Building the Diverse Community

Beyond Regionalism in East Asia

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The Origins and Transformation of East Asian Financial Regionalism[1]

The process of financial cooperation in East Asia for many decades, due to economic conditions, and especially political factors, was very difficult, and initially it based on a loose cooperation of central banks. The Asian financial crisis of 1997–1998 was the turning point. In its aftermath, as a result of a failed attempt to create the Asian Monetary Fund (AMF), three pillars of financial cooperation had been developed. The first one was aimed at providing liquidity against speculative attacks, that is, at financing short-term financial needs. The second – on the development of capital markets in order to reduce East Asian countries' and enterprises' dependencies on the banking system. The third – and the least developed form of financial cooperation – was the idea to establish a common monetary unit among East Asian economies.

The purpose of the paper is to present the reasons of the financial regionalism in East Asia and its initiatives. In particular, consideration will be given the following forms of accomplishments: the regional central banks cooperation (inter alia Executive Meeting of East Asia and Pacific Central Banks), the Association of Southeast Asian Nations (ASEAN), the Chiang Mai Initiative (and its Multilateralisation), East Asian Surveillance Processes, the Asian Bond Market Initiative, and a possibility to create an Asian Currency Unit (ACU). The main research method is a qualitative analysis.

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The gist of financial and monetary integration

The process of financial integration is based on the progressive liberalization of capital flows, budget and tax systems' harmonization, coordination of banking and financial services, and integration of capital markets. By analyzing the evolution of the integration processes, the monetary union is usually a consequence of the integration of goods, services and factors of production markets, and is inextricably linked to economic integration. A monetary union is an area in which there is a complete liberalization of capital transactions, the full convertibility of the currencies, the elimination of exchange rate fluctuations and the full integration of financial markets. Therefore, in parallel with the deepening monetary integration, the region also extends the process of financial integration.

Monetary cooperation includes agreements concluded between at least two countries, whose aim is to coordinate the value of their currencies. From a theoretical point of view, the scope of cooperation can take two forms. The first one is the introduction of the common currency, replacing national currencies (e.g. the euro as part of Economic and Monetary Union in the European Union). The second one is based on the irreversible fixed exchange rate in countries forming a monetary union (e.g. in the past European Monetary System in the European Economic Community, currently for instance: Common Monetary Area in Southern Africa). In the case of the first solution, a prerequisite is the establishment of a common central bank (in the case of the Eurozone it is the European Central Bank, pursuing a policy of monetary and exchange rate). The second form of a monetary union does not require the creation of common institutions, but it is necessary to conduct close cooperation of national central banks. However, fixing exchange rates without a common regulatory approval, require additional harmonization of economic and fiscal policy (for more see: K. Klecha-Tylec 2013a, p. 225). In the case of East Asia, because of economic and (mainly) political factors, only the second form of monetary cooperation may be taken into account.

The Optimal Currency Area (OCA) is the theory that an analysis of the benefits and costs of establishing a monetary union. The OCA theory was formed by Robert Mundell in 1961. The OCA is a group of countries that are closely interlinked with each other in terms of monetary issues. Besides that, there is free movement of the inner factors of production, and there is lack of external mobility. The most important problem in relation to the theory of OCA is to develop criteria for successful monetary

integration process. As a result, along with the development of the theory of optimum currency areas, the emphasis on different requirements to be met by the countries has changed (K. Han 2009, pp. 11–18). Initially, the first economists dealing with the OCA theory (i.e. R. McKinnon, P. Kenen) had focused on the real economy, which they believed should be the basis for assessing the optimality of a currency area.

The second generation of the OCA theory, so-called new theories of optimum currency areas, focuses on nominal factors, such as the level of financial integration, the convergence of inflation rates, with a special attention to the synchronization of economic cycle phases. When there is the absence of such synchronization, a risk of asymmetric shocks can occur. Their source can be in the demand side, resulting in monetary disorders – these are the demand shocks, referred to as the nominal or the supply-side shocks (resulting from the structural transformations induced price movements). Asymmetric shocks require diversification of economic policy, which, however, in the case of a currency area union is either limited or even impossible. It means higher costs of participation in monetary union, especially for the less developed countries (see: C. Cortinhas, pp. 38–45).

