

Changing Japanese Policies Toward East And Southeast Asia Now And in the Future*

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I. Introduction

Japan's economy as well as East Asian economies have made dramatic changes since the end of World War II, with profound implications to Japan's major policy thrusts toward East Asia.¹⁾

* This is a revised version of my paper entitled "Japanese Economic Policy Toward Asia: Past, Present and Future", submitted to the Conference on Regional Cooperation in Asia sponsored by the German Institute for Japanese Studies on 8-9 October, 1998.

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1) East Asia covers both Northeast Asia consisting of 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.

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, while the Japanese industry has gone through enormous process of restructuring, moving from labour-intensive to capital- and technology-intensive sectors and from goods- to services-producing sectors. On the other, many East Asian economies have also expanded remarkably during the same period, growing out of poor, agrarian economies into high-income, newly industrializing economies (NIEs) and/or middle-income near-NIEs. In fact, many have done so much faster than Japan. In this process there have been enormous expansion in the international trade, investment and aid in East Asia and the remarkable deepening in the economic relations between Japan and each of these East Asian countries. During the postwar period, there have also been enormous changes in the rest of the world economy, notably in South Asia, the Americas and Europe. The vast changes seen in both Japan, the rest of the Asian economies and the rest of the world economy have thus been both the causes and effects of the Japan's policy thrusts toward East Asia and the East Asian policies toward Japan. This paper intends first to present the changing economic relations between Japan and the rest of Asia, particularly focussing on East Asian economies during the last half a century, secondly to analyse the major shifts in Japan's policy toward East Asia and explain them in terms of those critical factors responsible for such changes both in Japan and East Asia in the international context and thirdly to suggest some policy recommendations for the GOJ and, for that matter, our East Asian governments to consolidate their bilateral relations and to initiate a new multilateral framework for East Asia.

II. Rapid Expansion and Diversification in the Japan-East Asian Economic Relations, 1950-2010

1) Rapid trade expansion, 1951~1970

Once the process of an immediate postwar economic reconstruction and reforms of Japan had been completed during the five-year period 1945-50 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 their neighbouring East Asian countries to sustain economic growth and industrial development. Japan's perception of East Asian countries thus emerged first and foremost as an export market for their manufactured products and as their source for required raw materials supply at reasonable cost. While this perception had varied in strength among different industries, it had persisted in many segments of the Japanese industry as late as until the late 1960s when Japan had been constantly threatened with trade and payments deficits. While many changes, as discussed later, have taken place since the end of the 1960s, the vertical division of labour between Japan and East Asian economies has remained even today an important aspect of the economic relations among them.

Japan made a dramatic economic reconstruction during the period 1945-50 and sustained their high rate of economic growth during the succeeding two decades 1951-70. In the long history of Japanese economic development since the Meiji Restoration of 1868 this postwar period distinguished itself from all the rest in attaining the highest rates of economic growth ever recorded for a sustained period of time. In the single decade of the 1950s, Japan's national income doubled and the

same was repeated during the 1960s, partly by the Income Doubling Programme 1961-70 pursued by the GOJ as its top priority, thus raising Japan to occupy 11 percent of the combined GNP of the six major industrial countries in 1970 (See Table 1).²⁾

Along with the high rate of economic growth, there was a steady restructuring of the Japanese economy shifting from primary to secondary and tertiary sectors (See Table 2), and so with the Japanese manufacturing industry, shifting from labour-intensive and low value added consumer products to capital-intensive and higher value added consumer products and capital goods sectors. These inter-industry shifts 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 favour of trade liberalization announced in 1961 and foreign investment liberalization announced in 1967, which resulted in an increasing economic integration of Japan into the rest of the world economy through expanding international trade and investment. These policy shifts were promoted under the Kennedy Round of multilateral trade negotiation during the 1960s. There was thus a rapid expansion in Japan's foreign trade with the rest of the world, accompanied by a steady restructuring in terms of commodity composition and destination. (See Table 3)

The war in the Korean peninsula brought enormous sufferings to the people of North and South Korea, but meant ironically an economic blessing to many in the rest of East Asia. Starting in mid-1950 Japan saw a dramatic expansion in their exports of labour-intensive manufactured goods such as

2) See, for a more detailed discussion, Hirono Ryokichi (1980).

processed foods and textiles to the United Nations forces fighting in Korea.

The special procurement programme of the United States reached as high as US\$300-350 million annually during the Korean War. Throughout the two decades of the 1950s and 1960s, Asia and North America thus remained the major markets for Japanese exports, comprising over two-thirds of the total exports. With a rapid pace of industrialization of Japan and continued economic expansion of the United States during these decades, however, North America replaced Asia and the United States replaced East Asia as the largest market for the Japanese exports. 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.

The general feature of the changing patterns of the Japanese exports by major commodities was also reflected in their exports to East Asia. As East Asian countries began their industrialization programme during the 1960s, however, synthetic fibers, 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 Japan's manufactured exports by 1965.

While East Asia, being Japan's neighbours, was an important market for Japanese manufactured exports, the countries in 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 with foodstuffs, textiles and other labour-intensive products that reflected the changing comparative advantages of their economies vis-a-vis the

Japanese. Because of this vertical specialization between Japan and East Asia, Japan's trade balance continued to favour Japan, sewing in East Asian countries a seed of discontent and demand for Japan's import expansion both of processed primary and light-industry products in which they had comparative advantage and for which Japan continued to protect domestic industry. These trade tensions began to emerge in the late 1960s on top of a series of trade disputes between Japan and the United States for Japan's major export products such as textiles in the mid-1960s and iron and steel products in the late 1960s.³⁾

2) Rapid foreign investment expansion reinforced by increased foreign aid and trade, 1971~90

By the end of the 1960s, however, there was observed a changing perception of the Asian economies in the mind of Japanese industrialists. Having been confronted with the acute shortage of both unskilled and semi-skilled labour, the rapidly rising wage pressures and the rising prices of industrial sites, Japanese manufacturing industry began to look upon East Asian countries as the major source of cheap labour and resources (including land) supply. Also, with the rising sense of 'resources nationalism' emerging in the wake of rapid industrialization of Japan, western European countries and some developing regions of the world, 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) quadrupled its crude oil prices all of a sudden in the first energy crisis of 1973-74 and once again doubled them in the

3) See for a more detailed discussion, Chng, M.K. & Hirono, R. ed. (1984) and Chung, C.W., Ky, M.O. Yu, S. R. & Chung, D. L. ed. (1985).

second energy crisis of 1979-80.

While both of these critical conditions in labour and petroleum markets encouraged the Japanese industry to innovate labour- and resources-saving technologies in their production processes and move from labour- and resources-intensive products to capital- and technology-intensive ones, they encouraged the Japanese industry at the same time to invest in those neighbouring East Asian countries where labour was cheap and efficient, with abundant resources and expanding domestic markets (See Table 4). There was also a rising concern with the rapid deterioration of environment, such as air, water, soil and noise pollution all over the country, particularly in urban areas, which gave Japanese industry no choice but either to invest heavily in anti-pollution equipment at home or to move to neighbouring East Asian countries where environmental constraints were found less serious, or both.

In the interest of promoting industrial development further, developing countries particularly in East Asia began to shift their policies toward foreign multinational corporations based in industrial countries, shedding off their previous suspicion that these multinationals in formerly metropolitan countries would dominate their 'tinier and weaker' economies and emerge as neo-colonialists through the backdoor of marketplace, though not through the battle field. Some of these developing countries in the region, in addition to administrative incentives such as 'no-strike' guarantee, lavishly provided fiscal and financial incentives to those multinationals investing in manufacturing sector with advanced technologies and export potentials. All these developing country incentives, although varying in their effects, worked at least in favour of increased investment overseas by multinationals in industrial countries.

