

DIW Berlin

Deutsches Institut
für Wirtschaftsforschung

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Monetary and Exchange Rate Policies in Cambodia, Laos and
Vietnam: The Scope for Regional Cooperation

Study Overview and Proposal

Regional Workshop, Siem Reap, 26-27 Sept. 2006

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DIW Berlin – Macro Analysis and Forecasting

Outline

- DIW Berlin
- Fundamentals of Currency Regimes
- Proposed Structure
- Team Members

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DIW Berlin: Historic Vertices

- DIW = German Institute for Economic Research
- Founded 1925 in Berlin as one of the first business cycle research institutes in Europe (research department of the national bureau of statistics, founding president: Ernst Wagemann)
- 1935/36: Registration as private society in Berlin and renamed as Deutsches Institut für Wirtschaftsforschung (DIW Berlin)
- Today the largest of the six leading German economic research institutes
 - 217 employees (100 scientists)
 - 20 Mill. Euro budget (basic public funding: 8 Mill.)

DIW Berlin: Mission

- **Applied and basic research in major fields of economics**
- **Observation of national and international economic developments**
- **Counseling of the German public**
- **Consulting of Ministries, Governments (national and local), European Commission, other organizations**
- **Corporate Advisory Services**

DIW Berlin: Departments

- **Macro Analysis and Forecasting**
- **International Economics**
- **Public Economics**
- **Energy, Transportation, Environment**
- **Information Society and Competition**
- **Innovation, Manufacturing, Services**
- **German Socio-Economic Panel**

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Currency Regimes: Fundamental Options

- Exchange rate system
 - Fixed exchange rates
 - Fixed, but adjustable exchange rates
 - Crawling pegs
 - Managed floating
 - Flexible exchange rates
- Reserve currency
 - Gold
 - Basket (SDR, ECU, ACU?)
 - Single dominant international currency (US-Dollar, Euro, Yen)
- Capital mobility
 - Unrestricted
 - Segmented
 - Controls

} de facto/de jure

⇒ 39 + 1 fundamental options

The Monetary Policy Trilemma

- Independent monetary policy
(control over money supply and domestic inflation)
 - Fixed exchange rate
 - Capital account openness
- ⇒ Take two, get the third for free ...
- ⇒ ... or run into a currency crisis

The Case for Monetary Integration

- Do exchange rates (flexible or not) allow for more economic flexibility?
- On a mathematical level: No
 - adding up one more variable
 - adding up one more equilibrium condition
 - ⇒ degrees of freedom remain unchanged
- On an economic level: Yes or No
 - might help to overcome nominal inertia (but only, if there is money illusion)
 - exchange rate system is itself a potential source of disturbances and destabilization
 - exchange rates can never replace structural reforms, but tend to delay them

Two Major Ways to Monetary Integration

■ Policy-driven

- Loose
- Tight
- Complete

} policy coordination (= loss of influence?)

■ Market-driven

- Parallel currency
- Anti-Gresham's Law

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Proposed Structure

- Preliminary part
- Part I: Integration, Cooperation, and Development of East Asian Economies
- Part II: Lessons from the European Experience
- Part III: Monetary and Exchange Rate Policies in Cambodia, Laos and Vietnam
- Part IV: Policy Recommendations for Enhancing Monetary and Exchange Rate Policy Coordination among Cambodia, Laos and Vietnam
- Appendix and References

Proposed Structure: Preliminary Part

- **Preliminary part**
 1. Introduction and Study Background
 2. A History of Monetary Arrangements
- Part I: Integration, Cooperation, and Development of East Asian Economies
- Part II: Lessons from the European Experience
- Part III: Monetary and Exchange Rate Policies in Cambodia, Laos and Vietnam
- Part IV: Policy Recommendations for Enhancing Monetary and Exchange Rate Policy Coordination among Cambodia, Laos and Vietnam
- Appendix and References

Proposed Structure: Part I

- Preliminary part
- **Part I: Integration, Cooperation, and Development of East Asian Economies**
 3. Driving Forces for Monetary Cooperation: Integration of Markets for Goods and Services
 4. Monetary and Exchange Rate Policy Issues for Emerging East Asia
 5. Monetary Frameworks and Exchange Rate Regimes in East Asia: An Overview
 6. Sources of Instability and Exchange Rate Controls
 7. Incentives and Obstacles to Monetary Cooperation
- Part II: Lessons from the European Experience
- Part III: Monetary and Exchange Rate Policies in Cambodia, Laos and Vietnam
- Part IV: Policy Recommendations for Enhancing Monetary and Exchange Rate Policy Coordination among Cambodia, Laos and Vietnam
- Appendix and References

Proposed Structure: Part II

- Preliminary part
- Part I: Integration, Cooperation, and Development of East Asian Economies
- **Part II: Lessons from the European Experience**
 - 8. The European Monetary System and the ECU: The Role of Small Countries
 - 9. The ECU and its Relevance for Monetary Stability and Integration
- Part III: Monetary and Exchange Rate Policies in Cambodia, Laos and Vietnam
- Part IV: Policy Recommendations for Enhancing Monetary and Exchange Rate Policy Coordination among Cambodia, Laos and Vietnam
- Appendix and References

Proposed Structure: Part III

- Preliminary part
- Part I: Integration, Cooperation, and Development of East Asian Economies
- Part II: Lessons from the European Experience
- **Part III: Monetary and Exchange Rate Policies in Cambodia, Laos and Vietnam**
 10. Costs and Benefits of Dollarized Economies: The Case of Cambodia, Laos, and Vietnam
 11. Monetary and Exchange Rate Policy in Cambodia
 12. Monetary and Exchange Rate Policy in Laos
 13. Monetary and Exchange Rate Policy in Vietnam
- Part IV: Policy Recommendations for Enhancing Monetary and Exchange Rate Policy Coordination among Cambodia, Laos and Vietnam
- Appendix and References

Proposed Structure: Part IV

- Preliminary part
- Part I: Integration, Cooperation, and Development of East Asian Economies
- Part II: Lessons from the European Experience
- Part III: Monetary and Exchange Rate Policies in Cambodia, Laos and Vietnam
- **Part IV: Policy Recommendations for Enhancing Monetary and Exchange Rate Policy Coordination among Cambodia, Laos and Vietnam**
 - 14. Creating an Asian Currency Unit: Functions and Implications
 - 15. Enhancing Monetary Policy Coordination in East Asia: A Road Map
 - 16. Policies for Monetary Stability in Cambodia, Laos, and Vietnam
- Appendix and References

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Team Members 1

- **Cambodia**

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Study Coordinator

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- **Lao PDR**

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