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On The Asian Monetary Fund

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Introduction

It has been almost one-and-a-half years since the Asian monetary crisis erupted, and a number of events have occurred since then. We cannot dwell on each of these, but it would be meaningful to discuss how various arguments on East Asian crisis have developed since Thailand's financial crisis in July 1997. In the course of discussion we can reveal how Asian nations have gradually been influenced by the external pressures of so-called "market voices." While they are trying to understand market functions, the implications of globalization, and realities of capitalism in the modern world, Asians appear to have gained some suspicion of these developments. Amongst these are the so-called "global standards", even though they by no means mistrust that basic market functions and open economic systems are essential to their sustainable economic growth.

TYPICAL ARGUMENTS ON THE CAUSE OF EAST ASIAN FINANCIAL CRISES

The Dollar-pegged System

The dollar-pegged system was

widely discussed as one of the main causes of the East Asian financial crises. Thailand abandoned its dollar-pegged exchange rate policy, which had been maintained for almost ten years, and adopted a floating exchange rate system in July 1997. The Thai baht plunged drastically against the US dollar following this move, which indicated to some that their crisis was caused by Thailand's semi-fixed exchange rate system. Two factors are cited as major players in the ensuing crisis:

- In 1985 the US dollar was forced into devaluation against other major currencies. From 1985 to 1995, the dollar-pegged baht depreciated, in tandem with the US dollar, against third-country currencies. This eventually enhanced Thailand's competitive advantage in export markets, resulting in export-led economic growth. In 1995 the US dollar's depreciation was halted and its exchange rates against other currencies were corrected to more appropriate levels, through interventions and other measures in foreign exchange markets. The baht then started to appreciate, to a level which exceeded its real value. Thailand thereby lost its competitiveness in export markets, which resulted in large deficits in trade and current accounts.
- Thailand's trade and current account deficits since 1995 were financed by a large amount of foreign borrowings by its domestic companies, most of which consisted of short-term funds. Three factors contributed to this short-term finance by domestic companies: first, the US interest rate was lower than the domestic rate; second, the government's efforts to liberalize capital transactions made it easy for domestic companies to get foreign loans; and third, those domestic companies could ignore foreign exchange risk because of the dollar-pegged exchange rate policy.

It is uncertain whether the inflow of foreign funds at an early stage caused the economic bubble in Thailand, or whether those short-term funds could have been used as operating funds to make up for the deficits of many domestic companies. The important point is that just when the bubble burst, the crisis was triggered by the sudden withdrawal of short-term loans by external creditors, mostly commercial banks from industrialized countries. These creditors became aware that Thailand's foreign exchange reserves were far less than the aggregate amount of existing short-term loans. This argument insists that the cause of the financial crisis was Thailand's dollar - pegged exchange rate policy, and seems to adequately explain the dynamics of the behavior of volatile short - term capital investments in emerging countries. The same type of analysis was applied to the Mexican crisis in 1994 - 1995, and also seems applicable to the crises in Russia and Brazil in the summer of 1998.

It is clear that all these emerging countries adopted the dollar - pegged exchange rate systems to more clearly stabilize the value of their currencies. Thai authorities attached great importance to the U.S. dollar - pegged exchange rate policy, and many companies in Thailand also requested that their trade counterparts use the US dollar in pricing as often as possible. As a result, trade related loans in Thailand were also denominated in US dollars, rather than the baht. This is because Thailand fully recognized the supremacy of the US dollar as an international key currency, and the dollar - peg system worked quite well until the summer of 1995. The Thai authorities, however, took very seriously the argument that the dollar - pegged exchange rate policy caused their currency crisis, since the baht had been strengthened against other currencies and their balance of payments had deteriorated during the US dollar's appreciation from the summer of 1995. They are now earnestly discussing what the new exchange rate policy for Thailand should be, to reconstruct the economy from the current crisis. The introduction of the euro in January 1999, as well as promotion of internationalization of the yen by the Japanese government, have provided fresh stimulation to such considerations. Under these circumstances, Thailand has focused analysis on the possible linkage of the baht to a basket currency, and on the composition of such a basket, to keep independent monetary sovereignty.

