

V. International Monetary Study II for  
KUINEP

*The Recovery of East Asian economies and  
the role of Japan*

*for the sustained growth of the region*

April-July 2004

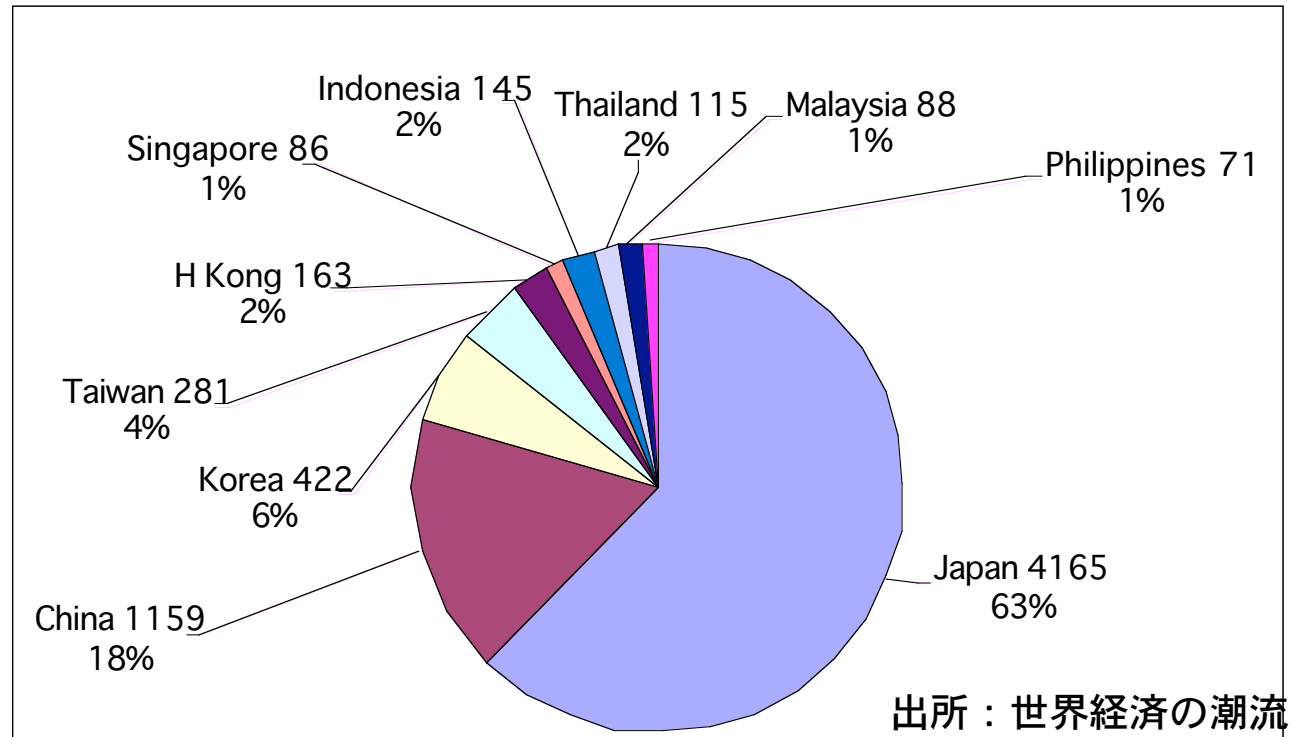
# 1. Arguments about the “East Asian Miracle”

## 「東アジアの奇跡」をめぐる議論

### (1) What is “East Asia?” 東アジアとは？

- Northeast Asia + Southeast Asia = Countries east of Malay Peninsula
- ASEAN+3 (Japan, China, Korea)
- After the Asian crisis, a regional identity as “East Asia” was born and established. (cf. Greater East Asian Co-prosperity Sphere) 東アジアとしての地域連帯感の芽生えと定着
- In the class, Japan, of course a member of East Asia, is often treated separately from other East Asian countries because of its overwhelming GDP share and the yen’s status as a major international currency.

## East Asian 10 countries' GDP (2001: US\$ bio)



(2) Does the Asian crisis mean the failure of the “Asian model”? アジア危機は「東アジアモデル」の失敗か？

Criticism 1: Nihon Keizai Shinbun dated 21. Jun. 1998 declared the economic model of the “East Asian miracle,” where the government plays a large role, is a failure.

