

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

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AND FINANCE**

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I . Background of Asian Regional Cooperation



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

Individual Country Level

- 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

Individual Country Level

- 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

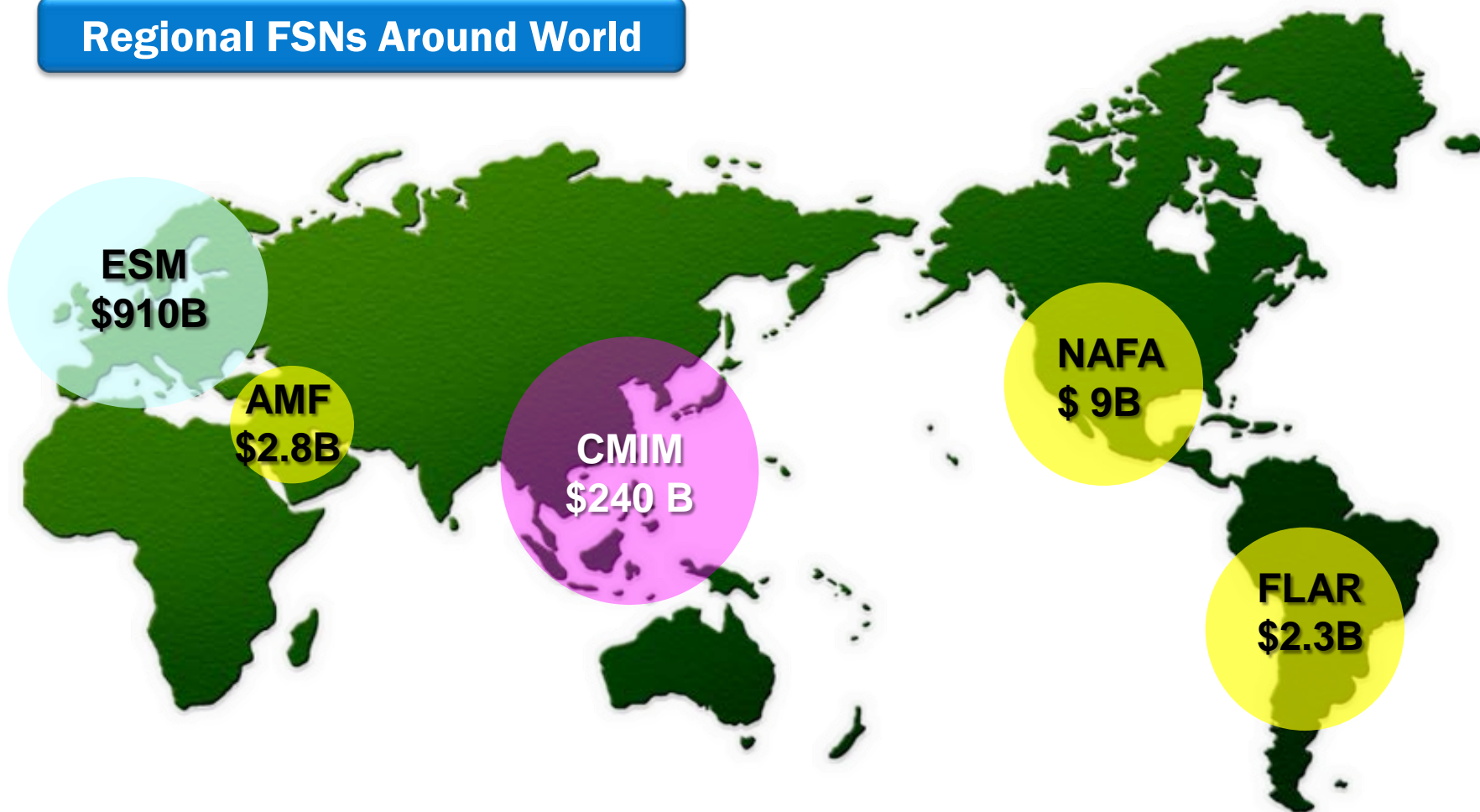
- **120 bn USD**
- **+3 Countries 80%**
ASEAN Countries 20%

