

IS AN ASIAN MONETARY UNION UNDER A YEN BLOC STILL POSSIBLE?

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ABSTRACT

The East Asian financial crisis raised the necessity of a monetary union in the region. This paper looks into the anatomy of the financial crisis and revisits the feasibility of a monetary union to be formed in East Asia covering ASEAN plus China, South Korea and Japan. Several arguments and reasons have been offered that indicate the feasibility of formulating a monetary union under the Japanese hegemony, but may not currently be possible. Yet other areas being looked into include the aspect of the optimum currency area theory and barriers to postulate whether it is possible for monetary union to be ultimately formed.

Introduction

The possibility of an Asian monetary union has been raised from time to time, most visibly with the Japanese idea of an Asian monetary fund in the wake of the Asian financial crisis in 1997. The response to this suggestion has been largely negative. As recently as September 11, 2002 the idea was shot down as a “pipedream”, in spite of the Asian Development Bank’s (ADB) release of a positive paper “Prospects for Asian monetary cooperation after the Asian financial crisis: pipedream or possible reality?” authored by Peter Wilson, an economist at the National University of Singapore (DiBiasio, 2002).

The beginning of Asian monetary cooperation may be traced to the late 1950s, when discussion of SEANZA (South East Asia, New Zealand and Australia), a forum of central banks, focused mainly at providing training for

central bankers. The Executive Meeting of East Asia Pacific Central Banks (EMEAP) which was established in 1991 set up two working groups to share knowledge and expertise on financial market cooperation, and one group was to focus on Asian monetary co-operation (Chinese University of Hong Kong, 2000).

The Asian financial crisis posted a big question mark to the credibility of the East Asian miracle. Various ways have been explored to bring back the good days. The concept of monetary union in East Asia has mostly been regarded as little more than an intellectual fantasy. However, the rapid pace of regional integration, coupled with the experience of the major financial crises, has caused policymakers to seriously consider the idea of an East Asian monetary union. In addition, the successful implementation of the Euro contributed to turning the Asian governments' traditional thinking inside out.

Many have suggested that Japan, being the traditional engine of growth for East Asia, is a logical candidate for the role of an Asian central bank. A broad plan is needed to outline convergence requirements and establish firm deadlines. However, little progress has been made so far. The backing of strong political and economic forces is required to pilot this project forward.

Association of Southeast Asian Nations (ASEAN) Secretary General Rodolfo C. Severino concluded in August 1999 "that because of the degree of economic integration that has been achieved, the idea of an ASEAN currency, like a customs union and a common market, has at least become thinkable."

Additionally, he commented that in recent years, bilateral and multilateral relationships have grown stronger in political and economic terms. ASEAN has launched a free-trade area initiative that seeks to eliminate trade barriers among its core founding members - Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei by 2002. The agenda for a number of the goals has even been brought forward. Part of the free-trade pact, for example, will go into effect

one year early for ASEAN's six core members. The investment agreement, another key initiative, will be implemented in 2003 instead of 2010, as originally scheduled (ASEAN Secretariat 1996).

A number of other countries are working on creating free-trade areas, which, if realised, would represent a giant step forward for economic integration. Japan, for example, is talking with South Korea and Singapore, while South Korea is examining possibilities for co-operation with China and the ASEAN nations.

This paper assesses the feasibility of a monetary union to be formed in East Asia covering ASEAN plus China, South Korea and Japan. We will look into the aspect of optimum currency area theory and barriers, to postulate whether it is possible for monetary union to be formed.

East Asian Monetary Union: Old Idea, New Context

It is useful to distinguish between two closely related terms that sometimes are used interchangeably: "common currency" and "monetary union." The difference is that the former is a more advanced form of the latter. More specifically, one or more countries establish a monetary union when they agree to fix their exchange rates. Such an arrangement represents the first step toward a common currency, a more integrated economic relationship under which two or more nations adopt a common currency, common fiscal policies, and common foreign exchange arrangements. Presently, attention in East Asia is focused on the creation of a monetary union because it is a precondition for establishing a common currency, which is the ultimate goal.

One lesson from a historical analysis of monetary unions in the nineteenth and twentieth centuries is that monetary unions of large sovereign nations that do not have political union eventually fail.

Politics has been the driving force behind the European Monetary Union (EMU). Since the Luxembourg Prime Minister presided over the Werner Report in October 1970, the irreversible fixing of exchange rates has been a central objective in European economic policy. Yet even in 1970 it was not a new idea. A century ago Europe was also dominated by the desire for currency stability and the experience then suggests EMU's success is far from guaranteed (Lyons, 2000).

