

**Japan-China-Korea (A3) Conference  
Monetary and Financial Cooperation in the Region**

**Handout**



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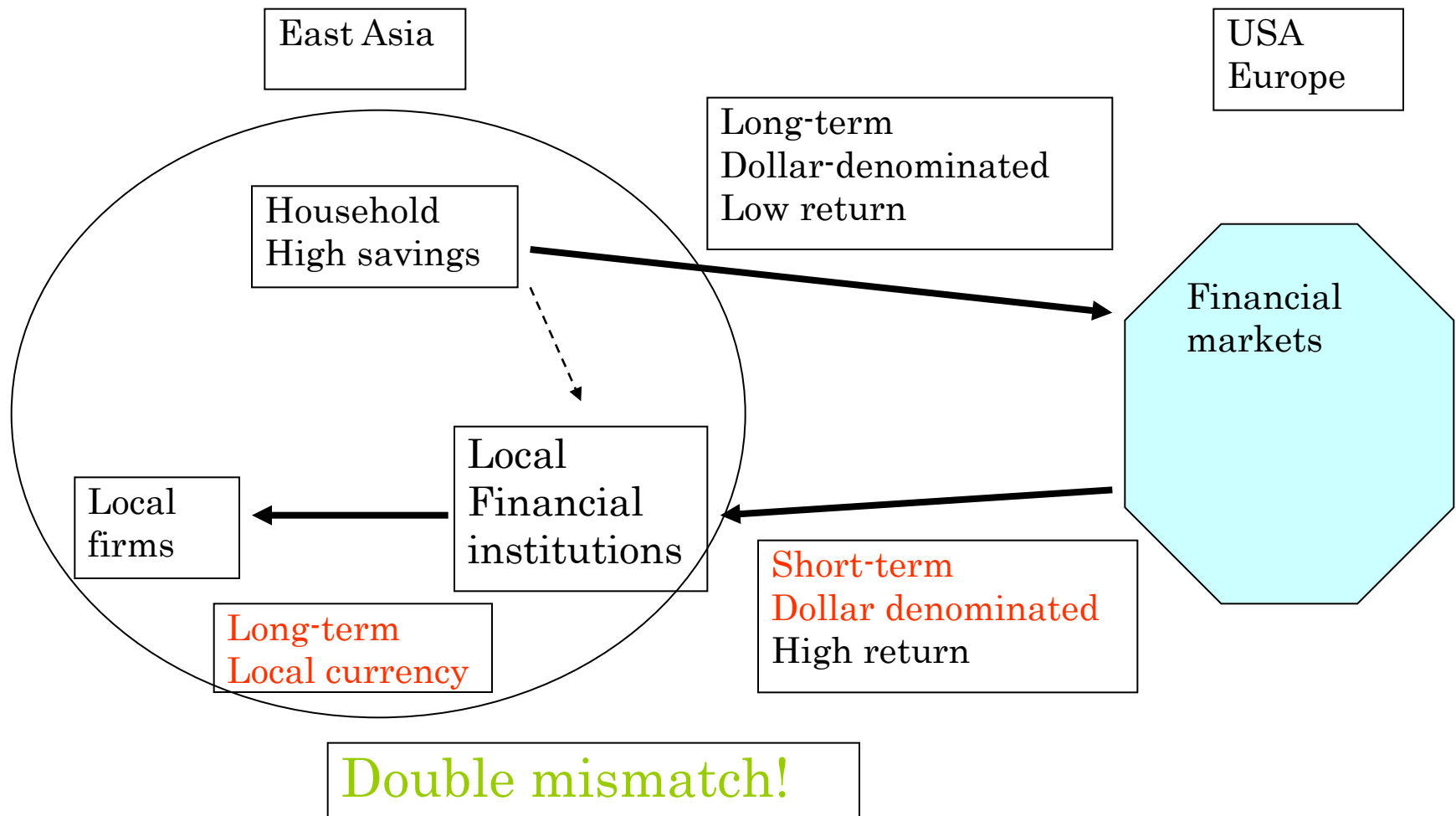
Comments on “Global Needs for  
ACU-Denominated Reserve  
Assets” by G. Choi and Y. Rhee

Shin-ichi Fukuda  
(University of Tokyo)

