ECLAC, IDE, and IE/UFRJ
Asia-Latin America Cooperation (ALAC) Seminar
Promoting Growth and Welfare:
The Role of Institutions and Structural Changes in Asia
April 29-30 in Santiago and May 2-3 in Rio de Janeiro

Economic development and Structural Changes in East Asia: Overview
By Ippei Yamazawa, Institute of Developing Economies, Japan

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC), Institute of Developing Economies/ Japan External Trade Organization (IDE/JETRO), and the Instituto de Economia/ Universidade Federal do Rio de Janeiro (IE/UFRJ) jointly organize two international seminars, one in Santiago on April 29-30 and another in Rio de Janeiro on May 2-3, on “Promoting Growth and Welfare: The Role of Institutions and Structural Changes in Asia”. The ALAC seminar is organized to focus on recent and prospective Asian development experiences and draw lessons for Latin America. Ten Asian economists are invited to present their analyses and views on respectively assigned topics and Latin American economists comment on them so that relevant lessons are derived from intensive discussion at the seminars. This paper aims to overview the current state of East Asian economies and their future prospect and introduce participants to the individual topics to be elaborated by other nine papers.

1. East Asian Economic Development: An Overview

Let me start with a quick overview of East Asia. I include Japan, South Korea, China, Hong Kong, Taiwan, and ASEAN ten members. Hong Kong belongs to China but is an separate administrative area. East Asia is a big region with a unique characteristics. It stretches from 50 degree north to 15 degree south of latitude and from 90 degree to 150 degree of east longitude. Its total population is 1980 million, 713 million excluding China. A majority of them have more than middle sized population of 40 million. Its total gross domestic products is 7,347 billion US dollars (in 2000). They

The different stage of development has mainly resulted from different timing of starting modern economic growth at the market economy. Japan started the MEG in 1985, while other East Asian economies started it after World War Two in successive order; Hong Kong, Korea, Taiwan, and Singapore, Newly Industrializing Economies (NIEs) started in the 1960s, then original ASEAN members (Thailand, Malaysia, Philippines, and Indonesia) followed in the 1970s, to be followed further by China in since early 1980s and CLMV in the 1990s when the last two groups adopted open economy policy and started transition process from centrally-planned economies to market economies. In a decade from 1987, East Asian economies responded
successfully to the globalization challenge and achieved a steady high growth both individually and as a whole region. Most of them achieved a rapid steady growth of 6-8 percent, except for Japan after 1992, China and Hong Kong during 1989-1992 and Philippines for 1990-94 because of political reasons for the last two. Their rapid growth was described as ‘East Asian miracle’ in the World Bank’s report (1993).

![Graph](image1.png)

The primary mechanism of their rapid development was a catching-up industrialization; introducing new products to domestic market through import, developing domestic production to substitute import, and exporting their products abroad (Yamazawa 1990 & 1992). This sequence of development was transmitted from early starters to next tiers, from Japan to NIEs, to original ASEAN members, China, and then to CLMV. The same sequence was witnessed from labor-intensive manufactures.
such as clothing, footwear, textiles, and household electronics to more capital and technology-intensive ones such as steel and machineries. As late comers catch up, early starters decrease their market shares and changed to reverse import. Fig. 3 shows China’s catching up with Japan in TV production. The vertical axis measures domestic production divided by consumption, which shows import when the ratio falls short of 1.0 and export when it exceeds 1.0. China has entered the export stage in 1989 and reached 1.3 in 2000, while Japan entered the reverse import stage in 1994 and decreased down to 0.26 in 2000. Table 1 gives the catching-up by seven East Asian economies in five products, clothing, textiles, household electronics, steel and automobile. It was measured in terms of their shares in world export market over the 1990s. The shares are affected by the size of individual economies but the table shows that China has already exceeded Japan, Korea, and Taiwan in the first three but not yet in the last two and that ASEAN members have increased their shares in the first four.

Fig.3  China Catching up with Japan in Color TV
<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Korea</th>
<th>Taiwan</th>
<th>Hong Kong</th>
<th>China</th>
<th>Thailand</th>
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<td>3.6</td>
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<td>10.4</td>
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<td><strong>Household Electronics 7757</strong></td>
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<td>-</td>
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<tr>
<td>1995</td>
<td>12.9</td>
<td>4</td>
<td>1.6</td>
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<td>1999</td>
<td>12.1</td>
<td>5.3</td>
<td>1.8</td>
<td>-</td>
<td>2.4</td>
<td>0.5</td>
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<td><strong>Automobile 78</strong></td>
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<td>1990</td>
<td>24.9</td>
<td>1</td>
<td>-</td>
<td>0</td>
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<td>-</td>
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<tr>
<td>1995</td>
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Sources: IDE/JETRO's AIDXT Data-base, UNPC/AS, Taiwan's Trade Statistics
Individual country's exprt divided by world total (84-98 countries). - denotes less than 0.1%