Despite the fact that various kinds of monetary unions have been established throughout modern history, discussions of such an arrangement in East Asia are relatively new. The formation of the Asia Pacific Economic Cooperation (APEC) forum in 1989 spurred the first significant interest in the idea, and ancillary committees were set up within APEC to examine the issue. In 1991, at the behest of the Bank of Japan, an 11-member group of central banks in the region was established to foster greater economic integration (Constellano, 2000).

Three major developments in the 1990s have prompted financial leaders in East Asia to give more thought to the formation of a monetary union (Constellano, June 1999).

First, the devastating effects of the East Asian economic crisis, sparked in mid-1997 by the devaluation of the Thai baht, and the related global financial crisis, triggered by the Russian debt default in August 1998, shook the foundations of the international monetary system. As a result, a raging debate began over the basic elements of the so-called global financial architecture.

Significant evidence suggested that currency volatility was a root cause of the turmoil. One area of international policy discussion focused on the timeless issue of how to determine appropriate exchange rate regimes. Rigid systems, which had failed to stand up to a rapidly changing world economy, were denounced as structurally deficient. Yet conventional alternatives, that is, pure

or managed floating regimes, exchange rate target systems and others were not immune to problems either. Policymakers, hungry for stability, began a serious examination of more ideas, like monetary union

The East Asian financial crisis provided some powerful lessons for the countries that bore the brunt of the turmoil. Anxious to avoid repeating the same mistakes, leaders of the affected nations sought to identify the underlying causes. Among the numerous theories put forward, one seemed to gain nearly universal acceptance: the idea that over-dependence on the dollar and structurally deficient exchange rate regimes were the chief contributing factors to the crisis. Accordingly, leaders concluded that currency stability was the key to avoiding future financial crises (Kwan, 1994).

Capital controls, which Malaysia is still adopting, can scare off critical foreign investment. In addition, increasing the flexibility of exchange rate systems does not guarantee reduced currency volatility as the international capital market has become more liquidity in recent years. Thus, the idea of a regional monetary union gained prominence as a practical solution to prevent an encore of the 1997-99 financial crises (Constellano, June 2000).

Moreover, East Asia is made up of several small countries each of which easily could be overwhelmed by global economic forces. Because cross-border capital flow moves at tremendous speeds and volumes, unexpected shifts in market sentiment could devastate the smaller economies of the region.

Just before the January 1999 launch of the Euro, the chief executive of the Hong Kong Monetary Authority, Joseph Yam, floated the notion of an Asian monetary union, formally putting the issue on the region's agenda for the first time. He analysed that maintaining so many sovereign currencies in the region is a "recipe for instability." A monetary union in East Asia would significantly diminish the vulnerability of individual nations to speculative attacks. Leverage

gained from collective strength could particularly benefit such city-states as Hong Kong and Singapore, as well as smaller regional powers like Brunei.

Second, the momentous event in Europe in January 1999, in which 11 European nations abandoned their national currencies in favour of a single new currency, the Euro, has brought another dimension to the argument.

The EMU has begun to deliver some of the benefits it had promised. A pan-European bond market has emerged, cross-border bank mergers have increased and businesses have become more efficient through consolidation. The establishment of a viable monetary union proves that, under the right conditions, such a system is not only possible but also is practical.

Finally, a requisite level of political and economic integration is an essential precondition for monetary union. By any measure, Europe certainly is far ahead in this regard, but it can be observed East Asia is making rapid advances. Europe has had to face many challenges that Asia has.

Intra-regional relations in terms of trade patterns, investment flows and political arrangements grew stronger in the 1990s, particularly in Southeast Asia. Economic integration is another trend that suggests that East Asia eventually may be able to form a workable monetary union. During the early 1990s, intra-regional trade and direct investment increased dramatically. Comparisons from the middle of the decade show that the pattern has continued, with the share of exports destined for countries within the region reaching 48.7 percent in 1996, up from 30.9 percent in 1986 (Kwan, 1994).

The depth of regional linkages was highlighted in an unfortunate way in 1997 by the economic and financial crisis, which spread quickly and indiscriminately across borders. East Asian countries have become more interdependent. Because of this new cohesion, ideas that once seemed far-fetched now have entered the realm of possibility (Das, 1996).

Mundell (1997) suggested that with regionalism on the rise, currency blocs might follow:

It seems inevitable that the example of Europe will be followed elsewhere, particularly, but not exclusively, in Asia, as the disintegration of the international monetary system creates a new externality that can be internalized, as a second-best alternative to an international monetary system, by regional monetary arrangements.

