

# Global Adjustment and the Future of Asian-Pacific Economy

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Institute of Developing Economies



Asian and Pacific Development Centre

# **GLOBAL ADJUSTMENT AND THE FUTURE OF ASIAN-PACIFIC ECONOMY**

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Global Adjustment and the Future of Asian-Pacific Economy  
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## Foreword

The Tokyo Conference on Global Adjustment and the Future of Asian-Pacific Economy provided a timely opportunity for policy-makers and scholars to exchange views on issues of central concerns to countries in the Asian-Pacific region and enhance regional collaborative efforts. It was held against a background of a changing global economic environment in the 80s which has transformed the scenario of the postwar world economic development. In spite of some difficulties experienced during this period, the Asian-Pacific economies have in general adjusted well to these changes and are forging ahead to become one of the strongest economic blocs in the future.

The Tokyo Conference was the second in a series of development forum organized by APDC on the theme of global adjustment and the future prospects of the Asian-Pacific economy. The first meeting was held in Beijing in November 1986. The third forum has been scheduled for November 1989 in Bangkok.

The Tokyo Conference was largely the outcome of the contribution of all those who participated in it. It is our belief that a wider range of audience may want to share the common concern of those who participated at the Tokyo Conference. This volume, hopefully, will cater to that need. APDC and IDE, as cosponsors of the Conference extend their deepest appreciation to the Government of Japan, particularly the Ministry of International Trade and Industry (MITI), the Ministry of Foreign Affairs and the Economic Planning Agency (EPA) for their invaluable support and assistance in organizing this Conference. They also acknowledge the generous financial support provided by the United Nations Development Programme (UNDP). Professor Miyohiei Shinohara, Chairman of the IDE until June 1988, played a key role in the successful conclusion of the Conference. The sponsors are grateful to him for his contribution. Finally, responsibility for views or opinions expressed in this volume rests entirely with the individual contributors and their opinions do not necessarily represent the views and opinions of the cosponsoring organizations.

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# Introduction: An Overview of Issues

*Miyohei Shinohara and Fu-chen Lo*

## **Theme of the Conference**

The Asian-Pacific region is now confronted with two major challenges as it moves towards the 21st century.

Firstly, the region needs to adjust itself to meet the challenge of the “Asian-Pacific Age” in achieving the long-desired graduation from underdevelopment, making full use of the growth momentum from the rapid industrialization accumulated over the past few decades.

Secondly, the region must overcome the difficult tasks of global adjustment taking place in the 1980s, such as recent rapid depreciation of the US dollar and appreciation of the Japanese yen, fall in prices of crude oil and other primary commodities, persisting international debt crises, aggravating imbalances of international trade and global slowdown of economic growth. Therefore, the Asian-Pacific region is now expected to solve the above difficulties and to realize a breakthrough for the new buoyancy of world economy.

The Tokyo Conference organized in May 1988 was aimed at discussing the following five issues, within a global perspective.

First, the economies of Asian NIEs and ASEAN have maintained superior economic growth performance despite the prolonged stagnation of the world economy. Lately, the South Asian countries have also displayed much better growth performance than in the past. This fact seems to indicate the possibility of the Asian-Pacific region striking a conspicuous presence in the world economy by the early 21st century.

Second, the 1980s, however, has seen a series of international phenomena such as rapid increase in the US Federal deficit and current account imbalance, sharp increase in Japan's surplus in current account balance and capital export, depreciation of the US dollar and appreciation of the yen, a marked decline in the primary commodity and crude oil prices, exacerbation of international debt crisis, dramatic turnabout in the position of the US, the world key currency country, from the top creditor to the top debtor country in the world. These phenomena are inevitably affecting Japanese as well as other Asian-Pacific economies, though the degree of impact each country will suffer differ. It is of vital importance to assess what kinds of impact the global adjustment will make on the region in order to carry out a correct perspective analysis of growth potentials of the region.

