

Comments and Discussions

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At the outset, Prof. Kim distinguishes between the medium-term exchange rate target and a long-term goal of common currency. He does this because he believes that a short-term or medium-term policy must be consistent or compatible with the long-term goal.

In the literature so many pieces of work have been done under the topic of financial cooperation for East Asia. However, Prof. Kim's contribution is outstanding. He, first of all, addresses a question of why three countries – China, Japan, and Korea must work together towards the East Asian currency union and the region's exchange rate policy coordination.

In the conduct of exchange rate policy coordination, he finds a double dilemma. One dilemma is that exchange rate policy is constrained by inflation targeting. Most countries are implementing inflation targeting. The other dilemma is that in many countries, the ministry of finance or economy is responsible for exchange rate policy whereas the central bank is responsible for inflation targeting. Under the cause of the central bank's political independence, the two agencies of the government often disagree with each other on monetary policies.

Prof. Kim emphasizes that integration of goods markets among three countries is prerequisite to financial cooperation and formation of a currency union. He ingeniously introduces a new notion of incentives for a smaller economy to join an economic community or an FTA (Free Trade Agreement) based on the notion of differing distributions of household income.

Despite that he has clarified much of puzzles related to exchange rate policy, he needs to explore further the issue of the government's foreign exchange market intervention and how it is financed. It is not clear who is responsible for intervention and what is the optimum exchange rate target. Neither the ministry of finance nor the central bank releases information of such activity and it is extremely difficult for outsiders to figure things out. However, given his long experience in the government economic think tank, he should be able to do it.

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