



Working Paper 99-14

The Asian Financial Crisis and the Need for Regional Financial Cooperation

Yunjong Wang

**KOREA INSTITUTE FOR
INTERNATIONAL ECONOMIC POLICY**

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Executive Summary

The Asian financial crisis and its policy implications can be understood on the national, regional, and global dimensions. At the national level, both directly and indirectly affected countries have to strengthen their self-defensive countermeasures to prevent a future financial crisis. For this purpose, Korea has undertaken macroeconomic stabilization policies and bold structural reforms in financial and corporate sectors. As a result, usable foreign reserves have accumulated dramatically and the structure of external debts has much improved. In addition, policy-makers are very serious about structural reforms, although a sense of complacency can be observed among consumers, businesses, and trade unions.

At the regional level, there were also many calls for financial cooperation just after the Asian financial crisis broke out. However, the discussion on regional financial cooperation has largely remained within the realm of academia and has not been able to produce any tangible result. This is primarily due to the lack of a consensus initiating a regional framework to respond to the crisis, both in terms of crisis management and prevention. The three Northeast Asian countries – China, Japan, and Korea – officially participate in such regional fora as ASEAN+3 and APEC to discuss major issues concerning regional financial cooperation. However, in order to obtain more concrete results that can reflect the interests of the three countries, there needs to be a dialogue channel beforehand for a much closer regional financial cooperation. Such a dialogue is not necessarily exclusive to the neighboring countries around the region. Rather, it

should evolve into an institution that strengthens and stabilizes the East Asian financial system. However, considering the fact that the U. S. is constrained to act globally and will not cooperate with the region as a region, the three countries have to form a consensus in East Asia on a mutually beneficial basis. The political feasibility of a regional framework will not be a burden, if we start to lead a discussion over economic and financial issues in the relevant regional context.

As exemplified by the launching of the Euro, the discussion on regional financial cooperation may focus on such sophisticated topics as monetary cooperation. However, more realistic and working-level agendas are likely to produce more tangible results. In other words, the task of regional financial cooperation is to be approached from a long-term and gradual perspective. As was the case with the Euro, the different levels of economic achievement among the East Asian countries must be considerably narrowed to meet the economic requirements for monetary cooperation. This is not to say the discussion of monetary cooperation itself is futile. A consensus on monetary cooperation will emerge when the achievement of more specific agendas shows the possibility of regional financial cooperation.

At the global community level, various issues for building a new international financial architecture are being discussed at numerous arenas. However, the major leading group is the G7, which is composed of highly industrialized countries. Furthermore, the scope for Asian participation is limited. In such regional fora as ASEAN+3 and APEC, and such extended global fora as G22 and G33, several Asian countries, including crisis-affected countries and China could have the opportunity to express their own views. However, there is a serious division between the U.S. and the rest of the G7 membership on various architectural issues. In most cases, outside inputs from developing economies are not satisfactorily recognized and incorporated.

This paper examines the need for regional financial cooperation and points out the importance of the regional dialogue channel for further close cooperation. In order to create a more formal institutional framework for regional financial cooperation, we should simply start a discussion on various possibilities in a more informal and freer way. Through successive rounds of discussion, we will discover what barriers against an institutional framework for regional financial cooperation exist.

The paper is organized as follows. Section II will review the regional actions to deal with the Asian crisis. Section III will also review the global actions to deal with the Asian crisis and its aftermath. Section IV will discuss the long-term and short-term agendas for regional financial cooperation.

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The Asian Financial Crisis and the Need for Regional Financial Cooperation*

Yunjong Wang

I. Introduction

Following the collapse of the Thai baht's peg on July 2, 1997, the financial markets in East Asia displayed a similar disastrous vulnerability up until mid-1998. The fact that the financial turmoil in the Asian countries occurred almost at the same time has led to the widespread use of terms like the Asian "Flu," with the implication that this is a case of contagion, where one country's ill fate transmits to other, vulnerable countries.¹⁾ On July 11, about a week later, the Philippines and Indonesia respectively widened the trading band of their currencies (peso and rupiah) from 8 percent to 12 percent. On

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1) For further work on contagion in emerging markets, see Agenor and Aizenman (1997), Baig and Goldfajn (1998), Eichengreen et al. (1996) and Sachs et al. (1996).

July 14, Malaysia abandoned the defense of the ringgit, although Prime Minister Mahathir Mohamad launched a bitter attack on "rogue speculators."²⁾ Indonesia finally abolished its managed floating system through the use of a band on August 14. In the midst of this economic maelstrom, the Korean won also quickly depreciated, following a futile currency defense which cost Korea most of its foreign reserves. This forced Korea, the world's 11th largest economy,³⁾ to seek financial assistance from the International Monetary Fund (IMF) on November 21, 1997. Korea widened its won trading band from 2.25 percent to 10 percent on November 19, and finally abolished its band and allowed the won to float on December 16.

Many academic researchers and pundits have argued that these domino effects among the Asian currencies were mainly attributable to regional structural weakness. One unpleasant expression that has been coined to describe this structural weakness is "Asian cronyism." The moral hazard problem in both corporate and financial sectors has been stressed in a more gentle tone.⁴⁾ After the collapse of the Thai baht, foreign investors started perceiving other countries differently, interpreting the same fundamentals to be a sign of weaker economies. Thus, the spread of the crisis to several Asian countries was the consequence of a "wake-up call" effect. Among the Asian emerging economies, five countries – Thailand, the Philippines, Malaysia, Indonesia, and Korea – have been most severely affected, because those five were regarded as having similar structural problems. Prior to the

2) Malaysia introduced the dollar-pegged system on September 1, 1998 in order to pursue an economic stimulus program with capital controls.

3) Korea was the world's 11th largest economy in 1996. After being hit by the crisis, Korea became the 15th largest economy in 1998.

4) See e.g., Krugman (1998a, 1998b), Fischer (1998a), and Corsetti et al. (1998).

crisis, the net flow of private capital to the five crisis-affected Asian countries increased from USD 24.9 billion in 1990 to USD 102.3 billion in 1996. This massive capital inflow into the region became almost nil (USD 0.2 billion) in 1997 and reversed to a massive capital outflow from the region in 1998 (USD 27.6 billion).

〈Table 1〉 External Financing in Five Asian Economies¹⁾

(Unit: Billions of dollars)

	1995	1996	1997	1998e	1999f
Current account balance	-40.6	-54.8	-26.1	69.2	44.6
External financing, net	83.0	99.0	28.3	-4.2	7.8
Private flows, net	80.4	102.3	0.2	-27.6	0.3
Equity investment, net	15.3	18.6	4.4	13.7	18.5
Direct equity, net	4.2	4.7	5.9	9.5	12.5
Portfolio equity, net	11.0	13.9	-1.5	4.3	6.0
Private creditors, net	65.1	83.7	-4.2	-41.3	-18.2
Commercial banks, net	53.2	62.7	-21.2	-36.1	-16.0
Nonbanks, net	12.0	21.0	17.1	-5.3	-2.3
Official flows, net	2.6	-3.3	28.1	23.4	7.6
Int'l financial institutions	-0.3	-2.0	22.4	19.3	-1.7
Bilateral creditors	3.0	-1.3	5.7	4.1	9.3
Resident lending/other, net ²⁾	-28.3	-27.3	-33.7	-22.9	-21.0
Reserves excl. gold(- = increase)	-14.1	-16.9	31.5	-42.1	-31.4

Notes: e= estimate, f = IIF forecast

1) Indonesia, Malaysia, South Korea, Thailand, Philippines

2) Including resident net lending, monetary gold, and errors and omissions.

