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The Asian Monetary Fund and the Miyazawa Initiative

by

Hirakawa Hitoshi

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HIRAKAWA Hitoshi⁽¹⁾

Introduction

Since last Autumn, the Asian Monetary Fund and the New Miyazawa Initiative have been reported repeatedly in the newspapers and other media. Presently, while Asia's currency and financial crisis has reached a state of lull, the living conditions of the many people in Asian countries affected by the currency and economic crisis seem to have become worse by the tightening of monetary policy, the structural reforms and so forth led by the IMF. The need to help people suffering from the crisis is increasing.

I would like to examine the Asian Monetary Fund and the Miyazawa Initiative which mainly have been led by the government of Japan, and examine how those ideas appeared and were proposed by the Japanese government, what they encompassed, and what effects they have on Asian countries as well as Japan.

□ □ □ An Asian Monetary Fund in 1997 (1) Japan's Proposal and Its Despair

(1) Japan's Proposal

On October 3, 1998, Japanese Minister of Finance Kiichi Miyazawa made a proposal under the name of the New Miyazawa Initiative⁽²⁾ to be set aside a total of US\$30 billion to financially support Asian countries affected by currency and financial crises. However, in order to understand the Initiative, we need to remember that Japan's proposal for an Asian Monetary Fund in the previous year had met with opposition of the United States, the IMF and others, and had died.

According to Japanese newspapers, Japan with several member countries of the Association of Southeast Asian Nations (ASEAN) proposed a kind of Asian Monetary Fund (AMF) at the meeting of countries planning to make financial support to Thailand affected by currency crisis, held in Tokyo on August 11, 1997. This proposal, which was first asked for by the government of Thailand, was to build a scheme to make urgent financing for Asian countries affected by currency crises. The AMF was considered to be independent of the IMF and be allotted a certain delivery quota from each participation- expected country of Asia [Nihon Keizai Shinbun, Nov.24, 1997]. About one month later, on September 19, Japan's Finance Minister Hiroshi Mitsuzuka, visiting Thailand to attend a ASEM Meeting of finance ministers there, stated that the fund was to be established in cooperation with other Asian countries for the purpose of stabilizing Asian currency and financial markets, and that he was "ready for joining hands with other Asian countries to build the fund if they asked for it". He declared Japan would contribute money to the fund. And Nihon Keizai Shinbun said that Thailand's finance minister and Philippines' finance minister referred to the fund at the ASEM meeting of finance ministers [Nihon Keizai Shinbun, Sep.20,1997].

Two days later, on September 21, Mitsuzuka explained the Japanese idea about the fund at the informal meeting of Japan-ASEAN finance ministers held in Hong Kong. By this time, Japan had decided on increasing the number of participating countries to the fund, adding China and South Korea to the ASEAN member countries, and fundamentally running it cooperatively in relation to the IMF [Nihon Keizai Shinbun, Sep.22, 1997]. This idea was adjusted according to the differences

¹ Professor at Tokyo Keizai University, Faculty of Economics, Tokyo, Japan.

E-mail: hhirakaw@cityfujisawa.ne.jp

² The name stems from Miyazawa's second proposal on financing support to the developing countries. According to the Ministry of Finance, Japan, Miyazawa's first proposal was done at the Joint General Meeting of the IMF and the World Bank, held in September, 1987. The proposal was on financial support of increasing private flows to Latin American countries.

of opinion expressed by related countries during a series of international meetings on financial issues held in Hong Kong in September, consisting of the IMF-World Bank Annual Meeting, G-7 Meeting and so forth, and the framework was fixed. It was as follows. "AMF will receive contributing of US\$50-60 billion as a goal, will try to start within this year, and to make up for activities of the IMF. China and South Korea will participate in it with Southeast Asian countries and Japan. It is being considered that the fund be added the function of surveillance of member countries' operation of their economies" [Nihon Keizai Shinbun, Sep.24,1997]. Thereafter, the size of the fund was raised to US\$100 billion.

