

CHAPTER I. INTRODUCTION

According to the WTO standard, five levels of economic arrangement can be distinguished. The loosest type of economic arrangement is the Preferential Trade Area (PTA), which allows preferential benefits to certain products or members. Free Trade Area (FTA) is the second benign economic arrangement. FTA allows trade in the region to flow freely without any tax or customs at the borders, therefore discriminating against outside of the bloc. Member countries of FTA do not necessarily have to adopt the same trade policy towards non-member countries. North American Free Trade Area (NAFTA) eliminated all kinds of trade barriers – or even when there is import tax, for example, they impose same rate – within the region while it maintains individual trade practices and policies towards non-member countries. Meanwhile, Customs Union (CU) not only adopts free trade within the region but also has to set a same trade policy towards non-member countries. If country A of FTA is imposing 70% import tax on the alcoholic beverage from non-member country D, then member country B and C will impose the same tax towards the same product from D. In this sense, CU is more integrated than FTA. Common Market (CM), a deeper integration of economies, allows free movement not only of final goods and services but also the movement of intermediaries, such as capital and labor. Economic Union (EU) is the ultimate stage of

economic integration. EU not only has to be a common market but also has to adopt same fiscal and monetary policy, technically forming single economy. North American region has established Free Trade Area (NAFTA); European Union is, although yet to have single fiscal and monetary policy, is gearing towards Economic Union. For this reason, Europe is yet European Economic Community (EEC) and not economic union by WTO standard. However, the region is perceived as the most integrated economy in the world, and prefers to be called itself (European Economic) Union. Although economic integration does not necessarily have to correspond with the order of the WTO integration level, it is fairly safe to say that monetary coordination is the most complex one requiring high level of political coordination to come later phase of economic integration. Given this, the recent trend of Asian economic cooperation is puzzling.

Despite the high level of intra-regional economic interdependency that is no less than the level of European Union, Asia marks the lowest degree of regionalization. Regionalization is defined here as an economic integration through legalized mechanism of cooperation, which allows to enforce and to monitor the implementation of policies that are agreed among nations.

Countries in the region have been reluctant to engage in any set of official or legal bindings at a regional level due to their political rivalries and hostilities through out the history. APEC, for example, is the most advanced region-wide gathering for

economic cooperation. It is, however, yet to be called regional "institution" because it does not have legal bindings or any enforcement mechanism to implement and monitor agreed policies. Asia is still an "open"¹ region. Policies are consensus-based and its implementation is unilateral and voluntary, only depending on diplomatic pressures from other countries. Consequently, facing any policy that contradicts with domestic interest, a country cannot always abide by and no other countries have a legitimacy to put retaliation on it since other member countries cannot legitimately retaliate. While other region has established certain level of economic integration in one-way or another (i.e. NAFTA, EU, etc.), Asian countries have been explicit on their disinclination of formal bindings in any form. The present study is an attempt to understand the reasons behind in this peculiar development in Asia.²

Chapter II reviews the history of Asian monetary cooperation. It presents three phase of Asian Monetary Cooperation. First phase shows primitive efforts of Asian economic cooperation. Although there are increasing effort for regional economic cooperation up until 1996, Asia has faced difficulties to institutionalize any set of agreed policies and cooperative mechanisms. Second phase revolves around the Asian financial crisis of 1997. The period coincides with Asian Financial Crisis. Region-

¹ "Open Regionalism" has been adopted as a fundamental principle of the Asia Pacific Economic Cooperation (APEC). Although the origin of the term has not been verified, it is recognized as official term to indicate non-discriminative membership and unilateral implementation of agreed policies (see Fred Bergsten, *Wither APEC*, IIE,?). Here "open regionalism" is used in a broader sense, simply indicating the absence of regional economic bloc or any set of formal integration of economic activities.

² Refer to Helleiner, Eric. 1994. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Ithaca: Cornell University Press.

wide scope of economic crisis is believed to give certain legitimacy to monitor and enforce the economies each other in the region. A consensus was formed around the issue of more adequate and prompt crisis management and of more accurate mechanism to predict and prevent further crisis. A proposal for Asian Monetary Fund, which is supposed to be tailored in Asian way, was the key issue in this period. Despite the ambition and initial welcoming from the region, it soon encountered with strong opposition from the international arena, mostly from the U.S. and the IMF and followed by the hesitance of regional players. The third phase started as the AMF proposal fades out. Facing strong opposition and difficulties to materialize AMF, the region has been seeking for alternative mechanism to meet their need for crisis management and prevention.

Chapter III examines studies and policy proposals on this matter. There are three groups of studies and findings. First group of studies are regional monetary arrangements. Main focus is the feasibility of the creation of the AMF and other monetary arrangement as the AMF proposal was nullified. Second group evaluates the region if it meets the criteria of Optimum Currency Area. Intra-regional interdependency of the regional economies proves that the region will greatly benefit by forming a currency bloc or intensive monetary coordination although several adverse factors remain. This group also includes the role of yen and dollar in the regional

economy as *de facto* or potential regional currency bloc.

Third group focuses on the role of Japan and internationalization of yen currency. Japanese government has long been promoted internationalization of yen in order to recap its long-standing economic recession. It is also pointed out that the regional dollar pegged exchange rate system aggravated the impact of the crisis by .

Chapter IV scrutinizes the political interest of players within and outside of the region to draw a conclusion that diverse interest among countries and actors within and outside of the region has nullified the AMF proposal. Intra-regional countries includes ASEAN plus Three (Republic of Korea, China and Japan). For the extra-regional countries and actors, the author put greater importance on the U.S. and the IMF whereas giving brief comments for the part of EU, New Zealand and Australia.

Chapter V is conclusion that implication of the study is presented. Although region-wide monetary cooperation revolves around the Asian crisis of 1997, initial enthusiasm was simply temporary due to diverse interest of the intra- and extra-regional factors based on their political rivalries and hostilities. Asian Monetary Cooperation will surely bring great benefit to the region, yet the process should be taken in a gradual phase to resolve these political barriers

CHAPTER II. HISTORY OF ASIAN MONETARY COOPERATION

Chapter II explores the path of Asian Monetary Cooperation in a big scheme of regional economic cooperation. Asian Monetary Cooperation has taken largely three phases. The first phase is cooperative efforts for monetary issues in general among central banks and administration, started from 1950s until 1996. The second phase focuses on the Asian Monetary Fund (AMF, hereafter) proposal that surged during the Asian Financial Crisis in 1997 and drawback of the proposal due to the lack of constant and sufficient support from the region and strong opposition from international community. The third phase presents discussion on alternative mechanism for crisis management and prevention as the AMF proposal was virtually jettisoned. Later this period, the scope of discussions is expanded to a broader scheme of financial/monetary cooperation and a search for a more accountable mechanism among the countries to stabilize regional economy.

2.1 Asian Monetary Cooperation (AMC) before Financial Crisis of 1997

In the 1950s, Southeast Asia, New Zealand and Australia had introduced central bankers' training program, called SEANZA. In 1966, SEACEN (Southeast Asian

Central Banks) was established to promote information exchange among central banks in the region. These two remained a primitive network until 1982 when SEACEN Research and Training Center³ was established to help close networking among central banks of eight members; Bank Indonesia, Bank Negara Malaysia, Central Bank of Myanmar, Nepal Rastra Bank, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, and Bank of Thailand. It has grown to eleven members with the inclusion of The Bank of Korea in 1990, The Central Bank of China, Taipei, in 1992, and The Bank of Mongolia in 1999. The center analyses financial, monetary, banking and economic developments in its constituent member countries and the region as a whole. It initiates and facilitates co-operation in research and training relating to the policy and operational aspects of central banking.

The purpose of the Association of Southeast Asian Nations (ASEAN), regional organization established on Aug. 8, 1967, was to accelerate economic growth, social progress, and cultural development and to promote peace and security in the Southeast Asia region in pursuit of regional security cooperation and economic development. Member comprised of the governments of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. This ASEAN cooperation is simply too broad to be seen as a real attempt to achieve substantial economic cooperation from the beginning. It was

³ Available at <http://www.seacn.org>

initially designed to enhance and ensure regional security. Any economic cooperation was simply superficial.

Ten years passed since its establishment, the five original ASEAN countries entailed two initiations for economic cooperation. On one hand, ASEAN started their first trade policy negotiation, and on the other hand, in pursuit of their common objective to promote monetary cooperation, it has established an ASEAN Swap Arrangement (August 1977) for a period of one year. Since then, the ASEAN Swap Arrangement has been renewed several times, in accordance with Article X avowed in Memorandum of Understanding (MOU) of ASEAN Swap Arrangement. Although it is the very first official initiation for regional economic/monetary cooperation, one should not interpret it as an onset of regional economic integration. Although the first trade policy negotiation started in 1997, and the policy was implemented in the late 1980s, taking almost 10 years to come about.⁴ The Swap Arrangement does not impose any constrain, therefore require no political commitment in an ordinary time.

These government initiatives from the early 1950s were primitive and did not carry considerable development for regional economic cooperation. The efforts for monetary cooperation now should be dealt in a broader framework as the region came to closer economic cooperation through transregional groups and councils.

⁴ p. 27, Development Community as a Way of Economic Cooperation among Korea, China, and Japan, (*Han-Chung-Il Kyungjae Hyup Ryuk Eul We Han Gae Bal Gong Dong Chae Yeun Goo*) , KDI

In fact, it is private business that has driven closer interactions among the countries in the region. US Commerce Undersecretary Jeffrey Garten says, " While the European Union was the product of great triumphs of diplomacy and their creation of new legislative mechanisms, Asian integration has driven by business." Indeed, private businesses were the first to organize into transregional groups. The Pacific Basin Economic Council (PBECC),⁵ founded in 1968, is a private organization of businessmen in the region.⁶ The Pacific Economic Cooperation Council (PECC)⁷, established in 1980 in Canberra, Australia follows. PECC is characterized by the tripartite participation of government officials, businessmen, and academics.

The major step forward on intergovernmental economic cooperation in Asia-Pacific region is Asia-Pacific Economic Cooperation (APEC).⁸ APEC was launched in 1989, members comprise of eighteen countries in the Asia-Pacific focusing on consultation about matters of regional economic cooperation. From its inception, APEC was not to be an economic bloc or legally bound free trade area like the European Community or NAFTA. APEC has encouraged nations to make concessions voluntarily, based on the theory that economic liberalization is a benefit unto itself.⁹ The 1993 APEC meeting marked a new era in the evolution of APEC. President Clinton invited

⁵ Refer to <http://www.pbec.org>

⁶ p.22, Yoichi Funabashi, Asia Pacific Fusion; Japan's Role in APEC, Institute for International Economics, 1995

⁷ Refer to <http://www.pecc.org>

⁸ Refer to <http://www.apec.org.sg>

⁹ p.3, Yoichi Funabashi, Asia Pacific Fusion; Japan's Role in APEC, IIE, 1995

all 17 APEC leaders to Seattle for the first time Asia Pacific Summit. The leader's meeting was a huge success, surmounting many of the institutional barriers that had handicapped earlier meeting.¹⁰

In February 1991, Executives' Meeting of East Asia and Pacific Central Banks (EMEAP)¹¹ was launched in order to strengthen cooperative relationship among members of APEC. It comprises the central banks of eleven economies; Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, The Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, Bank of Thailand. In the first period from 1991 to 1996, EMEAP held, on an informal and confidential basis, Deputy-level meetings twice a year to discuss information and ideas concerning economic and financial developments in the region. In 1996, Governors' Meeting and working / study groups were formed and established two working groups (the Financial Market Development WG and Central Banking Operations WG) and one study group (the Banking Supervision SG) to research on the primary functions of central banks. This is a big step forward although it is not a formal monetary cooperation forum. Currently, EMEAP's activities broadly encompass three levels; 1. Annual meetings of EMEAP governors; 2. semi-annual ones involving the deputy governor; 3.

¹⁰ p.79, Yoishi Funabashi, Asia Pacific Fusion; Japan's role in APEC

¹¹ Refer to <http://www.emeap.org:8084>

Three working groups on *Banking Supervision, Financial Markets and Payments and Settlement Systems*. It was only after the governors initiated their regular meetings since 1996 that the EMEAP became fairly active, with the establishment of the various Working Groups. It became active during Tequila crisis by reaching repurchase agreements (repo) in 1995 and 96; the creditor regional economies also attempted to help defend Thai baht for some period before Bank of Thailand succumbed to the speculative pressures in the mid 1997. EMEAP seems fairly dormant since then.¹²

A substantial economic cooperation in general has been taken since the late 1970s and interaction and networking between central bankers was initiated from 1990s. Nonetheless, proceedings on monetary coordination remain rudimentary until the outbreak of Asian Financial crisis.