While it may be too early to discuss future developments to Thailand's exchange rate policy, more currencies other than the US dollar will probably be used in trade settlement. Although progress may be slow, the euro and the yen will be used more frequently, and baht settlement will also increase, especially in the export of competitive items such as Thai agricultural products. Along with this, the currencies to be used in trade related loans will also diversify, as will the composition of Thailand's foreign exchange reserves. With this change, the so - called “market voices", which quite often reflect market analysts' and journalists' opinions, will change accordingly. Market voices had insisted that currency devaluation against the US dollar was undesirable, that devaluation rightly reflected the market's criticism of the government, economy, or society. Though many analysts know well how ill - informed the criticism by market voices was, the impact of such criticism on ordinary people has been a very serious issue, depriving them of their confidence and leading them in the wrong direction. The market voices insisted that there was a lack of leadership by the Japanese government, which they said brought about the appreciation of the yen in the spring of 1995, as well as its subsequent depreciation in the spring of 1998. It is quite doubtful, however, that these are the real reasons for the yen's fluctuation during this period.

Malaysia's currency crisis arose mostly from the same causes as described above, but it is my understanding that the real purpose of Malaysia's introduction of a fixed exchange rate system in September 1998 was to eliminate the market voices.

Characteristics of Asian Society and "Crony Capitalism"

When financial support to Thailand was arranged in Tokyo in the summer of 1997, there was an argument in financial circles that, unlike Thailand and Malaysia, both Korea and Indonesia had adopted more flexible exchange rate policies. Accordingly, the argument went, they would not experience fundamental disequilibrium, despite the rapid appreciation of the US dollar, which would otherwise have increased pressure on their foreign exchange rates and caused currency crises in these two countries. However, in the fall of 1997 both countries asked the IMF to provide assistance.

Following these events, there appeared a new argument that these two countries had fallen victim to dictatorship, cronyism, structures of corruption and privilege, and other malignancies, all of which had developed in the past and often been referred as "Asian characteristics". This new argument concluded that these two countries were "too Asian" to be immunized against financial crisis. It is my understanding that something different from Mexico in 1994 and Thailand in 1997 might have happened in both Korea and Indonesia, if we look into reasons for their requests for IMF assistance.

Over the past twenty years, Korea achieved an integrated industrial structure and high economic growth, ultimately becoming a member of the OECD in 1997. Indonesia, with a long history of support from the World Bank, also very ably managed an open economic structure where international capital could move freely. Indonesia intervened in foreign exchange markets quite often, to manage the level of the rupiah against the US dollar, and was able to avoid a situation where the rupiah became stronger against other currencies even in the wave of US dollar appreciation.

Only some analysts have noticed that there had been a steep increase in Indonesian companies' foreign borrowing from neighboring international markets from 1993 onwards, or that there was no sign of excess liquidity in Indonesia's domestic market in spite of it. (In Thailand, such money flew into the domestic market, taking advantage of the dollar-pegged foreign exchange rate.) Only after the crisis did it become apparent that this was a result of a typical style of capital flight in Indonesia, in which borrowed funds were shifted directly into foreign currency accounts overseas.

The characteristic common to both Korea and Indonesia was that their political leaders had begun to lose the absolute authority they had once enjoyed. In Indonesia, it was short-term money that reacted quickly to President Suharto's collapse, following which even ordinary people exchanged their money for US dollars and remitted it to accounts in Hong Kong or Singapore. The monetary authorities could not cope with this huge capital flight using its limited foreign exchange reserves, and thus the liquidity crisis inevitably occurred. In Korea, when the belief that the large financial conglomerates — chaebols — could never go bankrupt was revealed as false, people became doubtful of the financial soundness of non-banks and financial institutions with a great exposure to chaebols. Some of these non-banks and financial institutions, with increased difficulties in raising short-term funds from the markets, experienced a serious liquidity shortage.