Third, if the present situation of the high yen and the low US dollar should continue, Japan's direct overseas investment may inevitably increase, with roundabout indirect effects of curtailing Japanese exports and stimulating its overseas relocation of production sites. This will result in the reduction of Japanese current account surplus and, at the same time, in the development

of capital goods and machinery parts industries as well as other related industries in Asian NIEs and ASEAN countries. Consequently, the inter-industry structure of developing countries in this region will become more mature and diversified. This in the long run, will allow these countries, which to date have heavily relied on capital goods and machinery parts imported from Japan, to decrease their dependence on Japan in the future as they continue their industrialization efforts. It may also reduce the lopsided trade imbalance between Japan and neighbouring countries.

Fourth, there exist both bright and gloomy aspects of the world economy, as it moves towards the 21st century. It is necessary for the world economy to solve the heavy burden of external debt at the earliest possible time, and for new technologies to play a significant role in order that the bright aspects could overcome the gloomy ones and thus create a strong impetus to a new economic buoyancy. For example, in the areas of biotechnology, new materials, the newly developed "super conductor" with potential applications to linear motor car, nuclear fusion, conservation of energy stock, innovation in heavy electrical goods, super high speed and super mini-sized computers and so forth, is a promising indication of the arrival of a new frontier. Their impact on the Asian-Pacific region in particular would be significant and extensive. It would be worthwhile paying special attention to the possibility that only increased direct investment and also a new frontier of technological innovation could ignite a new, long-term economic upswing. Another new frontier would be the possible development of an international financial market in this region by the turn of the century which will benefit not only the free market economies in the region but also China and other opening economies of the socialist bloc.

Fifth, interdependence of intra-regional trade and investment within the ASEAN region, for example, has not been so extensive. ASEAN has been much more dependent upon Japan and other developed countries than upon its own fellow members. It will, however, be inevitable for ASEAN member countries to establish a much closer interdependent relationship of trade and investment among themselves, if this region wishes to graduate from LDC status by the early 21st century. It is presumed that direct investment from Asian NIEs to ASEAN countries will increase. The reduction of extremely high tariff barriers in intra-ASEAN trade will have to be discussed by ASEAN countries as a key issue. It is also presumed inevitable for Japan to face demand from outside for easier access to its domestic market and more positive action for economic cooperation. As a whole, the Asian-Pacific region will take up an increasingly prominent position in the world economy and the role of Asia will be further enhanced as they enter the 21st century. We should start thinking about what Asia could do for the world. Japan and Asian NIEs will have to share much more international responsibility, from a global viewpoint, and at the same time, Japan should play a greater role in the Asian-Pacific region.

### **Global Adjustment and Outlook of the Asian-Pacific Economies**

On the future of the Asian-Pacific economy, the Conference was clearly dominated by an optimistic view on the growth prospect of the region towards the 21st century. Klein projection (Chapter 2) of the world economy demonstrated a pattern of uneven growth among the major economic blocs in the coming decade with the Asian-Pacific economy leading a growth rate of over 5% while the US and EEC remain at the 2% level. This view was also echoed by the APDC (Chapter 5) and Onishi (Chapter 7) projections based on similar scenarios. Despite the "Black Monday crash" of the stock market in 1987 and persistent world debt crisis and uncertainties developed in the 80s, a crash landing of the US economy and serious recession of the world economy has been ruled out. Shinohara (Chapter 1) who expressed an optimistic view of the Asian-Pacific economies with current trends of excellent economic performance ruled that the dream of an Asian-Pacific age is not unfounded. Many of the countries in the region will graduate from the LDC status at the beginning of the 21st century and go on to the NIEs level while others will leave the NIEs status to become full-fledged or quasi-advanced industrial nations. Such optimistic view of the regional economic outlook is further strengthened by socio-political dimension and cultural aspects as pointed out by Thanat (Chapter 4 Panel). Thanat also revealed the importance of economic and cultural cooperation forum for this region in the future.

