Changing Japanese Economic Policy toward East Asia in the Postwar Period

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1 Introduction

Japan's major policy thrusts for the economic development of East Asian countries (North- and Southeast Asia)[1] have made dramatic changes over time since the end of World War II. On the one hand, the Japanese economy has grown from a small, war-torn economy to the world's second largest economy during this period. The Japanese industry has gone through the enormous process of restructuring, moving from labor-intensive to capital- and technology-intensive sectors and from goods- to service-producing sectors. On the other, many economies in East Asia have also expanded remarkably during the same period, growing out of poor, agrarian economies into middle-income, newly industrializing economies (NIEs) and near-NIEs. In this process there has been an enormous expansion in the international trade, investment and aid in East Asia and a remarkable strengthening of the economic relations between Japan and East Asian countries. The vast changes seen in both Japan and the rest of the East Asian economies have thus been both the causes and effects of Japan's changing economic policy thrusts toward East Asia and East Asia's changing economic policies toward Japan.

This paper intends first to present the changing economic relations between Japan and the rest of the East Asian economies during the last half a century, secondly to analyze the major shifts in Japan's economic policy toward East Asia in terms of those factors responsible for such changes both in Japan and East Asia in the global context. Finally, this paper will make several policy recommendations to Japanese and East Asian governments.

[1] Northeast Asia includes such countries as the Democratic People's Republic of Korea, Japan, the People's Republic of China, Mongolia and the Republic of Korea and such territories as Macao and Taiwan. Included in Southeast Asia are Brunei Daressalam, Cambodia, Indonesia, Malaysia, Myanmar, the People's Democratic Republic of Lao, Philippines, Singapore, the Socialist Republic of Vietnam and Thailand.

2 Trends in Japan–East Asian trade and investment relations, 1950–2010

2.1 The decades of rapid trade expansion, 1951–1970

Once the process of the immediate postwar economic reconstruction and reforms of Japan had been completed between 1945 and 1950 and laid down the foundation for the succeeding period of economic expansion, Japan became interested in reaching out for closer trade and economic relations with its neighboring East Asian countries to continue its economic growth and industrial development. Japan's perception of East Asian countries thus emerged first and foremost as its export market and source of raw materials. All the Japanese economic policy measures toward East Asia were to promote Japan's exports to the region and simultaneously enable Japanese industries to secure the continuous supply of the necessary raw materials at a reasonable cost. While this perception varied in strength among different industries, it persisted in many segments of the Japanese industry until the late 1960s when Japan was constantly threatened with trade and payments deficits, thus forcing the Government of Japan (GOJ) to implement tight money and fiscal policies.

Japan underwent a dramatic economic reconstruction during the period 1945–50 and sustained its high rate of economic growth during the succeeding two decades until 1970 (Table 1). In the history of Japanese economic development since the Meiji Restoration of 1868, this period stands out by attaining the highest rate of economic growth ever recorded for a sustained period of time. In the 1950s, Japan's national income doubled and the same was repeated during the 1960s, partly by the Income Doubling Program (1961–70) pursued by the GOJ as its top priority, thus raising Japan's gross domestic product (GDP) from 1.2 percent in 1950 to 3.4 percent of the combined GNP of the industrial countries in 1970 (for a more detailed discussion see Hirono 1980).

Along with the high rate of economic growth between 1950 and 1970, there was a steady restructuring of the Japanese economy shifting from primary to secondary and tertiary sectors and so also with the Japanese manufacturing industry, shifting from labor-intensive and low value added consumer products to capital-intensive and higher value added consumer products and capital goods sectors (see Table 2). This industrial restructuring throughout the two decades reflected a changing competitive position of those different sectors and industries of Japan in the international market.

This was partly a natural outcome of the GOJ's policy shift in favor of trade liberalization announced in 1961 and foreign investment liberaliza-

Table 1: **Gross domestic products of major industrial countries, 1950–1997**

Country	1950		1970		1990		1997		1997*
	bn US$	%	bn US$	%	bn US$	%	bn US$	%	US$
Canada	40	4,2	253	4,2	570	3,6	603	2,7	19.290
France	60	6,4	652	10,9	1.191	7,5	1.397	6,3	26.050
Germany	72	7,6	819	13,7	1.488	9,3	2.100	9,4	28.260
Italy	37	3,9	394	6,6	1.091	6,8	1.145	5,1	20.120
Japan	11	1,2	204	3,4	2.943	18,4	4.202	18,8	37.850
United Kingdom	71	7,6	523	8,7	975	6,1	1.272	5,7	20.710
USA	507	53,7	2.587	43,1	5.392	33,7	7.746	34,7	28.740
Industrial countries	944	85,8	5.993	81,8	15.993	82,7	22.322	79,3	25.700
Developing countries	183	14,2	1.334	18,2	3.334	17,3	5.910	20,7	1.250

Note: The figures for industrial countries include those for high-income developing countries.
* per capita GNP in US dollars

Source: Miyazaki, Okumura and Morita (1981), World Bank (1972, 1992, 1995, 1998), Keizai Kikakuchō (1982)

Table 2: **Gross domestic product by kind of economic activity, 1955–1996**

Industry	1955	1965	1975	1985	1990	1995	1996
Primary sector	158,7	310	8,141	10,214	10,921	9,351	9,308
Secondary sector	297,3	136,02	598,99	121,013	165,769	170,665	175,395
Manufacturing	235,6	107,47	448,01	946,73	121,219	119,261	121,554
Food & beverage	589	147,9	361,1	654,2	800,1	928,6	919
Textile products	237	708	176,2	301,1	310,9	179,5	173,9
Clothing	49	179	577	170,1	219,1	243,8	229,2
Wood & wood products	79	251	598	137,5	166,4	152,7	153,3
Furniture & fixtures	34	172	472	120,5	175,7	155,6	159,1
Pulp & paper	83	316	124,4	229	308,1	322,7	328
Printing & publishing	120	412	181	455,2	636	673,5	690,3
Leather & leather products	6	102,4	116	382	475	384	368
Rubber & rubber products	31	134	559	119,5	163	153,5	156,7
Chemical products	209	953	405,7	795,6	112,72	119,84	119,02
Coal and petroleum products	67	571	737	396,1	469,3	554,7	535,6
Ceramics & clay products	94	456	181,7	393,6	500,5	496,5	500,5
Iron & steel	158	683	283,3	518,8	620,9	496,9	492,1

Industry	1955	1965	1975	1985	1990	1995	1996
Nonferrous metals	46	148	927	156,6	211	196,7	209,2
Fabricated metal products	78	697	180,9	552,3	805,5	797	811
General machinery	133	112,9	387,6	100,02	136,02	121,31	127,69
Electrical equipment	103	826	424,7	148,63	200,85	196,43	201,65
Transportation machinery	162	108	462,7	977,4	125,82	124,94	133,98
Precision machinery	44	219	703	183,4	202,1	167,3	173,8
Miscellaneous	36	309	136,8	169,8	233,6	228,9	222
Construction	426	247,4	143,22	253,81	434,28	503,32	527,68
Tertiary sector	442,5	171,11	802,87	189,192	253,350	303,204	315,158
Total	898,5	338,13	148,327	320,419	430,040	483,220	499,861

Note: in billions of yen at current prices

Source: Sōmuchō Tōkeikyoku (1971, 1998)

tion announced in 1967. This resulted in the increasing economic integration of Japan into the rest of the world economy through expanding international trade and investment. These policy shifts were in line with, and were promoted under, the Kennedy Round of the multilateral trade negotiation during the 1960s. Thus, there was a rapid expansion in Japan's foreign trade with the rest of the world, accompanied by steady restructuring in terms of commodity composition and destination.

