

Monetary and Financial Cooperation in East Asia

The State of Affairs after the Global
and European Crises

Edited by
Masahiro Kawai, Yung Chul Park, and Charles Wyplosz

OXFORD
UNIVERSITY PRESS

Contents

<i>List of Figures</i>	vii
<i>List of Tables</i>	ix
<i>Abbreviations</i>	xi
<i>List of Contributors</i>	xv
1. Introduction	1
<i>Charles Wyplosz</i>	
2. Financial and Monetary Cooperation in East Asia	11
<i>Masahiro Kawai and Yung Chul Park</i>	
3. International Financial Integration and Crisis Intensity	52
<i>Andrew K. Rose</i>	
4. Lessons from the European Public Debt Crisis	79
<i>Charles Wyplosz</i>	
5. A View from ASEAN	102
<i>Chalongphob Sussangkarn and Worapot Manupipatpong</i>	
6. A View from the People's Republic of China	133
<i>Yongding Yu</i>	
7. A View from Japan	158
<i>Masahiro Kawai</i>	
8. A View from the Republic of Korea	198
<i>Yung Chul Park and Chi-Young Song</i>	
<i>Index</i>	223

List of Figures

2.1	Gross capital inflows in East Asia excluding Japan	13
2.2	Export growth in East Asia	14
2.3	GDP growth in East Asia	15
2.4	Real effective exchange rates of the East Asian economies	17
2.5	Current account surpluses of East Asian economies	21
2.6	East Asia's trade and GDP growth, 2000–12	24
2.7	East Asia's foreign direct investment flows, 2000–12	28
2.8	Scope of concluded FTAs in East Asia total, 2000–12	31
2.9	Structure of the Chiang Mai Initiative	36
2.10	Development and deepening of Asian corporate bond markets, 2011	42
2.11	Share of intraregional portfolio investment in debt	43
3.1	The progressive recession	59
3.2	Insulation from the current account	60
3.3	Asset exposure to the United States	64
3.4	Asset exposure to Japan	65
3.5	Asset exposure to the Republic of Korea	65
3.6	Asset exposure to the People's Republic of China	66
3.7	Bank exposure to the United States	67
3.8	Bank exposure to Japan	67
4.1	Exchange rate volatility before and during the crisis	84
4.2	Change in exchange rate volatility and the exchange rate regime	84
4.3	The AMU exchange rate, 2000–14	89
4.4	Regional real exchange rate dispersion	90
4.5	Change in trade between 2007 and 2009	91
5.1	Exchange rate trends	114
5.2	Euro trade effects	124
6.1	The fluctuations of ASEAN+2 currencies against the US dollar, yen, and euro	140

List of Figures

6.2	Fluctuation of East Asian currencies against the US dollar	140
6.3	Fluctuation of East Asian currencies against the euro	141
7.1	Nominal yen appreciation matched by relative price deflation	162
7.2	Japan's current account and its composition	166
7.3	Real effective exchange rates of the yen, BIS data, and for automobiles	169
7.4	Production of non-tradable goods relative to tradable goods, nominal and real	170
7.5	Japan's MOF intervention in the foreign exchange market	171
7.6	Nominal exchange rates of the yen against the won and other currencies	174
7.7	Correlation of GDP growth rates between Japan and major economies	180
8.1	Trend of foreign exchange reserves in the Republic of Korea	200
8.2	Sovereign spreads: foreign currency denominated sovereign bond spreads (vs. US Treasury note)	202
8.3	CDS premium on the Republic of Korea government bond	202
8.4	Stock price movements in East Asia	203
8.5	Exchange rates against the US dollar of East Asian economies	204
8.6	Changes in stock price and exchange rates in the Republic of Korea	204
8.7	Fluctuations of the won/dollar exchange rate since the breakout of the global financial crisis	207
8.8	Frequency of the Republic of Korea's interventions in the won/dollar foreign exchange market	209
8.9	Won/dollar exchange rate flexibility index	210
8.10	Nominal and real effective exchange rates of the Republic of Korea won	210

List of Tables

2.1	Fiscal policy in major East Asian countries, 2009 and 2010	19
2.2	Destination of East Asia's exports by stages of production, 1995–2012	25
2.3	Sources and destinations of East Asia's foreign direct investment flows, 2003–12	29
2.4	Financial contributions and voting powers under the Chiang Mai Initiative Multilateralization	38
2.5	IMF classification of East Asian exchange rate regimes, 2012	45
3.1	Crisis manifestations	55
3.2	MIMIC model estimates with only control variables	58
3.3	Adding multilateral financial linkages, 2006	61
3.4	Adding bilateral financial linkages, 2006	63
3A	Data sample	77
4.1	Change in trade between 2007 and 2009	90
4.2	Correlations of changes between 2007 and 2009 of exports with various measures of exchange rate movements	92
4.3	Currency swap arrangements during the crisis	93
5.1	Ratio of exports of goods and services to GDP	111
5.2	Bank capital to assets ratio	112
5.3	Foreign reserves and potential short-term liabilities	113
5.4	Total ASEAN trade, 2008–9	114
5.5	ASEAN real GDP growth, 2006–11	115
5.6	Intra-East Asian trade shares	116
6.1	Weights of currency changes in East Asian currencies explained by the US dollar, euro, and yen	141
6.2	Trade growth of East Asian economies, 1996–2012	143
7.1	Internationally coordinated intervention for the yen	172
7.2	Currency distribution of reported foreign exchange market turnover	175
7.3	Estimated shares of currency areas of major currencies, 1970–2007	177
7.4	Ranking of global financial centers, March 2007–September 2013	183

List of Tables

8.1	Effects of change in the RMB/US dollar exchange rate on East Asian currencies	213
8A.1	Rate of renewal of foreign loans at the Republic of Korea banks	221
8A.2	Exports by principal commodity, 2007	221
8A.3	Frequency of the Republic of Korea's interventions in the won/US dollar foreign exchange market	221