# Two Issues

- International capital flows in Asia  
(capital flows with long-term maturity)
  - ⇒ Double mismatch
  - ⇒ ABMI, ACU
- International liquidity in Asia  
(capital flows with very short-term maturity)
  - ⇒ Settlement risk in US dollar
  - ⇒ CMIM

# I. International capital flows in Asia



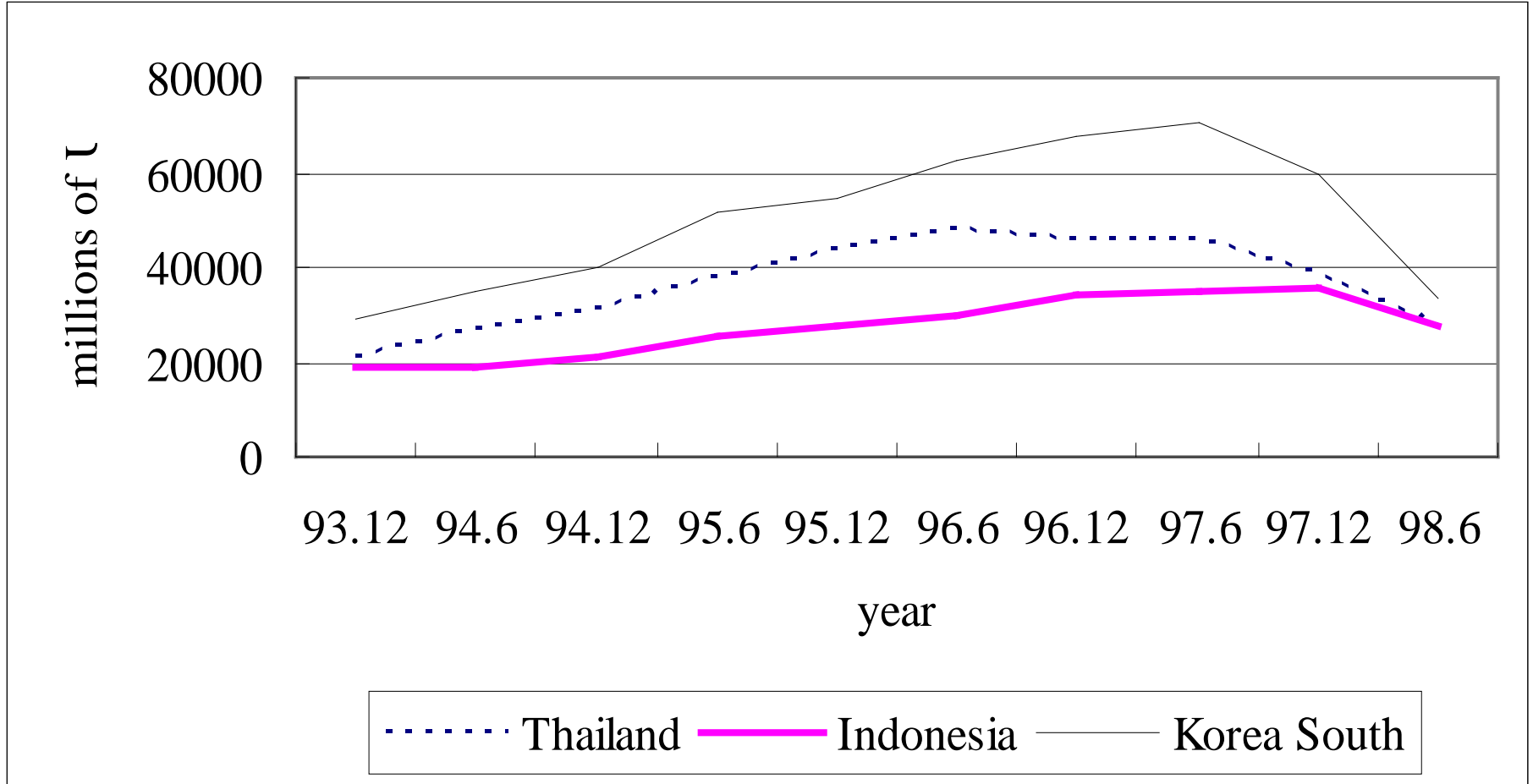
# Ratios of External Debt Outstanding to GDP before the Crisis

