither has

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1 According to Naoki Enomoto, financial attaché in the Japanese Embassy, Kuala Lumpur, Japan had offered three major packages as a direct response to the crisis. These were the New Miyazawa Initiative (US$30 billion), the Obuchi Plan (US$5 billion) and a joint US-Japan Initiative (US$10 billion). The joint US-Japan Initiative has, however, not yet got off the ground.

Europe given anything impressive.[2] China, while it may have been rightly praised for not aggravating the crisis by refusing to devalue its currency, the *yuan*, has not offered any sum approaching the Japanese amount. Second, the sum of US$35 billion dwarfs any aid Japan had given to Southeast Asia (or Asia) at any one time or in response to any one development in the past. The nearest amount as far as Southeast Asia is concerned was the US$2 billion the then Japanese prime minister, Noburo Takeshita, offered the ASEAN countries in 1987 for an ASEAN-Japan Development Fund (AJDF). Third, the present amount is offered at a time when Japan is facing deep financial difficulties. And when one compares this sum to Takeshita's US$2 billion which was given at a time of great Japanese financial strength as a result of the revaluation of the *yen* (to almost twice the value of the American dollar) in 1985, the US$35 billion appears really quite impressive!

Yet, despite the significance of this aid in the field of Japan-Southeast Asian relations, there have been few or no studies, except scattered journalistic articles dealing with some aspects of this aid, that examine the reasons for, and the impact of, this aid. This article attempts to fill this lacuna. It will analyse the motives behind Japanese involvement first by considering the impact of the crisis on the Japanese economy and image, and then of the Japanese capacity to help. This will be followed by a discussion of the Japanese perception of the crisis, in particular the role of the International Monetary Fund (IMF); the manner in which the aid has been utilized; and the impact of the assistance.

REASONS FOR JAPANESE INVOLVEMENT

When the crisis broke out, it became clear that the individual Southeast Asian countries affected by the crisis, primarily Thailand, Indonesia and Malaysia could not individually solve the problem because they simply did not have enough resources to fend off attacks on their currencies.

2 The US and Europe, along with Japan, have made national contributions to the IMF which played a big role in the crisis. But neither Europe nor the US have contributed much to the crisis outside the IMF framework.

External help was thus necessary. Conceivably such help could come from various sources such as from Asian countries acting together; from the IMF; and from a regional power such as Japan itself. The most serious effort in the first category came from the Japanese proposal, just immediately after the crisis broke, of an Asian Monetary Fund (AMF) of US$100 billion, to be collected from various Asian countries to which Japan would contribute a major portion, to help the affected countries. This, however, did not get off the ground in part because of Chinese suspicions of Japanese intentions behind the proposal for this fund, but mostly because the United States objected. The United States did not want to encourage moral hazard as it believed the AMF might not hold those who mismanaged things into account, though many believe the real reason for the objection was that the United States was left out from the AMF.

Falling into the second category is the IMF which, at the insistence of the United States, came in to play a dominant role in resolving the Asian crisis after the AMF was aborted. But its approach was global. It assumed that prescriptions that were applied to other countries, also applied to the Asian crisis. Such an assumption was not borne out as the prescriptions of the IMF caused great economic and political distress,[3] as a result of which the IMF was widely criticized (more on this later).

If a national approach proved inadequate and a global one was too crude there was then scope for the third category, that of a regional leader to act. The most obvious country to help out in the region was Japan. The reasons were many as to why Japan appeared the logical regional country to help solve the crisis. These reasons were the impact of the crisis on the Japanese economy, Japan's image as a leader of the region and the Japanese capacity to help.

3 Malaysia was one country that rejected IMF assistance. It believed that the conditions that normally accompany IMF assistance would not be good for a country like Malaysia.