□□□□ Opposition of the United States and Disappearance of the AMF

It seemed that an Asian Monetary Fund, proposed mainly by Japan, would come true. However, it became clear that the United States and others opposed to the proposal. And Japan gave up its proposal at a meeting of proxies of finance ministers and central bank governors in fourteen countries³), held in Manila, from November 18 – 19, 1997. And in this meeting "a framework to strengthen Asian regional cooperation toward stabilizing finance and currency (Manila framework)" was agreed upon. The framework included mutual surveillance at the regional level among countries, new facilities through which the IMF could supply financial support to member countries, and so forth. And the IMF's Supplemental Reserve Facility (SRF) which would make short-term loans to affected countries, was created in December 1997.

Incidentally, why could an Asian Monetary Fund not be established? One economic newspaper in Japan, Nihon Keizai Shinbun said:

"At the Joint Annual Meeting of the IMF and the World Bank in September, Stanley Fisher, First Deputy Managing Director, said there was a risk of moral hazard, and opposed it, and the United States as well opposed. The United States and the IMF alliance was strongly opposed, and therefore Japan and ASEAN countries alliance leaned toward the realism that "it is difficult to establish the framework for a new financial support mechanism without the participation of the IMF." The latter brought the discussion to the end in harmony with international institutions" [Nihon Keizai Shinbun, Nov.24, 1997].

Yomiuri Shinbun in Japan gave the reason why the proposal for an Asian Monetary Fund should have been given up in 1997, while reporting on the New Miyazawa Initiative of 1998,

"A (Japanese) government proposal last year for the creation of an Asian Monetary Fund---an Asian version of the IMF---come to nothing, because of opposition from the United States[The Yomiuri Shinbun,Nov.9, 1998].

What about newspapers and magazines abroad? According to Newsweek (Japanese edition), "the leading position of the United States in Asia was confirmed by Japan's withdrawing its own proposal for an Asian Monetary Fund, in a meetings of (proxies of) finance ministers in Manila, "[Newsweek, Japanese edition, Dec.3,1998].

Wall Street Journal reported in more detail,

"Japan tried to take advantage of the situation. At annual meetings of the IMF and the World Bank last fall in Hong Kong, it proposed an "Asian Monetary Fund." While vague on details, Japan urged Asian countries---to chip in as much as \$100 billion in all to cope with regional crises.

The sum was immense, but Mr. Rubin(U.S.)Treasury Secretary and Mr. Summers (Deputy Treasury Secretary) feared the fund would offer big loans with less-stringent conditions than the IMF's and would threaten U.S. economic supremacy. Treasury officials worked the corridors of Hong Kong's convention center and the city's private dining rooms to slow the Japanese plan's momentum. China, South Korea and other nations suspicious of Tokyo's ambitions leaned toward the U.S.....

Just before Thanksgiving, finance officials from the U.S., Japan, China and 11 other Asian countries gathered for two days in Manila, where the central bank was decorated

³ Participating countries and institutions: Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, The Philippines, Singapore, Thailand, the United State, the International Monetary Fund, the World Bank, and the Asian Development Bank.

with an electronic scoreboard that posted the nation's currency reserves. In drafting sessions and corridor conversations, Mr. Summers deftly put an end to Japan's Asia-centric proposal.

Its denouement was embarrassing for Tokyo. At one meeting, a Malaysian turned to Japan's Eisuke Sakakibara, vice finance minister for international affairs, and asked: "What happened to your proposal for \$100 billion?" participant say.

Mr. Sakakibara's response: "If we could do anything, maybe we could do \$3 billion."

A victorious Mr. Summers declared afterward, "U.S. economic leadership is crucial to avoid a descent into the kind of regionalism and protectionism that we saw in the periods between the first and second world wars." [WSJ, Sep. 24, 1998]

A Singapore newspaper said:

When it first floated the idea (AMF), the US and China shot it down. The US, fearing that a regional currency fund will be soft in demanding reforms, persuaded Asian countries to adopt the so-called Manila Framework, which stipulated that IMF will lead in regional rescue efforts [Straits Times, Dec. 24, 1998].

