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No. 228

**Monetary Integration in ASEAN+3:
A Perception Survey of Opinion Leaders**

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Singapore**

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Abstract

Recently, the ASEAN+3 countries have taken a number of measures to bolster monetary integration. These include the establishment of the ASEAN+3 Economic Review and Policy Dialogue and the Chiang Mai Initiative Multilateralisation (CMIM). More recently, the ASEAN+3 Macroeconomic Research Office (AMRO) was also established as an independent surveillance unit. Besides, business cycles in the region are starting to become more synchronized. Policymakers have, however, not heeded calls for introducing a regional monetary unit (RMU) to strengthen regional surveillance and to promote greater exchange rate coordination. Why and what are the practical issues and constraints in introducing the RMU? What actions could be taken in the short and the longer term to promote exchange rate coordination? This paper assesses the views of ASEAN+3 opinion leaders through a perception survey. The opinion leaders feel that RMU, CMIM, and AMRO could go a long way in deepening monetary integration in the region.

JEL Classification: F13, F15

Keywords: RMU, CMIM, AMRO, Monetary integration, Business cycles

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Monetary Integration in ASEAN+3: A Perception Survey of Opinion Leaders

1. Introduction

Since the Asian financial crisis of 1997-1998, ASEAN+3 countries (ASEAN 10, China, Japan, South Korea) have made encouraging progress in promoting monetary integration (see Rana, 2010; ADB, 2008). This includes establishing the ASEAN+3 Economic Review and Policy Dialogue under which the Finance Ministers of the 13 member countries meet once a year and their Deputies semi-annually to (1) assess global, regional, and national conditions and risks (2) review financial sector developments and vulnerabilities, and (3) exchange views and opinions on topics of mutual interest. Steps have also been taken to monitor short-term capital flows and to develop early warning systems of currency and banking crises. Most recently, the ASEAN+3 Macroeconomic Research Office (AMRO) was established in Singapore as the regional surveillance unit of the ASEAN+3. According to the information posted in the web site of the ASEAN Secretariat, AMRO will: (1) monitor, assess, and report on the macroeconomic situation and financial soundness of the ASEAN+3 countries, (2) assess macroeconomic and financial vulnerabilities in any of the ASEAN+3 countries and provide assistance in timely formulation of policy recommendations to mitigate such risks, and (3) ensure compliance of swap requesting parties with the lending covenants under the Chiang Mai Initiative Multilateralisation (CMIM) agreement.

Progress has also been achieved in establishing regional financing arrangements to address short-term liquidity needs of the countries in the event of a crisis. The bilateral swaps under the Chiang Mai Initiative (CMI) of 2000 have been

multilateralised under the CMIM establishing the \$120 billion crisis fund for the region.

The next and deeper phase of monetary integration is coordination of exchange rates¹. The increasing level of trade integration in ASEAN+3 has led to a greater synchronization of output and business cycles in the region, thereby, enhancing the benefits of macroeconomic policy coordination, including the introduction of the Regional Monetary Unit (RMU) (see Rana, 2008; Rana, Cheng and Chia, 2010). Many have, therefore, called for some sort of exchange rate coordination among the ASEAN+3 countries (see IIMA, 2010; ADB 2008). One such call is the one made by the ASEAN+3 research group in 2006 and 2007 for the RMU, a regional basket of currencies. This is because the RMU could strengthen the regional surveillance process and could eventually also facilitate exchange rate coordination in the region. Despite the calls made by the ASEAN+3 research group and others for the introduction of RMU, there has been no action as yet. Why and what are the practical issues in introducing the RMU?

In order to identify these issues, we undertook a Perception Survey of ASEAN+3 opinion makers. While Section 2 of this paper outlines the various roles that the RMU could play in enhancing monetary integration in ASEAN+3, Section 3 presents the Survey methodology and results. Section 4 presents the conclusions of our paper.

¹ There is an ascending order of intensity of efforts to promote monetary integration in the sense that they involve progressively increasing constraints on the amount of discretion that individual countries can exercise in the design of macroeconomic policies. By level of intensity, these efforts have ranged from economic review and policy dialogue to establishing regional financing arrangements and eventually toward coordinating exchange rate policies.

2. Role of the RMU

A RMU in East Asia could have several purposes. First, like the Euro in Europe, it could be the single currency for East Asia leading to the establishment of a monetary union. This idea is not totally new and has been suggested, among others, by academics like Nobel Laureate Robert Mundell² and political leaders like Mahathir³ and Arroyo⁴. However, the recent developments in the Eurozone suggest that the viability of a single currency requires not only close monetary coordination but also close fiscal union. The East Asian region is, therefore, perhaps not yet ready for a single currency.

Second, RMU could be a parallel currency in the region. Rejecting the idea of a single currency for the region at the present time, Eichengreen (2006) has proposed that governments create a RMU as a parallel currency based on a weighted average of Asian currencies, and allow it to circulate alongside existing national currencies. Official RMUs would be created in exchange for swaps of a portion of participating central banks' international reserves, and RMUs would be used in transactions among member banks, as well as in denominating bond issuances. Monetary unification in this case would be driven by the market rather than politics, as the RMU gains acceptance as a common regional currency among market participants.

Third, RMU could be an alternative international reserve asset. This idea has become popular especially after the global economic crisis of 2008-2009 and the ongoing sovereign debt crisis of 2010 in Europe which has raised questions regarding

² "After European, now Asian Monetary Union?", Asia Times Online, 8 September 2001.

³ "Asian Currency Unit still a Dream", People's Daily Online, 16 November 2006.

⁴ "The Future of Asia 2003", The Nikkei Weekly, 9 June 2003.

the value of the US dollar and the Euro. As is well-known, Zhou⁵, the central bank governor of PRC, has proposed the creation of a new supranational currency to establish a more symmetrical international reserve asset.

Fourth, a much less ambitious purpose, is to have RMU as a numeraire or unit of account. “Official RMU” could be used for surveillance purposes as an indicator of relative currency values to make sure that countries are avoiding competitive devaluations among each other and are converging their policies for deeper integration. Countries could also use the RMU to peg their currencies and bring about stability which would be beneficial for intra-regional trade. Also the use of the RMU as a component of an Asian Monetary System similar to the role that the ECU played within the EMS is an attractive concept in East Asia to enhance monetary integration.

Private RMU could be used by exporters and importers and market participants to denominate economic transactions such as in invoicing, deposit-taking, lending, hedging and issuing bonds in a more stable reference currency. This draws from the experience of the ECU, which was initially adopted in 1975 as the unit of account for the European Community’s budget, but which was taken up by market participants, particularly those attracted by opportunities for diversification and regulatory arbitrage. Banks handled ECU deposits and governments eventually issued ECU bonds.

In the context of CMIM and the establishment of the AMRO, another purpose of the official RMU could be to serve as the unit of account for contributions and withdrawals by member countries. This would mirror the role of the SDR in the operations of the IMF. The multiples that can be withdrawn from the fund could also

⁵ “Reform of the International Monetary System”, People’s Bank of China, 2009.

be linked to the deviation of the RMU rate of a member, with the official rate of those countries tracking the RMU being awarded higher multiples and those with divergent policies lower multiples. Such a system, as suggested by Montiel (2004) could lead to a convergence of exchange rates in the region.

The global economic crisis of 2008-2009, the on-going sovereign debt crisis in Europe, and the progress in monetary integration in East Asia have greatly enhanced the case for the introduction of RMU in East Asia. The ADB-led initiative to create a RMU index was suspended in 2006. A study by Kawai (2010) shows that in the post-crisis period, East Asian countries are attracting large amounts of private capital and the best policy option for the region is to allow a collective appreciation of their currencies vis-a-vis the US dollar and the Euro, while maintaining stability of intraregional rates.

3. Survey Methodology and Results

The objectives of our Perception Survey were to assess the views of a broad range of ASEAN+3 opinion leaders on (1) how the RMU could help deepen the ASEAN+3 economic integration process (2) what were the practical difficulties and constraints in introducing the RMU and (3) what new institutional arrangements were required to resolve these issues , promote the RMU and deepen ASEAN+3 economic integration.

3.1 Survey methodology

The Perception Survey used a stratified sample of 1691 ASEAN+3 opinion leaders divided into three categories: government officials (mainly from ministries of finance, trade, and foreign affairs), academia, and representatives of the financial sector. We did not include non-financial business sector because they would be less

familiar with the various institutional arrangements to promote integration, which are new and are still evolving. The sample covered the 13 members of the ASEAN+3 divided into 2 groups – the Plus 3 countries (China, Japan, and Korea) and the 10 ASEAN countries. We conducted an online survey where the names and contact details of opinion leaders were obtained mainly from the list of ASEAN+3 Deputies and ASEAN+3 Research Group members provided by the ASEAN Secretariat. They were supplemented by the mailing list of S. Rajaratnam School of International Studies and personal files of the authors.

The survey questionnaire comprised 2 parts and 23 questions – 9 questions on economic integration in ASEAN+3 and the role of RMU, CMIM, AMRO, ASEAN+3 Research Group, and AMF and 14 questions on purposes, weights, and practical issues of RMU. To increase the likelihood of responses, the questionnaire was designed to take 10-15 minutes of the respondent's time.

