การสัมมนาวิชาการประจำปี 2545

เรื่อง

เผชิญความท้าทายจากกระแสโลกาภิวัตน์

กลุ่มที่ 2

ยุทธศาสตร์ของไทยต่อการรวมกลุ่มทางเศรษฐกิจในระดับภูมิภาคและทวิภาคี

East Asian Financial Cooperation: An Assessment of the Rationales

by

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ร่วมจัดโดย

มูลนิธิชัยพัฒนา

สำนักงานคณะกรรมการพัฒนาการเศรษฐกิจและสังคมแห่งชาติ

กระทรวงพาณิชย์

สถาบันพัฒนาองค์กรชุมชน

และ

สถาบันวิจัยเพื่อการพัฒนาประเทศไทย

วันที่ 14-15 ธันวาคม 2545 ณ โรงแรมแอมบาสซาเดอร์ ซิตี้ จอมเทียน ชลบุรี

Contents

Page

List of Tables

Page

ความร่วมมือทางด้านการเงินในภูมิภาคเอเชียตะวันออก: การประเมินเหตุผลเบื้องหลังความร่วมมือ*

*ฉลองภพ สุสังกร์กาญจน์***

สรุป

หลังจากวิกฤติเศรษฐกิจ ประเทศในภูมิภาคเอเชียตะวันออกได้ริเริ่มความร่วมมือทางด้านการเงินระหว่างกันหลายด้าน ลักษณะของความร่วมมือนี้รวมถึงการพัฒนากลไกตรวจสอบภาวะเศรษฐกิจ (Economic Surveillance) และการพัฒนาระบบข้อมูลเตือนภัยล่วงหน้าทางเศรษฐกิจ (Early Warning Mechanisms) เช่น ระบบระวังภัยทางเศรษฐกิจอาเซียนภายใต้กรอบที่ได้ตกลงกัน ณ กรุงมะนิลา (Manila Framework) ซึ่งอาจจะขยายไปสู่กลุ่มประเทศอาเซียนบวกสาม (ASEAN+3) กล่าวคือ นอกจากประเทศสมาชิกในกลุ่มอาเซียนแล้ว ยังรวมถึงประเทศจีน ญี่ปุ่น และเกาหลีใต้ด้วย

ทางด้านการเงิน จากข้อตกลงมาตรการริเริ่มเชียงใหม่ (Chiang Mai Initiative) มีการขยายกรอบความร่วมมือในการเสริมสภาพคล่องของทุนสำรองระหว่างประเทศระหว่างประเทศต่างๆ ในภูมิภาค โดยการขยายวงเงินของโครงการแลกเปลี่ยนเงินตราอาเซียน (ASEAN Swap Arrangement, ASA) และการขยายความร่วมมือทางด้านนี้โดยรวมข้อตกลงทวิภาคีในการแลกเปลี่ยนเงินตราต่างประเทศระหว่างประเทศในกลุ่มอาเซียนกับแต่ละประเทศในกลุ่มบวกสาม นอกจากนี้แล้ว ในการประชุมในแวดวงต่างๆ ในภูมิภาคยังมีการเสนอแนวคิดสำหรับการพัฒนาความร่วมมือทางการเงินในภูมิภาคเอเชียตะวันออกอย่างหลากหลาย เช่น การเสนอให้มีการประสานนโยบายเศรษฐกิจมหภาค การประสานนโยบายอัตราแลกเปลี่ยนของประเทศต่างๆ ความจำเป็นในการพัฒนาตลาดทุนระยะยาวของภูมิภาค การจัดตั้งกองทุนการเงินเอเชีย (Asian Monetary Fund) และรวมถึงแนวคิดให้รวมเงินตราและระบบการเงินของประเทศต่างๆ เข้าด้วยกันในระยะยาว ตามรูปแบบของกลุ่มประเทศยุโรป

ก่อนเกิดเหตุวิกฤติการณ์ทางเศรษฐกิจ ไม่มีใครคาดคิดว่าจะมีการก่อตั้งกลุ่มดังเช่นกลุ่มอาเซียนบวกสามขึ้นได้ กลุ่มดังกล่าวนี้คล้ายกับกลุ่มความร่วมมือทางเศรษฐกิจของเอเชียตะวันออก (East Asian Economic Caucus, EAEC) ซึ่งนายกรัฐมนตรี มหาธีร์ โมฮะหมัด จากมาเลเซีย ได้เสนอขึ้นเมื่อปี พ.ศ. 2534 แต่ข้อเสนอนี้มิได้สัมฤทธิ์ผลเนื่องจากได้รับการต่อต้านจากสหรัฐอเมริกาและประเทศอื่นๆ ในภูมิภาค การก่อตั้งกลุ่มอาเซียนบวกสาม การพัฒนาโครงการแลกเปลี่ยนเงินตราในภูมิภาคภายใต้มาตรการริเริ่ม

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* รายงานนี้แปลมาจากรายงานภาษาอังกฤษเรื่อง "East Asian Financial Cooperation: An Assessment of the Rationales" ที่ได้เสนอในที่ประชุม Conference on East Asian Cooperation จัดโดย Institute of Asia Pacific Studies and the Center for APEC & East Asian Cooperation, Chinese Academy of Social Sciences ระหว่างวันที่ 22-23 สิงหาคม 2545 ณ นครปักกิ่ง

** ดร. ฉลองภพ ดำรงตำแหน่งประธานสถาบัน สถาบันวิจัยเพื่อการพัฒนาประเทศไทย

เชียงใหม่ รวมทั้งการพิจารณาถึงแนวทางความร่วมมือด้านการเงินในรูปแบบต่างๆ ทั้งหมดนี้เป็นผลโดยตรงจากวิกฤติการณ์ทางเศรษฐกิจ

การพัฒนาความร่วมมือทางการเงินด้านต่างๆ เป็นการสะท้อนความรู้สึกของหลายๆ ฝ่ายในภูมิภาคว่าประเทศต่างๆ ในเอเชียตะวันออกมีความจำเป็นที่จะต้องพัฒนาช่องทางและกลไกความร่วมมือระหว่างกันเพื่อปกป้องตนเองจากความเสี่ยงและความผันผวนทางการเงิน ซึ่งได้ก่อให้เกิดวิกฤติเศรษฐกิจในช่วงที่ผ่านมา ซึ่งความร่วมมือต่างๆ จะทำให้การพัฒนาเศรษฐกิจของภูมิภาคในอนาคตมีความมั่นคงมากขึ้น นอกจากนั้นความร่วมมือเหล่านี้มีผลบางส่วนมาจากความเห็นที่ว่าแนวทางส่วนใหญ่ที่ประเทศต่างๆ ต้องนำมาใช้ในการแก้วิกฤติเศรษฐกิจภายใต้เงื่อนไขความช่วยเหลือของกองทุนการเงินระหว่างประเทศ (IMF) นั้น มีที่มาจากแนวคิดขององค์กรหรือบุคคลจากภายนอกภูมิภาคแทบทั้งสิ้น และอาจจะไม่ได้สะท้อนผลประโยชน์ของประเทศที่ประสบปัญหาวิกฤติเศรษฐกิจอย่างแท้จริง ในเวลาเดียวกัน ตัวอย่างของความสำเร็จในการใช้มาตรการที่แตกต่างจากแนวทางของ IMF เช่น การใช้มาตรการควบคุมเงินทุนไหลออกของประเทศของมาเลเซีย หรือการแทรกแซงตลาดหุ้นโดยตรงของรัฐบาลฮ่องกง ชี้ให้เห็นว่ายังมีทางเลือกอื่นๆ นอกเหนือจากแนวทางปกติของ IMF ที่สามารถนำมาใช้ในการแก้ไขปัญหาในช่วงของวิกฤติเศรษฐกิจได้

เหตุผลสำหรับความร่วมมือทางการเงินระหว่างประเทศในเอเชียตะวันออกนั้นมีอยู่หลายประการ ในบทความนี้ได้วิเคราะห์เหตุผลใน 4 ด้าน และให้ข้อแนะนำเกี่ยวกับลักษณะของความร่วมมือภายใต้เหตุผลต่างๆ เหตุผลสำหรับความร่วมมือ 4 ด้านคือ

1) เพื่อป้องกันการเกิดขึ้นอีกของวิกฤติเศรษฐกิจ
2) เพื่อทำให้การแก้ไขวิกฤติดีขึ้น ถ้าเกิดวิกฤติขึ้นอีก
3) เพื่อเพิ่มศักยภาพของประเทศต่างๆ ในภูมิภาคในการกำหนดสภาพแวดล้อมและกฎกติกาทางการเงินในภูมิภาค และ
4) เพื่อสนับสนุนการเพิ่มขึ้นของความร่วมมือทางเศรษฐกิจในภูมิภาค

