Asian Economic Cooperation and AMF

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In this interdependent world every economy is supposed to cooperate in several dimensions. International trade in goods and services is the most conspicuous way of cooperation and economies involved in it are made better off owing to the so called gains from trade. The areas of cooperation are not confined to the trade in goods and services, however, and they include personal exchanges, capital movements, financial dealings and others. This paper considers the possibilities of cooperation in the field of monetary arrangement and financial services in Asia, with a special attention to Korea and Japan. It derives the necessity for regional cooperative mechanism in finance against the background of the Asian financial crisis of 1997-98, and then examines the proposal for AMF (Asian Monetary Fund) tossed by Japan and considered several times by Japan and others thus far as for the vehicle of monetary cooperation in Asia and of a mechanism for supplementing insufficient international liquidity in the Asian region.

After a sketch of the Asian financial crisis in 1997-98 with regard to its causes and suggested remedies, it considered the discussions associated with the new international financial architecture with reference to the report of G7 meeting at Koeln and the final report of the Financial Stability Forum disclosed in 2001. The deficient points of the two reports are examined together with a touch on exchange rate system, and the self-help measures to be employed to counter the missing points are discussed. Capital control in emergency situation considered as a way of self-help is sketched, and AMF as a regional cooperative scheme is considered thereafter. In the end the role of Korea and Japan for the cooperation in the field of finance in Asia is speculated.

In preparing and materializing the Asian money and/or AMF Korea and Japan can play very critical role, granted the pivotal role of Japan. These two are the third and the first biggest country in Asia and their joint efforts would naturally carry the weight. They are at the same time in a good position to invite China in the cooperative endeavor. These 3 economies are active trading nations making use of considerable vehicle currencies for clearing and settlement of trade. Hence, these 3 economies would gain most with the saving of the seigniorage loss avoided if

Asian money is to be made and used in the international trade and financial deals alongside with dollar and Euro. The fact that these 3 economies are countries with largest reserves (ranking 1, 2 and 4 among all countries of the world) is another proof that they can benefit much from avoiding foregone cost in the reserve accumulation.

If the Asian currency were to be realized it would furthermore contribute to stabilize the exchange rates between major currencies. With the Japanese yen as the core of Asian currency the Japanese yen could carry more weight vis a vis US dollar and European euro and thereupon the relative price of Japanese would be less fluctuating. This would obviously help economies constituting the Asian currency. In addition, it would help non-constituents of the Asian currency by means of reducing the degree of alteration among current G3 currencies, one of the headache to small countries of the globe to which the exchange rates among the G3 is one of critical external factors.

In developing and intensifying the capital market the two countries can be forerunner in close cooperation. Korea and Japan have been high-savings countries. However, their financial structure is characterized by relatively large indirect financing compared with that of the US or UK. Especially, banking has played larger role with not-sufficiently developed investment banks for direct financing. Nowadays both countries suffer from bad debts problem associated with commercial bank loans, whereas their securities companies assume a very restricted role of investment banks confined mainly to broking and little bit of dealing and underwriting, neglecting the key function of origination in American investment banking. Economic difficulties of these two economies indicate that they have not been successful in channeling their high savings into right investments. Anyhow, the financial structure with relatively large indirect financing and relatively small direct financing was diagnosed to be a cause of the Asian financial crisis of 1997-98, as there was no rescue when the banking failed in financial intermediation with inactive direct financing. Hence, restructuring of finance to have more of direct financing is necessary to both nations, and they can consult each other in learning investment banking.

Time has come for both countries to strengthen their capital market. The more active utilization of securities companies and the debt-equity swap suggested above can positively experimented in both countries. Then, their precedence could be relayed to other Asian economies.

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