

The changes in Southeast Asian political and economic regimes and the potentials of regional cooperation including Japan

Contents

Introduction Susumu Yamakage (University of Tokyo)

Part 1 Structural Reform in ASEAN and Japan Involved

Chapter 1 Japan's New Asian Policies after the Currency and Economic Crisis

Akira Suehiro (University of Tokyo)

Chapter 2 Regionalism and Japan's way in the new international environment

Mie Oba (University of Tokyo)

Chapter 3 Prospects and Problems of ASEAN 10

Susumu Yamakage (University of Tokyo)

Chapter 4 ASEAN Economic Integration Checked

Fumio Yoshino (Takushoku University)

Part 2 Responses towards the Crisis and Storm of Reform

Chapter 1 Economic Crises, Structural Adjustments, Political Regimes

Nobuto Yamamoto (Keio University)

Chapter 2 What Has the Crisis Brought About in Indonesia?

—Indonesia's Case of Economic Crisis and Political Change

Yuri Sato (Institute of Developing Economies, JETRO)

Chapter 3 Economic crisis and political changes in Malaysia : From the insides of UMNO and Malay society

Takashi Torii (Meiji University)

Chapter 4 Economic Institutional Reform after the Currency Crisis in Thailand

Shigeki Higashi (Institute of Developing Economies, JETRO)

Part 3 Japan's Strategy and Actual Trends

Chapter 1 JAPAN's Diplomatic Effort in Indo-China

Takayuki Ogasawara (Yamanashigakuin University)

Chapter 2 Principles of Economic Regionalism: Policy Reaction Function: A Hypothesis of Epicurean Internationalization, and Canadian Syndrome

Haruo Horaguchi (Hosei University)

Chapter 3 Business behavior of Japanese automobile makers in Thailand

Fumikatsu Kubo (Chuo University)

Introduction

Susumu Yamakage

This report discusses a new phase of Japan-Southeast Asian relations after the crisis of 1997. The crisis affected not only Southeast Asian countries but also Japan on various aspects. Moreover, it transformed the relationship between Japan and Southeast Asia, presumably fundamentally. The report consists of three parts. Part I, with four chapters, provides our basic stance in analyzing the subject, and our starting point of discussion. Part II consisting of four chapters, deals with changes in Southeast Asia with special emphasis on Indonesia, Malaysia and Thailand. Part III discusses Japan's involvement in the region from different perspectives in three chapters. It is hoped that the report stimulates discussions on the future of Japan-Southeast Asian relations.

Part 1 Structural Reform in ASEAN and Japan Involved

Chapter 1

Japan's New Asian Policies after the Currency and Economic Crisis

Akira Suehiro

Immediately after the currency and economic crisis hit Asia, the Japanese government decided to grant financial support to the injured economies. At the same time, the it set to modify the basic policy on its economic assistance for the Asian region : from monetary assistance to intellectual support and from country-based bilateral approach to region-based approach. It is in the latter case where the idea of the creation of an Asian Monetary Fund (AMF) came from. On the basis of these changes, the Japanese government undertook such ambitious programmes as the Miyazawa Plan and formulated guide-line for the industrial restructuring plans for Thailand and Indonesia since 1998.

Almost simultaneously, Asian countries that suffered from the economic crisis launched their own economic and social restructuring programmes, taking heed to the advice and guidelines set by the IMF and the World Bank. Major programmes include restructuring in the financial, corporate and industrial sectors, the

strengthening of support for small and medium sized firms, the establishment and institution of social safety-nets and administrative reforms such as privatization of state enterprises. Financial and corporate restructuring programmes aimed at instituting reforms at existing financial institutions and improving the "corporate governance" of local firms. In short, these policies may be considered as an introduction of American way. On the other hand, industrial restructuring and support for SMEs stressed on the improvement of international competitiveness of export-oriented industries. At present, the Japanese government is very active in supporting this type of policy on the basis of supply-side approach.

Interestingly, industrial restructuring programmes have since then been implemented in Thailand and Indonesia in close cooperation with Japanese experts. Consequently, the basics and essence of industrial policies taken in Japan during the 1950s and the 1960s are integrated into the formulation of restructuring programmes in these countries. This, in a way, has become these countries' way of "learning from the Japanese experience."

Japan, however, is now facing a serious dilemma. Obviously, the "American" way contradicts with "learning from Japanese experience." Japanese firms in Japan have been made to follow the Anglo-Saxon type of corporate governance to overcome long-term economic depression. But on the other hand, the Japanese government had instituted the traditional approach with the goal of improving international competitiveness in the manufacturing sector. As a result, Japan now adopts a "double standard," which seems to create some confusion among the Asian aid recipients.

Chapter 2

Regionalism and Japan's way in the new international environment

Mie Oba

In the postwar era, Japan, which has identified herself as one of developed countries and as one of Asian countries, has been 'special' or 'heretic' in Asia. How to participate in Asia has been one of the most important themes of Japan's foreign policy. Japan often proposed several kinds of regionalism with which she tried to take the initiative in Asia.

