The Asian Monetary Fund Reborn? 
Implications of Chiang Mai Initiative 
Multilateralization

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This article analyzes the current implications and likely future course of Chiang Mai Initiative Multilateralization (CMIM), which some observers have argued is a major step toward the creation of an Asian monetary fund (AMF) that would be fully autonomous from the IMF.

**Main Argument**

Like the previous version of the Chiang Mai Initiative (CMI), CMIM seeks to provide an efficient and credible mechanism for offering emergency liquidity to ASEAN +3 economies in currency crises. “Multilateralization” in this case means the creation of formal reserve pooling arrangements, a weighted voting system for disbursement of funds, and enhancement of surveillance capabilities.

CMIM differs in fundamental ways from the AMF concept. Much attention has been given to the establishment of weighted voting for disbursement of funds, but in fact CMIM maintains the CMI’s existing “IMF link,” whereby crisis countries are able to access the bulk of their line of emergency credit only after having already entered into negotiations with the IMF for a standby agreement. Technocratic advocates of delinking CMIM from the IMF have looked to surveillance measures within ASEAN +3 to replace IMF surveillance and conditionality. In contrast, this article argues that the need for third-party enforcement through the IMF link arises from the politics of Sino-Japanese rivalry and therefore cannot be eliminated through institutional measures.

**Policy Implications**

- Though East Asian economies avoided currency crises during the 2008–10 global financial crisis, the crisis offers many lessons. The near-crisis in South Korea, which was managed mainly through a temporary swap agreement with the U.S. Federal Reserve, revealed gaps in CMI and CMIM coverage. The 2010 Greek crisis demonstrated anew the dangers of depending on regional surveillance and enforcement mechanisms for financial and currency stability.

- U.S. interests are not threatened by CMIM, even though the process specifically excludes the U.S. from direct involvement, because the institutional need for the IMF link ensures for the time being that CMIM will remain nested within global institutions.

- The U.S. should engage ASEAN +3 governments in ongoing regional and global discussions of how currency crises can best be prevented and managed.
Since 2000, East Asia has seen an efflorescence of regionally based economic initiatives touching on trade, investment, financial regulation, and prevention of currency crises. The growing literature on these developments no longer asks whether regionalism is happening or whether it will be consequential. Rather, the debate has shifted to trying to understand the nature of regional cooperation and its political and economic causes and consequences.¹

There is considerable variation across issue areas with regard to the shape and membership of regional initiatives. Trade cooperation, with the notable exception of the ASEAN Free Trade Area (AFTA) and assorted AFTA +1 agreements, has been primarily bilateral in nature, leading to a bewildering “noodle bowl” of cross-cutting free trade agreements (FTA) with varied rules of origin.² Cooperation on cross-border investment, likewise, has been primarily bilateral through investment treaties and frameworks for agreement, many of them attached to FTAs. Limited subregional agreements such as within the Association of Southeast Asian Nations (ASEAN) and the new trilateral investment treaty among Japan, China, and South Korea tend only to confirm the fragmented and competitive nature of “regional” investment cooperation.

Only in finance and currency-related issue areas has cooperation among East Asian economies actually developed on a regional basis, with ASEAN +3 as the main arena.³ The Chiang Mai Initiative (CMI), which was designed to provide dollar liquidity for countries experiencing currency crises, is by far the most advanced component of East Asian financial regionalism. The CMI is the only ASEAN +3 initiative that commits participating states to significant and reciprocal financial obligations. Although CMI lending is formally supplemental to International Monetary Fund (IMF) funds, the

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³ ASEAN +3 includes the members of ASEAN plus China, Japan, and the Republic of Korea.
initiative’s origins in debates over the role of the United States and IMF in crisis management during the 1997–98 Asian financial crisis have led to an active debate among scholars, policymakers, and opinion leaders over whether the CMI will eventually stand on its own as a regional alternative to the IMF. On March 23, 2010, financial cooperation among ASEAN +3 countries moved to a new stage when ASEAN +3 officially implemented Chiang Mai Initiative Multilateralization (CMIM), which replaced the existing network of bilateral agreements with a reserve pooling arrangement totaling $120 billion. While the official press release was a terse four paragraphs, many observers saw the move as a major step toward the inevitable fulfillment of the 1997 proposal to create an Asian monetary fund (AMF) that would be independent from the IMF and U.S. influence. Since first being proposed, the AMF concept has excited advocates of Asian regionalism and caused U.S. Treasury officials concern.

This article addresses the questions of what CMIM is, where it is going, and what implications the process has for the United States and the ASEAN +3 economies. It argues that CMIM will not transform the CMI into a de facto AMF (throughout this article “AMF” is used as short-hand for a regional facility that is fully independent of the IMF) but that CMIM is an important milestone signaling a maturing of ASEAN +3 cooperation. Although for the moment there are no negative implications for U.S. economic or political interests in Asia, policymakers should stay closely engaged in the process.

The article is organized as follows:

✓ pp. 83–86 lay out the contrasting forces of economic integration and Sino-Japanese rivalries that have combined to shape East Asia’s distinctive approach to regional bailouts

✓ pp. 86–89 describe the evolution of the CMI from its origins in the 1997–98 Asian financial crisis and summarize how the initiative was structured from its establishment in 2000 until multilateralization in 2010

✓ pp. 89–92 consider the impact of the 2008–10 global financial crisis on East Asian economies, focusing particularly on the Korean near-crisis in fall 2008 and on national responses to large-scale drops in external demand and shifts in the flow of funds

✓ pp. 92–103 describe the details of CMIM and analyze the implications of the changes that multilateralization entails in light of both the Korean experience and the 2010 Greek crisis, demonstrating that CMIM is closely entwined with global standards and institutions such as the IMF and that the politics and economics of regional cooperation will likely ensure that CMIM stays nested in the global architecture
pp. 103–4 conclude the article by highlighting both the limits to regional bailout cooperation and the benefits that the current approach provides to CMIM members.

