

An Empirical and Theoretical Study on the Wider Use of Local Currencies in the Asia–Pacific Region after the Asian Financial and Currency Crisis: An analysis focused on Thailand

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Abstract

The Asian financial and currency crisis triggered a significant change to the currency composition of private liabilities in Thailand. Namely, the Thai private sector switched the denominations from the US dollar to the yen and at a larger percentage to the home currency (the Thai baht). The private sectors elsewhere in the Asia–Pacific region also switched from the US dollar to home currencies. Japanese banks resident in Thailand increased their local claims in the Thai baht; Japanese banks also increased the share of local currencies elsewhere in the Asia–Pacific region; and the same is true with the non–Japanese banks as they increased the share of local currencies in the region. Countries in the region examined the crisis and their heavy dependency on the US dollar. Their currency switch can be construed as a movement away from that dependency. The author believes that such a movement should not be temporary, but should firmly take root.

1. The Asian financial and currency crisis triggered changes in the currency composition of external debts: An analysis focused on Thailand

Introduction

Since near the end of 1995, Thailand's private sector has increasingly borrowed the Japanese yen. The trend is evident in Table 1, which breaks down Thai external debts by sector and currency. Before 1995, yen-denominated external debts actually accounted for a marginal share of private borrowing, while recording a prominent percentage of public debts as the latter reflected Japan's official economic assistance to the country. However, after 1995 and particularly after the Asian financial and currency crisis hit Thailand, the private sector's needs for the yen grew both in ratio and amount, whereas its demand for the US dollar declined. This new trend indicates that

the private sector shifted some of its external debts from US dollars to the yen.

In Thailand, according to reports and statistics issued by the Bank of Thailand (BOT), private external debts are categorized into those incurred by two sub-sectors: the banking sector and the non-banking sector. The banking sector is further classified into “BIBF” (Bangkok International Banking Facilities) and “Commercial Banks.” Before the crisis, the above two sub-sectors were combined in terms of sectoral and currency breakdowns. As a result, one could not numerically determine how much of the boost in the yen-denominated liabilities came from which of the two sub-sectors.

Table 1 is compiled based on various issues of *Annual Economic Report* (hereafter called AER) released by the Bank of Thailand. The following were what the author could extract from the data relevant to this paper and available in AER’s statistics on the external debts of the Thai private sector. First, concerning the data from end-1989 to end-1992, AER covered the non-banking sector. The banking sector was not included. For the next three years from end-1993 to end-1995, both the banking and non-banking sectors were covered. Note, however, that those two sub-sectors were treated as one group. In addition, in the banking sector, BIBF was counted in, while Commercial Banks were counted out. Finally, from end-1996 to end-1999, AER encompassed the non-banking sector and the entire banking sector (which included BIBF and Commercial Banks). Here again, the banking and non-banking sectors were combined into one group. Therefore, sectoral and currency breakdowns within the private sector were not available from end-1993 to end-1999.¹⁾ Due to those constraints, “Total” amounts of the private sector in Table 1 respectively cover (1) only the non-banking sector from end-1989 to end-1992; (2) the non-banking sector and BIBF from end-1993 to end-1995; and (3) the non-banking sector and the entire banking sector (including BIBF plus Commercial Banks) from end-1996 to end-1999.

Having gone through the turmoil of the Asian crisis, the Bank of Thailand found it necessary to look more closely at private external liabilities and refined its data collection from the non-banking sector. BOT used to select 500 to 600 companies as samples, but in 1998 it began to collect data from all the companies that had been engaged in foreign exchange transactions related to external debts for the past ten years.²⁾ The findings from the new method are reflected in the recent reports of BOT.³⁾ A currency breakdown of the non-banking sector is also available in those reports. In addition, with the permission of the Bank of Thailand, the author was able to avail himself of chronological data on the banking sector’s external debts. Those data and the recent reports form the basis for the analysis in this paper.

¹⁾ Bank of Thailand [1].

²⁾ This information is based on the author’s interviews with the Bank of Thailand, and Bank of Thailand [2].

³⁾ Bank of Thailand [3], [4].

Table 1 Thailand's External Debts by Sector and Currency ※

Unit : %, (in millions of US\$)

At year-end	Public Sector				Private Sector				Total			
	US Dollar	Yen	Others	Total	US Dollar	Yen	Others	Total	US Dollar	Yen	Others	Total
1989	42.0 (4,975)	44.5 (5,263)	13.5 (1,594)	100 (11,832)	80.7 (6,122)	6.2 (474)	13.0 (989)	100 (7,585)	57.2 (11,097)	29.5 (5,737)	13.3 (2,583)	100 (19,417)
1990	37.9 (4,359)	46.8 (5,382)	15.4 (1,769)	100 (11,510)	85.5 (11,591)	6.6 (890)	7.9 (1,070)	100 (13,551)	63.6 (15,950)	25.0 (6,272)	11.3 (2,839)	100 (25,061)
1991	38.8 (4,972)	48.2 (6,178)	12.9 (1,658)	100 (12,808)	90.1 (18,457)	5.1 (1,037)	4.8 (982)	100 (20,476)	70.4 (23,429)	21.7 (7,215)	7.9 (2,640)	100 (33,284)
1992	39.4 (5,148)	48.8 (6,381)	11.8 (1,539)	100 (13,068)	90.9 (22,070)	4.4 (1,058)	4.8 (1,158)	100 (24,286)	72.9 (27,218)	19.9 (7,439)	7.2 (2,697)	100 (37,354)
1993	37.5 (5,318)	52.1 (7,384)	10.4 (1,469)	100 (14,171)	89.6 (28,271)	4.8 (1,513)	5.6 (1,754)	100 (31,538)	73.5 (33,589)	19.5 (8,897)	7.1 (3,223)	100 (45,709)
1994	38.5 (6,052)	51.3 (8,057)	10.2 (1,605)	100 (15,714)	92.6 (36,375)	3.8 (1,493)	3.6 (1,419)	100 (39,287)	77.1 (42,427)	17.4 (9,550)	5.5 (3,019)	100 (54,996)
1995	41.7 (6,846)	50.9 (8,344)	7.4 (1,212)	100 (16,402)	91.5 (47,324)	5.7 (2,931)	2.9 (1,475)	100 (51,730)	79.5 (54,170)	16.5 (11,275)	3.9 (2,687)	100 (68,132)
1996	46.2 (7,762)	47.0 (7,904)	6.8 (1,139)	100 (16,805)	86.9 (64,101)	10.7 (7,853)	2.4 (1,777)	100 (73,731)	79.4 (71,863)	17.4 (15,757)	3.2 (2,916)	100 (90,536)
1997	50.3 (12,238)	35.9 (8,738)	13.8 (3,347)	100 (24,323)	78.5 (54,222)	20.7 (14,284)	0.8 (587)	100 (69,092)	71.1 (66,460)	24.6 (23,022)	4.2 (3,934)	100 (93,415)
1998	47.6 (14,991)	39.2 (12,357)	13.2 (4,161)	100 (31,509)	69.8 (38,142)	29.5 (16,105)	0.7 (404)	100 (54,651)	61.7 (53,133)	33.0 (28,462)	5.3 (4,565)	100 (86,160)
1999	n.a. (n.a.)	n.a. (n.a.)	n.a. (n.a.)	100 (36,527)	n.a. (n.a.)	n.a. (n.a.)	n.a. (n.a.)	100 (39,052)	55 (n.a.)	39 (n.a.)	6 (n.a.)	100 (75,579)

Notes : ※: The figures are the total of short-term and long-term external debts.

n.a. : not available. The sectoral and currency composition as above has not been released since 2000.

Sources : Bank of Thailand, *Annual Economic Report*, various issues.

Table 2 Thailand's Private External Debts by Sector and Currency ※

Unit : %, (in millions of US\$)

Sectors	At year-end	Yen	US Dollar	Others	Total
Bank	1994	4.0 (1, 119)	94.0 (26, 297)	b. 2.0	100 (27, 976)
	1995	9.0 (3, 775)	89.0 (37, 326)	b. 2.0	100 (41, 939)
	1996	15.0 (6, 280)	83.0 (34, 751)	b. 2.0	100 (41, 869)
	1997	23.5 (9, 217)	74.5 (29, 220)	b. 2.0	100 (39, 221)
	1998	34.6 (9, 799)	63.4 (17, 956)	b. 2.0	100 (28, 322)
	1999	45.0 (7, 966)	53.0 (9, 382)	b. 2.0	100 (17, 702)
	2000	48.3 (5, 872)	49.7 (6, 042)	b. 2.0	100 (12, 157)
	2001	45.6 (4, 271)	53.1 (4, 968)	1.2 (115)	100 (9, 354)
	2002	44.2 (3, 601)	54.8 (4, 463)	0.9 (72)	100 (8, 136)
	2003	42.9 (3, 026)	54.3 (3, 823)	2.8 (196)	100 (7, 045)
Non-bank	1994	3.6 (620)	91.4 (15, 744)	5.0	100 (17, 225)
	1995	1.9 (727)	94.3 (36, 101)	3.8	100 (38, 283)
	1996	4.9 (2, 254)	92.1 (42, 375)	3.0	100 (46, 010)
	1997	16.9 (7, 027)	83.8 (34, 846)	-0.7	100 (41, 582)
	1998	13.7 (5, 689)	79.2 (32, 777)	7.1 (2, 927)	100 (41, 394)
	1999	16.2 (5, 987)	77.2 (28, 496)	6.6 (2, 447)	100 (36, 930)
	2000	12.8 (3, 885)	76.2 (23, 114)	11.0 (3, 347)	100 (30, 346)
	2001	10.0 (2, 664)	73.2 (19, 396)	16.8 (4, 452)	100 (26, 512)
	2002	11.4 (2, 763)	65.2 (15, 841)	23.5 (5, 707)	100 (24, 311)
	2003	12.5 (3, 017)	56.2 (13, 609)	31.4 (7, 601)	100 (24, 227)
Total	1994	3.8 (1, 739)	93.0 (42, 041)	3.2	100 (45, 201)
	1995	5.6 (4, 502)	91.5 (73, 427)	2.9	100 (80, 222)
	1996	9.7 (8, 535)	87.8 (77, 126)	2.5	100 (87, 879)
	1997	20.1 (16, 244)	79.3 (64, 065)	0.6	100 (80, 803)
	1998	22.2 (15, 488)	72.8 (50, 733)	5.0	100 (69, 716)
	1999	25.5 (13, 953)	69.3 (37, 878)	5.2	100 (54, 632)
	2000	23.0 (9, 757)	68.6 (29, 156)	8.4	100 (42, 503)
	2001	19.3 (6, 935)	67.9 (24, 364)	12.7 (4, 567)	100 (35, 866)
	2002	19.6 (6, 364)	62.6 (20, 304)	17.8 (5, 779)	100 (32, 447)
	2003	19.3 (6, 043)	55.7 (17, 432)	24.9 (7, 797)	100 (31, 272)

Notes : ※: The amount of trade credit is excluded from the debts of the non-banking sector (i.e., the debts of the non-banking sector from 1994 to 1997 exclude the amount of trade credit that was included in the data of *Annual Economic Report* released by the Bank of Thailand.).

