

## The U.S. Financial Meltdown and the Prospect of Asia

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## Comparison of Incheon and Kansai

	Incheon	Kansai	Narita
Runways	3 (5 in future)	1 (2)	2 (3250m, 2180m)
Operation	24 hours	24 hours ?	no flight after 11pm
service to (airports in Japan)	27	13 (34)	8 (25 flights)
(world cities)	170	9 (20)	94
landing charges	1	Itami and Kobe Airports within 30 KM range	Haneda coming back INTERNATIONAL
cargo	KAL #1	2 to 3 times	JAL #14 (#1)
cargo volume (transfer)	25 billion ton (49%)		24 billion ton (15%)
Planning	Firm Future Planning	No Future Planning	

## Japan's Poor Policy (Management) helps Incheon Grow

- ◆ 98<sup>th</sup> Airport: Shizuoka Fuji Airport
- ◆ No more flight slots to Narita
- ◆ Not only international but domestic services are drastically declining (Kansai)
- ◆ Kansai cannot be a hub anymore
- ◆ Businessman fly to Incheon to connect to international destinations, more so for cargo
- ◆ **Long-run Strategy is Necessary**

## The World Praised East Asia, and then ...

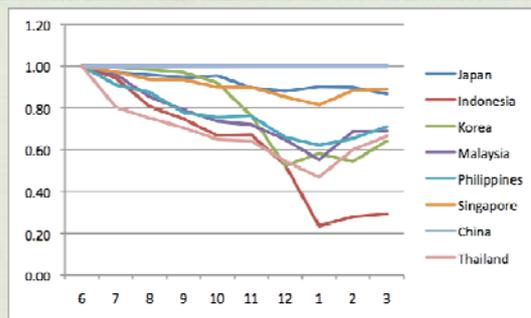


- ◆ Changes in Japan's Image: Yellow Peril, Japan No.1, Japan Bashing, Japan Passing, Japan Nothing
- ◆ Changes in East Asia's Image: Miracle, World Factory, 1997 Crisis, 2008-9 Crisis
- ◆ Mahathir's Look East Policy

# 1997 Asian Currency Crisis

- ◆ Thailand: fixed exchange rate, high interest rate, short-term capital inflows, bubble, BOP deficit, depleting foreign exchange reserves, baht depreciation
- ◆ Spreading to Malaysia, Indonesia, Korea, and..
- ◆ IMF/World Bank (Malaysia different)
- ◆ SM Controversy

# Depreciation

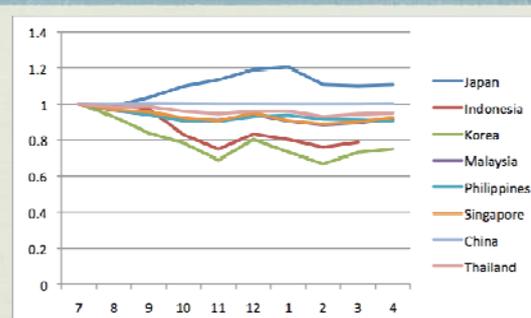


# Sub-Prime Loan Crisis is Different

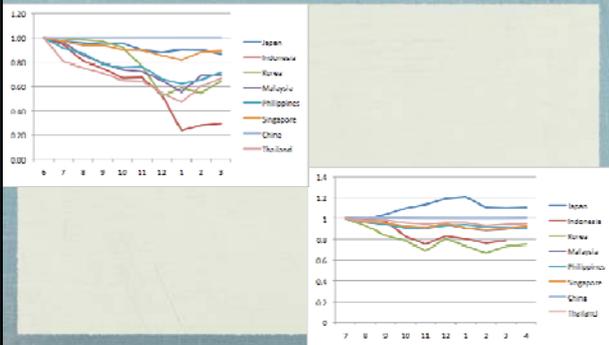
- ◆ New financial instruments
- ◆ Asia not much affected in terms of financial losses except Sovereign Funds of Singapore and China
- ◆ Yet, real economy has been hit seriously

WHY?

# Sub-Prime Loan Crisis is Different



# Comparison: 1997 vs. 2008



# Nikkei 225 and Dow Jones



# KOSPI and Dow Jones



# Export-Led Growth: Japan History of Trade Conflicts with the US

- ◆ One Dollar Blouse
- ◆ Thunder Storm Like Exports from one industry to another: Textile, followed by Steel, TV, Machine Tools, Automobile, VCR, IC, and etc. (from labor intensive to capital intensive, less important to more important)
- ◆ VER was the answer
- ◆ US: Deficit, Japan: Surplus
- ◆ 1985 Plaza Accord, yen twice as strong, 240 to 120

# FDI to Asia, Asia becomes World Factory

- ◆ Comparative Advantage of the Philippines: Banana or PC?
- ◆ Machinery now
- ◆ East Asian Exports are now similar and East Asia competes each other.



