Institution Building for Macroeconomic and Financial Cooperation in East Asia[*]

by

Chalongphob Sussangkarn

Thailand Development Research Institute

1. Introduction

A recent flagship study by the Asian Development Bank on *Institutions for Regional Integration: Toward an Asian Economic Community*[1] observed that "…Asian regionalism remains 'institution-light,' characterized by few delegated powers, a lack of permanent secretariats, and a lack of formal rules and legal structures." This remains the case if one narrows the focus to East Asia rather than Asia as a whole. Narrowing the focus further to "macroeconomic and financial" cooperation in East Asia, the observation is also true, although there have been some important progress on institution building in this area recently, particularly the implementation of the Chiang Mai Initiative Multilateralization (CMIM) and the setting up of the ASEAN+3 Macroeconomic Research Office (AMRO) together with the appointment of its director. While these developments are commendable, further developments and improvements are needed in order to effectively support needed macroeconomic and financial cooperation in East Asia. This paper makes no attempt to present a comprehensive discussion of various areas of macroeconomic and financial cooperation in East Asia[2] but will focus on a few issues related to the rationale for CMIM and AMRO and make some recommendations on the directions of further institution building needed to support effective future macroeconomic and financial cooperation for East Asia.

---

[*] Paper for presentation at Japan Society of International Economics, the 60th Anniversary Symposium, "New Phases of the Asian Economy: Three Years after the Global Financial Crisis," June 11, 2011, Ryukoku University, Kyoto, Japan.

[1] ADB (2011), page xviii.

[2] Please refer to ADB (2011) for a comprehensive review of various areas of macroeconomic and financial cooperation in East Asia.

2. Regional Foreign Exchange Liquidity Safety Net Through CMIM[3]

2.1 Developing a Regional Safety Net Mechanism

After the 1997/98 Asian financial crisis, there were a lot of dissatisfaction within East Asia about the nature of the crisis resolution measures imposed by the IMF on those countries that became essentially insolvent in terms of not having enough foreign reserves to meet their foreign currency obligations and were forced to enter IMF supervised programs. IMF conditionality were very stringent, involving harsh fiscal and monetary tightening without regard for the specific socio-political circumstances of each country, full guarantee for foreign creditors and the imposition of rapid structural reform measures, such as stringent financial standards and corporate restructuring, privatization of state owned enterprises and asset sales at what many regarded as "fire sale" prices for the benefit of foreign investors. Given that East Asia as a whole had more that $700 billion in foreign reserves at that time and also had a saving surplus of about $100 billion annually, it was not surprising that there were calls for East Asia to develop its own regional foreign exchange liquidity safety net mechanism. Shortly after Thailand precipitated the crisis, Japan proposed setting up an Asian Monetary Fund (AMF). This was much too radical for that time, especially since Thailand had just entered an IMF program and there were hardly any prior consultations about this before hand. A lot of criticisms were raised against the proposal, particularly from the IMF and the United States, on the grounds that it would create moral hazard vis-à-vis the IMF, and the proposal was quickly dropped. This issue of whether a regional safety net mechanism will create moral hazard vis-à-vis the global mechanism (the IMF) and how a regional mechanism can work effectively with the global mechanism remains an issue to this day. While the EU and the IMF seems to be working effectively together in Greece and other European trouble spots, the context of East Asia is very different given the bad experiences from the aftermath of the 1997/98 East Asian financial crisis. There is still a stigma attached to the IMF in many parts of East Asia so that for a government to take a country into an IMF program, no matter whether there is any conditionality attached, would create huge political risks. This issue needs to be solved if a regional safety net mechanism for East Asia is to be effective.

[3] For detailed discussions of the background of the CMIM and its outlook, see Sussangkarn (2011).

In May 2000, a series of bilateral swap arrangements that existed among the original ASEAN5 countries[4], the ASEAN Swap Arrangement (ASA), was enlarged and expanded to include bilateral swaps between each of the ASEAN5 and China, Japan and South Korea (the Plus 3 countries). The newer ASEAN member countries (Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Viet Nam) were not involved. This was known as the Chiang Mai Initiative (CMI), being agreed in Chiang Mai, Thailand, on the sideline of the ADB Annual Meeting taking place there. A key element of the CMI was that only 10 percent of the swap amount can be used without being under an IMF supervised program. This condition was a hangover from the moral hazard issue noted earlier. The CMI was later expanded in size, finally totaling $90 billion with 20 percent of the swap available without attachment to an IMF program.