Source: Institute of International Finance, *Capital Flows to Emerging Market Economies*, April, 1999.

In retrospect, the Asian financial crisis and its policy implications can be understood on the national, regional, and global dimensions. At the national level, both directly and indirectly affected countries have to strengthen their self-defensive countermeasures to prevent a future financial crisis. For this purpose, countries under the IMF program, including Thailand, Indonesia, and Korea, have undertaken macroeconomic stabilization policies and bold structural reforms in

financial and corporate sectors.⁵⁾ As a result, usable foreign reserves have accumulated dramatically and the structure of external debts has much improved. In addition, policy-makers are very serious about structural reforms, although a sense of complacency can be observed among consumers, businesses, and trade unions.

At the regional level, there were also many calls for financial cooperation just after the Asian financial crisis broke out. However, the discussion on regional financial cooperation has largely remained within the realm of academia and has not been able to produce any tangible result. This is primarily due to the lack of a consensus initiating a regional framework to respond to the crisis, both in terms of crisis management and prevention. The three Northeast Asian countries – China, Japan, and Korea – officially participate in such regional fora as ASEAN+3 and APEC to discuss major issues concerning regional financial cooperation. However, in order to obtain more concrete results that can reflect the interests of the three countries, there needs to be a dialogue channel beforehand for a much closer regional financial cooperation. Such a dialogue is not necessarily exclusive to the neighboring countries around the region. Rather, it should evolve into an institution that strengthens and stabilizes the East Asian financial system. However, considering the fact that the U. S. is constrained to act globally and will not cooperate with the region as a region, the three countries have to form a consensus in East Asia on a mutually beneficial basis. The political feasibility of a regional

5) The Philippines had already received three-year Extended Fund Facility (EFF) since June 24, 1994. The EFF was due to expire on July 23, 1997, but the IMF approved extension and augmentation of EFF for the Philippines because it could also be severely affected by the Asian crisis.

framework will not be a burden, if we start to lead a discussion over economic and financial issues in the relevant regional context.

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The paper is organized as follows. Section II will review the regional actions to deal with the Asian crisis. Section III will also review the global actions to deal with the Asian crisis and its aftermath. Section IV will discuss the long-term and short-term agendas for regional financial cooperation.

II. The Regional Actions to Deal with the Asian Financial Crisis

At the ASEM finance ministers' meeting in Bangkok on September 19, 1997, Japan proposed an "Asian Monetary Fund (AMF)" to prevent the recurrence of the Asian currency crisis and to institutionalize financial cooperation among the countries within the region. To discuss the details of the proposed AMF, an undisclosed meeting of deputy finance ministers from twelve Asian nations was held on September 21 at the request of Japan during the IMF/World Bank annual meeting. The twelve nations participating in this meeting were Korea, Japan, China, Hong Kong, Malaysia, Indonesia, the Philippines, Thailand, Australia, Singapore and New Zealand. The United States and a representative of the IMF attended the meeting with observer status.

At the meeting, Japan's Finance Minister Hiroshi Mitsuzuka outlined the plan for the establishment of an AMF. He also expressed willingness to contribute one-half of the initial fund supply. The United States and the IMF representative opposed the plan saying that an AMF may weaken the existing international financial architecture under the IMF. Since there were significant differences in opinions regarding the establishment of an AMF, the meeting adjourned without agreeing on the details.

However, the advocates of AMF continued to assert the need for a regional lender of last resort, referring to the fact that the IMF allocation of funds for Asia is inadequate considering the size of the Asian economies. It has also been pointed out that the size of the speculative capital is much larger than an individual country's foreign reserves for defending against a currency attack by speculative hedge

funds. Japan has been particularly enthusiastic about the idea of setting up an AMF. Deputy Finance Minister Eisuke Sakakibara toured the ASEAN nations to explain Japan's plan. To abate the opposition from the IMF and the United States, he proposed to put the AMF under the control of the IMF by having the same conditionalities for financial rescue operations, and by making the AMF play a supplementary role to the IMF.

To follow up on these events, fourteen deputy finance ministers and central bank representatives as well as IMF, World Bank and Asian Development Bank (ADB) representatives gathered in Manila in November 1997 to discuss ways to stabilize the regional financial market (which was called the Manila Framework). During the preparation for the meeting, the United States and other developed nations managed to convince Japan not to pursue its AMF proposal because such a plan would weaken the IMF's authority. The compromise plan was to strengthen the ability of the IMF to provide funds through an early approval of the New Arrangements to Borrow (NAB) and cooperative lending agreements. The plan also included introducing a regional surveillance mechanism to strengthen the IMF's global surveillance capacity.

Although the idea of the AMF virtually ended with the adoption of the compromise plan, most members of the Asia Pacific Economic Cooperation (APEC) created the Manila Framework Group as a regional forum in order to develop a concerted approach to restore financial stability in the region.⁶⁾ This has been achieved through such

6) In November, 1997, APEC leaders endorsed the Manila Framework for enhanced Asian regional cooperation to promote financial stability. However, there have been no tangible results as yet.

initiatives as regional surveillance, economic and technical cooperation to strengthen domestic financial systems and regulatory capacities, and cooperative financing arrangements that supplement those provided by the international financial institutions (IFIs). However, the Manila Framework has no formal status, secretariat or other institutional foundation. Furthermore, it cannot provide financial resources to supplement IMF facilities in the region. Although ad hoc financing package provisions were arranged in the Manila Framework as the second line of defense, such supplementary funding has not been implemented on a permanent and assured basis.

As serenity and confidence returned to the Asian financial markets in late 1998, APEC leaders gathered in Malaysia and reaffirmed their confidence in the strong economic fundamentals and prospects for the economies of the Asia Pacific. However, there still remained important challenges. To meet these challenges, APEC leaders committed themselves to pursue a cooperative growth strategy with the following dimensions:

- prudent growth-oriented macroeconomic policies, appropriate to the specific requirements of each of their economies
- expanded financial assistance from the international community to generate employment and to build and strengthen social safety nets to protect the poor and vulnerable
- a comprehensive programme of support for efforts to strengthen financial systems, restore trade finance, and accelerate corporate sector restructuring
- new approaches to catalyze the return of stable and sustainable private capital flows into the region
- a renewed commitment to the Bogor goals of achieving free and

open trade and investment within APEC

- looking toward the longer-term, urgent work within APEC and with other economies and institutions to develop and implement measures to strengthen the international financial system

As the focus was centered on the issue of post-crisis recovery rather than crisis management itself, financial support was also based on the growth and recovery initiative. In October 1998, Japanese Minister Miyazawa announced the Miyazawa Initiative, aimed at supporting five crisis-affected Asian countries, and promised to contribute USD 30 billion. Of the USD 30 billion of the funds available, USD 15 billion was arranged to facilitate trade finance and to provide other short-term capital support and another USD 15 billion was prepared for mid- to long-term support. As of the end of May 1999, USD 17.7 billion has been committed to support the five crisis-affected Asian countries. In the case of Korea, USD 5 billion of short-term capital is to be provided in the form of a "back-up facility," as well as USD 4.05 billion of mid- to long-term capital.

