

MONETARY INTEGRATION IN EUROPE AND ASIA AND ECONOMIC CRISES

The main goal of this paper is to analyze monetary integration in Europe and East Asia in the context of economic crises, namely the Asian Economic Crisis of 1997/1998 and the current economic crisis in the world, especially in the Euro zone, based on the Optimum Currency Area theory created by Robert Mundell in 1961. While following the media, one may notice that financial and monetary integration may be the basic source of the persistent crisis in Europe, and that our continent is deadlocked by the common currency, the EURO. In the aforementioned context, financial and monetary integration in East Asia seems definitely a bad idea. What is surprising is that East Asia has been integrating since the Asian Economic Crisis, which is somehow unexpected, bearing in mind that economic crises usually lead to strong protectionist resentments.

Robert Mundell's theory of the Optimum Currency Area will be used as a scheme for analysis. Based on the aforementioned theory, financial and monetary integration will be briefly analyzed in the European Union, specifically in the first Euro zone countries (the first 12 members of the monetary union, as they seem crucial in the process of the creation of the monetary union, namely Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, and Spain). Special attention will be given to core Euro zone countries, specifically countries influencing economic indicators stronger than the others (by having a larger share of the European Gross Regional Products – one can focus on Germany and France here, Germany, France and Italy, or Germany, France, Italy and Spain). We will focus on the Asian Economic Crisis of 1997–1998, and attempt to trace its causes

and effects, including its influence on the further financial and monetary integration of East Asia. Thirteen East Asian countries will be analyzed in the context of the Optimum Currency Area criteria, namely ASEAN Plus Three countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Myanmar, Cambodia, Laos and Vietnam, plus China (PRC), Japan and South Korea). Finally, we will attempt to answer whether it is possible to create an Asian Monetary Area and who would benefit from it, basing our analysis on the Optimum Currency Area theory and the European Monetary Area crisis, including actors that make profits on the European monetary integration and those that lose in the process, while also looking for sources of the crisis.

OPTIMUM CURRENCY AREA

The theory of the so-called Optimum Currency Area was first introduced by Robert Mundell, a Canadian economist and winner of the Nobel Prize in 1999, currently a professor at Columbia University in New York. In his article “A Theory of Optimum Currency Areas” published in *The American Economic Review*,¹ he aimed at easing the problems caused by periodic balance-of-payments crises, occurring periodically in the fixed exchange rates system, arguing against a system of national currencies connected by flexible exchange rates. Robert Mundell refers to flexible exchange rates (not very common in 1961²), defining them on the basis of the following conditions:

¹ Robert Mundell, “A Theory of Optimum Currency Areas,” *The American Economic Review*, 51 (4), 1961.

² The Bretton Woods System was the very first fully negotiated monetary system, created at the Bretton Woods conference in July 1944. It existed till 1971, when Richard Nixon terminated the convertibility of the US dollar into gold. The system was supposed to combine the advantages of the gold standard (providing exchange rate stability) with the advantages of floating rates (important for pursuing national employment policies). The system aimed at avoiding the defects of floating rates (speculation, competitive devaluation) and defects of a fixed exchange rate gold standard. Therefore, a peg system of fixed parities was created, subjected to change only in the case of fundamental disequilibrium. See Michael Bordo “The Bretton Woods International Monetary System: A Historical Overview,” in: Michael Bordo and Barry Eichengreen (eds.), *A Retrospective on*

- 1) Dynamic stability of the international price system based on flexible exchange rates (considering speculative demands);
- 2) Changes in exchange rates, needed for elimination of normal disturbances to dynamic equilibrium do not cause shifts between export and import-competing industries;
- 3) The risks generated by flexible exchange rates may be covered in the forward markets at reasonable costs;
- 4) Central banks will avoid monopolistic speculation;
- 5) Monetary discipline will be maintained by the unfavorable political consequences of continuing depreciation;
- 6) Reasonable protection of debtors and creditors should be provided in order to maintain a long-term capital movement;
- 7) Wages and profits do not reflect the price index, impacted heavily by imported goods.³

The second issue discussed in the article seems even more important. According to Mundell, an optimum currency area can be a region with internal factor mobility and external factor immobility. Therefore, we should expect at least labor and capital mobility within the area, hence we should expect a relatively equal level of unemployment and inflation rates in the area subjected to monetary integration.⁴

