

**PECC Finance Forum Conference**

*Issues and Prospects for Regional Cooperation for Financial Stability and development*

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**Day One: Scope for Regional Financial Cooperation among PECC Economies**

**Session II: ASEAN Plus Three Perspectives**

Country Perspective Paper: China

**China Perspective:  
A Summary of Survey Results**

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## **A. Introduction**

The integration of modern Chinese economy into the world economy started about twenty four years ago (1978), when Mr. Deng Xiaoping initiated the reform and “open-door” policy. Since then, China has made great progress in the development of a domestic system based upon market-oriented economy, and at the same time come to face a complex and still-evolving international trading and financial system.

While the integration process brings about great opportunities for economic development for nations involved, it also presents substantial risks, especially for countries who are new to international arena and who has less-developed domestic financial systems. Majority PECC countries fall into this category. The 1998 financial crisis that started in southeast Asia region highlighted the need for better risk prevention and risk management mechanism in the region. Indeed, countries have since been moving towards better communication and deeper cooperation. It is our impression from interviews that such cooperation, both regional and international, is necessary to ensure smooth development for PECC countries. It is also our impression that present forms of dialogue and coordination, while fruitful in some cases, are still in very primitive stage.

In preparation for this summary, we have interviewed government officials from the Ministry of Finance (MOF), the central bank (People’s Bank of China, or PBOC), and State Administration of foreign Exchange (SAFE). We also talked with a couple of economic researchers who are often called upon to give advice to the Government on macro-economic issues. The officials from MOF and PBOC are working at the International Department, who participated in numerous regional meetings and forum on the subject matter. Their views, even though unofficial, are representative among respective government bodies. We also met with a high level PBOC official who is involved in the decision-making process of major monetary policies, and whose opinion is well respected. One of the SAFE official works in the Foreign Exchange Reserve Management Department, who have spent several years working abroad and interacts with major global capital market players on a daily basis. We also met with a SAFE official at the executive level.

We chose our interview subjects mostly through personal connections. In order to obtain cooperation before and during interviews, we made clear all views expressed are unofficial, and we guarantee anonymity. These people are mid-level and high-level officials in the agencies and have substantial experience in the international cooperation area. We believe their views, expressed during informal conversations, can shed light on the general attitude and mentality of agencies where they belong. No one came to the interview because their superiors ordered them to do so.

In following sections, we will present in detail our findings.

## **B. Regional Institutions**

Comparing with the development of regional and international trade and cross-border capital investments, financial and monetary cooperation among PECC

countries is at a very primitive stage. Several reasons were noted during the survey:

1) Relatively short history of international business

Even though some PECC countries have long history, their active participation in international business is only a recent event. Motivated by opportunities of economic development, these countries began to adopt reformist attitude towards international business in the later half of last century. The pace of opening-up accelerated further after the "cold war". However, long periods of relative isolation and self-sufficiency have deprived of these countries necessary infrastructure and talents to deal effectively with the sudden increase of international business and influx of foreign investments. The problem did not receive enough attention until the financial crisis of 1998, during which many countries was their economy suffered tremendous setback. The call for stronger regional and international financial and monetary cooperation finally started to catch the attention of decision-makers in these countries.

2) Diversity

PECC countries are geographically dispersed and culturally diversified. Even among neighboring countries, historical background, state of economic development, geo-political considerations and sometimes, religions, can become obstacles to cooperation. During interviews, almost all interviewees expressed concerns of the effectiveness of a pan-PECC organization. It can be useful as a forum for dialogue, but when it comes to the implementation of specific cooperation steps, an all-inclusive organization may not be the most efficient one.

3) The lack of leadership

Several countries can be in the leadership position, but each has its own limitations. Because of the diversity issue mentioned above, it is difficult for any one country or a few countries to dominate all processes. Leadership requires not only economic clout, general respect, fairness and sacrifices, but also cultural and sometimes religious sensitivity. So far PECC countries are still struggling with the leadership issue.

4) The degree of integration of regional economies

The opening-up of PECC economies, especially Asian economies, are mainly towards the West. Intra-regional trade and investment is secondary, to say the least. Comparing with European Union and NAFTA, regional economic integration is yet to begin. Without sufficient economic linkage between PECC countries, the process financial and monetary cooperation becomes crisis-driven, that is, when crises come, countries scramble for help and cooperation suddenly acquires high priority, but when crises are over, everyone falls back to business-as-usual. Several interviewees mentioned that closer economic cooperation within the region is the basis for other cooperation.

Given the situation, all interviewees agree that PECC area institutions for regional cooperation are necessary for continued and smooth development of PECC area economies. Because of the complexity of issues facing PECC countries, sub-regional institutions can be more effective in reaching agreements and making concrete progress.

Among regional institutions, following names are mentioned more frequently by

interviewees and their importance or effectiveness are ranked in this order:

1) ASEAN + 3

This is an organization that is considered by majority interviewees to have moved beyond a forum of discussion, it has reached the stage of cooperation, and even early stage of coordination by one interviewee. Resulting from Chiangmai Initiative, the currency-swap program between ASEAN + 3 members is one of the examples of cooperation. The bilateral swap agreements can eventually link all members into a support organization in case of crisis, and provide more incentive for dialogue, monitoring, cooperation and coordination.

