

国際金融のグローバル・ガバナンスにおける  
プレイヤーとしてのウォン・元・円通貨協力

— アジア太平洋地域におけるカイト・フライング・モデルの重心に焦点を当てて —

The monetary cooperation among the Won, the Yuan and the Yen  
as a player in the "Global Governance" in the financial world

— Focusing on a "balancer" of the "Kite Flying Model" in the Asia-Pacific region —

蛭 名 保 彦

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# The monetary cooperation among the Won, the Yuan and the Yen as a player in the "Global Governance" in the financial world

– Focusing on a "balancer" of the "Kite Flying Model" in the Asia-Pacific region –

Yasuhiko Ebina Ph.D

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## Preface

As well known, the world economy is going to change from the international economy to the global economy. The international economy consists of international relationships among national economies. Then the typical international economy is the international division of labour including foreign trade and FDI (Foreign Direct Investment) because the international division of labour especially the foreign trade fundamentally premises the international relationship between two countries. On the contrary, the global economy consists of only one economy going beyond each national economy. So we refer to such an economy as the "borderless economy" (Note 1), too. For instance the networking economy including IT (Information Technology), finance, circulation/logistics and transportation etc belongs to the global economy owing to its characteristics in which the networking not only prefers the multilateral relationship among many countries to the bilateral relationship between two countries but also prefers the "borderless" to the "border" substantially. Moreover it should be noted that at the present not only the networking economy but also even the market economy is going to shift to the global economy due to its preference of the borderless economy to the national economy, too.

In the latter case, who does govern the global economy and how will it be governed? In the case of the international economy, we will be able to find the answer more easily. Needless to say, governors are nations. Then if there are some problems or troubles beyond the market mechanism, the way of the governance to adjust and control of these problems or troubles belongs to negotiations between and among nations-concerned directly or indirectly. By the way, in the case of the global economy you will be unable to find so easily the answer compared to the case of international economy. Because nations are not necessarily governors if we neglect only one exception. That exception means the presence of a "Super Power" (Note 2) which can behave like a superior nation assuming other all nations except itself as inferior nations. Fortunately, we have had such a "Super Power" until now. That was United States. But, unfortunately, the present United States will cease

to be assumed as the "Super Power" status because, even if the U.S. has overwhelming power in fields of military forces especially in the field of the nuclear weapons in the world, the U.S. is decisively going to lose its overwhelming power in fields of economies especially in the field of the currency namely the "dollar" as a key currency at least. Then we cannot enjoy the exception and we have no way to govern the global economy even if the market mechanism would lose the control of the market itself (for instance, remember cases of financial and monetary crises etc) or even if severe and ridiculous problems or troubles beyond the market mechanism (for instance, think of cases of the increase of greenhouse-gas emissions etc) would emerge.

From the viewpoint of short-term range, the former—namely the issue in which the market mechanism would lose the control of market itself—will be more serious and emergent if we consider the geographical position of Japan. Because emerging countries in Asia especially China are going to perform unsustainable economic growth accompanied by the possibility of collapse of the "bubble economy" resulting in a possibility of financial and monetary crisis especially in Asia, and there is the need to prepare the regional cooperation for financial and monetary policies against such a crisis in Asia.

Moreover, from the viewpoint of medium&long-term range, such a regional financial and monetary cooperation should be designed to bind the promotion of Asian regional unification which is expected to contribute to the building of the governance of the global economy by Asia, too (Note 3).

By the way, related to the currency problem, we cannot avoid the possibility of a vicious cycle of U.S. dollar depreciation resulting in a "Dollar Sliding" which works in close relationship with the lost of U.S. position as the "Super Power". Then, in the case of regional financial and monetary cooperation, we should take note of equilibrium of economies in the Asia-Pacific region including U.S. economy.

Thus, we are going to study the monetary cooperation in Asia foccusing on the role of North East Asian countries especially Korea, China and Japan in which cooperation they are expected to carry on their role as players of the "Global Governance" in the financial world particularly as a "balancer" of the "Kite Flying Model" in the Asia-Pacific region (Note 4). Because we think that the substantial problem in the financial world is an absence of the unification of national policies especially each country's financial policies on a global level whereas financial·capital·exchange markets are steeply going to be unified on a global level (Note 5).

According to such a kind of awareness of issues, we will pick up some subjects mentioned below.

1. The unsustainability of the Chinese economic growth under the vulnerability of the Yuan.
2. The economic growth under the "Curry of the Wealth" in Japan.
3. Korean economic growth—good condition with the strong Won ?
4. The structural adjustment of economies in Asia-Pacific region through the Asia-Pacific Monetary Adjustment System.
5. Roles in strata which should be carried on by North East Asian countries as players in the "Global Governance" especially in the financial world.

(Note 1) Then, it should be thought that both of the "global economy" and the "borderless economy" are two sides of the same coin. Nevertheless we should not neglect that there is a subtle difference in the nuance between the concept of "globalization" and the concept of "borderless". The former concept namely the "globalization" images a global level whereas the latter concept namely the "borderless" denotes a local level. Then we can recognize that the "globalization" points to the ultimate feature of the "borderless", if we use the stage methodology.