Given the fact that among the East Asian countries, only Japan is among the group of developed economies (see: UN Country classification, pp. 145, 147), and in addition, these countries are characterized by great diversity (not only in terms of the level of economic development, but also because of different political, cultural and social systems), the creation of a monetary union in the region seems to be a very difficult process, and certainly it would need a long time.

Origins of East Asian financial cooperation

East Asian regionalism, comparing to the Western Europe or American one, can be characterized by a much lesser degree of institutionalization and greater importance of informal relationships. The main advantage of this form of regionalism is the ability to make quick decisions in crisis situations, which against the background of European experience (in the form of blocking unfavorable for some countries regulations or solutions), and the Asian one (the Asian Financial Crisis of 1997–98), proved to be for the East Asian region a very important factor for development, particularly in relation to financial markets (see: K. Klecha-Tylec 2013b, p. 85).

East Asian financial regionalism is relatively a new phenomenon. Particularly important in deepening this process has had the above mentioned Asian financial crisis, as well as, establishing at the end of the 1990s the ASEAN+3 structure. The result is a variety of initiatives involving countries of the region, whose main initial goal was to increase the financial stability of the East Asian countries. In the subsequent years, regional financial cooperation has been intensified among East Asian countries. The main reason was a significant increase in value of foreign exchange reserves, especially in the People's Republic of China (PRC). This has contributed to the initiation of a series of actions designed to use the financial capital of the East Asian countries in order to develop their own region.

As a result of these changes, in the context of financial integration, the East Asian states had achieved much more satisfactory, actual results than in other integration initiatives (see: T. J. Pempel 2006, pp. 239–254; E. L. Frost 2008, pp. 169–171). In addition, there had also been obtained a higher degree of institutionalization, compared even to the region's many preferential trade agreements. It is worth noting, that it had occurred, despite the fact that Asian financial markets, as opposed to commodity markets, are small, closed, and there is lack of transparency. In addition, traditionally for decades, they were more focused on the Untied States (US) dollar than on their own local currencies.

However, the situation has been gradually changing, mainly because of the global financial crisis of 2007–2009, and the consequent weakening of the US economy, and especially the Eurozone economies (see: K. Klecha-Tylec 2014). The effect of these changes were strengthening the financial cooperation in the region. The basis was created by the regional central banks a few decades earlier, not even strictly in East Asia, but in Australasia and Southeast Asia.

Regional cooperation of Asian central banks

The first initiative of financial cooperation was put forward by Australia during a meeting of the central banks' representatives of Asian and Pacific countries in the middle of 1950s. As a result, the Central Banks of Southeast Asia, New Zealand and Australia (SEANZA) was established in 1956. The primary objective of SEANZA was to organize training courses for employees of central banks of the member states, which was supposed to help in allocating aid flowing to Asia. However, over the years, because

of different levels of economic development, political objectives and the features of the members' economies, the ability to interact within the SEANZA structure was more and more limited.[2]

Another form of cooperation between the central banks of the region (also as SEANZA regulated by annual meetings) was the South East Asian Central Banks (SEACEN), established in 1966 (for more about SEANZA and SEACEN see: S.Hamanaka 2009, pp. 100–101).[3] It was supposed to be a forum for information exchange and ideas about the functioning of domestic financial systems and economies. In 1982 the Research and Training Centre was established in Malaysia on the basis of SEACEN. It aims to promote a better understanding of issues related to financial, monetary, economic and banking cooperation of the member states and the region as a whole, and further to stimulate cooperation in research and training. Later, in 2005 the Center for Monetary Cooperation in Asia (CeMCoA) was established by the Bank of Japan. Besides providing technical schooling, it is also a forum for the exchange of ideas and for strengthening personal relations between central bankers of the region (U. Volz 2010, pp. 181–182).