Additional indications of interest have appeared in policy statements and have been expressed at other regional gatherings. The Hanoi Plan of Action, a key vision statement issued by ASEAN in December 1998, called for a study of the feasibility of an ASEAN currency and exchange rate system. At the June 1999 Fifth International Conference on the Future of Asia, sponsored by *Nihon Keizai Shimbun*, Japan's leading business daily, both Malaysian Prime Minister Mahathir Mohamad and Mr. Estrada sang the praises of economic integration and even broached the idea of forming a regional currency bloc (Constellano, [JEI Report No 22B, June 11, 1999](#)).

Optimum Currency Area

The 1999 economics Nobel laureate Robert A. Mundell's traditional theory expounds that optimum currency areas will single out crucial economic characteristics and fundamentals to form a monetary union (Mundell, 1961). Subsequently, it will identify if it is beneficial to establish such an arrangement. It will depend on six factors:

1. High flexibility in wages and prices

Decreased demand will consequently bring about an immediate adjustment to the level of wages and prices to bring it back to equilibrium: maintaining full employment without the need for a change in nominal exchange rate or in interest rate. Such a change in the overall level of prices within a

country would imply a change in the country's real exchange rate, even though its nominal exchange rate is fixed (Felstein, 1997).

Generally, wages of most East Asian countries are flexible wages with the exception of South Korea, Japan and the Philippines with strong trade unions. For example, Singapore's Central Provident Fund (CPF) and Malaysian's Employee Provident Fund (EPF), allow the two governments to adjust the level of at any time of need.

The prices of goods are stable and rigid upwards in countries with the State Owned Enterprises (SOEs), as it will continue to be an instrument of governments' microeconomic intervention. For example, Malaysia's Proton prevented the rise in car prices during the financial crisis despite inflationary pressures. Similarly, it is evident in Japan and South Korea with their *keiretsu* and *chaebol*, respectively. In addition, NTUC Fair Price, a branch of the National Trade Union Congress (NTUC) Income, has managed to control prices of consumer goods in Singapore. On the other hand, Thailand and the Philippines with market-based economies have more price flexibility.

2. High Mobility of Production Factors

Even if wages and prices are inflexible, a decline in demand need not raise unemployment if workers are geographically mobile and move to the places where jobs are available. The diversity of language and culture will impede long-term growth within Asia. Essentially, legal barriers are more stringent in the more developed countries than the less developed countries to prevent inflow of illegal immigrants (Constellano, 2000).

3. Homogeneity

Similar the business cycles of the monetary union countries will result in low incidence of asymmetric shocks (external changes that affect each country differently). As the countries will experience same demand

shock, their central banks will have the same automatic response of interest rate measures to tackle the problem. Thus, this will result in their having the same discretionary monetary policy.

In addition, a similar industry structure within the union will allow competition to come into play resulting in trade creation, where goods will be produced in the country with the most competitive price within the union.

However, Table 1 shows that Asian New Industrialised Economies (ANIEs), together with Japan has quite similar manufacturing industry but the rest of the ASEAN countries are similar in that they are agrarian economies.

The economic disparities within the region are tremendous. For example, 1999 growth rates were close to zero in Indonesia, while they reached double digits in South Korea (see Table 2). Per capita income levels differ from Singapore to Vietnam. Government debt levels, current account balances and interest rates also differ significantly (Constellano 2001).

Also, the region's varied economic ideologies differ from free-market capitalism to state-run socialism, starkly contrasting with one another.

Countries at different stages of economic development have different economic agenda to pursue, culminating in their experiencing different kinds of shocks.

Even with the borders between ASEAN members becoming more fluid, significant barriers to monetary union remain. The organisation's newest members – Cambodia, Laos, Myanmar (formerly Burma) and Vietnam – differ significantly from the core founding members. The relative newcomers are transition economies more resistant to reforming and conforming to the lines of ASEAN's common agenda, and they lag behind the core members in terms of economic development.

Furthermore, because the group of new members place a high priority on the protection of sovereignty and non-intervention, achieving solidarity on important issues often is difficult. Thus, not all ASEAN members may be able to realise the extremely high level of cooperation needed to make monetary union work (Castellano, 2000).

4. Custom, Ideologies and Language

Generally, the traditions and customs of participating countries are all derived from the teaching of Confucius ethics. However, Severino (1999) commented that:

What about East Asia? Unlike in ASEAN, there are no special Arrangements for the integration of East Asia's economies. Indeed, seemingly insurmountable differences continue to divide East Asia. ASEAN and Northeast Asia continue to be regarded as distinct from each other by virtue of the differences in their economic structures and levels of development. Northeast Asia itself is divided by historical antagonisms and contemporary rivalries.