What is interesting is that Mundell's theory, expressed in the aforementioned text, can be perceived as anti-common currency, since according to "A Theory of Optimum Currency Area," optimum currency areas should be rather smaller than larger. Surprisingly, since 1970, Mundell himself has supported European efforts to create a common currency area. This paradox can be explained on the basis of two of Mundell's later works, in which he argues that in the case of proper management of common currency (if purchasing power remains stable) larger currency areas are better, even encompassing diverse regions or nations subject to "asymmetric shocks."⁵

the Bretton Woods System: Lessons for International Monetary Reform. Chicago: University of Chicago Press, 1993, pp. 4–5. Actually, the system should be analyzed as a fixed exchange rates system. Hence, analysis of flexible exchange rates seems exceptional at that time.

³ Robert Mundell, op. cit. 1961.

⁴ Ibidem.

⁵ The works of Robert Mundell supporting a different approach were presented during a conference in 1970, and published in 1973. They were: "Uncommon Arguments for Common Currencies," in H.G. Johnson and A.K. Swoboda, *The Economics of Common Currencies*, Allen and

The most important criterion for an optimum currency area, according to Mundell, is the level of production factors mobility, according to McKinnon, level of openness of the economy or, according to Grubel, its diversification.⁶ The basic problem in the Optimum Currency Area should be prevention of the so-called asymmetric shocks (stemming from uneven phases of the economic cycle), when certain countries (areas) cannot apply monetary policy tools (e.g. lowering interest rates). Other adaptation mechanisms should be applied in the case of such a disturbance, including labor force flows (in the case of full mobility), change of prices and wages in order to stabilize global demand (difficult in countries with strong labor unions – as is the case in Europe), or fiscal transfers (difficult for political reasons, such as transfers from Germany to Greece). Therefore, common currencies should be adapted by regions that have a convergence of economic cycles.⁷

EUROPEAN MONETARY UNION AND CONVERGENCE CRITERIA

Having in mind full economic integration and responding to the change in the world monetary system (after the ‘fall’ of Bretton Woods), the European Community began monetary integration in the late 1970s,⁸ creating the European Monetary System in 1979. A crucial element of the system was an Exchange Rate Mechanism allowing fluctuations up and down

Unwin, 1973, pp. 114–32, and “A Plan for a European Currency,” in H.G. Johnson and A.K. Swoboda, *The Economics of Common Currencies*, Allen and Unwin, 1973, pp. 143–72 (quoted in Ronald McKinnon, *Mundell, the Euro, and Optimum Currency Areas*, 2000, <http://www-siepr.stanford.edu/workp/swp00009.pdf> Web. Nov. 30, 2012.

⁶ Franciszek Adamczyk, “Teoria i praktyka międzynarodowej integracji gospodarczej,” in: Jan Rymarczyk (ed.), *Międzynarodowe stosunki gospodarcze*. Warszawa: Polskie Wydawnictwo Ekonomiczne, 2006, p. 306.

⁷ *Ibidem*, pp. 302–305.

⁸ Earlier attempts, such as the Werner Plan of 1970, were unsuccessful due to the fall of the Bretton Woods System in 1973. See: *Report to the Council and the Commission on the Realization by Stages of Economic and Monetary Union in the Community*, Luxembourg, 8 October 1970, http://ec.europa.eu/economy_finance/emu_history/documentation/chapter5/19701008en72realisationbystage.pdf Web. Nov. 20, 2012.

of up to 2.25% (with exceptions for some countries of as much as $\pm 6\%$ and certain capital flow restrictions, even in large economies such as France). A margin for fluctuations was enlarged in 1993 (to $\pm 15\%$) in the aftermath of speculating attacks on European currencies.⁹

As a result of the need for economic convergence in order to avoid asymmetric shocks, so-called convergence criteria were created. Even if it has been disputed whether we can call the Maastricht criteria convergence criteria,¹⁰ there is no doubt that adherence to these could stabilize European economies and limit the negative ramifications of the aforementioned asymmetric shocks in the case of lacking or limited adaptation mechanisms (labor force mobility or transfers).

