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**ASIA-PACIFIC REGIONAL FINANCIAL AND
MONETARY COOPERATION
FROM THE PERSPECTIVE OF CHINESE TAIPEI**

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I. INTRODUCTION AND OVERVIEW

Chinese Taipei is a significant part of the Asia-Pacific regional economy. Ranking ninth among the world's top trading economies,¹ it represents about 8 percent of East Asia's total trade. It is a major source of investment, with residents having invested about US\$32 billion abroad according to official figures, though unofficial estimates place these investments at well over US\$100 billion. Within East Asia, Chinese Taipei ranks fourth in terms of per capita income, third in foreign reserves, third in stock market capitalization, and second in value of equity share trading.

Chinese Taipei's economy is outward oriented. The value of its merchandise trade is equivalent to almost 60 percent of its GDP. Extensive linkages with neighboring economies have been created by overseas investment activities of its firms, especially in Mainland China's coastal provinces. As a result, Chinese Taipei's economy and financial market are heavily affected by developments in the region. Its currency is greatly affected by external trends, particularly by swings in the value of the Japanese yen. Exports to East Asia are playing an increasingly important role in its economy.

Given this situation, the stability of the region's financial and currency markets is a major issue for Chinese Taipei that could be promoted by closer regional cooperation. East Asia in turn could benefit from Chinese Taipei's participation in such cooperation, as the latter could contribute substantial financial resources and share its relatively successful experience in managing the development, deregulation and liberalization of its economy and financial markets.

There is much room for expanding Chinese Taipei's involvement in regional financial and monetary cooperation. Due to unique circumstances, it is not a member of key institutions such as the IMF and the World Bank. It is also not currently a participant in key groupings such as the Manila Framework Group and the Chiang Mai Initiative. However, it is represented in the ADB, SEACEN and APEC, which all play important roles in financial and monetary cooperation in East Asia. The development of suitable arrangements and mechanisms for greater involvement in such cooperation is an issue of major interest to Chinese Taipei.

¹ The EU is counted as a single trading entity. The top 10 traders in 2000, in order of rank, are as follows: USA, EU, Japan, Canada, China, Hong Kong, Korea, Mexico, Chinese Taipei and Singapore. World Trade Organization, *International Trade Statistics 2001* (Geneva, 2001).

This situation is reflected in the local perspectives that have been injected into this survey. These perspectives include views expressed in private by key people from the finance ministry and the central bank who are familiar with these regional processes, as well as those from the private sector, including banks, academe and industry associations. In general, evaluation of regional institutions is limited to those few where Chinese Taipei is represented. However, there is much interest in ways and means of promoting closer regional financial and monetary cooperation.

II. REGIONAL INSTITUTIONS

- Regional financial cooperation is definitely viewed as both desirable and necessary.
- There is much work that needs to be done by regional institutions in general, especially in terms of coordination and consolidation, given the multiplicity of institutions involved in this process and the ensuing duplication of efforts. However, regional institutions are seen as making substantial contributions to regional financial cooperation. The status of regional financial cooperation for the following institutions is generally viewed as follows (on a scale of very poor, poor, fair, good, very good):
 - APEC Finance Ministers' process: Good
 - SEACEN: Very good
 - ADB: Fair
- The APEC Finance Ministers' process, with all its shortcomings, is still considered the institution that potentially can best promote the goal of regional financial cooperation, for the following reasons:
 - It includes all the systemically important markets in the region.
 - It includes advanced economies that are in a position to contribute substantial financial and technical resources for capacity-building efforts.
 - It is directly linked to the top leadership through the APEC Economic Leaders' process, which helps promote domestic support for regional cooperation measures through its endorsement.

