Preface

Regional monetary and financial cooperation is today one of the most debated issues in East Asia. When starting to write this book over ten years ago, right after the Asian crisis, there were two important motivations behind it. One was of course the outbreak of the Asian crisis. Unlike countries in Latin America or Eastern Europe, Asian countries had maintained robust economies, but met the same fate as these countries when the 1997 international financial crisis struck. It became necessary to reflect on why Asia had to suffer from the crisis and be condemned as a region of ‘Asian sins’ despite its sound economies. The truth is that the underlying causes of the Asian crisis were external as well as internal. Thus, it became clear that besides internal reforms, Asian countries needed to create a zone of monetary and financial stability, insulated from the extraneous influences of unstable capital flows. The other motivation for this book was the successful launch of the euro in 2002, which inspired hope that a similar initiative could be started in Asia.

Unfortunately, however, the progress of regional monetary integration in East Asia was slow. Since the launch of the Chiang Mai Initiative in 2000, there has been practically no major progress on East Asian monetary arrangements. This has diminished interest in this matter somewhat. Two main events helped revive enthusiasm for the book. The first was the global financial crisis and the new challenges it presented. This time the crisis originated not in Asia but in the US. Despite its non-Asian origin, however, Asian countries had to suffer again from the global crisis. It had now become quite clear that unless the risk of volatile capital flows is resolved, emerging Asian countries can again be victims of international financial crises at any time, and that they should prepare regional arrangements to protect themselves against unstable capital movements.

The other event was the rise of China, particularly since the 1990s. Until then, China had not yet equalled Japan economically, but it was thought that the emergence of China would be momentous and would gradually and significantly change the landscape of the political economy in Asia and eventually in the world. As China’s economic influence widened in the region, the rivalry between China and Japan intensified. The struggle between the two leading countries would cause serious monetary and
financial instability and damage the regional economies. This worrisome outlook also awakened awareness to the fact that Asian countries should prepare a collective monetary arrangement through which they can cooperate and avoid the detrimental effects of regional conflicts. China’s conspicuous surge to a G2 country will also increase the fear of monetary instability in the region. This time the instability is due not to regional rivalry but to global rivalry between the US and China. As conflicts between the US and China have intensified rather than ameliorated, some even fear potential currency wars. Past experiences show that it is the volatility of global currencies that contributed to, if not caused, the volatility of small regional currencies: whenever currencies become more volatile, they increase the risk of triggering intraregional conflicts. This would definitely be undesirable both for China and for other Asian countries. Thus, regional exchange rate coordination is required to relieve the stresses and curb the influences on the region of the global conflicts between China and the US.

The core message in this book is simple: no country can survive in isolation from other countries in its region. No matter how big they are, it is not good policy for countries to isolate themselves, for their own sake as well as for the sake of their region, and countries must find a way to cooperate. In light of this fact, the authors’ hope for the future of Asia is simple: the dream of a monetary union is remote, but if East Asian countries can share a common dream, it will be much easier to derive many cooperative policies to stabilize the regional economies and make the countries prosperous. Even the lowest level of policy cooperation would be very beneficial to all countries in the region. Critical is the cooperation between China, Japan and Korea.

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Secondly, we thank two experts on European monetary integration,
Asian monetary integration

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