

# Financial stability and regional monetary cooperation

**Charles Wyplosz**

The Graduate Institute, Geneva

Conference on  
“Deepening Financial Sector Reforms  
and Regional Cooperation in South Asia”  
Delhi November 6-7, 2008

# The issues

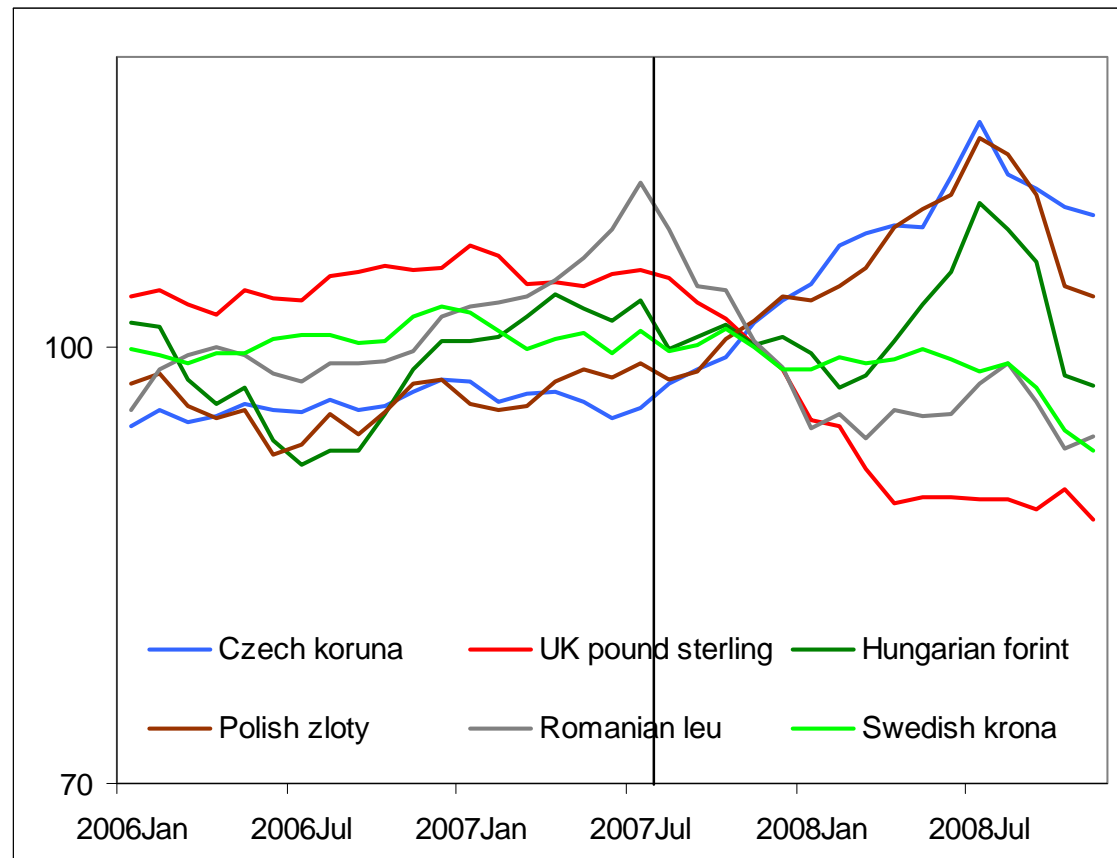
- Incredible timing!
- Financial turbulences and exchange rates
- The Asian and European experiences compared
- Note: so far mostly East Asia

# Financial turbulences and the exchange rate

- Massive crisis
- Yet no exchange rate tensions within European monetary union
- The dog that didn't bark
- Elsewhere?

