Index

Adler, M. 233
AFTA 240
Aghion, P. 89
AMF, see Asian Monetary Fund
APEC currency area 40
Argentina 6, 7, 26, 79, 80
Arrow, Kenneth 81
ASA 215, 216
ASEAN, see Association of Southeast Asian Nations
ASEAN Free Trade Area (AFTA) 240
ASEAN Swap Arrangement (ASA) 215, 216
Asian crisis 9, 132–3
components of 141
countries that avoided the crisis 34
exchange rate volatility 32–3, 77
public debt 172
Asian Monetary Fund (AMF) 36, 216, 228
proposed Japanese contribution to 15, 216
Asian Monetary Monitor 51
Association of Southeast Asian Nations (ASEAN)
absence of regional institutions 238
banking and financial sectors’ weakness 237–8
capital mobility 237
consideration of currency union 240
constraints on the adoption of common currency 236–9
diversity in the level of economic development 236, 237
inadequate mechanisms for regional reserve pooling 238
intraregional trade 235
labour mobility 235, 237
lack of political preconditions for currency union 238–9
shock symmetry 235
suitability for adopting common currency 234–5
wage and price flexibility 235
Australia
exchange rates and interest rates 84, 85
inflation targeting 167, 168
percentage change of real output due to supply and nominal shocks 225, 226, 227
Bacchetta, P. 89
Banerjee, A. 89
Bank of Lithuania 49, 50
Bank of Mexico 26
Barandiaran, Edgardo 47
Barrera, Felipe 192
Barro, Robert 83, 232, 239
basket currency regime 55–8, 74, 77, 99
implementing 76–7
neighbouring countries 75, 76
optimal weights 74
width of band 74, 75
Bayoumi, T. 225, 234, 235, 237, 238
Beddies, Christian 171
Belgium–Luxembourg monetary union 36
Benassy-Quere, Agnis 74
Bergsten, C. 233
Bhwagati, J. 141
Bilson, J. 62
Blanchard, O. 222, 225
Brazil
inflation targeting 169
interest rates 86
Bretton Woods, international monetary system 20, 115
Breuer, J. 233
Brunei
exports and imports by destination 219
inflation rate 13, 220, 221
real GDP growth 221
repatriation of currency 219, 220
see also monetary union between
Brunei and Singapore
Burnside, Craig 90, 172
Calvo, Guillermo 83, 84, 87, 89, 114, 195, 233
Canada
disinflation 25
inflation targeting 167, 168
capital account crises 182, 209
capital account liberalization 182, 185
capital controls 12, 116, 182, 183, 186, 209
administrative controls 189
comprehensive controls 189
effectiveness of 189, 210
evaluating use of 209
inflow controls 188
outflow controls 188
permanent controls 188, 189
price-based controls 189
rationales for 188
regimes of 190
advantages/disadvantages of 190
Chilean-style reserve requirements 190–94
prudential regulations on capital inflows 190, 194–5
restrictions on capital outflows 190, 196–7
selective controls 189
temporary controls 188, 189
see also Malaysia
capital importing countries, consequences
for monetary policy 92–3
currency mismatches 92
Caporale, G. 53
Cardenas, Mauricio, 192
Central African Economic and Monetary Community 235
central banks
independence of 164, 171, 175, 176
targeting inflation 83–4
Cespedes, Luis Felipe 89
CFA franc area (West Africa) 27, 29
Chamon, Marcos 92
Chan Man-hung 42
Chang, H.-J. 142
Chang, Robert 88, 89
Charoenseang, June 9–10, 11
Chen Yuan 43
Chiang Mai Initiative (CMI) 215, 238, 240
Chile
bank lending rate 193
consumer price inflation 193
current account 193
