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

Handout

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Discussion on “ABMI and Financial Cooperation in East Asia”

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Summary

- Excellent and comprehensive review on AMBI
  - Backgrounds and developments
  - Limitations
  - China's role, future directions

- Backgrounds and Future
- Some Limitations in relation to Policies

On Backgrounds…

- Asian financial crisis initiated discussion on regional financial cooperation in East Asia.
- After crisis, East Asian countries established various mechanisms for regional financial cooperation to prevent future crisis in the region (CMIM, ABMI…)
- Global financial crisis was also an important impetus on further developments.
  - the existing regional cooperation is very limited
  - to defend regional economy against shocks originated from other regions.
  - to deal with global imbalances
  - new developments in global financial architecture

… and Future

- Developments of regional financial cooperation in East Asia have been mostly related to crisis, so it is not surprising that the main objective was crisis-prevention.
- However, in the future, other possible objectives of financial cooperation should be pursued further.
  - International financial market integration can provides various benefits (if crisis does not occur): risk sharing, intertemporal consumption smoothing, recycling regional saving for long term investments,…
  - In this respect, ABMI is at least as important as CMIM.
  - ABMI should be further developed.
  - ACMI comprising all types of financial assets is even more important.

Some Limitations in Relation to Policies

- Convertibility of Currency
  - Limited convertibility makes further developments of ABMI difficult.
  - It also prevents private sectors from participating in the financial markets.
- Capital Controls
  - size matters but efficient allocation is also important
  - It is hard to achieve efficient allocation under capital controls, and the benefits will be reduced under capital controls.
  - SR capital mobility might be restricted (to prevent crisis) but LR capital mobility should not be.
- Exchange Rate Policies
  - Improper exchange rate policies, combined with capital controls, might have a negative effect.
  - Relative pricing function may be distorted and allocation may be inefficient.