ADBI Working Paper Series

Financial Safety Nets in Asia: Genesis, Evolution, Adequacy, and Way Forward

Hal Hill and
Jayant Menon

No. 395
November 2012

Asian Development Bank Institute

Hal Hill is H.W. Arndt Professor of Southeast Asian Economies in the Arndt-Corden Department of Economics, Crawford School, College of Asia and the Pacific, Australian National University. Jayant Menon is lead economist (Trade and Regional Cooperation), Office of Regional Economic Integration, Asian Development Bank.

The authors are grateful to Charles Adams, Jagdish Bhagwati, Chia Wai Mun, Masahiro Kawai, Sabysachi Mitra, Ng Thiam Hee, Pradumna Rana, and Reza Siregar for comments and useful suggestions. Anna Cassandra Melendez provided excellent research assistance. Any remaining errors are the authors'.

The views expressed in this paper are the views of the authors and do not necessarily reflect the views or policies of ADBI, the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

The Working Paper series is a continuation of the formerly named Discussion Paper series; the numbering of the papers continued without interruption or change. ADBI's working papers reflect initial ideas on a topic and are posted online for discussion. ADBI encourages readers to post their comments on the main page for each working paper (given in the citation below). Some working papers may develop into other forms of publication.

Suggested citation:

Hill, H. and J. Menon. 2012 Financial Safety Nets in Asia: Genesis, Evolution, Adequacy, and Way Forward. ADBI Working Paper 395. Tokyo: Asian Development Bank Institute. Available: http://www.adbi.org/working-paper/2012/11/12/5330.financial.safety.nets.asia/

Please contact the author for information about this paper.

Email: hal.hill@anu.edu.au; jmenon@adb.org

Asian Development Bank Institute
Kasumigaseki Building 8F
3-2-5 Kasumigaseki, Chiyoda-ku
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500
Fax: +81-3-3593-5571
URL: www.adbi.org
E-mail: info@adbi.org

© 2012 Asian Development Bank Institute

Abstract

Financial safety nets in Asia have come a long way since the Asian Financial Crisis (AFC) of 1997–98. Not wanting to rely solely on the International Monetary Fund (IMF) again, the Chiang Mai Initiative (CMI) was created in 2000. When the CMI also proved inadequate following the Global Financial Crisis (GFC), it was first multilateralized (CMIM), and then doubled in size to $240 billion, while the IMF de-linked portion was increased to 30%. A surveillance unit, the Association for Southeast Asian Nations (ASEAN)+3 Macroeconomic Research Office (AMRO), was set-up in 2011. These are impressive developments, but are they enough to make the CMIM workable? Without clear and rapid-response procedures to handle a fast-developing financial emergency, it is unlikely that the CMIM will be used even as a complement to the IMF. To serve as a stand-alone option however, its size or the IMF de-linked portion of funds needs to be further increased, as does its membership to add diversity. But if AMRO could develop into an independent and credible surveillance authority, then it could lead the next rescue.

JEL Classification: F32, F33, F34

Contents

1. INTRODUCTION

The impetus for strengthening regional financial safety nets among Association for Southeast Asian Nations (ASEAN) countries came following the Asian Financial Crisis (AFC) of 1997–98, when the existing insurance mechanism in the form of the ASEAN Swap Arrangement (ASA) proved miserably inadequate. Forced to turn to the International Monetary Fund (IMF) for the massive bailouts required, and the resentment that ensued following the bitter medicine prescribed, a decision was taken to pursue a regional safety net that could provide a real alternative. The initial step was taken with the creation of the Chiang Mai Initiative (CMI) in 2000, which expanded the bilateral swaps of the ASA both in size and membership to include the Republic of China (PRC), Japan, and the Republic of Korea (henceforth, Korea). The CMI's first test came in September 2008 when, following the Lehman Brothers collapse, short-term capital quickly exited emerging economies. But members of the CMI that required liquidity support did not turn to it but instead rushed to secure bilateral swaps with the United States (US), the PRC, Japan, Australia, and the multilaterals.

Once again, the regional financial safety net had failed its members. This brought about another significant change when in 2009, the CMI was multilateralized to become the Chiang Mai Initiative Multilateralized (CMIM), with the many swap lines now governed by a single agreement. This was soon followed by a number of other important changes, including the doubling in size to $240 billion, increasing the share available without an IMF program to 30%, and the setting up of its independent surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), in 2011. These are impressive developments, but are they enough to ensure that the CMIM will be called upon when the next crisis strikes? This is the key question that this paper attempts to answer. And if it is not, what are the issues that still need to be addressed to make it viable, either as a co-financing facility with the IMF or as a stand-alone alternative?