Impact on the Japanese Economy

It must first be said that on the surface the impact on Japan may not be that great as Southeast Asian economies are not that big compared to Japan at the beginning of the crisis. Take the gross national product (GNP) then, for example, of the four affected Southeast Asian countries, Indonesia, Thailand, Malaysia and the Philippines. The total of the four GNPs constituted only about a tenth of the Japanese GNP. Or, take another example such as trade. Japan's trade with these four countries plus Singapore (ASEAN 5), as a percentage of total Japanese trade, was not then very much either, coming to around 10 percent.[4]

Such comparisons, however, did not tell the whole story. What mattered was not so much the relative sizes of both economies but the state of the Japanese economy at the time the crisis broke. In 1997, the year the crisis began, the Japanese economy was stagnant. Any potential drag on its growth, such as a reduction of importing capacity by a recession hit Southeast Asia, could prove to have a significant impact. This was particularly so in certain manufacturing sectors, such as those in automobiles and electrical machinery, which accounted for a sizeable percentage of growth in Japanese corporate profits (*Economist,* 1997), as Southeast Asia imported these products a fair bit. If demand in Southeast Asia fell for these products, the earnings of the companies involved in these sectors would drop greatly.

Another important area of impact was finance. Japanese banks had lent heavily to the Southeast Asian region. At the end of 1996, US$37.5 billion of the US$70 billion of Thailand's external debts were owed to Japanese banks while in Indonesia, US$22 billion out of a total foreign debt of US$55 billion were borrowed from the Japanese (*Economist,* 1997). If one also added the debts owed to Japan by the Philippines, Malaysia and South Korea, around this time, the total would come to about US$100 billion (*Bangkok Post,* 1998). So it was in the interest of Japan to prevent such countries from defaulting on their payment which they could do if their economies were devastated.

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4 Calculated from figures on trade issued by the Ministry of Finance, Japan.

Impact on the Japanese Image

A more problematic reason for Japanese involvement was the impact of the crisis on the Japanese image as a model for Asian countries. Many writers, particularly Westerners, had pushed the line that the adoption by Asian countries, of the Japanese model was responsible for the crisis. The true lesson of the Asian debacle, according to one writer, "is that the Japanese model – the idea that an economy can be managed by government officials telling domestic business what to do and trying to keep foreigners out – does not work" (Glassman, 1998). Another writer gave a more nuanced assessment. He acknowledged that Asia never adopted a single model. Hong Kong was a bastion of capitalism while South Korea and Japan had more similarities, such as in their practice of industrial planning, export subsidies and so on. Singapore, Indonesia, and Malaysia were in between both extremes. But, he added, all borrowed from the Japanese model where bureaucrats in all these countries "seemed to think they were better at allocating capital and goods than markets were" (Kristof, 1998). However, before one evaluates the merit of this argument, one needs to point out that there were differences between the Japanese and the Southeast Asian situation, both in the quality of the government-private sector relationship and in the way the crisis was induced. First, the Japanese bureaucrats were better managers of the economy than their Southeast Asian counterparts and the relationship between Japanese officialdom and industry, opaque as it may appear to some Westerners, was much more transparent than in Southeast Asian cases.[5] Second it is also important to point out the difference in what triggered the crisis in both areas. The Japanese stagnation came from the bursting of the bubble, which began in December, 1989 when the then Governor of the Bank of Japan decided to raise interest rates so as to bring, among other things, the stock market and property prices in Japan to more realistic levels.

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5 The quality of the Japanese elite bureaucrats, even if some corruption and incompetence on their part have emerged lately, is quite good. They are recruited as a result of meritoric criteria such as national examinations, unlike many Southeast Asian bureaucracies that are recruited on ethnic and other non-meritocratic preferences. Even if there has been cronyism between some Japanese bureaucrats and industry, it is nothing compared to say the cronyism between the Suharto government and Indonesian business. For a study of the capability of Japanese bureaucrats and their success in guiding the Japanese economy, see (Johnson, 1982).

He did not, however, anticipate that his action would bring about an economic stagnancy lasting till today! On the other hand, the Southeast Asian crisis began in 1997 with the collapse of the Thai *baht* as a result of both the panic movement of foreign capital and the inability of the Southeast Asian countries to handle such movement. One can of course argue that the Asian crisis was also caused by the bursting of a bubble brought about by reliance on American dollars. But, unlike Japan, the Asian bursting was externally induced.

A third critical difference is that unlike the affected Southeast Asian countries,[6] Japan is not indebted to foreign lenders, and hence not subject to foreign bailouts with their attendant humiliating conditions. Japan is in fact a big creditor to outside borrowers. According to one estimate, Japan had in 1997 US$291 billion in US treasury bonds and US$265 billion in Asian loans and banks (*Business Week,* 1997). If Japanese officials had messed up their financial dealings, it is with Japanese, not foreign money, unlike the affected Southeast Asian countries.