The youngest form of cooperation between the central banks of the region of East Asia and the Pacific is the Executive Meeting of East Asia and Pacific Central Banks (EMEAP). Its aim is to establish cooperation between central banks and monetary authorities in East Asia. The initiator of the collaboration was also the Bank of Japan. The first EMEAP meeting took place in 1991 (they are held twice a year). It was attended by representatives of the central banks of Japan, South Korea, Indonesia, Malaysia, Singapore, Thailand, the Philippines, Australia and New Zealand. In subsequent years, membership has been extended to the PRC's and Hong Kong's central banks. In 1996 it was decided to create within the EMEAP banking supervision (a study group to undertake studies on the primary functions of central

[2] The founding members of SEANZA were: Australia, New Zealand, Pakistan, India, and Sri Lanka (Ceylon). According to the state of 2014, SEANZA consists of 20 member states, i.e.: Bangladesh, Iran, Nepal, Mongolia, Papua New Guinea, and from East Asia: Japan, South Korea, the PRC, Hong Kong (China), Macao (China), Indonesia, Malaysia, Singapore, Thailand, and the Philippines.

[3] The original members were the central banks of: Malaysia, Myanmar, Nepal, Indonesia, the Philippines, Thailand, Singapore, and Sri Lanka. Later other central banks became full members of SEACEN, i.e.: the Bank of South Korea, the Peoples' Bank of China, the Central Bank Chinese Taipei, the Bank of Mongolia, the Ministry of Finance of the Sultanate of Brunei, the Reserve Bank of Fiji, the Bank of Papua New Guinea, National Bank of Cambodia, the State Bank of Vietnam, the Reserve Bank of India, the Bank of the Lao PDR, and the Central Bank of Myanmar.

banks) and two working groups (on central banks operations and on financial market development). Two years later the EMEAP Internet was launched. Its function is to connect all central banks to accelerate the exchange of information between them (S. Shirai 2007, p. 86). Currently the EMEAP also plays a very important role in the development of financial integration in Asia, particularly in the creation of the Asian bond market.

East Asian swap agreements

An idea to create an East Asian network of swap agreements was aimed at ensuring a mechanism for counteracting short-term fluctuations of financial stability. Its foundation was the ASEAN Swap Agreement (ASA) – an agreement signed in 1977 by the five founding members of ASEAN (ASEAN-5, i.e. Malaysia, the Philippines, Singapore, Indonesia, and Thailand). ASA was an agreement between the central banks of the ASEAN-5 group, which regulates the conditions for mutual assistance in case of problems with liquidity in their international settlements. ASA was a typical currency swap, in which exchange rates of the local currencies to the US dollar were controlled in case of the country's struggling with the problem of lack of liquidity. Initially, under the ASA agreement, each country could count on maximum support in the amount of USD 40 million out of a total sum of USD 100 million (each member of the ASEAN-5 had paid USD 20 million). In 1978 the agreement was revised, and all these amounts were doubled. It ought to be added that ASA was launched only five times, while the agreement was not used during the Asian financial crisis in the 1990s. The reason was too low amount of financial resources at the disposal of the ASEAN countries.

At the turn of the 20th and the 21stcentury, ASA became the foundation of a new swap contract extended to other East Asian countries – the Chiang Mai Initiative (CMI).The new swap agreement was the first tangible achievement of ASEAN+3, taking the monetary area into consideration. The conception was initiated by the politicians of the ASEAN+3 group during the Summit in Manila in 1999. It was officially adopted by the finance ministers of the thirteen states a year later in Chiang Mai, Thailand, from where it derives its name. The main reason for initiating this project was the failure of the concept for the establishment of the AMF. In turn, the main reason for the acceptance of the Initiative was the fact that, unlike the AMF, the CMI did not require the creation of new institutions.

The extension of the participants in the new swap agreement of the Northeast Asian countries was associated with an increase of available finances for the countries from USD 200 million to USD 1 billion. This took place in May 2001. During subsequent conversations, the amount available under the CMI was increased up to USD 90 billion in April 2009. On the basis of the agreement the countries were entitled to exchange their national currencies to the major global international currencies (for up to six months) to a maximum two times the amount of a state's own contribution. The CMI agreement allows countries to raise funds on similar terms as the International Monetary Fund (IMF), but the agreed amount transactions can be entered into without the mediation of the IMF. Initially, it was up to 10%, and since 2005 to 20% of a bilaterally agreed swap transaction. Above this amount, the conditions of the IMF must be met. Hence there is still a strong link between the CMI and the IMF, which primarily affects a significant delay in response to signals of potential crises. This resulted in the critique of the analyzed initiative (for more about the critique of the CMI see: C. R. Henning 2002, pp. 33–47).

