Chapter 3 Leadership of Japan and China Essential in the Formation of an East Asian Monetary Zone

[Key Points]

1. The Asian currency crisis proved to be a catalyst for full-fledged economic and financial cooperation in East Asia. At present, following the examination of the direct and structural causes of the currency crisis, financial cooperation in the region is shaping up within such frameworks as the Association of Southeast Asian Nations (ASEAN)+3 (Japan, China and South Korea) and the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP).
2. The major initiatives for financial cooperation include the Chiang Mai Initiative, surveillance and policy dialogue, and the development of the Asian bond market. While all of these items are indispensable in forming a monetary zone in East Asia in the future, consideration of the common exchange rate regime, which should be a central theme of discussion, still remains in the study phase.
3. For the formation of a regional monetary zone, it is essential that Japan and China exert their leadership. But both countries must overcome difficult domestic problems before they can take up the leading role. South Korea is expected to complement the leadership of Japan and China in a constructive manner, and, at the same time, share its successful experiences in recent years with countries in the region.

Introduction

In East Asia today, regional cooperation at the official level is under way in various forms in both the real economy and the monetary and financial field. While multilateral or bilateral negotiations are going on over free trade agreements (FTAs) or economic partnership agreements (EPAs) covering from trade, investment and services to movements of people, financial cooperation has already started in the region ranging from surveillance and currency swaps to efforts to develop the regional bond market. These developments were unimaginable a decade ago.

From the perspective of history or political dynamics, these developments can be taken as part of the trend of regionalism as seen in the European Union (EU) and in the Western Hemisphere, and also reflect the disappointment with multilateral frameworks such as the World Trade Organization (WTO) and the International Monetary Fund (IMF). At the same time, the hardships experienced in the Asian currency crisis provided the strong incentive for an acceleration of regionalism in East Asia.[1]

This chapter focuses on regional cooperation in the monetary and financial fields undertaken by various players and in various forms. There are three purposes: first, consider the significance of the financial cooperation initiatives in light of the causes and structural factors of the Asian financial crisis; second, review the principal organizations for regional cooperation in East Asia and their activities in the financial field and examine the importance of the framework of the Association of Southeast Asian Nations (ASEAN)+3 (Japan, China and South Korea); and third, consider what preconditions and additional components will be necessary for the future establishment of a regional monetary zone and what roles Japan, China and South Korea should play in that regard.

1. The Asian Currency Crisis the Starting Line for Regional Financial Cooperation

1.1 Causes of the Asian Currency Crisis

It has been established that the Asian crisis, where the currency crisis deteriorated into the financial and economic crisis, was caused mainly by capital account problems in the international balance of payments (Yoshitomi, 2003). The conventional currency crises that occurred in Latin America in the 1980s mostly stemmed from current account problems, including chronic trade deficits due to excessive domestic demand. Unlike those 20th century-style crises, the Asian currency crisis "reflect problems of liquidity rather than solvency, and they involve severe distortions in the domestic financial system."[2]

The progress in research into the nature and causes of the Asian crisis helped rouse a sense of "East Asian" regional unity, which until then was unverbalized or intentionally disregarded (Terada, 2003). The crisis triggered a number of specific actions toward regional economic cooperation, including a review of monetary and financial cooperation in the region. Prior to the crisis, regional cooperation in the financial field was largely contained within the framework of ASEAN.[3] But the seriousness of the crisis and how rapidly it was transmitted throughout the region prompted all countries in East Asia to take action.

1.1.1 Direct Causes

In this section, the factors that proved to be the direct causes of the currency crisis and the factors that helped exacerbate, albeit indirectly, the crisis such as the structural factors are clearly distinguished. The main direct factors that triggered a massive outflow of capital by undermining the confidence of foreign investors are closely related to macroeconomic mismanagement and administrative flaws.

(I) Rigid Foreign Exchange Systems

Countries that faced the crisis effectively linked the exchange rates of their currencies to the U.S.

dollar, though to a varying degree. Thailand could not cope with changes in its export competitiveness because it clung to the quasi-fixed exchange rate system. South Korea found itself in a similar situation, though to a lesser extent, while Indonesia had the crawling peg system under which it devalued the rupiah, its currency, against the U.S. dollar little by little. It may be construed as a logical development that East Asian countries with the high degree of dependence on foreign trade tried to stabilize their currencies by pegging them to the U.S. dollar and other major international currencies, and, as a result of that, formed the regional system of unintended fixed exchange rates. But this system proved to be vulnerable to currency speculation. Even when the dollar-pegged currency system was in place, those countries or areas that had abundant foreign exchange reserves, like Hong Kong, or those that kept tight exchange controls, like China and Malaysia, succeeded in defending their currencies.

(II) Outflow and Inflow of Short-term Capital

The problem common among the countries thrown into the currency crisis was the exceptionally high ratio of short-term external debt to foreign exchange reserves, which in 1996 stood at 195.4% for South Korea, 167.2% for Indonesia and 110.3% for Thailand. Incidentally, for other East Asian countries, the ratio ranged from 67.9% for the Philippines to 2.6% for Singapore (Sussangkarn & Vichyanond, 2004, p. 46). The three crisis countries all had defective systems for controlling capital transactions. While South Korea maintained rigid foreign exchange controls, financial transactions between banks and overseas subsidiaries of business corporations escaped the regulations and ended up with an accumulation of maturity mismatching between short-term fund raising and long-term investment. In Indonesia, capital transactions in the private sector were free from any control. In the case of Thailand, short-term capital flowed in and out of the country freely via the Bangkok International Banking Facility (BIBF). In addition, the Thai government made the disastrous mistake of simultaneously pursuing the “Impossible Triangle”[4] of three policy objectives: independence of monetary policy, exchange rate stability, and liberalization of capital transactions.

(III) Inadequate Statistics on External Transactions

The high ratio of short-term external debt to foreign exchange reserves bears evidence of how poorly external assets and liabilities had been managed prior to the crisis.[5] Indonesia had neither foreign exchange controls nor requirements for residents to report financial and capital transactions to the regulatory authorities. As a result, even when the Indonesian government opted for external asset-liability management, it could not find adequate basic statistics for external capital transaction balances (Indonesia imposed reporting requirements after the crisis). When the South Korean government faced a shortage of liquidity in foreign currencies in late 1997 and began negotiations with foreign banks on the rescheduling of short-term debt, it was asked to disclose the most recent balance of short-term debt but could not do so because of the inadequacy of statistical data.

(IV) Liquidity Shortage and Insolvency (Bankruptcy)

The Asian currency crisis is generally believed to have been a liquidity crisis originating in capital account balance problems, not the insolvency crisis stemming from current account problems. In general, that certainly was the case, but when the situation of each country is examined in detail, the crisis in Thailand, where the Asian crisis started, had a stronger tinge of an insolvency-triggered crisis, while the crises of other countries can be attributed to liquidity shortages to a much greater extent. In 1995, Thailand's current account deficit reached an unsustainable level equivalent to 8.1% of its gross domestic product (GDP). But Thailand held on to the fixed exchange rate with no improvement in its current account, making the collapse in the summer of 1997 inevitable. On the other hand, the Indonesian economy was fundamentally sound (a World Bank report in 1997), and its current account deficit in 1996, at 3.3% of its GDP, was still manageable. In the case of South Korea, the won, its currency, was not the target of massive speculation at the time, and the crisis emerged when the country was faced with a lack of foreign currency liquidity after creditor foreign banks refused to renew its short-term debt. If East Asia had at that time an adequate liquidity support mechanism in place, the extent and seriousness of the contagion of the Asian financial crisis might have been mitigated even if the crisis itself could not have been totally avoided.[6]

1.1.2 Structural Factors

When the IMF came up with the packages of financial support measures for the three countries hit by the crisis, it instructed Indonesia and South Korea to carry out broad-based structural reforms, ranging from the dismantling of family-owned businesses of government leaders to the enhanced operational transparency of South Korean chaebols (conglomerates), as conditionalities attached to its support. These conditionalities gave rise to heated debate as to whether the imposition of structural reforms with far-ranging political, economic and social impacts was appropriate in light of the IMF support objective of a short-term recovery of external equilibrium. But the structural factors addressed in this section are not those controversial problems but are financial problems cited as the fundamental factors that exacerbated the crisis.

(I) The Weak Financial System and Inadequate Bank Supervision

In the first half of the 1990s, the liberalization of the financial sector went ahead rapidly in Thailand and Indonesia in such areas as market access, the scope of operations, interest rates and foreign exchange controls. But financial supervision, i.e., prudential measures to ensure the soundness of banks, fell far behind the liberalization. In South Korea, meanwhile, the financial sector, which had been under the government's rigid supervision and control (finance ruled by officialdom), had little know-how and experience in risk management regarding credit risk, interest rate risk and foreign exchange risk. The unprecedented shock of the Asian currency crisis, which brought about massive losses stemming from bad debt burdens and the realization of various risks, caused the financial systems to collapse in these countries, bringing the function of financial intermediation to a complete halt. On the other hand, in Hong Kong, Singapore and Taiwan, where the soundness of the financial system was maintained under stringent bank supervision, the impact of the Asian currency crisis was relatively minor.

(II) Underdeveloped Domestic Bond Markets and Dual Mismatch

Prior to the crisis, many East Asian countries followed sound fiscal policies with balanced budgets or fiscal surpluses and had little incentive for the development of a government bond market.[7] The underdevelopment of the government bond market, which serves as a yardstick for pricing marketable securities products (benchmark function), tends to constrain the development of corporate bond markets as well. Indeed, the capital markets in most countries in the region, other than the stock markets, were quite limited in scale.

With their access to the capital markets constrained, business corporations in need of long-term funds for equipment investment had little choice but to turn to borrowing from banks at home and overseas (long-term borrowings or rollovers of short-term borrowings). Commercial banks raised short-term dollar or yen funds with low interest rates and lent these funds in foreign currencies, or after converting them into local currencies, to business corporations. In this cross-border process, the dual mismatch emerged—the mismatch of currency between foreign and local currencies and the mismatch of maturity between short-term and long-term funds. Ravenous demand for funds backed by robust economic growth led to the accumulation of the dual mismatching, which ultimately amplified the currency crisis.