The war in the Korean peninsula starting in mid-1950 saw a dramatic expansion in the Japanese exports of labor-intensive manufactured goods such as processed foods and textiles to the United Nations forces fighting in Korea whose special procurement program alone reached as high as US $ 300–350 million annually. Throughout the 1950s and 1960s, East Asia and North America remained the major markets for Japanese exports, comprising roughly two-thirds of the total exports. However, the United States by the mid-1960s replaced East Asia as Japan's largest export market (see Table 3). While food and textile products continued to be major items of Japanese exports throughout the 1950s, heavy and chemical industry products replaced them as Japan's largest export item during the 1960s. On the import side, however, foodstuffs, raw materials and fuel remained the major items of interest to Japan in feeding its expanding population and rapidly growing industries.

As most East Asian countries began their industrialization program during the 1960s, synthetic fibres, iron and steel and other industrial materials as well as machinery and equipment became increasingly important in Japanese exports to these countries, exceeding 50 percent of Ja-

Table 3: **Japanese exports by destination, 1955–1997**

Destinations	1955	1965	1975	1985	1990	1995	1997
Asia & Middle East	40.6%	36.9%	36.7%	32.6%	34.1%	45.5%	44.5%
China	3.0%	0.0%	4.0%	7.1%	2.1%	5.0%	5.2%
East Asia except China	29.0%	n.a.	20.7%	17.4%	27.7%	30.4%	35.9%
Others	9.0%	n.a.	12.0%	8.1%	4.3%	10.1%	3.4%
Western Europe	10.1%	12.8%	18.5%	16.3%	23.4%	17.4%	17.5%
North America	24.7%	28.0%	22.1%	38.0%	33.9%	28.6%	32.5%
Canada	2.2%	2.8%	2.1%	2.6%	2.4%	1.3%	1.4%
United States	22.5%	25.2%	20.0%	35.4%	31.5%	27.3%	27.8%
Latin America	7.8%	6.0%	8.5%	6.5%	3.5%	4.4%	1.8%
Oceania	2.7%	2.4%	4.1%	4.0%	3.1%	2.4%	2.4%
Africa	12.6%	12.0%	9.9%	2.7%	2.0%	1.7%	1.3%
USSR & Eastern Europe	1.5%	1.9%					0.6%
Total (in billion yen)	700,0	3.320,0	16.545,0	41.956,0	41.457,0	41.531,0	50.938,0

Note: The figures for USSR and Eastern Europe for the period 1975–95 are included in those for Europe.

Source: Sōmuchō Tōkeikyoku (1951, 1961, 1971, 1981, 1991, 1997)

pan's manufactured exports by 1965. While East Asia, being Japan's neighbors, was an important market for Japanese manufactured exports, the region fed the rapidly expanding Japanese industries with much of the necessary minerals, agricultural materials and crude oil. But increasingly in the late 1960s, this turned to foodstuffs, textiles and other labor-intensive products that reflected the changing comparative advantages of their economies vis-à-vis Japan. Because of this vertical specialization between Japan and East Asia, Japan's trade balance continued to favor Japan. This sowed in East Asian countries the seeds of discontent and demand for Japan's import expansion both of agricultural and forestry products and light-industry products in which they had a comparative advantage and for which Japan continued to impose either high tariffs and/or quantitative import restrictions to protect domestic industries. As a result, trade tensions began to emerge between Japan and East Asia in the late 1960s. This was on top of a series of trade disputes between Japan and the United States for Japan's major export products such as textiles and iron and steel products (for a more detailed discussion see Chng and Hirono 1984; Chung *et al.* 1985).

2.2 The decades of rapid foreign investment expansion reinforced by increased foreign aid and trade, 1971–1990

By the end of the 1960s, however, we see a changing perception of the East Asian economies in the mind of Japanese industrialists. Having been confronted with the acute shortage of both unskilled and semiskilled labor, their rapidly rising wage pressures and the rising prices of industrial sites, Japanese manufacturers began to look upon East Asian countries as the major source of cheap labor and resources (including land). Also, given the rising 'resource nationalism' emerging in the wake of the rapid industrialization of Japan, Western European countries and some developing regions of the world such as Latin America and East Asia, the prices of some essential natural resources began to rise sharply beginning in the early 1970s. For instance, the Organization of Petroleum Exporting Countries (OPEC) suddenly quadrupled its crude oil prices resulting in the first energy crisis of 1973–74 and once again doubled them producing the second energy crisis of 1979–80.

These critical conditions in labor and petroleum markets encouraged the Japanese industry to innovate labor- and resource-saving technologies in their production processes and, move from labor- and resources-intensive products to capital- and technology-intensive ones. At the same time, they encouraged the Japanese industry to invest in those neighboring East Asian countries where labor was cheap and efficient and which offered abundant resources and an expanding domestic market (see Table 4). There was also a rising concern with the rapid deterioration of the environment, such as air, water, soil and noise pollution throughout the country, particularly in urban areas, which compelled Japanese industries on the one hand to invest heavily in anti-pollution equipment at home and, on the other, to move to East Asian countries where environmental constraints were less severe. The rapid rise in Japanese direct investment overseas also reflected a reduced foreign exchange constraint in Japan arising from its ever increasing current account surplus since the late 1960s which led to the appreciation of the Japanese yen vis-à-vis the US dollar in the 1970s.

