THE ROLE OF JAPAN AND THE US IN THE THAI ECONOMIC CRISIS:CURRENT INVOLVEMENTS AND FUTURE PROSPECTS*

Dr.Medhi Krongkaew **

1. Introduction

The recent economic crisis in Thailand and other countries in East Asia had pitched Japan and the US in somewhat different light with regard to their involvements in the causes, consequences and corrections of the crisis in these countries. While neither Japan nor the US was implicated in the exact cause of the crisis, the US might be looked upon as the originator the so-called 'Washington Consensus', the US-sponsored policy that forces most its trading partners to adopt globalisation, deregulation, privatisation, or otherwise open up their respective economies for free trade and investment, and it is this 'Washington Consensus' that forced many East Asian countries to open their economies too soon and suffered the crisis as a result. After the crisis broke with the flotation of the Thai baht on July 2, 1997, the US did not perceive this event with great concern, dismissing it as only 'a glitch' in the system. Japan, on the contrary, was quite concerned early on and was instrumental in mobilising rescue packages to countries in distress, starting with Thailand, Indonesia and Korea.

But this difference alone may not be sufficient to distinguish the true role of the US and Japan in their economic relations with Thailand and East Asia. Throughout modern history, the relationship between these two world economic powers and countries on East Asia had been dictated by shifting political and economic philosophy as well as the level of political and economic development that took around the world. During the cold war period, the policy of the US could be said to more active in East Asia then than now, as the objective of capitalism reigned supreme in the US foreign policy, and the economic development level of most

---

* An earlier version of this article was presented at the International Conference on the Role of the United States in the Asia-Pacific: Implications for U.S.-Japan Relations on the Eve of the 21st Century, organised by the Center for Strategic and International Studies, Bangkok, 17-18 May 1999

**Director, Institute of East Asian Studies, Thammasat University Rangsit Campus, Pathum Thani 12121. I would like to thank Ms. Pintima Lertsomboon, Mr. Wichian Intasi, and Ms. Nattaporn Boonprapa for their excellent research assistance.

countries in East Asia still required enormous external assistance, of which the US could provide. Today the cold war had more or less ended, and the countries of East Asia had attained a level of economic development that economic assistance of yesteryears are no longer necessary or needed. Instead of the US, Japan has now become the economic leader of East Asia. And to a large extent, it is the economic policy of Japan in the postwar period that shaped the economic scenery of East Asia (through foreign direct investment, foreign trade in goods and services, and so on). Despite these differences, however, the role of the US and Japan in Thailand and East Asia now, however, is still important to the economic (or political economic) future of countries on East Asia

The purpose of this paper, therefore, is to investigate the different role of the US and Japan in their connections with East Asia in general, and with Thailand in particular. The economic crisis in Thailand will be used as a starting point to bring in the respective roles of the US and Japan. After discussing how these two economic superpowers established their economic and political contacts with Thailand, the paper looks at the short-term involvements of the US and Japan in the Thai economic crisis, then hopefully, the long-term involvements of these two superpowers in the Thai economy in the post-crisis period (or in the economic recovery period). The paper ends by making an observation on long-term policy outlook in the East Asian region where Thailand is a member.

2. Thai Economic Development in Historical Perspectives: Influence of the US and Japan

The modern economic development of Thailand is said to have started in 1961 with the launch of its first national economic development plan. Notice that early 1960s were also the period of some significant political changes that had repercussions on future economic developments of these countries. Examples of these changes included the coups in Burma and South Korea in 1962, the separation of Singapore from Federation of Malaysia and the assumption of power by General Suharto of Indonesia in 1965. This first economic plan for Thailand could be rightly called a US-inspired plan because it was drafted from the recommendations of the World Bank Mission that came to Thailand in the late 1950s and reflected strong American thinking at the time. The government would rely upon the private sector to provide major investments in the economy, with the government providing basic infrastructure and setting up necessary institutions for modern economic management. The Board of Investment was established to promote such investments from inside as well as from outside the country. A national planning board which was set up to draw this first plan was given increased power to assess and approve major government spending programs and projects, the power which the NESDB still holds today, and the Budget Bureau was created along the line of the Office of Management and Budget in the US government to give added importance to the power to the prime minister. Various economic and military assistance from the US were given generously in an attempt by the US to show that domino effects did not apply in the case of Thailand despite the spread of communism in countries around Thailand. Also very important was a large number of scholarships and fellowships that the US government and other US organisations had given to Thai students to study in the US. Many of these US-trained students are now running the country. [1]

It will not be too far from the truth to say that the first national economic development plan of Thailand had set the trend for the economic development of the country in the following 38 years, and that trend was the reliance upon capitalistic market mechanism or market forces as a means to develop the economy. Although the role of the Thai government in the early phases of economic development could be described as interventionist rather than market-compliant (such as the use of tariff protection and other government control measures), this was necessary to enable local companies or institutions to become strong enough to compete with foreign competitors later. Soon the import-substitution phase of industrialisation gave ways to export promotion and new manufacturing activities that change the traditional structure of Thai exports completely. Thailand was lucky to have a strong and productive agricultural sector which had provided not just cheap food for its growing industrial workers, but also surplus food and other agricultural products for export, and manpower to work in the factories. With open market approach to economic development policy, the country began to industrialise, and the

[1] For an excellent account on the bilateral relationship between the US and Thailand since the postwar period to the early 1990, see Robert J. Muscat (1992), ***Thailand and the United States***, New York: Columbia University Press.

value of manufacturing products and exports began to exceed those of agriculture in the early 1980s, effectively pushed Thailand into the league of newly industrialised economies (NIEs). [2]