โดยสรุป สำหรับความร่วมมือทางการเงินที่ได้ดำเนินการไปแล้ว รวมถึงการร่วมกันติดตามและเตือนภัยทางเศรษฐกิจ และมาตรการริเริ่มเชียงใหม่ ผู้เขียนมีความเห็นว่ามีความสำคัญในการเป็นสัญลักษณ์ของความมุ่งมั่นที่ประเทศในเอเชียตะวันออกพร้อมที่จะพัฒนาความร่วมมือทางการเงินระหว่างกันให้มากขึ้นมากกว่าในเรื่องของสาระที่ได้มีการตกลงกัน

ทั้งเรื่องของการติดตามภาวะเศรษฐกิจและการเตือนภัยทางเศรษฐกิจ หรือการมีโครงการเสริมสภาพคล่องให้แก่ทุนสำรองระหว่างประเทศภายใต้มาตรการริเริ่มเชียงใหม่ คงไม่สามารถป้องกันวิกฤติที่เกิดขึ้น หรือเปลี่ยนแปลงแนวทางในการแก้ไขฟื้นฟูเศรษฐกิจหลังจากเกิดวิกฤติขึ้นได้มากนัก ถึงแม้ว่าความร่วมมือเหล่านี้จะได้มีการจัดทำขึ้นตั้งแต่ก่อนเกิดวิกฤติในปี 2540

สิ่งที่น่าจะพัฒนาความร่วมมือกันต่อไป คือพัฒนาความร่วมมือทางการเงินเพื่อแก้ไขปัญหาที่เป็นต้นตอของวิกฤติเศรษฐกิจ คือการขาดแหล่งสำหรับเงินลงทุนระยะยาวในการพัฒนาประเทศ ซึ่งทำให้

ประเทศต่าง ๆ ในภูมิภาคที่มีเงินออมไม่เพียงพอต้องพึ่งเงินกู้ระยะสั้นจากต่างประเทศเป็นจำนวนมาก และการที่เงินกู้ต่างประเทศระยะสั้นนี้ได้เพิ่มขึ้นอย่างมหาศาล ก็เป็นส่วนสำคัญที่ทำให้เกิดวิกฤติเศรษฐกิจขึ้น

ในความเป็นจริงแล้ว ภูมิภาคเอเชียตะวันออกรวมกันแล้วมีเงินออมส่วนเกินโดยรวม ในระยะก่อนเกิดวิกฤติเศรษฐกิจ ดุลบัญชีเดินสะพัดรวมกันทั้งหมดของประเทศต่าง ๆ ในภูมิภาคมีมากกว่า 100 พันล้านเหรียญสหรัฐต่อปี จึงจะเห็นได้ชัดว่าถ้ามีการสกัดเงินออมส่วนเกินเหล่านี้ออกมาเป็นเงินลงทุนระยะยาวสำหรับการลงทุนในภูมิภาค ความจำเป็นของประเทศที่ขาดดุลที่จะต้องอาศัยเงินกู้ระยะสั้นก็จะลดน้อยลงมาก ในอดีตไม่มีแหล่งเงินทุนระยะยาวในภูมิภาค เนื่องจากเงินที่เกินดุลส่วนใหญ่ได้ถูกนำไปลงทุนนอกภูมิภาค โดยเฉพาะการลงทุนในตราสารที่เป็นเงินสกุลดอลล่าร์สหรัฐ และประเทศที่ขาดดุลในภูมิภาคก็จำเป็นต้องใช้การกู้ยืมหนี้ต่างประเทศระยะสั้นเป็นส่วนใหญ่ ดังนั้นจึงจะเป็นประโยชน์ร่วมกันอย่างมากสำหรับประเทศต่าง ๆ ในภูมิภาคถ้าจะมีการปรับเปลี่ยนสภาพเช่นนี้เสียใหม่ โดยหาวิธีการที่จะนำเงินออมส่วนเกินในภูมิภาคมาเป็นแหล่งเงินทุนระยะยาวสำหรับประเทศในภูมิภาคที่มีการขาดดุล

การพัฒนาตลาดพันธบัตรของเอเชียตะวันออก (East Asian Bond Market) จะช่วยสร้างแหล่งเงินทุนระยะยาวสำหรับภูมิภาค นอกจากนั้น การร่วมกันพัฒนาตลาดพันธบัตรของเอเชียตะวันออกจะทำให้ประเทศต่าง ๆ ในเอเชียตะวันออกมีความสามารถในการชี้นำกฎและกติกาทางด้านการเงินของภูมิภาคมากขึ้น

ในช่วงที่ผ่านมา จะเห็นได้ว่าบทบาทของสถาบันจัดลำดับความน่าเชื่อถือของทางตะวันตกมีบทบาทสูงมาก และมาตรฐานทางด้านการเงินหรือการบริหารจัดการที่ดีนั้น มาจากทางประเทศตะวันตกแทบทั้งสิ้น ถ้ามีการพัฒนาตลาดพันธบัตรของเอเชียตะวันออกขึ้น ความสำคัญของการจัดลำดับความน่าเชื่อถือโดยสถาบันในเอเชียตะวันออกก็จะเพิ่มมากขึ้น และกฎระเบียบต่าง ๆ สำหรับตลาดเงินของเอเชียตะวันออกจะถูกกำหนดโดยประเทศและสถาบันในภูมิภาคได้มากขึ้น

ในส่วนของความร่วมมือทางเศรษฐกิจของภูมิภาคนั้น มีแนวโน้มที่จะเพิ่มมากขึ้นเรื่อย ๆ และก็มีแนวคิดว่าระบบอัตราแลกเปลี่ยนและระบบการเงินของภูมิภาคนี้น่าจะเชื่อมเข้าด้วยกัน ในรูปแบบของสหภาพยูโรป อย่างไรก็ตาม ผู้เขียนมีความเห็นว่า การพูดถึงการรวมตัวทางการเงินจะเป็นการเน้นถึงสิ่งที่ประเทศต่าง ๆ จะต้องสูญเสีย คือความสามารถในการกำหนดนโยบายการเงินของตนเอง ซึ่งประเทศในแถบเอเชียตะวันออกยังมีความแตกต่างทางสังคม เศรษฐกิจ และการเมืองอยู่มาก ซึ่งยังไม่มีความพร้อมในการที่จะโยงระบบการเงินเข้าด้วยกัน แนวทางที่ดีที่สุดคือการพัฒนาความร่วมมือทางการเงินในแนวทางที่ทุก ๆ ประเทศจะได้ประโยชน์ร่วมกันโดยไม่ต้องสูญเสียความสามารถในการบริหารจัดการระบบเศรษฐกิจของตนเอง และการพัฒนาแหล่งเงินทุนระยะยาวในภูมิภาคก็เป็นความร่วมมือที่จะทำให้ทุก ๆ ประเทศได้ประโยชน์กันหมด โดยไม่ต้องสูญเสียอะไรเลย และความร่วมมือทางด้านนี้ควรจะมีการผลักดันกันต่อไป

East Asian Financial Cooperation: An Assessment of the Rationales*

*Chalongphob Sussangkarn***

East Asian countries have made significant progress in financial cooperation since the financial crisis that started in Thailand in 1997. Modes of cooperation range from surveillance and early warning mechanisms such as the ASEAN surveillance process under the Manila Framework, which may eventually be expanded to cover the ASEAN Plus Three group which, apart from ASEAN member countries, also includes China, Japan and South Korea, and work by the ADB to support the development of an early warning system. A regional financing facility has also been established through the Chiang Mai Initiative involving an expansion of the ASEAN swap arrangement and a series of bilateral swap arrangements between ASEAN member countries and each member of the Plus Three group. In addition, various proposals have been put forward in various forums on approaches toward greater monetary cooperation for East Asia, including macroeconomic policy coordination, exchange rate coordination, the need to develop a regional long-term capital market, the setting up of an Asian Monetary Fund and even monetary union in the long-term along the lines of the European model.[1]

Prior to the crisis, it was hard to imagine the formation of a group such as the ASEAN Plus Three. This grouping is similar to the East Asian Economic Caucus (EAEC) proposed by Prime Minister Mahathir Mohamad of Malaysia back in 1991, a proposal that did not make much progress due to resistance from the United States and other countries in the region. The fact that the ASEAN Plus Three group was formed, a series of swap arrangements established, and various modes for financial cooperation are being explored is a direct outcome of the financial crisis. These financial cooperation initiatives reflect a feeling among diverse parties within the region that East Asia needs to develop new approaches and mechanisms to better protect itself from risks and volatilities that have led to the crisis and to ensure a more stable economic development environment for the region in the future. They are also partly a reaction to the feeling that most of the key measures that countries under the IMF program have had to follow to deal with the crisis were designed by individuals and institutions from outside the region, with little input from within the region, and may not fully reflect the best interests of the affected

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[1] For reviews of progress, see Rana (2002) and Manupipatpong (2002).

countries. Examples of unilateral measures adopted by some countries, such as the imposition of controls on capital outflow in Malaysia, or direct interventions by the government in the stock market in Hong Kong, also indicate that alternative approaches to dealing with market risks, volatilities and speculations may have their place in times of crisis in addition to the standard IMF approach.