	1994	1995	1996
Korea	14.32	23.8	28.4
Indonesia	60.96	61.54	56.74
Malaysia	40.4	39.31	40.06
Philippines	62.42	53.21	49.75
Singapore	10.79	9.84	10.74
Thailand	33.31	33.78	50.05
Hong Kong	18.38	16.6	15.44
China	18.38	16.6	15.44
Taiwan	10.87	10.4	10.07

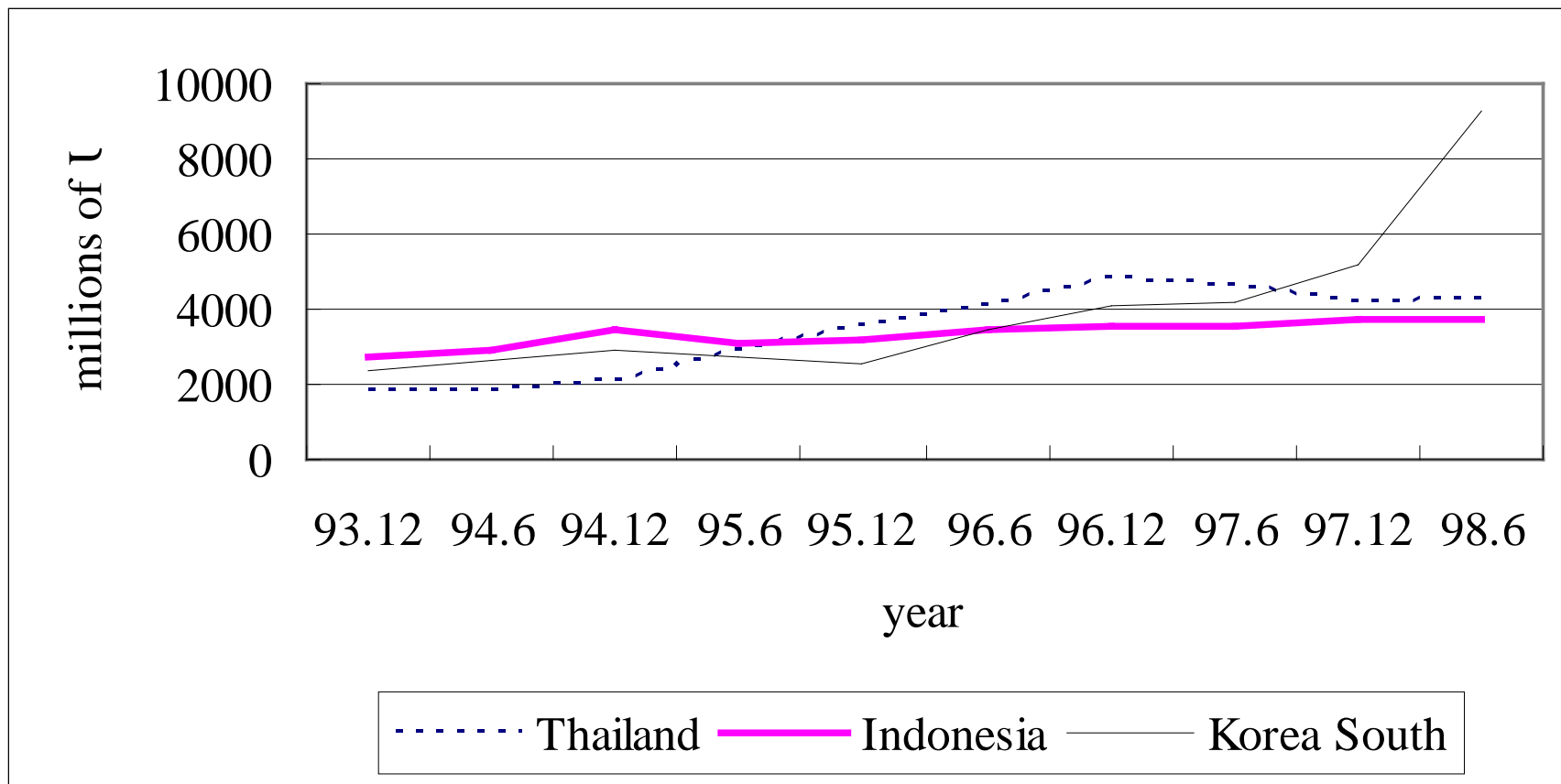
# Ratios of Short-term Debt Outstanding to Foreign Reserves before the Crisis