(Note 2) Charles P. Kindleberger named this kind of the "Super Power" as "Hegemony Nation" and he also insisted that not only overwhelming economic power especially sustained by a key currency but also overwhelming military power especially equipped by nuclear power inevitably accompany modern "Hegemony Nation".

(Note 3) Professor Shibayama insists that the person who stressed the importance of the governance in the age of the globalization is John Maynard Keynes (Refer to Keita Shibayama 「Globalization—The key factor is the "governance"」 [Nihon Keizai Shinbun August 16th 2007]). As well known, Keynes expected that the role of governance would be put on the ability of the government in each nation in accordance with his awareness of the issues. But even if his awareness of the issues would be correct even in present globalization, the role of the governance in present globalization should be put on the ability of the governance in regional unifications— consisting of EU, NAFTA and Asian regional unification etc— instead of the ability of the government in each nation.

(Note 4) As well known, in the case of the kite flying, there is a "gravity" on which the kite is able to catch the window to fly. There is same factor in the case of the governance of the global economy as the kite flying model. This is because the governance of the global economy is indispensable for the "balancer" as the center of gravity to keep its balance; in which case, we are able to define the "governance"

as the "balancer". In this article, we are going to focus on the shift of the "balancer" as the center of gravity – namely the shift of the "power balance" in other words – from the United States to North East Asian countries namely Korea, China and Japan especially in the field of the monetary world in the Asia-Pacific region. (By the way, Mr. Yoichi Takeda calls the shift of the power balance as the "rebalance" [Refer to Mr. Yoichi Takeda 「A shifting "navel" in the world economy」 〈Nihon Keizai Shinbun October 14th 2007〉]).

(Note 5) We should notice the importance and severity of the absence of the governance in the financial world because there is a rapid emergence of the interdependence among the globalization, market mechanism and financial market without the global governance. Firstly, the globalization which was accelerated by the advance of technology in fields of transportation and information&communication especially IT (Information Technology) has steeply advanced the market mechanism on both sides of the extension of it and of the intensification of it. Secondly, the advance of the market mechanism has rapidly shifted the economic structure from the "mixed economy" (namely the economy led by both government and enterprises) to the "market-oriented economy" (namely the economy led mainly by enterprises). Thirdly, the "market-oriented economy" is going to change the financial market from the traditional one to a new one – namely an emergence of new market being synthesized of the financial market, capital market (or "credit market" in other words) and exchange market (Professor Sakuragawa called such a new financial market as "hedge market" accompanying by enormous hedge funds [Refer to Masaya Sakuragawa 「Sub prime problem ; Targeting the vulnerability in Japan」 〈Nihon Keizai Shinbun September 12th 2007〉]) being inevitable with the moreover acceleration of the globalization –, whereas there is non governance concerning the "risk control" of the financial innovation accompanying hedge funds which speculatively sell credit services owing to the financial innovation in global credit market. (Concerning the "risk", Mr. Keiichiro Kobayashi insists that the financial innovation which has originally been developed aiming to avoid the "risk" in the financial market is going to induce new "risk" – namely an uncertainty – in the financial market ironically [Refer to Kenichi Kobayashi 「The substance of the "subprime"」 〈Asahi Shinbun October 20th 2007〉].)

## 1. The unsustainability of the Chinese economic growth under the vulnerability of the Yuan

There are two approaches toward this issue. The first approach is the business-cycle approach and the second one is the economic structure approach.

**(1) The business-cycle approach**

**① High economic growth**

As well known, Chinese economy has grown at a high growth rate. The average annual growth rate of GDP in real term from 1996 to 2005 is 9.1%. Moreover, the growth is going to accelerate.

There are three main reasons related to this high economic growth. The first reason is steep increase of investment. The second one is broad acceptance of FDI. The latter one means rapid expansion of export. Needless to say, the investment and FDI contribute to the economic growth from the supply side on the one hand, whereas the export contributes to the economic growth from the demand side on the other.

**② Steep increase of the investment**

The average annual increase rate of investment (Note 1) in real term from 1996 to 2005 was 16.3% which was far higher than the growth rate of GDP. Moreover, the increase is going to accelerate, too.

**③ The acceptance of FDI**

The average annual increase rate of FDI in real term from 1996 to 2005 is 6.5% which contributes to the economic growth even if the increase rate is not as high as the growth rate of GDP because the acceptance of FDI has familiar relationship with the expansion of export, especially in China (Note 2).

**④ The rapid increase of export**

On the other hand the average annual increase rate of the export from 1996 to 2005 is 19.8% which is far higher than the growth rate of GDP resulting in contribution of economic growth from the demand side because the weight of the export in demand is very high in China. The ratio of the export in GDP reached 34.1% in 2005. Moreover, the increase rate of the export is going to accelerate from 2000, too. We have to take note that such a steep increase in export owes to the acceptance of FDI mentioned above.

