Is Asean ready for a common currency?

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SOUTH-EAST Asia has once again been hit by economic turmoil. As in the 1997-98 Asian Financial Crisis, there is talk of introducing a regional currency to eliminate exchange-rate uncertainty, guard against speculative attacks and raise Asean's bargaining power.

As we have seen in Europe, long-term interest rates will decline and become less volatile with a regional currency. A regional currency will also facilitate greater flows of intraregional trade, thus putting pressure on prices and resulting in cheaper goods and services. Individuals also will benefit from a regional currency, since they will not have to change money when travelling within the region and they would be able to compare prices more readily.

A common currency usually needs to be preceded by a common or single market. Asean has worked on this for almost two decades now and aims to establish an Asean Economic Community by 2015.

However, the question remains whether Asean is ready for a regional currency. This depends on a number of factors, such as the intensity ofintra-regional trade, macroeconomic conditions, the strength of financial systems, and the willingness of member states to curtail their sovereign rights.

Substantial intra-Asean trade and economic integration would be an incentive for a monetary union. But the reality is that Asean member states trade more with countries outside the region - about 75 per cent - than with other Asean states. Consequently, Asean states are more concerned about the stability of their currencies against major international currencies than among themselves.

Asean states have varying GDPs and per capita income levels. Singapore, the freest economy in the region, has a per capita income that is close to 350 times more than Myanmar's. Such wide income differentials will make it hard to sustain a common monetary arrangement.

A common currency requires deep and robust financial systems and markets, including strong institutional support. Asean does not yet have region-wide institutions to deal with threats to the financial sector.

Another challenge is that monetary integration means less control

over national monetary and fiscal policies. A common currency would restrict national sovereignty and policy autonomy, which some member states may not readily accept.

But if the grouping did adopt a regional currency, what impact would it have on Singapore?

Firstly, services such as health care, education and tourism might become more affordable to other Asean citizens, as they would no longer be denominated in the appreciating Singapore dollar. This might increase demand in these sectors.

At present, the economy of each member state is too small for its currency to be 'visible' in the international monetary system. A common Asean currency would put the region on the world map - a definite advantage to Singapore, an international business hub.

Most importantly, a common regional currency would mean individual states cannot control intra-regional capital movements. In such a 'borderless money movement' situation, Singapore is likely to attract funds from the region, given its political stability and developed financial sector.

On the other hand, member states, including Singapore, would find it harder to exert internal controls if the common currency suffered fluctuations. At present, the Singapore authorities can influence the value of the Singapore dollar depending on domestic economic conditions.

A common currency might also open the possibility of stronger economies in the group being 'dragged down' by weak economies. In an extreme case, political risks in one major member state might cause the common currency to collapse and paralyse all the economies involved.

Asean is 42 years old. But after considering all the factors involved, it does not seem ready to adopt a common currency yet. Perhaps a more realistic first step would be to adopt currency interchangeability at the bilateral level or introduce a common currency within a sub-group. Already, Brunei Darussalam and Singapore, two duty-free economies in Asean, have currency interchangeability. One possible sub-group for a common currency might consist of Cambodia, Laos and Myanmar, considering that they have comparable economies and income levels.

Asean finance ministers are currently working on cooperating on currency exchange rate stabilisation; institutional linkages;

macroeconomic policy stability; and capacity building. Such cooperation would deepen regional economic and financial integration, accelerate intra-regional trade and enhance investment liberalisation. At the moment, savings from Asia go to London and New York, and are then loaned back to the region: a movement which is not only expensive but also increases volatility.

The thought of Asean having a common currency is not far-fetched. As the rise of China and India transforms the region, economic logic and political imperative might prompt a closer study of the pros and cons of an Asean currency.

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