3.2 Survey results

Interviews were conducted from 1 November to 26 December 2010 using an online survey. Opinion leaders were contacted and invited to participate in the survey. After sending the invitations, we followed up with the respondents who did not reply by sending them a number of reminders. At the end of eight weeks, a total of 218 responses were collected, corresponding to 12.9% of the sample. This response rate was slightly lower than the response rate of 14.7% of a perception survey conducted by the Asian Development Bank in 2007. At that time, the ADB had noted that the 14.7% response rate was “considered as a quite high response rate for this type of surveys”. Had we used a professional surveying firm and followed up by telephone

calls like the ADB had done, the response rate would certainly have been higher.

Table 1 shows the breakdown of responses by region, country and category.

Tables and Figures

Table 1 Survey responses profile

| | | Government Official | Researcher/ Academia | Private Financial Sector | Total |
|--------------------|-----------------|--------------------------------|---------------------------------|---|--------------|
| Plus 3 | China | 2 | 9 | 2 | 13 |
| | Japan | 3 | 31 | 4 | 38 |
| | Korea | 2 | 12 | 0 | 14 |
| | Subtotal | 7 | 52 | 6 | 65 |
| ASEAN | Indonesia | 7 | 24 | 3 | 34 |
| | Malaysia | 4 | 22 | 2 | 28 |
| | Philippines | 2 | 13 | 4 | 19 |
| | Singapore | 6 | 29 | 8 | 43 |
| | Thailand | 4 | 7 | 0 | 11 |
| | Viet Nam | 2 | 5 | 0 | 7 |
| | Cambodia | 1 | 3 | 0 | 4 |
| | Brunei | 2 | 4 | 0 | 6 |
| | Laos | 0 | 1 | 0 | 1 |
| | Myanmar | 0 | 0 | 0 | 0 |
| | Subtotal | 28 | 108 | 17 | 153 |
| Grand total | | 35 | 160 | 23 | 218 |

The majority of opinion leaders who responded to the survey were based in the ASEAN countries. ASEAN countries account for 70.2% of the total respondents while the Plus 3 countries account for the remaining 29.8%. The majority of the respondents were from Singapore (19.7%) followed by Japan (17.4%) and Malaysia (12.8%). There was only one respondent from Laos and none from Myanmar. There were low response rates from Vietnam (3.2%), Brunei (2.8%), and Cambodia (1.8%). We did not translate the questionnaire into various languages like the ADB survey did. The response rate could have been higher if we translated the survey into other languages. Reflecting the bias in the list made available to us by the ASEAN

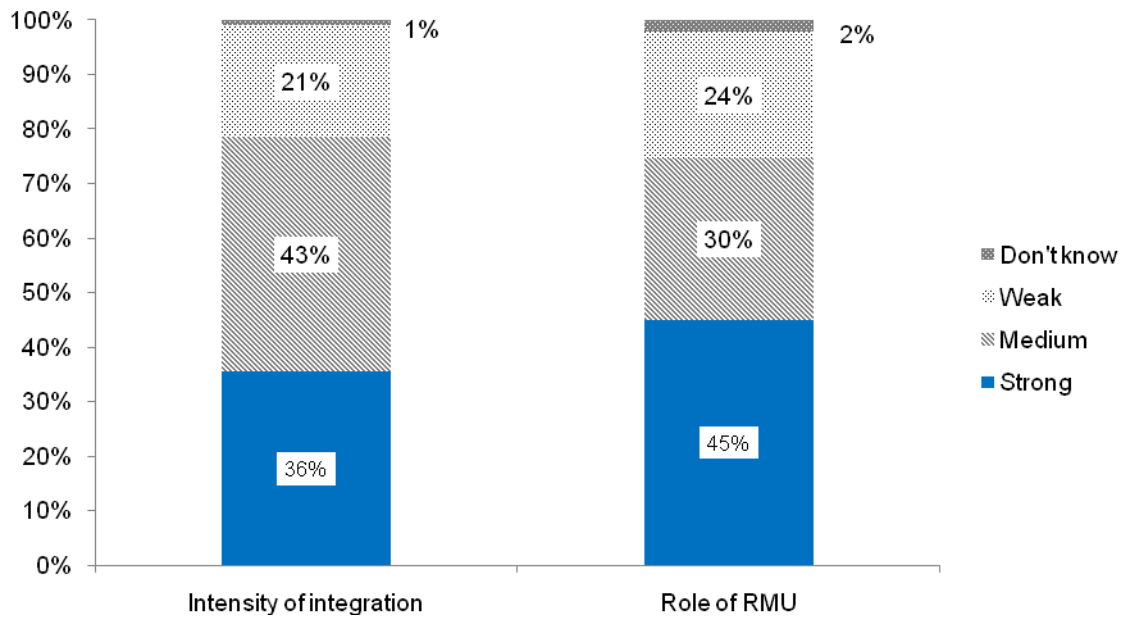
Secretariat, academia comprised 73.4% of the respondents followed by government officials (16.1%) and representatives of the private financial sector (10.6%).

While there were 218 responses to the first 9 questions, question 10 which requested a ranking by the opinion leaders of the six purposes of RMU confused many, and only 148 responses were obtained for question 11 onwards.

Assessment of economic integration in ASEAN+3 and the Role of RMU

The survey results show that although the interest of policy makers in promoting regional cooperation started only after the Asian financial crisis and is, therefore, fairly recent, 36% of the respondents felt that the intensity of economic integration within ASEAN+3 was strong; 43% felt that the intensity was average and 20% felt that it was weak, as shown in Figure 1. Additionally, the data in Figure 1 also show that a relatively high proportion of 45% of the opinion makers who responded felt strongly that the introduction of the RMU could increase economic integration within ASEAN+3.

Figure 1 Assessment of economic integration in ASEAN+3 and the role of RMU

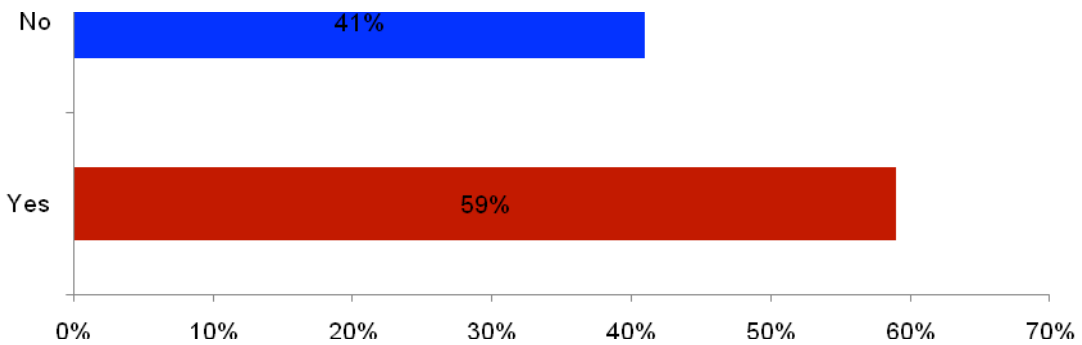


Note: Values are based on total responses (200) and are rounded to the nearest integers. The question was formulated as follows:
 Question 1 Estimate the intensity of the current level of economic integration within the ASEAN+3 countries.
 Question 2 Assess the possible role of RMU in enhancing economic integration among the ASEAN+3 countries.

Awareness of CMIM and plans to establish AMRO

As part of their regional self-help financing mechanism in 1998, the ASEAN+3 Finance Ministers had launched the CMI comprising bilateral swaps among each other. The bilateral swaps under the CMI were multilateralised in March 2010 to form the CMIM which comprises the \$120 billion crisis fund. Also the ASEAN+3 has established the AMRO in Singapore to serve as an independent regional surveillance unit for the ASEAN+3 Finance Ministers process. As shown in Figure 2, the survey results show that 59% of the respondents were aware of the CMIM and plans to establish the AMRO. Over 41% of the respondents were, however, unaware of these new institutional arrangements, suggesting regional integration issues are new not only to the general public but also to quite a few opinion makers.

Figure 2 Awareness of the CMIM and plans to establish AMRO

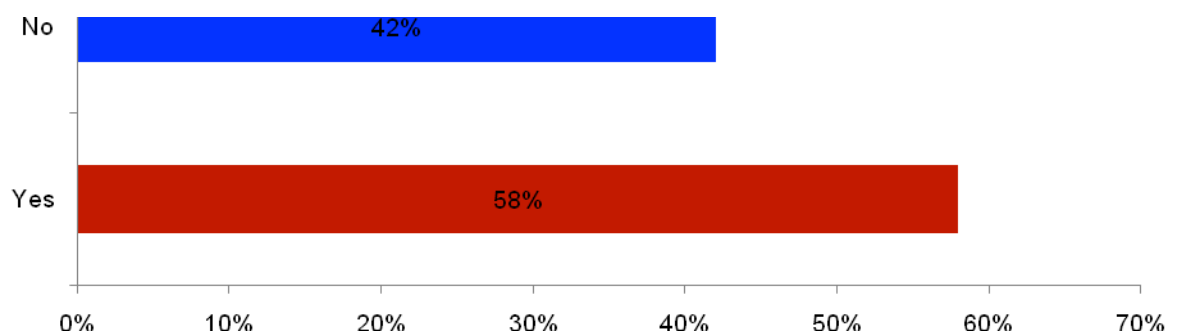


Note: Percent of respondents answering “Yes” or “No”. Values are based on total responses (200) and are rounded to the nearest integers. The question was formulated as follows:
Question 3 Are you aware of the CMIM and plans to establish AMRO by early next year?

Assessment of the ASEAN+3 Research Group

The ASEAN+3 Research Group is a network of research institutes from the 13 countries that supports the ASEAN+3 Finance Ministers Process by conducting research on topics identified by the Ministers. As shown in Figure 3, although 58% of the respondents were aware of the ASEAN+3 Research Group and its activities, a large percentage of 42% were not.

