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Dimensions of Regional Processes in the Asia-Pacific Region

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Part 3. Risks & Challenges

Introduction

Asia and Pacific's growing importance to the rest of the world is widely acknowledged today. The dynamics of Asian economic development have tremendously impacted global trade relationships and regional cooperation. Thus, it is with great pleasure that we deliver another volume of Research Papers on Asia-Pacific economic issues.

This year we present 19 papers by various authors who examine the Asia-Pacific region from different perspectives. We decided to group them into 3 Chapters:

- Cooperation and trade
- Economy and policy
- Risks & challenges

Papers grouped in the First Chapter describe newly emerging regional trade architecture. You will find there a few analyses of general nature and regional scope (J. Dudziński, A. H. Jankowiak, E. Majchrowska) and some studies on specific trade agreements (A. Klimek writes about Shanghai Free Trade Zone, A. McCaleb and G. Heiduk try to find out what motivates China's cities to establish partner agreements with cities in Asia, B. Michalski analysing U.S.-Republic of Korea Free Trade Agreement, while M. Maciejewski and W. Zysk look for opportunities for Polish exports in the trade agreement between EU and Vietnam).

The Second Chapter is the most diverse one. It is devoted mostly to economic policy issues (including financial sector). S. Bobowski, L. Zyblikiewicz and K. Żukrowska look at the main threads in Asian regionalism. P. Pasierbiak and K. Łopacińska analyse the movements of Chinese capital. M. Dziembała and S. Mazurek deal with the subject of innovation supporting growth and development.

Articles in the Third Chapter are focused on extraordinary events influencing economies and development of the Asia-Pacific region. J. Pera prepared an assessment of risk of APEC countries, based on the country risk classification method and selected indexes of internal stability. A. Kukułka and B. Totleben analyse the impact of natural disasters on gross capital formation in Southeastern Asia. Finally, T. Serwach and M. Grabowski and S. Wyciślak deal with synchronization of business cycles and contagion of crises.

We sincerely hope that all the articles will be of great value to those who want to understand the role of Asia-Pacific economies in the global economy. Through various interests of authors, our volume provides a valuable insight into the problems of this region.

All the papers where submitted for the 8th international scientific conference "Dimensions of Regional Processes in the Asia- Pacific Region" which took place in

November 2015 at Wroclaw University of Economics, under the patronage of Polish Ministry of Foreign Affairs, Ministry of Science and Higher Education and the Ministry of Economy.

We appreciate your time and consideration, and we look forward to the submission of your own good work. We also appreciate the time and effort of our peer reviewers. Thank you!

Bogusława Drelich-Skulska, *Anna H. Jankowiak*, *Szymon Mazurek*

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FINANCIAL DIMENSION IN ASIAN COOPERATION

FINANSOWY WYMIAR WSPÓŁPRACY AZJATYCKIEJ

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Summary: Article covers financial and monetary cooperation, showing their roots and stages, on a wider background of world economy and developments in the structure of the world's financial system. It also becomes clear that Asian states were pushed into closer cooperation by two crises of 1997 and 2008+. The financial cooperation includes tools which help states to stabilize their currency exchange rates. Current system, the Chiang Mai Initiative, embraces three pillars: liquidity assistance; monitoring and surveillance; exchange rate & financial policy cooperation. Since launching, the system went through a process of widening, which means growing number of states participating in it; and deepening, which means expansion of the scale and scope of cooperation. The cooperation started with easing financial liquidity, in advanced phases it built confidence and trust. This has laid foundation for systemic, legal, institutional convergence, paving way to further integration (internal market in 2020).

Keywords: ASEAN, monetary and financial cooperation, Chiang Mai Initiative, exchange rate stabilization, financial liquidity.

Streszczenie: Artykuł przedstawia współpracę finansową i monetarną, wskazując na jej korzenie i fazy, jakie przeszła. Problem omówiony jest na szerszym tle gospodarki światowej i zmian zachodzących w strukturze światowego systemu finansowego. Współpraca finansowa i monetarna w Azji została wymuszona przez dwa kolejne kryzysy 1997 i 2008+. W ramach Inicjatywy z Chiang Mai stworzony został system oparty na trzech filarach, wspieraniu płynności, monitoringu i obserwacji; współpracy finansowej i kursowej. System od czasu wprowadzenia przeszedł poszerzanie, co oznacza wzrost liczby państw objętych współpracą i pogłębiania, co oznacza objęcie współpracą nowych dziedzin.

Słowa kluczowe: ASEAN, współpraca monetrana i finansowa, Inicjatywa z Chiang Mai, płynność finansowa, stabilizacja kursu.

1. Primary moves towards financial cooperation and its background

Finance traditionally formed a platform for international cooperation. With advancement of the world financial system, a feedback between the global and regional solutions were observed. At the start, the solutions applied were built upon the role of states and their currencies enjoying confidence internationally. Both states and currencies were changing. Currently, the Asian states and their currencies are on the rise. There are two options for the future concerning the financial cooperation in Asia. These are: regional currency, introduced after completing the consecutive steps of integration, enabling the introduction of common Asian money or following similar steps, introduction of common global currency. The second solution is more probable, as the world economy negotiates agreements liberalizing trade (TTP, TTIP, Doha Round, etc.) and the Asian states, reacting to financial conditions on capital market, are forced to come with the solutions tightening regional cooperation.