There are a number of possible rationales for financial cooperation among East Asian economies. In this paper, I shall focus on four types of rationales and present an assessment and suggestions concerning the various modes of cooperation falling into these four types. The four rationales for East Asian financial cooperation that I shall deal with are:-

1) To prevent the recurrence of a crisis;
2) To better manage a crisis were one to occur;
3) To have greater influence in shaping the financial environment affecting the region; and
4) To support the economic integration of the region.

Financial Cooperation to Prevent the Recurrence of a Crisis

In this group are cooperative measures to prevent or minimize the risk of a financial crisis from happening in the region again. This rationale is probably the most important of the four rationales for the medium term. The post crisis experience has been a very painful one for most of the economies in the region, and many economies have still not fully recovered from the crisis. It is therefore necessary to try to make sure that the risk of a future crisis is minimized as much as possible. From various financial cooperation initiatives and discussions that have been held since the crisis, there are various possible modes of cooperation falling into this group. The major ones are:-[2]

- Surveillance mechanisms;
- Liquidity support under the Chiang Mai Initiative;
- Development of regional long-term financing for development;
- Technical cooperation on financial standards and codes of good practice.

Surveillance Mechanisms

The rationale for developing additional surveillance mechanisms is that prior to the 1997 crisis there were insufficient warnings of the impending crisis. Only a few years

[2] There also suggestions related to cooperation on exchange rate regimes. Many of these are more related to supporting regional economic integration and will be addressed in that section.

before the onset of the economic crisis in 1997, the East Asian miracle was a model put up for developing countries to follow (World Bank, 1993). Victims of the crisis were supposedly countries with sound economic fundamentals. All of the developing economies in the region had an average real GDP growth between 1990 and 1995 of over 5% per annum, except for the Philippines (Table 1), and all of them had double digit average export growth rates (Table 2). Countries like Thailand and South Korea were considered as role models of economic stability and growth for developing countries.

The crisis occurred so suddenly that, on the eve of the crisis, few people could rationally expect it because there were few publicly available indicators signaling the vulnerabilities of the affected economies.[3] However, in hindsight, the nature of the crisis pointed to indicators that could have given good warnings of the crisis, indicators that were not widely available at the time or were not taken seriously enough before the crisis, particularly the data on the ratios of short-term foreign debt to foreign reserves for various countries (Table 3) pointed to the high risk exposures of the three crisis affected countries that had to resort to IMF assistance; Indonesia, South Korea and Thailand. This shows that the nature of the crisis was not foreseen, and therefore crucial indicators directly related to the nature of the crisis were not scrutinized.

In order to supplement the regular surveillance process at the global level by the IMF, the Second ASEAN Finance Ministers meeting in Jakarta in February 1998 agreed to set up the ASEAN Surveillance Process (ASP), and this eventually became operational in March 1999. This is meant to be an informal process based on a peer review system that would complement the regular surveillance by the IMF. A unit within the ASEAN Secretariat, the ASEAN Surveillance Coordinating Unit, was set up to assist in coordinating the work of the ASP and also to prepare a series of semi-annual ASEAN Surveillance Reports, and the ADB agreed to provide technical support for the operation of the ASP through capacity building support. The peer review of the ASP is conducted at the ASEAN Finance Ministers meeting, which has been held twice a year. Manupipatpong (2002) gives details on the development and process of the ASP as well as an evaluation of its potential contributions and limitations. He suggested that the ASP can provide value added to the regular IMF surveillance by having more input from regional experts who are more familiar with the realities and constraints facing economies in the region, while IMF recommendations tended to be based on first-best theoretical considerations that may not be practical given the socio-political characteristics of the region. Also, the regular IMF surveillance prior to the crisis may not have provided a sufficiently early and strong warnings of the impending crisis to the affected countries, and the countries receiving advice from the IMF tended to be reluctant to follow the advice, particularly concerning exchange rate policies due to political consideration. The regional peer review process could therefore be an additional forum to highlight possible vulnerabilities from the perspectives of people who are more familiar with the realities

[3] A prominent exception was Jim Walker of Credit Lyonnais Securities Asia Ltd. who predicted the Thai bubble back in early 1995.

facing various economies in the region.[4] With the formation of the ASEAN Plus Three group, an ASEAN Plus Three Study Group was also set up to explore various arrangements for information exchanges and policy dialogues among the ASEAN Plus Three group. It is possible that this may develop into an expanded surveillance process along the lines of the ASP.

In my view, the regional surveillance process, whether the ASP or among the ASEAN Plus Three group, can provide useful information exchanges and mutual discussions of economic problems or challenges facing the region. However, one should not over-estimate the ability of the regional peer review process to warn of an impending crisis and to get the vulnerable countries to take appropriate corrective actions. A key question is if such a peer review process had existed in the past whether it would have made a real difference in preventing the 1997 crisis. On this, I am somewhat doubtful. In hindsight, we now know the importance of avoiding a huge buildup of short-term foreign debt. However, before the crisis, not much attention was paid to short-term foreign debt, and in many countries, data on short-term foreign debt were not readily available. Countries may have even regarded the ability to attract foreign borrowing as a sign of confidence by foreign lenders in the strength of the economy, and the accompanying increase in official reserves as a result of the large inflow of foreign borrowing was also regarded as another sign of increased stability. Thus, prior to the crisis, most of the focus was on how strong the economies in East Asia were. This was the case for those in the region as well as from outside the region, such as multilateral agencies and credit rating agencies. Even though Jim Walker and others may have flagged warnings, these warnings were overwhelmed by other indicators that were regarded as signs of strengths. Krugman (1994) may have pointed out that the successes of the East Asian economies were due more to perspiration rather than inspiration, but relying on perspiration is a far cry from being close to a crisis.[5]

The point is that if there is some consensus as to what types of indicators point to major risks and vulnerabilities for an economy to get into a crisis, then a regional peer review process can be effective in helping each other finds ways to deal with potential problems. However, a crisis normally arises from previously unexpected reasons. After a crisis, and after analyses of why it occurred, the reasons tend to become clearer and a consensus develops. Countries then (hopefully) learn from the past mistakes and follow policies that can avoid a similar kind of crisis in the future. This normally happens with or without a regional surveillance process being in place. For example, once it is accepted that a very high ratio of short-term foreign debt to foreign reserves is very risky, then the ratio is regularly monitored and policies are implemented to make sure that the ratio remains relatively low. This happened in all of the economies in the region that went through the crisis (Table 3).

[4] For an evaluation of IMF surveillance, see Crow, Arriazu and Thygesen (1999).

[5] Krugman (1997).

Where there is little consensus on what might bring about a crisis, the effectiveness of a regional surveillance process is much more doubtful. Vulnerable countries would tend to deny that certain factors pointed out by some of the others as being signs of vulnerability to a crisis are in fact so. Political considerations at home would also tend to encourage this, as all governments want to give an impression of effective performance to its people and would normally stress indicators of good performance and downplay indicators of vulnerabilities, or to suggest that potential problem areas are well under control.

To make the regional surveillance process more effective for preventing a future crisis, I believe that it should be supplemented in two ways. The first involves cross-regional surveillance, and the second, a surveillance process that is more independent of governments and official agencies. Cross regional surveillance can be very useful as countries in the same region normally have similar world views based on their long interactions at many levels, whether at the official level, the private sector level or through numerous academic seminars and meetings through out the region. Bringing countries from different regions together can lead to a broadening of perspectives based on the different experiences of the various regions. Of course, it could be argued that global surveillance processes, such as by the IMF and the World Bank, already integrate the various regional experiences to find lessons that all countries can learn from. However, the syntheses of experiences from the global institutions are normally colored by their own institutional perspectives, which depend on their governance structures, and many other possible lessons or approaches may be down played. Thus, a cross-regional surveillance process involving direct interactions between the various countries comprising these regions would be able to encompass a more diverse spectrum of views and lead to a broader perspective on factors that may lead a country into an economic crisis.[6] This could help countries in a particular region focus on aspects of vulnerabilities that they would not normally pay enough attention to, and may help all countries better anticipate problems before they arise, and the anticipation of what would normally be unexpected is clearly an important key for avoiding another crisis in the future.

Finally, given political constraints in official surveillance mechanisms, these could be supplemented by informal surveillance processes carried out by non-government think tanks, institutions and scholars, who are more independent of governments and can provide perspectives independent of the official line. A small step in this direction is the recent research project under the East Asian Development Network (EADN) on "Indicators and Analyses of Vulnerabilities to Economic Crises", in which researchers from six countries in the region develop indicators that could forewarn of a crisis or focus

[6] I strongly believe that if East Asian officials, bankers, businessmen and scholars had interacted much more with their Latin American counterparts in the decade prior to the 1997 crisis, then the crisis could have been avoided. Instead, in international meetings prior to the crisis involving people from both East Asia and Latin America, the Latin Americans would normally get together to talk about the economic problems and debt crisis that they were facing, while the East Asians get together to talk about how well each economy in the region was doing.

on particular issues of vulnerabilities for a country that they regard as important.[7] Work along this line could be developed into an on-going exercise within the EADN, which is a regional network of the Global Development Network (GDN), whose members comprise institutions from most economies in East Asia except for Japan which has its own regional network under GDN called GDN-Japan.[8] It could also be expanded into a joint activity between EADN and the GDN-Japan which could then cover the whole of East Asia, and may even include some of the other regional networks of GDN eventually. I believe that getting think tanks and other non-government institutions and individuals involved in contributing to the surveillance process can provide the diversity of views that are essential for an effective surveillance process.