The above figures of the non-banking sector in/after end-1998 are respectively based on BOT's data adjusted after its new data collection. Also, BOT's data from end-1995 to end-1997 are adjusted to reflect its new data collection.

b.: below.

Sources : The author's interviews with Bank of Thailand, Bank of Thailand, *Economic and Financial Statistics*, various issues, Bank of Thailand, *Annual Economic Report*, various issues.

Table 2 ⁴⁾ takes advantage of the above data to enumerate the sectoral and currency composition of private external debts in chronological order. The table shows that the share of the yen in both the banking and non-banking sectors has risen, and conversely the share of US dollars in the two sub-sectors has fallen. Noteworthy is a soaring need for the yen by the banking sector, in which the ratio of the yen nearly matched that of the dollar at end-2000. Another conspicuous development, which has occurred since the Asian financial and currency crisis, is the growing share of “Other Currencies” of the non-banking sector. In this paper, the author examines changes observed in the currency composition of Thai private external debts and explains why such changes took place.

1. A rising share of yen-denominated private external debts in Thailand

(1) Private banking sector

Table 3 compares the share of “BIBF Assets” (Bangkok International Banking Facilities: Assets) held by Thai and foreign banks located in Thailand vis-à-vis the total “BIBF Assets.” Japanese banks accounted for 50% or more of the total. In fact, the author wished to obtain data on liabilities in BIBF, rather than assets, to look at the share of Japanese banks’ external liabilities.

Table 3 Share of BIBF Assets held by Japanese Banks in Thailand vis-à-vis Total BIBF Assets

Unit : %, (in millions of Thai Baht)

At year-end	Thai Banks	Foreign Banks	Japanese Banks	Total
1994	35.9 (203,595)	64.1 (362,982)	48.4 (274,352)	100 (566,576)
1995	22.4 (269,088)	77.6 (930,735)	65.5 (785,598)	100 (1,199,823)
1996	27.1 (352,003)	72.9 (945,619)	59.3 (769,822)	100 (1,297,622)
1997	29.1 (554,064)	70.9 (1,348,692)	53.3 (1,013,670)	100 (1,902,756)
1998	26.2 (239,285)	73.8 (675,359)	54.0 (493,892)	100 (914,644)
1999	21.4 (113,355)	78.6 (417,162)	53.1 (281,440)	100 (530,518)
2000	16.4 (66,721)	83.6 (339,865)	57.1 (232,046)	100 (406,586)
2001	14.6 (41,677)	85.4 (244,674)	53.2 (152,407)	100 (286,351)
2002	16.1 (34,729)	83.9 (180,812)	54.2 (116,741)	100 (215,541)
2003	19.4 (35,549)	80.6 (147,500)	49.9 (91,320)	100 (183,049)

Sources : Bangkok Bank, *Commercial Banks in Thailand*, various issues.

⁴⁾ Table 2 needs some more explanation. Through his interviews with the Bank of Thailand, the author obtained the following information on the currency composition of the banking sector for the period from 1994 to 2000: (1) the ratios of the yen as shown in the table, (2) the annual ratio of Other Currencies being less than 2%, and (3) the US dollar constituting the remainder each year during the period. Thus, the author set the annual ratio of Other Currencies at 2% from 1994 to 2000 respectively and calculated the yearly ratio of the US dollar accordingly.

Concerning the currency composition of the non-banking sector from 1994 to 1997, the author deducted the liabilities of the banking sector (as computed above) from the total of the private sector (listed in Table 1) for each year during the corresponding period. The ratio of Other Currencies of the non-banking sector at end-1997 in Table 2 turned out oddly in the negative. This is because the calculated amount of Other Currencies corresponding to the above 2% is deducted from the amount of Other Currencies of the private sector in Table 1. However, this discrepancy does not pose a hindrance to giving an overall picture of the trends in the currency composition of the private sector.

Although BOT releases reports on “BIBF Liabilities,” data relevant to this paper are not available. Thus, the author used the data on “BIBF Assets” instead, as they would serve the purpose because of a general correspondence found between assets and liabilities in this respect. It will be reasonable to posit, therefore, that Japanese banks in Thailand also comprised the majority of the liabilities in BIBF during the corresponding period.

Table 4 lists the sectoral breakdown of private external debts, by which one can compare the ratios of Commercial Banks with those of BIBF. Some Japanese banks resident in Thailand are certified to operate as full branches, meaning that they can operate as full-fledged commercial banks like their Thai counterparts. Other Japanese banks are limited to the BIBF business alone. On the above-mentioned assumption that Japanese banks constituted the majority of the liabilities in BIBF, the following inference is possible: If Japanese banks with the full-branch status accounted for 50% or more of Commercial Banks’ external debts, the Japanese banks in Thailand would be responsible for 50% or more of the external debts of the entire banking sector. On the other hand, if the share of the Japanese banks with the full-branch status was nil in the external debts of Commercial Banks, the Japanese banks in Thailand would be responsible for about 40% of the external debts of the entire banking sector.

Who in the banking sector borrowed the Japanese yen? Refer to Table 2 again. The ratios of the yen were, for instance, 45.0% at end-1999, 48.3% at end-2000, and 45.6% at end-2001. If the borrowers were Japanese banks in Thailand that needed the yen for fundraising, it would mean that 90% to 100% of the funds raised by them were denominated in the yen at least after 1999. If that is the case, it follows that when those Japanese banks financed their clients in Thailand with funds raised outside the country, the banks borrowed the yen, instead of US dollars, in almost all of their transactions. If some or the better part of the transactions were made in US dollars, it

Table 4 Thailand's Private External Debts by Sector ※

At year-end	Banking Sector			Non-banking Sector	Total
	Commercial Banks	BIBF	Total		
1989	29.4 (3,158)	- (-)	29.4 (3,158)	70.6 (7,585)	100 (10,743)
1990	23.8 (4,233)	- (-)	23.8 (4,233)	76.2 (13,560)	100 (17,793)
1991	17.9 (4,477)	- (-)	17.9 (4,477)	82.1 (20,591)	100 (25,068)
1992	20.5 (6,263)	- (-)	20.5 (6,263)	79.5 (24,290)	100 (30,553)
1993	13.9 (5,279)	20.4 (7,740)	34.3 (13,019)	65.7 (24,917)	100 (37,936)
1994	20.1 (9,865)	36.8 (18,111)	56.9 (27,976)	43.1 (21,176)	100 (49,152)
1995	17.1 (14,436)	32.6 (27,503)	49.7 (41,939)	50.3 (42,491)	100 (84,430)
1996	11.6 (10,682)	33.9 (31,187)	45.5 (41,869)	54.5 (50,072)	100 (91,941)
1997	10.7 (9,141)	35.3 (30,080)	46.0 (39,221)	54.0 (45,973)	100 (85,194)
1998	8.8 (6,486)	29.7 (21,836)	38.5 (28,322)	61.5 (45,162)	100 (73,484)
1999	7.8 (4,596)	22.3 (13,106)	30.1 (17,702)	69.9 (41,121)	100 (58,823)
2000	8.6 (3,921)	18.0 (8,236)	26.5 (12,157)	73.5 (33,645)	100 (45,802)
2001	8.3 (3,262)	15.5 (6,092)	23.9 (9,354)	76.1 (29,849)	100 (39,203)
2002	8.2 (2,963)	14.3 (5,173)	22.5 (8,136)	77.5 (28,018)	100 (36,154)
2003	8.0 (2,790)	12.2 (4,255)	20.2 (7,045)	79.8 (27,779)	100 (34,824)

Notes : ※: The amount of trade credit is included in the debts of the non-banking sector. The above figures of the non-banking sector in/ after end-1998 respectively reflect the adjustments BOT made to its data collection. Also, BOT's data from end-1995 to end-1997 are adjusted to reflect its new data collection.

Sources : Bank of Thailand, *Economic and Financial Statistics*, various issues.

would suggest that Thai and other foreign banks operating in Thailand also borrowed the yen to lend it. The former would likely be the case, though this assumption needs further investigation.

(2) Private non-banking sector

As in Table 2, the non-banking sector also reduced the ratio of US dollars to the total non-banking external debts, whereas it increased the yen's share -- albeit the degree of the change is smaller than that of the banking sector. In this section, the author examines private non-banking external liabilities from the perspective of Japanese banks located outside Thailand.

Table 5 Thailand's Private Non-bank External Debts by Creditor ※

Unit : %, (in millions of US\$)

Creditors	2000	2001	2002	2003
Japan	25.4 (7,084)	26.5 (6,183)	27.0 (5,445)	23.2 (4,289)
Singapore	20.7 (5,780)	17.3 (4,041)	15.3 (3,097)	14.9 (2,760)
United States	12.0 (3,347)	12.4 (2,884)	12.1 (2,449)	12.2 (2,260)
Germany	7.2 (2,021)	9.1 (2,112)	9.6 (1,940)	9.3 (1,728)
Hong Kong	5.6 (1,554)	5.7 (1,324)	5.3 (1,066)	8.0 (1,477)
Netherlands	3.5 (975)	0.7 (153)	1.6 (324)	3.1 (567)
United Kingdom	3.1 (870)	4.7 (1,093)	5.4 (1,085)	4.9 (899)
Republic of Korea	2.5 (694)	1.7 (387)	1.1 (222)	1.0 (186)
France	2.1 (596)	3.0 (689)	4.4 (880)	3.9 (729)
Finland	1.4 (399)	1.5 (356)	1.8 (361)	n. a. (n. a.)
Switzerland	1.2 (344)	2.0 (457)	2.1 (422)	2.4 (444)
Taiwan, Province of China	1.0 (279)	1.0 (231)	1.2 (242)	1.3 (242)
Australia	0.6 (173)	0.4 (87)	n. a. (n. a.)	0.7 (128)
Other	13.7 (3,814)	14.1 (3,295)	13.2 (2,656)	15.0 (2,780)
Total	100 (27,929)	100 (23,292)	100 (20,189)	100 (18,489)

Notes : ※ : Based on the data at year-end. Trade credit and Baht-denominated debts are excluded.

n.a. : not available.

Sources : Bank of Thailand, *Economic and Financial Statistics*, various issues.

