

China's might dashes Asian single-currency hopes

- Asian Economic Union likely to follow North American model
- Fresh call for setting-up of Asian Monetary Fund

Hopes of a single-currency Asian Economic Union (AEU) are doomed because of China's march to superpower status, a leading economist has warned.

The prospect of a shared currency among East Asia's major economies has been mooted as part of initiatives to establish an AEU since the Asian financial crisis of 1997.

But a major conference to mark the launch of the prestigious Globalisation and Economic Policy Centre's (GEP) Malaysia branch has heard such a scheme would make little sense.

The warning was delivered by Professor Wing Thye Woo, an expert on East Asian economies - particularly those of China, Indonesia and Malaysia.

Professor Woo, a Senior Fellow at the Brookings Institution in Washington, backed the creation of an AEU in the form of a free trade and open investment area.

But he said China's dramatic overhauling of Japan as the region's dominant economic force meant the organisation could never be in the mould of the European Union.

Professor Woo said: "GDP ratios reveal clearly that the biggest EU economies are of the same magnitude now and will continue to be so in the future.

"But the AEU will never be a club of equals. Japan was the economic giant in 2005; China will be the economic giant in 2050.

"If there is a compelling economic argument for a 'Yen bloc' today then the same reasoning would dictate this 'Yen block' transform itself into a 'Yuan block' in 2035."

Professor Woo suggested a model based on the North American Free Trade Area, which comprises the US, Canada and Mexico and has ruled out a single currency, was a more realistic prospect. In 2050 the US's GDP is expected to be 12 times larger than Canada's and almost five times larger than Mexico's.

Professor Woo also recommended the establishment of an Asian Monetary Fund.

Many Asian commentators have laid much of the blame for the '97 crisis with the International Monetary Fund, claiming its response to early signs of possible catastrophe was incompetent and misguided.

Professor Woo said an Asian Monetary Fund would provide a "regional surveillance mechanism" to monitor the present system of bilateral and multilateral arrangements.

He said: "It must not suffer from the institutional inertia that is characteristic of organisations like the United Nations, the World Bank and the IMF.

"Its leadership structure should be designed to avoid simply locking in the balance of economic power that existed at the time of its founding. But if an AMF can adopt a self-updating type of leadership structure then its first contribution would be to inspire positive developments in the reform of global organisations."

Professor Woo was speaking at the launch of GEP in Malaysia at the University of Nottingham's purpose-built Semenyih campus, 30km from Kuala Lumpur - the first-ever branch campus of a UK university abroad. GEP is based at the University of Nottingham.

Shujie Yao, Professor of Economics and Chinese Sustainable Development at GEP, said creating an AMF would be challenging: "China and Japan will soon be two equally influential powers in the Asian Pacific Region, but they still have a lot of differences due to their past history.

"It will take much longer than expected to bring these two together to pool resources into a common fund. Without Japan and China working closely together, it is impossible to set up a large enough AMF to curtail any financial crisis."

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