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



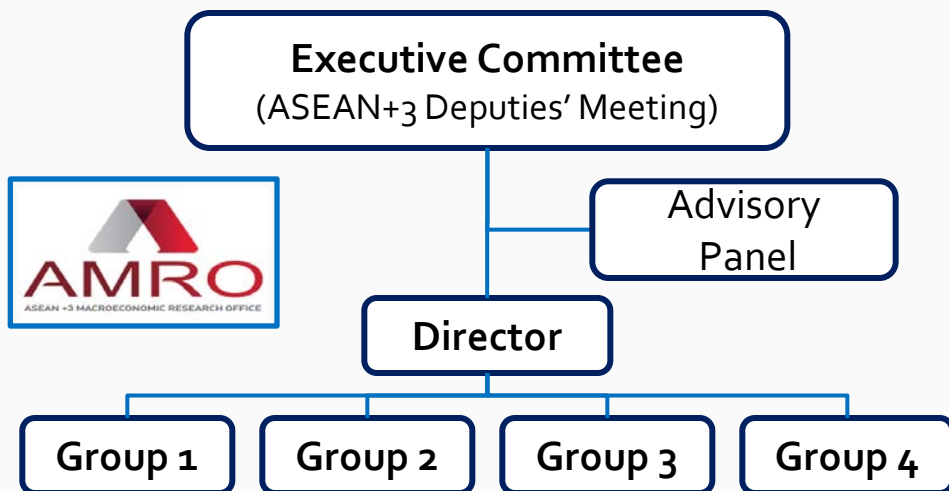
II . ASEAN+3 Cooperation : What We've Achieved

Regional Financial Safety Nets: AMRO (1)

Background

- Stigma Effect
- Regionalism
- CMIM Support

Launch of AMRO



- 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)

II . ASEAN+3 Cooperation : What We've Achieved

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**

II . ASEAN+3 Cooperation : What We've Achieved

ABMI : Agendas Under Each TF

**TF1
Supply**

**CGIF
Oct, 2011**

**Asian Currency Note
(2006~2011, 670mil USD)**

**TF2
Demand**

Asian Bond Markets Summit

**Asian Bonds Online
(asianbondsonline.adb.org)**

**TF3
Regulation**

**ASEAN+3 Bond Market Guide
(Apr. 2012)**

**Asian Multi-currency Bond
Issuance Program**

**TF4
Infrastructure**

**Regional Settlement
Intermediary**

**Regional Credit Rating
System**



II . ASEAN+3 Cooperation : What We've Achieved

ABMI : New Roadmap +

Direction 1

To produce tangible outcomes, current and critical ongoing issues need to be further developed.

Direction 2

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

Direction 3

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



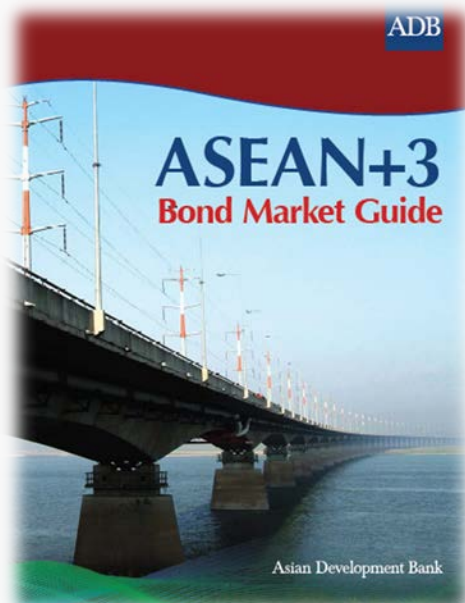
III. ASEAN+3 Cooperation : Our Next Step

