

CHAPTER III

**JAPAN’S OFFICIAL DEVELOPMENT ASSISTANCE TO SOUTHEAST
ASIA IN THE 1997 ASIAN FINANCIAL CRISIS**

Economic crises existed and they have been experienced by almost all the countries in the world since the first century, starting from financial panic by Roman banking houses in 33 AD to the global economic crisis in 2008 (The Financial Crisis of 33 A. D., 1935). The first notable economic crisis in the world was known as “Great Depression of 1929-1939” that was suffered by western countries. The economic crisis, thereunto, occurred to the Asian region known as “Asian Financial Crisis of 1997-1998”, overwhelmed almost the Asian continent, especially in Southeast Asia region.

The relation between Japan and Southeast Asia was started by an inharmonic situation as Japan acted as colonizer of the region. Japan’s ambition to dominate the pacific zone motivated Japan to colonize the region in 1940s, even when the region was under western colonization. In the past, colonization was considered as a legal means to dominate particular parts of the world. Thereupon, as the repercussions of nation’s pride in the past as a great state, Japan began its attempt to expand its influence and power to Southeast Asia region (Aizawa, 2014).

Japan’s power could not be underrated since Japan had been involved in the World War, which meant Japan had been also recognized as a country with great military power. Unfortunately, Japan’s engagement in the Second World War had

led Japan to its own grave by its subjection against the Allied powers. This unfortunate situation of Japan had made Japan fulfill its responsibility to hand over contribution for war reparation over the affected countries (Gregg Huff, 2013).

Japan fortuitously saw the Southeast Asia region as the potential group of countries which held prospective influence in international community, which could be the platform for Japan to gain power from the Allies, amid the powerlessness (Jimbo, 2013). Sadly, the worst luck surged the region by suffering the financial crisis in 1997. The crisis had worsened Southeast Asian region that might threaten the stability in terms of unity, economy, politic, and many aspects of the region itself.

Seeing the phenomenon of the 1997 Asian financial crisis, Japan's presence created hope for the region to save them from the crisis, unquestionably along with Japanese interest (Er, 2000). Additionally, the reason why the region was important for Japan was due to their reciprocity benefits in terms of investment, trade, market, and foreign aid, and the fact that the Southeast Asia's loans (state and companies) from Japanese banks billions of Dollars and Yen (Gale, 1998) .

Thus, in this chapter, the writer explained about the definition of Asian financial crisis that occurred specifically in Southeast Asia countries in 1997, starting from the cause of the Asian financial crisis to its effects to the countries in the region. Additionally, this chapter also discussed about Japan-Southeast Asia countries relations and the role of Japan's ODA to the countries in Southeast Asia region to overcome the crisis in the region.

A. Asian Financial Crisis in 1997-1998

The Asian financial crisis was a series of currency devaluation and other events that spread through many Asian markets, started on July 2, 1997. Hence, the Asian financial crisis was also known as “Asian Contagion” (Asian Financial Crisis Definition, 2016). The first failure of the currency market happened in Thailand as the government decided to no longer peg its local currency to the U.S. Dollar (USD). Thus, the spread of currency declines got around the Asia, causing the declines of the stock market, import revenues and government upheaval.

The Asian financial crisis in 1997 was a very shocking event for Asian countries, even when the crisis had ended for two years the anxiety was still haunting the global financial market. Furthermore, the most surprising thing was a crisis took place in Thailand it spread over other Southeast Asia countries rapidly then affected to the other Asian countries such as South Korea, Hong Kong, and China (Frontline, 1999).

1. Cause the Asian Financial Crisis

Financial crises are usually rendered by more than two factors. The Asian financial crisis is no exception. According to Morris Goldstein, there are multiple causes of the Asian financial crisis.

a. Financial Sector Weakness

The financial sector is a category of stocks containing firms that provides financial services to commercial and retail customers Banks, investment funds, insurance companies, and real estate, are the types of the sector (Investopedia, 2017).

Health financial sector will also help to robust good economic growth by providing good financial services. The best financial service is giving the low interest rate (Noland, *The Financial Crisis in Asia*, 1998). Most of the revenue from this sector is gained from mortgage and loans in which it will be valuable when the interest rate is low.

In Asia, the covert disadvantages have been worsened by a variety of policy errors. The financial systems in a number of countries were eventually politicized. Consequently, the capital was distributed to politically preferred borrowers, and the financial decisions were determined by a non-economical consideration, including the straight corruption (Noland, *The Financial Crisis in Asia*, 1998).

In the case of ASEAN, their economies experienced a *credit boom* in the 1990s. *Credit boom* is the condition when credits of the bank and non-bank flowing to private sector grow and exceeded to the growth of real GDP (Credit Boom Definition, n.d.). The credit boom triggered the net private capital inflows and directed in a good measures to real estate and equities (Goldstein, 1998). The properties accounted for approximately 25 to 40 percent of total bank loans in Thailand, Indonesia, Malaysia, and Singapore, and more than 40 percent in Hong Kong (illustrated in figure 3.1).

