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**Monetary and Financial Cooperation in East Asia:  
The Chiang Mai Initiative and Beyond**

Pradumna B. Rana

Director, Regional Economic Monitoring Unit

Asian Development Bank

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# **MONETARY AND FINANCIAL COOPERATION IN EAST ASIA: THE CHIANG MAI INITIATIVE AND BEYOND**

**Pradumna B. Rana**

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Pradumna B. Rana is the Director of the Regional Economic Monitoring Unit of the Asian Development Bank. This paper was presented at the 2001 KIEP/NEAEF Conference on “Strengthening Economic Cooperation in Northeast Asia” held 16-17 August 2001 in Honolulu, Hawaii. The views expressed in this paper are those of the author and do not necessarily represent those of the Asian Development Bank. The author is grateful to Charles Adams, Srinivasa Madhur, Juzhong Zhuang, and Josef Yap for their valuable comments.

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## **Foreword**

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## **Abstract**

Until recently, not much attention had been paid to the need to promote regional monetary and financial cooperation. This is surprising as cooperation in finance provides more opportunities for “win-win” situations. However, the pace of monetary and financial cooperation has picked up in the postcrisis period. Countries in East Asia appear to have mustered a certain amount of “political will” to propel the process further. Cooperation has ranged from information exchange and surveillance, to establishing regional financing facilities and early warning systems. Beyond the Chiang Mai Initiative, efforts are also under way to coordinate macroeconomic and exchange rate policies mainly under the ASEAN Task Force on ASEAN Currency and Exchange Rate Mechanism of the Asia-Europe Finance Ministers group. As a regional development bank, the Asian Development Bank is supporting the efforts of its developing member countries to strengthen regional monetary and financial cooperation.

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## I. Introduction

While a lot has been said and written on regionalism in trade and the need to promote intraregional trade and investment, relatively less attention was paid, until recently, to the need for promoting regional monetary and financial cooperation (or a new regional financial architecture). This is a bit surprising because cooperation in finance provides participating members more opportunities for “win-win” situations, since it does not involve loss of competitiveness vis-à-vis trading partners and trade diversion as could cooperation in trade and investment. One argument for focusing on trade cooperation is that the benefits from monetary and financial cooperation increase with the level of trade integration. However, others (Rose 2001, Glick and Rose 2001, and Persson 2001) have shown that joining a monetary union could have significant multiplier effects on trade. Rose shows that trade between countries that share a common currency is on average more than three times what would be predicted from a gravity model of trade. Persson has found similar benefits, but less than 300 percent.

In the postcrisis period, the pace of monetary and financial cooperation has picked up in an encouraging manner and the countries in East Asia appear to have mustered up a certain amount of “political will” to propel the process further. Some may disagree with this assessment, for example, by noting that only 10 percent of the financing available under the bilateral swaps under the Chiang Mai Initiative (CMI) are free of International Monetary Fund (IMF) conditionalities. But once institutional arrangements are in place, increases in size and loosening of conditions could perhaps be relatively easy and more a regional initiative. Swaps among the G-10 central banks were often increased during the 1960s and 1970s.

In this context, this paper has two major objectives: (i) to review the evolving postcrisis efforts to promote a new regional financial architecture in East Asia; and (ii) to identify activities of various groups, such as the ASEAN, ASEAN+3 (ASEAN plus People’s Republic of China [PRC], Japan, and the Republic of Korea [henceforth Korea]), and the Asia-Europe Finance Ministers (ASEM), which are presently under way to strengthen the process.

East Asian policymakers are aware that at the present level of trade, monetary, and labor market integration, a “single currency” is at best a long-term objective. They are, however, keen to consolidate the successes so far and to extend integration further by identifying the transitional steps in the areas of macroeconomic policy and exchange rate harmonization.