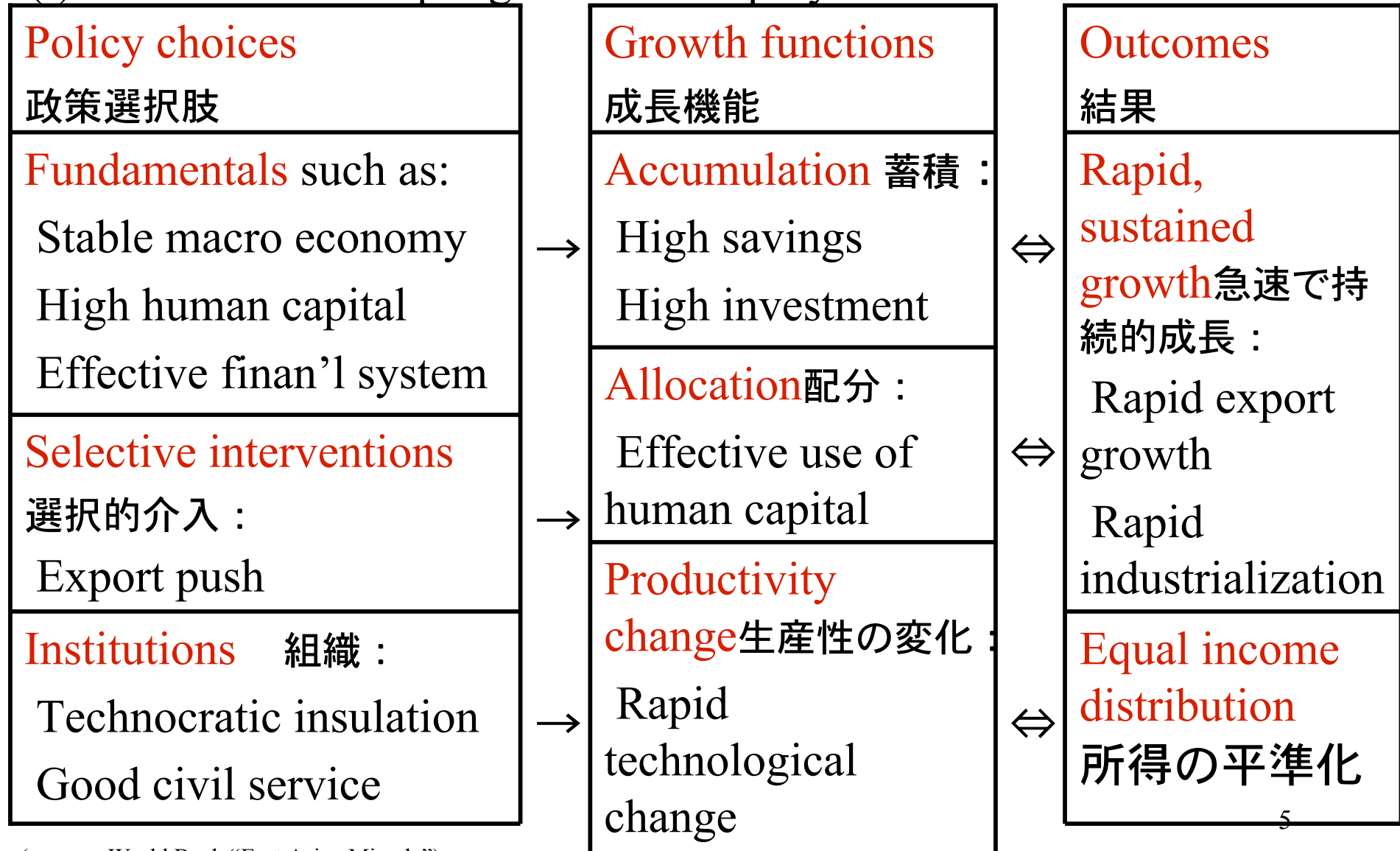
Criticism 2: “The Myth of Asian Miracle,” 1994, by Paul Krugman states “The economic success...has been due to the rapid mobilization of capital and labor...The failure...to raise their level of productivity significantly means that their economic success is a one-time event (like the Soviet Union).”