**⑤ A possibility of the overheating in Chinese economy**

It is inevitable that this kind of super-high economic growth is accompanied by the possibility of overheating. Substantially, there are symptoms of overheating in five fields at least. The first symptom is over-investment. The second one is over-credit. The third one is over-circulation in the money supply. The fourth one is over-production and the last one is trade conflict.

As already mentioned above, the increase rate of investment in the first half of 2006 has

already reached to nearly 32%, which is double the average annual increase rate of the investment from 1996 to 2005 namely about 16%, resulting in the super-growth rate of GDP in the first half of 2006, approximately 11%. Especially the increased rates of investment in local districts are high. For instance the increase rate of investment in the first half of 2006 in some provinces are as follows. The Jilin province is 55.5%. The Anhui province is 54.1%. The Henan province is 48.8%. The Inner Mongolia province is 43.5%. The Qinghai province is 42.3% and Fujian province is 41.5%. Generally speaking, there is a danger of over investment especially in local districts which are eager to acquire high economic growth rate aiming to catch up with urban districts along the seaside.

Secondly there is a danger of over-credit in financial field. The balance of the credit of banks at the end of June 2007 has increased 15.2% compared with the same period in the previous year in which the rate (at the end of June in 2007) has exceeded 2 point than the same period in the previous year. As a result the cumulative total of new credit of bank in the term from January to June in 2007 reached 2,180 billion Yuan increasing 723.3 billion Yuan more than the same period of the previous year.

Thirdly there is the same danger of over-circulation of money supply. The balance of the money supply at the end of June in 2007 has increased 18.4% compared with the same period in the previous year in which the rate (at the end of June in 2007) has exceeded over 2 point than same period in the previous year. The balance of cash in circulation at the end of June 2007 has increased 12.6% compared with the same period in the previous year in which the rate (at the end of June in 2007) has exceeded over 2 point than the same period in the previous year,too.

Fourthly the danger of over-production should not be neglected. For instance it is predicted that the amount of crude steel will reach 600 million tons by 2010 in which the amount of the crude steel will broadly exceed domestic demand namely 400 million ton. It is predicted that the capacity of automotive production will reach 18 million cars by 2010 in which the capacity of the automotive will broadly exceed domestic substantial demand namely 8 million cars.

Lastly the over-production will inevitably generate severe trade conflicts.

## (2)The economic structure approach

The unsustainability of Chinese economy is due not only to the bubble economy but also to the unequal economy. The unequal economy – namely the inequality which has resulted from the economic growth is going to disturb the economic growth itself – are classified into three types. The first type is the differentials between the poor and the rich. Second one is the regional differentials between inner regions and sea-alongside regions. Last one

is the differentials of earnings between rural districts and urban districts.

① **The differentials between the poor and the rich**

It is very difficult to define the concept of the rich and the poor in China. But we cannot avoid the definition of the rich and the poor. It is reported that the ministry of statistics in Chinese government call persons who earn 60,000~100,000 Yuan (Yen 1,000,000~1,500,000) per year, as the "middle class". Then we are able to define the "middle class" as the rich. According to "Shin-kasha Tushin", it is reported that the "middle class" has already been reached to 80,000,000 persons in China as a result of steep increase especially in urban districts.

On the other hand, it is reported that the poor who cannot earn even under Yuan 200 per year reached 128,000,000 persons in 1984 in China.

Needless to say, there is steep differentials between the poor and the rich in China.

② **The regional differentials between inner regions and sea-alongside regions.**

There is a steep differentials of GDP per head between inner regions (Middle and West regions) and sea-alongside regions (East regions) in China and such differentials are going to expand.

For instance, if we compare the level of GDP per head, we can find its level in East regions at 1,837 dollar whereas the level in West regions is at 630 dollar, as the result of the fact that the level of GDP per head in East regions has increased 3.4 times from 1991 to 2001 whereas its level in West regions has increased 2.5 times in same time.

Especially the differentials between the level of GDP per head namely 4,515 dollar (in 2001) in Shanghai which holds the highest position in East regions and its level namely 350 dollar (in same year) in Guizhou which is at the lowest position in West regions is enormous.

Why have such steep differentials emerged among Chinese regions ?. It is due to the fact that Chinese economic growth led mainly by the export has depended on the economic growth in seaside reagions which have eagerly accepted foreign direct investment. Then it is inevitable that rapid economic growth has accompanied with steep differentials between seaside regions and inner regions mentioned above in China.

③ **The differentials in earnings between rural districts and urban districts**

But we should not neglect the fact that such steep differentials among regions necessarily accompanied with steep differentials of incomes between urban districts and rural districts. For instance, the level of earnings in rural districts equals a third of its level in urban districts resulting in a forth of consumption level in rural districts compared to its level in urban districts . Needless to say, such kind of low level of earnings in rural district impedes



the expansion of domestic demand being necessary to the economic growth led by domestic demand in China (Note 3).

### (3)A danger of the inflation under underestimated Yuan

Nevertheless China expanded the range of the fluctuation of the Yuan from the present 0.3% vertically to 0.5% on 18th May 2007, the speed of evaluation of Yuan was not so rapid, resulted in the maintenance of relatively underestimated level of Yuan namely 7.6667 Yuan per 1 U.S. Dollar even on 19th May 2007 just after the expansion of the range of the fluctuation of Yuan mentioned-above.

