

The 38th Policy Plenary Meeting on “The Recent Development and Future Challenges in the Regional Cooperation in Finance”

February 19, 2010

The 38th Policy Plenary Meeting of the Council on East Asian Community (CEAC) was held on February 19 at the conference room of the Japan Forum on International Relations, to discuss "The Recent Development and Future Challenges in the Regional Cooperation in Finance." Prof. KAWAI Masahiro, Member of CEAC and Dean of Asian Development Bank Institute, made keynote report, which was followed by an active exchange of views among members of CEAC. Prof. KAWAI stated as follows:

The Asian financial crisis of 1997-98 was a major catalyst that accelerated regional financial cooperation efforts among the East Asian authorities to prevent a recurrence of such a crisis in the region and promote regional financial stability. These efforts have resulted in the establishment of the Chiang Mai Initiative (CMI), regional economic surveillance, and the Asian Bond Markets Initiative (ABMI) and Asian Bond Funds. With the outbreak of the global financial crisis in the fall of 2008, East Asia has entered a new phase where the effectiveness of such regional financial cooperation efforts is being tested.

The Economic Review and Policy Dialogue (ERPD) process is one of the most important frameworks for regional economic surveillance among ASEAN+3 countries. In order to enhance the effectiveness of economic surveillance, it is imperative that “a permanent secretariat” for ERPD be established, which is bestowed with sufficient authority and capability to monitor and analyze regional economies and interdependence. Besides, the region is in need of a forum where senior officials—from the Ministry of Finance, Central Bank, and Financial Supervisory Authority—of all the member countries meet together regularly and discuss effective ways to develop deeper and more stable Asian financial markets.

The CMI has of late been undergoing the multilateralization process in a step by step manner to: (1) integrate CMI with ERPD; (2) introduce a common decision making

mechanism; (3) establish a "regional reserve pool" of US\$120 billion under a single contract; (4) decide the contribution shares of all ASEAN+3 countries and Hong Kong; and (5) prepare for gradual de-linking of CMI multilateralization (CMIM) from IMF programs. As CMIM can be mobilized only in time of a crisis under the current framework, we should explore ways to use CMIM for preventive purposes just as IMF's Flexible Credit Line (FCL) does.

The ABMI has made remarkable progress as well. Issuance of local-currency denominated bonds has expanded significantly. The ASEAN+3 authorities have agreed to set up a Credit Guarantee and Investment Facility with the initial fund of US\$700 million. A future challenge of ABMI would be the creation of an "Asian Clear" in which cross-border transactions of Asian currency bonds can be cleared and settled within the Asian time zone.

Though there has been no agreement among policymakers in East Asia on a desirable exchange rate regime, it is necessary to start some process for adopting similar exchange rate regimes and, thereby, stabilizing intra-regional exchange rates. As the global financial crisis seems to settle, capital has again begun to flow into East Asia. Thus, it is desirable to take coordinative steps to establish a system in which the value of each currency can float upward against the US dollar in a coordinated manner. This will help maintain regional macroeconomic and financial stability and prevent divergent movements of regional exchange rates.

In response to the above reports, 22 members of CEAC joined in an active exchange of views on the topic.