Japan was not less important to Thailand in its formative years of economic development. Japan was, and still is, the largest country to provide foreign direct investment (FDI) in Thailand with the US maintaining the second or third position throughout these almost four decades of economic development. Japanese companies were involved in investing and producing for domestic consumption first, then exporting back to Japan, and now exporting to the rest of the world. The Japan External Trade Organisation (JETRO) Bangkok Office had reported that, in 1954 when the Japanese Chamber of Commerce was established in Bangkok, there were 30 Japanese companies registered as members. In 1995 the number had increased to 1,160, the largest among all Japanese Chambers of Commerce outside Japan. From 1960 to 1998, Japan had invested about 108.3 billion baht in Thailand or about 41 per cent of the total FDI that Thailand had received. [3]

The first wave of Japanese FDI came to Thailand even before the launch of the First Plan but accelerated in the early 1960s. The areas in which the first batch of Japanese FDI were engaged in included textile industries and household consumer products. Then the areas of interest expanded into electrical appliances, motor cycle and automotive industries, and agricultural machineries. The second wave of Japanese FDI came after the 1985 Plaza Accord which saw the value of the Japanese yen greatly appreciated and forced more Japanese firms to relocate their operations overseas, and Thailand was the first ASEAN country to receive this second wave of FDI. The spread of FDI to other countries in Southeast Asian region necessarily affected the concentration of Japanese FDI in the first half of 1990s. However the FDI from

---

[2] For a comprehensive discussion on the industrialisation of Thai economy see, for example, Medhi Krongkaew (ed.), ***Thailand's Industrialisation and Its Consequences***, New York: St. Martin's Press, 1995.

[3] Speech by Mr. Kuwata Hajime, President of JETRO Bangkok Office given at the 15th Thailand-Japan Joint Trade and Economic Committee Meeting, 23 February 1999. Mr. Kuwata had also said that in that respect, Thailand was one of the most important countries for the Japanese economy, not only in the Asian region, but also in the world.

Japan had started to pick up again in 1996 and 1997, just as the country was about to plunge into economic crisis. [4]

3. Crisis Corrections: Short-Term Involvement of the US and Japan

When Thailand turned to Japan and the IMF for help after the meltdown of its currency in July 1997, few had suspected that the crisis would be very severe. At the time of the emergency loan agreements in early August 1997, the IMF projected that the GDP growth rate of Thailand in 1997 would be around 2-2.5 per cent. Three months later it had to adjust the GDP growth figure downward to 0.6 per cent and finally to –0.4 per cent at the end of 1997. The GDP growth estimate for 1998 was even more dismal at –3 to –3.5 per cent, attesting to the much-worse-than-expected economic crisis. Eventually the economy had hit the bottom at the end of 1998 with the growth rate of -8 per cent.

This worsening crisis had cast doubt over the suitability of the IMF package. While the IMF is well known for its conditionalities that include devaluation of generally overvalued currency, reduction in government spending and increase in taxes, reduction in the rate of monetary expansion to control inflation, abolition of price controls and subsidies, and privatisation of public enterprises, many had argued that these general conditionalities were not suitable for Thailand where the fiscal balance was in surplus, inflation under control, and privatisation of public enterprises already an on-going activity. Should the government spend more, rather than less, to stimulate the depressed economy?

The IMF had asked the Thai government to spend less to start with. As it is now well known, this was a bad decision as the contraction in the private economy got worse with this drastic cut in public spending. However, the IMF had some reasons for making such decision. The losses from the bailout of the commercial banks and finance companies would require the government to use enormous amount of public funds to payback to the Financial Institute Development Fund (FIDF) which provided the bailout money in the first place. The government

---

[4] For an account on Japanese direct investment in Thailand see, for example, Medhi Krongkaew (1999), 'Japanese Direct Investment in Thailand', in the Japanese Studies Center (1999), ***Evaluating the Japanese Participation in the Thai Economy***, Bangkok: Institute of East Asian Studies, Thammasat University, 1999, pp. 21-50.

needed all the public savings it could get, and that included the increase of the Value-Added Tax (VAT) from 7 to 10 per cent. This latter measure was also another bad idea because it had caused further contraction, created tax evasion, and hurt the majority of workers and other fixed income and self-employed people.

Other than these two fiscal measures, the other measures were followed by the Thai authority with a better result. First of all, the currency was already floated (devalued), so this part of conditionalities was met. Next, the mismanagement of the financial sector which was the heart of the problems was tackled immediately and forcefully. Through special legal power, the Thai monetary authority suspended more than half of the finance companies and eventually seized control almost all of them. A special institution called the Financial Sector Restructuring Authority (FRA) was established to auction off the assets of these failed financial institutions to pay back the debts to the government. The Bank of Thailand also ordered the remaining financial institutions to increase their capital bases, and establish more stringent controls over their loans. In order to help them recapitalise their capital bases, the majority control of foreign financial institutions was allowed. The government also provided public funding for those banks who were having problems with the recapitalisation requirement and would like the government to help in exchange for some public control on the management and operation of those banks. These stringent recapitalisation plans by the Thai government were often criticised for being too stringent, but the government was quite adamant in its intention to enforce these accepted international standards for the future of Thai banking institutions. At the end of April 1999, almost two years after the crisis, more than 60 per cent of the recapitalisation requirements of the Thai banking institutions have been reached, and the remaining task could be achieved much more quickly from now.

On monetary policy, the Bank of Thailand has kept a watchful eye over the fluctuation in the exchange rate. When the baht is weak in the exchange market, domestic interest rate will be kept high to help stabilise it, but when the baht becomes stronger and more stable, this high domestic interest rate would be reduced. Domestic money supply was also under close scrutiny by the Bank of Thailand so that the appropriate rate of monetary expansion is maintained to reduce the pressure of inflation. The government had succeeded in cutting its budget to the point that a fiscal surplus for the fiscal year 1997 was achieved, but later the IMF had agreed to allow larger and larger fiscal deficits so that the public sector could spearhead the economic recovery and to help provide social assistance to the public (social safety net and social investment programs)..