The successful industrial development of East Asian economies was attributed to many factors. The World Bank report (1993) listed such good fundamentals as high saving ratios, good work ethics, propensity for education, and cautious macro-economic policy management. It also mentioned their governments’ industrial policy which guided the catching-up industrialization and provided financial support to promising industries. Their potential advantage in those industries were apparent from their predecessors’ experiences and indeed was realized. In addition to these I stressed the geographical proximity as a factor contributing to their success as the whole region. They traded intensively with each other, thus enabling the provision of parts and materials for assemblers. Very high trade intensity was witnessed among East Asian economies in spite of the absence of formal regional integration except for ASEAN.

The catching-up was achieved by indigenous firms but it was helped by foreign direct investment (FDI) by preceding economies. Firms in early starting economies moved productive capacities to late-comers aiming to sell at domestic market under heavy protection, which promoted import substitution by the latter. The former firms
also invested in the latter to take advantage of its cheap labor and to export its products to a third market or even back to their own home market, which promoted export and reverse import. During a decade from 1987, Japan played a locomotive role through active FDI to its neighbor East Asian economies.

The East Asian economies suffered from the setback in the mid-1980s. Prices of petroleum and other primary products reached their peaks in 1980-82 after the second oil shock and declined sharply thereafter. Malaysia, Singapore, and Indonesia experienced a serious setback of their economic growth, even showing zero growth, as their export earnings decreased in 1984-86. However, they recovered strongly toward the late 1980s and continued rapid growth through the 1990s until 1997 (Fig 2 A & B above). Table 2 shows the macroeconomic performance of Japan for 1987-2000. The Japanese economy grew at around 3 per cent during the first half of 1980s but gained 4-6 per cent growth in 1987-91. This was proceeded by the accumulation of the twin deficits in the United States, aggravated trade conflicts between the United States and Japan, and the Plaza agreement on multiple currency alignment. The yen-dollar rate doubled from 265 to 138 yen per dollar in two years then leveled off. Japanese production at home quickly became less competitive on the world market and its exports decreased. The Japanese government boosted domestic demand through expansionary monetary and fiscal policies so that the 4-6 per cent growth of GDP was contributed wholly by domestic demand while foreign demand decreased and tended to offset the domestic demand. Imports increased and the current account surplus more than halved from the record-high 13 trillion yen (U.S.$ 94 billion) for 1987-90. Japanese manufacturing firms in automobiles and electronics relocated their production capacity abroad to North America, Western Europe, and East Asia. East Asia's exports to Japan doubled between 1986 and 1991 and its accumulated sum for the period amounted to U.S.$342 billion. East Asia also received Japanese FDI of U.S.$28 billion for 1986-90. Japan thus promoted the catching-up industrialization of East Asian neighbors and contributed to their rapid growth since 1987.
Table 2: MACRO-ECONOMIC PERFORMANCE OF JAPAN: 1987-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP Growth</th>
<th>Growth due to Domestic Demand</th>
<th>Growth due to Foreign Demand</th>
<th>Current Account Balance</th>
<th>Exchange Rates</th>
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<tr>
<td>1987</td>
<td>4.2%</td>
<td>4.9%</td>
<td>-0.7%</td>
<td>13,069 Billion</td>
<td>138.33</td>
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<tr>
<td>1988</td>
<td>6.2%</td>
<td>7.2%</td>
<td>-1%</td>
<td>10,720</td>
<td>128.27</td>
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<tr>
<td>1989</td>
<td>4.8%</td>
<td>5.5%</td>
<td>-0.7%</td>
<td>8,433</td>
<td>142.82</td>
</tr>
<tr>
<td>1990</td>
<td>5.1%</td>
<td>5.1%</td>
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<td>5,980</td>
<td>141.29</td>
</tr>
<tr>
<td>1991</td>
<td>3.8%</td>
<td>2.9%</td>
<td>0.9%</td>
<td>10,791</td>
<td>133.18</td>
</tr>
<tr>
<td>1992</td>
<td>1%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>14,761</td>
<td>124.8</td>
</tr>
<tr>
<td>1993</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>15,234</td>
<td>107.83</td>
</tr>
<tr>
<td>1994</td>
<td>0.6%</td>
<td>0.9%</td>
<td>-0.3%</td>
<td>13,964</td>
<td>99.39</td>
</tr>
<tr>
<td>1995</td>
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<td>-0.8%</td>
<td>11,112</td>
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<td>1996</td>
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<td>4.4%</td>
<td>-0.9%</td>
<td>8,135</td>
<td>112.65</td>
</tr>
<tr>
<td>1997</td>
<td>-0.4%</td>
<td>-1.8%</td>
<td>1.4%</td>
<td>13,362</td>
<td>122.71</td>
</tr>
<tr>
<td>1998</td>
<td>-2.6%</td>
<td>-3.4%</td>
<td>0.6%</td>
<td>17,683</td>
<td>129.8</td>
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<tr>
<td>1999</td>
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<td>0.9%</td>
<td>-0.1%</td>
<td>12,643</td>
<td>111.54</td>
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<tr>
<td>2000</td>
<td>1.5%</td>
<td>1.1%</td>
<td>0.4%</td>
<td>11,128</td>
<td>105.58</td>
</tr>
</tbody>
</table>

