

ABSTRACT

Optimum currency area. Where the purpose of the existence of an optimum currency area is to form a single currency in an area. Regions with a good level of trade between countries can be one of the candidates to create an optimum currency area. Therefore, the formation of an optimum currency area in an area will provide additional benefits for this region by calculating the acquisition costs to be incurred.

This study aims to analyze the optimum currency area in the ASEAN-6 + 4 region (Indonesia, Malaysia, Thailand, the Philippines, Singapore, Vietnam, India, Japan, China, and South Korea). Furthermore, this study also analyzes the formation of a single currency in the ASEAN-6 + 4 region by considering the anchor currency used (US Dollars, British Pound, European Euro, Chinese Reminmbi, and Japanese Yen). This study uses secondary data obtained from the International Monetary Fund (IMF) which includes ASEAN-6 + 4 member countries from 1999 the first quarter to 2017 fourth quarter. Then, this study uses the Panel Structural Vector Auto Regression (PSVAR) analysis method by involving the Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) analysis.

The results of this study indicate the existence of an optimum currency area in the ASEAN-6 + 4 region by forming several sub-regions consisting of regional countries in accordance with the pattern of responsibility for shocks both in the short term and long term. Both in the short and long term, China needs to be a suitable benchmark in the formation of an optimum currency area at the subregional level. This is due to the stable development of the Chinese economy in recent years. The formation of a single regional currency in ASEAN-6 + 4 needs to be considered Chinese Reminmbi and Philippine Peso anchor currencies in forming a single currency in the region. This relates to changes in the response patterns of member countries' exchange rates to anchor currencies both in the short and long term. The consideration of the Philippine Peso as an anchor currency cannot be separated from the development of the Philippine economy which is faster than other ASEAN member countries in the last few years.

Keywords: Financial Integration, Optimum Currency Area. Single Currency, PSVAR, IRF, FEVD, ASEAN-6 + 4.