Japan also initiated the second stage of New Miyazawa Initiative which has as its principle, placed greater emphasis on the market since Asian economies are entering a new stage of development. It includes assistance to mobilize private-sector capital, aiming at the stable economic development of Asia. 2 trillion yen of domestic and foreign private-sector funds for Asia will be provided through such measures as assistance for fund raising in international financial and capital markets by Asian countries, and assistance for investment in Asian private sector enterprises via equity funds, etc. In addition, upgrading and fostering of Asian bond markets with sufficient volume are urgent issues as part of the efforts toward establishing a stable

and sound financial system in the region. To promote this, the government of Japan is vitalizing the Tokyo market through promoting the issuance of the Samurai bonds and upgrading the government bond markets and settlement systems.

The Board of the Asian Development Bank (ADB) approved on March 23, 1999 the establishment of "Asian Currency Crisis Support Facility (ACCSF)" to assist the five crisis-affected countries. This facility was established by the contributions of the Government of Japan, but is administered by the ADB. The facility has the following modalities: (a) interest payment assistance and technical assistance grants, and (b) guarantees. The Government of Japan will contribute 7.5 billion yen in cash for interest payment and technical assistance grants, and 360 billion yen in Government notes for guarantees in FY 1998.

China has also demonstrated its economic capability and responsibility in the face of the Asian crisis. Its economic performance and policy choices have become increasingly significant to the regional and global economy. In response to the bleak economic prospects in the region, the Chinese government has increased fiscal spending on the infra-structural investment and cut interest rates to boost the domestic demand instead of taking the policy of currency devaluation. Undoubtedly, China has won many credits from the international community by maintaining its de facto pegged exchange rate system since the outbreak of the currency crises in the region, while most other Asian currencies have competitively depreciated.⁷⁾

7) Among many praises, during his visit to China in late June 1998, President Clinton praised China for showing "great statesmanship and strength in making a strong contribution to the stability not only of the Chinese people and their economy, but the entire region, by maintaining the value of its currency." See also Kwan (1998).

〈Table 2〉 Current Status: New Miyazawa Initiative (commitment)
(As of May 31, 1999; Unit: Million US\$)

	Mid- to Long- Term Support		Short-term Support	Total	Notes
	JEXIM	OECF			
Indonesia	<ul style="list-style-type: none"> - Power Sector Reform (ADB cofinance) (March 26)* - EFF (IMF parallel) 1,000 (March 26)* - Policy Reform Support (IBRD cofinance) 100 	<ul style="list-style-type: none"> - Health, Nutrition Sector Development Program (ADB cofinance) - SSN Program (IBRD cofinance) 900 		2,400	
Korea	<ul style="list-style-type: none"> - SME Support (IBK on-lending) 1,300 (Jan 22)* - Energy Sector Support (KEPCO) 800 (Feb 22)* - Energy Sector Support (KOGAS) 250 (Feb 23)* - Export Credit and Overseas Investment Loan 700 - Infra Sector/Energy Saving Support (KDB On-lending) 1,000 		5,000	9,050	
Malaysia	<ul style="list-style-type: none"> - Export industry Support I (BIMB onlending) 300 (Feb 2)* - Export Industry Support II (BIMB onlending) 200 (May 3)* - Infra Sector Support (BPIMB onlending) 400 (May 3)* 	<ul style="list-style-type: none"> - ODA Loan (7 projects) 1,000 		1,900	Untied Guarantee to Transportation Project 700 (March 31)*
Philippines	<ul style="list-style-type: none"> - Banking Sector Reform Program (IBRD Cofinance) 300 (Feb 17)* - Power Sector Support (ADB cofinance) 300 (Feb 17) - Private Sector Development (DBP onlending) 500 (Mar 10)* 	<ul style="list-style-type: none"> - Metro-Manila Air Quality Improvement Program (ADB cofinance) 300 - ODA Loan(13 projects) 		2,500	Untied Guarantee to Power Sector 500 (June)
Thailand	<ul style="list-style-type: none"> - EFAL II (IBRD cofinance) 600 (Mar 26) - Manufacturing Industry Support (IFCT onlending etc.) 750 (April 6)* 	<ul style="list-style-type: none"> - Economic Recovery & Social Sector Program Loan 250 - Agriculture Sector Program Loan (ADB cofinance) 250 		1,850	
Total	8,900	3,800	5,000	17,700	1,200
	12,700				

Note: * JEXIM's committed loans/guarantees

III. Global Actions to Deal with the Asian Financial Crisis and Its Aftermath

1. Strengthening the Role of International Financial Institutions (IFIs)

As the Asian financial crisis has spread out to other regions, one of the key concerns at the international community was whether the IMF's financial resources could be sufficient to provide emergency assistance to other mid-size member countries such as Russia and Brazil. The IMF's net uncommitted usable resources for emergency loans stood at SDR (Special Drawing Rights) 22.7 billion at the end of 1997 and was further reduced to SDR 19.5 billion by late 1998. However, as total usable resources drastically increased in 1999, the IMF's net uncommitted usable resources amounted to SDR 60.1 billion or about USD 81 billion. The background for the recent increase in total usable resources is that the IMF decided in its September 1997 annual meeting at Hong Kong to increase quota (contributions) of 182 member countries by 45 percent after the Asian financial crisis. However, the quota increase was not immediately put into force mainly due to the delay in U.S. Congress for approval. During the 11th General Review of Quotas (January 22, 1999), the quota has been finally increased from SDR 145.6 billion to SDR 212 billion.

Another source of the replenishment of the IMF's resources is the amount pledged by the member countries through the General and New Arrangements to Borrow which is about SDR 34 billion (or about USD 46 billion) as of May 1999.⁸⁾ Also, the liquidity ratio (net

8) The quota subscriptions of the IMF's member countries are the principal

uncommitted usable resources divided by liquid liabilities) has been improved from 48.2% of 1997 to 89.2% of 1998 and 96.9% of May 1999.⁹⁾

Some argue that the size of the IMF's emergency liquidity support is not adequate. There is certainly an "access limit" to how much support the IMF can provide to a specific country when a series of currency crises simultaneously unfold around the world since the IMF assistance is primarily geared toward resolving short-term liquidity crises. Nevertheless, the volume of the IMF assistance has drastically increased compared to the Latin American debt crisis in the 1980s. As shown in Table 4, since the Mexican Peso Crisis of 1994–1995, the IMF assistance has been steadily increasing.

source of financing for the IMF. However, in 1962, the largest industrial countries became concerned that if any one of them were to draw on the resources of the IMF, the amount they could potentially borrow would significantly reduce the amount of usable resources readily available to other countries. Accordingly, they agreed to stand ready to lend to the IMF supplementary funds, if such funds were needed to forestall or cope with an impairment of the international monetary system. This agreement is known as the General Arrangements to Borrow (GAB). In addition, the New Arrangements to Borrow (NAB) became effective on November 17, 1998. The NAB are a set of credit arrangements between the IMF and 25 members. The NAB do not replace the existing GAB, which remain in force. The total amount of resources available to the IMF under the NAB and GAB combined is SDR 34 billion (about USD 46 billion), double the amount available under the GAB alone.

- 9) The liquid liability consists of the reserve tranche positions and the outstanding borrowing in the form of GAB or NAB. The liquidity ratio (net uncommitted usable resources/liquid liability) can be used as a measure of the IMF's liquidity position.