Such qualifications aside, the Japanese must nevertheless have felt the force of the attack on their model, particularly when in the past two decades or so before the crisis, emulating the Japanese model was the rage among many Southeast Asian countries. Two countries, for example, Singapore in 1978 and Malaysia in 1982, had started official campaigns to emulate Japan while some Southeast Asian countries then expressed eagerness to imitate some aspects of the Japanese model. While the Japanese initially were unsure how to react to such imitation, the increasingly spectacular performance of the Southeast Asian economies, together their own, led them in the early 1990s to vigorously urge other Asian nations to adopt their approach to capitalism. They even sponsored a 1993 World Bank report that would give legitimacy to Japanese methods of managing the Asian economies (Kristof, 1998). So when the economies of these Asian countries, many of which had either directly or indirectly followed the Japanese model, collapsed, the Japanese must have wondered whether they might not bear some responsibility for this.

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6 There were, however, some exceptions like Malaysia and Singapore. These were not that badly indebted to foreign lenders.

Japanese Capacity

A third reason for Japanese assistance is that it has the capacity. As Japan has the second largest economy in the world, with a relative lack of global political and security duties, it has always been pressured (most times by the Americans) to help out whenever countries facing a crisis needed economic aid. This is even the case, for example, when the Japanese were urged to offer substantial aid in the rebuilding of East European economies after the end of the Cold War, a region more under European responsibility than Japanese. In the Asian case, pressure was exerted on Japan not only to give financial assistance but also to act as a locomotive to drag along the economies of the affected countries. This came out in a meeting in September 1998 between leading American and Japanese officials such as Federal Reserve Board Chairman Alan Greenspan, then Treasury Secretary Robert Rubin and then Deputy Treasury Secretary, Lawrence Summers and Finance Minister, Kiichi Miyazawa and then Vice Minister of international finance finance, Eisuke Sakakibara. There, the Japanese were pressured to stimulate their economy to help alleviate not only the Asian countries but to those other countries where the Asian crisis had then spread. The Japanese were, however, adamant that Tokyo alone could not be responsible for calming the financial turbulence then rocking Asia, Russia and Latin America. The Japanese did not believe these troubled nations could benefit from one or two percentage points in Japanese growth or a few billion dollars in tax cuts (Nation, 1998). The Japanese have a point. Quite apart from their lack of capacity alone to solve every global problem, it is also not their responsibility to do so, a point of view agreed to by one Thai newspaper. This paper instead criticized the US role, or the lack of it, in the financial crisis. The Americans were the architects of this new globalised world order, according to this paper. They had reaped much of the benefits of globalization, it said; hence, they could not shield themselves from the dark forces which had landed a path of destruction from Bangkok to Buenos Aires (Nation, 1998). The U.S. rather than Japan, should therefore address the global currency instability brought on by speculators.

But to be modest about helping globally does not mean Japan does not have some capacity and responsibility to help out in Southeast Asia. Compared to the other less hit Asian countries, Japan is the only Asian country with enough financial resources to give help that can make a dramatic difference even if its financial system needs some mending (*Bangkok Post,* 1998). Compare Japan with the other Asian countries with strong financial reserves. China may have reserves second only to Japan in Asia but they were much needed in China to help maintain the value of the *yuan,* which is all one could ask of the Chinese at this time, and to help develop their backward economy. The other newly industrializing Asian economies with reserves such as Hong Kong, Taiwan and Singapore can also help. But they are unable to deploy the kind of resources Japan can. At any rate, Hong Kong's reserves are needed to defend the Hong Kong dollar's peg to the US dollar while Taiwan's ability to help is hampered by its relations with China.

What about Europe and the US, one may well ask? After all, European banks have loaned more to Asia than American and Japanese banks combined, while the US has very substantial interests in Asia. Indeed, as far as the US is concerned, it is the one which has foisted global capitalism inherently characterised by susceptibility to currency crisis like this one. Yet European and American aid to the affected countries of South Korea, Thailand and Indonesia, apart from their national contributions to the total IMF pool, are little or none compared to Japan's. But comparatively speaking, the Japanese position in Asia, especially Southeast Asia, is different from Europe and the US. Even if European banks are heavily exposed to Asia and could do more, Europe's more important responsibility, one can argue, lies in Eastern Europe and perhaps Africa. The US is a global superpower involved in every square inch of the earth's surface. Again the US can do more in helping to solve the Asian crisis[7]. But South East Asia and South Korea constitute one of the many areas, albeit important areas, in the world it has to deal with. Moreover, the US is deeply worried that it may be politically unsustainable for it to act as the ultimate market for products from the stricken Asian countries, and one may also add, from Japan. But Southeast Asia, nevertheless, constitutes more of a responsibility to

