

# How Does the Regional Monetary Unit Work as a Surveillance Tool in East Asia?

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To utilize the Chiang Mai Initiative Multilateralization (CMIM) for the crisis management method, the macroeconomic surveillance over the member economies should be ex-ante conditionality. Hence, the ASEAN plus Three Macroeconomic Research Office (AMRO) established to detect possibilities of economic crises and to prompt to restructure or reform a rigid structure or system. Although monitoring exchange rates of currencies of these countries vis-à-vis the USD is essential for surveillance, the AMRO should have an original tool to consider region-specific factors and more efficient tools than the IMF surveillance.

Therefore, this paper proposes usage of the Regional Monetary Unit (RMU) in monitoring exchange rates. The empirical analysis of this paper confirmed that the deviation indicator of the regional monetary unit such as the AMU DI is expected to work as a useful tool for the macroeconomic surveillance. This paper also tries to define the country's equilibrium exchange rate vis-à-vis the RMU to provide useful statistical information about exchange rates misalignments among East Asian currencies by employing the Permanent-Transitory decomposition proposed by Gonzalo and Granger (1995).

Key words: Equilibrium exchange rate, regional monetary unit, Cointegration,  
Permanent-Transitory decomposition

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