As a result of the above presented criticism, the members of the ASEAN+3 group took action to reduce their reliance on the decision of the IMF. The finance ministers of the group decided in 2009 to replace the bilateral agreements by multilateral swap agreements. At the same time, the ministers decided to keep the two basic objectives of the CMI, i.e. assistance in financing short-term liquidity problems and the complementary function to other existing international financial arrangements. Following the decision, the CMI was multilateralized. The new activity is called the Chiang Mai Initiative Multilateralization (CMIM).

The CMIM consisted in a created pool of foreign exchange reserves. Initially, the amount of funds amounted to USD 80 billion. In 2009 it was increased to USD 120 billion, in 2012 to USD 240 billion. The independence of East Asian economies with respect to the IMF was then also increased, by raising up to 30% the sum of the swap, which can be started without consultation with the IMF. The dominant contribution of the agreed total amount (80%) was to be financed by the countries of Northeast Asia, and the rest by the ten ASEAN members. According to the adopted concept, the CMIM is used primarily for smaller and weaker economies (i.e. Brunei, Cambodia, Laos, Vietnam). Those five countries will have the ability to use, if necessary, the appropriations in excess of five times their own contribution to the account. The Philippines, Hong Kong, Indonesia, Malaysia, Singapore and Thailand can

count on the 2.5-fold, and the South Korea on the equivalent of its contribution. Japan and the PRC will be able to use half of its contribution (For more see: W. J. Yuan, M. Murphy2010, p. 3; *The Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting* 2012).

The East Asian Surveillance Processes

The regional surveillance mechanism in East Asia is the second (out of three) element of the regional governments activities, in addition to the CMI, towards coordinating exchange rate policies and establishing regional financing arrangements. The first direction of that financial cooperation of East Asian countries was based on the exchange of information both between economies of the region, as well as with the third countries. In terms of intraregional mechanism, it operated primarily under the ASEAN Surveillance Process (ASP). The ASP was established by the ministers of finance of ASEAN member states in October 1998, as a part of the Hanoi Plan of Action (see: M. G. Plummer, R. W. Click 2009, p. 19). The goal of the ASP was to deepen coordination of economic policies within the framework of ASEAN, and to improve financial supervision. It monitored macroeconomic aggregates and exchange rates, as well as social and sectorial policies within the members of ASEAN. The ASP was based on principles of mutual interest and peer review. There were two levels of meetings: ASEAN finance ministers (once a year) and ASEAN finance ministers together with central bank deputies (twice a year) (J. M. Dowling, P. B. Rana 2010, p. 217).

In the late 1990s, this mechanism was extended to the Northeast Asian subregion. After Japan, the PRC and South Korea joined the surveillance process, its name was changed to ASEAN-Plus-Three Surveillance Process (APTSP) (D. K. Das 2005, p. 245). The basic goal of the APTSP is to enhance objective monitoring by supplementing the IMF, that particularly concerns its new short-term lending facility (so-called Short-Term Liquidity Facility). But it ought to be underlined, that the mechanism is not intended to be a substitute for the IMF (J. M. Dowling, P. B. Rana 2010, p. 220).

In May 2000, as a result of those changes, the Economic Review and Policy Dialogue (ERDP) within the framework of ASEAN+3 was introduced. It is a system of annual meetings of ministers of finance of the

thirteen countries, aimed at the exchange of information in order to intensify political and monetary cooperation within the East Asian region. The meetings are focused on reviewing financial sector developments and vulnerabilities (including bond market), and assessing national, regional and global risks and conditions (P. B. Rana 2012, p. 32).

Another forum for the exchange of information on the financial stability of the region is the Manila Framework Group (MFG). Similarly, as the two initiatives outlined above, it was created just after the Asian financial crisis, in November 1997. Its aim was to conduct discussions of common interest, periodically twice a year. It should be added, that the MFG was created as a side effect of an unrealized concept of the establishment of the AMF. The idea was proposed by Japan in August 1997. The AMF was supposed to be an independent institution, aimed at stabilizing the Asian financial markets and exchange rates. However, due to the opposition expressed particularly by the IMF and the US, the idea of the AMF was refused.