Although Shinohara's report stressed the stagnation of oil and commodity prices has caused a negative impact on some Asian countries, nevertheless, the high yen since the Plaza G5 Agreement has led Japan to increase manufacturing imports and expand direct foreign investment to the rest of the Asian countries. This positive factor seemed to contribute to a new impulse for economic growth and industrialization in this region.

Klein argued that from world economic perspective, we are facing global adjustments in response to five serious imbalances. These are (a) unusually large surplus and deficit position offsetting one another throughout the world, (b) larger internal budget deficits in many countries, (c) disalignment and volatile swings of exchange rates, (d) heavy debt service burdens of some Third World countries and the US and (e) large pocket of unemployment and hyperinflation exist in various parts of the world. Klein indicated that the world economic centre of gravity will thrust squarely in the Asian-Pacific region and more nations will be classified as having advanced industrial status in Asia.

Lo et al. (Chapter 5) presented a view that the Asian-Pacific countries tend to be more economically complementary than competitive. The economies of Japan, Asian NIEs, ASEAN and China are at different stages of economic development, and shifting comparative advantage and large potential markets are positive factors in the regional economic restructuring in the future. The structural interdependency developed in the past decades particularly in the East Asian Industrial Belt is to be strengthened under current global ad-



justment. In addition to this, political stability and lesser tendency towards protectionism and greater degree of openness including China, will further strengthen the economic power of this region in the future. In order to ensure a smoother economic transformation towards the 21st century, five policy measures were proposed. These are (a) maintenance of a stable currency and exchange rate system, (b) efficient recycling of current account surplus of Japan and Asian NIEs, (c) greater accessibility to the Japanese market and technology for the region's developing economies, (d) to maintain an open and stable trading system and (e) the sustained high growth of this region which will also benefit the US, EEC and the rest of the world economy.

At this stage, the four Asian newly industrialized economies (NIEs) are shifting from a labour-intensive to a capital-intensive export-led growth economy. Chen (Chapter 10) emphasized the important role played by the Asian NIEs in promoting intra-regional trade and subregional division of labour between Japan, ASEAN and China. The Asian NIEs in the recent past have increasingly played a more important catalytic role in terms of direct foreign investment, transfer of technology and contribution to economic integration and cooperation. Looking at the bargaining position of ASEAN as an economic bloc, Chen proposed that increased economic cooperation among the Asian NIEs might be an effective measure against rising protectionism and external pressures.

Since the formation of ASEAN in 1967, the success of ASEAN in its external is more than its internal economic cooperation. Ariff (Chapter 8) pointed out that ASEAN has helped in creating a regional environment that has enabled the member countries to focus their attention on economic endeavours, on a national rather than on a regional basis, without dissipating resources on settling inter-country rivalries and disputes. In view of the post Manila Summit development, he suggested that ASEAN should continue to liberalize its trade and investment regimes and allow the market forces a free hand to shape up their economies.

China's economic relation with the Asian-Pacific economy has substantially increased in the past decade. Yu (Chapter 9) stated that in 1986 more than half of China's import and export went to the Asian-Pacific region. In early 1988, Zhao Ziyang introduced an ambitious economic development strategy for the coastal areas of China to further promote China's open door policy. If it continues, China's economic integration with this region will be further strengthened. It will also provide additional market for direct foreign investment as well as competitive element to the rest of the Asian-Pacific economies. Vietnam also presented a new economic policy in promoting direct foreign investment and openness of economic cooperation with other Asian countries. In general, socialist economies in Asia have taken a more open door economic policy as a trend.