Analysing the evolution of the world financial system since nineteenth century, we can easily divide it into stages. Recently we are close to a stage which can be characterized by a global solution (UN, IMF, WB, GATT/WTO), and regional ones (EU, NAFTA, ASEAN, Mercosur, etc.). The world economy is interconnected and interdependent. Applied solutions embrace an increasing number of states. The Mundell's theory on Optimal Currency Area (OCA) shows the conditions needed for the introduction of common currency. The world economy is close to OCA with the exception of the labour markets. But we witness two mutually supplementing trends: mass migrations; changes in demography (increase in birth rate in rich markets), decreasing birth rates in emerging economies. Moreover, economists and financial specialists are richer by the experience of EMU and the financial crisis 2008+ followed by the EMU crisis.

Since the XIXth century, the world went through 10 phases of monetary cooperation. Asian currencies have joined the system relatively late. These were the Japanese yen (¥) and the Chinese yuan (C¥).

Table 1. Phases in the International Monetary System (1803-1999)

Date	System	Reserve asset(s)	Leader(s)
1803-1873	Bimetallism	Gold & Silver	France
1873-1914	Gold Standard	Gold and £	Britain
1915-1924	Anchored $ Standard	Gold & $	U.S.
1924-1933	Gold Standard	Gold, $ and £	U.S., UK, France
1934-1971	Anchored $ Standard	Gold and $	U.S., G-10
1971-1973	Dollar Standard	$	U.S.
1973-1985	Flexible Exchange Rates	$, DM, £	U.S., FRG
1985-1999	Managed Exchange Rates	$, DM, ¥	U.S.
1999-2009	Dollar and Euro	$, €, ¥, £	U.S., EMU
2009-?	Currency Areas	$, €, ¥, C¥, £	U.S., EMU

Source: Mundell [2009, p. 6]

According to R. Mundell, after 2004 the world finance functions within the bilateral system created by the US dollar and EMU – the euro [Mundell 2012]. With the advancement of time and euro passing its early youth period – both currencies have paved their way in the world system, cooperating with each other. Both currencies are surrounded by additional currencies which also play a role as the reserve currencies – these are: British Pound (£) Japanese Yen (¥), and Chinese Yuan (C¥).

Financial cooperation is conditioned by a common approval and mutual trust of the participants. Global financial solutions help to accelerate the trade in goods, services and capital flows, what in turn increases the interests in deepening liberalization, institutionalization and the establishment of regulations concerning monetary cooperation.

The group of states which coordinate their macroeconomic-policies has increased. The longest experience of cooperation in this field can be seen between the US and the EU[1] (this includes the coordination during the G-7 summits) [Hajnal 2007; Callagham et al. (eds.) 2014]. Also the crisis 2008+ has increased the role of G-20 in this capacities, showing the possibilities of cooperation of a wider group of states which decide to coordinate their financial policies. The role of G-20 increased, but at the same time the role of G-7 did not decrease. The same may be said about the role of IMF or UN. Important Asian economies are included in the G-20, which can be seen as additional stimuli for regional cooperation in the financial matters. In Asia, closer financial cooperation has begun during the Asian financial crisis in 1997.

The G-20 has announced, during its summit in 2009, that there is need to work on a world global currency. This solution is seen as a stabilizing measure in the world scale, which is to help to improve the current system, faulty in a number of terms. The mentioned decision was supported by a strong capital injection into the world system of $250 billion. The decision to pump money into the world economy was aimed at stimulating global growth and increasing global liquidity. It was done with the use of the SDRs – Special Drawing Rights. This fact can be interpreted as new power of the G-20 in the area of creating money, which was commonly interpreted as global quantitative easing. The agreement reached within the Group may be seen as a solution which is a continuation of the Plaza Accord and was preannounced by some economists in the past as a necessity in world finance [Cline 2005]. Coordination within the G-20 is a consecutive move towards a closer cooperation of a wider group of states representing different continents and regions. The working problems of G-20 expanded from the financial matters to social care, work, employment, level of minimum wage, embracing also trade, visas, structure and development issues [The Economist 2015a]. G-20 includes the states from the Asian region which cooperate with ASEAN, but are not the ASEAN members, which are relatively small, despite some of them are rather competitive and developed.

[1] Process has deepened by the creation of the European Banking Union in 2012, as a reaction to the Eurozone crisis.

In sum, one world currency seems to be a better solution to the regional currencies and requires the preparations of regions to introduce it. Regional currencies can cause interregional tensions resulted by possible fluctuations of exchange rates of the regional currencies. Appreciation of exchange rate of an emerging region can reduce the competitiveness of exported products followed by increased competitiveness of imported goods, which means more openness of the markets in such areas, followed by increasing imports and decreasing exports. The opposite can be ascribed to developed economies – their exports could grow with the depreciation of the exchange rate of their currency and imports could fall. The decrease of the exchange rate of Chinese renminbi and fall of rates of growth in the Chinese market cause a slow-down in the rates of growth of the markets in the Asian region.

