Yen Bloc: Towards Economic Integration in Asia

By Marie-Aimée Tourres

The theory of optimum currency areas is then used to provide a regional perspective. The author focuses on three main criteria as major determinants: the extent of economic integration, the similarity of economic structures, and the similarity in policy objectives. He concludes stating ‘it is unrealistic that Japan, the Asian Newly Industrialized Economies (NIEs), members of ASEAN, and China together and at once form an optimum currency area [...] It is more likely that Japan and the Asian NIEs will form an optimum currency area, with potential membership extended to include Malaysia and Thailand as they reach a higher level of economic development. Countries still at an early stage of economic development such as China, Indonesia, and the Philippines face the further conditions of forming an optimum currency area with Japan.’

But some of Kwan’s most interesting observations occur in the final reflective section, relative to the ‘global perspective’, where he replaces the United States in its due position as the primary international financial center and points out that ‘thanks to the need to finance its chronic current account deficit by borrowing overseas, the US has turned into the world’s largest debtor country. The mirror image is the emergence of Japan as the world’s largest creditor country and by far the largest foreign holder of US treasury bonds. Never before has the world’s leading creditor country had most of its overseas holdings denominated in the currency of the world’s largest debtor country. This unprecedented situation has become a major source of instability in the international financial system, as symbolized by the gyrations of the yen-dollar rate. The emergence of international currencies that compete with the dollar may help impose discipline on the economic policy of the US by rendering the international environment less forgiving of its mistakes’. Together with the euro, the emergence of the yen as an international currency, by imposing discipline on US economic policy, should therefore enhance the stability of the system.

Worth noting, in contrast to Europe and America, economic integration in Asia has been achieved mainly through the initiative of the private sector, with formal treaties. Likewise, according to Kwan, a Yen bloc is unlikely to be the result of government initiative; rather it will be the result of the increasing preference for the yen over the dollar by the Asian economic community. Yet, perhaps Japan is capable of facilitating this process. Kwan believes it ‘no exaggeration to say that Japan is facing the choice between now or never in its attempt to promote the yen as an international currency’. However, the author stresses that due to its current economic situation Japan will first need to revitalize its economy, before it can even contemplate facilitating the yen to play the role of Asia’s key currency.

The political aspect cannot be ignored either. The Japanese occupation during World War II is still fresh while the real political opposition may come from the US, if the formation of a Yen bloc is interpreted as posing a challenge to the status of the dollar as the key currency. But the idea will mature when the potential economic benefits will surpass the political costs. In this context, the formation of an East Asian Economic Cacus (EACEC) advocated by Mahathir, Prime Minister of Malaysia, contains a clear and symbolic say, that is, an element of ‘thinking East-Asian’ by strengthening the voice of East Asia and East Asian economic cooperation. One thing however: the book was written under the premiership of Ohbuken, on such visions like Kuzairu. At present, Kwan’s views more clearly follow what Eisuke Sakakibara, former Vice Minister of Finance for International Affairs and now professor at Keio University, has been strongly advocating for almost a twenty years. If Sakakibara was nicknamed ‘Mr Yen’ for his influence over currency markets, it is not for nothing. Beyond the so-called Chiang Mai initiative, which aims to create a network of Central Bank currency swaps among ASEAN +3, Sakakibara states that Asia should aim for creating an Asian Currency Union in ten to twenty years.