The paper is organized as follows: Section II outlines the arguments for and against monetary and financial cooperation and how the context has changed in the past year or so. It will be argued



that the case for a new regional architecture extends beyond the perceived inadequacies of the initial IMF prescription. Section III reviews efforts to promote monetary and financial cooperation in East Asia by facilitating information exchange and establishment of regional surveillance systems and by developing self-help regional financing mechanisms. Some see the CMI narrowly as the establishment of a network of currency swap arrangements. The CMI actually goes beyond this and reflects the Ministers' desire to strengthen information exchange and the peer review process, and to further enhance monetary and financial cooperation within the region. The CMI, together with the establishment of the ASEAN and the ASEAN+3 Surveillance Processes, therefore, marks a watershed in a new regional financial architecture in East Asia. Section IV reviews ongoing efforts to enhance cooperation beyond the CMI and harmonize macroeconomic and exchange rate policies. Section V concludes with the role of the Asian Development Bank (ADB).

## **II. The Case for and against Monetary and Financial Cooperation**

In the immediate aftermath of the Asian crisis, a number of cases were made both for and against a new regional financial architecture in the region.

### **A. Case for Monetary and Financial Cooperation**

#### **1. Globalization and Spillover Effects**

Globalization of commodity and factor markets has led to increased interdependence among countries. Transborder challenges, including the spillover of policies across national boundaries, have become important forces to contend with. These externalities can be global (e.g., malaria, HIV/AIDS control) or regional (e.g., controlling financial contagion). In this context, national and international policies have to be complemented by regional responses, because a single country cannot fully internalize the benefits and costs of its actions. Unfortunately, while the demand for international public goods to countervail the negative externalities has increased, their "supply" has tended to decline in the post-hegemonic world (Guerreiri and Falautano 2000).

#### **2. East Asian Crisis: A Type II Crisis**

Initially the East Asian crisis ignited the debate between the macrofundamental and the investor panic views. According to the former, the crisis resulted from weak macroeconomic fundamentals; in other words, it was a question of solvency. The competing view held that the crisis was an outcome of self-fulfilling prophecies and financial panics, including bank runs and outflow of hot money, because of structural weaknesses in financial and governance systems. The consensus view favors the crisis-of-confidence-cum-structural weakness stance (Rana and Lim 1999, Rana and Yap 2001). The East Asian crisis differed from previous crises in several key respects.

First it was a capital account crisis, not a traditional current account crisis (Yoshitomi and Ohno 1999). Second, unlike other crises of confidence of the 1980s and 1990s, its root causes were structural: premature financial sector liberalization, weak governance, and policy mistakes in managing private capital flows. Another important characteristic of the crisis was that financial contagion tended to be mainly regional, requiring regional solutions.

### **3. Viner's Stages of Economic Cooperation**

Viner (1961), focusing on economies of scale, identified three stages of cooperation in ascending order of sophistication: (i) trade cooperation, (ii) monetary cooperation, and (iii) full economic union. Since the early 1990s many of the East Asian countries have made sustained efforts to deregulate and open domestic markets. As a result, intraregional trade and investment have increased. In terms of importing country data, intraregional trade in East Asia (ASEAN+3 and Taipei,China) was more than 50 percent of the region's total trade in 1998, even when many of the countries were in crisis. The benefits of such trade could be maximized by further efforts to promote monetary and financial cooperation.

### **4. Increased Dependence on Short-term Capital**

East Asia traditionally has had high levels of savings (about 30-40 percent). Because of weak national and regional capital markets, these savings were invested in the more advanced industrialized countries and were recycled to meet the development finance needs of the region, mainly in the form of short-term bank loans from industrialized markets. This led to the growing vulnerability of East Asian countries, and eventually precipitated the crisis (Kuroda 1999). Development of a regional capital market including a regional bond market would, therefore, reduce vulnerability in the future.

## **B. Case against Monetary and Financial Cooperation**

The idea of regional monetary and financial cooperation, especially the Asian Monetary Fund (AMF), was initially opposed by the IMF, European Union, and United States, for a number of reasons.