2. First moves in the Asian financial cooperation

Asian states, after the European and North American integration groupings, are most advanced in multidimensional cooperation. Asian experience in this field is an interesting case study, which brings practical lessons for other, less advanced, regions. Beginning of the financial cooperation in Asia (understood as East Asia[2]) dates to the Asian Financial crisis of 1997.

Before starting to describe the financial cooperation in Asia, there is a need to specify what is understood by this notion, which is a phenomenon other than the monetary regionalism. The latter means coordination of monetary policy, which can lead towards delegating of some sovereign rights in the field of exchange rate policy and pooling them on a regional level. Monetary regionalism requires a certain level of advancement of the economic and financial cooperation. In this study, a wide definition of financial cooperation is used and it includes both, the mechanisms of financial support, building financial markets, moves leading towards monetary coordination. It covers also some elements of political decisions, liberalization, building institutions, introducing laws, harmonizing some solutions, which impact the model of functioning of the capital, banking, financial markets [Jung 2005].

After the 1997 Asian crisis, the ASEAN states have introduced the instruments which have helped to manage the most of the financial matters better. The new mechanisms have included the Chiang Mai Initiative (CMI) and the Bilateral Swap Arrangements (BSAs). The first (CMI) is a system of currency swaps among members, while the second (BSAs) is a mutual liquidity support achieved by the introduction of the BSAs.

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[2] East Asian region is difficult to define as it is economically and geographically divergent. For the purpose of this study the list is limited to 13 states: ASEAN members and Asian states cooperating with ASEAN. This covers: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand, Vietnam, with addition of China, Japan and South Korea (see: [Katzenstein 1997; Nabers 2015; Terada-Hagiwara et al. 2014]).

The BSAs went through a deep process of changes, adapting the system, its structure and functioning to the need of increased effectiveness. The evolution of the system was aimed at introducing a *self-managed pooling arrangement* (SRPA). All of this was supported by three central bank cooperation arrangements. The Central Banks of South East Asia, New Zealand and Australia (SEANZA), the South East Asian Central Banks (SEACEN) and the Executives Meeting of East Asia-Pacific Central Banks (EMEAP). The mentioned arrangements indicate that building the capacity of financial cooperation in the region have gained momentum in this specific area better than in the remaining ones.

Up to 2015, the ASEAN+3 were unable to accept the proposed structure, functional details and methods used in the management of the (self-managed reserve pooling arrangement (SRPA). All states were in favour of the idea to coordinate monetary policy, but at the same time, they were not able to come with a common solution concerning how this was to be done. In 2012 the ASEAN states increased the size of the Chiang Mai Initiative Multilateralisation (CMIM), which resulted in increasing the fund's value. The capital accumulated in the fund can be used in the region, increasing the regional liquidity. The decision was to double the available amount from US$ 120 billion to US$ 240 billion. The decision concerning the value of the amount was followed by the increase of the scope of the IMF conditionality from 20 to 30%. This decision increases the role of the IMF in controlling the financial and monetary policies. Along with that, a Precautionary (CMIM) Line was introduced, increasing the number of financial tools available in the region [ASEAN 2015].

A new wave – deepening cooperation in the Asian region in financial cooperation, can be expected with the current slowdown in the Asian economies, what was caused by a stock-market shock. These expectations show that the behaviour of Asian states differs from the European one, as the Asian economies plan cooperation in the periods when the economy slows down, while the European economies wait for acceleration of the rates of growth. In the first group, the integration is seen as a remedy, while in the second group, higher rates are seen as a background for cooperation and slowdown in the economy postpones the decisions on further commitments.

Table 2. Favourable and unfavourable conditions for regional financial cooperation

Disadvantages – unfavourable conditions (–)	Advantages – favourable conditions (+)
Low benefits with high level of certainty in the regional financial cooperation	High benefits with high level of certainty in the regional financial cooperation
High sovereignty costs	Low sovereign costs
Low domestic implementation capacities in the regional countries	High domestic implementation capacities in the regional countries
Low level of the accumulated regional capacity	High level of the accumulated regional capacity

Source: Jung [2005, p. 16].

Fig. 1. Favourable and unfavourable conditions for regional financial cooperation

Source: Jung [2005, p. 16].

This model enumerates the conditions which are supportive to the financial cooperation (FC) and which can create obstacles in this area. It also clarifies how the model works in Asia. It becomes clear that specific markets enjoyed leading roles and how their position evolved. This explains the indirect role of the transfers which were stimulated by the decisions caused by events in 1970 (departure from the gold standard in world finance and the energy crisis, in which growing energy prices changed the costs of production in highly developed economies). In result of these events, the acceleration of the international capital flows was observed. The flows resulted in the rise of Newly Industrialized Countries (NIC) or the so-called Asian