The Asian Monetary Fund, however, was mentioned in a few interviews as unnecessary.

2) EMEAP central banks and APEC Finance Ministers

As regular meeting mechanism among government officials, both meetings serves as communication channel and discussion forum for related issues. EMEAP is focused on banking issues and is relatively easier to coordinate and more efficient in reaching agreements. APEC Finance Ministers meeting has much broader scope and is more suited as a dialogue forum and a consensus building process.

3) ASEAN

A better-coordinated organization than many others, ASEAN's influence, however, is limited by its membership.

As with any international organizations of this nature, leadership is always a sensitive issue. Currently, the US, China and Japan are major economic entities in PECC region. They are competitors for leading role in various organizations. And to lesser extent, South Korea, Australia are also vying for influences. Usually, compromises have to be reached among major players before proposals can be submitted for general consideration. Most interviewees seem to hold the opinion that there exists no clear leadership structure in PECC area organizations. Countries take different roles in different organizations. Since Asian Currency Unit (ACU) is still a very remote concept, there lacks a sense of direction for these organizations. Attention of member countries is often driven by pressing issues of the day, such as the depreciation of Japanese Yen, etc.

### **C. Regional Cooperation**

Higher degree of cooperation is usually found in more localized organizations, such as ASEAN. But the absence of major players of the region sets the limit for such institutions. The inclusion of China, Japan and South Korea has greatly broadened the scope of ASEAN. Even though there may be more international politics in the coordination process, ASEAN + 3 is no doubt a better platform for significant regional cooperation. Chiangmai Initiative is a good example.

For various reasons, the cooperation between PECC area countries has just begun. The first step is mutual understanding through regular dialogues and discussions. APEC Finance Ministers, EMEAP central banks, Manila Framework Group, etc., are all

excellent platforms of communication. We do not expect that agreements can be easily reached, but we have good reason to believe that foundations for closer regional cooperation are being created.

For crisis prevention, good monitoring system has to be established. Individual countries should be subject to regular surveillance and technical assistance by neighboring countries, regional and international institutions, in exchange for ability to influence others, and for help in event of future crises. Furthermore, surveillance models and standards should be developed and agreed upon. Sub-regional organizations can be more effective in carrying out surveillance, but it somehow has to be linked with potential benefits in order to obtain necessary cooperation from individual governments. It is our impression that interviewees think ASEAN + 3, EMEAP are good vehicles for crisis prevention.

Platform for crisis management is yet to emerge. Chiangmai Initiative under ASEAN + 3 is a good start.

#### **D. Consolidation and/or reform of these institutions**

There is definitely needs to consolidate existing institutions. Some interviewees points out there are too many meetings to attend, often with overlapping agenda. There should be coordination between institutions as well in order to improve efficiency of communication. Sub-regional institutions may somehow be able to fold under a larger framework, each with clearly defined mandates.

#### **E. Moving towards closer monetary cooperation**

Even though ACU is a very remote prospect, there is consensus among interviewees of moving towards closer monetary cooperation. Besides the common need for preventing future crisis, countries also want to benefit from better market access within the region. Under the backdrop of globalization of trade and finance, there is also clear trend of regional free trade zones. Following steps are proposed (not necessarily in this order):

##### 1) Dialogue and communication

The objective is to improve mutual understanding, and increase comfort level of sharing information of economic performance. Currently most efforts are focused in this area, however, the efficiency needs to be improved.

##### 2) Coordinated efforts for currency stabilization

Develop a mechanism that countries can provide mutual support in case of crises. Such mechanism can function as a supplement to IMF, but with regional focus. Countries also maintain coordination in normal times on exchange rate and interest rate issues so as to avoid possible stress build-ups.

##### 3) Domestic infrastructure and market discipline

Countries in the region need to strength domestic financial systems, possibly with outside help. Other than a few exceptions (such as the US, Singapore, Hongkong, Australia, etc.), most countries in the region face the problem. Without strong

domestic financial systems, international cooperation is difficult to implement.

#### 4) Regional free trade zone

This issue was mentioned by several interviewees to be the basis for closer monetary cooperation. Regional free trade zone will include free trade, free capital flow, and possibly some degree of labor exchange. The Great China area, including mainland China, Taiwan and Hongkong, is a good place to start. They have geographical proximity and share common cultural background. Their competitive advantages complement each other. If political obstacle can be overcome, economic benefits can be quite significant. The Great China region can also serve as the catalytic center for the integration east Asia free trade zone.

### **F. Links and consistency between regional and international institutions**

Regional organizations should function in conjunction with international institutions. There are already existing communication channels between some regional organizations and international institutions. For closer links, there first should be clear division of responsibilities between institutions of different levels. International institutions can rely on regional institutions for communication, surveillance, and policy recommendation. Regional institutions can rely on international institutions for technical assistance, expertise and empowerment.