Sources: Bank of Japan
Notes: Contributions of domestic and foreign demands are calculated based on GDE statistics

2. Financial Crisis and Recovery Process

However, East Asian economies got stumbled at Asian financial crisis in 1997-98. A speculative run on Thai bath and its drastic depreciation quickly transmitted to its ASEAN neighbors and Korea. Figure 4 shows changes in the nominal exchange rates of East Asian currencies vis-a-vis the U.S. dollar since January 1997. They are indicated in an index form with the base year of January 1997. They are denominated in the U.S. dollar per individual currency units so that a downward movement indicates depreciation in the Asian currencies while an upward movement indicates their appreciation against the U.S. dollar.
Until July 1997 Asian currencies were pegged with the U.S. dollar and were stable. To be exact, the Asian economies determined their exchange rates with currency baskets composed of the U.S. dollar, the Japanese yen, the German mark, and other European currencies, but the weight of the U.S. dollar was so dominant that they were often regarded de facto as pegged to the U.S. dollar. The exchange rate indexes of Asian currencies were almost flat at 100 and stable until July 1997. There were only two exceptions. The Chinese renminbi was devalued by 33 per cent in January 1994, and the Japanese yen floated against the U.S. dollar all through the period.

However, price increases continued in those Asian economies that had stable exchange rates pegged to the U.S. dollar. Consumer prices in China, the Philippines,
Indonesia, Thailand, and Hong Kong (relative to that of the United States in the same index form as the nominal exchange rates) increased by 5 to 10 per cent for the first six months. Korean, Malaysian, and Chinese Taipei's prices were almost flat, while Singapore and Japanese prices decreased by 3 to 5 per cent for the same period. The currencies with increased relative prices were overvalued in real terms even though the nominal rates remained unchanged. Many Asian currencies became overvalued and tended to weaken the international competitiveness of their production. Nevertheless, trade and investment expanded steadily during this period, and nobody predicted a sudden stop in the high growth of East Asia.

But this high growth was interrupted abruptly. During the run on the baht on July 2, the Thai government abandoned its peg with the U.S. dollar and moved to a floating rate. The baht depreciated in the market by 14 per cent within a month and depreciated further by 33 per cent by November. A similar run took place on the Indonesian rupiah, Philippine peso, Malaysian ringgit, and Singapore dollar, and they depreciated by 27 per cent, 24 per cent, 26 per cent, and 10 per cent respectively by November. The Taiwan dollar and Korean won were also affected in October and November. In December and January another round of currency runs attacked the rupiah, baht, and won causing the rupiah to depreciate by 68 per cent, the baht by 56 per cent, the won by 42 per cent, the ringgit by 43 per cent, and the peso by 36 per cent in seven months. The devaluation of the Hong Kong dollar and renminbi was anticipated by the market following the other Asian currency depreciations in October and November, but both governments resolutely kept their exchange rates unchanged.

The Asian currency crisis passed its peak in January 1998 when all Asian currencies recorded their lowest levels and turned upward in February to April (Figure 1). The baht regained 16.6 per cent of its value, the won 10.6 per cent, and the ringgit 10.2 per cent. However, domestic political instability caused further depreciation of the Indonesian rupiah in May, which impeded the recovery of other Asian currencies thereafter.

The currency crisis disrupted their trade and investment and abruptly stopped the economic growth. Thailand, Indonesia, and Korea, which sought help from the IMF, had to resort to severe contractionary policies and have fallen into slow growth. Other economies in the region have responded to the currency crisis by constraining their
budgets, suspending development plans, and reducing their growth rates considerably. The East Asian miracle disappeared abruptly. China and Hong Kong maintained their exchange rates, but both suffered from the same severe impact of the currency crisis on their real economies. Its impact has been so profound that it would be better to call it an economic crisis.