Economist explained the end of the AMF:

In August 1997 Japan proposed an Asian Monetary Fund to deal with the crisis in South-East Asia. It secured pledges of \$100 billion mostly from itself, China, Hong Kong, Taiwan, and Singapore. The United States Treasury pulled out all the stops to kill the proposal, and it died. The Treasury explained that the IMF should be the sole co-ordinator of the rescue effort [The Economist, Nov. 7, 1998].

In brief, Japanese newspapers have a view that Japan cooperated with ASEAN members to establish an AMF, and was obliged to give up the joint proposal because of opposition by the United States and the IMF, while international news organizations had the view that the AMF was Japan's own proposal, and that China, South Korea and other nations suspicious of Japan's ambitions leaned toward the United States.

As for the main proposal country, Japanese newspapers stressed the request of the ASEAN side and Japan's response to it with an AMF. However, Japan had already made a rather concrete proposal by August and September in 1997, and from the beginning Japan seemed to be trying to take the initiative to establish the fund. And politicians and journalists abroad generally considered the AMF Japan's own proposal.

At any rate, the strong opposition of the United States and the IMF to the proposal, and their success in persuading Asian countries suspicious of Japan made the AMF collapse. Certainly the reason for opposition was formally the moral hazard that an AMF's loan to countries affected by the crisis would prevent the governments of affected countries from enacting economic reforms. But, Japan was trying to get economic influence and political power in Asia, which threatened U.S. economic and political supremacy there. News was reported extensively from this viewpoint. One of important reasons the Japanese proposal failed is that Japan still can not win Asian countries' confidence in its leadership.

This is true, but it is also true that ASEAN countries, at any opportunity, have placed their hope on Japan's proposal of an AMF and asked for it. According to one Japanese newspaper in April, at the Meeting of Asian Neighbors, organized by the business organizations of 7 East Asian countries (Japan, South Korea, Indonesia, Thailand and so on), held in Tokyo, many participants from abroad asked Japan to build "an Asian Monetary Fund," the purpose of which would be to help the IMF. In reply to their demand, the general opinion of the Japanese participant was that Japan has to expand domestic demand and increase its imports from the Asian region [Nihon Keizai Shinbun, April 26, 1998]. When he visited Japan on November 29, 1998, South Korean Prime Minister Kim Jong Pil proposed to Japan's Prime Minister Keizo Obuchi an AMF of US\$3000 billion. He said "South Korea is ready for sharing the burden to establish an AMF decently if Japan propose to realize it" [Nihon Keizai Shinbun, Nov. 29, 1998].

U The Asian Monetary Fund, the New Miyazawa Initiative, and the Japanese Government

(1) Miyazawa Proposals since the Autumn of 1998

On October 3, 1998, the Japanese government proposed a variety of financial schemes under the

framework of “ A New Initiative to Overcome the Asian Currency Crisis” which carried the name of Finance Minister Miyazawa. The statement said as follows:

“To assist Asian countries in overcoming their economic difficulties and to contribute to the stability of international financial markets, Japan stands ready to provide a package of support measures totaling US\$30 billion, of which US\$ 15 billion will be made available for the medium- to long-term financial needs for economic recovery in Asian countries, and another US \$15 billion will be set aside for their possible short-term capital needs during the process of implementing economic reform” [Japanese Ministry of Finance home page <http://www.mof.go.jp/>].

And it said that in Asian countries, capital is needed to implement the policy measures, which were used for supporting corporate debt restructuring, strengthening social safety nets stimulating economies, and addressing the credit crunch [ibid.].

Miyazawa’s ideas were accepted with a good will by governments of Asian countries affected by the currency and economic crisis⁴). Therefore, he showed his ideas at several conferences and meeting in Japan and abroad. And his US\$30 billion plan has been appreciated much and his new financial architecture drew journalists’ attention internationally as well.

His statement, delivered by Sadakazu Tanigaki, State Secretary of Finance, was made at the Fifty-Third Joint Annual Discussion of The IMF and the World Bank on October 6, 1998. It said:

“We all must help these countries overcome economic difficulties and, in doing so, contribute to the stability of the international financial and capital markets. In this context, I would like to present a new scheme of financial assistance totaling some 30 billion US dollars to be provided as Japan’s bilateral support.”