2.2 Asian Financial Crisis and the Emergence of the AMF Proposal

In 1997 September, a proposal for Asian Monetary Fund was first addressed by Japanese Vice Minister of Finance Eisuke Sakakibura at the Asia-Europe Meeting (ASEM). The countries, in the midst of the 1997 Asian Financial Crisis, enthusiastically welcomed the proposal. Experiencing catastrophic region-wide crisis,

¹² Chang Li Lin and Ramkishan Rajan, *The Economics and Politics of Monetary Regionalism in Asia*, March 2001, Adelaide Univ., Australia, Center for International Economic Studies, Discussion Paper No. 0107

Asian countries became skeptical on the efficiency of IMF on crisis management and surveillance. Besides, no guarantee assured to prevent further crisis. Therefore, the AMF proposal is basically questioning the role of IMF. Joseph Yam, Chief Executive of Hong Kong Monetary Authority, addressed that Asian countries, after the 1997 currency crisis, felt that support and guidance particularly from current multilateral institutions, have been less forthcoming than they would have liked. Furthermore, they felt that the special circumstances and interests of economies in the region have not been adequately taken into account. Nor do their voices count for enough.¹³

The proposal was immediately withdrawn in the face of strong American opposition. However, regional leaders have incorporated the idea into several policy proposals later that year (November, 1997). South Korean Prime Minister Kim, Jong-Pil publicly asked Tokyo to revive its plan for AMF. In December, Japanese Finance Minister Kiichi Miyazawa again suggested complementing IMF loans through “some kind of regional currency support mechanism... funded by countries in the region that are strongly dependent upon each other in the fields of trade and investment and that are conducting continuous dialogue with each other on their policy directions.”¹⁴

Unprecedented speed and scope of the crisis successfully called attention of each country in Asia for closer cooperation on the monetary issues.

¹³ Joseph Yam, "Asian Monetary Fund," Jacobson Lectures, September 21, 1997

¹⁴ "Currency Swap Plan Moves Closer," May 10, 2001, Biz Asia, find article at http://www.bizasia.com/gen/articles/stand_art.htm?ac=ENKZ5-8

The AMF is actually an enlargement of existing ASEAN currency swap agreements created in 1977. The rationale is that Asian nations attain available pool of funds to draw to manage urgent liquidity problems through efficient utilization of the foreign-exchange reserves of each other to defend their currencies in time of crisis. The ASEAN pool is judged to be too small (US \$200 million), thus the member nation roster must be expanded to include Japan, China and South Korea. Then the AMF would become a lender of last resort in the absence of any such sources elsewhere.¹⁵ Since 1997, ASEAN has invited Korea, China and Japan to form a meeting so called ASEAN+3, the only summit level forum in East Asia so far. It is to discuss on regional and international issues yet its main focus is regional economic cooperation and reform of financial system, which became a priority after the crisis. Concerns, especially from the U.S., were raised about the possibility of bypassing the IMF's conditionalities, thus the discipline thereof, and receive easy money from the AMF; proponents, of course, claim that AMF would be able to complement the IMF, as ADB complements IBRD.

Attention has been called into the region, first by the crisis and second by the proposal of the AMF; the proposal was followed by several discussions and alternative proposals later on. Among many debates on the realization of the AMF, Fred Bergsten,

¹⁵ Fear of Japanese Dominance in AMF, Biz Asia, May 06 2000, http://www.bizasia.com/gen/articles/stand_art.htm?ac=ZD6Q9-S

Director of Institute for International Economics, proposed the Asia-Pacific Monetary Fund (APMF).¹⁶ Membership extended to Pacific countries, especially the U.S., may better serve the region to carry out necessary functions while not conflicting but complementing the IMF. However, there seemed to be no sign of support or welcome for this proposal other than the U.S.

2.3 Asian Monetary Cooperation After

Shortly after the demise of the idea of the AMF, Asian countries plus non-Asian countries, including the U.S., agreed to start a new forum called *Manila Framework*. In November 1997, APEC summit meeting, ASEAN invited central bankers and financial ministers of fourteen economies in the region, IMF, World Bank, and ADB to Manila to discuss how to bring financial stability in the region. Manila Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability (*Manila Framework* hereafter) is a compromise of the AMF proposal. Instead of processing the AMF creation, countries – Asian countries and non-Asian countries including the U.S. – adopted the New Arrangement to Borrow and the establishment of regional monitoring system. The bilateral financing packages for the crisis-hit economies were arranged in

¹⁶ Fred Bergsten is believed to be U.S. supporter. Fred Bergsten, Reviving "Asian Monetary Fund," *The International Economics*, Institute for International Economics, November/December 1998, <http://www.iie.com/policybriefs/NEWS98-8.HTM>

the framework as a second line of defense. Nevertheless, the framework is highly limited as it has "no formal status, secretariat or other institutional foundation...(S)upplementary funding has not been implemented on a permanent and assured basis" (Wang, 2000, p.208).¹⁷ As such, at a practical level, the *Manila Framework* appears to be a high level regional forum which allows a candid sharing of views and opinions in regional and financial matters and concerns.¹⁸

In July 1998, Japanese Minister of Finance Miyazawa proposed for Currency Defense Fund to prevent speculative attack (*Miyazawa Plan*) which function is similar to that the AMF was supposed to have. Later that year at G7 meeting, countries reached an agreement to mobilize funds for a future crisis with the amount of 30.6 billion (*New Miyazawa Plan*) and established working group to ensue the proposal thereafter. The *Miyazawa Plan* is a newly devised support program of multilateral parties for the region. The plan is specifically designed for crisis-afflicted Asian countries to reinvigorate the economy in the medium-term. Until 1998, discussion and researches on the feasibility or benefits of AMF had been occasionally reported.

The AMF virtually faded away as Japanese Ministry of Finance officially closed the discussion in 1999 partly due to lack of support in the region. This decreasing

¹⁷ pp.205-17, Wang, Y. "The Asian Financial Crisis and its Aftermath: Do We Need A Regional Financial Arrangement?" *ASEAN Economic Bulletin*, 17, 2000

¹⁸ Chang Li Lin and Ramkishan Rajan, *The Economics and Politics of Monetary Regionalism in Asia*, March 2001, Adelaide Univ., Australia, Center for International Economic Studies, Discussion Paper No. 0107

enthusiasm on AMF proposal in the region is because the U.S. who still is a major partner in regional economy is against the proposal. It is also true that Asian countries would not want to conflict with the IMF for they are beneficiary of IMF and still under its program. Meanwhile, Walden Bello reported on the Asian Development Bank's proposal to establish a system of currency swap arrangements to protect regional currencies against financial crises. The ASEAN+3 group first made a formal Joint Statement on East Asian Cooperation at the ASEAN+3 summit held in November 1999 in Manila. This subsequently led to the Chiangmai Initiative, which was announced after the ASEAN+3 finance ministers meeting held in May 2000 in Chiangmai, Thailand. *Chiangmai Initiative* is aimed at providing countries under pressure with short-term hard currency liquidity to bolster reserves through bilateral swaps.¹⁹ The Initiative aims to establish a regional financing arrangement to supplement existing international facilities. Sharing a view that they should strengthen the financial cooperative framework in the region, Ministers reached agreement on the so-called Chiangmai Initiatives, which is designed to expand the existing ASEAN Swap Arrangement and create a network of bilateral swap and repurchase agreement facilities among ASEAN countries, China, Japan, and the Republic of Korea. The purpose of the bilateral swap arrangements is to

¹⁹ From Chang and Rajan (2001); Wheatley, A. "Closer Asian Monetary Ties may Become Reality," Bangkok Post, Thailand, August 10 2000, Also See "The Chiang Mai Initiative," A Discussion Paper for the Special ASEAN Finance Deputies Meeting (AFDM) +3 (May 6, 2000). Available at: <http://www.mfa.go.th/dea/chiangmai%20initiative.htm>

provide short-term financial assistance in the form of swaps to countries in need of balance of payment or short-term liquidity support. The *Chiangmai Initiatives* may be seen as watered-down versions of the 1997 Japanese proposal for an Asian Monetary Fund (AMF), with a US\$ 100 billion funding. In contrast, the currency swap arrangement would require US\$ 20-40 billion dollar.²⁰ Therefore, Chiangmai Initiatives satisfies the needs of Asian countries to attain regional economic arrangement that would fully project the needs and voices of the economies in the region for financial cooperation, and lessen the conflict and opposition from extra-regional actors, like the IMF or the U.S.

2.4 Momentum for Asian Monetary Cooperation

Asian monetary cooperation has been subtle until 1996. It is only after the outbreak of region-wide crisis in 1997 that Asian countries became on the monetary matters in the scope of regional economic cooperation. More accurately, the attention of Asian countries was not in broad scale monetary cooperation. It rather started from the effort to pool available resources to respond more promptly and effectively to the liquidity crisis. However, it is widely understood by Asian countries that economy of one country substantial influence other economies in the region from the experience of

²⁰ Kristen Nordhaug, Asian Monetary Fund revival?, find at <http://www.focusweb.org/focus/pd/apec/fot/fot51.htm#amf> Kristen Nordhaug is an assistant professor at International Development Studies, Roskilde University, Denmark.

the 1997 crisis. Consequently, the administrations seek to stabilize their economies in a scheme of regional economic stability and to effectively assist each other in the time of crisis.

It is quite understandable that the region is barely institutionalized given the context that Asian countries have been political rivalries through out the history and is therefore the least institutionalized. The 1997 crisis eventually gave Asian countries a legitimacy to concern and intervene other economies in the region for one's own macroeconomic stability. The proceedings on Asian monetary cooperation became since 1997 with AMF proposal as it questions on the role of IMF. However, it faces strong opposition from the U.S. and multilateral financial institutions especially the IMF. Ever since the AMF was proposed, regional leaders have motivated to bring substantial monetary cooperation in the region through *Manila Framework* and *Miyazawa Plan*. The most current and important event on regional monetary cooperation was *Chiangmai Initiative* in May 2000. The initiative involves an expanded ASEAN Swap arrangement that would include all ASEAN countries, and a network of bilateral swap and repurchase agreement facilities among ASEAN countries, China, Japan and the Republic of Korea.

Although the AMF discussion was officially closed in 1999, discussions both

through Track I and Track II have been enthusiastically searching for alternatives.²¹ A number of regional consortia and seminars have been producing working papers and policy proposals on this matter, which are explained in the next chapter.

²¹ Track I refers to Government level official networking; Track II on the other hand, refers to the discussions and information exchange among academics and non-official personnel.

CHAPTER III. ECONOMIC RATIONALE FOR ASIAN MONETARY COOPERATION

Cooperative efforts on monetary issues in Asia were gradually advanced first by efforts from the private business actors among central banks and administrations until the outbreak of the Asian Financial Crisis in 1997. Many studies and proposals on the regional coordination for monetary issues were propelled by the crisis. Those studies can be broadly categorized into three groups.

First group concentrates on regional monetary arrangement. The AMF proposal was to consolidate segregated efforts for management and prevention of further crisis to bring monetary stability. Its primary function would be to facilitate pooling resources in case of liquidity crisis if the IMF is not able to respond promptly and adequately. As the proposal came to halt, the region sought for a substitute of the AMF. Administrations of the regional economies reached Currency Swap Agreements that would require a rather moderate form of legitimacy and institutional barriers than the AMF and is still able to fulfill the necessary functions. Besides provision of liquidity, studies also emphasize the importance of more reliable and accurate surveillance systems.

Second group of studies examine the possibility of currency bloc formation in Asia. Studies, based on the theoretical framework, mainly assess how well Asian

countries meet criteria of Optimum Currency Area (OCA, hereafter). One group of studies reviews theoretical evaluation OCA, the other group examines yen and dollar whether one of the two formed a *de facto* currency bloc.

Third group of studies focuses on the internationalization of yen. It also examines if any de facto currency bloc is formed in the region by tracking how much values were imposed on certain currency in each country's currency basket policy. The primary purpose of these studies aimed to search for a better coordination policy to bring regional economic stability. Related studies examine current exchange rate systems in the region. It has often pointed out that Asian exchange rate systems pegged to dollar and not putting enough weight to yen aggravated the impact of the crisis. It evaluates the changes in dollar and yen standing in the regional economic transactions and exchange rate coordination

3.1 Regional Monetary Arrangement

3.1.1 Asian Monetary Fund

As it was elucidated in chapter I, the proposal of AMF surged in the midst of financial crisis in Asia. Given the context, it is basically questioning the performance and role of IMF. During the Asian crisis, countries in the region came to believe IMF might not be the best solution at least for Asian type of crisis. The IMF has exhibited

problems as international lender of last resort, also as crisis manager as it implements stabilization programs.

3.1.1.a. Problems that IMF Exhibited in Managing the Asian Crisis

First of all, IMF failed to inject sufficient and immediate liquidity. Triggered by Thai baht collapse, the Asian crisis spread to the region contagiously. Currencies came under attack and massive capital outflows brought bank insolvency problem and further drains in foreign reserves. Therefore, the most urgent action at this phase would be the provision of sufficient and immediate liquidity to minimize disruptive but temporary distortion of the balance of payment and to curb market hysteria.