Why is the value of the Yuan able to stay in such a kind of underestimated level ? The reason owes mainly to the currency policy of the Chinese government which aims to sustain rapid increase of Chinese export by relatively underestimated level of the Yuan even now. It is proved by the fact that Chinese foreign reserves has rapidly increased to 1,200 billion U.S. dollars in a very short time through Chinese buying support policy of U.S Dollar.

But needless to say, such a huge amount of foreign reserves necessarily induces a excess of liquidity in their domestic economy mentioned-above.

Additionally there is a symptom of the rise of food on the background of food shortage in the world . For instance it is reported the the price for meat has risen 26% in May of 2007 compared to May of 2006. As a result Chinese CPI (Consumer Price Index) has risen over 6% on August~September in 2007 compared to August~September in 2006. On the base of calender year, the rate of increase of CPI has recorded 4.8% in 2007, which is most highest increase rate since 1996, compared to previous year. Moreover, CPI has risen 7.1% in January 2008 compared to January 2007.

Then there is a possibility of dangerous inflation due not only to the excess of liquidity but also to the shortage of primary products including food etc, in China.

In conclusion, relatively underestimated Yuan being expected to contribute to the increase of both of the export and economic growth in China is inevitably accompanied by the possibility of dangerous inflation (Note 4).

(Note 1) Fixed assets investment.

(Note 2) The amount of Chinese export due to the FDI in China has reached to 170 billion US dollars in 2002 of which share has been over 50% and the amount of Chinese import owing to the FDI in China has reached 160 billion US dollars in same year of which share has been over 50%, too (Refer to Yasuhiko Ebina 『A design of Japan•Korea•China-FTA』 (Akashi -shoten, May 30th 2004) p.49.

(Note 3) We should not forget the fact that a possibility of economic growth led by domes-

tic demand in China substantially depends mainly on the increase of earnings in rural districts because the share of the workforce in rural districts is 64.0% even in 2005 occupying the main part in Chinese workforce (Refer to ARC Report 2006 「China」 p.59).

(Note 4) Concerning how the inflation with which China is going to encounter owing to high economic growth is dangerous against Chinese social and political safety, refer to Bill Emmott "Great danger of Chinese bubble corruption" ( 『Voice』 [March 2008] ) p.40 ~47.

## 2. The economic growth under the "Curry of the Wealth" in Japan

### (1) Japanese economy depending mainly on offshore factors

#### ① The role of export on the economic growth

It should be recognized that Japanese economy is going to expand on track from the viewpoint of the business cycle. But it should be taken note of that this expansion depends mainly on offshore factors, too. It is shown that Japanese GDP (real term) is going to expand favorably at first glance. For instance, it is predicted that its increase rate from 2005 fiscal year to 2008 fiscal year will be 2.13% per year which is obviously over 1.41% per year in the 1990s. But such affordability depends on good luck induced by offshore demand. It is predicted that the increase rate of Japanese export from 2005 fiscal year to 2008 fiscal year namely 7.78% per year will result in the increase rate of Japanese private equipment investment from 2005 fiscal year to 2008 fiscal year namely 5.28% per year.

On the contrary, it is predicted that personal consumption will not be so vigorous as offshore factors mentioned above. Its ratio of increase from 2005 fiscal year to 2008 fiscal year will be only 1.20% per year which will contribute even toward reduction of the growth (Note 1).

#### ② The role of the offshore market on enterprises profits

It is proven how offshore markets contribute to the increase of Japanese enterprises profits by the fact that the ratio of dependency by big companies on offshore markets is going to overlap the ratio of independency of them on domestic markets.

If we check the ratio of offshore sales to consolidated sales of Japanese listed companies in the interim settlement of accounts of September 30th 2006, we can find the facts as follows; the average ratio of big six automobile companies is 76%. The average ratio of big three digital home equipments companies is 59% and the same ratio of whole listed companies is 50.6%.

### (2) The Yen depreciation and Japanese economy

① A correlation between Japanese export and the value of the Yen

Needless to say that Japanese economic growth led by the export is due to the growth of Asian economy and especially the rapid growth of Chinese economy. But we should not neglect the fact that the depreciation of Yen contributes to the increase of Japanese export, too.

We can find a correlation between the increase of Japanese export and the depreciation of the Yen. For instance Japanese export is going to increase near 10% from 2005 to 2008. The rate of increase in 2005 was 9.0% and 2006 was 8.3%. The rate of increase in 2007 will be 6.5% and 2008 will be 7.3%. The real value of Yen (Note 2) per dollar has continually and steeply been depreciated from 1995 to 2007 resulting in the lowest level just before the Plaza Agreement in 1985.

Especially we should be careful of the strong correlation between values of Asian currency per Yen and increases of Japanese export toward Asian countries. The steep increase of Japanese export toward Asian countries (See Table II-1) depends on the trend of appreciation of Asian currencies against Japanese Yen familiarly.