〈Table 3〉 IMF's Financial Resources and Liquidity Position

(Unit: In billion SDR)

	1997	1998	1999. 4.	1999. 5.	1999. 5. US\$
Total Resources	149.2	165.1	212.5	214.2	287
Members' currencies	144.7	149.4	205.0	206.4	277
Gold holdings	3.6	3.6	3.6	3.6	5
SDR holdings	0.6	0.7	3.6	3.9	5
Other assets	0.3	0.3	0.4	0.3	0
Non-usable resources	98.5	111.5	128.8	127.0	170
Usable resources	50.7	53.6	83.7	87.2	117
Net uncommitted usable resources	22.7	19.5	56.7	60.1	81
Balances available under the GAB/NAB	18.5	18.6	34.0	34.0	46
Liquid liabilities	47.1	60.6	63.6	62.0	83
Liquidity ratio(%)	48.2	32.2	89.2	96.9	96.9
US\$/SDR	1.34925	1.40803	1.35123	1.34196	

 Source: IMF, *Financial Resources and Liquidity Position*, June, 1999.

〈Table 4〉 IMF's Commitment of Liquidity Support to the Crisis Countries

(As of January 1999; Unit: US Dollar)

Country	Stand-by/ EFF	SRF
Mexico (1995)	17.8 billion (Stand-by)	-
Thailand (1997)	4.0 billion (Stand-by)	-
Indonesia (1997)	11.2 billion (Stand-by) [EFF]	-
Korea (1997)	7.6 billion (Stand-by)	13.4 billion
Russia (1998-1999)	1.3 billion (EFF) in 1998 2.2 billion (EFF) in 1999	11.2 billion in 1998 0.4 billion in 1999
Brazil (1998)	5.4 billion (Stand-by)	12.6 billion

Source: IMF

There has also been criticism that the process of providing liquidity is unnecessarily prolonged when the crisis country is not able to fully accept the IMF conditionalities. However, we have to distinguish the general case from the Russian and Brazilian cases where the liquidity provision was delayed because the authorities did not show an ample willingness to carry out the conditionalities. It may be argued that the conditionalities imposed significant constraints on domestic politics for those countries to promptly accept them, but the speed of emergency assistance depends more on the willingness of the crisis country to accept the conditionalities than any process problem inherent in the IMF itself.

The Supplemental Reserve Facility (SRF), a new fund facility, was created on December 17, 1997 during the Manila Finance Ministers' Meeting, in order to stabilize the financial market through the provision of short-term, front-loaded financial support at higher interest rates than normal IMF funding through a stand-by Agreement (SBA).¹⁰⁾ In principle, any country may use the SRF. However, it is intended for situations where the effects of difficulty in one country may potentially destabilize the international financial system. The disbursement takes place when there is a chance of improvement in the balance of payments during a short period, based on bold restructuring policies

10) The traditional assistance in a SBA was up to three-times the country's quota. This tradition was broken in the Mexican crisis. For Mexico, three times quota was USD 7.8 billion. However, the IMF has underwritten an effort to put together USD 10 billion from non-G10 countries, but this never materialized. As a result, the IMF ended up pledging USD 17.8 billion to Mexico, of which about USD 12 billion was actually disbursed. This provided a precedent for a 5 times quota SBA for Thailand in August 1997. See Ito (1999) for more details.

and monetary policies.

This facility was applied to Korea on December 19, 1997 just after it was adopted. The decision to do so was based on the fact that Korea had received 20 times quota, which exceeded the typical credit limit of 3 times quota. This figure was the largest IMF package ever. However, this was the major improvement in the problem of access limit, which became critically recognized since the 1994 Mexican crisis. Korea could be a successful example of the SRF, as shown by the fact that the Korean Government has started to deliver repayments since December 1998.

There have also been criticisms that the IMF liquidity provision does not play a preventive role. Some argue that the IMF should prevent financial crises or at least minimize the spread of crises by providing emergency assistance in advance when there are symptoms of the contagion effect, or when there is sufficient indication of a looming crisis. Taking this into account, the IMF has diversified its methods of liquidity provision by introducing the Contingent Credit Line (CCL) in 1999, following its adoption of the SRF in 1997.

On April 25, 1999, the IMF's Executive Board approved the CCL for member countries. Unlike the SRF, the CCL is intended solely for member countries that are concerned with potential vulnerability to contagion. Short-term financing – if the need arises – will be provided under the CCL to help member countries overcome the exceptional balance of payments financing needs that can arise from a sudden and disruptive loss of market confidence due to contagion. Such needs would be generated by circumstances largely beyond the member's control, and would stem primarily from adverse developments in international capital markets consequent upon developments in other countries.

At present, it is unlikely that the creation of an international lender of last resort in the form of an international central bank will be realized in the foreseeable future. However, the necessity of such an institution is growing. According to Fischer (1999), two elements of Bagehot rules (penalty rate and the notion of lending freely) have been incorporated into the SRF, which can make short-term loans in large amounts at penalty rates to countries in crisis.¹¹⁾ With regard to good collateral, the loss of market access that would result from default, and as Fischer correctly pointed out, the fact that the Fund and World Bank would be regarded as preferred creditors, would likely be sufficient “collateral.”

In sum, the IMF appears to have strengthened its capacity through the SRF and CCL to act as a lender of last resort to individual countries. However, as the Korean government recently asserted, “the international community needs to explore feasible ways of establishing an international lender of last resort. With the understanding that this is a long-term project, more immediate emphasis should be placed on strengthening the role of the existing IFIs. As such, we would do well to resolve the issues surrounding the IMF’s contingent credit line and the World Bank’s partial guarantee facility so that these facilities can be put into place as soon as possible. Furthermore, to complement the role of IFIs in providing emergency financial assistance, regional monetary cooperation, including the establishment of bilateral back-up facilities between central banks, should be pursued more vigorously.”¹²⁾

11) The classic Bagehot rules for the lender of last resort are (1) lending freely to solvent borrowers, (2) against good collateral, and (3) at a penalty rate.

12) See MOFE (1999), p. 21.

2. Concerted Efforts for Aggressive Monetary Easing

Following the wave of volatility unleashed by the Russian Moratorium and Brazilian devaluation, aggressive monetary easing by major central banks have contributed to the stability of global financial markets. The crises in Russia and Brazil have been contained and the long-expected correction in the U.S. and European equity markets has not yet occurred. Instead, significant positive developments in the global economy have been broadly observed. In the aftermath of the sharp output contractions in Asia's crisis-affected economies, the economic slowdown seems to have bottomed out – most notably so in Korea. Massive current account adjustments have transformed pre-crisis deficits to surpluses, enabling the beleaguered economies to rebuild their once depleted foreign reserves. At the same time, the stunning recent contraction of emerging market credit spreads and an improved pace of debt financing means that Asia is now regaining access to global financial markets. Investment sentiment toward many emerging market economies has rallied.

Concerted efforts for aggressive monetary easing led by the U.S. Federal Reserve and followed by central banks of other industrial countries during the second half of 1998 has contributed enormously to the rapid recovery of many of Asia's economies. The three cuts by the U.S. Fed during September through November reduced the U.S. Federal funds rate from 5.5 percent to 4.75 percent. Despite the limited room for monetary easing, Japan lowered the overnight lending rate from 0.45 percent to 0.25 percent and maintained almost zero real interest rate policy. Given these developments, the other Asian countries, including even crisis-affected countries under the IMF program, were able to cut interest rates as low as the pre-crisis level.

