

Financial Integration and Trade Dynamics of the ASEAN Plus Three Countries

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Abstract

The degree of trade integration and financial openness are the two most important and most basic criteria of “optimum currency area” theory. The rapid expansion of intra-regional trade is one of the remarkable facts about the recent economic developments in East Asia. The paper explores these development on financial integration and trade integration among the ASEAN+3 economies. The main findings of this paper are that the ASEAN+3 countries are closing on the ex-ante criteria for OCA hypothesis.

I. Introduction

The advent of an international monetary system in which the major currencies of the world floated relative to one another by the apparent break-up of the Bretton Woods system in 1973 has made the exchange rates of developing economies become more volatile. While the major currencies floated, a number of Asian economies managed their exchanged rate with the aim of stabilizing the value of their currency against a basket of key major currencies, but overwhelmingly to the US dollar (Frankel and Wei, 1994). This system has served the emerging economies of East Asia while the yen appreciate against the dollar, diverting trade and investment to these economies and stimulating growth. But as the dollar appreciated against the yen from 1995, the East Asian economies (excluding Japan) lost competitiveness relative to Japan and Europe, and their trading positions deteriorated, leaving them vulnerable to currency speculation and changes in the investor sentiment. As a result, the financial crisis of 97–98 gave a devastating impact on East Asian economies that has given rise to an intense debate among economist and some calls from leaders of the region for greater monetary integration and regional exchange rate stability in East Asia.¹⁾ Economist and policy makers

1) East Asia and the ASEAN+3 countries will be interchangeably use here and define as the five major economies of ASEAN (i.e. Singapore, Malaysia, Thailand, the Philippines and Indonesia) and plus 3 countries (i.e. Japan, PRC-China, and Korea)

are contemplating the idea of adopting ‘a single currency area’ in Asia, much like having a Euro for the European Union (EU).

The academic debate on the economic merits of monetary integration in East Asia started with the influential contribution by Frankel (1991), in which the question of whether East Asia was a ‘yen bloc’ in the making was raised. It became clear from the onset of the debate that monetary integration in East Asia would be clouded by strategic-political issues and has been hampered by the prominent presence of the US dollar among East Asian currency arrangements, as several countries keep one way or another a strong link to American currency.

Some of the literature that followed Frankel (1991) focused on the relative importance of the major international currencies in East Asia to show that the asymmetry with which the US dollar and the yen affect the different East Asian currencies imposes wide fluctuations between intra-regional currencies.²⁾ Thus, as closer trade and financial links develop among East Asian economies the less appropriate the current divergent arrangement seems to be and so the more relevant the issue of monetary integration becomes. It is in this context, Ng (2002) examined the correlation of economic shocks (i.e., external shocks, domestic supply shocks, and domestic demand shocks) for ASEAN5, the EU and NAFTA countries, and found that correlation for domestic demand and supply shocks are higher among the ASEAN5 than those of the EU and NAFTA countries.

Ironically, most of the economists, especially based in the United States, are highly sceptical about the scope for a common currency arrangement in East Asia. Eichengreen and Mauro (1999), Bayoumi and Mauro (1999), Bayoumi, Eichengreen and Mauro (1999) and Mussa *et al.* (2000), for example, are dismissive of such arrangements in East Asia, particularly of the feasibility of monetary union. On the contrary, Robert Mundell proposed in Bangkok conference that the ASEAN plus three should look to the European Union as a model for closer integration of monetary policy, trade and eventually currency integration.³⁾ Japanese economist appear less sceptical, Goto and Hamada (1994), Ito, Ogawa and Sasaki (1998), Murase (2000), Kawai and Takagi (2000), Yoshino, Kaji and Susuki (2000).

2) See for example, Benassy-Querre (1996).

3) R. Mondell wrote 40 years ago (1961: 657) about the unlikely event of currency union in Europe: What is the appropriate domain of a currency area? It might seem at first that the question is purely academic since it hardly appears within the realm of political feasibility that national currencies would ever be abandoned in favor of any other arrangement. ____ (B)ut certain parts of the world are undergoing processes of economic integration and disintegration, new experiment are being made.