Table 3. Cross-border equity holdings – Asia

Reporter	Partner					
	of which					
	Asia	PRC	Japan	EU	US	ROW
East Asia	**19,1**	**12,3**	**0,9**	**19,3**	**25,7**	**35,8**
PRC	-	-	-	-	-	-
Hong Kong	28,5	24,5	1,0	15,0	3,4	53,1
Japan	9,8	1,3	-	22,8	44,9	23,1
Korea Rep	23,4	6,0	5,4	23,1	40,1	13,3
Mongolia	79,8	0,0	0,1	1,5	6,5	12,2
Taipei (China)	-	-	-	-	-	-
Southeast Asia	**42,1**	**11,1**	**5,2**	**6,6**	**29,1**	**22,2**
Brunei Darussalam	-	-	-	-	-	-
Cambodia	-	-	-	-	-	-
Indonesia	66,4	26,3	7,0	0,0	18,2	15,4
Laos PDR	-	-	-	-	-	-
Malaysia	48,9	1,2	0,7	7,5	36,1	7,5
Myanmar	-	-	-	-	-	-
The Philippines	25,2	1,6	0,2	17,2	54,8	2,7
Singapore	41,7	12,1	5,7	6,3	28,2	23,9
Thailand	24,8	3,2	0,9	19,4	50,5	5,3
Viet Nam	-	-	-	-	-	-

Note: East Asia and Southeast Asia, in % of total cross-border bond holdings, 2013.

Source: ADB [2014].

Tigers. These states, in turn – proving that development is possible and can be followed by high competitiveness, resulted in the openness for trade and capital flows – engaged their efforts in bringing together other economies from the region. This was the case with South Korea or Singapore, followed by Thailand and remaining states of the region. The seed capital came from the USA, Japan and European markets. With time passing, the investors in the region changed their position: Japan lost in favour of Europe and China. The pattern of changes of the flows of capital reflects the model shown in Table 3 in full.

Tighter financial integration in the region started with the crisis of 1997-98. This crisis originated in the capital account disparities, rather than in the current account problems. This was linked with the lack of elimination of simple reserves before increasing the use of labour force complex reserves. The policy suggested by the IMF – according to the review of the management of the crisis by the Independent Evaluation Office of the IMF (2003) – not fully gave a comprehensive advice on how to overcome the problems [IEO 2003]. The suggested policies were more appropriate for the current account disequilibrium, and not for the capital account crisis. The suggestions covered the fiscal tightening and increased interest rates policy.

According to the diagnosis of the quoted Report, a sudden and relatively big increase in the capital inflows into a number of East Asian markets set a boom in the assets market, resulting in current account deficits, which in turn has increased the sensitivity of a number of markets in the region to speculative attacks. The assumption of increased vulnerability of the currency exchange rate to the flows of capital caused disruptive outflows of capital and deep currency devaluations. None of the states have reacted to sudden changes in the direction of flows of capital by suspension of its free movement.

The policy applied in reaction to the crisis embraced the departure from the fixed exchange rates and replacement of the old fixed regimes, which provoke speculation at times when the intervention of the central bank becomes necessary, by floating regimes, which are much more secure, as far as speculative attacks are concerned [Rana 1998]. The crisis also enforced some reforms of the banking system which – as the crisis proved – were not prepared for an increased number of transactions, which resulted from the increased interest of foreign capital in investments in the Asian markets.

The second part of the reforms advised by the IMF covered structural reforms. More precisely, they covered a wide scope of institutional reforms in corporate, financial and the public sector. The changes introduced in this area were aimed at creating a better economic environment for the investors from the region and from abroad, as well as for the institutions and corporations ready to lend capital to be invested in the region.

The countries in the region started to accumulate their reserves, what was against the theoretical expectations of the financial experts, who traditionally have foreseen the increasing tensions of the balance of payments of developing markets. Between 2000-2008, foreign exchange reserves calculated as the share of the GDP have increased in: China (+26%), Honk Kong (+6.8%), Korea (+8.3%), Malaysia (+29%), The Philippines (+1.8%), Singapore (+11.9%), Taiwan (+35.5%) and Thailand (+11.9%). The only exception from this trend was Indonesia, in which this indicator dropped by 4.6%[3]. The highest growth of reserves as a share of the GDP was experienced in Taiwan and China, while the lowest in The Philippines.

A part of the explanation of this phenomenon was that the currencies of the states from the Asian region appreciated vis-a-vis dollar in real terms, but this was not always indicated in the real value of their exchange rate. Some economists argued that this phenomenon was seen as a remedy in case of another crisis. Nevertheless, the growing reserves helped to undertake the decision to deregulate the capital account transactions in 1998 and unexpectedly this deregulation stimulated the increase of reserves in the region further. Paradoxically, these events did not have an impact on the acceleration of the capital flows to the region, nor the capital markets from the region had experienced an improved access to the world capital market. In result, most of the analysis of the capital markets of the region indicate that capital flows to the markets stayed unpredictable and unstable.

The policy which was built upon managing the currency reserves was built upon a rule which said that it is necessary to keep the reserves which should exceed at least 3-4 months of the imports value. The philosophy behind this rule was coined upon a theory which required a certain amount of financial resources in order to defeat the attack on the exchange rate, in other words, the amount of money should be sufficient for an effective intervention. With increased capital mobility on the global scale, which was reflected, among other things, by the fact that in some states, the reserves were increasing rapidly, equalling with ¼ (in Korea) or even ¾ (in Taiwan or Singapore) of the GDP, but at the same time – the capital account transactions jumped ten or even more times.