Perhaps one earlier good news was the good performance in the external sector where exports had increased while imports had plummeted. The positive change in the external sector was so quick and drastic that the current account had turned into surplus within a few months after the crisis broke. From October 1997 onward the current account of Thailand remains in surplus. At the end of April 1999, this surplus in the balance of current account amounted to some 2.6 per cent of GDP. This had positive effects upon the external confidence on the Thai economy as shown by the continued improvement in the exchange rate of the baht since February 1998. With the government going all out to improve the competitiveness of Thai exports and increase its volume and value, it had hoped to see further stabilisation in the exchange market and the reverse flows of capital into Thailand soon.

Finally, the government had stepped up the privatisation of several public enterprises. More than the benefits from increased revenues for the government for such efforts, the government actually saw a long-term benefits from more efficient resource allocation from this privatisation move, which could translated into more efficient economic production. Not to forget the less well off in the economy who had suffered from this economic downturn, the government decided to borrow some money from the World Bank to provide safety nets for the retrenched industrial workers and the people in the countryside.

It was earlier expected that the economy would bottom out before the end of 1998, and earlier signs in both the domestic sector (low inflation rate, falling interest rates) and the external sector (stable exchange rate and slowdown in capital outflows) but this was not to be the case. To succeed in stimulating the economy quickly, the commercial banks must be able to start lending quickly. At first these banks were not able to do so because of tight money situation. But when the liquidity was eased and the interest rate was brought down, commercial bank lending was still slow. Most local banks were burdened with large numbers of non-performing loans, and the corporate debt restructuring between these banks and their debtors was not very successful at first. The bankruptcy law that existed at the time of crisis was inadequate to cope with the situation where debtors and creditors need to negotiate about their debt settlement quickly and move on. The democratic attempt by the government to enact a new bankruptcy law was faced with strong resistance from the Thai political community, particularly in the Senate. It took the government several months to pass this new law, with several compromises. However, the effect of the passing of this law should facilitate faster debt negotiation and debt restructuring so that the NPL situation improves and banks can start lending again.

In December 1998, Mr. Obuchi Keizo, the Japanese Prime Minister announced at the ASEAN Summit meeting in Hanoi that Japan would provide up to 30 billion US dollars as an additional funding for countries beset by the current economic crisis to be spent in the social sectors to help alleviate the adverse impact on the people. This new aid package is later widely known as the New Miyazawa Initiative or Miyazawa Plan after the name of Mr. Miyazawa Kiichi, the Japanese Finance Minister who had conceived this aid package in October 1998. Thailand was quick to make use of this New Miyazawa Initiatives. A special loan from this plan plus additional loan from the World Bank combined with the reduction in the VAT rate from 10 to 7 per cent and a general reduction in energy costs formed an economic stimulus package that was launched by the government on March 30, 1999. This economic stimulus package which amounted to some 53 billion baht is expected to quicken the recovery process of the Thai economy so that at the end of 1999, the GDP is expected to grow by about one per cent.

Throughout these crisis corrections, the US and Japan have been playing various important roles on various stages of the crisis. The Thai government sought the help of the Japanese government first when the crisis broke in early July 1997, then the Japanese government worked with the IMF to draw up rescue package worth about 17.2 billion US dollars, consisting USD4 billion from Japan, USD4 billion from the IMF, and the remainder from the World Bank, the Asian Development Bank, and several friendly countries. These credit lines would be used to finance the balance of payments gap and rebuild international reserves.

The manner in which, and the speed with which Japan had come to the aid of Thailand had showed a high level of concern that Japan had towards Thailand. In comparison with the response from the US in the early stage of the crisis, the response from the US was much less enthusiastic. Perhaps the US government was of opinion that the event in Thailand was a currency crisis that would be limited in scope and severity, that the disease would not spread to neighbouring economies, and that the rescue package that the IMF and Japan had provided would be sufficient to correct the situation. When the same symptoms struck Indonesia and Korea, it realised that this was a major crisis and the US government must act forcefully. That was when the US government began to respond seriously to the contagion. The rescue package approved by the IMF for Indonesia and Korea worth 47 and 54 billion US dollars, respectively, were much larger than that given to Thailand. At the APEC summit meeting in Vancouver, Canada in November 1997, President Clinton publicly apologised to the Thai Prime Minister, Mr Chuan Leekpai for being slow in coming out to help Thailand, and promised to make amend at an appropriate time.

That appropriate time arrived in early March 1998 when President Clinton invited Mr Chuan to visit Washington, DC to meet with him and many other Congressional leaders. As a result of this meeting, the US government agreed to rescind, without penalty, the contract that the Thai government had entered into with the US government to purchase a squadron of F-18 fighters worth more than 300 million US dollars. Other assistance packages were also offered such as the setting up of funds to help Thai students who are currently enrolled in the US educational institutions, and the promise to provide additional help if the credit line from the IMF is insufficient. The visit to Washington, DC of Mr Chuan was a winner for both Thailand and the US. The confidence gain as a result of Mr Chuan's visit was immediate as the baht improved more than 5 per cent after the visit concluded. For the US, this meeting was used to show the world that the US was genuine in its intention to help Thailand.

Throughout the remainder of 1998, the US government either individually or through its representation in the IMF and the World Bank, followed the development of crisis management in Thailand with keen interest, and was quick to praise Thailand for the progress in its macroeconomic performance. [5] The local opponents of the IMF in Thailand saw things differently, however. They criticised the Thai government for adopting the open-market approach to crisis resolution believing that policy prescriptions by the IMF were a part of

[5] Mr. Robert Rubin, the US Secretary of the Treasury, visited Thailand in mid-1998 and gave interview to local press admiring the progress in the crisis management of the Thai government.

conspiracy to subjugate Thailand to foreign domination.[6] It is probably more true to believe that the Thai response to the crisis was very much conditioned by the belief in market approach that Thailand had adopted with regards to its general economic development for the last 30-40 years. The IMF could not effectively and unilaterally impose conditions on Thailand if the Thai authority did not agree to doing them. As it turned out, the Thai authority and the IMF had worked closely together in a series of negotiations and consultations. The agreements were then spelled out in various 'Letters of Intent' of the Thai authority. These are the 'intent' of the Thai authority more than the intent of the IMF.