These criteria refer to four areas grouped by the European Central Bank as follows: price developments, fiscal developments, exchange rate developments, and long-term interest rate developments.

Concerning price developments, an average rate of inflation should not exceed by more than 1.5% the three best performing Member States in terms of price stability.¹¹ In reference to exchange rate developments, a country applying to the Euro-Zone should follow the Exchange Rate Mechanism II (ERM II) for two years before examination.¹² As for

⁹ Paul Krugman, Maurice Obstfeld, Marc Melitz, *International Economics: Theory and Policy*, Boston: Adison-Wesley, 2012, pp. 560–561. For detailed information on the various stages of the European monetary integration, see i.a.: Leokadia Oręziak, 1999, “Unia Gospodarcza i Walutowa,” in: Lucjan Ciamaga, Ewa Latoszek, Krystyna Michałowska-Gorywoda, Leokadia Oręziak, Eufemia Teichmann, *Unia Europejska*. Warszawa: Wydawnictwo Naukowe PWN.

¹⁰ Panos Afxentiou, “Convergence, the Maastricht Criteria, and Their Benefits,” *The Brown Journal of World Affairs*, VII (1), 2000.

¹¹ The application of treaty provisions is as follows: “With regard to ‘an average rate of inflation, observed over a period of one year before the examination,’ the inflation rate is calculated using the change in the latest available 12-month average of the Harmonised Index of Consumer Prices (HICP) over the previous 12-month average. The notion of ‘at most, the three best performing Member States in terms of price stability,’ which is used for the definition of the reference value, is applied by taking the unweighted arithmetic average of the rate of inflation in the three countries with the lowest inflation rates, unless there are outliers. Price developments in a country can be judged to be an outlier if its inflation rate is significantly lower than those of the other Member States owing to the accumulation of country-specific factors (see the ECB’s 2010 Convergence Report for more details)”, European Central Bank, *Convergence Criteria*, 2012, <http://www.ecb.int/ecb/orga/ecsb/html/convergence-criteria.en.html> Web. Nov. 20, 2012.

¹² In this case the application of treaty provisions is as follows: “First, the ECB assesses whether the country has participated in ERM II ‘for at least the last two years before the examination,’ as stated in the Protocol (No 13). Second, the examination of exchange rate stability against the euro focuses on the exchange rate being close to the central rate in ERM II, while also taking into account

the long-term interest rate developments, member states' interest rates should not exceed by more than 2 percent the three best performing countries. Long-term interest rates should be measured in reference to long-term government bonds.¹³ In terms of fiscal developments, public deficit of no more than 3% of GDP and public debt of no more than 60% of GDP should be maintained.¹⁴

The first three criteria should ensure monetary stability, while the last should prevent from over exceeding inflation that could stem from budget deficits.¹⁵ Some scholars perceive especially this last criterion as an example of monetary orthodoxy, questioning its usefulness.¹⁶ One should also bear in mind the existence of natural feedback between the intensity

factors that may have led to an appreciation, which is in line with the approach taken in the past. In this respect, the width of the fluctuation band within ERM II does not prejudice the examination of the exchange rate stability criterion. Third, the issue of the absence of 'severe tensions' is generally addressed by examining the extent to which exchange rates deviate from the central rates against the euro in ERM II. This is done by using indicators such as exchange rate volatility against the euro, as well as short-term interest rate differentials vis-à-vis the euro area and their evolution, and also by considering the role played by foreign exchange interventions and international financial assistance programmes in stabilising the currency," *ibidem*.

¹³ In this criterion, the application of treaty provisions is as follows: "First, with regard to 'an average nominal long-term interest rate' observed over 'a period of one year before the examination,' the long-term interest rate is calculated as an arithmetic average over the latest 12-month period for which HICP data are available. Second, the notion of 'at most, the three best performing Member States in terms of price stability,' which is used for the definition of the reference value, is applied by using the unweighted arithmetic average of the long-term interest rates of the same three Member States used for the calculation of the reference value for the criterion on price stability. Interest rates are measured on the basis of harmonised long-term interest rates, which were developed for the purpose of assessing convergence," *ibidem*.

