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Common currency for Asia "now or never"

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ABSTRACT

This paper examines the best common currency criteria for Asian countries through the regional cooperation in trade and investment, political and economic integration and investigates the benefits of a common currency by which the money inflows from developed countries to reduce the exchange rate fluctuation. Further this could help to increase the trade within region. The paper also elaborates the role of a common currency in Asia for achieving an increased GDP growth for all countries within the region, which is necessary to reduce the poverty in the region. Finally the paper critically analyzes the strategies, time frame and decision making policies to functionalize the common currency in Asia. It is observed from proposed policies that the common currency would bring the increase in trade, political stability and poverty reduction in the member countries within the region.

1. Introduction

The general concept about common currency is that any individual country does not possess its own currency and both interest rate and exchange rate policies are centralized. According to the theory of an Optimal Currency Area (OCA), one of the greatest aims of using single currency is to eliminate the foreign exchange risks in intra-regional trade (Takeuchi, 2006). Common currency within the region also offers substantial benefits to the region. Uncertainty about exchange rates can be removed, and transaction cost cab be reduced, trade and investment in the region can get a bigger boost. The major benefit of a common currency is to facilitate trade in goods & services, and investment among countries, which leads to increase income growth within the region and help to reduce poverty level (Agarwal, 2003). As comparison to different currencies, the transaction cost including the cost of obtaining information about prices would be higher; this leads to discouragement to commerce and investment. The successful deployment of Euro as a common currency for European countries and its positive impact on their economies has made the Asian economist to think about their common Asian currency (Kuroda, 2004).

At present the economies of Asian countries are well integrated, so even small misalignment in intraregional exchange rate could disturb the trade and investment flows within regional economies. This creates the need for intraregional exchange rate stabilization and ultimately a single currency in Asia (Clift, 2006). In Asia, optimum currency area size should be expanded through intensified economic integration and convergence as time passes. The deeper economic integration, closer geographical proximity, and tighter political relationships among the Asian countries can lead us to an Asian common currency. It is observed in Asia that several currency units can be created; in this case it will not be helpful for Asian countries to come out the influence of the dollar zone. East Asian countries have started to recognize their problems in trade during recent years. To address their problems, they have presented clear and strong policy including opening their markets for all regional countries and intensifying their division of labor. After floating their policies, intra-Asian trade has been growing faster than the rest of the world region's trade. Now, trade exists between the regional countries and it reaches at maximum percentage. Another positive aspect is that trade and capital flows stay within Asia more often than before (Drysdale and Armstrong, 2010; Park, 2006; Sally, 2006). Fig. 1 shows the trade of China with some key Asian countries.

On the other side, China has proved to be the second largest economy in the world, as compared to Japan's economy, which became shrinking in the final months of 2010 after its forty two years old ranking (Fig. 2). Many causes of recession have been observed in Japanese economy, but the most crucial is wage share growth in national income, which affect the levels of aggregate demands in the country. Dependency on export to boost growth, as happened in post war, is not the only long term solution to boost the receding economy. The quick declination of share of wages in national income in Japan seems to be the major factors behind the crisis (Siddiqui, 2009). Japan's economic growth, which is already anemic because of the global recession in 2008–2009, is expected to drop down significantly in a quarter or so. The earthquake, tsunami, and the ensuing Fukushima nuclear incident had a significant impact on the Japanese economy. The disaster disrupted the supply chains and trade, with the sharp drop in industrial production. The earthquake and tsunami damaged the major businesses especially Tohoku Electric Power Co. and JX Holdings Inc. (Nanto et al., 2011).

This milestone by China in besting Japan as the world's second-largest economy only adds to the concerns of other Asian nations about China's aggressive expansion (Flanders, 2011). Table 1 is showing the comparison