Also, the rising trade disputes between Japan and the United States and between Japan and the European Economic Community (EEC), in one product market after another, began to make it increasingly difficult for Japanese industry to expand its export directly to the US and Western Europe. This can be seen in the cases of textiles, steel, automobile and some electrical machinery and precision equipment. Thus, in addition to investing in these industrial countries as a means of circumventing walls of protectionism, Japan began to see East Asian economies as the source of off-

Table 4: **Japanese direct investment overseas by region and country, 1951–1996**

US$ million

Region & Country	1951–75	1980	1985	1990	1995	1996	1951–96	1951–96
Africa	284	139	172	551	379	184	8.507	1.5%
Asia	1.881	1.186	1.435	7.054	12.264	6.690	100.094	17.8%
China			100	349	4.473	1.158	15.712	2.8%
Asian NIEs			718	3.355	3.179	1.500		
HongKong		156	131	1.785	1.125	394	16.493	2.9%
ROK		35	134	284	445	129	6.129	1.1%
Taiwan			114	446	457	277	4.975	0.9%
Singapore		140	339	840	1.152	700	11.803	2.1%
ASEAN 4			597	3.243	4.110	3.409		
Indonesia		529	408	1.105	1.596	1.677	20.991	3.7%
Thailand			48	1.154	1.224	1.133	9.811	1.7%
Malaysia		146	79	725	573	307	7.501	1.3%
Philippines		78	61	258	718	293	4.094	0.7%
Vietnam					197	143	754	0.1%
India				30	127	171	809	0.1%
Others			20	77	177	306	1.023	0.2%
Europe	971	578	1.930	14.294	8.470	3.248	105.709	18.8%
Middle East	530	158	45	27	148	135	5.123	0.9%
North America	1.817	1.596	5.495	27.192	22.761	9.053	248.473	44.2%
Oceania	463	448	525	4.166	2.795	567	30.942	5.5%
World, total	6.876	4.693	12.217	56.911	50.694	23.501	562.320	100.0%

Note: All figures were published in Japanese yen and converted into US dollar on the basis of the Bank of Japan interbank rate averages. The figures for 1995 and 1996 do not include those direct investments whose total is less than 100 million yen which used to be included prior to 1995.

Source: JETRO (1972, 1982, 1992, 1998)

shore production where Japanese industry would invest their capital and from where they would export their products overseas. The introduction of the Generalized System of Preferences (GSP) by the United Nations Conference on Trade and Development (UNCTAD) in 1968 and its implementation by some major industrial countries such as those of the EEC and Japan beginning in the late 1960s and by the United States in the early 1970s also acted as an inducement to multinational manufacturing corporations. Based in Japan and other industrial countries, these corporations attempted to locate and relocate their factories in developing countries for exporting to the markets of industrialized countries with or without lower tariff rates (Okuzumi, Calder and Gong 1992).

Above all, however, it was President Nixon's announcement in August 1971 of the New Economic Policy (NEP) measures which had the greatest impact on the Japanese manufacturing industry to accelerate its rate of direct investment overseas. Comprised of four major pillars – namely the delinking of the US dollar from gold, a 10 percent cut in the US foreign aid, a 10 percent import surcharge on all goods coming from overseas, and a tax credit for US corporations' investment at home. Together with other key currencies, the NEP appreciated the Japanese yen against the US dollar from 360 to 308 per dollar, as agreed upon at the Smithsonian Multi Currency Realignment Agreement. The Japanese yen continued to appreciate against the US dollar in the ensuing two decades, finally reaching 168 per dollar at the Plaza Accord in the fall of 1985 and 130 by the end of the 1980s. The stronger and overvalued Japanese yen resulted in the acceleration of overseas investment expansion by Japanese industries particularly in East Asian countries.

It is important to note here that in the interest of promoting industrial development further, developing countries in East Asia began to shift their policies toward foreign multinational corporations based in industrial countries. They shed themselves of their previous suspicion that these multinationals, located formerly in metropolitan countries, would dominate their 'tinier and weaker' economies and emerge as neo-colonialists through the marketplace. Some of these developing countries in the region, in addition to administrative incentives such as the 'no-strike' guarantee, lavishly provided fiscal and financial incentives to those multinationals investing in the manufacturing sector with advanced technology and export potential. These incentives offered by the developing countries worked to increase investment overseas by multinationals based in Japan and other industrial countries.

In order to assist East Asian developing countries to promote outward-oriented industrialization policies, Japan, far more than any other industrial country, concentrated its official development assistance (ODA) in East Asia (Table 5). Furthermore, Japan steadfastly increased its aid programs which were focussed on the development and improvement of the target country's economic infrastructure such as highways, ports, power generation and irrigation facilities as well as the social infrastructure of education, health and sanitation. The Japanese aid programs thus contributed a great deal to the expansion and modernization of productive capacity including physical and human resource development. In fact, it was of vital interest to Japan to see that these East Asian countries would remain politically stable, economically viable and socially attractive to all investors including the Japanese themselves. This resulted in the creation of a number of Japan's economic policy measures in favor of East Asian development and intra-regional economic cooperation (Scalapino and Kosai 1988), as discussed in more details in Section 3.

Table 5: **Geographical distribution of Japanese official development assistance (ODA), 1970–1997**

Regions	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**1997**
Asia	90.3%	80.3%	70.5%	67.8%	59.3%	54.5%	46.5%
Northeast Asia	23.3%	10.3%	4.2%	15.3%	12.0%	15.2%	8.0%
Southeast Asia	55.6%	59.0%	44.0%	37.6%	34.3%	24.6%	21.4%
ASEAN	43.6%	36.4%	35.9%	31.3%	33.1%	21.1%	20.5%
Southwest Asia	19.4%	11.0%	22.2%	14.7%	12.9%	13.6%	14.6%
Central Asia	n.a.	n.a.	n.a.	n.a.	n.a.	0.6%	2.2%
Caucasus	n.a.	n.a.	n.a.	n.a.	n.a.	0.0%	0.2%
Other Asia	n.a.	n.a.	0.3%	0.1%	0.1%	0.4%	0.1%
Middle East	3.3%	3.9%	10.4%	7.9%	10.2%	6.8%	7.8%
Africa	2.3%	13.0%	11.4%	9.9%	11.4%	12.6%	12.1%
Latin America	4.0%	5.6%	6.0%	8.8%	8.1%	10.8%	10.8%
Oceania	0.0%	0.6%	0.6%	0.9%	1.6%	1.5%	2.4%
Europe	–0.2%	0.6%	–	0.0%	2.3%	1.5%	2.0%
Eastern Europe	n.a.	n.a.	n.a.	n.a.	2.2%	1.3%	0.8%
Others	0.3%	1.3%	1.2%	4.8%	7.1%	12.3%	18.3%
Total bilateral (million US$)	**372**	**850.4**	**1.961**	**2.557**	**6.940**	**10.557**	**6.613**
Total ODA (million US$)	**458**	**1.148**	**3.304**	**3.797**	**9.069**	**14.484**	**9.435**

Note: Aid to five Central Asian countries started in 1993, while aid to three Caucasus countries began in 1994.

Source: MOFA (1978, 1988, 1998)

The rapid increase in Japanese direct investment in East Asia was accompanied by an equally rapid trade expansion not only between Japan and these countries in the region, but also among the latter (see Table 6). Essentially, in pursuit of greater competitiveness in the changing world market, multinational corporations of Japan and elsewhere made a conscious effort to promote intra-corporate division of labor among its production facilities in different countries within and outside the East Asian region. It became well known that a fairly high proportion of international trade in manufactured goods was in fact intra-corporate trade, *i.e.*, trade between headquarters, subsidiaries and joint ventures and among the latter of the same multinational corporation. As a result, the intra-East Asian exports of all the East Asian countries as a percentage of their total exports increased from 35.7 percent to 46.8 percent during the period 1981–92.