In addition, a problem may arise in choosing the language as a medium of communication, although English seems the most logical and pragmatic choice.

5. Degree of Openness to Mutual Trade for Further Economic Integration:

In Table 3 it is evident that the trade imbalance between ASEAN and Japan has reduced since 1997. However, one can postulate that the reduction in net import for ASEAN since 1998 culminated from the decline in purchase of capital goods made by companies in ASEAN since the financial crisis.

It has always been that the Japanese import mainly raw materials (except agricultural products) and low tech manufactures from developing countries in Asia, while exporting capital goods to these countries. The recent proposal by ASEAN to form a Free Trade Area (FTA) with Japan has faced a lot resistance

from the Japanese policymakers. Japan is not yet willing to open up her sectors to competition, especially agriculture.

6. Fiscal Transfer

A contractionary effect of a local decline can be partially offset by net a fiscal transfer from outside the area.

A regional fund would be feasible to prevent trade disruptions caused by currency crises. It will form a “network” of currency swap arrangements building on a more modest \$200 million swap agreement among the ASEAN countries plus Japan, South Korea and China to create a “firewall” against future financial crises (Bello, 2000).

In 1997, Japan organised a group of Asian countries that volunteered to head up an Asian Monetary Fund (AMF) and offered \$100 billion as initial capital. This is a small fraction of the almost \$1 trillion in international reserves that Asian countries currently hold (Glick and Rose, 1998).

By smoothing out fluctuations, it will reduce protectionist tendencies.

Furthermore, efforts to liberalise trade are likely to continue to grow further and so will the mobility of international financial capital. While capital mobility does have advantages, it carries with it some dangers. It is likely to make future crises more disruptive and more frequent.

Indeed, most bailout packages in Asia of late have been regional, since the International Monetary Fund (IMF) does not possess sufficient resources to put together rescues unilaterally. In each of the recent Asian packages, bilateral components were larger than the direct IMF contribution. While putting together packages on an ad hoc basis has worked of late, in other facets of public policy, we consider this “seat of the pants” approach to policymaking

problematic; policymakers operating without a formal framework can be capricious (Glick and Rose, 1998).

In spite of the proposals put forth for an AMF, it has been all talk but no implementation of it has been achieved.

Creating A Yen Bloc

In the 1970s, Japan started to invest in Asian countries after regaining industrial power and stable current account surplus. This amount grew rapidly. However, the Plaza Accord in 1985 that drastically increased the value of the yen against the US dollar saw an increased in Japanese trade surplus (Endo, 2001). Consequently, the growing enthusiasm in foreign direct investment was the driving force behind the restructuring of the global presence of the Japanese economy.

By the mid-1980s, Japan had developed enough manufacturing and financial power to shape the economic order in the region. Major multinational companies of Japanese origins extended networks through capital investments by focusing on foreign direct investment in Asia (Endo, 2001).

Since 1985, the Plaza Accord has shifted from the ANIEs to ASEAN and further to China. Akamatsu (1962) described this process as the “flying geese pattern model” showing the life cycles of various industries in the course economic development.

In detail, it explains that the shifting competitiveness of an industry over time by focusing on the dynamic changes in factor of endowment (labour and capital) that countries usually experience during the course of economic development. In addition, foreign direct investment will trigger an indigenous improvement of the availability and quality of factor of endowments in the countries catching up from behind. This, in turn, helps promote the

transformation of trade structures by transferring factors of production (capital, technology and management know-how) from the more advanced countries to the less developed ones.

This kind of development would be in compliance with Japan's dream of internationalising the yen. It would not only benefit Japanese businesses and banks but also would advance an important political objective. Reduced exchange rate risk would help make the operation of multinational corporations more profitable, while greater use of the yen abroad would raise Japan's profile as an international economic power.

Thus, since the early 1980s, Tokyo has been trying to figure out ways to bolster the status of the yen overseas. However, because the structure of the global financial system is centred in the dollar, few incentives exist for countries, even those in East Asia, to substantially increase usage of the yen (Choy, 1998).

What more, Japan is still attempting to get itself out of a long recession and would avoid yet another "lost decade" (Richter and Nguyen, 2003: 20). The 1990s saw Japan stagnating and worsen during the financial crisis due to inefficient banking system. To improve its efficiency and capabilities, and raise the stature of Japan's financial markets, Tokyo launched the Big Bang deregulation initiative in April 1998 (Choy, 1999).