1.1.3 International Background: Lack of Regional Financial Cooperation

Immediately before the outbreak of the Asian crisis, there were sporadic attempts of financial cooperation, including concerted currency market intervention to support the Thai baht by the monetary authorities of Thailand, Singapore, Malaysia and Hong Kong in May 1997. The only short-term credit arrangement that existed before the crisis, the ASEAN Swap Arrangement (ASA), was not much help in the face of the sheer size of the currency speculation. Although the fragile network of de facto dollar-pegged currency systems had been formed in East Asia, no mechanism existed for region-wide liquidity support.

The lack of regional financial cooperation is quite a contrast to the experiences and institutional setup of Europe. Since the introduction of the joint currency float system (the Snake) in 1972, the European Community (EC) established and expanded its credit systems ranging from very short-term credit facilities with no strings attached to short- and medium-term credit facilities the use of which required ex post facto consultations or collateral conditions. When countries in the Snake or the European Monetary System (EMS) faced liquidity shortages or balance of payments difficulties, they were able to overcome all those problems with the aid of the regional credit systems alone, including the 1992-1993 European currency crisis. The last time EC member states received financial support from the IMF was in 1977 when Britain and Italy used its standby credit facilities.

1.2 Reponses of Japan, China and South Korea to the Asian Crisis

1.2.1 Japan

The IMF-led packages of financial support for the three crisis countries reached over $116.7 billion ($17.2 billion for Thailand, over $41.2 billion for Indonesia, and over $58.3 billion for South Korea), with Japan committing $19.0 billion, the largest among the supporting countries. The support measures for Thailand were put together in Tokyo in August 1997 amid an air of enthusiasm that may be described as a "sense of Asian unity" (Sakakibara, 2000, p. 180). China, Australia, Hong Kong, Malaysia and Singapore pledged financial assistance of $1 billion each, while South Korea, Indonesia and Brunei promised aid of $500 million each. In October 1998, when many countries in the region were still mired in the economic crisis, the New Miyazawa Plan was announced. Of the $30 billion initiative, $15 billion was pledged in medium- and long-term funds for supporting economic reconstruction, and the remaining $15 billion in short-term facility was extended for trade finance, and partly for currency swap arrangements (totaling $7.5 billion for South Korea and Malaysia).

Japan also proposed the establishment of an Asian Monetary Fund (AMF) with a fund scale of some $100 billion, envisioning the participation of 10 countries in the region, including Australia. The AMF scheme was supported by the ASEAN countries and South Korea, but failed to materialize as the Untied States and the IMF strongly opposed it and China and Australia did not support it when the scheme was officially put on the table in September 1997, when annual meetings of the IMF and the World Bank took place in Hong Kong.

The reasons for the opposition or non-support, generally speaking, included concerns over potential moral hazards, redundancy of liquidity support functions and a possible decline in the influence of the opposing parties in Asia. Antipathy toward the Japanese initiative, lack of understanding the significance of the AMF scheme or diplomatic backstage deals may also have played a part.

While Japan's financial support was fully appreciated by the crisis countries, it cannot be denied that Japan's international influence dwindled in the course of the Asian crisis, reflecting the growing weight of China and also in part the strategic partnership between China and the U.S. administration of then President Bill Clinton. But the declining influence primarily stemmed from Japan's own problems, including the prolonged stagnation of the Japanese economy and the financial system instability. When the Japanese yen plunged to ¥148 to the U.S. dollar in the summer of 1998, there even emerged worries that Japan could trigger a second Asian crisis by inducing a competitive devaluation of currencies in the region. There were views that the best prescription for the region's economic reconstruction was Japan's economic recovery and expanded access to the Japanese market, but Japan was not in a position to meet those expectations at the time.

1.2.2 China

China was the only major country in the region that could escape the direct impact of the Asian currency crisis due to its closed economic system. In contrast with Japan, China was also successful in boosting its international influence in the course of the crisis. While countries in the region were forced to devalue their currencies one after another, the Hong Kong dollar fought an uphill battle against speculators and the Japanese yen plunged, the Chinese government declared it would not devalue the Chinese yuan and stuck with the international pledge to the end.[8] "Notwithstanding that the 1994 Chinese devaluation of the *renminbi* was a significant factor in the Asian financial crisis, the general view in the region is that China has behaved responsibly and cooperatively in efforts to mitigate the prospects of further financial volatility" (Dieter & Higgott, 2002, p. 38).

The AMF scheme was thwarted partly because of China's non-support. It is not hard to imagine that the United States and the IMF, since they are outsiders in the region, needed to draw a major regional country to their side to scuttle the Japanese initiative that was against the U.S. interests. "In the spring of 1999, China told Japan that it was not against the AMF, explaining that it previously said it was neutral toward the scheme because it did not fully understand its significance. China said that it is not yet too late to consider the idea and would like to study it together with Japan and other countries" (Sinohara, 2004, p. 70). China's about-face on the AMF can be viewed as reflecting its strong desire to display its leadership with the region, as do its participation in the Chiang Mai Initiative (May 2000) and Chinese Prime Minister Zhu Rongji's proposal for the conclusion of a free trade agreement between China and ASEAN (November 2000). China's shift toward a positive stance on regional cooperation roughly coincided with the time when its accession to the WTO became virtually certain.[9]

1.2.3 South Korea

South Korea's experiences in the Asian crisis offer ample implications in various aspects when

East Asia considers a regional monetary zone in the future. South Korea's case is regarded as a typical example of a crisis triggered by a liquidity shortage, not by an insolvency in the sense of economic collapse. The IMF provided South Korea with financial support on an unprecedented scale of over $58 billion ($21 billion from the IMF, $10 billion from the World Bank, and $5 billion from the Asian Development Bank, plus, as second-line reserves, $10 billion from Japan, $5 billion from the United States, and $8 billion from other countries), and also brought the great shock to South Korea's economy and society by imposing the controversial conditionalities to the financial package. South Korea was the first among the countries hit by the currency crisis to make an economic comeback, and repaid in full the loans from the IMF in 2001. From immediately after the crisis until now, South Korea has been contributing to regional financial cooperation with enthusiasm, in such forums as ASEAN+3 and the Asia-Europe Meeting (ASEM).

2. Current State of Regional Financial Cooperation

2.1 Regional Cooperation Organizations in East Asia

In an era of mounting regionalism, national interests may be undermined if countries cannot act in "regional units" like the EU and the North American Free Trade Agreement (NAFTA). In East Asia, there are no existing regional organizations carrying "East Asia" in their names. The framework of ASEAN+3 is now being broadened beyond trade and financial matters to include other important fields such as food, energy and health-related issues, and has the potential to be institutionalized in the future as the foundation of an "East Asian Community." If that happens, it would mean the development of an institutional environment favorable for the promotion of regional cooperation in the form of a free trade area and a monetary zone (Terada, 2004).

2.1.1 ASEAN+3 Finance Ministers Meeting

In accordance with the "Joint Statement on East Asia Cooperation" issued after an informal ASEAN+3 summit meeting held in Manila on November 28, 1999, the ASEAN+3 Finance Ministers Meeting was established to exchange information on economic and financial matters and consider regional cooperation in East Asia. The Finance Ministers Meeting has now developed into the most important regional institution to give shape to regional financial cooperation, with its track record including the Chiang Mai Initiative, Surveillance and Policy Dialogue Process, and the Asian Bond Market Initiative as well as various research and training programs.

The "Joint Statement on East Asia Cooperation" is the fundamental document positioned as the starting line for regional cooperation going forward. The statement's section related to financial cooperation reads: "(2) in monetary and financial cooperation, they agreed to strengthen policy dialogue, coordination and collaboration on the financial, monetary and fiscal issues of common interest, focusing initially on issues related to macroeconomic risk management, enhancing corporate governance, monitoring regional capital flows, strengthening banking and financial systems, reforming the international financial architecture, and enhancing self-help and support mechanisms in East Asia through the ASEAN+3 Framework, including the ongoing dialogue and cooperation mechanism of the ASEAN+3 finance and central bank leaders and officials."[10]

Table 1. Developments in Monetary and Financial Cooperation Seen in the "Joint Ministerial Statement of the ASEAN+3 Finance Ministers Meeting"

Time	Venue	Key Developments	Japan, China, South Korea
2nd meeting, May 2000	Chiang Mai	1. Agreed on the "Chiang Mai Initiative (CMI)." 2. Agreed to use the AEAN+3 framework for monitoring capital flows. 3. Agreed to establish a network of contact persons to facilitate regional surveillance. 4. Agreed to establish a network of research and training institutions.	Japan: Offered to provide technical assistance in the financial sector via the dispatch of experts. China, South Korea: Offered technical assistance to finance, banking and fiscal officials through training programs.
4th meeting, May 2001	Honolulu	1. Significant progress in implementing the CMI 2. Agreed to review the main principles of bilateral swap arrangements (BSAs) under the CMI in 3 years. 3. Agreed to exchange data on bilateral capital flows on a voluntary basis. 4. Agreed to establish a study group to examine ways of enhancing the effectiveness of economic reviews and policy dialogues. 5. Agreed on efforts toward developing an early warning system (EWS).	Japan: Offered financial assistance in the monitoring of capital flows and the study of mechanisms to promote financial stability. China: Arranged 2 training courses on China's economic reforms and development. South Korea: Organized an international seminar on EWS, proposed to organize a training program on financial and corporate restructuring.
5th meeting, May 2002	Shanghai	1. Significant progress in implementing the CMI 2. The Study Group on economic review and policy dialogue met twice, finance and central bank deputies will meet informally once a year (the first meeting held in April 2002). 3. Seven countries agreed on bilateral exchange of capital flows data. 4. Asian Development Bank (ADB) offered technical support for development of a regional EWS.	Japan: Japan-ASEAN Financial Technical Assistance Fund (JAFTA) contributed to strengthening capital flows monitoring systems. China: Plans to hold a seminar on short-term capital flows in Beijing, continued to arrange training courses on China's economic reforms and development.

