Directions of East Asian Regional Financial Cooperation

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Objectives of regional financial cooperation

1. To prevent the recurrence of a crisis
2. To better manage a crisis whenever it occurs
3. To support the economic integration of the region
4. To influence the global financial environment impacting on the region
Chiang Mai Initiative (CMI) = Expanded ASEAN swap arrangements of central bank reserves

Essence of CMI = Pooling of EA central banks’ reserves

Defect = The amounts are relatively too small
To make CMI more meaningful needs

1. More money and multilateral instead of bilateral arrangement

2. Set up an explicit regional monetary organization, having a broad role to facilitate many areas of financial cooperation, e.g. surveillance, harmonization, etc.
Private Sectors proceed to borrow short-term funds from abroad to generate double mismatch (maturity and currency risks). But lack access to long-term financing in local currency, thus proceed to borrow short-term funds from abroad.
ASEAN +3’s current account surplus


Indicating that EA has enough funds to feed itself
But private sectors of EA (= end–users of funds) need long–term funds in local currencies
Dynamic governments’ borrowings in EA’s domestic bond markets after 1997 crisis

facilitate private corporations’ issuance of long–term debt instruments to the general public
ASEAN +3 launched Asian Bond Fund 1 in 2003

US.$ 1 billion
ABF 1

Borrowers = state agencies

Lenders = central banks in EA

Excluded are private borrowers and local currencies.
But private borrowers are still excluded.
To promote local currency bonds in the region needs development of deep and well-functioning currency markets in the region so that investors can hedge against currency risks.
Another direction to channel more long-term funding to the private sector is to expand the role of Asian Development Bank (ADB) because of:

- good credit rating, easy borrowing
- widespread network, help achieve productive lending
- possible cooperation with EA central banks to handle currency risks
Currency Coordination and Integration?

Why? Intra-regional EA trade has increased continually.

Yet, the U.S. dollar is still used predominantly.
Currency integration reduces exchange rate exposure and facilitates intra-regional trade.

But not possible because of
- different macroeconomic temperaments
- different discretionary economic policies (timing and extent)
- However, it is notable that EA currencies move in consonance with each other to a greater degree than with the U.S. dollar.

- So, EA currencies should be tied with each other by some means for specific purposes, e.g. via EACI.

- Yen should become more internationalized.
Now EA countries are holding more than 60% of the world’s foreign reserves.

Meaning that EA’s reserve management certainly has effects on global exchange rates and interest rates.
Such influence suggests that EA countries should cooperate with each other so as to affect global exchange rates and interest rates in the manner that their changes be more gradual and consonant with EA’s economic cycle.