One of the most visible and important changes brought by the reform was the loosening of capital account restrictions. Tokyo also introduced a variety of new financial instruments and incentives to spur global interest in yen-denominated investment vehicles, including measures that created a greater range of bond maturities, reduced transaction fees and taxes, and enhanced efficiency of settlement and clearance procedures.

In addition, on October 1998, the then Japanese Finance Minister Kiichi Miyazawa initiated a new effort to internationalise the yen by introducing a \$30

billion aid package to help reeling East Asian nations recover from the economic crisis (Endo, 2001).

The main thrust of the so-called Miyazawa Plan was to extend soft credits to cash-strapped governments, but officials also hoped that distributing huge yen-denominated loans would expand the presence of the Japanese currency in regional financial markets. The idea was that East Asian countries not only would become accustomed to using the yen, but also would develop an incentive to hold yen-denominated assets as their yen-denominated debts increased.

Indeed, the main objective of the Miyazawa Plan was to pave the way for Japan to be the sole hegemony in East Asia.

Barriers to the Yen Base

Despite Tokyo's longstanding official endorsement of the internationalisation of the yen, strong domestic support for the policy has been absent. Internal ambivalence has hampered a steady, concerted effort to implement measures to promote the yen (Endo, 2001). In addition, a host of barriers persist.

According to Park and Park (1990), they are sceptical about the formation of a yen bloc between Japan and Asian countries. They cite unfavourable factors that would not increase the usage of the yen in East Asia:

First, the majority of the region's foreign currency reserves are in dollars. Thus, using yen is not only inconvenient but also involves currency risk. Japan has limited capacity and willingness to absorb Asian imports due to protection of local enterprises.

Second, the role of the yen in the global economy remains limited, as is the relatively underdeveloped status of Japan's financial sector. The Japanese economy as a whole has been stagnant for the last decade. This has greatly

diminished Japan's economic prowess and has raised questions about the credibility of Japan's central bank.

Moreover, the Japanese government has so far failed to liberalise and deregulate the economy in a belief that more dynamics can be generated with the fading out of the state from managing the economy.

Third, with the central bank based in Japan, Asian governments will have to give up their autonomy of setting monetary policies. Fiscal policy is the only option available to balance the inflation-unemployment trade-off. Evidently, the rigidity will hinder policymakers to make swift structural changes in their economies to prop up their sagging economies during any economic downturn. A case in point would be the Republic of Ireland who, at present, cannot use monetary policy to reduce the inflationary pressure faced by her economy.

Fourth, Japanese aggression in the early part of the twentieth century, combined with severe domestic economic problems, has made it more difficult for Japan to assume this role. China is deeply suspicious of Japan and would never allow it to establish a de facto economic hegemony. South Korea harbours similar sentiments and would likely resist any plan to adopt the yen as a regional currency.

Fifth, the unresolved disputes, ranging from conflicting territorial claims in the Spratly Islands, to lingering quarrels between the People's Republic of China and Taiwan also continue to frustrate co-operative efforts. Thus, no regional hegemony has emerged. And not to mention, Asia is currently confronted with a nuclear crisis in the Korean Peninsula (Richter and Nguyen, 2003: 20). Without a strong leader or a basic level of trust, monetary union simply is not possible.

Finally, many nations may not be willing to accept a currency that bears a foreign symbol, although a multilateral agreement that fostered the use of the yen could reduce East Asia's dependence on the dollar.

In Europe, a key factor determining the Euro's success is how independent the European Central Bank is seen to be. Asian central banks on their part have yet to develop a tradition of unimpeachable independence, such as the U.S. Federal Reserve enjoys. The Bank of Japan has only in recent years asserted itself from under the influence of the Finance Ministry bureaucrats (Reyes, 2001).

It would seem that the region has few reasons to embrace the Japanese currency more fully. Unless key political and economic barriers are removed, the idea of a yen bloc in East Asia is likely to remain in the distant future.

Conclusions

A monetary union has several other attractions.

First, it would eliminate currency transaction costs, thus enabling firms to conduct business much more efficiently. However, Wyplosz (1997) has argued that such effects are likely to be small, though not trivial.

Secondly, regional price transparency would spur competition, leading to productivity gains.

Finally, stability would promote trade and investment in the region. Tourism, a key industry for many Southeast Asian countries, also would get a boost (Constellano June 1999). However, an article in the Straits Times in Singapore (dated 6 September 2001) suggested that the European Central Bank (ECB) "a comical bank" and went on to state the "Stability and Growth Pact" has only delivered stability but no growth in Euroland.