Strengthening the Regional FSN



**International
Organization**

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**

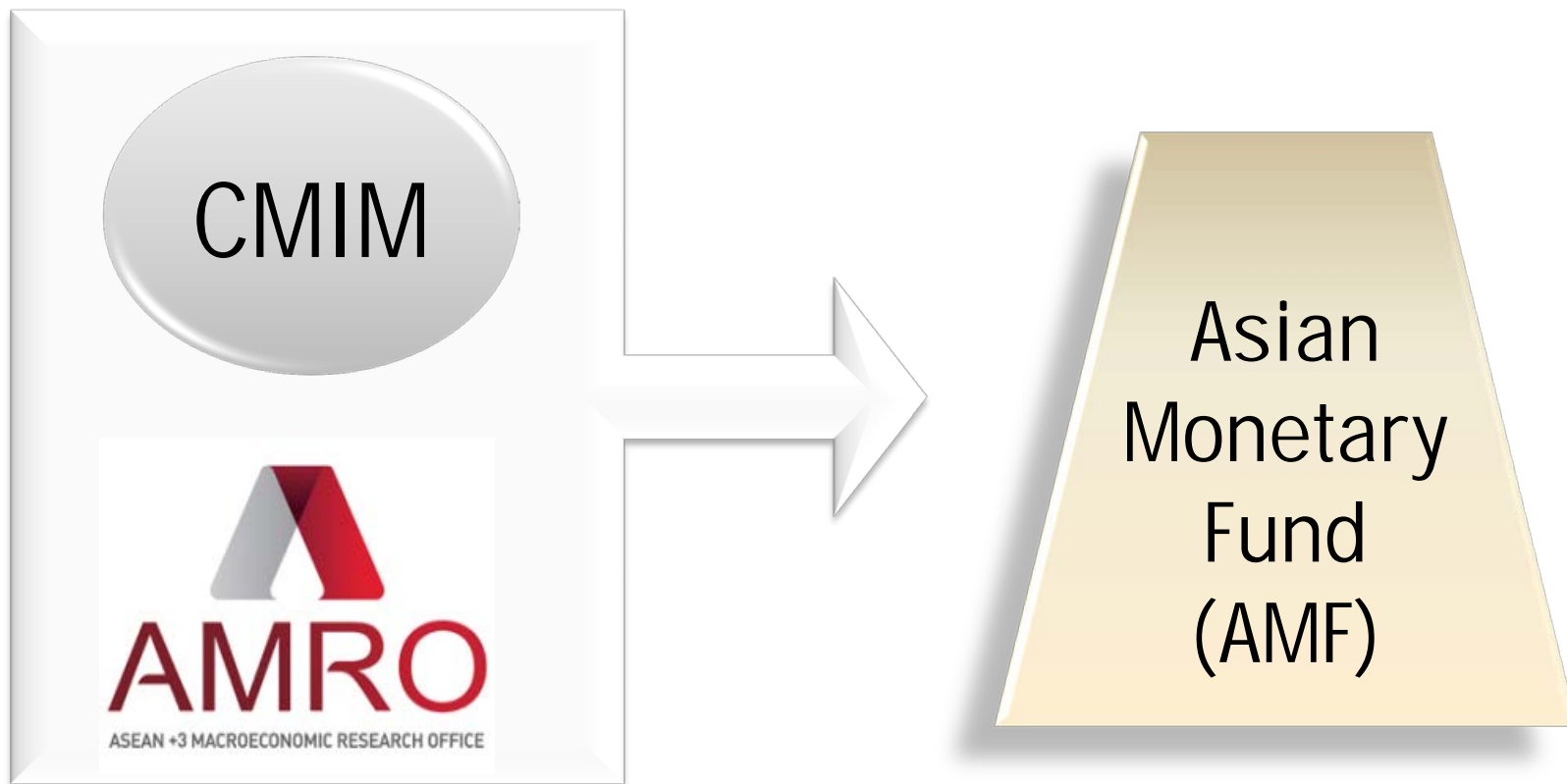
- **Enhancing the Usability of Local Currency under CMIM, as proposed by China**
- **Boosting cooperation on Capital Movement management, as proposed by Korea**

AMRO

- **Expanding its Organization**
- **Enhancing Surveillance Capacity**
- **Strengthening Cooperation with IMF**

