

Overview of Monetary Integration Initiatives in the Asia-Pacific *A Review of Discussions at PECC Finance Forum*

Soogil Young
Coordinator
PECC Finance Forum

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1. Monetary Integration in Asia-Pacific: Perspective

- Financial cooperation begins in East Asia
 - CMI launched by ASEAN+3 Finance Ministers
- * Bilateral Swap Arrangements for liquidity support
- Era of monetary integration in East Asia begun?
 - The total swap facilities be enlarged
 - Mechanism of monitoring and surveillance established
 - AMF completed with a common basket peg
 - AMU with an ACU, at last

2. CMI since Then

- 1 BSAs for \$31.5billion completed thus far
- ASEAN+3 Info Exchange and Surveillance:
 - Economic Review and Policy Dialogue (May 2000)
 - Monitoring capital flows (ADB/Japan)
 - Trying to establish a regional EWS (ADB)
 - Established ASEAN+3 Study Group
- Goal, Structure and Operation not defined yet
 - Institutionalization of surveillance rejected

3. PECC Finance Forum on FMC in East Asia

- Randall Henning argues for RFC in EA (2002 Conference, Honolulu)
- Barry Eichengreen argues against monetary integration (*ditto*)
- Yung-Chul Park argues for capital-market integration (*ditto*; 2003 Conference, Hua Hin)
- De Brouwer and Taka Ito present a road map (2003 Conference)

4. Case for Financial Regionalism in EA (I)

- Regional integration of markets
- Mutual vulnerability to contagion
- IMF slow and inflexible
- Regional facilities as a supplement
- Save reserve holding by pooling
- International markets too large

5. Case for Financial Regionalism in East Asia (II)

- Provide focal point for regional surveillance
- Help cushion financial reforms
- Prepare for future regional monetary initiatives
- Encourages political cooperation
- Enlarge Asian influence in multilateral organizations and negotiation of IFA
- Contribute to APEC-wide and global stability

6. Case against Exchange-rate Stabilization Schemes

- A regional system of currency pegs is not viable
 - Hard to maintain both credible commitments and flexibility of adjustment
 - Reluctance to provide credit without effective surveillance
- Political will is not strong enough
 - Too heterogeneous, sovereignty too important
 - Intra-regional dependence is not high enough
 - * Intra trade share (2000): A+3=0.180, EU=0.627
- Some governments can live with floating rates
 - Flexibility need not mean volatility: inflation targeting
 - * Singapore, Korea and Chinese Taipei

7. Eichengreen for Cooperation to Strengthen Financial Markets

- Cooperate to deepen and strengthen financial markets
 - Weak banking system and underdeveloped capital markets are at root
 - Politically much more feasible
- Case for regional cooperation
 - Can share experiences, information and analysis
 - Cooperate to design regulations to fit the Asian model
- CMI for an Asian Financial Institute
 - Technical assistance, training, venue for standards negotiation, etc.
 - ASEAN+3 is already building the infrastructure

8. Case for Capital-Market Integration

- The problem of double mismatches arises from incomplete financial markets of the emerging market economies, causing financial vulnerabilities.
 - Unable to borrow in their own currencies to borrow abroad
 - Unable to obtain LT finance at home and abroad
- A solution is to develop regional capital markets, especially, Asian bond markets.
 - Asian issues can raise funds with longer-term maturities and in local currencies.
 - Will help overcome the double mismatches, reduce reliance on bank financing, and allow local investors to invest in the region.
 - But, the foundation of robust, deep regional markets is strong and efficient domestic financial systems.

9. The Way Forward for EA for FMC

- Strengthen domestic institutions and markets
- Develop regional arrangements and markets with focus on
 - Policy dialogue and surveillance
 - Regional financial and capital markets
 - Financial arrangement
- Create appropriate institutional structures to advance cooperation at all levels of interaction and community in the region
 - The first-track level
 - The second-track level
 - The 1.5-track level

10. Role of PECC (Finance Forum)

- PECC should serve as a major 1.5-track institution.
- PECC should support sub-regional initiatives in East Asia or Latin America.
- In addition, PECC should ensure consistency of regional systems with global standards.