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[7] Many in Asia believe the US did very little to help the stricken Southeast Asian countries. Where it got involved, as for example, in pushing for IMF involvement and blocking the establishment of an AMF, the motive was self-interest such as to ensure that the interests and influence of the US is maintained in Asia (Higgott, 2000: 269).

Japan than Europe, given that Japan is the only industrialized Asian big power with a big presence in Southeast Asia.[8]

JAPANESE PERCEPTION OF THE CRISIS

There have been two extremes of interpretation of the source of the crisis. One, popular with Westerners as mentioned, attributes the origins to internal factors. The affected countries, so it is held, have economies that are mismanaged by the state. Because of this, they are vulnerable to the movements of capital that do not arise from any conspiracy to destroy the financial systems of countries but are part of the normal process of international capital flow (*New Straits Times*, 2001). The other extreme puts the source on external capital flows, especially if they are unregulated. Dr. Mahathir Mohamad, the Prime Minister of Malaysia, for one blames the crisis on financial speculators (Khoo, 2000; 213) who, out for the quick buck, have no qualms about destroying the currencies of weak countries. A third, which however strikes a middle ground, points to the fact that the so-called mismanaged Southeast Asian economies did enjoy high growth even before the crisis struck (Jomo, 1999).[9]

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8 It should be pointed out that the Japanese government itself acknowledges the force of the argument about Japan's regional connections and economic interdependency. It says that "Japan is closely tied to Asian countries in terms of history and geography. In addition, the Japanese economy is linked with the Asian economy amidst the global economy. Economic prosperity in Asia has positive effects on the Japanese economy, and economic crisis in an Asian country spreads to other Asian countries through international markets ... Japan is expected to provide appropriate assistance befitting a major economic power in the international society, especially to Asian countries which are closely linked to Japan" (Q & A).

9 This article, authored by Jomo, a noted critic of cronyism, together with two others, states that a popular explanation of the "East Asian crisis emphasizes corruption, cronyism as well as lack of transparency resulting in a moral hazard, with adverse consequences for the economy. This diagnosis, however, fails to provide a satisfactory explanation of why the crisis which started in Thailand - spread to the rest of the region so quickly"

The official Japanese position is somewhere in between the two extremes as seen by this part of a speech by the finance minister, Kiichi Miyazawa, worth quoting at some length to show its awareness of the complexity of the origins of the crisis. Miyazawa states that "a more objective study of the circumstances surrounding this crisis reveals that, in the globalized financial system we now have sudden reversals of market confidence that can cause periodic panics of varying magnitude and duration. Indeed, the substantial liberalization in 1993 and thereafter of the capital accounts of five Asian economies – South Korea, Indonesia, Malaysia, Thailand and the Philippines, led to the inflow of approximately US$220 billion in private capital into the region during the three-year period from 1994 to 1996. The reversal of flows that occurred in 1997 as a result of a sudden shift in confidence amounted to roughly US$100 billion. No economy or region can withstand the kind of sudden shift in market sentiment from euphoria to panic, and the resulting huge reversal of private flows.

These shifts in capital flows interacted with the affected economies domestic financial systems, which on hindsight, were grossly inadequate to deal with such an enormous amount of financial intermediation in such a short period of time" (Miyazawa, 1999).

The first order of business for the Japanese then was helping afflicted countries solve their currency and debt problems, then later to institute internal reforms. Their initial solution, the Asian Monetary Fund could not, as mentioned, get off the ground as the Japanese yielded to the American insistence that the IMF assumed the primary role. They reluctantly caved in to the Americans not because they thought they were wrong but because they dared not offend the Americans. In fact, the tussle over the role of the IMF, according to a top Japanese official, was the most tense period between Washington and Tokyo in the two years or so following the beginning of the crisis (*New Straits Times*, 1998).[10]

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10 This official, Eisuke Sakakubara mentioned also that the Japanese consulted with some of the Asian countries over the AMF proposal and received a favourable reaction. "We wanted to consult the US after that", he continued, "but Larry Summers' (then US deputy treasury secretary) somehow got information about it and didn't like it at all. I regret I didn't nurture it a bit longer" (*New Straits Times*, 1998).

