

VII. International Monetary Study II for  
KUINEP

*Towards an Asian Zone of Monetary Stability*

*アジア安定通貨圏を目指して*

*Lessons from the European monetary integration*

April-July 2004

# 1. Dual mega trends surrounding East Asia

## 東アジアをめぐる二大潮流

(1) What the Asian crisis taught us.

- **No country can secure currency stability alone.** 通貨の単独防衛は困難
- Even a country with sound macro-economy can be a victim of currency speculations.
- Only **collectively** countries in a region can defend their currencies and national economies from risks in the world (currency speculations, political pressures from big powers, volatile movements of US dollar and other major currencies etc.). → the basic reason why EMS (European Monetary System) was established in 1979. 集団防衛→欧州通貨システムの例

(2) Uncontrollable movements of international capital 制御  
困難な国際資本

- Daily foreign exchange turnover US\$1.2 trillion (2001)
- Annual GDP of China \$1,159 billion, Korea \$422 billion, Indonesia \$145 billion, Thailand \$115 billion (2001)

(3) Regionalism within the multilateral framework of  
IMF/WTO 多角的枠組みにおける地域主義

- Bipolar system of real economy and money

USA and the Americas: FTAA and US dollar 米州自由貿易地域とドル

Europe: enlarged EU and euro 拡大EUとユーロ

Asia: ASEAN+3 and ? 東アジアでは？

- Regional integration as a supplement to the multilateral trade system of WTO 多角的枠組みを補完する地域統合

## 2. Exchange rate system: alternatives for East Asia 東アジアの為替相場制度：三つの選択肢

### (1) Maintaining the **status quo** 現状維持

- Japan (free float), China (fixed rate), HK (currency board system), Korea (managed float), Indonesia (managed float), Malaysia (fixed rate) etc.
- Risks of unstable exchange rates and currency speculations despite the “Chiang Mai Initiative”**不安定な為替相場と通貨投機**のリスク
- Prof. E. Ogawa of Hitotsubashi University reports the recent tendency of EA countries de facto re-pegging their currencies to US dollar (a risk of repeating the same mistake of 1990s!). **ドル再ペッグの傾向**

## (2) Entry into the dollar zone or euro zone ドル圏・ユーロ圏入り

When a single country belongs to the dollar/euro zone,

- Merits: **a hard peg** to US dollar (e.g. HK's currency board system) increases confidence in the currency.
- Demerits: **a soft peg** (e.g. Thailand prior to the Asian crisis) may invite currency speculations.

The government must choose either (a) independent monetary policy with capital restrictions (e.g. China and Malaysia) or (b) US-dependent monetary policy with capital liberalization. → Question of “irreconcilable triangle” 「不可能な三角形」の問題

**The entry of EA as a region to the dollar/euro zone is not appropriate due to diversity of trade partners.**

### (3) Creation of a regional monetary arrangement 地域的通貨 取極めの創設

- Japan's proposal for **AMF (Asian Monetary Fund アジア通貨基金)** was refused and buried → dead or dormant?
- **Chiang Mai Initiative** → does it develop to a regional monetary arrangement with a common exchange rate system?
- Lively discussion for/against **a common currency basket peg system** in East Asia: basket of US dollar, yen and euro  
共通通貨バスケット・ペッグ制をめぐる議論

(note) What is a currency basket? 通貨バスケットとは？

*A basket of e.g. **US\$0.33 + ¥40 + euro 0.33** is equal to  
US\$1.01 or ¥122 or euro 0.95*

at an exchange rate of US\$1=¥120, euro1=US\$1.06 on 20 March 2003

## Merits of a common currency basket peg system 共通通貨 バスケット・ペッグ制の利点:

- Security of currency stability through a regional financial cooperation by establishing AMF

地域金融協力による通貨の安定確保

- Self-help without IMF support in case of crisis (cf. EMS crisis in 1992/3) 自助努力による通貨危機の克服

## Possible problems and demerits 問題点:

- conflict of national interests due to differences of trade/economic structures

貿易・経済構造の違いによる利害対立

- Monetary policy becomes limited by fixing an exchange rate to a common basket → the domestic interest rate tends to converge to the mixed level of US dollar, yen and euro 金融政策への制約

### 3. Proposal of an Asian Zone of Monetary Stability

Stage 1. Common basket peg system	Stage 2. Asian Monetary System
<ul style="list-style-type: none"><li>• Regional currencies are pegged to a common basket of US\$, yen and euro.</li><li>• Fluctuation band of 2.25%~15%</li><li>• Members are from EA and Oceania (note: Japan does not join the peg system)</li><li>• AMF (liquidity supply+surveillance) is established.</li></ul>	<ul style="list-style-type: none"><li>• ACU (Asian Currency Units) consists solely of regional currencies.</li><li>• An Exchange Rate Mechanism after the EMS (parity grid) or EMU (peg system)</li><li>• AMF is responsible for credit extension, ACU settlement, policy coordination.</li><li>• Japan and China must cooperate.</li></ul>



## 4. Lessons from the European monetary integration

### 欧州通貨統合の教訓

European experience gives East Asia valuable lessons.

#### (1) **It requires time!**

- Europe needed 50 years for economic integration (EEC as a customs union → EU as a single market) and 30 years for monetary integration (Werner Plan → EMS → EMU and the euro). **経済統合に通貨統合が追隨**
- Establishment of an Asian monetary zone is a long-term project of a generation as a time span. **10年単位の長期プロジェクト**

## (2) Importance of **shared historical views and common goals**

- An ultimate goal of peace in Europe
- Economic means to achieve political goals (freedom, democracy, human rights and rule of law) **政治的目的実現のために経済的手段を利用**
- Shared historical views (acknowledgement of different views) **歴史観の共有と違いの認識**

→ in East Asia, there are no shared historical views and common goals yet, but there is an encouraging sign of **“regional identity” as East Asia** → ASEAN+3

**東アジアにおける地域的連帯感の芽生え**

(3) Strong needs must arise from real economies.

- Europe needed currency stability to realize and maintain EEC (especially common agricultural policy) and a single market. 欧州では経済統合推進のために通貨の安定が不可欠だった。
- East Asia's high dependence on trade and increase of intra-regional trade 東アジアにおける高い貿易依存度と域内貿易の増加
- Movement to create FTA (Free Trade Area) among ASEAN+3 自由貿易地域創設の動き

#### (4) Flexible management of regional institutions

- EU started with 6 countries as EEC, and has grown to the present 25 members over half a century.
  - Membership of institutions (EU, WEU, NATO etc.) has been different and reflected each country's different positions and national interests.  
欧州の地域機関の参加国・運営方法は様々
- in East Asia, where **diversity** is more conspicuous than in Europe, regional arrangements and institutions should be negotiated and managed flexibly. 経済発展段階など多様な東アジアでは柔軟な姿勢が不可欠

## (5) Clear political will and strong leadership

- French and German statesmen, especially, took a strong leadership for promotion of European integration (political, economic and monetary).

独仏の政治家による指導力発揮

→ in East Asia, Japan and China must take a leadership jointly for common interests of the region. 日中の協調と指導力発揮の重要性

- Both Japan and China must succeed in resolving domestic problems for sustained economic growth, not only for their own sake, but for the prosperity of East Asia.