

## **S A Grenville: Notes on East Asian financial cooperation**

Speech by Mr S A Grenville, Deputy Governor of the Reserve Bank of Australia, at the Anu International Conference on Financial Markets and Policies in East Asia, held in Canberra, on 4 September 2000.

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In an increasingly globalised world, it is reasonable to ask why regional financial arrangements might still be important and worth striving for. Aren't we all going to be ruled by Thomas Friedman's Golden Straitjacket, under the gimlet-eyed surveillance of the Electronic Herd? What place, in this seamlessly integrated world, for regional arrangements?

The key point driving any regional arrangement is commonality of interests - even in a globalised world, we care more about what happens to our neighbours than we would about countries of equal size but geographically remote. Just as there will be different levels of government (local, national) within a country, not all international issues will be best dealt with on a one-world universal basis.

Perhaps the most positive specific element of regional arrangements is their great potential for fruitful interaction which will raise understanding, cooperation, coordination and technical standards all round. One specific economic aspect of this is the so-called "peer surveillance" which has emerged in a number of regional arrangements. But the much more informal exchanges between technicians will probably be more important still - someone notices that one of their regional neighbours has a good way of doing something, so they copy it.

In large part as a consequence of this continuing interaction, another important benefit from regional arrangements is their superior knowledge of what is happening in the region. I can recall that in July 1997, when East Asian central bankers met in Shanghai, it was very obvious to everyone at that meeting that the Asian crisis was going to be very serious indeed. Four months later, the US President was still talking about the crisis as "a few glitches on the road" - no reflection on his own competence in an enormously complex world, but a reflection of the poor advice going into the US decision-making process, which was reflected elsewhere, for instance in the lack of participation in the Thai support program in August 1997.

At the same time, it would have to be acknowledged that we were not able to use this better knowledge to improve the decision-making process in the multilateral agencies (particularly the IMF). But this just says that we have to try harder in future, and turn potential into actual. We have to look for the opportunities to use these regional forums as a way of refining, concentrating and amplifying our voice, so that the distilled wisdom of this interaction is heard more effectively in the multilateral forums. To provide a specific example: there can hardly be any doubt that the IMF Indonesian program would have been quite different if it had had an effective input from the region - the long-term desirability (but low priority) of doing something about the clove monopoly would have been kept in better perspective against the pressingly urgent short-term crisis of massive capital outflow. In macro policy, the overly tight budgets of the IMF's initial prescription might have been avoided.

A strong regional representation could catalyse a better articulation of other aspects of our interests at the multilateral level. There is a danger that, at the multilateral level, the United States will promote the cause of those areas of principal interest to it (principally Latin America) and Europe will promote the interests of its Eastern European neighbours (including Russia), but that the interests of the countries of Asia may be without a big country champion and advocate at the multilateral debate. We see this danger in the Contingent Credit Line program being devised at the IMF, where countries which receive a prior "seal of approval" will be able to draw on Fund support more or less automatically in time of need. There is a real danger that countries which get this seal of approval are likely to be the countries of principal interest to the largest members of the IMF who dominate the Board. We may be able to redress this balance if our regional voice is well coordinated.

A further factor in favour of regional arrangements is that, when it comes to collecting funds, a regional group can mobilise the strong forces of self-interest and immediate concern that are felt within a small, geographically contiguous group. The Thai support package - where the regional contribution was almost three times the size of the IMF's contribution - illustrates that regional arrangements can be effective when multilateral agencies are slow across the ground or hindered by imperfect assessments of the situation.

### **The form of the arrangements**

What form should these regional arrangements take?

The point that should be made here is that a fair amount of overlap is inevitable, and no bad thing. Certainly, representational resources are a constraint, but within this broad constraint, we should not be too fretted that a particular subject is discussed in more than one place. That said, there may be room for pruning and specialisation in the quite wide variety of organisations which already exist within the region.