Liquidity support under the Chiang Mai Initiative

With the Chiang Mai Initiative, the ASEAN Plus Three group expressed "a need to establish a regional financing arrangement to supplement the existing international facilities",[9] and reached agreement on an expansion of swap facilities[10] among the ASEAN member countries (the ASEAN Swap Arrangement, ASA) and to include bilateral swap arrangements with members of the Plus Three group.[11] The size of the ASA was expanded to US$ 1 billion from the level of US$ 200 million that was established in 1997. Members could draw up to twice its contribution to the ASA unconditionally,[12] to be repaid within six months, with the possibility of roll over for a maximum period of six months. In addition, a number of bilateral swap arrangements between various ASEAN member countries and each country of the Plus Three group have been concluded or under negotiations, for example, Thailand has concluded agreements with all of the Plus Three group, with an amount of US$ 3 billion with Japan, US$ 2 billion with China and US$ 1 billion with South Korea. Under the terms of these bilateral swap arrangements, 10 percent of the agreed amount could be utilized without any linkage to IMF assistance for 180 days. For the rest, a condition is that the country is already under the IMF assistance program or will be in the near future. The linkage to the IMF program is meant to ensure that the major part of these swap arrangements is not independent of IMF assistance, and to ease the fears of those who are concerned with potential conflicts with IMF conditionality and moral hazard problems.

[7] For a synthesis of the studies, see Sussangkarn and Tinakorn (2002).

[8] See the GDN web site at http://www.gdnet.org for details about the GDN, its activities and the regional networks under GDN.

[9] See The Joint Ministerial Statement of the ASEAN + 3 Finance Ministers Meeting, 6 May 2000, Chiang Mai, Thailand, available on the web site of the ASEAN Secretariat at http://www.aseansec.org/.

[10] Under the swap facilities, a participating member country with temporary international liquidity problems can swap domestic currency for US$ with agreement to buy back the domestic currency at an agreed date in the future.

[11] See reviews and discussions of arrangements under the Chiang Mai Initiative in Manupipatpong (2002) and Rana (2002).

[12] Contributions to the ASA by the six older members of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) are US$ 150 million each, while Vietnam, Myanmar, Cambodia and Laos contribute US$ 60, 20, 15 and 5 million respectively.

The financing arrangements under the Chiang Mai Initiative can be seen as related to both the prevention of a currency crisis as well as the management of a crisis, as it is also related to IMF assistance. However, in my view, the symbolic nature of these financing arrangements is probably more important than the substance of the agreements. In terms of substance, even if the Chiang Mai Initiative had existed before 1997, it is unlikely to have made much difference to the emergence or the management of the crisis.

A common feature of the countries that have had to ask the IMF for assistance is that they all became basically insolvent in term of not having enough foreign currencies to meet their obligations. In the case of Thailand, the central bank used up almost all of the country's foreign reserves to fight against currency speculators in the first half of 1997, so that by the time the Baht was floated on July 2, 1997, while gross official reserves were about US$ 32.4 billion, free official reserves were down to only about US$ 3 billion.[13] At that time, the central bank had made forward commitments to sell US$ to defend the currency to the amount of US$ 29.5 billion. Taking into account the country's outstanding short-term foreign debt of US$ 43.0 billion and the current account deficit, which was running at about US$ 1 billion per month at that time, it is clear that the country was basically insolvent in terms of not having enough foreign currencies available to meet its foreign currency obligations. Would the availability of something like the financing arrangements under the Chiang Mai Initiative have made any difference? Given the current size of these agreements, Thailand could have drawn US$ 300 million from the ASA plus another US$ 600 million from 10 percent of the bilateral swap amounts with the Plus Three countries allowable without any attachment to an IMF program. These amounts are clearly insignificant compared to Thailand's problem in the middle of 1997. Even if these amounts were 10 times greater, it could be argued that the problem could have been even worse, that is, the Bank of Thailand may have used up even more resources to try to defend the currency, drawing resource from these arrangements as well as its own reserves. The country would then be in an even worse insolvency position as resources drawn from these arrangements also add to the foreign debt of the country. The point is that if the country's policy makers are willing to defend an inappropriate level of the currency at all cost while ignoring the fact that, the greater the amount of resources used to defend the currency the closer the country would be to bankruptcy given that there would be less and less resources available to meet its large foreign currency obligations, having additional resources to do so may not be very helpful.

Similarly, once the crisis had occurred, most of the resources provided through the IMF programs did not come directly from the IMF itself. In the case of Thailand, most of the resources came from contributions of countries in the region. If the financing arrangements of the Chiang Mai Initiative were available back in 1997, the amounts in the bilateral arrangements would most likely have become the contributions of each of the

[13] Free official reserves are gross official reserves minus forward commitments to sell US$.

counterpart party to the IMF financing package, so there would not have been much difference to the crisis management outcomes either.

While the substance of the financing arrangements under the Chiang Mai Initiative are unlikely to make that much difference in the prevention or management of a crisis, I nevertheless feel that the Chiang Mai Initiative is a significant political step toward greater financial and monetary cooperation in East Asia. Given vastly different socio-economic situations of countries in the region, and sensitive issues stemming from the region's history, the speed at which the ASEAN Plus Three group was formed and concrete financing arrangements developed indicates the seriousness that countries in the region attach to the need to work much more closely together on financial and monetary matters for the interest of the region as a whole. Some see this as a clear emergence of East Asian regionalism.[14] I would tend to agree with this view, and also believe that it is an appropriate direction for East Asia's long-term interests. The most significant aspect of the Chiang Mai Initiative is probably that it demonstrates a political will among countries in the region to forge greater financial cooperation, and this will provide the impetus for an evolution into a much deeper and more substantive East Asian financial cooperation in the future.

Development of regional long-term financing for development

The critical role that the excessive accumulation of short-term foreign debt played in causing the East Asian financial crisis is widely acknowledged. Countries were financing their investment-saving gap by resorting to short-term borrowing from abroad. In fact, during the boom period prior to the crisis, short-term capital inflows were much greater than the investment-saving gap, and were channeled into excessive and speculative investments, fueling the economic bubble. Discussions and suggestions have been made on the need to control short-term or speculative capital flows. However, if countries, and particularly the private sector, lack access to long-term financing for development, then a lack of sufficient domestic saving will need to be filled by borrowing from foreign financial institutions. With the current Basle Capital Accord and its risk weights to be applied to bank assets, these foreign borrowing will tend to be short-term. This is because for a bank to extend loans to non-OECD banks or loans guaranteed by non-OECD banks, if these loans have a maturity of less than one year then they can apply a 20% risk weighting to these loans. However, for a similar loan but with a maturity of more than one year, a 100% risk weighting has to be applied (Table 4). Clearly, provisioning requirements for short-term lending are much less than for long-term lending, and this therefore encourages short-term lending to developing countries, and is an important factor behind the ballooning in the amount of short-term debt of developing countries over the past decade or so.

[14] For example, Bergsten (2000).

One way to deal with the problem of short-term debt is obviously to develop alternative long-term sources of financing in the region so that the need to rely on short-term borrowing can be reduced. In fact, the East Asian region as a whole is a saving surplus region (Table 5). In the years before the crisis, when short-term foreign debt was increasing rapidly in the crisis affected countries, the aggregate current account surplus of the East Asian region was running at more than US$ 100 billion per year. Clearly, if the surplus saving within the region could be tapped for long-term investment financing, the need for deficit countries in the region to rely on short-term capital flows would be greatly reduced. In the past, this did not occur as the surplus was mostly invested outside the region, particularly in US$ denominated assets, while deficit countries in the region had to rely mostly on short-term borrowing. It is in the interest of the countries in East Asia to change this scenario. This will require an effective mechanism for long-term recycling of funds from the surplus countries in the region to the deficit countries, and there have been a number of suggestions for the development of a regional bond market for East Asia in order to achieve this.[15]

The development of a regional bond market for East Asia will require the provision of the necessary infrastructures, both at the domestic and regional level. At the national level, the bond markets in most of the East Asian countries were very thin or almost non-existent prior to the crisis. Governments in most of these countries were running budget surpluses for many years before the crisis, so the supply of government bond was minimal. There was no clear benchmarks for private sector bonds, and bond trading in general was very limited. The situation is now very different. In most of the crisis affected countries, the governments had to incur large budget deficits to get the country out of the recession and deal with the financial crisis. This has led to the emergence of a much deeper market for government bonds in these countries. The demand for bonds has also been stimulated by a number of factors. The excess liquidity within the financial sector arising from a lack of credit worthy borrowers due to on-going debt and corporate restructuring means that some of the excess liquidity have been channeled into bonds. The excess liquidity has also led to low deposit rates, so that savers are more interested to invest in bonds. In Thailand, a recent issue of 305 billion Baht (about US$ 7.3 billion) of special bonds to finance the debt arising from the clean up cost of the financial sector was fully subscribed within two days, even though subscribers were only restricted to individuals and non-profit institutions. The corporate sector has also taken advantage of the situation by issuing long-term debt instruments to the general public using the rates on government bonds as benchmarks. To further promote the domestic bond market, especially for corporate bonds, various other supporting infrastructures need to be improved. These include the development of more long-term saving funds, such as retirement funds, an appropriate regulatory, accounting and tax framework, promotion of good corporate governance, trading systems, credit rating capabilities and investor information and education.[16]

[15] See e.g. IIMA (1999), Sussangkarn (2000a), Rhee (2000) and Batten and Kim (2001)
[16] See Batten and Kim (2001) and Cheung and Chan (2002).