Table 3.1

Share of Bank Lending to the Property Sector Estimation

No	Countries	End-1997 (In percent)
1	Hong Kong	40-55
2	Singapore	30-40
3	Thailand	30-40
4	Malaysia	30-40
5	Indonesia	25-30
6	South Korea	15-25
7	Philippines	15-20

Source: Policy Analyses in International Economics 55 by Morris Goldstein June 1998, page 8

b. Exchange Rate Misalignment

Exchange rate misalignment was shown when Japanese Yen started in rapid appreciation to other exchange rates, primarily the US Dollar, started in 1985 (Noland, *The Financial Crisis in Asia*, 1998). When the production cost in Japan increased, Japan decided to move its offshore companies, especially to South Korea and Taiwan and ran an aggressive monetary expansion. As the result of this, the asset price bubbled and massive capital inflows came into South Korea and Taiwan.

In the end of 1980s, those two economies had similar pressure to appreciate their currencies; consequently they had to overcome similar results: aggressive monetary expansion, asset price bubbles, and large capital outflows (Noland, *The Financial Crisis in Asia*, 1998). This time, the effects came to Southeast Asia

c. Export Slowdown

If the rate of economic growth is high, the financial institutions is able to compensate the borrowers with low rate of return, which means they give bigger priority for the low rate of return borrowers than with the borrowers with high rate of return on loans. Whereas, when the rate of growth slows, the bad loan starts to affect the ability of banks and non-bank lending institutions to supply credit to economy (Ligang Liu, 1998).

On the other hand, the export slowdown might cause to expectations of corporate profit reduction and a decline in equity prices, starting with domestic citizens, followed by foreign investors where they attempted to move their money abroad to gain higher profits. Consequently, the exchange rate exhibited depreciation for countries which float their currency, or contribute more pressures on the exchange rate peg for countries that peg their currency to a foreign one, such as US Dollar (Goldstein, 1998).

d. Moral Hazard

A situation can be said as “moral hazard” if there are two or more parties have transaction, then one party gains the opportunity to assume additional risks that have negative effect to the other parties. The decision or assumption is not executed based on the righteous value, but something that provides higher profit, in which it is, inverted the morality (Investopedia, Moral Hazard, 2016).

In the case of Mexico in 1995, it was said to have contribution to the current crisis by creating a moral hazard when the investors did not want to

exercise the due diligence since they expected more on the availability of bailout (Noland, *The Financial Crisis in Asia*, 1998).

According to Marcus Noland's testimony in his journal of "The Asian Financial Crisis in Asia" in 1998, the equity of investors in Asia experienced a remarkable reduction in their values of investments. The point of Noland's idea was that one of the causes of the Asian financial crisis was due to the moral hazard considerations that motivated the lenders.

2. The Contagion of the Asian Financial Crisis in 1997

Since 1930s, the world economy has hardly ever worked easily. Nowadays, the harm of turbulence or fluctuation in the economic activities has escalated more while the causes seem to have changed relatively (Hasan, 2000). Thailand was the first country in Southeast Asia that felt the impact of the crisis on July 2, 1997, subsequently, it spread to Malaysia, Indonesia, Philippines, and Singapore (Zaherawati Zakaria, 2010). Moreover, the crisis also scattered to East Asia countries, such as Hong Kong, Taiwan, Korea, and China. The slowdown of exports, economic decline, and increasing the number of unemployment, were the cause and effect from the crisis.

First of all in Thailand case of Asian financial crisis, the World Bank had complimented Thailand owing to its good reputation in accepting any foreign investment and possessed such friendly market philosophy. However, the reason why Thailand became the first country in Southeast Asia which suffered from the crisis was due to the outcome of the weak capitalism boom in Southeast Asia (Julian, 2000).

As the reduction of British occupation in Southeast Asia region and the rise of military as the dominant institution in society, the United States Army was the key external link in Thailand (Julian, 2000). The United States planned to make Thailand a destination key for large-scale tourism as product of postwar capitalist order.

The main root of the crisis in Thailand happened when the U.S. Army invested their money on infrastructure, creating development boom in 1960s because of the tourism explosion. This explosion increased a number of real estate speculations and lands were available only for those who could access the capital. Besides, the prominent rulers at that time consisted of Sino-Thai commercial capitalists, top level of bureaucracies and military officials, and rural economic elites (Leightner, 2007).

Consequently, those conditions produced dispossessing of farmer lands and reduction of Thailand young people in rural area that came to Bangkok for working. This working class was paid cheap for tourism and other service industries in 1980s and 1990s. In addition, Thailand was also impacted by the oil crisis in 1980s (since Thailand imported oil), resulting the commodity price downturn affecting commodity export, the rise of debt burden owing to the increase of interest rate drastically. The existence of debt burden forced Thailand to gain assistance by the IMF and automatically its obligation to adopt the SAP (Structural Adjustment Program) (Julian, 2000).

