

# **Regional Cooperation in East Asia**

## **-After the Asian Financial Crisis-**

**SHUN KURODA MAMI OHTANI TSUCHIYA TAKAHIRO TSUYOSHI YOKOKAWA**  
**SUBARU YAMAKAGE (Supervisor)**

## **The Asian Financial Crisis broke out**

In July 1997, the depression of the Thailand currency, Baht, became the catalyst of the Asian Financial Crisis, and soon affected the surrounding countries such as Korea and Indonesia. As a result, Asian economies, which had continued to grow rapidly, and was known as the “Asian Miracles,” soon lapsed into serious economy depression.

There are a few aspects for the Asian Currency Crisis. The first aspect is that this crisis resulted from the outflow the extensive and rapid short-term capital, the second one is that the currencies of the Asian countries are US-dollars-pegged, and the last one is that none of the countries had not established financial structures tough enough to endure through the crisis. One of the main causes for the Asian Currency Crisis is that, they kept their economies open to foreign capitals and liberalization, in spite of their weak financial structure. Furthermore, it became a direct factor that the payment pressure of a private external debt increased superfluously. In addition, there were a problem on economic structure, political instability, and mental factor, which have been pointed out to be different from a typical economic crisis.

In response to Thai's request at its currency crisis, Japan took an active initiative to support Thai's crisis management. Japan organized International Meeting for Supporting Thailand and drew a rescue package of 17,200 million dollars under the framework of IMF. After the success of a rescue package to Thailand, Japan proposed the Asian Monetary Fund (AMF) so as to prevent another possible financial crisis. However, Japan's proposal of AMF did not get through, due to negative responses from the United States and China. China did not want Japan to play a bigger role in Asia, and the United States was reluctant to lose her own dominance in Asia. Although the Asian Monetary Fund did not come true, the Manila Framework replaced the role of the AMF<sup>i</sup>. In addition, Japan had received high reputation from the surrounding Asian countries for bilateral financial supports of over 30 billion dollars through the New Miyazawa Plan.

Those countries damaged by the financial crisis overcame their difficulties through such rescue packages. Through such experience, they came to recognized importance of the economic interdependency<sup>ii</sup>. As a result, the ASEAN countries started constructing the specific form of cooperation. The Asian Currency Crisis showed that the support from other countries within the same region was necessary to damaged countries in order to recover from the crisis. Therefore, it can be said that, the Asian Currency Crisis showed that each Asian economies were interdependent, and it was very important that Asian countries had to cooperate together to avoid and to recover from the currency crisis.

## **Start of Regional Cooperation (ASEAN+3 and Chiang Mai Initiative)**

In order to cope with the Asian Financial Crisis, they organized the ASEAN+3 (Japan, China, Korea) informal summit meeting. At the informal summit meeting, they agreed on having ASEAN+3 summit meeting permanently from the Manila Round in November 1999, and also agreed on strengthening self-help and support mechanism in the East Asian Region. They also decided to install foreign minister and financial minister meetings in order to promote regional

cooperation.

In May 2000, at the 2<sup>nd</sup> round of ASEAN+3 finance minister meeting, they reached the agreement of Chiang Mai Initiative, which is to prevent recurrence of the financial crisis. Chiang Mai Initiative was aimed for expansion of the ASEAN Swap Arrangement among all the ASEAN countries and establishment of bilateral Swap Arrangement among ASEAN + 3 countries.

### **Chiang Mai Initiative**

There are three appraisals for the Chiang Mai Initiative. The first appraisal is that the Initiative was agreed for prevention of recurrence of the currency crisis. It also acknowledged Asian countries that they must cooperate against the currency crisis within the Asian region. The second one is that the Chiang Mai Initiative achieved almost all the goals of AMF proposal. Although Japan's AMF proposal was rejected, Asian countries did not give up creating monetary cooperation within the region, and Japan did not give up proposing regional cooperation by implementing Manila Framework and New Miyazawa Plan. These movements reached to the Chiang Mai Initiative, which gave a concrete shape to regional monetary cooperation in the East Asian Region, and showed the guideline for IMF's involvement in Asian region<sup>iii</sup>. The third one is that, the Initiative showed that the East Asian countries had taken the first step into the regional cooperation. The Manila Framework was nothing but one-way support plan from Japan to the damaged Asian countries. The New Miyazawa Plan was aimed only for the bilateral supplement, not aimed for regional cooperation. The Chiang Mai Initiative had achieved bilateral cooperation and aimed for the multilateral cooperation as well as regional cooperation.