The new situation, characterized by the acceleration of the movement of the production factors on the world scale, have led to certain revision of the former requirement concerning the size of the reserves kept by central banks. The old law, which was built upon Kindlebergers' attitude to the size of reserves, was replaced by a new one, often called the Greenspan-Guidotti-Fischer rule (GGF) [Vermeiren 2014, p. 78]. The new formula on reserves required levelling them with the short-term foreign currency liabilities. Both formulas are rooted in the theories formed in the period of fixed exchange rates. The model of fixed exchange rates created environment for speculative attacks on the exchange rates of the currencies in the region [Aizenman, Lee 2005].

[3] Own calculations, based on 2010-2016 International Financial Statistics of IMF [IMF, 2016].

Currently the size of the integrated regional markets eliminates the conditions which were provoking asymmetric speculations and attacks. The financial cooperation and introduction of the floating exchange rates undermines such attacks, making them ineffective.

3. Practical experience of the financial cooperation in Asia

After the Asian financial crisis of 1997, the ASEAN states have institutionalized two regional initiatives in the area of financial cooperation. These were – earlier mentioned – Chiang Mai Initiative (CMI) and the Asian Bond Market Development Initiative (ABMI). The crisis and ASEAN's regional financial cooperation enforced the expansion of cooperation to three non-ASEAN states, namely China, Japan and Korea. These states were invited to join and participate in a common effort of building a regional mechanism for economic and financial cooperation. This resulted in the creation of a new grouping called ASEAN+3. Such a move can be labelled as enlargement. The applied solutions were in contradiction to the integration theories of that time, suggesting that only economies which represent similar level of development can integrate [Allais 1988]. At the same time, this initiative matched fully with the practice of successful integration, where the economies representing different levels of development cooperated (EEC/EU, NAFTA).

The cooperation framed by the mentioned initiatives within the introduced structure led to the next phase which can be seen as the deepening of cooperation. In 2000, during the summit in Chiang Mai, Thailand, the ministers of finance of ASEAN+3 decided about setting a system of bilateral currency swap arrangements (BSAs). During this meeting it was also decided to institutionalize the regular meetings of ministers of finance of the ASEAN+3 – known as AFMM+3 and ASEAN+3 Finance and Central Bank Deputies' Meeting, known as AFDM+3. Such meetings became regular, as they are organized at least once a year or more frequently. Their purpose is to conduct a dialogue on the financial and monetary policy and coordinate the work of the financial sectors. This results in the harmonization of the reforms conducted in the states located in the region. The Chiang Mai Initiative (CMI) has a three-pillar construction. The pillars cover: (1) liquidity assistance, (2) monitoring and surveillance, and (3) exchange rate and other elements of financial policy cooperation [Guerrero 2010].

The introduced arrangement of swaps expanded gradually with the increase of the number of states participating in this project and with the increase of the amount of the capital engaged in it. The swap arrangements at the starting point were created by the five founding members of ASEAN. In 2000 the ASEAN swap arrangement (ASA) was expanded, including five new members of the organization. The increase of a number of states included in the initiative was followed by the increase of the amount available for intervention. The primary allocated the amount of US$200 million was multiplied five times making a round amount of US$ 1 billion. The new members of ASEAN participate in ASA, but are not part of the Chiang Mai Initiative.

The swap arrangement (BSAs) is constructed in such a way that it can support the financial liquidity of a country which is the partner of the arrangement. The amount which a member of BSAs is able to borrow expanded with time from 10% to 20%, and recently to 30% of the contracted amount. The credit is drawn under certain conditions which embrace the IMF surveillance concerning the programmes of reforms and macroeconomic stabilization. The participants are entitled to draw a credit for three months. When the agreed conditions are met and there is a need to continue borrowing the money within the BSAs, each member can repeat the procedure even seven times. The credit cost of such lending is linked with the official rate of the London interbank loans (LIBOR). In case of the first drawing and the first renewal there is an additional cost of 150 basis points. When a country shows an interest in continuation of drawing of consecutive credit – the cost of the credit is increased by additional 50 basis points in case of every two renewals. The conditions of lending include a ceiling for the cost of drawing new credit, which is 300 basis points [Aizenman et al. 2011].

The currency swaps in BSAs can be arranged in two ways. Initially the crediting parties were limited to China and Japan plus the five East Asian states. The five founding ASEAN states were eligible to draw credit. The available amount of capital allocated from CMI was increased with time and finally reached the level of US$ 84 billion. The ASEAN states did not agree until now on the surveillance mechanism and they rely in the mechanism offered by the IMF. It becomes clear that with the ceiling introduced in the progressive borrowing cost – there is need to approve own, internal monitoring and evaluation mechanism. When a country is late or is not able to pay the credit back – there are no provisions on such default. Such approach is seen as one of the weaknesses of this system. In reality, it works more in form or a fire extinguishing brigade then a long-term solution tool.

An additional crediting line was introduced after the enlargement of ASEAN. Recently, any state which needs credit to improve its liquidity has to negotiate activation of the BSAs with all the money providers on individual terms. This means that the difference in conditions of the loan or the refusal of one or more states can decide that the loan is not agreed upon within the BSAs framework. Such an approach means that this instrument cannot be seen as an efficient tool which supports liquidity in the states located in the South-East Asian region. Nevertheless, CMI and BSAs have created the conditions for the states located in the region to conduct political dialogue about the common future, as well as to coordinate their economic and financial policies. BSAs in 2006 were replaced by a single mechanism, which is labelled *self-managed reserve pooling arrangement* (SRPA). The change resulted from an agreement of the ministers of finance of the ASEAN+3 states, being considered as a solution which leads to a multifaceted regional system. Some of the decisions undertaken within this system require unanimity (lending), others demand only the support of majority. The remaining conditions are inherited from the previous system. SRPA in a number of introduced solutions resembles the European Monetary Cooperation Fund (EMCE) [CEC 1973].

