



CHALLENGES AND PROSPECTS FOR AN ASIAN CURRENCY UNIT

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OUTLINE

- Introduction
- ACU: Proposals
- Challenges and prospects
- Conclusion



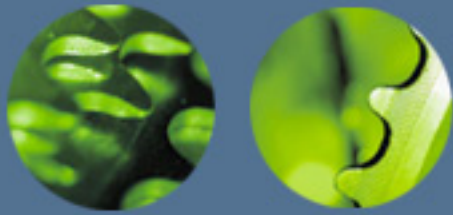
Toward an ACU

- 2006 APT Finance Ministers, Hyderabad: ACU study
- Initial study expected in early 2007



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- **ACU: Proposals**
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ACU proposals

1. ACU as an element of an Asian Monetary System

- Discussions on Asian Monetary Union
- East Asian Monetary System – similar to EMS
- ACU as an accounting unit in the AMS, similar to ECU in the EMS



ACU proposals

2. ACU as a parallel currency

- To be created by governments
- Circulated alongside existing national currencies
- Official ACUs created in exchange for swaps of portion of CB intl reserves
- May become common regional currency if widely accepted in the market



ACU proposals

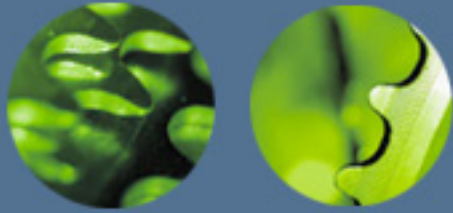
3. ACU as indicator of relative currency values and regional currency movements

- No link to regional monetary system
- For use by monetary authorities to promote convergence in monetary/exchange rate policies
- May be used by market participants



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Challenges and Prospects

1. ACU as an element of an Asian Monetary System

- Attractive concept
 - Help prevent financial contagion
 - Help avoid competitive devaluations
 - Help minimize transaction costs due to hedging

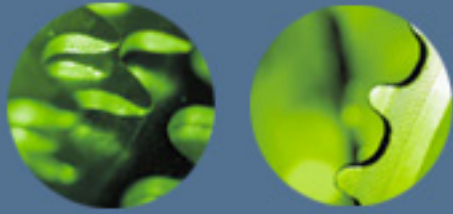


Challenges and Prospects

1. ACU as an element of an Asian Monetary System

- Challenges

- Large divergence in living standards, economic structures
- Are Asian countries ready to subordinate other policies to defending AMS



Challenges and Prospects

2. ACU as a parallel currency

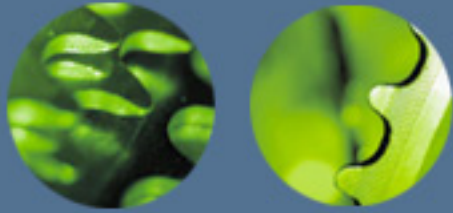
- Challenges
 - Potential currency mismatch problems: Are Asian regulatory systems prepared?
 - Necessary restrictions would limit the spread of use of ACU
 - Full legal tender status for domestic transactions – politically acceptable?



Challenges and Prospects

3. ACU as indicator of relative currency values and regional currency movements

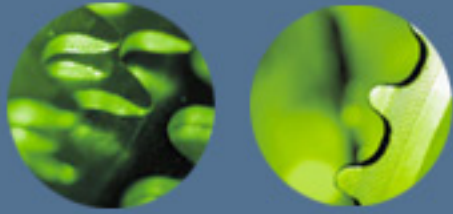
- Useful to monetary authorities and governments
- Need to be officially defined to promote wider use in the market



Challenges and Prospects

3. ACU as indicator of relative currency values and regional currency movements

- Challenges to wider use by market
 - Liquidity of ACU and local currency bond markets
 - Is there a critical mass of potential users? Can it compete successfully with US dollar?