Big fluctuation of exchange rates never leave trade and investment unaffected. In Thailand and Korea, export prices decreased abruptly and boosted manufactured exports. Exports of primary products were boosted in Malaysia and Indonesia. Exports have increased in other Asian economies as well. To be sure, manufactured export prices did not decrease as much as their exchange rate depreciation. Manufacturing production in the Asian economies depended highly on imported parts and materials whose prices increased under the depreciation. Exchange rate depreciation tended to increase the import prices of industrial materials, and foodstuffs in case of Indonesia, and tended to raise domestic prices and discourage exports. Furthermore, a depressed domestic economy dampened imports and a trade deficit changed to a surplus in many economies. On the other hand, exports from China and Hong Kong, which maintained exchange rates and export prices, were depressed, and exporters requested help from their governments. The impact of big depreciations has a strong "beggar thy neighbor" element and inevitably tended to aggravate conflicts among Asian exporters and between Asian exporters and their main market, the United States.

The foreign trade of East Asia is characterized by its high intra-regional trade, 35 per cent of its total trade. In 1998 it became evident that, because of the prolonged depression in the whole region, the exports of all East Asian economies were dampened, which came on top of the impact of their currency changes. Both their exports and imports shrank and their trade imbalances aggravated. The depressed Asian market was reflected in decreased exports by American and European firms and it was worried that their deteriorated yields would cause declines in their stock prices and eventually lead to the downturn of the global economy.

East Asian economies as a whole fell in a trap. During their rapid growth they benefited from a virtuous circle of exports and investment; exports led growth while the high prospect of growth encouraged investment in capacity expansion and improved competitiveness. During the crisis this changed to a vicious circle of depressed exports
and discouraged investment; the depression spread over the region dampened exports which, together with inactive consumption resulting from uncertain economic prospects, decreased aggregate demand and discouraged investment for the future. In 1998 individual governments tried hard to get out of this trap but in vain. Strong stimulus by external demand could draw them out of the trap, together with resumed currency stability and the recovery of a functioning financial system.

In 1998, by negative or very slow economic growth rates in most of the region’s economies. In 1999, however, these economies began to unexpectedly recover, many with a growth rate of between three to five percent but some with much steeper rates. The Korean economy, for example, grew in 1999 at a rate of nine percent. It’s likely that most of these former crisis-hit economies have achieved a growth rate of more than five percent in the first half of 2000.

At the same time, a bipolar trend began to emerge in early 2000. While the dynamic recovery of Northeast Asian economies such as China, Taiwan, HK and Korea continues, ASEAN (Association of Southeast Asian Nations) economies, including Indonesia, the Philippines and Thailand remained weak because the crisis brought to the surface previously latent political unrest. The recovery of East Asian economies was decelerated in 2001 due to the break of the IT bubble and resulting economy-wide recession in the Untied States. Their growth rates were reduced by 3 – 5 percent except for China. However, they all turned upward again in early 2002 again thanks to the quick recovery of the US economy.

Overviewing the changes of exchange rates of the East Asian currencies against the US dollar for the past three years, there is witnessed a convergence to respective levels of depreciation from the pre-crisis levels. Having regained by 5 – 10 percent in 1999 and the first half of 2000, they all tended to depreciate again after the mid-2000 and have stayed still for a year (Fig 4 above). From their pre-crisis levels, rupiah depreciated roughly by 80 percent, peso by 50 percent, bath by 45 percent, won by 35 percent, Singapore dollar by 20 percent, Taiwan dollar by 16 percent, and yen by 10 percent. Ringgit stayed pegged at 35 percent depreciated level. Both renminbi and Hong Kong dollar stayed still at their pre-crisis levels.

In the midst of the crisis, Asian countries analyzed their predicament and concluded that although the crash may have been directly caused by huge amounts of
capital withdrawing from Asia, its foundation lay in the vulnerable economic systems of the country’s themselves such as the vulnerability of financial systems, the immaturity of corporate governance and the lack of transparency in the market systems of Asian economies. Their financial system has developed non-competitively under governmental protection, and unsound government-business relationships have sometimes been aggravated by paternalistic industrial policies. These structural deficiencies were concealed during rapid growth but were revealed all at once by the current crisis. They afflicted the arteries of economic growth and quickly stopped the rapid growth. These structural deficiencies should be corrected in order to prevent the resurgence of the crisis.

While these sort of structural weaknesses were masked by the performance of the so-called ‘miracle economies’ of East Asia, they came to the surface once the currency crisis broke. Problems with the industrial structure in developing economies should also be addressed. Many developing economies in East Asia successfully expanded their production and export of labor-intensive products in a relatively short period. However, their production has relied heavily on imported parts and materials which in turn made these economies vulnerable to currency instability and frequent current account deficits. The upgrading of their industrialization in order to substitute these imports has not made significant progress. This has been due not to the lack of funds but to the lack of capacity for absorbing technology and to the insufficient availability of skilled personnel. This structural deficiency would have stopped the East Asian miracle sooner or later even in the absence of the currency crisis.