¹⁴ ECB refers to treaty provisions: "The second indent of Article 140(1) of the Treaty requires: 'the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 126(6).' Article 126 sets out the excessive deficit procedure. According to Article 126(2) and (3), the European Commission prepares a report if an EU Member State does not fulfill the requirements for fiscal discipline, in particular if: (1) the ratio of the planned or actual government deficit to GDP exceeds a reference value (defined in the Protocol on the excessive deficit procedure as 3% of GDP), unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value, or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value; (2) the ratio of government debt to GDP exceeds a reference value (defined in the Protocol on the excessive deficit procedure as 60% of GDP), unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace," *ibidem*.

¹⁵ Panos Afxentiou, *op.cit*.

¹⁶ Nicolas Jabko, *The Political Vision behind the Regional Currency*, in: Bertrand Fort, *Paths to Regionalisation: Comparing Experiences in East Asia and Europe*, Singapore: Marshall Cavendish Academic, 2005, pp. 48–50.

Table 1. Average annual percentage depreciation against DM

	1973–1978	1979–1983	1984–1989	1990–1994
Hard currencies				
Netherlands	1.14	0.77	0.01	-0.13
Belgium	2.36	4.24	1.01	-0.48
Denmark	4.59	4.37	1.71	0.16
Intermediate currencies				
France	6.53	5.02	2.31	0.01
Ireland	12.9	12.90	3.49	1.96
Soft currencies				
United Kingdom	12.9	0.89	6.68	2.57
Italy	17.28	5.26	4.08	6.21
Spain	12.35	6.54	3.51	5.16
Greece	13.24	13.02	18.74	10.23
Portugal	20.83	14.16	10.64	2.88
Non-EU Members				
Austria	0.12	-0.71	-0.12	0.19
Norway	4.92	1.08	6.61	2.29
Finland	8.83	-0.32	3.06	6.83
Sweden	8.41	3.83	5.35	6.18
AVERAGE	9.03	4.37	4.79	3.15

Source: Jeffrey Frieden, “Real Sources of European Currency Policy: Sectoral Interests and European Monetary Integration,” *International Organization*, 56 (4), 2002, p. 836.

of trade and other economic relations, and the correlation of economic cycles. Therefore, artificial criteria may play a supportive role for monetary integration.¹⁷

We should not forget about one additional factor, namely the real sectoral interests of either branches (such as pro-export industries) or certain countries benefiting from more fixed exchange rates. Generally, countries with hard currencies, especially Germany and Benelux countries, should

¹⁷ Jeffrey Frankel, Andrew Rose, “The Endogeneity of Optimum Currency Area Criteria,” *The Economic Journal*, 108, 1998.

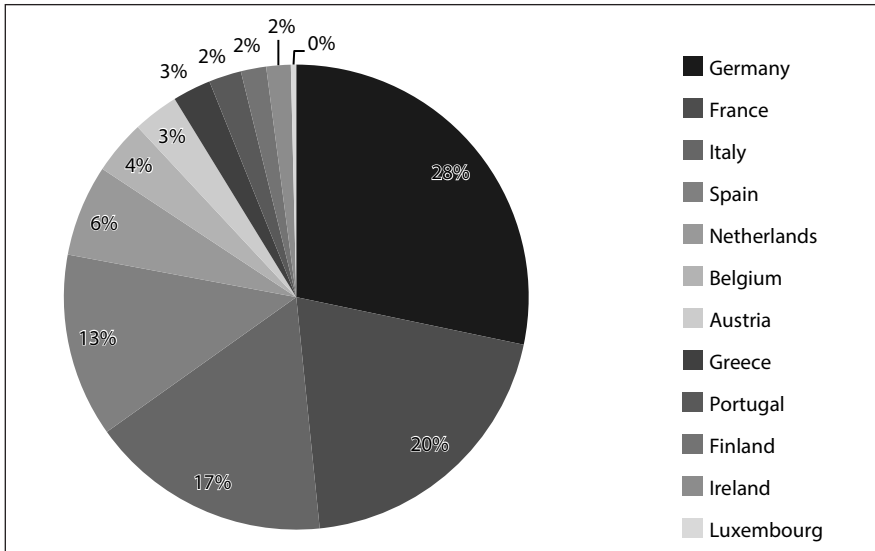


Chart 1. Share of countries in Gross Regional Product (EURO-12)

Source: The author’s own research based on data from *CIA World Factbook 2012*, at: www.cia.gov

benefit more from monetary integration than countries that have tended to depreciate their currencies in order to increase the competitiveness of their economies (southern countries). An analysis of this kind was prepared by Jeffrey Frieden in his article “Real Sources of European Currency Policy: Sectoral Interests and European Monetary Integration,” published in *International Organization* in 2002.¹⁸ Table 1 depicts the average annual percentage depreciation of nominal exchange rates against the German Mark (Deutsch Mark DM).