financial account 193
GDP growth 193
inflation targeting 169
real effective exchange rate 193
unremunerated reserve requirement
(URR) on new capital inflows 191, 194
US dollar exchange rate 193
China
economy of 43
foreign direct investment in 44
monetary policy 34
monetary situation in 33
multiple currencies 42
percentage change of real output due to
supply and nominal shocks 225, 226, 227
real GDP growth 54
reasons to formalize exchange rate 127–8
see also Hong Kong and China
Chulalongkorn University
international conference on East Asian
monetary integration 1
CMI 215, 238, 240
Collignon, S. 233
Colombia
bank lending rate 193
capital controls 191, 192, 193
consumer price inflation 193
current account 193
financial account 193
GDP growth 193
real effective exchange rate 193
US dollar exchange rate 193
common currency, see currency areas
common monetary standard, need for 120
contagion theory of currency crises 10, 72, 141–2
Corbo, V. 233, 234
Corsetti, Giancarlo 172, 233
Cox, V. 233, 234
‘crawling peg’ 73
currency areas 83, 235
Brunei, Malaysia and Singapore 217
CFA franc area 27, 29
choice of 39, 40
common currency 4
anchor for 36–7
need for 34, 36
costs and benefits 232, 233, 234
factors in favour of 239–40
global currency area based on the
dollar 28–9
impact on trade 82–3
political integration 38, 39
suitability of countries 233
system of governance 39
see also Association of Southeast
Asian nations; monetary union; optimal currency areas
currency board system, advocates of 72
currency crises 141, 144
causes of 141, 142, 143
contagion theory 10, 72, 141–2
first generation models 131
policy responses to 145–6, 158–9
capital controls 186
internationally coordinated liquidity
support 186
regional financial cooperation 186–7, 227–8
second generation models 131–2
vulnerability to 140, 142–3, 144, 145, 158, 216, 217
adequacy of reserves 147–8
financial sector fragility 149
real exchange rates 149–51
currency risk 104
currency targeting 23
Czech Republic, impact of adopting the
euro 98
Dahan, Momi 171
De Gregorio, Jose 194
Debelle, Guy 168
Debreu, G. 81
debt
choice of currency denomination 90, 91, 92
see also public debt
Deng Xiaoping 45
Diamond, D. 88
disinflation 25, 27
dollar (US)
benefits of dollarization 97, 98
encroachment 116–19
exchange rate volatility
euro 97
yen 97, 122
facilitator of international exchange
106–8
global currency area based on 28–9
growth in importance of 104, 105
international store of value 107, 117, 119
key objectives of a reformed East
Asian dollar standard 123–4
medium of exchange 107, 117, 118
nominal anchor, as 108–9, 112
motivation for 124–5
problems of 121
reticence of governments to declare
official dollar parity 115
savings, dollarization of 93, 94
share in foreign exchange reserves
112–13
standard of deferred payment 108, 117, 119
unit of account of international trade
107, 108, 117, 119
see also soft dollar pegging
Dooley, Michael 188, 189, 196
Dornbusch, R. 144
Dybvig, P. 88
dynamic inflation targeting 25, 27
Eastern Caribbean Currency Union 235
economic crises 141
economic integration 120, 222
Edison, Hali 210
Edwards, Sebastian 189, 194
Eichenbaum, Martin 90, 172
Eichengreen, Barry 166, 167, 169, 189,
222, 225, 233, 234, 235, 237, 238
East Asia’s monetary future

