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SessionII : Financial and Monetary Cooperation in East Asia at a Crossroads

**Monetary and Financial Cooperation in East Asia:
The Way Ahead**

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Monetary and Financial Cooperation in East Asia: The Way Ahead

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- **Rationale for Enhancing Monetary and Financial Cooperation**
- **Typology of Cooperation**
- **Achievements to Date**
- **The Way Ahead**

Rationale

- Financial Contagion in a Globalizing World
- Complementary Role of Regional Surveillance
- Common financial Sector Vulnerabilities

Typology

- Monetary (Macroeconomic) versus Financial (sector) cooperation
- Macroeconomic (by ascending levels of intrusiveness and sacrifice of sovereignty)
 - Information Exchange and Surveillance System
 - Resource Coordination and Pooling
 - Exchange Rate Coordination (typically requires coordination of monetary and fiscal policies)

Efforts in Monetary and Financial Cooperation (multi-pronged)

- **Information Exchange and Surveillance**
 - Manila Framework Group (Nov 1997)
 - ASEAN Surveillance Process (Oct 1998)
 - ASEAN+3 Finance Ministers Process (Nov 1999) and Economic Review and Policy Dialogue Process (May 2000)
 - ASEAN + 3 efforts to Monitor Capital Flows (ADB/Japan)
 - ASEAN + 3 efforts to establish a Regional EWS (ADB)
 - Establishment of ASEAN+3 Study Group
- **Resource Pooling: Chiang Mai Initiative (May 2000)**
 - ASEAN Swap Arrangement expanded from \$200 million to \$1 billion.
 - 12 Bilateral Swaps for \$31.5 billion completed (Japan-Singapore and PRC-Philippines at advanced stage of negotiation. Several second round negotiations initiated)

Efforts in Monetary and Financial Cooperation (multi-pronged)

- **Exchange Rates**
 - An ASEAN Currency and Exchange Rate Mechanism Task Force was set up in March 2001 and is to make recommendations soon
- **Financial Sector Cooperation**
 - Network of Bank Regulators and Supervisors (ADB & APEC)
 - Networking Arrangements among Domestic Credit Rating Agencies (ADB)

The Way Ahead (multi-pronged & multi-speed)

Short-term (within the next 2 years)

Information Exchange and Surveillance

- Establish an independent regional policy dialogue unit to:
 - Prepare reports to “kick off” peer review meetings. Early Warning System should be an integral part.
 - Guide and monitor regional financial developments (including adoption/ and implementation of best practices).
 - Provide technical inputs to the ASEAN + 3 study Group

Medium-term (3-4 years)

Resource Sharing

- Expand the Bilateral Swap Agreement Network under the CMI and consider earmarking a portion of FX reserves for financing ST liquidity needs of member countries (next year?).
- Replace bilateral swaps under the CMI with a centralized pool which seeks to prevent financial crisis in the region (Regional Policy Dialogue Unit could help)

The Way Ahead (continued)

**Short-term
(within the
next 2 years)**

Exchange Rate Coordination

Financial Sector Cooperation

- Continue post-crisis management of financial sector.
- Implement the ASEAN+3 Bond Market Initiative.

**Medium-term
/Longer-term**

Implement regional exchange rate arrangements to promote stability of intra-regional exchange rates. Begin with soft pegging to a basket; then move to hard pegging. Eventually an EMS-type arrangement (which includes Japan) could be considered. Common currency would be the last step.

- Enhance the pace of cooperation in the financial sector including setting up regional guidelines for prudential monitoring and extending supervision to all financial institutions by establishing an East Asian Banking Advisory Committee, comprising mid-management, supervisors
- Complete harmonization of banking practices and prudential norms across countries and establish an East Asian Finance Area. Establish East Asia Finance Area.

To sum up, in the short-run, there is a need to establish an independent Regional Policy Dialogue Unit.

In the medium term, an Asian Monetary Cooperation Fund (AMCF) could be considered with responsibilities in three areas:

- enhanced regional policy dialogue
- regional resource pooling
- guiding and monitoring regional financial sector developments.

Thank You.