6th meeting, August 2003	Makati	1. BSAs under the CMI are likely to be completed by year-end. 2. Agreed to strengthen ASEAN+3 policy dialogue. 3. Agreed to set up the ASEAN+3 Finance Cooperation Fund to support ongoing economic review and policy dialogue. 4. Agreed to strengthen the Asian Bond Market Initiative (ABMI). 5. Set up a research group to explore ways to promote financial stability in the region. 6. The ADB provided technical support for EWS and ABMI.	Japan: Made a financial contribution to research groups to promote financial stability, jointly organized with the ASEAN Secretariat a workshop on monitoring systems for short-term capital flows (Phase II). China: Continued to organize the training course on China's economic reforms and development.
7th meeting, May 2004	Jeju	1. The network of BSAs under the CMI grew to 16, with the combined size reaching $36.5 billion, finance ministers agreed to review the CMI to enhance its effectiveness. 2. Set up 6 working groups (WGs) for ABMI and the ABMI Focal Group to coordinate WG activities. 3. The ADB assisted in conducting "studies on credit guarantee mechanisms and regional clearing and settlement mechanisms." 4. The AsianBondsOnline website (ABW) launched to disseminate information on the region's bond markets. 5. Agreed to undertake 4 more studies following the first meeting (in March 2004) of the Research Group on regional financial cooperation.	Japan: Jointly conducted with Malaysia a study on the "impediments on cross-border bond investments and issuance," JAFTA provided technical assistance for regional bond market development, capital flows monitoring, and capacity-building for generating and compiling more accurate and timely data, Japan offered financial assistance for 4 new studies on financial cooperation. China, South Korea: Co-chaired the WG on "regional credit guarantee and investment mechanism." China: Provided financial assistance for 4 more studies on financial cooperation, offered to continue training courses on the regional economy and financial cooperation. South Korea: Offered to provide technical support for development of the regional bond markets.

Note: The third ASEAN+3 Finance Ministers Meeting was held in Prague in September 2000. (The table was prepared based on information obtained from the Ministry of Finance's website, as of July 2004.)

2.1.2 Executives' Meeting of East Asia and Pacific Central Banks

The Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) was launched in 1991 at the initiative of Japan to "strengthen the co-operative relationships" among member institutions, and now comprises 11 institutions.[11] For the first six years after its establishment, EMEAP held informal meetings behind closed doors. In 1996, however, the formal EMEAP Governors' Meeting was made an annual event, complemented by the Deputies' Meeting and the three Working Groups (currently, on Payment and Settlement Systems, Financial Markets, and Banking Supervision).

"The financial crisis in Asia affirmed the importance of EMEAP activities, which have nurtured the regional network of information exchange and mutual trust" (from "What is EMEAP" on the EMEAP website). Despite this self-evaluation, EMEAP kept a low profile until recently and did not publish its activities very much. EMEAP came into the spotlight when it announced the launch of the Asian Bond Fund (ABF) in June 2003. In April 2004, EMEAP announced the second phase of the Asian Bond Fund initiative (ABF2).

In the history of European monetary integration, the Committee of Governors of the central banks played an important role, complementing the Council of Economic and Finance Ministers, and vice versa. For instance, the Committee of Governors maintained the margin of fluctuations of currencies of countries participating in the European Monetary System (EMS) and undertook currency market intervention when necessary, and also managed the very short-term credit facility for financing market intervention as well as the European Monetary Cooperation Fund (EMCF) with the function of settling debts and credits. The Committee of Governors was reorganized into the European Monetary Institute (EMI) and then evolved into the European Central Bank (ECB). It is hoped that the central banks of East Asian countries will play a positive role together with the ASEAN+3 Finance Ministers Meeting in regional financial cooperation, either through EMEAP or in some other institutional form.

Table 2. Developments in Regional Financial Cooperation Related to the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP)

Time	Venue	Key Developments
1991-1996	Unknown	Informal, closed-door meetings
July 1996	Tokyo	1st Governors' Meeting; agreed to hold the Governors' Meeting annually ・Established the Working Group (WG) on Financial Market Development, the Working Group (WG) on Central Banking Operations, and the Study Group (SG) on Banking Supervision. ・Agreed to hold the Deputies' Meeting twice a year.
July 1997	Shanghai	2nd Governors' Meeting ・Reached consensus on the operation of a Virtual Secretariat (see the note below).
July 1998	Tokyo	3rd Governors' Meeting ・Agreed that the financial crises in Asia affirmed the importance of EMEAP activities. ・Reorganized the two WGs and the SG into three WGs (on Payment and Settlement Systems, Financial Markets, and Banking Supervision).
July 1999	Hong Kong	4th Governors' Meeting ・Welcomed the establishment of the Financial Stability Forum (FSF) and the participation of some countries from the region in the FSF.

July 2000	Seoul	5th Governors' Meeting ・Reaffirmed that the central banks and monetary authorities of member economies should assist in establishing deep and broad capital markets. ・Stressed the importance of strengthening the monitoring of financial market developments, including cross-border capital movements.
July 2001	Sydney	6th Governors' Meeting
July 2002	Kuala Lumpur	7th Governors' Meeting ・Established an information technology (IT) representatives' meeting.
June 2003 July 2003	 Bangkok	Announced the launch of the Asian Bond Fund (ABF) by EMEAP member central banks. 8th Governors' Meeting
April 2004 July 2004	 Singapore	Announced the structure of the second phase of the Asian Bond Fund (ABF2) by EMEAP member central banks. 9th Governors' Meeting ・Held the first meeting (joint high-level seminar) of EMEAP, the European Central Bank and Eurosystem National Central Bank Governors, simultaneously with the 9th EMEAP Governors' Meeting.

Note: The Bank of Japan performs the de facto secretariat function. (Prepared on the basis of information obtained from the EMEAP's website (http://www.emeap.org) as of July 2004.)

2.2 Regional Cooperation Organizations Cutting Across Other Regions

2.2.1 Asia-Pacific Economic Cooperation Forum

The Asia-Pacific Economic Cooperation (APEC) forum was established in 1989, and currently has a total of 21 member countries and areas: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States, and Vietnam. APEC is an inter-governmental group based on nonbinding commitments to facilitate economic growth, cooperation, trade and investment in the Asia-Pacific region.

The relative importance of APEC for East Asian countries seems to have declined after the forum proved to be ineffective in responding to the Asian crisis and also because of the enhanced role of ASEAN+3 as a regional institution. "APEC might be a forum in which members of a heterogeneous region might talk, but it does not represent a case of actual regional integration, or indeed major regional policy coordination" (Dieter & Higgott, 2002, p. 8). However, the objective of establishing APEC still holds validity, and APEC has significance of its own in terms of the depth of dialogue with the private sector (the APEC Financiers' Group (AFG), the APEC Business Advisory Council (ABAC), and the Pacific Economic Cooperation Council (PECC)) and the inclusion of Taiwan as a member.[12]

At the request of the APEC Leaders' Meeting held in Seattle in 1993, the APEC finance ministers' meeting was created in 1994 to exchange information and opinions on the regional economy at large. At the 10th APEC Finance Ministers Meeting held in Phuket, Thailand, in 2003, "Regional Bond Market Development" was addressed as one of the key themes. Furthermore, the 10 policy initiatives the finance ministers will review on a continuing basis include items useful in regional cooperation in East Asia, including "voluntary action plan for supporting freer and more stable capital flows," "financial regulators training initiative," "APEC finance and development program to strengthen capacity building for APEC members in the areas related to finance and development," and "development of securitization and credit guarantee markets."

2.2.2 Asia-Europe Meeting

The first summit of the Asia-Europe Meeting (ASEM) was held in Bangkok in March 1996, drawing together the heads of state and government from 25 countries. Participating from Asia were 10 countries (ASEAN member states other than Cambodia, Laos and Myanmar, and Japan, China and South Korea), while the 15 EU members and the European Commission joined in from Europe. ASEM was established with the recognition that the link between Asia and Europe was weak relative to U.S.-Europe relations across the Atlantic and the trans-Pacific APEC. ASEM summit meetings take place every two years. The fifth ASEM Summit was held in Hanoi in October 2004, and the next meeting is scheduled for 2006 in Finland. The expansion of the EU to 25 members in May 2004 gave rise to the issue of the expansion of ASEM membership. While the Europeans regarded the inclusion of the 10 new EU members into ASEM as a self-evident course of action, they opposed the inclusion of the three remaining ASEAN members, citing human rights problems in Myanmar. As both sides failed to work out a compromise, the sixth ASEM finance ministers' meeting and economic ministers' meeting set to take place in Brussels and Rotterdam, respectively, in July 2004 were called off.

The first ASEM finance ministers' meeting took place in 1997, and was held every two years until the Kobe meeting in 2001, then every year starting with the Copenhagen meeting in 2002. At the Kobe meeting, the finance ministers agreed on the "Kobe Research Project," under which research was conducted on the theme of regional financial cooperation to make use of the European experience of monetary integration for future developments in East Asia. The results of research were reported at the Copenhagen meeting.