At the same time, trade within East Asia has become steadily more important to countries in the region. There have been substantive developments in regional integrations and a number of proposals for free trade in East Asia. The ASEAN countries already decided to start ASEAN Free Trade Area (AFTA) in 2002 and realize 0–5% trade tariffs among themselves by 2008. China-ASEAN FTA has reached an agreement in November 2002. Japan-ASEAN, Korea-ASEAN and Japan-Korea free trade proposal all reflect the awareness of interdependence in the region.

In view of this development, it makes sense to examine to what extent of economic integration does the ASEAN plus three countries has reach in terms of real and financial integration. To shed lights on this issue, the paper uses empirical test derived from the international parity conditions: the hypothesis of Uncovered Interest Parity (UIP), and Trade Intensity Index as discussed in Goto (2002). Despite their mixed empirical performance in capturing the generating process of historical data, particularly with respect to financial integration (Makin 1994), the international parity conditions remain a popular analytical tool to consider economic integration for several reason. First and foremost is the fact that they remain the fundamental tenets of macroeconomic theory. This rigorous association with theory is desirable because results can be more clearly interpreted and a benchmark exists for what could be expected under perfect integration. Another attractive feature of the international parity condition is that their testing uses data that is readily available in high frequency. Therefore, this paper utilizes this parity condition to supplement more readily available volume-based measures to help determine the current degree of integration among the ASEAN plus three countries.

The paper proceeds in the following manner. In Section II, the price base measures are described, and the computation for Uncovered Interest Differentials (UIDs) for the ASEAN plus three countries are undertaken. Section III, examines the trade intensity index in the observed countries and compares the result with the intensity index with that of Europe. The final section collects the result of the preceding analysis and gives its implication for a monetary integration in East Asia.

II. Price Based Measures of Financial Integration (or Arbitrage conditions)

A. Theoretical Background

The most popular methodology for determining the extent of financial integration is the

UIP. Indeed, as Flood and Rose (2002) have noted, “the UIP is a classic topic of International finance, a critical building block of most theoretical models..” (p. 252). However, it is important to keep a number of caveats in mind when interpreting the findings. The test for the UIP usually assumed that all agents form expectations rationally. Thus, the failure of the UIP to hold (in the sense that there exist a large and persistent UIDs) could be because (a) the Covered Interest Parity (CIP) does not hold (imperfect capital mobility); (b) there may be large and time varying currency risk premia (imperfect asset substitutability); or (c) rational expectations is an inappropriate assumption for the foreign exchange markets (or that the financial market consist of heterogeneous agents)⁴.

While the CIP is a generally preferred measured of financial integration in view of the preceding limitations of operationalizing the UIP (Frankel, 1991), as noted, there needs to be liquid forward foreign exchange market in the currency pair under investigation. Whilst this is not problematic for industrialized economies, it is definitely a niggling problem for developing economies.

With regard to the third price measure of financial integration, the RIP, the conditions for it to hold are quite prohibitive, as both PPP and the UIP need to simultaneously hold. However, RIP provides a useful condition encapsulating both trade and financial linkages, and thus should not be dismissed as being altogether irrelevant. The RIP is more likely to hold over longer time horizons and acts as a useful proxy for the marginal cost of capital⁵.

Whichever price measure of financial integration is considered, there are two important points to note. One, arbitrage conditions are probably a more appropriate way of measuring integration for certain sectors (e.g. the banking sector) rather than the whole economy. Two, a perennial problem with using such price measures, especially in developing economies, is what interest rates should be used, and to what extent are the available interest rates comparable across countries.