In order to assist these developing countries in East Asia to promote outward-oriented industrialization policies, Japan, far more than any other industrial countries, concentrated their foreign aid in East Asia. They steadfastly increased their aid programmes focussed on the development and improvement of the economic infrastructures such as highways, ports, power generation and distribution and irrigation facilities as well as such social infrastructures as education, health and sanitation (See Table 5). The Japanese aid programmes thus contributed a great deal to the expansion and modernization of productive capacity including physical and human resources development.

During the period 1971-90 a constant increase in Japan's trade surplus vis-a-vis the United States sharpened the trade disputes between the two countries in one product market after another, making it increasingly difficult for Japanese industry to expand their export directly to the U.S. and later to west European countries, as shown in steel, automobile and some electrical machinery and precision equipment. Thus, in addition to investing in these industrial countries to go over their protectionist walls, Japanese industry began to see Asian economies as the source of offshore production from where they would market 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 major industrial countries in the late 1960s and in the early 1970s also acted as an inducement to multinational manufacturing corporations based in industrial countries to locate and relocate their factories in developing countries for exporting to industrial country markets without or with lower tariff rates.⁴⁾

Above all, however, it was the 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 their direct investment overseas. Comprising of the four major pillars, i.e., delinking of U.S. dollar from gold, a 10 percent cut in the U.S. foreign aid, a 10 percent import surcharge on all goods coming from overseas, and a tax credit for U.S. corporations* investment at home, the NEP appreciated the Japanese yen, together with other key currencies, against the U.S. dollar, i.e., from ¥360 to ¥308 per dollar. The Japanese yen continued to appreciate against the U.S. dollar in the ensuing two decades, finally reaching ¥168 per dollar at the Plaza Accord in 1985 and ¥130 by the end of the 1980s. As in the case of a strong U.S. dollar in the 1950s and an overvalued U.S. dollar during the 1960s, the strong and overvalued Japanese yen resulted in the acceleration by Japanese industry of overseas investment and production expansion particularly in East Asian countries.

As a result, there was a rapid increase in the Japanese direct investment all over the world, particularly in the United States and European Community. In these industrial countries domestic market was huge and still expanding under sustained political stability and a growing number of Japanese industries had been confronted with rising trade disputes. In East Asian countries Japanese direct investment also expanded rapidly, as high rates of economic growth were being observed on a sustainable basis under rapid pace of industrialization and under the national regime of favourable policy toward foreign direct investment. Under these circumstances, it was a vital interest of Japan to see to it that these East Asian countries

4) See for a more detailed discussion, Okuizumi, K., Calder, K.E. & Gong, G.W. (1992).

would remain politically stable, economically viable and socially attractive to all investors including Japanese, which resulted in a number of Japan's policy measures in favour of East Asian development and intra-regional economic cooperation, as discussed later.

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 a greater competitiveness on the changing world market, multinational corporations of Japan and elsewhere made a conscious effort to promote intra-corporate division of labour among their 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 an 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 percent of their total exports increased from 35.7 percent to 46.8 percent during the period 1981-92, while the larger intra-Asia/Pacific exports of the Asia-Pacific countries as percent of their exports increased from 56.4 percent to 61.5 percent during the period 1970-90.

Various policy measures adopted by the ASEAN, including the ASEAN Joint Industrial Enterprises, by providing both preferential tariff arrangements among ASEAN countries and fiscal incentives, also contributed though only slightly to the enormous expansion in intra-ASEAN trade and investment hitherto observed. It was surprising to note that toward the end of the 1980s the intra-ASEAN trade expanded more rapidly than

the ASEAN trade with its external partners and 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 labour spreading to all ASEAN countries and their neighbours.⁵⁾

3) Hopes, crises and uncertainties, 1991~2010

The 1990s began with the 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 (World Bank, 1993). Even as late as in 1996 the Asian Development Bank made rather high growth forecasts 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 first six years 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 during the first half of the 1990s, further upgrading their respective trade and investment composition from labour-intensive to capital- and technology-intensive sectors (See Table 8). The burst

5) See for a more detailed discussion, Suh, Jang-Won & Ro, Jae-Bong (1990).

of the bubble in the Japanese economy in 1990 and the ensuing economic recession since then has precipitated the Japanese industry to reduce their imports of industrial raw materials, petroleum and other energy resources and capital goods and simultaneously expand their exports to those high-growth countries in East Asia and North America, creating further rise in their trade and current account surplus. The GOJ's low interest policy, the historically lowest in fact, to reflate the sagging investment and consumption at home, has failed to generate additional domestic aggregate demand under cold waves of pessimism and conditions of excess productive capacity. Instead, the soft money policy has also contributed to the increased trade and current account surpluses through depreciation of the Japanese yen which further increased the price competitiveness of Japanese manufactured exports in the international market.

Moreover, the continued recession since 1990 has precipitated the Japanese and other multinationals to invest and expand their production overseas, particularly in the rapidly growing 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 direct investment by foreign multinationals in East Asia provided on the one hand a temporary relief to further deterioration in these countries' trade and current account deficits and to the downward pressure on their currencies that would otherwise have taken place (See Table 9-1 & 9-2). On the other hand it contributed to further rise in real estate and stock market prices as well as in excess productive capacity, finally resulting in glut in product markets, deteriorating balance sheets in business corporations, and accelerating foreign divestment and the

international runs on their foreign currency reserves. Thus emerged a rapid depreciation of their foreign exchange rates and the ensuing financial crisis (See Table 9-3).⁶⁾

The currency crisis that hit Thailand in July 1997 soon spread to other East Asian countries, deepening it further into financial and economic crisis in most countries of the region and as in Indonesia into 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. There was at one point of time in 1998 even a fear that the Asian economic crisis, now crossing over the mountains and deserts to Russia and crossing over the Pacific to Brazil, might eventually involve the rest of the world and plunge the world economy into a global depression.

East Asian countries, once riding high on the 'Miraculous Growth', have been shuddered one after another with downward growth and eventually negative growth, with the exception of Hong Kong, Singapore and Taiwan with huge foreign currency reserves and stronger financial systems. Thanks to the international rescue packages organised by the IMF and the international assurance by Japan and other major bilateral donors of their further financial and technical assistance soon after the crisis, East Asian countries have now been able to gain macroeconomic stabilization, recover slowly but steadily and resume their growth path, although apparently with some cautions. There are recent forecasts in IMF and other financial circles that the worst is over in most countries of East Asia and that the upward spiral of national output will re-emerge soon in some countries, albeit slowly, beginning in the middle of 1999.⁷⁾

6) See for a more detailed discussion, Hirono, R. (1998).

7) See for a more detailed discussion, Hirono, R.(1998).

Obviously, one of the major factors that have contributed to the downward spiral in 1997-98 and uncertainty on the fast economic recovery of these East Asian countries up to now in 1999 has been the prolonged recession of Japan with all its problems of huge and rising volume of non-performing assets (NPAs) held by financial and nonfinancial institutions, sagging investment, consumption and corporate profits, rising unemployment and growing fiscal deficits at the national and local levels. Basically due to the government policy failures and the lack of political leadership, Japan has not been able to overcome its bubble burst since 1991. The essential reforms necessary in the political and economic structures, enterprise management, financial system, fiscal and administrative system and social security arrangements have been very slow both in policy formulation and implementation.