The IMF included many structural reforms in its prescription for Thailand as a condition to financial assistance. The IMF was criticized at that time, as it was argued that it confused short-term issues with mid- and long-term ones. When Indonesia and Korea asked the IMF for support, however, it tried once again to push the same type of structural reforms. These crisis-stricken countries were forced to implement structural reforms, because it was argued that the causes of the crisis were "too Asian," or were compound and interrelated, involving political, social, and culturally psychological matters. For instance, it was said that bankruptcy laws and procedures both in Thailand and Indonesia were so immature that they could not provide a sound legal basis by which to solve corporate bankruptcy. Both countries accordingly had to accelerated revisions to bankruptcy laws and procedures, which in fact had been a long overdue before the crisis. The IMF also demanded structural reforms in areas which had not properly been implemented until then, some of which have now helped implementation of modernization of these countries.

It is true that there have been many political and social distortions in the crisis - affected countries, primarily as a result of rapid economic growth and industrialization. However, there is severe criticism that the IMF should not have included such broad - ranging structural reforms in its letters of intent to the affected countries. They argue that the traditional IMF solution forced countries in crisis to obtain foreign exchange at the expense of domestic production and quality - of - life, requiring them to repay foreign creditors as a top priority. The IMF, in addition to applying its tightening policy, tried to eliminate their "Asian" problems in the crisis affected countries by demanding implementation of structural reforms. Some critics said these demands were far beyond the IMF's primary responsibilities.

In Korea, the newly elected President Kim Dae-Jung adopted a cooperative policy with the IMF, to establish political confidence in him, which appears to have succeeded to some extent. While Korea has now seen an increase in foreign exchange reserves and the inflow of foreign funds, many analysts are still stunned by social upheavals over the last couple of years. In Indonesia, as huge amounts of money have flowed out of the country and the rescheduling of the large foreign debts of domestic companies are still to be negotiated with creditors, President B.J. Habibie continues to be unable to establish political confidence. As the situation develops in crisis - affected countries, it seems that the argument against "Asian culture" as the main culprit in the financial crises is gradually losing strength.

Accusing Short - term Funds

The IMF extended a financial support package to Russia in July 1998, in which Russia was required to keep the ruble stable. Some Asian observers criticized the IMF at that time, since it used a different set of standard of conditionality for Russia. In August 1998, the Russian government announced a package of measures designed to deal with its currency, debt, and banking crisis. The exchange rate of the ruble was devalued and redemption of maturing government bonds was suspended.

The country most affected by events in Russia was Brazil, where pressures in domestic debt and foreign exchange markets began to build up during the second half of August 1998. Although Brazil had received financial support from the IMF several times in the 1980s, it reconstructed its economy in the 1990s under the "Real Plan" designed by Fernando Henrique Cardoso, then Finance Minister and now President. Many countries, including G7 members, apparently did not want any more turbulence in Brazil, and thus a IMF - led financial assistance package was granted to Brazil in November 1998.

What was seen during this period in most of the advanced countries was investors' preference of flight - to - quality, price increases in government securities, and a sharp increase of premiums against private risk. Most surprising was the bankruptcy of many US hedge funds in September 1998, and the very swift action by the US Federal Reserve in minimizing systemic risk arising from it. Investment managers of hedge funds did not anticipate the Russian crisis or the subsequent incidents described above, and thus experienced a huge cash collateral shortage due to adverse investment positions. To face the need for an immediate and substantial cash injection, the Federal Reserve Board persuaded commercial banks to extend loans to save hedge funds. Malaysian Prime Minister Mahathir Mohamad, in his Budget Message for fiscal 1999, referred to this event, asking: " Can't this be called 'cronyism'? If that had happened in our country, what would they have said about this?" Indeed, his comment touches the core of the problem, and his insight is praiseworthy.

There emerged another argument during the economic upheavals, stating that swift movement of short - term funds should be accused as the culprit of the crisis. According to this argument, irresponsible, speculative short - term capital is the main cause of financial crises in many Asian countries, and that it must be regulated in some manner. Some argue further that such regulations should be global, simple, and effective. In most international conferences held in 1998 there was widespread agreement with this.