IMF was in fact unable to fulfill this need during the Asian case. IMF bailout fund, by nature, did not arrive as quickly and massively as it should have, to prevent credit crunches and recessions. IMF bailout fund is rather inefficient to inject massive fund to curb the contagion effect of the crisis by its nature.²² First, it is phased. In order to make sure that IMF restructuring plan is being implemented, funds are provided in phases. Second, it is conditional. Funds are injected with conditionality that often requires structural change in the economy that usually bears a significant political cost. It is, therefore, takes some time to gain domestic legitimacy of these measurements in

²² Radelet and Sachs (1998) argued that IMF bailout lending is ineffective because it is restrictive, conditional, and phased.

order to be implemented. Third, countries postpone receiving IMF bailout package until the very last moment. Governments are rather hesitant to go to the IMF until they face deadlock since IMF funds usually perceived as a shameful by plummeting credit level of national economy. For Asian Tigers, it would be more so for those who have made Asian Miracles with their own approach and pride.

There is also a question of the ability to restore market confidence through IMF stabilization programs to halt aggravation of crisis. If to support immediate liquidity is emergency treatment, it is also important to restore market confidence in order to curb further capital leakage and eventually to bring capital inducement back. One role of the lender of last resort is to forestall panic simply by its presence (Sachs 1999). There is a view that IMF programs, once implemented, would invite a positive private market response and would make a full disbursement of the official financial support unnecessary.

The Asian crisis, however, revealed that the IMF-supported programs did not necessarily restore private actor's confidence. The announcement of the IMF-led rescue package did not prevent the economy of crisis-affected countries from deteriorating. Instead, formal and informal agreements by foreign banks to keep their lines of in place were crucial elements for a quick restoration of market confidence.²³ For example, the

²³ P.47, Policy Recommendations for Preventing Another Capital Account Crisis, Technical Background Paper, Asian Policy Forum" July 2000, ADBI

Korean Crisis ended not on December 4, 1997, when the IMF package of US \$ 57 billion was formulated, but on December 29, when the Federal Reserve Board engineered a rollover of short-term debts (Sachs, 1999).²⁴

Partly the reason lies on the principle of the IMF stabilization program. IMF program has been based on the premise that institutional structures were flawed and therefore institutional reform is required. When IMF implemented restructuring plans and close down financial firms, it rather brought panic run of banking system than bringing market confidence. Besides, it is increasing opinion that IMF premises maybe wrong in case of Asian crisis. Rapid recovery of Asian economies proves that the causes of the crisis in Asia are not necessarily have to be structural problems such as macroeconomic distortion or crony capitalism; generally, economic crisis rooted on the structural problems cannot be recovered in such short term.

Second, IMF did not account for different domestic situations and exhibited biased response. The IMF prescriptions were not tailored to the needs of crisis-hit economies. The cause of crisis perceived to be macroeconomic problems but it varies from country to country.²⁵ In addition, IMF remedies are macroeconomic restructuring whereas it is increasing belief that the cause of the Asian crisis was not in macroeconomic problems but problems embedded in international financial architecture

²⁴ Policy Recommendation for preventing Another Capital Account Crisis, ADB, p 64

²⁵ p. 9-10, "Recovery Process of Asian Financial Crisis and Future Assignment (*Asia Keum Yung Wui Ki Euy Kuk Bok Gwa Jung Mit Hyang Hoo Gwa Jae*)," 2000.2

itself as Asia exhibit fast economic recovery. Besides, the consequences of crisis hit countries were vary from one to another. Therefore, IMF prescription should have been case and country specific. However, IMF measurement were not corresponding to these differences.

IMF also did not respond equally to the crisis-hit countries. Some countries like Thailand did not even get enough attention from the IMF. Regional leaders argue that the Asian crisis would not have been so disastrous if IMF had responded actively to Thailand crisis.

A rescue fund was set up financed by the IMF, World Bank, Asian Development Bank, and countries of the region. The unwillingness of the United States to provide financial support to a regional rescue fund during this stage of the crisis – unlike the financial crisis in Mexico in 1994/95 – weakened its standing in the region. It was claimed by regional leaders that the unwillingness of the United States to provide funds to Thailand led to an escalation of the crisis.²⁶

Third, existing surveillance system has proven to be ineffective and in need of a revision. Any set of policies for more effective management and prevention should respond to the kind of crises one anticipates encountering in the future. Asian crisis, in this sense, pose a question to the current mechanism. Macroeconomic indicators have

²⁶ Richard Higgot, 1998, "The Asian Economic crisis: A study in the Politics of Resentment," *New political Economy*, no.3, vol.3, 1998

often used to evaluate the economy and forecast crisis. Most of the crisis hit countries, save Thailand, did not show macroeconomic red signals before the crisis. It turned out that financial weakness of the banks and large corporations played an important role in precipitating the crisis. Besides, liberalization of rapidly emerging markets enables an economy to be fueled by private capitals necessary for economic development, it becomes more vulnerable as the private capital holding far exceeds that of the government.

Fourth, the IMF program has been bailed out private capital from sharing the cost and burden of the crisis. The source of liquidity problem was massive reversals in capital flows. Liberalization of financial markets were being liberalized while government provide guarantee to protect domestic financial institutions. This becomes problematic when most of them are short-term based capital and financial systems are not sound enough to survive out of external shocks. Meanwhile, capital outflow was much greater than domestic foreign reserves to defend or to slow down the reversal effect. In other words, private sector's holding of capital was far greater than government has at its disposal.

It is important to mitigate speculative activities such as hedge fund or highly leveraged financial institutions.²⁷ When crisis occurs, the cost of crisis has been

²⁷ Speculative attacks have been frequently accused of playing a vital role in a series of past economic crisis by triggering currency attacks and inviting herd behavior. Refer to "Policy Recommendations for

imposed on the affected countries and its citizens. Investors will always be saved and get reimbursed. Government is no longer able to control cross-country capital movements. If they want to liberalize financial market, they need to abandon control over capital movement. Therefore, countries would expect international monetary regime to introduce a mechanism that would restrain these speculative activities by imposing the cost of crisis on their part also. However, there is no mechanism to restrain these activities so far. The IMF remedies were no different. It did not have any mechanism to contain speculative activities and to impose certain cost on their part. Blames were targeting government policy instigating structural problems.

Despite the defeat of the AMF proposal there were some new low-key efforts at regional integration during autumn 1998. On 3 October 1998 Japan's authorities launched a plan drawn up by Finance Minister Kiichi Miyazawa for a US\$30 billion aid initiative at a G7 meeting of central bankers and finance ministers in Washington. Tokyo attempted to minimize resistance from Washington and the IMF by carefully couching the idea in the context of broader aid effort involving the G-7 industrialized countries, as well as the IMF and the World Bank. The timing of the presentation of the initiative may also have been favorable, since the IMF was running out of funds and the U.S. Congress had still not approved the U.S.\$ 14.5 billion replenish of the IMF funds.

The Japanese initiative was even supported by the IMF this time. The U.S. side was less positive, but this time did not attempt to shoot down the proposal.²⁸ Given this, Asian countries were convinced that IMF might not be sufficient or efficient to manage Asian-type crisis. Besides, there is no guarantee is in case of a second crisis.

3.1.1.b. Economic Rational for the Asian Monetary Fund

The funds available to the AMF would be \$100 billion dollar as initially proposed by Japan at the IMF annual meeting of 1999 September. Japan would supply \$50 billion and the remaining half, by Korea, China. The main question is whether Asian countries possess enough foreign reserves since the fund would be in U.S. dollar. Compared to major industrialized countries, East Asia has fairly considerable accumulation of foreign reserves. Nevertheless, it should not be pre-ascertained considering the weaknesses of financial systems and external debt of countries in the region, for the level of foreign reserve depends on the stability of financial system and the ability to repay foreign debt and accordingly. ([Table 1](#). Foreign Reserves in Asia, Appendix B, p.72)

For several reasons, AMF seems plausible. First, bailout packages are already arranged on a regional basis. ASEAN has adopted an agreement to borrow from the 1960s. Indeed, most bailout packages in Asia of late crisis period have been regional,

²⁸ Vatikiotis, Michael; Heibert, Murray, "Help yourself," Far Eastern Economic Review, 31 Dec. 1998-7, January 1999; Erikaltback, "Tokyo Pledges New south East Asian Aid, May Revive Regional Fund Plan," JEI report, no 37B, 2 October 1998, p.7-9

since the IMF does not possess sufficient resources to put together rescues unilaterally.²⁹

Nonetheless, the difficulty rises in mobilization of initial capital. In 1997, Japan organized a group of Asian countries that volunteered to head up and offered \$100 billion as initial capital. This is a small fraction of the almost US\$ 1 trillion in international reserves that Asian countries currently hold.³⁰ Besides, Japanese government is no longer in position to provide large amounts of financial assistance to foreign countries. Almost a decade of futile economic stimulus packages has pushed Japan's gross debt to US\$ 4.6 trillion in 1999 and expected to grow.³¹

3.1.2 Other Monetary Mechanisms

As the AMF proposal was denied, leaders of the region push two other mechanisms; Currency Swap Agreement for liquidity fund and ASEAN Surveillance Process to monitor and prevent further crisis. These mechanisms require less institutional or political coordination than AMF. Consequently, the arrangement would not cause opposition from the West or in the region.

²⁹ Is there Case for an Asian Monetary Fund?, FRBSF Economic Letter, No. 99-37; December 17, 1999, find at <http://www.frbsf.org/econsrch/wklyltr/wklyltr99/e199-37.html>

³⁰ *ibid.*

³¹ Jeffrey Lewis, Asian vs. International: Structuring an Asian Monetary Fund, Harvard Asia Quarterly, find <http://www.fas.harvard.edu/~asiactr/haq/199904/9904a005.htm>

3.1.2.a. Currency Swap Agreements

The early movement of Asian monetary cooperation is ASEAN Swap Arrangement in August 1977. The maximum total outstanding amount of U.S. dollars provided by each participant was US\$ 40 million. This amount was miniscule to fend off the volatile capital reversal that occurred during the last Asian financial turmoil. In principle, the amount of swap granted to a participant was to be provided in equal shares by the other participants. However, a participant may refrain from swapping by informing the other member countries, and at its discretion, provide reasons for its decision. In such cases, other participants are allowed to increase their shares on a voluntary basis. In the case where the total amount of swap committed collectively by the participants does not sufficiently meet the requested amount, the amount of swap granted shall be reduced accordingly.³² The ASEAN Swap arrangement is a very primitive financing arrangement, compared to various well-organized European mechanisms. The plan is that Asian nations will establish a pool to draw on the foreign-exchange reserves of each other to defend their currencies in time of crisis. Since the ASEAN pool is judged to be too small (US \$200 million), the member nation roster must be expanded to include Japan, China and South Korea.³³ When banks run into trouble, a government seeking to maintain an exchange rate peg will have limited ability to inject

³² p.29, Regional Arrangement to Borrow, KIEP 2000

³³ Fear of Japanese Dominance in AMF, Biz Asia, May 06 2000, http://www.bizasia.com/gen/articles/stand_art.htm?ac=ZD6Q9-S

credit into the banking system; since currency traders know that the authorities will find themselves between a rock and a hard place, banking problems inevitably spill over into the foreign exchange market. – Even countries with rigidity fixed exchange rate can, of course, give themselves some leeway to intervene on behalf of their banking systems. The swap arrangements are one of the source of policy flexibility.³⁴

3.1.2.b. ASEAN Surveillance Process

ASEAN Surveillance Process (ASP, hereafter) also can be views as an alternative for AMF in taking the role of crisis prediction and monitoring. For it is increasing consensus that macroeconomic indicators is not sufficient as crisis surveillance system. Since the crisis first affect neighbor economies those deeply interlinked, regional surveillance system may better serve than IMF. ASP currently shares a principle of informal peer review, complementary global surveillance, and participation of all members. ASP is not based on crisis models for crisis prediction; rather close monitoring of regional economy based on major economic indicators and financial indicators to predict the possibility of crisis.

³⁴ p. 14, Eichengreen and Bayoumi (1996), "Is Asia Optimum Currency Area"

3.2 Currency Bloc in Asia

A more radical approach towards monetary cooperation than AMF or Swap is forming a currency bloc in Asia. The AMF or Swap Arrangement is denominated in U.S. dollars, which implies that this financing mechanism has nothing to do with region-wide exchange rate coordination.³⁵ However, there is a growing recognition for the need to stabilize exchange rates among the regional currencies. It is widely recognized that the devaluation of the Chinese Yuan in 1994 and the depreciation of the Japanese yen in 1996 played an important role in precipitating the Asian financial crisis.

3.2.1 Optimum Currency Area (OCA)

The Scope and the speed of Asian crisis imply that the economies in the region are very closely connected. In this context, studies focused on whether Asia satisfies the Optimum Currency Area to become like EU.