There was also the item of internationalization of the yen in the statement. Over-dependence on the dollar was obviously one of the causes of the currency crisis, “and this has led many countries in the region to look to the yen to play a greater role.... Recognizing this, the government of Japan is now considering from a broader perspective some specific measures to improve the environment for the yen.”

Meanwhile Miyazawa criticized the IMF’s approach, because its prescription that combines fiscal balance improvements with tightening of money policy is not appropriate for Asian countries affected by the currency crisis. “Asking a country with a fiscal surplus to tighten further, or asking a country to take a high interest rate policy for the sake of exchange rate protection, could end up with more negatives than positives----inviting a downturn in the economy, and further eroding confidence” [[http:// www.mof.go.jp/](http://www.mof.go.jp/)].

In a Speech at the Foreign Correspondents Club of Japan on December 15, 1998, Miyazawa referred to establishing regional currency support mechanisms in order to complement the role and function of the IMF, and the New Miyazawa Initiative with US\$ 30 billion as a concrete idea for providing quicker and greater liquidity to crisis countries”

⁴ Dow Jones News Service reports as follows.

“Tarrin(Thailand’s finance minister) said the plan is more substantial than the Japan sponsored Asian Fund of a year ago because of the specifics offered by Japan this time amount to more than just a pool of money. Bank Indonesia Governor Sjahril Sabirin told Dow Jones Newswires that ‘this really shows the effort by the Japanese to lead recovery of the Asian countries’. Sjahril said the importance of the assistance is that it would provide both short- and longer- funding” [Dow Jones News Service, Oct. 3, 1998]. “More immediately for the region, Japanese Finance Minister Kiichi Miyazawa announced a fresh initiative that could be worth US\$30 billion of support to other countries in Asia. The “New Miyazawa Initiative” was short on details of how it will actually work. But it’s the best thing Asian officials said they have seen.” Much of what the other big countries offered was rhetoric. Indonesian Finance Minister Bambang Subianto said the plan is a model for other G-7 members. It’s not benevolence, Bambang said, noting that tapping the Miyazawa resources will be subject to negotiations and “I would expect nothing less than benefits for both countries.....”.... The Asian officials were so smitten by the plan that several of them said they won’t be satisfied if the other G-7 countries fail to better Japan in terms of direct assistance to crisis countries” [ibid., Dec. 8, 1998].

[<http://www.mof.go.jp/english/daijin/e1e057.htm>].

However, while the Asian Monetary Fund seems not to have made any advance so far, the New Miyazawa Initiative have been accepted by governments in Asian countries and given actual results since late last year. On December 16, medium- and long-term financial support to Malaysia which will total approximately US\$1500 million was stated. On the same day, a press statement was given of financial support to Thailand under the framework of the same Initiative, totaling a yen equivalent of US\$1850 million as well. On January 15 of the next year, 1999, a statement on financial support of the same initiative was given to the Philippines. The amount is expected to be a yen equivalent of US\$1400 million. On February 5, Finance Minister Miyazawa pledged Japanese financial support to Indonesia totaling a yen equivalent of approximately US\$ 2.4 billion in loans extended by Export-Import Bank of Japan and the Overseas Economic Cooperation Fund (OECF).

(2) the Asian Monetary Fund and the New Miyazawa Initiative

Miyazawa has made statements on both the New Miyazawa Initiative and an Asian financial architecture. But what is the relationship between the initiative and an AMF? Actually, does Japanese government think there is a difference between the two?

When it made the proposal in 1998, Japan worried whether if it could be accepted by the United States, the IMF, and Asian countries. But the Japanese government seemed to have had a clear idea to develop its own policy toward Asia as a result of the crisis by around September in 1998, even though it caused friction to some extent with the United States and the IMF.

One of the evidences for this is that Japan's Trade and Industry Ministry Kaoru Yosano conveyed to Malaysia that Japan would guarantee a loan of about US\$70 billion to that country, with Nomura Securities Co. and Sumitomo Bank accommodating, through Japan's trade insurance. Nihon Keizai Shinbun commented about the case as follows.