These concerted global actions were conducive to restoring investors' confidence and containing the spread of financial crisis.

3. Building a New International Financial Architecture

Strengthening and reforming the IFIs is the one area for building a new international financial architecture. Since this issue is beyond the scope of this paper, I will briefly mention the areas currently being discussed as follows:

- strengthening and reforming the international financial institutions and arrangements;
- enhancing transparency and promoting best practices;
- strengthening financial regulation in industrial countries;
- strengthening macroeconomic policies and financial systems in emerging markets;
- improving crisis prevention and management, and involving the private sector;
- promoting social policies to protect the poor and most vulnerable.

IV. Agenda for Regional Financial Cooperation

Research and policy innovation in regional financial cooperation needs to go hand-in-hand. We can classify many important issues for discussion into short-term, mid-term and long-term agenda items. Based upon the tangible results from the short-term, a mid-term and long-term agenda can be more constructively set up and pursued in a consensual and cooperative way. In particular, the three Northeast Asian countries should form a dialogue channel to lead a regional financial cooperation initiative, and then move forward to construct mutually beneficial agendas with the ASEAN nations and others.

1. Short-term Agenda

It will be more difficult to develop a short-term agenda about which the three countries are mutually concerned than to initiate a longer-term agenda. This is purely because of lack of experience to have a sincere discussion on regional financial cooperation among the three countries. However, we do not need to be intimidated by the past inexperience. As we have ample opportunities to have a discussion at various fora such as ASEAN+3, APEC, and G22, short-term issues, if resolved, should contribute to the stability of macroeconomic conditions and financial markets in the region. At present, the most important areas for discussion to promote regional financial cooperation among the three countries are:

- forming a regional consensus on strengthening and reforming

the international financial architecture;

- enhancing concerted efforts to strengthen the domestic financial system and foster Asian financial markets;
- strengthening regional surveillance process among the three countries;
- promoting economic cooperation in the area of trade and investment;
- building a regular framework for dialogue to pursue further cooperation on a continuous basis.

A. Forming a Regional Consensus on Strengthening and Reforming the International Financial Architecture

In order to preserve the stability of the international financial system, and to respond more effectively to financial crises when they occur, we have to strengthen and reform the existing international financial architecture. To accomplish this, more input from emerging economies should be incorporated in the continuing process of shaping a new international financial architecture. Japan is a key member country of the Financial Stability Forum and the G7 Finance Ministers meeting. Although there are many opportunities for Non-Japan Asian countries to present their views on this issue, it would be desirable to harmonize these views and develop an Asian view if necessary.

B. Enhancing Concerted Efforts to Strengthen the Domestic Financial System and Foster Asian Financial Markets

One of the striking elements of the recent crisis was the extent to which countries reached for short-term borrowing and thereby greatly increased their vulnerability to financial shocks. In order to reduce this risk, we should develop some guidelines for sound debt

management on the borrowers' side and sound lending management on the lenders' side. In Korea's case, much of its external debt was short-term borrowing; this immediately led to a liquidity crisis. A sharply declining rollover ratio of short-term loans led to a cash flow mismatch. In the regional context, therefore, we should discourage disproportionate reliance on short-term capital flows in favor of more stable long-term debt profiles, and the development of domestic bond markets. On the borrowers' side, prudential regulations on short-term foreign currency exposures should be strengthened. On the lenders' side, similar prudential regulations on the exposures to emerging market risks should be appropriately imposed, and risk management should be strengthened.

In addition, the three governments should continuously undertake financial sector restructuring. Without sound financial institutions and adequate regulatory regimes, Asian financial markets will still remain vulnerable to external shocks. Since financial restructuring is also closely related to corporate restructuring, we should also cooperatively pursue cross-border corporate restructuring at the industry level. To do this, the governments of the three countries should foster the environment to facilitate the cross-border mergers and acquisitions. In addition, corporate restructuring funds should be provided through cooperative regional financing arrangements.

A concerted Asian move toward developing local or regional currency-denominated bond markets will gain multi-purpose benefits. First, bonds can help firms lock in long-term local currency funding at fixed rates and thus help stabilize borrowers and markets in troubled situations. To function effectively, however, fixed income markets require an appropriate technical and legal infrastructure. The Asian countries should make joint efforts to develop the bond markets.

Second, Asian savings could be invested more in Asia rather than in New York or London. Despite Asia's high savings rates, recycling of Asian savings in and out of the region makes Asian financial markets extremely volatile. Japan, the country with Asia's highest savings rate, still invests in New York or London. The Japanese government's recently announced plan for developing Asian bond markets through a guarantee scheme will contribute to the development of regional bond markets.

C. Strengthening Regional Surveillance among the Three Countries

A regional surveillance process is a mechanism to exchange appropriate and timely information among countries concerned, and to effectively coordinate relevant macroeconomic and financial policies on the basis of these updated information. To do this, the three countries could design a regular surveillance process on the basis of voluntary disclosure and sharing of pertinent and valuable information. Among others, capital flows, term structure of external liabilities and assets, and recent capital market developments in the respective countries would be a most valuable set of information. In some cases, the exchange of information by prudential supervisory agencies in the region will provide relevant information. However, more important thing would be to identify the factors that may spill over national borders, and find a joint solution to prevent adverse contagion on the neighboring countries. This regional surveillance process among the three countries would supplement and enhance the surveillance role of the IMF and would foster a successful implementation of a regional surveillance process which the Manila Framework has also pursued.

D. Promoting Economic Cooperation in the Area of Trade and Investment

Financial cooperation is just one area for economic cooperation. Closer integration through trade and investment in the region will naturally intensify the necessity for regional financial cooperation. Despite the differences in the economic attainment levels among the three, trade and investment linkages based on comparative advantages and scale economies will strengthen the international competitiveness of this region's goods and services. It may be too early to assess the possibility of free trade areas in this region. However, it is a reality that only this region has no regional trade arrangement. Along with regional financial cooperation, we should simultaneously pursue economic cooperation in the area of trade and investment.

E. Building a Regular Framework for Dialogue for Further Cooperation

The task of regional financial cooperation should be approached from a long-term and gradual perspective if we are to accomplish the visionary goal of establishing a cooperative body for coping with monetary and financial issues. It is Asia's fate that the political burden of geo-political issues remains to be dealt with, before our goal can be reached. However, this is not to say the discussion of the Asian Vision for the 21st Century in the area of monetary and financial cooperation itself is futile. Our three countries should start to discuss more tangible issues and develop a more visionary agenda. To do this, we should build a regular framework for dialogue for further cooperation.

2. Mid-term Agenda

Very tentatively, as a mid-term agenda, following issues could be considered:

- stabilizing the exchange rate volatility in this region;
- developing a consensus on a regional cooperative financial arrangement;
- initiating concerted efforts to provide development assistance to less developed countries in the region.