Fixed exchange rates deprived governments of “southern countries,” this tool being one of the reasons for the current economic crisis. But it was also the source of success for German exports, as it was not only competitive within the EU (due to the aforementioned fixed exchange rates or simply common currency), but also more competitive since the EURO was weaker (encompassing a “set of currencies”) than the German Mark.

¹⁸ Jeffrey Frieden, “Real Sources of European Currency Policy: Sectoral Interests and European Monetary Integration,” *International Organization*, 56 (4), 2002.

Table 2. Export as percentage of GDP and export growth 1999–2011 (EURO-12)

Country Name	1999	2005	2011	Export growth 1999–2011
Euro area (27)	32.9	38.0	43.6	132%
European Union	32.4	37.0	42.5	131%
Austria	42.1	53.8	57.3	136%
Belgium	70.0	78.7	84.3	121%
Finland	38.8	41.8	40.7	105%
France	26.4	26.4	27.0	102%
Germany	29.4	41.3	50.2	171%
Greece	22.5	23.2	25.1	111%
Ireland	89.2	81.1	106.6	119%
Italy	24.3	25.9	28.8	119%
Luxembourg	134.3	155.8	176.5	131%
Netherlands	63.0	69.6	83.0	132%
Portugal	27.1	27.7	35.5	131%
Spain	26.7	25.7	30.3	113%

Source: *World Databank*, World Bank 2012 (the author’s own calculations for column 5)

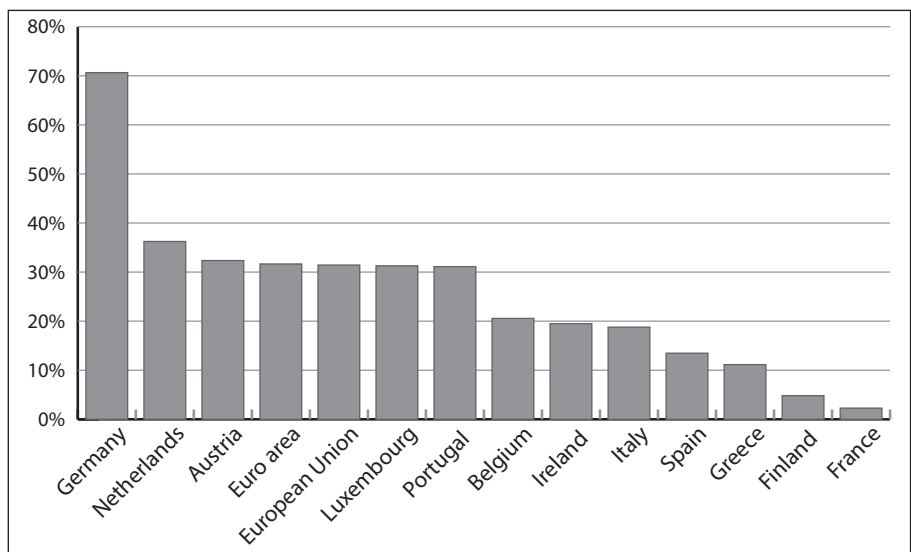


Chart 2. Export growth 1999–2011, EURO-12

Source: The author’s own work and calculations based on the *World Databank*, World Bank 2012

Chart 1 presents the relative size of German and French economies within the EURO-12 (the first 12 Euro member countries from 2002 were analyzed), in order to show their relative strength in shaping the ECB monetary policy. Generally, if ECB adjusted to the shape of the European economy, or Euro-Zone economy, it would be 48% based on Germany and France, hence there are few chances of adjusting the monetary policy to smaller and weaker economies. Therefore, other adaptation mechanisms should be applied (such as fiscal transfers).