Optimum Currency Area is, by definition, a group of regions with economies closely linked by trade in goods and services and by factor mobility, therefore, gives incentives to concert monetary policies. This result follows from the finding that a fixed exchange rate area will best serve the economic interests of each of its members if the degree of output and factor trade among the included economies is high.³⁶ Therefore,

³⁵ p.30, Eichengreen and Bayoumi (1996), "Is Asia Optimum Currency Area,"

³⁶ Krugman and Obsfeld, International Economics Theory and Practices, Ch. 20, pg.630

growing economic inter-linkages in Asia came to question whether it could be a candidate for OCA, through which the region may establish more stable economy and expect to prevent or marginalize external shocks and liquidity problems. In terms of OCA implications, East Asia has been proved to be a good candidate for the establishment of a currency area and policy coordination given the high degree of economic interdependence in the region considering OCA criteria.³⁷

3.2.1.a. Degree of Intra-Regional Trade

One of the characteristics of East Asia (including Japan) is its high share of intra-regional trade, which was 45% in exports, and 49% in imports, 47% in total trade during 1990-98; excluding Japan, corresponding figures were 37, 35 and 36%. [Figure 1.](#) and [Figure 2.](#) Direction of Trade of East Asia (Appendix B. p. 70) by total amount and by share show that intra-regional trade in East Asia is increasing and reached a fairly high level. Bayoumi, Eichengreen and Mauro (1999) stated that this degree of intra-regional trade in East Asia is similar to the euro area and that intra- regional trade as a share of

³⁷ Kawai and Takagi (2000), Norman Loayza, Humberto Lopez, and Angel Ubide (1999), Tam Bayoumi and Barry Eichengreen (1996). Note: the recent attention has been directed to the self-evident fact that some of the OCA criteria are endogenous. In other words, it is likely that the very act of forming monetary union contributes to the fostering of an optimum currency area, thereby strengthening international trade linkages and the correlation of business cycles. Indeed, the indices measuring the degree of simulated exchange rate volatility of major Western European countries are shown to have declined rapidly from 1987 to 1995. What this means in the context of East Asia is that the OCA criteria by themselves do not provide overriding basis for determining the type of exchange rate arrangement to be chosen, although they may be useful for giving quantitative sense of the reasonableness of one type of exchange regime or another in a particular situation (p. 10, Kawai and Takagi, 2000). There is an argument that, for these reasons, Asia should drive more itself to form a OCA.

regional GDP is even higher than for the countries participating in MERCOSUR and NAFTA.³⁸

3.2.1.b. Extent of Intra-regional Financial Flows

For 14 countries of East Asia (excluding Japan), about 11 % of total FDI inflows during 1990-98 came from Japan, about 10% from the U.S. and about 9% from Europe. Over \$40 billion, however, is accounted for by intra-regional sources, reflecting the fact that over 60% percent of the \$540 billion inflows into China came from Hong Kong. The presence of FDI from the U.S. and Europe is much more significant in Korea, whereas Japanese FDI constitutes the largest segment in Taiwan. Japan, the U.S. and the EU are equally important foreign direct investors in East Asia, with Japan being the most significant in ASEAN.³⁹ ([Figure 3](#). Foreign Direct Investment in East Asia by Source, Appendix B. p.71)

3.2.2 Adverse Factors for Currency Bloc

On one hand, it seems that Asian countries have achieved a high level of economic integration. This high degree of integration and symmetry would indicate an

³⁸ p. 11, *Proposed Strategy for a Regional Exchange Rate Arrangement in Post-Crisis East Asia*, Masahiro Kawai; Shinji Takagi, Policy Research Working Paper No. 2503, East Asia and Pacific Region Office of the Chief Economist, The World Bank, December 2000

³⁹ p.40, *ibid*

ideal environment for the implementation of a currency area.⁴⁰ The economies of East Asia appear to be plausible candidates for internationally harmonized monetary policies on most of standard OCA grounds.

Although the region meets OCA criteria no less than that of European Union, it does not necessarily have to be clear whether Asia can form OCA or not.

3.2.2.a. Trade Structures

Trade structure of Asia is in fact not wholly integrated. The impact of yen-dollar exchange rate fluctuation on two groups of countries – East Asian NICs including Japan versus ASEAN countries – is asymmetric. While the Trade structures of the East Asian NICs are competitive compared with that of Japan, the trade structures of the ASEAN countries and China are complementary to that of Japan. Consequently, the impact of a fluctuating yen-dollar rate on these countries is asymmetric.⁴¹

As a separate but related point, demand and supply shock in the region are not completely symmetric. When considering which countries should form a currency union, most economists agree that one necessary condition for a currency union to make most sense is that the shocks hitting the system be symmetric rather than idiosyncratic.⁴²

⁴⁰ Loayza, Norman; Lopez, Humberto; Ubide Angel, Comovement and Macroeconomic Interdependence: Evidence for Latin America, East Asia and Europe, June 1999, JEL

⁴¹ Towards a Common Currency Area in East Asia, C.H. Kwan, Opinion paper 4-2, http://www.fair-igfs.com/public_e/point_4e.htm

⁴² p. 4, *Do Hong Kong and China constitute an Optimal Currency Area?*, Hong Liang, IMF working paper WP/99/79, June 1999

Bayoumi and Eichengreen studied the degree of symmetry and correlation of supply and demand shocks by means of structural VARs, and indicate that Indonesia, Malaysia, Singapore and Thailand have highly correlated demand shocks. As regards to supply shocks, they find two groups of countries, namely Japan, Korea, Taiwan and Indonesia, Malaysia and Singapore.⁴³ These asymmetries suggest that currency union in the region could entail substantial cost in terms of stabilization.

3.2.2.b. Problems of Financial Fragility in Emerging Markets

This factor provides strong argument against schemes for a common currency peg, as they impact different countries at different times.⁴⁴ Financial disturbances are an increasingly prevalent source of asymmetric shocks. The argument is that Asia's emerging economies need exchange rate flexibility and monetary independence to cope with financial disturbances.⁴⁵

Asia still has fragile financial system. Domestic financial systems are less well developed than in Western Europe. The legacy of financial repression and capital controls continues to limit financial depth (Dornbush and Park 1996). Currency pegs, whether unilateral or collective, are risky where governments are required to intervene in

⁴³ p.22, Bayoumi and Eichengreen, 1996, Quotation in p.22; *Comovement and Macroeconomic Interdependence; Evidence for Latin America, East Asia, and Europe*, Loayza; Lopez; Ubide, June 1999

⁴⁴ p.16, Eichengreen and Bayoumi (1996), "Is Asia Optimum Currency Area?"

⁴⁵ p. 14, *ibid.*

support of their banking systems. Proponents of collective pegging may object that this freedom would not be sacrificed if the fluctuation of currencies were limited to, if the band was allowed to crawl, and if realignment were undertaken as appropriate.⁴⁶

Eichengreen and Bayoumi have made the conclusion that OCA in Asia would not be feasible for additional following reasons. 1. Common basket peg assumes nine governments of East Asia be in uniformity and reliance on consultation and institutionalization 2. Pegs are resilient to shocks only when they receive collective support 3. Governments are willing to commit significant financial resources to other countries' currency pegs only when there exist institutional guarantees of leverage over those countries' domestic policies. 4. Even if one decides on economic grounds in favor of a common basket peg, there remains the question of whether Asia possesses the will and political coordination skill to operate it successfully.

3.2.3 Yen or Dollar Bloc

The importance of yen is increasing in the region. It is partly true that Asian economies should have taken a greater account on yen in their exchange rate system. However, its level is still far behind dollar. The ratio of yen-based trade in Japanese trade is 40% for exports and 19% for imports. These figures are excessively low

⁴⁶ p.25, Eichengreen and Bayoumi (1996), "Is Asia Optimum Currency Area?"

compared to the corresponding figures for the U.S. (dollar-based export ratio of 96% and an import ratio of 85%) and Germany (a Deutsch mark-based export ratio of 77% and an import ratio of 56%). Although Japan's net external assets of \$748 billion are the largest in the world, they are exposed to foreign exchange risk because of the predominance of those based in dollars, the currency of the world's largest debtor country.⁴⁷

Frankel and Wei (1993,1994) concluded that Asia is yet de facto dollar bloc since the importance of yen in regional economic transaction is still far behind that of dollar. However, the importance of yen is increasing since mid-1980s. Talvas and Ozeki (1992) also concluded that ratio of yen-based transaction is increasing in both trade and capital movement. As Tokyo became regional financial center from 1980s, Japan has been enthusiastic on the internationalization of yen currency.

Although the importance of yen is increasing in intra-regional economic transaction, forming a yen bloc will take a long time first because it is still below the level of dollar's importance in the region, secondly because Asia will not welcome the idea for political and historical reasons.

⁴⁷ Kwan, C.H., Towards A Common Currency Area in East Asia, Opinion paper 4 Monetary Trends: U.S. dollar and Japanese yen, available at http://www.fair-igfs.com/public_e/point_4e.htm

3.3 Regional Exchange Rate Coordination⁴⁸

Other things being equal, greater exchange rate volatility impedes trade and FDI links, while exchange rate stability promotes trade and FDI links. In the context of East Asia, this suggests that as more and more countries began to peg their currencies effectively to the US dollar, the dollar/yen exchange rate became more and more volatile, and East Asia's trade and FDI share of the U.S. rose at the expense of Japan, a phenomenon not inconsistent with the gradual decline of Japan actually observed in East Asian Trade over the recent decade.⁴⁹ Therefore, exchange rate coordination in the Asian region has important implications for regional integration and stability. When considering regional exchange rate coordination in Asia, the discussion revolves around the issue of whether yen or dollar should play the role of the anchor currency.

3.3.1 The Financial Role of Japan in the Regional Economy

It has often been claimed by Japanese leaders that current exchange rate system in Asian countries does not put as much weight on yen as it should compared to dollars, therefore, it aggravated the impact of the Asian crisis. Most East Asian currencies were pegged to the dollar, the dollar appreciation therefore reduced East Asian export

⁴⁸ BOK Special Research Center, Economic Analysis (Han Guk Eun Hang Teuk Byul Yun Goo Shil Kyungjae Boonsuk Jae 6 Kwon, 14 ho, Volume 6. No. 4, (2000. IV) p. 168-171

⁴⁹ p. 19, Kawai, Masahiro; Takagi, Shinji, Proposed Strategy for a Regional exchange Rate Arrangement in Post-Crisis East Asia, Policy Research Working Paper, the World Bank, December 2000

competitiveness in Japan and vis-à-vis Japanese competition in third markets. While foreign direct investment and lending to East Asia were dominated by Japan, most foreign portfolio investments came from the United States and Europe. Yet a large proportion of the funding of these portfolio investments came from Japan. Investors borrowed at low interest rates in Japan, changed yen into dollar and re-invested those dollars throughout the world. A large amount of the funds went to the East Asian high-growth area. Most East Asian countries (with exceptions such as China and Taiwan) undertook significant capital account liberalization to attract these funds from the early 1990s.

East Asian foreign debt soared as a result of the inflow of loans. East Asian vulnerability came from two sides. First, a large proportion of these loans were short-term (one year maturity or less) which were used to finance long-term investment and renewed on a regular base. Second, most of the loans were not hedged against exchange rate changes. In Indonesia, Thailand and South Korea, which eventually received "rescue packages" from the IMF, the amount of short-term debt exceeded foreign reserves. Their economic stability came to rely on the willingness of foreign lenders to renew short-term loans. Furthermore, domestic bank lending was expanding at a fast pace and large portion of the lending was financed by offshore borrowing. A foreign debt crisis would therefore have strong domestic repercussions.

The declining yen from mid-1995 and the devaluation of the Mexican peso after the 1994/5 Mexican crisis reduced the export competitiveness of the region. This may have reduced the investors' confidence, especially in the case of Thailand, which had negative export growth in 1996.

It is significant that the crisis was triggered in May 1997 when Japanese officials hinted at an increase of the Japanese discount rate. The threat never materialized, but it induced global investors who had been capitalizing on the interest rate margins between the yen and regional currencies to sell Southeast Asian currencies. During May and June a number of major Thai financial institutions failed. By 2 July the Bank of Thailand floated the baht.⁵⁰

As the Thai crisis evolved, foreign investors "discovered" that many countries in the region had huge amounts of outstanding debt and modest currency reserves. Hedge funds speculated against regional currencies and stocks, while smaller "security seekers" fled the region. Lenders refused to renew loans due. Large-scale dumping of assets and currencies pushed down asset values and forced the central banks to let their currencies float. A 1996 net inflow of private capital to South Korea, Thailand, Malaysia, Indonesia of US\$ 93.0 billion changed to a US\$ 12.1 billion net outflow in 1997. The countries were caught in vicious circles of currency depreciation, increased

⁵⁰ Asian Monetary Fund revival?

foreign debt and ensuing collapse of the domestic financial system. They then had to go to the IMF to ask for emergency credits. Stand-by agreements were signed by Thailand (5 August), Indonesia (31 October) and South Korea (4 December).⁵¹

3.3.2 Exchange Rate Coordination in the Region

Given the dominant financial role of the Japanese economy in the region and the experience of the Asian Financial Crisis that we just examined, the Japanese administration argues that economies in the region should take a greater account of yen in their exchange rate systems in order to minimize the impact of similar crisis. However, importance of dollar is still exceeding that of yen in the regional economy as was mentioned previously. Therefore, most of studies suggest the region to take common basket peg for exchange rate coordination to the US dollar. According to the experiment of Williamson⁵² with common basket (consisting of the US dollar, the yen and the euro) for nine East Asian Economies (i.e. China, Hong Kong SAR, Indonesia, Korea Malaysia, the Philippines, Singapore, Taiwan POC, and Thailand), given the geographical distribution and industrial structure of trade that are broadly similar across countries, a common basket would have been far better for all countries than the actual

⁵¹ Asian Monetary Fund revival?

