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Charity Registration Number: 208223

International Economics IE 2013/01

Multiple Currencies for a Multipolar World: All Change ... or Not?

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Chatham House

April 2013



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INTRODUCTION

This paper draws on the 6th Asia-Europe Editors' Roundtable organized in Bangkok by the Asia-Europe Foundation (ASEF) and Chatham House on the eve of the Asia-Europe Meeting (ASEM) 10th Finance Ministers' Meeting (FinMM) in October 2012. The roundtable presented a unique opportunity for senior editors from Asian and European media organizations to participate in a focused discussion, which examined the push towards a multiple-currency system to suit the emergence of a multipolar world, and to analyse the reforms needed in the international monetary system (IMS) from Asian and European perspectives.

The roundtable was held at a critical time – in the midst of much discussion about the future of regional integration, particularly given the sovereign debt crisis in the eurozone. Europe has always been seen as an example and benchmark of regional integration from the Asian perspective – but now there is uncertainty, and doubts have arisen about whether deeper economic and monetary integration is the right way forward.

It is clear that Asia and Europe need to continue working together and to increase their cooperation. However, in a period of renationalization of policies, especially on the Asian side, only bilateral talks are on the horizon, such as the proposed EU–India and the EU–Japan free trade agreements (FTAs). Intraregional monetary integration has also increased in Asia, as in the case of the currency swap agreement between Thailand and China in December 2011.¹ More broadly, seven out of 10 countries in the region – not only Thailand but also South Korea, Indonesia, Malaysia and Singapore – track the renminbi (RMB) more closely than they do the US dollar.²

Many questions arise. Can Europe learn lessons from the Asian financial crisis of 1996/97? Following Europe's lead, which started with a single market and later established a monetary union, is more regional integration the way forward for Southeast Asia? What is the media's role in this process?

This paper explores current trends in relations between Europe and Asia. First, it looks at challenges and opportunities in the current system from the perspective of each continent, with a specific focus on increasing policy coordination both regionally and at the global level. The paper then explores the possibility of a regional currency union, in view of the RMB's internationalization and of a future multi-currency system, in the context of the

¹ The Thai Central Bank signed a \$1.4 billion currency swap deal with the Chinese Central Bank to facilitate trade, investment and business between the two countries in December 2011.

² Gao Changxin (2012), 'Asian economies turn to yuan', *China Daily*, 24 October (last update), http://www.chinadaily.com.cn/china/2012-10/24/content_15840495.htm.

overall 'stable disequilibrium' of the current IMS. It also assesses the debate on how and why the system should be reformed and the challenges that lie ahead. Finally, it considers the role of the media and the increased public awareness since the outbreak of the recent financial crisis, and specifically its interplay with information disclosure by institutions and actors in the financial sector.

CHALLENGES AND OPPORTUNITIES THROUGH THE EYES OF ASIA AND EUROPE: DEEPENING INTEGRATION

The current international arena provides both challenges and opportunities to Asia and Europe alike. To respond to them, both regions need to develop and implement coordinated regional mechanisms. Comparing the current crisis and the Asian crisis of 1996/97 might help find commonalities and similar experiences. Both regions can learn from looking into each other's experience. Europe in particular can draw some lessons from the management of the Asian crisis at the end of the 1990s. Asian countries, on the other hand, have always viewed Europe as a model of regional integration. Ever since the global economic crisis has put the eurozone and the entire European project at risk, however, this model has been seriously questioned.

Asia needs a strategy to sustain current cooperation and pursue further integration. A robust domestic financial system is needed in the countries involved, followed by coordinated policies among neighbouring countries to avoid the risk of regional or international contagion, as happened during the Asian crisis. Coordinated policies implemented after that crisis include the Chiang Mai Initiative (CMI), launched in May 2000. This established a network of bilateral currency swap agreements between the region's central banks. It evolved into a multilateral initiative in 2009 with about \$240 billion, which is a considerable amount given the size of the Asian economies. However, the CMI needs strengthening and monetary cooperation needs to be fostered. An infrastructure for cooperation was advocated during the roundtable, in order to achieve a 'seamless' Asia. Regional surveillance would benefit from a tangible institution, such as an ASEAN+3 short-term liquidity mechanism, which in the longer term might aim to develop into an Asian monetary fund.³

³ ASEAN+3 comprises the 10 countries of the ASEAN, the Association of Southeast Asian Nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma (Myanmar), the Philippines, Singapore, Thailand and Vietnam), plus China, Japan and the Republic of Korea.