The remainder of the paper is in five sections. Section 2 looks at history, and traces the evolution of the ASA from its early beginnings to the CMI and its expansion. In Section 3, we describe the basic structure and features of the CMIM and the AMRO. Some of the most significant developments to the CMIM have taken place recently, in the aftermath of the GFC, and these are discussed in Section 4. Section 5 addresses the key question of the paper as to whether these changes are sufficient to make the CMIM operationally viable. Since we find that it is still unlikely to be used, we canvass areas that need to be reformed, separating what is needed for it to work as a complement to the IMF from what more needs to be done for it to serve as a real alternative. A final section concludes.

2. EARLY BEGINNINGS: FROM THE ASA TO THE CMI AND ITS EXPANSION

Although the impetus for strengthening regional financial safety nets among ASEAN countries came following the Asian Financial Crisis (AFC) of 1997–98, they have an even longer history than often recognized. Going back some three and a half decades to August 1977, the first step was taken when central banks and monetary authorities of the original five ASEAN5—Indonesia, Malaysia, Philippines, Singapore, and Thailand—agreed to establish reciprocal currency or swap arrangements. The ASEAN Swap Arrangement (ASA) was created primarily to provide liquidity support for those experiencing balance of payments difficulties. Originally intended to be in effect for just one year, the arrangement has been extended incrementally, while coverage, and amounts involved have expanded significantly. The initial maximum total amount available for swap transactions under the ASA was initially a meager $100 million, with the maximum total outstanding amount provided by each participant limited to $20 million, but was subsequently increased to $200 million in 1978.

Nothing much happened with the ASA for about the next two decades and when the AFC struck, the amounts available were nowhere near adequate. The ASA was basically useless, but the AFC highlighted the need to revisit the issue to see what needed to be done in order to have an effective regional insurance scheme. This was driven in large part by the way in which the IMF managed the rescue programs. Three of the four crisis-affected countries, Indonesia, Korea, and Thailand had to accept an IMF program, the quid pro quo for international support—the fourth, Malaysia, went it alone. The IMF grew extremely unpopular, not just for the prescribed bitter medicine, but because it had misdiagnosed the problems—a fact that it later acknowledged.

There was a resurgence of nationalist sentiment that quickly grew regional. The Japanese government proposed an alternative “Asian Monetary Fund” but, neglecting to consult the PRC first, there was insufficient regional support to counter predictable US opposition. Notwithstanding this, the first step was taken soon after in May 2000 with the launch of the CMI. Announced at the ASEAN+3 Finance Ministers’ Meeting (AFMM+3) in the Thai city after which it is named, it initially expanded ASA to all ASEAN members. In November 2000, the total amount available for swap transactions was increased from US$200 million to US$1 billion. After expanding the ASA to include the new ASEAN economies, bilateral swap agreements (BSAs) between the original ASEAN5 countries and the “plus 3” of the PRC, Japan, and Korea were initiated in 2002. The BSAs grew from $17 billion in 2002 to $31.5 billion in 2003 and $36.4 billion in 2004. In May 2005, during the 8th AFMM+3, the amount of the ASA was doubled to US$2 billion.

But the action continued to center around the BSAs rather than the ASA, and the number of BSAs and the amounts involved continue to grow over time. By the time of the AFMM+3 in Madrid in May 2008, the size of the BSA had increased to $84 billion (Table 1).

Table 1: Swap Arrangements under the Chiang Mai Initiative (as of December 2008)

To From	PRC	Japan	Korea	Indonesia	Malaysia	Philippines	Singapore	Thailand	**Total**
PRC		3.0	4.0	4.0	1.5	2.0		2.0	16.5
Japan	3.0		13.0	6.0	1.0	6.0	3.0	6.0	38.0
Rep. of Korea	4.0	8.0		2.0	1.5	2.0		1.0	18.5
Indonesia			2.0						2.0
Malaysia			1.5						1.5
Philippines		0.5	2.0						2.5
Singapore		1.0							1.0
Thailand		3.0	1.0					..	4.0
Cambodia									0.0
Lao PDR									0.0
Myanmar									0.0
Viet Nam									0.0
Sub-total	**7.0**	**15.5**	**23.5**	**12.0**	**4.0**	**10.0**	**3.0**	**9.0**	**84.0**
ASEAN Swap Agreement (ASA; among the 10 ASEAN countries)									**2.0**
TOTAL									**86.0**

Source: Elaborations based on Japan's Ministry of Finance website.
Available from: http://www.mof.go.jp/english/index.htm. Accessed: February 2009.