2.2 The Chiang Mai Initiative Multilateralization

The series of bilateral swaps were very cumbersome and it was realized some time back that, to become more effective, it was necessary to move from a series of bilateral agreements of the CMI to a multilateralized system. Progress was rather slow. This may be because as East Asian countries accumulated more and more reserves in the aftermath of the 1997/98 crises the urgency of the CMI declined. Export became a more and more important driver of growth for many countries in East Asia after the Asian financial crisis, with an initial impetus from currency depreciations in crisis-affected countries as a result of the crisis. The share of export to GDP increased for just about every country in East Asia (see Table 1). This led to large current account surpluses, with most countries managing their exchange rates by buying up the foreign currency inflows in order to keep their currencies from appreciating too much and protect the competitiveness of their export sectors. As a result, foreign reserves in East Asia increased continually and rapidly, from about $720 billion in 1997 to almost $5 trillion in 2009, accounting for about 53 percent of world foreign reserves (Table 2).

Before the global financial crisis, it may have been the case that countries thought that they had sufficient self-insurance through their large foreign reserves so the need for a regional safety net mechanism was not of high priority. The CMI was already in place and there was no rush to move to a multilateralized mechanism. Nevertheless, while slow,

[4] These countries comprise Indonesia, Malaysia, Philippines, Singapore and Thailand.

progress was made and an agreement was reached to develop the Chiang Mai Initiative Multilateralization (CMIM) in 2007; before the onset of the global financial crisis, though it would be another three years before the CMIM came into effect on 24 March 2010.

The global financial crisis showed, however, that in spite of large foreign reserves, sudden liquidity shortages could emerge. In the aftermath of the closure of Lehman Brothers, acute $liquidity shortages developed world wide, and some East Asia economies experienced a rapid drain in their reserves together with rapid currency depreciation. Korea was hit particularly hard, mainly because the amount of Korea's short-term foreign debt was quite high in relation to foreign reserves, and the won depreciated rapidly (see Figure 1). It needed to regain market confidence quickly before the situation got out of control. Korea had swap agreements through the CMI totaling $18.5 billion. However, only $3.7 was useable without attachment to an IMF program, and as mentioned earlier, for Korea to go under another IMF supervised program was politically out of the question. In the end, Korea got a swap from the US Federal reserves of $30 billion at the end of October 2008. Singapore also got the same swap. However, Indonesia, which also requested a similar swap from the Federal Reserve, was refused, and it ended up with swaps with China and Japan. The Korean swap with the US Federal Reserves calmed the market somewhat. However, Figure 1 shows that after a couple of months of relative stability, the won depreciated again, and it was only when Korea's current account surplus turned into large sustained surpluses as a result of the won's depreciation did the won reversed to a strengthening trend.

The role of the Federal Reserves in providing swap facilities to many countries during the global financial crisis called into question both the need for a regional facility as well as the role of the global facility (the IMF). However, it would be rash to expect the US Federal Reserves to continue to perform this role in the future, and the experience of Indonesia makes clear that the decision to provide similar swap facilities in the future will depend essentially on US interests. Thus, for East Asia, a region with huge amounts of foreign reserves, and a region consisting of many countries that still have problems working under the IMF, it makes good sense to finalize and implement its own Foreign Exchange Liquidity Safety Net mechanism, the CMIM.

Table 3 gives details of the CMIM contributions, purchasing multiples and voting weights. The total size is $120 billion, with ASEAN countries contributing 20 percent, and the plus three countries the other 80 percent; Japan and China each contributes 40 percent of the plus three's contributions (with Hong Kong included as part of China's contribution) and Korea contributing the other 20 percent. The contributions took more than two years to finalize, as it is politically sensitive and is related to each country's weight in the CMIM mechanism. On the swap quota, each country's maximum swap quota equals its contributions multiplied by its purchasing multiple, so for example Thailand's quota is $4.552 billion times 2.5 or $11.38 billion. However, under current link to the IMF, only 20 percent, or $2.276 billion, is available without attachment to an IMF program. The CMIM is a 90-day swap facility (local currency for US$), which could be rolled over a maximum of 7 times. On voting weights, each country is given 1.6 basic votes plus the number of contribution votes equal to the number of billion dollars that it contributes to the CMIM pool. On decision rules, fundamental issues, such as size of pool, contributions, borrowing multiples, membership and terms of lending will be decided by consensus at the Minister of Finance level. Executive decision on lending, renewal and default will be done using two thirds majority by the Executive Level Decision Making Body (ELDMB), which comprises the deputy-level representatives of ASEAN+3 Finance Ministries and Central Banks and Monetary Authority of Hong Kong, China.

