

FINANCIAL CRISIS IN FAR EAST & SOUTH EAST ASIA AND JAPANESE AID FOR RECOVERY

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INTRODUCTION

Japan is playing leading role in the revival of small tiger's economics by contributing in various aid programs

Japan's aid for crisis – ridden Asian economics is valued at a total of about \$ 80 billion, the programs are administered independently by different agencies: the ministry of foreign affairs, the Ministry of International trade and industry and others. This article is an attempt to identify Japan's policy goals in resolving the economic crunch in the region.

Japanese aid for Asian economics is focused to solve the region's weaknesses from long – term perspectives. Japan has also developed more short-term relief programs to aid the weaker segments of society whose basic standards of living – health care, education, and the life – have been undermined by crisis. Other urgent – tasks addressed by Japanese aid include the creation of currency stabilization mechanisms that would protect Asian currencies from hedge funds and other international speculators and system for mutual aid within region.

Aid programs can be broken down in four areas. First, there is aid for economic revitalization, which mainly takes the form of financial assistance and interest subsidies. The second area involves programmes for long-term structural reform in Asian economics, including improvements in financial systems, the "Japan – ASEAN general Human Resources Development Program", and other "soft" support. The third focus is the provision of social safety net; in other words, grant aid for food, medical supplies, and other items needed to provide emergency relief to the social disadvantages. Finally, there is aid for the creation of a currency stabilization mechanism.¹

MIYAZAWA AID PROGRAM

Aid is administered in two major packages. The first is the Miyazawa initiative, which was announced by Finance Minister Miyazawa Kiichi at a meeting of Asian Finance Ministers and central Bank governors in Washington D.C. in October 1998. However, the details of the plan have begun to emerge and take form as the "New initiative to overcome the Asian currency Crisis". This "New Miyazawa initiative" includes \$5 billion in yen loans and export import Bank of Japan loans to provide medium – term financial support for recovery in Asian economics, and \$15 billion to meet short term funding needs in the process of economic reforms, for a total of \$30 billion.

Officially, the Miyazawa initiative also includes "Asian Currency Crisis Support Funds". This project involves contributing Japanese governments bonds to the Asian Development Bank for use in providing guarantees and interest subsidies to countries hit by currencies crisis. The project will be provide support for about \$3 billion in funding – raises, as well as encouragement for trade credits and private – sector direct investment.²

The other package is the special yen loans to "Support Economic Structural Reform in Asian Countries" announced by Prime Minister Obuchi Keizo at the 6th summit of ASEAN held in Hanoi in December 1998. This program provides a new frame work that differs significantly from conventional yen loan. Like conventional loans, the money will be lent to Asian countries to fund the infrastructure projects that will provide economic stimulus, job, and the incentive for economic structural reform.

The program has a lending ceiling of yen 600 billion (about \$5 billion) over the next three years, and the terms are nearly as favourable as have even been granted; interest rates of 1% and a repayment period of 40 years.

The target of the New Miyazawa initiative is the revitalization of the real economy, the call back of private capital, the relief of the socially disadvantaged, and the stabilization of currencies. The target of the special yen loans is structural reform

and human resources development.

The New Miyazawa initiative sent a study mission to affected countries in 1999, and an announcement was made in Jakarta on February 5 that a total of \$2.4 billion in financial cooperation would be provided to Indonesia. After the crisis broke out, the government of Indonesia sought \$5 billion in yen loans and Export Import Bank of Japan loans from Japan and the World Bank of fund structural reforms. This is the first loan to have been formally approved, however, and it signaled to people around the world that economic reform was finally underway.³

Japan's Official Development Assistance (ODA)

Japan was the world's top aid donor for five consecutive years from 1991, its Official Development Assistance (ODA) peaking in 1995 at ¥ 1.385,4 billion or roughly \$14,7 billion. But in 1996 total ODA fell by 24.5% (yen base) to ¥1.045.3 billion (\$ 9.6 billion), while the 10% cut in FY 1997 seems likely to be repeated in 1998 (this article March). Just what has happened to Japan's ODA policy?