The solutions applied in ASEAN+3 are seen by some of the economists as the first moves leading towards constructing a new reformed global financial architecture. The approach presented by some of the evaluators of the current architecture turns our attention to the fact that the IMF is not able to manage capital account or short run liquidity crisis, which is supported by fact that the IMF has a limited experience in lending operations within the G-7. This opinion is supported with the argument that "the IMF has not been effective in persuading major players, including G-7 economies, to coordinate their policies during the global financial turmoil" [Park, Wyplosz 2010, p. 38]. Regional financial arrangements can be seen in such circumstances as complementary to the global system introduced by the IMF. Three arguments are used here: (1) reference to the European experience; (2) regional solutions are seen as better adjusted and prepared than the IMF to regulate problems with capital account or liquidity; (3) the IMF is seen as an organization with limited capacities to solve such problems as coordination of the macro-policies of its members or serve as a lender of last-resort [p. 39].

One can agree with such a stand point only in part. The IMF was not lending money to the G-7, but it did lend money to other members of this organization, signing specific (individually) tailored agreements, which were condition-based. This was used as an instrument helping to control how the pre-defined conditions were fulfilled. This was the case with Hungary and Poland during the early transformation phase after 1989, which was followed by the new solutions (called the European troika[4]) in case of indebted states like Ukraine or such EU members as Ireland or Greece. Moreover, the G-20 expanded its meeting from the heads of state and governments' to central bank's chairmen and branch ministers (finance, industry, labour and social policy, etc.).

Primary coordination of macro-policies

Coordination within the G-7 was extended to include a bigger number of states within the G-20. The participation in the summits of G-20 is not limited to states, but it also includes such organizations as IMF, EU's – EC, ECB, as well as other regional groupings, such as BRIC or G-7. The number of states participating in the meetings varies, which means that in addition to these states which are the regular participants in the summits, additional participants may be invited.

The 2008+ crisis has proved that the coordination of macro-policies within the G-20 group was effective in overcoming the crisis. The rates of growth of the world economy during the crisis were positive (in green), which resulted from the positive

[4] Troika in this specific case embraces the European Commission, European Central Bank and the IMF.

rates of growth in the developing and emerging economies[5]. All of this was considered a good platform within which the framework was created by global organizations like the UN's: IMF and WB, while regional and national economies could be monitored, analysed and supported by the regional financial arrangements, like the solutions in the EU or ASEAN. It was even suggested that the IMF would stay engaged in regional matters by submitting technical assistance and coordinating certain activities from the global perspective, which includes also the G-20 presence and being also present in the meetings on regional level of the regional structures, such as financial matters, labour market and social issues, education, research and development, etc.

The Asian Financial Ministers Meetings

Both, the European and ASEAN's experience shows that despite a number of weaknesses encountered in the process of decision making and functioning of the regional financial cooperative institutions, they are seen as helpful and supportive instruments for the traditionally functioning global solutions. Both, regional and global institutions can be mutually supplementary one to another. The regional initiatives can be also seen as tools which help to build confidence among the neighbouring states, which can result in further deepened cooperation, leading towards opening of the economy.

The analysis of the available statistics concerning the geography of trade, capital transfers, including the FDI, remittance inflow, cross-border bond holdings or cross-border equity holdings, all show that the Asian markets indicate a strong diversification of being integrated into the world economy and regionally. ASEAN+3 seems to be most integrated in comparison with the remaining Asian regions. Having said so, we can also assume that this phenomenon is resulted by the institutionalization of the relations of the group in question and works which help to overcome all the doubts concerning confidence and trusting neighbours, as well as the rest of the world and opening of the economy.

Giving some most recent statistical data on FDI inflows in Southeast Asia, 48.9% of capital came from other Asian markets. In case of East Asia, the indicator is even higher and reaches 61.5%. The quoted statistics are gathered by the IMF from the countries in the region, who serve as reporters. In some cases, the data is not available, which means that the share could be even higher.

Statistical data in the Tables 3 and 4 indicates that Asian region plays an important role in cross-border equity and bond holdings for East and Southeast Asia, although

[5] The rates of growth in the whole world have slowed down during the crisis. In case of developed economies, they have reached negative values, while in the developing economies, they were lower than before the crisis, but above zero. Before the crisis, it was announced by the IMF that the economic cycle in the world economy is fully synchronized. This fact does not mean that the rates of growth must be equal showing same drops and accelerations. It means that trends of rates of growth in periods of acceleration and slow-down follow the same paths.

a number of regional markets located there are not participating in such transactions. There could be a number of explanations for the reasons behind such behaviour.