*Note: Economic growth ← labor + capital + TFP*

**経済成長 ← 労働投入 + 資本投入 + 全要素生産性**

### (3) “The East Asian Miracle-Economic Growth and Public Policy” by the World Bank, 1993

(i) Framework for rapid growth and equity 成長のための機能的アプローチ



(source : World Bank “East Asian Miracle”)

## (ii) High economic growth and equitable income distribution

	Thailand				Indonesia				Korea			
	80s	90-96	98	2001	80s	90-96	98	2001	80s	90-96	98	2001
GDP%	7.2	7.3	-10	1.8	5.7	7.1	-13	3.3	8	7.4	-6.7	3.0
<p style="text-align: center;">Per head Income (US\$) 1970→ 1996→ 1998</p> <p style="text-align: center;">175→3018→1829                      77→1140→467                      272→10548→6829</p>												
<p style="text-align: center;">Income of richest population 20% ÷ poorest population 20%</p> <p style="text-align: center;">8.9 (1975)                      7.4 (1976)                      4.3 (n.a.)</p>												
Jobless %	2.7	2.7	4.4	3.3	2.4	3.2	5.5	8.1	3.8	2.4	6.8	3.7
CPI%	5.7	5.2	8.1	1.6	9.6	8.3	58.4	11.5	8.1	5.5	7.5	4.1
Invest rate	29.4	41.6	na	24.0	28.2	33.2	na	17.0	30.1	37	na	26.7
Save rate	25.1	33.8	na	na	26.4	30.2	na	na	28.2	35.1	na	na
Current a/c deficit	-3.9	-6.3	12.8	5.4	-2.4	-2.5	4.3	4.5	0.5	-1.8	12.7	2.0

(出所: 経済企画庁 「アジア経済1998」 など)

(iii) Adaptability to changing world and E.A. success story

(a) The World Bank concluded: East Asian nations were involved “in a continuing process of reform, adapting policy instruments and institutions---willingness to experiment and adapt policies to changing circumstances is a key element in economic success.”

変化への適応力が成功の秘密、だがその成功体験が裏目に。

(b) Alas, the success story made East Asian nations blind to dramatic changes during 90s in the world!

90年代の環境変化

- Increase of international capital movement
- IT revolution and its implication
- Surge of Chinese economy and its threat to ASEAN
- Turn of the yen appreciation to depreciation

## 2. Economic Ties of East Asia with Japan

### 東アジア経済と日本

(1) Dual driving forces for growth-**investment and export**

投資と輸出が経済成長の原動力

- International background:

- (a) Multilateral free trade framework of GATT

- (b) Availability of private capital through FDI (no restraint of capital shortage, but with risks!)

© Appreciation of the yen after the Plaza Accord of Sep.