Table 2 and Chart 2 show the percentage share of export in GDP of EURO-12 countries, although the European Union and all Euro countries are included as a comparative perspective. There is no doubt that Germany is the country which has benefited the most from the introduction of the Euro (the growth of German export in the last twelve years exceeds 70%), followed by other “hard currency” countries such as Austria, the Netherlands, and Luxembourg. What is surprising is that there is not much statistical difference between the Euro area and the European Union as a whole (32% and 31%). Therefore, we may say that the competitive advantage of the first Euro countries has not grown thanks to the introduction of the Euro, whereas the competitive advantage of strong-currency countries has increased significantly, with Germany in the lead.

Finally, Table 3 refers to convergence criteria in the EURO-12 countries in 2011, the next crisis year. We can observe that the annual inflation in these countries is generally acceptable (partly due to the crisis), while other factors show the scale of problems. It is visible, while looking at interest rates (commercial banks’ prime lending rates are depicted),¹⁹ especially in the case of PIIGS²⁰ countries. An even more frightening picture appears in the case of fiscal deficits (there are only four countries which fulfill this criterion: Austria, Finland, Germany and Luxembourg) and public debt (there are only two small countries which fulfill this criterion, namely Finland and Luxembourg), with four countries having public debt exceeding 100% of their GDP (Greece, Ireland, Italy, and Portugal).

¹⁹ In the case of Asian countries, the central bank discount rate will be shown, but in the case of EURO countries, it is pointless, as it is the European Central Bank that sets the interest rate (at the end of 2011 it was 1.75%).

²⁰ Portugal, Italy, Ireland, Greece, Spain.

Table 3. Size of economies and fulfillment of convergence criteria in Europe (EURO-12)

Country	GDP (PPP) billion USD	Inflation (annual %)	Fiscal surplus or deficit (% of GDP)	Public debt (% of GDP)	Interest rates (annual %)*
Austria	350	3.5	-2.6	72.2	2.95
Belgium	414	3.5	-3.9	98	3.93
Finland	194	3.3	-0.6	49.2	2.68
France	2214	2.3	-5.3	86.1	3.43
Germany	3114	2.5	-1	80.6	3.94
Greece	294	3.3	-9.6	165.3	7.15
Ireland	187	2.6	-12.8	108.2	3.81
Italy	1847	2.9	-4	120.1	4.6
Luxembourg	41	3.4	-0.9	17.4	NA
Netherlands	701	2.3	-4.7	65.1	3.18
Portugal	249	3.7	-4.3	107.8	5.71
Spain	1406	3.1	-8.7	68.5	8.09

* Commercial banks' prime lending rates

Source: *The CIA World Factbook 2012* (most data from 2011), at: www.cia.gov

Such a level of public debt may be unsustainable, as problems with lending money on the market arise. In this case Germany, benefiting from such a system, may support its southern friends. But is this possible in Asia?

ASIAN MONETARY INTEGRATION?

Asian financial and monetary integration was intensified in the aftermath of the Asian Economic Crisis of 1997–1998, proving the underdeveloped financial market volatile and unprepared for bearing speculating attacks. The crisis spread from Thailand to Malaysia, Indonesia, the Philippines and South Korea. International financial institutions (mostly the IMF) focused on domestic (or East Asian) sources of the crisis, such as ill judgment of banks and other financial institutions, a speculative bubble on

the real estate and share market, crony capitalism (collusion of governments and the business sphere), or inappropriately managed exchanged rates (currencies pegged to the U.S. dollar) and rather high current account deficits. Other sources, such as speculative capital, were marginalized.²¹

Early initiatives of creating an Asian Monetary Fund in 1997 were abandoned due to the pressure of the U.S. government, raising the risk of moral hazard in crisis-affected countries.²² But the crisis became a catalyst for regional financial integration, based on three initiatives: the Chiang Mai Initiative (within ASEAN+3, i.e. 10 ASEAN countries and the People's Republic of China, Japan and South Korea) signed in 2000, a series of bilateral swap arrangements, and the Asian Bond Market Initiative in 2002 (which was followed by the creation of the Asian Bond Fund) also in Chiang Mai.²³ Crucial developments were the Chiang Mai Initiative Multilateralization (2010), pooling the reserves of 120 billion USD, and the subsequent creation of the ASEAN+3 Macroeconomic Research Office (AMRO) in 2011.²⁴

Measures taken after the Asian Economic Crisis of 1997–1998 were definitely one of the sources of East Asian countries' relatively soft landing in the current economic crisis, but it seems that underdeveloped (or more weakly developed in comparison to the U.S. or Europe) financial markets played an important role as well.²⁵

Shall the next step be the creation of a common currency? At the present stage it is doubtful, considering the Optimum Currency Area theory and European experiences. Keeping in mind the financial integration of 13 East Asian countries (ASEAN+3), these countries were selected for analysis.