As a result of the Asian financial and economic crisis and the prolonged recession of the Japanese economy, the trade and investment between East Asian countries and Japan has been declining since last year, although expected to rise again this year. (See Table 10-1 & 10-2) While governments of East Asia including Japan have been expressing their commitments to bringing their economic crises and recession under control and regain positive economic growth before the turn of this century through enhanced economic cooperation among them and with the rest of the world, as declared by the East Asian Heads of State Meeting in Hanoi on 16th December 1998, it would seem quite difficult for these countries to complete the necessary structural reforms and return to the past growth path that had been achieved during the two decades of 1970-90 and even during the 1990s up to mid-1997.

It appears that the ROK's economic recovery programme announced by President Kim and the IMF in the fall of 1997 including industrial and enterprise restructuring and the 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 5 percent by the year 2000 and 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 are having favourable impact in speeding up the economic recovery of the ailing ROK and ASEAN economies.

Also, it seems equally true that in addition to the Miyazawa Plan announced on 3 October 1998 of providing US\$30 billion (US\$15 billion for short-term loans required in economic restructuring process and an additional US\$15 billion for medium- and long-term loans) to the ROK and those ASEAN countries adversely affected by the recent Asian financial and economic crises, the efforts of the international community such as the joint Japan-U.S. proposal, as announced at the APEC Summit meeting on 16 November 1998 in Kuala Lumpur, for providing the governments and state enterprises of these countries with an access to US\$5 billion in the form of bond purchase and guarantee and loans have had a positive contribution to precipitating the economic recovery of the East Asian countries in crisis. Under this programme Japan has already established US\$3 billion Asian Currency Crisis Support Facility in the Asian Development Bank. Furthermore, the additional Japanese government proposal was announced at the East Asian Summit in Hanoi on 16 December 1998, to extend during the years 1999-2001 ¥600 billion (approximately US\$5 billion) for a special yen loan facility at 1 % interest rate and

with the repayment period of 40 years and the grace period 10 years for those East Asian countries adversely affected by the crisis.

III. Japan's Major External Economic Policy Thrusts Toward East Asia, 1951-2010

- 1) Re-entry of Japan into Asia as an equal partner and as promoter of their trade and economic expansion, 1951~70

As soon as Japan gained their political independence after the World War II with the signing of the San Francisco Peace Treaty in 1951 with Western allies, Japan sought their re-entry into the world economic and political scenes by becoming member of the United Nations Economic Commission for Asia and the Far East in 1952, the International Monetary Fund and the World Bank in 1993, the General Agreement on Trade and Tariffs (GATT) in 1954 and the United Nations in 1956.⁸⁾

To regain a position of respect from their East Asian neighbours, Japan started to pay reparations to those Asian 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 for various reasons including

8) See for a more detailed discussion, the Committee for Economic Development and Keizai Doyukai (1963).

their colonial status, Japan provided quasi-reparations payments in the form of 'generous' grant and low-interest yen loans. At the same time, Japan became a member of the Colombo Plan in 1954 to provide technical assistance to those Asian countries which were developing members of the Colombo Plan.

Both Japan's reparations payments to these East Asian countries and the official development assistance (ODA) initiated by Japan with their entry into the Colombo Plan were also mobilized to expand Japanese manufactured exports to East Asian countries. The Ministry of International Trade and Industry (MITI) of the GOJ made no bones about the importance of Japan's reparations payments and ODA to East Asian countries to Japanese exports. Otherwise, Japanese reparations payments would have required the spending of the precious foreign exchanges reserves. Instead, they in fact helped not only not to reduce the reserves but also to accelerate the recovery and development of Japanese manufacturing industry by tying them 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 countries a taste for Japanese consumer and capital goods and trade and engineering services, contributing further to Japanese manufactured exports during the later years.

In 1955 Japan announced their economic policy toward Asia, reaffirming their commitment to the fulfilment of reparations programmes by the end of the 1960s and the assistance to non-communist Asian countries for their economic and social development. In the same year Japan established JETRO, although the Export-Import Bank of Japan (Eximbank) had already been established in 1950 to assist Japanese industry to expand their exports, and particularly to cement closer economic

cooperation with East Asian neighbours. In 1958 Japan established a Fund for the Economic Development of Southeast Asia in the Eximbank to assist Southeast Asian countries to accelerate their economic development. Thus, Japan laid down all the institutional mechanisms necessary for re-entry into Asia as a respectable partner in the postwar world and assist the newly independent developing East Asian countries to promote their trade, investment and economic expansion.

The GOJ established the Overseas Economic Cooperation Fund (OECF) in 1960 and the Overseas Technical Cooperation Agency (OTCA) in 1962 (reorganized in 1974 into Japan International Cooperation Agency - JICA) as an expression of their readiness to expand ODA to developing countries to assist in particular their Asian neighbours. Japan's ODA expanded leaps and bounds during the 1960s when Japan's GNP grew at the annual average rate of 10 percent. To further strengthen their economic cooperation with Southeast Asian neighbours, Japan further took initiatives for installing in 1963 the Ministerial Conference for the Economic Development of Southeast Asian Countries whose member countries constituted the core members of the Asian Development Bank when established in 1966. Japan also gave a strong support to the formation in 1967 of the 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.⁹⁾

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 East Asian countries. As

9) See for a more detailed discussion, CED and Keizai Doyukai (1970).

an ally of the West, Japan gave a strong support to non-communist East Asian neighbours in support of the foreign policy of the United States in Asia. While because of the Constitutional prohibition Japan did not send their armed forces, unlike Australia and the Republic of Korea, to defend South Vietnam against North Vietnam, Japan, remaining the closest ally of the United States in the latter's fight in Vietnam War, provided all the economic assistance to South Vietnam during the warring period. Just as during the Korean War of 1950-52, Japan reaped economic benefits through trade and investment expansion from the Vietnam War, just as its East Asian neighbours did.

2) Japan's changing economic policy priority from export to economic assistance to the region under the Cold War regime, 1971~90

As Japan began to build up their trade account surplus not only vis-a-vis the United States but with the rest of the world in the late 1960s, there were rising pressures not only in industrial but also among developing countries particularly in Asia on Japan to open up their huge domestic market to foreign exporters through further reduction of tariffs and through the elimination of non-tariff barriers (NTBs) as well as through the appreciation of the Japanese yen vis-a-vis the U.S. dollar and other key currencies. Because of the unwillingness of Japan to appreciate the external value of their yen currency, the United States pulled its last trigger in 1971 by announcing its New Economic Policy (NEP), as discussed earlier. It was for this reason that Japan announced all their support to strengthening the freer international trading regime by calling for the Tokyo

Round of multilateral trade negotiation (MTN) in 1971, in succession to the finalizations of the 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 on the elimination of import quotas, other quantitative restrictions and discriminatory government procurement policies and practices as well as restrictive business practices.

The 1970s saw a decided shift in the Japanese economic policy toward East Asia on three accounts.¹⁰⁾ First of all, the GOJ was no longer interested in assisting the Japanese industry to expand their exports. Nearly all their 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. The 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 their exports to unexploited markets. Instead of export incentives came the government incentive measures for promoting research and development (R & D) in the private sector to precipitate the process of industrial restructuring from low valued added to higher value added industries.

Secondly, to prevent the rising trade deficits of East Asian countries vis-a-vis Japan from deepening further into anti-Japanese sentiments, as shown in the rock-throwing demonstrations against Japan at the time of Prime Minister Tanaka's visits to Indonesia and Thailand, the GOJ relaxed their foreign exchange control over the Japanese industry's direct

10) See for a more detailed discussion, CED and Keizai Doyukai (1974).

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. Since East Asia was the closest neighbours to Japanese industry, East Asian exporters were able to reap the benefits of freer trade most as compared with those exporters elsewhere. The installment of the GSP beginning in 1970, as mentioned earlier, was also beneficial most to those East Asian neighbours traditionally exporting to Japan.