After Asian Economic Crisis occurred in 1997, Japan has proposed three types of regionalism. One is Asian regionalism in which only Japan takes leadership, for example, the New Miyazawa Plan. Another is Asia-Pacific regionalism which

includes both Asian and Pacific countries and one of Pacific countries, the United States, has considerable influence in. Asia Pacific Economic Cooperation (APEC) embodies such a regionalism. The last one is East Asia Regionalism in which not only Japan but also the PRC and South Korea share the initiative and cooperate in order to promote Asian affairs. The last type of regionalism is new type regionalism and would be more important in the future.

Chapter 3

Prospects and Problems of ASEAN 10

Susumu Yamakage

With the joining of Cambodia in April 1999, ASEAN became to cover the entire Southeast Asia consisting of ten countries. So-called ASEAN 10 is divided into Old 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and New 4 (Cambodia, Laos, Myanmar and Vietnam, or CLMV). Differences between the two groups are various and serious. The crisis that affected the region since 1997 has been said to be centrifugal, thus widening the differences between Old 6 and New 4 further.

Nevertheless, ASEAN has committed itself the acceleration of economic integration and the promotion of various types of regional cooperation in the midst of the crisis. In December 1997, ASEAN leaders launched the ASEAN Vision 2020. In November 1998, at the sixth formal ASEAN summit meeting, the Hanoi Plan of Action was adopted as a mid-term program between 1998 and 2004 in order to pursue the long-term vision toward 2020. As more direct measures to cope with the crisis, the Statement on Bold measures was proclaimed, too.

It is unlikely for ASEAN to be dissolved as a result of widening differences. At the same time, ASEAN 10 is expected to solve more difficult problems than the organization used to be faced. ASEAN has already shown ability to issue ambitious programs of cooperation. Now, ASEAN 10 has to show ability to implement such programs.

Chapter 4

ASEAN Economic Integration Checked

Fumio Yoshino

ASEAN as an institution of regional cooperation has made effort to sustain the economic growth. Such initiatives include the ASEAN Industrial Project, ASEAN Industrial Complementation Scheme, ASEAN Preferential Trade Arrangement etc., and yet they have not achieved satisfactory results. Even in the Asian economic crisis era, ASEAN tackled new initiatives and accelerated projects in progress. As for ASEAN Free Trade Agreement and its related schemes, the target year which should complete the free trade area was revised and some of restrictions were loosened. Although the real effect of these efforts remains so far uncertain, the historical events teach us they will not have great positive effect on the regional economic growth.

The quantitative analysis of the intra-regional trade strongly supports this prospect. ASEAN regional trade mainly consists of imports of Singapore, which levies import tariff on only four items. The price elasticity of import demand with respect to the regional trade is so low (in some cases, negative) that the effect of the liberalization might be severely restricted.

From both of historical and quantitative analysis, we are able to conclude the ASEAN economic integration of themselves may have much restricted effect on the economic growth. There may be a possibility for Japan to support them as a catalyst that may transform the economic integration to be with substantial result.

Part 2 Responses towards the Crisis and Storm of Reform

Chapter 1

Economic Crises, Structural Adjustments, Political Regimes

Nobuto Yamamoto

Monetary crisis since 1997 had forced to cease and/or restructure developmental regimes in Southeast Asia. Crises shaped three-folds: policy mismanagement / crisis, structural crisis, and crisis of political legitimacy. These three factors resulted from structural adjustment policy led by the World Bank and IMF, and liberalization of economy since the late 1980s. Because of structural adjustment and economic liberalization, politico-economic regimes in the region were supposed to be modified to the new system. Rapid economic growth since then overshadowed structural problems that rooted in each regime. Monetary crisis did not happen due to policy mismanagement, but rather due to structural economic problems in each nation. By collaborating with IMF, Thailand, Indonesia, and Malaysia have been tried to restructure their development-oriented politico-economic systems with constructing respectively new institutions and actors.

Chapter 2

What Has the Crisis Brought About in Indonesia?

—Indonesia's Case of Economic Crisis and Political Change

Yuri Sato

Among the Asian crisis countries, Indonesia was the most conspicuous case of interacted politico-economic crisis. The currency crisis gave a decisive shake-up on the long-standing political power, the fall of which is in turn pushing ahead post-crisis transformation of economic structure.

After the fall of Soeharto government, an institutional base of the Soeharto regime has begun to drastically change; 1) reform of "governance by presidential power and force", 2) reform of election and parliamentary system, 3) revise of "dual functions" of

the military, and 4) revise of centralized bureaucratic system toward decentralization.

Reform of economic institutions has step by step proceeded along with the IMF conditionality, although it got stuck in the first ten months of crisis due to frictions between Soeharto and technocrat-IMF team. Through the process of banking reform and corporate debt disposal, assets of big business under the Soeharto regime are now under restructuring, especially politically-connected groups including Soeharto family itself. The new orientation of Abdurrahman Wahid government in its economic policy (though still unclear) lies in decentralization of development and getting out of foreign aid dependency. Japan as the largest donor needs to have a right understanding on Indonesia's on-going challenges of regime transformation.

