

Introduction

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INTRODUCTION

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Objectives of Symposium

We organized this symposium in order to celebrate the merger of IDE and JETRO. The main theme of the symposium is the Asian economic crisis. The Asian crisis started with the baht crisis in Thailand in July 1997, quickly infected ASEAN neighbors and other East Asian economies, and soon become the region-wide economic crisis, including China and Japan. One year and four months have already passed but we have not seen an omen of recovery yet.

East Asia has been a major repertory of both IDE and JETRO and they both have tackled the job of monitoring and analyzing the contagion of the crisis since its beginning. Last February IDE and JETRO jointly organized the first symposium on the Asian economic crisis and published its proceedings.

In this symposium we focused on two questions: "How far has the Asian economic crisis proceeded? Do we see an omen of recovery" and "Is there any room for concerted efforts and cooperation to supplement individual governments' efforts in order to get over the crisis as soon as possible?" We have organized a small study team of both IDE and JETRO researchers and produced a background report entitled "Asian Economies in Crisis and Economic Cooperation", which is included in this volume as an appendix.

IDE-JETRO Report on Current Asian Economies

We sent a questionnaire on the current economies to the JETRO offices in East Asia. We also circulated the same questionnaire to the IDE experts on individual East Asian economies. The first part of our report summarizes the questionnaire survey of ten Asian economies and Australia. It also reports on the current situation of the automobile and electric and electronic industries of Asia in crisis provided by JETRO staffers. We believe these surveys show an advantage of the merger of IDE and JETRO, both equipped with their region-wide coverage.

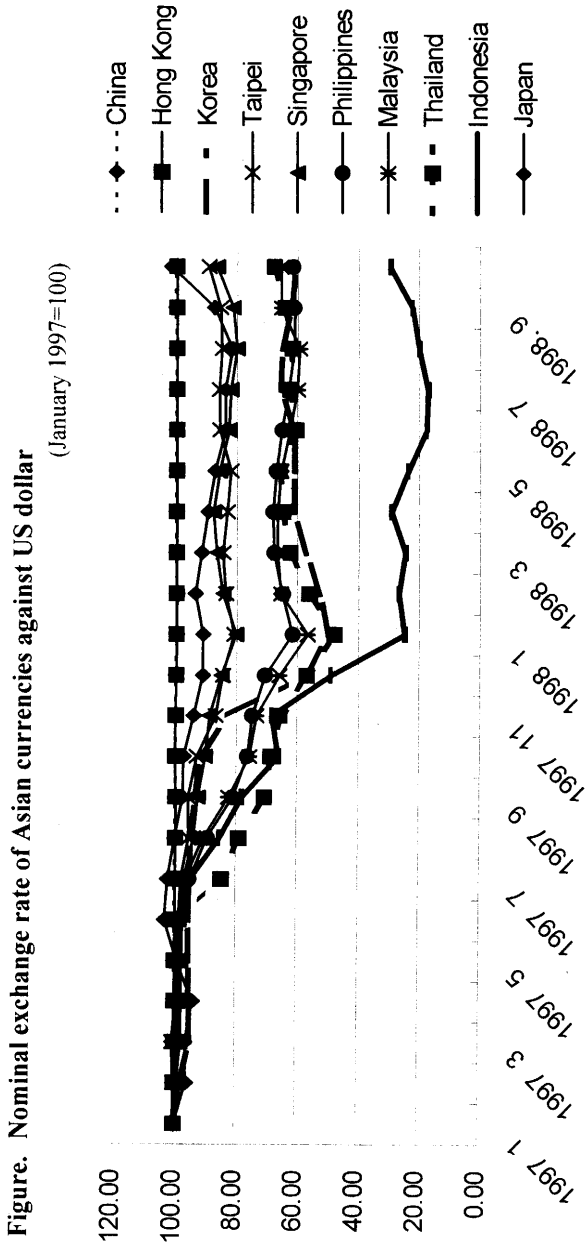
The second part of the report summarizes our survey of economic and technical cooperation projects on trade and investment promotion and industrial cooperation. Both are major areas of APEC's Ecotech, in which JETRO has contributed a few projects and IDE has been entrusted with one project. JETRO has conducted two dozen cooperation projects with similar objectives and modality outside the APEC framework. Our survey covers all these economic and technical cooperation projects both within and outside APEC. These Ecotech activities are seldom reviewed and analyzed and are not known to the public.