# Top 10 Philippine Exports 2006

S3-77	ELEC MCH APPAR,PARTS,NES	21,227,498,096	44.77%
S3-75	OFFICE MACHINES,ADP MACH	8,177,541,904	17.25%
S3-84	CLOTHING AND ACCESSORIES	2,624,302,309	5.54%
S3-78	ROAD VEHICLES	1,560,593,841	3.29%
S3-68	NON-FERROUS METALS	1,389,739,498	2.93%
S3-33	PETROLEUM,PETROL,PRODUCT	1,047,952,285	2.21%
S3-05	VEGETABLES AND FRUIT	962,817,429	2.03%
S3-76	TELECOMM.SOUND EQUIP ETC	941,627,078	1.99%
S3-88	PHOTO.APPARAT.NES;CLOCKS	798,781,757	1.68%
S3-28	METALLIFEROUS ORE,SCRAP	695,576,985	1.47%

# RCA Comparison: Philippines vs Korea

Philippines			Korea				
SIC	Value	RCA	SIC	Value	RCA		
S3-36	FERTILIZER,EXCEPT ORG22	83,909,250	3.3	S3-77	PLASTICS IN PRIMARY FORM	11,610,828,149	2.06
S3-77	ELEC MCH APPAR,PARTS,NES	21,227,498,096	3.3	S3-70	OTHR TRANSPORT EQUIPMENT	22,890,703,148	1.99
S3-42	FINE CHM, FATS AND OILS	570,845,889	3.27	S3-67	PEN AND STEEL	16,820,894,769	1.81
S3-69	WORK WOOD MANUFACTURE	666,388,026	3.08	S3-87	SCIENTIFIC EQUIPMENT NES	18,222,832,905	1.70
S3-08	BEVERAGES,EXCEPT WINE	196,493,887	2.98	S3-33	PETROLEUM,PETROL,PRODUCT	10,769,766,624	1.69
S3-09	VEGETABLES AND FRUIT	962,817,429	2.93	S3-41	LEATHER,LEATHER GOODS	846,260,168	1.63
S3-02	DARY PRODUCTS,HELD BDR	61,878,824	2.78	S3-78	TELECOMM.SOUND EQUIP ETC	97,260,264,799	1.62
S3-12	TOBACCO,TOBACCO MANUFACT	138,499,907	2.73	S3-78	ROAD VEHICLES	22,038,414,148	1.52
S3-75	OFFICE MACHINES,ADP MACH	8,177,541,904	2.06	S3-31	ORGANIC CHEMICALS	12,518,418,994	1.52
S3-68	NON-FERROUS METALS	1,389,739,498	1.93	S3-36	FERTILIZER,EXCEPT ORG22	226,912,785	1.39
S3-28	METALLIFEROUS ORE,SCRAP	695,576,985	1.71	S3-65	TEXTILE: WOVEN FABRIC,ETC.	10,180,906,237	1.31
S3-84	CLOTHING AND ACCESSORIES	2,624,302,309	1.61	S3-68	NON-FERROUS METALS	7,184,682,375	1.29
S3-88	PHOTO.APPARAT.NES;CLOCKS	798,781,757	1.61	S3-62	RUBBER MANUFACTURE, NES	2,671,250,546	1.19
S3-87	CELLULOSE AND PULP, EXCEPT	360,377,058	1.47	S3-28	TEXTILE: WOVEN	1,064,689,886	1.11
S3-81	PREPARED DRUGS,EXCEPT	184,339,898	1.46	S3-26	PLASTIC MANUFACTURE NES	2,275,863,621	1.11
S3-29	SHOES,APPARAT,VISUAL MATER	90,282,374	1.33	S3-77	ELEC MCH APPAR,PARTS,NES	21,227,498,096	1.10
S3-05	FISH,CRUSTACEANS,MOLLUSC	287,289,114	1.31	S3-72	EDICAL,INSUR,MACHINERY	8,778,781,890	1.00
S3-88	IRON NONFERROUS NONCURRENT	278,271	1.01	S3-29	DYES,COLOURING MATERIALS	1,144,890,275	0.89

# RCA Correlation Analysis For SITC 7 (2 digit)

	CHN	INDO	JPN	KOR	MAL	PHIL	SIN	THAI	USA	VIET
CHINA	1.00	0.66	-0.68	-0.11	0.81	0.34	0.44	0.56	-0.76	0.32
INDONESIA	0.66	1.00	-0.73	0.01	0.54	0.33	0.38	0.49	-0.32	0.62
JAPAN	-0.68	-0.73	1.00	-0.11	0.71	0.44	-0.46	-0.40	0.17	-0.34
KOREA	-0.11	0.01	-0.11	1.00	0.16	0.13	-0.27	-0.39	0.08	-0.69
MALAYSIA	0.81	0.54	0.71	-0.16	1.00	0.79	0.82	0.60	-0.72	0.62
PHILIPPINES	0.34	0.33	-0.44	-0.13	0.79	1.00	0.96	0.55	-0.50	0.54
SINGAPORE	0.44	0.38	-0.46	-0.27	0.82	0.96	1.00	0.38	-0.63	0.63
THAILAND	0.56	0.49	-0.40	-0.39	0.60	0.66	0.38	1.00	-0.48	0.69
USA	-0.76	-0.32	0.17	0.68	0.72	0.50	-0.53	-0.48	1.00	-0.20
VIETNAM	0.32	0.62	-0.34	-0.69	0.62	0.54	0.63	0.69	-0.20	1.00

