

FINANCIAL STABILITY MECHANISM FOR ASEAN+3: CONCEPTION AND DIFFICULTIES

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LESSONS FROM EUROPEAN SOVEREIGN DEBT CRISIS

- ✘ Conflict between single money and differential economies
- ✘ Conflict between united monetary policy and independent fiscal policies
- ✘ Conflict between integrated capital market and independent financial regulation systems
- ✘ Conflict between timeliness needed for crisis alleviation and inefficient political coordination mechanism

IMPLICATIONS FOR ASIAN FINANCIAL COOPERATION

✕ EU

+ Crisis originated from over-integration?

✕ Asia

+ Try to rely on integration to avoid crisis?

What is the right extent?



WHY ASIA NEEDS A REGIONAL FINANCIAL STABILITY MECHANISM?

- ✘ Homogeneity in economic and financial systems
- ✘ Synchronicity in macroeconomic cycle
- ✘ Trade and financial channels for risk contagion
- ✘ “Geographical sector” in investor psychology

WHY ASIA NEEDS A FINANCIAL STABILITY MECHANISM INDEPENDENT OF IMF?

- ✘ Conflicts of interest
- ✘ Difference in policy views
- ✘ More precise information
- ✘ More timely response
- ✘ Stronger incentives



CONTENTS FOR ASEAN +3 FINANCIAL STABILITY MECHANISM

- ✗ Macroeconomic coordination
 - + Bubble accumulation
 - + Bubble crash
- ✗ Industrial policy coordination
 - + Plan for the “East Asian production chains”
- ✗ Financial regulation cooperation
 - + Micro prudential supervision
 - + Macro prudential supervision
 - ✗ Systemic risk monitoring
- ✗ Crisis handling
 - + Flunctuations in real side of economy
 - + Liquidity crisis

IMPLICATION OF CRISIS HANDLING FOR FINANCIAL STABILITY MECHANISM

- ✗ Timeliness of crisis intervention
 - + Prevention of crisis diffusion
 - + To deter devastating speculators
- ✗ Intervention terms and punishment mechanism
 - + Soft budget restraint and commitment mechanism



PROGRESSIVE FINANCIAL STABILITY MECHANISM

- ✘ Flexibility contents and styles of cooperation
- ✘ Avoiding complex institutions
- ✘ Adapt to different financial systems
- ✘ Capability of expansion



SOME KEY ISSUES

- ✘ Scale of intervention and share of costs
- ✘ Terms of intervention
- ✘ Extension and deepness of policy coordination
- ✘ Transparency of monitoring and intervention mechanism

POTENTIAL BARRIERS

- ✘ Share of operation and salvation costs
- ✘ Independency in economic and financial policies
- ✘ Patriotism and politics
- ✘ Attitude of the west world and international organizations

DEEPER CONCERNS

- ✗ Is regionalism a correct way to protect us from financial crisis?
- + Regional systemic risks and the choice of intervention currency
- + Diversification of macroeconomic risks and the de-regionalization of economic activities

Thank you for your attention!

