ASIA'S ECONOMIC PROBLEMS AND THE U.S.

by Min-Seok Yang

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The Asian economy has shown some signs of recovery in January but problems still linger over the horizon. What will happen in Asia will center around the actions of three main players—China, Japan and the U.S.

China: Need to Maintain Stability

China's financial industry is burdened a huge amount of bad loans. State-run firms are struggling with bad debt stemming from their inefficient performance. With the devaluation of China's currency in 1994 China's exports have increased sharply, with 1997's trade surplus totalling $40 billion. However, this devaluation does not solve China's main problem, the inefficiency of its economic system.

The dramatic depreciation of Indonesian rupiah in early January 1998 threatened the Chinese economy, with the rupiah falling from 5,500 rupiah to 11,000 rupiah/U.S. dollar in just several days. The main loser from this depreciation was the capital owned by the ethnic Chinese in Indonesia. The capital of overseas ethnic Chinese has been playing a very important role in China's capitalist develpoment. The worsened Southeast Asian economy may prompt this capital to leave the uncertain Chinese economy, resulting in the possible collapse of capitalism in China. If this were to happen, the Hong Kong financial market, the pipeline of supplying Western capital to East Asia, would also collapse. This is one of the main reasons why the EU, Japan and the U.S. have worked together to stabilize the East Asian turmoil right after the rupiah's devaluation—to keep the capitalist sector in China safe.

Japan: Bogged Down by Bad Loans

Japan has been in a long stagnation period after the collapse of its bubble economy in the early 1990s. The huge amount of Japanese banks' bad loans has been an economic dilemma, and the increasing trade surplus owing to the depreciation of the yen has been the only stimulus to the stagnant economy. The U.S. government is demanding that Japan open its markets completely and use fiscal policy to stimulate domestic demand, but Japan is resisting these demands.

The U.S: Foreign Direct Investment Is Key

The U.S. economy has 1 trillion dollars of debt. Should the Japanese economy continue to stumble, Japan could sell off much of the U.S. government bonds it owns, which would definitely affect the U.S. financial situation. In addition, the U.S.'s trade deficit is increasing rapidly, amounting to 300 billion dollars this year. The possible devalua-tion of the Japanese and Chinese currencies could cause the U.S. trade deficit to swell even further. The emergence of the EMU also represents a possible threat to the U.S. economy. Under these circumstances foreign direct investment outside U.S. seems to be perhaps the best way for the U.S. to adequately deal with these possible problems. The U.S. has long wanted to open the Japanese economy, just like the Southeast Asian and Korean economies. Now that Korea has firmly committed to opening its economy fully in accordance with the IMF package, the U.S. is hoping that Japan will do likewise. VIP