3. CMIM AND AMRO: BASIC STRUCTURE AND SALIENT FEATURES

If the AFC lit the fuse for the need to transform the ASA into the CMI, then the Global Financial Crisis (GFC) of 2008 highlighted the continued inefficacy of that transformation. Like with the AFC, the regional safety net was inadequate when the GFC hit. Given the CMI's small size and absence of rapid-response mechanisms, affected countries resorted to bilateral swaps with the US, Japan, Australia, and multilateral agencies. The meetings of the A FMM+3 that followed agreed to radically transform the CMI in other ways. First, the finance ministers decided to expedite the multilateralization of the CMI. They agreed that funds available under the multilateralized CMI (CMIM) should be a self-managed reserve pooling arrangement, governed by a single contract, reducing costly and wasteful duplication. The finance ministers also confirmed that the proportion of the contribution between ASEAN and the plus three countries to the CMI would be 20% for ASEAN, and 80% for Japan, the PRC, and Korea (Japan and the PRC would contribute identical shares of the total reserve pool (32%), double Korea's share). Second, they agreed to further expand the pool of foreign-currency reserves. The size of the fund thus grew from US$36.5 billion in 2001–2005, to US$84 billion in 2008, and to $120 billion in May 2009. The CMIM came into effect on 24 March 2010.

3.1 CMIM

The CMIM operates as a common US dollar liquidity pool: a member state can swap its local currency for US dollars from this pool in the event of a balance of payments (BOP) or liquidity crisis. As a self-managed reserve pooling system, contributions remain in the individual central banks of member countries and are not actually paid into a common or centralized fund. The availability of CMIM funds to a particular member country is limited by its borrowing quota (Table 2). The maximum amount that each country can borrow is based on its contribution multiplied by its respective borrowing multiplier. The multiplier coefficient of the CMIM's borrowing quotas is designed to favor the smaller ASEAN economies. The borrowing multiplier for Brunei Darussalam, Cambodia, Lao PDR, Myanmar, and Viet Nam is therefore set at 5. For the rest, the borrowing multiplier is set at 2.5 for Hong Kong, China; Indonesia; Malaysia; Singapore; and Thailand; 1 for Korea; and 0.5 for Japan and the PRC.

Table 2: Contributions, Borrowing Multipliers, and Voting Power under the CMIM

Economies		Financial Contribution (billion US$)		Share (%)		Purchasing Multiple	Maximum Swap Amount (billion US$)	Basic Votes	Votes Based on Contribution	Voting Power	
											%
Plus Three		**192.00**		**80.00**			**117.30**	**9.6**	**192.00**	**201.6**	**71.59**
PRC	PRC (excl. Hong Kong, China)	76.8	68.4	32.0	28.5	0.5	34.2	3.2	68.4	71.6	25.43
	Hong Kong, China		8.4		3.5	2.5	6.3	0.0	8.4	8.4	2.98
Japan		76.80		32.00		0.5	38.40	3.20	76.80	80.00	28.41
Rep. of Korea		38.40		16.00		1	38.40	3.20	38.40	41.60	14.77
ASEAN		**48.00**		**20.00**			**126.20**	**32.00**	**48.000**	**80.00**	**28.41**
Indonesia		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Thailand		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Malaysia		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Singapore		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Philippines		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Viet Nam		2.00		0.833		5	10.00	3.20	2.00	5.20	1.847
Cambodia		0.24		0.100		5	1.20	3.20	0.24	3.44	1.222
Myanmar		0.12		0.050		5	0.60	3.20	0.12	3.32	1.179
Brunei Dar.		0.06		0.025		5	0.30	3.20	0.06	3.26	1.158
Lao PDR		0.06		0.025		5	0.30	3.20	0.06	3.26	1.158
Total		**240.00**		**100.00**			**243.50**	**41.60**	**240.00**	**281.60**	**100.00**

Brunei Dar. = Brunei Darussalam.

Source: The Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (2012), 3 May, Manila.