One main reason here is the underdeveloped capital market and capital institutions. All the financial cooperation initiatives try to overcome this specific problem. The replacement by a global institution or a one coming from another region does not seem to be efficient in solving the problem. The remedy here is simple: Asian economies build institutions which can be supportive, while the member states make the use of them in the area where they can and want to do it. A positive example can be helpful here. Also, the talks on applied solutions and setting goals for the community to achieve is important. To solve the problems, it requires time and further reforms, which can bring the cooperating markets closer together.

Table 4. Cross-border bond holdings – Asia (East Asia, Southeast Asia, in % of total equity holdings in 2013)

Reporter	Partner					
	of which					
	Asia	PRC	Japan	EU	US	ROW
East Asia	**14.1**	**5.9**	**0.6**	**32.6**	**29.5**	**23.8**
PRC	-	-	-	-	-	-
Hong Kong	63.1	42.7	4.4	13.1	13.9	9.8
Japan	6.2	0.1	0.0	35.7	32.0	26.1
Korea Rep	14.4	0.9	2.5	33.6	28.6	23.3
Mongolia	34.6	0.0	0.0	4.2	20.8	40.4
Taipei (China)	-	-	-	-	-	-
Southeast Asia	**31.9**	**1.5**	**0.0**	**11.3**	**24.7**	**32.0**
Brunei Darussalam	-	-	-	-	-	-
Cambodia	-	-	-	-	-	-
Indonesia	12.2	3.5	0.2	24.9	9.3	53.6
Laos PDR	-	-	-	-	-	-
Malaysia	58.3	0.9	0.4	7.6	17.2	16.9
Myanmar	-	-	-	-	-	-
Philippines	35.6	3.7	0.9	14.4	31.4	18.6
Singapore	31.0	1.4	-	11.1	26.6	31.3
Thailand	35.8	1.7	0.2	10.9	2.9	50..4
Viet Nam	-	-	-	-	-	-

Source: ADB [2014].

Theoretical models show that financial cooperation follows the path of flows of goods. In case of East Asia 51.9% of trade turnover is done within the Asian market, while in case of Southeast Asia the share is even higher and riches 68.3%. Closer look into the remaining regions indicates that the EU and the US markets play less important role in the trade of those regions. A bigger share is taken by ROW (the rest of the world).

4. Current stage of financial cooperation and its foreseeable future

Financial cooperation in Asia has moved to a new stage, which covers some elements that can be perceived as bringing the states closer together, but at the same time some, other ones tend to drag them apart. None of these events can be assessed unambiguously. We witness the agreements of the ministers of finance on financial cooperation and approval of the efforts made in preparing the instruments supporting such cooperation and, at the same time, we can find the evidence that Asian economies trust the instruments offered by the EU more, which was clearly visible after the financial meltdown in China, as evidenced by the biggest one-day fall of the stock market ratings since 2007 on Monday, the 24th of August, 2015. The day was called "Black Monday" [The Economist 2015b]. The situation of the Chinese economy can lead to different solutions, it can stimulate the reforms and help China to meet certain requirements resulting from deep reforms, or just the opposite, it can cause a slowdown in reforms and isolation of and from China. Both scenarios are possible.

Trying to characterize Chinese problems one can say that the international role of China in the area of finance grows. This was proved during the *G-7 Finance Summit* in May 2015, where the participating representatives of the biggest states and meaningful institutions decided to support Chinese RMB to be incorporated into the Special Drawing Rights (SDR) currency basket. This can be done after a technical review by the IMF. What currencies enjoy such status and what conditions have to be met to be admitted into such setting?

The SDR currency basket embraces the US dollar ($), Euro (€), the British Pound (£) and Japanese Yen (¥). For China to be included in the basket it should export more than Great Britain or Japan, the renminbi (C¥ or RMB) should be fully convertible (according to the regulations of Art 8 of IMF [2016]), its capital account should be fully open. Final requirement to enter the SDR is to meet the provisions on free currency standards, which means that there is a wide demand for such currency and it is used in international payments and in exchange markets, as well as it is used as reserve currency. The final conditions bring a range of activities in which such a transaction is used, which covers its use by the banks in international settlements, international liabilities, cross border deposits, international bond markets. All this means that such a currency is also used officially in reporting statistics concerning the financial markets.

In 2010, when the IMF has proceeded with a technical review of the RMB, the currency did not meet all the requirements. Today it seems that still some of the requirements are not met by China and its currency. In 2012 the value of China's total trade was 25.42 trillion yuan, which gave the market a second place in the world economy [Xianrong 2015]. In 2013, the turnover still was on an increase, reaching 25.83 trillion yuan, bringing China to the first position in the world [Xianrong 2015]. In 2014, this trendcontinued, and China's trade turnover was estimated at 26.43 trillion [Xianrong 2015]. Nevertheless, the Chinese currency is still not fully convertible and the current account is not fully opened. At the same time, the international strength of renminbi was growing. In 2014, deposits in RMB have surpassed 2.8 trillion yuan, what brings the currency to the second position to the four SDR currency cross-border deposits [Xianrong 2015]. Moreover, at the beginning of 2015, Chinese currency was ranked as 6th in FOREX transactions.