In terms of FDI from the US to Thailand, the crisis had slowed down the pace of such FDI but did not stop or reverse the direction. The expansion of the hard-disk drive factory in Prachin Buri province by the IBM still continued, and so did the construction of automotive plants in Rayong by General Motors and Chrysler. On maintaining the level of support to local subsidiaries, the Japanese were probably doing better. At the height of the crisis when foreign capital continued to flow out of Thailand, many (in fact most) Japanese companies in Thailand had received financial assistance from their parent companies in Japan to maintain local operations and employment, and these capital inflows were indeed a major source of foreign revenue apart from credit tranches from the IMF and the revenue from Thai exports. The Japanese government also encouraged Japanese creditors to rollover debts of Thai companies or counterparts so as to relieve some pressure from the financial crisis. Throughout the crisis only one Japanese company had withdrawn its operation from Thailand, but that decision was made before the crisis and was not directly caused by the crisis.

Based on the above close relationship between Thailand and Japan, and Thailand and the US, it is possible to conceive a list of several actions that both the US and Japan could take and should take to assist the ailing Thai economy within the next two years. At least 3 immediate actions could be considered.

---

[6] Because some important policy packages included the amendment of the bankruptcy law that forces debt negotiation between debtors and creditors, and a faster foreclosure procedure; the permission for foreign companies to increase their ownership of local commercial banks and other business enterprises.

(1). Increase the flow of trade, investment and services

Foreign trade and investment have been a vehicle of growth of the Thai economy for several decades. The crisis had caused contraction in the economy and created welfare loss to the Thai people. While the reform in the financial sector lies at the heart of the crisis management and solution, the country needs resources quickly to continue to produce and exchange with the outside world. It needs an increased trade and investment with these two economic superpowers. As shown in Table 1, the total trade of Thailand with Japan and the US amounted to more than one-thirds of the total trade of Thailand before the crisis in 1996, with exports to Japan accounted for 16.82 per cent in 1996, and exports to the US accounted for 17.97 per cent in the same year. The crisis had brought some changes in the exports of Thailand to these two countries. Although the absolute value of exports to Japan continued to increase in 1997 and 1998, its share of total Thai exports fell to 14.99 and 13.72 per cent, respectively. On the contrary, Thai exports to the US had increased rapidly. The share of Thai exports to the US increased to 19.62 per cent in 1997, and further to 22.28 in 1998. The reasons for this is not difficult to explain. The recession in Japan had caused its demand for Thai exports to fall relatively while the robust economy in the US and the relative gain in the US dollar against the Thai baht had caused Thai exports to the US to rise rapidly. On the import side, the share of Japanese imports in the total Thai imports fell continuously from 1996 to 1998, reaching 23.69 per cent in 1998, whereas the share of US imports into Thailand had increased from 12.49 per cent in 1996 to 14.08 per cent in 1998. However, this rise in the US share could be explained by the weak baht rather than the genuine increase in volume term. Whatever the case may be, if both the US and Japan could encourage their importers to imports more goods from Thailand, the beneficial effects to Thailand could be quickly and directly felt. Tables 2 and 3 show the ten most important export items from Thailand to Japan and the US. They were a mixture of manufacturing and processed food products. Each of these export items has the potential to expand quickly to meet the demand when and where such demand exists.

Direct investment from these two countries could also help Thailand during the crisis. From Table 5 it may be seen that FDI from Japan had actually increased from 1,339 million US dollars in 1996 to 2,562 million US dollars in 1997, while the FDI from the US fell from 501 million US dollars in 1996 to –130 million US dollars (that is a reverse FDI flow from Thailand to the US) in 1997. A substantial increase in FDI from these two countries will not only stimulate local economy, it will also generate increased confidence among investors from other countries. Nevertheless, on the arrival of American and Japanese tourists to Thailand during the crisis, the statistics had shown that the number of American tourists to Thailand had increased while the number of Japanese tourists declined. Again the recession in Japan and the economic prosperity in the US could be used to explain this phenomenon. Appropriate policy change that will affect the above economic activities is certain to help Thailand.

(2). Maintain domestic policies favourable to Thailand

A high economic growth rate in the US is certainly a boon to Thailand (and other crisis countries in the East Asian region) as this high growth had resulted in increase import demand in the US itself. But to sustain this growth a certain domestic policies must be put in place to keep the economy growing. So far the Federal Reserve Board of the US has decided to maintain a low interest rate regime, which helps continue economic expansion, while the inflation is kept in check. Beyond this interest rate policy is the trade policy that continues to favour imports from Thailand which includes the tolerance of sustained trade deficit in Thailand's favour, the adoption or return of the General System of Preference (GSP) of some products, the avoidance of trade barriers, tariff as well as non-tariff, and the non-imposition of trade sanction. The stronger Japanese economy is also a great help toward increased Japanese demand for Thai products (or increased demand for travel to Thailand). On this point, the Japanese government is doing all it can to rectify the situation. One can only hope that the Japanese government succeeds in its endeavour.