The Asian Bond Market Initiative (ABMI), which has been in existence for nearly ten years, needs to be revived and deepened. It aimed to develop efficient and liquid bond markets, to enable better utilization of Asian savings for Asian investments, and to mitigate currency and maturity mismatches in financing, via the issuance of Asian Bond Funds.⁴ Economic integration via foreign direct investment (FDI) needs to be implemented, and would lead to considerable expansion of cooperation. However, there has been a rise in protectionist attitudes, as a mushrooming of FTAs has shown,⁵ as a defensive response to regional blocs. Despite recent talks about coordination of exchange rate policies, in the sense of collective currency appreciation *vis-à-vis* the US dollar, so far no clear output has been produced.

Policy coordination is essential to prevent contagion, which is a lesson Europe could also learn. To some extent, however, Europe can be considered ahead of the game. Unlike Asian economies in the late 1990s, it has already achieved a deeper degree of integration and a common currency. Even in the present situation, this is an 'advantage' in terms of the desired and advocated need for greater policy coordination and cooperation in monetary issues. At the same time, it has been noted that Asia might well overtake Europe in the next decades in terms of economic growth, as it heads towards monetary union and a single currency. Two possible scenarios were envisaged during the roundtable. The more positive one foresees an 'Asian century', in which the region accounts for half of world GDP by 2100,⁶ whereas the other, taking into account the possibility of a 'middle-income trap',⁷ predicts a figure of a little more than 30 per cent.

European commentators at the roundtable highlighted that the current crisis in the eurozone had led to a number of recent measures, including those by the European Central Bank (ECB) via the tandem European Financial Stability

4 For instance, ABF-1 and ABF-2 in 2003 and 2004 respectively. See also the Chairman's press release on the ABMI (7 August 2003): 'The Asian Bond Markets Initiative aims to develop efficient and liquid bond markets in Asia, which would enable better utilization of Asian savings for Asian investments. The initiative would also contribute to the mitigation of currency and maturity mismatches in financing. It is a key step forward in ASEAN+3 finance cooperation.' <http://www.oecd.org/finance/financialmarkets/49700575.pdf>.

5 Between 2000 and August 2010, as a group, the number of concluded FTAs in Asia increased from only three to 61. Of these, 47 FTAs are currently in effect. The proliferation of FTAs in Asia is likely to be sustained: another 79 are either under negotiation or proposed. http://www.un.org/esa/ffd/msc/regionalcooperation/ADB_WPs.pdf.

6 An even more optimistic outlook sees it happening by 2050. Asian Development Bank (2011), *Asia 2050: Realizing the Asian Century*, http://www.unido.org/fileadmin/user_media/UNIDO_Worldwide/Asia_and_Pacific_Programme/Documents/AsianDevelopmentBankreport_asia-2050.pdf.

7 A state can fall into the 'middle-income trap' when it attains a certain level of economic development without being able to grow further. On one hand, goods produced within that particular country will be too expensive relative to others produced by less developed ones. On the other hand, that country will suffer from a deficit of high-skilled workers relative to more developed countries. It will therefore be unable to compete with both less and more developed states. Both its investment ratio and its level of manufacturing growth will remain too low and get stuck at a threshold level.

Facility (EFSF) and European Stability Mechanism (ESM) to purchase bonds, the announcement of the comprehensive and unlimited Outright Monetary Transactions (OMTs), and steps towards a banking union. However, doubts remain as to whether growth will return to the region, and whether European regional integration is still a model for the world in general and for Southeast Asia in particular.

The lesson from the euro is that economic integration is very difficult to achieve without political integration. The future for the eurozone, and possibly for any monetary union, is a fiscal union, which ultimately entails a process leading towards a political union. Alternatively, a monetary union with a governance framework has been envisaged as an intermediate step, though that would need a long-term perspective of increased integration.

On the one hand, Asia is experiencing regional tensions; among others, the geopolitical issues surrounding the Sino-Japanese relationship, according to Asian commentators at the roundtable carry the risk of repatriation for both people and multinational corporations. On the other hand, other participants argued that such regional tensions will be resolved in the long run and that they will always be part of relations among sovereign states. What is relevant is the trend of Asian growth that could lead to the aforementioned Asian century. This requires continued discussion and collaboration on a regional level, such as the negotiations for an FTA between China, Japan and South Korea, for which the first official talks were held in Seoul on 26–28 March 2013. Political integration is needed for economic integration. The interrelationship between the two is true for both Asia and Europe. In the case of the EU, the risks of establishing a monetary union without a fiscal union were clear from the beginning. The question remains whether and when European citizens will accept that fiscal decision-making should be left to a body that overrides national sovereignty.

