

ASEAN+3: Economic Cooperation and Integration

Yung Chul Park & Charles Wyplosz

ASEM Meeting

Jeju, June 15, 2008



The Chiang Mai Initiative

- 1999: ASEAN invited China, Japan, and Korea to establish a regional arrangement for economic cooperation
 - Creation of regional grouping ASEAN+3
- 2001: Eight members of ASEAN+3 launched a regional liquidity support system of bilateral currency swaps
 - BSAs amalgamated with pre-existing ASEAN swaps



The Chiang Mai Initiative

- April 2008: 25 bilateral contracts amounting to \$ 84 billion
 - Supported by system of soft surveillance: Economic Review and Policy Dialogue (ERPD)
 - Drawing above 20 percent of borrowing limit is subject to the IMF conditionality
 - But timely disbursement is not guaranteed:
 - Multiple swap negotiations
 - Opt-out clause



Asian Bond Market Development Initiative (ABMI)

- Main objective: develop deeper and more liquid regional bond markets
- Asian domestic bond markets have grown in size and diversity of issuers
- Several studies for the promotion of the ABMI are being carried out:
 - securitized debt instruments
 - credit guarantee
 - domestic credit rating agencies
 - Asian Bond Standard
 - improving regulatory framework
 - improving bond market infrastructure



Self-managed Reserve Pooling Arrangement (SRPA)

- Multilateralization of BSAs
- A new reserve pooling system
 - Initial size of the pool: \$ 80 billion
 - Contributions:
 - \$ 20 billion from ASEAN 5
 - \$ 60 billion from +3
 - A single contractual agreement
 - Key aspects of the SRPA under preparation:
 - Surveillance
 - Borrowing accessibility
 - Activation mechanism
 - Decision making rules
 - Lending covenants



Tasks Ahead for SRPA

- Adoption of single global custodian
 - Desirable form of pooling
- Size of the pooled reserve to be raised over time
 - Size must be taken seriously by the market
- Expansion and consolidation of the ERPD
 - Toward a surveillance system for SRPA
- Participation of ASEAN+3 in IMF conditionality
 - for borrowing beyond 20% of automatic drawing
- Raising automatic drawing limit to 30 to 40%



Tasks Ahead for ABMI (1)

- Objectives to be more clearly articulated
 - Role of regional bond markets
 - Structure and relations with global bond markets
- Deregulation and opening of regional domestic bond markets
 - To facilitate cross border investment
- Adoption of global standards
- Harmonization:
 - Market practices
 - Regulatory regimes
 - Withholding taxes across countries in the region



Tasks Ahead for ABMI (2)

- Development of regional financial centers
 - Bond issuance and listing
 - A competitive process
 - Specializing in financial intermediation for regional investors and borrowers
- Regional cooperation under ASEAN+3
 - Construction of regional bond market infrastructure



Exchange Rate Policy Coordination

- The missing link
 - A key preoccupation
 - Yet no coordination
- Each country has its own regime
 - Floating of yen
 - Explicit basket peg in China (basket not published)
 - Various degrees of management elsewhere

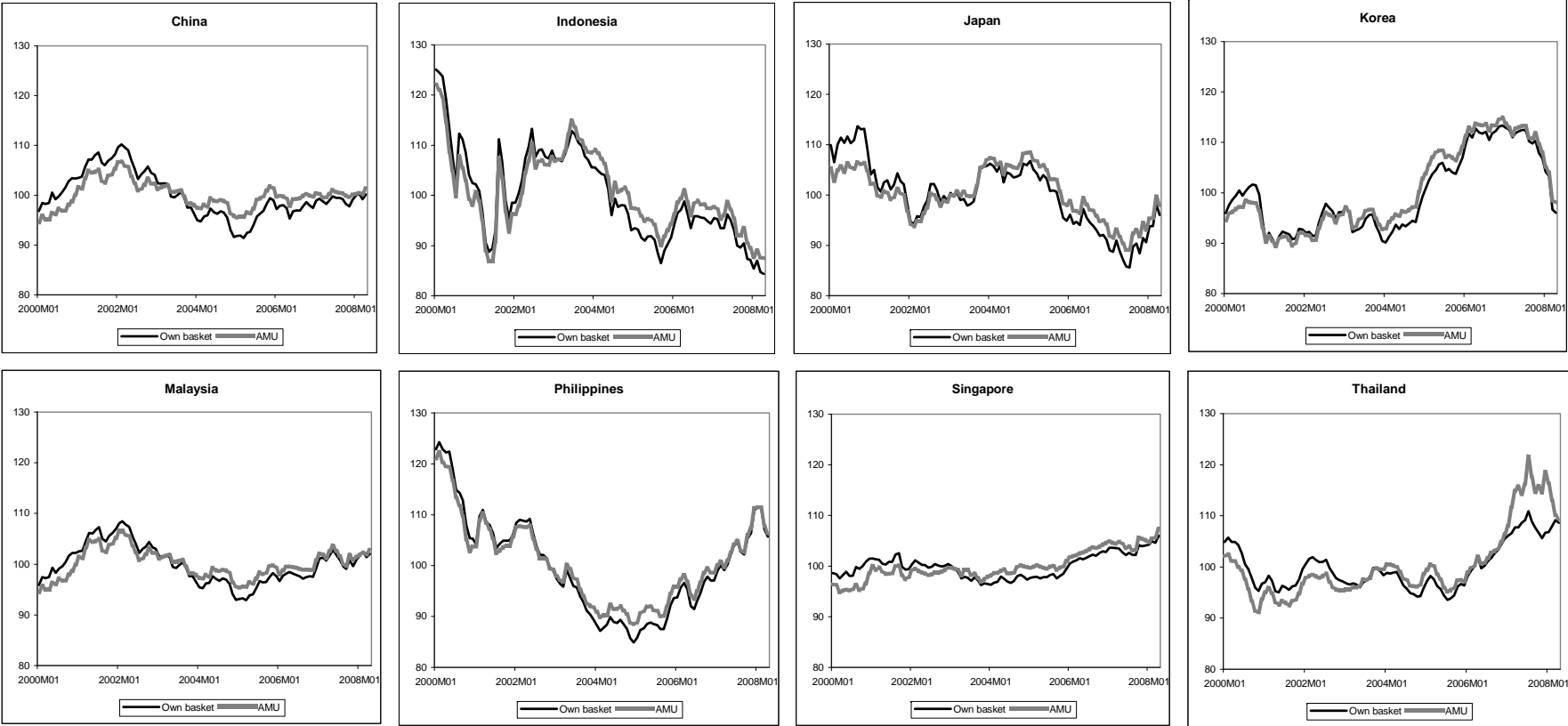


Exchange Rate Policy Coordination

- Exchange rate management based on country- specific baskets
 - Difficult to agree on a common basket
 - Own baskets make little difference



Own baskets make little difference



A Possible Path to Exchange Rate Cooperation

- Japan retains its free float
- Each other country retains its own currency basket
- On a voluntary basis: limit fluctuations vis a vis own basket
 - Band can be large and fuzzy
 - Cooperation within ERPD redirected to
 - Central parities
 - Gradual harmonization of bands



Evolution

- More countries voluntary join
- SRPA strengthened
 - Size of reserves available
 - Surveillance
 - Can include choice of central parities
- Bands explicitly or implicitly narrowed