Table II-1 The destination of Japanese export (%)

	2004				2005				2006			
	The ratio to previous year		Share		The ratio to previous year		Share		The ratio to previous year		Share	
	Yen-base	Dollar-base	Yen-base	Dollar-base	Yen-base	Dollar-base	Yen-base	Dollar-base	Yen-base	Dollar-base	Yen-base	Dollar-base
Asia	117.1	125.0	48.4	48.4	107.3	105.2	48.4	48.4	112.6	106.7	47.5	47.5
EU	110.3	118.1	15.7	15.7	100.3	98.4	14.7	14.7	113.1	107.1	14.5	14.5
North America	102	109.2	23.8	23.8	108.4	106.2	24.0	24.0	114.7	108.7	24.0	24.0
Total	112.1	119.9	100.0	100.0	107.3	105.2	100.0	100.0	114.6	108.7	100.0	100.0

(Source) Ministry of Economy, Trade and Industry 『The data base of Japanese trade』 (2004~2006)

② The loss of Japanese wealth under the depreciation of the Yen

It is obvious that this kind of the depreciation of the Yen owes to low interest rate in Japan accompanied by the expansion of interest rate gap between Japanese interest rate and other countries interest rates. For instance if we compare the level of interest rate related to national bond, the interest rate of the U.S. Dollar is 4.8% and the interest rate of Euro is 4.3% whereas the interest rate of Yen is only 1.6%. As well known, such a kind of big interest gap induces a steep "Yen Curry" which resulted in the great depreciation of the Yen in international currency markets everywhere.

But we should be careful to note the fact that the "Yen Curry" means not only the curry of Yen from domestic market to offshore markets but also the curry of Japanese wealth from Japan to foreign countries through the dumping of the technology•knowhow and the ability of many Japanese labours (Note 3)—we call such a kind of curry of the wealth as the "aggravation of the trade condition"—which results ultimately in the lost of Japanese wealth.

Then we have to conclude that, even if there is a merit in the contribution of Japanese export increase in the Yen depreciation from the view point of the short term, there is a demerit of the loss of Japanese wealth in it from the view point of the long term.

(Note 1) By the way, there is the deduction of labour's relative share of the net profits in Japan on the background of lagging consumption. For instance Japanese labour's relative share to the net profits has decreased from 71.6% in 1998 namely the peak of it to 63.6% in the second quarter of 2006 (Concerning the detail, refer to Yasuhiko Ebina 『An economic policy under the age of low fertility and the age Asian unification—Aiming for Sustainable Growth』 —』 (Akashi-shoten, April 5th 2007) p.19~20.

(Note 2) The real value of Yen means the weighted average by trade in real term.

(Note 3) Such spoiling of the technology•knowhow and ability of Japanese labours will necessarily accelerate the decrease of Japanese potenciality in growth strength which will be destined to decrease in the age of low fertility (Concerning the potenciality of growth strength in the age of low fertility, refer to Yasuhiko Ebina 『An economic policy under the age of low fertility and the age of Asian unification —Aiming for 「Sustainable Growth」 —』 (Akashi-shoten, April 5th 2007) p.37~44.

### 3. Korean economic growth—good condition with strong Won ?

#### (1)The firm tone of the "macro economy"

From the viewpoint of "macro economy", Korean economy is going to go into firm tone orbit . The economic growth rate in real term has accomplished 5.2% per year in 6 years from 2000 to 2005 and is going to continue the growth of 4.0% even in 2006.

Such a kind of economic growth in the firm tone owes to steep expansion of export, too. The increase rate of export has reached to 12.9% per year in 6 years from 2000 to 2005 and is going to increase at 11.6% even in 2006. Moreover the dependency ratio of GDP on the export is very high in Korea. That ratio has been over 35% in recent years (Note 1). Then it will be easily supposed that export has played a decisive role in the economic

growth in Korea.

Why has Korean export has increased so steeply ? The reason is the strength of the competitiveness of Korean enterprises. For instance Hyundai and Samsung , which have led the increase of Korean export such as tractors, have increased their competitiveness steeply especially when compared to Japanese enterprises.

### **(2)A shadow of disturbance against economic growth**

But we should be careful not to jump into over-optimistic observation concerning the future of Korean economy because there is a shadow of low fertility and aging even in Korea.

It is reported that Korea's total fertility rate is 1.08 in 2005. As the result it is predicted that there will be severe labour shortage in Korea. The amount of shortage will be 630,000 persons in 2015 and 1,520,000 persons in 2020 accompanied by economic stagnation that will decrease the growth potentiality from near 5% (estimated results) in 2006 to 3.6% in 2020 and to 2.3% in 2030.

### **(3)The danger of overestimating the Won**

There is another pessimistic prediction against Korean economy. That is overestimation of the Won. We should be careful to note the value of the Won in currency market. In the case of the currency exchange rate between the Dollar and the Won, the price of the Won has changed from 1,259 Won per 1 U.S. Dollar at the end of 2000 to 1,013 Won per 1 U.S. Dollar at the end of 2005. Moreover in the case of the currency exchange rate between the Yen and the Won, the price of the Won has changed from 9.5~11 Won per 1 Yen in the end of 2004 to near 8 Won per 1 Yen in the first half of 2006 resulting in the Won appreciation of about 30%.