For East Asia to move toward a monetary union, a strong nation is needed to provide a currency anchor and push the initiative forward in the long term.

Since the end of the Second World War, Japan has been playing second fiddle to the US. On the other hand, East Asian victims of Japan's wartime aggression remain uncomfortable with the idea of placing the country in any kind of dominant position be it economic or political.

The creation of a yen bloc is not considered realistic because the region relies predominantly on the US dollar for most international financial transactions, making it both inconvenient and risky for countries other than Japan to increase their use of the yen. Although there is over-reliance on the US for exports (see Table 4), the rise of China will dilute the economic power of Japan, which will consequently reduce yen-denominated transactions in the near future.

It is on the political agenda of the Japanese to have monetary union as it has been replaced by Europe as the second largest economy after the inception of the Euro. A single market would allow it to re-emerge as second largest or even the largest economy in the world.

Despite Tokyo's long-time interest in internationalising the yen, it is still grappling with problems of its old structure of the Japanese development state. There is still tension between the traditional Japanese development state and the neo-liberal political economic order advanced through liberalisation.

Endo (2001) postulates that Japan's suggestion for a monetary union dominated by the yen was a search by the Japanese policymakers for an alternative institutional arrangement for a sustainable growth of its economy. The old traditional structures continue to experience increasing difficulties to continue to function, while the neo-liberal regime is not able to operate effectively either.

While it seems meaningful to wait and see in which way the restructuring of the Japanese state is really moving, it is clear that the declining development state in Japan can no longer effectively fulfil the responsibility of managing the economy of modern complexity, dynamism and global scale.

East Asia should therefore initially move first towards a custom union with a gradual elimination of state owned enterprises to increase its competitiveness, before delving into a comprehensive monetary union.

Although critics do not foresee the formation of a monetary union, we would suggest that the more compatible countries should first work towards harmonising their economic systems, eventually linking their currencies. These integrated clusters can then join with the others to form a complete East Asian monetary union. However, East Asia must have refined institutions similar to that of Europe. It should start defining a common cause of how their economies can collaborate through forum or any institutional arrangements such as “an East Asian Union”.

Military co-operations must exist between Japan and the rest of East Asia to gradually eliminate any previous war animosity or ill feelings.

In addition, an AMF could still fill the void of economic leadership in Asia. Though it might seem natural for Japan to be the unilateral leader, there is a role for China, South Korea and ASEAN as a whole to play. Subsequently, with a counterbalance of power in the region, it may then be possible to delegate regional financial affairs to the AMF as it will have more transparency in its undertakings. Furthermore, the AMF will also be able to play the role in promoting regional co-operation and trust.

In pursuit of this goal, much research is at hand to explore new avenues. The National Institute for Research Advancement in Japan (NIRA) recently

commissioned a specific project “Monetary Union in East Asia” under which the following essential questions are being explored (NIRA, 2002):

1. The necessity for monetary policy cooperation in East Asia, the content and conditions of this cooperation and Japan’s role to be played in such co-operation.

2. Based on the limits of Japan’s single-handed efforts to stabilise the yen-dollar exchange rate, how should Japan cooperate with other East Asian countries?

3. The feasibility of a monetary union as a result of the unification of the “East Asian Corridor”, which is a concept of co-operation among big cities in East Asia. The corridor includes the region ranging from Jakarta in Indonesia to Singapore, Kuala Lumpur, Bangkok, Hanoi, Hong Kong, Guangzhou, Fuzhou, Taipei, Shanghai, Nanjin, Jinan, Tianjin, Beijing, Shenyang, Pyongyang, Seoul, Busan, Okinawa, Kyushu and Hokkaido.

Essentially, the implementation of such a grandiose plan as an effective Asian Monetary Union would require substantial time and effort, although such an achievement may necessarily satisfy the region's hunger for greater economic strength and stability. For the time being, economic disparities and political barriers remain clearly prohibitive, even though East Asia has been increasingly growing closer.