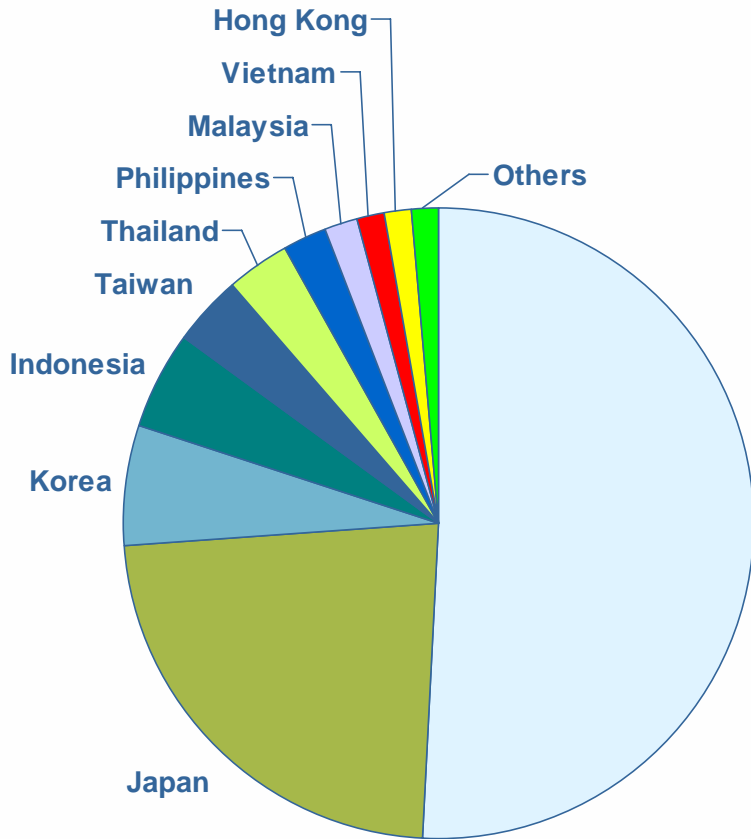
Challenges and Prospects

3. ACU as indicator of relative currency values and regional currency movements

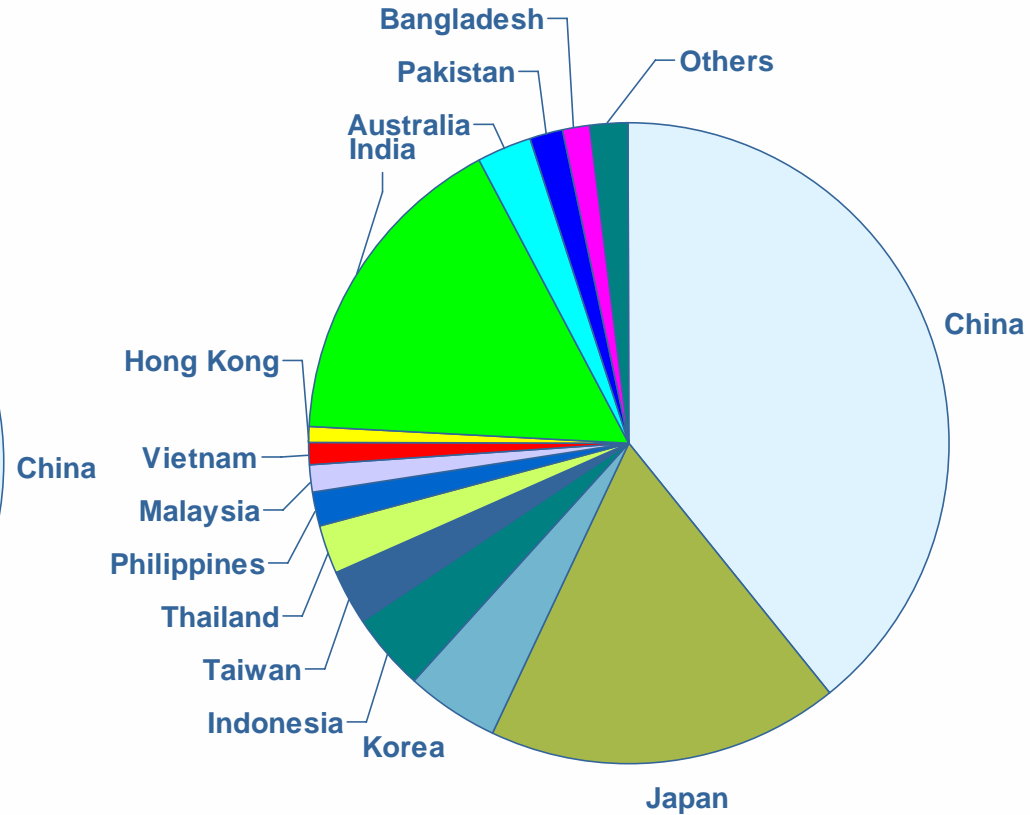
- Technical issues
 - To be accepted by business sector, ACU must reflect Asia's economic configuration and financial structure