Table 6: **Inter- and intra-regional trade by destination, 1981–1992**

From/To	Japan		NIEs		ASEAN 4		China		East Asia	
	1981	1992	1981	1992	1981	1992	1981	1992	1981	1992
Japan	–	–	13,7	21,4	7,1	8,1	3,4	3,5	24,1	33,0
NIEs	10,6	9,1	10,1	14,6	10,4	7,8	2,5	11,2	33,5	42,8
ASEAN 4	32,7	21,1	17,8	22,7	3,7	4,4	0,8	2,5	54,9	50,6
China	24,4	14,5	28,1	52,1	3,5	2,8	–	–	56,1	69,4
East Asia	10,2	8,4	15,1	24,1	7,8	7,7	2,7	6,6	35,7	46,8

Source: PECC (1994)

Various policy measures adopted by the Association of South East Asian Nations (ASEAN) contributed in no slight measure to the enormous expansion in intra-ASEAN trade and investment hitherto observed. It was surprising to note that toward the end of the 1980s intra-ASEAN trade expanded more rapidly than the ASEAN trade with its external partners. Also, the annual flows of intra-ASEAN investment became larger in volume than those of the Japanese investment in the ASEAN countries. This was a symbolic result of the horizontal division of labor spreading to all ASEAN countries and its neighbors (for a more detailed discussion see Suh and Ro 1990).

2.3 The decades of hopes, crises and uncertainties, 1991–2010

The 1990s began with high hopes in East Asia, as exemplified in the World Bank's 'East Asian Miracle' that the high rates of economic growth and restructuring sustained during the last three decades would continue into the current decade and beyond the year 2000, despite some serious bottlenecks such as the scarcity of skilled manpower and economic infrastructure (World Bank 1994). Even as late as 1996, the Asian Development Bank forecasted rather high growth rates for East Asian countries in its publication, 'Emerging Asia' and the 21st Century was often referred to in various publications as 'the Asian and Pacific Century' (Asian Development Bank 1997). In fact, the period of 1991–97 saw a sustained economic growth for the East Asian region averaging annually at 6.7 percent in real terms (see Table 7). This compared very favorably with the other regions of the world. As reflected in the sustained high rates of economic growth, both the international trade and investment of Japan and the other East Asian countries continued to expand rapidly even during the first half of the 1990s, further upgrading their trade and investment composition from labor-intensive to capital- and technology-intensive sectors.

The burst of the bubble in the Japanese economy in 1990 and the ensuing economic recession since then, however, has precipitated the Japanese industry to reduce its imports of capital and consumer goods, industrial raw materials, petroleum and other energy resources. At the same time, Japanese companies were expanding their exports to East Asian high-growth countries and North America creating a further rise in their trade and current account surplus. The GOJ's low interest policy has failed to generate additional domestic aggregate demand under prolonged recession and conditions of excess productive capacity. Instead, the soft money policy has also contributed to the increased trade and current account surpluses through the depreciation of the Japanese yen which further increased the price competitiveness of Japanese manufactured exports in the international market.

Moreover, the continued recession of the Japanese economy in the 1990s has precipitated the Japanese industry to invest and expand its production overseas, particularly in neighboring East Asian countries to meet the rising demand for consumer durables and services in those countries. Together with an enormous expansion in the short-term capital movement through portfolio investment and bank loans, the rapid expansion of the Japanese direct investment in East Asia, while providing temporary relief to the further deterioration in their trade and current account deficits and to the downward pressure on their currencies, contributed to further rise in excess productive capacity. Finally this resulted in glutting the product markets, creating a recessionary trend in their economies, accelerating foreign divestment, creating international runs on their foreign currency reserves, and a huge depreciation of their foreign exchange rates culminating in the ensuing financial crisis.

The currency crisis that hit Thailand in July 1997 soon spread to other ASEAN countries and Korea, leading to a financial and economic crisis in most countries of the region and, as in Indonesia, to a political crisis under the onslaught of inflation particularly for food and other basic necessities, rising unemployment and widening disparities between the rich and the poor.

All major East Asian countries, once riding high on the 'Miraculous Growth,' had to face downward growth and eventually negative growth in 1998 with the notable exception of Singapore (+1.5%), Taiwan (+4.8%) and China (+7.4%). In spite of the international rescue packages organized

Table 7: **Economic growth performance of East Asia, 1970–1998**

	Real GDP (US$ billion in 1990 prices)						Real GDP (Average annual growth rates in %)					
	1970	1980	1990	1997	1998	Share	1960–70	1970–80	1980–90	1997	1998	1990–98
Hong Kong	15	37	70	171	(167)	0.6%	8,7	9,4	6,9	5,2	–5,1	4,4
ROK	46	100	244	443	298	1.0%	9,1	8,2	9,5	5,5	–6,5	6,2
Singapore	7	18	35	96	85	0.3%	8,7	9,0	6,6	7,8	1,5	8,0
Taipei, China	29	74	155	303	303	1.0%	9,1	9,7	7,7	6,8	5,1	6,5
Asian NIEs	97	229	505	1,013	(853)	2.9%	n.a.	8,9	8,2	n.a.	n.a.	n.a.
Indonesia	29	63	107	215	96	0.3%	3,0	8,0	6,1	4,6	–14,8	5,8
Malaysia	11	24	42	98	71	0.2%	n.a.	8,0	5,2	7,8	–6,3	7,7
Philippines	21	38	44	83	65	0.2%	4,9	6,1	1,6	5,1	0,1	3,3
Thailand	20	38	80	157	154	0.5%	8,0	6,8	7,8	–0,4	–7,7	7,4
ASEAN 4	81	162	274	553	386	1.3%	n.a.	7,2	5,4	n.a.	n.a.	n.a.
China	93	161	370	825	961	3.3%	n.a.	5,6	8,7	8,8	7,4	11,1
Vietnam	7	8	14	25	25	0.1%	n.a.	1,4	6,1	8,8	4,0	8,6
Japan	1,263	1,957	2,940	4,202	3,783	13.0%	11,1	4,5	4,2	0,9	–2,6	1,3
East Asia	278	504	1,163	2,416	2,068	7.1%	n.a.	n.a.	7,1	5,5	–1,1	8,1
South Asia	n.a.	237	190	440	518	1.8%	n.a.	n.a.	5,3	5,1	5,9	5,7
West Asia	n.a.	n.a.	853	816	849	2.9%	n.a.	n.a.	–2,2	5,9	4,0	3,0
Africa	n.a.	270	358	484	495	1.7%	n.a.	n.a.	1,9	3,0	2,2	2,2
Latin America	n.a.	782	1,155	1,617	2,077	7.1%	n.a.	n.a.	1,0	5,4	2,5	3,7
EU (15)	n.a.	2,514	5,340	7,604	8,036	27.6%	n.a.	n.a.	2,3	2,5	2,8	n.a.
U.S.A.	3,256	4,276	5,522	7,391	8,211	28.2%	3,9	2,8	2,6	3,8	3,7	2,9
World	12,709	17,711	23,159	28,460	29,157	100.0%	4,9	3,4	2,7	3,3	1,8	2,4

Sources: Asian Development Bank (1998, 1999), United Nations (1998), World Bank (1998, 1999), JETRO (1998) by the International Monetary Fund (IMF) for Thailand, Indonesia and Korea and despite the international assurance by major bilateral donors of their further financial and technical assistance immediately after the crisis, East Asian countries have not been able up to now to make a turnaround and resume their high-growth path, although apparently proceeding steadily to macroeconomic stabilization and recovery. There are some indications that the downward spiral of national output has come to an end with some economic recovery, albeit slowly, beginning in early 1999 in some countries, as shown in Table 7.