There is no doubt that Japanese ODA has hitherto made a significant contribution to economic development in Asia, particularly in East Asia and ASEAN countries. Japan's aid policy has essentially been three – pronged, comprising yen loans, technical cooperation, and grant aid. The overseas economic cooperation fund (OECF) is mainly responsible for the yen loans, which the Japan International Cooperation Agency (JICA) deal with technical cooperation and grant aid. Having received and autonomous request for support, and on the condition of cooperation leading to self help. Japan extends aid to those projects, it deems worthy.

The vision of Japan's development assistance is broadly this: To offer ODA, especially yen loans, in East and South East Asia countries. This promote Japanese foreign direct investment in the country or region, and leads to an improvement in infrastructure. In turn access the Japanese market with its expanded flow of relatively high quality and cheap products.

It is not too early to say that how much Japan's ODA has contributed to the formation of the market economy and has promoted democracy in the East Asian region. Industrial advancement and economic growth lead to the formation of a middle class. Having enjoyed adequately high levels of income and education, people, next, seek to realize their political rights and demand democratic government to ensure the freedom of business practices.⁴

The ratio of infrastructure expenditure to GDP in East Asia measured 3.6% on average during the 1970s and increased to 4.6% during the 1980s, this ratio is still high at 4.7% on average and it is expected to reach 6.5% after 1995. If this estimate is true. It is a remarkably high figure when compared with the 5.5% Japan recorded in the growth period of the 1960s. The point is, though, that Japan's ODA has played an important role in promoting such expenditure, yen loans recently accounted about 20% of total public works expenditure in Thailand, Indonesia, the Philippines, and China. One would expect this to contribute to the improvement of industrial infrastructure and enhance living standards in these countries.

THE JAPAN – ASEAN GENERAL HUMAN RESOURCES DEVELOPMENT PROGRAM is often called the "Hashimoto initiative" after the former Prime Minister. It aims to train 20,000 people over a 5-year period, primarily the central government officials, local government officials, and private business people who will be the driving force behind sustainable development in the future. The budget for this program is \$32 million. Other human resources development programs have been enhanced as well. JICA (Japan International Cooperation Agency) received a thousand more trainees during fiscal 1998, as did AOTS (Association for Over Seas Technical Scholarships).

As part of these human resources development programs, steps have been taken to provide more assistance to exchange students. These were worries that some of the students sent to study in Japan by the government of Malaysia, Thailand and other countries would be forced to return home because of the crises, so emergency grant aid was provided to enable many to

continue their studies. For others, projects were developed to provide yen loans at very favourable conditions. Japan has announced that it will provide assistance privately funded students from ASEAN and South Korea in addition to those studying on public grants. This assistance includes lump sum payments (worth a total of \$2.3 million) and scholarships (worth a total of \$ 25 million).

Aid to the socially disadvantaged totals \$ 150 million. Among the programs are emergency grant aid to Indonesia for the purchase of medical supplies since Indonesia's depleted foreign exchange reserves have made medical supplies hard to import (\$33 million); emergency supplies of 500,000 tons of rice to Indonesia; and a variety of medical and health projects are under taken jointly with NGOs in Asian countries.

The overseas Economic cooperation fund Japan (OECF) was found in 1961 to promote economic cooperation with the world's developing countries. The OECF has become one of the world's major development finance institutions. In the wake of the East Asian currency crisis, how does the OECF perceive its role in the supporting recovery in the region.

For the Overseas Economic Cooperation Fund, Japan (OECF), the question is how to support efforts which help overcome these problems. The role of OECF is essentially twofold. First, it must lend near-term support so that immediate crisis may be dealt with. Second, it must lend long-and medium-term support to help the region recover from the crisis and return to a sustained growth track.