The CMIM process will be supported by the ASEAN+3 Macroeconomic Research Office (AMRO), located in Singapore. AMRO is likely to start very small, with about 15-20 staff led by the AMRO Director. The AMRO Director has a term of three years, with an option for extension by two years. Selection of the first AMRO Director was difficult with both Japan and China vying for the position. In the end, a split term was reached as a compromise, with Mr. Wei Benhua, formerly deputy director of China's State Administration of Foreign Exchange, being appointed Director for one year to be followed over the next two years by Mr. Yoichi Nemoto, a Deputy Vice Minister of Finance for International Affairs at Japan's Ministry of Finance.[5]

2.2.1 Self Managed Reserve Pooling

Looking in more detailed at the CMIM, there are many areas for strengthening the institutional structure, operations and governance to improve its effectiveness. First, CMIM is a self-managed reserve pooling mechanism, so the CMIM contributions, or any portion of it, are not actually paid into a common pool but are still owned and managed by the

[5] AMRO will be discussed in the next section.

respective country authorities (central banks in most cases). This means that the opportunity cost for each country in the CMIM mechanism is minimal, being limited to contributions to a swap drawing, if one were to arise in the future, and its share of financial contributions to AMRO, which is fairly small in the initial stages. Actually, even for the contribution to a swap drawing, there are possibilities for a country to opt out. "In principle, each of the CMIM parties may only escape from contributing to a swap request by obtaining an approval of Executive Level Decision Making Body. In exceptional cases such as an extraordinary event or instance of force majours and domestic legal limitations, escape is possible without obtaining ELDMB approval."[6] The low opportunity cost of the CMIM mechanism for the member countries obviously makes it easier for all the countries to reach agreement, and also makes increasing the size of CMIM easier,[7] but at the same time means that the urgency to develop the CMIM mechanism so that it becomes as effective as possible may not be as high as it should be. Nevertheless, given that real money will be needed for AMRO, even though it may be small initially, political processes in each country should begin to scrutinize the effectiveness of the expenditures, and this should increase the importance of making sure that the CMIM and AMRO becomes as effective as possible.

2.2.2 The IMF Link

Second, the IMF link needs to be modified, otherwise countries are likely to bypass CMIM like they bypassed CMI during the global financial crisis. For those countries that did not have to go through the IMF experience after the 1997/98 crisis, it may be difficult to understand why there is such a stigma associated with the IMF in some parts of East Asia. Europe appears to be working effectively with the IMF,[8] and the IMF itself has evolved since the Asian financial crisis, with new lending instruments with little or weak conditionality such as the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL). However, the mistrust of the IMF is deep rooted in many countries, and the feeling is not limited to a narrow segment of politicians and policy makers, but widespread through the media and the

[6] From annex 1 of the Joint Ministerial Statement of The 13th ASEAN+3 Finance Ministers' Meeting, Tashkent, Uzbekistan, 2 May 2010.

[7] See below.

[8] However, Henning (2011) believes that the EU-IMF working model may not be easily replicated elsewhere particularly given European numerical dominance at the IMF and the European nationality of the IMF managing director.

general public. Of course, this could be overcome in time, but it would be best to design the CMIM to be workable given the IMF stigma.

It is possible to combine a crisis prevention liquidity support facility with a more medium term crisis resolution facility for structural imbalance problems under the CMIM framework. Sussangkarn (2011) proposes that the IMF link be invoked not based on a percentage of a country's swap quota, but rather if a country needs to roll over the 90 day swap more than a certain predetermined number of times. A 90 day swap facility cannot logically be viewed as a crisis resolution facility because in cases of a real insolvency crisis, it will take much longer than 90 days to resolve. It is more designed for cases such as Korea during the global financial crisis, when special circumstances may lead to sudden shortages of foreign currencies even though the country is far from insolvent on foreign currencies. However, if a country continues to have to roll over the swap, then the likelihood is that the problem is not temporary and more structural. In this case, bringing in the IMF would make sense. So may be the initial 90 swap as well as the first roll over could be unlinked to any IMF program, covering a six months period, but if a second roll over is needed then an IMF link could be required. This means that the CMIM will be the first line of defense to prevent the situation from developing into a serious crisis, with the global facility (the IMF) joining the battle if it becomes more and more likely that the problem is not simply a short-term liquidity problem but a more medium term structural problem. Not invoking an IMF link for the first six months should encourage those with temporary liquidity problems to use the CMIM. Also, knowing that an IMF link will be required after six months will encourage the country to take appropriate corrective actions to avoid having to be under an IMF program. This seems to be a good working model to develop the CMIM in the future. Of course, the regional surveillance mechanism, particularly through AMRO, needs to establish its capability, credibility and effectiveness.