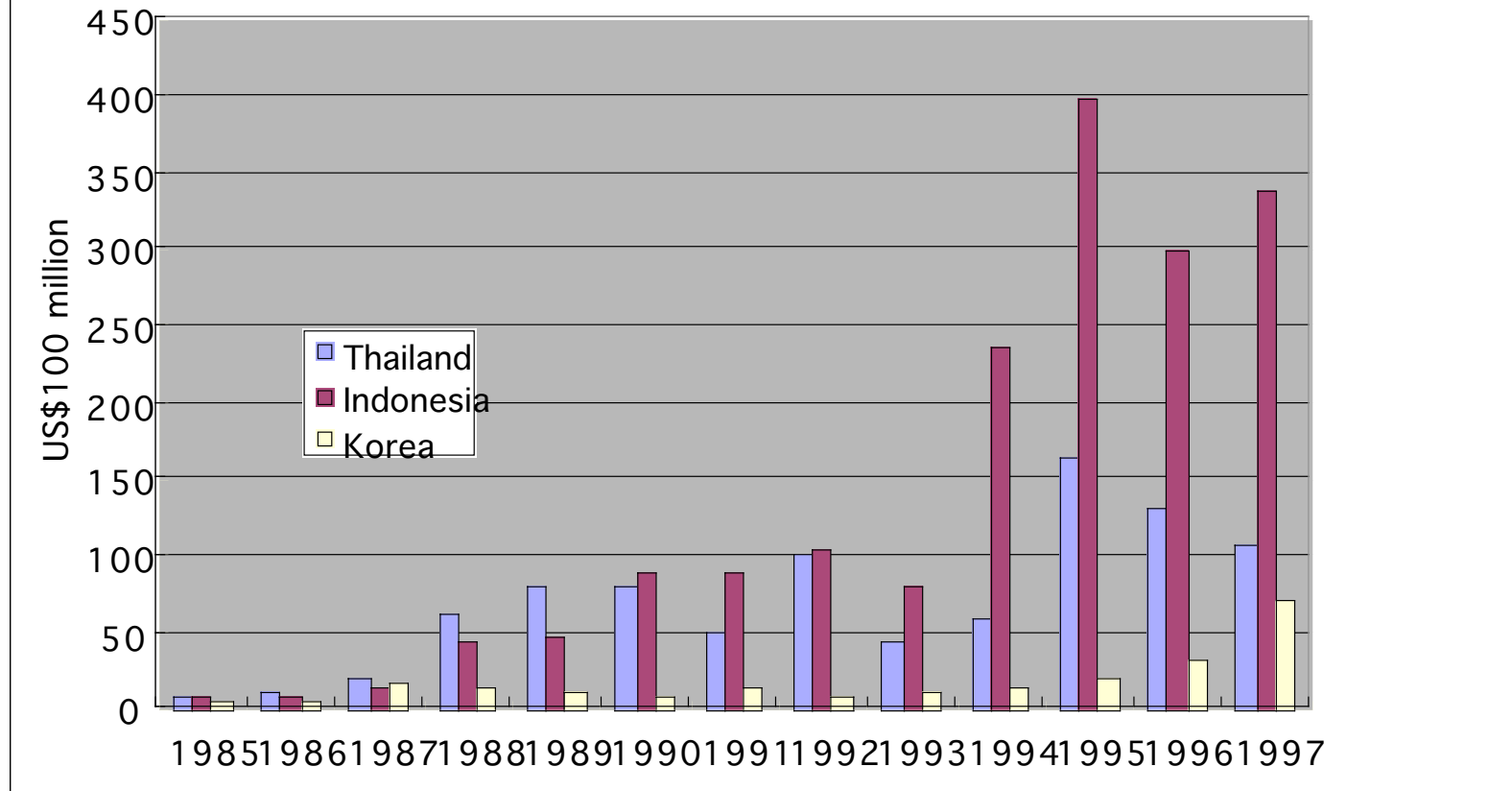
1985 and relocation of the Japanese manufacturing base

Feb.1985 US\$1=\263→Aug.1986 \153→Apr.1995 \80

(**the theory of flying geese economic development** 雁行形態的経済発展論)