Providing support for structural reforms in concert with the World Bank and other international development financing institutions in an effective means of near-term support. For fiscal 1997, the OECF provided ¥20 billion in "Sector Program Loans" (SPL) to Indonesia which, while contributing to an improved balance of payments, also make use of counterpart funds providing assistance to socially disadvantaged sectors of the population adversely impacted by economic structural reforms. Another ¥50 billion was provided as part of the SPL program in

October of 1998. In support of social investment projects in Thailand, the OECF in July of 1998 provided credits to fund measures for the unemployed and disadvantaged as well as loans in local currency to further projects funded by prior ODA loans.⁶

In helping these countries return to a stable and sustained path of growth over the long-and medium-term, it will be important, after thorough consultation with recipient nations and with due consideration to priority and timing, to lend appropriate support to existing infrastructure in sectors such as electric power, transport, water supply, and other social services, to cooperate in fields such as environmental preservation and human resource development, and to lend assistance toward nurturing small scale industries, supporting industries, and developing agriculture and the rural sector, utilizing two-step loans and so on.

Meanwhile, so-called intellectual assistance is becoming increasingly important was a means of assistance in addition to direct provision of financial assistance itself. As the institution charged with providing ODA loans, the OECF has accumulated considerable experience and know-how through its implementation of surveys and research. It is therefore in a key position to join with governments and research bodies in recipient nations to effect studies and analysis that lead to reliable and accurate findings. The OECF believes the providing such expertise in tandem with the implementation of ODA loans greatly helps in boosting the effectiveness of the overall assistance package.

ASIAN DEVELOPMENT BANK, JAPAN SPECIAL FUND:

The Asian Development Bank is another key player in providing support for crises-stricken Asian economics, and its programs, too, are beginning to take shape. After economic crisis broke out, the ADB announced a total of \$ 500 million in lending to Thailand for economic structural reform, and for aid to the disadvantaged and students. It also brought out several smaller projects too.

Where ADB aid really stands out, however, is aid for Indonesia, the country that was hit hardest by the crisis. In June

1998, the bank announced a total of \$1.5 billion in programs to support economic structural reform and aid the disadvantaged. In July, 1998 it announced another relief project for the disadvantaged that included \$ 300 million in loans and \$ 3 million in technical cooperation.

ADB studies indicate that, because of the economic crisis, more than 100,000 Indonesian children have been unable to attend school, several thousand mothers deprived of parental care, and several thousand children malnourished. Relief programs for the disadvantaged, which are administered with the cooperation of the government of Indonesia and local NGOs, emphasize education, health care, family planning and nutrition. Tuition subsidies and scholarship, encourage elementary school children to attend classes, and programs are also in place for aiding midwives and ensuring adequate nutrition to small children.

There are also three technical cooperation projects administered by the ADB using money from the Japan special fund, these projects have developed several programs to assist in economic revitalization and human resources development.

CONCLUSION:

Japan is making serious attempt to help the South East Asian economics. There is correlation-ship between the strength of Japanese economy and the revival of regional economies. As Japan depend on East Asia for 40 percent of its trade and more than 20 percent of its investment. However, East Asian radiance on development aid from Japan much higher. But much of aid is tied to projects that intensify the demand for Japanese goods and services overseas and to boost the role of the yen.

Japan's aid plan for economic revival is translated in the New Miyazewa initiative which involve \$15 billion in cash for short term capital need, mainly in the form of low – interest, yen denominated loans and another \$1.5 billion in the form of concessionaire trade and investment over three years. The countries earmarked as recipients are Indonesia, Malaysia, the Philippines, Thailand and South Korea. The most significant

outcome of Miyazawa initiative is assertive role played by yen in regional economic affairs. It is likely to have far reaching remigration for the U.S. dollar. As a matter of fact, by establishing the amount of debt denominated in yen, Japan is striving to internationalize its currency. For that purpose, Japan is disbursing aid packages, mainly, on bilateral basis.

The new era of prosperity is possible in East Asia as these nations bring structural reforms in true spirit and transparent way. The implementation of Hashi motos initiative is a daunting change for Japan to materialize the human resources development programs.

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