2.2.3 CMIM Size

Another issue is the size of CMIM. $120 billion may seem small when compared to the level of programs needed in Europe. The comparison is misleading, however, as the European problem is a public debt problem in local currency (the Euro), while CMIM is designed as a foreign exchange support scheme. Nevertheless, there is scope for increasing the size of CMIM in two ways. First is to increase the contributions, possibly by two or three times the current size. This is not as far fetch as it may seem, particularly as the CMIM is a self-managed pooling scheme as indicated earlier, so countries are not paying any real money from their reserves to the pool until a swap program is invoked.[9] And when a swap is requested, it will be for no where near the total pool of $120 billion, so each country's contribution to the swap will be much less than its total contribution to CMIM. For example, with their huge reserves, it is most unlikely that China or Japan will need to use CMIM. Take a case where Korea and another country in ASEAN5 need liquidity support at about the same time for an amount fully up to their quota (assuming no IMF link). Korea is entitled to $19.2 billion and an ASEAN5 country is entitled to $11.38 billion, so the total needed from the other 11 countries is $30.58 billion. If the other 11 countries contribute to this $30.58 billion according to their contribution shares, then Japan and China (including Hong Kong) will each contribute about $12.2. billion, ASEAN5 countries (excluding the one requesting the swap) each contributes about $1.45 billion, Vietnam contributes about $318 million, Cambodia contributes about $38.1 million, Myanmar contributes about $19.1 million, and Brunei and Lao PDR each contributes about $9.5 million. These amounts are a very small proportion of the total foreign reserves of the various countries, as shown in Table 2 (at the end 2009). In fact, even if the size of CMIM were to double to $240 billion (with the same proportionate country contributions), and a similar swap program to the above was invoked, totaling $61.16 billion, each country will not be under much strain to contribute to the program. Of course, if we have a region wide problem, then it will actually be a global problem, given East Asia's importance to the world economy, and a regional facility like CMIM cannot deal with it and global mechanisms will be needed.

A second way to increase the effective size of CMIM is to attach additional bilateral swaps from willing countries in the group to a CMIM swap (Sussangkarn, 2011). For example, if Thailand needs a swap, its quota from the CMIM pool is $11.38 billion. There is no reason why China and Japan (given their huge reserves and close economic ties to Thailand) cannot add bilateral 90 day swaps with Thailand for, say, $10 billion each attached to the CMIM swap program to be managed under the same conditions as the CMIM swap. This will make the effective size of liquidity support from within the region much bigger than the CMIM pool and will be similar to when Thailand borrowed from the IMF in 1997. At that time, in the IMF package of $17.2 billion for Thailand only $4 billion was the IMF's own money (or 23.25%), the rest came from contributions by various countries in the region.

[9] Of course, they have to pay to finance AMRO's operations.

Allowing bilateral contributions is also a way to allow countries who are currently non-members of CMIM to participate in various related CMIM activities will lead to a more integrated architecture for macroeconomic and financial cooperation in the region (see below). The IMF could also be an additional source of swaps, if an IMF swap facility is implemented.[10]

If both methods to increase the size of the CMIM is implemented, i.e. doubling the size of CMIM contributions and also allow bilateral swaps linked to a CMIM swap, then the effective size of CMIM could easily be $600-700 billion, and should be sufficient for the foreseeable needs of the future.

3. Regional Surveillance and Broader Macroeconomic and Financial Cooperation

3.1 AMRO and Regional Surveillance

The biggest challenge for the CMIM process now is to make sure that AMRO can quickly develop into a capable, credible and effective organization able to gain confidence from the member economies, international financial institutions, financial experts and the market. AMRO is tasked to (i) monitor, assess, and prepare quarterly reports on the macroeconomic situation and financial soundness of the ASEAN+3 Countries, (ii) assess macroeconomic and financial vulnerabilities in any of the ASEAN+3 Countries and provide assistance in timely formulation of policy recommendations to mitigate such risks, and (iii) ensure compliance of swap requesting parties with the lending covenants under the CMIM Agreement. The new Director will have to put together a highly qualified team of professional staff, as well as all the hardware and software related to the AMRO office, and laying down the procedures and methodologies for regional surveillance and CMIM operations. Because the new Director's term is only for one year, he needs to consult closely with his successor to make sure that there will be continuity as the second Director takes over.

How AMRO will fit into or bring about modifications to the current surveillance process under the ASEAN+3 framework still needs to be fleshed out. At the level of the ASEAN+3, surveillance has been conducted through the Economic Review and Policy

---

[10] Henning (2011) raised some legal issues about the IMF lending to regional facilities. However, if the IMF implements a swap facility with countries, then its additional swap to a CMIM swap would be a swap with a country linked to the CMIM swap and not a lending or swap agreement with CMIM as such, so it should be within the scope of the IMF legal mandate.

