

The Prospects for a Common Currency in Asia

By Inoguchi Takashi

GAUGING People's Minds is a Must to Facilitate Economic Integration and a Common Currency. Envisioning economic integration in Asia, it is useful to reflect how Europe has come a long way. What are the distinctive features of European integration? In my view, they can be summarized as follows:

Europeans are pragmatic and anticipatory idealists. They hold a certain set of goals they want to materialize, make short, intermediate, and long-term plans, and act on the basis of their measurement of empirical realities in light of these plans. They envisaged a number of phases of European integration at a fairly early stage. These phases are not very different from those identified by economists like Bella Balassa as far as trade, investment and financial services are concerned. Most important is the fact that they took action according to each phase and on the basis of fairly solid and continuous empirical testing of realities about regional integration.

Two examples will suffice. First, two major conditions set the stage for détente and eventually ended the Cold War in Europe. (1) the Helsinki Declaration affirmed that disarmament and human rights are two of the important benchmarks for the mutual accommodation between Western and Eastern Europe. Both steadily undermined the internal movements of Eastern Europe from within; (2) the oil pipeline prepared the economic interdependence between Western and Eastern Europe, which developed steadily since the early 1970s when the oil crisis hit the West hard and the Helsinki Declaration was agreed. As if these stages were anticipated,

Europeans pushed these agendas fairly steadfastly over more than two decades until the end of the Cold War, which prepared the EC/EU to enlarge itself.

Second, a common European currency was anticipated well before it was realized. When the Holy Roman Empire existed with Aachen as its capital, the first common European currency was materialized albeit only for a very brief period of time. At first, the authority of coinage was monopolized by the city of Aachen. Later, however, a number of cities which were controlled by local chieftains asserted themselves to obtain the right of coinage. This bought the collapse of the first common European currency. Europeans thought about a set of conditions to make a common currency stable and reliable. One of the conditions is not to allow a member state government to register an excessive lack of fiscal self-discipline beyond a certain limit. In a sense, this is a lesson from Aachen's failure about the right to mint coinage.

The preparedness of Europeans with a common currency was clear by 1985. The Plaza Accord on bolstering US competitiveness was concluded and implemented. Japanese yen was poured into New York to purchase massive quantities of US government bonds. So was the Deutsche mark. But the Japanese purchases were much larger. Somehow the inflows of Deutsche mark were much more limited, perhaps recognizing the need not to let the US dollar to retain its position and status of the key global currency. Furthermore, without experiencing the collapse of a bubble economy which

took place in Japan in 1991 in part caused by the accord, Europeans went ahead to materialize currency integration in 2001, 10 years after the end of the Cold War.

Here I want to emphasize the continuous surveys of many aspects of life, economy, culture and politics in Europe. On economic and currency integration, for instance, the Eurobarometer was installed in 1973 to gauge the sentiments and opinions of Europeans on wide-ranging things and ideas, including economic integration and a common currency. The question "Do you think that European integration is a good thing, a bad thing or neither?" has been asked for more than three decades everywhere in the EU member countries. It is very important to gauge whether Europe is politically ready for further economic integration in trade, investment and financial services and whether the conditions are ripe for a common currency in terms of economic fundamentals and health.

I now turn to East and Southeast Asia. These countries do not have enough experience on empirical survey of realities especially the minds and hearts of people (1) systematically, (2) on a regular basis and (3) on the basis of technocratic professional competence. What we need desperately is to conduct the AsiaBarometer¹ regularly, systematically, and on a technocratic basis for the short, intermediate and long-term visions of economic integration in trade, investment and financial services with the target of a common currency in East and Southeast Asia. What we need is (1) to envision the stages toward a common currency, (2) to clarify a set of conditions to achieve this gradually, (3) to gauge the minds of people to see whether the time is ripe, and (4) to prepare governments to adopt a certain set of policy measures phase by phase. The third and fourth tasks have been long forgotten. It is now high time for us to begin work on these matters. It is important to do good things for people on a regional scale with best timing to start with the