²¹ Martin Khor, *The Economic Crisis in East Asia: Causes, Effects, Lessons*, <http://siteresources.worldbank.org/INTPOVERTY/Resourses/WDR/malaysia/khor.pdf> Web. Nov. 15, 2012.

²² Phillippe Lipsy, "Japan's Asian Monetary Fund Proposal," *Stanford Journal of East Asian Affairs*, 3 (1), 2003.

²³ Ming Wan, *The Political Economy of East Asia: Striving for Wealth and Power*, Washington: CQ Press, 2008, pp. 307–309.

²⁴ See Chalongphob Sussangkarn, "The Chiang Mai Initiative Multilateralization: Origin, Development and Outlook," ADBI Working Paper Series, 230, 2010 and John Ciorciari, "Chiang Mai Initiative Multilateralization," *Asian Survey*, 51 (5), 2011.

²⁵ Masahiro Kawai, "Global Financial Crisis and Implications for ASEAN," in: *Global Financial Crisis: Implications for ASEAN*, Singapore: Institute of Southeast Asian Studies, 2009, pp. 3–5.

Table 4. Size of economies and “fulfillment of convergence criteria” in Asia (ASEAN+3)

Country	GDP (PPP) billion USD	Inflation (annual %)	Fiscal surplus or deficit (% of GDP)	Public debt (% of GDP)	Interest rates (annual %)*
Brunei	21	2	14.3	NA	5.5
Burma/Myanmar	83	5	-4.5	NA	9.95
Cambodia	34	5.5	-5.1	NA	5.25
China (PRC)	11300	5.5	-1.2	43.5	2.25
Indonesia	1125	5.4	-1.2	24.1	6.37
Japan	4444	-0.3	-9.7	205.5	0.3
Laos	17	7.6	-1.8	49.1	4.3
Malaysia	464	3.2	-4.9	51.8	3
Philippines	391	4.7	-2.1	50.9	3.8
Singapore	315	5.2	1.3	118.2	NA
South Korea	1554	4	1.5	33.6	1.5
Thailand	602	3.8	-1.5	44.9	3.25
Vietnam	300	18.7	-2.6	48.8	13

* Central bank discount rate

Source: *The CIA World Factbook 2012* (most data from 2011), at: www.cia.gov

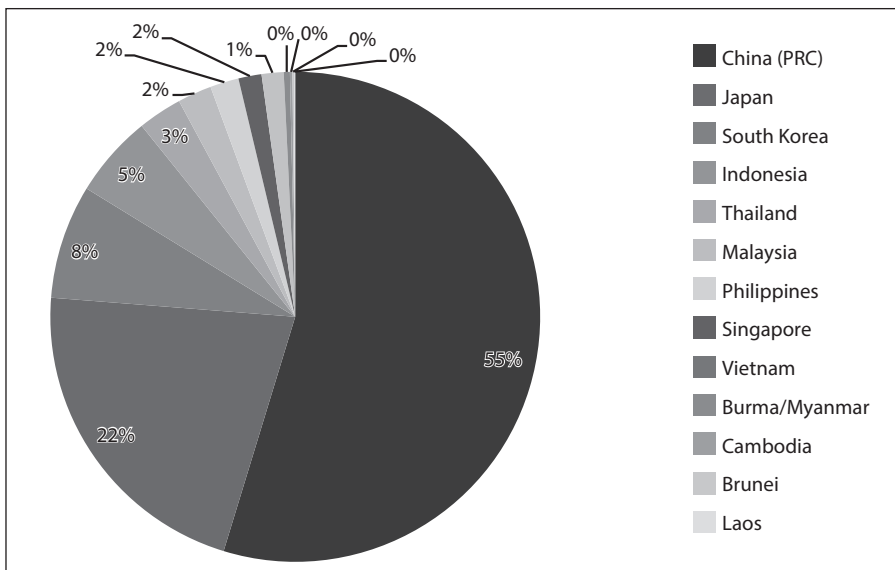


Chart 3. Share of countries in Gross Regional Product (ASEAN+3)