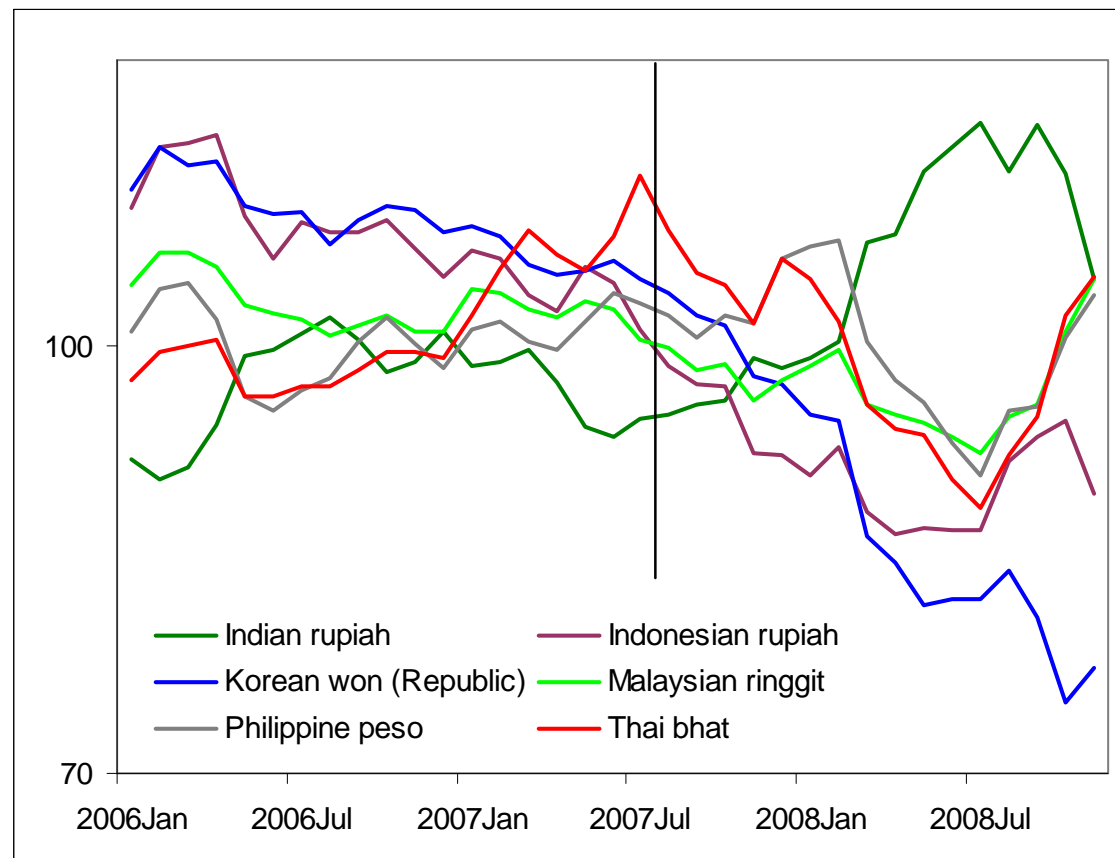
# Financial turbulences and the exchange rate

Non members of the euro area



# Financial turbulences and the exchange rate

Some Asian countries



# The Asian and European experiences

- Exchange rate agreements
  - Linchpin of European integration
  - Absent in Asia
- Mutual support
  - Unlimited under ERM and automatic in euro area
  - Web of limited bilateral swap agreements under Chiang Mai initiative