Lall (Chapter 11) recommended that the making of the Asian-Pacific era cannot be achieved without including South Asia, referring to the recent formation of the South Asian Association for Regional Cooperation (SAARC)



as a stepping stone in promoting regional cooperation. Hussain further complemented Lall's view that India and China as most populated countries can be potential markets for the region. Fernando also emphasized the economic cooperation between SAARC and ASEAN as a promising effort to be desired. Syeduzzaman (Chapter 23) emphasized the South Asian countries are facing new challenges to sustain the past growth performance, particularly the issues of poverty eradication and how to balance the current account deficit in the future, in view of the serious global economic adjustments in recent years in the region. In order to overcome these issues, employment creation, food security, energy supply and infrastructure development are concrete steps to be undertaken and further improved. At this stage, ODA from developed countries to the South Asian region has declined drastically. Japan and Asian NIEs therefore should increase their untied fund or aid and direct investments towards the South Asian countries.

Elek from Australia stressed the importance of a free trade regime in the Asian-Pacific region and emphasized that it should extend to all type of commodities and services including agricultural products which are still very much protected in this region (Chapter 24). This view is also shared by Oshima (Chapter 4) particularly on ASEAN's agricultural export to Japan and Asian NIEs.

### **Sectoral Adjustments and New Frontiers of Development**

The impacts of global adjustments were strongly felt in this region through oil and commodity price stagnation, debt burden and rapid adjustment of exchange rate regimes in this region.

Sadli (Chapter 12) presented the Indonesian experience of macroeconomic adjustments in response to oil revenue decline in the recent past. Indonesia is a clear example of being caught by the "Dutch disease" in the 70s to early 80s. Heavy investments during the oil price boom fell short in terms of limited absorptive capacity to carry out projects. When Indonesia experienced its first financial crisis after the oil boom petered out, major projects were either delayed or shelved, followed by a serious tax reform, a series of devaluation of the rupiah and diversification of exports to cope with mounting debt. Sadli concluded that it would be better if the price of oil can be stabilized with the cooperation of all countries, not only by OPEC, so that planning and investments can proceed in a more orderly manner.

Hirashima and Kuchiki (Chapter 13) analysed on the supply and demand mechanisms of commodity market. The two has changed and led to increasing interlinkages among different commodity markets recently, that is, any measure on a single commodity basis would no more be effective. In the long run, demand for primary commodities by the developed countries will decline. Thus South-South trade should be encouraged. In order to enlarge domestic demand as well as trade among developing countries, it is necessary for developed countries to accelerate transfer of relevant technologies and it is also equally important for the developing countries to overcome supply bias, self-sufficiency bias. It is also important to discourage subsidized export of

certain commodities by the North (the share of the North in agriculture commodity export grew from 54.3% in 1967 to 65% in 1980). Othman and Naseem also proposed expansion of the South-South trade to cope with the issue.

Yoshitomi's paper (Chapter 14) on international imbalances and exchange rate effects is one of the major contributions which provided an indepth look at the US-Japan trade dispute. He stated that the apparent conflict between the proportionate deterioration of the US trade balance and the fiscal policy disparity arises from the asymmetric magnitude of cross-country effects of fiscal policies, that is, the US fiscal policy exerts far larger effects on Japanese and German external account than the latter country's fiscal policy on the US external account. The asymmetric spillover effect is attributable to the extremely high income elasticity of the US imports of 2.5-3 compared with Japan and Germany which is around 1 as well as larger absolute size of the US economy. Thus the reduction of the US external deficit can be effectively reduced only by a weak dollar accompanied by weaker domestic demand of the US, and not by the expansion of domestic demand in the surplus countries. In view of the yen appreciation, he concluded that the upgrading of the intra-Pacific international division of labour will sustain the momentum both through the underlying dynamism in the area based on technological innovations and through the globalization of Japanese direct investment. The continued enlarged absorption of the Japanese market under the strong yen vis-à-vis the US dollar and Asian currencies should help the Pacific trade triangle to meet the dynamic transformation of its supply structure through larger effective demand.