After all, it can be said that, the Asian Financial Crisis brought out another forms of regional cooperation, such as ASEAN+3 and Chiang Mai Initiative. They progressed regional cooperation in Asia through creating new forms of regional cooperation.

### **Both Japan and China are tied with Asian economy**

In this presentation, we believe that it is the most important thing that, somehow, we have to prevent another financial crisis in Asia, in order to do so; we have to expand and deepen the regional cooperation in Asia. The Asian region is getting more important everyday for the world economy. Asian countries need to cooperate together in order to earn profits through world trades and investments, as well as to hedge the transmission of the financial crisis within the region. Asian countries need to recognize the importance of Asia and take a part of the responsibility for the world economy.

Moreover, national financial structure strongly influences the surrounding countries and the region. It is inevitable that market opening and liberalization will lead to expansion of the economy interdependency in Asia. If a country's financial structure is not stable, it damages the surrounding countries as well. Therefore, all of the Asian countries have to put in efforts for economic structural reform in national level. At the same time, those countries, which have the

know-how for the economic reform, have to cooperate and support other countries. Economic structural reform in national level is supplement to the regional cooperation. Therefore, each Asian country has to put in continuous efforts for national economic reform and on regional cooperation as well, such as ASEAN+3.

For both Japan and China, their economies and markets are tightly connected to the Asian economy.

In 1998, China had 71% of imports and 49% of exports with Asian countries<sup>iv</sup>. In 2002, after its accession to the WTO, China had 56% of imports and 48 % of exports with Asian countries. Even after China assessed to the WTO, China still holds the high ratio of trades with Asian countries. Therefore, it can be said that, China is interdependent with the Asian region.

### **Asian Economies and Regional Cooperation**

It is important, for both Japan and China, to analyze and to know how much the Asian countries have stabilized their financial structures in last five years since the financial crisis. Because one of the main causes for the financial crisis was “fragility of financial structures,” we are going to look into stabilization of national financial structure. We also need to look into how much the regional cooperation has deepened in Asia.

On stabilization of financial structure, each of the Asian country has improved in several issues, such as non-performing loans, foreign currency reserves, and short-term foreign debt. However, some countries have mostly completed stabilization, but some have not. For example, Korea has mostly completed reform and stabilization, but Indonesia just began to do the reform. Each country has to progress the reform and stabilization, at the same time, each country has to support each other within the Asian region. Moreover, there should be more direct investment within the region in order to prevent another crisis.

On the regional cooperation in Asia, Chiang Mai Initiative clearly showed that the regional financial cooperation has done the significant achievement. It also showed that the regional financial cooperation helped to stabilize the regional currency and financial markets. The regional cooperation can also support ASEAN countries by increasing support of Chiang Mai Agreement to strengthen their national financial structure.

Since Asian economies are interdependent, each country has to work on regional cooperation, such as ASEAN+3, in order to keep the Asian economy stable and strong. Regional cooperation has potentialities to become a tighter community, aiming for the East Asian Monetary Union. Japan, China, and Korea could play big roles in the financial community.

Of course, a financial community, such as the monetary union, is very difficult to achieve in Asia. In the example of EU, in order to create the monetary union, they needed to integrate not only the currency phase, but also the trade and financial phases. Moreover, because there are big difference in economy, politics, and religions in each of the Asian countries, it will be extremely hard to create the community.

## **What China has to do for regional cooperation**

Although there are lots of difficulties in the process towards the financial community in Asia, in recent years, China has been shifting away from cautious attitude toward positive attitude for the financial community. The researcher from the Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences, Mr. Tang commented on creating the “financial community” in the East Asia, “it is very important that Japan and China have mutual understandings and supports for each other. If Japan-Sino relationship remains good, they can possibly create a steady foundation of ‘East Asian Union’.” It is also said in the newspaper, *People’s Daily*, “China can earn profits by supporting the East Asian regional cooperation. China can also earn peace and prosperity in the region<sup>vi</sup>.”