	1994	1995	1996
Korea	54.06	171.45	203.23
Indonesia	160.36	189.42	176.59
Malaysia	24.34	30.6	40.98
Philippines	95	82.85	79.45
Singapore	1.75	1.78	2.6
Thailand	99.48	114.21	99.69
Hong Kong	16.49	14.16	22.35
China	33.04	29.62	23.74
Taiwan	21.76	21.64	21.31

# Short-term Loans before and after Crisis

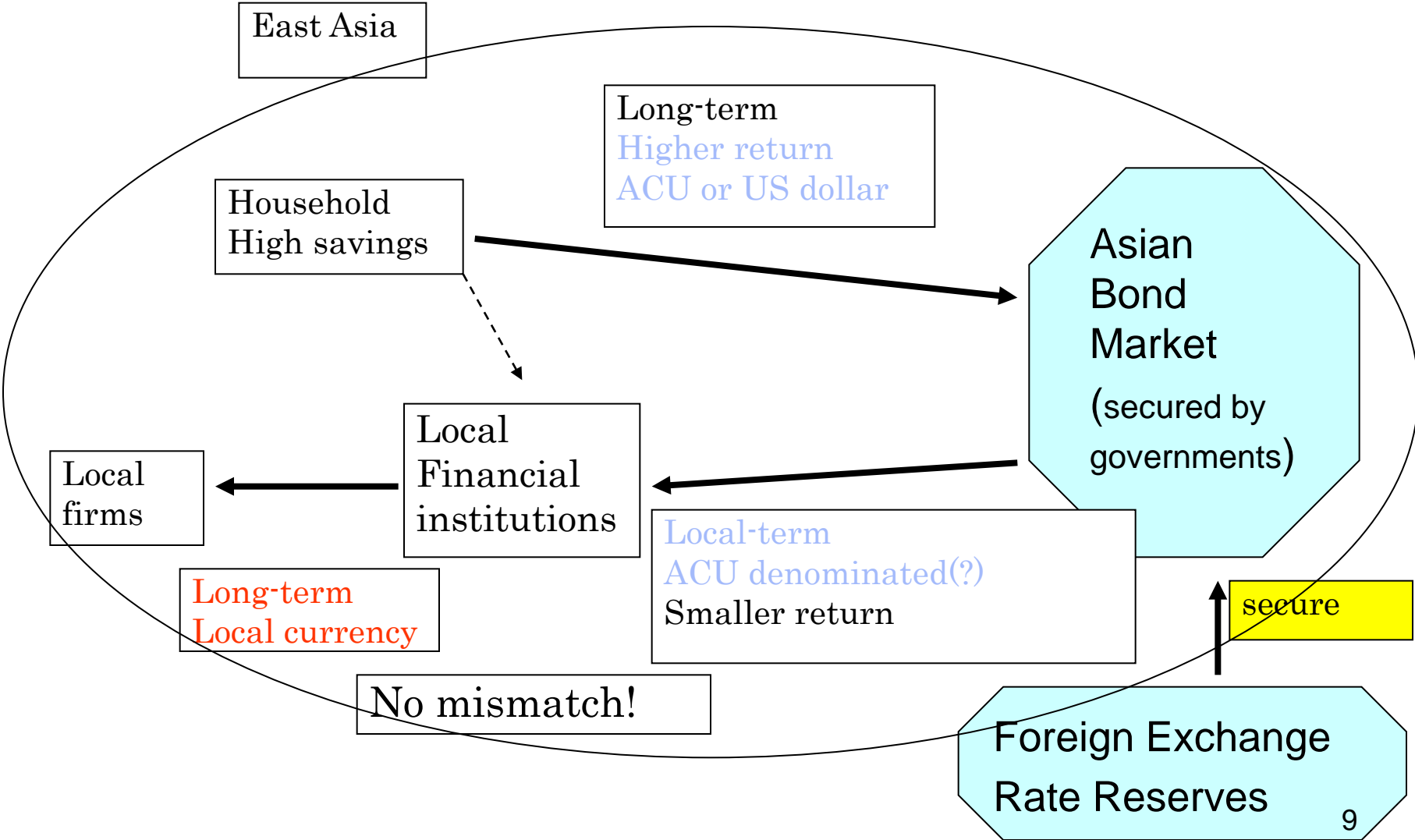


# Medium-term Loans before and after Crisis





# Asian Bond Market and ACU



## II. International liquidity in Asia

- The role of US dollar as international liquidity is dominant in East Asia.
- More than 70% of the foreign exchange turnovers in the Tokyo Market have been those from the US dollar to either Japanese yen or to Euro.
- The US dollar is also dominant in invoice currency ratios in Asian's exports and imports.