Obviously, one of the major factors contributing to this downward spiral in 1997–98 and, in 1999, uncertainty over the fast economic recovery of these East Asian countries has been the prolonged recession of Japan. Standing as impediments to recovery are its problems of a huge and rising volume of non-performing assets (NPAs) held by financial and non-financial institutions, sagging investment, consumption and corporate profits, rising unemployment and growing fiscal deficits at the national and local levels. Basically due to government policy failures and the lack of political leadership, Japan has yet not been able to overcome the aftermath of the burst of its bubble economy since 1991.

3 Japan's major economic policy thrusts toward East Asia, 1951–2010

3.1 Re-entry of Japan into East Asia by rapid economic growth and vertical trade expansion, 1951–1970

As soon as Japan gained its political independence after World War II with the signing of the San Francisco Peace Treaty in 1951, Japan sought its reentry into the world economic and political scenes by becoming a member of the United Nations Economic Commission for Asia and the Far East (U.N.ECAFE), the IMF, the World Bank in 1952, GATT and Colombo Plan in 1954 and the United Nations in 1956 (see in more details CED and Keizai Dōyūkai 1963).

To regain a position of respect among its East Asian neighbors, Japan started to pay reparations to those countries that had suffered from human and physical damages during the war period, except China which declined the Japanese reparations payments. For those East Asian countries such as Malaysia, Myanmar, the Republic of Korea, Singapore, Thailand and Vietnam which did not enter into agreement with Japan on reparations payments, Japan provided quasi-reparations payments in the form of 'generous' grants and low-interest yen loans. As just mentioned, Japan also became a member of the Colombo Plan in 1954 to provide technical assistance to those Asian countries which were developing members of this Colombo Plan.

Both money extended by Japan's reparations payments to these East Asian countries and from the ODA initiated by Japan with its entry into the Colombo Plan in the initial period were also mobilized to expand Japanese manufactured exports to East Asian countries. The Ministry of International Trade and Industry (MITI) of the GOJ made clear the importance to Japanese exports of Japan's reparations payments and official development assistance (ODA) to East Asian countries.

Had these measures not been taken, it would have required the spending of precious foreign exchanges reserves. In fact, these helped to accelerate the recovery and development of the Japanese manufacturing industry by tying overseas assistance to the procurement of goods and services in Japan. Furthermore, both the reparations payments and the ODA to East Asian countries were helpful to Japan in inculcating in these Asian countries a taste for Japanese consumer and capital goods as well as trade and engineering services and contributed further to Japanese manufactured exports since then.

In 1955 Japan announced its economic cooperation policy toward East Asia, reaffirming its commitment to the fulfillment of its reparations programs by the end of the 1960s and its assistance to non-communist countries for their economic and social development. In the same year Japan established Japan External Trade Organization (JETRO), although the Export-Import Bank of Japan (EXIM-Bank) had already been established in 1950 to assist Japanese industry to expand its exports and particularly to cement closer economic cooperation with East Asian neighbors. In 1958 Japan established within the EXIM-Bank a fund for the economic development of Southeast Asia by way of providing long-term development loans (the so-called Yen Loan). Thus, Japan laid down all the institutional mechanisms necessary for re-entry into East Asia as a respectable partner in the postwar world and to assist the newly independent developing East Asian countries to promote their trade, investment and economic expansion.

The GOJ established in 1960 the Overseas Economic Cooperation Fund (OECF) and in 1962 the Overseas Technical Cooperation Agency (OTCA) (reorganized in 1974 into Japan International Cooperation Agency, JICA) as an expression of its readiness to expand its ODA to developing countries to assist in particular its East Asian neighbors. Japan's ODA expanded rapidly during the 1960s when Japan's gross national products (GNP) grew at the annual average rate of 10 percent. To further strengthen its economic cooperation with East Asian neighbors, Japan took initiatives for organizing in 1963 the Ministerial Conference for the Economic Development of Southeast Asian Countries whose member countries constituted the core of the Asian Development Bank when established in 1966. Japan also gave strong support to the formation in 1967 of ASEAN among its five member countries of Southeast Asia – Indonesia, Malaysia, the Philippines, Singapore and Thailand – partly to counteract the growing Soviet influences in the Indochina Peninsula, Vietnam, Laos and Cambodia (CED and Keizai Dōyūkai 1970).

By the late 1960s it was quite clear that there was not only a closer economic relationship built up but also a closer political dialogue developing between Japan and Southeast Asian countries. As an ally of the West, Japan gave strong support to non-communist East Asian neighbors in support of the foreign policy of the United States in Asia. Because of its constitutional prohibition Japan did not send its armed forces, unlike Australia and the Republic of Korea, to defend South Vietnam. However, Japan did remain the closest ally of the United States in its fight in the Vietnam War, providing strong economic assistance to South Vietnam during the war. Just as during the Korean War of 1950–52, Japan reaped economic benefits through trade and investment expansion from the Vietnam War, as similarly did its Southeast Asian neighbors.

3.2 From vertical trade expansion to economic partnership, 1971–1990

As Japan began to build up its trade account surplus not only vis-à-vis the United States but with the rest of the world in the late 1960s, there was rising pressure on Japan not only from among industrial but also developing countries particularly in East Asia. This pressure was for Japan to open up its huge domestic market to foreign exporters through the further reduction of tariffs and through the elimination of non-tariff barriers (NTBs) as well as through the appreciation of the Japanese yen. Because of the unwillingness of Japan to appreciate the external value of its yen currency, the United States announced in 1971 its NEP, as discussed earlier. Following the NEP, Japan announced its support to help strengthening the freer international trading regime by calling for the Tokyo Round of Multilateral Trade Negotiation (MTN) in 1971, the successor to the successful Kennedy Round during the 1960s. The Tokyo Round of MTN went beyond negotiation on tariffs and one of the primary focus on NTBs negotiation was the elimination of import quotas, as well as other quantitative restrictions, discriminatory government procurement policies and practices, and restrictive business practices.

The 1970s saw a decided shift in the Japanese economic policy toward Asia on three accounts (CED and Keizai Dōyūkai 1974). First of all, the

GOJ was no longer interested in assisting the Japanese industry to expand its exports. Nearly all its export subsidies that had been prevalent during the past two decades in the form of fiscal and financial incentives to exporters were eliminated in the early 1970s. The Supreme Export Council, chaired by the Prime Minister and held regularly with the participation of the MITI minister and private sector representatives, was abolished. JETRO changed its name from Japan Export Trade Promotion Organization to Japan External Trade Organization, implying that the GOJ was interested in expanding Japan's imports as well as its exports to hitherto untapped markets. Instead of export incentives, government incentive measures were implemented for promoting research and development (R&D) in the private sector to precipitate the process of industrial restructuring from low value added to higher value added industries.

