ASEAN MONETARY COOPERATION: ISSUES AND PROSPECTS

Among other things, the 1997–98 East Asian financial crisis has led to questioning within the Association of Southeast Asian Nations (ASEAN) about whether the region needs a common currency. This paper aims to discuss the underlying economic issues and prospects, from both a theoretical and a practical point view. The analysis focuses only on the five largest ASEAN nations. Standard criteria suggested by the theory of Optimal Currency Areas are reviewed and applied to the region. The paper then provides a discussion on possible steps that can be pursued to realise currency union.

Introduction

The issue of financial integration in East Asia has received growing attention in recent decades. Since the beginning of the 1990s some authors started to look at issues related to monetary integration in East Asia, for example Frankel (1991, 1993), Frankel and Wei (1994), Goto and Hamada (1994), Bayoumi and Eichengreen (1994). However, in the case of ASEAN nations, the issue of monetary integration was almost unimaginable, at least until the 1997–98 financial crisis hit most of its member countries. The crisis persuaded the ASEAN nations to think of themselves more in terms of a region, and musings about the idea of having a common currency for ASEAN surfaced.

In responding to the crisis, ASEAN heads of governments in December 1997 set out their ASEAN ‘Vision 2020’ statement. The vision contains a message in favour of moving towards closer regional cohesion and economic integration. It was soon followed by an action plan concluded in the following year at the ASEAN summit in Hanoi. The action plan, among other things, calls for a strengthening of the financial system in the region to maintain regional macroeconomic and financial stability, and to intensify cooperation on money, tax and other financial related matters.

To reinforce the Hanoi action plan in order to achieve this goal, ASEAN nations have also moved forward by looking at a wider region in terms of economic and financial cooperation. The so-called ASEAN+3 (ASEAN member countries plus China, Japan and the Republic of Korea) met in Chiang Mai in 2000 and agreed to establish a regional financing arrangement called the Chiang Mai Initiative.