Regional Financial Cooperation in Asia and its impact to the Global Monetary System

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Ⅰ. Background of Asian Regional Cooperation

Problems of Current International Monetary System

- Highly Volatile & Excessive Capital Flows (With No Rules to Manage it)
  → Sudden Stops and Rapid Reversals of capital flows
- High Dependence on USD
  → Global liquidity fluctuations depending on US economic conditions

Impact on EMs – Korea’s experience

- Original sin
  → Financial fragility caused by either ‘currency mismatch’ or ‘maturity mismatch’
- Vulnerability to ‘twin crises’
  → $21.4 billion outflows (4% of GDP) in 5 months in 1997
  → $69.5 billion outflows (7.5% of GDP) in 4 months in 2008

Asian Financial and Monetary Cooperation is self-help efforts of Asian region in response to current IMS problems
I. Background of Asian Regional Cooperation

Response to Highly Volatile Capital Flows

- Sound Macroeconomic Policy
- Adequate Foreign Exchange Reserves
- Capital Movement Mgt. Measures (Macro Prudential Measures)

Regional Level

- Regional Financial Safety Nets (CMIM)

Response to High Dependence on USD

- Internationalization of Local Currency
- Developing Financial & Capital Markets

Regional Level

- Developing Regional Bond Market (ABMI: Asia Bond Mkt. Initiative)
- Enhancing Usability of Regional Currency
Ⅱ. ASEAN+3 Cooperation: What We’ve Achieved
II. ASEAN+3 Cooperation: What We’ve Achieved

Regional Financial Safety Nets: CMIM

CMI (2000)

Currency Swap Web among ASEAN+3 Countries
- 11 bn USD (2001)
  (Ex) Korea w/ Thailand: 1 bn USD
  Japan Yen/ Indonesia: 1 bn USD

CMIM (2009)

Multilateral Currency Swap among ASEAN+3 Countries
- 120 bn USD
  +3 Countries 80%
  ASEAN Countries 20%

Strengthened CMIM (2012)

- Doubled the total size from 120 bn USD to 240 bn USD
- Increased the IMF de-linked portion from 20% to 30% in 2012, possibly 40% in 2014
- Introduced Crisis Prevention Function (CMIL-PL)
Ⅱ. ASEAN+3 Cooperation: What We’ve Achieved

Regional FSNs Around World

- ESM: $910B
- AMF: $2.8B
- CMIM: $240B
- NAFA: $9B
- FLAR: $2.3B
Ⅱ. ASEAN+3 Cooperation: What We’ve Achieved

Regional Financial Safety Nets: AMRO (1)

Background
- Stigma Effect
- Regionalism
- CMIM Support

Launch of AMRO

Executive Committee
(ASEAN+3 Deputies’ Meeting)

Advisory Panel

Director

Group 1
Group 2
Group 3
Group 4

- Established in May 2011
- Headquartered in Singapore
- Registered as corporation → set to be an IO
- Costs are shared with the same ratio applied under CMIM (ASEAN : +3 = 2 : 8)
Regional Financial Safety Nets: AMRO (2)

Main Function

**Ordinary Time**
- Macroeconomic monitoring on ASEAN+3 countries
  - Holds annual consultations
  - Reports the results to AFDM+3 and AFMM+3
  - Carries out technical and people-to-people exchanges with IMF, ADB and etc.

**Crisis Time**
- Assesses macroeconomic conditions of Requesting Country and Analyzes the necessity of liquidity support (evaluates qualification in case of CMIM-PL)
  → Reports the results to ASEAN+3 Deputies
- Checks on Requesting Country’s conformation to ex-post conditionality
II. ASEAN+3 Cooperation: What We’ve Achieved

Regional Bond Market: ABMI (1)

- Currency Mismatch
- Maturity Mismatch

- Developing Local-currency-denominated Bond Markets
- Channeling Regional Savings into Regional Investment
- Enhancing Local-currency Demand & Reduce reliance on USD
Ⅱ. ASEAN+3 Cooperation: What We’ve Achieved

Regional Bond Market: ABMI (2)

- 2003: Launch of the ABMI by Korea's proposal
- 2008: Adoption of New Roadmap with 4 TFs
- 2012: Adoption of revised New Roadmap+ with 9 Priorities
## ASEAN+3 Cooperation: What We’ve Achieved

### ABMI: Agendas Under Each TF

<table>
<thead>
<tr>
<th>TF1 Supply</th>
<th>CGIF 0ct, 2011</th>
<th>Asian Currency Note (2006~2011, 670mil USD)</th>
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<tbody>
<tr>
<td>TF2 Demand</td>
<td>Asian Bond Markets Summit</td>
<td>Asian Bonds Online (asianbondsonline.adb.org)</td>
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<tr>
<td>TF4 Infrastructure</td>
<td>Regional Settlement Intermediary</td>
<td>Regional Credit Rating System</td>
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</tbody>
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To produce tangible outcomes, current and critical ongoing issues need to be further developed.

