

## CONCLUSIONS AND POLICY RECOMMENDATIONS

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The first point concerns how we look at the current state of Asian economies. As was mentioned by many participants, we see some brightness approaching. For instance, the competitive devaluation of Asian currencies against the dollar has stopped, and overshooting is being revised. And we also see the ending of inflation and the lowering of interest rates, and also increases in foreign reserves. So we have some brightness, but when it comes to real economy, the darkness remains.

Having said this, however, we have to indicate that the situation differs from country to country. In Thailand and Korea, as was mentioned today, increasing signs of brightness are observed. Although in the case of Indonesia difficult conditions persist. Moreover, opinions among governments and economists advising governments and private business continue to differ. But in any case, we observe that real economies are still contracting with production and employment deteriorating. This may attest to the fact that not only the real economic sector but the financial sector is still vulnerable, with the credit crunch still going on. So, although still in the process of contraction, we hope that the real economy will in due course start to pick up.

However, many factors are involved in this process and that is something we have to point out. It is not simply a drop in gross domestic demand that is the problem, and if gross domestic demand should recover through fiscal expansionary stimulus then everything will be resolved. It's not that simple. Because each country is faced with their unique set of restructuring requirements. The slow recovery of domestic demand is caused by the need for the restructuring process. Of course, restructuring would be a positive factor for economic growth over the long run, but over the short term, it slows down the recovery of domestic demand. Therefore, in the recovery process from now on, in terms of quantity, with the restoration of the financial sector and redressing of the credit crunch, the fiscal stimulus may help. But that would not suffice because restructuring is always needed. In this respect, China is no exception. Together with Asian countries and Japan, restructuring is needed in China, too.

In that sense, we could no longer describe the current crisis as a financial crisis. Against this background, we see the internal contradiction inherent in the Asian economies in the process of rapid growth. But, when such internal problems are redressed, then we will see the realization of the Asian miracles again. The growth rate may not be as rapid as the 8-9 percent of the past, because it may give rise to another set of distortions. Therefore we should be prudent and conscious of the situation. We will get out of the current predicament and will emerge with a strong force for pulling the economies forward. The East Asian economies have this kind of potential.

The second point: Every country is trying to revitalize its real economy and then recover domestic demand. But they cannot do it by themselves. So, many are looking toward exports and foreign direct investment. But it does not mean that Asian economies are only looking for outside help. Just as the report from Thailand and Korea indicated, each government is making strenuous efforts to expand domestic demand, and also, both private and public sectors. And there is a realization that foreign direct investment and exports alone cannot achieve this end.

Moreover, concerted policy and economic cooperation are needed, because it is a region-wide crisis. So far in the past, unfortunately, in the Asian region, there might not have been sufficient cooperation in this regard. Like Dr. Jomo, some expect little of APEC. It is quite shocking, I have to say. As Dr. Jomo will be making public relations announcements in a commercial for APEC, maybe he is playing the devil's advocate, to stimulate thinking.

But generally speaking, policy coordination and economic cooperation are all the more necessary when the economies are about to recover. And I think there is a consensus about this. But then we have to ask, what is the framework? Dr. Medhi said that ASEAN would not provide a sufficient framework. Then, again, I would look to APEC. Because there is a diversified membership in APEC and the impact of the current crisis is being experienced to differing degrees. Australia, we consider to be part of Asia, and along with Canada and New Zealand can help in our efforts. As can Europe, which is becoming more confident about its ability to make in-roads into Asia based on the Euro's credibility. So, in terms of cooperation and policy consultation, APEC, I think, should provide a more useful framework.

Mr. Yuzawa earlier mentioned that Japan is thinking of adding an additional 1 trillion yen in ODA. Yes, the same amount as the current level of ODA thereby doubling the amount. In 1992, an amount equivalent to ODA spending was provided to the United States, at the time of Gulf War, and there was hot debate at the time that it should have been spent on ODA. So, we must make the best use of such funds, if we

receive them.

The fourth point I would make, in order to revive trade and investment, is that financial and monetary cooperation is essential. I think there was a consensus about the need for currency and financial cooperation. But when it comes to the form and modality of such cooperation, there is still room for further discussion. Mr. Kunimune talked of three plans, Plans A, B, and C, so this discussion should ensue. Anyway, regardless, we should step up the currency and financial cooperation. Both Dr. Jomo and Dr. Djisman pointed to the fact that there was a weakness in APEC and that the Asian currency crises hit that weak spot in a sense. So, we should strengthen our guard and look at this aspect very carefully.

In the process of growth in Asia we strengthened our cooperation in trade and investment but more or less set currency and financial cooperation aside. It was left to the efforts of each individual country. So, cooperation beyond information exchange was not carried out and we have to realize that. This, in fact, is the main topic to be discussed at the Deputies Meeting of Finance Ministers of APEC scheduled to be held at the beginning of next week. The Manila framework issued last year was more or less ambiguous about this, but I think more will be elucidated. Furthermore, at the formal Summit of the APEC leaders this statement is going to be endorsed.