We believe that, sooner or later, China will implement the radical structural reform in administrative, state factory, and financial system. In Asia, China holds enormous potentialities to influence the surrounding countries and whole Asia by its financial policies. China’s financial policies are very important and influential, because China possesses the issue of liberating the Chinese Yuan.

## **What Japan has to do for regional cooperation**

Then, what role will Japan have to play in the establishment of the financial system in Asia? Japan is capable of contributing to nurturing capital market. Japan has to continue its active engagement in bilateral currency Swap agreement through ASEAN+3, in order to stabilize regional financial situation in Asia. Both Japan and China need to try to put overseas investment into the Asian market rather than developed countries outside Asia.

## **The United Asia -Asia’s Japan and Asia’s China-**

Although there had been movements to establish a framework for regional cooperation in Asia before the financial crisis broke out, the crisis strongly promoted the need of regional cooperation. In September 1997, they organized the ASEAN+3 in order for consolation of recovering from the crisis. At the 2<sup>nd</sup> round of ASEAN+3 informal summit meeting in 1998, they had discussions on “Japan is going to bring out the mid and long term rescue package for recovering the damaged economies.” At the 3<sup>rd</sup> round of the informal summit meeting, they adopted the first joint statement “Joint Statement on East Asia Cooperation,” which clearly showed that Asian countries agreed on cooperation in various fields, such as financial area, political-security area, and social area. At the 4<sup>th</sup> round in 2000, they had discussions on “Asia Summit Meeting,” “Asia Free Trade Area.” After the financial crisis, there was born a trend of expanding and deepening regional cooperation in East Asia.

The development of Asian community as the whole is closely tied with the integration of regional economy and establishment of the East Asian Union. It is also believed to be beneficial to both Japan and China from the view of enlarging market. However, “the future of Asia is neither Japan’s Asia nor China’s Asia. It is the united Asia, which includes Asia’s Japan and Asia’s China.

The Japan-Sino mutual understanding and cooperation will progress the expansion of the East Asian Union<sup>vii.</sup>"

We believe that, as one of the greatest intellectuals from the Meiji Period, Okamura Tenshin said in his writing, *The Ideals of East*, "Asia has to unite as one, on the basis of existing conditions."

---

<sup>i</sup> Kojima, Tomoyuki, "Asia Takokukan Kyouchou Wakugumi Keisei de Nihon wa Sekkyokuteki Kouken wo" *Sekaishuho*, (2001 March) pp. 15.

<sup>ii</sup> Obara, Masahiro, "ASEAN+3 no Wakugumi, Hirakareta Chiiki Kyoryoku no tameni Nihon ga Dekiru Koto towa" *Gaiko Forum*, (2001 March) pp. 77.

<sup>iii</sup> Asami, Masahiro, "Chiang Mai Initiative no Ato ni Kuru Mono" *KokusaiKinyu*, (2001 August) pp. 18.

<sup>iv</sup> China's import within the region in 1998: 26% from Japan, 15% from Taiwan, 4% from Singapore, 6% from Hong Kong, 14% from Korea, 6% from the other Asian countries. China's export within the region in 1998: 21% to Hong Kong, 16% to Japan, 2% to Singapore, 3% to Korea, 2% to Taiwan, 5% to other Asian countries. ( JETRO, 2003 *Chugoku Taigai Boueki Toukei 2002* JETRO ).

<sup>v</sup> Tang Shiping, "shenshi Zhongguo de anquan huanjing" *Zhongguo Anquan sSibao* ( 2001 May ) .

<sup>vi</sup> "hudongzhong de Zhongguoxing shijie jingji" *People's Daily* ( 2002 March ) .

<sup>vii</sup> Zhang Yijun, "dongya lianhe bushi Zhongri zhengduo" *People's Daily* ( 2002 April ) .