The main causes and effects of Thailand's crisis were essentially blamed on five factors. Deficit in GDP and the decline of export rate, external debt, the

collapse of property sector, exchange rate mismanagement, and political instability. First, the deficit in GDP was shown by the steady decline of Thailand's GDP until 8 percent in 1995 and 7.9 percent in 1996 and 1997. Meanwhile, the export rate declined 23 percent in 1995 and 1996. These declines caused Thailand owed so much to external borrowing (Julian, 2000).

Second, the excessive external debt occurred when Thailand had huge number of debt from IMF which reached until US\$99 billion (Leightner, 2007). This took up country's debt ration from 11.4 percent in 1994 to 15.5 percent in 1997. Third, the collapse of property sector that began in 1980s.

The increment of property sector caused oversupply of housing sector. Consequently, it created more loans, squeezing Bank of Thailand lending ability and caused the collapse of property sector in 1996. The property sector left 1.000 billion Baht debt in total, eventually, produced the slip of property sales market where many of finance companies and small banks faced liquidity problems. There were 114 finance companies suffered for insolvency during June until December 1997 (Julian, 2000).

Forth, the exchange rate mismanagement was started when Thailand applied fixed exchange rate and integrated it with liberalization of international capital flows, it created Baht overvalued against other currencies. The overvalued of Baht stimulated the slowdown of exports in 1996. Thus, Thailand government replaced fixed exchange rate system to "managed float" exchange rate. Unfortunately, this decision even made the ceaselessly decline of Baht from 25.8 Baht/US Dollar to 50 Baht/US Dollar (Leightner, 2007).

At last, there was political instability that occurred during Chavalit Vongchaiyudh's administration. His teams were not able to solve the mismanagement caused by the technocrats. Thus, this administration was known having poor performance and achievement in country's economic management.

The country that suffered much more impact of the crisis was Indonesia. Indonesia was totally battered by the crisis since its impacts had not only affected the country's economy, but also the political system and the social condition of Indonesia (Tambunan, 2010). On January 1, 1998, nominal value of Rupiah was only 30 percent of its previous value in July, 1997 (Krisis Keuangan Asia di Indonesia). For Indonesia, the 1997 crisis was essentially a currency crisis when Rupiah depreciated remarkably against US Dollar.

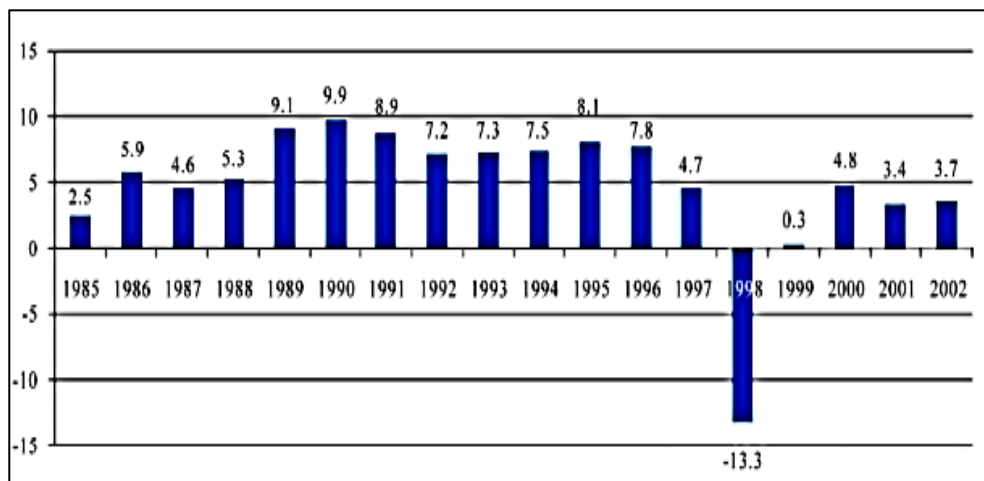
The depreciation of Rupiah was immediately continued by the crisis in national banking (Tambunan, 2010). Due to Rupiah depreciation and higher interest rate, first, middle, and high income groups (i.e. employees in the financial or banking sector, and large scale industries that depended on bank credits) suffered the most from the crisis. The tragedy, sadly, did not only settle there. In addition, the increment of unemployment was something inevitable owing to many laid off of the employees.

Tulus T.H. Tambunan (2010) stated that, the crisis had contributed bigger poverty rate in 1998 which finally resulted the deep recession of Indonesia's GDP reduction up to 13,7 percent (minus 13,7 percent growth) during the crisis period (see figure 3.2) .

The follow up of depreciation of Rupiah only exacerbated the situation drastically. Companies in Indonesia were competing with one another to buy Dollars, causing more pressure on the Rupiah and worsened the debt situation of the companies/firms. Those companies in Indonesia (including banks, some of which were known to be extremely weak) would regrettably suffer the huge losses. The depreciation of Rupiah could be seen from this chart that contained information about Indonesia GDP growth rate from 1980s to 2000s.