"Japan's financial support has the possibility of reviewing the financial support system mainly done by international institutions." "it is because Malaysian Prime Minister Mohamad Mahathir condemned the speculative movement of short-term capital, criticized the United States and the IMF which forced countries to participate in international financial markets, and indicted Mr. Anwar Ibrahim of a crime. It is likely that Japan's financial support to the Mahathir administration will direct the United States to spearhead its criticism at Japan. In spite of such a diplomatic risk, Japan has made a diplomatic policy change. Japan seems to have judged that the resuscitation of Japanese economy is indispensable to the mutual prosperity of ASEAN economies " [Nihon Keizai Shinbun, Sep.23, 1998].

Following this, the New Miyazawa Initiative was declared on October 3. There were fears of opposition by the United States and the IMF. However, ASEAN member countries' approval and remarks by important persons in support of Japan's initiative appeared. In this circumstance, it became accepted.

Business Times (Singapore) said about it in more detail:

Japan's US\$30 billion plan to help bail Asia out of its crisis contains the seeds of what could develop into a new regional financing institution, Finance Minister Kiichi Miyazawa admitted in Washington at the weekend. But Tokyo is keeping a low profile on the initiative for fear of provoking opposition from the United States or the International Monetary Fund to any attempt to revive an Asian Monetary Fund....

Mr. Miyazawa acknowledged that this facility could in time develop into some kind of "regional currency fund and to a wider internationalization of the yen"....Meanwhile Japan is urging the Asian Development Bank and the World Bank to join it in guaranteeing loans and bonds on behalf of Asian borrowers.

For now, Japan has decided to concentrate on offering direct assistance to Asian countries, he said.

On Saturday, the finance minister met his counterparts from Indonesia, Malaysia, the Philippines, Singapore and Thailand....They agreed to "immediately engage in bilateral discussions on how to implement the Japanese initiatives."

(And after all)....The scheme received a cautious welcome from IMF managing Michel

Camdessus and World Bank president James Wolfensohn who have both insisted that Japan should move to put its own economic house in order to help Asia, rather than simply rely on bilateral financial initiatives [Business Times (Singapore), Oct. 5, 1998].

The Asian Wall Street Journal said in December:

The idea of an Asian Monetary Fund, torpedoed by Washington when it first surfaced last year, is now on the regional radar screen again. It is probably not a workable idea, for a slew of reasons. But the original objection, that an AMF would interfere with the work of the IMF, wasn't very compelling either....Yet now we see the World Bank throwing darts, the U.S. Congress bent on IMF reform, a growing chorus of influential critics [Asian Wall Street Journal, Dec. 11, 1998].

Financial Times(USA edition) also carried an article on Japan's plan in the speech by Minister Miyazawa, and said,

"Japan indicated Tuesday it will renew its push for creation of an Asian monetary fund despite previous antipathy from the U.S. and the International Monetary Fund.... The U.S. has argued against the idea, fearing it would discourage nations in the region from resolving their own problems"[Financial Times, Dec. 16, 1998].

The World Bank's Senior Vice President, Joseph Stiglitz expressed his approval of Japan's plan. He said in an interview in Nihon Keizai Shinbun that many people did not realized the Asian crisis was so serious and deep [Nihon Keizai Shinbun, Oct.30,1998]. Harvard University Professor Jeffrey Sachs also gave support to the Miyazawa initiative. His remarks was, "Japan's financial support plan is a very good one. In essence, this plan should have been carried out last year, but that time, the United States opposed it"[Nihon Keizai Shinbun, Oct.31, 1998].

Of course, the government of Japan made the plan carefully and conducted itself well. The Miyazawa Initiative was adopted as a form of bilateral cooperation, and appealed as such. And the Japanese government became to regard an AMF as a future institution. Thailand' monetary minister Tarrin said, "The Asian Monetary Fund was not specific and that's why the idea was later killed (by the United States and the IMF)" [Dow Jones News Service, Oct. 3, 1998].