⁵² Williamson, John, "The Case for a Common Basket Peg for East Asian Currencies." In Stefan Collignon, Jean Pisani-Ferry and Yung Chul Park (eds.), *Exchange Rate Policies in Emerging Asian countries* London and New York: Routledge, 1999

exchange rate policies yielded. A common basket would give results of stabilizing the real effective exchange rates for almost all countries.

3.4 Chapter Conclusion

Asia as a region possesses enough economic resources to prevent and manage future crisis if the coordination is well organized. AMF is economically feasible. Asia is by any standard comparable to the European Economy. Asia has achieved substantial level of economic inter-linkages and meets the OCA criteria. Although diversities exist in the region, well-structured coordination will surely enhance the stability and development of the regional economies. Despite economic feasibility of AMF and OCA, Asia does not seem to move towards that direction at the moment. AMF proposal is virtually replaced by ASP and Swap Arrangements. Although OCA seems plausible in Asia, forming a currency bloc was not formed in the region remains a remote possibility.

Financial integration implies the establishment of a much deeper and more continuous relationship that somehow binds the agents or economies together and changes the way they operate. However, this does not imply that Asia will form a regional bloc. Despite economic benefits that can be achieved through various

coordinations, countries are hesitant to move forward for political reasons.

That is why AMF did not receive enough supports, but countries rather seek for mechanisms that require low levels of political coordination. In the next chapter, it is argued that interest of each country is too varied and divergent to generate sufficient political support for a substantial level of coordination on the monetary issues.

CHAPTER IV. Political Aspects of the Asian Monetary Cooperation

Economic feasibility does not imply political feasibility at the same time. Any form of monetary arrangement would require high political commitment. Besides, it is abetted by the fact that the West let Asians down on key occasions – as when the United States opted out of the initial support package for Thailand, thereby weakening its credibility and enhancing the prospect of subsequent contagion.⁵³

Despite favorable initial responses toward regional monetary cooperation proposals, formation of a regional institution, say AMF, did not materialized. In this chapter, I scrutinized the interests of different players focusing on AMF proceedings to conclude that it was not viable due to different motivation of each country. By examining the AMF case, we may have better understanding on which way Asia will advance monetary cooperation.

4.1 Intra-regional Factors

4.1.1. Japan

Japan was the country that most vigorously pursued country to thrust AMF. However, the primary objective of Japanese effort does not seem to be the AMF itself.

⁵³ P. 4, The New Asian Challenge, Fred Bergsten, Working paper 00-4, IIE

Rather it is driving for the internationalization of yen currency and Japanese endeavor to AMF and other monetary cooperation should be viewed along this line.

Before the crisis, Japan invested vast amounts of capital and technology assistance to Asian countries making all effort to take a role of regional leader. When the crisis hit Asian economy, Japan has been criticized for its reserved attitude. Although it has strong interest in the region as well as enough resource to curb the liquidity crisis at the initial phase, it did not step forward until the IMF, the U.S., and other economies reached consensus. Besides, Asian countries, those who mostly adopted Japanese financial system and followed its practices, are now endeavoring restructure after the crisis to import western systems. Therefore, AMF proposal can be interpreted as Japanese attempt to fortify its regional status for two channels; first by emphasizing the importance of financial cooperation between the counties within the region, it may be able to take leadership in coordination. Second by reserving yen in the AMF, it will better serve to internationalize yen currency.

However, AMF proposal was officially withdrawn partly due to the opposition from the U.S. and the IMF, and partly due to inconspicuous support from the countries in the region, save ASEAN. Japan does not seem to continue to on AMF for the following reasons. First, AMF proposal lost its *raison d'être* as the insufficiency problem of IMF resource, has been virtually resolved. Second, Japan would not initiate any attempt that

may create difficulties in the traditional strategic alliance with the U.S. Third, it will not explicitly attempt to take the leadership in near future given the circumstance in Asia and especially when its trustworthiness decreased in the region after the crisis, as was mentioned above.⁵⁴ Fourth, AMF was not the final objective for Japan but the internationalization of yen. It is because yen-dollar fluctuation will bring instability by inducing competitive devaluation in other East Asian countries.

Not surprisingly, Japanese MOF has also terminated the discussion on the AMF. Japan has shifted its focus on the materialization of regional aid programs through Miyazawa plan and other mechanism. Japan seems to focus on other tasks in order to materialize yen's internationalization instead of AMF proposal itself. However, AMF will be continuously discussed for long-term since the internationalization of yen depends on whether yen can achieve a substantial level of importance in the region.

4.1.2 China

China will remain reserved in any kind of regional institution for monetary coordination. First, although China is not one of direct crisis-hit country, its economic burden has increased as the regional economy went under recession after the crisis. Second, China who seeks to take regional leadership, would not actively oppose to the

⁵⁴ For the same reason, Japan was one of the founding member of APEC, yet remain reserved to take leadership role for countries in the region had highly restrain Japan from taking leadership role

establishment of institutions for regional cooperation. Besides, China recognizes that regional economic surge is aligned with its national interest. Third, China at the same time, cannot take leadership in the regional economy for neither its financial system is developed nor it can accelerate financial liberalization. Fourth, China has yet to have power to influence countries in the region. While it has an incentive to restrain the U.S. influence in the region through regional institution, China remains hesitant to any set of regional institution as long as Japan has greater chance to take a regional leadership. Up until the crisis, Japan has been the most active investor in ASEAN economies. Nonetheless, the region has been turned to western financial system guided by IMF program; the influence of the U.S. or E.U. may naturally increase. Therefore, China will seek to replace the role of Japan in the region while restraining the influence of the U.S. or E.U. by stepping on the side of ASEAN.⁵⁵ It is also reported that Chinese Prime Minister Zhu Rongji, when he visited Malaysia, has expressed supportive stance toward regional setting like EMF, where the ASEAN will be the center and not Japan. However, EMF will require at least 20~50 billion dollars in order to work as a regional monetary fund. It will be unrealistic if Japan is missing, or one can deny major role of Japan. Therefore, China will support the consensus of regional monetary cooperation yet be reserved to any specific proposals.

⁵⁵ It is reported that Chinese Prime Minister Zhu Rongji, when he visited Malaysia, has expressed supportive stance toward regional setting like EMF, where the ASEAN will be the center and not Japan.

4.1.3 Republic of Korea

Korea expressed enthusiastic interest when AMF was first proposed. Korea recognized long-term benefit through AMF for regional economic stabilization. Nonetheless, the administration was unable to be engaged actively for several political reasons. Korean economy is still dependent on the U.S. The country, although drastically recovering from the crisis, is still under the IMF restructuring program. Any direct conflict with the U.S. or the IMF will not be in national interest. Accordingly, it emphasizes the role of AMF to be complementary to the IMF. Besides, it recognizes the importance of regional cooperation on this matter and takes apprehensive stance of "not against AMF, not against West." Besides, AMF proposal is virtually faded away at the moment and even if it is established, it will take quite a long time to see benefits from AMF.

Given the situation, Korea does not seem to insist on the AMF. It would rather strategically look for regional forum and open to regional discussion for financial cooperation that includes the East Asian Three (China, Japan and Korea) as long as it does not conflict with existing international financial architecture. It welcomes full scope of utilization of reserves at central banks effectively for financial stability. Korea's strategy is to actively engage in regional forums to fully express standpoint of Korea and closely monitor other countries on the matter. If there is to be a active

movement towards AMF, Korea will reconsider the issue.⁵⁶

4.1.4 ASEAN

Among ASEAN countries, interests also vary. Indonesia is not in a position to actively propose policies due to its domestic instability. ASEAN countries are beneficiary of Japanese economic support. Therefore, it supports the idea of AMF predicting Japan to increase investments into Southeast Asian countries once AMF is established. Among the ASEAN countries, Indonesia, Malaysia and Thailand are most likely to benefit from AMF-like settings. However, Indonesia is not able to deeply involve in this matter due to domestic economic instability. Thailand, Philippines and Indonesia are rather careful in approaching the AMF issue for they are the beneficiaries of IMF loan. Malaysia, on the other hand, is critical to IMF programs. Malaysian Prime Minister Mahathir is enthusiastic on AMF proposal. On the 18th of October 1999, he has proposed East Asian Monetary Fund (EMF, hereafter) at the World Economic Forum. Rational is that EMF will limit the influence of Japan while the initial need for AMF would be carried out. He stressed the importance of East Asian economy therefore EMF would be accurate instead of AMF. One thing to note is that this proposal is coincide with the interest of China and Korea, therefore, maybe politically

⁵⁶ MOF inside document

more plausible than AMF.

4.2 Extra-regional factor

4.2.1 United States

The U.S. is one of the strongest contenders of the AMF proposal. It has been skeptical on the regionalization of "Asia-Only". Wade and Veneroso (1998) noted that, "the U.S. Treasury pulled out all the stops to kill the proposal (of AMF), and it died."⁵⁷

It was stated that the previous effort to establish an AMF in the middle of the Asian financial crisis was effectively thwarted by the US Treasury, which favored the exclusive control by the IMF over emergency funds to the region. Again the US Treasury appears to be less than happy about the present discussion, yet the IMF's new managing director Horst Koehler gave a cautiously sympathetic response to the proposal, sprinkled with reservations about moving too fast.⁵⁸

The U.S. government expressed reservation on the viability of the AMF for several reasons. Firstly, there is a concern that AMF will be an unnecessary redundancy of the IMF. If it were not to retain neutrality or differ its function from that of the IMF, it would only relegate the role of the IMF. This would impede necessary policy

⁵⁷ p. 19-21, Wade R. and Veneroso F. "The Resources Lie Within," *The Economist*, November 7, 1998

⁵⁸ Kristen Nordhaug, Asian Monetary Fund revival?, find at <http://www.focusweb.org/focus/pd/apec/fot/fot51.htm#amf>

implementation or reform programs, therefore, exposing countries to a greater risk of financial crisis. Secondly, Asia lacks regional leadership to effectively organize regional institutions.⁵⁹ For this reason, the U.S. views APEC as an alternative channel to respond the current need for monetary cooperation. Being in opposition of subgrouping among Asian countries, it has also argued that AMF that excludes non-Asian members of APEC would not be beneficial to the regional economic development.

Behind these reasoning, the U.S. appeared to be highly concerned about loosing its influence in Asia. It is not an odd thing to see that the U.S. and the IMF often represent the interest of each other considering its memberships at the advisory board of the IMF. However, the administration later on changed its position rather moderate partly supporting the proposal given one condition – membership extended to APEC member countries. This is the idea drafted by Fred Bergsten, Director of Institution of International Economy (IIE) to elevate the AMF to the Asia Pacific Monetary Fund (APMF), which will comprise the membership of Asia and Pacific and also will complement the role of the IMF. By proposing APMF, the U.S. is seeking a way to take leadership role if the regional monetary is to be formed, just as it did so in the process of APEC formation. This evidence shows that the U.S. will not be in strong

⁵⁹ Japan is probable candidate for the regional leadership considering its influence in the regional economy. However, it has politically limited and countries in the region, especially China and Korea, are acutely hesitant to regionalization if an initiation or leadership is to be undertaken by Japan. For the same reason, APEC was sluggish until the U.S. took the initiation. AMF that excludes several members of APEC may not be beneficial to regional economic development.

opposition or maybe even supportive if the regionalization does not exclude them.

4.2.2 IMF

IMF is against any kind of set or institutions that may intervene its role and scope. Its major concern is AMF may decrease or weaken the role of IMF. It is very likely even if AMF is complement to IMF that Asian countries will depend on AMF if it faces another liquidity crisis. IMF emphasizes that more important issue than just providing rescue fund to the crisis-hit countries is restructuring program. Therefore, IMF expects financial supports to be made from current system. In May 1999, Director of IMF, Michel Camdessus had urged Japan to focus on more pragmatic approach like Miyazawa initiatives. There is also a view that the role of regional mechanism will continuously decrease as recent trend illustrate that the financial markets are more and more integrated into one global system.