Dialogue (ERPD). This is held at the ASEAN+3 Finance and Central Bank Deputies Meeting (AFDM+3) level twice a year to discuss economic and financial developments in the region and is reported to the ASEAN+3 Finance Ministers' Meeting (AFMM+3) which is held annually. The IMF and the ADB provides global and regional perspectives for input to the ERPD. The ERPD has mostly been at the level of information sharing and has not yet moved any where near to the level of a peer review or due diligence process (see Kawai and Houser, 2007). Given that AMRO is to produce quarterly surveillance reports of the region, AMRO will obviously be an important part of the ERPD process, feeding into the AFDM+3 meetings. There is also an Advisory Panel of AMRO (AP) that will meet with AMRO and provide independent advice concerning AMRO's assessments on a quarterly basis.[11] Given that surveillance will now be done by AMRO on a quarterly basis, it will make more sense if the AFDM +3 takes place quarterly rather than just twice a year (with an additional meeting to support the AFMM+3). However, and this is a weakness of the current process, Deputies are involved in so many other international and domestic meetings as well as regular policy and administrative work that they hardly have time for any more meetings.

How work of the AMRO will relate to the ADB as input into the ERPD is still not clear, but in the initial stages of AMRO, the ADB should continue to be involved and a close working relationship should be developed between AMRO and ADB. The relationship of AMRO surveillance and IMF surveillance through the Article IV consultations also needs to be developed (see discussions about this issue in Takagi, 2010 and Henning, 2011). Clearly, AMRO has much less resources and expertise compared to the IMF to begin with, so AMRO needs to work with and get support from the IMF in building up its technical capabilities. However, just as there is no "one size fits all" in economic policy, there is also no "one view fits all" with regard to economic surveillance. Thus, AMRO should aim to provide high quality independent surveillance assessment to other surveillances that exist at the global and regional level. Apart from the IMF and the ADB, AMRO should cooperate closely with other related global and regional agencies, such as the World Bank, the BIS, and the ASEAN Secretariat.

Effective surveillance is however not easy. As crises happen and lessons are learned, policy makers become better at preventing the same kind of crisis from happening again.

[11] The AP will consist of six economists; three from ASEAN and one each from the Plus 3 countries.

However, when new crises happen, they are usually from different causes, and are unforeseen. Many times, the risks are not understood until it becomes just about too late to prevent a crisis from occurring. Because of this, effective surveillance at the official level becomes almost impossible. In official meetings, such as in an AFDM+3 or AFMM+3, no country will admit that it is going to face a crisis. Everyone will take the position that things are under control. Indeed they have to, as admitting that a crisis is likely may be the very thing that triggers a loss of market confidence if the information leaks out, and this could trigger an actual crisis. Because of this, AMRO should not limit its working partners to official agencies such as Ministry of Finances and Central Banks, but should also try to develop and utilize networks of independent think tanks and academia to obtain various points of views. On this, modes of networking of some major research organizations in the region, such as the ADB Institute (ADBI) and the Economic Research Institute for ASEAN and East Asia (ERIA), with domestic think tanks and research organizations in various countries of the region could be a good model to follow to supplement AMRO's networking with official institutions.

3.2 Asian Monetary Organization

In the past, the resources available to support the regional surveillance mechanism were very limited and the Deputies involved in these processes only carry out the tasks on a part-time basis alongside many other regular jobs. Ministers Meeting mostly "rubber stamp" what the officials have prepared through the Deputies Meetings. Even making slight changes to the Ministers Declaration, drafted by the officials, can be complicated, as officials may have spent a lot of time negotiating over wordings in the Declaration that all countries (as represented by the Deputies) could agree with.

The key to the success of any kind of surveillance or financial cooperation mechanisms within the region is to have a strong professional secretariat to support the process. AMRO should evolve to become such a secretariat, rather than just a research office for CMIM. In the medium term, the operations of the AFMM+3 process should fundamentally change. Instead of being driven by the AFDM+3 process, AMRO should be developed to become the dedicated technical secretariat to the AFMM+3 and the AFDM+3 process. An even more substantive change would be to have member countries send their representatives to AMRO as Executive Directors, along the line of the IMF. AMRO would then be like an Asian Monetary Organization (AMO) supporting CMIM as well as other key areas of macroeconomic and financial cooperation initiatives in the region.