The fifth point I would stress is with regard to worldwide deflation. Here, not only the recovery of Asia is at stake but also the need to prevent global deflation. To this end, again, policy coordination is very strongly called for. In view of the grave situation we see at the moment it is imperative to try to forge an agreement so that every country gives stimulus to its economy. The conventional IMF-type discipline and conditionalities have been discussed but little support was voiced. Indeed, Thailand, Indonesia, Korea and China, are now willing to provide fiscal stimulus even at the risk of fiscal deficit. And, in the course of next year, another major stimulus package will be announced in Japan.

The sixth point refers to liberalization of trade and investment. Based on the discussion so far, there needs to be more discussion on the liberalization of FDI. As Mr. Yuzawa mentioned, better guidance should be given to attract more investment, or rather, foreign direct investment. In the past foreign direct investment has been restricted in various respects, so at the national level a greater effort to actively attract more foreign direct investment is needed. Here again, within the framework of the APEC discussion next week, much is expected in terms of the liberalization of investment flows.

Finally, I would like to focus on the question of economic cooperation. As I mentioned at the outset, the recovery process cannot be completed only in terms of quantitative increases in domestic demand but

should be accompanied by restructuring. In other words, to make the industrial structure more competitive in the future, and to that end economic and technical cooperation is needed.

One of the biggest advantages of APEC is that the ECOTECH is combined with various forms of cooperation. Of course, financial and currency cooperation can be provided within the framework of APEC substantiated by economic, technological cooperation. Dr. Estanislao this morning mentioned that the ADB is the best forum to provide that. So, the same applies to liberalization and facilitation of trade and investment; the ECOTECH can help. In the area of industrial cooperation and promotion, the ECOTECH again can play a significant role. Economic and technological cooperation as a project may not be conspicuous nor glaring, but over the long run it has a very big significance. In combination with other projects, it can generate very big synergistic effects.

The general observation may be that the darkness persists and the dawn is still a long way off. However if you look hard you can see a shaft of light coming up. Therefore our task at present is to prepare for the coming dawn. At least we are becoming more and more ready and prepared; at least, so far as our discussions are concerned. And what is needed now is the political will, as Dr. Jomo mentioned. So, we shall look to political leaders and governmental leaders to realize what we have discussed here through their political will. And in ten days time, a major initiative, I am sure, will be put out from Kuala Lumpur. I am fully confident of that.

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1. Competitive devaluation of Asian currencies seem to have stopped and since August we have witnessed the convergence of Asian currencies. The exchange rates of the baht, ringgit, won, and peso seem to be converging to a 35% depreciation from the pre-crisis level, while the Taiwan and Singapore dollar are converging to 15% depreciation from the pre-crisis level. We also witness a few more encouraging omens such as declining interest rates, stabilizing consumer prices, improved current account balances, and accumulated foreign exchange reserves. However, real economies have continued to contract, both production and employment have deteriorated, and intra-trade and investment have shrunk. In order to recover growth we will have to implement not only an expansion of aggregate demand but also strengthen the financial system, improve corporate governance, and restructure employment, which all require severe adjustment processes.
2. Asian governments have worked hard to stop the contraction of and to revitalize their real economies but the recovery of domestic demand has been weak and slow. Being unable to get over the crisis by themselves, they expect to be relieved from the trap through exports outside the region and foreign direct investment. Some economies have tackled large fiscal expansion and drastic restructuring.
3. Concerted policies and economic cooperation are needed to supplement individual country's efforts in order to get over the region-wide crisis. They should include currency and financial policies, macro-economic policies, liberalization of trade and investment, and economic and technical cooperation. The APEC framework with its divergent membership should be developed further, while global and bilateral ODA relationships should be utilized. It is time now for Asian economies to resume regional cooperation in order to get over the crisis.
4. 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. 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 to protect from an emergency liquidity crisis in a member economy. We should examine the necessity of establishing a region-wide mechanism for keeping transparency and putting into

order any massive speculative short term capital movement. Strengthening financial systems and preventing a credit crunch are inevitable for the recovery of domestic economies. Currency and financial cooperation are the top priority.

5. Both advanced economies and Asian developing economies should increase their stimulus of domestic demand in order to prevent global deflation. The IMF should make flexible its disciplines on developing economies. The United States and European Union should continue to decrease interest rates so that developing economies can relax their tight monetary policies. Japan should complete its strengthening of its financial system and implement sufficient stimulus so that it can revitalize its economy as soon as possible. These concerted efforts will interact with each other and prevent global depression.
6. Recovery through export-led growth may aggravate trade conflicts with export destinations. Both ASEAN and APEC should continue their current liberalization and facilitation programs so as to improve environments for trade and investment. Developed economies should be encouraged to refrain from restricting imports of Asian products so that market access is maintained.
7. 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, reforming institutions and standards, and marketing support should be encouraged. Both trade and investment promotion for direct impact and industrial cooperation and human resource development for the long term should be encouraged in parallel. Bilateral ODA programs should also be strengthened as well. They should include local small and medium firms in industrial supporting industries which Japanese ODA programs have long aimed at nurturing but which are currently suffer from the severe credit crunch.