(3). Provide financial and technical assistance as needed

As mentioned earlier, the financial assistance to Thailand at the onset of its currency crisis had turned out to be quite inadequate. Coupled with incorrect policy to squeeze government spending to maintain fiscal surplus at the beginning of the crisis and the initial tax hike, the Thai economy had sunk quickly into recession. Pertinent issues being debated at the end of 1997 and early 1998 were availability of additional financial assistance from the US and Japanese governments, the IMF, the World Bank, the ADB, and other international financial institutions. In the US, the request by the government to the Congress to contribute another 18 billion US dollars to replenish the existing fund of the IMF was met with strong resistance from many congressmen and senators. It took more than a year for the US government to get additional 18 billion US dollars to the IMF. The availability of funds in Japan was much easier. Japan has a lot of money it can lend. Several assistance measures were announced, including the now famous Miyazawa Plan (see Box 1).

Note that the US and Japan now working closely together to offer and manage these funds. The US position had changed from 1997 when it had opposed the idea of setting up the so-called Asian Monetary Fund or Asian Fund for fear that Japan would dominate the financial systems of East Asia and would dilute the role of the IMF. It now saw the need to make available more financial assistance and quite agreed to let Japan take the leading role in these matters. The US itself, through the IMF and the World Bank had made a point that the crisis must not hurt the poor in the country as they were not the culprits who brought on the crisis. Therefore, when the IMF asked the Thai government to cut spending to save some funds for debt repayments, it had stipulated that educational and health spending must not be cut. Later on several programs which specifically addressed the issues of social safety nets or social protection were offered by the World Bank and the ADB, and the Thai government had made use of several of these programs. [7] The US concern on the impacts of economic crisis on the people was so strong that it has now made it a part of its foreign economic policies (see Box 2).

(4). Promote economic stability, peace and security in the region

In international economic crisis, countries may be forced to make drastic policy changes such as competitive devaluation, currency and capital controls, or even emergency national actions. The international financial chaos and disorder may require that some international agencies such as the IMF play an important role in keeping the world financial and economic

---

[7] For a detail on the social investment programs or social safety net programs in Thailand, see, for example, Medhi Krongkaew, 'Impacts of Economic Crisis on Production, Price, Trade, Investment and Employment: the Case of Thailand', in Yamazawa Ippei (ed.), ***Strengthening Cooperation Among Asian Economies in Crisis***, Tokyo: Institute of Developing Economies, 1999, pp. 125-158; and Medhi Krongkaew, Chapter 4: Human Development During the Crisis and Beyond, background paper for the 1999 National Human Development Report for Thailand, Bangkok: UNDP Bangkok Office, 1998.

systems in order. This is why such organisations as the IMF are so important today. But even the IMF needs the backup of the US and Japan. They could provide the necessary funds, guidance and suggestion on how to handle the crisis. If one looks at the firs article of the IMF one will see that the avoidance of competitive devaluation and foreign exchange restrictions are the two most important functions. So, if the IMF could act to prevent countries in trouble to engage in competitive devaluation and exchange controls a part of these functions are fulfilled. The US and Japan as economic superpowers can help to correct the situations in crisis countries and/or persuade other countries to fall into line. Imagine if the currencies of Thailand and Korea never stopped sliding down, if China followed suit with the devaluation of its currency, if all foreign debts were reneged upon. This is the kind of economic stability that we look towards such countries as the US and Japan for leadership. But stability can also go beyond economic realm. Political peace and security are also something necessary for the orderly functioning of the economic transactions. Trade and investment in the atmosphere of cordial relationship without territorial or ideological tensions. Promotion of this kind of peace and security could also be undertaken by the US and perhaps with some participation from Japan.

4. Some long-term Policy Actions

The above policy actions are mainly for short-term assistance to economies in trouble like Thailand. In a longer term perspective, there may be other actions that the US and Japan could take together to bring about more stable situations in East Asia. The following three actions could be subjects of debate and deliberations in the next several years.

(1). New political and security configurations in East Asia

Future economic stability and security in the East Asian region depend on the change in political and security configurations that come with the change in economic status. The US is now the only super political and military power in the world, so it can have relatively greater freedom to act as an international policeman. It may have to get involved in some issues that in fact are not within its purview of direct interest. The international role of the US will become busier and more complex. The following scenarios can involve quite a different kind of action and participation from what the US is used to having.

- What if Japan decides to rearm itself in anticipation of belligerent North Korea, and by getting deeper into the research for Theatre Missile Defence (TMD) emerged a superior military power?
- What if China, which has become stronger economically day by day, decides to become a world political and military power by strengthening its armed forces and play more active role in international arenas? Would that challenge the position of Japan? How would the US act in this situation?
- What if Thailand which is a traditional friend and ally of the US decides to downgrade this strong historical relationship and join with Malaysia and Indonesia in opposing the role of the US in Southeast Asian region?
- What if military leaders in Myanmar yields to the US pressure and give up their power, which then brings the US into full development partner in Myanmar? How this change would affect the position of ASEAN in general?

These are some of the long-term scenarios that are certain to affect the future political and security configurations in the East Asian region.

(2). New International Financial Architecture

The current economic crisis has become much more serious than anybody had thought. It is ironic that the force in the US, that is fund managers and their business dealings could bring down several countries, and yet another forces in the US, this time the IMF and the World Bank, could also bring these countries back to life. The future international financial systems need to be more predictable or at least more secure than the present systems. If the US could have its way, the IMF would be engaged in the following changes in international financial architecture. [8]

[8] Adapted from Medhi Krongkaew, 'Trying to Understand the Role of the IMF in the Current Asian Economic Crisis', The Nation, Tuesday March 16, 1999.

1. There will be development, dissemination, and adoption of internationally accepted standards or codes of good practice so that market participants can compare information on country practices against agreed benchmarks of good practices and to make better investment decisions;
2. There will be transparency on the part of members of the IMF in their policy determination, and on the part of the IMF in the openness and clarity of its policies and advice;
3. Financial systems of members need to be strengthened through enhanced technical assistance, better surveillance on the linkages between macroeconomic policies and sound banking systems, more training on bank supervision and other banking problems, and improvement on the IMF's capacity for financial sector analysis;
4. International financial markets will need to be integrated in a more orderly fashion; and
5. The private sector will be induced to get more involved in the prevention and resolution of the financial crises, especially in providing liquidity support to countries in times of financial stress, in improving the coordination of debtor-creditor relations in voluntary debt-restructuring, and in creating well-functioned corporate bankruptcy systems.