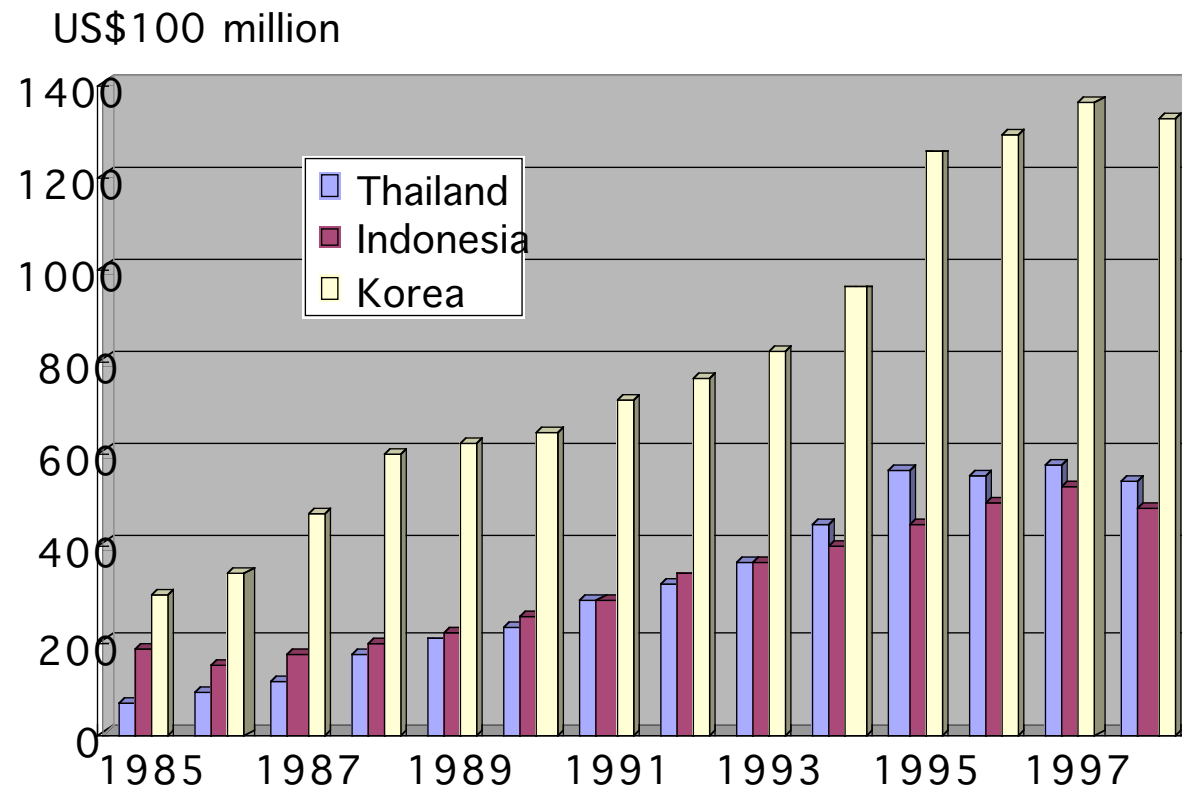
## FDI to Three Crisis Hit Countries



(note) FDI in 2001 on permission basis: China US\$69.2 billion (+10.9%), Korea 11.9(-24.4%), Thailand 4.7(-11.1%), Indonesia 9.0(-41.4%)

(出所: 経済企画庁「アジア経済1998」など)

# Export (fob) of 3 Crisis Hit Countries



(出所: 経済企画庁「アジア経済1998」など)

Thailand: active use of **FDI** to promote export industries

- Main export items changed from agricultural goods to electric appliances, office machines etc. 外資活用

Indonesia: active use of **FDI**

- Light industry for export grew and share of crude oil and natural gas dropped. 外資活用

Korea: mobilization of **domestic capital and technology import** (similar to Japan's postwar development model)

- Export structure similar to that of Japan (big impact of the yen exchange rate fluctuation) 国内資本動員・技術導入

## (2) Japan's close ties with East Asian economies

### 日本と東アジアの緊密な関係

#### (i) Trade 貿易

- East Asia's largest export partner: US (2<sup>nd</sup> Japan)
- East Asia's largest import partner: Japan (2<sup>nd</sup> US)
- Increasing share of intra-regional trade (ca. 30%)

#### East Asia's Trade with Industrialized Regions

(composition %)

	主要輸出相手先 Export to			主要輸入相手先 Import from		
	日本 Japan	米国 US	ユーロ地 域 Euro area	日本 Japan	米国 US	ユーロ地 域 Euro area
1985-87	22	42	14	35	20	13
1995-98	20	34	17	31	23	15

(source : IMF "Direction of Trade Statistics")