# Currency Shares of Foreign Exchange Turnover in the Tokyo Market

Unit: %

	Apr-04	Apr-07	Apr-10
Yen ↔ US Dollar	60.6	58.2	62.3
Euro ↔ US Dollar	11.7	10.8	9.5
Euro ↔ Yen	6.9	5.9	8.6
Others	20.8	25.1	19.7

# Invoice Currency Ratios (%) in Japan's Exports

## Exports to USA

	2006	2008	2009	2011
	July-Dec.	Jan.-June	July-Dec.	Jan.-June
US dollar	89.1	87.6	86.8	83.1
Yen	10.8	12.2	13.0	16.8
Euro	0.1	0.2	0.1	0.1

## Exports to East Asia

	2006	2008	2009	2011
	July-Dec.	Jan.-June	July-Dec.	Jan.-June
US dollar	49.5	48.3	50.7	48.6
Yen	48.8	50.0	47.5	49.3
Euro	n.a.	n.a.	n.a.	0.2

# Invoice Currency Ratios (%) in Japan's Imports

## Imports from USA

	2006	2008	2009	2011
	July-Dec.	Jan.-June	July-Dec.	Jan.-June
US dollar	75.6	79.7	79.2	77.5
Yen	23.6	19.3	19.7	21.9
Euro	0.7	0.6	0.4	0.4