(3) New Relationship in APEC, ASEAN and GMS

The East Asian nations have been strong supporters of such international or regional grouping as APEC because this is a loose association based on the concept of open trade and investment, where members can join in voluntarily, and most trade and investment concessions were offered unilaterally without requiring reciprocity. Strictly speaking this is not what the US would have liked, but the US went along for the spirit of regional cooperation. One does not know how long the official US position could hold on to this. APEC is where the US still does not exert its own superpower influence fully. Would the US position in APEC change in time? With regard to ASEAN, many ASEAN countries may be tigers in trouble, but sooner or later these tigers will come to health again. Now with every country in Southeast Asia a member, ASEAN can be a force to be reckoned with when the crisis had passed and the good time had returned. Contrary to some beliefs, larger organisation could bring about easier consensus because the peer pressure is stronger. If that is the case, then the post-crisis ASEAN should hold more promise than the pre-crisis ASEAN. Moreover, the new ASEAN will overlap or incorporate the

Greater Mekong Subregion (GMS) as well, and the potentials for greater economic development in this subregion will be something few have seen in modern time.

5. Summary and Conclusions

This paper has attempted to show that both the US and Japan contributed greatly to the economic development of Thailand, the US in providing the capitalistic development framework, and Japan with development funding through foreign direct investment. The contributions from these two economic superpowers have helped Thailand attain the status of NIE in mid-1980s. However, several local institutions are not developed enough to cope with rapid economic liberalisation in and around Thailand leading to abuses in the systems such as overborrowing overseas, too much short-term debts, overspending in non-productive activities, lack of adequate regulations and supervision in the financial sector, conflicting exchange rate and currency policies, lack of economic leadership, and so on. With the poor performance in the export sector which is one of the most important sectors in the Thai economy, the existing currency policy could not be hold together. The crisis started with the flotation of the baht, and for almost two years, the country has suffered a great deal. But through conservative and patient policy measures, incorporating financial sector restructuring, monetary policy to control money supply and exchange rate, fiscal policy to control domestic demand, and privatisation, the economy of Thailand had started to come out of recession.

The US and Japan could continue to influence future development of the Thai economy. They could help by increase flows of trade, investment and services, maintain domestic policies that are conducive to the growth of the Thai economy, provide financial and technical assistance as needed, and promote economic stability, peace and security in the region. In the long-term, the US and Japan need to look at a new power configurations in the region, new international financial architecture, and new status of regional groupings such as APEC and full ASEAN.

As the East Asian areas have become more complex, the interrelationship among countries in the region also have become more difficult. Only by constantly monitoring the change in economic and social positions of each country in relations to another could we arrive at some understanding of the region at large. One thing is certain, however. The East Asian region could not do without a strong role of both the US and Japan. Japan needs to come out of its recession quickly to play more leadership role in the region, whereas the US must continue to prosper and provide stimulus to the countries in crisis. Without these two factors the future prospects of smaller developing countries in East and Southeast Asia could be bleak indeed.

Box 1: Japan's Assistance in the Asian Economic Crisis

Not just Thailand that had received generous financial and technical assistance from Japan during its current economic crisis; other nations in Asia also had received similar assistance. Four of the following assistance packages are worth noticing.

(1). Assistance measures for Asia

The assistance measures for Asia which have been announced by the Japanese Government since July 1997 totals USD44 billion. Much have already been implemented, and for others concrete arrangements for implementation are being worked out.

(2). 'New Initiative to Overcome the Asian Currency Crisis (New Miyazawa Initiative)'

In October 1998, Japan announced that it would provide a package of support measures totaling approximately USD30 billion of which USD15 billion would be made available for the medium and long-term financial needs for economic recovery in Asian countries, and another USD15 billion would be set aside for their possible short-term capital needs during the process of implementing economic reform. This initiative would be implemented in addition to the above USD44 billion assistance measures. As of March 1999, four loans have been made to Thailand, Malaysia, Philippines, and Indonesia.

(3). 'Asian Growth and Recovery Initiative'

On November 16, 1998, Prime Minister Obuchi and President Clinton jointly announced the initiative to support several Asian countries which faced difficulties in financing their measures for restoring growth because of world-wide liquidity shortage. Japan and the US, with the support of the World Bank and the Asian Development Bank would prepare USD5 billion. Japan intended to apply a part of USD3 billion national bond which would be donated to the ADB.

(4). 'Emergency Economic Package (Measures to Assist Asia)'

The emergency economic package announced on November 16, 1998 included measures to assist Asian countries amount to about 1 trillion yen (approximately USD8.3 billion) as a measure to reduce risks to the global economy. The measures necessary to realise both the 'New Initiative to Overcome the Asian Crisis' and the 'Asian Growth and Recovery Initiative' were included in the package.

Source: Website of the Ministry of Foreign Affairs of Japan.

Box 2: The US Financial Initiatives to Protect Ordinary Citizens Around the World

On April 20, 1999, President Clinton made a public announcement concerning a new series of financial initiatives to protect ordinary citizens around the world. Although the suffering of the poor people as a result of current economic crisis in Asia was behind this new policy initiative, the applicability of this policy has gone beyond the crisis in Asia. This is part of his speech:

"For the United States, for ordinary citizens in the United States, and for their counterparts throughout the world, there are few more important things for leaders to be doing than working on building a stable financial architecture for the new century.

First, we industrial countries should take steps to reduce the entire financial system's vulnerability to rapid capital flows and excess leverage. For example, we should strengthen bank regulations so they actually take into account the real risks of lending.