### **1. Regional Approaches could Aggravate the Moral Hazard Problem**

It is argued that the global economy does not need a proliferation of regional efforts as these could lead to "soft conditionality" and aggravate the moral hazard problem. While it is true that regional funds might find it difficult to impose politically unpopular policies, moral hazard is not a problem associated only with regional facilities. The IMF itself is not totally immune to this problem and the Council of Foreign Relations, among others, has alluded to the problem and

advised the IMF to adhere consistently to normal lending limits to redress the moral hazard problem.

## **2. Lack of “Political Will” in East Asia**

The argument goes that the East Asian countries, while satisfying many of the criteria for an optimum currency area, have not developed political conditions necessary for a durable regional arrangement, certainly not as much as Europe had accomplished when it started the exercise. East Asia lacks “integrationist” thinking and the web of interlocking agreements that encourage monetary and financial cooperation.

While the importance of preconditions cannot be denied, recent developments in East Asia suggest that political integration has become less of a constraint than before mainly because democratic principles are taking root in the governance of these countries. East Asian central banks are also acquiring a greater level of independence (Park 2001). East Asia is changing and may be on the brink of an historical evolution, as Europe was half a century ago (Bergsten 2000). Having survived the crisis, East Asian countries are prepared to set aside their differences and work together to develop a self-help support mechanism, in an effort to prevent future crises.

## **3. Single Currency is Premature; Focus on Structural Reforms**

The European experience emphasizes the need for satisfying preconditions and a relatively long transition period. A typical argument suggests that East Asian countries should focus more on financial and corporate reforms to avoid future crises rather than a “single currency.” While this is a legitimate argument, few East Asian policymakers are naive enough to believe that they can establish a “single currency” in the near future. What they would like to do is to continue the pace of monetary and financial cooperation and initiate actions on the transitional steps toward a full monetary union, which is a long-term objective at this stage. Also reforms and regional architecture address two different sets of issues. While the former is oriented to efficiency and growth, the latter is an attempt specifically targeted to manage if not prevent a crisis.

## **C. Changed Context**

Gradually the situation has changed, and there is growing consensus that efforts to promote regional monetary and financial cooperation should be continued.

### **1. IMF and ASEM Support Regional Monetary and Financial Cooperation**

In an interview last year, Horst Kohler, IMF Managing Director, commented that “our advice (to the East Asian region) is to pursue regionalization, not in opposition to the IMF, because the IMF is a global institution, but to do it in a complementary fashion. That is exactly what is

happening now and it makes a lot of sense” (*Far Eastern Economic Review* 14 June 2001, 48-50). The ASEM Finance Ministers have also initiated the “Kobe Research Project” (see Section IV).

A regional financial cooperative scheme such as the CMI could be structured to complement the IMF in various ways. First, a regional facility could provide resources in addition to that provided by the IMF while joining forces to work on matters related to the prevention and management of financial crises. Second, it could also support the work of the IMF by monitoring economic developments in the region and taking part in the IMF's global surveillance activities. Finally, “competitive pluralism” provides a menu of options to clients and places them on the driver's seat.

## **2. Regionalism can Supplement Multilateralism**

Any argument for regional arrangements must begin by answering the most fundamental question of whether regional groupings, whatever forms they may take, are conducive to, or likely to interfere with, multilateralism. Despite misgivings and their “second best” nature, regional trading arrangements are increasingly being seen as building blocks rather than stumbling blocks for an integrating world. Some 170 regional trading arrangements including bilateral areas have been registered with the WTO. The Japan-Singapore Free Trade Area (FTA) was signed recently. Others being studied or negotiated in the Asian and Pacific region are Korea–Japan FTA, Korea–PRC FTA, PRC–ASEAN FTA, Korea–ASEAN FTA, and ASEAN+3 FTA. There is no evidence suggesting that an East Asian financial arrangement will be oriented toward a withdrawal from the global economy and hence erect barriers to global financial integration. The IMF Managing Director agrees that “the IMF has increased its support for regional cooperation and integration, as a way to promote strong policies and institutions in neighboring countries and stepping stone toward successful integration into global markets” (Kohler 2001).