III. ASEAN+3 Cooperation : Our Next Step

Strengthening Regional FSN: Medium & Long-term



III. ASEAN+3 Cooperation : Our Next Step

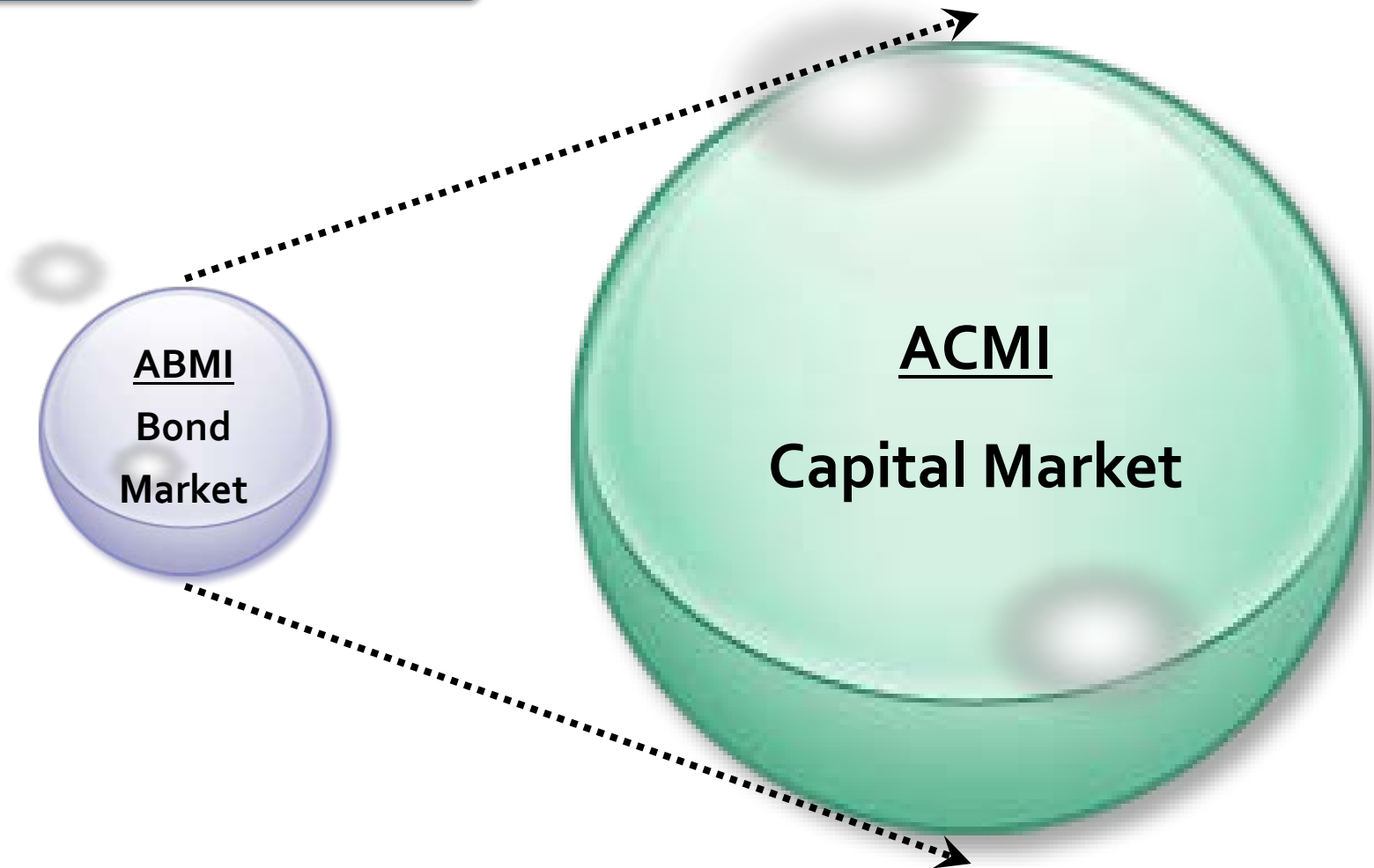
Improving Regional Bond Market: ABMI

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



III. ASEAN+3 Cooperation : Our Next Step

Future Priorities

Infrastructure Financing

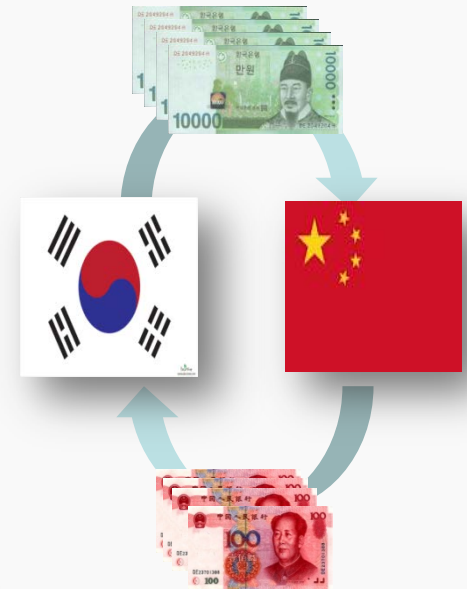


**New Regional
Development
Bank (?)**

Disaster Risk Insurance



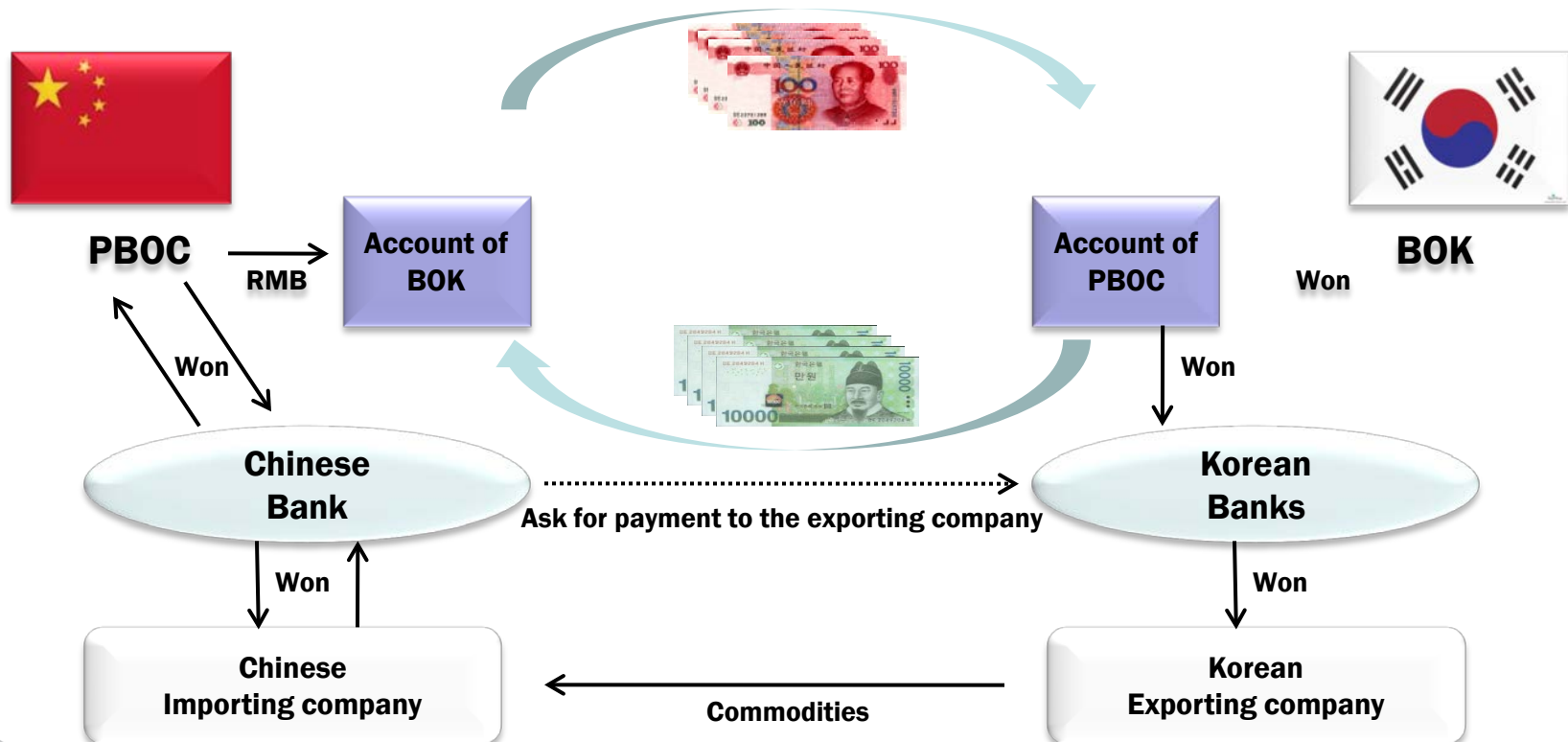