3.3 Integrating Finance Ministers and Central Banks Processes

If AMO can be established, one should take the opportunity to reform the macroeconomic and financial cooperation architecture of the region to make them more integrated and more effective. At present, there are many important topics that should be discussed within the region but cannot be discussed adequately within the existing institutional structure. The most important example is that involving exchange rates, which is an important variable whether one wants to deal with the problem of global imbalance, or to bring about greater exchange rate stability to promote more intra-regional trade and investment and generate more intra-regional growth drivers. Minister of Finances cannot easily discuss exchange rate issues as in many countries this is regarded to be the domain of the central bank. On the other hand, in some country, exchange rate policy is not under control of the central banks, so central bank meetings cannot adequately discuss exchange rates either. What is needed is to bring together Ministers of Finance and Central Bank Governors and indeed this will happen from 2012, as stated in the Joint Ministerial Statement of the 14th ASEAN+3 Finance Ministers' Meeting.[12]

"We are of the view that, in order to strengthen regional economic monitoring and to enhance regional financial cooperation, the expertise and experiences held by the Central Bank Governors in the region are indispensable. Hence, we welcomed the participation of Central Bank Governors, and this gathering will then become "ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting" from next year."

This is an important step forward and may also lead to Finance and Capital Market Regulators not already included also attending in the future to form an Asian Financial Stability Dialogue (AFSD), as proposed in ADB (2008).

Apart from having joint meetings of Finance Ministers and Central Bank Governors, one can go further by developing a common membership structure and secretariat for the Finance Ministers' and Central Banks processes in order to promote more effective macroeconomic and financial dialogue and cooperation. In the region, there is another

[12] Ha Noi, Viet Nam, 4 May 2011.

important consultative forum among central banks officials, the EMEAP process, or Executives' Meeting of East Asia-Pacific Central Banks. This involves 11 central banks from the following economies: Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand. EMEAP activities are at three levels: i) the Governors' Meetings; ii) the Deputies' Meetings and the Monetary and Financial Stability Committee (MFSC), of which the Deputies are members; and iii) the Working Groups, on Payment and Settlement Systems, on Financial Markets and on Banking Supervision. Like the Finance Ministers' process, EMEAP does not have a permanent secretariat, but is a cooperative process with rotating host economies providing local logistical support.

A common memberships structure for both the Finance Ministers' process and the central banks' process would create a lot of synergies among the activities of these two processes as well as to the joint meeting of Finance Ministers and Central Bank Governors of the whole group. In creating a common membership structure, it would be politically difficult to exclude an economy that was previously a part of the Finance Ministers' or central banks' processes. The membership of EMEAP is a subset of the CMIM membership (ASEAN+3 plus Hong Kong), except that Australia and New Zealand are in EMEAP but not in CMIM. On the other hand, CMIM membership can also be viewed as a subset of EMEAP except that economies in ASEAN outside of the original ASEAN5 are not part of EMEAP. This means that if EMEAP is expanded to include the other ASEAN members apart from the ASEAN5 and CMIM membership is expanded to include Australia and New Zealand, then the membership composition of the two processes would be identical. An important missing economy in all this is India, which has participated in the East Asia Summit (EAS) since the first summit in 2005[13] and has significant economic linkages to East Asia. So including India in both of these processes makes economic sense. Thus, the so-called ASEAN+6 together with Hong Kong seems to be an ideal grouping for common membership of the Finance Ministers' and central banks' processes. AMO would be the appropriate technical secretariat to both of these processes. Of course, there could be questions about why Russia and the US should not also be included, as they will be participating in East Asia Summits from 2011 onward. However, the whole point of these institutional developments is to deepen macroeconomic and financial cooperation within East Asia, to be a regional

[13] The EAS up until now consisted of ASEAN+3 together with Australia, India and New Zealand, or known as ASEAN+6. From 2011, Russia and the US will also join.

complement to what already exists at the global level, so one should not extend the membership structure so far as to make this rationale meaningless.

There does not seem to be strong institutional constraints to adding additional members to EMEAP, as long as the additional members are willing to participate and contribute (through hosting EMEAP meetings, for example) to EMEAP activities. Adding members to CMIM is much more difficult. It took a long time before the amount of contributions from the various countries in the current CMIM can be agreed upon, as the contributions are related to the weight, and hence influence, of the country in the CMIM. To add contributions from new members, Australia, India and New Zealand, will require very difficult negotiations on the contributions and voting weights. Also, membership issue needs consensus agreement from all the CMIM members and it is likely to be very difficult to have consensus on adding new members. So a different approach will be needed.

A feasible way out to this might be to make Australia, India and New Zealand so-called "Contributing Partners" to CMIM swap programs by contributing bilateral swaps to specific swap programs that CMIM has with a country in the way that was indicated earlier. By being contributing partners, they should be allowed to participate in all the technical programs to be carried out in the future under the CMIM umbrella, such as surveillance and activities to support the macroeconomic and financial cooperation in the region.