Some general regulation seems necessary, but the details as to who regulates short - term funds and how they do so remains in question. Even those who argue for the urgent necessity of regulations do not have any specific ideas. From a banker's point of view, it is impossible for even an advanced funds settlement network system to automatically classify all transactions as to whether they are current or speculative, or to stop settlement when speculative transactions are identified. It is more practical to introduce regulations against the movement of short - term capital either in lender countries or borrower countries. For example, a financial supervisory authority in a lender country could monitor the activities of financial institutions and institutional investors, to keep them sound and prudent. The potential effectiveness of this is unclear, however, since hedge funds (which are generally established in tax - heaven countries with much less supervisory requirements) do not fall under any jurisdiction. Of course, hedge funds must be monitored and put under the control of the supervisory authorities of their host countries.

If there is any lender - country regulated limit on cross - border movement of short - term capital, borrower countries should monitor and regulate them as well. It is not an easy task for any country to monitor all short - term capital movement, or regulate them effectively, since an appropriate financial infrastructure and an adequate legislative framework are necessary for this purpose. In this sense, the Malaysian package introduced in September 1998 deserves attention, because of its logical consistency in policies and their implementation. Western analysts and journalists initially criticized this Malaysian package, but it is now appreciated as an example of effective regulation on cross - border movement of short - term funds.

The examination of various arguments over the Asian crisis leads to the conclusion that it was short - term capital that constantly demanded freedom of movement and pursuit of profit, promotion of market fundamentalism, and globalization by which to maximize its freedom. Such demands have occasionally been announced either as opinions of the mass media or academic observers, the IMF's prescriptions, or sometimes as joint statements of industrialized nations.

A NEW REGIONAL FRAMEWORK FOR ASIA

Asian Monetary Fund - A Brief History

The Tokyo conference to support Thailand's financial crisis in August 1997 had a historic meaning for Asian countries. The total of bilateral financial support to Thailand finally reached US$17.2 billion, with an additional US$6.6 billion in commitments by international institutions, including the IMF. This far exceeded the IMF's targeted amount of US$14.4 billion, and it came not from industrialized countries who attended the Tokyo conference, but from Asian countries. Supported by the success of the Tokyo conference, Japan and some ASEAN countries suggested a plan to establish an "Asian Monetary Fund", in a series of meetings following the Asia - Europe Meeting in September 1997.

The initial plan for the Asian Monetary Fund was announced with too much emphasis on its capability of extending emergency financial support, without any general consensus on specifics by major industrialized countries. The US and the IMF, astonished by this plan, opposed it using keyphrases such as "moral hazard" and "duplication of institutions". One banker even stated very emotionally that Asian countries should not talk about a new plan before they fully repay all their debts to industrialized countries. Further discussion on the Asian Monetary Fund was then suspended and replaced by the "Manila Framework", in the meeting of Asian Finance and Central Bank Deputies, in November 1997.

Argument on the Asian Monetary Fund developed in 1998, to which East Asian countries were compelled to respond. Faced with financial crisis, East Asian countries were forced to give up their individual development strategies, and were left somewhat bewildered by the idea that they must cope with financial crisis by increasing liberalization, deregulation, and reform. They have also been confused by the IMF's judgment of their 1999 budget plans. In 1997 the IMF strongly proposed curtailment of spending in 1998 budgets, but in 1998 completely reversed this approach for 1999 budgets. Under these circumstances, East Asian countries are required to formulate foreign exchange policy for the next century to prevent future financial crisis, but have quietly and determinedly begun to study how to implement the once - shelved Asian Monetary Fund plan. At the same time, they closely monitored the reactions of the US and the IMF to Russian and Latin American turmoil in the latter half of 1998, in view of the similarities Mexico's crisis in 1994—1995. Following the implementation of the New Miyazawa Initiative in October 1998, it is a good time to resume serious discussion on the Asian Monetary Fund.