Figure 3.1

Indonesian GDP Growth Rate during the 1997-1998 Crisis



Source: T. T. H. Tambunan, the Indonesian Experience with Two Big Economic Crises, p. 160

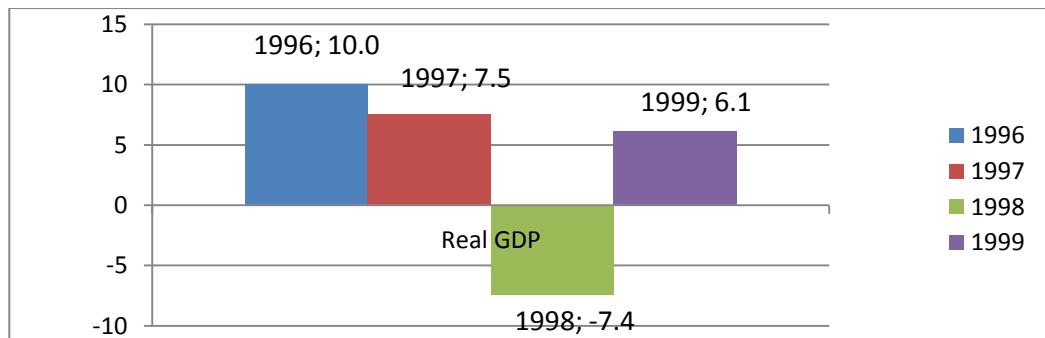
Foreign exchange reserves would face scarcity for new loans to firms in Indonesia that were not granted by foreign creditors (Krisis Keuangan Asia di Indonesia). Being unable to deal with this crisis, the Indonesian government

decided to seek financial aid from the International Monetary Fund (IMF) in October 1997 (Timeline of Panic).

In the case of Malaysia, far before the crisis hit Malaysia's economic, the condition had been stable since its independence day on August 31, 1957. Besides that, Malaysian residents still enjoyed the stable economic condition where the rate of economic growth increased until 8,7 percent during the period of 1990-1997 (Zaherawati Zakaria, 2010).

This table below would show Malaysian GDP growth during the crisis era.

Figure 3.2
Malaysian GDP Growth during Crisis of 1997-1998
(Amount in RM billion)



Source: Based on Bank Negara Report 1999, Tables A.6, A.9 and A.10. (The 1997-98 Financial Crisis In Malaysia: Causes, Response, And Results, 2002)

The financial condition of Malaysia began to weaken in the end of July 1997, by the fall down of stock process until 68.58 percent and remained fall down in 1998 (Hasan, 2000). Basically, there were four factors that caused the

crisis in Malaysia, such as speculative attacks, deficiencies in risk management, form of corporate government and equity markets, and the legal infrastructure.

First, speculative attacks happened when the relations between government and banks in Malaysia at that time were in the worse status, if we compared to other ASEAN countries. The government did not want to form particular policies to regulate directed loans to the firms. The government's relations with the firms were also not in harmony, either. Government formed the policy based on high investment ration over GDP along with the promotion and support for certain mega project (Fumitaka Furuoka, 2012). This created the lenders' view that the government did not want and allow to fail. At the end, the over investment occurred, resulting the deficit since the aggregate demand exceeded the aggregate supply itself.

Second, the reason of deficiencies in risk management happened, was due to the dissonance between asset-liabilities, excessive liquidity, interest rate and currency risk (Asian Financial Crisis : Causes and Development, 2000).

Third, corporate government and equity markets means, since Asia was a region based on shareholdings system, governance with the larger shareholding was in the power. Besides, non-competitive product and legal protection created the reduction of specialization by management, poor diversification, and the risk of taking over the external share by insiders. Fourth, legal infrastructure system created the foreign lenders' decision to give short-term loans to Asian corporations and banks since the weak enforcement of laws that regulated private contracting infrastructure made inadequate trust in markets

(Zaherawati Zakaria, 2010). Thus, when crisis happened, the loans would be taken back, causing uncontrollable excessive capital outflow.

Because of the crisis, the value of ringgit had declined. This marked the impact of the crisis on Malaysia's economy. The value of ringgit was 2.42 per US Dollar in April 1997 while in January 1998 it had declined up to 4.88 per US Dollar (Fumitaka Furuoka B. L., 2012).

Financial crisis in Malaysia did not only affect the economy, but also several aspects, such as impact on society and political system. Inflation by the increased of food prices, the growth of unemployment rate, and the reduction of government expenditure on education, were the impact of the crisis on the society. Meanwhile, the impact on political system was shown by the internal clash between the prominent figures in the dominant party at that time in Malaysia (United Malay National Organization).

As explained in Zaherawati Zakaria's journal, the prominent figures were Tun Mahathir Muhammad, as the president of UMNO and Anwar Ibrahim as the deputy president of UMNO. The conflict started when Mahathir was upset by the defeat of Ghafar Baba for the deputy presidency over Anwar who was considered as Mahathir's threat due to discrepancy to cooperate in politics.

The Asian financial crisis also impacted Philippines and Singapore with the smaller risks given to both countries, though. In history, precisely in the mid of 1970s until 1980s, Philippines had experienced inefficient financial system. According to Hutchcroft, Philippine banking sector was known as "rampant favoritism" and "inefficient state regulation", consequently,

Philippines' financial sector performed a poor job in mobilizing saving, allocating capital, and instability prone. These situations brought this country to the crisis in the 1980s. The depreciation of Peso created inflation in society and public sentiment toward the government in the 1980s (Mijares, 1999).