Second, we should continue to develop a better way to respond to crises, including appropriate sharing of responsibility by the private sector.

Third, developing countries should take more responsibility as well, by strengthening financial regulation and bank supervision, and developing sustainable debt management policies, thus avoiding excessive reliance on short-term debt.

Fourth, the international financial institutions should focus their efforts on encouraging developing countries to adopt sustainable exchange rate regimes and the macroeconomic policies necessary to support them.

Fifth, we must ensure that the most vulnerable citizens do not bear the brunt of these crises. That means the IMF and the World Bank must pay more attention to social safety nets, working with countries to lay strong foundations during good times and to maintain adequate protections during bad times.

Sixth, we must remember that the poorest countries--nations that private capital flows are bypassing altogether--need help because they are burdened with unsustainable levels of debt. No nation committed to good governments and economic reform should be crushed by a debt burden that it is so heavy it will punish ordinary citizens and prevent growth, no matter what people do.

If we take these steps, we can put a human face on the global economy. We can show people--the world, that there won't just be economic numbers showing growth, but their lives will be actually improved by the work we do to draw closer together.

Source: United States Information Service Website

Box 3: The Lonely Superpower

According to Samuel P. Huntington, the US in the past few years has attempted or been perceived as attempting more or less unilaterally to do the following:

- Pressure other countries to adopt American values and practices regarding human rights and democracy;
- Prevent other countries from acquiring military capabilities that could counter American conventional superiority;
- Enforce American law extraterritorially in other societies;
- Grade countries according to their adherence to American standards on human rights, drugs, terrorism, nuclear proliferation, missile proliferation, and now religious freedom;
- Apply sanctions against countries that do not meet American standards on these issues;
- Promote American corporate interests under the slogans of free trade and open markets;
- Shape World Bank and International Monetary Fund policies to serve those same corporate interests;
- Intervene in local conflicts in which it has relatively little direct interest;
- Promote American arms sales abroad while attempting to prevent comparable sales by other countries;
- Force out one U.N. secretary-general and dictate the appointment of his successor;
- Expand NATO initially to include Poland, Hungary, and the Czech Republic and no one else;
- Undertake military action against Iraq and later maintain harsh economic sanctions against the regime;
- Categorise certain countries as "rogue states", excluding them from global institutions because they refuse to kowtow to American wishes. [9]

The main message from Huntington is that the above behaviour may come from the misconception that the US exists in a unipolar world which is not true. To deal with any major global issue, the US needs the cooperation of at least some major powers. The US also should not look at itself as a benign hegemon, and should not think that the rest of world would agree with the US in whatever it decides to do. To Huntington, the US, as the only superpower, should use its resources to elicit cooperation from other countries to deal with global issues in ways that satisfy American interests.

Source: Samuel P. Huntington, 'The Lonely Superpower', ***Foreign Affairs***, vol. 78, no. 2, March/April 1999, pp. 35-49.

[9] to which I may add vetoing a candidate from Thailand from being selected new director of the WTO, and influencing the eventual selection of the candidate of its choice.

Table 1 : Total Trade of Thailand with Japan and the US

Year	1992	1993	1994	1995	1996	1997	1998
Exports : (million baht)							
Total	824,643	935,862	1,137,600	1,406,311	,412,111	1,806,699	2,247,454
To Japan	144,393	159,479	194,276	236,099	237,523	270,765	308,415
(% of total)	17.51	7.04	17.08	16.79	16.82	14.99	13.72
To U.S.A.	185,008	202,227	239,100	250,685	253,800	354,552	500,788
(% of total)	22.43	21.61	21.02	17.83	17.97	19.62	22.28
Imports : (million baht)							
Total	1,033,244	1,166,595	1,369,037	1,763,587	1,832,836	1,924,281	1,774,076
From Japan	302,373	353,507	413,321	538,711	518,107	492,078	420,297
(% of total)	29.26	30.30	30.19	30.55	28.27	25.57	23.69
From U.S.A.	121,218	136,053	162,063	211,948	228,974	267,302	249,744
(% of total)	11.73	11.66	11.84	12.02	12.49	13.89	14.08

Source : Bank of Thailand

Table 2 : 10 Main Exports of Thailand to Japan

Million of Baht

Items	1992	1993	1994	1995	1996	1997	1998
1. Electrical appliance	9,063	11,350	15,852	24,448	22,235	22,897	25,584
(% of total)	6.28	7.12	8.16	10.35	9.36	8.46	8.30
2. Computer and parts	6,079	4,516	6,443	9,973	15,389	19,600	24,808
(% of total)	4.21	2.83	3.32	4.22	6.48	7.24	8.04
3. Canned food	6,189	7,076	8,702	11,732	12,192	15,249	17,861
(% of total)	4.29	4.44	4.48	4.97	5.13	5.63	5.79
Of which : Canned seafood	3,014	3,445	4,826	7,235	7,373	9,485	11,480
(% of total)	2.09	2.16	2.48	3.06	3.10	3.50	3.72
4. Rubber	9,876	9,714	12,862	20,646	18,340	18,003	15,712
(% of total)	6.84	6.09	6.62	8.74	7.72	6.65	5.09
5. Shrimp	14,526	16,389	18,207	18,595	12,514	12,276	12,724
(% of total)	10.06	10.28	9.37	7.88	5.27	4.53	4.13
6. Textile products	8,172	8,034	9,212	10,238	10,675	11,316	10,376
(% of total)	5.66	5.04	4.74	4.34	4.49	4.18	3.36
Of which : garments	7,584	7,573	8,479	9,264	9,435	9,320	8,853
(% of total)	5.25	4.75	4.36	3.92	3.97	3.44	2.87
7. Frozen fowl	8,786	7,082	7,791	7,818	6,911	6,664	10,266
(% of total)	6.08	4.44	4.01	3.31	2.91	2.46	3.33
8. Integrated circuits and parts	2,876	4,681	5,003	8,321	6,210	6,996	8,523
(% of total)	1.99	2.94	2.58	3.52	2.61	2.58	2.76
9. Plastic products	1,460	2,152	2,957	3,904	3,644	4,559	7,227
(% of total)	1.01	1.35	1.52	1.65	1.53	1.68	2.34
10.Precious stones and jewellery	7,277	7,776	8,379	8,895	8,066	5,960	5,241
(% of total)	5.04	4.88	4.31	3.77	3.40	2.20	1.70
Total exports to Japan	144,393	159,479	194,276	236,099	237,523	270,765	308,415
(% of total)	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source : Bank of Thailand