## **III. Evolving Regional Financial Architecture in East Asia**

Efforts to promote monetary and financial cooperation in East Asia have focused on two areas: information exchange and surveillance processes, and resource provision mechanisms.

### **A. Information Exchange and Surveillance Processes**

#### **1. Manila Framework Group**

The Manila Framework Group was established in November 1997, when the proposal for the AMF was shot down, for the overriding purpose of regional surveillance. This Group meets semiannually and brings together deputies from the finance ministries and central banks of 14 countries, both within and outside the Asian and Pacific region. In these meetings, ADB, IMF,

and World Bank provide surveillance reports. Australia is now coordinating a working group to explore the possibility of establishing a “regional financing facility” under this Group. The proposal was discussed at the meeting of the Group in New Zealand in December 2001.

## **2. ASEAN Surveillance Process**

In October 1998, the ASEAN Finance Ministers signed a Terms of Understanding that established the ASEAN Surveillance Process. Based on the principles of peer review and mutual interest among ASEAN member countries, the overall purpose is to strengthen the capacity of policy making within the ASEAN group. In addition to the usual monitoring of exchange rates and macroeconomic aggregates, the ASEAN Surveillance Process monitors sectoral and social policies, and includes provisions for capacity building, institutional strengthening, and sharing of information. The ASEAN Finance Ministers meet twice a year for policy coordination under the ASEAN Surveillance Process.

The ASEAN Surveillance Process is an important initiative by a group of developing countries to exchange information on economic developments and policies, and to consider individual and collective responses to events that could negatively impact subregional economic well-being.

## **3. ASEAN+3 Surveillance Process**

The ASEAN+3 group was formalized in November 1999 and the first peer review meeting under the ASEAN+3 Surveillance Process was held in May 2000 in the sidelines of ADB’s Annual Meeting. The ASEAN+3 Surveillance Process is similar to the ASEAN Surveillance Process and under it the Finance Ministers of the 13 countries and the Secretary General meet twice a year for policy coordination.

## **4. Monitoring Capital Flows**

A joint ADB/ASEAN Secretariat Workshop on “Monitoring Private Capital Flows in ASEAN+3” was held on 26-27 April 2000. Subsequently, a draft data template has been developed to monitor capital (especially short-term) flows to the region and financial markets. The template is being finalized and implemented.

## **5. Establishment of the ASEAN+3 Early Warning Systems**

The establishment of ASEAN+3 early warning systems was alluded to in the communique of the ASEAN+3 Finance Ministers’ Meeting in Honolulu in May 2001. ADB is now implementing a technical assistance to support collaborative efforts among the ASEAN+3 countries leading to the development of a regional early warning system that would help detect emerging

macroeconomic, financial, and corporate sector vulnerabilities, in an attempt to prevent financial crises in the future. The technical assistance will finance: (i) the development of an early warning prototype based on existing approaches of the IMF, the academic community, and various countries; (ii) the identification of a “core set” of macroprudential indicators relevant to establishing an early warning system; and (iii) workshops to finalize, disseminate, and implement the prototype model among the ASEAN+3 countries.

## **B. Mechanisms for Resource Provision**

### **1. Asian Monetary Fund/ Regional Financing Facility**

The notion of regional monetary cooperation in Asia was introduced initially by Japan in September 1997. A \$100 billion fund was to be created, half of which was to be provided by Japan and the remainder by PRC; Hong Kong, China; Singapore; and Taipei, China. It was argued that this would provide sufficient liquidity that could be quickly mobilized to forestall speculative attacks on the region's currencies. Despite the strong support of Malaysia, the idea was turned down at the Fifth Asia Pacific Economic Cooperation Meeting in Manila. It was argued that a regional fund would unnecessarily duplicate IMF's activities and lead to moral hazard problems.

However, the regional monetary fund or an equivalent structure continues to feature prominently in regional consultative meetings, and in academic papers and articles. A Regional Stability Forum was proposed by Hajime Shinohara (1999) of the Japanese Institute for International Monetary Affairs to (i) promote regional policy dialogues, (ii) establish a mechanism for emergency financial support, and (iii) prevent future crises through regional economic surveillance and cooperation.

