A Comment on Professor Wing Thye WOO’s paper “A Realistic Vision of Asian Economic Integration”

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Part II: 1997 AFC resulted in a government-driving integration

• reasons of the crisis
  – crony capitalism,
  – market booms & busts, and
  – the incompetence of IMF

• two lessons from the crisis
  – excessive price movements are not ‘peso problems’.
  – the only form of reliable help is self-help.
Part III: economic union’s size-structure

• “unlike the EU, AEU won’t be a club of equals at any point of time, and unlike NAFTA, there is no stable dominant economic giant across time.” So,
  – “the only stable configuration is the survival of individual East Asian currencies with limited coordination among them in normal time.”
  – “Many present efforts to promote closer exchange rate cooperation will not succeed in the long-run.”
Such as AMU.
Part IV: an opportunity for AMF

• What Asia can do now
  – *support the establishment of a working group on the reform of the IMF*
  – *enhance Asian swap facilities to AMF*

• Five reasons for US and Western Europe to support AMF suggestion
Part V: the leadership structure of AMF

• “the leadership structure of AMF should not be locked in the balance of economic power that existed at the time of its founding.”

• a self-updating leadership structure would be a great innovation and contribution to Asia and the world.

• I agree on final conclusions but the reasoning.
Q1: why not a time for AMU but AMF?

AMU

• An obstacle: instability of economic size-structure

• As a result: present efforts will not succeed

• Can’t be self-updating...?
  – weights (if it is a basket), or
  – leadership structure (if it is a single currency)

AMF

• Same obstacle

• Won’t succeed?

• As a suggestion: a self-updating leadership structure
Why not a time for AMU? (continue)

• Other scholars’ approaches:
  – *Not enough market demand: ...Otherwise, financial institutions such as Nomura may provide it without bothering any central banks or professor Eiji Ogawa.*
  • Coordination failure, if exists, cannot be lift by an AMU.
  – Too high an opportunity cost: no Asia country needs to endure any unfavorable currency basket because it can always provide itself with an optimum one at relatively low cost.
Q2: is Japan so generous to provide free-meal to its neighboring countries?

• Do we need to thank Japan because:
  – “The only country that was willing to commit immediate large-scale financial assistance to the crashing Asian economies was the neighboring country of Japan, which proposed the Asian Monetary Fund”?

• However, probably we should thank anyone else but Japan.
Why Japan became generous?

– Japan didn’t do it when it had the capacity, but in an effort to do it when it is less capable.

• Why?
  – An explanation: there wasn’t any competitor in the past, but now, there seems one, if not is one.
  – If so, neighboring countries should give thanks to the competitor rather than to Japan for Japan’s some sort of kindness.
A benefit of AMF (a sixth reason)

• A potential competition between AMF and IMF
  – That’s why IMF do not welcome AMF.
• Such a competition is beneficial to Asia. And,
• The benefits will spill out with
  – A calm Asian financial market, and
  – An example to other regions and the world.
Q3: Could the five reasons change the mind of US and Western Europe?

• The answer seems uncertain.
  – (further discussions likely to be a long process. So I’d better highlight but wrap them up here.)
Q4: how confident we are to remove all doubt with crony capitalism?

• How about if we make a misjudgment?
  – “Red Cliff” (赤壁) is on show in Tokyo at this moment.
• Could such an old tale, as well as the new tale of IMF, be a help to integrate Asian countries together in an satisfactory way?
• Thank you every one!