MOVING TOWARDS A MULTI-CURRENCY SYSTEM

Since the crisis broke out, there has been increasing debate surrounding the necessity of international coordination to ensure financial stability worldwide.

The European Monetary Union (EMU) is an example of regional integration of monetary policies and this is likely to be the end-game for Asia as well. Given the rise and growth of Asian economies, and China's in particular, a currency from the region would provide another option for invoicing and settling cross-border trade. However, so far no move towards a single currency has been promoted by Asian finance ministers. Like the European Currency Unit (ECU), the precursor of the euro, the Asian Development Bank has proposed the creation of an Asian Currency Unit (ACU). Recent moves by the Chinese government on the renminbi, to facilitate regional trade, make it more likely that it will play such a role in the near future. It has been argued that the RMB is following a path not too dissimilar from that of the euro. Originally meant to be a currency to ease regional trade, the euro evolved into an international currency and is at present the world's second reserve currency.⁸

Undoubtedly, the IMS is facing major challenges which reflect conflicting goals. There are asymmetric exchange rate arrangements, with emerging market economies (EMEs), which still have currencies pegged to the US dollar, reviving the 'impossible trinity' trilemma.⁹ In addition, the US dollar still enjoys the lion's share in terms of invoicing and settling trade in the region. Though the global financial crisis has not technically been a currency crisis, China sees the need to switch to a new system because of the dollar's liquidity trap, whereby it is locked into the existing exchange rate regime and any change to this situation would be 'welfare diminishing'.

The debate about the future of the present system was re-launched in 2009 by the governor of the People's Bank of China (PBoC), Zhou Xiaochuan. Zhou highlighted that the crisis and its spillover reflected 'inherent vulnerabilities and systemic risks in the existing IMS' and called for the creation of 'an international reserve currency that is disconnected from individual nations' and is 'stable in the long run'.¹⁰ Hence, he suggested

⁸ IMF Statistics Department COFER database (accessed 13 October 2012).

⁹ This refers to the unresolvable trilemma of simultaneously having fixed exchange rate, free capital flow and sovereign monetary policy. It is no longer a case of adjustment via a saving glut shock – as the Blanchard-Milesi Ferretti model would suggest. See Blanchard, O. and Milesi-Ferretti, G.M. (2011), '(Why) Should Current Account Imbalances Be Reduced?' IMF Staff Discussion Note, March.

¹⁰ Zhou Xiaochuan (2009), 'Reform the International Monetary System', Essay by Dr Zhou Xiaochuan, Governor of the People's Bank of China, 23 March. <http://www.bis.org/review/r090402c.pdf>.

expanding the role of Special Drawing Rights (SDRs), to include the Chinese yuan in the basket of currencies.

Beijing's policy challenge is to achieve currency internationalization under controlled convertibility. It has, so far, developed a two-track strategy: to boost the cross-border usage of the currency in trade settlements while building an offshore market in Hong Kong. What China is trying to achieve is unprecedented in many respects. However, there is no *ex ante* reason to conclude that this strategy will have little success. At the same time, there are increasing concerns about the impact on the Chinese domestic economy because of the potentially destabilizing impact of capital flows.

Internationally, offshore RMB demand will be driven by transaction settlements and investment in finance. In the case of the former, the focus will initially be on the regional use of the RMB in settling trade with Asian neighbours, which will require borrowing facilities in RMB as well as the means of managing payments. For example, RMB bank deposits in Hong Kong have already enjoyed a tremendous expansion in the last two years. The second track is the development of the RMB bond market. Assuming that its development is due to corporate and financial bond issuance, the total RMB market is estimated to enter the top tier of markets by 2020.¹¹ This situation has been compared with the start-up phase of the offshore US dollar (eurodollar) market, which saw an even more rapid development in its early years.¹²

However, some Asian commentators at the roundtable express scepticism about the foundations of such a strategy. The RMB is not considered ready to be internationalized. The competitiveness in international markets of state-owned Chinese multinational corporations (MNCs) has been questioned. When compared with companies in developed countries, Chinese companies do not enjoy strong pricing power. Given that the currency is chosen by markets, poor pricing power leaves them with virtually no advantage in terms of its use in international trade. In addition, there seems to be no significant change in the use of the US dollar to price and settle the import of commodities to China, which still account for around a third of the country's imports.