The LDC debt problem of the early 80s was caused both by a built-in "vicious circle" mechanism of debt accumulation and by the worsening of the international economic environment as argued by Yanagihara (Chapter 15). The central foci of structural adjustments are the expansion of manufactured exports, and increased role for the market mechanism and the private sector. Such a programme needs to focus on a 5 to 10 year medium-term policy and institutional reforms designed to set a new policy environment and to improve the efficiency of resource allocation and utilization. There are already signs that manufactured exports are picking up in all of the ASEAN4 countries. He also expressed the importance of how financial and technical assistance and keeping an open and buoyant world trade environment will make the structural adjustment programme politically more acceptable for effective implementation.

In spite of the various degrees of negative impacts from global adjustments, this region has also benefited or started to recognize new frontier of positive development. With the declining role of national resource and commodity boom, new frontiers of technology seem to make their way for a long-swing growth in the coming decades. With rapid relocation of industries due to the dynamism of comparative advantage of production, flow of direct foreign investment, recycling of trade surplus, new initiative of ODA and the changing

role of transnational corporations are shaping up the economies in this region.

On technology, Wakasugi (Chapter 16) reviewed the recent experience of Asian NIEs, and concluded that its growth was attributed to a circle between export expansion and imported technology from Japan and other developed countries. Japanese firms also imported foreign technologies under a clear corporate strategy to shorten the time of catching-up and to compete with foreign rivals as much as possible. To do this, the content of imported technology was thoroughly examined and modified to make it suitable for the Japanese production system. Also, enough efforts were given to ensure complementarity between self-reliance, R & D and imported technologies, and rationalizing production process efficiently. Japan has greatly increased its R & D expenditure in two frontiers recently: one is on advanced technologies to become a world frontrunner while the other is a fusion of complex technologies from different fields of industries together. As technological fusion is a composite of many different fields of technology, any attempt to absorb it will have difficulty unless its technological foundation is not fairly broad and sophisticated. Thus it is increasingly important for Asian countries to expand independent R & D with their own innovation. Otherwise, they will not be able to absorb those types of technology smoothly. He also argued that if technology is not fairly compensated for, and its right is not protected, the supply will dry up. Rules between the supplier and the demander of technology are indispensable for protecting the rights to technical knowledge. Koo cautioned the negative factors of overprotection by supplier, and Rana emphasized that it should not be limited to manufacturing industries but more attention should also be given to agriculture, environmental protection and encourage endogenized technology development.

On the changing role of transnational corporations (TNCs), Chee (Chapter 17) indicated that contributions through foreign direct investment (FDI) are superior to either ODA or bank lending to economic growth in this region. Many studies supported the view that in addition to financing capital formation, it also facilitated the transfer of technology and management skills. In recent years, Japan has emerged as a major home country for FDI. New forms of FDI comprising financial capital, embodied or disembodied technology, management and world market accessibility as a package have been introduced as a new trend, and there has also been a rapid expansion of FDI in services. The major factors which influence the changes are the prolonged stagnation of the world economy, the emergence of new technology, the rising tide of protectionism, the rapid realignment of the major foreign exchange rate regimes and the integration of the world financial market. In view of these factors, this region may be expected to face a more competitive investment climate but also new opportunities for rapid growth which may be facilitated by new TNCs and new forms of investment. In order to meet this new challenge the countries in this region should re-examine their policies towards FDI and TNCs.

One of the key issues deliberated at the Conference was how this region

can benefit from recycling of trade surplus. Suzuki's paper (Chapter 18) outlined the possibility of the future role of Japan as a financial centre. He argued that Japan is still undergoing the process of financial reform necessary for the domestic financial system to provide a full-fledged function. As to the role of Japan (the Tokyo financial market) as a financial centre, he stressed that Japan should supply stable and high quality yen-denominated financial assets to the rest of the world. If Japan continues over a long time period as the largest creditor nation, then yen should actively fulfil the role of an international currency. However, looking ahead to the 21st century the world will be a multipolar system such that a realistic international currency system will be a system of multiple key currencies. In such case whether yen or a Pacific Area Currency, PACU à la ECU, should play a major role. Second, the Tokyo market is to function as one of the centres where the world's money flows are coordinated. In order to eliminate the debt problem, developing countries need to reduce consumption and increase investment so as to encourage higher productivity and exports, and thus show their efforts to repay their debts in the future. What Japan can do to this end would be the establishment of an efficient domestic financial market and making it easier for accessibility to those developing countries. Through this type of market mechanism, Japan's trade surplus may be able to assist the needs of the other Asian-Pacific countries. The other role of the Tokyo market is to function as the core of the Asian-Pacific financial market and also as an information gathering centre.