A country which requests for drawing has to meet conditions before the voting for a swap request. These include a completed review of the economic and financial situation, compliance with covenants, such as submission of a periodic surveillance report, and participation in the ASEAN+3 Economic Review and Policy Dialogue (ERPD). These are hardly stringent conditions, and should not pose a problem for most, if not all, of the member countries. It is not the stringency of the requirements that are a problem, but rather the time involved. For instance, it is unclear how long a review of the economic and financial situation will take to complete, but it is unlikely to be quick, in terms of how time is measured when an emergency exists. In addition to these potentially time-consuming requirements, the actual activation procedures can add up to two weeks in delay.

To access the CMIM, a member country must submit a request to the Coordinating Countries, i.e., the two co-chairs of the ASEAN+3 Finance Minister Process (one from ASEAN and the other from +3 countries). The Coordinating Countries deliver the swap request notice and other relevant information to the Executive Level Decision Making Body (ELDMB), a non-resident body. They then need to convene a meeting to decide on the swap request. The ELDMB must respond to the swap request within two weeks of receipt of the swap request notice. Decisions on drawings are made by a 2/3 majority (weighted voting system linked to contributions) of the ELDMB. Once the request is approved, the swap providing countries transfer the funds to the account of the swap requesting party, who in turn transfers the equivalent amount in local currencies to the accounts of swap providing countries (AMRO 2012, BSP 2012, and ASEAN Secretariat 2010).

In a comparison with other regional safety nets, Henning (2004: 61) concluded that "…the Chiang Mai Initiative is more sensitive to preserving the central position of the IMF and not undercutting the IMF in negotiations with borrowing countries than these other arrangements". Although there have been changes since, the basic central relationship with the IMF remains. Up until recently, a country could draw up to 20% of its quota without being subject to IMF conditionality. Should a country avail of its full quota, the remainder of the amount to be disbursed would be tied to an IMF program. This link was intended to address moral hazard issues, and to make up for the lack of an independent surveillance unit that could oversee the CMI's operations. The eventual establishment of AMRO in 2011 has led to a reconsideration of this link.

3.2 AMRO

During its May 2009 meeting in Bali, the AFMM+3 agreed to establish an ancillary institution in the form of an independent regional surveillance unit, AMRO. AMRO was incorporated on 20 April 2011 as a company limited by guarantee under the Companies Act, Cap. 50, of the Republic of Singapore. It commenced operations one month after, in May 2011.

The need for an independent surveillance unit was predicated on the multilateralization of the CMI. In a multilateralized setting, monitoring and surveillance had to be enhanced to detect emerging vulnerabilities. CMIM decision-making also had to be supported by an independent unit with a due diligence function, so that the borrowing countries' capacity to meet repayment conditions of lending countries could be assessed. Unconditional financing when there is a need for policy correction could create moral hazard, both for potential borrowers and for international investors, even when it does not adversely affect the prospect for timely repayment.

AMRO's activities are divided into functions during so-called peace time and crisis time. During peace or non-crisis periods, AMRO's main responsibility is to prepare quarterly consolidated reports on the overall macroeconomic assessment of the ASEAN+3 Region as well as on individual ASEAN+3 countries. Should a crisis occur however, its role and responsibilities multiply. During crisis time, AMRO is tasked to: (a) provide an analysis of the economic and financial situation of the CMIM Swap Requesting Country; (b) monitor the use and impact of the funds disbursed under the CMIM Agreement; and (c) monitor the compliance by the CMIM Swap Requesting Country with any lending covenants to the CMIM Agreement.

AMRO is governed by an Executive Committee (EC) comprised of deputy finance ministers and deputy central bank governors of member countries. The EC oversees AMRO and is responsible for providing guidance, setting broad policy direction for the management of AMRO, and appointing the AMRO Director and Advisory Panel members. An Advisory Panel consisting of six members provides strategic, technical and professional guidance to AMRO. The panel is independent from the Director and staff of AMRO, and is accountable to the EC.

At present, AMRO is being run by a small staff complement of 12 professional staff, led by the AMRO Director. There are plans to expand the complement of professional staff initially to 16 in the near future. Since its establishment in 2011, AMRO has initiated a secondment scheme, and created linkages with international financial institutions and various authorities in CMIM member countries. AMRO has also conducted a number of surveillance visits in the region, and presented Economic Review and Policy Dialogue reports at recent meetings of ASEAN+3 Finance and Central Bank Deputies.