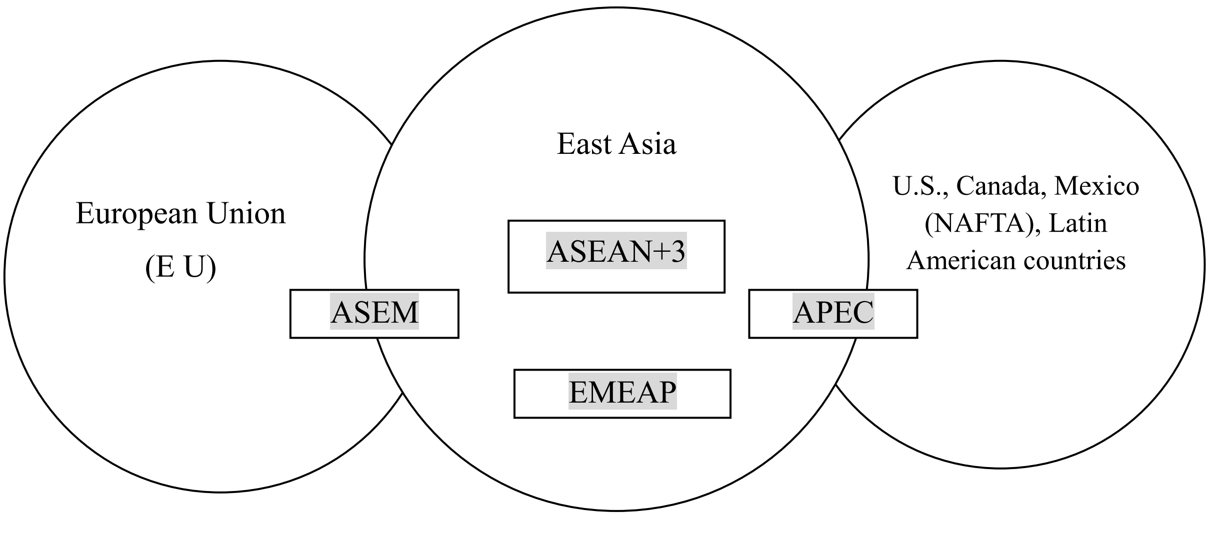
Table 3. ASEM Kobe Research Project: Research Areas and Countries, Institutions in Charge

Research Area	Countries/Institutions in Charge
1. Exchange rate regimes in East Asian emerging economies and new EU members	Japan, France, ECB, ADB, IMF
2. Currency system: Europe's experience and its implication for East Asia.	The Netherlands, Thailand, ECB
3. Strengthening of financial cooperation and surveillance.	Japan, South Korea, China, Australia, IMF
4. Strengthening and integration of regional monitoring: method, stage and sequence.	EC、ADB
5. Prospects for the financial system in Europe and Asia: case studies of Spain and China.	China, Spain, ADB
6. Regional currency systems and China.	China, France

Source: Ministry of Finance

At the fourth ASEM Summit in Copenhagen, an agreement was forged on the establishment of a task force "towards a closer ASEM economic partnership." The task force considered trade and investment as well as financial matters such as the development of bond markets in Asia, and submitted its final report and recommendations to the Hanoi Summit in 2004. The recommendations of the Task Force for Closer Economic Partnership included the establishment of a Virtual ASEAM Secretariat and issuance of bonds in a basket of currencies.

Chart 1. Where Major Regional Cooperation Organizations Stand



2.2.3 Others

In November 1997, immediately after the Asian Monetary Fund (AMF) scheme was aborted, the United States, the IMF, Japan and other countries agreed to create the Manila Framework Group (MFG).[13] The MFG members included Australia, Brunei, Canada, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States. The MFG was launched as a framework for coordinated support in place of the aborted AMF scheme. In reality, however, it was a regional surveillance organization attended by deputies to finance ministers and central bank governors, with administrative support coming from the IMF's Regional Office for Asia and the Pacific. The MFG initially met twice a year, but the frequency of meetings was reduced to once a year in 2003, and the MFG was disbanded at the end of 2004.

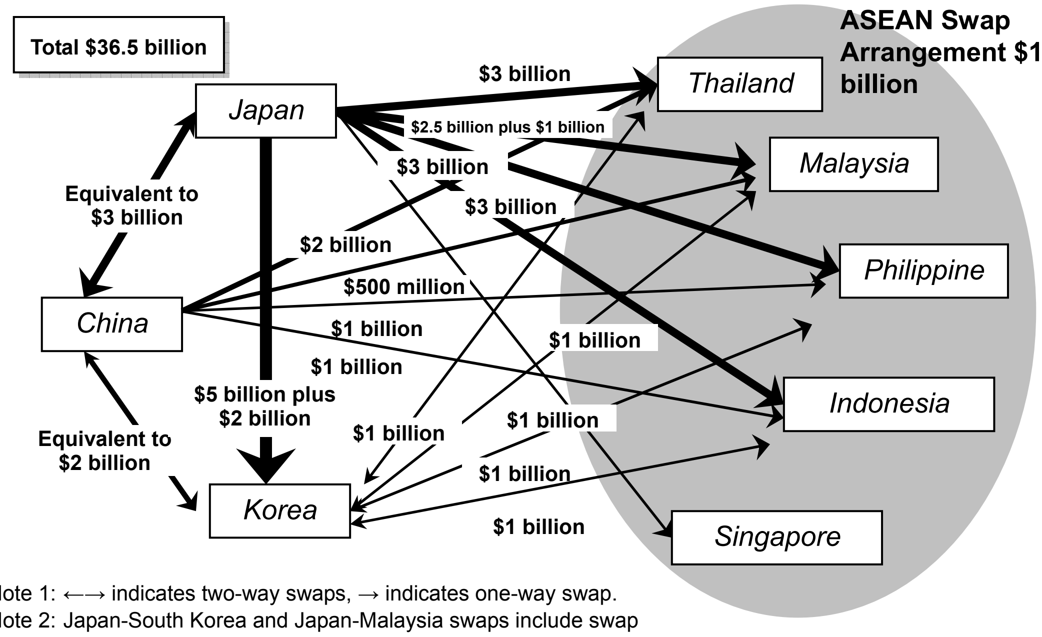
In June 2002, the Asia Cooperation Dialogue (ACD) was inaugurated at the initiative of Thai Prime Minister Thaksin Shinawatra, with the first ministerial meeting held in Cha-Am in Thailand with the participation of ministers from 17 countries of South Asia, West Asia, Southeast Asia and Northeast Asia.[14] The ACD is designed for "an informal and free exchange of views from the standpoint of Asia's bargaining power by bringing out the potential of Asian countries and strengthening the region's competitiveness." The ACD's activities so far did not cover regional financial cooperation to avoid the overlapping of activities by other existing regional institutions, but included meetings on several themes, such as the working group on the development of legal systems. Given its pan-Pacific geographic coverage, the ACD has the potential to develop into a regional institution of great importance in the future.

2.3 Current State of Regional Financial Cooperation

2.3.1 Chiang Mai Initiative

"In order to strengthen policy dialogue, coordination and collaboration on the finance, monetary and fiscal issues of common interest, focusing initially on the strengthening of our self-help and support mechanisms in East Asia," the ASEAN+3 Finance Ministers Meeting agreed on the Chiang Mai Initiative (CMI) in May 2000. The CMI, designed to build a regional network of bilateral currency swap arrangements to prevent and solve any currency crisis by providing needed liquidity, consists of (i) the expansion of the existing ASEAN Swap Arrangement (ASA) and (ii) the establishment of a network of bilateral swap arrangements between the ASEAN member countries and Japan, China and South Korea.

Chart 2. Network of Bilateral Swap Arrangements under the Chiang Mai Initiative (as of the end of December 2003)



Note 1: ←→ indicates two-way swaps, → indicates one-way swap.
Note 2: Japan-South Korea and Japan-Malaysia swaps include swap arrangements under the New Miyazawa Plan (Japan-South Korea $5 billion, Japan-Malaysia $2.5 billion).
Note 3: Japan-China swap between the yen and the yuan, China-South Korea swap between the yuan and the won, China-Philippines swap between the yuan and the peso, all other swap arrangements between the U.S. dollar and local currencies.

Source: Ministry of Finance

(I) The ASA was modified in November 2000, with the total size increased from $200 million to $1 billion and the participating countries expanded from the five countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand to include all ASEAN member states. The swap period is up to six months, and can be renewed for a period not exceeding six months.

(II) By the end of 2003, a total of 16 bilateral swap arrangements were concluded (13 arrangements were between the five ASEAN countries and Japan, China and South Korea, and three arrangements were among Japan, China and South Korea) for a combined size of $36.5 billion, effectively achieving the initial goal.[15] Currencies can be withdrawn for a period of 90 days under swap arrangements, which can be renewed up to seven times. The applicable interest rate is Libor (London interbank offered rate) plus 150 basis points (bp=0.01%), the level of interest rate is raised with each renewal up to 300 bps. A country seeking liquidity support can withdraw up to 10% of the facility provided, but must accept collateral conditions linked to the IMF support program to withdraw the remaining 90%.

The CMI is of epoch-making significance as the first concrete mechanism for regional financial cooperation in East Asia. But it still has at least three flaws to be fully effective in preventing and responding to a currency crisis of the scale of the Asian crisis. First, the structure of the network of bilateral arrangements makes withdrawal procedures cumbersome, hampering the maneuverability of fund mobilization. Secondly, the combined size of the network of bilateral arrangements is too small, in light of the scale of the $116.7 billion of support packages put together by the IMF to deal with the Asian crisis. Thirdly, the requirement that withdrawals of the 90% of the facility must be linked to an IMF program undermines the effectiveness of the CMI scheme as a whole, whether the requirement is designed to prevent potential moral hazards or was necessary to obtain the understanding of the IMF and the United States. Suppose Indonesia seeks liquidity support. If Indonesia wants to borrow a total of $5 billion, it should first negotiate separately with Japan, China and South Korea. If negotiations go smoothly, Indonesia can withdraw 10% of the entire amount, $500 million immediately, but it has to wait until an IMF support program is worked out before it obtains the remaining $4.5 billion.

The ASEAN+3 Finance Ministers Meeting held in Jeju, South Korea, in May 2004, agreed on the need to undertake a review of the CMI to explore ways of enhancing its effectiveness. A working group was organized under the joint chairmanship of China and Singapore to conduct the review, and it is to report the outcome of the review to deputy finance ministers.

2.3.2 Surveillance and Policy Dialogue

The weakest form of financial cooperation is a simple exchange of information on economic indicators and other matters of individual countries, not designed to influence other countries' macroeconomic policies in any way. As regional cooperation increases in intensity, "surveillance" that goes beyond the simple exchange of information to include opportunities to jointly discuss country reports, or the process of discussions among members for peer pressure to avoid or mitigate possible adverse effects of their respective domestic economic policies on the entire region, becomes necessary (Montiel, 2004). For such surveillance to be effective, there should be a consensus among members on the objectives of the surveillance, country reports should be prepared based on reliable statistical data, the exchange of information and policy dialogue should be conducted substantively and in a straightforward manner, and an outline of discussions held and subsequent recommendations should be publicized.

In October 1998, the ASEAN finance ministers launched the ASEAN Surveillance Process to strengthen the policymaking capacity through the monitoring of macroeconomic indicators and consideration of sectoral social policies. The ASEAN Surveillance Coordination Unit (ASCU) within the ASEAN Secretariat in Jakarta prepares the ASEAN Surveillance Report for discussion by the ASEAN finance ministers during their peer review session twice a year. The Asian Development Bank supports and participates in the Process.