The floating exchange rate regime introduced in February 1973, by appreciating the Japanese yen vis-a-vis the U.S. dollar, also proved to have had an enormous impact on the growth of the Japanese manufactured imports from East Asian neighbours whose currencies were tied to the U.S. dollar. Had it not been for the BOJ's interventionist policy, the Japanese imports of manufactured imports from East Asian neighbors would probably have risen much higher through the further appreciation of the Japanese yen vis-a-vis the U.S. dollar. The all-of-a-sudden, 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 to the Japanese but also to 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 the disproportionately high percentage of Japanese direct investment overseas.¹¹⁾ Towards the end of the 1960s and early 1970s most of the East Asian governments also installed the 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 and 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-up of China in 1978 under the Teng's open-door policy became increasingly real to Japanese investors who had been rather cautious and timid in the beginning, thus heightening their fever for direct investment in China later in the 1980s. China thus became an all-important economic partner to Japan both in trade, investment and aid, as mentioned 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 their massive assistance programme by announcing the doubling of ODA every three or five years beginning in 1978. As shown in Table 5, nearly nine-tenth or eight-tenth of the Japanese ODA during the 1970s went to Asian countries, in the main to Southeast Asia and ASEAN in particular. In the 1980s the East Asian share of

11) See for a more detailed discussion, Ng, C.Y., Hirono, R., and Narongchai, A., eds. (1987).

the Japanese ODA declined steadily in line with the constant increase in their per capita GDP and the increasing pressure on Japan from their allies to increase ODA to subsaharan 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.¹²⁾

As shown in Table 5.2, much of the Japanese ODA went into the expansion and improvement of the economic infrastructures such as road, transport, telecommunications and power as well as into that of productive sectors such as agriculture and industry, all of which were essential to the faster growth of GNP and industrialization. This was in line with the GOJ's basic philosophy that the ODA whether by Japan or by 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 the Japanese ODA during the 1970s from the decided policy shift from Japan's export and own economic development to assistance to 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 quadruple (1973-74) and the double (1979-80) price

12) See for a more detailed discussion, Blaker (1984) and Hirono, R. (1990).

increases in crude oil prices, the GOJ all of a sudden increased their ODA, particularly grant and technical assistance to the oil-rich Middle Eastern countries and the yen loan, in addition, to those oil-poor Arab countries. Even here one could argue that although the GOJ's readiness to assist the Middle Eastern countries was based on their genuine interest in helping the economic development of the oil-importing Arab countries and economic diversification of the oil-dependent Arab countries, it was obviously tied to Japan's keen interest in procuring stable sources of crude oil supply, judging from the timing of their offer of increased ODA right after the energy crises.

By and large, however, Japan's economic policy toward East Asia made a radical departure in the early 1970s from the age of Japan's preoccupation with their own trade and economic expansion during the 1950s-60s to the age of Japan-East Asian economic partnership in which Japan gave priority to the acceleration of the economic development of the developing East Asian neighbours 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 less fortunate developing countries to advance economically and technologically in an effort to catch up with industrial countries. 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 so that Japan became in 1989 the largest creditor nation and the largest donor of ODA in the world, surpassing for the first time the United States which had always led the West and, for that matter, the world in helping the developing countries under the East-West tension.¹³⁾

3) Toward the age of Japan-East Asian comprehensive partnership in the broader Asia-Pacific cooperation, 1991~2010

Already toward the end of the 1970s and in the 1980s the age of Japan-East Asian economic partnership began to be steadily transformed and matured into the age of Japan-East Asian comprehensive partnership of the 1990s in the broader Asia-Pacific cooperation, with the establishment of the ASEAN/PMC in 1978, the PECC in 1980, the APEC in 1989, the ASEAN Regional Forum (ARF) in 1990 and Asia-Europe Meeting (ASEM) in 1996.

The ASEAN/PMC was a forum of the ASEAN foreign ministers meeting with their counterparts from Australia, Canada, Japan, New Zealand and the United States in the Asia-Pacific region to discuss their foreign policies in the changing international relations at the regional and global level. It was a joint product between ASEAN's keen interest in firmly involving the major western partners in their accelerated economic development and securing the western support in the face of the communist victory in Vietnam War and in the whole Indochina Peninsula and the five Western countries in the Pacific region to cement the fortress of ASEAN against the onslaught of the East. Underlying the establishment of the ASEAN/PMC, therefore, there was a strong interest in building political partnership between the ASEAN and the Western countries.

The PECC was a forum of the governments, private sector

13) See for a more detailed discussion, Islam, S. (1991).

and academia in the member countries of the ASEAN/PMC and other East Asian countries 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 private sector in Australia, Canada, Japan, New Zealand and the United States and the Pacific Economic Conference initiated in 1976 by the academia in the industrial countries of the Asia-Pacific region. The PECC proved to be quite useful to its member countries in furthering economic cooperation and their governments thus went ahead to establish in 1989 the APEC, an inter-governmental forum with the same objective as the PECC.

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

In 1990 the ASEAN Regional Forum (ARF), an inter-governmental forum focussed on the maintenance of peace, stability and security in the East Asian region, was established

with its membership drawn from the ASEAN/PMC, China, the Republic of Korea and Vietnam which came into the ASEAN in 1995 and its observer status extended to India. Japan has been quite active in the ARF from its inception, seeking for the institutional mechanism for consolidating the regional security along with the European Security Cooperation Conference (ESCC) 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 ASEM and participating in its various sessions since 1996.

Furthermore, Japan has been seeking their role in South Asia by promoting bilateral relations with each of the South Asian countries and exploring into ways and means by which to accelerate the economic and social development of South Asian countries through domestic deregulation, liberalized trade and investment regimes and through further development of the South Asian Association for Regional Cooperation (SAARC). The increasing Japanese ODA going to South Asia began in the early 1990s with these 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.¹⁴⁾

IV. Concluding Remarks

From the above discussion it is now quite clear that the Japanese policy toward East Asia has become much more global, going beyond the traditional confine of East Asia, much broader

¹⁴⁾ See for a more detailed discussion, Ministry of Foreign Affairs (1998).

in its approach to development, going beyond the traditional confine of trade and investment and promoting good governance and people participation and much more collaborative, going beyond its bilateral approach 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 and diversification of their economic relations with Asia.

It is therefore befitting that Japan, the Republic of Korea and ASEAN resume their diplomatic initiatives for establishing the East Asian Economic Cooperation Conference among the East Asian countries/territories on the heel of their past achievements such as PECC and APEC and on the basis of their reflections on the East Asian financial and economic crises since 1997 with a view to accelerating trade and economic liberalization efforts, consolidating intra-East Asian trade and economic cooperation and building a dynamic East Asian economy. In so doing, Japan, the ROK and ASEAN must ensure that any regional economic cooperation will promote global trade and economic liberalization and cooperation under the United Nations, the Bretton Woods Institutions and the WTO. In this connection, it would be desirable if both NAFTA (and FTAA) and EAECC could function under the broader umbrella of the expanded APEC. If impossible, EAECC ought to be pursued independent of the NAFTA (FTAA) and the APEC. It is of course understood that Australia, New Zealand and South Pacific countries could participate as equal partners in EAECC.

Furthermore, toward the consolidation of the comprehensive partnership between Japan and East Asian countries in the broader Asia-Pacific relations, Japan, the ROK and ASEAN could

further take diplomatic initiatives for merging the existing ARF with the proposed EAECC, thus ushering a new age beginning in the 21st century where East Asia will take political leadership in creating East Asian Union (EAU) and deal on an equal footing with the NAFTA (FTAA) and the expanded EU member states in promoting world peace and development.