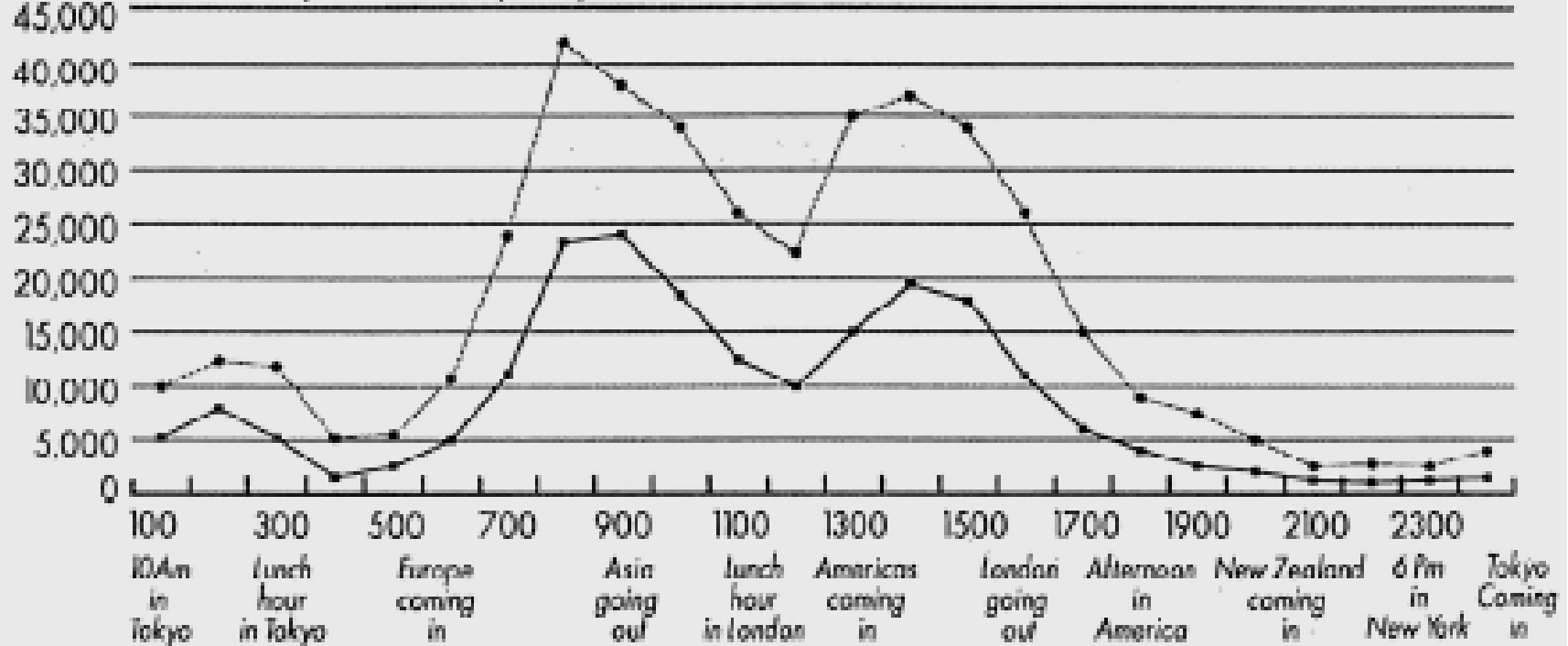
## Imports from East Asia

	2006	2008	2009	2011
	July-Dec.	Jan.-June	July-Dec.	Jan.-June
US dollar	72.4	71.7	70.5	71.6
Yen	26.0	26.9	27.9	26.8
Euro	0.3	0.3	0.4	0.3

# US dollar liquidity in Asia

- Foreign exchange markets are open for 24 hours a day.
- But transaction volume is limited during the Asian time zones.
- Transaction volume is thickest in London markets.
- Dollar liquidity is provided by FRB.

Electronic conversations per hour (Monday-Friday, 1992-93)



Note: Time (0100-2400 hours, Greenwich Mean Time)

Source: Reuters

# Policy prescriptions

- Use of ACU as liquidity. But less realistic in short-run.
- CLS (Continuous Linked Settlement): the largest multi-currency cash settlement system, eliminating settlement risk for over half of the worlds FX payment instructions.
- FRB dollar swap
- CMIM



# Central bank liquidity swaps

- The Federal Reserve established temporary reciprocal currency arrangements (central bank liquidity swap lines) with a number of foreign central banks.
- Because of the global nature of bank funding markets, the Federal Reserve coordinates with other central banks to provide liquidity.

Institution	Amount of Facility	Outstanding as of December 31, 2008
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Millions of U.S. Dollars

Federal Reserve System Open Market Account (SOMA)

Bank of Canada	2,000	0
Banco de México	3,000	0
European Central Bank <sup>a</sup>	Unlimited	291,352
Swiss National Bank <sup>a</sup>	Unlimited	25,175
Bank of Japan <sup>a</sup>	Unlimited	122,716
Bank of Canada <sup>a</sup>	30,000	0
Bank of England <sup>a</sup>	Unlimited	33,080
Danmarks Nationalbank <sup>a</sup>	15,000	15,000
Reserve Bank of Australia <sup>a</sup>	30,000	22,830
Sveriges Riksbank <sup>a</sup>	30,000	25,000
Norges Bank <sup>a</sup>	15,000	8,225
Reserve Bank of New Zealand <sup>a</sup>	15,000	0
Bank of Korea <sup>a</sup>	30,000	10,350
Banco Central do Brasil <sup>a</sup>	30,000	0
Banco de México <sup>a</sup>	30,000	0
Monetary Authority of Singapore <sup>a</sup>	30,000	0
Total	<u>Unlimited</u>	<u>553,728</u>