## Japanese FDI to Phillipines (MOF)

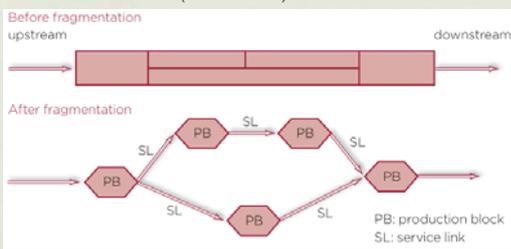
	1989-1997		1998-2002		2003-04		1989-2004	
	Case	Value	Case	Value	Case	Value	Case	Value
Total	17	21	11	723	3	0	14	727
Trade	30	41	0	0	0	0	30	41
Consumer & Util	10	25	1	3	0	0	11	28
Construction	70	72	6	171	2	56	78	329
M&E	40	538	11	110	2	15	53	677
Manufacturing	51	217	18	129	1	14	70	361
Electricity	238	1,141	30	600	13	243	367	2,047
Transport	110	625	12	292	1	12	123	714
Others	85	118	6	68	0	135	96	614
Manufacturing Total	169	2,791	109	2,126	25	62	163	5,323
Non-Manufacturing	7	24	0	3	1	7	4	29
Others	30	32	0	0	2	2	32	36
Miscellaneous	12	128	0	0	0	0	12	128
Construction	33	61	2	14	2	3	37	88
Trade	20	89	0	14	2	4	24	108
Finance/Insurance	201	803	4	16	1	1	206	816
Service	36	287	11	80	1	7	48	372
Transportation	121	48	1	279	1	149	123	622
Real Estate	70	88	18	66	0	1	89	154
Others	0	0	0	0	0	0	0	0
Total (Including Trade)	275	1,287	89	241	12	201	167	2,489
Others	11	31	11	30	0	0	12	76
Total	1,285	4,222	149	2,762	63	1,062	1,487	7,887

## FDI Objectives

	All	Industry	electronics/automobile			
securing resources	3	5%	3	7%	0	0%
labor	14	25%	13	31%	5	33%
host government policy	4	7%	3	7%	2	13%
production network	39	52%	28	67%	13	87%
distribution network	10	18%	4	10%	1	7%
local market	31	55%	23	55%	9	60%
export to third countries	6	11%	5	12%	2	13%
export back to Japan	7	13%	7	17%	5	33%
following partners	7	13%	6	14%	3	20%
fund raising, management, exchange risk hedge	0	0%	0	0%	0	0%
royalty and information	4	7%	2	5%	0	0%
product development na dplanning	2	4%	1	2%	1	7%
new business	2	4%	1	2%	0	0%
strengthening regional headquarter function	1	2%	1	2%	1	7%
trade friction	0	0%	0	0%	0	0%
others	3	5%	0	0%	0	0%
responses/total number of FDI firms	56/446	42/284	15/127			

## Why this possible?

- ◆ Fragmentation (Fuku Kimura and others)
- ◆ Production Blocks (Processes) to be divided



Production Network Examples:  
Hard Disk Drive

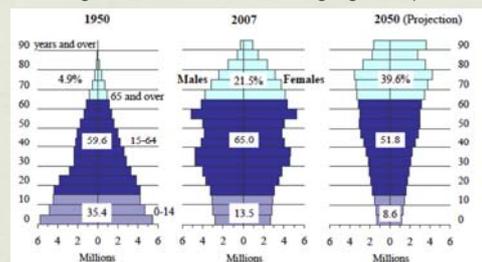


## What Should We Do?

- ◆ Fiscal Expansion (US, China, Japan, and other countries..) Maybe but for short term only
- ◆ Plan for long term.
- ◆ Create Demand in the region; Do not depend solely on the US final demand
- ◆ Upgrade industry and make each country unique industrial and comparative advantage structures. Too much similar comparative advantage structures make countries involved vulnerable.
- ◆ Special features of each country need to be enhanced and strengthened. For example, the Philippines receives substantial amount of remittances from nurses and caretakers working abroad and shipmen.
- ◆ Japan and Korea need to adjust to create both real demand and labor demand in the future to come

## Plan Ahead Strategically

- ◆ Declining Birth Rate and Increasing Aged Population



## Lastly

- ◆ We need to cooperate!
  - ◆ No more Zero Sum Game (Some gains and others lose)
  - ◆ Financial Capitalism is over and Export-led US market oriented development is also over.
  - ◆ Sustainable Development requires long term strategy not to produce losers
  - ◆ Asia needs to act positively forward!
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- ◆ Komapsumnida!