Source: The author’s own research, based on data from *CIA World Factbook 2012*

Table 4 depicts basic data in reference to “European” convergence criteria. At this stage convergence seems relatively difficult, although most of the analyzed Asian countries, paradoxically, fulfill public debt criteria. What is also a paradox is that the richest economies of this group, namely Singapore and Japan, have an immense level of public debt – Japan has a debt of more than 200% of GDP.

As a discussion of the creation of a currency area should also refer to possible supporters and benefactors of such a solution, Chart 2 depicts the relative strength of 13 analyzed economies. It is worth remembering that discussions of the creation of a currency block in Asia have usually referred to the creation of a yen block,²⁶ whereas due to the strength of the Chinese economy, one should focus more on a possible yuan block. It is difficult to imagine a yuan (RMB) block at the moment, since the yuan must still become a fully convertible and international currency. There is another pragmatic factor: the Japanese yen is a strong currency and may be compared to the German Mark (DM), hence Japan would benefit a lot in the region (as it would benefit from fixed exchange rates, increasing its export) and in the world (as it would benefit from a weaker “regional yen” – comparison to EURO). Contradictorily, the Chinese yuan is perceived as an undervalued currency, serving as a tool for increasing Chinese competitiveness on the international market, therefore there are no economic reasons for China to force the creation of a yuan block.

CONCLUSION

The Optimum Currency Area theory, introduced by Robert Mundell in 1961 and slightly modified by him and other scholars in subsequent years, is still crucial for analyzing international monetary integration. Mundell’s works (not only his work of 1961) give reliable hints on how to manage the process and on the possible risks that should be avoided.

²⁶ Colm Kearney, Calm Muckley, “Reassessing the Evidence of an Emerging Yen Block in North and Southeast Asia,” *IHS Discussion Paper*, 41, 2004.

There is no doubt that the EURO-12 or EURO-17 is not an optimum currency area, not only because of not fulfilling convergence criteria, but also because of the lack of political will for further implementation of adaptation mechanisms, including important fiscal transfers from countries benefiting from monetary integration to those losing on the process.

Apart from technical criteria and theoretical background, we should also take pragmatic, sectoral interests into account. There are economies that may benefit more from economic integration, and we should not blame them for economic crisis. In terms of benefiting from the introduction of the Euro, the German economy is doing much better than others, but we should also bear in mind that it is not due to a purely technical process. What is also important is the fact that most countries do not fulfill convergence criteria and lasting monetary union in Europe, which proves that political will seems to be more important than technical nuances. It generally confirms the assumption that countries with strong currencies, usually based on strong economic foundations and high marginal productivity of production factors, benefit much more from a common currency than others.

Having the aforementioned in mind, we may observe that a certain level of financial and monetary integration prevents ASEAN Plus Three (or, more broadly speaking, Asian) countries from some risks embedded in economic crises (including speculating attacks on national currencies), but there are definitely more obstacles to overcome before this idea may be implemented. Firstly, it is almost impossible to imagine full mobility of the labor force in Asia, due to the dramatic differences in the economic development of these countries. Secondly, it is difficult to build a set of criteria that the 13 Asian countries may even partly fulfill in order to create a monetary union (and thus converge their economies in order to avoid asymmetric shocks). Thirdly, the country that could benefit the most, Japan, is not strong enough (including soft power taken from the attractiveness of its economic model – as it has been in crisis for the last 20 years) to encourage others to join. China would not benefit enough economically (it would benefit politically, but it would also be a problem). Fourthly, there is a lack of political will, especially among crucial actors.

Therefore, we should not expect a fast creation of an Asian Monetary Union. On the other hand, we should remember that financial integration has so far been enough to make the region more resistant to economic twists and turns. Having this in mind, Asian economies may think about further financial and monetary integration, especially if the European Monetary Union survives the current crisis. If so, the Asian Monetary Union may be created in the next 30 years (around 2040).

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