- It has well-established links with institutions such as the ADB, which plays a major supporting role, as well as the IMF and the World Bank.
- It is part of a broader process that includes agencies involved in the regulation, supervision or management of various components of the financial sector (banks, insurance, capital markets, the accounting profession, credit rating agencies, etc.)
- It has well-established mechanisms for getting advice from and enlisting the collaboration of the private sector through bodies such as the PECC, the ABAC Finance Task Force and the AFG.
- Among the institutions Chinese Taipei participates in, the ADB and APEC are seen as regularly and systematically monitoring economic performance in member economies. However, this monitoring does not specifically focus on preventing future financial crises using early warning signals.
- The following member economies are seen as playing leadership roles in the regional institutions where Chinese Taipei is involved:
 - APEC Finance Ministers' process:
 - Whichever economy acts as APEC Chair
 - USA, due to its economic leadership role in the world
 - Australia, due to language advantage
 - China, due to its role as an emerging economic power in the region
 - SEACEN:
 - Malaysia, due to its role as host and provider of personnel for the SEACEN Center
 - ADB:
 - Japan, due its position as one of the largest shareholders, and as the institution's president is Japanese

- USA, due to its position as one of the largest shareholders and its economic leadership role in the world
- China, due to its role as an emerging economic power in the region
- Finance ministry representatives take the lead in the APEC Finance Ministers' process, while central bank personnel play the lead role in SEACEN and the ADB. With regard to preparations for meetings of the APEC Finance Ministers' process, relevant central bank officials are asked to provide inputs before finalizing the positions to be taken by Chinese Taipei during the meetings.

III. REGIONAL COOPERATION

- The levels of cooperation within each institution where Chinese Taipei is involved are seen to be as follows:
 - APEC Finance Ministers' process: Coordination
 - SEACEN: Cooperation
 - ADB: Cooperation
- An example that is seen as providing a positive example of the potential for deeper cooperation is the series of collaborative initiatives by the APEC Finance Ministers, which have been undertaken using the resources of the ADB. These include the APEC Domestic Bond Market Initiative, the APEC Financial Regulators Training Initiative, the Collaborative Initiative Supporting the Development of Credit Rating Agencies (CRAs) and Strengthening Disclosure Standards, and the Initiative on Company Accounting and Financial Reporting. However, these should be seen as only the initial steps toward the development of robust financial markets in the region. SEACEN's training initiatives on banking supervision provide another example. (No negative examples were given.)
- The following are considered as the priority goals for regional institutions:
 - APEC Finance Ministers' process and ADB (in the area of financial cooperation): Strengthening of the region's financial markets, development of capital markets and promoting currency stability as immediate goals, the

development in Asia of a regional capital market and a regional monetary system (which could include an Asian monetary union) as long-term goals.

- SEACEN: Training of bank regulators

D. SUGGESTIONS FOR REFORM OF INSTITUTIONS

- All existing regional institutions positively contribute in one way or another to regional financial cooperation and integration. However, there is a need for consolidation of efforts in an appropriate institution in order for monetary and financial cooperation and integration to substantially move forward.
- The following are important considerations in the development of such an institution:
 - It should include all economies that play important roles in regional finance and trade. This means that membership should go beyond those in the ASEAN Plus Three, to include such key economies as Hong Kong and Chinese Taipei (both already account for almost half of developing East Asia's total stock market capitalization and a third of its combined foreign exchange reserves), as well as Australia. Ideally, it should also include other smaller economies in the region that are not represented in existing institutions. As a consequence, the institution should have a purely economic focus.
 - It should involve not just finance ministers and central banks, but also capital market and insurance regulators.
 - It should have a well-funded secretariat. One possibility is a secretariat based in the ADB, which could later be spun off as a precursor to an Asian Monetary Fund.
 - It should absorb much of the relevant work in various institutions such as the Manila Framework Group, the ASEAN Plus Three CMI and the APEC Finance Ministers' process. Other existing institutions, such as the EMEAP and SEACEN, could continue doing the focused work they have been doing in cooperation with the new institution.

- It should have a strong linkage with the private sector through organizations such as ABAC, PECC and regional associations of financial sector players (banks, credit rating agencies, stock exchanges, etc.).
- It should have a strong linkage with the IMF and key institutions such as the World Bank, the BIS, IOSCO and the FSF, among others.
- The development of an institution for regional cooperation requires strong support from the APEC Finance Ministers' and the ASEAN Plus Three processes. Ministers in both fora could discuss the establishment of a regional financial and monetary cooperation forum that would eventually exist separately from APEC and ASEAN Plus Three but work closely with them.