Such an appreciation of the Won against foreign currency especially against the Yen means the loss of competitiveness of Korean manufacturing against foreign manufacturing especially Japanese manufacturing.

Moreover we should not forget the fact that the international division of labour between Korea and Japan has very specific pattern and characteristics.

Firstly, concerning to the pattern, we have to point out the huge amount of the trade imbalance between Korea and Japan. For instance if we calculate the balance sheet of Korean trade, we can come up with the following table (See Table III-1).

Table III-1 The balance sheet of Korean trade (million dollar)

1997			2005		
Total Export 136,164	Total Import 144,616	Total Balance -8,452	Total Export 284,420	Total Import 261,240	Total Balance 23,180
Export to U.S. 21,625	Import from U.S. 30,122	Trade Balance -8,497	Export to U.S. 41,340	Import from U.S. 30,590	Trade Balance 10,750
Export to Japan 14,771	Import from Japan 27,907	Trade Balance -13,136	Export to Japan 24,030	Import from Japan 48,400	Trade Balance -24,370
Export to China 13,572	Import from China 10,117	Trade Balance 3,455	Export to China 61,910	Import from China 38,650	Trade Balance 23,260

(Source) Yasuhiko Ebina 『A design of Japan・Korea・China-FTA』 (Akashi-shoten, May 30th 2004) p.173 and ARC Report 2006 「Korea」 p.65.

From above table we can induce very interesting result. Namely, as long as Korea earnings the surplus from the world especially U.S.A. and China, Korea has a deficit in the trade between Korea and Japan.

Secondly, related to the characteristics, we should clarify the reason why Korea is obliged to have such a deficit in the trade between it and Japan. The reason mainly depends on a specific relation namely casual relation between both countries trade. Korean manufacturing especially export-oriented manufacturing depend their parts and materials mainly on Japanese intermediary goods. For instance, concerning to liquid crystal panel, it is reported that Korea depends about 60% for its parts on Japanese parts. Then as long as Korean increase their exports, they are obliged to import from Japan.

In conclusion, Korea lies in danger of overvaluation of the Won in which case, it has not only a possibility of spoiling the competitiveness of its enterprises especially against Japanese ones but also a possibility of acceleration the decrease of future growth potentiality in the age of low fertility.

(Note 1) The dependency ratio of GDP on the export in Korea are 32.0% in 2003, 37.3% in 2004 and 36.1% in 2005 (Refer to ARC Report 2006 「Korea」 p.33).

#### 4. The structural adjustment of economies in Asia-Pacific region through the Asia-Pacific Monetary Adjustment System

As being suggested in the above explanation, three currencies in North East Asia namely the Yuan, the Yen and the Won need multilateral adjustment of their exchange rate mutually to get the reciprocity among all three economies. But we should not neglect the fact that such reciprocity not only depends on the exchange rate adjustment among the three cur-

rencies but also depends on the U.S. dollar devaluation against the three currencies. Moreover we should be careful to note the fact that the adjustment (especially the structural adjustment) of economies owes to the adjustment (especially international adjustment) of the I (Investment) S (Saving) balance (Note 1) ; because, as the experiment of U.S dollar devaluation case has shown, the devaluation of the currency without the adjustment of the IS balance not only never has enough effect on the equilibrium of U.S. economy but also has the danger of vicious cycle of "Dollar Sliding".

**(1)A regional settlement system of trade imbalances among three countries—Korea, China and Japan— and the increase of the surplus in current account of three countries**

As already explained, Korean trade deficit with Japan has been compensated by its trade surplus with China (See TableIII-1).

By the way, how will China be able to compensate for its trade deficit with Korea in the relationship of the three countries ? Fortunately China can compensate for it by the trade surplus with Japan (See TableIV-1). Needless to say, Japan compensates its trade deficit with Chian by the trade surplus with Korea mention bellow (See TableIV-1).

Then we can say that we have already had a regional settlement system of the trade imbalance among the three countries namely Korea, China and Japan.

So if we build a new monetary settlement system among Won, Yuan and Yen independently—namely being independent from U.S. Dollar linkage—, we will be able to expect smoother and steep settlement of the trade imbalances among Korea, China and Japan.

TableIV-1 A regional settlement system of trade imbalances among three countries  
—Korea, China and Japan—in the case of 2005 (million dollar)

	Korea	China	Japan
Total export	284,420	761,999	598,215
Total import	261,240	660,118	518,638
Trade balance	23,180	101,881	79,577
Export to U.S	41,340	162,900	134,889
Import from U.S.	30,590	48,726	64,498
Trade balance	10,750	114,174	70,391
Export to Japan	24,030	208,473	—
Import from Japan	48,400	112,679	—
Trade balance	-24,370	95,794	—
Export to China	61,910	—	112,679
Import from China	38,650	—	208,473
Trade balance	23,260	—	-95,794
Export to Korea	—	35,109	48,400
Import from Korea	—	76,822	24,030
Total Balance	—	-41,713	24,370

[Note 1] Korea ; Refer to Table III-1.