Reversed compared with other Southeast countries, the Philippines was about more tolerance to the Asian crisis since the government undertook number of attempts to reform the economy during 1993 and 1995. It was caused by several factors. First of all, the loans for the Philippines were used for productive sector, its financial system was much stronger, and its export growth was also strong as it has tighter trading ties with the United States. Philippines learned from the past crisis to prudentially undertake the loans for productive sector. Besides that, the demand of real estate was remained low caused the bank lending also low at 15-20 percent compared with Malaysia and Thailand which reached up to 30-40 percent (Mijares, 1999).

Meanwhile, Singapore was a small open economy state that was vulnerable to external development, as consequent, it was potentially affected by the Asian financial crisis impacts from the surrounding countries. During the crisis, Singapore suffered from Dollar depreciation against major currency of the United States, Japan, and Europe, but surpassed against most Asian currencies (Jin, 2000).

When Thailand Baht was depreciated about 15 percent in July 1997, the Singapore Dollar could not avoid the contagion (Tan, 2000). The Singapore Dollar declined from S\$1.43 per US Dollar to S\$1.75 per US Dollar on January

7, 1998. Furthermore, this contagion impacted to the falling of asset prices of Singapore, as well.

As located in the same region, once again, Singapore could never be able to avoid the impact of the crisis. Asian financial crisis led Singapore to the slower economic growth, reflected by its surrounding countries, such as Indonesia, Malaysia, and Japan in which they were the top 3 visitor in terms of tourism in Singapore.

B. The Contribution of Japan's ODA Disbursement to Overcome the Asian Financial Crisis

Foreign aid was the main pillar of Japanese diplomacy, as well as an important means for Japanese government that was used to influence and improve political situation in developing countries' domestic policies, for instance, the use of ODA. The ODA was used as the alternative instrument to influence domestic affairs of the developing countries, since the military performance was prohibited by Article 9 of Japan's Constitution (Fumitaka Furuoka M. C., 2007).

Japan had relied on its political relations with Southeast Asia countries on the basis of friendly relations that were reflected from the establishment of Fukuda Doctrine in 1970s (Purbantina, 2013). It was started when Prime Minister Tanaka Kakuei visited Indonesia and Thailand in 1974, for inspecting the region, as well as widened their relations not only on the basis of economy, merely.

Contrary to the expectation, the visitation of Japanese Prime Minister confronted the protests in both countries (Er, 2000). The conflict was known as 'Malarie' riots. This protests were triggered by region's anxiety that Japan might

as role as “economic-animal” that would undertake the expropriation of Japan’s companies from the local market.

Japan, forwardly, tried to eliminate its negative image from Southeast Asia public by creating new policy, called “Fukuda Doctrine” under PM Fukuda Takeo in 1977 as his effort to retighten the relations of both parties (Hakim, 2009). This doctrine had three aspects to emphasize friendly relations with Southeast Asia (Er, 2000). They are, as follows: (1) Japan will eschew military use in the region; (2) Japan will tighten its relations with the region, using heart-to-heart relations; (3) and Japan will play as a “bridging role” for ASEAN disparity between ASEAN and Indochina (non-communist and communist states).

PM Fukuda Takeo, along with his Fukuda Doctrine focused on the integration concept with ASEAN relations where he later created forum for economic dialogue, as well as offering foreign aid package US\$1.5 billion in total for the region. In sum of this doctrine, it was essentially aimed at striving closer relations with the region by using no military power at all (Britannica, 1998). Started by Fukuda Doctrine, Japan began to actively offer assistance to Southeast Asia region.

Thus, Japan with all of its attempts, trying to provide as many as assistances to the region, in order to overcome the crisis. In order to look at the significant distinctions of Japan’s ODA to the region, firstly we have to examine carefully Japan’s ODA to Southeast Asia countries before the crisis occurred.

1. Japan's ODA before the 1997 Crisis

Until 1975, Japan had offered US\$1.1 billion aid for the world and it had went up until US\$3.3 billion in 1980. Japan's aid, hereafter, reached up to US\$ 3.7 billion in total in 1985, and this stimulated Japanese Yen to appreciate dramatically against US Dollar, based on the Plaza Agreement of 1985 (Fumitaka Furuoka M. C., 2007). Japan had contributed its ODA since 1950s to the Southeast Asia region as war compensation. The ten ASEAN countries that got the impact of Pacific War, had received certain number of financial aid from Japan as its consequence of being the loser in the war, recorded by the next table.

Table 3.2

**Amounts of War Reparations Payments, Economic and Technical
Cooperation Grants Given by Japanese Government**

Recipient	Amount	
	Million USD	Billion Yen
Reparation:		
Burma	200	72
Philippines	550	190,2
Indonesia	223	80,3
South Vietnam	39	14
Total	1.012,0	356,6
Quasi-Reparation(Economic and Technical Cooperation):		
Thailand	26,7	9,6
Laos	3	1
Cambodia	4,5	1,5
Burma	140	47,3
Singapore	8	2,9
Malaysia	8	2,9

Total	192,2	65,2
TOTAL	1.204,2	421,8

Source: From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and beyond, p. 19.