When it became clear that the IMF solutions to Thailand and Indonesia were not an unmitigated success, many Japanese became emboldened in their criticisms of the IMF. A major point was that the IMF had a "one size fits all" approach. Sakakibara spoke of IMF solutions in the Asian crisis as the "blind applications of the universal model on emerging economies" (*Agence France Press,* 1999). Thus there was no sensitivity in their programmes to social and cultural differences. A former president of the Asian Development Bank, who is also a former Japanese government official, Mitsuo Sato, went further. He said that the real reason behind the Asian crisis, despite good macro-economic fundamentals in the affected Asian countries, was the drastic reversal of capital flows across the border. The IMF, he continued, was suffering from institutional fatigue as it proposed plenty of reform programmes as conditionalities of lending primarily to please the major shareholders (*South China Morning Post,* 2000). Some Japanese, though not governmental officials, even believed that the IMF had double standards, being very lenient on Russia and East Europe and hard on Asia.[11] While the governor of Tokyo, Shintaro Ishihara recently described IMF programmes as "foolish" because they were static solutions to changing economies (*New Straits Times,* 2001).

What of their attitude to capital controls which Malaysia imposed in August 1998 as a solution to the crisis? While not supporting such controls in principle, Japan expressed understanding of the reasons behind the Malaysian decision and wanted to see the consequences of such controls, before they came out firmly one way or the other. The reason for such hesitance was that the crisis was a new phenomenon (a 21st century type financial crisis) for which new measures, or even old measures like capital controls, could be called for. Sakakibara himself was quoted as saying that each country should do things its own way, which could include the control of shifts in short-term capital (Nikkei,

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11 Stated privately, if not officially, by some Japanese. A different charge of double standards by the IMF is that the IMF insists "that regional governments not rescue local financial institutions while at the same time insisting that they guarantee the repayment of international loans, thus alleviating foreign lending houses from any "moral hazard" (Higgott, 2000: 275).

1999).[12] Since then Japan, in G7 or IMF and World Bank meetings, argues that under certain circumstances, some form of capital control could be effective.

That their view of the role of the IMF was proven correct can be seen in Indonesia. The IMF prescriptions there, as mentioned, had not brought about very noticeable improvements in the Indonesian economy, but instead created political and social distress. By forcing the Suharto government to lift subsidies for basic necessities like transportation and so on, the IMF brought about riots which created the basis for the mass support for the students to topple Suharto, resulting in the instability in Indonesia lasting till today. The IMF image was not helped further by its perceived arrogance (*Business Times*, 1999).[13] In addition, IMF solutions were much attacked in Thailand. Many feared its prescriptions could create the potential for a nationalist backlash against financial globalization.

The force of their IMF critique and the spreading of the financial crisis to Russia and Brazil gave a boost to the emergence of Japan as a major external player in the crisis. When the crisis was confined to Asia, the U.S. could take a detached view. But it was different when it spread to those two countries, especially to Brazil, where the U.S. was much involved financially. There, the U.S. could not advise Brazil to devalue as a solution to its financial problem as American lenders would be affected, even if the US did not mind Asians, as not much American money was involved, devaluing their currencies in the crisis. A Mexican style rescue in the form of a bilateral US bailout of Brazil could not be effected again as it would lead to a hue and cry in the US Congress. So the US had to turn to the IMF for the creation of a special facility to help these two for which it needed the agreement of both Europe and Japan. Whether Japan extracted as a *quid pro quo* over this

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12 There are also Western critics of the IMF (Sachs, 1997; Pfaff, 1998). Compare this to the statement by M. Camdessus, IMF chief, that Malaysia's exchange controls were dangerous and indeed harmful (Wade, 1998-1999: 49).

13 Particularly galling to a lot of Indonesians was the sight of M. Camdessus, the IMF chief, folding his arms apparently looking imperiously on Suharto signing the IMF agreement.

special facility from the Americans an agreement not to object to Japan playing a major role such as offering a Miyazawa Plan in the Asian crisis is not clear.[14] But what is clear was that the Miyazawa Plan, which many saw as some form of an Asian Monetary Fund, was announced in October 1998, just after the crisis hit Brazil and Russia, and after the IMF was put on the defensive in Southeast Asia.