[Note 2] China ; Refer to JETRO

[Note 3] Japan ; Refer to White Paper on International Economy and Trade (2006) and Table III-1.

[Note 4] Chinese trade with Japan includes the trade between Hongkong and Japan.

Moreover, if we will agree with the regional FTA (Free Trade Agreement)/EPA(Economic Partnership Agreement) in North East Asia especially among Korea, China and Japan in the near future, we will be able to increase even the surplus in current balance (Note 2) of the three countries consequent upon two effects consisting of the "creation effect of trade "and the "transfer effect of trade" in which two effects subsequently the expansion effect of FDI will be accompanied by in North East Asia.

**(2)The adjustment of the IS imbalance in Asia-Pacific economies—The role of Won, Yuan and Yen as a balancer of the "Kite Flying Model" in the Asia-Pcific region—**

At first we have to explain why the IS balance is important in this article. There are three reasons related to the issue. The first one is the relation with the surplus of trade balance. Second is the relation with economic structure. And the third is the utility as a method of international adjustment of economies.

**① The relation between the IS balance and the trade balance**

Firstly we have to stress the familier relationship between the surplus of trade balance and the IS balance. The IS balance is defined by following formula.  $S-I=(G-T)+(EX-IM)$  (Note)  $S-I$  ; Surplus of Saving.  $G$ [Government]- $T$ [Tax] ; Deficit of Government ( $\langle T-G$  ; Surplus of Government $\rangle$ ).  $EX$ [Export]- $IM$ [Import] ; Surplus of trade balance.

For instance, Japanese formula according above-mentioned formula is as follows.

(fiscal year) S-I	=	(G-T)	+	(EX-IM)
1998	68 trillion yen	58 trillion yen		16 trillion yen
1999	46	38		14
2000	44	34		13
2001	40	33		12
2002	45	40		13
2003	51(share of GDP $\langle *1 \rangle$ =10.3%)	37(share of GDP=7.5%)		17 $\langle *2 \rangle$ (Share of GDP=3.5%)

[Note]  $\langle *1 \rangle$  GDP ; nominal GDP.  $\langle *2 \rangle$  The amount of surplus in current balance in 2003 is 15.8 trillion yen and the amountnt of surplus in trade balance in 2003 is 10.2 trillion yen.

In this way, we can calculate the amount of surplus of trade balance through the IS bal-



ance. In other words, the IS balance show the relationship between the economic structure and the trade balance.

### ② The relation between the IS balance and the economic structure

Secondly we should take note of the relationship between the IS balance and the economic structure. If there is some surplus in  $(EX-IM)$  on the IS formula, there is a balance (or a surplus) of economic structure. For instance in the case of Japanese IS balance, there is the surplus on  $(EX-IM)$  which is supported by the balance between the surplus on  $(S-I)$  and the deficit on  $(G-T)$ . But in the case of the IS balance in the U.S., there is steep deficit on  $(EX-IM)$  owing to double deficits on both  $(S-I)$  and  $(G-T)$ . Then we are obliged to recognize that there would be steep imbalance in the structure of the U.S. economy.

### ③ The role of North East Asian countries in the formation of the Asia-Pacific Monetary Adjustment System

Above-mentioned issue has familiar relationship with a third problem. So we have to shift toward the last issue namely how we can use the IS balance to adjust economies in the Asia-Pacific region for the purpose of gaining equilibrium among economies in this region including the U.S. economy being expected to result in the avoiding of the danger of a vicious cycle of "Dollar Sliding".

Fortunately not only Japanese economy but also both Korean and Chinese economies have sustainable level in surplus on  $(S-I)$  owing to the balance between the surplus on  $(S-I)$  and the surplus on  $(T-G)$ . Moreover, we should take note of the International Money Flow in which the money from Asian countries especially from Japan, China and Korea has poured into the U.S. in the proportion in which the amount of IS imbalance namely the amount of the deficit on the current account in U.S. has increased. In 2006 (estimated), the amount of the current account deficit in U.S. namely U.S.\$ 863.2 billion was financed by Japanese money namely U.S.\$ 55.2 billion (net base) and by other Asian countries's money namely U.S.\$ 223.5 billion (ibid), which accounted for the financial share 25.9% of Asian countries (including Japan) in making up for U.S. deficit, which occupied most highest position in it.

In short, the money flow from Asian countries especially from three countries has financed the deficit owing to IS imbalance in U.S. economy. Moreover, another factor should be added that this flow means the equalization of disproportion in global money flow through the transfer from countries and regions enjoying the surpluses in current account to countries and regions worrying about the deficit in current account (Note 3). Thus Asian countries especially Korea, China and Japan can play a role in the stabilization of the global economy as a player in the global governability.

Then we can regard North East Asian economies especially three economies—Korean, Chinese and Japanese economies—as a "balancer" of the "Kite Flying Model" in the Asia-Pacific region, because the Won, the Yuan and the Yen will be able to support the Dollar not only by the adjustment of currency exchange rate but also through the adjustment of the economic structure resulting in the regional equilibrium of IS imbalance in the U.S. economy.