The ADB Institute in Tokyo and the Asia Policy Forum network that it has established have similarly suggested the establishment of a regional financing arrangement to (i) serve as a lender of last resort, (ii) provide effective regional surveillance, and (iii) promote financial and corporate restructuring (Yoshitomi and Shirai 2000).

The need for a regional monetary scheme has also been a prominent feature of discussions outside of Asia. Former Vice-Minister of Germany Heiner Flassbeck (1999) was among the first to suggest that Asia should have a joint supervisory/academic body as a precursor to a regional currency regime. The body could undertake economic surveillance and advise governments, in addition to prompting and coordinating their responses. It could even provide liquidity to countries during financial crises.

The belief that the IMF could not monitor and respond appropriately to crises has led Wade and Venoroso (1998) to support a regional fund. They make a strong case for the creation of AMF, suggesting that it could build on Asia's saving surplus, foreign exchange reserves, and net-creditor status (including reserves and Treasury bills). The AMF could also raise the necessary funds for its core financing from subscriptions by member governments.

Andrew Rose of the US Federal Reserve Bank of San Francisco is also in favor of establishing a regional monetary fund parallel to the IMF. Rose (1999) notes that currency crises tend to be more regional and spread along the lines of trade linkages, disrupting regional trade flows. Since currency crises create regional costs, the region would have an incentive to mitigate these by providing a financial safety net.

The IMF Board of Directors reiterated in its meeting of September 1999 that “surveillance should pay more attention to the vulnerabilities of individual countries and to the international and regional aspects of surveillance.” As discussions on a regional monetary fund gain impetus, the IMF appears to favor the regional surveillance process over a regional fund, while not completely ruling out a regional fund that could complement the IMF’s efforts in the region in the longer term. The Joint Ministerial Statement of the seventh APEC Finance Ministers’ Meeting also noted that “cooperative financing arrangements at the regional level designed to complement resources provided by the IFIs in support of IMF programs can be effective in crisis prevention and resolution”(Bandar Seri Begawan, Brunei Darussalam 9-10 September 2000).

### **C. The Chiang Mai Initiative of the ASEAN+3 Finance Ministers**

At their May 2001 meeting held in Chiang Mai, in the sidelines of the ADB Annual Meeting, the ASEAN+3 Finance Ministers came up with the CMI. In addition to reiterating the need for strengthened policy dialogues and regional cooperation activities, the CMI called for:

- (i) An expanded ASEAN Swap Arrangement that would include all ASEAN countries and a network of bilateral swap and repurchase agreement facilities among ASEAN countries, PRC, Japan, and Korea.
- (ii) Use of the ASEAN+3 framework to promote the exchange of consistent and timely data and information on capital flows.
- (iii) Establishment of a regional financing arrangement to supplement existing international facilities.
- (iv) Establishment of an appropriate mechanism (early warning system) that could enhance the ability to provide sufficient and timely financial stability in the East Asian region.

Notable progress has been achieved in each of the above areas.

#### **1. Expanded ASEAN Swap Arrangement and Network of Bilateral Swaps and Repurchase Agreements**

Subsequent to the Chiang Mai meeting, the deputies of the ASEAN+3 negotiated the details that produced the framework paper for the ASA and BSA. This framework paper was approved

in a meeting of the deputies in Beijing in November 2000.

**a. Expanded ASEAN Swap Arrangement (ASA)**

In 1997, five ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand) agreed to establish the ASA to provide liquidity support for the participating countries that experience balance of payments difficulties. In November 2000, the ASA was expanded to cover all ASEAN members and the total amount was also increased from \$200 million to \$1 billion.