Economists were happy at the unexpectedly quick recovery of the region but expressed concern that structural reforms were progressing. The bipolar nature of the recovery is also reflected in efforts to promote these reforms. Korea, with strong initiatives from President Kim, is working hard to dissolve financial combines (chaebols), strengthen the financial sector by clearing bad debts, and introduce foreign capital. In China, all-out reform of state-owned enterprises is being promoted. These kind of efforts cannot proceed without central government initiatives. On the other hand, in Indonesia and the Philippines, where civil war and social unrest continues, economic reform remains a task the government cannot afford to tackle. In Thailand, where the foundation of the governing party is weak and there is ongoing political strife,
the issue of bad debts is hardly being dealt with.

The need for structural reform is shared by transition economies as well. China and Vietnam, under tight regulation, could avoid the detrimental effects of the crisis and have continued high growth but they share the same structural deficiencies. The recent access to WTO brings forth both encouragement for Chinese firms to globalizing activities and difficulties in adjusting their system and practices to the market economy. It depends on their success in their reform efforts whether they really resume a steady growth path or not.

The Japanese contribution to this recovery process turned out to be limited by its poor performance in domestic economy (Table 2 above). The medium growth of Japan in 1987-91 included elements of a bubble economy which showed up in skyrocketing land prices and a boom in real estate investment. The bubble broke in 1992 and brought everything down. Almost all financial institutions suffered from decreased prices in their mortgage assets and huge non-performing loans. Manufacturing firms too suffered from decreased asset values and reduced their investment both at home and abroad. Domestic demand stagnated and was assisted by export increases which pushed the current account surplus up again to 15 trillion yen (U.S.$141 billion) in 1993 which aggravated U.S.-Japan trade relations. The GDP growth rate went as low as 0-1 per cent in 1992-95, while the yen-dollar rate continued to appreciate to 79 yen per dollar in February 1995. In 1996 the growth was regained through increased domestic demand because of the government's strong burst of fiscal expansion, and the current account surplus almost halved again.

However, the recovery did not last long and the Japanese economy fell back into minus growth in 1997, -0.4 per cent, the lowest since World War II. Personal consumption, housing investment, and government consumption decreased and the contribution of domestic demand turned out to be -2.2 per cent, which was offset by a foreign demand contribution of 1.5 per cent. The current account surplus increased again from 1.4 per cent of GDP up to 2.6 per cent, while the yen-dollar rate continued to depreciate. The impact of the Japanese economy on its Asian neighbors has decreased from that of the 1980s.

Nevertheless Japan's imports from East Asia increased steadily, although at a decelerated rate from the 1980s, due partly to intra-firm trade between parent companies
in Japan and their subsidiaries in Asia. Japan's FDI decreased to Europe and North America, but it increased to China and ASEAN reflecting Japanese manufacturers' continued strategy of relocating production capacity to other parts of Asia until the current crisis occurred.

3. Emerging Regionalism in East Asia

Regionalism is currently in fashion around the world. The idea is that neighboring countries should cooperate together to liberalize trade and investment and reform and integrate domestic systems. It would be better if these things were done on a global scale, but no one can wait for the 142 members of the WTO to reach an agreement, so countries rush towards the achievable goal of forming regional economic integration with their neighbors. The most advanced region in this respect is Europe. The European Community (EC) has 15 member countries and has evolved into the European Union (EU) with its integrated currency. Negotiations are now underway for the participation of eight additional members from Eastern Europe. In North America, the NAFTA free-trade pact between United States and Canada was expanded to include Mexico, and is in the process of expanding further to include Chile. Agreement has been reached among 34 countries in North, Central and South America to negotiate for the Free Trade Agreement of the Americas (FTAA), which will take effect in 2005.

Regionalism has also emerged in East Asia. The six members of ASEAN formed the ASEAN Free Trade Agreement (AFTA) in 1992, and AFTA is now in the process of expansion with the inclusion in ASEAN of Vietnam, Laos, Cambodia and Myanmar. Among the ASEAN members, Singapore has been particularly active. It has already signed a free-trade agreement with New Zealand and Japan, and is negotiating an agreements with United States. Japan and Korea have traditionally emphasized multilateralism, but over the past three years both governments have been there have been news reports of free trade agreements under consideration between Japan and Korea, Japan and Mexico, and Korea and Chile. The "ASEAN + 3" Summit held in December 2000 proposed the creation of an "East Asian Free Trade Bloc." The "ASEAN + 3" Summit held in November 2001 in Brunei reportedly began negotiations on a free trade agreement between ASEAN and China. Reports also indicate agreements
among Japan, China and Korea to strengthen their economic cooperation. We should note, however, that East Asia has been slow to come around to the global fashion for regionalism. Negotiations are only taking place among a few countries, and in most cases they are still at the planning and joint research stages.