E. SUGGESTIONS FOR PROGRESS TOWARD CLOSER MONETARY COOPERATION

- A common currency for Asian economies is seen as a desirable, though very long-term, objective. At present, different exchange rate regimes in the region reflect divergent interests conditioned by the diversity of economic conditions in various markets. These include size, as well as the degree of openness and dependence on foreign trade and capital flows. Authorities in the region should study the experience of Europe and develop a strategy that is applicable to the situation in Asia.
- The success of exchange rate coordination and, eventually, the realization of a common currency depend on the achievement of certain economic preconditions, especially a high degree of synchronization of business cycles and sustainable and durable macroeconomic convergence. To attain this, the following are important:
 - East Asian economies need to continue and accelerate the growth of trade and investment flows among themselves. In this sense, closer monetary cooperation is linked to the APEC trade and investment liberalization and facilitation process.
 - All economies intending to participate in the common currency should put themselves on a healthy fiscal footing and promote policies to ensure the sustainability of these efforts over a significant period of time.

- Alignments of foreign exchange rates in the process of monetary integration should be based on the free circulation of capital. To be able to achieve this while reducing their vulnerability to volatile short-term capital flows, East Asian economies need to strengthen their banking systems and develop robust capital markets.
- The development of robust, deep and liquid local currency debt markets in Asia is an important step toward directly harnessing the region's savings (instead of these savings being absorbed into major global markets and recycled back to Asia) and reducing its vulnerability to fluctuations in value among the dollar, the yen and the euro. These should form the basis for the eventual development of a regional bond market to facilitate the achievement of greater financial and currency stability within East Asia.
- One idea reiterated by central bank officials is their suggestion to the ADB to initiate general arrangements to borrow among member economies, to provide a facility to help member economies in need and help prevent crises from escalating.

F. CLOSER LINKS AND CONSISTENCY BETWEEN REGIONAL AND INTERNATIONAL FINANCIAL INSTITUTIONS

- Significant linkages are seen between regional and global initiatives. In the case of the APEC Finance Ministers and the ADB, there are substantial links with the IMF and the World Bank. In the case of SEACEN, there are substantial links with the BIS.
- From the perspective of Chinese Taipei, such linkages are seen as very important, in order to ensure enhanced cooperation among these institutions, avoid unnecessary duplication of efforts, achieve greater efficiency in the use of financial and human resources, and ensure synergy.
- While the ADB is generally seen as a regional counterpart of the World Bank, there is no regional counterpart for the IMF. The step-by-step establishment of such an institution would help develop a division of labor between institutions at the global and the regional levels.

G. CONCLUSIONS

- Developments in the past few years have underscored the importance to Asian economies of greater financial and monetary cooperation. These developments have spurred efforts toward such cooperation in various fora, which, though having achieved significant progress, is still in a very early stage. Much remains to be done.
- These developments, as well as Europe's adoption of a single currency, have also illustrated the advantages of monetary integration for East Asia. Given the great diversity of economic conditions in the region, however, especially in terms of divergence in level of development, monetary union within the region remains an undertaking with a very long-term horizon. Nevertheless, more modest financial and monetary cooperation at present could be undertaken with its eventual realization in mind.
- Progress would require consolidation of efforts, currently dispersed among a number of regional institutions. A preferable solution would be the identification or establishment of a regional institution that could become the primary focal point for

monetary cooperation, and eventually evolve into a regional counterpart of the IMF.

Key to the success of this process lies in the following:

- participation of all key economies in the region;
 - involvement of agencies tasked with the development, regulation and/or supervision of different parts of the financial sector;
 - establishment of a robust secretariat;
 - strong links with the private sector; and
 - close coordination with relevant global institutions.
- Finance Ministers involved in the APEC and ASEAN Plus Three processes should take the initiative toward achieving this consolidation of efforts. Officials should study experiences of monetary coordination and integration, especially that of Europe, and see what lessons are applicable to East Asia.
- The following are viewed as important steps that are important for the success of monetary cooperation in the foreseeable future:
 - further liberalization and facilitation of trade and investment flows within the region;
 - promoting and sustaining healthy macroeconomic policies;
 - strengthening of financial systems in preparation for eventual free circulation of capital; and
 - development of local currency debt markets among the region's economies.
- Chinese Taipei is a key economy in East Asia, and believes that its involvement in regional monetary and financial cooperation will (a) ensure that these efforts leave no gaps that could endanger financial market stability in the region and (b) significantly enlarge the resource base to support the development and implementation of cooperative measures.