### **New developments**

Perhaps the most important and striking new development is the embryonic currency arrangements coming out of ASEAN+3. The initial suggestion is one of foreign currency swaps, but there may be some implication that this could lead to various currency linkages, perhaps ultimately culminating in some form of currency union. There is a good debate already underway as to whether regional currency baskets make sense (a debate carried on at this conference), and whether Asia seems a suitable case for a currency union. It is important for us, here in Australia, to make sure we do not confuse the issue of evaluating these various proposals with the desirability of being present at the table when these discussions take place. Whatever the merits of particular arrangements, these discussions are, in themselves, an important part of the process of swapping ideas and coming to understand each other better. So the case for Australia wanting to be there is a clear one, and we should state this clearly (as we have done), without wishing to elbow our way into any arrangement in which we are not wanted. The critical thing, for Australia, is to be able to establish our goodwill and competence in such a way that the countries in this group will feel it to their own advantage to have us present. We are some distance away from this at the moment, but the starting point is to recognise the desirability of being at the table. We might remember, too, that the Euro took 50 years to get off the ground, and that at the start there must have been far more scepticism than support among countries which had so recently been in mortal combat.

The other idea, waiting offstage in the wings at the moment, is for an Asian Monetary Fund. When this was first proposed during the Asian crisis, Australia had some reservations about the particular format which had been proposed. But whatever the views at the time, we need to keep an open mind. Some of the initial opposition (particularly from the United States) may have its origins in viewing all of this through the IMF prism, and the advantages set out above for regional arrangements apply here also - that smaller groups will often be more appropriate to particular problems and bring special expertise and focus.

So a postscript can be added to these discussions. We should not see different groups as rivals: any such arrangements should be seen as complementary, not competing with multilateral arrangements.

### **Leadership**

One serious issue for the future of regional arrangements in this region is the unresolved issues of leadership. In terms of GDP and technological sophistication, the obvious regional leader is Japan. Partly for historical reasons, and partly because of its internal focus, Japan has not exercised the sort of leadership which is commensurate with its economic clout. In terms of population and potential economic size in the long run, China might claim the role. Hong Kong, Singapore and Australia have

sophisticated financial markets, but each of these economies is relatively small. Within ASEAN, the dominant country (Indonesia) is, unfortunately, in no position, for the moment, to be a vigorous leader of regional arrangements. So there is a major unresolved issue here.

### **Where to from here?**

From the Australian viewpoint, this is in some ways a low point for regional arrangements. The real progress which has been made in getting better representation in the multilateral forums for non-European (and particularly Asian) voices is undisputed. G20 (the lineal successor to G22) now has the potential to become a premier group for discussing the critical issues of globalisation, with a representative audience no longer dominated by Europeans. The Financial Stability Forum has been formed, again with good representation from the region, to hammer out the specifics of financial rules and regulations. Membership of the Bank for International Settlements has been significantly opened up to non-European members. So there has been real progress at the multilateral level. But at the regional level, the Asian crisis has been an enormous distraction from the mundane task of building regional institutions, with the officials who had got to know each other well in such forums as EMEAP and the Manila Framework being very substantially weakened and dispersed in the aftermath of the crisis. Peer surveillance has not taken the major role that it might have, lacking any clear functional model or strong leadership. The current focus on the Chiang Mai swap proposals could be the basis of some important ties, but we should keep in mind that ASEAN has had such swap arrangements in place for quite some time, and EMEAP had in place somewhat similar repo arrangements, which did not provide much advantage in the Asian crisis in 1997. Such arrangements are valuable in that they get people together and talking about other issues, but it would be a mistake to see them, taken by themselves, as massive breakthroughs in regional cooperation.

As for Australia's role and links in all of this, it would have to be said that the present moment is a rather disappointing one. A good case can be made that Australia served a useful role during the crisis, first of all as participant in the support packages (Japan was the only other country to contribute to all three), but more importantly in its assessment of the crisis as it unfolded, and its attempts to point out deficiencies in the multilateral approach, with the visit of our Foreign Minister and the RBA Governor to the United States in early 1998. However, it would have to be said that this voice was not heard, and very little was achieved. Australia's own performance during the Asian crisis might be a positive example and a reminder of the benefits of competent policies, but may well have been mistaken, by our Asian neighbours, as boastful blowing of our own trumpet during a time of their misfortune. The souring of our relationship with Indonesia over Timor has blocked off a potentially important entrée into the ASEAN arrangements. Our best chance, now, is to build on the myriad spider-web ties which bind all sorts of Australians - business people, academics and officials - to their counterparts in Asia, in the hope that this network proves a strong enough foundation for us to take a vigorous role in whatever regional arrangements are formed in Asia.