Figure 3 Awareness of the ASEAN+3 research group



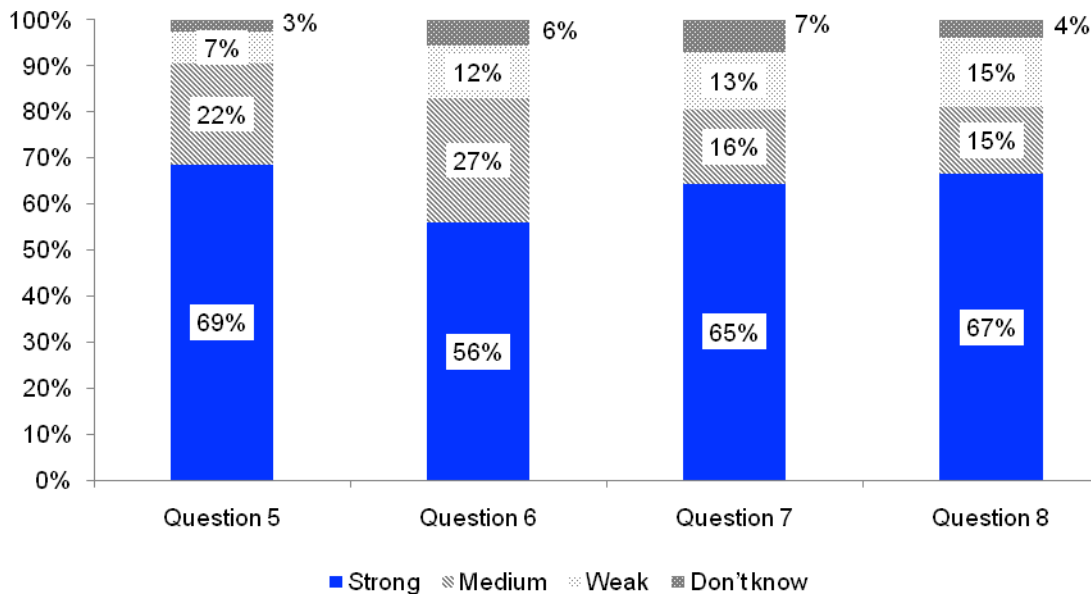
Percent of respondents answering “Yes” or “No”. Values are based on total responses (200) and are rounded to the nearest integers. The question was formulated as follows:
Question 4 Are you aware of the ASEAN+3 Research Group which a network of

research institutions that supports the ASEAN+3 Finance Ministers' Process (including the Economic Review and Policy Dialogue, the Chiang Mai Initiative, and the ASEAN+3 Asian Bond Market Initiative)?

Future of AMRO and CMIM

Figure 4 show that (1) 69% of the respondents felt strongly that the decision to establish the AMRO was a significant step towards enhancing regional economic integration, (2) 65% of the respondents were of the view that sometime in the future, the CMIM and AMRO should be merged together to create an institution similar to the once proposed Asian Monetary Fund (AMF), and (3) 67% of the respondents felt strongly that if the AMF were to be established in the future, it should work in a complementary manner with the IMF as regional institutions should not try to replace global ones. Additionally, a majority of 56% of the respondents actually felt that although CMIM, whose size at present is \$120 billion, has not been used, the use of CMIM would increase as the capacity of AMRO is strengthened. This is encouraging because in late 2008 when countries in the region (e.g. Korea and Singapore) needed liquidity, they had relied either on national reserves or entered into bilateral swap arrangements with non-regional and regional countries outside of the CMIM (Korea had entered into bilateral swap arrangements with the US and China, and Singapore with the US and Japan).

Figure 4 Future of AMRO and CMIM



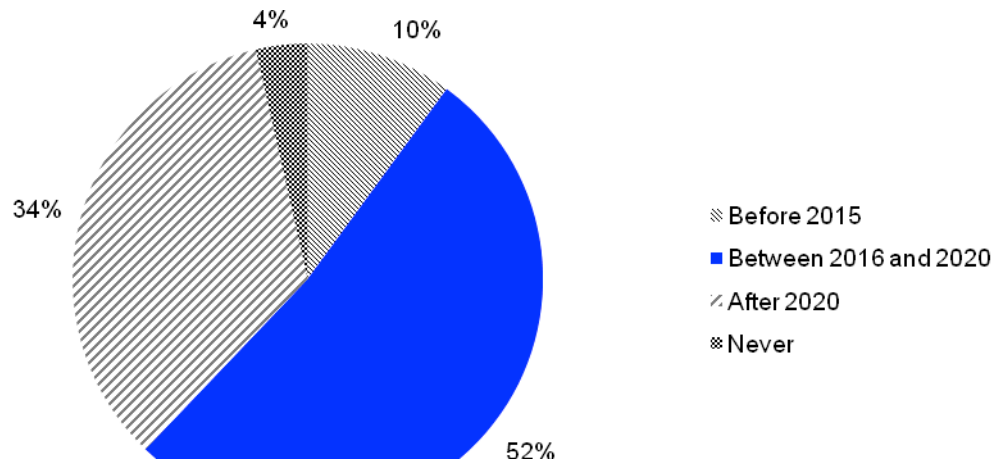
Values are based on total responses (200) and are rounded to the nearest integers. The questions were formulated as follows: Please select an answer from each row (5-Very strong 1-Very weak, 0-Don't know).

- Question 5 In your opinion, is the establishment of AMRO a significant step towards strengthening regional surveillance in the region?
- Question 6 So far, CMIM, whose size at present is \$120 billion, has not been used. Do you think that this will change as the capacity of AMRO is strengthened?
- Question 7 In your opinion should the CMIM and AMRO be merged to create an institution like the Asian Monetary Fund sometime in the future?
- Question 8 If the Asian Monetary Fund is established, sometime in the future, it should work in a complementary manner with the IMF.

When can the AMF be established?

In general, as shown in Figure 5, it is felt that the AMF cannot be established any time soon. Of those who felt strongly that the AMF should be established sometime in the future, 34.3% felt that it should be established only after 2020 and another 52.1% felt that it should be established sometime between 2016 and 2020. Only 10.1 % of the respondents felt that it should be established before 2015.

Figure 5 Establishment of Asian Monetary Fund



Note: Values are based on total responses (169) and are rounded to the nearest integers. The questions were formulated as follows:
Question 9 Answer this question only if your answer to Question 8 is Strong or Very strong. When do you think an Asian Monetary Fund can be established?

Assessment of ASEAN+3 economic integration by Plus-3 and ASEAN respondents

Some interesting results are derived by splitting the sample into two. We find that Plus-3 (China, Japan and Korea) opinion leaders are more optimistic about ASEAN+3 economic integration and institutions than ASEAN opinion makers. This can be shown from Figures A1-A5 (a) and (b) in **Appendix 1**.

- (1) 45% of Plus-3 leaders felt strongly that the intensity of ASEAN+3 economic integration was high as opposed to 32% of ASEAN leaders,
- (2) 52% of Plus-3 leaders felt strongly that RMU could enhance ASEAN+3 integration, compared to 41% of ASEAN leaders,
- (3) 69% of Plus-3 leaders were aware of CMIM and AMRO as opposed to 55% of ASEAN leaders,
- (4) 71% of Plus-3 leaders were aware of the ASEAN+3 Research Group as compared to 53% of ASEAN opinion leaders,

- (5) 78% of Plus-3 leaders felt strongly that the establishment of AMRO was a significant step as opposed to 65% of ASEAN leaders,
- (6) 60% of Plus-3 leaders felt strongly that AMRO could strengthen CMIM as opposed to 54% in ASEAN, and
- (7) Nearly 75% of Plus-3 opinion leaders felt that an AMF should be established sometime in the future as opposed to only 60% in ASEAN.

The above finding supports the comments made by some that it was the Plus-3 countries and not so much ASEAN, that was driving regional integration institutions such as CMIM, AMRO, and AMF.

Purposes of RMU

After conducting a number of studies in 2006/2006 and 2007/2008, the ASEAN+3 Research Group had highlighted the following 6 reasons or purposes for calculating the RMU. These include: (1) regional surveillance in ASEAN+3, (2) denominator of official transactions (such as budget for AMRO, unit of account for AMRO operations), (3) denominator of private transactions (such as trade, bond and bank deposit denomination), (4) reference basket currency (like the European Currency Unit in the European Monetary System), (5) New international reserve asset, and (6) Single currency for Asia. How would the ASEAN+3 opinion leaders rank the purposes in terms of their urgency for the ASEAN+3 economic integration process?

Table 2 shows that the respondents felt that regional surveillance was the most urgent purpose for introducing the RMU, followed by RMU as a denominator of official and private transactions. According to the survey, the fourth urgent purpose for introducing the RMU was to serve as a reference basket like the European Currency Unit (ECU) in the European Monetary System (EMS), followed by RMU as

a new international reserve asset. The least urgent of the 6 purposes was RMU as a single currency for the region which is at best a very long term objective because of need for economic convergence.