At the same time, political factors need to be taken into account. First of all, it is still debated whether Beijing will relax control of capital accounts. Moreover,

¹¹ Rossi, V. and Jackson, W. (2011), 'Hong Kong's Role in Building the Offshore Renminbi Market', International Economic Programme Paper, Chatham House, August.

¹² Ibid.

the regional appetite for RMB-settled trade in the area remains low, although it seems to be on the rise. Political implications include Japan's reluctance over or even possible open opposition to the use of the RMB as the regional currency, and its preference for a pan-Asian currency. The Chinese elite itself might be reluctant to bear the costs and adjustments of such a process.

However, it was argued by participants that this process has to be viewed from a long-term perspective. Jumping straight to the conclusion of a new international currency, owing to the rise of the BRICS and their role in the current world economy, would be going too far. The timespan in which the United States achieved its predominant role in the world economy since becoming the major world power at the end of the 19th century is a good case in point. At this stage, although a slow decline of the US dollar in trade-weighted terms started in 2002, it is premature to argue that this is a long path leading to the renminbi's becoming the world's reserve currency. Today only 13 per cent of China's imports and 16 per cent of its exports are denominated in RMB, and that is in large part due to appreciation. Moreover, for China such a development would entail both opening its capital account and losing control of its interest rates. Asian commentators at the roundtable suggested caution, recalling the increased expectations and excitement about the early steps towards an internationalization of the Japanese yen in the 1990s.

At the same time, it must be noted that no shift out of euro reserves has been recorded, probably because there are currently no alternatives to the dollar. On the other hand, it has been argued that the current volatility and huge exchange rate diversity will eventually result in a single currency in Asia, but only in the next 50 to 100 years.

To sum up, there are both short- and long-term challenges ahead for the development of a multi-currency system. Over the short and medium term, the main challenge ahead is the management of the transition process. Necessary steps include the RMB's full convertibility, a greater degree of international policy cooperation, and a stronger role and legitimacy for the international financial institutions. In the long term, instead of a 'Bretton Woods II' system, the process hints at a multi-currency system where China's role and degree of involvement are key.

THE MEDIA: SHAPING GLOBAL ATTITUDES AND DECISIONS

The media have an important role to play in bridging the gap between the institutions and the general public, especially in the current economic crisis. For this reason, their role and responsibility were discussed in the roundtable. Should the media try to steer the process, advocating greater coordination at the regional level? Or should they simply follow what is happening and report the news whenever some cooperation is or is not shown?

It was observed by participants that the debate on cooperation and regional integration has changed significantly in Europe and to some extent in Asia too. In the case of the EU, initially the debate was primarily at the level of the elite, being very specific and often concerning technical details of trade issues. Ever since the start of the crisis, however, the level and coverage have widened significantly all over Europe. The European public has demonstrated its interest and maturity, with an increasingly public political debate and open discussion. This enlargement and 'democratization' of the debate are due both to an increased interest in the process by the European public and to attempts at increased transparency and accountability by the institutions. Before the crisis there was wild speculation by the media and a significantly lower amount of official data and communiqués were released, at less frequent intervals. Now institutions issue bulletins periodically, press release occasions are attended by an English-speaking spokesperson, and journalists are invited. However, it should be noted that the lack of official minutes from the meetings of the European Central Bank has been perceived as demonstrating a lack of accountability and transparency that the ECB needs to address in the short term.

To sum up, there is an increased quest for information, not least because of the adverse effect on the market.¹³ The roundtable expressed its support for a more transparent interaction between leaders and the press community, with the former being more accountable and the latter fairer in their work. Journalists are more in touch with grassroots opinion. So the question still remains whether journalists help policy-makers understand what is happening and, at the same time, portray the feelings and views of the general public to the institutions. It has been suggested that journalists might play a significant

¹³ For instance, concerns about a deepening or an easing of the eurozone crisis had a swift effect on the volatility of US stock prices. In 2011, six out of the ten biggest moves in the US stock market were due to European events, according to the Bloomberg market wrap: Harris E.S. (2012), *US Economic Viewpoint*, Bank of America Merrill Lynch, 7 June. On the day of the ECB's announcement in early September 2012 that the bank was ready to begin its bond-buying programme, the benchmark American stock index rose to a four-year high: Popper, N. (2012), 'Buoyed by European commitment to buy debt, markets soar to a four-year high', *New York Times*, 6 September, <http://www.nytimes.com/2012/09/07/business/daily-stock-market-activity.html?src=recg>.

role in helping institutions 'come down from their ivory tower' and be more accountable and transparent.