4. POST CMIM DEVELOPMENTS

The ongoing uncertainty over the recovery in the US and the continuing crisis in the euro area has highlighted the need to further strengthen the CMIM's capacity to act as a regional financial safety net (Azis 2012). To address this need, the 15th Meeting of ASEAN+3, held on the sidelines of the Asian Development Bank (ADB)'s Annual Meeting in Manila in May 2012, agreed to do the following: (a) double the total size of the CMIM from US$120 billion to US$240 billion; (b) increase the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014, subject to review should conditions warrant; and (c) introduce a crisis prevention facility.

These three outcomes were the key decisions announced at this meeting. Another change of an institutional nature that occurred here was the upgrading of the AFMM+3 to the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3). For the first time, the central bank governors of the 13 member countries and the head of the Monetary Authority of Hong Kong, China were invited to participate in this forum. This is an important development in that it brings together officials responsible for tax and expenditure programs with those handling monetary and exchange rate policies. The crisis prevention facility was introduced in response to calls for ex ante liquidity support similar to those of the IMF—the Flexible Credit Line (FCL) and the Precautionary Credit Line (PCL)—introduced in the wake of the global financial crisis.[1]

As such, the CMIM will now have two separate instruments: a short-term liquidity support facility to address sudden but temporary liquidity shortages, and a crisis resolution facility to address more medium-term liquidity and structural problems. The crisis prevention mechanism will be called the CMIM Precautionary Line (CMIM-PL), while the crisis resolution mechanism will be called the CMIM Stability Facility (CMIM-SF). To be able to access the CMIM-PL, the requesting country must meet the following criteria as ex-ante qualifications and ex-post conditionality: i)

[1] The ASEAN+3 Finance Ministers had commented on the desirability of such a facility even at their 2011 Hanoi meeting, noting that "…we instructed the Deputies to initiate a study on the design of a possible crisis prevention function for CMIM, including the size, further collaboration with the IMF, and the role of AMRO."

external position and market access; ii) fiscal policy; iii) monetary policy; iv) financial sector soundness and supervision; and v) data adequacy.[2]

The total amount that can be drawn by each member country, either for prevention or resolution purposes, shall be within the maximum swap amount set aside for that country. Dual-drawing from both CMIM-SF and CMIM-PL shall be restricted, with the CMIM-SF replacing the CMIM-PL if the recipient party is hit by a crisis and needs additional support. For the CMIM-PL, the duration of access is six months with three renewals, totaling two years in arrangement period. Maturity is at six months for the IMF de-linked portion and one year for the IMF linked portion. Monitoring will be conducted on a bi-annual basis. For the CMIM-SF, the maturity of the IMF de-linked portion is set at six months with three renewals allowed, totaling up to two years in supporting period. Maturity of the IMF-linked portion is set at one year with two renewals possible, totaling up to three years in supporting period. As with the CMIM-PL, monitoring is also to be conducted on a bi-annual basis.[3]

5. THE WAY FORWARD: FILLING IN THE REMAINING GAPS IN THE REGIONAL SAFETY NET

The agreements reached at the recently concluded 15th Meeting of ASEAN+3 Finance Ministers and Central Bank Governors represent a significant step towards transforming the CMIM into a more formidable regional financial safety net. This notwithstanding, the key question remains as to whether these changes, however significant, are actually sufficient to make the CMIM an option that members are likely to turn to in the event of a liquidity crisis. And as of now, it only makes sense to think of the CMIM as catering for a liquidity crisis, and not a fiscal one requiring a structural adjustment program. So, the question is, have these changes made the CMIM useable to counter a liquidity crisis? And if so, useable in what way? There are two options. At the moment, the CMIM is set-up to act as a co-financing mechanism with the IMF. This is not to downplay its role but rather to recognize that the bulk of its resources are tied to an IMF program. From Table 3, which describes and compares the salient features of the other regional financial mechanisms that exist around the world, we can see that most also operate in a somewhat similar fashion. This is the first and current prospect. The other option is for it to operate as an independent mechanism, serving as an alternative to the IMF. It is worth noting that “alternative” in this context does not necessarily mean excluding any role for the IMF, but rather one where the CMIM plays the lead or dominant role.

[2] The Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting. 3 May 2012, Manila, Philippines.

[3] Ibid.