In May 2001, the ASEAN+3 Finance Ministers Meeting agreed to introduce the economic review and policy dialogue (ERPD) process. Under the ERPD process, ASEAN+3 finance and central bank deputies meet annually, making efforts to strengthen the process by taking the following steps: (i) an exchange of data on capital flows; (ii) development of an early warning system with technical support from the Asian Development Bank; (iii) capacity-building for monitoring and data compilation with financial assistance from the Japan-ASEAN Financial Technical Assistance Fund (JAFTA); and (iv) establishment of the ASEAN+3 Finance Cooperation Fund. But, with no separate secretariat to prepare country reports or no independent professional organization to support it, "the ASEAN+3 ERPD Process has not yet been as effective as it should be" (IIMA, 2004, p. 70).

The fundamental reason why the ERPD Process is not functioning as intended appears to lie in the lack of consensus on the relationship between the purpose of the Process and the CMI.[16] "Participating countries have little objection to the view that the CMI needs to have an independent monitoring and surveillance system. The system is designed to monitor economic developments within the region, function as an institutional framework for policy dialogue and coordination among participating countries, and notify countries using bilateral swap arrangements of structural reforms and policy changes. But participating countries failed to agree on the issue of surveillance, and their accord was limited to the institutionalization of informal policy reviews and dialogue by finance deputies. At the present stage of the CMI, many participating countries are hesitant about creating an independent regional monitoring and surveillance organization as part of the CMI" (Park & Wang, 2004, p. 3).

2.3.3 Development of Asian Bond Markets

The heavy dependence on bank loans for capital spending and other long-term funds, coupled with the underdeveloped bond markets, exacerbated the Asian currency crisis through the concentration of risk on the banking sector and the dual mismatches of investment and fund-raising currencies and maturities. Referring to these structural causes of the Asian crisis, then Finance Minister Kiichi Miyazawa called for the creation of an Asian bond market at the APEC finance ministers' meeting on May 15, 1999, saying, "We must solve the problem of currency and maturity mismatches going forward through a reliable financial intermediation function by the establishment of an efficient bond market."

A research report by the Institute for International Monetary Affairs (IIMA) defines Asian bonds as "bonds that are issued by the government, quasi-government, financial institutions, or non-financial corporations in Asian countries, denominated in an Asian currency, and issued, traded, cleared and settled in Asian financial centers, such as Tokyo, Hong Kong, and Singapore" (IIMA, 2004, p. 72). This definition does not make a clear distinction between so-called Eurobonds (Asian currency-denominated bonds issued and traded in offshore financial centers, for example, Chinese yuan-denominated Asian Development Bank bonds issued in Singapore) and foreign bonds (Asian currency-denominated bonds issued by foreign issuers and traded on Asian countries' domestic markets, for example, Chinese yuan-denominated bonds issued in China by the Asian Development Bank). This distinction is important in discussions about the development of a bond market for non-convertible Asian currencies (the Chinese yuan and many other currencies in the region) or convertible Asian currencies countries of which are not forthcoming about their internationalization (the Singapore dollar, for example).

Table 4. Official Initiatives for Asian Bond Market Development

	Asian Bond Markets Initiative (ABMI)	Asian Bond Fund Initiative (ABF Initiative)
Promoter	ASEAN+3 Finance Ministers Meeting Process	EMEAP (Executives' Meeting of East Asia and Pacific Central Banks)
Focus	Bond issuer-centered approach Efficient allocation of the region's private savings	Bond investor-centered approach Utilization of foreign exchange reserves of the region's countries
Immediate objectives or activities	Focus on improving the environment for an expansion of bond issuers, issuance of local currency-denominated bonds, bond market development. Achievements by the end of 2004 include issuance of the Malaysian ringgit-denominated Asian Development Bank bond, the Thai baht-denominated corporate bond guaranteed by the Japan Bank for International Cooperation, South Korea's pan-Asia bond.	In 2004, the ABF1, using a pool of part of the exchange reserves ($1 billion), invested in dollar-denominated government bonds issued by Asian countries. Currently, the government bond investment fund for local currency-denominated Asian bonds (ABF2) is under consideration. During 2005, exchange reserves will be invested in two kinds of funds (for a total of $2 billion), which are to be opened to private-sector investors later.

Sources: Ministry of Finance, newspaper articles, etc.

Government-level initiatives are essential in order to establish a regional bond market with the component domestic markets of countries within the region that have common or harmonized rules, market practices and other software and hardware infrastructures. The involvement of all governments in the region is also important, because, unlike Europe, East Asian countries are quite divergent in terms of the size and development stage of financial and capital markets. At present, the important official initiatives for the development of Asian bond markets are (i) the Asian Bond Markets Initiative (ABMI) of the ASEAN+3 Finance Ministers Meeting and (ii) the Asian Bond Fund (ABF) initiative led by EMEAP.

(I) Asian Bond Markets Initiative[17]

The objective of the Asian Bond Markets Initiative (ABMI) is described as the development of a regional bond market that is liquid for both bond issuers and investors, by making possible the issuance of bonds in a variety of currencies and maturities in large amounts as well as efficient secondary trading in such bonds through improved market infrastructures including guarantee facilities and bond ratings. The ultimate goal is to develop a market where Asian private-sector issuers can place bonds denominated in Asian currencies and utilize private-sector savings in Asia for long-term private capital formation.

The ABMI was first proposed by Japan at an informal ASEAN+3 meeting in December 2002. Subsequently, six working groups were created on the basis of voluntary participation. The working groups are consulting regularly with a wide range of market participants to ensure that the results of their discussions meet the requirements of the private sector and investors. Currently, priority is given to the development of domestic bond markets of participating countries. The working groups, which provide progress reports through the ASEAN+3 Finance Ministers Meeting process, is chaired by the following countries:

(a) Creating new securitized debt instruments (Thailand)
(b) Credit guarantee mechanisms (South Korea)
(c) Foreign exchange transactions and settlement issues (Malaysia)
(d) Issuance of bonds denominated in local currency by Multilateral Development Banks (MDBs), foreign government agencies and Asian multinational corporations (China)
(e) Local and regional rating agencies (Singapore and Japan)
(f) Technical assistance coordination (Indonesia, the Philippines and Malaysia)

Problems that should be addressed going forward include measures to encourage a wide variety of bond issuers to use the market and medium- and long-term improvements in the market infrastructures (both software and hardware). The following is the excerpt of the Chairman's Press Release on the Asian Bond Markets Initiative, announced at the ASEAN+3 Finance Ministers Meeting held in Makati, the Philippines, on August 7, 2003.

A. Facilitating Access to the Market through a Wider Variety of Issuers

A robust primary and secondary bond market in Asia requires a wide variety of issuers and products that could be addressed by encouraging:
(1) Sovereign bond issuance by Asian governments to establish benchmarks;
(2) Asian government financial institutions to issue bonds in Asia to meet their financing

requirements[18];

(3) The creation of asset-backed securities markets, including collateralized debt obligations (CDOs)[19];

(4) Bond issuance in the region by MDBs and government agencies[20];

(5) Bond issuance in the region for funding foreign direct investment in Asian countries[21]; and

(6) The expansion of local currency-denominations of bonds- introduction of currency-basket bonds.

B. Enhancing Market Infrastructure to Foster Bond Markets in Asia

To develop efficient and deep domestic and regional bond markets, there must be a conducive environment for the active participation of both issuers and investors. In this context, the following issues merit further consideration:

(1) Provision of credit guarantees through the active use of existing guarantors and the possible establishment of an Asian Regional Guarantee Facility[22];

(2) Strengthening of the rating system by enhancing the role of domestic rating agencies, as well as considering the possible establishment of an Asian Credit Rating Board[23];

(3) Establishment of a mechanism for disseminating information on issuers and credit rating agencies[24];

(4) Facilitating foreign exchange transactions and addressing settlement issues on cross-border transactions[25];

(5) Enhancing capacity building through market research and technical assistance programs for the promotion of policy dialogue and human resources development among member countries; and

(6) Examining the legal and institutional infrastructure, such as company/corporate laws, securities transaction laws and tax laws.

(II) Asian Bond Fund Initiative

EMEAP announced the launch of the Asian Bond Fund (ABF) in June 2003. The ABF, with an initial size of $1 billion, invested in U.S. dollar-denominated bonds issued by Asian sovereign and quasi-sovereign issuers in EMEAP economies (other than Japan, Australia and New Zealand), managed by the Hong Kong office of the Bank for International Settlements (BIS). Foreign exchange reserves of East Asian countries have previously been invested primarily in European and U.S. government bonds with high creditworthiness and liquidity. The creation of the ABF is expected to contribute to the development of regional bond markets by bringing back some of those investments to bonds by issuers in the region. The ABF is likely to contribute to diversifying risk and enhancing profitability of the reserve assets of EMEAP central banks, but also reduces their liquidity. The entire amount of the initial fund of $1 billion had been invested by the second quarter of 2004.

In April 2004, the EMEAP central banks announced in a press release the progress of the development of the second phase of the Asian Bond Fund initiative (ABF2). The ABF2 will invest in local currency-denominated bonds by sovereign and quasi-sovereign issuers in EMEAP economies, and is also being designed in such a way that will facilitate investment by other public and private-sector investors. In that sense, the ABF2 is expected to contribute to the development of the regional bond markets to a greater extent than the first phase of the ABF, whose investment was limited to dollar-denominated bonds. The press release said, "Individual EMEAP economies can leverage on the interest and momentum generated from the collective investment in ABF2 to further develop their domestic bond markets as appropriate. In connection with this, the relevant EMEAP members will work with the relevant authorities to improve the market infrastructure by identifying and minimizing the legal, regulatory and tax hurdles in their markets, thereby facilitating the creation of fixed income products in the region."[26] In December 2004, EMEAP released a press statement on the launch of the Pan-Asian Bond Index Fund (PAIF) and the Fund of Bond Funds (FoBF), both of which invest in domestic currency bonds issued by sovereign and quasi-sovereign issuers in the eight EMEAP markets. These investment trust instruments represent landmark attempts particularly because of the following points: 1. they effectively give currencies of denomination convertibility, albeit on a limited scale; 2. they opened the way for nonresidents to invest in domestic bonds of Asian countries; and 3. they are set be opened to private-sector investors.