Table 2 Assessment of the purposes of RMU

| Purposes | Degrees of urgency | | | | | |
|--------------------------------------|--------------------|------------|------------|------------|------------|------------|
| | 6 | 5 | 4 | 3 | 2 | 1 |
| Regional surveillance | 70% | 11% | 6% | 9% | 1% | 4% |
| Denominator of official transactions | 9% | 40% | 22% | 16% | 9% | 5% |
| Denominator of private transactions | 2% | 11% | 40% | 22% | 20% | 4% |
| Reference basket currency | 10% | 22% | 16% | 38% | 11% | 3% |
| New international reserve asset | 5% | 15% | 11% | 10% | 47% | 12% |
| Single currency for Asia | 5% | 1% | 5% | 5% | 12% | 72% |

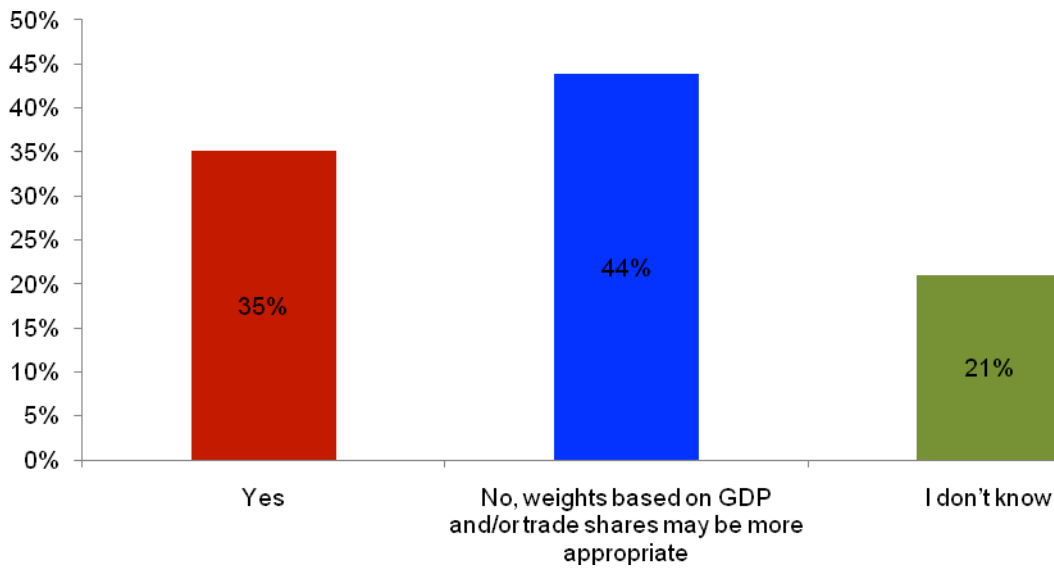
Note: Values are based on total responses (148). The questions were formulated as follows:

Question 10 After conducting a number of studies, in 2008, the ASEAN+3 Research Group had highlighted the following reasons or purposes for calculating the RMU. Rank the purposes according to what you think is the most urgent for ASEAN+3 and should be done at the soonest by ASEAN+3 (6-most urgent to 1-least urgent): (a) Regional surveillance in ASEAN+3, (b) Denominator of official transactions (such as budget for AMRO, unit of account for AMRO operations), (c) Denominator of private transactions (such as trade, bond and bank deposit denomination), (d) Reference basket currency (like the European Currency Unit in the European Monetary System), (e) New international reserve asset, and (f) Single currency for Asia.

Weights for RMU

Given that all 13 ASEAN+3 countries have, after extended negotiations, agreed to contribute to the CMIM, CMIM weights would have been a good candidate to determine the value of the RMU. But Figure 6 shows that only 35% strongly felt that this was so, 44% felt that weights based on GDP and/or trade were more appropriate, and 21% of the respondents said they did not know. A possible explanation for this finding could be that the agreement on CMIM is fairly new and even the ASEAN+3 opinion leaders may still be unfamiliar with it and its potential implications.

Figure 6 Using CMIM weights to calculate the RMU



Percent of respondents. Values are based on total responses (148) and are rounded to the nearest integers. The questions were formulated as follows:

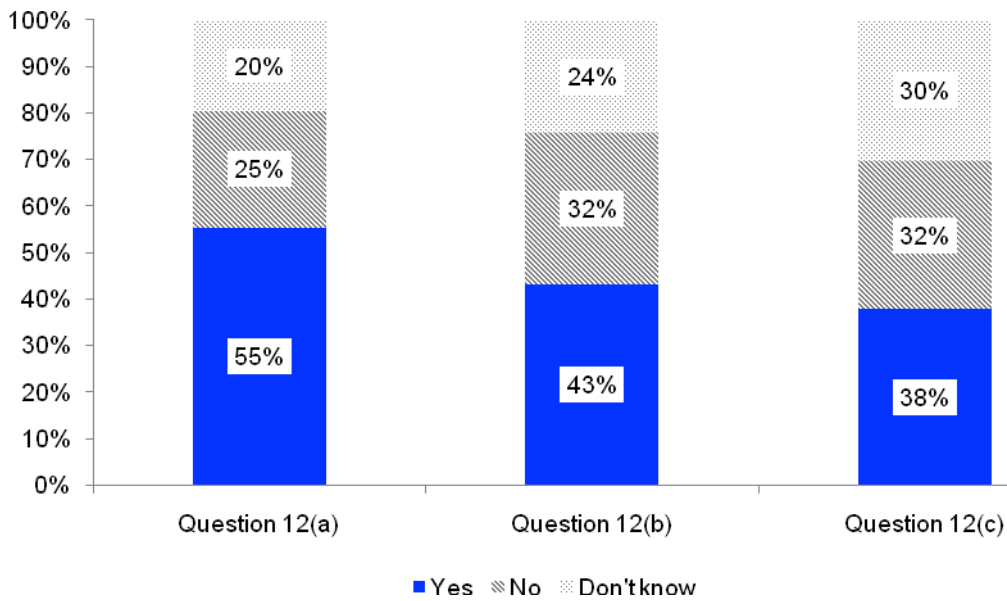
Question 11

A number of studies conducted by the ASEAN+3 Research Group have shown that the choice of weights (such as GDP and intra-regional trade or a combination of the two) does not make much difference in calculating the value of the RMU. But given that now all 13 ASEAN+3 countries have agreed to contribute to the CMIM, in your opinion should CMIM weights be used to calculate the RMU?

Is there a need to calculate different types of RMU?

A frequently encountered issue on the RMU is whether one type of RMU is good enough for all purposes or whether there is a need to calculate different types of RMU for different purposes. From Figure 7, it is shown that the majority of the respondents i.e. 55% of them felt strongly that there was a need for RMU with regional weights for ASEAN+3 surveillance and policy coordination. 44% of the respondents also strongly felt that there was a need for a RMU plus US dollar and Euro weighted basket for extra-ASEAN+3 stability and 37% felt that there was a need for a core RMU comprising only the convertible ASEAN+3 currencies for private sector transactions.

Figure 7 Different types of RMU



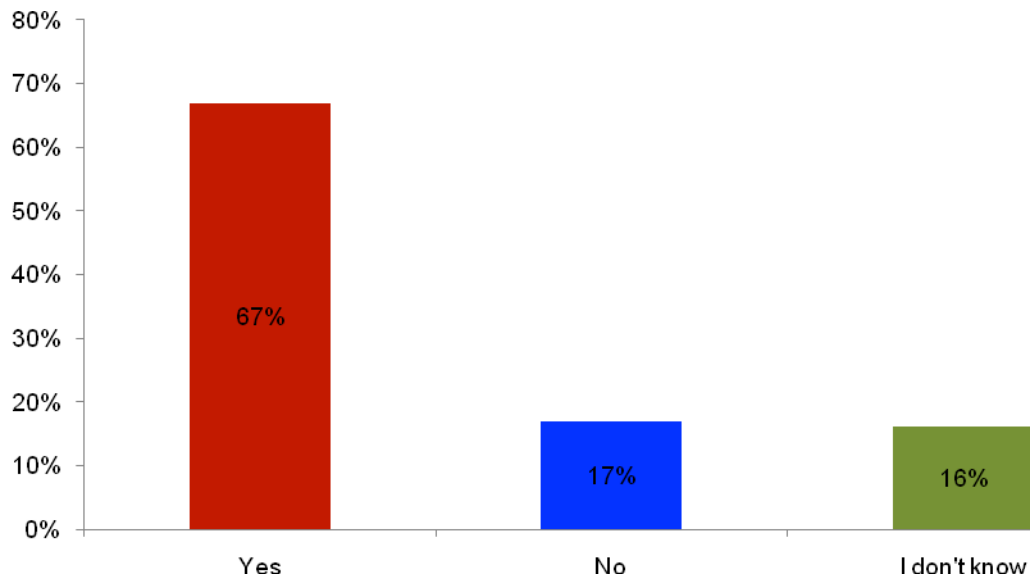
Note: Percent of respondents. Values are based on total responses (148) and are rounded to the nearest integers. The questions were formulated as follows:
 Question 12 Do you think that there is a need for calculating different types of RMU? (a) RMU for ASEAN+3 surveillance and policy coordination; (b) RMU plus US dollar and Euro weighted basket for extra ASEAN+3 stability; (c) Core RMU comprising only the convertible ASEAN+3 currencies for private sector transactions.

Should AMRO calculate and publicize the RMU?

The ADB-led initiative of creating a RMU/ACU index in 2006 was suspended in 2006 due to Plus-3 position that currency weights in RMU/ACU should not be decided by the ADB. Now that the AMRO is to be established soon, should the AMRO calculate the RMU and publicize it on a daily basis?

Figure 8 shows that over two-thirds of the respondents felt that the AMRO should be tasked with calculating the RMU and publicising it on a daily basis. 17% of the respondents said no and another 16% said they did not know.