For the regional bond market, financial cooperation among countries in the region are needed in many areas in order to develop the required infrastructures. Rhee (2000) raises a number of issues that need to be resolved, including the need for regional credit rating agencies, the system for regional clearing and settlements, cross border security borrowing and lending mechanisms, the need for a credit guarantee agency to lower the cost for issuers, and the need to develop an Asian Currency Unit to reduce the exchange rate risks. Sussangkarn (2000b) suggested the importance of strengthening the credit rating capabilities in the region. As the scope of recycling of surplus savings within the region increases, the importance of credit rating by regional credit rating agencies is likely to increase dramatically. Common standards for various national credit rating agencies need to be developed. Joint ventures and/or mergers can also be promoted. Eventually, as the regional capital market becomes more active and more and more investment needs of the region are met by funds from within the region, the influence of the regional credit rating agencies may well begin to outweigh those from outside the region.

To reduce the exchange rate risks on bond trading, Sussangkarn (2000a) suggested that market mechanisms can lead to the development of bonds whose denominations are indexed on various regional currencies, as a kind of derivatives to share exchange rate risks between lenders and borrowers. This would be an outcome of a natural market mechanism without the need for countries to change or coordinate their exchange rate regimes. To promote the development of these indexed bonds, indexed bonds many need to be introduced for government to government borrowing within the region in order to establish some benchmarks for the market. For example, instead of just giving Yen loans to various countries, the Japanese government may cooperate with various countries to buy some government indexed bonds (say between the Yen and the local currency).

Another issue that will need to be considered concerns internationalization of the regional currencies. Japan has been actively working on greater internationalization of the Yen.[17] This is necessary to lessen the dependence on the US$ as the dominant denomination for trade and investment, and will facilitate the recycling of surplus Japanese saving to the region. Also, if the market for regional indexed bonds develops, then there will obviously have to be deep regional markets for the currencies on which the bonds are indexed. This may be a problem in the short-term, as an active off-shore market for a domestic currency can be used by speculators to attack the currency. Singapore has always had controls to limit the size of the off-shore Singapore dollar market. Thailand now has similar controls, and, of course, the off-shore market for the Malaysian Ringitt has been closed down. In the short-term, the development of the regional bond market may have to rely on bonds indexed on the major currencies, such as Yen, US$ and Euro. Even so, this more limited development may be able to serve the need for fund recycling fairly well, since the exchange rate policies of the countries in the region cover the broad spectrum from Yen to US$ and in between. In the longer term, as

[17] See Council on Foreign Exchange and Other Transactions (1999).

regional economies become stronger, then the internationalization of some of the stronger regional currencies can increase.

Overall, the development of a regional bond market to recycle more of the surplus saving in the region within the region appears to have great potential. It can reduce the need for countries to rely on short-term debt and reduce the risks of a financial crisis. Although the need for surplus recycling may not be that great at present as most of the regional economies are experiencing current account surpluses as part of the crisis recovery process, it is likely that some countries will revert back to experiencing current account deficits as their economies become more robust in the future. In the meanwhile, financial cooperation among countries in the region can begin to lay down the infrastructures that will support a regional bond market so that when such deficits reappear, long-term development financing will be readily available.

Technical cooperation on financial standards and codes of good practice

As an outcome of the crisis, much attention have been paid to the weak financial systems in East Asia, where vast amounts of imprudent lending to non-viable projects took place prior to the crisis. Business practices lacking in good corporate governance have also been highlighted, the so-called crony-capitalism. These certainly contributed to the crisis. In Thailand, lending to certain sectors, especially real estate and some heavy industries were excessive, and some banks lent most of its money to projects owned or managed by friends or relatives. Because of this, improvements in financial standards and corporate governance are important components of the reform agenda of the crisis affected countries as well as other countries in the region who have learnt from the crisis experience. It is hoped that with improvements in these areas, countries will be less likely to get into a financial crisis in the future.

To be fair, foreign financial institutions that are presumed to have better prudential standards and codes of good corporate governance also lent heavily to banks and companies in East Asia without careful analyses of the feasibility of the various projects that their loans were financing. And the various accounting manipulations and management problems affecting corporate America at this time indicate that financial standards and corporate governance issues are really global problems that need to be carefully addressed by all economies, whether developed or developing.

Financial cooperation on these issues is part of the Manila Framework as well as the joint declaration on East Asia cooperation at the first ASEAN Plus Three summit, and clearly it is appropriate that ASEAN and ASEAN Plus Three dialogues should cover these issues. However, my view is that much of the substantive technical work on these issues should be done through a broader regional grouping, such as for example APEC. The reason is that a broad perspective, drawing upon experiences of other economies outside the region, is necessary. Also, given the accounting and corporate governance problems that have come to light in the U.S. recently, technical work on these issues in a group such as APEC is likely to become a more balanced two way flow of ideas, with both good and bad experiences from outside the region to learn from and contribute to. Previously, it could have been perceived as a one way flow with the East Asian economies "being told how bad they are and what to do" by those from outside the region, and it has to be admitted that there are many parties, both from within and from outside the region, who have suspicions about possible ulterior motives for trying to impose very stringent financial reforms on the crisis affected countries at a time when they are weakest.

For work within APEC, apart from activities within ECOTECH, the APEC Finance and Development Program (AFDP), which has recently been set up at the initiative of the Chinese government with in kind support from the World Bank, could play an important role in the technical and training work on these issues.[18] Some of the research themes of the program, such as on "the implications of increasing economic integration for financial markets regulation" are directly relevant to the development of regional capital markets. In general, given limited resources, technical work on financial standards and codes of good practice to support East Asian financial cooperation should draw upon on-going activities in other forums as much as possible to avoid duplication. Technical issues related to financial cooperation areas of specific concerns only to East Asia can be then be expanded upon in the work to support the ASEAN Plus Three process.

One area which would be useful for East Asian financial cooperation to focus upon is the development of a common framework for managing short-term capital flows. There appears to be a greater consensus now on the need for countries to have instruments to manage capital flows, especially short-term capital flows. Many people have stressed the necessity for this as part of the normal rules of the game,[19] and some have suggested the need for capital control as an instrument of adjustment during a currency crisis.[20] During the early days of the crisis, the IMF was still very intent on the desirability of a fully liberalized capital flow. However, later on, even the IMF appeared to have accepted that capital flow management measures may be necessary under certain circumstances, and this issue is also included as part of the current discussions on the reform of the international financial architecture.[21] Clearly, too much management could be counter productive, as one wants the economy to remain predominantly *laissez faire*. Some regional guidelines should be developed on how countries in the region can manage short-term capital flows, so that the risks can be minimized while the benefits from access to the short-term capital market can still be achieved. These guidelines can provide a common framework for the region, so that each country will not have to come up with its own scheme, which could lead to much confusion and inconsistencies.

[18] See details about the AFDP at http://www.afdp.org
[19] Joseph Stiglitz (1998) Op. Cit., and
[20] "Saving Asia: It's Time to Get Radical," *Fortune*, September.
[21] IMF (1999).

Financial Cooperation to Better Manage a Crisis

As mentioned above, the financing facilities under the Chiang Mai Initiative is also related to crisis management, as it provides some resources that countries could draw up relatively quickly in the case of a crisis. However, most of these resources are still tied to IMF assistant, and so these resources are unlikely to make that much difference to programs that countries would have to pursue to deal with a crisis, as these programs will still be linked to IMF conditionality. It is the nature of the IMF conditionality that has been much debated in the aftermath of the crisis. Critics point to a number of areas, such as;[22]

- The harsh nature of the tight fiscal and monetary policies without due regard for the social or political consequences,
- Unwillingness to allow non-market based interventions such as controls on capital flows,
- Imposition of full guarantees for creditors of financial institutions,
- Imposition of relatively rapid structural reform measures, such as stringent financial standards and corporate restructuring as well as privatization of state owned enterprises,
- Lack of input from within the region so that the programs do not take sufficient account of the socio-political realities of the affected countries.