4) McCallum (1994) also believes that deviation from the UIP may be due to monetary policy decision of central banks and proposes that a monetary policy reaction function be included in an expression for the UID. Bird and Rajan (2001) and Rajan, Siregar, and Sugema (2002) offer bank-based explanations for persistent interest rate differentials in East Asia. Also see Edwards and Khan (1985) and Willet, Keil and Ahn (2002)

5) In fact, the UIP may also be more valid over longer time horizons — over one year (see Madarassy and Chinn, 2002, and Meredith and Chinn, 1999).

B. Methodology and Data

This section will follow the specific methodology devised by Rajan (2003) in the context of financial and monetary integration of East Asian region (e.g., China, Japan, Korea, and ASEAN-5 countries). The following is a brief overview of this approach.

1. The Covered Interest Parity (CIP)

The CIP may be formally stated as follows:

$$i_t = i_t^* + f_{t,t+n} \quad (1)$$

where: i_t is the domestic interest rates, i_t^* is the foreign interest rate and $f_{t,t+n}$ is the forward margin (discount on the domestic currency) for n period.⁶⁾

The CIP indicates that the difference between the current spot rate and the forward rate will equal the interest differential between similar assets measured in local currencies. Therefore, in the absence of capital account restriction and/or transaction cost, the covered interest differential (CID) ought not to differ significantly from zero. A negative differential suggest the existence of capital controls or transaction cost that restrict capital outflows.

2. The Uncovered Interest Parity (UIP) Condition

The UIP may be represented as follows:

$$i_t = i_t^* + \Delta e_{t,t+1}^e \quad (2)$$

where: $\Delta e_{t,t+1}^e$ is the expected exchange rate in time $t + n$.

While equation (2) provides the theoretical condition for UIP, it is not testable in its present form because expected exchange rates and prices are not observable in the current period. The standard approach in the empirical literature is to assume rational expectations by using the *ex-post* differentials. This may be justified by assuming that rational expectations hold. This assumption that actual or *ex-post* exchange rate equals the expected spot exchange plus an uncorrelated error term is a practical way of overcoming the problem of non-observable expected exchange rate changes.

3. The Uncovered Interest Differential (UID)

UID is defined as follows:

$$UID_t = i_t - i_t^* - \Delta e_{t,t+1}^e \quad (3)$$

If $UID > 0$, the expected rate of return on home assets is higher than foreign assets, resulting in capital inflows in the home country. Similarly, outflows take the place if $UID < 0$. The paper will concentrate on UID and the result will be discussed in the succeeding section.

6) Throughout this paper, the exchange rate is quoted as the domestic price of foreign currency.

Data Description

The ASEAN countries under study will be limited to the five original members (i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand), the four recent additions (i.e., Cambodia, Laos, Myanmar and Vietnam) will not be focus in the analysis for reasons such as: (i) small economic scale compare with former member, (ii) the ongoing ‘Thai Bath zone’ with the latter member, and, (iii) inadequacy of reliable data for the analysis. Consequently, Brunei had its monetary tied-up with Singapore’s monetary policy. The other two big economies of East Asia (i.e., Hong Kong and Taiwan) are already involved in ‘greater China policy’ of which a research on monetary union of these economies is underway.

The major prime sources of data used in the empirical analysis in this Section and Section 3 are: 1) IMF International Financial Statistics, (2) Asia Recovery Information Center (ARIC) database of the Asian Development Bank, (3) The Central Banks of the respective country focused in the study, (4) the websites of the national statistic for each country. In order to take a credible claim for structural stability, I use high-frequency data only from 1999 onward, recognizing that the older history is either distorted (through the currency crisis) or simply not available. The Foreign exchange rate (forex) and monthly data for the three-month interbank rate for the ASEAN+3 countries (excluding Japan) is sourced from ARIC databases. Data from Japan are sourced from the Bank of Japan.

All data for interest rate and forex are monthly starting from 1999-Jan to 2004-Dec, in natural logarithms and seasonally unadjusted except for values in export-import series. For a comparative analysis, results from different literature will be adapted to extent the analysis to pre-crisis period starting from 1995 to 1996, and the crisis period of 1997 to 1998.