Using Local Currency



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



IV. Implication of Asian Monetary & Financial Cooperation

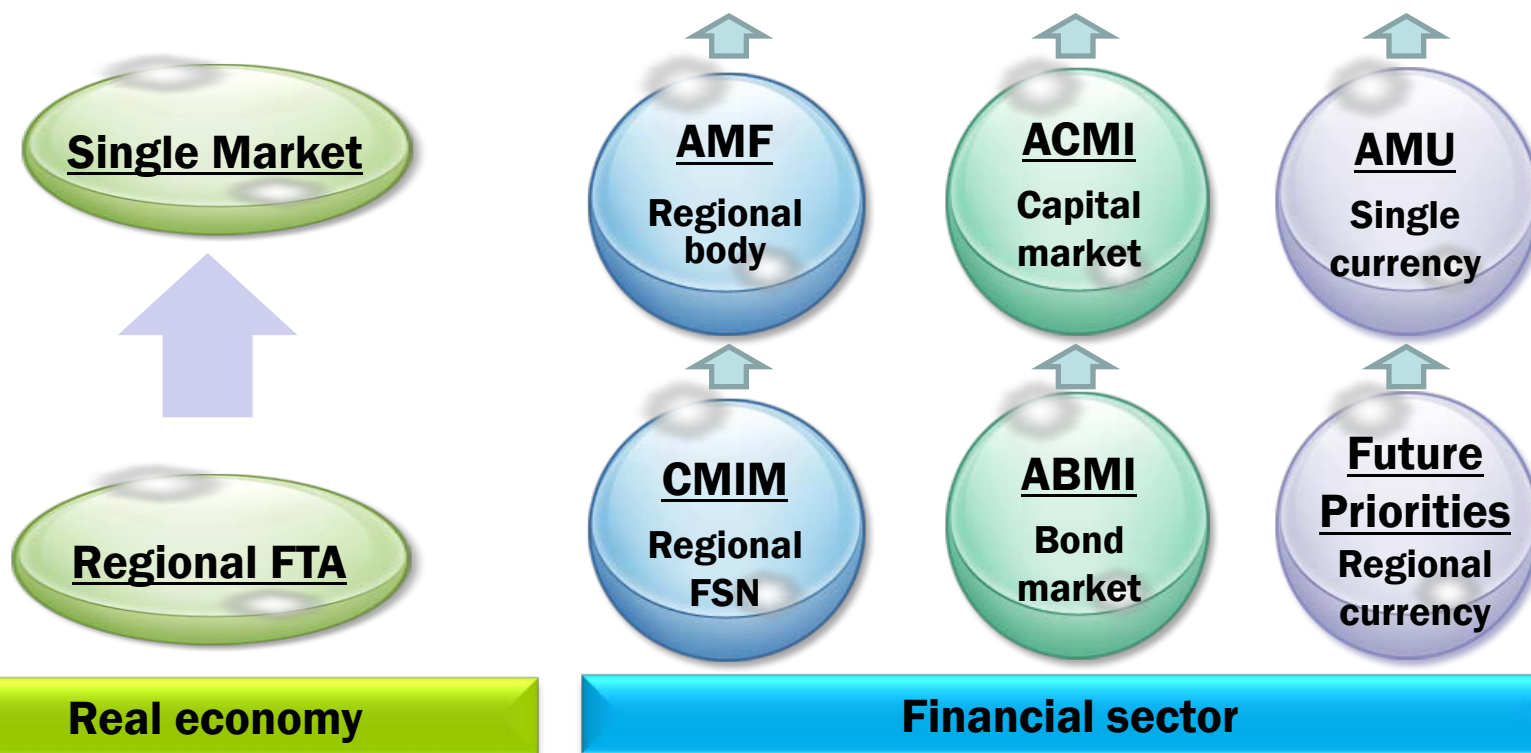


IV. Implication of Asian Monetary & Financial Cooperation

Original Scheme of Asian Financial Cooperation

ASEAN+3 Economic Integration

(Single market, Single Currency, Single public finance)



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?

RMB ↑



- Importance of RMB is being highlighted with the expansion of Chinese economy (esp. Trade currency)

RMB ↓

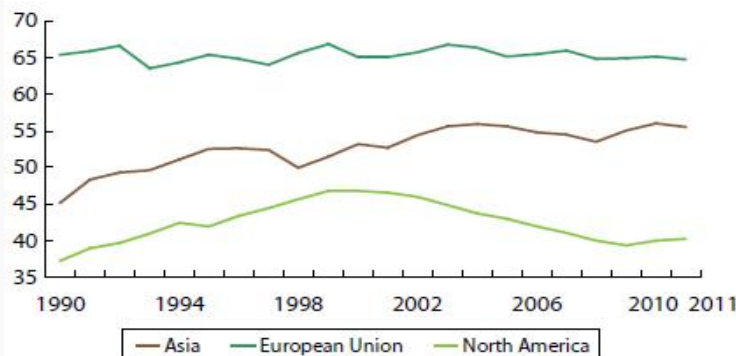


- Immature financial markets and low level of capital account liberalization are cited as limitation of RMB

IV. Implication of Asian Monetary & Financial Cooperation

Impact on Global Monetary System

Asian Intraregional Trade



2005

3,493 bn\$

2011

10,824 bn\$

➤ 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

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

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

T h a n k y o u