Table 1: Industry across ASEAN, China, Japan and South Korea

Countries	Agriculture	Main Industries
Japan	Rice, Vegetable and Fruits - (3%)	Metals, Chemicals, Textiles, Electronics (31.5%)
South Korea	Rice, Barley and Fruits - (13.8%)	Textiles, Chemicals, Electronics and Steel (35%)
Singapore	Imported	Refined petroleum, Shipping, Chemicals and Electronics (47%)
Cambodia	Rice, fruits, vegetables and sugarcane (40%)	Wood and milled products (15%)
@China	Livestock, fishery, forestry	Mining & manufacturing, energy services, food, pharmaceutical products and medical instruments.
Malaysia	Rubber, Palm kernels, timber, cassava Pepper, rice, (21.5%)	Electronics, textile, chemical, crude palm oil, tin, metals. (31%)
Indonesia	Rice, cassava, coffee, sugar, sweet potatoes, rubber, corn (25%)	Textiles, beverages, cement, pharmaceutical, fertilizer (15%)
Philippines	Rice, corn, sugarcane, bananas, tobacco, coconut (26%)	Processed food, textiles, pharmaceutical, Chemicals, wood products, electronic (9%)
Myanmar	Rice, sugarcane, beans (47.8%)	Textiles, footwear, wood products, refined oil (8%)
Laos	Rice, rubber, coffee, cotton, tobacco (75%)	Tin, wood products, electronic power (7%)
Vietnam	Rice, rubber, fruits, vegetables, corn, sugarcane (70%)	Textiles, machinery, cement, chemical processed food. (9%)
Thailand	Rice, rubber, corn, sugar, (25%)	Agricultural processed, textiles, wood, wood products (20%)
Brunei	Rice, cassava (1.3%)	Oil, gas (51.4%)

*Data collated from World Economic Data 1999

@ World Bank indicators database April 2002

Table 2: Real Growth and Per Capita Income of East Asian Economies

Country	Growth[1]	Per Capita Income[2]
China	7.1%	\$860
Hong Kong	2.2	25,200
Indonesia	0.2	1,110
Japan	0.6	38,160
Malaysia	5.0	4,530
Philippines	3.0	1,200
Singapore	5.6	32,810
South Korea	10.0	10,550
Taiwan	5.4	13,060
Thailand	4.5	2,740
Vietnam	5.0[3]	335
[1]Gross domestic product growth, 1999. [2]Most recent dollar figures available. [3]Official government estimate.		
Sources: Growth rates, Goldman Sachs and Co., Inc.; per capita income, Asia Pacific Economic Co-operation Secretariat.		

ASEAN Trade with Japan by Country (1993-2001)

Table 3

ASEAN Export to Japan by Country
(Value in Thousand US \$)

COUNTRY	Export								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei Darussalam	-	948,303.3	1,630,619.0	1,350,356.0	1,391,744.9	1,098,515.3	1,187,401.8	936,400.5	1,671,878.8
Cambodia	-	-	-	-	-	-	-	10,731.0	13,292.1
Indonesia	11,172,203.8	10,505,075.2	12,288,296.9	9,981,326.5	11,721,778.5	9,116,019.2	10,397,201.7	14,415,190.0	13,010,175.5
Malaysia	6,059,429.8	6,640,140.3	8,549,975.0	9,104,432.3	6,813,692.5	6,211,360.9	6,616,606.4	8,999,445.1	9,181,263.7
Myanmar	-	-	-	-	-	-	58,479.5	64,901.0	84,029.7
Philippines	1,817,417.3	2,013,866.6	2,735,624.8	3,667,893.5	4,194,401.4	4,233,903.9	4,664,212.5	5,608,677.8	5,057,442.9
Singapore	5,523,994.0	6,451,113.4	8,162,916.6	9,611,717.6	9,059,678.4	7,223,752.4	8,507,812.2	10,411,692.0	9,327,594.3
Thailand	6,379,188.2	7,741,144.2	9,313,280.4	9,434,605.7	8,827,282.4	6,833,217.9	6,255,371.2	14,296,874.0	9,965,547.6
TOTAL	30,952,233.1	34,299,643.0	42,680,712.7	43,150,331.6	42,008,578.1	34,716,769.6	37,687,085.3	54,743,911.4	48,311,224.6

Table 3

ASEAN Import from Japan by Country
(Value in Thousand US \$)