Table 3 : 10 Main Exports of Thailand to the US

Million of Baht

Items	1992	1993	1994	1995	1996	1997	1998
1. Computer and parts	15,956	17,151	23,349	25,557	29,276	50,719	87,008
(% of total)	8.62	8.48	9.77	10.19	11.54	14.31	17.37
2. Textile products	23,300	25,977	28,429	30,393	32,492	47,416	70,263
(% of total)	12.59	12.85	11.89	12.12	12.80	13.37	14.03
Of which : garments	19,470	22,272	24,811	27,365	29,410	42,338	63,030
(% of total)	10.52	11.01	10.38	10.92	11.59	11.94	12.59
3. Electrical appliance	21,629	17,736	22,653	20,497	18,219	32,302	38,443
(% of total)	11.69	8.77	9.47	8.18	7.18	9.11	7.68
4. Canned food	15,564	14,348	15,884	14,766	15,962	23,335	32,895
(% of total)	8.41	7.09	6.64	5.89	6.29	6.58	6.57
Of which : Canned seafood	10,359	9,920	12,144	11,466	12,651	20,571	29,903
(% of total)	5.60	4.91	5.08	4.57	4.98	5.80	5.97
5.Integratedcircuits and parts	7,971	10,904	13,764	15,045	16,401	23,534	28,964
(% of total)	4.31	5.39	5.76	6.00	6.46	6.64	5.78
6. Shrimp	9,006	11,841	15,813	13,541	12,092	14,515	20,560
(% of total)	4.87	5.86	6.61	5.40	4.76	4.09	4.11
7. Precious stones and jewellery	10,241	1,029	11,107	10,678	11,019	12,841	15,845
(% of total)	5.54	5.45	4.65	4.26	4.34	3.62	3.16
8. Footwear	8,752	9,329	9,850	10,211	9,236	12,875	15,021
(% of total)	4.73	4.61	4.12	4.07	3.64	3.63	3.00
9. Telecommunication equipment	6,210	6,358	6,155	6,437	6,026	7,269	11,964
(% of total)	3.36	3.14	2.57	2.57	2.37	2.05	2.39
10. Rubber	3,396	3,844	5,627	8,800	7,388	7,468	8,581
(% of total)	1.84	1.90	2.35	3.51	2.91	2.11	1.71
Total Exports to the U.S.A.	185,008	202,227	39,100	250,685	253,800	354,552	500,788
(% of total)	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source : Bank of Thailand

Table 4: FDI from Japan and the US to ASEAN 4 (unit: US$ million)

	1995	1996	% change	1997	% change
From Japan					
ASEAN 4	3,348	3,831	14.4	7,167	87.1
Thailand	936	1,339	43.0	2,562	91.3
Malaysia	377	517	37.3	2,039	294.1
Philippines	1,078	477	-55.8	1,569	228.9
Indonesia	957	1,497	56.5	997	-33.4
From the US					
ASEAN 4	2,511	2,866	14.1	1,358	-52.6
Thailand	686	501	-27.0	-130	n.a.
Malaysia	1,037	963	-7.1	637	-33.9
Philippines	519	686	32.2	560	-18.4
Indonesia	269	716	166.2	291	-59.4

Source: JETRO, Jetro White Paper on Foreign Direct Investment (1999), Tokyo: JETRO, 1999.

REFERENCES

Bank of Thailand, ***Monthly Bulletins***, various issues

Cheng Tun-Jen (1998), 'APEC and Its Asian Financial Crisis: A Lost Opportunity for Institution-Building?', ***Asian Journal of Political Science***, vol. 6, no. 2, December 1998, pp. 21-32.

Economist, The (1999), 'American Trade Policy: Throwing Sand in the Gears', ***The Economist***, 30 January-5 February 1999, pp. 7173.

Huntington, Samuel P. (1999), 'The Lonely Superpower', ***Foreign Affairs***, vol. 78, no. 2, March-April 1999, pp. 35-49.

Inoguchi, Takashi (1998), 'Japan's Foreign Policy under U.S. Unipolarity: Coping with Uncertainty and Swallowing Some Bitterness', ***Asian Journal of Political Science***, vol. 6, no. 2, December 1998, pp. 1-20.

Japanese Studies Center, Institute of East Asian Studies, Thammasat University (1999), ***Evaluating the Japanese Participation in the Thai Economy***, Bangkok, 1999.

JETRO, ***JETRO White Paper on Foreign Direct Investment (1999)***, Tokyo: JETRO, 1999.

Lee Chyungly (1998), 'U.S. Leadership in the Asia-Pacific Region: Some Help from Economic Strategies?', ***Issues and Studies***, vol. 34, no. 4, April 1998, pp. 42-71.

Mallaby, Sebastian (1998), 'In Asia's Mirror: From Commodore Perry to the IMF', ***The National Interest***, no. 52, Spring 1998, pp. 13-21.

Mandl, Wolf (1995), ***Japan's Asia Policy: Regional Security and Global Interests***, London and New York: Routledge, 1995.

Yamazawa Ippei (1998), 'The Asian Economic Crisis and Japan', ***The Developing Economies***, vol. 36, no. 3, September 1998, pp. 332-351.