EMS 223, 224
Estonia, choice of exchange rate 26
euro
defects of 30
demonstration effect of 31
exchange rate volatility with dollar 97
global demand for reserves 30
impact of adopting 98, 99
importance of 29, 30, 61, 77
share in foreign exchange reserves 112–13
yen, impact on 61
Europe, monetary union 22; see also euro
European Monetary System (EMS) 223, 224
exchange rate targeting 164
exchange rates
importance of 77
stabilization 25–7, 73
uncertainty of 33
volatility 32–3, 99
see also fixed exchange rates; floating exchange rates

Fernandez-Arias, Eduardo 96
financial crises 141
financial market deregulation 182
financial market integration,
requirements for 183–4
Finland, inflation targeting 168
Fisher, Irving 21
fixed exchange rates 1–2, 3, 21, 23
adjustment mechanism of 32
pre-announced appreciation 73
target zone 73
floating exchange rates 1–2, 3, 22, 73
advent of 111–12
advocates of 71
contagion 72
critics of 72
growth rates 83
preference for 79, 80
volatility of exchange rates 232, 233
foreign exchange transactions 65–7
foreign reserves 67
currency composition of 67, 68, 112, 113
Frankel, Jeffrey 74, 82, 83, 222, 223, 233, 234
Friberg, R. 233
Friedman, Milton 3, 22, 23, 35, 81
Garber, Peter 189
Gavin, Michael 81
Giscard d’Estaing, Valery 22
Glick, Reuven 82, 233, 234
global currency area based on the dollar 28–9
globalization 103, 239
gold standard 20, 22
Gordon, David 83
Goto, J. 235
Graham, Frank 22
Hagen, J. von 53
Hamada, K. 235
Hausmann, Ricardo 6–7
Henning, C. 233
Hong Kong 37
consumer spending in China 45
currency-to-GDP ratio 51, 52, 53
economy 42–3
external trade
China/US shares of 48
monetary policy 34
real GDP growth 54
replacing Hong Kong dollars with US dollars 38
stock exchange
Chinese-owned companies 45
see also Hong Kong and China
Hong Kong and China
coexistence of two currencies 5, 13,
43–5, 47, 48–9, 51, 52–3
legal competition 47
monopoly 47
spontaneous competition 47
economic integration 45, 48
integrative process 43
monetary union
argument for 51
benefits of 46–7
challenges for 43
implementing 49, 50, 51
need for 49
optimum currency area 49, 53–5
Huizinga, J. 233, 234
Hume, David 31
IMF, see International Monetary Fund
impossible trinity’ 71, 140, 158

Indonesia
adequacy of reserves 151, 152–3
Asian financial crisis 132–3
central banking law reform 163
economic recovery 133
financial sector fragility 154, 155
foreign exchange reserves 206
GDP growth 207
IMF economic assistance programme 133
consequences of 133–4
inflation targeting 163
interest rates 199
percentage change of real output due to supply and nominal shocks 225, 226, 227
public debt 172
real exchange rates 155, 156, 157
stock prices 198
US dollar exchange rate indices 197
inflation 13–14, 32, 220, 221; see also inflation targeting
inflation targeting 3–4, 11, 23, 24, 27, 84, 94–5, 164
announcing the target 170
benefits of 164, 165
developed countries 167, 168
developing countries 168, 169, 170
disadvantages of 166
dynamic 25, 27
effectiveness of 165, 166
exchange rate fluctuations 166, 167
impact of 165
implementing 163
challenges in 165
opportunities for 165
independence of central bank 164, 171
interest rates 89
South Korea 135, 136, 163, 169–70
static 24–5
success of 176
Thailand 163, 164, 173–4, 175, 176
unemployment rate 168
interest rates 86, 198, 199
impact of exchange rate regime on 86, 87
impact on growth and payment of debt 95
international finance, sudden stop, effect of 96
International Monetary Fund (IMF) 68, 116, 193
Articles of Agreement, Second Amendment (1976) 21
economic assistance 133, 134, 135, 138
fixed exchange rates 21
flexible exchange rates 21
international usage of currency, aspects of 62
invoice currency 62–4, 107–8
Ito, Takatoshi 5–6
James, Harold 46
Japan
contribution to AMF 15, 216
financial interaction with East Asian dollar bloc 122
interest rates 86
invoice currency of exports and imports 63–4
monetary policy 34
percentage change of real output due to supply and nominal shocks 225, 226, 227
proposal to join the dollar bloc 126–7
relationship to United States 121–2
see also Tokyo; yen
Jeanne, O. 233
Johnston, R. 196
Jonsson, Gunnar 164–5, 168
Kaplan, Ethan 204, 207
Kawai, Masahiro 11–12, 235
Keller, Peter 50
Kenen, Peter 107, 222, 233, 234
Keynes, John Maynard 20, 21
Korea, see South Korea
Krugman, P. 62, 145, 222
Kumhof, Michael 167
Kydland, Finn 83
Leitemo, Kai 171
Levi-Yeyati, Eduardo 83
Li, S. 167
Lithuania 49–50
Luxembourg, monetary union with Belgium 36
East Asia’s monetary future