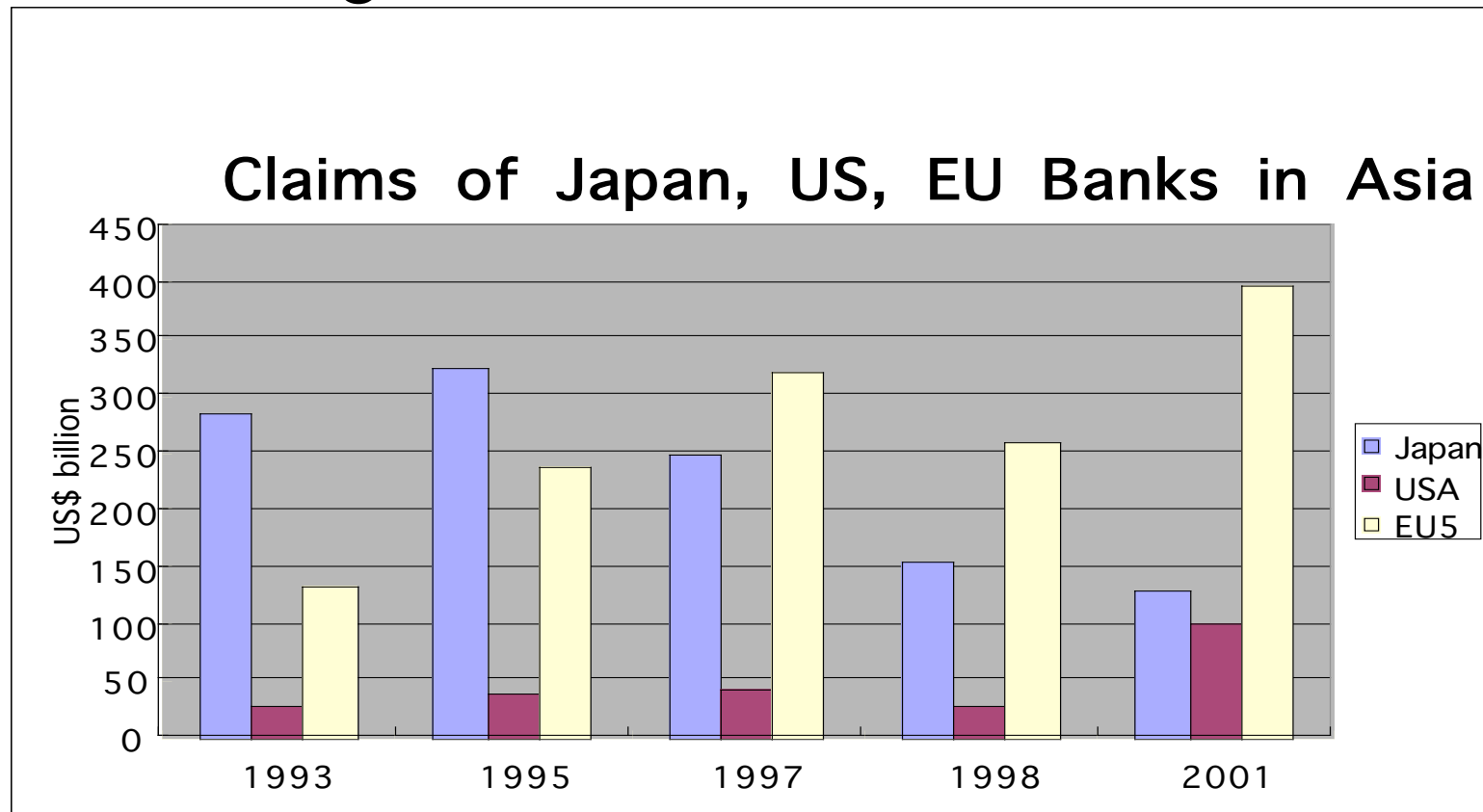
(ii) FDI 直接投資 classified by investing/recipient countries

Host countries 投資受入国		Annual investment 年投資額 US\$100 million	Investing countries 投資国 %				
			Intra-Region NIES中心	域外の投資国	Outside region		
					Japan	US	EU
NIES (HK, Korea, Taiwan, Spore)	85-89	33億ドル	7%	93%	38%	26%	16%
	95-97	116	12	88	21	34	21
ASEAN 4 (Thai, Philips, Malaysia, Indonesia)	85-89	84	21	79	25	23	15
	95-97	437	24	76	18	7	21
China	85-89	33	50	50	9	7	3
	95-97	415	68	32	9	8	7
East Asian 9 東アジア9カ国	85-89	149	24	76	24	20	13
	95-97	968	42	58	14	11	15

(source : IMF “IFS” , OECD “International Direct Investment Statistics Yearbook”)

### (iii) Financial transactions 金融取引

- Japanese banks lost its dominant share due to NPL problems and poor economic performance at home.
- US banks keep traditionally small credit volumes to achieve high returns on assets.



(source : BIS)

- (iv) Government assistance
- Japan is by far the largest ODA (政府開発援助) donor in East Asia. Major recipients are Indonesia, China, Philippines, Thailand and Malaysia (NIES are ODA graduates).
- Japan's financial support during the Asian crisis: IMF package \$19 billion, New Miyazawa Initiative \$30 billion (short-term and long-term loans新宮澤構想)  
(note: US did not disburse a cent of its \$8 billion commitment in the IMF financial package.)

