CHAPTER 7

Introduction to the Case Study of Asia

This study of international financial crisis management will now shift its geographical focus from Latin America to Asia, analyzing the motivation and behavior of the Japanese government as it engaged, fully or partially, in collective action with other creditor governments and IFIs in the management of the 1997–98 Asian financial crisis.[1] The Asian crisis provides an excellent additional case to reexamine the hypotheses, which have so far been applied to Latin American cases (chaps. 4–6), regarding the sources of Japan's collective action in financial crisis management. This case also supplements quantitative analysis and the case study on financial crises in Latin America (chap. 3) by strengthening the generalizability of important dynamics in different regional settings.

This chapter outlines the contrast between the interests that Japan has in Latin America and in Asia, then it briefly summarizes how this contrast has influenced the Japanese government's motivation to become involved in financial crisis management in Asia. On one hand, regional and temporal changes transformed several factors leading to the changes in the Japanese government's incentives in the Asian case. These factors include Japan's interests in the regions, the level of structural power between the United States and Japan, the shifting dynamics of U.S.-Japanese interactions from the 1980s into the 1990s, and changes in the domestic political dynamics in Japan, especially in the relationship between the MOF and the Japanese financial sector. On the other hand, the Asian case, though embracing a stark regional contrast to the Latin American cases, seems to lend support to the two hypotheses, with a few caveats. The large private returns motivated the Japanese government to step in actively, supplying public goods in the form of international financial stability (i.e., joint product). But the divergent interests among the Japanese government and its private sectors occasionally led to the Japanese government's immobility. The transnational linkages, which were strong in some stages and weak in others during the Asian crisis between the spring of 1997 and the end of 1999, help explain the characteristics and shifts in Japan's involvement during different stages.

Contrasts: Latin America and Asia

The change in the geographical region of the crisis' epicenter from Latin America to Asia is obviously an important element in the Japanese government's decision making. The Asian financial crisis came as a surprise in the context of the previous few decades of impressive economic development in Southeast and East Asia (hereafter Asia), economic growth that turned many of these economies from low-income to middle-income countries, creating the so-called East Asian economic miracle. The near double-digit economic growth rates in the region in the 1980s were impressive, and the economic success story of these countries was often contrasted with the "lost decade" in Latin America, a parallel period of economic stagnation, riveting international debt, and economic problems.[2] Yet the financial crisis in Asia and the crisis in Latin America demonstrate unmistakable similarity, especially when it comes to the incentive structures of the lenders and the borrowers of large sums of foreign capital and the power dynamics between the creditors and the debtors.[3] Through a comparison between the two regional crises themselves, we can distinguish three major facets contrasting between the Asian case and the Latin American cases, which are relevant in analyzing the Japanese government's behavior in respective crises.

First, both the Japanese government and the private sector view their relationship to the Asian countries and to the economic prosperity and stability of the region to be much more important than their relationship to Latin America. As I outlined in chapter 2, Asia ranks as the region of top priority for Japan in terms of trade (see figs. 2.1 and 2.2), investments (see tables 2.3 and 2.4), and other interactions, such as foreign aid (see figs. 2.3 and 2.4; table 2.2). In addition, a strong trend toward economic regionalization has occurred in Asia since the latter half of the 1980s. Beginning in the late 1980s, the Japanese private sector increased its investments in many countries of the region, further fueling this trend (see table 8.2). Additionally, to support the operations of Japanese manufacturing companies in the region, the Asian countries received a significant number of loans from Japan during the 1990s (see table 8.1).[4] All of these factors reveal the strong economic interests that Japan's private sector, both financial and manufacturing, had in the region at the time the crisis hit. This involvement was much more widespread, deep, and serious than during either of the Latin American crisis cases.

Likewise, the political interests of the Japanese government are much stronger in Asia than in Latin America. The Japanese government has striven to cultivate amicable and close relationships with the Asian countries, particularly with the original five ASEAN members (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and Korea during the past several decades and with China and Vietnam in recent years. Once Japan regained its sovereignty in 1952, it began reparation payments. Japan's efforts to repair these relationships strengthened in the late 1970s, after Japan failed to establish friendly relations with these countries. Damages inflicted by Japan before and during

World War II still manifest themselves through major scars in these relationships.[5] In addition, the Japanese government considers any opportunity to show its "leadership" role in Asia as a diplomatic achievement. This is particularly the case as an earlier regional hegemon, China, has gained ground as a rival to Japan in recent years.[6]

Second, the regional contrast raises the associated question regarding the roles that respective regional powers play in crisis management and the possibility that the "number two" power would lead to collective action with the leading power in support of successful crisis management with a unified front. Here, the dynamics between Japan and the United States become critical. After all, despite its strong foreign reserve position, Japan remains the number two power (along with Europe), following the United States, in the field of international finance. Asymmetry of power exists, therefore, between the United States and Japan, especially when it comes to structural power in international finance influencing the international financial system.