Table 5 shows creditor countries and regions to compare the ratio of each creditor to the non-banking external liabilities. In the case of Japanese banks, those resident outside Thailand financed the Thai non-banking sector from Japan as well as from their branches in Singapore and Hong Kong. This relates to the history of the BIBF program in Thailand. Before BIBF was introduced in March 1993, the then Mitsui Bank and Bank of Tokyo were the only two that were certified for full-branch operations in Thailand. Other Japanese banks, when they financed the non-banking sector, had to lend through their headquarters in Japan or their branches in Singapore and Hong Kong. In 1993, as listed in Table 6, six more Japanese banks were qualified to finance the non-banking sector under the BIBF program. In November 1996, three of the six Japanese banks joined the above two to operate as full branches, and two new ones began the BIBF business. Since the launch of BIBF, the roles of Japanese branches in Singapore and Hong Kong

have been presumably minimized. Under such circumstances, as creditors of the non-banking sector how much did Japanese banks and other Japanese entities ⁵⁾ located outside Thailand account for? Take the year 2000 for example (see Table 5). If all the loans from Japan (accounting for 25.4%) and one-fourth each from Singapore and Hong Kong (accounting for 20.7% and 5.6% respectively) were provided by the Japanese banks and other Japanese entities, they would account for 31.9% of the non-banking external debts. If all from Japan but half each from Singapore and Hong Kong were financed by the Japanese banks and entities, the Japanese banks and entities would account for 38.5%.

Table 6 Japanese Banks located in Thailand by Status

Periods	Full Branch Status	BIBF Status
March 1993	The Mitsui Bank The Bank of Tokyo	The Industrial Bank of Japan The Mitsubishi Bank The Sumitomo Bank The Dai-Ichi Kangyo Bank The Sanwa Bank The Long-term Credit Bank of Japan
November 1996	The Sakura Bank The Bank of Tokyo-Mitsubishi The Industrial Bank of Japan The Sumitomo Bank The Dai-Ichi Kangyo Bank	Fuji Bank The Sanwa Bank Tokai Bank

Source : Ministry of Finance of Thailand.

Based on the above figures (31.9% and 38.5%), we now look at Japanese companies operating in Thailand, who are large non-banking borrowers in that country. It is assumed that the debts they owed to the Japan Bank for International Cooperation (JBIC) under the Overseas Investment Loans made up a large portion of the Thai non-banking external debts. Since the focus of this paper is on private financing, official financing must be excluded from the discussion. To do so, we need to review the Overseas Investment Loans (hereafter called 'OI Loans') program first. In and after 1995, Japanese banks burdened with bad loans found it difficult to maintain their interbank credit lines and were deadlocked in borrowing US dollars in the international financial markets. At the time of the Asian crisis, not only the affected nations and regions but also Japanese companies there had a hard time borrowing US dollars. ⁶⁾ That was because (1) the sales of the Japanese companies deteriorated in the aftermath of the crisis, and (2) Japanese banks could not finance Japanese businesses because the banks themselves could not procure US dollars. The then Export-Import Bank of Japan (JEXIM Bank), the predecessor of JBIC, ordinarily had granted loans under the OI Loans program to Japanese companies that would build factories and/or be engaged

⁵⁾ Japanese entities include Japanese manufacturers' head offices that provided inter-office loans to their affiliates in Thailand. The author assumes that when Japanese banks and manufacturers financed the non-banking sector from outside Thailand, they did so solely from their offices in Japan, Singapore, and Hong Kong.

⁶⁾ Inoue, Ichiro [5], p.112.

in resource development projects in the loan recipient countries.⁷⁾ At the time of the crisis, JEXIM Bank decided to take the unusual measure of trying to save Japanese companies in Asia from going bankrupt by financing them. This action greatly boosted the amount of the OI Loans during the crisis. The commitments under this program shot up from ¥696.7 billion in 1996 to ¥894.9 billion in 1997, to ¥1,576.8 billion in 1998, and finally fell to ¥544.8 billion in 1999. In the peak years of 1997 and 1998, the ratios of US dollars to the total commitments were 87.2% and 86.2% respectively, and the rest were in the yen. Concerning Japanese companies operating in Thailand, JEXIM Bank committed 30.4 billion yen to them from July 1997 to end-March 2000 (which, as noted above, was the ordinary basis of the program). In addition, during the same period, JEXIM Bank committed a sum of 380.2 billion yen to help them weather the crisis. Thus, the total committed was ¥410.6 billion,⁸⁾ which amounts to US \$3,879.07 million at the exchange rate of 105.85 yen to the dollar (at end-March 2000). This is the amount we need to exclude from the total external loans extended by the Japanese banks and other Japanese entities noted earlier. The ratio of Japanese private financing (i.e., by Japanese banks and companies located outside Thailand) to the Thai non-banking sector would be 18.0% when the OI Loans are deducted from the above-mentioned 31.9%, or 24.6% when deducted from the 38.5%.

With those ratios (18.0% and 24.6%) in mind, we go back to Table 2 to take a closer look at the yen's share. In the case of end-2000 in the table, the yen's ratio to the non-banking external debts was 12.8%. However, this figure includes OI Loans that Japanese companies borrowed from JEXIM Bank. We need to exclude such loans to obtain the share of purely private financing. The amount of yen-denominated OI Loans was ¥56.7 billion, or US \$535.31 million, which is calculated by deducting the dollar-denominated OI Loans (the above 86.2%) from the total commitments of ¥410.6 billion (also mentioned above). If the yen-denominated official financing at the end of 2000 amounted to ¥56.7 billion (US \$535.31 million), the amount would account for approximately 0.8% of the 12.8% listed in Table 2. The share of private financing vis-à-vis the 12.8% (which includes OI Loans) at end-2000, therefore, would be 12%.⁹⁾

Finally, based on this figure, we can find out how much of the Japanese private cross-border loans to the Thai non-banking sector was made in the yen. As calculated earlier, Japanese banks and companies are assumed to have accounted for 18.0% or 24.6% of the Thai non-banking external debts. If the above 12% was all attributed to the Japanese banks and companies, their yen-denominated loans would account for 66.5% ($12.0 \div 18.0$) or 48.7% ($12.0 \div 24.6$) of the external loans they provided for the Thai non-banking sector. The former (66.5%) is more likely, because it is hard to imagine that the Japanese banks claimed half of the loans from Singapore and Hong Kong to the Thai non-banking sector.

⁷⁾ Export-Import Bank of Japan [6], p.4.

⁸⁾ Export-Import Bank of Japan [7], Japan Bank for International Cooperation [8].

⁹⁾ The baht-denominated debts are deducted from the total non-banking external debts.

(3) *Reasons behind the change in denominations of Thai private external debts*

A close analysis of the currency composition of private external liabilities in Thailand shows that both the banking and non-banking sectors borrowed fewer US dollars and more Japanese yen. The calculations in the previous two sections clearly suggest that when Japanese banks located in Thailand raised funds outside Thailand to finance the Thai non-banking sector, the banks mostly borrowed the yen, instead of the US dollar. With regard to Japanese banks and companies located outside Thailand, the calculations also reveal that more than 60% of their loans to the Thai non-banking sector were in the yen, though more data are needed for a further analysis. Overall, compared with the currency composition of private external debts before Japanese banks saw their credit ratings dip in 1995 and before the crisis hit Asia in 1997, a significant change took place in Japanese banks' international financing. What caused the change? In what context did the change take place?

- (1) Many Japanese banks saddled with bad loans were rated poorly as their credit risks rose, and they were deadlocked in borrowing US dollars in the international financial markets. Thus, the banks shifted from the US dollar to the Japanese yen in their international financing as borrowing one's home currency is much easier in minimizing liquidity risk. Under such circumstances, what did Japanese banks operating in Thailand do? Table 7 shows chronological data on "Assets" and "Liabilities and Capital" of the Japanese banks in Thailand. All the funds raised by them are recorded under "Liabilities and Capital," of which funds raised outside Thailand are categorized into either "BIBF Liabilities" under "Liabilities" or "Net Inter-Office Balances and Other" ¹⁰⁾ under "Capital." After the widespread Japanese banking credit uneasiness and especially after the Asian crisis, the share of "BIBF Liabilities" drastically declined against a sharp rise in the share of "Net Inter-Office Balances and Other." This development indicates that the Japanese banks in Thailand were not able to borrow US dollars in the BIBF offshore market and had to borrow the yen instead from their head offices in Japan.
- (2) The Asian crisis put an end to the fixed exchange rate system in Thailand, in which the Thai baht had been virtually pegged to the US dollar, and the baht began to fluctuate against the dollar. From the perspective of borrowers in Thailand, the US dollar became no longer a safe currency to ward off exchange risk. This is one compelling factor when borrowers decide which denomination to choose. In the wake of the Asian crisis, the baht began to fluctuate in tandem with the Japanese yen more often and more closely than before. Such a turnaround in the foreign exchange markets helped minimize exchange risk for the borrowers of the yen to repay their yen-denominated debts.

¹⁰⁾ The figures under "Net Inter-Office Balances and Other" in Table 7 come almost entirely from the inter-office transactions between Japanese banks' head offices and their branches in Thailand as the amount of "Other" was negligibly small. Bangkok Bank [9], Bank of Thailand [10].

Table 7 Assets, Liabilities, and Capital of Japanese Banks in Thailand ※

Unit : %, (in millions of Thai Baht)

At year-end	Assets		Liabilities	Deposits	BIBF Liabilities	Capital	Issued & Paid-up Capital	Net Inter-Office Balances and Other
		BIBF Assets						
1992	100 (48,799)	*n. a. (*n. a.)	88.7 (43,273)	29.2 (14,266)	*n. a. (*n. a.)	11.3 (5,526)	8.3 (4,030)	3.1 (1,496)
1993	100 (75,296)	n. a. (n. a.)	92.3 (69,521)	23.1 (17,379)	n. a. (n. a.)	7.7 (5,775)	5.6 (4,200)	2.1 (1,575)
1994	100 (103,971)	45.9 (47,688)	86.7 (90,145)	18.4 (19,148)	38.5 (40,056)	13.3 (13,826)	4.5 (4,700)	8.8 (9,126)
1995	100 (133,495)	53.1 (70,920)	77.1 (102,903)	15.5 (20,753)	45.3 (60,443)	22.9 (30,592)	4.3 (5,800)	18.6 (24,792)
1996	100 (205,988)	68.0 (140,115)	61.9 (127,531)	13.7 (28,180)	39.2 (80,802)	38.1 (78,457)	3.7 (7,707)	34.3 (70,750)
1997	100 (863,841)	84.5 (730,285)	41.2 (355,957)	7.1 (61,568)	32.8 (283,423)	58.8 (507,884)	2.0 (17,281)	56.8 (490,603)
1998	100 (492,332)	78.7 (387,631)	37.7 (185,671)	14.6 (71,713)	21.7 (106,842)	62.3 (306,661)	#3.5 (13,083)	#60.0 (224,256)
1999	100 (355,518)	62.0 (220,388)	33.9 (120,493)	24.8 (88,258)	3.5 (12,326)	66.1 (235,025)	4.7 (16,568)	61.4 (218,457)
2000	100 (357,336)	49.1 (175,493)	43.2 (154,335)	29.9 (106,696)	2.5 (9,073)	56.8 (203,001)	6.6 (23,498)	50.2 (179,503)
2001	100 (318,961)	39.7 (126,617)	54.1 (172,437)	39.4 (125,725)	5.3 (16,887)	45.9 (146,524)	9.9 (31,637)	36.0 (114,887)
2002	100 (288,027)	33.4 (96,317)	55.5 (159,905)	45.5 (131,163)	1.1 (3,212)	44.5 (128,122)	10.8 (31,088)	33.7 (97,034)
2003	100 (274,619)	26.5 (72,715)	62.7 (172,141)	47.5 (130,549)	2.1 (5,870)	37.3 (102,478)	11.2 (30,744)	26.1 (71,734)

Notes : ※ : The data are from Japanese banks with full branch status. "Net Inter-Office Balances" are classified into "Capital" in Thailand.