Secondly, to prevent the rising trade deficits of East Asian countries vis-à-vis Japan from further aggravating anti-Japanese sentiments – as shown in the demonstrations against Japan at the time of Prime Minister Tanaka's visits to Indonesia and Thailand – the GOJ relaxed its foreign exchange control over the Japanese industry's direct investment overseas and installed incentive measures for their investment in mineral and energy resources in developing countries and, lowered tariffs and NTBs on manufactured imports particularly from developing countries. Being the closest neighbors to the Japanese industry, East Asian exporters were best able to reap the benefits of freer trade as compared with those exporters elsewhere. The installment of the GSP beginning in 1970, as mentioned earlier, was also mostly beneficial to East Asian neighbors exporting to Japan.

The floating exchange rate regime introduced in February 1973 also proved to have an enormous impact on the growth of the Japanese manufactured imports from Asian neighbors whose currencies were tied to the US dollar. Had it not been for the interventionist policy of the Bank of Japan's (BOJ), the Japanese imports of manufactured goods from the East Asian neighbors would probably have risen much higher through the further appreciation of the Japanese yen vis-à-vis the US dollar. The sudden and dramatic appreciation of the Japanese yen under the Plaza Accord of 1985, however, was a counter-blow to the BOJ's interventionist policy, but it would have been better not only for the Japanese but also for other economies, if the Japanese yen had been appreciated steadily, following the market rather than such a concerted intergovernmental sanction. There was no doubt that the political rapprochement between Japan and China with the signing of the Japan-China Friendship Treaty in 1973 and the Japan-China Peace Treaty in 1975 opened a new avenue of international trade for both countries, increasing the East Asian share of the growing

Japanese exports and imports ever closer to the North American share in the 1980s.

It was also quite obvious that since East Asian countries had all the attractive elements for direct investment operation by Japanese firms, whether in terms of political stability, wage cost, skills or market, East Asian countries received a disproportionately high percentage of Japanese direct investment overseas (see in more details Ng, Hirono and Narongchai 1987). Towards the end of the 1960s and early 1970s most of the East Asian governments also implemented export-oriented policies, replacing their old import-substitution industrialization policies and welcomed private foreign direct investment including Japanese multinationals in order to accelerate their industrialization, improve their industrial technology, management know-how and increase their export earnings. The appreciation of the Japanese yen under the floating exchange rate regime precipitated the Japanese industry to invest overseas particularly in developing East Asian countries, as foreign assets became relatively cheaper as compared with the Japanese. Also, the opening of China in 1978 under the Teng open-door policy became increasingly ‘real’ to Japanese investors who had been previously rather cautious and timid, in turn heightening their fervor for direct investment in China later in the 1980s. China thus became an important economic partner to Japan both in trade, investment and aid, as will be discussed below.

Thirdly, partly to assist developing East Asian countries in economic and social development and partly to help reduce their rising anti-Japanese sentiments, the GOJ launched its massive assistance program by announcing that its ODA would double every three to five years beginning in 1978. As shown in Table 5, nearly 80–90 percent of the Japanese ODA during the 1970s went to Asian countries, in particular to Southeast Asia. In the 1980s, the East Asian share of the Japanese ODA declined steadily in line with the constant increase in their per capita GDP and the increasing pressure on Japan from its allies to increase its ODA to sub-Saharan Africa and least developed countries elsewhere. With the Japan-China Peace Treaty signed in 1975, however, the GOJ began to provide economic assistance to China, partially offsetting the decline of the East Asian share of the Japanese ODA that would have otherwise been observed more conspicuously (Blaker 1984).

Much of this Japanese ODA went into the expansion and improvement of economic infrastructure such as transport, energy and telecommunications as well as into that of productive sectors such as agriculture and industry, all of which were essential to the target country’s faster growth of GNP and its industrialization. This was in line with the GOJ’s basic philosophy that ODA whether from Japan or other donors ought to be only a supplement to the recipient's own efforts for raising its domestic savings and should preferably be given to those sectors of the national economy which would constitute the basic foundation for, and contribute most to, national economic development. While a larger proportion of the Japanese ODA was in the form of the yen loan provided by OECF, its increasing proportion was made available in grant assistance particularly in health, sanitation, education and other social sectors.

The only aberration in Japanese ODA during the 1970s, aside from the policy shift away from Japan's export and own economic development to the assistance of East Asian countries, was triggered by the energy crises of 1973–74 and 1979–80. Having been threatened by OPEC with the oil embargo to Japan and the quadrupling of the price of oil in 1973–74 and its doubling in 1979–80, the GOJ suddenly increased its ODA, in particular grant and technical assistance to the oil-rich Middle Eastern countries and to oil-poor Arab countries. Even here one could argue, however, that the GOJ's readiness to assist the Middle Eastern countries was based on its genuine interest in helping the economic development of the oil-importing Arab countries and economic diversification of the oil-dependent Arab countries. Although, judging from the timing of its offer of increased ODA, it was obviously tied to Japan's keen interest in procuring stable sources of crude oil supply.

By and large, however, Japan's economic cooperation policy toward East Asia made a radical departure in the early 1970s. It moved from the age of Japan's preoccupation with its own trade and economic expansion during the 1950s–60s to the age of Japan-Asian economic partnership in which Japan gave its priority to the acceleration of the economic development of the developing East Asian neighbors during the 1970s and their social development in addition during the 1980s. This was symbolic, and an inevitable consequence, of Japan's attainment of a global power status which compelled Japan, together with the United States and the European Community nations, to realize their joint responsibility to assist developing countries to advance economically and technologically. This awareness of the joint responsibility on the part of Japan to assist the developing countries grew keener and sharper not only in the GOJ but even among the general public as Japan became the largest creditor nation and the largest donor of ODA in the world in 1989. This surpassed for the first time the United States, which had always led the West and, for that matter, the world in helping the developing countries (see for a more detailed discussion Islam 1991).

3.3 Toward the age of Japan-East Asian comprehensive partnership, 1991–2010

Already toward the end of the 1970s and in the 1980s the age of the Japan-East Asian economic partnership began to be steadily transformed and matured into the age of the Japan-East Asian comprehensive partnership of the 1990s in the broader Asia-Pacific partnership. This was achieved by the establishment of the ASEAN/Post-Ministerial Conference (PMC) in 1978, the Pacific Economic Cooperation Conference (PECC) in 1980, the Asian and Pacific Economic Cooperation (APEC) in 1989 and the ASEAN Regional Forum (ARF) in 1990 (Suh and Ro 1990).