REGIONALISM, LEADERSHIP, AND RIVALRY

There are many issues driving economic regionalism in East Asia. It is impossible to ignore the growth of cross-border regional trade and investment and the creation of regional production networks, which local economies have an interest in facilitating. Some authors also point to the emergence of a pan-Asian identity, developed either as a recognition of commonalities or as a defensive reaction against a U.S.-dominated global economic architecture.

Behind the analysis of the rise of East Asian regionalism (whether implicitly or explicitly) is the assumption that such regionalism is made possible—and indeed necessary—by the rise of East Asia politically and economically. East Asian political and economic elites are seeking to structure future interactions so as to take advantage of that rise. Regionalism is one manifestation of those efforts, and rules and institutions created regionally will no doubt be highly relevant to global governance. There is considerable evidence of greater economic cooperation among East Asian economies, but the accomplishments of economic regionalism are as yet less impressive than the hopes and predictions of its strongest proponents.

A variety of explanations have been put forward for the weakness of regional economic institutions, including economic diversity, cultural unease with legalistic arrangements, the nascent state of a regional identity, and enduring political conflicts. My own work, in contrast, has focused on issues of power, particularly with regard to the general problem of leadership—a focus that leads inevitably to the problem of Sino-Japanese rivalry. That

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4 See, for example, Naoko Munakata, Transforming East Asia: The Evolution of Regional Economic Integration (Washington, D.C.: Brookings Institution, 2006). For a somewhat different take, see Ravenhill, “The ‘New East Asian Regionalism.’”


perspective is skeptical of the ability of ASEAN +3 to create an institutional solution to what is essentially a political problem.

A central problem of understanding what is happening in ASEAN +3 is that observers and participants look at regionalism through a variety of prisms. Many advocates of the AMF idea, and of financial regionalism in general, have a tendency to lament the interference of politics in the regionalism project. But political rivalry is a central factor in the process of regionalism. The effects of political rivalry on regionalism are particularly interesting when looking at regional liquidity arrangements where Japan’s and China’s economic interests are essentially identical.\(^7\) Reflecting the pervasiveness of regional production networks and the growth of regional trade and investment, both countries have a deep interest in supporting the financial stability of their East Asian economic partners. Moreover, Japan and China are the financial titans of the region—either one could rescue one or more neighboring economies from a currency crisis with cash on hand. (Analysts often invoke the vast foreign exchange reserves of China, but Japan has even greater wherewithal, given that the yen is itself a major international reserve currency.) The sheer fact of having such capabilities means that Tokyo and Beijing are likely to be approached in the case of a crisis, thus compounding their stake in preventing balance of payments crises. At the same time, as likely creditors, they have a strong interest both in ensuring repayment of loans and in avoiding the moral hazard that is created when bailouts are certain and come without conditions. Despite the commonality of Chinese and Japanese economic interests, however, emergency liquidity provision is also an arena in which the two states compete for regional leadership and in which the basic problem of mistrust has limited the scope and effectiveness of regional cooperation. As is demonstrated below, the challenges arising from competition and mistrust cannot be resolved through institutional means, despite the best efforts of AMF advocates.

My book *Currency and Contest in East Asia* develops at length the concept of the great-power politics of financial regionalism.\(^8\) This article will not recapitulate the theoretical background and logic of the argument but instead will argue that financial regionalism in East Asia is heavily influenced by relative power games among China, Japan, and the United States. There

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\(^8\) See Grimes, *Currency and Contest*, especially chap. 1.
are two overlapping games in this story: East Asia vs. the United States and Japan vs. China.

Competition between East Asia and the United States should sound familiar to anyone who observed the Asian financial crisis and the deep anger that was directed at the IMF. Scholars and other observers of East Asian regionalism have long recognized the role of the “politics of resentment”⁹ in East Asian attempts to reduce dependence on (and thus vulnerability to) U.S. macroeconomic and financial events and policies. Although this is a useful starting point for thinking about the East Asia–U.S. game, it is also important to consider that the notion of resentment, accurate though it may be in an emotional and even motivational sense, can blind observers to the rational nature of that resentment and its uses. In reality, policymakers are considering actual trade-offs in a rational manner. In my version of the story, financial regionalism combines pure insurance against contagion with defense against what Benjamin J. Cohen calls the U.S. “power to deflect.”¹⁰ Cohen argues that the preponderance of the U.S. dollar and the dependence of producers around the world on U.S. markets have allowed the United States to shift some costs of excessive borrowing to current account surplus countries that have little choice but to hold onto depreciating dollars. Japan and China, as major holders of dollars, both have good reason to try to reduce the U.S. power to deflect.

The story of the Japan-China rivalry is also a familiar one. With respect to regional liquidity arrangements, where the two countries’ economic interests are essentially identical, there are two relevant aspects of the game: the contest for regional leadership and uncertainty about each other’s intentions and likely behavior. Uncertainty is a particular challenge. Because the nature of crisis management is that decisions are one-shot and must be made quickly, classic enforcement strategies, such as “tit for tat,” do not necessarily apply.

Thus, both China and Japan are playing dual hedging games, against the United States and against each other. Both countries also face practical economic issues. With regard to the provision of emergency liquidity, creditor states seek to ensure credibility that funds not only will be made available to deserving partners but also will not be made freely available when irresponsible policies have led to a crisis. In other words, such states must confront the problem of moral hazard. Japan and China together could make

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such a credible guarantee and threat if only both countries could trust that the other would behave as promised. But they cannot. This sets up a dynamic by which there are two other conceivable options—nesting within the global regime in order to borrow credibility from the IMF or creating some sort of institutionalized guarantees regarding how each will act in preventing and managing regional crises.