Many of these criticisms are valid up to a point. However, once a country becomes insolvent in terms of not having enough foreign currencies to meet its obligations, the solution will inevitably involve some pain. The critical issue is how to turn around the foreign exchange position so that the country can fully participate in the international economic and financial system again, and what policies are necessary to do this with as little pain as possible. In Thailand, the macroeconomic assumptions behind the initial design of the IMF program was flawed in that the IMF did not expect such as severe downturn in the economy or the rapid turn around in the current account. Therefore, apart from the stringent fiscal and monetary policies, many of the other conditions that were imposed were designed partly to elicit a low outflow of foreign capital (full guarantees for creditors of financial institutions), or to generate additional sources of foreign exchange earning (such as structural reform measures and privatization to attract foreign investment).[23] As it became clear in 1998 that the macroeconomic assumptions were wrong, the fiscal position was eased substantially, but many of the other structural conditions continued to be maintained even though the rationale for them to help in attracting foreign exchange no longer holds.

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[22] For various discussions, see for example, Sachs (1997), Stiglitz (1998), Feldstein (1998), Krugman (1998), UNCTAD (1998), Chapter 4, and Stiglitz (2002).

[23] See Sussangkarn (2002).

My own view is similar to that of Feldstein (1998), who believes that the IMF should focus its main priority on turning around the foreign exchange liquidity position of the crisis affected countries without imposing unrelated structural reform measures. The full guarantee for creditors is particularly contentious.[24] Many see this as absolving the foreign creditors of much of the risks that they should be responsible for. While imprudent foreign borrowing was clearly to blame for the crisis, imprudent lending by creditors was equally at fault. This, together with some structural reform measures that had elements of a fire-sale strategy, led to a broad mistrust of the IMF from many elements in Thailand and within the region, with many claiming that the IMF program was more designed for the benefit of foreign interests rather for Thailand's recovery.

A key point is that IMF lending is of a relatively short maturity, and has to be paid back within 3 years. On the other hand, many of the structural reform measures need a much longer timeframe to successfully carry out. In Thailand, with the current account turning from deficit into surplus starting in September 1997 due to the Baht depreciation and the economic recession, foreign reserves net of outstanding forward commitments and also net of the IMF borrowing increased from about US$ 2.9 billion in the middle of 1997 to about US$ 16.2 billion by the middle of 1999, Thailand decided to forgo further disbursement from the IMF package in August 1999, just about two years after entering into the IMF assistance package. As a result, the various conditions imposed by the IMF no longer became binding. Thus, the rationale for imposing structural reform conditions that require a longer timeframe to achieve is not that clear. Once the bottom line in the program is achieved, that is once the foreign exchange liquidity is restored, and with very stringent fiscal and monetary conditions this is like to occur fairly rapidly in export led economies such as Thailand, the country will no longer need liquidity support from the IMF, and can hence "graduate" from the various conditions imposed.

Given various criticisms of the IMF program, the IMF itself is in the process of reviewing and modifying its approaches to crisis resolution and conditionality, and has also carried out various dialogues with government officials, other organizations and civil society.[25] In so far as East Asian financial cooperation is concerned, the question is whether such cooperation can provide some value added to crisis management in addition to or in place of the role played by the IMF. In the early stages of the crisis in East Asia, the idea of the Asian Monetary Fund or AMF was suggested by Japan. I believe that the initial idea for the AMF was a reaction to the harsh nature and the seemingly pro-Western stance of the IMF program, particularly on financial sector restructuring, and the inability of Japan to have much say in the design of the IMF program even though Japan played a major role in organizing assistance to the affected countries. Therefore, the impression about the AMF appeared to be that it strongly overlaps with the IMF, may provide more lenient conditionality, and could create moral hazards in dealing with crises. Also, the details about what the AMF should be and how it should interact with the IMF were not

[24] Full guarantee was also given to depositors, but this is not so controversial in the crisis situation.
[25] See Ahmed, Lane and Schulze-Ghattas (2001), Kruger (2002) and Dawson(2002).

really worked out, and it was quickly shot down both from outside the region and from some countries within the region.

While the initial AMF idea did not gain much support, discussions on the need for a financial and monetary organization for East Asia continued, although the appropriate role for such an organization may need to be refocused away from simply being an East Asian IMF. Indeed, if the AMF was simply to act very much like an East Asian IMF, except with East Asian money and management, then the case for the AMF would not be very strong. Clearly, Japan would dominate the AMF in the same way that the US dominates the IMF. Inevitably, if the AMF played a similar role to the IMF in a crisis situation in the region, many countries may be as suspicious of Japan in designing the conditionality as they were suspicious of the US in the case of the IMF. Given that the IMF itself is in the process of fine tuning its approaches to crisis resolution, it may be better for East Asian economies to try to have as much input into this process as possible to try to make sure that the region's concerns are reflected in any changes made. This also extends to trying to have input into discussions concerning reforms of the global financial architecture as well (see section below).

While an East Asian IMF is unlikely to be a practical proposal, there are nevertheless good reasons for establishing an East Asian financial and monetary organization. It could be the focal point for technical work to support financial cooperation within the ASEAN Plus Three framework. The role will mainly be related to supporting the other financial cooperation areas covered in this paper rather than the management of a financial crisis. For crisis management, it could provide some readily agreed contributions to an IMF assistant package, along the lines of the financing facilities under the Chiang Mai Initiative, although the agreed amounts may eventually be increased from the current levels. Linking the East Asian financial and monetary organization to the IMF will also take away the major criticisms that it will simply duplicate the IMF and generate more moral hazards, and allow it to focus more on other financial cooperative matters that are discussed in this paper.[26]

Financial Cooperation to Influence the Financial Environment Affecting the Region

From the lessons that countries in the region have learnt from the crisis, each country is now much more aware of the risks from the international financial system. The crisis affected countries have also implemented numerous reforms to strengthen their macroeconomic management capabilities and their economic and financial structures, and these should put them in a better position to manage the risks and volatilities arising from the global financial system compared to the situation before the crisis. There is a better understanding of the systemic risks that too much exposure to short-term foreign debt can

[26] For suggestions about the roles of an East Asian financial and monetary organization see for example; Shinohara (1999a) and (1999b) and Sussangkarn (2000a).

create; the information system necessary for macroeconomic management is now more complete and readily available to all interest parties, and this should help in creating checks and balances in policy formulation by allowing more rational participation in policy discussions by non-government and private institutions as well as the general public; the exchange rate regimes are more flexible, putting less pressure on foreign reserves, and also getting politicians and the public to become more used to the fact that, in the current global financial environment, exchange rate movements are the norm and that one should not focus on maintaining a particular exchange rate at all cost; and numerous reforms have been carried out to strengthen the financial system and the corporate sector.

However, while each country may be in a better position to weather the risks and vulnerabilities arising from the global financial system, these volatilities and risks still remain and may even be on the increase in line with the size and scope of global financial markets, and the greater and more rapid integration of financial markets through information technology. Countries around the world continue to get into serious financial crises in a seemingly endless progression, with Latin America being the current spot of turmoil (again). The reasons for each crisis may be slightly different to those that occurred in the past, but an important underlying reason (apart from mismanagement by the domestic authorities) relates to the persistent volatilities and risks from global financial markets.

The current volatilities and risks point to the need for serious reforms of the global financial system so that demands imposed on each country can be reduced. Discussions on the reform of the international financial architecture at the global level have focused on issues such as better and more transparent economic information, the development of codes of good practice in various areas, financial sector strengthening, "bailing in" the private sector to help deal with a crisis, and the development of the IMF's Contingent Credit Line (CCL) as a precautionary line of defense that countries with sound policies can draw upon to prevent impacts from international financial contagion (including discussions on capital flows as earlier mentioned).[27] Suggestions for the regulation and need for greater transparency of highly leveraged institutions have also been discussed. However, in the various forums responsible for work in these areas, representation of those from emerging markets is very limited,[28] and even within the global multilateral institutions emerging market economies have much less voice than the more advanced economies. Nevertheless, it is precisely the emerging market economies that face the greatest challenges in coping with the volatile global financial system, due to their fragilities and various economic and financial constraints. Thus, there is a need for a greater involvement by the emerging market economies in the discussions and design of the global financial system.

[27] See IMF (1999).

[28] For example, members of the Financial Stability Forum are limited to only those from the more advanced economies and multilateral institutions.

At the special ASEAN Finance Ministers' Meeting in Manila in April 1999, the Finance Ministers adopted a common ASEAN position on the reform of the international financial architecture. The position also stressed the need for more involvement by emerging market economies as well as other areas, such as the need to monitor short-term capital flows, the importance of flexibility in choosing an appropriate exchange rate regime, of well-sequenced capital account liberalization, the need for the reform to take account of the poor, regulation of highly leveraged institutions, and the need to involve the private sector in crisis management resolution, among others.

