Asia’s long march for independence

By David Marsh

23 August 2010

While discreetly griping about undue dependence on the dollar, Asian countries have been dramatically expanding their exposure to the US currency by building up vast foreign exchange reserves over the past decade.

There are now signs that this paradoxical state of affairs could be about to end.

As the centre of gravity of world economic power moves inexorably eastward, Asian countries are laying down a series of initiatives to gain greater self-sufficiency in global economic and monetary affairs.

The retreat from western dependence represents a delicate balancing act. On the one hand, Asian countries are far from being a cohesive bloc and they are still prone to economic and political shocks.

They certainly do not wish to place themselves outside western-orientated mechanisms of international co-ordination such as the International Monetary Fund, the Bank for International Settlements, or the Organisation for Economic Co-operation and Development.

Central bank credit-swap lines with the Federal Reserve Bank of New York remain of paramount importance in times of crisis, whatever the talk of bilateral monetary support facilities engendered by the so-called Chiang Mai Initiative (named after the Thai city where the policy agreement was reached in 2000).

On the other hand, as India, China and the other Asian nations seem to be supplying the growth momentum for the global economy, Asians are unenthusiastic about engaging fully in new rules on banking standards or economic policy co-ordination.

Instead of thinking energetically about monetary reforms in concert with the west, many Asian countries actually feel discriminated against, or marginalised by, the G20 process. Asian banks were not responsible for the transatlantic credit crisis in 2007-08.

So many Asian leaders say – not implausibly – that Asian institutions should not share in any form of collective punishment being meted out by international regulators.

For all its excellent growth figures, Asia remains besotted with its own problems. And for all its de facto accumulation of economic power, Asia is patently not interested in institutional economical leadership.

One sign of Asia’s hesitation on institutional developments lies in individual countries’ lack of willingness to give up national sovereignty by creating some sort of an Asian currency area.

The effect of the sovereign debt crisis on members of the European single currency has shown the drawbacks of countries proceeding towards monetary union without fully fledged integration in financial and political affairs – a condition that in Asia would be impossible to fulfil.

However, there have been some signs of greater solidarity. Finance ministers from the 10 members of the Association of Southeast Asian Nations (Asean), plus China, Japan and South Korea, are slowly adding content and structure to their $120bn multilateral currency swap mechanism that became operational earlier this year.

An office carrying the somewhat unlikely acronym AMRO is being set up in Singapore to monitor regional economies as part of the Chiang Mai Initiative. The office, which will be established initially in the premises of the Monetary Authority of Singapore, is designated "Asean+3 Macroeconomic Research Office."

The Chiang Mai Initiative could eventually grow into a reserve-pooling scheme that could supplant the IMF as a conduit for Asian countries to make balance of payments loans. AMRO could not only supply technical assistance to central banks and governments but also police the conditionality of such loans.

Such a development, which would mark a major challenge to the IMF, would be similar to the way in which European countries are now trying to make loans to countries like Greece subject to macroeconomic conditions. Asian countries are proceeding in crab-like fashion in building AMRO, however, so the potentially enormous implications could take several years to become evident.