As the countries in the region which suffered more due the 1997 Asian financial crisis, Thailand, Malaysia, Indonesia, and Philippines, had received certain amount of money from Japan's assistance for post-Second World War reparations. Thailand received 9,6 billion Yen (US\$ 26,7 million), Malaysia received 2,9 billion Yen, Indonesia received 80,3 billion Yen (US\$ 223 million), Philippines received 190,2 billion Yen (US\$ 550 million), and Singapore received 2,9 billion Yen (Takagi, 1995).

After that, as the OECF (Overseas Economic Cooperation Fund) project, Japan's ODA had provided 5 billion Yen in total for Southeast Asia development fund. In 1977, Japan's ODA for Southeast Asia had been available in US\$ 1,7 million and increased in 1980 up to US\$ 3,3 million. At the same time, Japan was also willing to donate US\$ 1 billion for funding projects in several countries in the region, such as industrial project of urea plant in Indonesia and Malaysia, rock salt soda project in Thailand, phosphorus plant in the Philippines, and diesel in Singapore (Raymon, 2009).

2. Japan's ODA after the 1997 Crisis

According to Ito (1999), the Asian financial crisis of 1997-1998 is the reflection of Japan and Asian economies interdependence, since the economy of Japan and Asian mutually reinforced each other. Japan's economy was also

impacted by the crisis, reflected by the volume Japan's ODA comparison from 1970s until 2002 (see figure 2.1). As stated from the previous chapter, Japan had been a top donor country started in 1989 and reached its peak in 1995 with its ODA volume of US\$ 14,7 billion in total. Resulting from the 1997 crisis, Japan's ODA volume decreased up to less than US\$ 10 billion. Even though, Japan's ODA volume was not in the best situation, Japan still provided assistance to Asian countries that suffered from the crisis, precisely in the Southeast Asia region.

Some may think that Japan's assistance in Southeast Asia region is reflecting the economy interdependence of the region (Ito, 1999). In another hand, some may think Japan's contribution to Southeast Asia was along with Japan's interests which may be reached through Japan's recognition from the region. This assumption is built upon the amount of Japan's ODA given to the region in its attempt to help the region facing the crisis.

a. The Proposal of Asian Monetary Fund (AMF)

Japanese bureaucracy proposed the Asian Monetary Fund in the peak of the Asian financial crisis happening in the region. Many of external opinion argued that the AMF proposal establishment was quite astonished since it was proposed by Japanese bureaucracy. The AMF creation was proposed at the G7-IMF meetings in Hong Kong during September 20-25, 1997. The observers of the meeting were surprised (Lipsy, 2003).

The Ministry of Finance bureaucrats started to promote the AMF proposal in the end of August 1997. The MOF meant in working on the

AMF proposal. At this point, AMF estimated to contribute US\$100 billion fund for its members that consisted of China, Hong Kong, Japan, South Korea, Australia, Indonesia, Malaysia, Singapore, Thailand and the Philippines. The United States was not counted in AMF membership since the AMF policy required no involvement and relations with the IMF. The former vice minister, Eisuki Sakakibara, decided not to communicate with the U.S. regarding to the creation of AMF proposal since he predicted that the U.S. would underrate the proposal for sure on behalf of “Asian consensus” (Lipsy, 2003).

Accordingly, the U.S. Deputy Treasury, Larry Summers immediately called Sakakibara at midnight stated that he had thought that Sakakibara was his friend angrily (Lipsy, 2003). Summers believed that the plan for not involving the U.S. in the creation of the AMF proposal was a form of hegemony challenge toward the U.S. The U.S. with its all the attempts opposing the plan by increasing IMF quotas for Asian countries and promising the NAB (New Arrangement to Borrow) to support the opposition of the proposal (IMF, 1998).

The meeting of Regional Finance Minister was held in Hong Kong in November 1997 where the U.S. and IMF attended as the observers. As the result of the meeting, the support came from the ASEAN and South Korea vote, neutral vote came from Hong Kong and Australia, while abstain came from China (Narine, 2001).

Therefore, the creation of the AMF proposal was welcomed warmly by the Southeast Asia countries, though, the plan had to be dismissed due to the U.S. bold rejection as considering the AMF proposal as threat of “Japanese Hegemony” (Mentari, 2010).

b. The New Miyazawa Initiative

Before the New Miyazawa Initiative was announced, Japan had planned to provide US\$44 billion in total in assistance measures for Asia until the end of November 1998, including bilateral cooperation (in terms of the IMF-led assistance package), assistance for private investment activities, facilitation of trade financing, assistance to the socially vulnerable, assistance for economic structural reforms, and assistance for human resources development (Japan M. o., 2000).

The ‘New Miyazawa Initiative’ was announced in October 1998, envisioning the assistance package US\$30 billion in total in which half of the total fund was provided for the medium-to long-term financial needs for economic recoveries in Asia, and another half one was for short-term capital needs during the economic reform (Japan M. o., n.d.).