4.2.3 Australia and New Zealand

Australia and New Zealand is geographically in odd position. It is neither in western hemisphere nor in Asia. While most of economies in the world increasingly form a regional forum, these countries were not involved in any regional economic consortium. As its trade volume with East Asia is increasing, it gives greater

importance on the relations with this region. For that reason, they had been actively engaged in APEC proceedings and expected to continue supporting any economic arrangement in Asia as long as they can be involved. (expand)

4.2.4 Europe

Europe is prone to IMF-centered architecture. It expects Japan to put more attention in Japanese domestic economic recovery and strengthening of financial systems rather than assisting Asian countries.

4.3 Chapter Conclusion

As long as the supply side of capital are not adequately addressed, the East Asian countries will remain as vulnerable to future crises as they were before. Instead of waiting until the G-7 creates a new architecture, whose effectiveness is at best questionable, it would be the best interest of East Asians to work together to create their own self-defense arrangements.⁶⁰

Although many Western economists and policy makers have dismissed the

⁶⁰ Park, Yung-Chul; Wang, Yunjung, "Reforming the International Financial System and Prospects for Regional Financial Cooperation in East Asia," Mimeo, 2000

contention that a regional financing arrangement could be structured and managed to be complementary to the IMF, Asian countries rationale is that an Asian regional financing arrangement could provide additional resources to the IMF while joining forces to work on matters related to the prevention and management of financial crises. Furthermore, joint effort of the East Asian countries to monitor economic and financial market developments in the region will support the IMF's global surveillance activities. In this regard, an East Asian regional financing arrangement, along with a regional surveillance process, can be explored while avoiding institutional duplication and reducing operational costs.⁶¹

However, different interest of countries in regards to the institutional settings projects that AMF-like institutionalization is not feasible in the near future. The Region will rather seek for bilateral cooperation and currency swap agreements to avoid any direct confliction with each other as well as with international institutions.

Bergsten's proposals seek to co-opt the vision of an AMF, draw all its teeth, and bring Asian finances to the aid of new hybrid IMF-APMF. But it misses the core features of the AMF proposed here. First, the AMF we envisage acts quite differently from the IMF. It would have sufficient reserves to provide a credible threat to would-be speculators in Asian current markets, able to intervene without notice to correct markets

⁶¹ p.33, Regional Arrangement to Borrow, KIEP2000

and destroy speculative windfall gains, turning them into losses. This, the IMF has never done and does not have the power to do. Second, an AMF also carries a credible threat to intervene in other markets, including Asian stock and bond markets, to correct speculative upheavals. This is what was done by the Hong Kong Monetary Authority in July 1998, to uproars of condemnation by the world's press. Most importantly, the idea of an AMF represent a long-overdue expression of a capability for collective action on the part of Asian countries that have long been at loggerheads over ideological or historical issues.⁶²

⁶² p.5-6, John A. Mathews; Linda Weiss, The Case for an Asian Monetary Fund, JPRI Working Paper No.55, March 1999

CHAPTER V. CONCLUSION

There are good economic reasons for monetary cooperation on regional interdependence grows. The region has reached sufficient level of intra-regional trade and investment that is comparable to the level of European Union. Besides, there is an argument that OCA criteria is endogenous, which means once a region is integrated, intra-regional economic activities and interdependency becomes more intensive therefore greater return of benefit.

Despite these benefits, no formal economic cooperation arrangements has been established in Asia due to intra-regional political rivalries and hostilities as well as outside constraints and pressures. It was shown throughout the history of Asian economic cooperation. The organizational structures regional economic forums such as APEC partly project. Many attempts were made but the regional cooperation until 1996 was primitive and to be seen as networking process.

Impetus for monetary cooperation comes from the shock of Asian financial crisis and the failures of the IMF in dealing with Asian crisis in 1997. The outbreak of devastating region-wide crisis alerted countries in the region and made them a strong need for closer cooperation. This collective effort would bring economic stability in the region and introduce a better mechanism for crisis management and prevention that can be tailored to the Asian need.

The crisis clearly gave a certain type of legitimacy for one country to care or even to intervene in the other economies in the region. Nevertheless, this enthusiasm did not last long and the shock therapy of the crisis for monetary cooperation was temporary. Despite the initial enthusiasm for AMF, divergence in political interests, which has been a crucial hindrance to formal regional economic arrangements, remained the greatest obstacle to further monetary cooperation and ended AMF proposal.

Shortly after the demise of the idea of the AMF proposal, studies has focused whether the region can be benefited from economic integration or desirable form of economic cooperation as well as other alternative mechanism to bring regional economic stabilities. Although the creation of currency bloc or intensive monetary arrangement would greatly benefit the region, it would still require a substantial political cost, the area that the region has not been disciplines or is willing to bear the cost.

Although extra-regional oppositions and intra-regional scarcity of support for the AMF had demised the proposal, the regional administrations vigorously sought for alternative monetary arrangement mechanism for economic stabilization. As long as the region has consensus to bring closer cooperation, it will continuously search for regional arrangement in a way or another that will be able to sufficiently project voices and interests of their own, but not to conflict with international regimes.

Many studies and research introduced alternative proposals and cooperation

mechanisms. Besides, there already exist regional monetary organizations, whose objectives and scope of activities do not differ so much from what an Asian Monetary Fund might do. Two such organizations are the Arab Monetary Fund (Also AMF) and the Latin American Reserve Fund (LRAF).⁶³

Asia may be economically ready for formal economic integration. However, any form of monetary cooperation requires extensive political commitment. Given the circumstance of Asia, it is still premature to bring an extensive political coordination. While political maturity of Asian regionalization is still low, economic cooperation would not be able to fully follow the desires. The AMF is simply an example that Asia is still a region of less-institutionalization. For this reason, efforts for monetary cooperation move to a rather moderate form after the AMF proposal nullified. For instance, the region expanded already-exist bilateral monetary arrangement to multilateral ones.

If the region would accomplish their need and desire for closer monetary coordinations, the process should be taken through a gradual phases on a long-term base.

⁶³ P. 2-3, Chalongphob Sussangkarn, "East Asian Monetary Cooperation," Thailand Development Research Institute

APPENDIX I. CHRONOLOGY OF ASIAN MONETARY COORDINATION

* This chronology is aimed to provide general trend of Asian Monetary Cooperation. It focuses on regional forum, high-level meetings and meetings of central banks and their proceedings. It also includes social landmarks, especially the spread of Asian crisis, to provide background information of regional gatherings.

** Most of information is collected from daily news and government published announcements, especially Ministry of Finance and Economy, Ministry of Foreign Affairs and Trade, KOREA. However, this chronology is yet to be developed and also subject to change if more reliable source or information is found.

Dates		Major incident/ Launch	Classification	Member countries	Major Concern / Achievement
1950s		SEANZA	Information Exchange among Central Banks	South East Asia, New Zealand and Australia	- Introduce training program for central bankers
1966	Aug.	SEACEN	Information Exchange among Central Banks	Southeast Asian Central Banks	- The first institution designed to be monetary cooperation - Comprising ten central bank members with a research and training center in Kuala Lumpur
1968		PBEC	Economic cooperation among private entities	The Pacific Basin Economic Council	- Private Organization of Businessmen in the region
1977		ASEAN Swap Arrangement	Currency Swap Agreement		- The five original ASEAN countries, in pursuit of their common objective to promote monetary cooperation, established an ASEAN Swap Arrangement for a period

					of one year
1980		PECC	Economic cooperation in general	The Pacific Economic Cooperation Council	- Tripartite participation of government officials, businessmen, and academics.
1989		APEC	Economic cooperation in general	Asia-Pacific Economic Cooperation	- To promote trade and investment amongst the 18 member countries - Only ancillary discussions on monetary cooperation
1991	Feb.	EMEAP	Exchange of Information	Executives' Meeting of East Asia and Pacific Central Banks	- Asia Monetary cooperation took significant step forward - Proposed by Japan - 11 Member Countries: Japan, Korea, China, Austria, New Zealand, Hong Kong, Singapore, Malaysia, Indonesia, Philippines, Thailand - Concentration on the exchange of information
1995	Nov	Repurchase Agreement			- Among Hong Kong Monetary Authority, Central banks of Malaysia, Indonesia and Thailand
1996		BIS admission of Asian central banks			- People's Bank of China, the Reserve Bank of India, the Hong Kong Monetary Authority, the Monetary Authority of Singapore and Bank of Korea after Bank of Japan - Greater Asian monetary cooperation was advanced

	Feb				- Hong Kong and Singapore agreed to intervene for the account of the Bank of Japan to help the latter manage the dollar/yen rate
	Mar.				- Bank of Japan joined the network of repurchase arrangements
1997	Jul	<i>Thailand Baht Crisis</i>			- Request for IMF bailout
	Aug.	Special Regional Fund proposal		Meetings among countries that tries to rescue Thailand	- Regional monetary fund was first proposed - Proposed by Malaysia Minister of Finance
	Sep.19	ASIAN MONETARY FUND (AMF) proposal		ASEM Financial Minister's Meeting	- Proposed by Japan and SE Asian countries
	Sep.21	MIYAZAWA PLAN Draft		IMF/IBRD Annual Meeting Deputies Meeting conducted by Japan	- Participant; Republic of Korea, Japan, China, Hong Kong, Malaysia, Indonesia, Philippines, Thailand, Austria, Singapore, New Zealand, Brunei - Observer; U.S.A and IMF - Minister Mizezka Hiroshi proposed to establish 100 billion dollar Fund and expressed the will of the government of Japan to fund the half of the total amount

				No conformity had been reached	<ul style="list-style-type: none"> - IMF and U.S.A. opposed the idea for it may conflict with other international financial system; Aye from SE Asian countries; China postponed statement of their official status - Korea basically up to the idea under the assumption that AMF will provide foreign exchange flexibility - Japan and SE Asian countries continues discussion on the creation of the Fund reasoning that IMF quota of those countries are not sufficient to manage crisis considering its economic size.
1997	Oct.	Indonesia Currency Crisis			- Request for IMF bailout
	Nov.	Korea Currency Crisis			<ul style="list-style-type: none"> - Request for IMF bailout - Meeting of Financial Deputy Ministers - Japanese Economy was rocked by the failure of several financial institutions

	Nov.18	MANILA FRAMEWORK		Invitation of ASEAN, 14 countries deputies and Central bankers, IMF, IBRD, ADB hold a meeting	<ul style="list-style-type: none"> - Asian financial market stabilization and prevention of further crisis - New Arrangements to Borrow (NAB) had accorded expanding IMF assistant. - Agreed on the establishment of regional monitoring system (Monitoring twice a year) - Supplemental Reserve Facility (SRF): IMF short-term Massive Fund injection as the second back-up facility - Idea of AMF creation was rejected
	?				<ul style="list-style-type: none"> - Agreement of BOK to provide Thailand \$0.2 billion of currency swap
1998	Apr.	ASEAN Surveillance Process (ASP)	ADB meeting		<ul style="list-style-type: none"> - Starting from October 1998, ASP is to be initiated to strengthen monitoring and cooperation among ASEAN
1998.	Jul.	EMEAP	Executive Meeting of East Asia Pacific Central Bankers		<ul style="list-style-type: none"> - Agreement among 11 central bankers in Asia to borrow emergency Yen with the exchange of national collateral from Japanese Central bank
	Jul.	New Minister Miyazawa's Proposal on Fund to prevent speculative attack		Proposal for Currency Defense Fund	<ul style="list-style-type: none"> - CDF is similar to AMF - CDF is to be utilized only for defensive purpose in order to avoid redundancy with IMF

Aug.	Russia in Crisis			
Sep.	Malaysia in danger			- Malaysia initiates tight control on capital outflow
Oct.4	ASEAN Ministers of Finance Meeting		ASEAN Surveillance Process	- Inter-ASEAN economic policy cooperation and monitoring - Exchange of peer-pressure and information share - Technical support from ADB
Oct.	NEW MIYAZAWA PLAN		Japanese Minister Kiichi Miyazawa's idea presented at the G7 Meeting Special Communiqué	- Countries will actively response future crisis - Promise to aid countries in financial crisis or equivalent danger with financial support of 30.6 billion - Half is to be provided for trade financing and short-term aid and the other half is for mid and long-term purpose
Oct.	Korea-Japan summit Talk		“Korea-Japan New Partnership toward the 21 st century”	
Nov.	APEC			Asia Growth and Recovery Initiatives (AGRI)
Nov.12	Korea-China Summit Talk		Beijing, China	

1998	Mar.23	Proposal for Asian Currency Crisis Support Facility			- Japanese administration proposed Asian Currency Crisis Support Facility to facilitate liquidity in the time of crisis; 7.5 billion yen for interest rate coordination and technical support, 360 billion yen for rescue package.
	May. 15	Resource Mobilization Plan for Asia			- Second phase of New Miyazawa Plan - This is primarily designed to reinvigorate Market function by pooling private funds
1998	Nov.16	Asian Currency Crisis Support Facility (ACCSF)		Joint Procurement of President Clinton of the U.S. and Prime Minister Obuchi of Japan on Asian Currency Support Facility (ACSF)	- ACSF is one way to proceed Asian Growth and Recovery Initiative (AGRI) - The Support Facility is officially recognized by ADB called Asian Currency Support Facility with the amount of 3.6 billion dollars
	Nov.28	Korea-Japan High level Meeting			- Discussion for financial cooperation to establish crisis prevent mechanism
	Dec.4	The 6 th Korea-China Financial meeting for Working level		Beijing, China	- Bilateral cooperation on financial restructure and inter-financial institutions research and cooperation
1999	Jan	Brazil Currency Crisis			