3.4 Contribution to the Global Financial Architecture

There should be more regular high-level meetings of the Finance Ministers and Central Bank Governors processes. The consultative regional financial institutional infrastructures might be as follows; a meeting of the expanded EMEAP Central Bank Governors every quarter, a meeting of the expanded CMIM Finance Ministers every six months, and a joint meeting of the expanded CMIM/EMEAP Finance Ministers and Central Bank Governors once a year, which may also include finance and capital market regulators not already included to form the Asian Financial Stability Dialogue.

Regular meetings of the expanded CMIM/EMEAP could develop into an important focal point of the global financial system; no less important than meetings of the US Federal Reserves or European counterparts. The CMIM/EMEAP meetings should become much more visible than they are at present, particularly the EMEAP meetings. The region's central banks can play a key role in coordinating the region's monetary policy, exchange rate policies, and foreign reserves investment policies. All of these, particularly the latter two, can have major global implications. Given that East Asia is a region with very large financial resources and can strongly influence important global financial variables, such as exchange rates and bond yield curves, the world should be anxiously anticipating the outcomes of key financial meetings in East Asia in the future.

The CMIM/EMEAP process may also result in important policy coordination necessary to tackle major global problems such as the global imbalance. While the global imbalance is a global problem, and adjustments are needed from both those countries with surpluses and those who have with deficits, a major variable affecting the global imbalance, the exchange rates among relevant currencies, are more under the control of East Asia (the surplus region) than the US (the major deficit country). Without coordination, each country will try to prevent its currency from getting too strong in order to protect its export sector. This would mean that the global imbalance is likely to remain and may even increase. Under the current regional institutional infrastructure there is no effective forum or mechanism that can deal with exchange rate cooperation or coordination. This is why the new regional institutional frameworks that could be built up from the CMIM, EMEAP and AMRO have the potential to make a real difference to the policy processes within the region, with major regional and global implications.

4. Conclusions

While East Asia is still "institution-light" in the areas of macroeconomic and financial cooperation, there have been important progresses on institution building in these areas, particularly the implementation of the Chiang Mai Initiative Multilateralization (CMIM) and the setting up of the ASEAN+3 Macroeconomic Research Office (AMRO). This paper focuses on further institution building related to CMIM and AMRO. Suggestions are made to improve the effectiveness of CMIM as a regional safety net mechanism, and to develop AMRO and the regional surveillance mechanism. It is suggested that AMRO should evolve to become an Asian Monetary Organization and perform the role of a technical secretariat to an integrated Finance Ministers' and Central Bank Governors' process.

References

ADB (2008). *Emerging Asian Regionalism: A Partnership for Shared. Prosperity*. Asian Development Bank, Manila.

ADB (2011). *Institutions for Regional Integration: Toward an Asian Economic Community.* Asian Development Bank, Manila.

Henning, C. Randall (2011). "Coordinating Regional and Multilateral Financial Institutions," Working Paper WP 11-9, Peterson Institute for International Economics, Washington D.C., March.

Kawai, Masahiro and Cindy Houser (2007). "Evolving ASEAN+3 ERPD: Towards Peer Reviews or Due Diligence?" Discussion Paper No. 79, ADB Institute, Tokyo, September.

Sussangkarn, Chalongphob (2011). "The Chiang Mai Initiative Multilateralization: Origin, Development and Outlook," *Asian Economic Policy Review*, Vol. 6, No. 2 (forthcoming).

Takagi, Shinji (2010). "Regional Surveillance for East Asia: How Can It Be Designed to Complement Global Surveillance?" *ADB Working Paper Series on Regional Economic Integration No. 50*, Asian Development Bank, Manila, May.

Table 1: Ratio of Exports of Goods and Services to GDP
(Current Prices: Percent)

	1993-96	1997-2000	2001-04	2005-07
China	22.7%	21.5%	27.8%	40.0%
Indonesia	26.4%	39.3%	33.6%	31.5%
Korea, Rep.	27.5%	39.0%	36.3%	40.3%
Malaysia	88.4%	112.5%	110.3%	114.8%
Philippines	35.5%	52.0%	50.0%	45.8%
Singapore	181.2%	185.0%	208.9%	262.6%
Thailand	39.5%	58.0%	66.6%	76.6%
Vietnam	34.1%	48.2%	59.1%	73.2%
Japan	9.3%	10.8%	11.8%	16.5%

Source: World Bank, World Development Indicators (Online through the Global Development Network).