The ASEAN/PMC is a forum of the ASEAN foreign ministers meeting with their counterparts from Australia, Canada, Japan, New Zealand and the United States to discuss their foreign policies in the changing international relations at the regional and global level. It was a product of ASEAN countries' keen interest in strongly involving the major Western partners in their accelerated economic development and securing Western support in the face of the communist victory in the Vietnam War and these countries' interest in cementing a fortress ASEAN against the onslaught of the communism. Underlying the establishment of the ASEAN/PMC, therefore, there was a strong interest in building a political partnership between ASEAN and Western countries.

The PECC is a forum for the government and private sector as well as academia of the member countries of the ASEAN/PMC and other East Asian countries that aimed to promote economic cooperation in the Pacific region including trade, investment, technology and aid. The PECC was a natural outcome of the Pacific Businessmen's Congress initiated in 1970 by the private sector in Australia, Canada, Japan, New Zealand and the United States. It was also initiated by the Pacific Economic Conference started in 1976 by the academia in the industrialized countries of the Asia-Pacific region. The PECC proved to be quite useful to its member countries in furthering economic cooperation. Their governments thus went ahead to establish in 1989 APEC, an inter-governmental forum with the same objective as the PECC.

APEC gradually expanded its mandate and membership as it evolved in the 1990s, not only to promote economic cooperation among its member countries but also to engage in setting up nearly a pan-Pacific free trade area, based on the principle of open regionalism, by collectively agreeing to the reduction in tariffs and NTBs in their intra- and extra-regional trade.

Consensus building for the establishment of a freer trading regime in the Asia-Pacific region consistent with the global rules and regulations of the WTO was initiated by the United States under the strong leadership of

President Clinton when APEC met for the first time at the Summit level in Seattle in 1996. Also, the membership of APEC today has been extended not only to the market-oriented economies in Latin America across the Pacific but also to socialist market economies such as China and Vietnam.

The ARF is an inter-governmental forum focussed on the maintenance of peace, stability and security in the East Asian region. ARF membership was drawn from the ASEAN/PMC, China, the Republic of Korea and Vietnam which joined ASEAN in 1995. Japan has been quite active in the ARF from its inception, seeking an institutional mechanism for consolidating regional security along with the Conference for Security Cooperation in Europe (CSCE) which predated the collapse of the Soviet Union's influences in Central and Eastern Europe. Japan has also been quite active in collaborating with ASEAN in setting up the ASEAN-European Meeting (ASEM) in 1996 and participating in its various sessions.

Furthermore, Japan has been seeking a role in South Asia by promoting its bilateral relations with each of the South Asian countries and exploring ways and means by which to accelerate the economic and social development of South Asian countries. Japan has tried to achieve this through their respective domestic deregulation, liberalized trade and investment regimes and through further development of the South Asian Association for Regional Cooperation (SAARC). The increase of Japanese ODA going to South Asia began in the early 1990s with these measures in mind. The GOJ has been hosting Japan-SAARC symposia and conferences in Japan and South Asian countries to promote better understanding, trade, investment and technology cooperation among the SAARC countries and between the SAARC countries and Japan (MOFA 1998).

From the above discussion it is clear that Japanese economic cooperation toward Asia has become much more global oriented, going beyond the traditional confine of East Asia. It has also become much broader in its approach to development, going beyond the traditional confine of trade and investment and promoting good governance and people participation. Moreover, it has developed a much more collaborative approach, going beyond its bilateral relations and involving other major bilateral and multilateral partners in pursuit of regional and global peace, stability and security. Japan has indeed become a responsible global partner in the Asia and Pacific region through a step-by-step enhancement of its economic policy toward Asia.

4 East Asian economic crises and policy recommendations for Japan's economic cooperation toward East Asia

4.1 Major factors responsible for the East Asian economic crisis

Major factors responsible for the current economic crisis of most East Asian countries are found both in- and outside of this region (see among others JDS 1998; World Bank 1998; Griffith-Jones 1999). The most important factors within the crisis hit countries were:

a) national government policies of pegging their national currencies to the US dollar which appreciated their exchange rates vis-à-vis the currencies of their new competitors such as China and Vietnam. This made their exports less competitive in the international market and their imports more attractive, thus enlarging not only their trade deficits but also the massive short-term capital inflow that had been seeking quick profits from interest differentials and an equally massive and rapid outflow in the face of the imminent foreign exchange crisis,
b) a weak financial sector engaged in risky investments, together with an inadequate regulatory framework on accounting standards, information disclosure and supervision by central banks,
c) governments sticking to high-growth policies in spite of rising and persistent current account deficits which encouraged domestic and foreign investors, together with dollar pegging, to resort to heavy foreign borrowing on the basis of an excessive confidence in the continuation of high economic growth and asset appreciation.

One of the major external factors responsible for the East Asian economic crises was the IMF policy of encouraging East Asian countries to implement the non-discriminatory liberalization of their capital accounts, including short-term capital inflows and outflows, regardless of weak financial systems and inadequate supervision by central banks. The IMF should have recommended, not only to Thailand but to any other developing countries with inadequate financial systems to strengthen their financial system first before opening up completely to the short-term movement of foreign capital. As suggested later, the IMF should have also recommended that these developing countries levy tax on short-term capital inflow and outflow, as Chile has been doing successfully for some time. A massive attack by international investors on Asian currencies for fear of imminent collapse of foreign exchange positions also precipitated the crisis.

Another major factor contributing to this downward spiral in 1997–98 and the uncertainty thereafter has been the prolonged recession of Japan with its problem of huge NPAs which is further exacerbated by Japan's sagging investment, consumption and corporate profits, rising unemployment and growing fiscal deficits at the national and local levels. The essential reforms necessary in the political and economic structures, enterprise management, the financial system, fiscal and administrative system and social security arrangements have been very slow both in policy formulation and implementation.

4.2 Economic consequences of the East Asian economic crises and government policy measures

As a result of the East Asian financial and economic crisis and the prolonged recession of the Japanese economy, East Asian countries have been suffering from negative growth with the exception of China, Singapore and Taiwan. The economic crisis has hit every segment of their populations, but hardest on the poor as a result of the loss of jobs and the inflationary pressures on food and other basic commodities and services. The crisis has enormously increased the amount of non-performing assets of banking and non-banking institutions, often resulting in bankruptcies. Wages have also gone down and at the same time there has been a rising rate of unemployment and underemployment not only in metropolitan areas but also in local municipalities, towns and villages. Trade and investment flows between East Asian countries and Japan have been declining since 1997.

While governments of East Asia have come to deal squarely with their economic crises to bring them under control and regain positive economic growth before the turn of this century through those measures recommended by IMF such as tight money policy, fiscal discipline and financial sector reforms, these measures have not worked as well as intended. However, they are not completely in vain, as some prospect for reversing the recessionary trend is being seen in some countries such as Thailand. It is sincerely hoped that ASEAN's own efforts as declared by the ASEAN Summit on 15 December, 1998 such as the acceleration of the intra-ASEAN tariff reduction to 0–5 percent by the year 2002, the ASEAN financial system reform by the year 2004 and the introduction of the special corporate income tax exemption for foreign manufacturing investment coming during the years 1999–2001 from outside the ASEAN will speed up the economic recovery of the ailing ASEAN economies. It is equally hoped that enhanced economic cooperation among them and with the rest of the world would bring an early reversal of the economic downturns. It would seem, however, quite difficult for these countries to complete the necessary structural reforms and return to the past growth path that had been achieved between 1970 and 1990 and even during the 1990s up to mid-1997.

