



East Asian Common Reserve Pool ---How to Promote it in to an Asian Monetary Fund

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Why to Set Up Common Foreign Exchange Reserve Pool



- § East Asian monetary and financial cooperation was launched during the East Asian Financial Crisis that broke out in late 1990s.
- § Chiang Mai initiative and the swap agreements were the logic step taken by the region in combating financial crisis.
- § It was regarded as the most notable achievement under 10+3 framework.
- § It is also the main vehicle to enhance the 10+3 cooperation.





- § Global financial crisis has shocked the East Asian countries in many ways and made people in this region once gain feel the urgent need to enhance monetary and financial cooperation in the region.
- § Common FX reserve pool has a better mechanism than Swap Agreement to serve the purpose to provide financial resource for those that hit by financial crisis.



Common Pool is better?



- § Increasing volume of financial resources (pull together standby credit).
- § Easy to draw and use when members are in need.
- § Will help member countries enhance the efficiency of utilizing their own financial resources.
- § Will create externalities that reduce speculative attacks on individual member's market.



The Road to Common Reserve Pool



- § In October 2003, Chinese PM Wen Jia Bao proposed to multilateralize bilateral based Chiang Mai Swap Agreements in Bali 10+3 summit.
- § In May 2006, 10+3 financial ministers meeting decided to set up WG on Chiang Mai Agreement multilateral issue in Hyderabad Indian .
- § In May 2007, Tokyo10+3 financial ministers meeting declared to establish reserve pool that is managed separately by members.
- § In May 2008, 10+3 financial ministers meeting reached agreement on the volume, share, loan conditionality and interest rate of common pool.





- § In October 2008, 10 +3 financial ministers meeting decided to expand reserve pool to \$ 120 billions and finalize consensus before May 2009.
- § In Feb 2009, 10 +3 financial ministers special meeting declare the expansion.
- § In My 2009 10 +3 financial ministers meeting finalized the member share of common pool (China and Japan 32% respectively, Korea 16%, ASEAN 20%).



Problems Left Over for Common Pool



- § Although a nominal common pool have been established, which marked the progress in East Asian financial cooperation. Many problems remain.
- § However, the pool is separately managed by reserve contributions countries. This means there is no institutional arrangement to watch the pool. If a member needs to borrow the money, whom should it ask to?
- § For the pool itself, the loan conditionality follows Chiang Mai Agreement which is similar to IMF conditionality (that is 80% of loans should follow IMF conditionality).
- § Interests rate based on Libor +1.5% and 50 basic points to Maximum level of Libor+3%. This is not a very favorable rate to offer financial aid.



More Problems Need To Be Discussed



- § East Asian countries carefully avoid the core of regional monetary integration that is exchange rate coordination.
- § The common pool separately managed is the only manifestation of this kind of unwillingness.
- § The so called common pool is in its essence the same as stand-by credit. It is far from monetary fund which has multiple function in promoting monetary and financial cooperation.
- § This sort of common pool is in practice not really needed by East Asian countries nowadays as most of them have surplus and huge FX reserves.





- § Most of the East Asian countries are having rather hard currency now and they are actually face a set of different problems rather than having additional financial resources.
- § The most notable problems is passively holding huge FX reserve and make very little progress in utilizing their financial resources while their infrastructure need huge investment.
- § East Asian monetary and financial cooperation should enhance their ability in this regard but not only preparing to fight against financial crisis.



Instability of International Monetary System: Big Problem for East Asia



- § Dollar dominated international monetary system caused much big trouble for East Asia.
- ü Hit by external crisis
- ü Exchange rate fluctuations continuously put pressure on domestic economy
- ü Value loss of financial assets denominated in the US dollar.
- ü Low efficiency in resource allocation.
- ü Lack of voice in international financial system.



What Should We Do To Enhance the Cooperation?



- § Turn the common reserve pool into a real pool with a common institution that is responsible to manage it.
- § Establish an East Asian Bank for Cooperation and Development to manage the common pool independently.
- § The bank's headquarter could be set up in Shanghai with branches in each member countries.
- § 10+3 countries appoint each director to compose a board of directors as the governing body.





- § China, Japan, Korea appoint each executive director and ASEAN appoint two executive directors that compose an executive board of directors taking the charge of daily managing work.
- § The Managing Director could be appointed by China, Japan, Korea and ASEAN in turn with 2-3 years term and Vice-managing directors can be selected by the board of directors from professional managers in banking industry.
- § 10+3 financial ministers meeting should have the authority to guide the principle of this Bank.



Why This Independent Institution Is Important?



- § To create an independent institution to manage common reserve pool has far reaching importance
- § It could automatically enhance the policy coordination among members concerning monetary and financial issues.
- § It would create favorable atmosphere for members to pay more attention to regional monetary and financial cooperation.
- § There will be a specialized institution to take the charge of regional monetary and financial cooperation and will gather more resources.





- § Experience of European integration shows that a special monetary institution would lead to in depth monetary cooperation.
- § After consensus has been reached, convert the common pool into Asian Monetary Fund and use this fund to invest into regional infrastructure investment.
- § In the longer future, it could enhance the exchange rate cooperation by creating a Monetary Unit for members to anchor.
- § It will also enhance the coordination to form a common voice in international financial system reform.



Why Do We Need to Further Promote Regional Cooperation?



- § Interdependence has already bind us together.
- § Common interests: stability and sustainable economic development.
- § Lack of trust among us would tear us apart which would lead to an overall loss to every one in the region.
- § A common institution would bring us more benefit than the cost.
- § Competition and doubts among us should not check this institution from being set up.





Thank you !