Chapter 3

Economic crisis and political changes in Malaysia

From the insides of UMNO and Malay society

Takashi Torii

The aim of this paper is to make an analysis of the backgrounds of the political changes after economic crisis in Malaysia. We shall concentrate on the ruling political party, United Malays National Organization, UMNO and the Malay social structural changes after New Economic Policy, 1971-1990.

In the process of implementation of NEP, UMNO has increased its influence over the Malays as protector and the Malay society has become more closer to UMNO as political clients.

UMNO could rule their supporters through the distribution of government contract, license system and shareholdings of listed companies under NEP.

Therefore UMNO and its supporters have become both more business-oriented and more money-oriented character during 1980s.

In addition, after the implementation of the Privatization policy under Mahathir, he and his closer political leaders have got another political source and could rule the supporters of UMNO through the distribution of shareholdings in Government-owned companies such as national car company (PROTON) and telecommunication company.

Inside the UMNO politics, these distribution system has become the crucial

instruments of political power.

Chapter 4

Economic Institutional Reform after the Currency Crisis in Thailand

Shigeki Higashi

The Thai Government has implemented several policies for economic and social restructuring to solve the economic crisis. The government economic reform consists of three major components: that is, (1) the financial restructuring policies; (2) the social investment plans (SIP); (3) the industrial restructuring program (IRP).

The financial restructuring policies are carried out under the institutional reform by IMF and World Bank. The authorities intended the financial institutions to foster their recapitalization but 7 out of 15 local commercial banks have been nationalized temporarily or merged by state-owned banks and 3 banks' major shareholdings of these 7 have already been acquired by foreign banks. Foreign investors have also acquired in 2 of the remaining 8 banks, so that only 3 or 4 are considered to keep their operation on their own efforts under the BIS banking regulation.

The industrial restructuring program (IRP) differs most significantly from the strategy of the World Bank. The IRP has been implemented since 1997 with the support from the Japanese Ministry of International Trade and Industry. Having been designed on a perception that financial reform alone would not ensure economic recovery, the program is designed to improve the performance of the real sector; in other words, the program is meant to channel Japanese funds into "supply side" that will help boost the country's international competitiveness. To be more specific, main projects to be undertaken include establishment of a *sathaban*, which is a joint government-private sector institution, will be charged with specific tasks, such as the task of helping improve productivity.

Part 3 Japan's Strategy and Actual Trends

Chapter 1

JAPAN's Diplomatic Effort in Indo-China

Takayuki Ogasawara

Japan's diplomatic effort in the peace process in Cambodia was designed as a precedent for her "political role" in the post-Cold War international community as well as a response to a possible integration of the Indo-Chinese countries into ASEAN. In fact, Japan's Self-Defense Force took part of the United Nation's peace-keeping operations in Cambodia, and the comprehensive settlement of the Cambodian Conflict paved the way for the ASEAN-10. Japan's bilateral relationship with each countries in the mainland South-East Asia has been remarkably strengthened, and the institutionalisation of political dialogue for confidence-building in the region has made a notable progress. The foreign office-initiated international forum, however, failed to become the focal point of the Indo-China development programmes. This is because the forum has been seen as an international club of Official Development Aid donor countries, and the foreign office lacked an integral blue-print of a new political-economy of South-East Asia.

Chapter 2

Principles of Economic Regionalism: Policy Reaction Function, A Hypothesis of Epicurean Internationalization, and Canadian Syndrome

Haruo Horaguchi

This paper examines some principles of regional integrations, which took place in the 1990s.

Regarding the creation of EU, NAFTA, and AFTA, one can point out synchronization of timing when various decisions are made to create the regional accords. In this paper, this phenomenon is named "policy reaction function." Politicians, bureaucrats and academics, who love to attend international forum, may

disregard economic effects of regionalism. They may find it useful to get together even if the forum and their policy recommendations do not play any role in the real economy.

The purpose of the forum is to give a reason for those who love traveling abroad. This tendency is accentuated by calling it as "a hypothesis of Epicurean internationalization." Some countries do not absorb foreign companies after joining a regional integration. One of the typical examples is found in the case of Canada in NAFTA, and this "Canadian Syndrome" may occur for other countries in the other regional integrations.

Chapter 3

Business behavior of Japanese automobile makers in Thailand

Fumikatsu Kubo

There are two points of changes on Japanese automobile industry in Thailand after the monetary crisis of 1997. The first point is the change of strategy after monetary crisis. The second is the reorganization of worldwide automobile industry by Western automobile makers since 1998.

Under these changes of business environment, how does business behavior of Japanese automobile makers response such environments? In detail there are two types of business behavior. One is the shift of strategy from for the domestic market in Thailand to for exporting to foreign market such as Toyota and Isuzu ,and the other one is maintenance of exporting strategy such as Mitsubishi.

On this paper I focus on these two types of behavior in Thailand automobile industry as well as macro view of changes of production and sales in Thailand and will study again on business behavior after reorganization of automobile industry in another paper.