

## FIRST EAST ASIA CONGRESS

# THE CASE FOR AND AGAINST AN ASIAN MONETARY FUND

*Real efforts are needed to make an East Asian community a reality. A framework needs to be worked out for more effective Asian regionalism co-operation to take place. Together, Asean, China, Japan and South Korea can change Asia and the world, said Prof. Eisuke Sakakibara during his presentation at the First East Asia Congress on 4 August 2003. Dr Marie-Aimée Tourres reports.*



*Sakakibara (left) with Human Resources Minister Dato' Dr Fong Chan On, who chaired the session.*

“It is high time to reconsider seriously (an Asian Monetary) Fund as well as, more broadly, Asian regionalism,” said the head of Keio University’s Global Security Centre and former Vice-Finance Minister, Eisuke Sakakibara. He gave three reasons to support his view. First, regionalism and globalisation were both growing rapidly, with the resultant effects of, among others, a rise in (1) new divisions of labour (both within Asia and the world) and (2) industrial clusters. Second, the gravity of the world economy was shifting gradually from the West to the East, centring in East Asia (Asean+3) and India. Finally, Asia was the only part of the world which had not yet ventured into regionalism in a meaningful way. He noted that China, Japan and Korea were the three major countries in the world which did not as yet have any regional trade arrangements. Sakakibara was careful to point out that he was not suggesting a closed regional pact, but rather the need to ensure that Asian interests would be reflected more accurately in global discussions (for example in World Trade Organisation discussions). In

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fact, Japan's proposal to set up an Asian Monetary Fund (AMF) to help the crisis-hit Asian countries could have been an important step in building up a regional East Asia community, he said. But, at that time, Japan had failed to convince the group of seven industrialised nations (G7) about the AMF. Sakakibara, who had presented the AMF idea at the International Monetary Fund (IMF)/World Bank annual meeting in Hong Kong in September 1998, said the biggest mistake on Japan's part was failing to fully consult China on the issue. If Japan had obtained strong support from China and, to a lesser extent, Australia, Sakakibara said he could have then told the G7 "this is our own business, this is Asian money, and all Asian countries have agreed to an AMF" and some form of AMF could have been announced.

#### China

What role should China play in Asia? Sakakibara said that as an independent researcher he could speak his mind about the fears many countries tended to have when it came to this question. Yes, he agreed that the new division of labour was in favour of China, but this fact must, by now, have been accepted by countries such as South Korea and Japan.

Taking a different view from that of his country's, he felt that

China should, by no means, be pressurised to devalue or to widen the band of the Chinese currency – the renminbi – for three major reasons. The first was that a devaluation would only affect the numerous Asian companies with huge exports to China. Consequently, the benefit would be much smaller than what some economists claimed. The second was that for China to be able to tackle its major problems that need urgent attention (such as those pertaining to state-owned companies, income and wealth disparities, among others), it would require sustainable national growth with strong foreign capital inflows in the next eight to 10 years. A devaluation could only be harmful to such a process. Finally, the 1997 Asian financial crisis had proved that to float the exchange rate of a currency that could be the subject of an attack by speculators would only lead to disaster. Asian countries should, therefore, work together and "help China against speculators by not pledging for a devaluation of the renminbi."

#### US relations

Sakakibara acknowledged that Asian regionalism had made some progress in the last decade, but this progress lagged far behind that made by Europe in its integration process. As a case in point, he cited the relationship that many Asian

countries, particularly Japan and Korea, still had with the United States. "An end must be put to this 'unspoken' relationship with the US in order to have a networking relationship within Asia with the US as a part of it only. ... We have to abandon our position to look at the world ... though the window of the US. It is a delicate position and difficult proposition to make for Japan and Korea but we need to do that. The enlightened minds in the US will understand."

He also put the blame for the slow regional integration process on negative historical legacies that some countries (namely, China, Korea and Japan) still harboured. In this regard, he referred to Prime Minister Mahathir's keynote address and agreed with him that the past should be put behind us in order for us to move forward with the help of the new generation.

#### **AMF, an important first step**

As part of realising an East Asian community, an AMF could be one of the regional institutions. It could act as a regional lender-of-last-resort with a permanent secretariat and empowered with a surveillance mechanism, although this last fact may go against some countries' wishes, or be difficult to implement as it could be considered an interference. "I

agree it's difficult. It can be considered impolite. But if we don't do that, we will have more impolite people intervening among us," he said.

#### **Now or never**

The time is right "to have an East Asia community" and contrary to what Europe did when it first started its integration process, Asia should proceed simultaneously on all fronts – trade, direct investments, foreign exchange and financial co-operation – in a pragmatic way, after the Chinese strategy of "PPP" (parallel partial progressing). He saw this as possible because the pace of globalisation and the deregulation of financial market had altered the context. He noted that the Europeans had shown, at that time, a real and strong determination to have a strong Europe (led by the Franco-German coalition), a crucial element which, so far, he found missing in Asia, whose political leaders lacked a co-ordinated political will towards this end. At that point, Sakakibara mentioned the absence of enlightened leaders in the region, with the exception of Prime Minister Mahathir. He, therefore, strongly appealed to the different Asian nations to support Mahathir's idea. He concluded by cautioning: "If Asian regional co-operation is

not going to proceed in any meaningful way soon, the future would see Asia being divided and ruled by the rest of the world again." ●