We hope our report provides you with background information for discussion in the symposium. During the four sessions of this symposium we plan to discuss the two questions mentioned earlier; "How far has the Asian economic crisis proceeded?" and "How can we help individual governments to get over the crisis with concerted efforts and cooperation?" Professor Estanislao will deliver the keynote speech on our issue today. Session Two will be devoted to currency and financial aspects, while Session Three will discuss the impacts on the real sector referring to the three most affected economies. In Session Four three panelists will review all discussions and conclude with some policy recommendations.

Asian Economies in Crisis

A year and four months have passed since the baht crisis hit Thailand last July. Competitive devaluation of other ASEAN currencies and the Korean won and Taiwan dollar against the US dollar followed for the next six months but have rebounded since their trough last January. Indonesian political disturbances in March to May and rapid depreciation of the yen in June and July tended to delay the recovery. But since August we have witnessed the convergence of Asian currencies. Exchange rates of the baht, ringgit, won, and peso seem to have been converging to a 35% depreciation from the pre-crisis level, and the Taiwan and Singapore dollar converging to 15% depreciation from the pre-crisis level. (see Figure) Except for a much-speculated devaluation of the Chinese RMB and another rapid depreciation of the yen, we may be over the currency crisis.

However, their real economies have continued to contract. Both production and employment have kept deteriorating. For the first half of this year, Indonesia, Thailand, Korea, Malaysia, and Hong Kong recorded minus growth, and the Philippines and Singapore have fallen to a 1% growth rate. As to the question "Has the economy hit the bottom of the recession?" all Asian economies reported that their economies had kept contracting and they had seen no omen of recovery yet. The three economies who requested IMF rescue suffered from severe contraction. All economies with depreciated currencies have suffered from the increased burden of debt



Source: IMF, *International Financial Statistics and Republic of China, Financial Statistics*

payments. In all Asian economies banks are heavily afflicted by bad loans and tend to collect them in order to improve their own capital asset ratios, which caused a serious credit crunch. All the above factors have tended to impede a quick recovery of domestic demand in the region.

Intra-regional trade and investment have also shrunk. Depreciated currencies tended to boost exports in the beginning but the region-wide depression tended to decrease their income and imports, thereby decreasing intra-regional exports. Direct investment by foreign firms has not ceased but has become bogged down due to the delayed recovery of the market.

When will the Asian economies recover? Indeed we have witnessed a few encouraging omens other than the convergence of currency depreciation, such as declining interest rates, stabilizing consumer prices, improved current account balances, and accumulated foreign exchange reserves. While many Asian governments reported minus growth for the second half of this year, they also publish their GDP forecast for next year which show small positive growth. Are these mere wishful forecasts?

Individual Governments' Efforts to Get Over the Crisis

Asian governments have worked hard to stop the contraction and to revitalize their real economies. Some economies have implemented fiscal expansion based on debt-financing but in vein due to the severe credit crunch. The recovery of domestic demand has been weak and slow. Only exports to outside the region are active and stimulate export-supporting sectors, possibly leading to the export-led recovery. Many governments also plan to attract foreign direct investment and to revitalize their domestic economies. Some have abolished regulations and restrictions on foreign investment temporarily. Foreign firms also see it as a good opportunity to invest in East Asia taking advantage of depreciated currencies and deregulation. Whether export-led or through foreign investment, Asian developing economies expect to be relieved from the trap by outside forces.