C. *Empirical Results*

Based on equation (3), the calculated UIDs mean differential among the ASEAN+3 counties are presented in Table 1. The results are presented in terms of the entire period, along with three sub-samples from 1999 : 01 to 2000 : 12, 2001 : 01 to 2001 : 12, and 2002 : 01 to 2004 : 12. The logic for dividing the range in three sub-samples is that the first period corresponds to recovery or post crisis period, while the second sub-sample takes into account the IT-shocks and the 9–11 bombing incidents. The last sub-sample could be classified as a stable growth period.

Table 1. Uncovered Interest Differential (UIDs) of ASEAN plus Three Countries (in percent)

Domestic Economy: Japan							
	Malaysia	Singapore	Philippines	Thailand	Indonesia	Rep of Korea	PRC
1999 – 00	– 2.32	– 0.07	– 10.32	– 3.18	– 17.77	– 5.43	– 3.90
2001	– 1.77	0.46	– 10.85	– 1.73	– 15.44	– 3.65	– 2.57
2002 – 04	– 1.54	1.05	– 6.30	– 0.37	– 9.96	– 2.85	– 1.80
1999 – 04	– 1.85	0.64	– 8.45	– 1.57	– 13.59	– 3.88	– 2.66

Domestic Economy: China (PRC)							
	Malaysia	Singapore	Philippines	Thailand	Indonesia	Rep of Korea	Japan
1999 – 00	1.58	3.05	– 6.42	0.72	– 13.87	– 1.53	3.90
2001	0.81	3.03	– 8.28	0.84	– 12.87	– 1.08	2.56
2002 – 04	0.26	2.85	– 4.50	1.43	– 8.16	– 1.05	1.81
1999 – 04	0.81	2.93	– 5.80	1.09	– 10.93	– 1.22	2.66

Domestic Economy: Korea							
	Malaysia	Singapore	Philippines	Thailand	Indonesia	PRC	Japan
1999 – 00	3.11	5.43	– 4.88	2.26	– 12.34	1.53	5.43
2001	1.88	4.10	– 7.21	1.92	– 11.80	1.07	3.63
2002 – 04	1.32	3.91	– 3.44	2.49	– 7.10	1.06	2.87
1999 – 04	2.04	4.35	– 4.57	2.31	– 9.70	1.22	3.88

Domestic Economy: Singapore							
	Malaysia	Indonesia	Philippines	Thailand	PRC	Rep of Korea	Japan
1999 – 00	– 1.75	– 11.60	– 10.07	– 2.66	– 3.05	– 5.43	0.06
2001	– 2.23	– 15.90	– 11.32	– 2.19	– 3.03	– 4.11	– 0.47
2002 – 04	– 2.58	– 11.01	– 7.35	– 1.41	– 2.85	– 3.90	– 1.04
1999 – 04	– 2.29	– 12.08	– 8.82	– 1.89	– 2.93	– 4.35	– 0.64

Domestic Economy: Malaysia							
	Thailand	Indonesia	Philippines	Singapore	PRC	Rep of Korea	Japan
1999 – 00	– 0.85	– 15.44	– 7.99	1.75	– 1.58	– 3.11	2.32
2001	0.04	– 13.68	– 9.09	2.22	– 0.81	– 1.88	1.75
2002 – 04	1.17	– 8.43	– 4.77	2.58	– 0.26	– 1.32	1.54
1999 – 04	0.28	– 11.74	– 6.61	2.29	– 0.81	– 2.03	1.85

Domestic Economy: Thailand

	Malaysia	Indonesia	Philippines	Singapore	PRC	Rep of Korea	Japan
1999 – 00	0.85	– 14.60	– 7.15	2.65	– 0.73	– 2.26	3.17
2001	– 0.04	– 13.71	– 9.13	2.18	– 0.84	– 1.92	1.72
2002 – 04	– 1.16	– 9.59	– 5.93	1.42	– 1.43	– 2.48	0.38
1999 – 04	– 0.28	– 12.02	– 6.89	1.89	– 1.09	– 2.31	1.57

