



EU Japan Economic Relations Lecture No.4

– Japan and its Changing Views of Europe (1) -

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Review of Lecture No.3

- Developing cooperation in the 1970s- 80s
Changes in attitude towards trade frictions on the European side
Response by government and private firms on the Japanese side
Development of institutions and dialogue
(Text: pages 22- 38)
- From trade friction to FDI
- Case study: HONDA

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Agenda for Lecture No.4

- The Asian financial/economic crisis and Japan's response
- ASEAN and its economic relationship with Japan and the EU
(Chapter 3, pp. 39- 48)
- Case study : AXA

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The textbook (1)

- In 1997, currency collapses in Thailand and Indonesia, combined with seemingly unstoppable polluting fires, political scandals, student demonstrations and national unrest, as well as the spring 1998 testing of nuclear bombs by India and Pakistan, all left the region in a state of instability. (p.44)
- Japan, for its part, was called upon to take a regional lead in assisting its neighbours, in particular by opening its markets to absorb more Asian goods. (p.44)

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The textbook (2)

- But internal troubles (to be discussed next week) soon preoccupied Tokyo, and the world witnessed an initial Japanese dissociation from the Asian region. (p.44)
- J's one attempt in autumn 1997 to bail out Asian economies by setting up an Asian currency stabilization fund (**Asian Monetary Fund**, discussed below) was quashed by US objections. (p.44)
- The US and others continued to insist upon the need for far-reaching structural reforms within Japan that would enable it to absorb more Asian imports. Asian neighbours themselves added to international (and especially G8) calls for J to institute major structural changes and reform its crisis management system. (p.45)

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The textbook (3)

- However, initially J appeared reluctant to assume the lion's share of responsibility for rebuilding the shattered Asian economies, and therefore did not immediately link its own economic changes to their success or failure. (p.45)
- In this way, preliminary responses to the Asian economic crisis showed that Japan regarded its own survival as something detached from that which was occurring in 'Asia'. (p.45)

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Japan's response to the financial crisis

- The Asian financial crisis of 1997-98 caused extensive damage in East Asia. This experience made the East Asian countries acutely aware of the need to promote regional financial cooperation to prevent resurgence of a crisis and to attain stable economic growth. Since then, Japan has been vigorously promoting regional financial cooperation together with the other ASEAN+3 countries.

*ASEAN+3: Association of Southeast Asian Nations, China, Japan, and the Republic of Korea

Source: http://www.mof.go.jp/english/if/regional_financial_cooperation.htm

- In fact, there was close cooperation and daily communication between the monetary authorities of Japan and the countries affected, all through the crisis.

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The Asian Financial/Economic Crisis (1)

- May 14-15 1997 – Thailand's baht is hit by a massive attack by speculators who decided Thailand's slowing economy and political instability meant it was time to sell. Thailand and Singapore jointly intervene to defend the baht. The Philippines is also affected.
- July 2 – The Bank of Thailand announces a managed float of the baht and calls on the International Monetary Fund for 'technical assistance'. The announcement effectively devalues the baht by about 15-20 percent. It ends at a record low of 28.80 to the dollar. In Manila, the Philippines central bank is forced to intervene heavily to defend the peso.

Cf. <http://www.stern.nyu.edu/globalmacro/>

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The Asian Financial/Economic Crisis (2)

- July 11 - The Philippine central bank says in a statement it will allow the peso to move in a wider range against the dollar.
- July 17 - The Singapore monetary authority allows the depreciation of the S\$. It falls to lowest level since February 1995.
- July 24 - Currency meltdown. The ringgit hits 38-month low of 2.6530 to the dollar. Malaysian Prime Minister Mohamad launches bitter attack on "rogue speculators." The Hong Kong dollar remains steady, but territory later reveals US\$1 billion was spent on intervention during a period of two hours on an unspecified day in July.