Figure 8 Calculation and publication of RMU

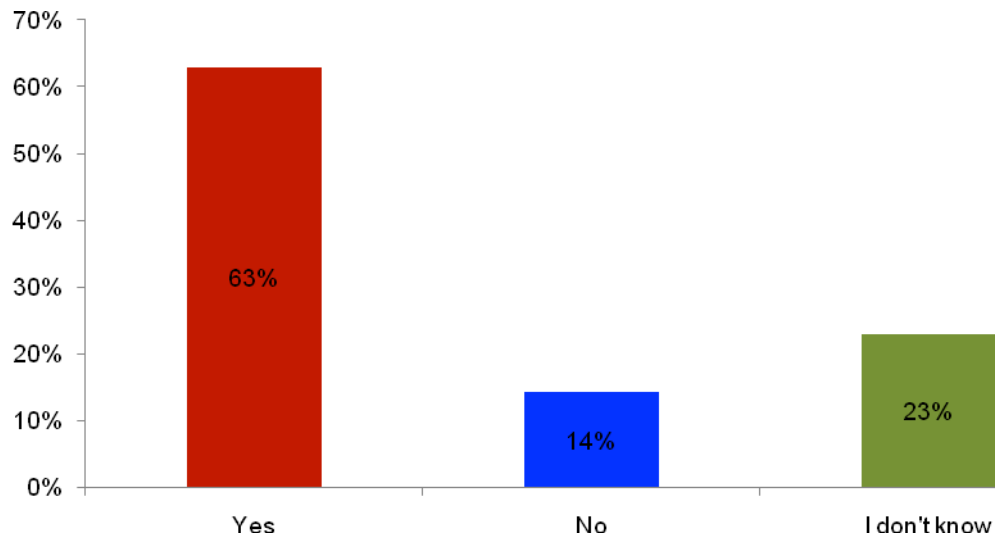


Note: Percent of respondents. Values are based on total responses (148) and are rounded to the nearest integer.
The questions were formulated as follows:
Question 13 Now that AMRO is to be established soon, do you think AMRO should calculate the RMU and publicize it on a daily basis?

Should AMRO use RMU and RMU Divergence Indicators for Regional Surveillance

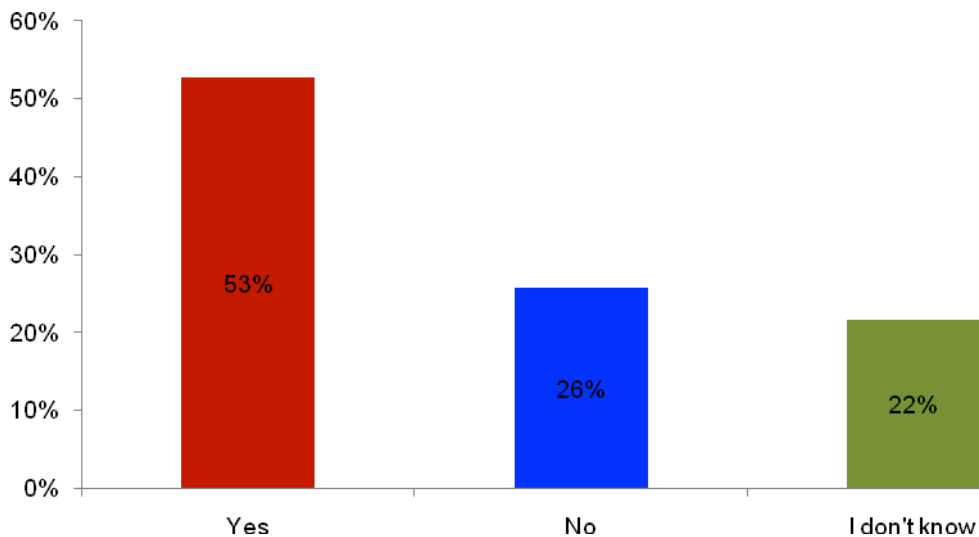
As shown in Figure 9, nearly two-thirds of the respondents felt that the AMRO should indeed use the RMU and RMU divergence indicators for regional surveillance, the key activity of AMRO. This would, among others, bring about intra-regional exchange rate stability.

Figure 9 Use of RMU and RMU divergence indicators for regional surveillance



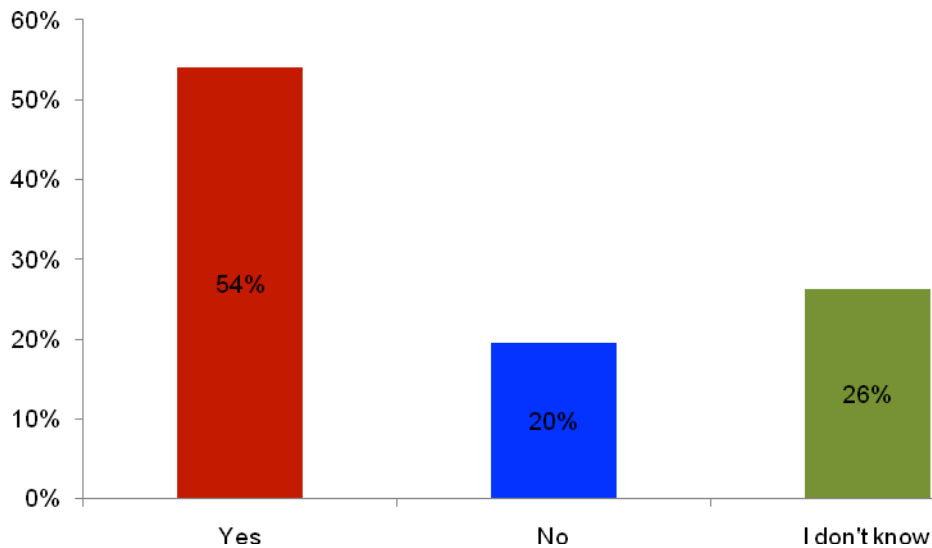
Note: Percent of respondents. Values are based on total responses (148) and are rounded to the nearest integer. The questions were formulated as follows:
Question 14 Should AMRO use RMU and RMU Divergence Indicators for regional surveillance and policy coordination in ASEAN+3?

Figure 10 Contributions to AMRO budget denominated in RMU



Note: Percent of respondents. Values are based on total responses (148) and are rounded to the nearest integers. The questions were formulated as follows:
Question 15 Should contributions to the budget of AMRO by the individual ASEAN+3 countries be denominated in RMU?

Figure 11 AMRO and CMIM operations be denominated in RMU



Note: Percent of respondents. Values are based on total responses (148) and are rounded to the nearest integers. The questions were formulated as follows:
Question 16 Should the operations of AMRO and CMIM be denominated in RMU like the SDR in the IMF?

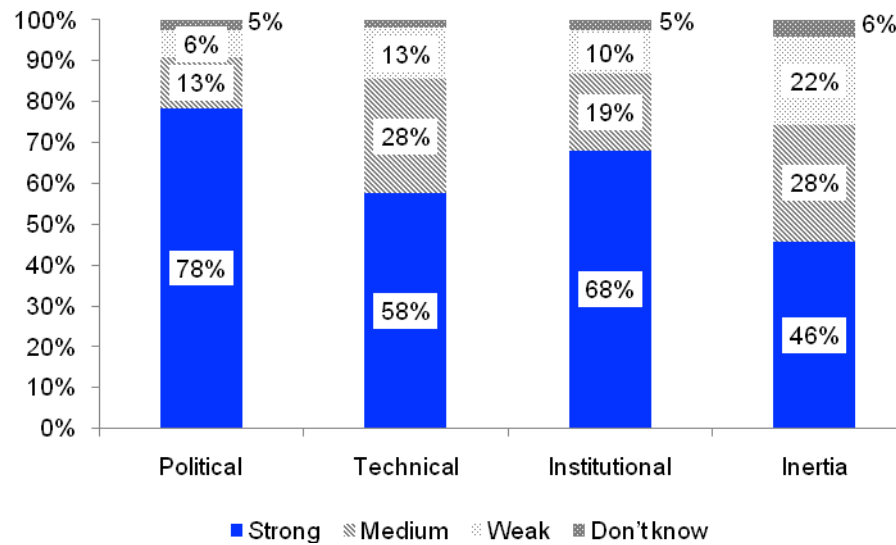
Practical issues in calculating and publicizing RMU for regional surveillance

As already mentioned above, in 2008, the ASEAN+3 Research Group had recommended that “RMU for regional surveillance purpose should start immediately”. But this has not happened yet. Why? What were the practical issues in calculating and publicizing RMU for regional surveillance? Were they (1) political (2) technical (3) institutional or (4) inertia?

Our survey result shown in Figure Survey results show that over three-quarters of the respondents strongly felt that the issue was political namely deciding which countries to include in the basket (Figure 12). Two-thirds of the participants strongly believed that the constraint was institutional - absence of a suitable institution to calculate the RMU on a daily basis and to publicize it (in 2006, ADB was requested by the ASEAN+3 to suspend its work on calculating and publicising the RMU and so there was an institutional gap).

Over one-half of the respondents strongly felt that the issue was technical, namely choice of weights, choice of the base year, and level of integration not being high enough to justify RMU. 44% of the respondents strongly felt that the issue was inertia, that is, simple inertia of officials to maintain the status quo.

