

## **Cooperation among Asean+3 and Chinese Yuan**

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The voice of Asean+3 could be quite significant in the boards of international financial institutions going forward. While Asean by itself only accounts for the equivalent of a quarter of the Chinese population, the combined population of Asean, Japan, China, and Korea reaches close to three billion people. This makes Asean+3 an important global growth centre and very attractive for market penetration by those within and outside the region.

To some degree, the future strength of the Asian voice could depend on how Japan and China align their interests in the international economic arena. Compared to the maturing economy of Japan, it is not too farfetched to envisage a fast-growing China surpassing Japan in terms of economic importance in the future. Japan may nevertheless continue to maintain its strength as a well-established international and regional financial centre.

One important factor, among others, that could tilt the balance of economic power towards either China or Japan may be the use of its currency within Asia. China is a creditor country with large current-account surpluses, and historically creditor countries' currencies tended to have a more important international role, such as the US dollar today, and the pound sterling in the past.

Moreover, the initial start of the international use of the Japanese yen in Asia could be said to be less favorable than that of the yuan. Historically, the yen has tended to move against the US dollar, in contrast to other Asian currencies which then moved in line with the dollar. Moreover, the role of the yen in Asia has increased mostly due to bilateral trade and investment links with other Asian countries. Unfortunately, it has not been able to super-sede the "network externalities" of the US dollar as an international currency world-wide, including in Asia.

In contrast to the yen, the Chinese yuan initially tended to move in the same direction as the US dollar and against other Asian currencies. Currently the yuan has generally moved in tandem with the region's currencies and against the US dollar. In view of the close correlation between the yuan and other Asian currencies, excluding the yen, the yuan could potentially act as

an anchor for other currencies in Asia. Of course, this is not a conclusive finding because the reverse could also be true that this observed close correlation is due to the lack of yuan liquidity outside China and investors have used Asian currencies to proxy the Chinese yuan.

With the population of mainland China and the satellites of Chinese communities worldwide, the network externalities of the Chinese yuan could increase significantly through stronger Asian trade and investment links with China. Moreover, China has already initiated local currency-swap agreements with some Asean members, which will strengthen the role of the Chinese yuan as a lending currency and eventually international reserves for countries in the region.

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**(The views expressed are the author's own.)**

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