East Asia is incorporated together with Americas and Oceania in a greater regional body Asia pacific Economic Cooperation Forum (APEC). APEC got off to a very cautious start in 1989 (Yamazawa, 2000). It began as a ministerial meeting for foreign affairs and trade ministers only and confined its discussions to straightforward economic and technical cooperation projects. The media paid it very little attention as a result. Then in 1993, the United States hosted APEC in Seattle and held a summit meeting on top of the ministerial meetings, which brought much more attention to the organization. Having the president of the United States and the Chinese Premier attend the same meeting was more than enough to attract the interest of the press. News reports highlighted trade and investment liberalization, and this reflected US interests. Indonesia hosted APEC the next year, and President Suharto published the ambitious Bogor Declaration seeking liberalization of trade in the region by 2010 or 2020. The next APEC, in Osaka, Japan adopted the Osaka Action Guidelines for achieving the Bogor Declaration. This was followed by the Manila APEC in which countries brought together individual liberalization plans to create the Manila Action Plan, which entered implementation in 1997, only a little more than two years after the Bogor Declaration. Expectations for APEC were flying high. It was seen as an organization that could accomplish anything.

Then in 1997, APEC’s fortunes began to reverse. The individual liberalization plans were expected to be implemented very quickly, but no results were forthcoming. The Asian Currency and Financial Crisis that struck in July of that year dealt a direct blow to the developing-country members of East Asia, who were the APEC members with the greatest growth potential. The brakes had been slammed on a decade of rapid growth. APEC was unable to prevent the Asian crisis and indeed was no help at all. Expectations for APEC plummeted. But what changed were only the expectations, not APEC itself. APEC may not be able to accomplish everything, but there are things that it can accomplish. The problem was that it had not accomplished them sufficiently well.
APEC was unable to produce significant results in liberalization implementation. The individual action plans added only token concessions to the liberalization concessions already negotiated in the Uruguay Round, the content of the annual reviews was scaled back, and the pace was slow. There was a proposal for early voluntary sector liberalization, or "EVSL," to serve as a supplement to this process but it failed due to the conflict over forest and fishery products.

APEC has a joint action plan for its other focus, trade facilitation (standards and conformance, customs procedures, business visas etc.), and this action plan is successfully moving forward. APEC members are positive about expanding trade and investment, and unlike liberalization, there is low domestic resistance to this idea. The "Ecotech" economic technology cooperation program is also promising. In the past, this was termed "development cooperation," but APEC has an agreement not to implement projects like infrastructure construction that require large sums of money. Instead, it focuses on technical cooperation that can be accomplished with small budgets.

This down-to-earth approach appears to have been firmly established by the Shanghai APEC Meetings held in October 2001. Its Leaders’ Declaration talked about sharing the benefits of globalization and the new economy as well as collaboration in fighting terrorism. It also published the Shanghai Accord so that they would confirm their commitment to achieving the Bogor target in set dates. The Joint Ministerial Statement called for a start of the new millennium round during the WTO Ministerial Meeting in November and also commented on specific economic cooperation projects in human resources development, electronic commerce, market mechanism reinforcement, food systems, small enterprise development, and social safety nets (Yamazawa, 2001).

The relationship between Japan and East Asia has undergone fundamental changes in the last 10 years. A decade ago, Japan stood out as a leader of the flying geese in Asian development. It provided assistance for development in other East Asian countries much as a father would treat his sons. Now the sons have grown strong and the father has matured and entered old age. Japan still has money and technology, but it has lost its vigor for new growth and has little stomach for bold reforms. Not only must it live in harmony with its sons, it must also survived in a globalized world.
The East Asian region is the home base for the Japanese economy. Ever since the appreciation of the yen in the late eighties, Japanese companies have been moving out of Japan and establishing business networks in the East Asian region. This continued even during the prolonged domestic recession of the nineties. It is important for Japanese companies and the Japanese economy that East Asian countries and regions move forward with structural reforms and return to the path of steady economic growth. The keys to this are the promotion of trade and investment liberalization, the reinforcement of market competition functions, and the resolution of remaining structural problems. This requires support for capacity building, and economic cooperation will be vital in this.