# Chiang Mai initiative

Bilateral Swap Arrangements (BSA) <sup>a</sup>	Currencies	Conclusion dates	Amount as of <sup>b</sup>	
			May 30, 2004	Apr 1, 2008
Japan-Korea <sup>c</sup>	US\$/Won (one-way)	Jul 04 2001	US\$2 bn. <sup>d</sup>	
Japan-Korea	US\$/local (two-way)	Feb. 23 2009		US\$15 bn.
Japan- Korea	Yen/Won (two-way)	Jul 3 2010		US\$6 bn.
Japan-Thailand <sup>c</sup>	US\$/Baht (one-way)	Jul 30 2001	US\$3 bn.	
Japan-Thailand	US\$/local (two-way)	Nov 8 2010		US\$9 bn.
Japan-Philippines <sup>c</sup>	US\$/Peso	Aug 27 2001	US\$3 bn.	
Japan-Philippines	US\$/local (two-way)	May 3 2009		US\$6.5 bn.
Japan-Malaysia	US\$/Ringgit (one-way)	Oct 04 2007	US\$1 bn. <sup>d</sup>	US\$1 bn. <sup>d</sup>
Japan-China	Yen/ RMB (two-way)	Sep 20 2010	US\$6 bn.	US\$6 bn.
Japan-Indonesia <sup>c</sup>	US\$/Rupiah (one-way)	Feb 17 2003	US\$3 bn.	
Japan-Indonesia	US\$/Rupiah (one-way)	Aug 30 2008		US\$6 bn.
Japan-Singapore <sup>c</sup>	US\$/Sing.\$ (one-way)	Nov 10 2003	US\$1 bn.	
Japan-Singapore	US\$/local (two-way)	Nov 07 2008		US\$4 bn.
Korea - China <sup>c</sup>	Won/ RMB (two-way)	Jun 24 2002	US\$4 bn.	
Korea - China	Won/RMB (two-way)	Jun 23 2010		US\$8 bn.
Korea-Thailand	US\$/local (two-way)	Dec 11 2007	US\$2 bn.	US\$2 bn.
Korea-Malaysia <sup>c</sup>	US\$/local (two-way)	Jul 26 2002	US\$2 bn.	
Korea-Malaysia	US\$/local (two-way)	Oct 13 2008		US\$3 bn.
Korea-Philippines <sup>c</sup>	US\$/local (two-way)	Aug 09 2002	US\$2 bn.	
Korea-Philippines	US\$/local (two-way)	Oct 16 2010		US\$4 bn.
Korea-Indonesia	US\$/local (two-way)	Dec 26 2009	US\$2 bn.	US\$4 bn.
China-Thailand	US\$/Baht (one-way)	Dec 05 2004	US\$2 bn.	US\$2 bn.
China-Malaysia <sup>c</sup>	US\$/Ringgit (one-way)	Oct 08 2005	US\$1.5 bn.	US\$1.5 bn.
China-Philippine	RMB/Peso (one-way)	Apr 9 2010	US\$1 bn.	US\$2 bn.
China-Indonesia	Rupiah/RMB (one-way)	Dec 03 2003	US\$1 bn.	
China-Indonesia	US\$/Rupiah (one-way)	Oct 16 2009		US\$4 bn.

Small amounts relative to reserves

Normal if no surveillance

But what anchor?

# The Asian and European experiences

- Exchange rate agreements
  - Linchpin of European integration
  - Absent in Asia
- Mutual support
  - Unlimited under ERM and automatic in euro area
  - Web of limited bilateral swap agreements under Chiang Mai initiative
    - Enlargement to India, Australia, New Zealand under consideration