Ma, Yue 49, 53, 55
Madhur, Srinivasa 14
Malaysia
bank lending rate 193
capital controls 12, 136, 183, 200–203, 209–10
administrative compliance 204–5
costs and benefits of 205, 206, 209
effectiveness of 203–4, 207, 208, 210
objectives of 203, 210
consumer price inflation 193
correlation of shocks 223, 224
currency interchangeability with Singapore 11
current account 193
economic recovery 136, 200
financial account 193
GDP growth 193, 221
inflation rate 13, 220, 221
interest rates 198, 199
percentage change of real output due to supply and nominal shocks 225, 226, 227
public debt 172
real effective exchange rate 193
stock prices 198
US dollar exchange rate 193, 197
weakening economy 136, 198, 199, 200
Manakit, Pornkamol 9–10, 11
Marston, R. 62
Masson, Paul 168
Mauro, P. 235, 238
McKinnon, Ronald 4, 7–9
McNellis, Paul 93
Meade, James 3, 22
Meesok, Kanitta 201
Mendoza, Enrique 195
Mexico
Bank of Mexico 26
exchange rates and interest rates 84, 85
Mishkin, Frederic 163, 164, 166, 167, 168, 169
monetary and fiscal policy interdependence 170, 171
monetary sovereignty 99
monetary targeting 164
conditions conducive to 24
monetary union
Belgium–Luxembourg 36
candidates for 225, 226, 227
dollar, euro and yen 34–5
Europe 22
political factors 227
proposals for 224–5, 228
regional 216
see also currency areas
monetary union between Brunei and Singapore (MUBS) 13, 217, 218
benefits of 218–20, 223
costs of 221–2, 223
money creation 172
interdependence with budget deficit financing 177–80
Moon, W. 235
MUBS, see monetary union between Brunei and Singapore
Mundell, Robert 2–5, 49, 53, 83, 140, 158
Nadal-De Simone, Francisco 191
Neely, Christopher 189
Neumann, M. 53
New Zealand
inflation targeting 167, 168
percentage change of real output due to supply and nominal shocks 225, 226, 227
Ngiam Kee Jin 12–14
Niaura, Janos 49
Nixon, Richard 22, 111
Ogawa, Eiji 74, 75
optimal currency area (OCA) 83, 233
Hong Kong and China 49, 53–5
Pages-Serra, Carmen 81
Panizza, Ugo 89, 90, 93
Park, Y. 239
Pesenti, P. 172, 233
Philippines
economic crisis 137
economic recovery 137
inflation targeting 163
percentage change of real output due to supply and nominal shocks 225, 226, 227
public debt 172
political integration 38, 39
Posen, Adam 164, 168
<table>
<thead>
<tr>
<th>Index</th>
<th>249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescott, Edward</td>
<td>83</td>
</tr>
<tr>
<td>price-specie-flow mechanism</td>
<td>31</td>
</tr>
<tr>
<td>price stabilization</td>
<td>21</td>
</tr>
<tr>
<td>United States</td>
<td>109–10, 112</td>
</tr>
<tr>
<td>public debt</td>
<td>172, 173, 177–80</td>
</tr>
<tr>
<td>dollarizing</td>
<td>88</td>
</tr>
<tr>
<td>problems of 88–9</td>
<td></td>
</tr>
<tr>
<td>lengthening maturity of 88</td>
<td></td>
</tr>
<tr>
<td>short-term, denominated in domestic currency, need to avoid</td>
<td>87</td>
</tr>
<tr>
<td>Thailand</td>
<td>172, 174, 175, 176, 177</td>
</tr>
<tr>
<td>Quah, D.</td>
<td>222, 225</td>
</tr>
<tr>
<td>Radelet, S.</td>
<td>142</td>
</tr>
<tr>
<td>Rajan, R.</td>
<td>233</td>
</tr>
<tr>
<td>Rama V, King</td>
<td>1</td>
</tr>
<tr>
<td>Rama VI, King</td>
<td>1</td>
</tr>
<tr>
<td>Reagan, Ronald</td>
<td>22</td>
</tr>
<tr>
<td>real output, percentage change of due to supply and nominal shocks</td>
<td>225, 226, 227</td>
</tr>
<tr>
<td>Rebelo, Sergio</td>
<td>90, 172</td>
</tr>
<tr>
<td>regional financial cooperation</td>
<td>186–7, 227–8</td>