It must be emphasized once again that all these policy thrusts toward East Asia and to the rest of the world will require Japan to go through all the necessary economic and political reforms at home and much bolder diplomatic initiatives overseas. These reforms, however painful, will ensure the Japanese economy to regain a positive but moderate growth rate on a sustained basis into the 21st century. Together with these domestic reforms, these much bolder diplomatic initiatives will once again place Japan as a responsible and respectable partner in the international community. Such reforms and diplomatic initiatives, to be successful, will require a strong political leadership capable of mobilizing the popular support at home and abroad.

Table 1. Gross Domestic Products of Major Industrial Countries in the World Economy, 1950~1997

| Country | 1950 | | 1960 | | 1970 | | 1980 | | 1990 | | 1997 | | 1997* | |
|--------------------------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|-----------|------|-----------|-------|-----------|------|
| | \$Billion | % | \$Billion | % | \$Billion | % | \$Billion | % | \$Billion | % | \$Billion | % | \$Billion | % |
| Canada | 39.90 | 4.2 | 73.80 | 3.5 | 253.40 | 4.2 | 263.19 | 3.4 | 570.15 | 3.6 | 603.09 | 2.7 | 19,290 | 3.76 |
| France | 60.10 | 6.4 | 142.90 | 6.9 | 651.90 | 10.9 | 664.60 | 8.5 | 1,190.78 | 7.5 | 1,396.54 | 6.3 | 26,050 | 5.08 |
| Germany | 72.10 | 7.6 | 184.50 | 8.9 | 819.10 | 13.7 | n.a. | 15.6 | 1,488.21 | 9.3 | 2,100.11 | 9.4 | 28,260 | 5.51 |
| Italy | 37.20 | 3.9 | 107.50 | 5.2 | 394.00 | 6.6 | 449.91 | 5.8 | 1,090.75 | 6.8 | 1,145.37 | 5.1 | 20,120 | 3.92 |
| Japan | 11.00 | 1.2 | 43.10 | 2.1 | 203.70 | 3.4 | 1,059.25 | 13.6 | 2,942.90 | 18.4 | 4,201.64 | 18.8 | 37,850 | 7.38 |
| U.K. | 71.40 | 7.6 | 106.50 | 5.1 | 522.90 | 8.7 | 537.38 | 6.9 | 975.15 | 6.1 | 1,271.71 | 5.7 | 20,710 | 4.04 |
| U.S.A. | 506.70 | 53.7 | 1,011.60 | 48.6 | 2,587.10 | 43.1 | 2,709.00 | 34.6 | 5,392.20 | 33.7 | 7,745.71 | 34.7 | 28,740 | 5.60 |
| Industrial countries (A) | 944.00 | 85.8 | 2,083.10 | 84.3 | 5,993.40 | 81.8 | 7,816.71 | 73.2 | - | - | - | 79.3 | 25,700 | 5.01 |
| Developing countries (B) | 182.70 | 14.2 | 389.00 | 15.7 | 1,334.30 | 18.2 | 3,017.43 | 26.8 | 3,334.26 | 17.3 | 5,909.68 | 20.7 | 1,250 | 0.24 |
| World(C) | 1,100.00 | 100.0 | 2,472.10 | 100.0 | 7,327.70 | 100.0 | 10,674.16 | 100.0 | - | - | - | 100.0 | 5,130 | 1.00 |

Notes: The Figures for industrial countries include those for high-income developing countries; previously they wer

* - Per capita GNP in U.S. dollars.

Sources: Miyazaki, Saichi, Okumura, Shigetugu, and Morita Kirirou, Kindai Kokusai Keizai Yoran(Commentary on the International Economy in the Modern Era), 1981, World Bank, World Development Report 1972, 1992, 1995, and 1998/99; and Economic Planning Agency, 2000 Nen no Nihon (Japan in the Year 2000), GPO, 1982.

Table 2. Changing Structure of Japanese Manufacturing Industry, 1955-96

| Industry | 1955 | 1960 | 1965 | 1970 | 1975 | 1985 | 1990 | 1995 | 1996 |
|-----------------------------|---------|----------|----------|----------|-----------|--------|---------|---------|------------|
| Primary sector | 1,587.0 | 2,094.5 | 3,100.3 | 4,462.8 | 8,165.9 | | | | |
| Secondary sector | 2,972.8 | 6,830.7 | 13,602.3 | 32,622.7 | 57,336.0 | | | | |
| Manufacturing | 2,356.0 | 5,527.6 | 10,746.6 | 26,339.7 | 37,749.4 | 90,523 | 119,028 | 117,204 | 119,304 |
| Food & beverage | 588.9 | 930.8 | 1,479.2 | 1,958.8 | 3,610.9 | 6,542 | 8,001 | 9,286 | 9,190 |
| Textile products | 236.6 | 448.2 | 708.4 | 1,505.2 | 1,761.9 | 3,011 | 3,109 | 1,795 | 1,739 |
| Clothing | 48.9 | 78.3 | 178.8 | 385.5 | 576.6 | 1,701 | 2,191 | 2,438 | 2,292 |
| Wood & wood products | 79.1 | 129.9 | 250.7 | 704.4 | 598.0 | 1,375 | 1,664 | 1,527 | 1,533 |
| Furniture & fixtures | 33.8 | 69.2 | 171.7 | 405.3 | 471.5 | 1,205 | 1,757 | 1,556 | 1,591 |
| Pulp & paper | 83.3 | 159.0 | 316.2 | 745.5 | 1,243.7 | 2,290 | 3,081 | 3,227 | 3,280 |
| Printing & publishing | 120.3 | 175.9 | 412.2 | 1,062.3 | 1,810.2 | 4,552 | 6,360 | 6,735 | 6,903 |
| Leather & leather products | 6.4 | 11.0 | 1,024.4 | 122.6 | 116.2 | 382 | 475 | 384 | 368 |
| Rubber & rubber products | 31.3 | 71.1 | 134.4 | 317.4 | 559.1 | 1,195 | 1,630 | 1,535 | 1,567 |
| Chemical products | 208.5 | 439.5 | 952.7 | 2,492.3 | 4,057.0 | 7,956 | 11,272 | 11,984 | 11,902 |
| Coal and petroleum products | 66.5 | 269.1 | 570.6 | 265.0 | 737.3 | 3,961 | 4,693 | 5,547 | 5,356 |
| Ceramics & clay products | 93.6 | 218.6 | 456.2 | 1,169.4 | 1,817.4 | 3,936 | 5,093 | 4,965 | 5,005 |
| Iron & steel | 158.4 | 517.6 | 682.5 | 1,693.4 | 2,833.3 | 5,188 | 6,209 | 4,969 | 4,921 |
| Nonferrous metals | 46.0 | 95.0 | 147.8 | 654.4 | 926.9 | 1,566 | 2,110 | 1,967 | 2,092 |
| Fabricated metal products | 78.0 | 248.1 | 697.4 | 1,595.0 | 1,808.7 | 5,523 | 8,055 | 7,970 | 8,110 |
| General machinery | 132.5 | 572.3 | 1,129.1 | 2,900.5 | 3,876.1 | 10,002 | 13,602 | 12,131 | 12,769 |
| Electrical equipment | 102.7 | 440.2 | 825.8 | 2,925.0 | 4,247.2 | 14,863 | 20,085 | 19,643 | 20,165 |
| Transportation machinery | 161.9 | 446.8 | 1,080.0 | 2,332.1 | 4,626.8 | 9,774 | 12,582 | 12,494 | 13,398 |
| Precision machinery | 43.6 | 92.1 | 219.2 | 388.2 | 703.0 | 1,834 | 2,021 | 1,673 | 1,738 |
| Miscellaneous | 35.7 | 114.9 | 309.3 | 949.7 | 1,367.5 | 1,698 | 2,336 | 2,289 | 2,220 |
| Construction | 425.5 | 1,040.1 | 2,473.9 | 5,661.8 | 13,494.9 | | | | |
| Tertiary sector | 4,014.2 | 7,760.2 | 16,757.7 | 38,901.8 | 88,377.9 | | | | |
| Total | 8,985.4 | 16,928.3 | 33,813.3 | 73,659.7 | 148,955.3 | | | | 503,068.20 |

Note: 1) In billions of yen at current market prices.