Financial cooperation initiatives arose also in a broader context – in terms of the East Asian cooperation with the countries of the Pacific region and Europe. The first direction refers to the forum of Asia-Pacific Economic Cooperation (APEC). It was proposed in March 1994. The overriding aim of the framework was to exchange (during the meetings of finance ministers) views and information about the development of financial markets and capital movements. A similar mechanism was also created in September 1997 by involving European and Asian finance ministers at Asia-Europe Meeting (the ASEM Forum). Since 2003 those ministerial meetings have been held annually. Within this structure the Kobe Research Project was adopted, which aims to promote monetary cooperation in East Asia (H. Kuroda, M. Kawai 2004, p. 153).

The finance ministers of East Asian countries cooperate also with each other by exchanging information on the transfer of capital, exchange rate policy, the development of financial markets within smaller structures. They are: the Four Markets Meeting, with the participation of Australia, Hong Kong, Japan and Singapore (it was established in May 1992); and the Six Markets Meetings (created in March 1997), a group of the four above markets, together with the PRC and US. In turn, in September 2000 the three Northeast Asian states established a Trilateral Finance Ministers Meeting.

Asian Bond Market Initiative

The Asian Bond Market Initiative (ABMI) was a direct consequence of the Asian financial crisis of 1997. The main reason for the crisis were loans in foreign currencies which were taken at a large scale in Western financial institutions by local entrepreneurs. These agreements were concluded because of the lack of domestic capital raising alternatives, resulting from an underdeveloped regional bond market. Therefore, the concept of ABMI was to mobilize significant East Asian internal savings and to make them available to invest within the economies of the ASEAN+3 group, without targeting the capital in foreign markets. Thus, the region, in accordance with the assumptions, is going to be less dependent on assets denominated in outside currencies, especially the US dollar.

The first discussions on the establishment of a common bond market in East Asia were led within the framework of ASEAN at the turn of 2002 and 2003. The aim of the dialogue was to create an alternative to the stock market by extending the offer to investors by further financial instruments with fixed incomes (M. Plummer, G. Wignaraja 2009, pp. 183–184). Discussions about the ABMI began in December 2002 during the ASEAN+3 Summit in Chiang Mai. Nevertheless, specific decisions were made at the EMEAP forum in June 2003. Then it was decided to establish the Asian Bond Fund (ABF1), managed from Hong Kong by the Bank for International Settlements (BIS). In August 2003 the plans for the ABMI had been officially approved by the finance ministers of the ASEAN+3 countries. By virtue of the agreement, each of the nine shareholders contributing to the Fund (i.e. Japan, South Korea, the PRC, Hong Kong (China), the Philippines, Malaysia, Indonesia, Thailand, and Singapore) had allocated to the ABF 1% of their foreign exchange reserves. The total assets of the ABF1 amounted to USD 1 billion. They were invested in bonds denominated in US currency, and were issued by the EMEAP member economies. It was decided, that the initiative is going to offer financial support for eight of the eleven EMEAP member economies.[4] The ABF1 was launched in June 2003.

The success of the ABF1 contributed to the decision to implement the second phase of this initiative, known as the second Asian Bond Fund (ABF2). It was launched in April 2005. The value of its assets, comparing to the ABF1, was doubled. It was assumed that the money will be invested in bonds

[4] Japanese, Australian and New Zealand's financial markets were excluded as the most developed ones among the EMEAP members.

denominated in the currencies of eight members of the EMEAP (excluding Japan, Australia and New Zealand). The fund was divided into two parts.

A Pan-Asian Bond Index Fund (PAIF) was the first part of the ABF2. It was supposed to invest its capital in bonds issued in the eight EMEAP markets (without the three abovementioned developed economies). The share of the rest eight of the EMEAP members in the structure of PAIF was dissimilar, due to the different size of the economies included in the index. PAIF is managed from Singapore by State Street Global Advisors, and listed on the stock exchange in Hong Kong. PAIF is quoted in US dollars on an unhedged basis.