4.3 Various rescue plans by bilateral and multilateral donors and the role of Japan

Since the crisis began in Thailand in mid-1997, a number of rescue plans and programs have been announced by bilateral and multilateral donors. IMF has led the international community to mobilize financial resources to deal with the immediate adverse impact of the crisis on foreign exchange rate devaluation and the loss of confidence among foreign investors in the economic strength of these East Asian economies. The World Bank and the Asian Development Bank have also committed their assistance to rescue these ailing economies from further financial and economic collapses.

Japan, though in the midst of own financial difficulties and deep recession, has been one of the first bilateral donors to express its commitment of assistance to these crisis-ridden countries (see MOFA 1999). The Japanese commitment to the East Asian countries under crisis is linked to its domestic efforts to revive the Japanese economy from the long-term recession following the burst of the bubble in 1990 and the Japanese direct and indirect (through multilateral institutions) assistance on the short-, medium- and long-term bases to these East Asian countries to rescue them from the on-going hardship.

To deal with the lack of foreign exchange reserves in East Asian countries, Japan has made US $ 19 billion (US $ 4 billion for Thailand, US $ 5 billion for Indonesia and US $ 10 billion for the Republic of Korea) available as part of the international rescue package initiated by IMF. Part of this was initiated in August, November and December 1997 and has already been disbursed to tackle with the financial instability, the shortage of international liquidity and the accumulated private indebtedness. US $ 23 million has also been given to the World Bank and the Asian Development Bank to provide technical assistance on financial sector reforms in these countries. To deal with the downward pressures on the national economy and the rising unemployment in these adversely affected countries and to intervene in the inadequacy of export earnings and trade finance, the GOJ has made available US $ 22.5 billion at the disposal of these governments. All these programs committed by the GOJ to assist the East Asian countries sum up to US $ 44 billion, by far the largest sum of money ever pledged by any bilateral and multilateral donor.

It is to be noted that the above commitments are in addition to the New Miyazawa Plan which was announced at the time of the joint IMF / World Bank annual meeting in October 1997, making available US $ 30 billion consisting of US $ 15 billion for medium- and long-term loans through the EXIM-Bank and the OECF and, another US $ 15 billion for short-term relief to economic reforms in these adversely affected countries of East Asia. Furthermore, Japan and the United States came out with a joint Japan-U.S. proposal, as announced at the APEC Summit meeting on 16 November 1998 in Kuala Lumpur, to provide the governments and state enterprises of these countries with an access to US $ 5 billion in the form of bond purchases, guarantees and loans. These measures are expected to strongly help countries now in crisis. Under this program, Japan will establish a US $ 3 billion Asian Currency Crisis Support Facility in the Asian Development Bank. Finally to extend during the years 1999–2001 600 billion yen (approximately US $ 5 billion) for a special yen loan facility to needy East Asian countries.[2] However, most important of all the, Japanese government policy that aims to support East Asian countries should also bring about the sustained revival of Japan's own economic growth to the level of approximately 1–2 percent as soon as possible. Also, the continuation of the open-door policy to expand Japan's imports is important, not only of primary commodities from the ASEAN countries, but also of manufactured products. In view of the fact that East Asian economies are, and will continue to be, globalized beyond the year 2000, Japan's open-door policy must not be limited to East Asian countries now under economic crisis but to the rest of the APEC countries and the world which are dependent upon East Asia.

Japan must go far beyond what has recently been shown by the Obuchi Administration in its fiscal 1998 second and third supplementary budgets and its fiscal 1999 budget proposal. Japan must continue its serious efforts for expanding Japan's domestic aggregate demand by:

a) maintaining an appropriate monetary policy, while watching against any creeping inflationary pressures,
b) continuing on an expansionary spending policy targeted at swift economic recovery and a moderate growth, and focussed on long-term investment in human and environmental capital and industrial restructuring rather than on the traditional public investment programs,
c) rigorously pushing through a series of enterprise, fiscal, financial sector, social security, educational and administrative reforms already undertaken by the previous Hashimoto Administration to enable Jap-

[2] Also, to assist East Asian countries in accelerating economic recovery and reforms, the GOJ has made available US $ 1.98 billion, while food and pharmaceutical drugs worth US $ 140 million has been disbursed to support the weaker segments of the population in East Asian countries. US $ 32 million has been earmarked to assist them in human resource development and another US $ 32 million to help those students now studying in Japan suffering from their home countries' downturn. In addition, US $ 20 million has been given to the ASEAN Fund to assist their activities in areas of humanitarian and development assistance in the adversely affected ASEAN countries.

anese firms, institutions, its economy and people to become more competitive in the increasingly globalized markets,

d) revising and enforcing the Anti-Monopoly Act effectively to encourage domestic competition and eliminate all the cartels now legalized under special provisions,

e) making illegal all the built-in barriers and restrictive business practices by the private sector enterprises to restrain competition at home and abroad.

In terms of external relations, Japan must not repeat the wrong policy decision as shown at the recent APEC Summit in Kuala Lumpur in November 1998. There its refusal to lower tariff and non-tariff barriers to forestry and agricultural products according to APEC's Earlier Voluntary Liberalization Program (EVL) has certainly created the worldwide impression Japan is interested in delaying the international efforts for establishing the Liberalized Global Trading System at the advent of the 21st century.[3]

Japan must accelerate its import and capital liberalization by reducing as soon as possible all its import tariffs and NTBs including quantitative restrictions, and thereby encourage domestic competition to benefit their consumers in Japan, by simplifying all the import documentation and custom clearance procedures and by eliminating all the legal restrictions and administrative guidance over the foreign capital participation and management in Japanese enterprises. Furthermore, with its large amount of foreign exchange reserves, Japan must continue to support the private sector not only to expand its own direct investment overseas but also expand its imports of all types of goods and services including long-term foreign capital inflows for global industrial and trade restructuring. Japan also must continue to enhance its ODA both quantitatively and qualitatively with a view to assisting the developing countries in East Asia and elsewhere in their economic and social development and narrowing the North-South gap which has unfortunately been widening ever since the end of World War II. Japan must continue to consolidate firmly the bridge of sustainable development between the developing and industrial countries and strengthen the bridge of mutual communication and trust between the Eastern and the Western civilization in search for global peace, sustainable development and human security.

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[3] The APEC Summit in November 1997 and the APEC Trade Ministers' meeting in June 1998 had agreed upon the EVL for reducing simultaneously all the quantitative import restrictions and tariff rates for forestry, fishery, medical equipment, communications apparatus, chemical products, toys, jewels, environmental and energy products, without waiting for item-by-item negotiation in the World Trade Organization (WTO).

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