Source: BS/OPM, Nihon Tokai Nenkan (Japan Statistical Yearbook), 1971, 1981 and 1998.

Table 3. Changing Export Structure of Japan by Destinations, 1950~97

| Destinations | 1950 | 1955 | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 1997 |
|------------------------------|-------|-------|---------|---------|---------|----------|----------|----------|------|----------|----------|
| Asia & Middle East | 43.9 | 40.6 | 35.8 | 36.9 | 31.2 | 36.7 | 38.1 | 32.6 | 34.1 | 45.5 | 44.5 |
| China | n.a. | 3.0 | 0.0 | 0.0 | 2.9 | 4.0 | 3.9 | 7.1 | 2.1 | 5.0 | 5.2 |
| East Asia except China | n.a. | 29.0 | 25.0 | n.a. | 22.1 | 20.7 | 22.5 | 17.4 | 27.7 | 30.4 | 35.9 |
| Others | n.a. | 9.0 | 10.8 | n.a. | 6.2 | 12.0 | 11.7 | 8.1 | 4.3 | 10.1 | 3.4 |
| Western Europe | 12.0 | 10.1 | 11.8 | 12.8 | 17.4 | 18.5 | 19.4 | 16.3 | 23.4 | 17.4 | 17.5 |
| North America | 23.5 | 24.7 | 30.1 | 28.0 | 33.6 | 22.1 | 23.2 | 38.0 | 33.9 | 28.6 | 32.5 |
| Canada | 1.8 | 2.2 | 2.9 | 2.8 | 2.9 | 2.1 | 1.9 | 2.6 | 2.4 | 1.3 | 1.4 |
| United States | 21.7 | 22.5 | 27.2 | 25.2 | 30.7 | 20.0 | 21.3 | 35.4 | 31.5 | 27.3 | 27.8 |
| Latin America | 4.2 | 7.8 | 4.9 | 6.0 | 6.2 | 8.5 | 9.7 | 6.5 | 3.5 | 4.4 | 1.8 |
| Oceania | 2.8 | 2.7 | 3.6 | 2.4 | 4.2 | 4.1 | 3.4 | 4.0 | 3.1 | 2.4 | 2.4 |
| North and Sub-Saharan Africa | 11.2 | 12.6 | 12.2 | 12.0 | 7.4 | 9.9 | 6.1 | 2.7 | 2.0 | 1.7 | 1.3 |
| USSR & Eastern Europe | 2.4 | 1.5 | 1.6 | 1.9 | | | | | | | 0.6 |
| Total (in billion yen) | 300.0 | 700.0 | 1,500.0 | 3,320.0 | 6,954.0 | 16,545.0 | 29,382.0 | 41,956.0 | - | 41,531.0 | 50,938.0 |

Note: The figures for USSR and Eastern Europe for the period 1970~97 are included in those for Europe.

Sources: BS/OPM, Japan Statistical Yearbook 1951, 1961, 1971, 1981, 1991 and 1997.

Table 4. Japanese Direct Investment Overseas by Region and Selected Host Country, 1951~97 (US\$million)

| Region & Country | 1951~75 | 1980 | 1985 | 1990 | 1995 | 97-01-06 | 1951~96 | Percent |
|------------------|---------|-------|--------|--------|--------|----------|---------|---------|
| Africa | 284 | 139 | 172 | 551 | 379 | 184 | 8,507 | 1.5 |
| Liberia | | 110 | 159 | 531 | 307 | 41 | 7,108 | 1.3 |
| S. Africa | | | | | 57 | 130 | 299 | 0.1 |
| 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 |
| Hong Kong | | 156 | 131 | 1,785 | 1,125 | 394 | 16,493 | 2.9 |
| Indonesia | | 529 | 408 | 1,105 | 1,596 | 1,677 | 20,991 | 3.7 |
| Malaysia | | 146 | 79 | 725 | 573 | 307 | 7,501 | 1.3 |
| Philippines | | 78 | 61 | 258 | 718 | 293 | 4,094 | 0.7 |
| ROK | | 35 | 134 | 284 | 445 | 129 | 6,129 | 1.1 |
| Singapore | | 140 | 339 | 840 | 1,152 | 700 | 11,803 | 2.1 |
| Taiwan | | | 114 | 446 | 457 | 277 | 4,975 | 0.9 |
| Thailand | | | 48 | 1,154 | 1,224 | 1,133 | 9,811 | 1.7 |
| East Asia | | | 1,414 | 6,946 | 11,763 | 6,067 | | |
| Asian NIEs | | | 718 | 3,355 | 3,179 | 1,500 | | |
| ASEAN 4 | | | 597 | 3,243 | 4,110 | 3,409 | | |
| India | | | | 30 | 127 | 171 | 809 | 0.1 |
| Pakistan | | | | 9 | 42 | 42 | 304 | 0.1 |
| Sri Lanka | | | | | 59 | 260 | 233 | 0.0 |
| Vietnam | | | | | 197 | 143 | 754 | 0.1 |
| Others | | | 20 | 69 | 76 | 4 | 486 | 0.1 |
| Europe | 971 | 578 | 1,930 | 14,294 | 8,470 | 3,248 | 105,709 | 18.8 |
| Belgium | | | 84 | 367 | 358 | 52 | 3,661 | 0.7 |
| France | | | 67 | 1,257 | 1,524 | 369 | 8,418 | 1.5 |
| Germany | | 110 | 172 | 1,242 | 547 | 389 | 9,179 | 1.6 |
| Ireland | | | 81 | 49 | 340 | 525 | 2,378 | 0.4 |
| Italy | | | 32 | 217 | 120 | 69 | 2,026 | 0.4 |
| Netherlands | | | 613 | 2,744 | 1,509 | 800 | 22,055 | 3.9 |
| Spain | | | 91 | 320 | 51 | 19 | 3,337 | 0.6 |
| Switzerland | | | 60 | 666 | 100 | 10 | 3,333 | 0.6 |
| U.K. | | 186 | 375 | 6,806 | 3,445 | 899 | 40,712 | 7.2 |
| Latin America | 917 | 588 | 2,616 | 3,628 | 3,877 | 3,624 | 63,471 | 11.3 |
| 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 |
| U.S.A. | | 1,484 | 5,395 | 26,128 | 22,193 | 8,925 | 238,628 | 42.4 |
| Canada | | 112 | 100 | 1,064 | 568 | 128 | 9,845 | 1.8 |
| Oceania | 463 | 448 | 525 | 4,166 | 2,795 | 567 | 30,942 | 5.5 |
| Australia | | 431 | 468 | 3,669 | 2,635 | 515 | 27,323 | 4.9 |
| New Zealand | | | 23 | 231 | 94 | 28 | 1,519 | 0.3 |
| World | 6,876 | 4,693 | 12,217 | 56,911 | 50,694 | 23,501 | 562,320 | 100.0 |

Source: Japan External Trade Organisation (JETRO), White Paper on Direct Investment Overseas, 1972, 1982, 1992 and 1998; and Export Import Bank of Japan, Journal of Research Institute for International Investment and Development, 1998.