Under the ASA, apart from the US dollar, other currencies available include the yen and euro, with euro yen and euro LIBOR interest rates, respectively, as the applicable base rates. The contributions from participating countries are characterized into two groups based on their ability to pay (Table 1):

**Table 1. Contributions to ASA**

<b>Group 1</b>	Amount (\$ million)
Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand	150 Each 41.5
<b>Group 2</b>	
Viet Nam	60
Myanmar	20
Cambodia	15
Lao People's Democratic Republic	5

The maximum drawdown amount by each participating member remains limited to twice their committed amount under the ASA. The swap transactions have a maturity not exceeding 6 months, subject to rollover for a period not exceeding 6 months.

**b. Network of Bilateral Swaps and Repurchase Agreements (BSA)**

The BSA is a facility designed to provide short-term liquidity assistance in the form of swaps of US dollars with the domestic currencies of a participating country. Participating countries can draw on the BSA for a period of 90 days. The first drawing may be renewed seven times. The interest rate applicable to the drawing is the LIBOR plus a premium of 150 basis points for the first and the first renewal drawings. Thereafter, the premium is increased by an additional 50 basis points for every two renewals, but not exceeding 300 basis points. While the framework paper lays out the basic principles, each bilateral agreement could be slightly different.

The BSA is complementary to the IMF's assistance in that countries drawing from the facility are required to accept an IMF program for macroeconomic and structural adjustment. The BSA, however, allows an automatic disbursement of up to 10 percent of the maximum amount of drawing



without any linkage to an IMF program or conditionality. This limit is to be increased as the region develops its own surveillance capacity.

Repurchase agreements (Repo) are also to be established to provide short-term liquidity to a participating member through the sale and buyback of appropriate securities. Securities eligible under the Repo agreements are US Treasury notes or bills with a remaining life of not more than 5 years and government securities of the counter party country of the Repo.

After the ASEAN+3 summit in November 2000, PRC, Japan, and Korea began negotiating BSAs with the ASEAN countries. So far, five BSAs have been signed, three other BSAs are to be signed in the next few months, and four other BSAs are under negotiation (Table 2).

Table 2. **Bilateral Swap Agreements**

Agreements	Date Signed	Amounts (\$ Billion)
<b>Signed</b>		
Japan-Korea	4 July 2001	2+5 <sup>a</sup>
Japan-Thailand	28 July 2001	3
Japan-Philippines	30 August 2001	3
Japan-Malaysia	5 October 2001	1+2.5 <sup>a</sup>
PRC-Thailand	6 December 2001	2
<b>Soon to be Signed</b>		
Japan-PRC		3
Korea-PRC		2
Korea-Thailand		1
<b>Negotiation in Progress</b>		
Korea-Malaysia		
Korea-Philippines		
PRC-Malaysia		
PRC-Philippines		

<sup>a</sup>Under the New Miyazawa Initiative

For a discussion of ASEAN+3 efforts to monitor private capital flows and establish an ASEAN+3 Early Warning System, see Section III.

## 2. Establishment of a Regional Financing Facility

The swap arrangements that are in place between the ASEAN countries and the ASEAN+3 group will be utilized only when one or several countries encounter short-term and temporary balance of payments difficulties, a situation that may or may not arise in the near future. To enhance

cross-border financial interactions within the framework of existing financing facilities, the ASEAN Secretariat had commissioned a study on “Regional Financing Arrangement.” This study has recommended that each monetary authority set aside a modest percentage, say 5 percent, of its international reserves and place the funds with the other 12 central banks on a “pro rata” basis, to be determined by some equitable formula. This multicurrency placement is designed to achieve the dual objective of increasing the role of currencies within the region while decreasing that of outside currencies. The proposal is also to let each country borrow multiples of the placement amount, a concept similar to the much practiced margin loans in the securities business.

### **3. Monitoring/Surveillance Unit and Decision-making Body**

As already discussed, at the institutional level, efforts are being made to establish early warning systems and to monitor short-term capital flows. A study group has also been set up to identify a Monitoring or Surveillance Unit for the successful implementation of the CMI. This Unit will monitor:

- (i) liquidity positions as well as economic fundamentals of its member countries
- (ii) implementation of common standards agreed among members
- (iii) policy implementation and reforms
- (iv) coordination and harmonization of economic policies among the member countries

Efforts are being made to establish a decision-making body for the CMI.