# The anchor issue

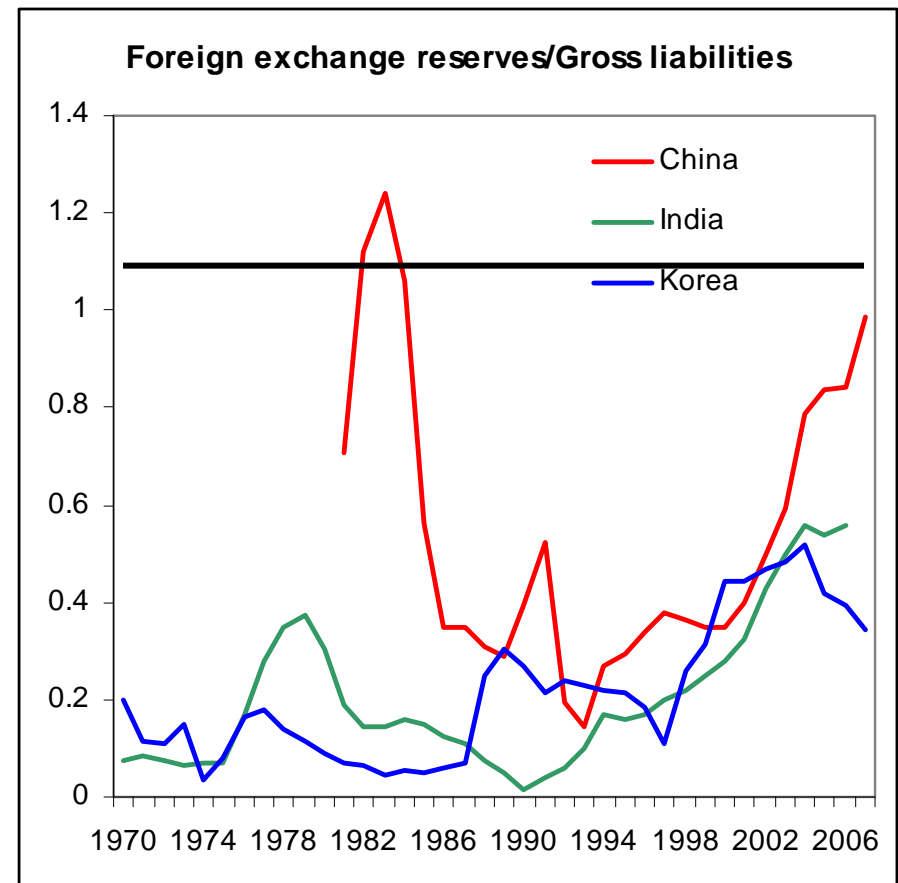
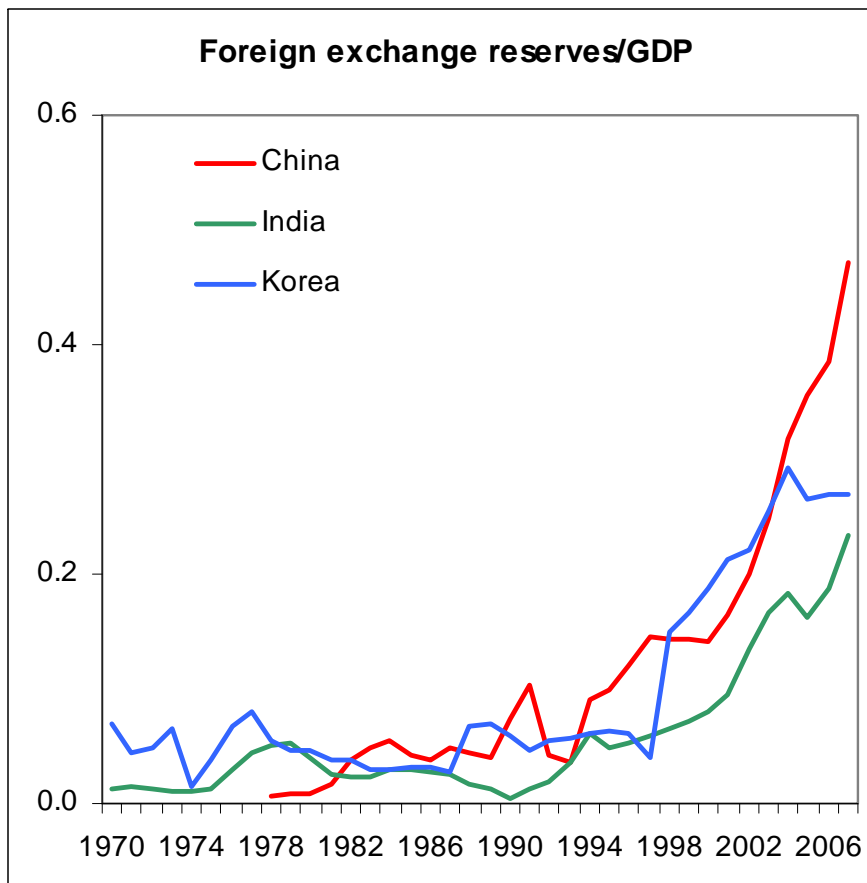
- Cooperation and mutual support need an anchor/yardstick
  - Europe relied on exchange rate agreements
    - Objective criteria
    - Automatically calls for coordination
  - Asia relies on soft surveillance
    - ERPD: no clear criterion
    - Therefore conflictual

# The Asian and European experiences

- Financial market integration
  - Europe: opening to competition
    - integrate into world markets
    - market driven
  - Asia (ABMI): regional-defensive
    - develop internal markets
    - government-led institutions

# Conclusion: the mirage of foreign exchange reserves

Even the Greenspan-Guidotti rule is not fail-safe!



# Conclusion: the mirage of foreign exchange reserves

- Foreign exchange reserves
  - Can deter moderate speculative attacks
  - Will never be a 100% guarantee
- Exchange rates remain a fatal hazard
  - For net debtor countries
  - Even for net creditor countries
    - Gross vs. net liabilities
  - The 'original sin' problem will not go away
- But deep regional cooperation does help