Table 3: Regional Safety Nets and Financing Mechanisms: Salient Features

	Year Established	Purpose	Resources	Members	Functions	Instruments	Decision Making/ Governance	Link to IMF	Recent Activity
Multilateralized Chiang Mai Initiative	2000	Address short-term liquidity and balance of payments difficulties in the region and supplement the existing multilateral financial arrangements.	$240 billion. Members commit to provide financial support within the agreed amount of contribution. Funds are transferred from the central banks/ monetary authorities only when a request for drawing is made.	ASEAN + PRC, Japan, and Korea	Lending and surveillance (through AMRO)	Members swap their local currencies with US dollars up to a multiple of their contributions to the scheme. The 90-day swaps can be renewed up to seven times.	Decisions on drawings made by 2/3 majority at the Executive Level Decision-Making Body consisting of deputy level representatives of the ASEAN+3 Finance Ministries and Central Banks and the Monetary Authority of Hong Kong, China. Voting power is distributed to members according to the amount of contribution, supplemented by basic votes allocated equally.	Initially, a country could draw up to 20% of its quota without being subject to IMF conditionality. This amount was increased to 30% in 2012 and potentially 40% in 2014. Drawing of the remaining amount is conditional on the existence of an IMF-supported program.	None
Arab Monetary Fund	1976	Broad, including correct balance-of-payments disequilibria, support structural reforms in private financing and banking, and promote exchange rate stability.	$2.7 billion. The AMF may borrow from member countries, Arab and foreign monetary and financial institutions and markets and can issue securities.	22 Arab countries in North Africa and Middle East	Lending	Mix of six lending facilities to address both short-term liquidity problems and medium-term structural problems, including an unconditional automatic loan	Executive Board composed of the chairman and eight members elected by the Board of Governors. 2/3 majority required for a quorum.	Access to ordinary loan facility must be accompanied by an IMF program.	Four new loans in 2010 amounting to $548 million, the highest level of lending in the past 2 decades.

						facility, and an ordinary loan facility tied to an IMF program.			
Latin American Reserve Fund	1991, as successor to the Andean Reserve Fund	Support member countries' balance of payments through credit and guarantees.	$2.34 billion. FLAR has an AA Composite credit rating	Bolivia, Colombia, Ecuador, Costa Rica, Peru, Uruguay, and Venezuela.	Lending and surveillance	Five types of lending instruments: balance of payments credit, foreign debt restructuring of central banks, liquidity credit, contingent credit, and treasury credit	Each member country has the same voting power (one vote) irrespective of their paid-in capital. Decisions are made by a 3/4 majority.	No official links, although FLAR shares information with IMF unofficially.	Balance of payments loan to Ecuador in 2009. Historically, FLAR has been relevant particularly for the smaller member countries.
North American Framework Agreement	1994	Provide short-term liquidity support	$9 billion	United States, Canada, and Mexico	Lending	Two-way bilateral central bank swaps for 90-days, renewable up to one year	Disbursal only requires bilateral agreement between two participating countries.	US Treasury requires letter from IMF Managing Director	None
European Financial Stabilization Mechanism	2010	Provide external financial assistance to a member state experiencing, or seriously threatened with, a severe economic and financial disturbance caused by exceptional circumstances beyond such member states' control.	€60 billion. Funding is obtained by issuing own instruments in euro. The maximum financing capacity of the EFSM is €60 billion and is backed by an European Union (EU) budget	All EU members	Lending	Loans and credit lines. Amount, average duration (normally about five years), and disbursement terms of a loan or credit line are decided by the Council, based on funding conditions	Financial assistance is granted by a decision by the Council, acting by a qualified majority on a proposal from the Commission. Policy conditionality is defined by the Commission in consultation with the European Central Bank	While legally the EFSM allows financing solely by the EU, the ECOFIN Council has explicitly stated that activation would only be in the context of a joint EU/IMF	Activated for Ireland (2010) and Portugal (2011).

			guarantee.				(ECB) and spelled out in a MoU. The Commission is delegated the authority to monitor the program and approve disbursements. ECB is involved in program design and monitoring, and as paying agent.	program.	
European Financial Stability Facility	2010	Preserve financial stability of Europe's monetary union by providing temporary assistance to euro-area member states in difficulties, i.e., unable to borrow on markets at acceptable rates, caused by exceptional circumstances beyond such member states' control.	€ 440 billion. Funding is obtained by issuing own debt instruments or by entering into other financing arrangements with financial and monetary institutions. Guarantees by euro-area member states to the EFSF are on a pro rata basis, in accordance with their share in the paid-up capital of the European Central Bank (ECB)	All members of euro area	Lending	Loans and bond purchases through the primary market. Funding instruments under the EFSF are expected to have the same financial profile as the related loans but the guarantors may permit EFSF to use a degree of funding flexibility as regards the currency, timing, interest rate base and maturity of the funding instruments.	Key decisions under the EFSF Framework agreement are reserved to euro area member states and generally require unanimity, including the decision to approve loan facility agreements and disbursements under such agreements. ECB is involved in program design and monitoring, and as paying agent.	The framework agreement establishes that financial support by the EFSF is to be provided in conjunction with the Fund and subject to conditionality set out in a MoU negotiated in liaison with the IMF and the ECB. IMF provided co-financing for Ireland, and Portugal, and Greece programs.	Activated for Ireland (2010), Portugal (2011), and Greece (2011).