*n.a. : not applicable.

n.a. : not available.

: The data of one bank are excluded due to their inadequacy.

Sources : Bangkok Bank, *Commercial Banks in Thailand*, various issues.

Table 8 Interest Rates in Thailand

Unit : %

At year-end	Money market				Commercial banks						
	Repurchase rates #				Loan rates			Deposit rates			
	1 day	7 days	1 month	3 months	MOR*	MLR+	MRR++	Savings deposits	Time deposits		
									3 months	6 months	12 months
1994	n. a.	6.56	n. a.	n. a.	11.75	11.75	n. a.	5.00	8.75-10.00	8.25-10.00	8.25-10.25
1995	9.38	9.49	9.28	n. a.	14.00-14.25	13.75	14.00-14.50	5.00	10.50-12.50	10.25-11.00	10.25-11.00
1996	10.91	11.01	10.69	11.00	13.25-13.50	13.00-13.25	13.00-13.50	5.00	8.75-9.75	8.50-9.25	8.50-9.25
1997	22.87	22.36	22.19	17.98	15.75-16.00	15.25	15.50-16.00	5.00	10.00-11.50	10.00-11.50	10.00-13.00
1998	3.55	3.75	5.54	5.59	12.00-12.75	11.50-12.00	12.00-13.25	4.50	6.00	6.00	6.00
1999	0.63	0.94	2.44	2.94	8.75-9.00	8.25-8.50	8.50-9.00	3.00	3.75	3.75	4.00-4.25
2000	1.22	1.31	2.00	2.44	8.00-8.75	7.50-8.25	8.00-8.75	2.50	3.00	3.00	3.50
2001	2.12	2.20	2.49	2.63	7.50-8.00	7.00-7.50	7.50-8.00	1.75	2.25	2.25-2.50	2.75-3.00
2002	1.52	1.53	1.78	n. a.	6.50-7.50	6.50-7.00	6.50-7.50	1.50	1.75	1.75	2.00
2003	1.01	1.10	1.25	n. a.	5.75-6.00	5.50-5.75	5.75-6.25	0.75	1.00	1.00	1.00

Notes : #: Average.

*: Minimum Overdraft Rates.

+: Minimum Loan Rates.

++: Minimum Retail Rates.

n.a. : not available.

Sources : Bank of Thailand, *Quarterly Bulletin*, Vol.36, No.1, p.34, *Economic and Financial Statistics*, various issues.

- (3) The yen's interest rates lowering to zero also helped cut costs for borrowing the yen. This was again advantageous for the borrowers of the yen.
- (4) The lending rates of the baht plummeted to such an extent that no one would have imagined possible before the Asian crisis. Table 8 looks at the trends of interest rates of the baht. The lowering rates of the baht pushed down the premiums of the yen's forward foreign exchanges, which allowed the costs of the yen's forward exchanges to drop when the borrowers of the yen hedged exchange risk.

The above are the four main reasons that give a logical explanation to why the denominations of private external debts shifted from the US dollar to the Japanese yen. However, since the credit ratings of Japanese banks improved, it seems that Japanese banks in Thailand have become more competitive than before in lending US dollars. They can now swap their yen-denominated funds, raised through inter-office transactions, for US dollars at lower costs. In response to their clients' needs, the banks can either lend the yen at hand or swap it for US dollars. Half of their lending is now probably done in the yen and the remaining in US dollars.¹¹⁾

The increase in the yen-denominated loans from Japanese banks located in and out of Thailand to the Thai private sector reflects the vulnerability of Japanese banks as a whole. Yet, at the same time, yen-denominated loans served as a crucial means for Japanese banks to continue financing their clients in Thailand during the difficult period of their credit impairment and the Asian crisis.

2. A correlation between the denominations of Thai private external debts and export settlement currencies

Table 9 breaks down settlement currencies of Thai exports by trading partner. The share of yen-denominated exports to Japan increased after the crisis. The author earlier referred to forward foreign exchanges as a way for borrowers of the yen to hedge exchange risk when they repay their yen-denominated liabilities. In the case of exporters, there is another option to hedge exchange risk: to earn yen receipts from exports to repay their yen-denominated debts. As reiterated, the yen-denominated external debts of the Thai non-banking sector grew after the emergence of the bad loan problem in Japan and the Asian crisis. In the meantime, yen-denominated exports to Japan also increased because (1) in 1999, 2000, and 2003 the yen was appreciated vis-à-vis the US dollar as shown in Table 10, which was advantageous for yen-denominated exports; (2) the yen's low interest rates helped decrease costs of trade financing; and as noted above (3) exporters undertook hedge operations by earning yen receipts to repay their yen-denominated debts.

¹¹⁾ The assumption is based on the author's interviews with Japanese banks in Thailand in August 2004.

Table 9 Thailand's Export Receipts by Currency and Trading Partner

		Unit : %									
Currencies	Trading Partners	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
US Dollar	Japan	82.5	82.8	85.4	86.0	83.2	72.8	70.4	71.8	71.0	69.9
	United States	99.4	99.6	99.7	99.7	99.4	97.2	96.8	97.1	96.4	95.8
	EU	90.4	89.8	90.8	91.2	89.1	81.0	80.8	75.7	73.0	73.8
	ASEAN #	92.1	91.6	89.6	89.6	86.8	91.3	90.5	89.3	89.0	89.6
	Indochina *	78.5	79.5	80.0	74.6	75.2	69.3	73.3	n.a.	n.a.	n.a.
	Middle East	95.7	98.9	42.0	90.8	75.7	68.6	67.6	n.a.	n.a.	n.a.
	Eastern Europe	99.7	99.5	99.3	99.2	96.1	96.9	95.3	n.a.	n.a.	n.a.
	World	90.5	91.0	91.7	92.0	90.6	87.6	87.0	85.7	84.7	84.4
Yen	Japan	15.5	15.1	13.2	12.7	14.0	19.5	21.6	20.5	20.9	21.5
	United States	0.4	0.2	0.2	0.2	0.1	0.2	0.1	0.3	0.4	0.3
	EU	0.6	0.4	0.4	0.3	0.5	0.4	0.4	n.a.	n.a.	n.a.
	ASEAN #	1.3	1.1	0.8	0.8	1.1	1.5	1.8	1.7	1.9	1.7
	Indochina *	0.0	0.2	0.1	0.2	0.4	0.2	0.2	n.a.	n.a.	n.a.
	Middle East	2.5	0.0	3.4	2.7	6.7	5.6	1.7	n.a.	n.a.	n.a.
	Eastern Europe	0.0	0.0	0.0	0.1	0.1	0.0	0.1	n.a.	n.a.	n.a.
	World	4.7	4.1	4.5	3.3	3.7	5.2	5.7	5.6	6.0	5.9
Baht	Japan	0.6	0.8	1.0	1.1	2.6	7.4	7.8	7.3	7.4	8.1
	United States	0.2	0.0	0.1	0.1	0.4	2.4	3.0	2.6	3.2	3.8
	EU	0.5	1.2	0.9	1.0	0.9	1.2	1.4	1.4	1.3	1.8
	ASEAN #	2.8	3.7	6.9	7.2	8.5	5.7	5.3	5.9	6.1	6.3
	Indochina *	21.3	20.2	19.6	24.9	24.0	30.0	26.0	n.a.	n.a.	n.a.
	Middle East	1.4	1.0	1.0	6.2	17.1	25.5	30.3	n.a.	n.a.	n.a.
	Eastern Europe	0.0	0.0	0.1	0.3	0.9	0.2	1.3	n.a.	n.a.	n.a.
	World	1.6	2.4	1.3	2.1	2.6	3.7	3.9	4.0	4.3	5.0
Others	Japan	1.4	1.3	0.4	0.2	0.2	0.3	0.2	0.4	0.7	0.5
	United States	0.0	0.2	0.0	0.0	0.1	0.2	0.1	0.0	0.0	0.1
	EU	8.5	8.6	7.9	7.5	9.5	17.4	17.4	n.a.	n.a.	n.a.
	ASEAN #	3.8	3.6	2.7	2.4	3.6	1.5	2.4	3.1	3.0	2.4
	Indochina *	0.2	0.1	0.3	0.3	0.4	0.5	0.5	n.a.	n.a.	n.a.
	Middle East	0.4	0.1	53.6	0.3	0.5	0.3	0.4	n.a.	n.a.	n.a.
	Eastern Europe	0.3	0.5	0.6	0.4	2.9	2.9	3.3	n.a.	n.a.	n.a.
	World	3.2	2.5	2.5	2.6	3.1	3.5	3.4	4.7	5.0	4.7

Notes : #: Including Cambodia, Laos, Myanmar, and Vietnam.

*: Including Myanmar.

n.a. : not available.

Sources : The author's interviews with Bank of Thailand and BOT's website.

Table 10 Exchange Rates of Japanese Yen to US Dollar ※

Years	Exchange rates
1994	102.21
1995	94.06
1996	108.78
1997	120.99
1998	130.91
1999	113.91
2000	107.77
2001	121.53
2002	125.39
2003	115.93

Note : ※: Average.

Sources : International Monetary Fund, *International Financial Statistics*, various issues.

3. A soaring share of the home currency in Thai non-banking external debts

There is one interesting trend that should not be overlooked. That is a soaring ratio of “Other Currencies” to the non-banking external debts as shown in Table 2. The main currency among “Other Currencies” is the Thai baht. The non-banking sector usually borrows the baht from non-residents who have the Non-Resident Baht Accounts and/or have earned proceeds in the baht by selling Thai stocks and debt securities.¹²⁾ Table II lists the ratios of the baht to non-banking external debts. It is clear from the table that both the share and amount of the baht soared after the crisis. The Bank of Thailand also took note of the growing share of the baht as it states in its report, “Recent evidences suggest that more debt newly contracted is denominated mostly in Baht.”¹³⁾ Another significant trend captured in Table II is a sharp decline in the share and amount of US dollars. It is apposite to interpret that the Thai non-banking sector switched from the US dollar to its **home currency** when it borrowed money externally.