2.3.4 Research and Training Programs

Research activities and training programs have big roles to play in facilitating financial cooperation in East Asia with only a brief history of regional cooperation. Through the ASEAN+3 Finance Ministers Meeting process, EMEAP, ASEM and other frameworks, Japan has been financing many research projects either directly or indirectly via the Japan-ASEAN Financial Technical Assistance Fund (JAFTA).

Japan, China and South Korea are actively participating in information exchanges, technical assistance, seminars and workshops on human resources development, and other research and training programs in the fields of their respective strength or in line with their respective policy intentions. Japan is the de facto driver in all areas of regional financial cooperation, particularly focusing on the monitoring of capital flows, statistical data development and surveillance. China and South Korea are contributing to regional cooperation by starting with developments of China's economic reforms and opening and South Korea's experiences of financial and corporate restructuring in the wake of the Asian crisis, respectively, with both countries gradually broadening their areas of participation.

Table 5. Research Themes and Countries/Research Institutes in Charge of the ASEAN+3 Research Group

	Research Themes	Countries/Research Institutes in Charge
2003	(1) Towards a Regional Financial Architecture for East Asia	Japan (coordinator): Institute for International Monetary Affairs China: Chinese Academy of Social Sciences (CASS) South Korea: Korea Institute for International Economy Policy (KIEP) Thailand: Thailand Development Research Institute (TDRI) Indonesia: DRI
	(2) An Exchange Rate Arrangement for East Asia	Japan (coordinator): Japan Center for International Finance (JCIF) Philippines: UPECON Foundation Malaysia: MIER Singapore: Singapore Management University (SMU)
2004	(1) Economic Surveillance and Policy Dialogue in East Asia (2) Trade, Investment and Financial Integration in East Asia (3) Exploring Ways to Enhance the Functions of the Chiang Mai Initiative in the Medium Term (4) The Role of Private Sector Development in Regional Economic Growth and Financial Integration	Japan: Institute for International Monetary Affairs (coordinator) Japan: Daiwa Institute of Research (coordinator) China: Chinese Academy of Social Sciences (coordinator) China: Wuhan University (coordinator)

Note: The Japan-ASEAN Financial Technical Assistance Fund (JAFTA) provided funding in FY2003, and JAFTA and China provided funding in FY2004.

Sources: Ministry of Finance, ASEAN Secretariat (http://www.mof.go.jp/jouhou/kokkin/ASEAN+3research.htm,http://www.aseansec.org)

The participants of the ASEAN+3 Finance Ministers Meeting in August 2003 agreed to set up the Research Group to "explore ways to further strengthen financial cooperation and promote financial stability in the region." The Research Group took the form of being commissioned by the ASEAN Secretariat, and Japan provided financial assistance for this research activity. The results of the research was reported at the first meeting of the Research Group held in Manila in April 2004, where it was decided to conduct research on four themes in the following year. For the second-year research activities, China, together with Japan, offered to provide financial assistance, a noteworthy development indicating China's proactive stance toward regional financial cooperation.

3. Prospects for an East Asian Monetary Zone and Roles of Japan, China, and South Korea

3.1 Prerequisites and 3 Requirements for the Formation of a Regional Monetary Zone

Since the emergence of the common currency, the euro, in Europe at the end of the last century, the "common currency (single currency)" in East Asia as a long-term regional goal has become a constant subject of comments by politicians, media articles and academic theses. A report by the aforementioned ASEAN+3 Research Group does not entirely rule out an East Asian common currency as a possibility in the distant future, but discusses steps toward the creation of a regional currency system in East Asia, modeled on developments in Europe since the 1970s, as a more realistic issue. "Not all but many papers…agree on that the growing closeness of the East Asian economies will eventually make adjustments and stability of exchange rates in the region necessary" (JCIF, 2004, page ii).

3.1.1 Prerequisites for the Formation of a Regional Monetary Zone

This section examines the European Monetary System (EMS), which functioned for a period of 20 years and paved the way for the birth of the euro in 1999, as an example of a regional monetary zone. The EMS was the regional fixed exchange rate regime, under which the exchange rates of currencies of participating countries were mutually fixed within a narrow band of fluctuations (of 2.25% either way before 1993) while they were allowed to fluctuate unrestrained against currencies outside the region. The central rates of participating countries, determined against the value of the European Currency Unit (ECU), a denominator, had to be adjusted over 10 times, and were occasionally exposed to currency speculation as in the 1992-1993 European currency crisis. The EMS was far from a perfect monetary system, but had been sustained without resorting to external financial support (from the IMF, for example), contributing to Europe's economic integration by maintaining currency stability.

Certain prerequisites are necessary if a regional currency system is to realize its objectives by overcoming internal constraints as well as external shocks. They are the convertibility of participating currencies, sound banking systems and financial and capital markets, and the existence of a political consensus to maintain the regional currency regime.

(I) Currency Convertibility

Major European currencies restored their convertibility in current transactions by 1958, and were traded freely on the foreign exchange market by the time the European Monetary System was inaugurated in 1979. While many EC countries maintained some restrictions on capital transactions until the end of the 1980s, an important factor behind the success of the EMS is the fact that the currencies of participating countries were traded on the market freely against one another, and in particular against the German mark as an intermediary currency, allowing the ECU, a basket of currencies, to be synthesized easily on the market. In East Asia, currencies having convertibility in this sense are limited to the Japanese yen, the Hong Kong dollar and the Singapore dollar (and probably the Korean won in the near future), with capital transactions in most other Asian currencies being restricted.

(II) Sound Banking Systems, Financial and Capital Markets

Bank supervision in Europe is strict, and principal information regarding stability of the financial system was shared among the financial authorities of countries in the region or through the Bank for International Settlements (BIS) in Basel. Even under the EMS, large exchange rate fluctuations or currency crises were not exceptional events in Europe. The fact that they did not result in any financial crisis or economic crisis can be largely attributable to the sound banking systems. Furthermore, currency market intervention to maintain the central rates of the participating currencies proved effective only because of the existence of an efficient foreign exchange and financial markets with depth and breadth. The financial authorities of East Asian countries are now addressing these issues, and their efforts are being complemented by the ASEAN+3 Finance Ministers Meeting process and EMEAP.

(III) Political Consensus and Leadership

It is extremely important that political leaders share the political will to give priority to concerted efforts to maintain a regional currency system over short-term gains for home countries. The “Snake” (the joint float regime for EC currencies), the predecessor of the EMS, failed because of the lack of such political consensus, while the success of the EMS owed much to the unity of Continental countries led by France and Germany. This unity was clearly demonstrated by the French government when it decided in 1983 to stay within the EMS, abandoning its inflationary growth policy and accepting the EC’s medium-term financial support and conditionality. In East Asia, too, awareness of the importance of the political leadership is growing. However, “whether the medium-term goal (of exchange rate stability within the region) will be realized…depend on whether member countries have the will to make political compromises. It will likely be considerable time before such political leadership can be formed in East Asia” (IIMA, 2004, p. 15).

3.1.2 Three Requirements for a Regional Monetary Zone

The three basic requirements for a regional monetary cooperation system are a common exchange rate system, a liquidity support mechanism or credit facilities, and multilateral surveillance and policy dialogue. In the EMS, exchange rates of the participating currencies were fixed and adjusted through the Exchange Rate Mechanism (EMR). The EMR determined the central rates of the participating currencies in terms of the ECU, fixed the upper and lower limits of the fluctuation bands, and required central banks to conduct market intervention to maintain the central rates and fluctuation bands as appropriate. The credit system comprised of central banks' liquidity support and EC credit facilities. The former, designed to finance central bank intervention on the currency market, consisted of the very short-term financing for unlimited amounts with no conditionality attached and the short-term monetary support for a period of three months, in principle, with subsequent consultations about the economic situation of a borrowing country. The latter was the EC's medium-term (two to five years) credit facility (the medium-term financial assistance) for member countries with balance of payments difficulties, with borrowing countries required to abide by economic policy conditions. The multilateral surveillance was conducted, in effect, by the Council of Economic and Finance Ministers, the European Commission and the Committee of Governors of the Central Banks.

(I) Common Exchange Rate Regime

In East Asia, an exchange rate arrangement, the core of any regional monetary system, remains nothing more than an academic theme and has yet to become an item on the political agenda at the regional level. This is primarily because regional financial cooperation in East Asia started as a crisis prevention endeavor in the wake of the Asian currency crisis and was not designed as an effort to stabilize exchange rates, which would require coordination of a complicated web of national interests. The situation is quite in contrast to Europe, which from the beginning attempted to establish a common exchange rate regime because currency stability was essential for maintaining the customs union and the common agricultural policy (CAP) of the European Economic Community. In East Asia, as economic relations among the region's countries grow closer, the issue of exchange rate adjustments is expected to go higher in the region's list of political priorities going forward. At the third ASEM Finance Ministers Meeting held in Kobe in January 2001, then Chinese Finance Minister Xiang Huaicheng said, "Collaboration on an exchange rate regime is an advanced form of regional financial cooperation. We support the ongoing and in-depth studies on regional monetary cooperation, drawing on European experiences in this respect."[27]

(II) Liquidity Support Mechanism

The Chiang Mai Initiative (CMI) is important as the first concrete case of regional financial cooperation. The CMI is now under review, and the outcome of the review is set to be reported to the ASEAN+3 Finance Ministers Meeting in 2005. Items for consideration likely to be cited in the review report include the following: (a) clarification of the ultimate objective of the CMI; (b) an increase in the combined size of swap arrangements; (c) a mechanism for the simultaneous activation of multilateral or bilateral swap arrangements and the ASEAN Swap Arrangement (ASA); (d) lessening or elimination of the link with IMF programs; and (e) a stronger institutional arrangement for liquidity support, such as joint contributions of foreign exchange reserves (IIMA, 2004, p. 2). If a common exchange rate regime is put into place in East Asia in the future, it would require a mechanism of credit facilities with diverse purposes and maturities.