A. Stabilizing the Exchange Rate Volatility in the Region

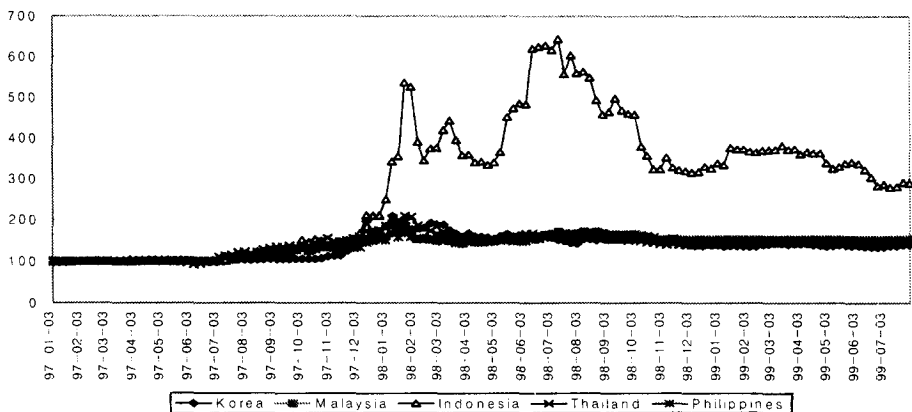
As pointed out in the Report of the G7 Finance Ministers on June 18–20, 1999, further work is needed on appropriate exchange rate regimes for emerging market economies. The choice of exchange rate regime is critical for emerging economies to achieve sustainable economic development, and also has important implications for the world economy. In principle, the most appropriate regime for any given economy may differ, depending on particular economic circumstances, such as the degree of integration into the world economy. Since economic circumstances vary over time, the most appropriate regime for any given country may also differ over time.¹³⁾

13) In terms of foreign exchange regime, the share of fixed exchange rates has fallen from about 60% in 1989 to about 45% in 1999, while the share of floating currencies has risen from about 12% to 25% during the same period. According to JP Morgan (1999), the theme most likely to dominate foreign exchange markets in the years ahead is the continued trend towards a polarized global foreign exchange regime – fewer fixers and even fewer peggers and an increasing number of floaters.

In any case, stability depends on the exchange rate regime being backed by consistent macroeconomic policies and supported by robust financial systems.

Following the collapse of the Thai baht's peg on July 2, 1997, the movements of exchange rates of East and Southeast Asian countries – in particular, Thailand, Malaysia, Indonesia, the Philippines, and Korea – headed in a similar, downward direction during late 1997 and early 1998. We can also observe a strong correlation in the nominal exchange rates among the Asian currencies having floating exchange rate regimes. In particular, the Korean Won and Japanese Yen have shown a strong co-movement since Korea's foreign exchange market started to stabilize in mid-1998. At present, further work is needed to find a way out of the currency volatility in the regional context. Macroeconomic policy coordination based on close regional surveillance would contribute to currency stability in the region.

〈Figure 1〉 Exchange Rates Trend among 5 Asian Countries

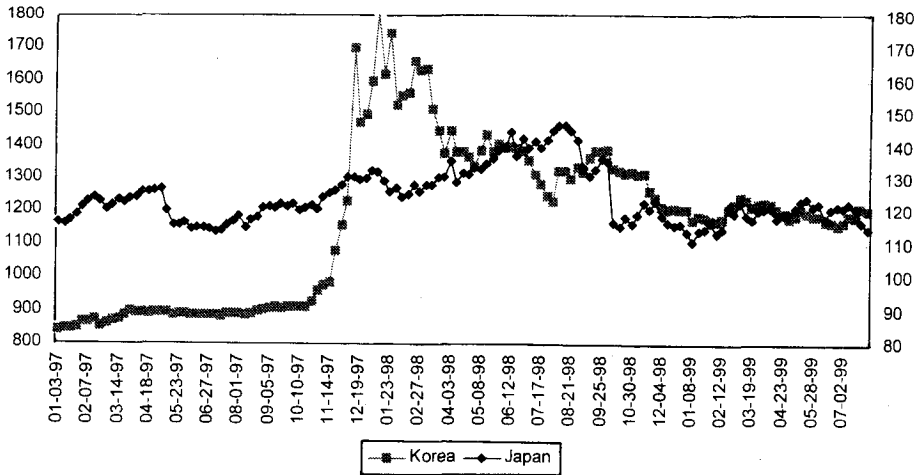


〈Table 5〉 Correlation for Nominal Exchange Rates

	Korea	Japan	Malaysia	Indonesia	Thailand	Philippines	Taiwan	Singapore
Korea	1.00	0.51	0.85	0.76	0.88	0.85	0.84	0.76
Japan	0.51	1.00	0.47	0.61	0.50	0.47	0.55	0.40
Malaysia	0.85	0.47	1.00	0.86	0.89	0.97	0.96	0.95
Indonesia	0.76	0.61	0.86	1.00	0.71	0.87	0.91	0.83
Thailand	0.88	0.50	0.89	0.71	1.00	0.87	0.83	0.82
Philippines	0.85	0.47	0.97	0.87	0.87	1.00	0.96	0.93
Taiwan	0.84	0.55	0.96	0.91	0.83	0.96	1.00	0.94
Singapore	0.76	0.40	0.95	0.83	0.82	0.93	0.94	1.00

Note: Correlation may differ by the time period. The numbers shown in the table are based on the sample period from January 1997 to July 1999.

〈Chart 2〉 Korea-Japan Exchange Rates Trend



B. Developing a Consensus on a Regional Financial Arrangement

Dismayed by the IMF's inability to provide emergency financial assistance and its strict conditionalities, advocates of the AMF have emphasized the possibility that the AMF could be a superior institution to the IMF to prevent and manage the financial crisis. Although the IMF has shown a limited capacity to act as crisis lender and crisis manager, it does not necessarily imply that a regional institution will outperform the global institution. To more effectively respond to the crisis, a new international financial architecture should be strengthened first, and a regional financial arrangement (RFA) should play a supplementary role. Thus, we need to focus our attention on the issue of how a RFA can be a complementary institution rather a competing and substitutable one.

a. Role of Crisis Lender

As mentioned above, the IMF appears to have strengthened its funding capacity through the SRF and CCL to act as a lender of last resort to individual countries. However, it is also little disputed that a RFA, once established, can complement the IMF in providing emergency assistance. At present, a natural question is whether there will be an adequate supply of US dollar in the region, since the RFA would utilize US dollar.

The foreign reserves of the ten East Asian central banks amount to about USD 740 billion at the end of 1998, as shown in Table 6. The amount of foreign reserves in the possession of the East Asian countries is not any smaller than that of developed nations in absolute terms. However, foreign reserve position should also be considered in comparison with each nation's ability to repay its external debt and the stability of its financial system. In this regard, the foreign reserve

positions of the Asian countries are not very strong given Asia's large external debt and underdeveloped financial system.

In sum, securing the dollar liquidity for establishing a RFA with contributions from each country's foreign reserves appears to be a painless process because this region has relatively enough foreign reserves when pooled together. Pooling dollar reserves among Asian countries can be utilized as a countermeasure to prevent financial crisis. However, this idea has advantages and disadvantages. The most significant advantage could be saving the Asian countries from having the excessive holdings of foreign reserves. Second, the Asian countries could reduce dependence on the US dollar. Resources released from official foreign reserves could be more usefully mobilized for the growth and recovery of the region. On the other hand, there remain many difficult tasks in operating this scheme for pooling foreign reserves. It is still an open question which of two approaches; establishing a regional monetary fund (a more institutionalized approach); or a regional arrangement to borrow in the region (a contractual approach) would be more efficient.

