

# Present State of Financial Cooperation in East Asia and the Way Ahead



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# Four key elements to regional financial arrangements

- Improved policy dialogue and surveillance
- Strong, robust and open financial markets and institutions
- Effective mechanisms for financial support in a crisis
- Cooperative exchange rate and monetary policy regimes



# Policy dialogue and surveillance

- Policy dialogue and surveillance are necessary conditions for prompt financial cooperation and assistance extended by regional neighbors during a financial crisis in one country.
- A strong regional framework of policy dialogue that includes all core economies in East Asia, and which maintains dialogue with major economies outside the region.



# Financial markets and institutions

- Countries need well-functioning financial markets and institutions that suit their level of economic development.
- A set of strong, extensive, developed and outward-oriented financial markets, with capital-strong diversified and open financial institutions.



# Financial cooperation

- Financial cooperation covers instruments, techniques, and institutions for the provision of liquidity support between countries in a financial crisis.
- A flexible institutionalized form of regional financial cooperation to provide liquidity support to countries to prevent and/or resolve possible future financial crises in the region.
- Establish Asian Financial Stabilization Fund (AFSF).



# Asian Financial Stabilization Fund

- The AFSF should be based on effective surveillance with a robust system of terms and conditions.
- It should stand independent of the IMF with respect to conditionality, but would work intimately and cooperatively with the IMF to ensure seamless treatment of crises.
- It should have a contemporary institutional base





# Monetary policy and exchange rate systems

- An effective monetary policy regime and consistent exchange rate regime are essential for economic growth and stability. No single regime is right for all types of economy.
- A set of focused and transparent monetary policy frameworks with mutually consistent exchange rate regimes and coordination of the policies in the region.



# Current situation of Policy dialogue and surveillance

- ASEAN
- ASEAN+3
- Manila Framework Group
- APEC





# Current situation of Policy dialogue and surveillance (cont.)

- ASEAN
- ASEAN+3
- Manila Framework Group
- APEC



# Chiang Mai Initiative

- The Chiang Mai Initiative is a important innovation in regional financial cooperation in East Asia.
- It is not a comprehensive regional arrangements.
  - (1) It is dependent of IMF conditionality.
  - (2) The amounts are not enough.
  - (3) It is a bilateral rather than multilateral arrangement.



# Current situation of financial markets and institutions

- There is a very wide range in the performance, depth, and strength of financial markets and institutions in East Asia.
- The financial markets and institutions in East Asia are not so robust because financial institutions in some countries have weak balance-sheets due to their huge non-performing loans.



# Current situation of monetary and exchange rate policies

- There is a wide range of independent monetary policy and autonomous exchange rate regimes.
- The *de facto* US dollar peg contributed to the Asian currency crisis by stimulating capital inflows and appreciating real effective exchange rates.



## Some steps forward

- Establish an institutional base for enhanced regional economic and financial interaction.
- Build up financial markets and institutions in East Asia.
- Create a more recognizable second-track process in East Asia, linking policy-oriented researchers from research institutes in the region.



## First Step: Establish an institutional base

- Establish an institutional base (secretariat base) for enhanced regional economic and financial interaction in ASEAN+3.
- It would also be useful to set up a financial stabilization group.
- ASEAN+3 may be renamed as an East Asian Community.





## Second Step: Build up financial markets and institutions

- It entails greater national and regional commitment to building up the infrastructure that supports markets and institutions
- Commitment to reform needs to be supported by extensive and deep capacity building.
- The development of national and regional bond markets



## Third Step: Bring researchers to join with policymakers

- It can be the basis for policy-oriented researchers (the second-track process) to join with policymakers (the first-track process) in a 1.5 track process to discuss and analyze important policy issues in an informal and constructive manner.



# Conclusion

- Regional cooperation has the potential to be a very important device to deliver development, growth and stability in a manner fully consistent with the global orientation of the East Asian economies and markets.