Liberalization and structural reform basically depend on self-help efforts, but it is a fact that reforms tend to make little headway due to resistance from entrenched domestic interests. The GATT and WTO were created as international mechanisms under which countries could jointly pursue liberalization. Resistance to liberalization in import sectors is counteracted by support for liberalization in export sectors, and a framework of international liberalization commitments is created to move the process forward. Joint international implementation will also be effective in structural reforms. It will be helpful in this context to provide guidance in the form of success stories from other countries. The structural adjustment lending offered by the World Bank and IMF already play this role. However, when international institutions encourage structural reforms in specific countries, they may not be in line with the circumstances of the country or region and may create an impression within the recipient country that it has been "forced" to make reforms. By contrast the mediation of a regional cooperation organization may be able to induce structural reforms in ways that are better suited to the specific conditions of the region. APEC economic and technical cooperation plays this role in some aspects.

The Japanese economy has been slow to write off defaulted credits and strengthen corporate governance, and has very little room to comment on liberalization and structural reform in its neighbors. However, Japanese companies will not be able to survive just inside Japan. They must make effective use of the business networks they have built up across borders in East Asia. For this to develop into a vigorous and vibrant
section of the globalized economy, East Asia as a whole must continue to liberalize and make structural reforms. This must move forward whether in the form of bilateral FTAs, East Asian regional cooperation, APEC cooperation, or WTO liberalization. It is a vital policy objective, on par with domestic liberalization and reform efforts.

Regionalism has continued in spite of the launching of the Doha Development Agenda and it has also emerged in East Asia but the East Asian regionalism is a late comer on the bandwagon. However, it aims not a traditional FTA focusing on liberalization of border measures and discriminating nonmembers. It aims at an open regional cooperation of a wider range of activities including joint promotion of structural reform, strengthening financial cooperation and stable exchange rate regime, effecting settlement of industrial and trade conflicts among members. The future prospect of East Asia also depends upon the success of this regional cooperation.

4. Roles of Institutions and Structural Changes

Other nine papers discuss in detail one of the following major issues mentioned above; China’s advancement and responses by other East Asian economies, reform in financial system, joint efforts for stable currency regime, corporate restructuring and changes in market structures, roles of state and market in economic development, and social and environmental aspects of economic development. Individual authors representing major East Asian economies, will also provide a brief and most up-dated report on their own economies which will supplement the overview of the East Asian economy in this paper.

(A) National interests in the context of regionalization and globalization (by Ippei Yamazawa and Ken’ichi Imai)

The acceleration of international flows of capital, technology, services and goods, the diffusion of new technologies and the liberalization of national regimes of incentives and regulation, in association with an increasing power of international and multilateral agencies and organizations is replacing existing notions of national autonomy and the power of the State in pursuing specific local development strategies. At the same time, there is a significant increase in processes of regionalization.
Although joining late in this process, such a region-wide cooperation group as ASEAN plus Three are proposed in parallel with several bilateral FTAs among themselves. Furthermore, we witness a big dynamic change in East Asia, the emergence of China as an economic power and engine of regional growth. China is joining the WTO at the launch of its New Millenium Round negotiation. Being least affected by the downturn of the US economy, a score of its big firms are extending their business region-wide. Other Asian governments and firms see it both a big challenge and a serious threat in their internationalization efforts.

Authors will be asked to discuss whether and which types of national interests are being strengthened or weakened by the process of regionalization and globalization, including the identification of windows of opportunities. Most important, they will be asked to identify what policy making capabilities and public institutions should be developed in order to maximize the capacity to explore opportunities and to minimize the risks of globalization for national development.

The present paper overviews the East Asian economies after the crisis and examine individual economies' participation in globalization and regionalization, while Imai analyzes the emergence of China as an economic power and overviews both expectation and fear held by other Asian economies.

(B) Financial sector restructuring and the financing of the private sector (by Kozo Kunimune and Ngiam Kee Jin)

Integration to global markets has induced national financial sectors to Search for lower finance costs in foreign markets and to invest in high yielding domestic markets. This process has been favored, to a great extent, by the opening up of local financial markets, which has also implications in terms of greater internationalization of financial industries.

However, financial systems of East Asian economies are crippled by a few common impediments; they all suffer from accumulated non-performing loans which tend to cause a serious credit crunch to the real economy sector. Badly regulated financial sectors tend to bear unsustainably high risks, inducing great vulnerability to national economies. Their foreign exchange regimes are still vulnerable to ad hoc
changes in international markets, which constrains their efforts for internationalization.

The post-crisis scenario is demanding a significant revision of the Financial sector-productive sector relationships and it became a case in point on how the productive sector will re-institute their financial strategy. New agencies, regulations, terms of credit, sources of financing are emerging, still without a sustainable predictability in terms of guaranteeing adequate support for fixed investment. Many have quit the de-facto dollar peg and adopted managed float after the crisis. They have built a region-wide network of swap agreement in case for currency crisis but have to go a long way to a single regional currency. It is expected that one scholar will address the restructuring of financial system focusing on the resolution of non-performing loans and regulatory reform, while the other will address the currency cooperation and stable foreign exchange regime in the region.