# CMI Multilateralization vs Central bank liquidity swaps

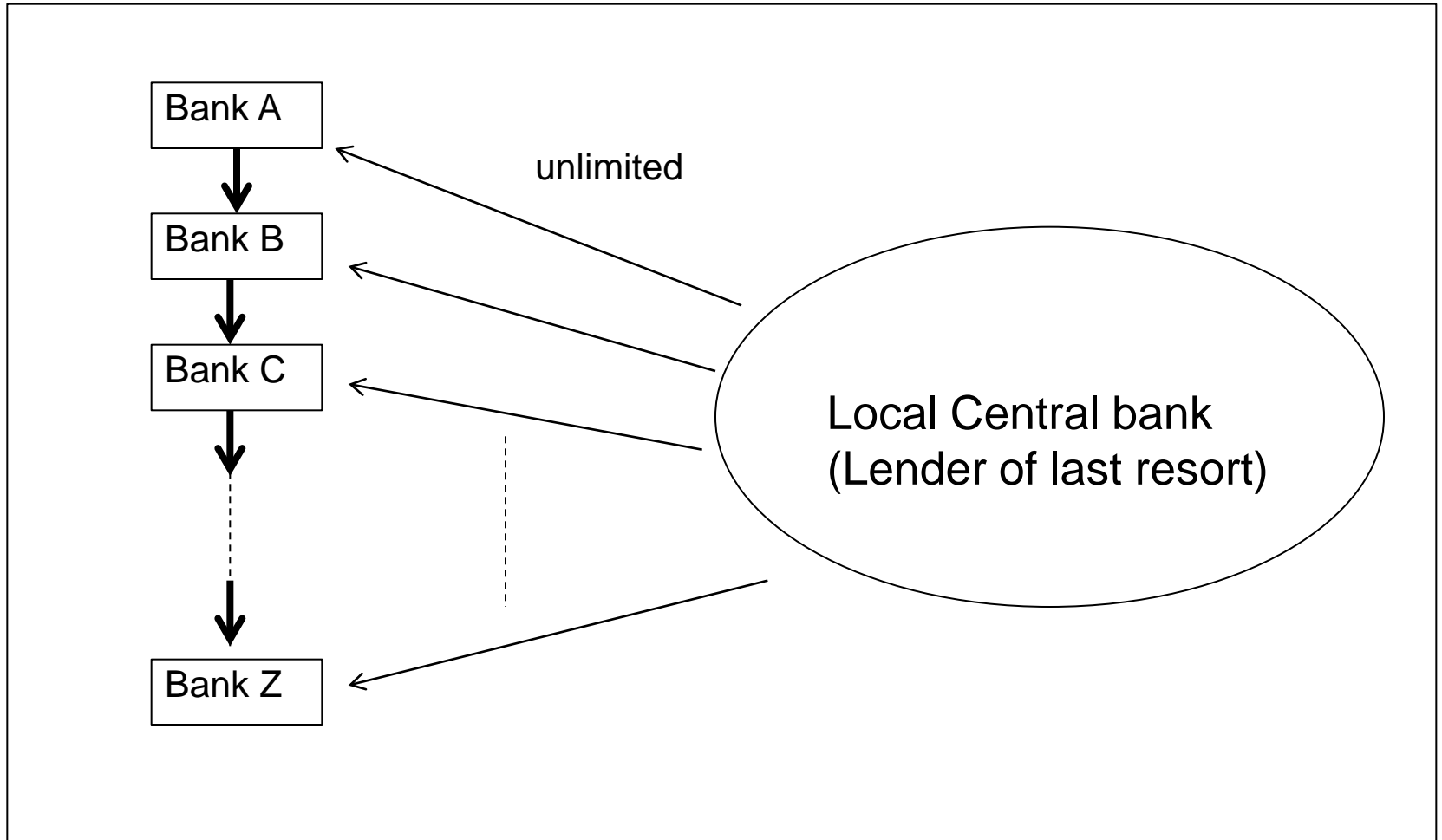
- CMI multilateralization (March 2010):
  - Total US\$ 120.0 billion
  - Japan : US\$ 19.2 billion
  - Korea : US\$ 19.2 billion
  - China : US\$ 19.2.0 billion
- Central bank liquidity swaps:
  - USA  $\Rightarrow$  Japan : unlimited
  - USA  $\Rightarrow$  Korea : US\$ 30.0 billion
  - Total supplied : US\$554 billions