The New Miyazawa Initiative framework, especially for Indonesia, Thailand, Philippines, and Malaysia, could be seen from the next table, and the complete picture of the New Miyazawa Initiative framework would be shown in **Figure 3.3**.

Table 3.3

Japanese Financial Support to Indonesia, Thailand, Philippines, and Malaysia Under the Framework of the “New Miyazawa Initiative”

Recipient	Category of Medium-to long-term Financial Support (in Million USD)		Total (in Billion USD)
	JEXIM	OECF	
Indonesia	1,500	900	2,4
Thailand	Two-step loan : 750	Economic recovery & social sector program loan : 250	
	Economic & financial adjustment loan : 600	Agricultural sector program loan : 250	
	Total : 1,350	Total: 500	1,85
Philippines	Guarantees for the public sector entities in the Power sector : 500	Through 13 projects: 1,100	
	Total : 500	Total : 500	
Malaysia	Two-step loan to the Development Infrastructure Bank of Malaysia (IBDM) : 403		
	Total : 403		

Source: Ministry of Finance

http://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/new_miyazawa_initiative/

Table 3.3 showed the total Japan’s assistance including ODA that was covered in OECF in Indonesia, Thailand, Malaysia, and Philippines (countries with most suffered from crisis). The assistance consisted of two

categories whether it came from Japan's assistance cooperated with local government (in terms of JEXIM) and came from Japan's ODA (in terms of OECF).

Japan's assistance in economic crisis in the Southeast Asia region on the basis of New Miyazawa Initiative was predicted to provide US\$30 billion funds, however in the implementation it became more than the expectation in which Japan had provided up to US\$80 billion in total (see **figure 3.3**).

As we can see from **table 3.4** below, there was a significant distinction between the ODA given before the crisis years and after the crisis (Aid (ODA) disbursements to countries and regions [DAC2a], n.d.). It showed that the ODA volume at the crisis era contributed much higher than the previous and even after crisis years. We could see that the total number of ODA at the crisis era reached up to more than 200 percent of increment, while after the crisis the volume decreased until half of the previous disbursement.

One interesting thing was that the number of Southeast Asia countries at the crisis era was smaller than the previous years. It was caused by Japan's decision to stop disbursing its ODA to Singapore and Brunei Darussalam since 1996, as well as not all the countries in the region suffered desperately from the financial crisis (Aid (ODA) disbursements to countries and regions [DAC2a], n.d.). Thus, when the volume of ODA increased up to 200 percent during the crisis era, this showed Japan's aggressiveness in

contributing much to the region while when the volume of ODA decreased until half of it after the crisis years, it also showed the decline of Japan's aggressive contribution to the region, even though Japan still provided ODA to the countries.

Furthermore, Japan's decision to stop distributing ODA to Singapore and Brunei Darussalam had indicated that Japan would not disburse its ODA forever and endlessly to particular country (Aid (ODA) disbursements to countries and regions [DAC2a], n.d.). This could be assumed that, Japan stopped its ODA flows to Singapore and Brunei Darussalam might come from various reasons, whether it was because both countries had been noted as strong countries in terms of economy, or it was because of the absence of Japan's specific interest in both countries.

Besides that, Japan's ODA is actually dynamic where this can be played for certain reasons and purposes (Michele Coscia, 2012). Japan's higher ODA volume disbursement to the region in the crisis era, had showed Japan's seriousness toward the region. Japan had contemplated the crisis moment to participate more actively in the region by offering the higher ODA volume.