### **Trade and Economic Cooperation**

Trade issue cannot be fully understood without an analysis of the changing patterns of international division of labour in the Asian-Pacific region. Hirata and Nohara (Chapter 20) reviewed both long-term changes of Japan's trade structure vis-à-vis industrial structure, and also examined the effects of rapid changes in response to recent yen appreciation on Japan's trade relation with the Asian countries. By comparing Japan's trade complementarity measures between 1970 and 1980, they concluded that the rising heterogeneity of Japan's industrial and export structure with trade partners has significantly contributed to its export expansion. Japan has also developed a closer production link through trade with Asian NIEs and ASEAN. However, such trade complementarities are changing its compositions over time and were further hastened by the recent yen appreciation. During this period, Japan has been shifting its commodity composition towards more technology-intensive type of goods for export. As a consequence of the G5 Meeting, Japanese import of manufactures recorded a level of 24.4% in 1986. Through this process, Asian NIEs have been the main beneficiaries, followed by China and ASEAN. Thus the movement towards more balanced interdependency within the region is clearly progressing. In order to adjust to the changing world markets, developing countries in Asia need a revision on the balance between industrial and export promotion policies. Their infant industry protection policy, if not selectively applied, tends to yield high cost of production and

overvaluation of domestic currencies which harm their export sector as well as placing export sector at a more difficult position in terms of competing for resource allocation.

Narongchai and Suthiphand (Chapter 19) paper which focused on internal and external trade issues of Japan, Asian NIEs and ASEAN, also identified four factors which may one way or another affect future trade pattern. The first is rising protectionism and GATT negotiation. Exports from East Asia are already facing discriminatory and inequitable actions from the US and other industrialized countries which have created the effects of uncertainty to trade flows and deterred the development of production, particularly in ASEAN in its early stage. The second factor is the impact of international currency realignment. It is expected that with the yen revaluation, Japanese products will cost more for Asian NIEs and ASEAN in terms of components, parts and intermediate goods imported from Japan and therefore its final products to be exported to other countries. The relocation of traditional sectors from Japan to Asian NIEs and ASEAN has contributed to the industrial restructuring at the regional level. The third factor is the management of trade imbalances. Despite rapid yen appreciation, Japan is still able to sustain a consistent trade surplus against the US and others. With an increasing trade surplus Japan may have to open up its domestic market through reducing non-tariff barriers and further liberalization of agricultural products and also to recycle surplus through capital outflow. The combined current account surpluses of Taiwan and Korea have now exceeded the combined surpluses of OECD's principal European members. The fourth factor is the process of changing pattern of international specialization. The recent satisfactory performance of the region's economy suggested that the minimum conditions for a successful evolution of the shifting pattern of specialization have been fulfilled in the Asian-Pacific region.

With respect to Japan's policies and experience of economic cooperation, two papers from Japan were presented. Haseyama et al. (Chapter 21) emphasized the direction of economic cooperation on how to vitalize growth mechanism of the countries in this region and also to further mobilize their growth potential. On the other hand, staple food situation in Asia has improved significantly after the "Green Revolution." However, the increasing demand for wheat and livestock products (hence feedgrains) has led to the need for agricultural adjustment in the region. Recent yen appreciation has contributed greatly to the outflows of direct investment from Japan and thus strengthened the regional economic performance. Asian NIEs may join as new donors on this aspect. As an integrated scheme for economic cooperation the Pacific Free Trade Area was proposed to discourage any bilateral scheme in this region. They also advocated further improvement of the development administration of recipient countries as an important step for efficient use of economic resources.