European Stability Mechanism	Entry into force on July 2012	Permanent crisis management mechanism to safeguard financial stability in the euro area as a whole, replacing temporary solutions such as the EFSM and the EFSF.	€500 billion	All members of euro area	Lending	Assistance will predominantly take the form of loans, known as ESM stability support (ESS). ESS will be conditional on agreement to and compliance with a strict macroeconomic adjustment program. The maturity of the ESS loans will depend on the nature of the imbalances and the beneficiary country's prospects of regaining access to financial markets.	Key decisions in relation to the ESM will be taken by its Board of Governors. A second decision-making body, the Board of Directors, will be responsible for specific tasks delegated by the Board of Governors. ECB involved in conducting debt sustainability analysis, program design and monitoring, and as paying agent.	ESM financial assistance will only be activated upon receipt by the Eurogroup and ECOFIN Presidents, and the Managing Director of the IMF, of a request from a euro area country. Following this request, the IMF will be involved in assessing whether there is a risk to the financial stability of the euro area as a whole, conducting debt sustainability analysis, program design, negotiation and monitoring.	None

Sources: Authors' compilation drawing upon information from IMF (2010a); Arab Monetary Fund (2011); ECB (2011); Lamberte and Morgan (2012); Park (2011).

Despite the significant changes made, it appears that the CMIM, as it currently stands, can do neither. In its current configuration, it is unlikely that the regional safety net will be called upon at all, as evidenced by the fact that it has never been used despite the need for liquidity by several members during the GFC. At the moment, it is neither a complement nor an alternative to the IMF. We now examine what is required in terms of operationalizing each of these two options.

For the CMIM to serve its immediate function as a complement to the IMF, a number of issues relating to operating procedures need to be resolved. Fixing these procedural problems is also necessary for making it viable as an alternative to the IMF, but not sufficient. For it to evolve into an alternative to the IMF some longer-term issues relating to size, membership, and surveillance capacity need consideration as well.

5.1 CMIM as a Complement to the IMF

Irrespective of whether the CMIM is to be a complement or an alternative to the IMF, it needs to urgently address the speed and efficiency with which requests for assistance can be activated. As noted earlier, a request for emergency support could take up to two weeks to process. There is also some uncertainty over the steps involved, precise information to be provided, and the like (Azis 2012). Part of the problem lies with the fact that the CMIM is not a fund, but rather a reserve pooling system whereby country contributions remain with the respective central banks or monetary authority. The fact that the decision also rests with a high-level, non-resident body further increases the risk of delay. The EC as the decision-making body is after all comprised of deputy finance ministers and deputy central bank governors of member countries.

The real competitor to the CMIM-IMF option is bilateral swaps, and other similar standby arrangements. These are not only quick-disbursing but also come without explicit conditionalities as they are adequately collateralized, in most cases. Although the introduction of the CMIM-PL was supposed to help improve the flexibility and timeliness of liquidity support to address short-term liquidity problems, the procedural issues mentioned earlier combined with its continued linkage to an IMF program may very well undermine its actual usefulness. As noted earlier, countries have been reluctant to apply for financing under the IMF's own crisis prevention facilities for fear of adverse signaling effects (Pickford 2011).

It has been suggested that linkage to a standard IMF program should not be required in the case of temporary, short-term liquidity problems. Sussangkarn (2011) argues that an IMF program should only be invoked if a country needs to roll over the swap more than a certain predetermined number of times, with the IMF joining the battle only if the problem becomes a more medium-term structural problem. Under the CMIM's current arrangements, this would mean that the linkage would only apply to financing under the CMIM-SF. By not invoking an IMF link immediately, countries with temporary liquidity problems will be more willing to use the CMIM, if they feel that the funds would be available without delay. At the same time, knowing that an IMF link will be required after a certain period will encourage the country to take appropriate corrective actions to avoid having to be under an IMF program. This could go a long way towards making the CMIM-IMF option viable as a liquidity support mechanism. But the largest contributors, Japan and the PRC, who are in essence "creditors" because they can withdraw less than what they have put in (multiplier of 0.5) must feel that their contributions are secure under such an arrangement. With AMRO still in its infancy, it is likely that they will continue to seek "cover" from IMF involvement to ensure that their funds are safeguarded, even when used for short-term liquidity support.