GDP (PPP), 2005



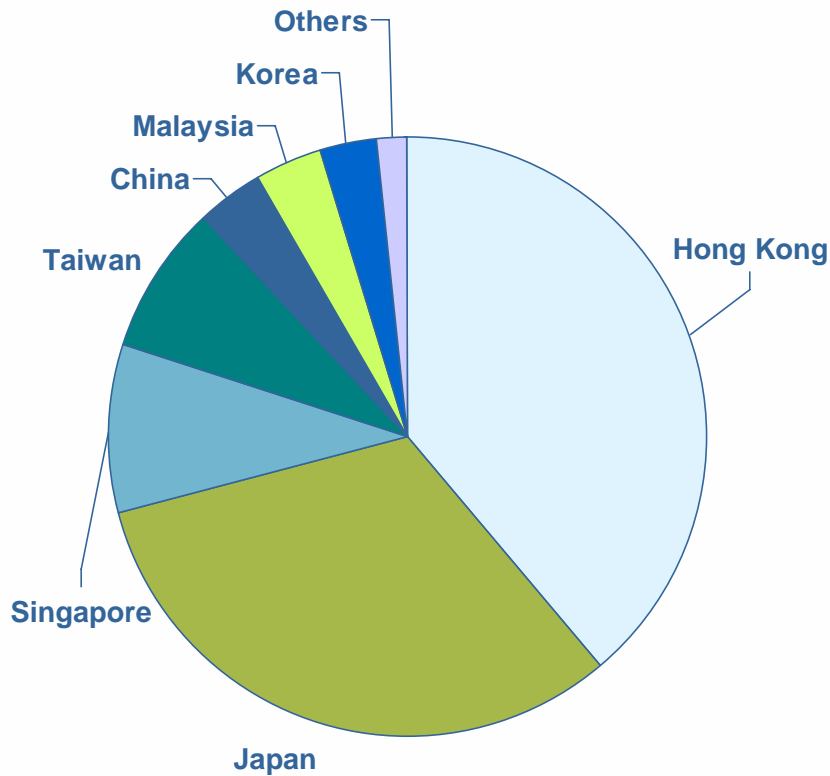
East Asia



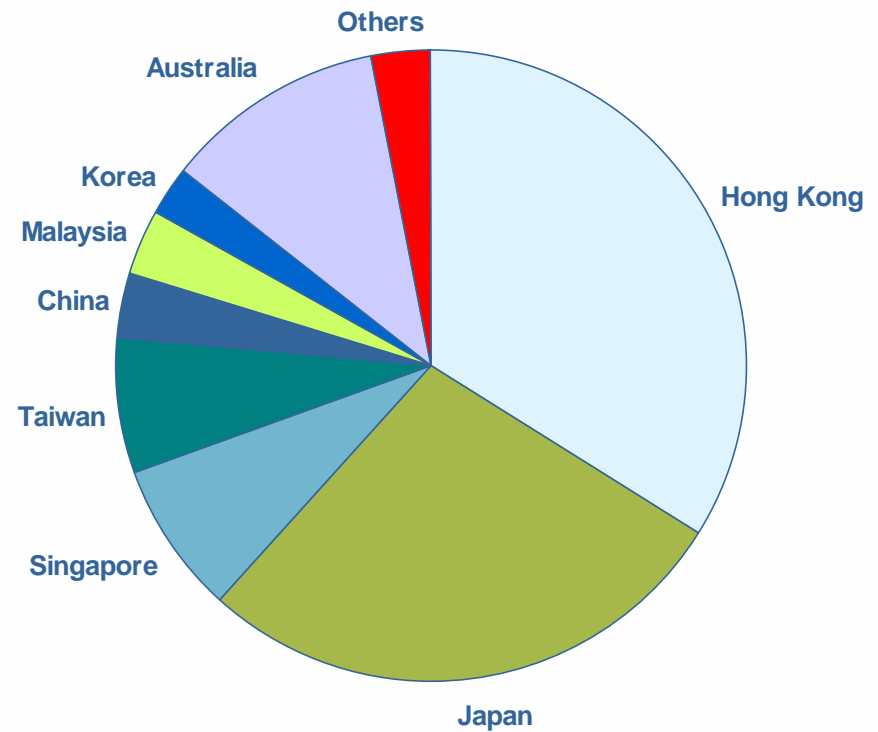
East & South Asia, Oceania



FDI: Outward stock, 2005



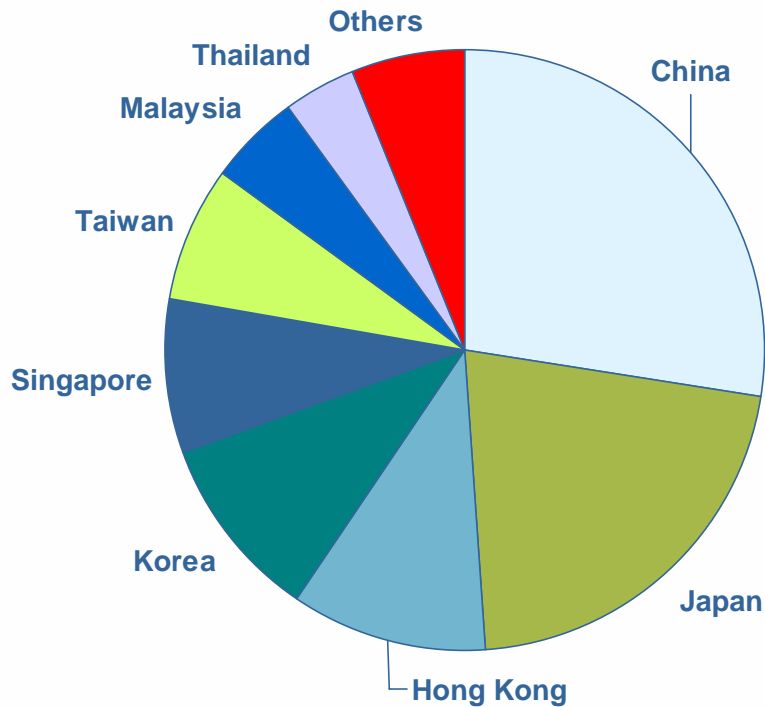
East Asia



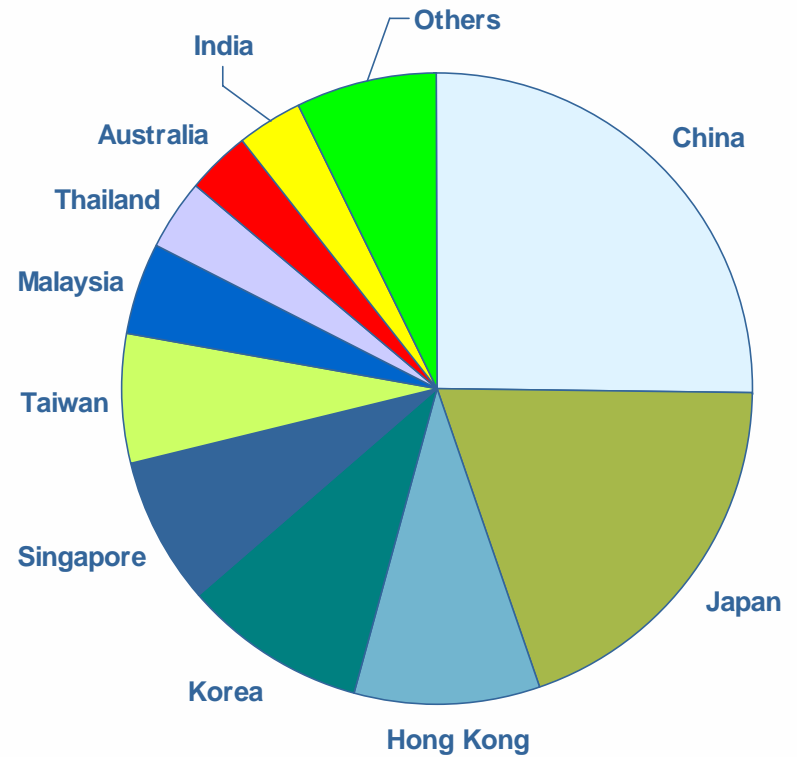
East & South Asia, Oceania



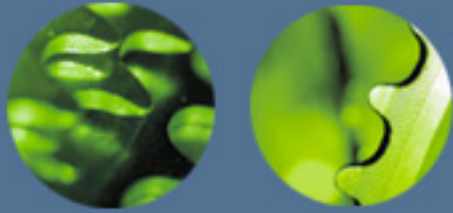
Exports, 2005



East Asia



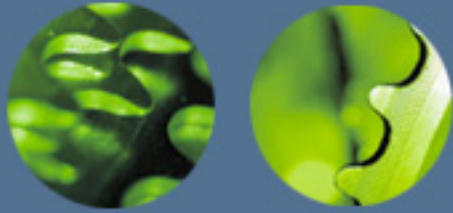
East & South Asia, Oceania



Challenges and Prospects

3. ACU as indicator of relative currency values and regional currency movements

- Key economies:
 - East Asia: China, HK, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand
 - Other Asia: Australia, India, New Zealand



Challenges and Prospects

3. ACU as indicator of relative currency values and regional currency movements

- Other technical issues
 - How to measure trade in services
 - Trade in value-added vs. gross value terms
 - Trade data of regional trading centers



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CONCLUSION

- Major political and technical challenges facing EMS and parallel currency
- Least ambitious option (indicator) as most viable, but technical issues need to be addressed if it is to become useful to market participants