Cf. <http://www.stern.nyu.edu/globalmacro/>

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The Asian Financial/Economic Crisis (3)

- Aug. 11 - The IMF unveils in Tokyo a rescue package for Thailand including loans totaling \$16 billion from the IMF and Asian nations.
- Aug. 14 - Indonesia abolishes its system of managing the exchange rate through the use of a band and allows it to float.
- Oct. 14 - Vietnam, bowing to months of pressure on its dong currency, doubles the permitted trading range to 10 percent either side of the daily official rate. Devaluation of the Taiwan dollar.

Cf. <http://www.stern.nyu.edu/globalmacro/>

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The Asian Financial/Economic Crisis (4)

- Nov 20 - Dashing any early hope for controlling its financial turmoil, South Korea's currency fell 10% in trading, a day after the country unveiled an emergency bailout package. Most regional currencies fell sharply following the fall in the Korean Won.

South Korea acknowledged that it could not resolve its trouble without outside help, and asked Japan to help persuade its banks to roll over maturing short-term loans to South Korea.

Cf. <http://www.stern.nyu.edu/globalmacro/>

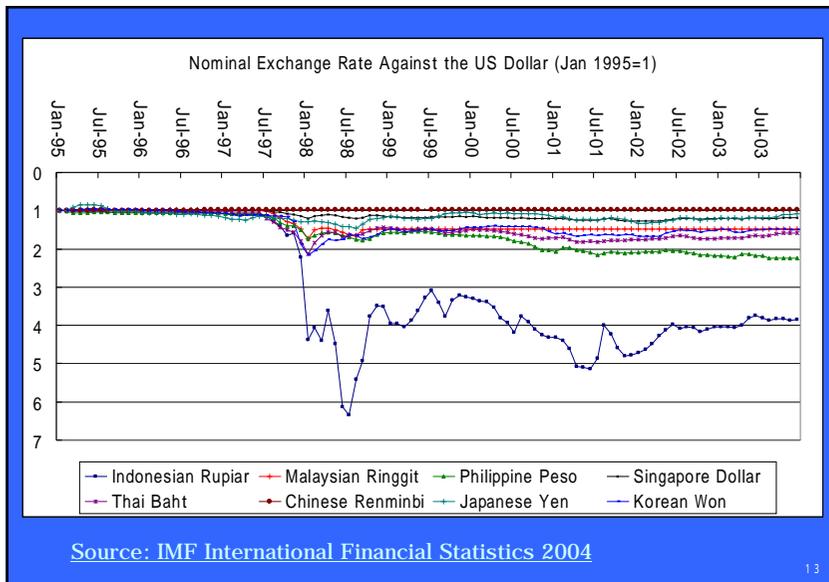
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The Asian Financial/Economic Crisis (5)

- Dec 30 - The world's major banks prepared to throw South Korea a lifeline by rolling over a mountain of short-term debt due to be paid on Dec 31. The effort began on Dec 29 with an announcement from a group of key U.S. and German banks. It was expected to help Korea manage its estimated \$100 billion in short-term debt, of which \$15 billion was due by Dec. 31 and another \$15 billion in Jan. The IMF approved a \$2 billion payment for troubled South Korea, bringing IMF payments to more than \$11 billion in just under a month.

Cf. <http://www.stern.nyu.edu/globalmacro/>

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The Asian Financial/Economic Crisis (6)

In the meantime, a plan to establish the **Asian Monetary Fund** (AMF) was discussed and abandoned, in September 1997.

Enter: **The New Miyazawa Initiative** (NMI) of July 1999

- The AMF was a multilateral scheme focused on stabilisation of exchange rates.
- In contrast, the **NMI**, announced on 3rd October 1998, mainly consisted of **bilateral** support focused on assisting Asian countries affected by the currency crisis, in overcoming their economic difficulties and contributing to the stability of international financial markets.