JAPANESE ASSISTANCE

Major Assistance Plans

The following constitute the major financial assistance plans promised by Japan to Asian countries, including Southeast Asia, affected by the crisis. Except for the joint Japan-US joint assistance of US$10 billion, for which the US, as stated, is yet to pay up, these are primarily operated on a bilateral basis between Japan and the affected countries i.e. the Japanese contribution is not part of a multilateral fund.

The biggest is the "new initiative to overcome the Asian currency crisis", the so-called New Miyazawa Initiative. Announced in October 1998, it consists of a package of measures totaling US$30 billion, of which US$15 billion will be made available for the medium-to-long term financial needs for economic recovery in Asian countries, and another US$15 billion that will be set aside for the possible short-term capital needs of affected Asian countries during the process of implementing economic reform.

The goals of the medium to long-term facility are to help corporate debt restructuring, employment stability, address the credit crunch and the creation of a social safety net. The financial assistance will be in the form of direct official financial assistance, such as through Official

14 As the working capital of the IMF would be quite depleted after bailouts in Korea, Indonesia and Thailand, the IMF needed to borrow afresh from the other member countries, including Japan, to help out in Brazil. I was told by a Japanèse academic that Sakakibara met with Summers, over the IMF rescue of Brazil. Sakakibara said he had no objection provided the US did not object to the Miyazawa Initiative. I have not been able to confirm this.

Development Assistance (ODA) loans from the former OECF and OOF loan from former J-EXIM,[15] now Japanese Bank for International Construction, and ODA loans. Both banks will also acquire sovereign bonds. A second measure places great emphasis on the market, such as involving the mobilization of funds from international markets for which the EXIM bank will give credit guarantee for bank loans and sovereign bonds. In addition, Japan will give export insurance guarantee, and technical assistance, particularly in the development of human resources.

The short-term facility is principally for trade finance and swap arrangement for affected countries.

The other assistance plan is the "special *yen* loan facility as assistance for economic structural reforms of the Asian countries," sometimes called the Obuchi Plan, of a maximum of US$5 billion. This was announced by the then prime minister of Japan, Keizo Obuchi, at the ASEAN and Three Summit meeting in December 1998 in Hanoi. The purpose of the assistance is for infrastructure developments that will contribute to the rehabilitation of affected Asian countries. There will be an interest rate of one percent, and a repayment period of forty years. The money will be primarily directed to Japanese ventures in the affected Asian countries.

Utilization of Aid

Much of the money from the new Miyazawa Initiative had been taken up, or allotted, if not actually used as yet. As of February 2, 2000, US$21 billion of the initiative had been indicated as seen in Table 1. In this table the four Southeast Asian countries, Thailand, Malaysia, Indonesia and the Philippines received the most from the US$21 billion indicated, a total of US$12.65 billion. Malaysia took the most, US$4.35 billion. This represents slightly more than one-third of the US$12.65 billion. This is not surprising as Malaysia did not choose to ask the IMF for help, unlike Thailand and Indonesia. One reason why Malaysia could resist calling the IMF in is because it did not nearly have the kind of

15 The J-EXIM bank and the OECF (Overseas Economic Cooperation Fund) are now merged as JBIC, Japan Bank for International Construction. "OOF" stands for "other official flows".

foreign-indebtedness of Thailand and Indonesia. The other reason is this reliance on Japanese money. Also of interest is that more than half so far of this Japanese money (U.S. 2.5 billion out of US$4.35 billion) is for short-term use, like for trade financing and swap arrangements. One reason for this is that Malaysia was fearful that there might be a huge outflow of capital after September 1999, when the capital controls imposed in September 1998 would be modified. To ensure that such outflow would not have too great an impact on the Malaysian currency situation, Malaysia decided on the swap arrangement with Japan. None of the three other Southeast Asian countries received short-term financial support in this table, suggesting as in the case of Indonesia and Thailand, such short-term needs could have be taken care of by IMF money.

The money for Indonesia has some emphasis on social and health aspects, suggesting that the Indonesian population was badly hit on this front, while this was not much in evidence in the Malaysian case, where money went to aid and to guarantee primary infrastructure, development, trade and export.