</tr>
<tr>
<td>regional monetary stability, potential for</td>
<td>120</td>
</tr>
<tr>
<td>regional monetary union</td>
<td>216</td>
</tr>
<tr>
<td>regional monitoring and surveillance</td>
<td>216, 224, 228</td>
</tr>
<tr>
<td>Reinhart, Carmen</td>
<td>84, 89, 114, 210, 233</td>
</tr>
<tr>
<td>Rhee, Y.</td>
<td>235</td>
</tr>
<tr>
<td>Rodrik, Dani</td>
<td>204, 207, 233, 234</td>
</tr>
<tr>
<td>Rojas-Suarez, Liliana</td>
<td>93</td>
</tr>
<tr>
<td>Rose, Andrew</td>
<td>82, 83, 97, 222, 223, 233, 234</td>
</tr>
<tr>
<td>Roubini, N.</td>
<td>172</td>
</tr>
<tr>
<td>Sabhasri, Chayodom</td>
<td>9–10, 11</td>
</tr>
<tr>
<td>Sachs, J.</td>
<td>142, 144, 145</td>
</tr>
<tr>
<td>Santiprabhob, Vecerathai</td>
<td>173</td>
</tr>
<tr>
<td>Sargent, Thomas</td>
<td>166, 170, 171</td>
</tr>
<tr>
<td>Sasaki, Yuri</td>
<td>74, 75</td>
</tr>
<tr>
<td>Savastano, Miguel</td>
<td>168</td>
</tr>
<tr>
<td>Schmidt, Helmut</td>
<td>22</td>
</tr>
<tr>
<td>Schultz, George</td>
<td>22</td>
</tr>
<tr>
<td>Sharma, Sunil</td>
<td>168</td>
</tr>
<tr>
<td>Singapore currency interchangeability with Malaysia</td>
<td>11</td>
</tr>
<tr>
<td>GDP growth</td>
<td>221</td>
</tr>
<tr>
<td>inflation rate</td>
<td>13, 220, 221</td>
</tr>
<tr>
<td>monetary policy</td>
<td>34</td>
</tr>
<tr>
<td>percentage change of real output due to supply and nominal shocks</td>
<td>225, 226, 227</td>
</tr>
<tr>
<td>repatriation of currency</td>
<td>219, 220</td>
</tr>
<tr>
<td>status as international money centre</td>
<td>65, 66, 67</td>
</tr>
<tr>
<td>see also monetary union between Brunei and Singapore single currency</td>
<td>36</td>
</tr>
<tr>
<td>soft dollar pegging</td>
<td>114–15, 116</td>
</tr>
<tr>
<td>Sorsa, Piritta</td>
<td>191</td>
</tr>
<tr>
<td>Soto, Marcelo</td>
<td>191, 194</td>
</tr>
<tr>
<td>South Korea adequacy of reserves</td>
<td>151, 153–4</td>
</tr>
<tr>
<td>central banking law reform</td>
<td>163</td>
</tr>
<tr>
<td>economic recovery</td>
<td>135</td>
</tr>
<tr>
<td>financial sector fragility</td>
<td>154, 155</td>
</tr>
<tr>
<td>foreign exchange reserves</td>
<td>206</td>
</tr>
<tr>
<td>IMF economic assistance package</td>
<td>134</td>
</tr>
<tr>
<td>consequences of 134, 135 inflation targeting</td>
<td>135, 136, 163, 169–70</td>
</tr>
<tr>
<td>interest rates</td>
<td>199</td>
</tr>
<tr>
<td>percentage change of real output due to supply and nominal shocks</td>
<td>225, 226, 227</td>
</tr>
<tr>
<td>public debt</td>
<td>172</td>
</tr>
<tr>
<td>real exchange rates</td>
<td>155, 156, 157</td>
</tr>
<tr>
<td>real GDP growth</td>
<td>199, 207</td>
</tr>
<tr>
<td>stock prices</td>
<td>198</td>
</tr>
<tr>
<td>US dollar exchange rate indices</td>
<td>197</td>
</tr>
<tr>
<td>Spain, inflation targeting</td>
<td>167, 168</td>
</tr>
<tr>
<td>static inflation targeting</td>
<td>24–5</td>
</tr>
<tr>
<td>Stein, Ernesto</td>
<td>81, 89, 90, 93</td>
</tr>
<tr>
<td>Sturzenegger, Federico</td>
<td>83</td>
</tr>
<tr>
<td>supply shocks, correlation among East Asian countries</td>
<td>225, 226</td>
</tr>
<tr>
<td>Svensson, Lars</td>
<td>89</td>
</tr>
<tr>
<td>Sweden, inflation targeting</td>
<td>167, 168</td>
</tr>
<tr>
<td>Switzerland, impact of adopting the euro</td>
<td>98</td>
</tr>
<tr>
<td>Taiwan monetary policy</td>
<td>34</td>
</tr>
<tr>
<td>percentage change in real output due to supply and nominal shocks</td>
<td>225, 226, 227</td>
</tr>
</tbody>
</table>
East Asia’s monetary future