1999	Jan. 15	Currency Swap: Korea-Japan		ASEM Frankfurt, Germany	<ul style="list-style-type: none"> - Japan-Korea agreement of Currency Swap in case of future crisis - Japan agreed to provide up to 5 billion dollars as a part of Miyazawa Plan - This fund will be given with below 7% interest rate
1999	Feb	Financial Stability Forum (FSF)	G-7 meeting		<ul style="list-style-type: none"> - Members of major economies and international institutions - Reports on the impact of hedge fund, Short-term capital flows, and use of off-shore financial centers
1999	Mar.20	Korea-Japan Summit Talk		“Korea-Japan Economic Agenda 21”	<ul style="list-style-type: none"> - Enhance networking between central bankers - Increase economic cooperation among the member countries - Negotiation began on the investment arrangement and Korea-Japan Government-business cooperation for investment promotion and research projects
1999	Mar	ACCSF		ADB approval	<ul style="list-style-type: none"> - ADB approval of \$3.06 billion. Asian Currency Crisis Support Facility
1999	Mar.20				<ul style="list-style-type: none"> - Protocol on short term Swap agreement Signed by JEXIM and KIB
1999	May.15	New Miyazawa Initiative	APEC		<ul style="list-style-type: none"> - Package would be mobilized in mid and long-term requirement - The 2 trillion yen package (\$16.7 billion.) would be used principally to help guarantee sovereign bonds

					issued by Asian governments starting Oct. 1, 1999
1999	Jun.25	The 7 th Korea-China Financial meeting for Working level		Seoul, Korea	- Y2K in financial network - MOU of future financial cooperation meetings
1999	Aug.	Seminar on NEA financial cooperation		China-Korea-Japan	- Trilateral Talks on North East Asia financial cooperation system operation
1999	Sep.	G-20			- Extended forum of G-7 to discuss international financial stability - 20 membership includes Newly Industrialized Economies
	Sep	Currency Swap: Japan-Malaysia			- 2.5 billion dollars
1999	Sep.	OBUCHI PLAN (Fund)		ASEAN+3	- Obuchi plan to unveiled \$500 million people-focused package aimed at boosting human resource development in East Asia
1999	Sep.11	APEC Korea-China summit talk		Oakland, New Zealand	
1999	Oct.1	Korea-Japan discussion on financial			- Japan initiate Korea-Japan investment arrangement

		cooperation			
1999	Oct	Japan Bank for International Cooperation (JBIM) Asian Currency Crisis Support Fund (ACCSF) creation			
1999	Oct. 23	Korea-Japan Financial Meeting			- Policy coordination of financial market in Korea and Japan - Promotion of financial market
1999	Nov.	Monitoring Board of Exchange Rate System			- <Asian Economy, Special meeting for regional financial recovery> launched
1999	Nov.	ASEAN High level meeting			- AMF proposal reconsidered
1999	Nov.28	ASEAN+3		Korea-Japan Summit Talk	- Trilateral economic cooperation: Japanese Capital and Korean technology working with China
1999	Dec.27	The first Korea-China Ministers meeting		Beijing, China	- Discussion on economic cooperation and opening Chinese market to Korean investors and business

2000	Jan	IMF Reform proposal	G7 Meeting	Tokyo, Japan	- Agreement on the IMF reform
2000	Feb.24~26	The 2nd Seminar on financial cooperation of Korea-China-Japan		Batfu, Japan	
2000	Mar.24		ASEAN+3, Financial Ministers and Central Bankers' Meeting	Brunei	- AMF and Asian Single Currency Discussion - Expansion of Swap from \$2 billion to \$10 billion - Korea-China-Japan Swap agreement discussion
2000	May.6	CHIANGMAI INITIATIVE		ASEAN+3, Financial Ministers Meeting	- Agreement on Currency Swap extended to 13 regional countries - Bilateral Swap Arrangement; BSA/ Repo network
2000	Sep.20	IMF Annual Meeting		Czech, Prague	- H. Koehler said at the press conference that the IMF does not oppose to the AMF proposal for it is mere regional monetary cooperation.
2000	Nov.7	ASEAN+3, Financial meeting		Beijing	- Specific Chiangmai Initiative Mechanism - ASA and BSA basic framework, Swap/Repo principles
2000	Nov.24	ASEAN+3		Singapore	- Progress report - Currency Swap agreement previously among Thailand, Malaysia, Philippines, Singapore and

					<p>Indonesia now extended to Myanmar, Vietnam, Cambodia, Laos and Brunei</p> <ul style="list-style-type: none">- Conditional CB swap agreement- Korea, Japan, China will independently proceed <p>Currency Swap agreement with ASEAN countries</p>
--	--	--	--	--	---

Appendix B. Tables and Figures

Figure 1. Figure 2. Direction of Trade of East Asia (Source: International Monetary Fund)

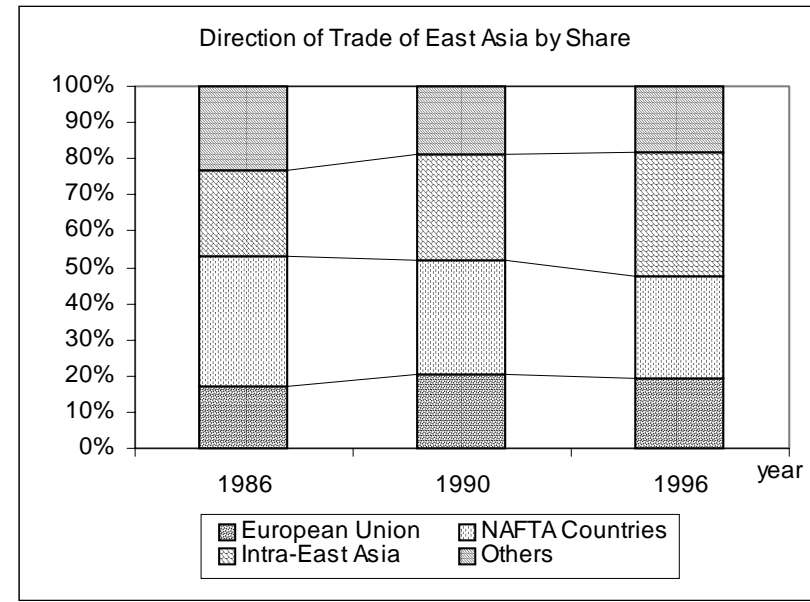
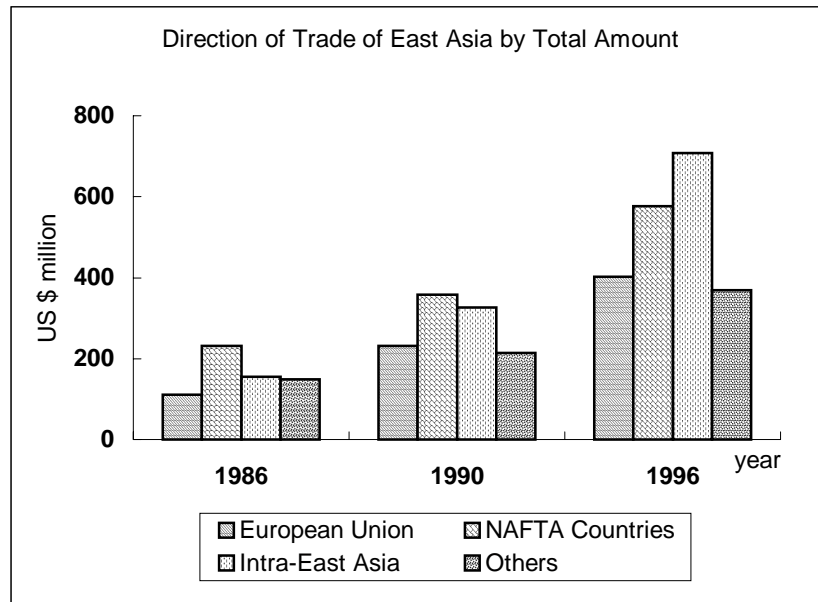


Figure 3. Foreign Direct Investment in East Asia by Source (Source: Asia Development Bank, 1997)

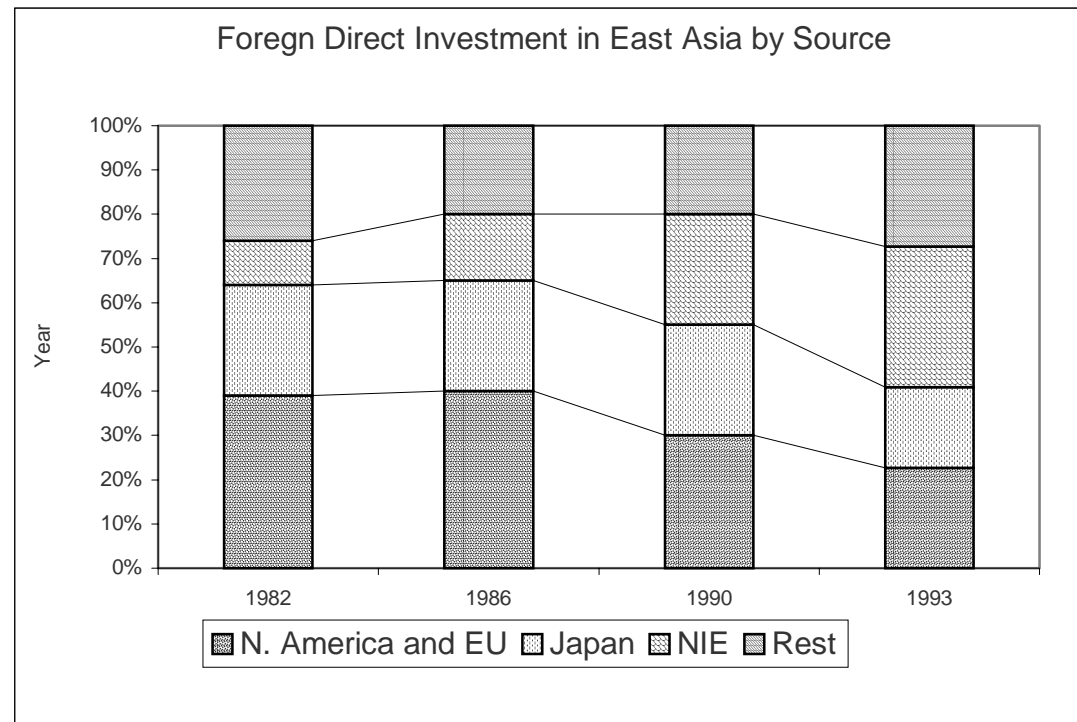


Table 1. Foreign Reserves in Asia (US \$ million)

Country	1993	1994	1995	1996	1997	1998
Japan	88,720	115,146	172,443	207,335	207,866	203,215
China	21,199	51,620	73,579	105,029	139,890	144,959
Taiwan	83,575	92,457	90,311	88,040	83,505	90,339
Hong Kong	42,986	49,251	55,398	63,808	92,804	89,601
Korea	19,704	25,032	31,928	33,237	19,710	51,963
Thailand	24,078	28,884	35,463	37,192	25,697	28,434
Malaysia	26,814	24,888	22,945	26,156	20,013	24,728
Indonesia	10,988	11,820	13,306	17,820	16,087	22,401
Philippines	4,545	5,866	6,235	9,902	7,147	9,101
Singapore	48,066	58,177	68,695	76,847	71,289	74,928
Total	372,668	465,135	572,298	667,362	686,005	741,667
Germany	72,727	72,219	77,794	75,803	69,853	64,133
France	20,008	23,520	23,142	23,120	27,097	38,753
Switzerland	31,650	33,554	34,685	36,775	36,899	38,346
Gt. Britain	34,630	38,530	39,180	37,120	28,880	27,360
Italy	25,140	30,107	32,942	44,064	53,431	25,447
Canada	10,471	10,219	12,629	18,028	15,122	19,911
Total	194,626	208,149	220,372	234,910	231,282	213,950

(Source: *International Financial Statistics, 1999*)