(III) Multilateral Surveillance and Policy Dialogue

The economic review and policy dialogue (ERPD) in the ASEAN+3 Finance Ministers Meeting framework remains an informal process and "has not yet been as effective as it should be." The multilateral surveillance process, which goes beyond a simple exchange of information and comprises the monitoring of macroeconomic indicators of the countries concerned, policy dialogue and peer pressure, will have difficulty in functioning with practical effects unless its objective is made amply clear. In order to sever the CMI from IMF programs, it is deemed essential for East Asia to have a credible and independent surveillance function. However, many countries in the region are less than enthusiastic about embracing the cumbersome surveillance that would constrain their domestic macroeconomic policies and structural reform policies. Moreover, as long as countries in the region separately maintain their floating exchange rate systems, the risk of currency speculation is relatively small and there is little likelihood that these countries will have to mobilize the network of swap arrangements under the CMI. In the future, if they need to adjust exchange rates at the regional level under the common exchange rate system, multilateral surveillance will be of significant importance and the CMI or other liquidity support mechanisms need to be drastically strengthened. Also important is the network of information exchanges among central banks in the region, including EMEAP.

3.2 Roles of Japan, China and South Korea in the Formation of a Regional Monetary Zone

3.2.1 Japan

After China and ASEAN concluded the "Framework Agreement on Comprehensive Economic Cooperation" in November 2002 and Japan and ASEAN agreed on the "Framework for Comprehensive Economic Partnership" in November 2003,[28] a number of free trade agreements were concluded or are under negotiations in East Asia. These developments in trade, investment, services and other aspects of the real economy should increase the extent of interdependence within the regional economies and encourage moves in the future toward the establishment of a regional monetary zone.

"The ASEAN+3 countries may have an incentive to expand the CMI in parallel with negotiations on the establishment of a free trade area in the region. In reality, however, free trade discussions appear to be eroding the willingness of many East Asian countries to get involved in the CMI negotiations" (Park & Wang, 2004, p. 9). If this view is correct, the only way to make this important form of financial cooperation successful would be for Japan, as an originator of the CMI, to exert even greater leadership. Regional cooperation in the financial field has just got off the ground in recent years, mainly through the ASEAN+3 framework and EMEAP. When envisioning the establishment of a regional monetary system not only for preventing and dealing with a currency crisis but for ensuring the stability of currencies within the region, regional financial cooperation in its current form is only at the beginning of the long road ahead.

The establishment of the regional monetary system would require the three elements of arrangement for exchange rate adjustments, the credit facility, and multilateral surveillance. The first element has yet to be put on the regional political agenda, and the second and third elements have yet to be firmly put into practice in the region. The responsibility of Japan is to push forward with this long-term project by coordinating the diverse interests of the region's countries. At the same time, it is obvious that Japan cannot lead the entire East Asia single-handedly. Japan should exert its leadership in collaboration with other major countries in the region, particularly China. As seen in its first financial contribution to the ASEAN+3 Research Group in 2004, China has turned positive toward regional financial cooperation.[29] Japan and China together must act as the driving force toward realizing a regional monetary zone in East Asia.

Japan's status as leader of East Asia has been visibly undermined since the 1990s. The rise of China and its growingly closer relations with the ASEAN countries certainly had some impact, but the decline of Japan is primarily attributable to its own problems that greatly disappointed neighboring countries as well as the entire world. Japan's long economic stagnation and non-performing loan problems at major Japanese banks appear to have peaked out in 2003, but careful economic management is still needed to put sustained economic growth on a secure footing. Domestic groups with vested interests in agricultural and other sectors are continuing to stand in the way of Japan's free trade negotiations. Despite the longstanding call for the internationalization of the yen, progress toward that goal is at a snail's pace.[30] All these problems will affect Japan's restoring of international confidence in its leadership in the region.

3.2.2 China

In recent years, China's international influence has been growing remarkably in East Asia as well as on the global scene. The growing influence is backed by the high economic growth under its reform and opening policy in the last two decades as well as by expectations of its continued growth going forward. Needless to say, China's economic advancement and the resulting rise in the living standard of Chinese people are welcome developments. They will also contribute to making regional economic relations come closer through free trade agreements and regional financial cooperation.

In the area of regional financial cooperation, China began to make proactive efforts toward building a regional financial architecture in East Asia. Together with Singapore, China co-chairs the working group on the review of the Chiang Mai Initiative. The outcome of the review is a matter of great interest because it should indicate whether China, as the co-chair of the working group, is willing to pave the way for an Asian Monetary Fund (AMF), an idea that it once refused to support in the past. As part of the Asian Bond Markets Initiative, China is now considering allowing the domestic placement of yuan-denominated bonds by the Asian Development Bank and governmental financial institutions of other countries.[31]

For China to become the driving force, along with Japan, for the realization of the regional monetary system over the long term, one import condition must be satisfied: the Chinese yuan must have complete convertibility and also become an international currency. The yuan's convertibility in both current and capital transactions is important at least in two ways. First, it signifies China's full integration into the world economy. Also, a regional currency system is built around a strong international currency, whether it is a basket of currencies like the ECU or an anchor currency like the German mark. If the Japanese yen remains virtually the only international currency in East Asia in the future, with the Chinese yuan's convertibility constrained to the same extent as at present, China is unlikely to cooperate in the building of the regional monetary system where a central role is denied to the yuan.[32]

Though the Chinese government has declared the yuan's full convertibility as its long-term goal, when that goal will be realized remains unclear. Dai Xianglong, then Governor of the People's Bank of China, once said in a speech made in Hong Kong, "Liberalization of capital account transactions and the yuan's convertibility would require an overall national strength, a stable financial system and the government's strong capability of macroeconomic control. At the moment, China cannot meet these requirements. Therefore, China will gradually address the liberalization of capital transactions and the realization of the yuan's convertibility in due order. We should not rush things. After China's accession to the WTO (World Trade Organization), however, the liberalization of capital account transactions and the yuan's convertibility should be facilitated as the Chinese capital market develops and trade and foreign direct investment in China expand" (the Economic Daily, February 21, 2002).

If China is to realize the yuan's convertibility and take the initiative in regional financial cooperation, it should redouble efforts to put its financial institutions on sound footing, establish a stable financial system, reform its foreign exchange, financial and capital markets and further develop macroeconomic policy tools. In other words, key to China's exerting its leadership in East

Asia is its successful transition from a planned economy to a genuine market economy.

3.2.3 South Korea

South Korea may be described as occupying a unique position in East Asia. First, South Korea took its place among advanced industrial nations by joining the Organization for Economic Cooperation and Development (OECD) in December 1996.[33] Second, it was able to restore economic health in a remarkably short period of time after suffering heavily from the Asian crisis. Through these experiences, South Korea is in a position to provide a lot of case examples to other countries in the region, including the process of industrialization, restructuring of its economy and financial system after the Asian crisis, and the process of liberalization of capital transactions that effectively made the Korean won a convertible currency. As a middle-size developed economy, South Korea can make its unique contribution to the convergence at a high level of the region's economies at varying stages of development.

In promoting monetary and financial cooperation in East Asia going forward, South Korea may be expected to play a role similar to that of the Benelux countries in Europe. While Europe's integration was led by France and Germany, the Benelux countries, the founding members of the European Economic Community (EEC), supported the trend toward integration and served as a lubricant in the coordination of varied interests of smaller member states. South Korea is in a position to complement the leadership of Japan and China in a constructive manner toward the formation of a regional currency system, while representing the interests of smaller countries as the middle-size developed economy in the region.

4. Focus of Regional Financial Cooperation Should Shift from Crisis Prevention to the Creation of a Regional Monetary System

In order to prevent a recurrence of the Asian crisis, the direct and indirect causes of the crisis and their backgrounds should first be examined and measures to correct them should be taken accordingly. The following can be cited as the direct causes of the Asian currency crisis: (a) rigid exchange rate systems; (b) problems with influx and outflow of short-term capital; (c) inadequate statistical data on external transactions; and (d) liquidity shortages. The indirect, structural causes include (e) vulnerable financial systems, and (f) underdeveloped domestic bond markets and the dual mismatch problem. Additionally, (g) the lack of a regional mechanism for liquidity support can be cited as the international background of the crisis.

Table 6. Causes of the Asian Crisis and Ongoing Regional Financial Cooperation

Direct, Indirect Causes of the Asian Crisis	Current State of Regional Financial Cooperation in East Asia
(a) Rigid exchange rate systems	Still at the stage of academic discussion
(b) Problems with influx and outflow of short-term capital	Monitoring of capital flows (ASEAN+3)
(c) Inadequate statistical data on external transactions	Technical support for capacity-building for compilation of reliable statistical data (ASEAN+3)
(d) Liquidity shortages	Managed by individual countries, such as boosting exchange reserves
(e) Vulnerable financial systems	Research and technical assistance for facilitating financial stability (ASEAN+3)
(f) Underdeveloped domestic bond markets and the dual mismatch problem	ABMI (ASEAN+3) and ABF (EMEAP)
(g) Lack of regional liquidity support mechanism	Chiang Mai Initiative (ASEAN+3)

The Asian crisis helped awaken a sense of regional unity in East Asia and served as the major catalyst for regional cooperation in such forms as free trade agreements and financial cooperation. Financial cooperation is taking concrete shape through the framework of the ASEAN+3 Finance Ministers Meeting and through central bank cooperation at EMEAP. Specifically, the ongoing financial cooperation includes the Chiang Mai Initiative, surveillance and policy dialogue (ERPD), development of the Asian bond markets (ABMI and ABF), and research and training programs. These developments, in some way or other, respond to (b) through (g) mentioned above.

Going forward, as the economies in the region become closer with the spread of free trade agreements and other developments, the need for a common exchange rate system for currency stability is expected to grow. Accordingly, the focus of regional financial cooperation should be shifted from the prevention of a recurrence of the crisis as at present to the creation of the regional monetary system. The formation of the EMS-style regional currency system requires as prerequisites (a) realization of the convertibility of major regional currencies; (b) sound financial systems and financial and capital markets; and (c) strong political leadership. The three fundamental components of the regional monetary system are (d) the common exchange rate system; (e) the liquidity support mechanism; and (f) the multilateral surveillance process.

Japan and China are expected to serve as the driving force for financial cooperation in East Asia. In order to exert their leadership in this regard, Japan must restore international confidence in its macroeconomic management capability and China should realize the Chinese yuan's convertibility. Both countries must overcome stacks of domestic economic problems. South Korea, meanwhile, is expected to contribute to the convergence of the economies in the region by sharing information on its recent successful experiences with the ASEAN countries and also complement the leadership of Japan and China in a constructive manner.