But only to Japan, Korean, and Singapore in  
Asia

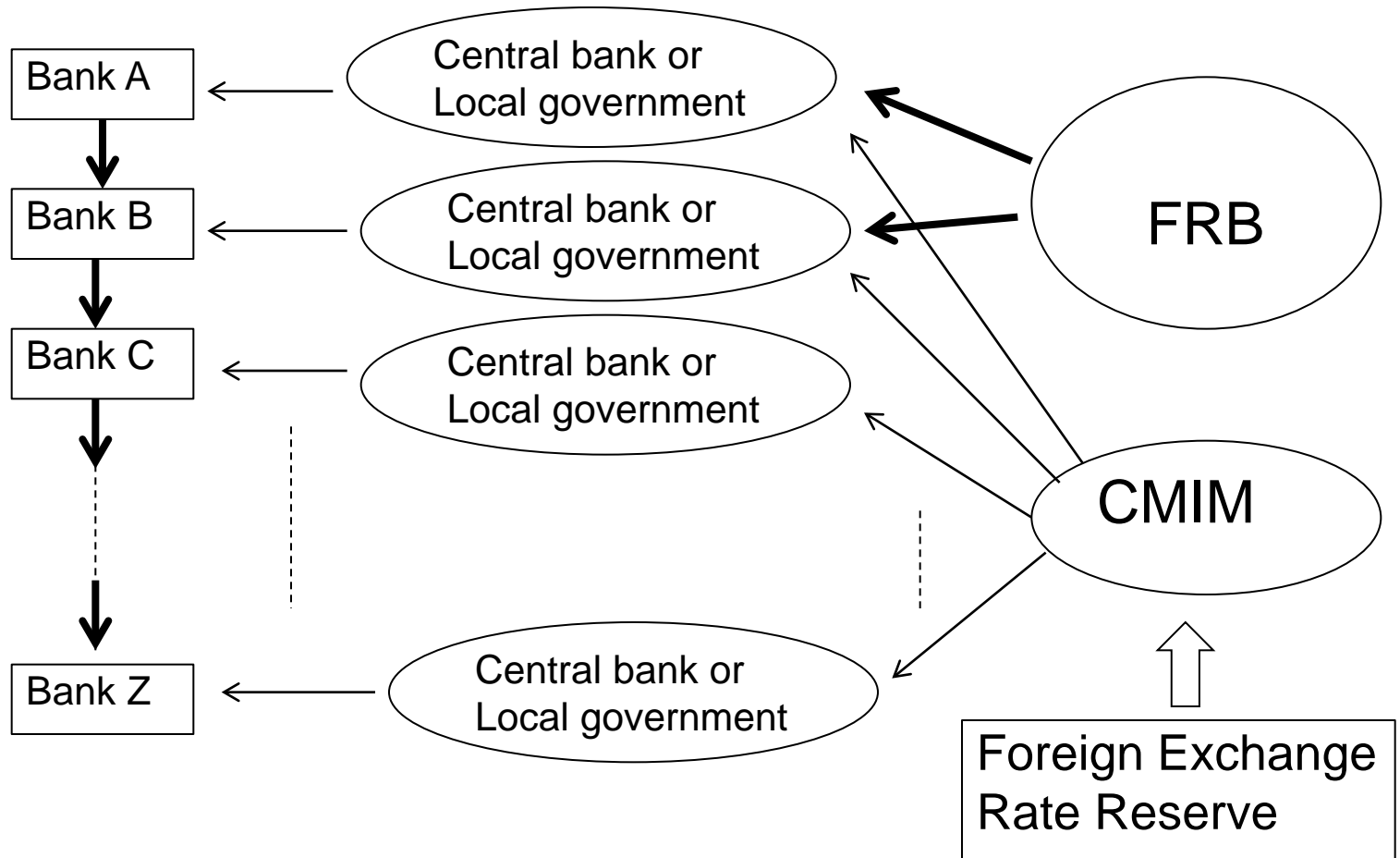
# Problems of CMIM

- Limit on borrowings tied with the capital contribution
- Limited autonomous lending (20% of potential lending) with IMF conditionality
- We need unlimited autonomous liquidity provisions for unexpected settlement risk!
- Even US dollar shortage in a few seconds may cause a serious settlement risk.

# Local currency



# International currency



# Further development of CMIM

- Foreign Exchange Reserves in Japan and China
    - Japan: US\$1,043 billions in June 2009
    - China: US\$2,427 billions in March 2010
  - The sum of them (US\$3.5 trillions) is far above the total supply of FRB's central bank liquidity swaps in the world (US\$554 billions).
  - Asia has enough room for further extension of CMI multilateralization!
- ⇒ Further development of regional policy coordination is possible.