Recent Changes in OCA Indexes of East Asia

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Economists have different opinions on the suitability of East Asian monetary unification. It might be true that East Asian economies are not yet ready for monetary integration like the EU; however, since the East Asian region is dynamically changing with industrial development in some East Asian regions, rising China, etc., the discussion of an East Asian common currency should be more seriously considered. By checking the OCA indexes of East Asian countries, this paper aims to see; 1) whether East Asian economies moved toward a more suitable common currency zone from 2000 to 2010; 2) what currency is a possible vehicle currency in such a case; and 3) whether it is suitable to include Australia and New Zealand into an East Asian common currency zone. Empirical analysis shows that the OCA condition for East Asia has slightly improved during the period, and that the Chinese yuan is now a more suitable candidate as a vehicle currency for regional monetary integration than others. As for Australia and New Zealand, the benefits from having a common currency with other East Asian countries do not seem to be substantial.

Keywords: East Asia, OCA Index, Monetary Integration, Vehicle Currency

I. INTRODUCTION

The world monetary system these days seems to be polarized into the dollar and the Euro. The United States has been playing a crucial role in the world monetary order thanks to the internationalization of the US dollar. European countries started to have more influence on the world monetary system since the economic union began and the introduction of the Euro.

With this polarization of the world monetary system, East Asian countries started to worry that they might lose their power in the international

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economic order. East Asian regions use their own individual currencies and do not play a key role in the international monetary order (Moon, 2006).\textsuperscript{1} Therefore, the need for East Asian monetary cooperation has become an important issue among East Asian countries. The Chiang Mai Initiative\textsuperscript{2} was launched in May 2000 to promote monetary cooperation and recently the Chiang Mai Initiative Multilateralisation Agreement was signed on December 28, 2009. Furthermore, many economists started to study whether East Asia should form a common currency zone like the Eurozone by evaluating the OCA indexes of East Asian countries and comparing the benefits and costs of monetary unification.

Then, should East Asia form a common currency unit? According to past studies conducted until the beginning of the 2000s, it seems that a common currency in the East Asian region was not appropriate due to greater diversity when compared to the Eurozone area. ASEAN+3 countries\textsuperscript{3} show great diversity such as differences in stage of development, trade structure, etc. According to Kawai (2004), East Asian economies are quite diverse and varied in their economic systems, stages of economic and social developments; such as per capita income levels, industrial structures, trade openness and patterns, etc. When a group of countries have a great amount of diversity, it is often argued that it is not suitable for them to have a common currency. Kwan (1994) said some East Asian countries compete with Japan in international markets, and their currencies follow the yen's up and down; others, which import from Japan but compete less with it, prefer to depreciate their currencies when the yen strengthens to offset the recessionary impact of higher import prices.

However, the trend of active economic integration, the rapidly rising Chinese economy, structural changes in exports, and economic cooperation efforts like the Chiang Mai Initiative in the East Asian region over the recent years might have painted a different picture for an East Asian common currency. The intra-regional trade share of East Asia is a good example that shows active integration among East Asian economies. 15 East Asian countries’ intra-regional trade share constantly increased up to the 55 percent level, which is a comparable level to the old EU-15 countries. These changes suggest that East Asian economies might have been mov-

\textsuperscript{1} Moon(2006), p. 3.
\textsuperscript{2} The Chiang Mai Initiative is a currency swap arrangement among the ten members of ASEAN, China, Japan, and Korea.
\textsuperscript{3} ASEAN+3 countries are "Japan, China, Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos, Brunei, Myanmar, and Cambodia" In this paper, East Asian countries mean ASEAN+3.