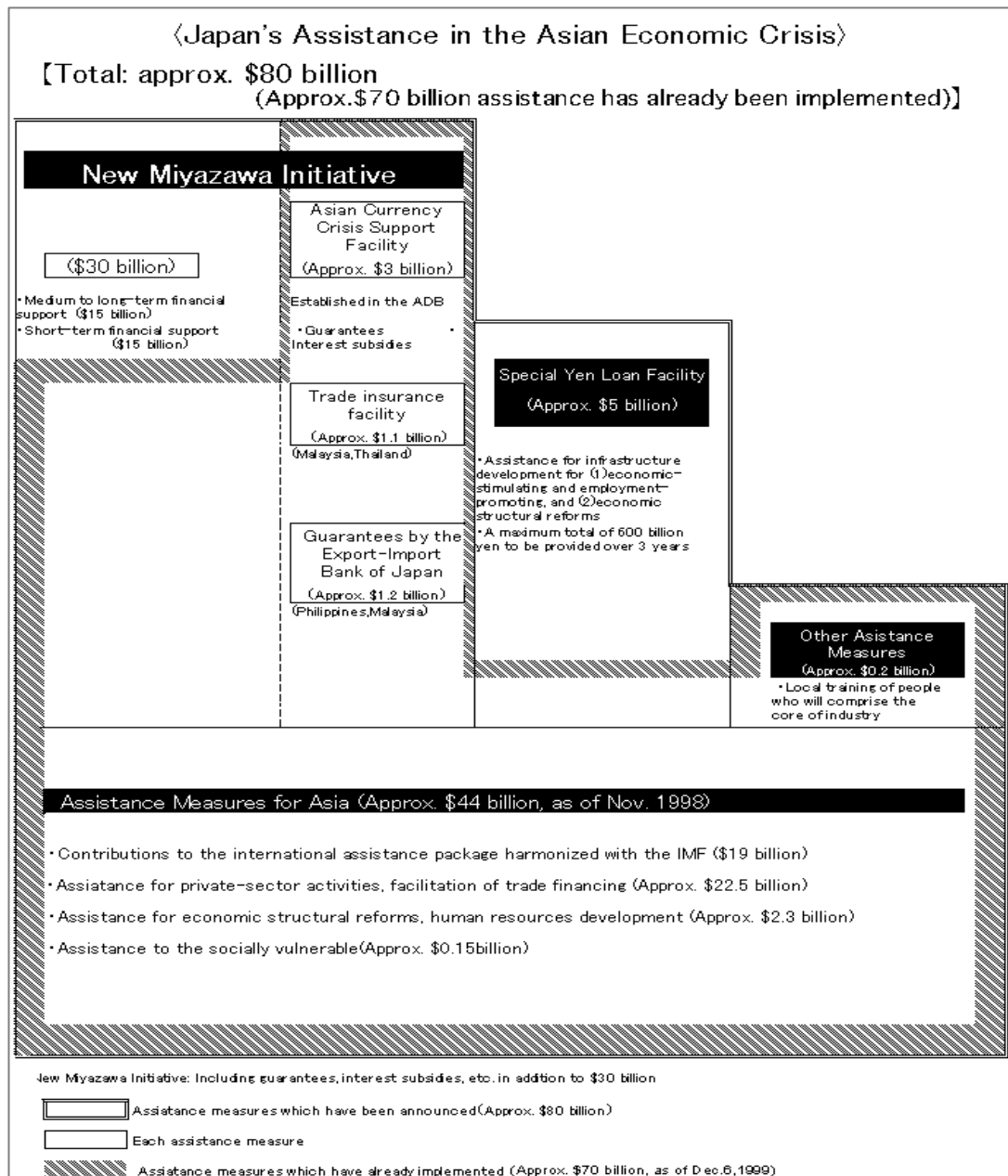
Japan's view about the "precious" Southeast Asia region had motivated Japan to actively play an important role in the region. After the Pacific War, Japan had started to see the Southeast Asia as a potential region in international community that might have had significant influence in the

global position. This background could be the platform for Japan to reach what so called as Japan's interest from the region (Gregg Huff, 2013).

Thus, Japan seemed to have deep concern on the region when the 1997 Asian financial crisis happened, suffered by most of Southeast Asia countries. Japan. Japan's motives behind its attention to the region when the crisis happened, could be possibly caused by how important the region in terms of investment, trade, market and billion Dollars of Yen loans. However, there must be another motive behind Japan's high attention to take an active role in assisting the region from the 1997 crisis.

Figure 3.3

Japan's Assistance in the Asian Economic Crisis of 1997 Under the "New Miyazawa Initiative"



Source: Ministry of Foreign Affairs of Japan

<http://www.mofa.go.jp/policy/economy/asia/image/crisis00.gif>

Table 3.4

Comparison of Japan's Total Financial Assistance Before and After Crisis (in Million USD)

Country	ODA pre-Crisis						ODA at crisis (1997 – 1998)			ODA post-crisis (1999)		
	1995			1996			Grant	Yen Loans	Tech. Cooperatio n	Grant	Yen Loans	Tech. Cooperatio n
	Grant	Yen Loans	Tech.Coo peration	Grant	Yen Loans	Tech. Cooperati on						
Thailand	121,04	379,96	110,04	119,19	457,37	117,58	269,22	760,29	248,42	115,45	690,56	113,53
Indonesia	201,58	464,36	151,98	197,73	640,65	141,8	453,26	883,38	271,21	211	1258,63	119,77
Malaysia	64,27	15,89	63,19	61,3	480,27	60,7	127,30	429,95	122,08	63,88	48,39	62,72
Philippines	175,74	134,79	85,39	161,06	198,81	81,92	316,31	298,94	169,47	159,61	218,56	84,32
Cambodia	113,46	---	12,79	65,57	3,63	17,47	143,71	---	48,44	45,58	---	21,29
Viet Nam	107,72	19,28	34,1	80,79	24,15	40,52	233,43	393,44	99,92	134,18	488,49	56,46
Myanmar	112,99	27,75	9,07	97,12	66,57	8,57	122,09	91,16	20,34	22,48	8,82	14,17
Laos	75,44	2,63	16,65	51,87	2,02	17,74	160,84	3,47	39,78	108,28	13,09	29,33
Singapore	10,1	---	10,1	---	---	---	---	---	---	---	---	---
Brunei Darussalam	3,02	---	3,02	---	---	---	---	---	---	---	---	---
TOTAL	2.526,35			2.762,7			5.706,45			3.904,96		

Source: <http://stats.oecd.org/Index.aspx?DataSetCode=Table2A#>