The shift from the US dollar to the baht is evident from a different perspective as well. Table 12 looks at the currency composition of funds that Japanese manufacturers in Thailand raised for their capital investments. After the devaluation of the baht, the share of the US dollar plunged, that of the Japanese yen rose, and that of the Thai baht skyrocketed, respectively. What this signifies is that the Japanese manufacturers in Thailand changed fundraising currencies from the US dollar to the Japanese yen, but even at a larger percentage to the Thai baht. The baht virtually became the “**home currency**” for those Japanese manufacturers resident in Thailand. Their debts were overwhelmingly denominated in their “**home currency**” in the place of the US dollar and the Japanese yen. When they borrowed the baht, they procured it mostly from the Thai domestic market, which is, of course, not included in the statistics of external debts.

There are two possible reasons that explain why the non-banking sector shifted from the US dollar to the **home currency**. (1) The non-banking sector had borrowed a large sum of US dollars, and the devaluation of the baht landed this sector in colossal exchange losses. Upon the introduction of the floating rate system in Thailand, the non-banking sector tried to avert exchange risk by holding liabilities in the home currency. (2) The interest rates of the baht plummeted drastically. As a result, borrowing the baht turned out much cheaper than before.

Finally, we take another look at Table 9 to examine Thailand’s exports to its trading partners. The baht-denominated exports were on the rise not only to Japan but also to other trading partners. There are three reasons for this: (1) a concern over exchange risk, which could be a reality from a possible rebound of the baht, led exporters to denominate their exports in the home currency; (2) low interest rates of the baht, as in the case with the yen, contributed to reducing costs of trade financing; and (3) exporters hedged exchange risk by repaying their

¹²⁾ The information was obtained from the author’s interviews with the Bank of Thailand.

¹³⁾ Bank of Thailand [3], p.17.

baht-denominated debts with the baht receipts from their exports.

Table 11 Thailand's Private Non-bank External Debts by Currency ※

Unit: %, (in millions of US\$)

At year-end	Yen	US Dollar	Others	Thai Baht	Total
1994	3.6 (620)	91.4 (15,744)	5.0	n. a. (n. a.)	100 (17,225)
1995	1.9 (727)	94.3 (36,101)	3.8	n. a. (n. a.)	100 (38,283)
1996	4.9 (2,254)	92.1 (42,375)	3.0	n. a. (n. a.)	100 (46,010)
1997	16.9 (7,027)	83.8 (34,846)	-0.7	n. a. (n. a.)	100 (41,582)
1998	13.7 (5,689)	79.2 (32,777)	7.1 (2,927)	3.1 (1,279)	100 (41,394)
1999	16.2 (5,987)	77.2 (28,496)	6.6 (2,447)	2.9 (1,062)	100 (36,930)
2000	12.8 (3,885)	76.2 (23,114)	11.0 (3,347)	8.0 (2,417)	100 (30,346)
2001	10.0 (2,664)	73.2 (19,396)	16.8 (4,452)	12.1 (3,220)	100 (26,512)
2002	11.4 (2,763)	65.2 (15,841)	23.5 (5,707)	17.0 (4,121)	100 (24,311)
2003	12.5 (3,017)	56.2 (13,609)	31.4 (7,601)	23.7 (5,738)	100 (24,227)

Notes : ※: The amount of trade credit is excluded from the debts of the non-banking sector (i.e., the debts of the non-banking sector from 1994 to 1997 exclude the amount of trade credit that was included in the data of *Annual Economic Report* released by the Bank of Thailand.).

The above figures in/after end-1998 are respectively based on BOT's data adjusted after its new data collection. Also, BOT's data from end-1995 to end-1997 are adjusted to reflect its new data collection.

n.a.: not available.

Sources : The author's interviews with Bank of Thailand, Bank of Thailand, *Economic and Financial Statistics*, various issues, Bank of Thailand, *Annual Economic Report*, various issues.

Table 12 Currency Composition of Funds for Capital Investments raised by Japanese Manufacturers in Thailand ※

Unit: %

Years	US Dollar	Yen	Thai Baht	Others
#1997	62	9	28	0
1997	53	21	26	1
1998	38	28	34	0
1999	27	24	49	0
2000	9	23	68	0
2001	15	15	70	0
2002	19	12	69	0
2003	15	16	68	0

Notes : ※: Based on actual transactions, not on projected figures.

#: Based on actual transactions immediately before the introduction of the floating of the Baht.

Sources : Committee of Economic Research, Japanese Chamber of Commerce, Bangkok, "Survey on Business Performances by Japanese Corporations in Thailand," *SHOHO*, various issues.

4. Increasing local contents of Japanese products manufactured in Thailand

We have so far discussed measures that the non-banking sector took after the Asian crisis; that is, the shift of denominations of their liabilities. In this section, the author focuses on Japanese manufacturers in Thailand to examine how they adjusted or had to adjust their business accordingly. Did they pursue any other measures?

As noted earlier, most Japanese manufacturers had a large amount of debts in US dollars at the time of the crisis. Thus, the crash of the Thai baht dealt a blow to them, inflicting huge exchange losses. In addition, domestic sales in Thailand shriveled, while the prices of parts and raw materials mainly from Japan soared due to the depreciation of the baht. With a contracting market demand at hand, the manufacturers could not resort to mark-ups to offset inflated costs. Consequently, the companies that had been selling their products solely in the Thai local market ran up huge deficits, and such companies became increasingly insolvent.¹⁴⁾

The December 1997 issue of *SHOHO*, a monthly report published by the Japanese Chamber of Commerce, Bangkok assessed the state of affairs of Japanese companies in Thailand. The Chamber carried out a special investigation in the autumn of that year and compiled its findings under the title “Survey on Business Performances by Japanese Corporations in Thailand (Autumn 1997 Special Survey): the Findings of the Survey on the Effects of the Depreciation of the Thai Baht.” The survey covers both manufacturers and non-manufacturers operating in Thailand and points out the following:

The declining value of the baht has adversely affected 80 percent of the Japanese companies surveyed. The depreciation caused severer damage to those of them who produced exclusively for the local market or whose local sales were larger than their sales abroad. Among the companies that had a higher ratio of export receipts than local sales, those who had a higher percentage of local contents than imported supplies were not so much affected by the depreciation or rather enjoyed its effects, whereas others with a higher proportion of imported supplies than local contents suffered more. A drop in the sales of many businesses had actually begun to surface even before the depreciation of the baht, and after the depreciation the demand of the local market shrunk rapidly, which made a big dent in their sales. To add to this, both rising import costs triggered by the depreciation and exchange losses resulted from external debts ended up with depressed earnings.¹⁵⁾

The causes to which the manufacturers and non-manufacturers attributed their declined earnings were multiple, but there were specific tendencies among different types of business.

Of all the respondents, 59% attributed the decline in their earnings to higher costs of imports, 57% attributed it to heavy exchange losses from their external liabilities, and 51% to a sales decline since before the depreciation. Out of the above three commonly found

¹⁴⁾ The information was obtained from the author's interviews with Japanese manufacturers in Thailand.

¹⁵⁾ Japanese Chamber of Commerce, Bangkok [11], p.62.

causes, the manufacturers of electric and electronic machinery, chemicals, and automobiles mainly attributed the reduced earnings to soaring costs of imported supplies; chemical and steel/nonferrous industries to exchange losses; and automobiles to a sales decline since before the depreciation.¹⁶⁾

In order to get out of the quagmire, the manufacturers that used to produce solely for the Thai local market had no other option but sell their products abroad. Those who used to import raw materials and parts had to find local suppliers to cut inflated costs. To **localize production costs** (i.e., to increase local contents) became crucially important to the Japanese manufacturers in Thailand.

The above survey also inquired about measures the respondents took to remedy the situation. Here again, the steps both the manufacturers and non-manufacturers took were multiple, but there were specific tendencies among different types of business. The following two quotes from the *SHOHO* report explain:

1. Measures taken to deal with the sluggish sales: Of all the respondents, 56% raised prices, 33% shifted from the local to overseas markets, and 24% took no particular steps yet. According to the survey results sorted out by type of business, “raising prices” had the highest percentage of the replies among all the manufacturers except food makers, while “reducing export prices” had the highest percentage among the food makers. In the case of manufacturers of textile and automobiles, “shifting from the local to overseas markets” had also a high percentage of replies.¹⁷⁾

2. Concerning the procurement of raw materials and parts, 51% of both manufacturers and non-manufacturers answered that they turned away from import to local procurement, 33% took no particular steps yet, and 27% responded they re-examined their suppliers to increase local contents. The share of local procurement in 1997 was 38% among manufacturers, whereas their projected ratio of local contents for 1998 was down to 36%. Those figures indicate why as many as 33% answered no particular steps taken yet. Many manufacturers actually wanted to switch to local suppliers as soon as possible but projected it would be difficult to do so within a short span of time. As for the replies by type of business, “shifting from import to local procurement” had a high percentage among all the manufacturers except textile and steel/nonferrous industries, and 43% of the textile manufacturers re-examined their suppliers to increase local contents, and “no particular steps yet” had the highest percentage among the steel and nonferrous industries.¹⁸⁾

In the January 1998 issue of *SHOHO*¹⁹⁾ one Japanese car manufacturer referred to the above-mentioned measures as follows:

We have experienced a drastic drop in our production since August, and had to suspend

¹⁶⁾ Japanese Chamber of Commerce, Bangkok [11], p.67.

¹⁷⁾ Japanese Chamber of Commerce, Bangkok [11], p.74.

¹⁸⁾ Japanese Chamber of Commerce, Bangkok [11], p.72.

¹⁹⁾ Japanese Chamber of Commerce, Bangkok [12], p.51-52.

the operation from mid-November to the end of December.... At present, our local contents account for somewhere around 50%. Meanwhile, the baht has depreciated by 40 percent. When we take into account the hikes of various taxes on top of everything else, we will have to bump up the prices by about 40%. A large markup will be inevitable next year.... To muddle through this, Japanese car manufacturers are trying to expand overseas markets. A big concern for each of us is to figure out how to recover our production, including that of our suppliers. At the same time, we need to contribute to Thailand by earning foreign currencies. This is our social obligation to our host country.... Needless to say, it takes time to shift to export. If you came to Thailand to make your Thai operation as a hub for overseas markets, you wouldn't find any difficulty to export. But if you didn't, you ought to reorganize your production lines in order to meet varying demands of your potential customers abroad. You have to start from the ground up.