The APMF (Asia Pacific Monetary Fund) proposed by Fred Bergsten (1998) should also be considered. While an APMF would limit the autonomy of Asian countries, it has the advantage of dollar liquidity by including the U.S. However, in a regional financial arrangement, the issuing of vehicle currency (US Dollar in this case) is not as important as advocates of APMF have pointed out. The IMF's SDR shows no evidence that it has been supported by the issuing of a certain currency. Instead, if Japanese Yen could be commonly used in the East Asia as a medium of exchange and store of value, a regional financial arrangement should also consider using Japanese Yen as another important reserve asset.

〈Table 6〉 Foreign Reserves of Asian and other Countries

(Unit: In million US Dollar)

Country	1993	1994	1995	1996	1997	1998
Japan	88,720	115,146	172,443	207,335	207,866	203,215
China	21,199	51,620	73,579	105,029	139,890	144,959
Taiwan	83,575	92,457	90,311	88,040	83,505	90,339
Hong Kong	42,986	49,251	55,398	63,808	92,804	89,601
South Korea	19,704	25,032	31,928	33,237	19,710	51,963
Thailand	24,078	28,884	35,463	37,192	25,697	28,434
Malaysia	26,814	24,888	22,945	26,156	20,013	24,728
Indonesia	10,988	11,820	13,306	17,820	16,087	22,401
Philippine	4,545	5,866	6,235	9,902	7,147	9,101
Singapore	48,066	58,177	68,695	76,847	71,289	74,928
Sub-Total	372,668	465,135	572,298	667,362	686,005	741,667
Germany	72,727	72,219	77,794	75,803	69,853	64,133
France	20,008	23,520	23,142	23,120	27,097	38,753
Swiss	31,650	33,554	34,685	36,775	36,899	38,346
U.K.	34,630	38,530	39,180	37,120	28,880	27,360
Italy	25,140	30,107	32,942	44,064	53,431	25,447
Canada	10,471	10,219	12,629	18,028	15,122	19,911
Sub-Total	194,626	208,149	220,372	234,910	231,282	213,950

Source: International Financial Statistics 1999

Given that the IMF's usable financial resources have recently been replenished, we should examine potential problems that may arise when the RFA provides liquidity support prior to the IMF in crisis situations. If the RFA support does not attach IMF-like conditionalities, it may incur a serious moral hazard problem in the international financial system. If Asian countries do not want strict conditionalities

under the RFA, it would be more desirable to pursue a diverse set of credit lines rather than creating a permanent institution like the RFA. The back-up facility, based on currency swap between Korea and Japan, as part of the new Miyazawa Initiative is a good example of bilateral financial cooperation. An extended form of the aforementioned facility would be a good model for an emergency credit support mechanism in a crisis situation.

b. Role of Regional Surveillance

While it is true that the IMF has strengthened its capacity to provide liquidity by diversifying its methods of provision, the IMF conditionalities are often criticized for being too severe and/or inappropriate for each country's specific situations. In other words, the critics say that not only is the IMF unable to prevent financial crises before they occur, it is also incapable of managing crises once they do take place. The argument is that a RFA can do the job of monitoring better than the IMF, which has its operations spread out all over the world. In addition, contagion effects spread to the regional financial market first, hence the superiority of the RFA. However, this has yet to be confirmed by further research, and development of more concrete action programs. In order for the regional surveillance system to function more efficiently, the sharing of data on individual financial institutions, regional financial markets, as well as macroeconomic indicators is necessary.

After the AMF proposal failed, the Manila Framework replaced the AMF proposal. It was agreed that the Manila Framework would continue to discuss the monitoring and cooperation of economic and financial problems in the Asia-Pacific region, but there has been no further development since then. Monitoring is meant to generate timely

information useful to policy makers and market participants. For policy makers, timely information identifies harmful factors to which policy correction can be applied. Even with the information, policy makers must make judgements about whether perceived factors are ultimately harmful or not and decide which policy instrument to use. Furthermore, policy makers, in possession of information that might affect the markets, should consider the potential effect the announcement and disclosure of such information may have on markets. In this regard, a monitoring and surveillance mechanism without proper regulatory authority may lead to a possibility of information distortion or moral hazard problems, in that individual countries would not be willing to reveal information disadvantageous to their countries.

At a global level, the IMF has made substantial progress in promoting enhanced disclosure of economic statistics and indicators, and in developing voluntary codes of good practice and standards to ensure appropriate transparency of the processes by which governments formulate macroeconomic and financial policies. The IMF has also approved a number of measures to increase transparency in member countries' economic policies as well as its own operations. With considerable progress already having been made in the development of standards and codes of good practice, the key challenge now facing the international community is to encourage implementation. The Financial Stability Forum has taken up the issue and is pursuing the implementation of the necessary steps.¹⁴⁾

14) The Financial Stability Forum was created by the G7 Ministers and Governors at their meeting in Bonn February 22, 1999. This Forum has been established to promote information exchange and coordination among the national authorities, international institutions and international regulatory or exports groupings with responsibilities for questions of

At the regional level, the Manila Framework has also pursued a regional surveillance mechanism. However, it is not yet decided how a regional surveillance process would complement the global surveillance process. A peer review of each other's economic and financial situation and shared experiences on the policy challenges facing respective economies such as the ASEAN Surveillance Process (ASP) could be extended to the RFA. However, such an enlarged regional surveillance process is likely to face many technical difficulties unless it is to have sufficient analytical instruments and monitoring authorities.

c. Scope of Membership

Determining the scope of membership for the RFA is fundamentally different from creating an Optimum Currency Area such as EMU. The RFA membership should be based on a consensus among the Asian nations and other external factors, while creating an optimum currency area involves a lot of technical issues that need to be resolved for monetary cooperation. According to the theory of Optimum Currency Area, the symmetry of the shocks, factor mobility, openness of the economy, interdependence, and policy objective of the countries should be considered in determining the scope of membership.¹⁵⁾ However, in the case of RFA, some flexibility is possible. The scope of the membership considered thus far includes ASEAN+3 and the Asian countries within the APEC. This is because it is easier to achieve a

international financial stability. Its initial membership includes the finance ministers, central banks and leading regulators of each of the G7 countries, together with the chairs of the international regulatory organizations, and representatives of the international financial institutions.

15) See Kennen (1969), McKinnon (1963), and Mundell (1961).

consensus on whether to create the RFA by expanding and developing the existing channels for dialogue.

d. Conditionality

While the crisis-affected Asian countries acknowledge the need for reforming their structural defects, they have also been critical about the IMF-imposed conditionalities which they allege are indifferent to their particular circumstances and are intended to impose Western values on them under the guise of globalization. Although these countries have not publicly expressed their complaints, as they are still receiving liquidity support from the IMF, a number of them have experienced serious hardship during the negotiating process over the conditionalities. Therefore, the RFA could become not just another source of liquidity but an institution that provides support without the severe conditionalities.

If the RFA asks for a less severe form of conditionalities, however, it may cause a serious moral hazard problem. Both the IMF and the RFA will be granting credit to the crisis countries, but the crisis countries are more likely to turn to the RFA whose conditionalities are far less constraining. Thus, a regional arrangement to borrow based on contractual terms and conditions would be more transparent scheme for the RFA in order to avoid the conflict of interests between the IMF and the RFA.

C. Providing Development Assistance to Less Developed Countries

As Shi (1998) has emphasized, the leadership of China, Japan, and Korea in initiating the regional cooperation should also consider a plan for providing development assistance to less developed countries in the region. Equitable growth in the region will greatly contribute

to the regional stability in both economic and political arena.