Nangaku (Chapter 22) outlined MITI's new scheme of economic cooperation to support the industrialization of Asian nations in two aspects. The first is a continued expansion of capital cooperation including further increase of

ODA, continuation of the Capital Recycling Programme, direct investment by private sector and other means. The second approach is to pursue comprehensive cooperation involving aid, investment and trade as a package. Japan will assist each country in identifying which industries will best meet its needs and extend capital and technical assistance, and also promote direct investment from Japan as well as increasing import from these countries by offering a market for its manufactured products. This New AID Plan has been implemented in Thailand, Malaysia and China. He also urged the developing countries to improve their environment for foreign investment including further relaxation of export obligation, restrictions on employment and local procurement ratios as well as joining with the industrialized countries in protecting intellectual property rights as proposed in the Uruguay Round of GATT. Japan is currently promoting the opening of its market for developing countries but efforts should also be made to diversify export market from the US including expanding intra-regional trade in this region. For this, Asian NIEs should join other industrialized countries to improve market access and increase their international responsibility in providing aid and investment.

### **Role of Japan and Future Cooperation in the Asian-Pacific Region**

Panel discussions were organized at the Conference of the role of Japan and horizons of regional cooperation in the future of the Asian-Pacific region. Okita's paper (Chapter 3) covered the broad issue of the role of Japan with respect to current global structural adjustment as well as its direction in the future of this region. He argued that the economic problem faced by Japan, the US and Europe cannot be solved through bilateral negotiation alone but needs a multilateral effort to revitalize the entire world economy, including that of the developing countries.

On Japanese aid policy, Okita indicated that Japanese foreign assistance today stands at a major turning point. The "aid by request" formula is no longer adequate but Japan has yet to feel comfortable with its new activism. By 1988, Japanese ODA has exceeded that of the US, hence making Japan the largest aid donor. An ODA target of 0.7% of GNP as adopted by the United Nations General Assembly in 1980 could be a useful guideline for Japan. This would mean increasing Japan's ODA budget to around US\$25 billion in 1992, a 28% increase per annum over the 1986 figure. Recently the Government of Japan has embarked on a new five-year plan to double ODA for the period 1988-92. By April 1988, two-thirds of the US\$30 billion which was committed by Prime Minister Nakasone at the 1987 Venice Summit has already been implemented. A large part of the commitment is done through the World Bank, IMF and ADB. This fund of US\$30 billion is completely untied. For that matter, Europe or the US or any other country can utilize that fund. This is rather new for Japan in its aid policy. As has been recommended in the Maekawa Report, the growth rate of demand now has exceeded the growth rate of GNP.

In the new five-year plan for 1988-92, Japan's external demand will stay



minus for some years to come. In addition to ODA and capital outflow, it is important that Japan also become an absorber of product from others, particularly the developing countries. Asian NIEs have already increased their exports to Japan. If other Asian countries or the Latin American countries are able to increase their exports to Japan, then there is a good chance that part of their foreign exchange earnings will be spent on imports from the US or Europe. This multilateral approach will help stimulate Third World growth as well as reduce economic friction among the industrialized countries. In this regard, the Asian-Pacific region will have an increasingly important role to play on the world stage. With this, Okita believed that Japan can further make contribution to world prosperity by contributing to the prosperity of this region.

Oshima's paper (Chapter 4) which is complementary to Okita's stressed the importance of the role of Japan with a special focus on ASEAN4. He argued that ASEAN4 are geographically, technologically and institutionally better prepared to absorb the East Asian industries than China and South Asia. The strategy, however, must be to take one region at a time. As more countries graduate into affluency, the larger resources of the growing number of affluent countries can be tapped to help the poor countries as shown by Asian NIEs which have moved to render assistance to others. He further argued that an effective approach could be achieved by focusing on full employment through expanding the production of both agriculture and industry in coping with the monsoon nature of the ASEAN economies. This implied that aid to develop physical infrastructure and provision of export market for the additional output will be required. Japan can assist both in institutional development to improve management skills, human resource and technological development.

