ASIAN MONETARY INTEGRATION: THE JAPANESE DILEMMA

BY

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ABSTRACT

The purpose of this study is to explore the mechanism of money and credit flows in the boom and bust of a bubble economy; to relate it to chronological changes in the international monetary regime; and, based on theories of monetary economics and political economy, to propound policy recommendations for the Japanese government on the issues surrounding monetary integration in Asia.

Reviewing the concepts of money and credit from the T-account (i.e., a socially combined balance-sheet) perspective, we employ a credit risk approach of money and credit. We then introduce the 2-dimensional T-account matrix model, and use it to examine the credit-flow mechanism of economic development and the bubble economy. Subsequently, we develop our model into 3-dimensional T-account matrices to deal with international credit flows.

Adopting a conceptual framework of monetary political economy with the T-account matrices, which is based on the preferences (i.e., utility functions) of money issuers in a foreign asset/debt position and on the technical development of monetary stages, we review historical changes in international monetary regimes, and in the process, modify the framework where applicable.

After an applied analysis of the economic development in Asia since the 1980s, we discuss the technical aspects of Asian monetary integration. In addition, we deal with the Japanese dilemma over Asian integration and the implications for public policy. We propose the establishment of a multilateral financial institution such as the Asian Monetary Fund (AMF), which will be expected to work as a lender of last resort for regional financial stability.

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