Impact of Japanese Assistance

One need not state the obvious and say that Japanese assistance is not without benefit to Japan. Japanese officials readily admit that much of the aid is tied to projects to stimulate demand for Japanese goods and services and to boost the role of the *yen* (*Far Eastern Economic Review,* 1998 and 1999). The Obuchi Plan, for example, of US$5 billion is meant primarily for Japanese enterprises in Asia. In justification, the Japanese will argue that as Japanese enterprises are already integrated in many of the Southeast Asian economies aiding them would also benefit the Southeast Asian economies. Moreover, it may also be time to have the *yen* play a bigger role in Southeast Asia considering that the peg to the American dollar in many Southeast Asian countries was contributory to the crisis.

As to the Japanese economic impact, there can be no question of the tremendous importance of Japan to the Southeast Asian economies. In 1996, the year before the crisis, Japan had invested US$5.6 billion in

Thailand, Philippines, Indonesia and Malaysia,[16] a sum which represented about a third of all foreign direct investments there. (*Asiaweek*, 1998: 66) It was also estimated that in the past ten years before 1998, Japanese investment equaled at least 6.9% of the Gross Domestic Product in Thailand, Hong Kong, Indonesia, Malaysia and Singapore. As to companies, Asian subsidiaries of Japanese manufacturers account for 5% of the region's total GNP and double that if the investments of Japanese trading grants are taken into account (*Asiaweek*, 1998: 66). In Malaysia, the operations of the company Matsushita alone came to about 5% of Malaysia's GNP (*Economist*, 1997). This, of course, begs the question of whether this shows Southeast Asian economic dependence on Japan or whether Japan gains more than Southeast Asia from its economic involvement.[17] Still it has to be said that at a time of such dire crisis for Southeast Asian economies any boost to their economies cannot be unwelcome, especially in important sectors influenced by Japanese investment.

Regarding the role of the *yen*, Southeast Asians increasingly welcome a bigger role for it, especially when the crisis had revealed the perils of over dependence on the US dollar. Important Southeast Asian officials such as a former Malaysian Central Bank director and a top Thai government official go so far as to urge that the *yen* be a common currency in the region (*Star*, 1999 and *New Straits Times*, 2000). Compare this to the rejection of a *yen* zone in Southeast Asia by the then Singapore Prime Minister Lee Kuan Yew in the late 1980s. The Japanese, on their part, are also keen for the *yen* to play a bigger role as it will not only help stabilize the currency situation in Southeast Asia, and the rest of Asia, but also boost the prestige of Japan and prevent the *yen* from being marginalized as a result of the recent launching of the Euro.

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16 Figures from Japanese Ministry of Finance.

17 Not all in Southeast Asia are sanguine, however, about Japanese economic involvement. The former deputy prime minister of Malaysia, Anwar Ibrahim once warned against over dependence on Japan (International Herald Tribune, 1991).

It is likely that there will be some increase in the role of the *yen* with the Miyazawa and Obuchi initiatives. But how far that role will be will depend on the volume of trade denominated in *yen*, the depth of Tokyo capital markets and ultimately on the state of the Japanese economy.

Finally, the relatively huge amount of assistance promised is worth noting. While nobody will suggest that it is comparable to the Marshall Plan in Europe just after the War,[18] the fact a huge amount of the US$35 billion (Miyazawa and Obuchi initiations) is destined for Southeast Asia stands, as previously stated, in stark contrast to previous sums offered by Japan to Southeast Asia. In two high profile cases of the bilateral relationship in the past, when the two then prime ministers, Fukuda and Takeshita, visited ASEAN Summit meetings (Fukuda in Kuala Lumpur in 1977 and Takeshita in Manila in 1987), Fukuda offered US$1 billion for Asean industrialization projects, and Takeshita offered US$2 billion for Asean-Japanese joint ventures. Fukuda's aid then was a demonstration of Japanese support for Asean which had just then shown its solidarity after the Bali Summit of 1976. Takeshita's assistance was to help an ASEAN hit by recession as a result of the collapse of commodity prices. The two amounts were considered quite large then and over a ten year period, Takeshita's gift was twice what Fukuda offered. Now, some eleven years or so after Takeshita's visit to Manila, Japan has offered US$35 billion to the Southeast Asian countries and Korea, some seventeen times more then Takeshita's offer of aid. One can argue that the battered Southeast Asian economies are now much more in need of aid than in the previous two decades. One can also note that some of this aid is not solely a bilateral Japanese-Southeast Asian project. As the former finance minister of Thailand, Tarrin Nimmanhaeminda, pointed out, some of the Miyazawa money will be tied to World Bank and Asian Development Bank projects. For example, the first US$600 million for Thailand is being plugged straight into a World Bank loan (*Review*, 1998 and 1999). The important thing, however, is that an impressive amount of the aid will be bilateral, and that its impact will be great. Moreover, while some of the aid is channeled into multilateral projects, such channeling will be decided by Japan, and not by a multilateral fund that Japan is part of. All these suggest a willingness on the part of Japan to play a major role in