Domestic Economy: Philippines

	Singapore	Malaysia	Thailand	Indonesia	PRC	Rep of Korea	Japan
1999 – 00	10.06	7.98	7.13	– 7.46	6.40	4.87	10.30
2001	11.31	9.09	9.12	– 4.59	8.28	7.21	10.84
2002 – 04	7.35	4.76	5.93	– 3.66	4.50	3.45	6.31
1999 – 04	8.81	6.60	6.88	– 5.14	5.79	4.57	8.45

Domestic Economy: Indonesia

	Malaysia	Singapore	Philippines	Thailand	PRC	Rep of Korea	Japan
1999 – 00	15.44	11.58	7.44	14.58	13.86	12.33	17.76
2001	13.67	15.89	4.58	13.70	12.86	11.79	15.42
2002 – 04	8.43	11.01	3.66	9.60	8.16	7.11	9.97
1999 – 04	11.74	12.08	5.13	12.01	10.92	9.70	13.58

The results reveal the existence of arbitrage opportunities throughout the three different periods among the ASEAN+3 economies. A noticeable reduction in the interest spread is observed when the first sub-sample period is compared to the entire term which suggests the intensification of market integration among these economies. The second sub-sample portrays a mixed result, as for the plus three economies, the UIDs spread is decreasing trend against the ASEAN counterpart. In contrast, the ASEAN economies show a widening spread among the member countries against decreasing trend with regards to the plus three countries (excluding Philippine against the plus three economies). The third sub-sample display a period of relative calm and validates the intensification of market integration when compared to the over-all term.

For the five ASEAN economies, Indonesia is the only country which offered substantial and persistent positive interest rate spreads over other regional economies. It is possible that the positive UIDs offered on the rupiah indicates a large rupiah devaluation as well as high

country or currency risk premia. It also signifies that Indonesia has the least financial linkages among the ASEAN+3 countries.

Korea has wider interest spread with respect to Japan and Singapore, on the contrary a much small spread against China, indicating that financial linkages between these two economies are more integrated to each other. Thailand, Malaysia and Singapore projects a more integrated financial along the entire sub-sample period with the lowest UID mean differential among their respective economies.

III. Trade Interdependence Among ASEAN+3 Economies

It is generally accepted that the degree of integration and openness are the two most important and most basic criteria of “optimum currency area” (OCA). And for countries to have high degree of integration and openness, they must trade intensively with each other. The rapid expansion of intra-regional trade is one of the remarkable facts about the recent economic developments in East Asia. It is well-known that total exports and imports have grown faster than total production in East Asia. More interestingly, the intra-regional trade in East Asia has grown faster than the total trade. In fact, the share of intra-regional trade in East Asia, excluding Japan, increased from 20 percent in 1980 to 43 percent in 2002.⁷⁾ Figure 1 depicts the current trade (2004) directions of the ASEAN+3 economies. As shown in the graph, most of the ASEAN-5 countries trade more than 50% of their total trade with the ASEAN+3 countries. Most noticeable is the trading pattern of Japan which 52% of its trade volume goes within the region. If we add the trade between China, Hong Kong and Taiwan, China will have 50% of its total trade with in the region.

The succeeding section will draw from the methodology used by Goto (2002) on trade intensity index and will adapt some of his previous result for comparative analysis on the recent result (authors computation). The following is a brief overview of this approach.