While the common ASEAN position on the reform of the international financial architecture sets out the consensus among the ASEAN countries, ASEAN itself is not influential enough to make much difference to any reforms that may be adopted. Further work in this area through the ASEAN Plus Three group would provide an added weight. In fact, the members of the ASEAN Plus Three group should be much more active in voicing their concerns in the international arena and pushing for reforms in areas that are judged to be in the interest of the group. In some aspects, the combined financial clout of the group is quite sizeable. The combined foreign reserves of the group amounted to over US$ 900 billion in 2000 (Table 6), accounting for about 45% of the foreign reserves for all the countries in the world. The group also has a combined current account surplus of over US$ 200 billion in 2000. With such a large size of reserve assets and saving surplus, the group should try to gain much more leverage in shaping the global financial system.

There are many aspects of reforms of the global financial system that would be important for East Asian economies. The common ASEAN position alluded to above has already highlighted a number of areas. Recently, a number of recommendations were put forward by an Emerging Market Eminent Persons Group chaired by Dr. Il Sakong of South Korea that I participated in (EMEPG, 2001). They related to eight areas: 1) the speed and sequencing of capital account liberalization; 2) the choice of appropriate exchange rate regime; 3) the regulation of highly leveraged institutions; 4) the setting of international financial codes and standards; 5) private participation in crisis prevention and resolution; 6) social protection mechanisms for financial stability; 7) reform of international financial institutions; and 8) regional monetary and financial co-operation. Most of the recommendations were not very radical, as the group consisted mostly of former Ministers of Finance or Central Bank Governors, however, they addressed the concerns from the point of view of emerging market economies. Some of the recommendations focus on sources of volatilities that have not been much addressed at the global level, such as the need to develop a more stable regime for exchange rate movements between the major currencies; the dollar, yen, euro. This volatility imposes particular challenges for the countries in East Asia, who have very different exchange rate regimes, some linking to the dollar, some are floating and Japan using the Yen. Rapid changes in the major currencies affect relative competitiveness in a rather artificial way and make economic management much more difficult. While many believe that reducing this volatility would be close to impossible, yet it is a major source of instability in the current global financial system, and various options should be studied, as any possible reduction would be a highly meaningful change for a more stable global environment.

The supply side of short-term capital flow was also part of the recommendations. Particularly, the provisioning requirements on risk assets of the current Basle Capital Accord is a major factor for the large amount of short-term capital flowing to emerging markets as earlier indicated. From a partial point of view, a short-term loan will expose the lender to less risks, as uncertainties that can develop until the maturity date of the loan are less than for a long-term loan. However, from a systemic view point, vast increases in short-term loans to developing countries create risks to the macro-economy, especially since the ability of the authorities in numerous countries to appropriately manage exchange rate and foreign reserve policies has proven to be woefully inadequate. And when a currency crisis occurs, as it has for many countries in recent years, the risks to the lenders from the crisis become all too clear. Thus, while the current risk weights appear sensible at the partial level, they create much greater risks to the system as a whole. A change in the risk weights that does not discriminate against long-term lending should help to increase the share of longer term loans, which are what developing countries really need. Any future revision of the Accord should make sure that the incentives for these short-term flows are reduced.

Apart from trying to have more influence on the directions of reform of the international financial architecture, financial cooperation among the East Asian economies can also generate more influence on their own internal financial environments. Work to develop a regional bond market discussed above would bring a major change to the way East Asian economies can have more say on the codes and standards affecting their own financial system. If most of the financing needs of the region comes from within the region, then the influence of outside credit rating agencies would be reduced. Common codes of financial standards and corporate governance could be based more on regional characteristics. This does not mean that such standards are going to be looser than those from the West, as the Western standards are also opened to a great deal of abuse, as recently witnessed in the United States. Also, it also does not mean that these standards are going to be radically different to those in the West either, but simply that the East Asian economies will have more influence on the design of these standards.

Financial Cooperation to Support the Economic Integration of the Region

In the medium to long term, closer integration between countries in East Asia, whether in terms of trade, investment, finance or monetary matters, is inevitable. While trade negotiations at the global level through the WTO should lead to a more liberalized global trade environment, this can be supplemented by special economic and trade relationships at the regional or sub-regional levels. Indeed, free trade agreements at the sub-regional level abound, and more continue to be negotiated. These sub-regional free trade agreements may not necessary be impediments to expansions of inter-regional trades, but it seems clear that they tend to create an impetus for rapid expansion of intra-regional trade and investment. The trend is for intra-regional trade and investment within East Asia to continue to increase in importance, and increased monetary cooperation and integration would complement this trend on the financial side. Other parts of the world have also moved rapidly toward sub-regional integration; the EU of course, but also the Free Trade Area of the Americas (FTAA).

Recently, there have been many initiatives for greater economic cooperation and freer trade in East Asia. AFTA has, of course, been under development for some time, and while there are obstacles to progress in a number of areas as countries tend to be concerned about impacts on specific sectors, a great deal of progress has been made, and I am optimistic that ASEAN can become a single market in the not too distant future. Recently, China and ASEAN agreed to embark on negotiations to establish a free trade agreement, and Japan is also pursuing an economic agreement with ASEAN along the lines of the "Japan-Singapore Economic Agreement for a New Age Partnership", and may initiate negotiations with Thailand in the near future. In fact, for East Asia as a whole, the economies of the various countries have become increasingly interlinked. On the trade side, about 55% of total ASEAN exports, 41% of Japan's exports and 31% of China's exports were to countries within East Asia in 1997.[29] In addition, the business sectors in many countries are linked through networks of people with Chinese origin, and Japan has substantial investment interests through out East Asia.

In line with increasing trade and investment linkages in the region, there have been a number of studies and proposals for an exchange rate arrangement for East Asia, such as the common basket peg of Williamson (1999), the yen block proposal (Kwan, 2001), an East Asian Currency Index (IIMA, 1999) and explorations and analyses concerning a monetary union for East Asia.[30] Clearly, as the economic integration in East Asia deepens, a reduction of currency risks in intra-regional transactions will promote more efficient integration, and these proposals and analyses lay useful groundwork to support the long-term integration of East Asia.[31] In the short to medium term, however, as someone who is from a country that became insolvent precisely because the authorities were pursuing a "peg at all cost" strategy, I feel uneasy about Thailand going back on any kind of peg in the near future, whether to the dollar, the yen, a basket (as prior to 1997), or even a well defined band. Apart from any theoretical considerations, I feel that the risk of politicians linking the maintenance of the level of the exchange rate with economic accomplishment or national pride is just too great, and the pain of the 1997 crisis is still acutely felt five years after the event. In addition, as many have pointed out, the socio-economic and political environment in East Asia is still a long way from being ready for

[29] The figure for China excludes its export to Hong Kong.

[30] See Kawai and Takagi (2000) and Fabella (2002) for a review and analyses.

[31] Another related area which has been discussed is the promotion of payment systems in the region that would rely more on regional currencies and net settlement for intra-regional trades. This would lead to less reliance on outside currency, such as the US$, for trade settlements and could be a stepping stone to more coordinated exchange rate regimes in the future. See, for example, Vichyanond, Sabhasri and Vajragupta (2002).

any kind of integration that will involve a sacrifice of national sovereignty. The best strategy, in my view, is to proceed with trade, investment and capital market integrations and leave exchange rate integration as a technical and analytical issue. Pushing too much and too quickly on the exchange rate integration front could actually be counter-productive for the economic integration of East Asia in the longer term.

Conclusions

This paper has considered four rationales for financial cooperation in East Asia; to prevent the recurrence of a crisis, to better manage a crisis were one to occur; to have greater influence in shaping the financial environment affecting the region; and to support the economic integration of the region. For each rationale, a brief assessment was given of the modes of financial cooperation involved and some suggestions were made about useful approaches. Overall, much can be gained from greater financial cooperation in East Asia. It has the potential to make the region more resilient to the volatilities and risks from the global financial system and could also increase the region's influence in shaping the future development of the regional as well as the global financial system. To make progress on financial cooperation, a specific focal point for technical work to support the ASEAN Plus Three process may need to be developed. This would be in the form of a financial and monetary organization for East Asia that would be complementary to the IMF. The main function of the agency would not be on crisis management, but rather on work to support policy coordination dialogues for crisis prevention and the promotion of regional financial and capital markets. These types of cooperative and development issues will also support the goal of a much deeper financial and economic integration in East Asia in the longer term.

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Table 1 Real GDP Growth

	1990-95	1996	1997	1998	1999	2000
China	12.0%	9.6%	8.8%	7.8%	7.1%	8.0%
Hong Kong	5.4%	4.5%	5.0%	-5.3%	3.0%	10.5%
Indonesia	7.8%	7.8%	4.7%	-13.1%	0.8%	4.8%
Japan	1.4%	5.1%	1.6%	-2.5%	0.2%	0.9%
Malaysia	9.5%	10.0%	7.3%	-7.4%	6.1%	8.3%
Philippines	2.2%	5.8%	5.2%	-0.6%	3.4%	4.0%
Singapore	9.1%	7.6%	8.5%	0.1%	5.9%	9.9%
South Korea	7.4%	6.7%	5.0%	-6.7%	10.9%	8.8%
Thailand	8.7%	5.9%	-1.4%	-10.5%	4.4%	4.6%
Vietnam	8.2%	9.3%	8.2%	5.8%	4.8%	6.8%

Source: Asian Development Bank, Key Indicators 2001 and Japan Statistical Yearbook.