The second element of the second Asian Bond Fund were eight single-country funds (Fund of Bond Funds (FoBF)), i.e. the Chinese, Malaysian, Indonesian, Thai, Filipino, Singaporean, Korean funds and the fund of Hong Kong. Each of them invested in separate, also denominated in local currencies, bonds within the EMEAP market. Thus, the single market funds were to invest in the respective local currency bond market (i.e. in China, Kuala Lumpur, Jakarta, Bangkok, Manila, Singapore, Seoul, and Hong Kong) (see: G. Ma, E. Remolona 2009, p. 92). Every fund is managed by the financial institution of the country. The ABF2 was launched in June 2005, as a fund opened to both public and private investors. FoBF is seen as an important step towards the development of a regional bond market denominated in local currencies of East Asian economies (S. Shirai 2007, p. 87). It is worth noting that the ABMI is strongly supported by the Asian Development Bank, as an important opportunity to accelerate economic growth and development in East Asia.

Regional Currency Unit

The idea to create a common regional currency unit by East Asian economies was the third, next to the CMI and the ABMI, main direction of discussions about the regional activities towards stronger financial cooperation in the region (see: P. B. Rana 2008, pp. 128–129). It is also the most difficult one. The conception was strongly supported by Haruhiko Kuroda, the president of the Asian Development Bank in the years 2005–2013. Therefore, the Asian Development Bank was promoting this idea. A Regional Currency Unit (RCU), an Asian Monetary Unit (AMU), an ACU, an "Asian" or just "units," would in fact be the basis for the construction of the future monetary union in East Asia.

The idea to establish a RCU is dated back to the 1970s. Then, four East Asian countries (Indonesia, South Korea, the Philippines, and Thailand) took activities to include Japan into the regional system of payment. As a result, a common currency unit was to be introduced. However, Japan rejected this proposal. The final agreement was signed by the governments of Bangladesh, Burma, India, Iran, Nepal, Pakistan and Sri Lanka. Through this agreement, none of these countries experienced any serious financial crisis in the 1990s (B. Gao 2001, p. 262).

The next step towards the creation of a common currency in the region was taken by ASEAN in late 1998. Representatives of ASEAN had then adopted a project to investigate the benefits of adopting a single currency. Two years later a special task force (under the leadership of the Central Bank of Malaysia) was established for this purpose. Despite that, in 1999 Hong Kong expressed its willingness to create a common currency with Singapore, in the long-term perspective. Also other heads of states, inter alia from the Philippines and Malaysia, favored at that time a common currency in Asia)A. Bènassy-Quèrè, B. Cœuerè 2005, pp. 194–195).

In terms of the entire East Asian region, finance ministers of the ASEAN+3 adopted a study on "regional currency units" in May 2006 (see: P. B. Rana, M. Dowling 2009, pp. 236–237). The idea of a regional ACU was then officially presented. At the same time many disputes concerning the composition of the Asian currency basket had occurred. Initially the dialogue considered participation of up to forty Asian currencies. Later the number was narrowed down to thirteen currencies of the ASEAN+3 members. But in parallel, there were many other concepts, such as an exclusion of the Japanese yen, the inclusion of dollars emitted by Hong Kong, and Taiwan. The exclusion of kip (Lao), riel (Cambodia), and kyats (Myanmar), as the currencies of the weakest economically group of the ASEAN member states was also considered. There were also concepts of RCU as a basket of currencies including all countries participating in the East Asia Summits. There were also ideas about creating regional currency union based on the so-called G3 basket (the US dollar, Japanese yen, and euro). This concept was proposed by W. McKibbin, as the better alternative for East Asia than the option presented above (see: W. McKibbin 2004). Considering in turn the question of the currency basket, the dispute relates to a method for calculating the share of each currency in the basket. The problem applies to, inter alia, the issue of recognition of the GDP (nominal or real), the choice of exchange rate system, the demographic data, or other economic indicators, such as currency convertibility, or the volume of trade. The problem is

also connected with the question as to which institution ought to be used to publicize a value of the RCU (W. Moon, Y. Rhee 2012, pp. 149–150].

Furthermore, due to the underdeveloped process of economic integration in the region, establishing a currency union seems to be a very distant concept. In addition, there is no unified country position on the scope of such a union. Accordingly, there is also a lack of a unified position on the territorial range of a RMU. There are concepts that it should cover only ten ASEAN member states. Other projects concerned thirteen members of ASEAN+3, or even all over twenty members of APEC (which seems the least likely alternative). Much more realistic seems to be concepts of creating in East Asia a currency union based on a smaller number of members. For instance, H.C. Tang, instead of the great Asian monetary union, recommended the creation of several smaller currency zones, that can in a better way meet the OCA criteria. He proposed introducing a currency union between Singapore and Malaysia, Japan and South Korea, or among ASEAN, Hong Kong and Taiwan (H.C. Tang 2006).