US and other nations' involvement in these arguments began to shift over time. The Joint Statement of the US - Japan Summit, in the summer of 1998, could be interpreted as follows: The US cannot make any further commitments to Asia, on account of turmoil in Latin America, and thus wants to leave Asia in Japan's hands. The New Miyazawa Initiative was implemented based on this Joint Statement. Several months before this Joint Statement, the familiar keyphrases "moral hazard" and "duplication of institutions" were no longer being used in US government statements on the Asian Monetary Fund, and some had even begun to say that it was apparently a misjudgment to object to it. This may be a case of opportunism, but it is certain that the Russian and Latin American problems are particularly worrisome to the US, and that Asia is after all very far away from American shores, and therefore regarded as less significant to them. Europeans had already been very excited in introducing the euro, and so for them Asia is viewed as an even more distant region.

On these grounds, it is time for Asian countries, including Japan, to reconsider the plan for the Asian Monetary Fund, and to try to take steps towards its establishment in the medium term. The foreign exchange reserves of Asian countries, once almost emptied due to the crises, are now increasing with financial support from the IMF, as well as due to implementation of IMF prescriptions, and East Asian economies are gradually pulling out of crisis.

The following is a brief sketch of the proposed Asian Monetary Fund. Of course, many points will be subject to future discussion, but it would be a good idea to explain the basics as a starting point.

Organization:

The Asian Monetary Fund should be established as an independent institution, comprised of a full-time staff from its member countries. It will have three important responsibilities: to research and analyze the economic and monetary condition of member countries; to provide technical support to member countries; and to organize international conferences (which will be described below). For efficiency, and to avoid duplication of tasks performed by other international institutions, these functions may be assigned either to private companies or other international institutions.

Roles of Member Countries:

Participation in the Asian Monetary Fund is a political matter, and final decision will be made based on an agreement among member countries. Considering the functions of this organization, participants will be Asian countries with well developed money markets, including Japan, China, the Asian NIEs, ASEAN countries, and Pacific Rim countries. If it will perform such functions as promoting policy dialogue among member countries or providing technical support to avoid future financial crises, other Asian countries could also become members. Japan must make a greater contribution to the Asian Monetary Fund, as it is the only G8 nation in Asia and its GDP is more than half the aggregate of all the expected member countries' in the region. Japan should also provide as much support as possible to stabilize financial systems of member countries and assist in the reconstruction of their economies, and must consistently and repeatedly assert its commitment to member countries.

Functions:

There are three primary functions that this institution is expected to have:

Promoting policy dialogue: The Manila Framework could be followed in its present form. The Asian Monetary Fund should provide a venue for exchanges of opinions on economic situations and foreign exchange, as well as on money and capital market trends. Several types of meetings should be held at the Asian Monetary Fund, such as summit meetings, ministers' meetings, central bank governors' meetings, and vice ministers' meetings. At each meeting, member countries will be expected to exert peer pressure upon each other, to promote policy dialogue and mutual understanding, since they now well understand the effects of contagion and the importance of surveillance among member countries.

Mechanism for emergency financial support: This has two aspects — funds mobilization ability and prescriptions to avoid moral hazards. Several fund mobilization methods should be considered, of which three are most feasible.

・First is borrowing from member countries, similar to the IMF's General Agreement to Borrow (GAB). However, this mechanism must operate much faster, and thus it is desirable to have an agreement similar to a credit line from member countries. Member countries do not have to pay their contribution in cash at the time of establishment of the Asian Monetary Fund, but once they are required to advance funds to it, their commitment will become immediately necessary. Accordingly, each member country will be requested to earmark a significant amount of their foreign exchange reserves as a contribution to the Asian Monetary Fund. As a matter of course, the outstanding balance advanced to the Asian Monetary Fund should be regarded as another form of foreign exchange reserves, and owned by the relevant member countries. Through this structure, the Asian Monetary Fund could be expected to mobilize as much as US$20 billion to US$50 billion.

