

# 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**

*National Bank of Cambodia*

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Mr. Tann Sokhann

*Ministry of Economy & Finance*

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Mr. Phan Phalla

*Local Consultants*

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+ Mr. Khan Vanak

- **Viet Nam**

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Mr. Ha Hai An

*Ministry of Finance*

Ms. Truong Thanh Ha

Mr. Pham Van Ha

*Local Consultants*

Mr. Nguyen Van Dinh

+ Ms. Nguyen Thi Minh Hue

*Study Coordinator*

Ms. van Ahn

## Team Members 2

- **Lao PDR**

*Bank of Lao PDR*

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Mr. Akhom Praseuth

*Ministry of Finance*

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*Local Consultants*

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+ Mr. Phouphet Kyophilavong

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