Concerning Japanese consumer-electronics manufacturers in Thailand, the same *SHOHO* article points out the following:

Although most manufacturers want to mark up their products for the local market, stagnant sales do not allow them to do so. Many actually wanted to raise prices by 10% in October [1997 – noted by the author], but the markup was not materialized in the prices at outlets.... In the meantime, the makers are trying to reduce costs. They are geared towards increasing local contents as many as possible, while looking for any other means to cut costs -- for example, replacing Japanese staff with local personnel and trying to minimize liabilities.²⁰⁾

Concerning the efforts made by the automobile industry, another issue of *SHOHO* wrote a year later:

Car manufacturers are intensifying their efforts to develop new markets abroad, and in fact their exports have increased significantly. However, they are struggling to find a way to boost local contents, hoping to raise them from the present 42% on average to 44% in 1999....²¹⁾

Table 13 categorizes shipments of Japanese manufacturers in Thailand into two destinations, local and overseas, to compare the share of local shipments with that of exports. Table 14 shows where the manufacturers purchased raw materials and parts to compare local contents with imports. Immediately after the Asian crisis, the share of exports shot up, although in recent years Thailand's economic recovery somewhat pushed up local shipments. Also, the share of local contents was constantly on the rise after 1997, clearly indicating that Japanese manufacturers were successful in **localizing production costs**. The trend shown in Table 14 is noteworthy as proof of increased local contents.

Japanese multinationals have established their production networks across ASEAN. The fuller

²⁰⁾ Japanese Chamber of Commerce, Bangkok [12], p.53-54.

²¹⁾ Japanese Chamber of Commerce, Bangkok [13], p.39.

those companies are localized, the more they procure parts and raw materials locally. Their local contents will increase steadily when supporting industries are either relocated from Japan to ASEAN or created locally.²²⁾ The Asian crisis accelerated this trend. It should be noted that when local contents grow, the Japanese corporations in Thailand prefer the local currency for their export settlement to avoid exchange risk.²³⁾ The rise in the share of the baht receipts captured in Table 9 reflects a rising share of local contents.

Table 13 Destinations of Shipments of Japanese Products Manufactured in Thailand ※

Unit: %

Years	Local Market	Export	Total
1995	59.6	40.4	100
1996	57.5	42.5	100
1997	46.7	53.3	100
1998	40.6	59.4	100
1999	54.9	45.1	100
2000	50.3	49.7	100
2001	62.7	37.3	100
2002	64.8	35.2	100
2003	67.2	32.8	100

Note : ※ : Based on actual shipments, not on projected figures.

Sources : Committee of Economic Research, Japanese Chamber of Commerce, Bangkok, "Survey on Business Performances by Japanese Corporations in Thailand," *SHOHO*, various issues.

Table 14 Origins of Raw Materials and Parts for Japanese Products Manufactured in Thailand ※

Unit: %

Years	Local Contents	Import	Total
1995	38.0	61.9	100
1996	40.8	59.2	100
1997	40.0	60.0	100
1998	43.8	56.2	100
1999	51.6	48.4	100
2000	51.1	48.9	100
2001	54.9	45.1	100
2002	59.4	40.6	100
2003	54.8	45.2	100

Note : ※ : Based on actual imports, not on projected figures.

Sources : Committee of Economic Research, Japanese Chamber of Commerce, Bangkok, "Survey on Business Performances by Japanese Corporations in Thailand," *SHOHO*, various issues.

²²⁾ Inoue, Ichiro [14], p.303.

²³⁾ Inoue, Ichiro [14], p.303.

II. BIS reporting banks' branches lend more local currencies in the Asia-Pacific region: An analysis based on the BIS international banking statistics

Introduction

In the previous chapter, the author focused on Thailand and pointed out that the Thai non-banking sector reduced the share of US dollar-denominated debts while it raised the share of debts in the yen and the baht. In this chapter, the author refers to statistics published by the Bank for International Settlements (BIS) to clarify that not only Thailand but the Asia-Pacific region as a whole have borrowed more local currencies since the Asian crisis. The discussion here centers on the following three points: (1) in the case of Thailand, the ratio of Japanese banks' local claims in the local currency is increasing vis-à-vis their total claims on the country; (2) in other parts of Asia and the Pacific area as well, the share of Japanese banks' local claims in local currencies is on the rise; and (3) the same trend as Japanese banks is true for banks of other industrialized nations that have claims on Asian and Pacific nations.

1. Expanded and refined coverage of BIS international banking statistics

The debt crisis in Latin America in the early 1980s urged BIS to compile new international banking statistics called "International Claims by Nationality²⁴⁾ of Reporting Banks on Countries Outside the Reporting Area."²⁵⁾ The new statistics allow BIS to assess the extent of credit risk that BIS reporting banks may be exposed to in financing countries outside reporting areas, particularly developing countries.²⁶⁾

In the new statistics, for example, when Japan (the Japanese reporting banks) has "International Claims" on Thailand, BIS takes stock of Japan's total claims on Thailand based on: (1) the cross-border claims on Thailand that the Japanese banks' head offices and branches in Japan have in all currencies; (2) the cross-border claims on Thailand that the Japanese banks' overseas branches and affiliates, except those located in Thailand, have in all currencies; and (3) the local claims on Thailand that the banks' branches and affiliates resident in Thailand have in

²⁴⁾ BIS has the following definition to determine the nationalities of banks. If a bank's head office is located in a BIS reporting country (A), that bank is defined as an A-nationality bank. If a bank does not have its headquarters in A, even when its branches and affiliates are operating there, the bank is not categorized as A-nationality. As long as a bank's head office is in A, the bank's branches and affiliates spread across the world are all classified as A-nationality. Under BIS rules, a bank of a reporting country is obliged to report its data to BIS.

²⁵⁾ In BIS statistics called "International Claims by Nationality of Reporting Banks on Countries Outside the Reporting Area," BIS reporting areas were made up of Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States – totaling 18 nations (as of April 1995). Refer to BIS [15]. The BIS reporting areas were later joined by Hong Kong, India, Portugal, Singapore, Taiwan, and Turkey, totaling 24 nations and regions. Refer to BIS [16] and [17].

²⁶⁾ Besides developing countries, the BIS statistics later began to include reporting countries as loan recipients. Refer to BIS [16] and [17].

non-local currencies.²⁷⁾ However, BIS found it still necessary to **expand the coverage of its international banking statistics** and decided to incorporate reporting banks' local claims in local currencies. In the **March 2002** issue of *BIS Quarterly Review: International banking and financial market developments*, BIS explains why the expansion became inevitable:

Local claims in local currency account for a large, and in some countries **rapidly growing** [author's emphasis], proportion of reporting banks' total foreign claims. The inclusion of such claims therefore makes for a sounder basis for the analysis of the country risk faced by the reporting countries' banking systems.²⁸⁾

As a result, starting with the *BIS Quarterly Review*, June 2002 issue, BIS has begun to list two classifications of claims. One is "International Claims," which covers the total of the above (1), (2) and (3). The other is "Foreign Claims," which adds to the total of those three a fourth category: the local claims that reporting banks' local branches and affiliates have in local currencies.²⁹⁾

2. A growing share of local claims in local currencies held by Japanese banks resident in the Asia-Pacific region

Based on the above two types of statistics, we can compute the share of baht-denominated claims that Japanese banks' branches and affiliates³⁰⁾ in Thailand have vis-à-vis their total Foreign Claims on Thailand. First, with the equation $\gamma = (\alpha - \beta)$ we can get the amount of baht-denominated claims of Japanese banks resident in Thailand (γ) by deducting the amount of their International Claims on Thailand (β) from the amount of their Foreign Claims on the country (α). Next, the ratio of Japanese banks' baht-denominated claims vis-à-vis their Foreign Claims on Thailand is obtained by dividing γ by α . Chart 1 shows the chronological development of the share of baht-denominated claims that Japanese banks in Thailand had from end-June 1992 to end-December 2003. The share of the baht grew rapidly after the crisis. As discussed earlier, the depreciation of the baht prompted Japanese manufacturers operating in Thailand to change fundraising currencies from the US dollar to the yen and more so to the baht. The manufacturers' growing demand for the baht seems to be related to the rising share of Japanese banks' local claims in the local currency. One can surmise that Japanese banks' local branches financed the Japanese manufacturers increasingly in the baht as the manufacturers raised funds more in the local currency than before for their capital investments (i.e., new facilities),

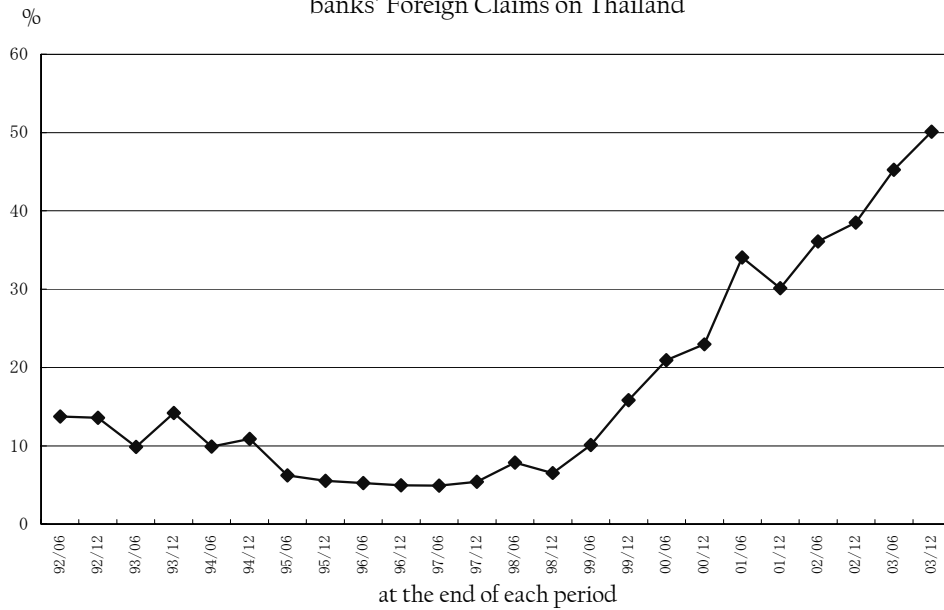
²⁷⁾ As International Claims in the BIS statistics are on a consolidated basis, the statistics take no account of the inter-office transactions between the head office of a bank and its overseas branches/affiliates, nor among its overseas branches/affiliates. Refer to BIS [15] and [16].

²⁸⁾ BIS [18], p.A5.

²⁹⁾ Refer to Table 9B and Table 9C in BIS [19]. It should be noted that a currency composition is not available in those statistics. In the case of the statistics the Bank of Japan compiles for its own survey on International Claims of Japanese banks, BOJ gives, for reference, their local claims in local currencies.