To date, the CMI has followed the nesting strategy, but given the unpopularity of the IMF in the emerging market economies of ASEAN +3, there has been much discussion of purely regional arrangements. However, institutional means of overcoming the China-Japan game are not feasible in the foreseeable future. That is why, despite the hype of a new dawn in financial regionalism, CMIM still relies fundamentally on the IMF to play the enforcer. It is also why this author predicts that an AMF is not in the cards any time soon, unless there is a serious miscalculation by a major actor or until China’s regional dominance is more clearly established.

THE ROAD TO CMI MULTILATERALIZATION

The Asian financial crisis of 1997–98 was a critical juncture in the development of East Asian regional cooperation.11 While many questions remain contested concerning the genesis of the crisis and the response of the international community, the crisis clearly laid bare the vulnerability of East Asian economies to the negative effects of globalization and demonstrated the inadequacy of existing global institutions for dealing with traumatic currency and financial crises.

In the midst of the crisis, the Japanese government proposed the formation of an Asian monetary fund; in the face of opposition from the IMF, United States, and China, the proposal was withdrawn. Details of the proposal (if indeed they even existed beyond a broad outline) have never been released, but the general contours are known: a regional fund of approximately $100 billion (half provided by Japan) that would provide large-scale liquidity rapidly and without conditions to economies suffering from currency crises. At the time, the IMF and U.S. Treasury criticized the proposal as one that would increase moral hazard among East Asian economies; it was also widely suspected among both scholars and pundits that the IMF was concerned with

protecting its turf and that the United States and China were concerned about the prospect of Japanese regional leadership.\textsuperscript{12}

The CMI, which was announced in May 2000, resurrected the idea of a regional emergency liquidity facility, but the initiative differed in fundamental ways from the AMF proposal. First, the CMI was constructed as a network of bilateral swap agreements (BSA) among the ASEAN +3 economies, eventually totaling over $80 billion, rather than as a single pool of funds. Second, the bulk of the funds (90% initially and 80% after 2005) were to be released only to states that had initiated negotiations with the IMF for a standby agreement. This “IMF link” was criticized by potential borrower countries in Southeast Asia as perpetuating the role of the IMF, which they saw as having exacerbated the 1997–98 crisis. Further, the link appeared to many observers to subvert the idea of a regional solution to the vulnerabilities created by financial globalization. The CMI and other elements of East Asian financial regionalism did indeed support the global financial architecture rather than rival it.\textsuperscript{13} In practice, the CMI was very clearly designed to supplement IMF resources and to provide bridge financing between the onset of negotiations with the IMF and the final standby agreement. However, it is also important to note that the CMI by its very existence constituted a credible threat of exit from the IMF on the part of ASEAN +3 countries, which could be used as leverage to ensure favorable treatment by the IMF if a CMI member were in need of a bailout.\textsuperscript{14}

Three contending explanations have emerged for the differences between the AMF proposal and the CMI reality. The first, which posits an anti-U.S. or anti-globalist impetus for the project and which I term the “regionalist” explanation, is that the CMI is a stepping stone toward the re-emergence of the AMF.\textsuperscript{15} Proponents of this position advocate regional arrangements that are independent of the IMF, and argue that in the CMI the ASEAN +3 countries maintained the broader political purpose of promoting an East Asia–only organization that would exclude the United States and IMF from crisis decisionmaking for the region. However, participants also understood


\textsuperscript{13} Grimes, “East Asian Financial Regionalism”; and Grimes, Currency and Contest.


\textsuperscript{15} See, for example, Masahiro Kawai, “From the Chiang Mai Initiative to an Asian Monetary Fund” (paper presented at the “Future Global Reserve System” conference, Tokyo, March 17–18, 2010); Lee, “Japan and the Asian Monetary Fund”; Lee, The Japanese Challenge; and Oh Yong-hyup, “Asian Monetary Fund Is on the Horizon,” Korea Herald, May 25, 2009.
that opposition by the United States and IMF would be difficult to overcome and thus chose to proceed in a deliberate and incremental fashion. The second explanation, which I term the “functionalist” explanation, emphasizes the practical difficulties of creating effective surveillance measures to prevent moral hazard and seeks to address them through institutional means.16 While there is some overlap between regionalists and functionalists, the regionalists are generally motivated more by a political vision of an East Asian community than by the technocratic allure of collective goods.

The third explanation, which I term the “realist” explanation and which I have advocated, is that the reliance of the CMI on the IMF reflects not just temporary constraints such as external politics or underdeveloped regional institutions but rather intra–ASEAN +3 political challenges that are inherent to the project of regional cooperation.17 Fundamentally, the problem of emergency liquidity provision is that avoiding moral hazard is impossible unless there is a credible threat of attaching strict conditions to assistance or even outright denying requests for help from states that have brought crises on themselves through their own macroeconomic or other policies. In order to create such credibility, leading states (i.e., likely lenders) must either be willing to reject requests from regional partners in the midst of crisis or be able to delegate to an independent body the determination of whether a given crisis was caused by contagion or by irresponsible policies.

In East Asia, Japan and China are the primary potential lenders and thus are the states with both the most to lose from moral hazard and the greatest ability to shape the decisionmaking structure. Neither Japan nor China is willing to pay the political price of refusing a neighbor in need (especially given that neither can rely on the other for support in a crisis), nor is either country willing to pay the potential price of throwing good money after bad or of making future crises more likely. AMF advocates often look to the European Union as an inspiration, but regional institutions in Europe were built on the cooperation of Germany and France under the security and economic umbrellas sponsored by the United States. Japan and China have fundamentally differing relationships with the United States and also


are strategic rivals. Thus, unlike in Europe, a Sino-Japanese condominium is not feasible. Meanwhile, given the small number and often illiberal nature of East Asian governments, delegation to a truly independent regional organization is also not feasible. Thus, the IMF link became—and has remained—an indispensible component of the CMI for both Japan and China, despite a 2005 agreement that created a roadmap calling for greater regional decisionmaking and capabilities through multilateralization of the BSA network and enhanced surveillance.