CONCLUSION

Given a recent wave of renationalization and protectionist policies, it is still debated to what extent Europe and Asia are willing and ready to collaborate. Moreover, each region has been facing increased efforts in pushing for regional integration and coordination of policies in the last few years. Additional problems include the recurring debate about the EU's incapability of speaking with one voice and the fact that it looks much less like a model in the eyes of its Asian counterpart, ASEAN.

Policy cooperation

Although a small degree of macroeconomic policy coordination has already been reported in Europe and Asia, there is wide consensus that more is desirable. At the same time, it has been noted that increasing cooperation strategies require a long-term scenario to be fully implemented.

For instance, recent developments in the Chiang Mai Initiative Multilateralization significantly changed its mechanisms. Thanks to extensive media coverage, such technical details have been acknowledged by the wider public. There is ample room for policy coordination and journalists can play a role and contribute by further spreading the news, as this example of a virtuous cycle shows.

More debate and interaction among policy-makers, leaders and journalists is needed in order to move towards increased accountability and greater transparency for policy-makers. The media also play a role in providing the information to ease the dialogue between policy-makers and the public. The media have already been used as a trustworthy source of information, as the widespread use of databases and sources from media companies in official meetings shows.¹⁴ In addition, the media have access to grassroots information that might help inform policy-makers.

Regional currency in Asia

There is broad agreement that a single currency in Asia is the way forward. It has been much debated whether it will be the RMB or a common currency for

¹⁴ It has been noted that Bloomberg and Reuters databases are used in official documents.

the region. But the situation remains highly uncertain and tentative, so that such an outcome might not happen at all. The ASEM is the body within which such policy discussion needs to take place. Eventually this might lead to the decision to announce the issuance of RMB-denominated bonds.¹⁵

Towards a multi-currency IMS

With regard to the IMS, the dollar is still the dominant reserve currency and is likely to remain so for some years to come. The end of the dollar's dominance in the coming decades seems inevitable, however, and a logical reflection of the changing order in the world economy. There is a wide consensus that a multi-currency system is the end-game in such a process. However, too little research on this has been carried out so far. In addition, the current lack of full convertibility of the RMB is a major challenge in terms of predicting whether the Chinese currency might play a major role in the future. Geopolitical considerations are of paramount importance in determining such currency decisions.

Given the common experiences of financial crises both in Asia and Europe in the recent past, each region needs to learn from the other in exploring enhanced coordination of macroeconomic policies, both regionally and at a global level. Certainly, political integration is needed to sustain economic integration. The two aspects are deeply intertwined. This is a direction that the EU is contemplating. Asia should contemplate it as well, although a different model of integration may be required.

¹⁵ It should be noted that such an outcome was not advocated at the meeting.

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ASIA-EUROPE FOUNDATION (ASEF)

The Asia-Europe Foundation (ASEF) furthers understanding, fosters relationships and facilitates cooperation among the people and institutions of Asia and Europe. It enhances dialogue, enables exchanges and encourages collaboration across the fields of governance, economy, sustainable development, public health, culture, and education. Founded in 1997, ASEF is a non-profit, intergovernmental organization located in Singapore. It is the only permanently established institution of the Asia-Europe Meeting (ASEM). Together with about 700 partner organizations it has run more than 600 projects, mainly conferences, seminars and workshops. Over 17,000 Asians and Europeans have participated in its activities and it has reached wider audiences through networks and web portals, exhibitions and lectures.

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ASIA-EUROPE MEETING (ASEM)

The Asia-Europe Meeting (ASEM) was initiated in 1996 when the ASEM leaders met in Bangkok, Thailand. It is an informal trans-regional platform for dialogue and co-operation between the two regions and has arisen out of a mutual recognition that the relationship between Asia and Europe needed to be strengthened in light of the challenges and opportunities of the 21st century. ASEM holds a summit every two years, alternately in Asia and in Europe. This is the highest level of decision-making in the process. Besides the attendance of the head of states, the summit also features accompanying ministers, the Head of the European Commission and other stakeholders. Apart from the summit meetings, the ASEM process is carried forward through a series of ministerial and working-level meetings, as well as a number of activities arising from it.

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