In response to Okita's view, Pu Shan argued that Japan's effort to expand its domestic market is most welcomed but more critically the developing countries will be a great folly if the surplus countries are asked to cut down their surplus savings when there is so much need among the developing countries for capital investment. This view was also expressed by Singh. Pu Shan further emphasized the importance of supplementary measures in improving international trade and investment environment which would enable the developing countries to use such transferred resources productively and thereby creating the capability of repayment. Emmerij argued that more attention and assistance should be given to South Asia, Africa and other developing countries outside this region. Choi argued that if large part of Japanese savings flows to the US and other industrialized countries in the form of financial assets then the world economy may face difficulties as large portion of savings is not linked to productive investment. It is equally desired that the initiative of aid must come from recipient countries but the programme involved should be on a joint basis. Both Choi and Koo expressed that Korea is ready to expand ODA and assume a greater role to assist other developing countries. Amaya expressed that economic as well as cultural growth frontiers have now reached



the western rim of the Pacific. The economic wellbeing of the countries in the Asian-Pacific region are so interwoven and interdependent that mutual understanding and cooperation are indispensable for both national and international interest. This view was also expressed by Thanat.

On China's position, Sheng expressed that trade barriers against exports from developing countries should be relaxed further, particularly, to open up markets for agricultural and labour-intensive products so as to create a good external condition for the developing countries. Transfer of technology from developed countries should be in the form of open policies. In so doing, mutual benefits could be reaped. He also stressed the importance of South-South cooperation to take advantage of the complementarities that exist among the developing countries in the region. These countries are at different stages of development with their own unique characteristics and advantages. China will continue its open door policy and further open its domestic market and absorptive capacity in the future.

In view of the changing international economic environment and shifting gravity towards the Pacific Rim, Alburo considered current global institutions remain rigid and have not responded flexibly either to the shock or the emerging environment. It may need restructuring in some of these institutions.

Kobayashi presented four principles which underlined the Government of Japan's view for regional cooperation. First, it should focus efforts on economic, technological and cultural cooperation. Second, it should not create any regional framework for cooperation which is exclusive but should be opened to the outside world. Third, any regional cooperation in the Asian-Pacific region should promote the initiative of smaller countries. And fourth, it should promote initiative of the private sector.

Koo cautioned against the possible outbreak of protectionism and growing tendency of bilateralism and regionalism. As the world economy becomes more integrated, a successful global adjustment increasingly requires cooperation approach. In this context, the Asian-Pacific economies can play an essential role in revitalizing the world economy. He also outlined Korea's programme of surplus management. Under this new policy, Korea intends to further liberalize import, appreciate the Korean won, expand domestic demand through both public and private investment, provide foreign currency loans to expand import of capital goods and liberalize foreign investment.

Kuroda expressed that much attention has been focused to macroeconomic environment as a playground rather than the players themselves. The key issue then is how we can provide vitality or vigour to the players on the playground. Shinohara referred this to Professor Kindleberger's terms of capacity to transform as an important element in coping with current global adjustment. The recent Japanese experience for a very substantial quick adoption of Japanese economy in response to a very rapid yen appreciation in such a short period is clearly a demonstration of the concept. This will be an useful concept as we are considering the future possibility of development of this region.

The Tokyo Conference on Global Adjustment and the Future of Asian-Pacific Economy was second in series to the Beijing Conference held in November 1986 in Beijing, China. The Conference is to serve as a development forum for planners, scholars and representatives from the private sector. In many ways it may have served its purpose to a degree of success. In particular, a feeling of confidence towards a new era of the "Asian-Pacific Age" was widely shared. In addition to the increasing role of Japan, Asian NIEs' readiness to assume wider international responsibility to this region as well as contribute to the revitalization of the world economy was also worth noted at this Conference.