REFERENCE

- "Asian vs. International: Structuring an Asian Monetary Fund," Jeffrey Lewis, Harvard Asia Quarterly, find article at <http://www.fas.harvard.edu/~asiactr/haq/199904/9904a005.htm>
- "Currency Swap Plan Moves Closer," May 10 2001, Biz Asia, http://www.bizasia.com/gen/articles/stand_art.htm?ac=ENKZ5-8
- "Economic Cooperation in Northeast Asia in the Age of Regionalism," Paper prepared for the Conference of the International Economics Association at Pohang Univ., June 24-26, 1993, <http://www.dwnam.pe.kr/411nea.html>
- "Fear of Japanese Dominance in AMF," Biz Asia, May 06 2000, http://www.bizasia.com/gen/articles/stand_art.htm?ac=ZD6Q9-S
- "Is there Case for an Asian Monetary Fund?," FRBSF Economic Letter, No. 99-37; December 17, 1999, find article at <http://www.sf.frb.org/econsrch/wklyltr/wklyltr99/el99-37.html>
- "Policy Recommendations for Preventing Another Capital Account Crisis, Asian Policy Forum," July 2000, ADBI, PDF file available at <http://www.adbi.org/PDF/APF/APFpoll.pdf>
- "Policy Recommendations for Preventing Another Capital Account Crisis, Technical Background Paper, Asian Policy Forum," July 2000, ADBI, PDF file available at <http://www.adbi.org/PDF/APF/APFtech1.pdf>
- "Proposed Strategy for a Regional Exchange Rate Arrangement in Post-Crisis East Asia," Policy Research Working Paper No. 2503, East Asia and Pacific Region Office of the Chief Economist, The World Bank, December 2000
- "Study on the Asian Optimum Currency Basket and Currency Bloc, Bank of Korea, Special Research Center (*Asia Euy Chojuk Tonghwa Basket Kwa Tonghwa Bloc EhKwan Han Yongoo*)," [Kyungjae Boonsuk] Volume 6. no.2., 2000 IV
- "Study on the Development group for Korea-China-Japan Economic Cooperation – Strategy and Sectoral Issues," (*Han-Chung-Il Kyungjae Hyupryuk Eul We Han Kae Bal Gong Dong Chae Yun Goo –Chu Jin Jun Riak Kwa Joo Yo Bo Moon Byul Gwa Jae*), 2001.3, KDI
- Benette, John, Monetary policy and credit in China: A theoretical analysis, Center for Economic Policy Research, 1998
- Bergsten, C. Fred; Davanne, Oliver; Jacquet, Pierre (1999), "The Case for Joint Management of Exchange Rate Flexibility," Working Paper No. 99-9, The Institute for International Economics
- Berry Eichengreen; Tamim Bayoumi; Is Asia Optimum Currency Area? Can it Become one? Regional, Global and Historical Perspectives on Asian Monetary Relations, Working
- Brown, Robert, Opening Japan's financial markets, Routledge, 1994
- C.H. Kwan, "Towards a Common Currency Area in East Asia," Opinion paper 4-2, find article at http://www.fair-igfs.com/public_e/point_4e.htm
- Caprio, Gerard, Reforming financial systems: a historical implication for policy,

- Cambridge University Press, 1997
- Cecchetti, Stephen, Legal structure, financial structure, and the monetary policy transmission mechanism, NBER, 1999
- Chalongphob Sussangkarn, East Asian Monetary Cooperation, Thailand Development Research Institute
- Chan-Nau, Jorge, Financial crisis and credit crunch as a result of inefficient financial intermediation-with reference to the Asian financial crisis, IMF, 1998
- Charles Tanzer, The Asian Crisis and the Search for a New Global Financial Architecture; Market Discipline / Fundamentalism Meets Developmental / Crony Capitalism, August 1999
- Cho, Lee-Jay, Regional Economic Cooperation and Integration in Northeast Asia for the 21st Century, Tuman River Area Development Plan, Northeast Asia Economic Forum, <http://www.tradp.org/textonly/cho.htm>
- Claessens, Stijn, Are financial sector weaknesses undermining the East Asia miracle?, World Bank, 1997
- Cole, David, Financial development in Korea, 1945-1978, Council on East Asian Studies, Harvard Univ., 1983
- Corsetti, Giancarlo, What Caused the Asian Currency and Financial Crisis?: Part I. Macroeconomic overview, Part II. The policy debate, NBER, 1998
- Dueker Michael, A monetary policy feedback rule in Korea's fast-growing economy, FRB, 1998
- Hettne, Björn; Inotai, András; Sunkel, Osvaldo (Eds.), Globalism and the New Regionalism, UNU. St. Martin's press, 1998
- Ito, Takahashi; Krueger, Anne O. (Eds.), Financial Deregulation and Integration in East Asia, University of Chicago Press, 1996
- Suh, Jang-Won; Ro, Jae-Bong (Eds), Asia Pacific Economic Cooperation; The Way Ahead, KIEP, 1990
- Eichengreen, Berry, Globalizing Capital; A History of International Monetary System, Princeton Univ. Press, 1996
- Eichengreen, Berry, Toward A New International Financial Architecture; A Practical Post-Asia Agenda, Institute for International Economics, February 1999
- Eichengreen, Berry, Towards a New International Financial Architecture, 1999
- Eichengreen, Berry; and Bayoumi, Tamim, *Is Asia an Optimum Currency Area? Can it become one? Regional, Global and Historical Perspectives on Asian Monetary Relations*, International Monetary Fund, December 1996
- Faruqi, Shakil, Financial sector reforms, economic growth, and stability: experiences in selected Asian and Latin American countries, World Bank, 1994
- Flood, Robert P.; Garber, Peter (1984), "Gold Monetization and Gold Discipline," Journal of Political Economy, Vol. 92, No.1, pp 90-107
- Frankel, Jeffrey, Financial markets and monetary policy, MIT Press, 1995

- Fred Bergsten, *Wither APEC*, IIE
- Friedman, Benjamin, *The Future of monetary policy: the central bank as an army with only a single corps?*, NBER, 2000
- Glick, Reuven, *Exchange rate policy and interdependence: perspectives from the Pacific Basin*, Cambridge Univ. Press, 1994
- Grahame, Thompson, *Economic Dynamism in the Asia-Pacific*, Routledge, 1998
- Hall, Maximillian, *Financial reform in Japan: causes and consequences*, E.Elgar, 1999
- Haruhiko Kuroda, "East Asian Financial Cooperation Vision and Reality," IPS Public Lecture, presented 28 June 2001, Island A Ballroom, Shangri-La Hotel
- Hong Liang, *Do Hong Kong and China constitute an Optimal Currency Area?*, IMF working paper WP/99/79, June 1999
- Hurn(?) 1994, *Theory and tests of generalized purchasing-power parity: common trends and real exchange rates in the Pacific Rim*, *Review of international Economics*, vol.2 pp.179-90.
- Ito, Takahoshi, *Japan's Big bang and the transformation of financial markets*, NBER, 1999
- Iwani, Toru, *Japan in the International Financial System*, St. Martin's Press, 1995
- Joseph Yam, Asian Monetary Fund, Jacobson Lectures, September 21, 1997
- Kane, Edward J, *Capital movements, banking, insolvency, and silent run in the Asian financial crisis*, NBER, 2000
- Kim, Tae-Jun; Ryou, Jai-Won; and Wang, Yunjung, *Regional Arrangement to Borrow – A Scheme for Preventing Future Asian Liquidity Crises*, KIEP, 2000
- Kim, Tae-Jun; Ryou, Jai-Won; Wang, Yunjung, *Regional Arrangement to Borrow: A scheme for Preventing Future Asian Liquidity Crises*, KIEP, 2000
- Koehane, Robert, *Internationalization and domestic politics*, , Cambridge Univ. Press, 1994
- Krugman, Paul (1979), "A Model of Balance of Payment Crisis," *Journal of Money, Credit and Banking*, Vol. 11, p 311-325
- Krugman, Paul; Obsfeld, *International Economics Theory and Practices*, Chapter 20. Optimum Currency Area
- Kwan, C.H., "Towards a Common Currency Area in East Asia," Opinion paper 4-2, find article at http://www.fair-igfs.com/public_e/point_4e.htm
- Lee, Jungsoo, *External finance and the role of multilateral financial institutions in south Asia: Changing patterns, prospects and challenges*, , Asian Development Bank, 1991
- Lee, Jungsoo, *Financial sector and economic development: a survey*, ADB and Economics and Development Resource Center, 1991
- Loayza, Norman; Lopez, Humberto; and Ubide, Angel, *Comovement and Macroeconomic Interdependence – Evidence for Latin America, East Asia, and Europe*, June 1999
- Mario B. Lamberte, Ma. Melanie S. Milo, Victor Potines, *No to YeS? Enhancing Economic Integration in East Asia Through Closer Monetary Cooperation*, July

2001

- Masahiro Kawai; Shinji Takagi, Liberalization, growth and the Asian financial crisis: lessons from developing and transitional economies in Asia,
- Masahiro Kawai; Shinji Takagi, *Proposed Strategy for a Regional Exchange Rate Arrangement in Post-Crisis East Asia*, Policy Research Working Paper No. 2503, East Asia and Pacific Region Office of the Chief Economist, The World Bank, December 2000
- McCallum, Benette, Alternative monetary policy rules: a comparison with historical settings for the U.S., U.K., and Japan, NBER, 2000
- Mishkin, Frederic, International experiences with different monetary policy regimes, NBER, 1999
- Mylonas, Paul, A Changing Financial Environment and the Implication for Monetary Policy, OECD, 2000
- Nordhugten, Kristen, "Asian Monetary Fund Revival?," available at <http://www.focusweb.org/publications/2000/Asian%20Monetary%20Fund%20revival.htm>
- Obstfeld, Maurice (1994), "Logic of Currency Crisis," NBER Working Paper, no.4640
- Obstfeld, Maurice (1995a), "Model of Currency Crisis with Self-Fulfilling Features," NBER Working Paper, no.5285
- Ordean Olson, Exchange Rate Disequilibria: the Role of Dominant Currency in the Asian Crisis and a Case for Currency Board, paper presented at the Southeast Economic Theory and International Economic Conference at Georgetown Univ., November 12-15, 1999
- Ordean Olson, *Exchange Rate Disequilibria: the Role of Dominant Currency in the Asian Crisis and a Case for Currency Board*, paper presented at the Southeast Economic Theory and International Economic Conference at Georgetown Univ., November 12-15, 1999
- Patrick, Hugh, The Financial development of Japan, Korea, Taiwan: growth, repression, and liberalization, Oxford Univ. Press, 1994
- Pempel, T.J., The Politics of the Asian Economic Crisis, Edt. Cornelle Univ., 1999
- "Policy Recommendations for Preventing Another Capital Account Crisis," ADB, Working Paper (?)
- Radelet, Steven; Sachs, Jeffrey (1998), "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects," Brookings Papers on Economic Activity, 1998:1, pp.1-90
- Radelet, Steven; Sachs, Jeffrey (1999), "What Have We Learned So Far From the Asian Financial Crisis?" mimeo, January
- Ramkinshen S. Rajan, Examining the Case for an Asian Monetary Fund, Centre for International Economic Studies, Policy Discussion Paper No. 0002, University of Adelaide, Australia
- Richard Higgot, 1998, "The Asian Economic crisis: A study in the Politics of Resentment," New political Economy, no.3, vol.3, 1998

- Richard Higgot, 1998, "The Asian Economic Crisis: A Study in the Politics of Resentment," *New Political Economy*, no.3, vol3, 1998
- Sach, Jeffrey; Wing Thye Woo, "The Asian Financial Crisis: What Happened, and What is to be done," mimeo
- Shirakawa, Masaaki, *Financial market globalization: present and future*, Institute for Monetary and Economic Studies, Bank of Japan, 1997
- Singleton, Kenneth, *Japanese monetary policy*, University of Chicago Press, 1993
- Skully, Michael, *Financing East Asia's success: comparative financial development in eight Asian countries*, St. Martin Press in association with the American Enterprise Institute for Public Policy Research, 1987
- Sohn, Chan-Hyun; Yang, Junsok (editor), *Korea's Economic Reform Measures under the IMF Program*, KIEP, 1998
- Tokunaga, Shojiro, *Japan foreign investment and Asian economic interdependence: production, trade, and financial systems*, University of Tokyo Press, 1992
- Tseng, Wanda, *Financial liberalization, money demand, and monetary policy in Asian countries*, IMF, 1991
- Verdun, Amy, *European Responses to Globalization and Financial Market Integration*, St. Martin's Press, 1999
- Wang, Yunjong, *The Asian financial crisis and the need for regional financial cooperation*, KIEP, 1999
- Williamson, John, "The Case for a Common Basket Peg for East Asian Currencies." In Stefan Collignon, Jean Pisani-Ferry and Yung Chul Park (eds.), *Exchange Rate Policies in Emerging Asian countries*, London and New York: Routledge, 1999
- Yoshitomi, Masaru; Kenichi Ohno (1999), "Capital Account Crisis and Credit Contraction," ADB Institute Working Paper, No.2
- Lee, Chang-Jae (Edt.), *North East Asia Economic Cooperation Strategy <Comprehensive Version>* (Dongbukah Kyungjae Hyupryuk JunRyak Yungoo <Chongkwalyun>), Seoul, KIEP, 1999
- Lee, Chang-Jae, *Korea-China-Japan Economic Cooperation for the 21st Century (21 Segi Reul Hyang Han Han-Chung-Il Kyungjae Hyupryuk Euy Saerowoon MoSek)*, Seoul, KIEP, 1998