EAST ASIAN FINANCIAL REGIONALISM AND THE GLOBAL CRISIS

From the beginning, East Asian financial regionalism was meant to protect participating economies from vulnerability to global financial and currency market volatility so as to prevent a recurrence of the painful economic and political turmoil of 1997–98. Former Japanese vice-minister of finance for international affairs Sakakibara Eisuke, for example, described the Asian financial crisis as the first “crisis of global capitalism”;\(^\text{18}\) the CMI and other aspects of financial regionalism were meant to act as a bulwark against the next such crisis. The year 2008 delivered just such a crisis, and with a far greater magnitude and global reach than the crisis in 1997. It is thus important to step back and take a look at what the ASEAN +3 economies did to address it.

While there is a great deal to say about how the global crisis played out in East Asia, for the purposes of this article, three facts are essential. First, no East Asian economy was devastated by a financial or currency crisis, although all were injured to some degree by the drop in U.S. and European demand for exports. Second, no economy had to draw on its CMI swap lines or go to the IMF for assistance; nonetheless, the ASEAN +3 finance ministers responded to the crisis by accelerating their plans to significantly enhance regional financial cooperation through CMIM as well as by strengthening surveillance. Third, East Asian economies were protected from the crisis largely by their own individual policies, including massive accumulation of foreign exchange reserves (which gave ammunition to prevent currency runs), conservative fiscal policies (which provided enough fiscal slack to implement massive stimulus programs), and, in most cases, flexible exchange

rates. Yet, although regional arrangements were not directly tested, the crisis still exposed cracks in the capabilities of regional institutions. These cracks have yet to be effectively fixed, if indeed it is possible to do so.

**Backstopping Regional Liquidity: The Case of South Korea**

The only East Asian economy that had a truly close brush with crisis in this period was South Korea in the fall of 2008. Despite accumulated foreign exchange reserves of approximately $200 billion at the time, the Bank of Korea (BOK) became concerned about dollar liquidity in the banking system. The BOK acted swiftly to head off this threat by concluding a $30 billion swap agreement with the U.S. Federal Reserve, which was announced on October 30. (The Fed simultaneously announced the conclusion of identical swap lines with Singapore, Brazil, and Mexico; a swap agreement with New Zealand was announced the previous day.)

The actions of the BOK (and the Monetary Authority of Singapore) speak volumes about the capacity of the CMI to prevent and address currency crises. Several points stand out. First, the fact that the CMI requires the initiation of negotiations with the IMF makes the initiative virtually unusable for an advanced economy with open financial markets, such as South Korea; it would also be highly disruptive for regional trade and investment. For this reason, the +3 economies of China, Japan, and South Korea have maintained “peacetime” BSAs between their central banks in parallel with their formal CMI swap obligations in order to address yen, won, and renminbi liquidity needs in the absence of a financial crisis. Second, while the peacetime BSAs with Japan and China were expanded to $20 billion and 180 billion renminbi (approximately $26 billion), respectively, a month and a half after the Fed swap line was agreed to, the BSAs were not utilized. In contrast, the BOK drew on the Fed swap line five times in December 2008 and January 2009 for a total of $16.3 billion, which constituted about 60% of the BOK’s emergency provision of foreign exchange to domestic financial institutions.
words, not only was the CMI itself irrelevant to the prevention of currency crisis, but Korea and Singapore chose to insure the stability of their financial systems with the United States (which had been explicitly excluded from regional financial cooperation) rather than with their ASEAN +3 partners.

Both operational and practical factors compelled Korea to turn first to the United States rather than to its ASEAN +3 partners. Some Japanese and Korean officials argue that the decision to turn to the Fed was purely operational: the Korean banking system required dollar liquidity, and the peacetime BSAs between the +3 central banks are denominated in their own currencies (i.e., yen-won, renminbi-won, renminbi-yen), which are not supposed to be converted to dollars to supplement foreign exchange reserves. But this apparently purely technical reasoning obscures two larger issues regarding the role of the U.S. dollar in East Asia (and indeed the world). First, the dollar remains so dominant as a vehicle currency and store of value in trade and finance in the region that the need even for yen (an important international currency, unlike the inconvertible renminbi) is minimal. More broadly, the move—not only by Korea but also by a host of other systemically important emerging economies—to establish temporary swap lines with the Fed as a means of preventing speculative attacks on their currencies in the fall of 2008 reflects the enduring structural power of the United States in the international monetary system and financial markets. The timing was particularly striking—at a point at which the stability of U.S. financial markets and the solvency of many U.S. financial institutions stood in the balance due to a global crisis of the United States’ own making, the Fed and the dollar remained the final backstop of monetary credibility in East Asia and around the globe. Although China and other states have railed against the dollar-based system and called for multilateral alternatives, the effects have been purely rhetorical.24

_The Response of East Asian Economies to the Global Financial Crisis_  

East Asian macroeconomic authorities responded effectively to the global financial crisis with massive fiscal and monetary stimulus plans,25 as well as with stepped-up monitoring of domestic financial institutions. This was not done in a coordinated manner, although countries communicated with each

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other, the IMF, ADB, and other international interlocutors. Exchange rates adjusted, some dramatically (e.g., the Korean won), but without creating currency crises. With regard to exchange rates, there was no evidence of a coordinated response, although governments stood ready to honor their CMI commitments if necessary.

Though it is important not to minimize the challenges that East Asian countries faced in terms of declines in export demand, manufacturing production, and GDP, even the worst-hit among East Asia’s emerging economies (e.g., Malaysia) made it through the crisis much less scathed than economies elsewhere. Moreover, East Asian financial systems were never seriously threatened. These were remarkable accomplishments, indeed, in the face of the global financial crisis.