The trade intensity index between country i and country j is defined as follows:

$$T_{i,j} = (T_{i,j} / T_i) / (T_{w,j} / T_w) \quad (4)$$

Where: $T_{i,j}$ = trade volume of country i with country j ,

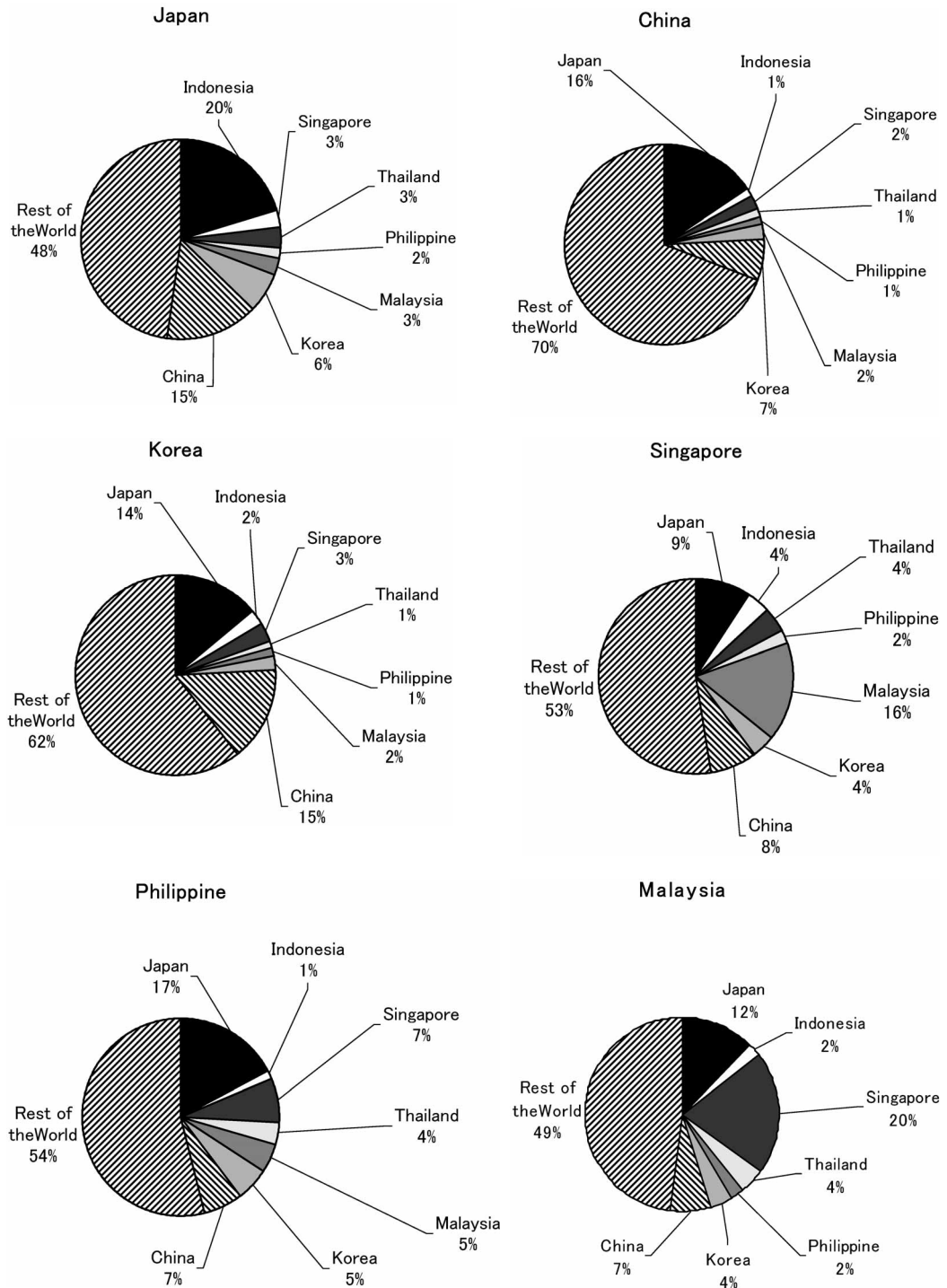
T_i = the total trade volume of country i ,