Figure 12 Practical issues in calculating and publicizing RMU for regional surveillance



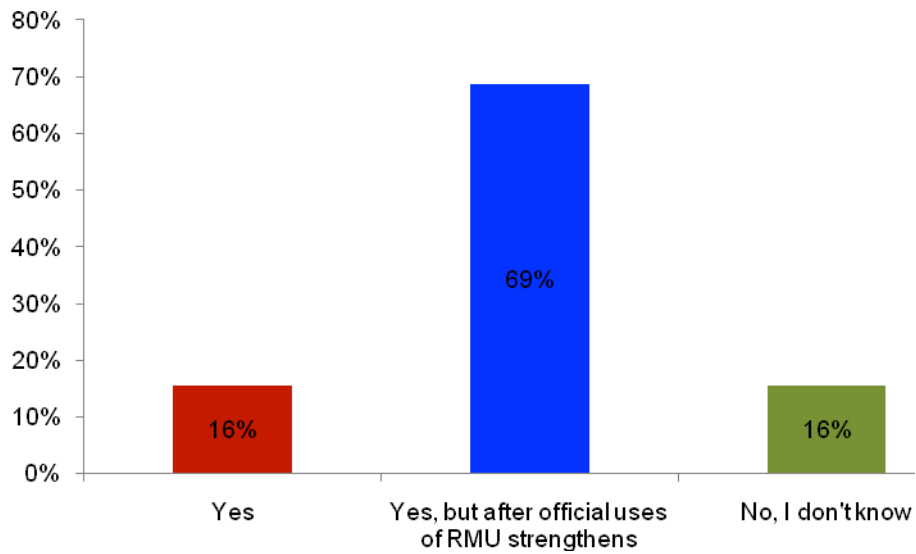
Values are based on total responses (147) and are rounded to the nearest integers. The questions were formulated as follows: In 2008, the ASEAN+3 Research Group had recommended that “RMU for regional surveillance purpose should start immediately”. But this has not happened yet. In your opinion, why has this happened? Estimate the intensity of the following constraints to calculating and using the RMU for surveillance purpose (5-Very strong, 1-Very weak, 0-Don't know).

- | | |
|-------------|---|
| Question 17 | Political: deciding which countries to include in the basket |
| Question 18 | Technical: choice of weights, choice of the base year, level of integration not high enough to justify RMU |
| Question 19 | Institutional: absence of a suitable institution to calculate the RMU on a daily basis and to publicize it (in 2006, ADB was requested by the ASEAN+3 to suspend its work on calculating and publicizing the RMU and so there is an institutional gap); |
| Question 20 | Inertia: simple inertia of officials to maintain the status quo. |

Do you think that private sector will be interested in using the RMU?

Figure 13 shows the survey results of how respondents see the usage of RMU in the private sector. Close to two-thirds of the respondents felt that the private sector would be interested in denominating selected transactions (such as trade, bank deposits, and bond issues) in RMU but only after official use of RMU strengthens.

Figure 13 Do you think that private sector will be interested in using the RMU?

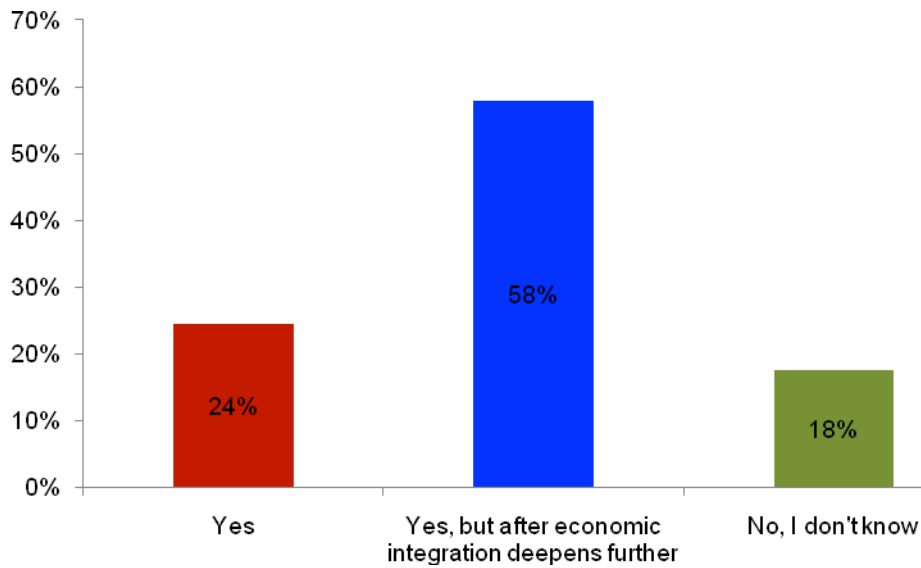


Note: Percent of respondents. Values are based on total responses (147) and are rounded to the nearest integers. The questions were formulated as follows:
Question 21 Once the RMU is calculated and publicized, do you think that the private sector in ASEAN +3 will be interested in denominating selected transactions (such as trade, bank deposits, bond issues) in RMU?

Do you think that RMU should be used to stabilize exchange rates in ASEAN+3?

In the EMS, countries had stabilized their exchange rate around the ECU. Should RMU be used for such purposes in ASEAN+3? From Figure 14, nearly 60% of the respondents said yes, but only after economic integration deepens further in the region, not right now.

Figure 14 RMU to stabilize exchange rate in ASEAN+3

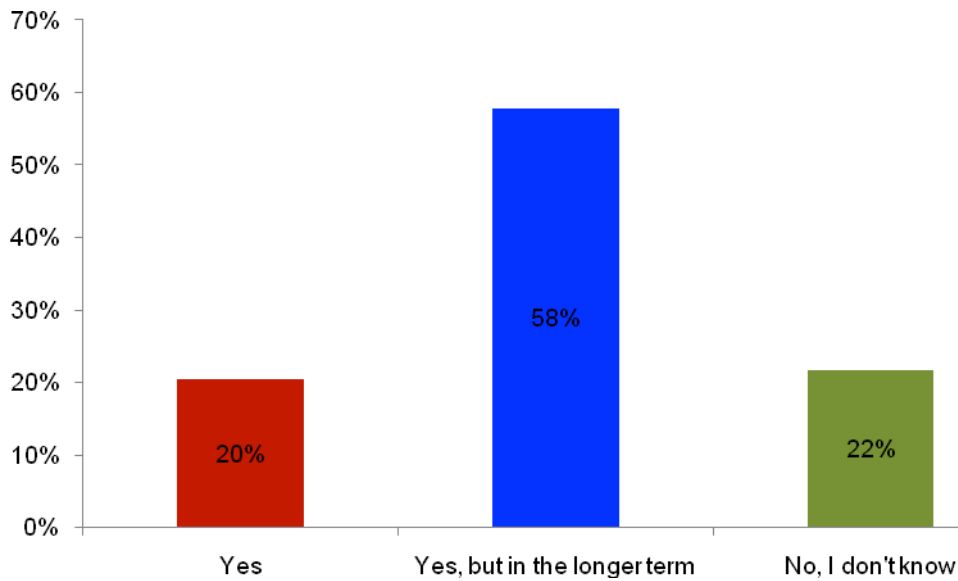


Note: Percent of respondents. Values are based on total responses (147) and are rounded to the nearest integers. The questions were formulated as follows:
Question 22 Because of growing economic interdependence among countries, some analysts have suggested that ASEAN+3 should stabilize their exchange rates around the RMU like the European Monetary System? Do you agree?

Do you think that Asia needs a single currency?

Survey results in Figure 15 show that nearly 60% of the respondents felt that the creation of a single currency for ASEAN+3 could be useful in enhancing economic integration, but that the single currency was possible only in the longer term.

Figure 15 A single currency in Asia



Note: Percent of respondents. Values are based on total responses (147) and are rounded to the nearest integers. The questions were formulated as follows:
Question 23 Some have also suggested that the creation of a single currency for ASEAN+3 sometime in the future could be useful in enhancing economic integration. Do you agree?

Additional comments from the respondents

The survey questionnaire had provided a box where the respondents could offer additional comments. These focused on (1) the usefulness of RMU (both the positives and the negatives), (2) weights for RMU (iii) RMU for private sector, and (iv) RMU vs Euro. Selected comments are summarised in Table 3.