Nonetheless, it is striking that the success of East Asia as a region in riding out the global financial crisis was based not on coordinated action or regional institutions but rather on the actions of individual governments and central banks (even if there was spillover from the stimulus plans of other regional economies). Moreover, their ability to carry out those actions was based on a decade’s worth of conservative macroeconomic policies and financial supervision that were also uncoordinated—not to mention on the massive accumulation of foreign exchange reserves and the establishment of more or less flexible exchange rates. ASEAN +3 financial regionalism was not relevant to the story, even though regional cooperation had been developed precisely to prevent and manage financial and currency crises in the region. Indeed, the very fact that emerging economies had insured themselves by building up massive foreign exchange reserves over the previous decade suggests a lack of confidence in regional solutions such as the CMI.

CMI MULTILATERALIZATION AND ITS IMPLICATIONS

Despite the apparent irrelevance of regional arrangements such as the CMI to East Asian economies’ handling of the crisis, the primary response of ASEAN +3 as a group was to accelerate efforts to expand and enhance regional cooperation, most notably through CMIM and the establishment of the ASEAN +3 Macroeconomic Research Office (AMRO) to improve surveillance. These efforts culminated in an agreement at the end of 2009.

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26 Unlike East Asia’s emerging markets, the region’s most developed economy, Japan, took a hit to its real economy that exceeded even that of the United States and Western Europe.
that represented the concrete realization of goals of the 2005 CMI roadmap.\textsuperscript{27} The agreement standardized countries’ agreements around a single contract, superseded the bilateral swap network with a reserve pooling agreement in which funds would be disbursed based on committed reserves and a “purchasing multiple,” and set up a mechanism to improve surveillance in order to reduce reliance on outside help for that function.\textsuperscript{28}

CMIM seems to call for a reconsideration of how the development of regional liquidity facilities is understood. Advocates of the regionalist and functionalist explanations see the changes as confirmation that the CMI is moving away from being simply a regional adjunct of the IMF to being a distinct regional alternative, and characterize CMIM as a major step toward the achievement of the AMF dream.\textsuperscript{29} (Functionalists have tended to be more cautious than triumphal compared to regionalists, however, emphasizing the steps that are still necessary to ensure effective surveillance and fund provision.) Other observers have been more measured in their appraisals, though acknowledging that the changes have been significant.\textsuperscript{30}

It would indeed be difficult to avoid the conclusion that CMIM was equivalent to an AMF if one were to focus simply on the initial press reports in spring and summer 2009. A careful reading of the actual ASEAN +3 statements, however, suggests that greater caution is in order. Although it is frustrating that the actual agreement has not been made public,\textsuperscript{31} this author’s discussions with various participants in the process confirm that CMIM is not the AMF. Nor is it at all inevitable that something like an AMF is the endpoint of the process.

\textsuperscript{27} Ministry of Finance of Japan, “Enhancement of Chiang Mai Initiative (CMI)—2nd Stage,” undated, received by the author in May 2005.


\textsuperscript{31} Indeed, this author has been told by officials at the Japanese Ministry of Finance that the text would not be released in order to reduce the likelihood that speculators will seek to find loopholes to exploit. Yet, to the extent that the key to CMIM’s effectiveness will be market credibility, the lack of clarity about who is committed to what and under what circumstances would seem to reduce the initiative’s credibility.

1. The overall size of the pool of reserves is increased from approximately $80 billion to $120 billion.

2. The core objectives are “(i) to address balance of payment and short-term liquidity difficulties in the region, and (ii) to supplement the existing international financial arrangements.”

3. CMIM replaces the existing network of bilateral swap agreements with “a common decision making mechanism under a single contract.”\footnote{33}{As noted, the “single contract” is not publicly available. The same was true of the BSAs under the previous arrangements.}

4. The agreement establishes country-specific “financial contributions,” which also translate into voting shares. The ASEAN economies collectively contribute 20% of the total funds, while the +3 economies contribute the remaining 80% (Japan 32%; China 32%, of which 28.5% is from mainland China and 3.5% is from Hong Kong; and South Korea 16%). According to the May 2009 agreement to establish CMIM, “on decision-making mechanism of the CMIM, the fundamental issues will be decided through consensus of members of ASEAN+3, while the lending issues will be decided through majority [sic].”\footnote{34}{“The Joint Media Statement of the 12th ASEAN Plus Three Finance Ministers’ Meeting.”}

5. Countries are able to borrow a “purchasing multiple” of their financial contributions, ranging from 0.5 for Japan and China to 2.5 for ASEAN-5 economies (Indonesia, Malaysia, Philippines, Thailand, and Singapore) and 5.0 for Brunei, Cambodia, Laos, Myanmar, and Vietnam.

6. The reserve pool operates under the principle of national “self-management.” In other words, states maintain their own reserves but pledge an amount up to their CMI financial contribution in the event of a crisis. Although procedures and conditions for releasing funds have been standardized and streamlined, each participating government or central bank is still responsible for releasing funds from its own reserves.

7. The agreement provides for the creation of the ASEAN +3 Macroeconomic Research Office as an independent regional surveillance unit. Essentially, the agreement creates a three-tiered surveillance system. Regional think tanks will generate and test ideas for how to monitor regional economic performance, AMRO will
monitor actual performance, and the ASEAN +3 finance ministers
and their subordinates will discuss performance in the context of
economic review and policy dialogue (ERPD). ERPD will remain the
locus of state-to-state communication regarding policies, including
criticisms and warnings as appropriate.

The fourth and seventh points in particular appear to support the idea
that CMIM is a major step toward an AMF-style regional organization that
effectively delinks from the IMF. But there is significantly less here than
meets the eye. Although CMIM clarifies and standardizes commitments,
the initiative is essentially just a more elegant version of the ungainly CMI
swap mechanism.