### 3. For the Sustained Growth of EA Economies: the Role of Japan 東アジアの繁栄と日本の役割

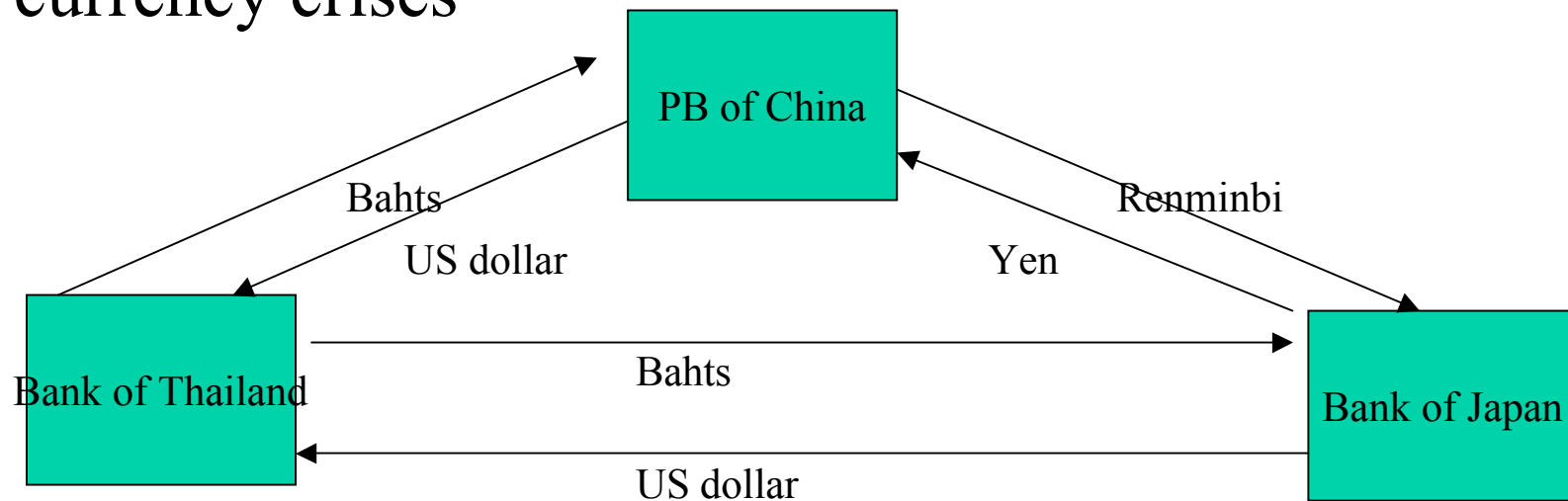
- East Asian economies and Japan are deeply interdependent, and industries mostly in complementary, not competitive relations. 日本と東アジア経済は補完関係 (cf. Most ASEAN industries are competing with Chinese, but complementary with Japanese industries.)
- Historical importance of “regional identity” as East Asia, and establishment ASEAN+3 (Japan, China, Korea) 地域としての連帯感
- Regional cooperation in (a) trade and investment (real economy) and (b) money and finance 実体経済と金融・通貨における域内協力



(1) Prevention and resolution of monetary crisis

通貨危機の予防と解決

- Sep. 1997 Japan's proposal of **AMF (Asian Monetary Fund アジア通貨基金)** failed, due to opposition by US, IMF and China.
- May 2000 ASEAN+3 agreed to **“Chiang Mai Initiative”** **チェンマイ・イニシアティブ**: a network of bilateral currency swap agreements to prevent future currency crises



(2) The importance of **stable yen** exchange rate 円相場の安定の重要性

- **Yen's excessive depreciation:** 円相場の過度の下落
  - (a) Competing export products of NIES (especially Korea) become less competitive in the world market.
  - (b) Import prices of Japan rises, curtailing demands for goods from EA economies.
- **Yen's excessive appreciation:** 円相場の過度の上昇
  - (a) Japan's GDP slows, curtailing demands for goods from EA economies

*Question of price effect and income effect*

**価格効果と所得効果**

- (b) The cost of debt services for yen loans rises.

### (3) The recovery of Japanese economy 日本経済の回復

- Japan's GDP share of 63% in East Asia →

(a) importance as a market next to the US

(b) prerequisite for Japan's political leadership

Correlation of EA economies' GDP and Japan, US GDP (1987-98)

日米のGDPと東アジア諸国のGDPの相関関係

	Japan	USA		Japan	USA
China	-0.317	0.154	Indonesia	0.669	-0.358
Korea	0.791	-0.322	Thailand	0.766	-0.314
Taiwan	0.443	-0.07	Malaysia	0.643	-0.263
Hong Kong	0.551	-0.115	Philippines	0.556	0.518
Singapore	0.621	-0.035			