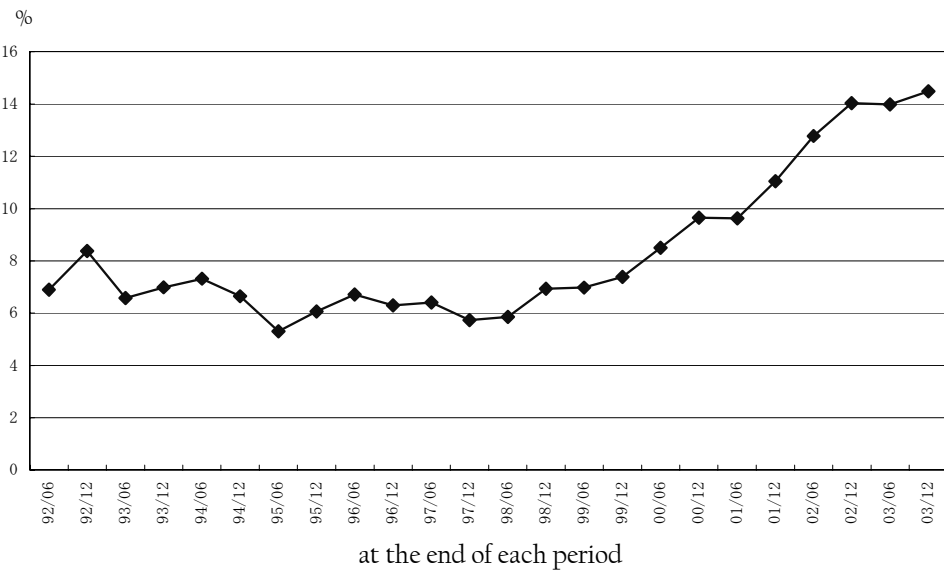
³⁰⁾ "Branches and affiliates" are hereafter called just "branches."

Chart 1 Share of Japanese Banks' Local Claims in Thai Baht vis-à-vis those banks' Foreign Claims on Thailand



Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

Chart 2 Share of Japanese Banks' Local Claims in Local Currencies vis-à-vis those banks' Foreign Claims on the Asia-Pacific Region



Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

which were designed to boost the share of local contents in the wake of the depreciation of the baht.

Now, look at Table 7 again. After the bad loan problem and particularly after the Asian crisis, Japanese banks in Thailand sharply reduced their “BIBF Liabilities,” but rapidly increased their “Net Inter–Office Balances.” However, that increase peaked out in 1999 and the borrowing from their headquarters dwindled thereafter. On the other hand, the ratios and amounts of “Deposits” and “Issued & Paid–up Capital” soared after the crisis. This indicates that Japanese banks’ local branches did not raise funds by swapping US dollars or the yen for the baht but rather increased local deposits from their clients, namely, the baht–denominated deposits, to meet their clients’ demand for the local currency.

Thailand’s financial regulations on lending to large customers stipulate “the amount of credit extended by commercial banks to any single customer must not exceed 25% of their capital funds.” The BIBF offshore market, however, is exempted from the rule, allowing large bank lending in foreign currencies. Even so, Japanese banks in Thailand could not take advantage of BIBF to bypass the rule after the crisis because their clients almost exclusively requested baht–denominated loans. This explains why the increase in the share and amount of “Issued & Paid–up Capital” shot up after the crisis.

Chart 2 illustrates the trends of the ratios of local claims in local currencies that Japanese banks’ branches in the Asia–Pacific region had vis-à-vis their total Foreign Claims on the region.³¹⁾ The Asian crisis led to a soaring share of local currencies not just in Thailand but elsewhere in the entire region.

3. Non–Japanese reporting banks resident in the Asia–Pacific region

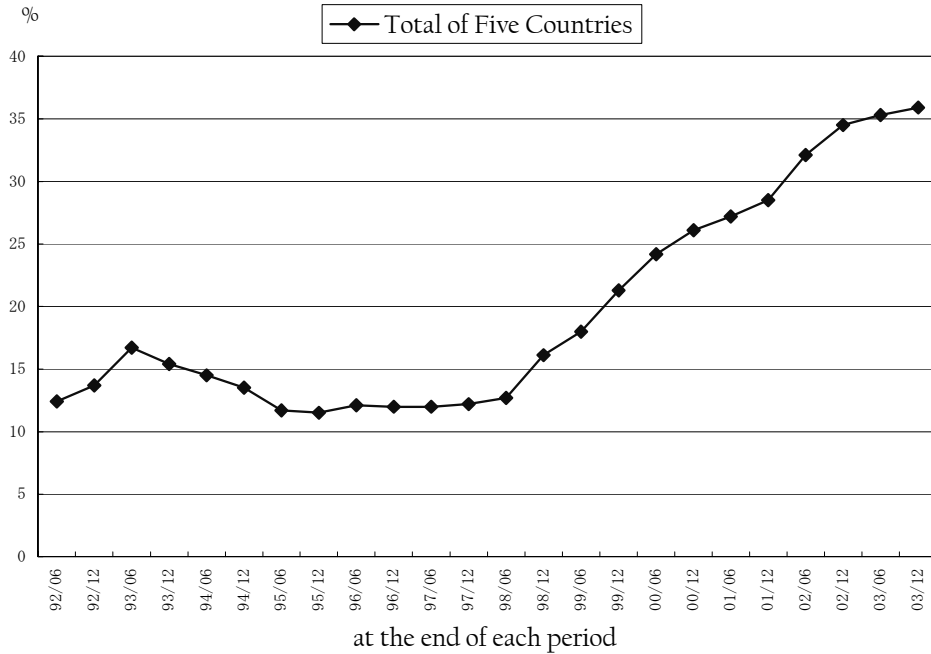
The trend of a rising share of local claims in local currencies is also prominent in non–Japanese reporting banks operating in the Asia–Pacific region. Table 15 lists the ratios of local claims in local currencies that Japanese and other reporting countries’ local branches had on the Asia–Pacific region vis-à-vis their total Foreign Claims on the region.³²⁾ The ratios of the local–currency–denominated claims of the five countries (France, Germany, Japan, the Netherlands, and the United Kingdom) increased after the crisis. Worth noticing are the growing ratios of British and Dutch banks respectively. Regarding U.S. banks, since they do not include “local claims in non–local currencies” in International Claims as done by the other five nations, we cannot get the amount of U.S. banks’ local claims in local currencies by the equation $\gamma = (\alpha - \beta)$. Thus, the ratios of U.S. banks listed in Table 15 are of the combined figures between local and non–local currencies. However, the fact that their branches’ local claims increased after the crisis

³¹⁾ As Foreign Claims on Thailand are shown in Chart 1, Chart 2 excludes Thailand.

³²⁾ The six countries in Table 15 were the top six in terms of the amount of Foreign Claims on the Asia–Pacific region. Japan’s Foreign Claims include those on Thailand.

suggests that the share of their local claims in local currencies would have correspondingly grown. Chart 3 excludes U.S. banks and adds up the remaining five countries' ratios of local claims in local currencies. The chart depicts an upward trend of local currencies in the Asia-Pacific region.

Chart 3 Share of BIS Reporting Banks' Local Claims in Local Currencies vis-à-vis those banks' Foreign Claims on the Asia-Pacific Region



Note : The five countries are France, Germany, Japan, the Netherlands, and the United Kingdom.

Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

Table 15 Share of BIS Reporting Banks' Local Claims in Local Currencies vis-à-vis those banks' Foreign Claims on the Asia-Pacific Region ※

Unit : %, (in millions of US\$)

Nationalities	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
France	9.7 (20, 532)	11.8 (21, 373)	10.8 (26, 572)	8.8 (34, 637)	8.0 (41, 462)	6.0 (45, 858)	6.2 (36, 505)	9.1 (35, 852)	11.2 (30, 597)	14.7 (25, 974)	26.6 (29, 175)	29.7 (36, 622)
Germany *	13.4 (12, 355)	12.5 (14, 262)	6.9 (22, 893)	8.3 (34, 675)	7.2 (46, 157)	6.3 (53, 498)	6.6 (44, 375)	8.6 (48, 411)	10.7 (44, 156)	10.0 (44, 622)	12.4 (46, 312)	12.6 (55, 516)
Japan	9.4 (74, 437)	8.7 (79, 609)	7.9 (101, 332)	5.9 (120, 010)	5.9 (126, 038)	5.6 (121, 683)	6.8 (92, 950)	9.2 (72, 286)	12.3 (63, 543)	14.7 (58, 667)	18.5 (49, 928)	20.5 (52, 356)
Netherlands	29.9 (5, 190)	29.6 (6, 352)	22.0 (8, 839)	17.5 (11, 201)	16.8 (15, 534)	14.4 (20, 362)	28.0 (26, 709)	38.7 (28, 619)	40.6 (24, 055)	41.7 (23, 377)	47.9 (27, 753)	46.9 (38, 311)
United Kingdom	40.2 (12, 153)	40.4 (22, 384)	40.3 (26, 636)	36.5 (32, 418)	37.7 (42, 364)	38.1 (52, 145)	42.5 (50, 074)	49.2 (51, 467)	55.4 (56, 706)	57.6 (57, 747)	59.9 (65, 816)	59.5 (81, 301)
United States +	53.1 (30, 943)	54.3 (37, 563)	54.7 (45, 050)	50.4 (52, 151)	46.9 (64, 973)	54.3 (65, 944)	65.0 (59, 451)	64.9 (63, 595)	67.3 (63, 020)	65.7 (62, 971)	68.9 (64, 118)	62.0 (76, 675)
Total of Five Countries #	13.7 (124, 667)	15.4 (143, 980)	13.5 (186, 272)	11.5 (232, 941)	12.0 (271, 555)	12.2 (293, 546)	16.1 (250, 613)	21.3 (236, 635)	26.1 (219, 057)	28.5 (210, 387)	34.5 (218, 984)	35.9 (264, 106)

Notes : ※: Based on the data at year-end. The figures in brackets are the total Foreign Claims that the banks of each nationality have on the Asia-Pacific region.

*: The figures of Germany are not completely on a consolidated basis.

+: The United States does not report to BIS a currency breakdown for local claims. The U.S. local claims in non-local currencies are included in Foreign Claims, instead of International Claims, and the local claims are of the aggregate of both local currencies and non-local currencies. Therefore, the above ratios of the United States are those of the local claims in local and non-local currencies that U.S. banks had vis-à-vis their total Foreign Claims on the Asia-Pacific region.

#: Excludes the figures of the United States.

Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

Table 16 Lending Interest Rates in the Asia-Pacific Region ※

Unit: %

Countries	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
China	8.64	10.98	10.98	12.06	10.08	8.64	6.39	5.85	5.85	5.85	5.31	5.31
Republic of Korea	10.0	8.6	8.5	9.0	8.8	11.9	15.3	9.4	8.5	7.7	6.8	6.2
Taiwan, Province of China	8.30	8.01	7.94	7.67	7.38	7.50	7.70	7.67	7.71	7.38	7.10	3.43
Indonesia	24.03	20.59	17.76	18.85	19.22	21.82	32.15	27.66	18.46	18.55	18.95	16.94
Malaysia	9.31	9.05	7.61	7.63	8.89	9.53	10.61	7.29	6.77	6.66	6.39	6.13
Philippines	19.479	14.683	15.057	14.682	14.840	16.276	16.777	11.776	10.907	12.402	9.139	9.472
Thailand	12.17	11.17	10.90	13.25	13.40	13.65	14.42	8.98	7.83	7.25	6.88	5.94
India	18.92	16.25	14.75	15.46	15.96	13.83	13.54	12.54	12.29	12.08	11.92	11.46
United States	6.25	6.00	7.14	8.83	8.27	8.44	8.35	7.99	9.23	6.92	4.68	4.12
Japan	6.15	4.41	4.13	3.40	2.66	2.45	2.32	2.16	2.07	1.97	1.86	1.82

Note : ※ : Annual averages except for China and Taiwan, whose rates are those at year-end.

Sources : International Monetary Fund, *International Financial Statistics*, various issues, Central Bank of China website, Taiwan.

Summary

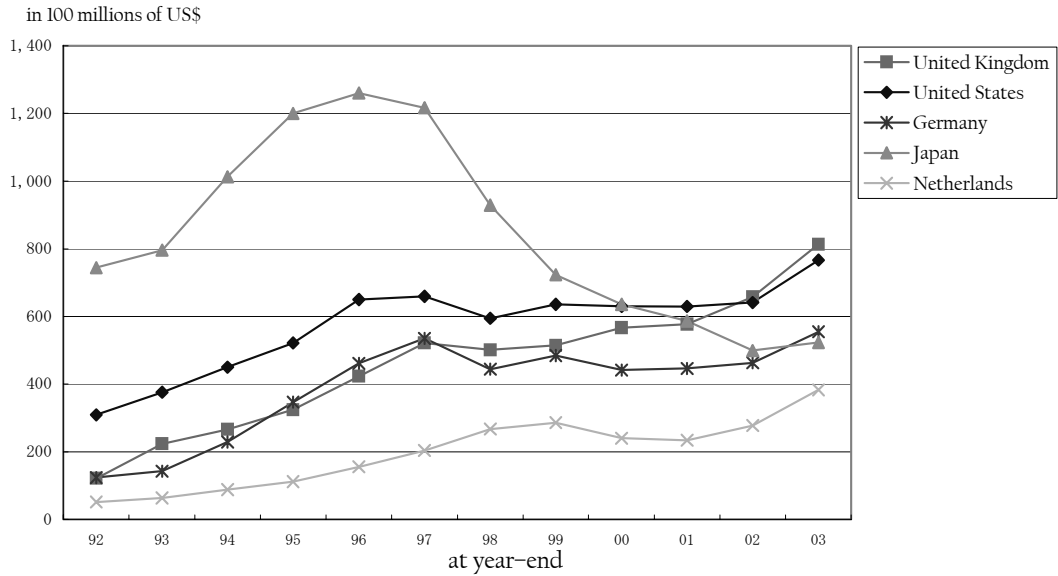
As examined in the previous three sections, local currencies evidently gained prominence in Foreign Claims on the Asia-Pacific region after the Asian financial and currency crisis. To summarize quickly: (1) Japanese banks resident in Thailand increased their local claims in the Thai baht; (2) Japanese banks also increased the share of local currencies elsewhere in the Asia-Pacific region; and (3) the same is true with the non-Japanese reporting banks as they increased the share of local currencies in the region. The trend signifies that the Asia-Pacific region began to opt to borrow their **home currencies** instead of US dollars because (a) the crisis made the region very sensitive to borrowing US dollars because of possible exchange risk and (b) domestic interest rates in many countries in the region fell sharply to match those of the US dollar after the crisis (see Table 16).³³⁾ Lending local currencies has since taken on a decisively important meaning for BIS reporting banks operating in the region.³⁴⁾

As shown in Table 15, Japanese banks' Foreign Claims on the Asia-Pacific region decreased as the non-performing loan problem deepened in Japan, and shrunk as the effects of the Asian crisis permeated the region. Chart 4 shows Foreign Claims of U.S., British, German, Japanese, and Dutch reporting banks on the Asia-Pacific region. Japanese banks overwhelmed banks from the other four countries before the crisis. However, Japanese banks' Foreign Claims on the region peaked out in 1996 and plummeted thereafter, while the non-Japanese reporting banks' Foreign Claims respectively edged up. Japanese banks fell behind American banks in 2001, British banks in 2002, and German banks in 2003. Chart 5 compares the ratios of local claims in local currencies that British, Dutch, and Japanese banks had on the Asia-Pacific region. The gap of the ratios between Japanese banks and the other two widened remarkably after the crisis. Besides such a gap in the share of local claims in local currencies, the aggregate amount of Japanese banks' Foreign Claims on the region dwindled at a rapid pace as shown in Chart 4. In the end, Dutch banks overtook their Japanese counterparts in 1998 in terms of the amount of local claims in local currencies on the region as in Chart 6. These tables and charts highlight the depth and extent of the detrimental impact that the bad loan problem exerted on Japanese banks.

³³⁾ Besides the two reasons mentioned in the text, the liberalization of financial markets in Asia and Pacific nations, as well as bankruptcies and foreign takeover of domestic banks as a result of the Asian crisis had also played a certain role, but not significant enough to list as reasons to explain the changeover to the local currencies.

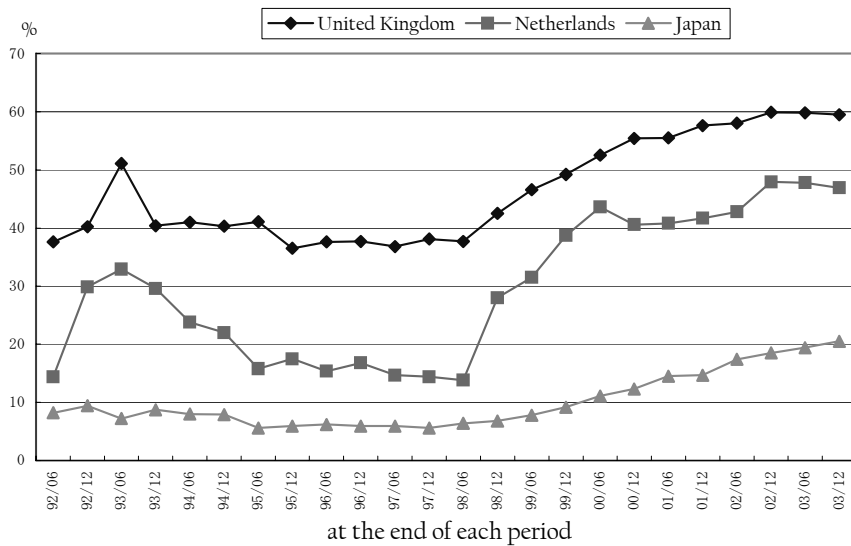
³⁴⁾ As an effective measure to ward off exchange risk, bond markets that transact in local currencies must be developed in Asia. According to Yoneyama, Yusuke [21], "When companies in Asia issue corporate bonds for fundraising, they do so mostly in the US dollar. The problem is that the fluctuation of local currencies' exchange rates to the US dollar is bound to undermine financial plans of those companies. Japanese Finance Minister Shiokawa expressed concern that too much reliance on the US dollar in the issuance of bonds could give undesirable effects to the Asian economy. He announced that Japan would propose a plan to develop Asian bond markets to avoid such risk in the coming Senior Official Meeting of ASEAN Plus Three Ministerial Meeting to be held in Manila in April."

Chart 4 Foreign Claims on the Asia-Pacific Region of BIS Reporting Banks from Five Countries



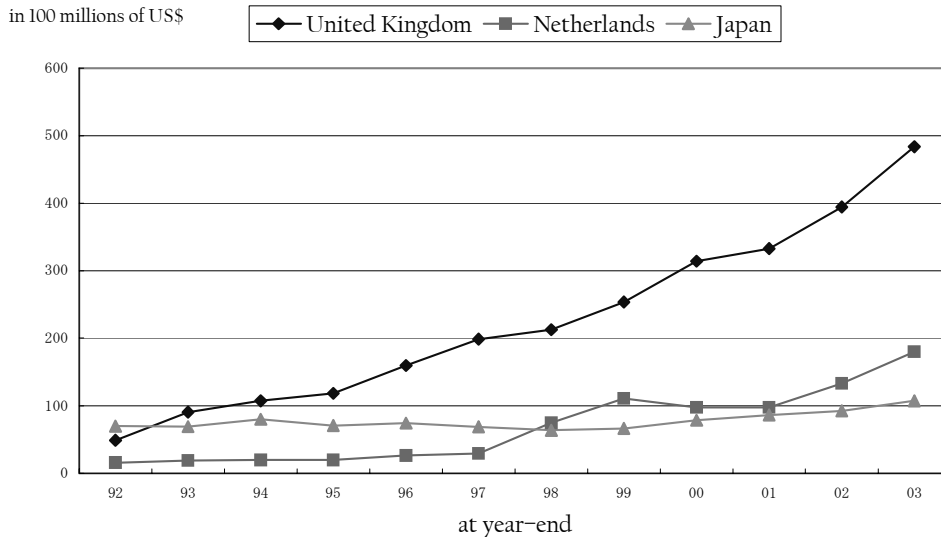
Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

Chart 5 Share of British, Dutch, and Japanese Banks' Local Claims in Local Currencies vis-à-vis those banks' Foreign Claims on the Asia-Pacific Region



Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

Chart 6 British, Dutch, and Japanese Banks' Local Claims in Local Currencies on the Asia-Pacific Region



Sources : BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*, various issues, BIS, *International banking and financial market developments*, various issues, BIS website.

Conclusion

The Asian financial and currency crisis triggered a significant change to the currency composition of private liabilities in Thailand. Namely, the Thai private sector switched the denominations from the US dollar to the **yen** and at a larger percentage to the **home currency** (the Thai baht). The private sectors elsewhere in the Asia-Pacific region also switched from the US dollar to **home currencies**. Countries in the region examined the crisis and their **heavy dependency on the US dollar**. Their currency switch can be construed as a **movement away from that dependency**. The author believes that such a movement should not be temporary,³⁵⁾ but should firmly take root.

³⁵⁾ Such a movement will be influenced by the fluctuation of interest rates and foreign exchange rates.

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