In the Latin American triangle (consisting of the United States, Japan, and Latin America) during the debt crisis and the peso crisis, the power dynamics between the United States and Japan were "natural," so to speak; that is, the United States, the regional power in Latin America, was in a position to induce the support, financially or otherwise, of the number two power, Japan, both regionally and globally. In contrast, in the Asian triangle (consisting of the United States, Japan, and Asia), the regional power, Japan, had to either work independently without the explicit support of the United States (as in the AMF case) or support the initiatives and conditions originating from the extra-regional structural power, the United States. The tension that has risen from an asymmetry of power between the two leading countries seems to have influenced the form of collective crisis management in the Asian case.

The United States, the longtime global hegemon and the world's strongest "structural power" (see chap. 1), continues its quest to sustain or extend its direct influence and is reluctant to relinquish its existing power and presence in regions beyond the Western Hemisphere. This U.S. behavior inevitably influences the behavior of the regional power in Asia—Japan. There are indications, however, that the United States has been willing to engage in collective action with Japan and other creditors, in both official and private realms, to create a united front and effectively manage the Asian financial crisis with adequate financial resources. In some respects, the United States has also sought to support Japan's economic recovery, by taking a softer stance in its trade relations. Nevertheless, the global-level asymmetry of power in favor of the United States has led to an ultimate difference in the motives and behavior of the United States in the management of the Asian crisis compared to those of Japan in the management of the Latin American crisis.

This dynamic is particularly prominent in the third phase of the Asian crisis, beginning in the latter half of 1998. The inescapable U.S. supremacy in economic crisis management in the 1990s in any part of the world has led to a frustration among the Japanese because they have been forced to submit to U.S. dominance in Asian crisis management. As the U.S. predominant presence withdrew from Asia due to crises elsewhere by mid-1998, the Japanese government and the governments of the Asian countries began reasserting independence from U.S.-led crisis solutions.

Finally, the timing of each crisis and the economic strength of respective regional powers—the United States in the case of the Latin American crises and Japan in the Asian case—are important factors. The Latin American debt crisis of the 1980s in particular provides an instructive comparison to the 1997–98 Asian financial crisis. The respective regional powers were each constrained economically when they faced the momentous task of financial crisis management in neighboring regions, in which they had high economic, political, and security stakes.[7] At the height of the Latin American debt crisis in the latter half of the 1980s, the United States was suffering from extensive budget and trade deficits. Various debt solutions were introduced and implemented under the U.S. initiative, and the Japanese government, which held high stakes in the economic well-being of the United States, actively supported these debt initiatives and pumped funds into the Latin American region (see chaps. 3 and 5). The Japanese government also generally supported U.S. crisis management initiatives during this period. There were instances of Japanese initiatives, such as the 1988 Miyazawa Plan, aimed at managing this debt crisis. But these initiatives were constructed in such a way that they would not have challenged or intentionally threatened the dominant role of the United States, nor would they have provided alternative avenues for debt negotiations (see chap. 5). In this sense, collective action between the two creditor governments was very much intact.

But when the Asian crisis threatened the already weakened Japanese economy in 1997, U.S. actions were quite different from those taken by Japan during the Latin American debt crisis. The United States was never a big supporter of independent crisis solutions proposed by Japan or the Asian countries. Despite "talk" by U.S. policymakers that the Asian region had to take care of its own economic problems,[8] the United States was, in reality, one of the most forceful opponents of the AMF idea when it was first proposed by the Japanese (see chap. 8). The shadow of U.S. influence, along with the dominance of IMF-led crisis management, loomed large in the resolution of the Asian financial crisis, particularly during the AMF controversy, which coincided with the period when Indonesia began to experience serious financial problems.[9]

Japan's Motivation in Financial Crisis Management

Although the regional difference introduces new factors in the analysis of the motivation of the Japanese government's involvement in financial crisis management, the fundamental forces behind the Japanese government's decisions seem to remain quite similar in both regions. On one hand, the Japanese government weighed its diverse private returns as it determined its appropriate actions and level of leadership in the different phases of the Asian crisis. On the other hand, the transnational financial sector, when it could produce a united stance among creditors, promoted greater collaboration between the two governments.

Chapter 8 analyzes the factors behind the shift of the Japanese government's actions throughout the Asian financial crisis from mid-1997 through 2000, by focusing specifically on the dynamics within Asia. The book's conclusion revisits further questions about the intercreditor government dynamics that emerge from the regional contrast between Asia and Latin America and contemplates possible future research directions.