That these conditions may be transitional in nature is, of course,
debatable. However, this author’s discussions with participants and close
observers make clear that the likely lender governments (especially China
and Japan) strongly subscribe to the principle that the regional liquidity
organization must not create moral hazard. Despite the formal changes,
institutional guarantees remain unfeasible. Thus, while one can look forward
to the continued development of CMIM, the primary shifts will likely be
incremental functional improvements such as greater clarity about how and
when funds are to be released as well as greater uniformity of action among
the participating governments.

**Weighted Voting**

One of the most striking innovations of CMIM is the introduction of
weighted voting for lending decisions. This development has been exciting
for AMF proponents, who have long assumed that a voting procedure would
be a necessary element of an autonomous regional funding mechanism. That
disbursement and renewal of CMIM funds are to be decided on the basis of a
two-thirds majority of voting shares does appear consequential at first glance.
However, what is more important is that the IMF link remains in place—in
other words, appealing to the IMF remains an essential precondition for even
triggering the vote to release the bulk of CMIM funds. The stipulation that
CMIM will “supplement the existing international financial arrangements”
is not just a rhetorical sop to the IMF and United States but an accurate
reflection of reality.

There are a number of additional red herrings in discussions of voting
weights. For example, Korean analysts with whom I spoke in 2009 were quite
pleased about the fact that Korea ended up with half the voting share of
Japan and China. This percentage proves to be numerically inconsequential, however, because funding approval requires a two-thirds majority rather than a simply majority. The face-saving compromise between Japan and China—i.e., creating equal shares but assigning a share of China’s commitment to Hong Kong in order to allow Japan to retain its nominal role as the largest contributor—is also irrelevant to the functioning of any weighted voting regime.

A more important factor is that both Japan and China are one ASEAN-5 country vote short of veto power. Although for the time being a veto would still likely require cooperation between Japan and China (or perhaps China and Korea or Japan and Korea), in the future one can imagine China working with a combination of ASEAN client states to threaten a crisis economy with non-disbursement of funds. This threat could in theory be very powerful, indeed, even if never invoked. However, the financial capacity of Japan to provide liquidity support on its own if necessary reduces the potential use of such a threat.

For the moment, any such exertion of power seems unlikely, both because of China’s continuing desire to act as a benevolent regional leader (and to keep Japan from acting as the good guy) and because of the IMF link. Any state requesting CMIM funds must already be in negotiations with the IMF, which significantly reduces the financial risk for CMI lenders. Practically speaking, the fact that voting only occurs after the IMF has intervened means that the vote itself provides no added value; in fact, voting actually adds a modicum of uncertainty to the process at a time when a borrower would most crave certainty. Nonetheless, the structure of CMIM does provide China with a potentially important future power resource. If ASEAN unity were to fracture (perhaps in response to China-Japan rivalry), China (or Japan for that matter) could use its near-veto power to punish a rival’s client-state or to force a rival to bail out the client-state.

**Surveillance and Enforcement**

The fundamental challenge for any crisis lender is how to prevent moral hazard among likely borrowers. This is essentially an issue of enforcement, which can be achieved either through imposing strict conditions when a loan is made (*ex post* conditionality) or refusing to bail out an economy that has not met accepted standards of economic management (*ex ante* conditionality). The problem is that enforcement can be politically costly. The coordination problem for ASEAN +3 is that China is not a hegemon and a
Sino-Japanese political condominium is not a near-term possibility given that neither China nor Japan can absolutely rely on the other to stick to a politically costly agreement to enforce conditionality. In the absence of a clear leader, enforcement in the form of either ex ante or ex post conditionality requires effective delegation of decisionmaking based on clear criteria. That is why the process of financial regionalism in East Asia has paid so much attention to institutional mechanisms to ensure coordinated action. Functionalists have pushed the agenda based on their belief that an effective surveillance mechanism can be used to enforce ex ante conditionality. Practically speaking, however, institutional mechanisms cannot simultaneously address the three essential challenges of credibility, effectiveness, and moral hazard in the absence of a link to the IMF.

Creating effective institutions to which authority could be delegated is no easy task, and this author is skeptical that making surveillance apolitical and objective in the ASEAN +3 context is even possible. Although such delegation is not unheard of among international organizations, such as the IMF, World Bank, and EU bureaucracy, ASEAN +3 differs in size, character, and history from those examples. In the absence of hegemonic leadership or dependable cooperation between Japan and China, AMRO and ERPD represent an effort by the two states to rely on delegated authority as a means of putting distance between themselves and difficult decisions. ERPD does not, however, provide a viable way for governments to distance themselves from decisions on ex ante or ex post conditionality inasmuch as their official representatives are direct participants in the process. The IMF link, on the other hand, serves up conditionality on behalf of the lenders, but without forcing them to take responsibility, which is why the IMF has been attractive to Japan and China.

With regard to AMRO, it is hard to imagine that a unit of the proposed size and composition (a total staff of perhaps 50 or so, consisting of academic and government economists from the participating economies) would constitute

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an effective and independent monitoring unit. Is it, for example, reasonable to expect that government-affiliated economists from Vietnam, China, or even Malaysia would be operating—or be perceived as operating—as individuals, unconnected to the policy preferences of their home countries? If not, the unit would offer Japan and China none of the political benefits of true delegation.

Another, more practical, consideration will erode the likely credibility of ASEAN +3 surveillance: what will be the standards by which AMRO will monitor regional economies? In theory, it may be possible to come up with regionally appropriate standards that work better than the standardized IMF criteria.\textsuperscript{37} Indeed, there have been some efforts to do just that,\textsuperscript{38} but without any proven utility and thus no market credibility. Of course, AMRO could simply do what the IMF already does, albeit without the IMF’s track record or budget, but that would seem to add little utility. Such an outcome might be better than the alternative, however, in which markets and states are unsure whether IMF or AMRO standards will be applied. Indeed, one senior Japanese financial policymaker told me unequivocally in 2009 that “there cannot be two different standards.”