The RMB's position will be re-evaluated by the IMF, which will take some time. Most of the IMF members have supported the China's aspirations of joining SDR. Big opposition to this solution was seen in the attitude expressed by the US, which was supported by the arguments using the facts that the Chinese currency does not meet all the requirements for such status. From this follows that:

- A new reserve currency can be seen as a solution which can stabilize the financial investment, making it more predictable;
- Yuan (renminbi) is seen as a prospective currency, as for a couple of years the value of it has been appreciating;
- The increased demand for Yuan can result in its further appreciation, which, on the one hand can be seen as a profitable solution for the investors, while on the other, one it can be seen as an external risk mitigating tool, as the appreciation of Yuan decreases the cost competitiveness of the currency in question and of all goods which are sold with the use of that currency;
- The role of China in the world trade decides that the Chinese currency becomes more desirable;
- Change of the status of the Yuan can be seen also as a stabilizing factor, building international confidence on the international financial markets.

The discussed trend indicates the growing weight of the RMB in the world economy and in the East Asian region. At the same time, it shows that this position is also built upon the demand for Chinese currency within the framework of development of the regional East Asian financial cooperation. The role of Chinese currency is also strengthened by the activities conducted by China within its financial aid policy. This issue is of secondary importance to this paper, still it seems important to inform about it, as it increases the demand for the RMB in Western-Asia, Eastern Europe, Africa, and Latin America.

As far as the ASEAN+3 Finance Ministers and Central Governors Meetings are concerned – it is clear that everyone agrees on the issues which need to be solved cover public and private debt stress, structural weaknesses (high inflation, large current accounts deficits, substantial fiscal imbalances), all being vulnerable to the tightening of financial conditions. The representatives of the financial institutions of ASEAN+3 are supporting the implementation of structural reforms, which are aimed at improving the resilience and growth potential of the economies in the region. They see the sense in the coordination of the macroeconomic policy adjustments and strengthening financial cooperation in the region [MoF Japan 2014]. There are plans to further strengthen the Chiang Mai Initiative Multilateralisation (CMIM), the ASEAN+3 Finance Ministers and Central Bank Governers meeting supported the development of ASEAN+3 Macroeconomic Research Office (AMRO). The AMRO's work is currently supported by the Research Group (RG) which has prepared a study on 2013/2014, in which the recommendations were formulated on the policy supporting the expansion of the securitization market. In the area of finance, it was underlined that the Asian Bond Markets Initiative (AMBI) has contributed significantly to the development of the local currency bond markets. This was seen as one of the effective initiatives which allows to increase the channelling of savings in the region to support the local capital markets, making the conditions to finance the local investment needs. The improvement in this area follows the guidance prepared in the technical assistance project called "Fostering Infrastructure Financing Bonds Development" [OECD 2105].

There are plans to transform AMRO into an international organization which will be able to conduct surveillance as an independent body, free of pressure from the member-states of ASEAN[3]. This can be done after completing domestic procedures which will allow them to be conducted on a national level by an international and independent body. Despite a full support for such a solution – it seems to be difficult to be put into action in a short time.

The meeting decisions move the cooperation in finance into new areas, which can be illustrated by some decisions aimed to expand the currency swap markets in the region, what is followed by the progress noted in a new project of the ASEAN+3, namely Multi-currency Bond Issuance Framework (AMBIF). This leads towards a clarification on the common elements and findings concerning the differences in the required documentation. This stage is supposed to lead to a closer harmonization of the applied procedures, making them clear and understandable. Reported moves were supported by scaling-up the guarantee capacity of the Credit Guarantee and Investment Facility (CGIF) from US$ 700 million to US$ 1.75 billion [MoF Japan 2014].

The Cross-Border Settlement Infrastructure Forum (CSIF) has submitted, to the Financial Ministers Meeting, the recommendations and guidelines which are divided between the short and medium term goals enabling a smooth and safe delivery of securities against the payments across the borders. The implementation of these recommendations is seen as a solution which will accelerate the market of cross border transactions. A body called Technical Assistance Coordination Team (TACT) has submitted a new assessment for the technical assistance, which enable preparation of the action plan in this area that would include the newly defined consecutive goals.

It is clear that ASEAN+3 follows the theoretical model of integration worked out in US and Europe, but this fact does not mean that the solutions introduced in Asia are simple copies of solutions introduced in Europe. The Asian institutions, models and regulations are tailored with care of specific conditions of the Asian states. Things in Asia are happening quicker than they had been happening in Europe. Much quicker, Asia moves towards a free movement of capital, than it was done in Europe after signing the Treaty of Rome. This finding can be supported by several additional conditions.

In Europe, the applied solutions worked and were successful. GATT/WTO (within the Uruguay Round) has liberalized the capital flows. Communication among the states is easier and quicker. Nevertheless, despite all enumerated advantages, some of the states are still worried about how their economies will operate when they will be more linked with the economic, financial and institutional environment. Understanding that imposed solutions can be helpful for development and catching-up takes time.

5. Conclusions

Financial cooperation in Asia is advancing. It helps to develop the financial markets, making its economies more immune in their relations with the outside world. This can be seen as a solution which builds confidence within the region. As such, it is supported by activities which help states in the region to join the main stream of the world economy, which is followed by the guarantees that limited competitiveness in early stages of development will not result in a weak exchange rate of the currency, followed by a devaluation and capital exodus of the capital invested earlier.

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