COUNTRY	Import								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei Darussalam	-	184,255.3	186,011.6	224,366.5	250,065.3	70,356.1	105,803.9	71,706.4	117,999.3
Cambodia	-	-	-	-	-	-	-	57,829.3	19,573.1
Indonesia	6,248,429.3	8,452,423.2	9,229,977.4	6,503,096.7	8,252,298.5	4,292,433.8	2,913,290.3	5,397,254.9	4,689,470.3
Malaysia	12,630,153.0	15,541,613.4	19,672,862.5	17,635,460.9	15,300,322.2	10,051,875.9	11,228,334.5	15,398,400.7	12,068,216.4
Myanmar	-	-	-	-	-	-	221,884.4	186,975.8	377,534.0
Philippines	4,029,956.5	5,184,786.6	4,807,378.8	6,123,902.9	7,414,133.2	6,029,941.3	6,136,001.1	6,027,374.7	6,098,410.7
Singapore	18,654,198.5	21,470,723.8	23,284,001.9	22,324,363.8	23,724,058.8	16,989,991.3	18,480,667.7	23,177,111.6	16,070,830.0
Thailand	14,140,189.4	16,468,677.0	21,354,931.8	20,498,869.6	16,323,346.5	9,259,113.1	12,380,014.3	15,310,547.2	13,884,544.1
TOTAL	55,702,926.7	67,302,479.3	78,535,164.0	73,310,060.4	71,264,224.5	46,693,711.5	51,465,996.2	65,627,200.6	53,326,577.9
Net Import	24,750,693.6	33,002,836.3	35,854,451.3	30,159,728.8	29,255,646.4	11,976,941.9	13,778,910.9	10,883,289.2	5,015,353.3

Source: ASEAN Secretariat, 2002

Table 4

ASEAN Trade with United States of America by Country (1993-2001)

ASEAN Export to United States of America by Country

(Value in Thousand US \$)

COUNTRY	Export								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei Darussalam	-	32,739.3	47,689.4	54,435.6	54,494.4	178,192.3	443,152.0	251,284.2	302,989.1
Cambodia	-	-	-	-	-	-	-	739,451.8	831,904.7
Indonesia	5,229,796.8	5,708,438.9	6,321,714.0	6,991,129.3	6,957,660.9	7,031,011.5	6,896,520.9	8,475,418.6	7,748,748.0
Malaysia	9,407,255.2	11,906,978.9	13,697,489.2	14,984,259.8	19,394,278.1	14,306,563.1	17,489,315.3	14,177,368.5	12,695,621.7
Myanmar	-	-	-	-	-	-	77,787.2	174,601.3	315,035.1
Philippines	4,230,722.3	4,955,128.5	5,985,766.9	5,963,126.4	8,814,601.8	10,097,859.4	10,445,464.1	11,365,311.6	8,978,953.5
Singapore	15,051,350.8	17,238,568.3	19,012,563.6	21,510,220.6	23,528,357.2	21,812,660.7	21,955,613.2	23,892,835.2	18,716,071.0
Thailand	8,089,105.6	9,528,799.9	9,928,492.2	10,012,300.5	11,280,981.3	11,193,758.6	12,773,296.5	13,386,197.2	13,229,858.7
TOTAL	42,008,230.7	49,370,653.8	54,993,715.3	59,515,472.2	70,030,373.7	64,620,045.6	70,081,149.2	72,462,468.4	62,819,181.8

Table 4**ASEAN Import from United States of America**

(Value in Thousand US \$)

COUNTRY	Import								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei Darussalam	-	206,440.4	190,705.0	303,029.6	242,180.6	89,271.5	178,010.8	110,223.7	196,698.1
Cambodia	-	-	-	-	-	-	-	32,172.2	16,493.0
Indonesia	3,254,522.3	3,887,599.7	4,755,908.4	4,549,752.2	5,440,904.8	3,514,540.4	2,838,995.7	3,390,260.3	3,207,510.2
Malaysia	7,665,133.5	9,808,123.8	12,553,582.4	14,499,025.7	17,168,406.9	16,614,408.4	12,348,699.0	12,097,019.6	10,930,767.2
Myanmar	-	-	-	-	-	-	28,868.4	64,918.2	36,568.1
Philippines	3,507,858.1	3,934,376.9	3,885,605.4	4,354,352.4	7,153,908.4	6,559,996.6	6,365,149.0	5,323,299.1	4,989,308.6
Singapore	13,843,304.4	14,908,743.9	16,524,494.6	20,160,393.0	22,904,820.5	18,674,305.8	18,905,130.0	20,139,091.6	19,052,837.1
Thailand	5,441,860.8	6,456,463.2	8,524,838.6	9,144,843.9	8,784,822.3	5,489,680.7	5,326,035.5	7,289,895.7	7,188,606.9
TOTAL	33,712,679.1	39,201,747.9	46,435,134.4	53,011,396.8	61,695,043.5	50,942,203.4	45,990,888.4	48,446,880.4	45,618,789.2

Net Import	-8,295,551.6	10,168,905.9	-8,558,580.9	-6,504,075.4	-8,335,330.2	13,677,842.2	24,090,260.8	24,015,588.0	17,200,392.6
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Source: ASEAN Secretariat, 2002

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