This may be the reason why the Japanese government substantially ignored the offer of cooperation by South Korean Prime Minister Kim Jong Pil on November 28, 1998⁵). When he met Japanese Prime Minister Keizo Obuchi, Kim Jong Pil proposed an Asian Monetary Fund plan totaling US\$3000 billion. In response to his proposal, Obuchi said, "a US\$30 billion Miyazawa Initiative is now going to be made concrete, though there is room for research in your proposal" [Nihon Keizai Shinbun, Nov.29, 1998].

Besides, at the press interview by the Finance Minister on December 16, 1998, that is, the day following his speech on "Towards a New International Financial Architecture" at the Foreign Correspondents Club of Japan, Tokyo, Miyazawa answered a question about his proposal of an AMF. He stated as below.

"If we read telegrams sent by foreign correspondents and read newspapers abroad, they seems to get such an impression, don't they. I have stated this to some extent. I have stated that I hope to produce such a feeling of regional solidarity. At the same time, I think it probably could avoid doing the things that Malaysia did (regulation of capital movements), if we had it. I surely feel this. But, it is not a proposal that has to be realized within a time limit. However, I believe it would be better for everybody to realize it " [Summary of Finance Minister Miyazawa at the press interview, October 16,1998].

In a pamphlet of the Ministry of Finance, on the question of what is the difference between the Miyazawa Initiative and the AMF discussed last year, the following answer was given.

⁵ As for an US\$300 billion AMF proposal, at the press interview of the permanent vice minister of Ministry of Trade and Industry on November 30, 1998 Permanent Vice Minister Watanabe said, in replay to question by a reporter that "I am sorry. I did not get a briefing on the matter....I do not know details on it. I would like to refrain from speaking about it"[summary of press interview of Permanent Vice Minister, Nov.30,1998: <http://www.miti.go.jp/topic-j/e500001j.html>]. The view of the Ministry of Finance is unknown. I can not find the remarks of high officials about the matter.

"The Asian Monetary Fund, discussed last year, was a multilateral scheme focused on the stabilization of currency. The New Miyazawa Initiative, announced this October, mainly consists 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" [MOF Home Page, Q & A about The New Initiative to Overcome the Asian Currency Crisis (New Miyazawa Initiative)].

The government of Japan took action carefully to start the initiative and had strong will. "On December 16, Prime Minister Obuchi, in Hanoi, called for greater Asian cooperation without involving Western powers." Separately, in Tokyo, Miyazawa criticized the IMF-led approach. But, according to *Far Eastern Economic Review*, "the Clinton administration, still embroiled in Iraq and impeachment proceedings, has offered no comment" [*Far Eastern Economic Review*, Dec.31, 1998].

Certainly Miyazawa referred to an AMF, but only obliquely, but many journalists abroad concentrated on it. However, Miyazawa and Japanese government have changed their financial support policy to affected Asian countries from an AMF to the New Miyazawa Initiative in bilateral form. Actually, there are few articles on an AMF in Japanese newspapers. It is surely subject for the future.

IV The Significance and Problems of the New Miyazawa Initiative

(1) The main Causes and Results of Asia's Currency and Economic Crisis

Japan's scheme (New Miyazawa Initiative) seems to be adequately appreciated lately. The reason is that many people consider IMF-led prescriptions for Asian countries to be mistaken. Actually structural reform has brought distress to people, citizens and workers.

The IMF has lately concentrated on the sequencing of capital market liberalization. Before the liberalization of capital account transactions is carried out, problems of domestic financial system have been addressed. The problems are considered to consist of (a) inadequate accounting, auditing, and disclosure practices in the financial and corporate sectors, (b) implicit governmental guarantees which created moral hazards for domestic and international financial institutions, and, (c) inadequate prudential supervision and regulation of domestic financial institutions and markets⁶. It also has demanded that the affected countries adopt the policy of removing restriction of foreign direct investment. And, the IMF, with the United States, naturally opposes any restrictions on free capital movement, though the subject on regulation of the hedge funds appears internationally.