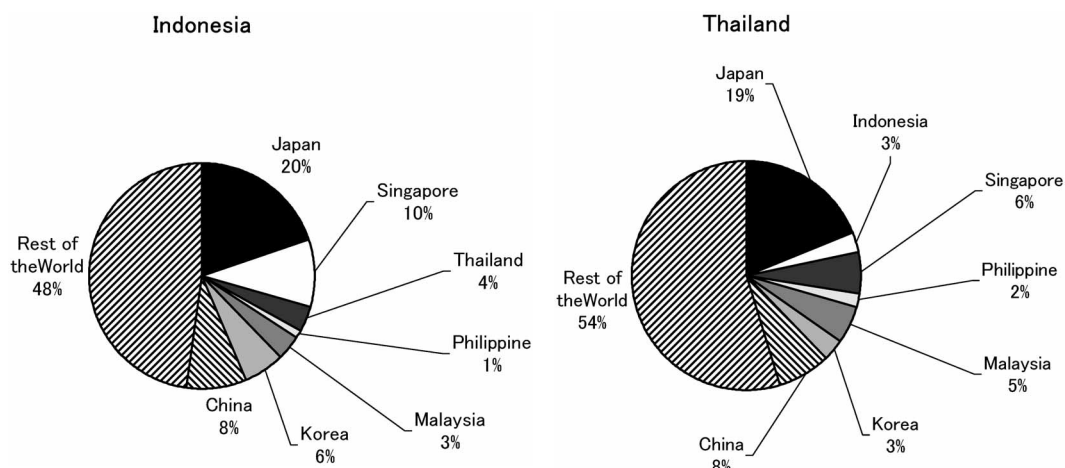
$T_{w,j}$ = trade volume of the world with country j ,

T_w = the total trade volume of the world.

7) See Kamada and Takagawa (2005) for more details.

Figure 1. Trade Structure among ASEAN+3 Countries





Accordingly, the index is the ratio of the share of the trade with j 'th country in the total trade of country i to the share of the j 'th country's trade in the total world trade. The index is normalized by dividing by the relative share of the country in the total world trade so that the effect of the mere size of the country is to be eliminated. If the degree of trade interaction between country i and country j is equal to that between the world and country j , then the index is equal to unity. The higher the index is, the more closely are the two countries interrelated by trade.

Tables 2 and 3 shows the trade intensity index for the ASEAN+3 economies with its corresponding reference year respectively. Table 4 is the trade indexes among the original EU (EMU) member. Tables 3 and 4 are adopted from Goto (2000) for comparative Analysis. The ASEAN+3 trade intensities are mostly above one in the 2004-reference year, and the average intensity for each country in the region is greater than one in all cases, and are highest for Thailand, Singapore and Malaysia, and lowest for Indonesia and the Philippines. The average intensity index for reference year 2004 is greater than for reference year 1999 and also with respect to the average intensity for EU countries. This pre-concludes that the ASEAN+3 countries are a good candidate for a common currency arrangement as EU.

Referring to Goto's analysis, the indexes that adjust for the size effect of trading partners show in many cases higher values in the ASEAN+3 countries than those of EU countries. He concludes that as far as the level of trade intensity index is concern, the degree of trade interdependence is quite strong among East Asian countries with respect to EU countries.

Table 2. Trade Intensity Indices among ASEAN+3 (Reference Year: 2004)

	JP	KR	CH	IN	SN	TH	PH	ML
JP		2.5	2.6	4.1	1.6	3.1	3.5	2
KR	2.5		2.7	3.4	1.7	1.2	2.5	1.7
CH	2.6	2.7		1.7	1.4	1.4	2.1	1.7
IN	4.1	3.4	1.7		5.4	3.7	2	2.5
SN	1.6	1.7	1.4	5.4		4.1	4.1	12
TH	3.1	1.2	1.4	3.7	4.1		3.5	4.2
PH	3.5	2.5	2.1	2	4.1	3.5		3.9
ML	2	1.7	1.7	2.5	12	4.2	3.9	
Average	3.08							

(Note: Data courtesy of Izumi Takagawa,⁸⁾ authors' computation.)