Concerted Efforts and Cooperation are Inevitable

Concerted policies and economic cooperation are needed to supplement their own efforts in order to get over the region-wide crisis. Neither ASEAN nor APEC has so far played a visible role in overcoming the crisis. But it is too early to conclude that they cannot be accounted for. That was the case among developed economies in the first oil crisis in 1973-74 and only in 1975 did they start summit meetings to discuss cooperation. It is time now for Asian economies to resume regional cooperation to get over the crisis.

Areas of cooperation should include currency and financial policies, macroeconomic policies, liberalization of trade and investment, and eco-

conomic and technical cooperation. The APEC framework with its divergent membership should be developed further, while both global and bilateral ODA relationships should be utilized in parallel.

Currency and Financial Cooperation

The stability of foreign exchange rates is indispensable for steady expansion of trade and investment. The convergence of foreign exchange rates is a favorable condition for it. Can we not arrange a multilateral currency alignment like the Plaza agreement in 1985 so as to avoid a devaluation of the RMB and to prevent another round of competitive devaluation? We have to resort to a basket peg system of the US dollar, Euro, and yen so that we do not repeat the exchange rate instability intrinsic to the single US dollar peg system and build-in an autonomous adjustment mechanism. A regional fund can be established to supplement the IMF and to provide a rescue net when a member economy is hit by an emergency liquidity crisis. We should examine the necessity of establishing a region-wide mechanism of keeping transparency in the face of massive speculative short term capital movements.

Strengthening financial systems and preventing a credit crunch are inevitable for the recovery of domestic economies. Financial technical cooperation should be provided through the Asian Development Bank and others so that new regulatory reforms can be effectively managed. We hope that APEC Finance Ministers will take the initiative in regional cooperation for currency and financial issues.

Macroeconomic Policy Coordination

Facing the immediate threat of global depression, both industrialized economies and Asian developing economies should enhance stimulus of domestic demand. Fiscal expansion needs to be combined effectively with the strengthening of the financial system in individual economies. The IMF should be more flexible regarding developing economies, considering the new type of currency crisis that has hit Asia. The United States and European Union should continue to decrease interest rates so that developing economies can ease their tight monetary policies. Japan should complete its strengthening of its financial system and implement sufficient fiscal stimulus to revitalize its economy as soon as possible. Such concerted efforts by all economies will interact and help prevent a global depression.

Promoting Trade and Investment

Continuous expansion of trade and investment is the prerequisite for re-

covery and continuous growth of the East Asian economies. Efforts for promoting trade and investment in the region started before the crisis. ASEAN members have implemented the AFTA program reducing tariffs to 0 -5% by 2003 and the AICO program for the freer flow of parts and materials since 1996. APEC for its part has started to implement its ambitious program of 'achieving free and open trade in the region by 2010-2020'. Both ASEAN and APEC should continue these efforts so as to improve steadily the environment for trade and investment. Developed economies should be encouraged to refrain from restricting imports of Asian products so that their market access are maintained.

Strengthening Economic and Technical Cooperation

APEC's Ecotech should be utilized more intensively. Over 400 projects have been implemented but many are engaged in information gathering, research, and publication. Projects for training, institutional reform, and marketing support (such as trade fairs) have a more direct and visible impact and should be encouraged. Both trade and investment promotion for the short term and industrial cooperation and human resource development for long term should be implemented in parallel.

APEC's Ecotech programs, although ideal in concept and consistent with equal partnership, have failed in constructing effective multiple member cooperation with sufficient funds and expertise. We do not have to be confined to the APEC programs but should utilize bilateral ODA programs with similar objectives (such as Japan-ASEAN economic and industrial cooperation programs).

So far our scenario for getting over the crisis is based on our report. Let us hope that strong initiatives on various areas of economic cooperation to enable us to get over the crisis will come from leaders and ministers at the APEC meeting in Malaysia next week.