・Second is funds mobilization from capital markets. Of existing international institutions, the World Bank, Asian Development Bank, and some other international institutions for development raise funds on the market. The IMF, on the other hand, has never done so. It is widely known that, as the number of countries in the Asian liquidity crisis increased, the funds mobilized by the IMF have steadily increased since July 1997, and it is now trying to raise funds from member countries through capital increases. In addition, studies are being carried out both within and outside the IMF on how to raise funds from international capital markets. Some argue that since funds to be raised from the capital markets usually carry higher interest rates, the Asian Monetary Fund cannot extend financial support to crisis - affected countries at a softer interest rate. What crisis - affected countries need most is, however, large quantities of money. Considering that they had to pay high premiums of as much as 6% or 8% even before the crisis, they would not be concerned about high interest rates charged for emergency loans to member countries. They would, however, lend great attention to the size of liquidity and its timing. Therefore, arrangements for fund raising on the market must be included in its charter as a second source of funds mobilization by the Asian Monetary Fund, in addition to contributions from member countries.

If the Asian Monetary Fund could obtain a higher rating without credit enhancement from its member countries, there would be little to worry about. However, this will not be the case, and some will be necessary when this institution tries to raise funds on the market. Such credit enhancement should be provided by member countries, using foreign exchange reserves as only a last resort. Foreign exchange reserves are regarded as provisions for ordinary payments in foreign currencies for such items as the import of goods and services. The appropriate level of these reserves is often measured by monthly import amounts or the aggregate of short - term debts. This means that all countries must maintain more foreign exchange reserves than are necessary. In fact, the greater portion of foreign exchange reserves is maintained only for investment purposes.

It is therefore possible for member countries to offer such unusable foreign exchange reserves to the Asian Monetary Fund as a last pledge. There will be two possible ways in which to do this. One is to make advance agreements among member countries to extend guarantees, or to promise to extend guarantees to the Asian Monetary Fund at a future date; the other is to issue callable capital stocks to member countries. In either case, if the Asian Monetary Fund fails to pay its debts, then execution of guarantees or callable capital stocks are required, and member countries would have to provide funds to the Asian Monetary Fund from their own foreign exchange reserves. Needless to say, member countries will be required to disclose such committed amounts whenever they disclose figures on foreign exchange reserves.

It should be remembered that a large amount of financing by the Asian Monetary Fund at one time may run the risk of causing a crowding - out in the capital markets. As a practical solution to this, the Asian Monetary Fund should make agreements with market participants on urgent fund raising from capital markets in a very short time. It is also worthwhile to consider making an agreement with BIS or the monetary authorities of industrialized countries on this kind of emergency financing at market rates. The rationale for this is that the Asian Monetary Fund should have as many flexible financing alternatives as possible, to supplement funds mobilization from its member countries, as described above. Fund - raising capability from BIS or the monetary authorities of industrialized countries is expected to range around US$50 billion.

• The third mechanism for providing emergency support by the Asian Monetary Fund is to extend guarantees to member countries. The Asian Monetary Fund will extend guarantees to crisis - affected member countries when such countries try to raise money on international capital markets. It is well known that huge amounts in public funds were necessary to write off banks' bad loans and to inject enough capital into private sectors in crisis affected countries. Several methods for injecting public money were tried, such as utilization of domestic savings or taxes. An alternative way for a crisis affected country could be to raise money on the international markets. Asian countries have relatively small foreign debts, and it could be an appropriate choice for governments to raise long - term money on the international markets. However, some member countries may not be able to do so, due to sharp downgradings by rating agencies. Some member countries would have to raise medium and long term funds - not necessarily a large amount of money - to implement structural reforms. In these cases, it is meaningful that the Asian Monetary Fund would be able to extend guarantees to such countries, to enable them to raise money with higher credit ratings and more favorable terms and conditions. The structure mentioned above can be applied for this credit - enhancement facility. It would be most suitable for the Asian Monetary Fund to extend its guarantees to member countries using its callable capital.

These are three rough sketches of fund raising operations and credit enhancements by the Asian Monetary Fund. The most essential role of the Asian Monetary Fund rests on its capability to mobilize very large amounts of funds. As seen in the financial support package to Thailand in 1997, when funds came mostly from bilateral sources, it would be enough for the Asian Monetary Fund to raise a third or quarter of the total targeted amount. However, if a financial crisis spread to peripheral countries, involving even larger member countries, a substantial amount of money will be required to stop contagion. Taking into account Asia's expected economic growth in the next century, the Asian Monetary Fund must have the ability to raise funds in the order of at least US$100 billion.