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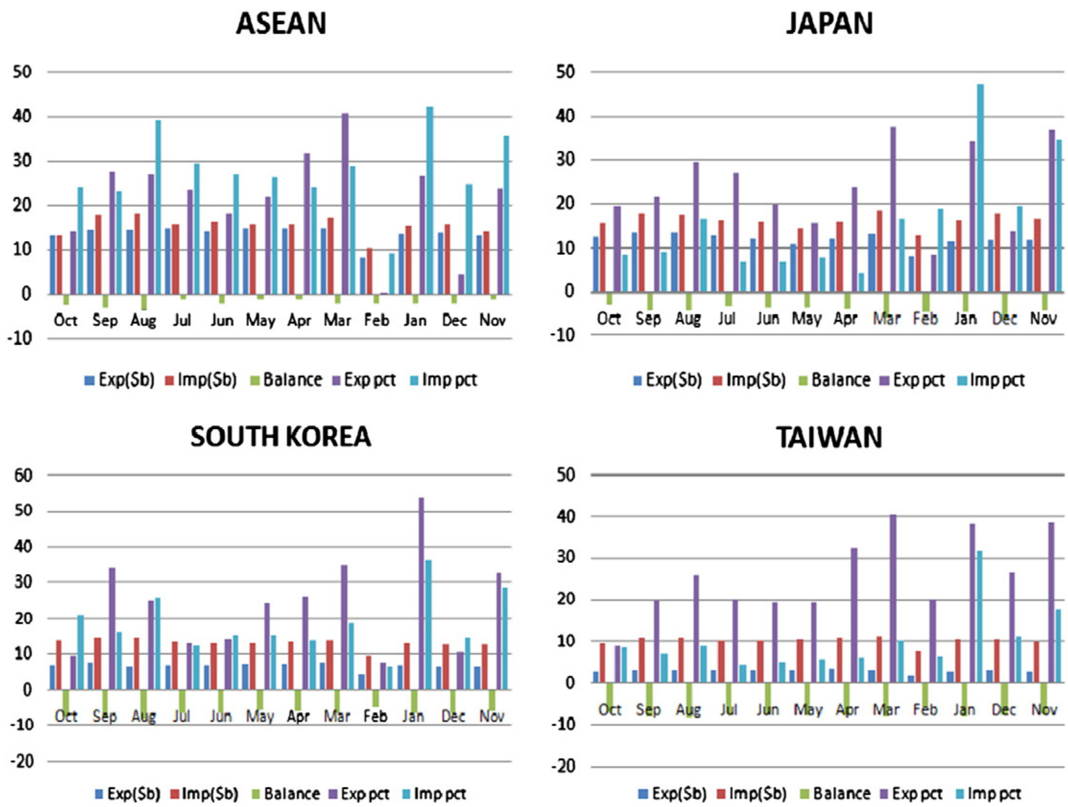

Fig. 1. China's trade (import and export) with key Asian countries (New York Times, 2010).

of China's GDP, import and export trade with the rest of world during 2009–11 (WTO, 2012).

China and Japan have agreed to start a direct trade in their own currencies. The move between second and third largest economies of the world will bring their currencies closer to a single currency system. In other words, it will be a great step towards common currency in Asia (Savadove, 2012; Wong and Singer, 2011). Now China is the major driver of regional and global growth and their leaders feel confident on the international platform. They are now in position to assert great influence on other countries like Africa and Latin America through trade deal agreements. Other economies in the region are essentially riding on China's coat tails, and this is remarkable for an economy with a low per capita income. In the current situation of the world's economy, China will play a key role in formulating a common currency for Asia, due to its great and powerful economy. Without China's role, it is very difficult for Asia to achieve the goal of single currency. A common currency in Asia, where most countries have emerging economies, which might easily attract the money from well developed and industrial oriented countries. This could help to reduce the exchange rate fluctuation risk and ultimately boost the trade within the region (Yan, 2011).

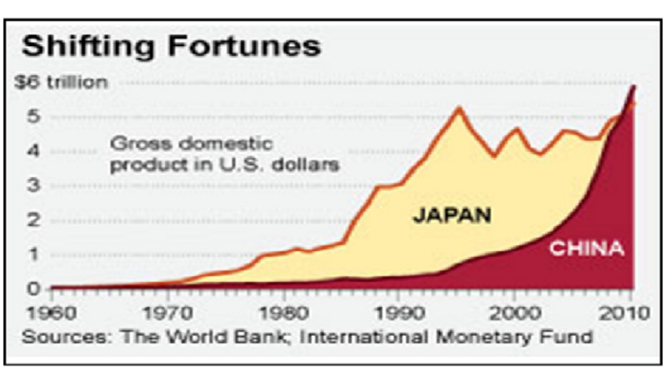

Fig. 2. Comparison between China and Japan's economy (The Economist online, 2010).

In this paper, a roadmap is proposed which covers some suggestions for creation of common currency in Asia. Asia is now a logical candidate to take a leadership role in the reform of global currency markets through common currency. Asian countries have to take step by step approach now and put serious efforts to set mechanism which address the regional coordination, to emphasize the integration on institutional levels, reconciliation of interests and major common currency issues. It is suggested to create an Asian common currency as soon as possible to come out from Dollar and Euro influence. It was observed that circumstances are very favorable for common currency in Asia; only highly political will is to be required. All political leaders of the Asian countries must have to take bold and serious implementable actions towards the creation of common currency. Some important issues directly related to regional integration should be solved out through trade in both goods and services. Therefore, proposed roadmap is dividing into three periods: short-term period, medium and long-term period.

Paper is organized as follows: Section 2 elaborates the poverty reduction through introducing the common currency. Section 3 described methodology for creating the common currency within Asia. Section 4 covered benefits of Asian common currency. Section 5 described the conclusion remarks.

2. Poverty reduction through common currency

Poverty is a universal trouble therefore every developed or underdeveloped countries are facing the same problem. Millions of people in the world are preoccupied solely with survival and basic needs. Frequently work is not available for those people, whenever they are paid, the pay is very low and the condition of those peoples is so much intense and not bearable. Fig. 3 shows the poverty figures around the world.

Poverty can be described by its numerous dimensions, involving shortage of funds for basic needs such as lack of education, insufficient