

# Progress toward a Common Currency Basket System in East Asia

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## Abstract

Ogawa and Shimizu (2005, 2006a) have proposed a possible way to create an Asian Monetary Unit (AMU) as a weighted average of the thirteen East Asian currencies (ASEAN + China, Japan, and Korea) and developed AMU Deviation Indicators for a surveillance process under the Chiang Mai Initiative. Both the AMU and the AMU Deviation Indicators are important in helping the countries in the region to recognize the necessity of moving toward a common currency basket system. However, there remains an open question about how to implement this system in East Asian countries.

The purpose of this paper is to compile the latest issues of currency basket itself and to develop concrete steps toward a common currency basket system in East Asia. Particularly, we simulate possible individual currency basket weights based on trade shares of each East Asian country and convert them to G3 currency (the US dollar, the euro, and the Japanese yen) basket weights. We also investigate the discrepancies between the converted G3 currency basket weight of the AMU and the weights of the common G3 currency basket, which is to illustrate the reality of implementing a common currency basket system. We propose a possible way to shift from an individual G3 currency basket system to the AMU currency basket system. In this process, we expect that the Japanese yen would play a varying role at each stage toward monetary coordination in East Asia.

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