Note: All figures for 1997 were published in the Japanese yen, which was converted into the U.S. dollar on the basis of the Bank of Japan interbank rate averages.

The Figures for 1995 and 1997 do not include those direct investments whose total is less than 100 million yen which used to be included prior to 1995.

Table 5. Geographical Distribution of the Japanese Bilateral Official Development Assistance(ODA)

| Regions | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 1997 |
|-----------------------------|-------|--------|--------|--------|--------|---------|--------|
| Asia | 98.3 | 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 |
| Elsewhere | 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 US\$million | 372.0 | 850.4 | 1961.0 | 2557.0 | 6940.0 | 10557.0 | 6613.0 |
| Total ODA US\$million | 458.0 | 1148.0 | 3304.0 | 3797.0 | 9069.0 | 14484.0 | 9435.0 |

Source: Ministry of Foreign Affairs(MOFA), Japan's Official Development Assistance, 1978, 1988 and 1998.

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

Those figures in parentheses show minus.

Table 6. Inter- and Intra-regional Trade by Destination, 1981-92

| From/To | Japan | | Asian NIEs | | ASEAN | | China | | East Asia | | Americas | | EC 12 | |
|-----------|-------|------|------------|------|-------|------|-------|------|-----------|------|----------|------|-------|----------|
| | 1981 | 1992 | 1981 | 1992 | 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 | 29 | 1.7 | 13.1 | 18.5 |
| ANIEs | 10.6 | 9.1 | 10.1 | 14.6 | 10.4 | 7.8 | 2.5 | 11.2 | 33.5 | 42.8 | 28.5 | 27 | 13.7 | 14.6 |
| ASEAN | 32.7 | 21.1 | 17.8 | 22.7 | 3.7 | 4.4 | 0.8 | 2.5 | 54.9 | 50.6 | 18.2 | 21.6 | 11.6 | 16.1 |
| China | 24.4 | 14.5 | 28.1 | 52.1 | 3.5 | 2.8 | - | - | 56.1 | 69.4 | 6.5 | 11.7 | 10.2 | 10.3 |
| East Asia | 10.2 | 8.4 | 15.1 | 24.1 | 7.8 | 7.7 | 2.7 | 6.6 | 35.7 | 46.8 | 27.1 | 28.1 | 13 | 16.5 |
| Americas | 8.4 | 8.8 | 4.9 | 8.3 | 1.9 | 2.4 | 1.5 | 1.5 | 16.7 | 21.1 | 35.5 | 43.3 | 20.5 | 18.5 |
| EC12 | 1 | 1.8 | 1.2 | 2.4 | 0.9 | 1.1 | 0.4 | 0.6 | 3.5 | 5.9 | 8.2 | 7.8 | 53 | 61.4 |
| World | 6.8 | 19.5 | 4.8 | 8.8 | 2.1 | 2.9 | 0.9 | 2.3 | 14.6 | 19.5 | 17.5 | 19.4 | 32.9 | 39,939.9 |

Source: Pacific Economic Cooperation Conference, Pacific Economic Outlook 1994, Washington, D.C.: PECC, 1994.

Table 7. Economic Growth Performance of East Asia, 1970-2001 (US\$Billion in 1990 prices)

| Countries and Subregions | Real GDP | | | | | Share% | Average Annual Growth Rates | | | | | | | | |
|--------------------------|----------|-------|--------|--------|--------|--------|-----------------------------|---------|---------|---------|------|-------|------|--------------------|-----|
| | 1970 | 1980 | 1990 | 1997 | 2001 | | 1970-70 | 1970-80 | 1980-90 | 1990-97 | 1997 | 1998 | 1999 | 1990-2001 adjusted | |
| Hongkong | 15 | 37 | 70 | 171 | 178 | 0.4 | 8.7 | 9.4 | 6.9 | 5.3 | 5.2 | -4.9 | -1 | 5.5 | 1.3 |
| ROK | 46 | 100 | 244 | 443 | 446 | 1.6 | 9.1 | 8.2 | 9.5 | 7.2 | 5.5 | -5.2 | 0.3 | 7 | 0.8 |
| Singapore | 7 | 18 | 35 | 96 | 99 | 0.2 | 8.7 | 9 | 6.6 | 8.5 | 7.8 | 0.7 | 1 | 6.1 | 0.8 |
| Taipei, China | 29 | 74 | 155 | 303 | 305 | 1 | 9.1 | 9.7 | 7.7 | 6.5 | 6.8 | 5.1 | 4.8 | 6.3 | 1.2 |
| Asian NIEs | 97 | 229 | 505 | 1,013 | 1,028 | 3.2 | | 8.9 | 8.2 | | | | | 6.5 | 1.2 |
| Indonesia | 29 | 63 | 107 | 215 | 211 | 0.7 | 3 | 8 | 6.1 | 7.5 | 4.6 | -14.3 | -5 | 6.8 | -1 |
| Malaysia | 11 | 24 | 42 | 98 | 98 | 0.3 | n.a. | 8 | 5.2 | 8.7 | 7.8 | -6.2 | -0.1 | 7 | 0 |
| Philippines | 21 | 38 | 44 | 83 | 92 | 0.2 | 4.9 | 6.1 | 1.6 | 3.3 | 5.1 | 0 | 2.6 | 3.1 | 1.2 |
| Thailand | 20 | 38 | 80 | 157 | 160 | 0.6 | 8 | 6.8 | 7.8 | 7.5 | -0.4 | -7.7 | -0.2 | 8 | 1.2 |
| ASEAN Four | 81 | 162 | 274 | 553 | 561 | 1.8 | | 7.2 | 5.4 | | | | | 6.7 | 0.8 |
| China | 93 | 161 | 370 | 825 | 880 | 2.8 | n.a. | 5.6 | 8.7 | 11.9 | 8.8 | 7.2 | 7 | 8.2 | 7.2 |
| Vietnam | 7 | 8 | 14 | 25 | 31 | 0.1 | n.a. | 1.4 | 6.1 | 8.6 | 8.8 | 5.7 | 4.6 | 7.8 | 6.7 |
| Japan | 1,263 | 1,957 | 2,940 | 4,202 | 4,220 | 14 | 11.1 | 4.5 | 4.2 | 1.4 | 0.9 | -1.8 | 1 | 1.7 | 1 |
| East Asia | | | 654 | 2,378 | 2,533 | 8 | | 7.1 | 6.7 | 5.5 | 0.1 | 3.1 | | | |
| South Asia | | | 190 | 440 | 474 | 1.5 | | 5.3 | 4.8 | 5.1 | 5.3 | | | | |
| West Asia | | | 853 | 816 | 776 | 2.5 | | -2.2 | 2.6 | 5.9 | 4 | | | | |
| Africa | | | 358 | 484 | 392 | 1.3 | | 1.9 | 1.7 | 3 | 3.3 | | | | |
| Latin America | | | 1,155 | 1,617 | 1,773 | 5.7 | | 1 | 3.4 | 5.4 | 3.3 | | | | |
| EU(15) | | | 5,340 | 7,604 | 8,469 | 27.2 | | 2.3 | 1.6 | 2.5 | 2.8 | | | | |
| U.S.A | 3,256 | 4,276 | 5,522 | 7,391 | 8,092 | 26 | 3.9 | 2.8 | 2.6 | 3.8 | 2.8 | | | 2.3 | 1.9 |
| World | 12,680 | ## | 23,004 | 28,157 | 31,169 | 100 | 4.9 | 3.4 | 2.7 | 2.3 | 3.3 | 2.5 | | 2.8 | 2.3 |

Sources: International Monetary Fund (IMF), International Financial Statistics, relevant years; Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries 1998, vol. XXI; United Nations, Project Link World Outlook and World Economic and Social Survey 1998; World Bank, World Development Report 1998/99, and Japan External Trade Organisation (JETRO), White Paper on International Trade 1999.