Prevention of future crises: The third function expected of the Asian Monetary Fund is to prevent future financial crises. It was clear that the vulnerability of financial sectors in the region and incomplete monitoring and supervision by monetary authorities worsened the financial crisis in East Asia. The dollar - pegged system, which was adopted to keep exchange rates stable, was also an influence in the deterioration. To attain sustainable growth in the next century, East Asia must not repeat the same mistakes, and must devise measures to prevent contagion of economic crises. The Asian Monetary Fund itself could be regarded as one such measure, in a broad sense.

Close Cooperation by Financial Authorities

The financial authorities of member countries should work together through the Asian Monetary Fund to increase the ability to judge and control financial risks in the region, and to increase technical cooperation to prevent contagion of them. In 1994, Mr. B.W. Frazer, then Governor of the Reserve Bank of Australia, recommended setting up a regional organization in Asia which would be similar to the Bank for International Settlements. The Asian Monetary Fund could assume major functions of such an Asian BIS. Through the Asian Monetary Fund financial authorities in the region could facilitate exchanges of information and experience, and may strengthen mutual coordination in the supervision of banks, financial institutions, and financial systems. However, the Asian Monetary Fund should not force upon member countries ideas and standards developed by industrialized countries at the Bank for International Settlements in Basel, Switzerland. The Asian Monetary Fund should develop an original set of guidelines, based on "Asian" values, and monitor compliance with such guidelines using a network organized by its members.

Establishment of a Clearing System in Asia

To avoid future financial crises, we should promote mutual utilization of currencies in the region, which is a natural consequence of giving up dollar - pegged foreign exchange policies. The more mutual utilization and direct transactions in Asian currencies increase, the more a clearing system for Asian currencies will be needed, as greater utilization of Asian currencies will lead to a situation where Asian currencies will be traded directly, rather than through US dollars. As a measure to reduce settlement risk, the Asian Monetary Fund must provide a netting clearing system for Asian currencies.

In the future, Asian countries are expected to have more - developed securities markets. To reduce settlement risk and better service players in these markets, establishment of an international central securities depository in the region will be critically important. The model for this institution would be a central securities depository in industrialized countries, such as SICOVAM in France, rather than Euroclear or CEDEL, both of which are the international securities settlement institutions for the Eurobond market. Some countries in Asia, such as Hong Kong, have already set up central securities depositories, but for most, including Japan, this is still yet to be done. A centralized foreign exchange settlement institution in Asia is, once established, expected to be a precedent for a centralized Asian securities settlement institution, which interface with the centralized national securities settlement systems of its member countries.

Asian Monetary Fund Research Institute

The establishment of the Asian Development Bank Research Institute in Tokyo in 1996 was very encouraging, and possessed historical importance. It is naturally expected that the Asian Monetary Fund would establish its own research institute, even at an initial stage, to serve on various research subjects. The keyword “Asian way" was already mentioned in the original idea for the establishment of the Asian Development Bank. The first mission of the Asian Monetary Fund should also be to explore the “Asian way", and to find the means by which to incorporate it into the future policies of its member countries. The introduction of a common single currency unit in Asia should also be analyzed at the Asian Monetary Fund Research Institute, since implementation of optimum foreign exchange policy in the region will logically lead to introduction of either the use of a common currency basket or a single common currency unit.

Conclusion

Now is the best time to re - examine and begin discussing how to implement the Asian Monetary Fund. Japan, possessing more than half the total GDP of Asia overall, should not look to its own interests alone, but should play a substantial role to increase mutual understanding and prosperity in the region. Japan has already shown its firm determination in this direction in its recent New Miyazawa Initiative, but it should further display leadership in assisting crisis affected countries in their recovery from their financial crises, and should further contribute to maintaining sustainable economic growth in Asia.

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