3. Long-term Agenda

Finally, a long-term agenda for the Asian Vision for the 21st Century, remains an open question. One possible item for a long-term agenda will be the issue of a single Asian currency or a regional currency grouping. Some of the key areas of discussion center on whether the region should retain its close links to the U.S. dollar, move towards greater use of the Japanese Yen, or aim to link its currencies to a tripolar system incorporating the dollar, euro, and yen. There is also debate about whether the region should seek to create an Asian currency unit that would be used as a benchmark for the individual currencies.

Curiously, the most recent advocate of the merits of an Asian currency has been the Hong Kong Monetary Authority's chief executive, Joseph Yam – the man responsible for maintaining the only significant fixed dollar parity left in East Asia.¹⁶⁾ Noting the failure of the yen to establish itself as an international reserve currency for Asia, Yam suggested recently that countries in the region might want to consider the possibility of creating an Asian currency that would serve as an anchor currency for the region. Such a development would reflect trade links, enable reserves to be retained in the region rather than

16) As in JP Morgan (1999), the creation of an Asian currency unit would provide Hong Kong and even China with an "exit strategy" to move away from currency pegs that, in both cases, look tough to sustain over the longer run. Kwan (1998) also pointed out that Hong Kong has paid high costs to defend the Dollar peg, and consequently would become the last country to recover from the Asian financial crisis.

invested elsewhere, and make regional currency markets more liquid and less susceptible to manipulation. However, the idea of an Asian currency faces innumerable political and economic obstacles, which in the short-to-medium term at least seem insurmountable.

A single currency implies a degree of political cooperation that is not currently conceivable in East Asia. Furthermore, an Asian currency system built around one individual currency, in approximately the

〈Table 7〉 Comparing Asia and Europe (1997)

	GDP Actual (US Billion \$)	Per Capita GDP (US\$)		Average Growth (1990-97)
		Actual	PPP-based	
China	899	727	3,017	10.3
Hong Kong	174	26,663	25,884	55.0
Indonesia	217	1,078	3,356	7.6
Japan	4,195	33,292	20,584	2.4
Korea	441	9,673	12,383	7.4
Malaysia	98	4,514	10,540	8.7
Philippines	82	1,113	3,356	3.1
Singapore	96	25,772	22,683	8.3
Taiwan	283	13,136	18,928	6.4
Thailand	156	2,566	6,042	7.4
East Asia	6,642	23,578	10,295	4.1
Germany	2,096	25,538	19,249	2.5
Belgium	242	23,725	20,092	1.7
Luxembourg	16	37,322	31,459	4.6
Spain	530	13,482	14,606	1.9
France	1,389	23,703	19,887	1.5
Ireland	75	20,564	18,799	7.1
Italy	1,142	19,883	19,827	1.3
Netherlands	360	23,053	19,052	2.7
Austria	206	25,464	20,008	2.3
Portugal	96	9,752	12,915	2.4
Finland	119	23,114	18,222	0.9
Euroland	6,272	22,548	18,917	1.9

Source: World Bank, *IMD World Competitiveness Yearbook 1998*, Morgan Stanley Dean Witter Research.

way that much of Asia long followed an informal dollar standard, looks unlikely. In particular, the idea will not be easily acceptable by other East Asian countries, considering the absence of regional political consensus.

In addition, East Asian economic systems, patterns of trade and levels of economic development are far more diverse than those manifest in the EMU, and would appear currently to preclude the sort of coordination that would be required to launch a regional currency unit. For example, in the euro zone the highest per capita income is 3.8 times that of the lowest. In comparison, Japan's per capita income is 46 times that of China's. The most important prior conditions for successful monetary cooperation is the convergence of the economic attainment level in the region. To do this, the Asian dynamism should be continuously pursued to promote the convergence of the three countries in terms of various economic standards.

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國文要約

1997년 태국 바트화의 폭락은 아시아 각국들의 통화가치가 폭락하는 연쇄적인 외환, 금융위기로 이어졌다. 이와 같은 금융위기의 전염이 발생한 근원에는 위기국들에서 공통적으로 발견되는 구조적인 결함이 있는 것으로 지적되었다. 그러나 아시아 금융위기는 개별국가 차원에서 뿐만 아니라, 아울러 지역적, 국제적 차원에서 정책적 합의가 조명되어야 할 것이다.

우선 개별 국가적 차원에서 볼 때, 직간접적인 금융위기의 여파에 대해 각국은 자국을 보호할 수 있는 자체적인 방어능력을 가져야 한다. 즉 외환보유고의 확충, 대외채무구조의 건실화 등 거시경제기초를 건실화하며, 기업 및 금융부문의 구조조정을 착실히 수행해야 한다. 둘째, 지역적인 전염성이 강한 금융위기에 대해서 지역적 차원에서의 대응 및 협력방안이 필요하다. 마지막으로, 아시아 금융위기 이전에도 국제적인 차원에서의 국제금융체제개편이 논의되어 왔지만, 신흥시장국가의 입장이 충분히 반영되는 방향으로 국제금융체제가 개선되어야 한다.

그동안 아시아 금융위기에 대한 지역적 차원의 대응과정을 보면 많은 논의에도 불구하고 아직까지 실질적인 결실을 보지 못하고 있다. 다만 일본의 신미야자와 구상에 의한 아시아 위기국에 대한 지원과 후속조치는 아시아경제의 구조조정 및 회복에 기여할 것으로 기대된다. 또한 중국이 아시아 금융위기의 소용돌이속에서도 위안화 가치를 유지한 것은 아시아 금융시장의 안정에 크게 기여하였다. 한편 국제적 차원의 대응과정을 보면 국제금융체제의 개편논의가 진행중에 있으며, 무엇보다도 중요한 것은 지난 하반기 이후 미국의 리더쉽하에 추진된 금리인하 공조체제였다. 국제금융시장의 안정을 바탕으로 아시아 금융시장도 빠른 회복세를 보일 수 있었다.

한국, 중국, 일본 3국이 지역금융협력을 위해 추진해야 될 과제는 단기, 중기, 장기로 구분할 수 있을 것이다. 이는 우선순위의 중요성에 따라 구분되었다기보다는 장기적인 아시아 지역경제의 비전을 제시하기 위해서는 실행가능한 과제를 발굴하고 공감대를 형성하는 것이 무엇보다도 중요하다는 의미에서 단계적이고 점진적인 접근법이 필요하다는 것을 의미한다. 우선, 단기적인 목표에 있어 중요한 분야로는 1) 국제금융체제개편에 대한 지역적인 공감대 형성 2) 자국 뿐만 아니라 아시아 전반의 금융시장 개선을 위한 협력체제증진 3) 3국간 지역적 감시체제의 강화 4) 무역 및 투자분야에 있어서의 경제협력 증진 5) 지속적인 협력을 위한 정규적인 대화채널의 확립이 있다.

중기적인 목표로는 급격한 환율변동을 안정시킬 수 있는 적절한 환율제도의 모색 및 아시아 저개발국에 대한 효과적인 지원체제의 확립 등을 제시할 수 있을 것이다. 마지막으로 아직 많은 불확실성을 내포하고 있지만 장기적인 목표로서 아시아지역의 통화협력문제가 제기될 수 있다. 그러나 현재로서는 너무나도 많은 정치적, 경제적 장애물이 남아 있다는 점에서, 각국간 대화채널의 확대, 경제적 수준의 수렴 등을 통해 점진적으로 공감대를 형성해 나가야 할 것이다.

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