\textit{Limits of CMIM as a Crisis Manager}

The Korean near-crisis in 2008 demonstrates an additional limitation of the CMI mechanism, which has not changed in any meaningful way with CMIM. CMIM itself is set up to deal with severe crises, hence the attention to conditionality (both ex ante conditionality and the IMF link). For an advanced and highly open economy such as South Korea, however, IMF involvement is something to be avoided at all costs because disruption and capital flight would be enormously costly. The same would be true of the uncertain and likely clumsy process of a bailout by a fledgling AMF. An economy such as South Korea’s must have access to dollars rapidly and without ambiguity of commitment if the regional process is to be at all meaningful.

ASEAN +3 policymakers are aware of this issue, which is why the +3 central banks established peacetime BSAs in 2005. These swap lines (totaling a paltry $7 billion) were set up in 2005 to address short-term liquidity


needs unrelated to fundamental economic problems, and they work outside the CMI process. This sort of swap line can be extremely helpful in stabilizing global financial flows and preventing crises. A lender central bank, however, must ensure that the borrower will be able to redeem the swaps in full, so that the bank does not become just one more creditor needing to cut a deal in the case of an actual bailout. The swaps are, therefore, not applicable in the face of major currency shifts and are subject to significant ex ante conditionality and lender discretion. This leads to a yawning gap between central bank swaps and CMIM funding. Perhaps a fully realized AMF would provide a solution, but no one has yet made clear what this solution would be.39

The 2008 Korean experience demonstrated the inadequacy of the existing +3 peacetime BSAs in another way. The peacetime BSAs between the Bank of Japan (BOJ) and Bank of Korea (BOK) and between the People’s Bank of China (PBOC) and the BOK were own-currency swap lines. Korean banks, however, needed dollars rather than yen or inconvertible renminbi. In theory, the BOK could have changed yen or renminbi into dollars and then provided dollars as needed to Korean banks. In practice, the BSAs did not allow for such operations, which could increase the exchange-rate risk of the transaction (and, technically speaking, would constitute a foreign exchange market intervention in yen-dollar or renminbi-dollar markets, albeit one carried out by the BOK). The peacetime BSAs could certainly be amended to allow exchange into dollars, but that would introduce practical or legal complications for the BOJ and PBOC. In any event, such amended BSAs would still lack the credibility of a Fed swap line. Indeed, financial markets would likely see the use of BOJ or PBOC swap lines to obtain dollars as an implicit acknowledgement that the BOK could not borrow from the Fed, which could prompt further attacks. Greater emphasis on swap lines among China, Japan, and Korea would also leave open the question of how to deal with similar crises in ASEAN if they were to arise. Despite the desirable increase in flexibility, potential creditors would be back in the position of making fateful judgments about their partners’ policies. Creating consistency across ASEAN +3 in this regard would reopen the very problems that the IMF link and surveillance are meant to eliminate.

39 Kawai does suggest some solutions, which presume that the borrower country will be a deserving one as Korea was in 2008. Yet how to create effective mechanisms to deal with more ambiguous cases is not clear. See Kawai, “From the Chiang Mai Initiative.”
Lessons of the Greek Crisis

As if the logical challenges to the ability of ASEAN +3 to enforce ex ante conditionality based on delegated surveillance were not sufficiently daunting, 2010 brought concrete evidence from Europe about the difficulties of such enforcement. Early that year, the EU was rocked by the sovereign debt crisis of Greece, one of the euro zone’s most peripheral members, which in turn led to the biggest crisis in the euro’s short history. This was not the way the EU—let alone the euro zone—was supposed to work. The Stability and Growth Pact was meant to prevent solvency crises by restricting deficits and debts to sustainable levels. Admittedly, there had been some breaches in the past (especially by leading countries), and the financial crisis had necessitated new breaches. But the scale of Greece’s problem (deficits of approximately 13% of GDP and debt levels well above 100% of GDP), combined with the flagrant deception perpetrated by the Greek government in concealing it, went far beyond minor or justifiable violations of the pact. With no means of devaluing its currency or of managing its solvency problem in the short-term, the Greek government turned to its EU neighbors for help. Four months and a trillion dollars later, leading EU economies had managed the crisis for the time being, albeit with the help of the IMF, which was a reputational blow to the European Central Bank, and the near eruption of crises in several other euro zone members.

The Greek crisis offered some sobering lessons for East Asia. Two particularly striking features of the crisis were the failures of ex ante conditionality in the form of the Stability and Growth Pact and of surveillance mechanisms to provide prior warning. Surveillance failed not just at the EU level but globally. Although the IMF evaluation of Article IV on May 25, 2009, was certainly correct in warning about Greece’s fiscal challenges, the report’s estimates of the country’s fiscal deficits were only roughly half as high as the reality. As for the effectiveness of ex ante conditionality in changing behavior, Greece’s fiscal problems were not new, despite its commitments as a euro zone member. Even without the impact of its finance ministry’s extraordinary deception, Greece’s fiscal picture had been bad for years and was growing predictably worse. Indeed, even before the global crisis the Greek government had blithely expanded spending every year (except for 2005–06) since its entry into the euro zone in 2001. Euro zone membership

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40 IMF, “Greece: 2009 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Greece,” IMF Country Report, no. 09/244, August 2009.
involved significant ex ante conditionality in the form of commitments regarding fiscal deficits and debt, the inability to devalue relative to EU trading partners, and the European Central Bank’s supposedly ironclad promise that it would not bail out member governments. The crisis in Greece demonstrated that governments’ commitment to responsible economic policies cannot be guaranteed even by treaty commitments, extensive institutionalization of monitoring and enforcement, and issue linkages in the most developed and highly articulated system of interstate cooperation that has ever existed. For East Asia, the Greek crisis was an unpleasant reminder of the importance of ex post conditionality and the continued relevance of the IMF in managing crises.