Table 2: Total Foreign Reserves (Billion US$)

	1997	2000	2003	2006	2009
PRC	146.40	171.80	416.20	1,080.80	2,452.90
Hong Kong, China	92.80	107.60	118.40	133.20	255.84
Japan	226.70	361.60	673.60	895.30	1,048.99
Korea	20.50	96.30	155.50	239.10	270.44
Brunei	0.05	0.41	0.48	0.51	1.36
Cambodia	0.30	0.61	0.98	1.41	3.29
Indonesia	17.50	29.40	36.30	42.60	66.12
Lao PDR	0.12	0.14	0.26	0.46	1.01
Malaysia	21.50	28.70	44.30	82.90	96.70
Myanmar	0.32	0.29	0.65	1.38	n.a.
Philippines	8.70	15.10	17.10	23.00	44.21
Singapore	71.40	80.20	96.20	136.30	187.80
Thailand	26.90	32.70	42.20	67.00	138.42
Viet Nam	2.10	3.51	6.36	13.59	16.80
East Asia	721,158	1,038,059	1,819,231	2,992,574	4,954,837
World	1,904,508	2,167,335	3,385,720	5,494,845	9,388,780
East Asian Share	37.9%	47.9%	53.7%	54.5%	52.8%

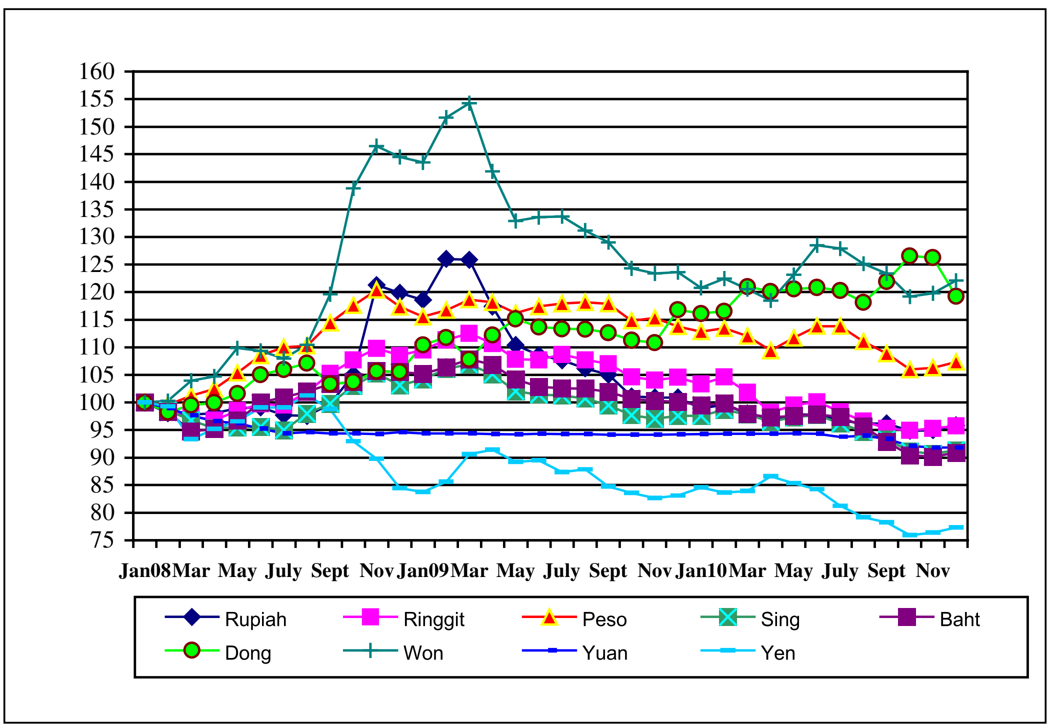
Source: World Bank, World Development Indicators (Online through the Global Development Network) and ADB, Key Indicators 2010.

Table 3: CMIM Contributions, Purchasing Multiplier, Voting Rules and Weights

Country	Contribution (US$ Billion)		Purchasing Multiple	Voting Weight
Brunei	0.03		5.0	1.158%
Cambodia	0.12		5.0	1.222%
PRC	38.4	PRC , Excluding Hong Kong, China 34.2	0.5	25.430%
		Hong Kong, China 4.2	2.5	2.980%
Indonesia	4.552		2.5	4.369%
Japan	38.4		0.5	28.410%
Korea	19.2		1.0	14.770%
Lao PDR	0.03		5.0	1.158%
Malaysia	4.552		2.5	4.369%
Myanmar	0.06		5.0	1.179%
Philippines	4.552		2.5	4.369%
Singapore	4.552		2.5	4.369%
Thailand	4.552		2.5	4.369%
Viet Nam	1.00		5.0	1.847%

Source: The Joint Ministerial Statement of The 13th ASEAN+3 Finance Ministers' Meeting, Tashkent, Uzbekistan, 2 May 2010.

Figure 1: Trend in Exchange Rate Indices (Jan. 2008 = 100)



Source: Bank of Thailand.