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Other forms of regional financial cooperation (1)

1. Chiang Mai Initiative (CMI) agreed in May 2000
Network of bilateral swap arrangements (BSAs) among ASEAN+3 countries to address short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.
2. Economic Review and Policy Dialogue (ERPDI)
'Group of Experts' launched in May 2006
3. ASEAN+3 Research Group agreed in August 2003
Aims to explore ways to further strengthen financial cooperation and promote financial stability in the region by soliciting academic input from researchers and research institutes in ASEAN+3 countries.

http://www.mof.go.jp/english/if/regional_financial_cooperation.htm

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Other forms of regional financial cooperation (2)

4. Asian Bond Markets Initiative (ABMI)

Agreed in August 2003, this aims to develop efficient and liquid bond markets in Asia, enabling better utilization of Asian savings for Asian investments. Activities of the ABMI focus on: (1) facilitating access to the market through a wider variety of issuers and (2) enhancing market infrastructure to foster bond markets in Asia.

Asian countries have depended on short-term foreign currency-denominated financing. This causes "maturity" and "currency" mismatches, making the region vulnerable to volatility in short-term capital movements. These risks were brought to the surface by the Asian financial crisis in 1997-98.

http://www.mof.go.jp/english/if/regional_financial_cooperation.htm

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Other forms of regional financial cooperation (3)

The AsianBondsOnline website:

<http://asianbondsonline.adb.org/regional/regional.php>

5. Monitoring of Short- Term Capital Flows

ASEAN+3 finance ministers agreed in May 2001 to exchange data on capital flows bilaterally among ASEAN+3 on a voluntary basis, to facilitate effective policy dialogue. Japan has been exchanging data with the Republic of Korea, the Philippines, Thailand, Indonesia, and Viet Nam.

http://www.mof.go.jp/english/if/regional_financial_cooperation.htm

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What is ASEAN

- Established on August 8, 1967 in Bangkok
- Original members
Indonesia, Malaysia, the Philippines, Singapore and Thailand
- New members
Brunei Darussalam (January 8, 1984)
Vietnam (July 23, 1995)
Laos and Myanmar (July 23, 1997)
Cambodia (April 30, 1999)
- Objectives
 - (a) Accelerating the economic growth, social progress and cultural development in the region.
 - (b) Promoting political and economic stability in the region.
 - (c) Resolving various issues in the region.

<http://www.asean.or.jp/eng/general/base/index.html>

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Data and Statistics: ASEAN

- Historical data of Asean trade by Region (both with EU and Japan) from 1993 to 2004
- <http://www.asean.or.jp/eng/index.html>
<http://www.aseansec.org/>

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Case Study:AXA (1)

- Originally established in 1817, one of the largest insurance companies in the world
- 'Financial protection' is the key concept of this company, which covers life and non- life insurance, pension and life planning
- Foreign insurance companies entered the Japanese market after the Japanese Big Bang during 1996 ~ 1998

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Case Study:AXA (2)

- Their strategy:
 - (1) introducing their sophisticated products into a newly deregulated, underdeveloped market such as the market in Japan
 - (2) accessing the Japanese market through the merger with Nihon Dantai Seimei in 1999
- <http://www.axa.com/en/>

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Conclusion

- Japan's efforts at financial cooperation in Asia in response to the the financial crisis may not have been very visible in the eyes of Europeans intitially.
- The share of trade between ASEAN and the EU has been stable, while that of FDI from the EU to ASEAN increased after the Asian financial crisis.
- AXA made good use of the chance opened by the Japanese Big Bang to enter the Japanese market. They owe their success to their own financial techniques and the merger with a Japanese insurance company.

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ASSIGNMENT

Please choose one of three topics.

- (1) Discuss the relationship between the different ministries in forming a unified Japanese policy towards the EC.
- (2) How was the Japanese economy doing in the 1990s?
- (3) How did Panasonic's strategy change in the 1990s? Was it successfull?

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Agenda for Lecture No. 5

- The Japanese economy in the 1990s
- The changes in Japanese views of Europe in the 1990s
(Chapter 3, pp. 48- 63)
- Case study: Panasonic

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