(C) Corporate restructuring and changes in market structures (by Chan-Hyun Sohn and Djisman Simandjuntak)

Economic liberalization has provoked significant increases in financial and foreign direct investment, technology and trade and services international flows. Concurrently, macroeconomic policies oriented towards price and public deficit stabilization have increased competitive pressure in national and international markets, inducing changes in corporate strategies, capabilities and performance.

As a result, the ownership structure of local economies are changing, towards greater internationalization levels and higher concentration of market structures. In some countries and sectors the adaptive capacity of corporations has been positive, leading towards higher efficiency and export levels but there are others facing deep structural crisis. Greater competition has stimulated increases in productivity but, at the same time, there has been an increasing reliance on foreign technology incorporated in imported inputs and much less on local innovation efforts.

Uncertainty, in terms of the morphology of this emerging industrial configuration remains high. As such, it is also unknown the extent to which there will be positive feedback effects of these micro-adjustment processes to macro performance
(growth, balance of payments, employment, and so on). It is expected that Asian experts will discuss the characteristics and prospects of microeconomic adjustments and transformation of national market structures, focusing on their implications to a country’s macroeconomy and future economic development.

(d) The role of the state and the role of the market in economic development (by Jomo Kwame Sundaram and Zhang Chunlin)

The frontiers of the competence of the State and the market in economic activities is a subject full of controversies. For some authors, the State should intervene only in areas where there are undeniable evidences of market failures; for others, the economic power of nations is such an important issue, especially in the context of backward nations, that the State should induce economic agents towards higher levels of competence.

In the early 1990s this debate was one way oriented, given the excellent performance of Asian economies and the debacle of most Latin American economies. Export oriented strategies, not inward oriented ones, should be purposefully pursued by any government. From 1997 onwards, with the Asian crisis, the process of structural reform in Latin America, and, most recently, with the slow-down of the US growth, this debate must be repositioned on new analytical basis.

Many authors are endogenizing the role of public institutions in development models; others are bringing into the discussion the importance of knowledge and a renewed role for the State in development processes. Others are introducing new concepts and elements, such as limited rationality and imperfect information that demand greater efforts in terms of analyzing the competence of private sector and State institutions in promoting economic development.

The consequence of this renewed debate is that it became obsolete to discuss a potential dichotomy between State and market, or to focus the discussion in terms of more or less intervention. States and markets are embedded in specific sets of economic, political and social relations that help to define frontiers of competence, channels of communication and modes of representation of interests. These are largely time and
country specific. In this context, scholars will be asked to discuss, for specific contexts, if it is possible to observe a co-evolution between market and State institutions and to what extent their interactions contribute or hinder development processes.

(e) Economic growth and implications for social and environmental welfare (by Medhi Kronchaew and Florian A. Alburo)

It is widely believed that economic liberalization and deregulation induce corporate efficiency, thus unleashing forces that, theoretically, would facilitate the process of economic growth. However, growth opportunities are unevenly distributed among economic agents and actors. As the economic power of economic agents is disproportionate, there maybe a substantial risk that the wealth generated by efficiency gains may not be widely distributed. The aggravation of income inequality among different social classes and productive sectors is a strong possibility in the process of economic restructuring.

Unequal development may cause unfavorable feedbacks to growth by intensifying socio-political conflict. In a similar vein, market mechanisms cannot fully incorporate and resolve growth externalities, such as environmental degradation and urban congestion which may hinder economic growth in the long-run. These issues may be conductive to local conflicts when particular economic agents are considerably internationalized in terms of scope of action, thus not necessarily concerned about local welfare. Experts should discuss theses issues and, in particular, what institutional arrangements, including the role of government intervention and the involvement of NGO/NPO, may contribute to alleviate potential negative impacts of growth on welfare.

5. Lessons for Latin America : Unfinished section

East Asia and Latin America, although separated by the Pacific Ocean, have not been remote in their economic interaction. Quite a few East Asian firms, from Japan and Korea and from China recently, have been spreading their business network and vice versa for a few Latin American firms. The interaction will be enhanced further in
future partly because Latin America regained its growth dynamism since the 1990s and partly because globalization has gone beyond the Pacific. This seminar aims to contribute to a closer interaction between East Asia and Latin America by enhancing correct understanding of each other and effective policy advices resolving the dead-blocks. What lessons can we derive from the East Asian experiences for Latin America? It will not be done properly by Asian authors in the first draft. It will be incorporated in our final draft with comments and suggestions by our Latin American counterparts at the conference in Santiago and Rio de Janeiro. A summary paper will be drafted by Ferraz, Ocampo, and Yamazawa on Asian lessons for Latin America in order to conclude our seminar.

References:


Fig. 1 East Asia: Map of Economic Development