(Note 1) The IS balance is defined as the difference (=the amount of the Saving – the amount of the Investment) which is equal to the amount of Net Saving .

(Note 2) The surplus in current balance = the surplus in trade balance + the surplus in invisible trade balance. But in this article, we will assume the surplus in trade balance as the surplus in current balance because the surplus in current balance consists mainly of the surplus in trade balance in Japan.

(Note 3) The increase of the amount of the surplus in current account is bound to the increase of the amount of the foreign reserve in Asian countries.

## **5. Roles in strata which should be carried on by North East Asian countries as players in the "Global Governance" especially in the financial world**

North East Asian countries especially Korea, China and Japan have not only the role of the monetary cooperation in the Asia-Pacific region but also another role—that of the monetary cooperation in Asia. That role in Asia means the regional cooperation, being expected to combine the building of "Asian Unity "through the" Asian Common Currency System", which consists of collaborations in fields of finance and investment including (a) the advancement of the "Chiengmai Initiative", (b) a design of the creation of AMF (Asian Monetary Fund), (c) a design of the creation of "Asian Bond Market" and (d) a design of ACU (Asian Currency Unit) .

The "Chiengmai Initiative" was adopted as East Asian currency swap system on the base of bilateral agreement between East Asian countries owing to the meeting at Chiengmai in Thailand in May 2000 being held with the purpose of avoiding the vicious effect from the currency crisis that prevailed in East Asian countries in 1998 (Note 1).

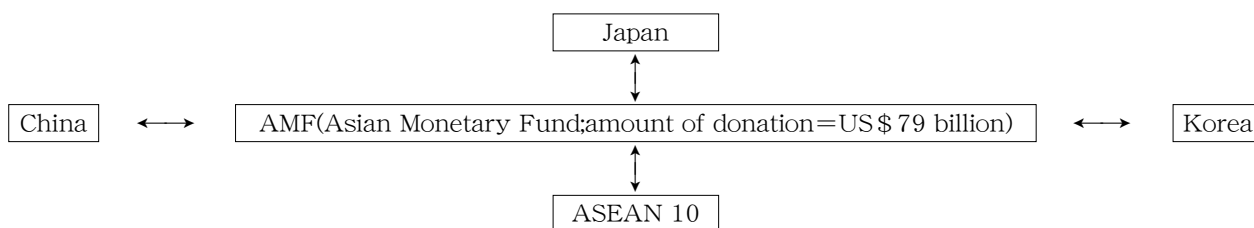
Finance ministers of ASEAN+3 (Korea•China•Japan) have agreed to collaborate in the formation of a new framework of the "Chiengmai Initiative" which is intended to develop from the bilateral base to multilateral base including a design of the creation of AMF (Asian Monetary Fund ) (See below Chart [A design of new "Chiengmai Initiative"]) on the background of a possibility of steep "Dollar Sliding" in the near future.

Moreover there is collaboration in the field of investment on the background of the devel-

opment in bond market. The amount of the bond market in the East Asia has steeply developed from U.S.\$ 405.3 billion (17.2% compared to GDP) in 1997 to U.S.\$ 2,840.4 billion (61.5% compared to GDP) in 2006 especially due to the development of bond markets in Korea and China. At the background of such a development, ABF (Asian Bond Fund) has been built in June 2003 consisting of 11 countries and regions in East Asia on the condition of the donation of U.S.\$ 1.1 billion as initial common fund money.

Lastly, we should take note the fact that there is the collaboration concerning the study of ACU (Asian Currency Unit) among financial ministers of ASEAN+3(China, Korea and Japan). ACU which has been proposed by ADB (Asian Development Bank) is expected to contribute to the formation of the "Asian Snake" like the "European Snake" (European Common Floating Exchange Rate System) owing to ACU (Note 2).

[A design of new "Chiengmai Initiative" ]



In this way, North East Asian countries especially Korea, China and Japan should carry on the roles in strata consisting of the role in the monetary cooperation as players in the "Global Governance" in the Asia-Pacific region and the role in the monetary cooperation aimed at the building of "Asian Unity" In Asia.

In conclusion, Korea, China and Japan which are main actors in North East Asia should recognize their three responsibilities. The first responsibility is the monetary and financial cooperation among them to solve their own financial and economical problems. Second one is the responsibility which they owe for the monetary cooperation aiming the formation of the "Asian Common Currency System" in Asia. Last one is the responsibility which owe for the monetary cooperation as a balancer of the "Kite Flying Model " in the Asia-Pacific region.

(Note 1) The total amount of swap on the base of bilateral agreement at present "Chiengmai Initiative" is 60.5 billion US dollars (Refer to Asahi Shinbun November 30th, 2005).

(Note 2) Refer to Nihon Keizai Shinbun "The context of Asian currency cooperation"

The monetary cooperation among the Won, the Yuan and the Yen as a player in the "Global Governance" in the financial world

[December 12 2007] and Masahiro Kawai "Asian Unity" [Nihon Keizai Shinbun February 18th 2008].