[18] For a possible Japanese Marshall Plan see (Lee, 1998, Review, 1998 and 1999).

Southeast Asia, particularly in the encouragement of regional initiatives that could complement international financial institutions such as the World Bank and the IMF.

CONCLUSION

From what has been discussed, it can be seen that the interdependency of the economics of Japan and Southeast Asia is such that an economically devastated Southeast Asia is bound to have some impact on the Japanese economy, particularly one that is stagnant. This, together with the image of Japan as an exemplar to Southeast Asian nations, and Japan's economic capacity, ensure that Japan will offer help to Southeast Asian countries affected by the Asian crisis. However, the manner in which the aid was given, was influenced by the Japanese perception of the origins of the crisis and of the consequences of the role the IMF played in alleviating the crisis. As of the beginning of the year 2000, a substantial portion of the aid has already been utilized. The aid itself, even if it has helped the affected Southeast Asian countries, is not without some benefit to Japanese companies operating in Southeast Asia. Finally, the aid is likely to increase the role of the *yen* in Southeast and East Asia, though the extent of that role will ultimately be dependent on the volume of trade denominated in *yen*, the depth of Tokyo capital markets, and the state of the Japanese economy.

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Table 1: New Miyazawa Initiative (financial support already indicated)
(In millions of US dollars [equivalent *yen*])

As of February 2, 2000

	Medium to long-term Financial Support		Short-term Financial Support	Total	Notes
	IBIC (OOF account)	JBIC (ODA account)			
Indonesia	- Parallel loan with IMF/Extended Fund Facility approx. 1,000 - Power Sector Restructuring Program Loan (ADB) approx. 400 - Policy Reform Support Loan II (IBRD) approx. 100	- Social Safety Net Loan approx. 380 - Health & Nutrition Sector Development Program Loan (ADB) approx. 300 - Social Safety Net Adjustment Loan (IBRD) approx. 600 - Community & Local Government Support Sector Development Program Loan (ADB) approx. 150		2,930	
Korea	- United Loan approx. 2,350 - Two-Step-Loan to the Korean Development Bank < 1,000		- Short-term Financing Facility up to 5,000	8,350	

(cont.)

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Table 1: (cont.)

Malaysia	- Two-Step-Loan for Export Industry Support approx. 500 - Two-Step-Loan to the Development Infrastructure Bank of Malaysia approx. 400	- ODA *yen* Loan (and Projects) approx. 950	- Short-term Financing Facility up to 2,500	4,350	- JBIC GUARANTEES FOR THE infrastructure Projects of Physical Distribution approx. 700 - Trade Insurance Facility approx. 560
Philippines	- Power Sector Restructuring Program Loan (ADB) approx. 300 - Banking System Reform Project Loan (IBRD) approx. 300 Two-Step-Loan for the Private Sector Development through the Development Bank of Philippines approx. 500	- Metro Manila Air Quality Improvement Sector Development Program Loan (ADB) approx. 300 - ODA *yen* Loan (13 Projects) approx. 1,100		2,500	- JBIC Guarantees for the Public Sector Entries in the Power Sector approx. 500.

(cont.)

Table 1: (cont.)

Thailand	- Economic and Financial Adjustment Loan (IBRD) up to 600 - Two-Step-Loan for Manufacturing Sector Support approx. 750	- Economic Recovery and Social Sector Program Loan approx. 250 - Agricultural Sector Program Loan (ADB) approx. 300 - ODA *yen* Loan (5 Projects) approx. 970		2,870	- Trade Insurance Facility approx. 500
Total	8,200	5,300			
		13,500	7,500	21,000	2,260

Source: Ministry of Finance, Japan.