## **IV. Beyond the Chiang Mai Initiative: Coordination of Macroeconomic and Exchange Rate Policies**

Efforts are also under way to go beyond the CMI and coordinate macroeconomic and exchange rate policies. For example, an ASEAN Task Force on “ASEAN Currency and Exchange Rate Mechanism” was established in March 2001 and its deliberations are continuing. Additional impetus to this work is being provided under the Kobe Research Project, which is an initiative of the Asia-Europe Finance Ministers group.

At their meeting in January 2001, the ASEM Finance Ministers encouraged cooperative activities in economic and financial areas, such as sharing experience and lessons in fostering regional economic and monetary cooperation, exchange rate regimes, and public debt management.

Under the Kobe Research Project a large number of studies are being undertaken by institutions/individuals in Asia and Europe to further enhance monetary and financial cooperation in the Asian region. The ADB is conducting a “Study on Monetary and Financial Cooperation in East Asia” (RETA 6000). Three in-depth technical core studies have been commissioned on: (i) information exchange, surveillance systems, and institutional arrangements; (ii) mechanisms for resource provision including multilateralization of the CMI swap agreements and regional

financing facilities; and (iii) transitional regional exchange rate arrangements and coordination mechanisms. The emphasis is on identifying the transitional steps that could perhaps facilitate the adoption of a single currency in the long term.

At a recent lecture at ADB, Robert Mundell (2001) argued that eventually Asia needs a common currency like the euro. In the interim, however, some transitional regional cooperative arrangement (e.g., a parallel currency to be used for international transactions) could be considered to bring about greater coherence of macroeconomic policies across countries.

Eichengreen and Bayoumi (1999) have calculated an optimum currency index (based on trade patterns, openness, nature of disturbance) for East Asia and found that this index is not very different from what it was in Europe before the Maastricht Treaty was signed. Bayoumi and Mauro (1999) and Plummer (2001) have reached a similar conclusion for the ASEAN countries. All of them argue also that some of the conditions for successful economic integration are endogenous, i.e., they arise after financial cooperation is initiated.

## V. Conclusion

In the postcrisis period, there has been a significant change in the thinking of East Asian policymakers in developing a new regional financial architecture by promoting self-help efforts. In this context the establishment of the ASEAN and ASEAN+3 Surveillance Processes are not only historic but also regional watersheds. So is the Chiang Mai Initiative. Efforts are also being made to expand the CMI to harmonize macroeconomic and exchange rate policies. “Political will” has to be developed for more concerted actions. The Macroeconomic Monitoring Group of Mercosur in South America has set convergence targets to be met by the end of 2002. Similarly, the Economic Community of West African States is heading for a full monetary union by 2003 and 2004. East Asia has to catch up with these other subregions.

As a regional development bank, ADB continues to support the efforts of the ASEAN, ASEAN+3, ASEM, and Manila Framework groups. In early 1999, ADB established the Regional Economic Monitoring Unit (REMU) to support regional monetary and financial cooperation. REMU provides high frequency monitoring inputs to meetings of the Manila Framework Group and the ASEAN and ASEAN+3 Finance Ministers. Through capacity building activities, REMU assists in establishing a network of institutions to support the ASEAN Surveillance Process involving National Surveillance Units in the Ministries of Finance, the ASEAN Surveillance Coordination Unit at the ASEAN Secretariat, and the ASEAN Surveillance Technical Support Unit at ADB. REMU is supporting regional initiatives in the monitoring of short-term capital flows and establishment of early warning systems. REMU also maintains and develops the Asia Recovery Information Center website (<http://aric.adb.org>) and prepares the quarterly Asia Economic Monitor report. REMU is conducting special studies on topics related to regional monetary and financial cooperation, including a study to develop a roadmap of policy options to carry forward the ongoing monetary and financial cooperation efforts in East Asia as part of the Kobe Research Project of the Asia-Europe Finance Ministers.

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