Beyond CMIM: How East Asian Financial Regionalism Contributes to Global Stability

Despite the confluence of the global crisis initiated in the United States and the political will to multilateralize the CMI, the ASEAN +3 process does not appear likely to lead to the regionalists’ dream of an autonomous AMF. Nonetheless, the crisis has revealed opportunities for East Asian financial regionalism to improve crisis management for local economies. Such opportunities could be as important moving forward as CMIM and the establishment of AMRO.

One key global development that should not be minimized is the changed behavior of the IMF. Unlike in the Asian financial crisis, IMF bailouts in 2008–10 were massive and did not impose unduly harsh conditions on economies affected by contagion. This approach reflects a change in how crises are understood, as well as a new sense of urgency regarding contagion. Emblematic of the IMF’s new approach was the creation of the flexible credit line, which has essentially eliminated quota-based limits and punitive interest rates for economies that have become embroiled in crisis despite responsible fiscal, monetary, and financial policies. This is arguably a success of the CMI, as some observers predicted years ago.\footnote{Katada, “Japan’s Counterweight Strategy.”} It also means that ASEAN +3 will probably not have to go it alone or cross swords with the IMF in the next East Asian crisis.

Also on the global level, one of the interesting side effects of the financial crisis was the acceleration of efforts to fully involve East Asia in global financial and monetary governance. The solidity of the East Asian financial
systems, the locomotive power of the Chinese economy, and Japan’s decisive move in fall 2008 to expand resources available to the IMF contributed to preventing the global crisis from becoming a global depression. The increasingly prominent role of East Asian governments in global governance in the IMF (partly through quota reallocations), group of twenty (G-20), Financial Stability Board, Basel Committee, and other institutions reflects a recognition of their growing importance in the global economy. This means that ASEAN +3 is not the only (and indeed probably not even the most important) venue in which East Asian economies can work to stabilize their external financial environment. Due to the types of issues addressed in the G-20 processes and the varying interests and levels of financial development of East Asian participants, however, there is no particular reason to expect them to cooperate with each other in those venues.

The global crisis also highlighted the gap in ASEAN +3 arrangements between “peacetime” liquidity support and crisis management. However, the success of the Fed-BOK swap line, ad hoc though it was, gives hope that episodic cooperation among the leading global central banks can address potential crises in systemically important, well-managed economies. There may well be room for the expansion and revision of the +3 peacetime BSAs to make the agreements more useful in this regard. The question remains, however, of how to assure that economies continue to be “well-managed” when they have reason to expect assistance.

Finally, East Asian economies have demonstrated in the face of the global crisis that prudent macroeconomic and financial policies can help countries weather even the strongest of storms. Unfortunately, these economies have also demonstrated that having massive foreign exchange reserves is the ultimate insurance policy in a world where institutions and commitments are not trustworthy. East Asia’s developing economies will likely continue to remember this lesson no matter what institutional arrangements ASEAN +3 devises and implements.

Overall, the lessons that the ASEAN +3 economies drew from the Asian financial crisis have served members countries well. While the key policy choices of the last decade have been made by individual governments, the development of the CMI has also proceeded in a way that has not caused harm to East Asia or the global economy. Indeed, the exercise of trying to institutionalize surveillance and effective crisis management has probably contributed to a better understanding of the dynamics of crisis propagation, prevention, and management than have previous debt crises. This is something for which to be grateful, even for those regionalists whose dream of an AMF
cut loose from the dominance of both the United States and the IMF is unlikely to come to fruition.

CONCLUSION

While this article rejects the idea that CMIM constitutes the realization of the AMF concept, the initiative is undeniably an important step in the creation and definition of regional cooperation in East Asia. CMIM is the largest and most concrete commitment of the ASEAN +3 states to each other, and it has the potential to positively transform the course of a currency crisis involving one or more of the smaller economies so as to make recovery more rapid and less painful. CMIM is also a major step in the legalization and institutionalization of cooperative ventures in East Asia; only trade agreements approximate the same level of legal reciprocal obligation, but there is as yet no ASEAN +3 free trade agreement, nor does one seem imminent. As ASEAN and ASEAN +3 begin to move away from generalized principles of consultation and cooperative spirit toward clearer institutional commitments, some of the uncertainties of economic life in East Asian emerging markets will subside. Although this is not likely to lead to the realization of the more grandiose conceptions of an East Asian community or to the creation of a single currency, over time this dynamic will be consequential and will support the ongoing economic integration of the region.

Nonetheless, regional cooperation will continue to be limited by two enduring political realities that will be difficult to overcome. The first is ongoing Sino-Japanese competition and distrust. The second is the global financial power of the United States, as seen both in the key currency role of the dollar and in U.S. dominance in international financial institutions and regimes. Political scientists are notoriously bad at making long-term predictions, but it seems fair to say that any institution that is predicated on a Chinese-Japanese political condominium will not be a highly credible one for years to come, if ever. That is indeed why advocates of financial regionalism in East Asia have paid so much attention to institutional mechanisms to ensure coordinated action. As we have seen, however, the institutional mechanisms cannot simultaneously address all the issues of credibility, effectiveness, and moral hazard in the absence of a link to the IMF.

For now, the multilateralized Chiang Mai Initiative aligns the common interests of China and Japan in regional financial stability and effectively addresses the need to provide emergency liquidity support to East Asian economies experiencing currency crises, without relying on Sino-Japanese
cooperation. The initiative does so at minimal political cost to the two
countries and without disrupting regional relations. CMIM is, therefore, a
very attractive arrangement for both states. It is possible, however, that this will
change as the balance of economic and political power shifts toward China.
At some point, China may be willing to take on the rights and responsibilities
of regional enforcement. For now, however, CMIM and the IMF are likely to
reinforce each other in supporting regional financial stability.