However, as Colombia University Professor Bhagwati and World Bank Senior Vice President Stiglitz pointed out, "more generally there is little evidence that full capital-account liberalization contributes to investment and growth"⁷. It is well possible that immense short-term capital flows create a self-fulfilling crisis in any country. In addition, it is difficult to use huge short-term capital for productive investment. As for capital flows to developing countries, long-term capital investment such as foreign direct investment are desirable.

With regard to this, the IMF's prescription promotes foreign direct investment as well as short-term capital investment by liberalizing any capital account. But the free movement of short-term capital increases currency instability, and the tightening fiscal balance and high interest rate policy plunges healthy local firms in difficulty. In this kind of market, the bigger the size of the firms, the stronger it is. There is a huge difference of power between transnational firms which operate worldwide in production, gather information globally and are familiar with hedging currency exchange risks, and local firms which are small sized, have little high technology, production know-how, and so forth.

Actually, the IMF-led economic reforms change the existing economic systems to an Americanized market system. It means foreign firms can freely operate in the developing economies. However, the result may be the legal exploitation of local firms and workers under the currency and economic crisis.

⁶ Eichengreen, Barry and Michael Mussa (1998), *Capital Account Liberalization and the IMF*, "*Finance & Development*," Vol.35, No.4, December, p.19.

⁷ Stiglitz, Joseph (1998), *Road to Recovery: Restoring Growth in the region could be a long and difficult process* [<http://www.worldbank.org/>].

According to the result of a joint survey of leading multinational companies conducted by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC), in mid-February, 1998, 26% of responding firms said they expected to increase their foreign direct investment in East and Southeast Asia as a whole in the short- to medium-term, and 62% are continuing with their existing plans [UNCTAD, World Investment Report 1998, p.223]. UNCTAD Secretary-General Rubens Ricupero commented that "The results clearly show that multinational corporations are keenly interested in the region for direct investment in the production of goods and services." [UNCTAD Press Release, March 18, 1998].

However, the form of FDI has changed mainly from green-field investment to mergers and Acquisitions (M&A). According to the same survey, the amount of M&As in the Asia region has increased from US\$4 billion in 1996 to US\$13 billion in 1997. As a result, M&As look like "fire sales," and "naturally, there are growing concerns over the loss of national control over enterprises, especially as there has been a noticeable increase in the value of M&As in which foreign firms acquired majority shares." [UNCTAD, World Investment Report 1998, p.211]. One Japanese newspaper shows, on the basis of a survey conducted by a certain American research company, that the total amount of M&As of American companies during January to the middle of November in 1998 was US\$10.3 billion, 2.9 times more than that of the same period of the previous year. Of this, US\$4.8 billion was the amount of M&As in Japan, US\$2.3 billion in South Korea (2.6 times more compared with the same period of last year), and US\$1.3 billion in Thailand (2.7 times more). And one researcher who conducted a survey of acquisitions of real estate in Asia said, "it is the first time in history that American real estate agents have bought such huge amount of real estate during such a short period," [Nihon Keizai Shinbun, Dec.9, 1998].

In fact, currencies, stock prices, bond prices and real estate prices in countries affected by the Asian crisis have devalued greatly. Now, supposing that the values of currency and stock price both become half, the effective value of the dollar increase four-fold. Besides, as amount of investment in US dollar doubled its buying power in local currency must be 8 times greater. It seems like international companies are rushing in to buy them in bargain sales.

Liberalization guided by IMF, meaning the present globalization of the Asian region, has brought severe social burdens on people living there. The ILO's millennium priorities aired at budget hearings in March 4, 1999 said the dramatic social consequences from the Asian financial crisis are due to an economic contraction that has exceeded all forecasts, and shows few signs of reversing, in spite of the stabilization of financial indicators, such as currencies and equity prices: "the social implications of the crisis have become enormous, with unemployment, underemployment and poverty rising steeply." [ILO, Press Release 99/4]. In fact, in Indonesia alone at least 5 million to 8 million jobs have been lost, unemployment rate is 12% to 15%. As population grows, the rate of unemployment will increase to 20% in the near future. Thailand and South Korea have seen unemployment surge from very low levels to about 8%. According to official data of South Korea, the unemployed population is 1.6 million at the third quarter of the year 1998, and the rate of unemployment is 8.4%.