Table 3 Some additional comments

| Respondents' comments | |
|--|--|
| Usefulness of RMU: Some positive comments | <ul style="list-style-type: none"> ◦ RMU is very useful but could have bottlenecks with political will of different countries. ◦ The RMU is useful as a focus point for discussion. ◦ We should begin to use RMU for surveillance even on a trial basis. ◦ RMU is very important since RMU will promote economic growth. ◦ It is good for surveillance purpose. Other uses could only happen if economic integration in the region is deepening. |
| Usefulness of RMU: Some negative comments | <ul style="list-style-type: none"> ◦ Political will among the participants is crucial. A strong leader may provide the necessary rallying points for the establishment of RMU. Defining the weights to be used is also a sensitive topic that should be resolved. ◦ Political obstacles among the plus-3 countries must be addressed first. ◦ There is a risk that RMU will be ineffective like the SDR. Needs to be desired by the market, therefore, RMU's effectiveness is likely to depend on whether RMB is included and RMB is freely convertible. ◦ Some Asian countries still have political systems that are too unpredictable to make them reliable partners to integrate monetary affairs in this group. ◦ It will take a long time because of the diversity in culture, history, politic and economy. A complicated issue, but worth trying to go into this direction. ◦ Different countries have differing economic priorities that will make consensus on the RMU difficult to achieve. ◦ Whether RMU is practically needed for East and Southeast Asia remains an open question. ◦ Harmonization of the statistical system among the ASEAN+3 is also a key to the success of the practical application of RMU. ◦ I strongly recommend RMU initiative to be discussed at the Business Chambers level. |
| Weights for RMU | <ul style="list-style-type: none"> ◦ The use of CMIM weights as a base for RMU calculation is questionable due to its non-economical nature. The adoption of RMU for any purposes is hindered by wide variety in exchange rate regimes among member countries. ◦ Currency basket weight should reflect the member country's share in CMIM. I do not see any difficulty to establish RMU anymore. The political willingness in APT is only the issue left. |
| RMU and private sector | <ul style="list-style-type: none"> ◦ Private use shall be the key for RMU success. ◦ The lead will have to be taken by the official sector. ◦ I strongly recommend the RMU initiative to be discussed at the Business Chambers level. ◦ As RMU is an artificial currency, RMU should give confidence by very strong official commitment to use it. ◦ If there is no currency markets for RMU vis-a-vis other major currencies, including forward markets, private sector will simply not be interested. |
| RMU and Euro | <ul style="list-style-type: none"> ◦ After the disastrous results of the EURO experiment, I am surprised there is still talk of RMU at all. We should learn from others' mistakes. ◦ RMU will only be relevant to Asia if the Euro succeeds as an alternative to |

4. Overall Summary and Recommendations

Survey results present a fairly positive assessment of the economic integration process in ASEAN+3 and its prospects in the future. Over one-third of the ASEAN+3 opinion leaders who responded felt strongly that the level of economic integration in their region was high. They also felt that newly established institutions could also strengthen the ASEAN+3 economic integration process further. Nearly one-half of the respondents felt that the introduction of the RMU could further accelerate the integration process. Nearly two-thirds of the respondents strongly felt that the decision to establish the AMRO was a good one and that with AMRO the usage of CMIM would increase in the future. They also felt that the AMF should be established in the longer term (sometime after 2016) and that the AMF should complement the IMF and not be a substitute for it. ASEAN+3 opinion leaders are more optimistic about ASEAN+3 economic integration and institutions than ASEAN leaders, supporting the view of some that new institutions were driven mainly by the Plus-3 countries. The respondents felt, however, that greater publicity needed to be given to the work of the CMIM, AMRO, and ASEAN+3 Research Group so that there would be a greater awareness and appreciation of their work and their contribution to the economic integration process.

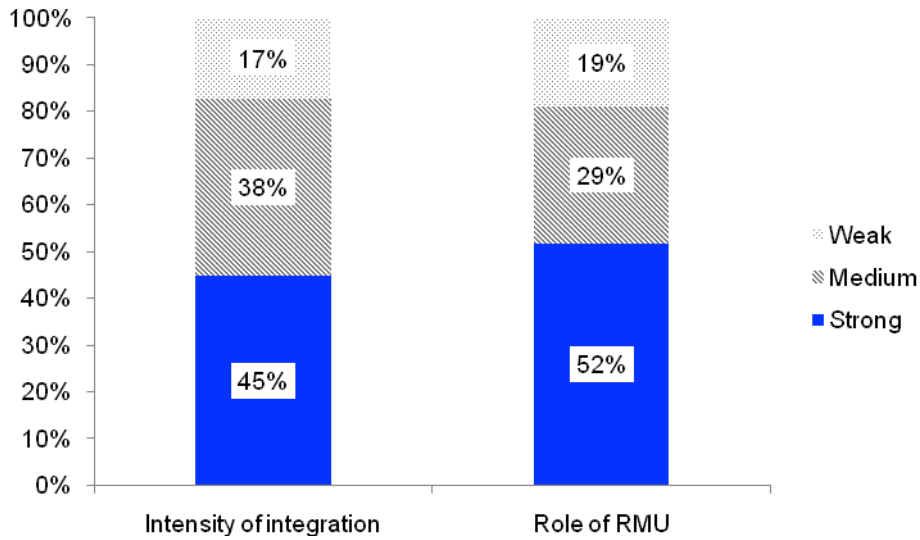
The respondents strongly felt that regional surveillance was the most urgent purpose for introducing the RMU, followed by RMU as a denominator of official and private transactions. The next urgent purpose of introducing the RMU was to serve as a reference basket like the ECU in the EMS. The major practical difficulties and issues in introducing the RMU were political and institutional. The latter issue could be alleviated by the establishment of the AMRO should AMRO decide to calculate

and publicize the RMU on a daily basis and use it for regional surveillance. The political issue can be addressed by greater efforts to convince countries that CMIM weights which includes all 13 members countries is the best option. AMRO contribution and budget, and AMRO and CMIM operations should also be denominated in RMU. Private sector demand for RMU would increase only after official uses of RMU increases. Eventually, RMU could also be considered as a reference basket currency for ASEAN+3. However, RMU as a single currency for ASEAN+3 is still a long time off, if ever.

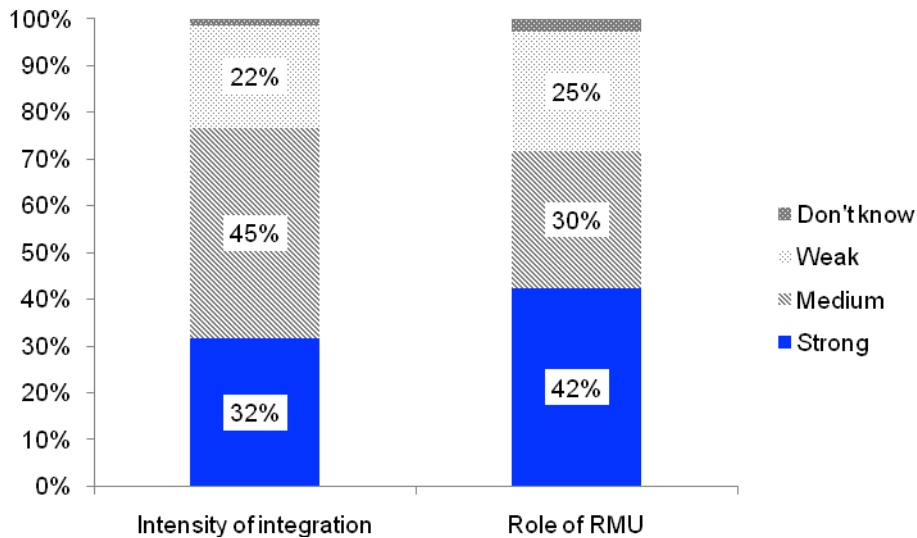
The paper has a number of policy implications. The first is that the introduction of RMU could contribute significantly to deepening economic integration ASEAN+3 by strengthening the ERPD and eventually by leading to greater coordination of exchange rates. So could the CMIM and the AMRO. The second is that eventually AMRO should be tasked by the ASEAN+3 to calculate the RMU using CMIM weights and publicise it on a daily basis. The third is that ASEAN+3 could denominate the AMRO budget, CMIM and AMRO contributions and operations, in the RMU to provide more stable currency values.

Appendix A Perception from ASEAN and Plus-3

Figure A.1 Assessment of economic integration in ASEAN+3 and the role of RMU



(a) China, Japan and Korea. Total responses: 58



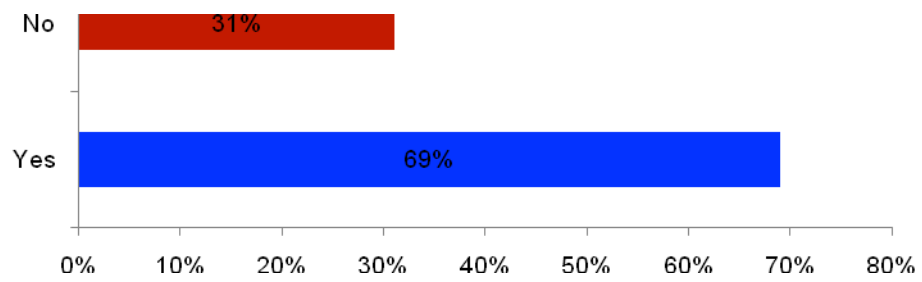
(b) ASEAN. Total responses: 142

Note: Values are based on total responses (200) and are rounded to the nearest integers. The question was formulated as follows:

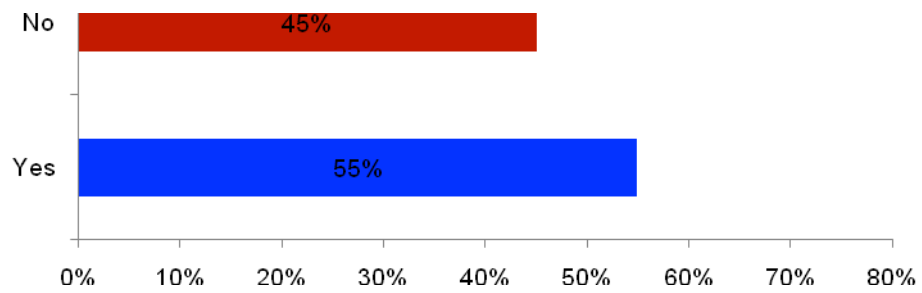
Question 1 Estimate the intensity of the current level of economic integration within the ASEAN+3 countries

Question 2 Assess the possible role of RMU in enhancing economic integration among the ASEAN+3 countries