Note: Forecast for the years 1990-2001 in the U.N. Project Link have been adjusted downward due to the recent Asian financial and economic crises.

Table 8. Revealed Comparative Advantages of East Asian Economies, 1980-93

| Country | Labour-intensive | | | Technology-intensive | | | Capital-intensive | | |
|-------------------|------------------|-------|-------|----------------------|-------|-------|-------------------|-------|-------|
| | 1980 | 1990 | 1993 | 1980 | 1990 | 1993 | 1980 | 1990 | 1993 |
| Japan | 0.815 | 0.465 | 0.394 | 1.693 | 1.82 | 1.604 | 1.46 | 1.233 | 1.291 |
| Hong Kong | 6.354 | 3.992 | 3.504 | 1.148 | 1.264 | 1.205 | 0.104 | 0.203 | 0.286 |
| Republic of Korea | 4.272 | 2.901 | 1.946 | 1.154 | 1.428 | 1.38 | 0.628 | 0.584 | 0.723 |
| Singapore | 0.696 | 0.654 | 0.534 | 1.437 | 2.343 | 2.354 | 0.458 | 0.576 | 0.63 |
| Taiwan | 4.846 | 2.803 | 2.146 | 1.4 | 1.569 | 1.527 | 0.356 | 0.537 | 0.639 |
| Indonesia | 0.76 | 1.286 | 1.882 | 0.51 | 0.115 | 0.206 | 0.102 | 0.167 | 0.154 |
| Malaysia | 0.372 | 0.716 | 0.703 | 0.79 | 1.696 | 1.841 | 0.483 | 0.265 | 0.355 |
| Thailand | 1.203 | 2.158 | 2.017 | 0.439 | 0.982 | 1/060 | 0.567 | 0.211 | 0.35 |
| China | - | 3.065 | 3.578 | - | 0.457 | 0.557 | - | 0.503 | 0.433 |

Source: UNCTAD, Trade and Development Report 1995, p. 150.

Note: Country's RCA index in a given commodity group is defined as the ratio of the share of that commodity group in the country's total exports to the share of the same commodity group in world exports.

Table 9-1. Current Account Balance and External Financing of Selected East Asian Countries, 1994~98* (US\$ billion)

| Financing sources | 1994 | 1995 | 1996 | 1997 | 1998 |
|--------------------------|-------|-------|-------|-------|-------|
| Current account balance | -65.9 | -80.9 | 17.6 | | |
| Net external financing | 47.4 | 80.9 | 92.8 | 15.2 | 15.2 |
| Direct investment flows | 4.7 | 4.9 | 7.0 | 7.2 | 9.8 |
| Portfolio flows | 7.6 | 10.6 | 12.1 | -11.6 | -1.9 |
| Commercial bank lending | 24.0 | 49.5 | 55.5 | -35.4 | |
| Non-bank private lending | 4.2 | 12.4 | 18.4 | 13.7 | -3.3 |
| Net official flows | 7.0 | 3.6 | -0.2 | 27.2 | 24.6 |
| Changes in reserves | -5.4 | -13.7 | -18.3 | 22.7 | -27.1 |

Source: UNCTAD, *ibid.*, p. 66.

Note: * The figures are for Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand for 1998 are all estimates by UNCTAD secretariat.

Table 9.2. Lending by BIS Reporting Banks to East Asian Economies by Sector, end June 1997

| Countries | CAB* | All sectors %GDP | US\$million | Sectoral distribution (%) | | |
|---------------|------|---------------------|-------------|---------------------------|-----------|---------------|
| | | | | Banks | Non-banks | Public sector |
| Hong Kong | | -3.4 | 222,289 | 64.8 | 33.9 | 0.5 |
| Indonesia | | -3.4 | 58,726 | 21.1 | 67.7 | 11.1 |
| Malaysia | | -5.3 | 28,820 | 36.4 | 57.1 | 6.4 |
| Philippines | | -5.9 | 14,115 | 38.9 | 48 | 13.1 |
| ROK | | -4.8 | 103,432 | 65.1 | 30.6 | 4.2 |
| Singapore | | 15 | 211,192 | 82.8 | 16.6 | 0.5 |
| Taipei, China | | 3.8 | 25,163 | 61.6 | 36.8 | 1.6 |
| Thailand | | -8 | 69,382 | 37.6 | 59.5 | 2.8 |

Source: UNCTAD, *ibid.*, p. 60.

Note: * - Current account balances as percent of GDP for end 1996.

Table 9.3. Exchange Rate Movements in East Asia, 6/1997~8/1998*

| Country | Bilateral exchange rate with | | Real effective exchange rate# |
|-------------|------------------------------|--------------|-------------------------------|
| | U.S. dollar | Japanese Yen | |
| Australia | -21.9 | -8.1 | -16.9 |
| Japan | -15.0 | - | -9.6 |
| New Zealand | -26.3 | -13.3 | -20.2 |
| China | - | 17.4 | 0.4 |
| Hong Kong | - | 17.5 | 12.6 |
| ROK | -33.8 | -22.2 | -23.7 |
| Singapore | -17.6 | -3.1 | -8.2 |
| Taiwan | -19.4 | -5.2 | -14.9 |
| Indonesia | -77.7 | -73.8 | -58.0 |
| Malaysia | -39.8 | -29.2 | -28.8 |
| Philippines | -38.3 | -27.5 | -27.2 |
| Thailand | -36.7 | -25.6 | -22.3 |

Source: IMF, World Economic Outlook, Washington, D.C., September, 1998.

Notes: * A negative sign signifies a depreciation of the currency of the Country vis-à-vis the U.S. dollar and the Japanese yen.

Nominal trade-weighted exchange rates, deflated by consumer price indices. Partner country weights capture both bilateral and third-country effects based on data for 1988-1990.

Table 10-1. Reduction in Japan's imports from South and East Asia excluding China, 1995~98

| | 1995 | 1996 | 1997 | 1998 |
|---------|---------|---------|---------|---------|
| Imports | 8427.3 | 9824.7 | 9467.4 | 8450.9 |
| Exports | 16301.2 | 17483.9 | 17908.7 | 16146.8 |

Source: JERC, Quarterly Economic Forecasts, September, 1998.

Table 10-2. Estimated Reduction in Japan's Direct Investment Outflows to East Asia, 1998~2003

| Countries | Percent changes in 3~5 years | | | | |
|---------------|------------------------------|-----------------|-----------|----------------|------------|
| | 50% & over | 1~49% reduction | Unchanged | 1~49% increase | 50% & over |
| China | 0 | 23 | 31 | 33 | 1 |
| Hong Kong | 1 | 12 | 36 | 5 | 0 |
| Indonesia | 6 | 18 | 28 | 17 | 1 |
| Malaysia | 2 | 20 | 36 | 14 | 1 |
| Philippines | 1 | 6 | 26 | 12 | 0 |
| ROK | 4 | 13 | 29 | 6 | 0 |
| Singapore | 4 | 15 | 34 | 12 | 0 |
| Taipei, China | 2 | 11 | 47 | 11 | 0 |
| Thailand | 7 | 28 | 36 | 16 | 3 |
| Vietnam | 1 | 2 | 14 | 9 | 0 |
| Total | 28 | 148 | 317 | 135 | 6 |

Source: Export-Import Bank of Japan, Journal of Research Institute for International Investment and Development, vol. 24, no. 9, 9/10, 1998.

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