Real wages have fallen, in Indonesia by as much as 30%, 8% in Thailand and 8-10% in South Korea. Women workers have been especially affected by the crisis. In South Korea, 80% of retrenched workers have been women, and women's share in wage employment fell by 20%, in contrast with the men's share, which fell by 6% [ILO Regional Department for Asia and Pacific, Jan.13, 1999].

(2) The Significance of The New Miyazawa Initiative and its Problems

The New Miyazawa Initiative is a package of support measures totaling US\$30 billion. Of this sum, half is made available for the medium- to long-term financial needs for economic recovery. Those items are included:

- (a) supporting corporate debt restructuring in the private sector and efforts to make financial systems sound and stable,
- (b) strengthening the social safety net,
- (c) stimulating the economy (implementation of public undertaking to increase employment),
- (d) addressing the credit crunch (facilitation of trade finance and assistance to small- and

medium-sized enterprises).

[Japanese Ministry of Finance: <http://mof.go.jp/>]

The New Miyazawa initiative could be used to protect local government, firms and workers, while the IMF's prescription favored of foreign capital. Therefore, the question of which initiative is effective depends on how it is used.

There is a main problem here. The IMF's conditionality tries to reform Asian model of capitalism as a function. It is urgent for Asian countries to restructure ineffective economic systems. So, if Japan's financial support end up being used for preserving crony capitalism, Japan and Asian countries cannot avoid criticism from the United States and the IMF as well as people living in Asia. In spite of that, Asian countries affected by the crisis must stabilize their economies as an immediate necessity. This presents a dilemma for people, as the same measures that would protect their livelihoods, might also preserve crony capitalism. But economic reform is also being strongly pursued by Asian governments and people themselves.

It is important for Japan to increase its imports from Asian countries as an absorber country, and to create a growth pattern of intra-trade in Asia. Still there are many people who recall the Greater East Asian Co-Prosperity Sphere and are suspicious of Japan's diplomatic policy before and after World War II. And this is natural. Japan should dispel doubts through its own practices. Japan has to understand that for its own development, East Asian development is indispensable. But this will be impossible without peoples' and citizens' power which compel the Japanese government to change its Asian policy. Japan and other East Asian countries must join in efforts to make international rule on capital movement and regulate free capital movement.

Concluding Remarks: a few proposals

As stated above, the Miyazawa Initiative could be used social welfare. It is a scheme of medium- and long-term financing to Asian countries affected by crisis. It may promote productive investment. Using it as a fund for a social safety net, people could lighten the burden of the Asian crisis. By contrast, the idea of the IMF and the United States is one of a free market where short-term capital can move and speculate freely. For developing countries or Third World countries, productive investment and the improvement of poverty are still absolute necessities. So, the New Miyazawa Initiative has a certain merit for Asian people, even though it includes the aspect of preserving crony capitalism.

Therefore, we face the subject of how to use it. Generally speaking, there may be two ways of using it. One way is to use it only for alleviation of burdens of liberalization or the existing globalization. Another way is to use it to create alternative economic structures and society. At least, it can add new ideas to the process of reconstruction of affected economies.

I would like to itemize proposals related only to Japan's New Miyazawa Initiative.

Firstly, we should require the Japanese government to use a certain share of the New Miyazawa initiative for the social safety net in countries affected by the currency crisis. We may discuss how to use it, including discussing the idea of development at the ideal level.

Secondly, we can require the Japanese government and loan recipient countries to allow people and NGOs to participate in the process of decision making of projects with loans of the Initiative.

Thirdly, we should try to have the Japanese government and loan recipient countries accept the idea that for projects financed by loans by the Initiative, the approval of people, or affected residents, is needed.

Lastly, we should ask the government to disclose information on projects related to financial support by the New Miyazawa Initiative. This is the essential condition) people know how to use the Initiative to strengthen the social safety net, regulate and control it. *in order that*