Figure A.2 Awareness of the CMIM and plans to establish AMRO



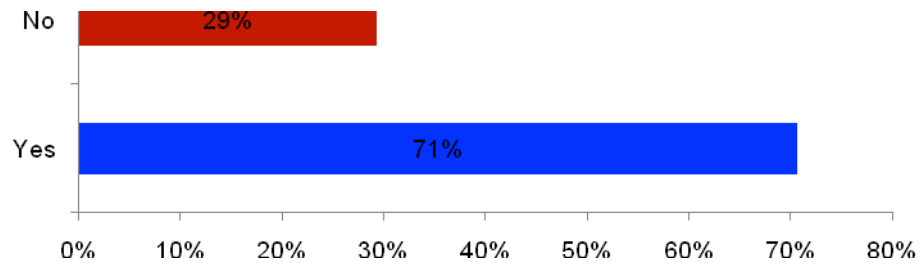
(a) China, Japan and Korea. Total responses: 58



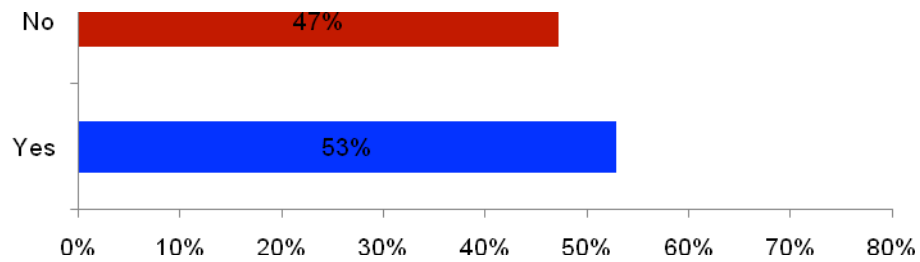
(b) ASEAN. Total responses: 142

Note: Percent of respondents answering “Yes” or “No”. Values are based on total responses (200) and are rounded to the nearest integers. The question was formulated as follow:
Question 3 Are you aware of the CMIM and plans to establish AMRO by early next year?

Figure A.3 Awareness of the ASEAN+3 Research Group



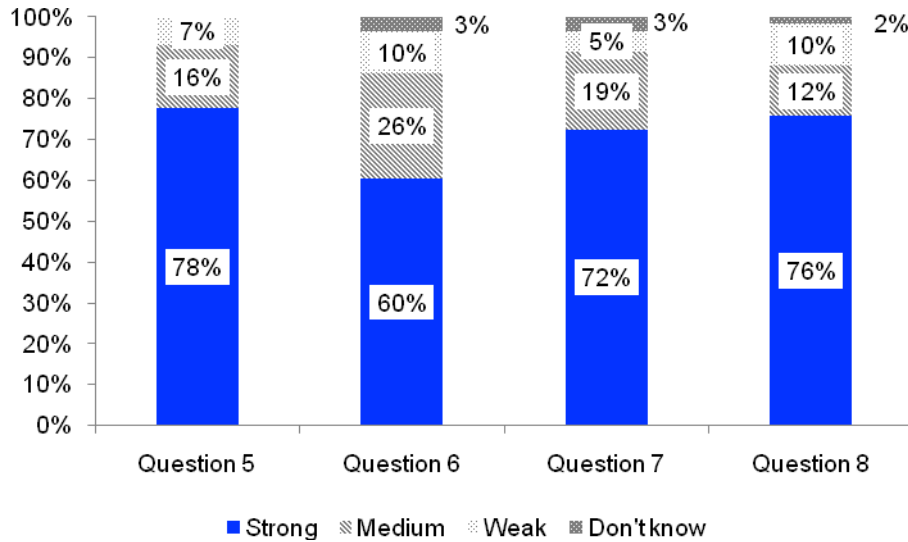
(a) China, Japan and Korea. Total responses: 58



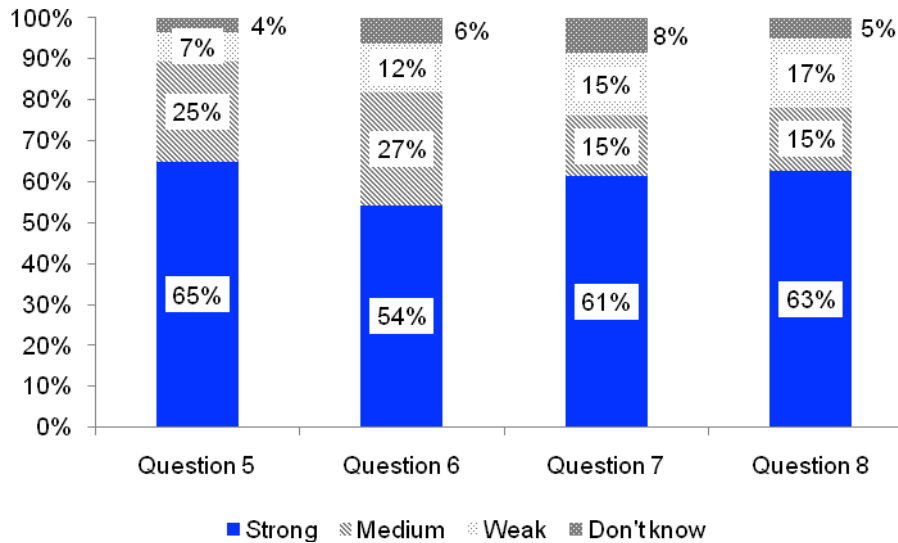
(b) ASEAN. Total responses: 142

Note: Percent of respondents answering “Yes” or “No”. Values are based on total responses (200) and are rounded to the nearest integers. The question was formulated as follow:
Question 4 Are you aware of the ASEAN+3 Research Group which a network of research institutions that supports the ASEAN+3 Finance Ministers’ Process (including the Economic Review and Policy Dialogue, the Chiang Mai Initiative, and the ASEAN+3 Asian Bond Market Initiative)?

Figure A.4 Future of AMRO and CMIM



(a) China, Japan and Korea. Total responses: 58

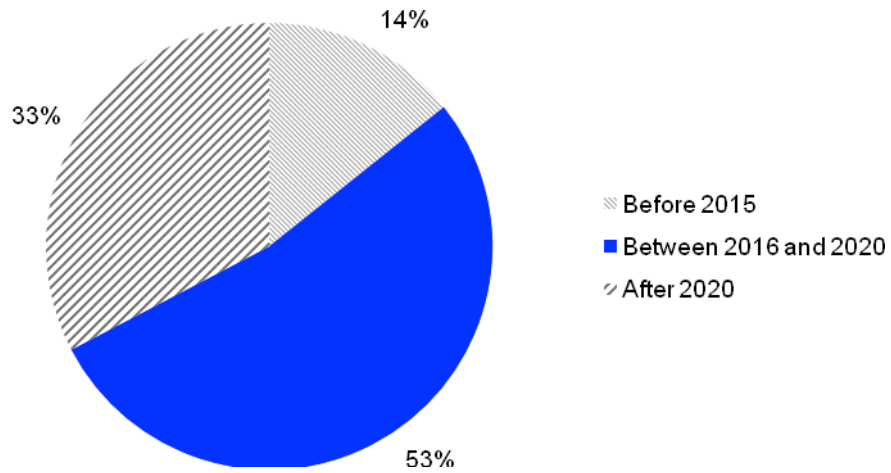


(b) ASEAN. Total responses: 142

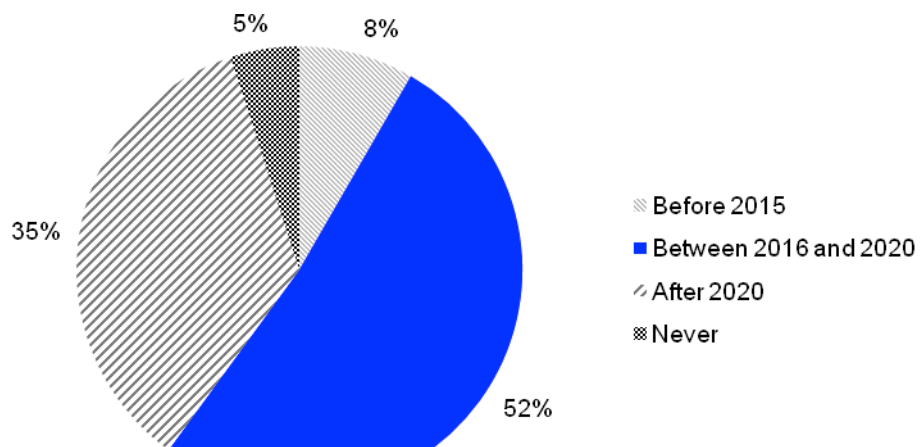
Note: Values are based on total responses (200) and are rounded to the nearest integers. The questions were formulated as follows: Please select an answer from each row (5-Very strong 1-Very weak, 0-Don't know).

- Question 5 In your opinion, is the establishment of AMRO a significant step towards strengthening regional surveillance in the region?
- Question 6 So far, CMIM, whose size at present is \$120 billion, has not been used. Do you think that this will change as the capacity of AMRO is strengthened?
- Question 7 In your opinion should the CMIM and AMRO be merged to create an institution like the Asian Monetary Fund sometime in the future?
- Question 8 If the Asian Monetary Fund is established, sometime in the future, it should work in a complementary manner with the IMF.

Figure A.5 Establishment of Asian Monetary Fund



(a) China, Japan and Korea. Total responses: 49



(b) ASEAN. Total responses: 120

Note: Values are based on total responses (169) and are rounded to the nearest integers. The questions were formulated as follows:

Question 9 Answer this question only if your answer to Question 8 is Strong or Very strong. When do you think an Asian Monetary Fund can be established?

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