Notes : 1) See Takashi Inoguchi, "The AsiaBarometer: Its Aim, Its Scope, Its Strength," Japanese Journal of Political Science, Vol. 5, No.1 (May 2004), pp.179-196, and Takashi Inoguchi, Miguel Basanez, Akihiko Tanaka, and Timur Dadabaev, eds., Values and Life Styles in Urban Asia: A Cross Cultural Analysis and Sourcebook Based on the Asia Barometer Survey of 2003, Mexico City: Siglo XXI Editores for the Institute of Oriental Culture, University of Tokyo, 2005

Table 1 Exchange Rate System for East and Southeast Asia

(As of the end of 2004)

| | Currency Unit | Symbol | US\$ | Exchange Rate System |
|-------------------------------|------------------|--------|----------|--|
| Japan | Yen | ¥ | 103.21 | Floating Exchange Rate System (Independently Floating) |
| Brunei Darussalam | Brunei Dollar | B\$ | 1.6340 | Fixed Exchange Rate System (Currency Board Arrangement) |
| Kingdom of Cambodia | Khmer Riel | KR | 3,846.00 | Managed Floating Exchange Rate System (No Pre-announced Path for the Exchange Rate) |
| People's Republic of China | RMB Yuan | Y | 8.2765 | Managed Floating Exchange Rate System (Conventional Pegged Arrangement) |
| Republic of Indonesia | Indonesian Rupia | Rp | 9,244.00 | Floating Exchange Rate System (Independently Floating) |
| Republic of Korea | Korean Won | W | 1,022.9 | Floating Exchange Rate System (Independently Floating) |
| Lao People's Democratic | Kip | KN | 7,842.00 | Managed Floating Exchange Rate System (No Pre-announced path for the Exchange Rate) |
| Malaysia | Ringgit | RM | 3.7750 | Fixed Exchange Rate System (Conventional Pegged Arrangement) |
| Union of Myanmar | Burmese Kyat | K | 5.4970 | Fixed Exchange Rate System (Conventional Pegged Arrangement) |
| Republic of the Philippines | Philippine Peso | P | 56.00 | Floating Exchange Rate System (Independently Floating) |
| Republic of Singapore | Singapore Dollar | S\$ | 1.6340 | Managed Floating Exchange Rate System (No Pre-announced Path for the Exchange Rate) |
| Kingdom of Thailand | Thai Baht | B | 39.8000 | Managed Floating Exchange Rate System (No Pre-announced Path for the Exchange Rate) |
| Socialist Republic of Vietnam | Vietnamese Dong | D | 15,768 | Floating Exchange Rate System (Pegged Exchange Rate within Horizontal Bands) |

Sources : <http://www.mof.go.jp/singikai/kokusaika/tosin/koku130627j.htm>
http://www.triltd.co.jp/kawase/fsakai_a.html

gauging and reading people's minds regularly on a regional scale.

Like the European economic integration, East and Southeast Asian trade and economic integration can be achieved steadily up to a certain point. The integration of financial services can be achieved more slowly up to a certain stage. But the issue of monetary integration needs to be examined and executed far more carefully. Above all, whether member states would benefit must be made clearer, including the grounds and conditions. At least two phases must be distinguished. First, whether we should replace the predominant system of pegging each currency to the US dollar (or its soft versions) by a system of exchange rates much more thoroughly determined by market forces. Second, we have to ask our-

selves whether we should move forward to create a unified currency.

The question is to what extent we can liberalize and globalize our financial service into a US-led monetary system. Europeans have liberalized and globalized financial services according to the strategy of monetary integration. The case is different in Asia. One school of thought is happy about following a US-led monetary liberalization and globalization. The other school of thought is happy about retaining a dollar-peg system to a certain extent, thus moving toward monetary integration short of a common currency.

Asian preferences on these matters change according to how they think about American unilateralism, the oft-alleged decline of US competitiveness and the prospects for the rapid rise of

Asia, especially China.

Hence my argument that the AsiaBarometer should be deployed to gauge the changing minds of people in the region to navigate the ship Asia through oceans, toward a common currency, is the prospect for which the new President of the Asian Development Bank, Kuroda Haruhiko (a former vice-Minister of Finance), envisages in two to three decades' time.²

J.S

Inoguchi Takashi is a professor at the Institute of Oriental Culture, Department of Pan Asian Studies, University of Tokyo. His academic interests include globalization and cultural differences in democracy, international relations in East Asia, and the promotion of U.S. democracy.

2) Mainichi Shimbun, January 5, 2000