Another proposition is the so-called Greater China (the PRC, Hong Kong and Taiwan) currency area. In the opinion Y. W. Cheung and J. Yuen, it is particularly worth highlighting from an economic point of view. The Greater China currency area shows significant synchronization of business cycles. These three economies are characterized also by strong trade relations, a large value of mutual investment, and a high degree of complementarity (China has well developed production facilities and low-costs resources; Hong Kong, modern management skills, advanced financial services and well-developed legal system; and Taiwan – capital and technological know-how) (H. Dieter 2007, p. 137).

On the other hand, W. Moon and Y. Rhee proposed as the most realistic option to create an ACU composed at the beginning only of the three Northeast Asian states (Japan, China, South Korea), and later the extending it to other Asian countries. The authors underlined, that China has good reason to support this option because it would help to promote the internationalization of the renminbi (W. Moon, Y. Rhee 2012, p. 150). It ought to be added that there can be distinguished two different paths for China to internationalize its currency, proposed by the unilateral expanse school and the multilateral union school (M. Li 2012, p. 129). The first one points out that an East Asian region is far from being an OCA, and there are many political obstacles for monetary cooperation among its states. The unilateral expanse school also notes that China ought to create a regional monetary system centered on the renminbi (not on a basket

of currencies), and if China aspires to internationalize the renminbi it should first increase the use of the currency in East Asia. It would both decrease the risk of liquidity crises, and reduce existing over-reliance on the US dollar. The multilateral union school states that China should be more engaged in regional monetary cooperation, which ought to be based on the basis of multicurrency, including creating a common regional currency in the future.

However, the most important problem in the context of East Asian currency cooperation seems to be undoubtedly the ongoing rivalry between the two largest regional economies.[5] Both China and Japan try to make their currencies the key currency in the region. In addition, there is the fundamental question: what strategy of finance cooperation and what criteria should be met by the East Asian countries to create in the future optimal currency area.

Conclusions

Financial regionalism is the process related not only to economical, but also to political transformation. The establishment and implementation of financial cooperation requires institutionalization, including partial transfers of sovereign national authorization to supranational levels in concrete areas of activities. This issue is particularly important in the context of the various economic conditions existing in East Asia, and different political systems. Another factor impeding the development of financial and monetary cooperation in the region is the fact that the East Asian countries reveal a relatively small degree of political cooperation (especially comparing to Europe), and their financial markets are much less developed comparing to the Western countries. It should be added that the financial systems of East Asian states (in particular Japan), for many decades were banks-oriented (continental or Rhine models), with a relatively weak development of financial markets (as is the case of the

[5] This rivalry could be recently seen on the occasion of the establishment of an Asian Infrastructure Investment Bank(AIIB). The agreement was signed on October 2014 by representatives from 21 Asian states (without Japanese, South Korean and Australian ones). This new China-backed initiative is going to lend money to develop infrastructure in poorer parts of the continent, and it is de facto another developing bank for Asia (along with the dominated by Japan ADB). The AIIB is to be launch by the end of 2015.

Anglo-Saxon model). However, the advantage of East Asia is the ability to make quick decisions in crisis situations, what against the Asian experience (the Asian financial crisis, and the global financial crisis of 2007–2009), proved to be a very important factor in regional development, particularly in relation to the financial markets.

East Asian financial regionalism has focused on the activities taken by the thirteen member states of ASEAN+3 in the three major projects: the CMI, ABMI, and setting up a RCU. At the same time, countries in the region have deepened financial cooperation, as exemplified by the multilateralization of the CMI. The fund managed jointly by the ASEAN+3 members is seen to be very similar to the Japanese concept of the AMF. The CMIM can become an Asian contribution to the shape of the new financial architecture. Concurrently ongoing activities on the establishment of an East Asian currency area can be seen in terms of a much wider-reaching transformation, that will affect not only the financial sphere, but also real economies, relating not only to the region but also the entire global economy.

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