Table 3. Trade Intensity Indices among ASEAN+3 (Reference Year: 1999)

	JP	KR	CH	IN	SN	TH	PH	ML
JP		2.5	2.5	3.3	1.8	3	2.9	2.2
KR	2.5		2.7	3.4	1.7	1.1	2.5	1.8
CH	2.5	2.7		1.8	1.2	1.1	0.8	0.8
IN	3.3	3.4	1.8		5.6	2.8	1.5	2.6
SN	1.8	1.7	1.2	5.6		4.9	3.7	11.9
TH	3	1.1	1.1	2.8	4.9		2.6	3.6
PH	2.9	2.5	0.8	1.5	3.7	2.6		2.8
ML	2.2	1.8	0.8	2.6	11.9	3.6	2.8	
Average	2.75							

(Adapted from Goto, 2002)

Table 4. Trade Intensity Indices among EU Countries (Reference Year: 1999)

	Atria	BILx	Flnd	Frce	Gery	Irlnd	Italy	Nlnd	Prtgl	Spn	Swed
Atria		0.79	1.14	0.9	4.53	0.46	2.22	0.99	0.74	0.98	0.95
BILx	0.79		0.95	2.9	2.03	1.31	1.24	3.66	1.37	1.44	1.39
Flnd	1.14	0.95		0.91	1.76	1	0.94	1.42	1.04	0.93	8.51
Frce	0.9	2.9	0.91		2.04	1.32	2.5	1.62	2.33	3.58	1.08
Ger	4.53	2.03	1.76	2.04		1.15	2.02	2.44	1.91	1.7	1.58
Irlnd	0.46	1.31	1	1.32	1.15		0.85	1.36	0.61	1.06	1.12
Italy	2.22	1.24	0.94	2.5	2.02	0.85		1.17	1.79	2.51	0.95
Nlnd	0.99	3.66	1.42	1.62	2.44	1.36	1.17		1.24	1.21	1.77
Prtgl	0.74	1.37	1.04	2.33	1.91	0.61	1.79	1.24		10.19	1.14
Spn	0.98	1.44	0.93	3.58	1.7	1.06	2.51	1.21	10.19		1.23
Swed	0.95	1.39	8.51	1.08	1.58	1.12	0.95	1.77	1.14	1.23	
Avrg	1.82										

(Adapted from Goto, 2002)

8) Economic Analysis Research and Statistics Department, Bank of Japan and IMF International Financial Statistic.

IV. Conclusion

This paper utilized the interest rate parity condition and the trade intensity index to analyze the current level of economic integration among the ASEAN+3 economies. The result of the analysis on UIDs reveals that the existence of arbitrage opportunities throughout the three sub-periods, though it also indicates the intensification of market integration among these economies. For the five ASEAN economies, Indonesia is the only country which offered substantial and persistent positive interest rate spread over the other regional economies, in contrast to Japan and Singapore. The main implication of this analysis is that the ASEAN+3 countries are closing on the *ex-ante* criteria for OCA hypothesis.

Drawing on Goto's (2002) analysis and contrasting it to this paper analysis on trade intensity index confirms a high degree of integration trade among the ASEAN+3 countries, and in many cases show a much higher level of interdependence on trade compared to EU countries. Thus, the main objective of this paper has been emphasized, but do intensified financial integration and closer trade integration imply that a region is closer or farther away from being an OCA? Given the divergence in economic and institutional structures of the ASEAN+3 countries, any attempt to create a common currency might be too risky and premature at this point in time, and will in all likelihood be a failure. As for OCA criteria, one might always argue that there is a degree of endogeneity for all the criteria, as others like Goodhart (1995) dispute the relevance of economic criteria altogether, claiming that political consideration dominate the formation of currency areas. Practical judgment suggest that the aim should be continue with steps to enhance trade and financial cooperation by reducing distortion and barriers to cross-border economic activity and for the Asians to find for themselves the right arrangement that can sustain their high-growth in which the western world perceived as the "*Asian Miracle*".

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