---

[1] "The main motivation (for strengthened economic cooperation in Asia) stems from the Asian financial crisis" (Montiel, 2004, p. 2).

[2] Barry Bosworth, "The Asian financial crisis: what happened and what we can learn from it" (http://www.brookings.edu/press/review/summer98/bosworth). The term insolvency was translated into Japanese words meaning the inability to make payments, but insolvency in effect is a bankruptcy or business failure.

[3] The ASEAN Swap Arrangement (ASA) was launched in 1977, with each participating country contributing $40 million (for a total of $200 million). Between 1979 and 1992, four countries made use of the arrangement for a total of five times. At the time of the Asian currency crisis, however, the facility proved ineffective as it was too small in scale to provide liquidity support to countries in trouble (Park & Wang, 2004, p.15).

[4] The conventional idea in international finance theory that of three policy objectives, only two may be achieved but the third one has to be abandoned.

[5] Care should be exercised in the distinction between medium- and long-term debt and short-term debt. Even for medium- and long-term loans due in over one year, loan contracts usually have clauses that enumerate conditions requiring borrowers to make repayments immediately without the benefit of term including a default clause. Thus, it is quite possible that medium- and long-term debt would turn into short-term debt all at once.

[6] "But the crisis in (South) Korea, which started after the AMF (Asian Monetary Fund) proposal was rejected by the Americans and which was primarily a liquidity crisis, not a solvency crisis, might have been avoided" (Dieter & Higgott, 2002, p. 10).

[7] "Indeed, some countries have seen sufficient value in having a government debt market that they have taken steps to create one even though the government had no need to borrow (e.g., Hong Kong, Singapore)." ("Regional Financial Arrangements: Recent Developments," a report by Reserve Bank of Australia Deputy Governor Glenn Stevens at the APEC Business Forum of the Asia-Pacific Economic Cooperation (APEC) forum, held in Sydney on April 15, 2004.)

[8] From a summary of a joint statement of an emergency monetary meeting held in Tokyo on June 20, 1998. "China's repeated firm commitment to maintaining the Chinese yuan's stability welcomed" (Sakakibara, 2000, p. 244).

[9] In November 1999, China and the United States agreed on basic conditions for China's accession to the WTO.

[10] http://www.mofa.go.jp/region/asia-paci/asean/pmv9911

[11] The central banks and monetary authorities of Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

[12] The ABAC-organized "Bond Market Conference to Strengthen the APEC Region's Financial Systems" was held in Taipei in May 2004.

[13] Vice Minister of Finance for International Affairs Eisuke Sakakibara, who took part in the MFG negotiations for Japan, says, "Media carried a photo showing I was shaking hands with U.S. Deputy Treasury Secretary Summers and IMF Deputy Managing Director Fisher, but that handshake was not really a pleasant one for me" (Sakakibara 2000, p. 190).

[14] The participants were foreign ministers from Bahrain, Bangladesh, Brunei, Cambodia, China,

India, Indonesia, Japan, South Korea, Laos, Malaysia, Pakistan, the Philippines, Qatar, Singapore, Thailand and Vietnam.

[15] In addition, as part of the New Miyazawa Plan, Japan concluded bilateral swap arrangements with South Korea and Malaysia, for $5 billion and $2.5 billion, respectively.

[16] As long as participating countries maintain the floating exchange rate system (managed or independent), the likelihood of a currency crisis is limited, presumably weakening the recognition of the necessity for liquidity support-linked surveillance.

[17] Information in this sector primarily draws on the website of the Ministry of Finance.

[18] Japan Bank for International Cooperation is consulting with the Chinese and Thai governments on issuance of Chinese yuan- and Thai baht-denominated bonds (the Nihon Keizai Shimbun, September 30, 2004).

[19] Under the cooperation of the South Korean and Japanese financial authorities, a plan is under way to securitize yen-denominated loan claims on South Korean small businesses and issue yen-denominated collateralized debt obligations in Asia other than South Korea (the Ministry of Finance's press release dated June 23, 2004). The plan materialized in December 2004 (website of Japan Bank for International Cooperation).

[20] The Asia Development Bank is planning to issue a baht-denominated bond in Thailand (Asahi Shimbun, May 15, 2004). The ADB is also considering the placement of a yuan-denominated bond in China.

[21] A local subsidiary in Thailand of Isuzu Motors Ltd. issued a baht-denominated bond in Thailand, with debt guarantee provided by Japan Bank for International Cooperation (a company press release dated June 21, 2004). A plan is also under consideration for the issuance of local currency-denominated bonds in Asia, making use of Nippon Export and Investment Insurance (Nihon Keizai Shimbun, April 8 and May 8, 2004).

[22] The Asian Development Bank, South Korea and Thailand led discussions at the WG on Credit Guarantee and Investment Mechanism, and the WG submitted an interim report in November 2004.

[23] At the WG on Rating Systems and Dissemination of Information, the Asian Development Bank, Japan, China and South Korea as well as local rating agencies of Indonesia, Thailand, the Philippines and Malaysia held seminars, and the WG submitted an interim report in November 2004.

[24] On May 15, 2004, the AsianBondsOnline website (ABW) was launched. The ABW publicizes information on bond markets in the region and on progress being made by the ABMI working groups (see http://www.asianbondsonline.adb.org).

[25] The Asian Development Bank and Malaysia's central bank are leading the research for specific steps.

[26] "EMEAP Central Banks Announce the Initial Structure of the Asian Bond Fund 2," dated April 15, 2004. See the following website for the structure of the ABF2. http://www.boj.or.jp/intl/04/eme0404a.htm

[27] http://www.mof.go.jp/english/asem/aseme03e.htm

[28] On September 4, 2004, Japan and ASEAN agreed to launch negotiations on comprehensive economic partnership in April 2005 and conclude the negotiations within two years.

[29] According to informed sources, this may be the first case of China's financial contribution within the ASEAN+3 framework. Vice Governor Su Ning of the People's Bank of China cited the following areas as China's priorities in regional financial cooperation: (a) strengthening of the function of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP); (b) strengthening of the CMI; (c) building a financial supervision system based on central bank cooperation; (d) cooperation in stabilizing exchange rates among regional currencies; and (e) development of an East Asian bond market (Nihon Keizai Shimbun, June 1, 2004).

[30] "The yen needs to play a bigger role in regional transactions. However, it is too costly to use the yen in international transactions at present…The initiative (to rectify this costliness) needs to be taken by the Japanese Ministry of Finance and Japanese banks operating in the region" (Sussangkarn & Vichyanond, 2004, p. 40).

[31] "China Lifts Ban on Yuan-Denominated Bonds by Foreign Firms," the Nihon Keizai Shimbun, September 9, 2004.

[32] "China may feel it unbearable to play a role next to Japan in regional organizations in East Asia.

This concern would prove to be the biggest impediment to the future development of the CMI" (Park & Wang, 2004, p. 12).

[33] While the United Nations classifies South Korea as a developing economy, the IMF counts it as one of the advanced economies (The Economist, January 17, 2004).

[References]

Abe, Kenichiro (2004), "ASEM Task Force and Bond Market Development in Asia," Kokusai Kinyuu No. 1124.

Fukuchi, Aki (2004), "Burgeoning Financial Cooperation in Asia," Bank of Tokyo-Mitsubishi Economic Monthly No. 100.

Kuroda, Haruhiko (2004), "Revaluation of the Chinese Yuan," Nikkei Business Publications, Inc.

Murase, Tetsuji (2004), "Currency Stability in East Asia – Two-Stage Promotion Is Realistic," Joint Research on Competitiveness Comparison of Japan, China and South Korea, Ministry of Foreign Affairs, Commissioned Research Institute: Japan Center for Economic Research.

Sakakibara, Eisuke (2000), "The Day Japan and the World Shivered," Chuokoron-Shinsha, Inc.

Shimizu, Satoshi (2004), "Regional Financial Integration and Bond Markets in Asia," Kokusai Kinyuu No. 1129.

Terada, Takashi (2004), "Era of Regionalism – Possibility of the East Asian Community," Gaiko Forum 7/1.

Yoshitomi, Masaru (2003), "The Reality of Asian Economies," Toyo Keizai Inc.

Agarwala, R. & Prakash (2002), "Regional cooperation in Asia: Long-term progress, recent retrogression and the way forward," ADB.

Dieter, H. & Higgott, R. (2002), "Exploring alternative theories of economic regionalism: From trade to finance in Asian co-operation," CSGR Working Paper No. 89/02.

Institute for International Monetary Affairs (2004), "Toward a Regional Financial Architecture for East Asia," commissioned by ASEAN Secretariat.

Ditto (2004), "Report summary of studies on a regional financial architecture for East Asia," March.

Japan Center for International Finance (2004), "An Exchange Rate Arrangement for East Asia."

Ditto (2004), "Report summary of studies on regional exchange rate arrangements," March.

Montiel, Peter J. (2004), "An overview of monetary and financial integration in East Asia," Chapter 1 in Asian Development Bank (ed.): Monetary and Financial Integration in East Asia, The Way Ahead: Volume 1, Palgrave Macmillan, New York.

Murase, Tetsuji (2002), "Regional Surveillance and Policy Coordination—Experience of Europe and Lessons for East Asia," Chapter 2 in Institute for International Monetary Affairs: Report on the study group on Strengthening Financial Cooperation and Surveillance (Kobe Research

Project), commission by Ministry of Finance, Japan.

Park, YC. & Wang YJ. (2004), "Toward a Regional Financial Architecture for East Asia: Korean Proposal," a report prepared for a research project commissioned by the ASEAN Secretariat.

Shinohara, Hajime (2004), "A Case for Establishing an Asian Monetary Fund Institute," Kokusai Kinyuu No. 1125.

Sussangkarn, C. & Vichyanond, P. (2004), "Toward a Regional Financial Architecture for East Asia: Perspective Based on the Thai Experience," Thailand Development Research Institute, a report prepared for a research project commissioned by the ASEAN Secretariat.

Terada, Takashi (2003), "Constructing an 'East Asian' concept and growing regional identity: from EAEC to ASEAN+3," The Pacific Review, Vol. 16, No. 2.