To strengthen the momentum for the ABMI discussion, important but undiscussed issues related to bond markets should be added.

To meet and accommodate the changing global financial needs, including mitigation of capital flow volatility, relevant issues need to be addressed.
Ⅲ. ASEAN+3 Cooperation: Our Next Step
III. ASEAN+3 Cooperation: Our Next Step

- Strengthening the Regional FSN
- Improving Asian Bond Market Initiative
- Conducting Study on Future Priorities
Ⅲ. ASEAN+3 Cooperation: Our Next Step

Strengthening Regional FSN: Short-term

CMIM

- Improving Workability
- Continually Expanding its Size

- Enhancing the Usability of Local Currency under CMIM, as proposed by China
- Boosting cooperation on Capital Movement management, as proposed by Korea

AMRO

- Expanding its Organization
- Enhancing Surveillance Capacity
- Strengthening Cooperation with IMF
III. ASEAN+3 Cooperation: Our Next Step

Strengthening Regional FSN: Medium & Long-term

CMIM

Asian Monetary Fund (AMF)
Ⅲ. ASEAN+3 Cooperation: Our Next Step

Improving Regional Bond Market: ABMI

Improving ABMI: 9 Priorities in Roadmap +

- Launching CGIF guarantee programs (TF1)
- Developing infrastructure-financing (TF1)
- Fostering an investment-friendly environment for institutional investors & transmitting ABMI's knowledge to institutional investors (TF2)
- Enhancing ABMF (TF3)
- Facilitating the establishment of the RSI (TF4)
- Further developing the government bond markets (TF2)
- Enhancing financial access to consumers and SMEs (TF3)
- Strengthening the foundation for a regional credit rating system (TF4)
- Raising financial awareness (TF4), etc.
Ⅲ. ASEAN+3 Cooperation: Our Next Step

Future Direction of ABMI

ABMI Bond Market

ACMI Capital Market
Ⅲ. ASEAN+3 Cooperation: Our Next Step

Future Priorities

Infrastructure Financing

ADB

The World Bank

Public-Private

New Regional Development Bank (?)

Disaster Risk Insurance

CCRIF

The Caribbean Catastrophe Risk Insurance Facility

Using Local Currency

Korea

China

Using Local Currency
Ⅲ. ASEAN+3 Cooperation: Our Next Step

Payments in Won and RMB for trade between Korea and China

- Use of currency swap between Korea and China (KRW 64 trillion / RMB 360 billion)
  → BOK supplies RMB liquidity to Korean banks and PBOC supplies Won liquidity to Chinese banks

Diagram:
- PBOC → RMB → BOK
- PBOC → Won → BOK
- BOK → Won → Korean Banks
- BOK → Won → Korean Exporting company
- Korean Banks → Won → Commodity
- Commodity → Korean Importing company

Ask for payment to the exporting company
Ⅳ. Implication of Asian Monetary & Financial Cooperation
IV. Implication of Asian Monetary & Financial Cooperation

Original Scheme of Asian Financial Cooperation

ASEAN+3 Economic Integration
(Single market, Single Currency, Single public finance)

- Single Market
  - AMF
    - Regional body
  - ACMI
    - Capital market
  - AMU
    - Single currency
  - Future Priorities
    - Regional currency

Regional FTA

Real economy

Financial sector
IV. Implication of Asian Monetary & Financial Cooperation

Lessons from Eurozone Crisis

Europe

Exposure of Weakness of Single European Currency

I) Limitation of Labor Mobility among European Countries
II) Absence of Imbalance Adjustment Mechanism within the Area

Asia

East Asian Region is much weaker than Europe

I) Much Bigger Gap between Countries
II) Immaturity of ASEAN Capital Market
III) Greater disparities in terms of history, culture and etc.

Gradual Monetary & Financial Cooperation is Inevitable
“Trade first, Capital second”
IV. Implication of Asian Monetary & Financial Cooperation

Rise of RMB: Can it be the Regional Dominant Currency?

- Importance of RMB is being highlighted with the expansion of Chinese economy (esp. Trade currency)
- Immature financial markets and low level of capital account liberalization are cited as limitation of RMB
### IV. Implication of Asian Monetary & Financial Cooperation

**Impact on Global Monetary System**

- **Huge incentive to use local currency with vigorous trade within the region**
- **Strong will of ASEAN+3 countries for financial and monetary cooperation**
- **Possible decrease in the dependence on USD with ever stronger financial cooperation in the region**

- **Asian Intraregional Trade**
  - 2005: 3,493 bn$
  - 2011: 10,824 bn$

**Will major Asian currencies replace USD and make multi-polar system possible?**

“Not in the near future, it would take long time”
Thank you