Takagi, Shinji 11–12, 235
Tamirisa, Natalia 196
target zone 73
Taylor, Mark 58, 189

Thailand
    adequacy of reserves 151, 152
capital controls 196–7
central bank independence 175, 176
correlation of shocks 223, 224
financial crisis 137–8, 142
    panic 141
financial sector fragility 154
foreign exchange reserves 206
IMF economic assistance programme 138
    consequences of 138
inflation rate 14, 220, 221
inflation targeting 163, 164, 173–4,
    175, 176
interest rates 199
monetary policy 173, 174
percentage change in real output due to
    supply and nominal shocks 225,
    226, 227
public debt 172, 174, 175, 176, 177
real exchange rates 155, 156
real GDP growth 199, 207, 221
stimulus packages 138, 175, 176
stock prices 198
US dollar exchange rate indices 197

Tobin, James 142, 189
Tokyo, status as international money
    centre 65, 66, 67
Tornell, A. 144
Tsang, Shu-ki 5
Turkey
    impact of adopting the euro 98
    interest rates 86

Ulan, Michael 191, 192, 194
United Kingdom
    impact of adopting the euro 98
    inflation targeting 167, 168
United States
    hegemony 103
price stability 109–10, 112
relationship to Japan 121–2
    see also dollar

Valdes-Prieto, Salvador 191, 194
Valdez, Rodrigo 194
Velasco, Andres 88, 89, 94, 144

Wade, R. 142
wage rigidity 81
Wallace, Neil 166, 170, 171
Walllich, Henry 70
Warr, Peter 10
Wei, S. 74

Western Africa Economic and Monetary
    Union 235
Whittlesey, Charles 22
Williamson, John 74, 233
Wincoop, Eric van 82, 97, 234
World Bank 191, 196
Wyplosz, Charles 189

Yam, Joseph 43, 52
Yan, I. 167
yen
    euro, impact of 61
    exchange rate volatility with the dollar
    97, 122
    fixing to the dollar 126, 127
    fluctuations of 77
    impact on Asian countries export
        competitiveness 70
    foreign exchange transactions 65, 66,
    67
    foreign reserves, share of 67, 68, 113
    formation of yen zone in East Asia,
        Japanese government promotion
        of 124
    internationalization of 61, 77
        Japanese government promotion of
        67, 68–70
    invoice currency 63–4
    role in Asian exchange rate regimes 73
    value of 67
Yoon, D. 235