Table 2 Merchandise Export Growth (US$ Value)

	1990-95	1996	1997	1998	1999	2000
China	19.1%	1.5%	21.0%	0.6%	6.1%	27.8%
Hong Kong	16.2%	4.0%	4.0%	-7.5%	-0.1%	16.1%
Indonesia	12.1%	9.7%	7.3%	-8.6%	-0.4%	27.7%
Japan	9.1%	-6.5%	2.3%	-8.9%	7.8%	14.4%
Malaysia	20.2%	6.0%	0.3%	-7.0%	15.9%	16.1%
Philippines	16.3%	17.7%	22.8%	16.9%	18.8%	8.7%
Singapore	17.6%	5.8%	0.0%	-12.2%	4.4%	20.3%
South Korea	14.0%	3.7%	5.0%	-2.8%	8.6%	20.1%
Thailand	19.6%	-1.9%	3.8%	-6.8%	7.4%	19.5%
Vietnam	17.8%	33.2%	26.6%	1.9%	23.3%	24.0%

Table 3 Ratio of Short-term Foreign Debt to Official Reserves

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
China	30.8%	24.3%	64.8%	66.5%	32.6%	29.4%	23.6%	21.9%	18.6%	11.2%
Hong Kong	23.4%	21.7%	18.2%	17.2%	16.4%	16.4%	22.2%	11.1%	11.6%	
Indonesia	*130.7%*	*139.7%*	*158.5%*	*145.6%*	*147.4%*	*175.6%*	*167.2%*	188.9%	85.5%	73.5%
Malaysia	19.3%	18.8%	21.0%	25.4%	24.2%	30.4%	40.8%	71.5%	33.7%	24.6%
Philippines	216.2%	109.2%	98.5%	85.0%	80.3%	67.9%	67.9%	135.0%	66.6%	38.3%
Singapore	2.7%	2.7%	2.3%	2.0%	1.7%	1.8%	2.6%	3.9%	3.6%	
South Korea	*72.9%*	*81.6%*	*69.5%*	*60.2%*	*123.1%*	*142.5%*	*195.4%*	263.6%	54.1%	46.9%
Thailand	*58.3%*	*67.8%*	*69.5%*	*89.0%*	*96.4%*	*119.4%*	*110.3%*	140.7%	100.4%	67.3%

Source: Asian Development Bank, Key Indicators 2001.

Table 4 Basle Capital Accord: Risk weights by Category of On-balance-sheet Asset

Weights	Category
0%	(a) Cash[1] (b) Claims on central governments and central banks denominated in national currency and funded in that currency (c) Other claims on OECD[2] central governments[3] and central banks (d) Claims collateralised by cash of OECD central-government securities[3] or guaranteed by OECD central governments[4]
0, 10, 20 or 50% (at national discretion)	(a) Claims on domestic public-sector entities, excluding central government, and loans guaranteed[4] by such entities
20%	(a) Claims on multilateral development banks (IBRD, IADB, AsDB, AfDB, EIB, EBRD)[5] and claims guaranteed by, or collateralised by securities issued by such banks[6] (b) Claims on banks incorporated in the OECD and claims guaranteed[6] by OECD incorporated banks (c) Claims on securities firms incorporated in the OECD subject to comparable supervisory and regulatory arrangements, including in particular risk-based capital requirements,[7] and claims guaranteed by these securities firms (d) Claims on banks incorporated in countries outside the OECD with a residual maturity of up to one year and claims with a residual maturity of up to one year guaranteed by banks incorporated in countries outside the OECD (e) Claims on non-domestic OECD public-sector entities, excluding central government, and claims guaranteed by or collateralised by securities issued by such entities[6] (f) Cash items in process of collection
50%	(a) Loans fully secured by mortgage on residential property that is or will be occupied by the borrower or that is rented
100%	(a) Claims on the private sector (b) Claims on banks incorporated outside the OECD with a residual maturity of over one year (c) Claims on central governments outside the OECD (unless denominated in national currency - and funded in that currency - see above) (d) Claims on commercial companies owned by the public sector (e) Premises, plant and equipment and other fixed assets (f) Real estate and other investments (including non-consolidated investment participations in other companies) (g) Capital instruments issued by other banks (unless deducted from capital) (h) all other assets

Notes:
1 Includes (at national discretion) gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities.
2 For the purpose of this exercise, the OECD group comprises countries which are full members of the OECD or which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.
3 Some member countries intend to apply weights to securities issued by OECD central governments to take account of investment risk. These weights would, for example, be 10% for all securities or 10% for those maturing in up to one year and 20% for those maturing in over one year.
4 Commercial loans partially guaranteed by these bodies will attract equivalent low weights on that part of the loan which is fully covered. Similarly, loans partially collateralised by cash or securities issued by OECD central governments and multilateral development banks will attract low weights on that part of the loan which is fully covered.
5 Claims on other multilateral development banks in which G-10 countries are shareholding members may, at national discretion, also attract a 20% weight.
6 Commercial claims partially guaranteed by these bodies will attract equivalent low weights on the part of the claim which is fully covered. Similarly, claims partially collateralised by cash, or by securities issued by OECD central governments, OECD non-central government public-sector entities, or multilateral development banks will attract low weights on that part of the claim which is fully covered.
7 I.e., capital requirements that are comparable to those applied to banks in this Accord and its Amendment to incorporate market risks. Implicit in the meaning of the word " comparable" is that the securities firm (but not necessarily its parent) is subject to consolidated regulation and supervision with respect to any downstream affiliates.

Source: Basle Committee on Banking Supervision (1988). "International Convergence of Capital Measurement and Capital Standards," Annex 2, Bank for International Settlements, Basle, July 1988, and Basle Committee on Banking Supervision (1998). "Amendment to the Basle Capital Accord of July 1988," Bank for International Settlements, Basle, April 1998.

Table 5 Current Account Surplus (Million US$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
China	11,997	13,272	6,401	-11,609	6,908	1,618	7,243	36,963	31,472	15,667	20,519
Hong Kong	6,290	5,662	5,297	8,144	1,682	-6,076	-2,586	-6,159	3,904	11,482	8,826
Indonesia	-2,988	-4,260	-2,780	-2,107	-2,790	-6,431	-7,660	-5,095	4,097	5,783	7,826
Japan	44,682	68,175	112,422	132,082	130,578	110,527	65,783	94,577	120,476	106,846	116,717
Malaysia	-918	-4,234	-2,179	-3,086	-5,640	-8,687	-4,456	-6,232	9,559	12,606	8,401
Philippines	-2,567	-869	-858	-3,016	-2,950	-3,297	-3,953	-4,351	1,546	6,976	9,349
Singapore	3,122	4,880	5,915	4,211	11,400	14,900	12,822	17,927	20,334	21,750	21,797
South Korea	-2,003	-8,317	-3,943	990	-3,867	-8,508	-23,005	-8,167	40,365	24,477	11,044
Thailand	-7,136	-7,383	-6,088	-6,126	-7,801	-13,206	-14,350	-3,110	14,291	12,465	9,208
Vietnam	-259	-133	-8	-767	-1,166	-1,868	-2,418	-1,635	-288	1,253	563
Total	50,221	66,793	114,179	118,716	126,354	78,973	27,420	114,718	245,756	219,305	214,250

Source: Asian Development Bank, Key Indicators 2001, and
IMF, International Financial Statistics, 2001.

Table 6 Gross Official Reserves

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
China	30,209	44,308	21,230	22,999	53,560	76,036	107,676	143,363	149,812	158,336	168,856
Hong Kong	24,657	28,889	35,250	43,012	49,277	55,424	63,833	92,823	89,664	96,255	107,560
Indonesia	8,520	10,250	11,394	12,354	13,199	14,787	19,281	17,396	23,517	27,257	23,314
Japan	77,053	72,059	71,623	98,524	125,860	182,820	217,876	220,792	215,949	288,080	361,638
Malaysia	9,871	11,003	17.343	27,364	25,545	23,899	27,130	20,899	25,675	30,645	29,576
Philippines	2,048	4,526	5,338	5,921	7,121	7,775	11,745	8,738	10,781	15,012	15,026
Singapore	27,748	34,133	39,885	48,361	58,177	68,695	76,847	71,289	74,928	76,843	80,127
South Korea	14,825	13,733	17,153	20,262	25,673	32,712	34,073	20,405	52,041	74,054	96,198
Thailand	14,273	18,416	21,182	25,440	30,279	36,945	38,645	26,893	29,536	34,781	32,661
TOTAL	209,204	237,317	240,399	304,237	388,691	499,094	597,106	622,598	671,903	801,264	914,956

Source: Asian Development Bank, Key Indicators 2001, and
IMF, International Financial Statistics, 2001.