5.2 CMIM as an Alternative to the IMF

Next we turn to the viability of the CMIM as a stand-alone option, or one without IMF involvement. At present, this applies only if a country avails of up to 30% of its quota. There are basically three outstanding issues that need to be addressed in order to further strengthen the viability of this option. These relate to: size, membership, and surveillance capacity. Although these reforms are desirable, they are not equally important. Some are complementary, such as size of the fund and country membership, while building up surveillance capacity and credibility of AMRO could make the small size or membership of the CMIM less binding a constraint.

Further Increasing the Size of the CMIM

The ongoing crisis in the euro area is a potent reminder of the massive amounts of financing required to stem a systemic liquidity crisis. Although the euro area crisis has its roots in fiscal insolvency, the point remains that the sums involved in a bailout for any kind of crisis that spreads across regional countries is likely to be massive. Although the CMIM's size has been increased substantially since 2008 to currently stand at US$240 billion, it is unlikely to be sufficient if there is a full blown systemic crisis in East Asia, especially if it spreads across several members. During the AFC, Thailand received over $17 billion in emergency liquidity. Yet, Thailand (and the other original ASEAN members) can access only a fraction of this amount, about $7 billion in today's dollars, from the CMIM without an IMF program. Indonesia received almost six times ($40 billion) of what is its de-linked portion of the CMIM, or an even greater multiple if converted into today's dollars. Korea was the other crisis-hit country that availed of an IMF-led program that totaled $57 billion, when today its full quota with the CMIM is about $38 billion.

For the CMIM to be a viable stand-alone option, either the size of the overall fund or the percentage of the de-linked portion needs to be increased substantially before it is attractive to the original ASEAN5 members. These countries have bilateral swaps that they are more likely to call upon should a crisis hit, as recent experience has shown. From Table 4, we can see that the Philippines has bilateral swaps with the PRC, Japan, and Korea; Indonesia has them with the PRC and Japan; while Singapore, Thailand, and Malaysia each have swaps with the PRC. These are the ones that are currently in force, but others are up for renegotiation, as listed in Table 5. If national reserves are the first line of defense in the event of a liquidity crisis, bilateral swaps are designed to supplement them. But these bilateral swaps themselves might be insurance against a regional insurance scheme like the CMIM when it is perceived to be unusable.

Table 4: Bilateral Swap Agreements , ASEAN+3 Countries, In Force

Country	Partner Country	Amount	Effectivity
Japan	Rep. of Korea	$30 billion won-to yen-swap Additional $30 billion dollar-to-local currency swap	Oct 2011–Oct 2012 (one year)
	Philippines	Philippines: $6 billion from Japan Japan: $500 million from the Philippines	May 2012–May 2015 (3 years)
Korea	Japan	$30 billion won-to-yen-swap Additional $30 billion dollar-to-local currency swap	Oct 2011–Oct 2012 (one year)
	PRC	$56 billion	Oct 2011–Oct 2014 (3 years)
PRC	Rep. of Korea	$56 billion	Oct 2011–Oct 2014 (3 years)
	Hong Kong, China	$63 billion	Nov 2011–Nov 2014 (3 years)
	Malaysia	$ 28.6 billion	Feb 2012–Feb 2015 (3 years)
	Singapore	$ 22.12 billion	July 2010–July 2013 (3 years)
	Thailand	$11 billion	Dec 2011–Dec 2014 (3 years)

Sources: Bank of Japan website. http://www.boj.or.jp/en/intl_finance/cooperate/index.htm/

ROK Ministry of Foreign Affairs and Trade. ROK expands currency swap with Japan and China. http://news.mofat.go.kr/enewspaper/articleview.php?master=&aid=3974&ssid=24&mvid=1219

Reuters. Philippines renews $6 billion swap deal with Japan, gets Korean loan. 4 May 2012. http://af.reuters.com/article/worldNews/idAFBRE8430M520120504

Centralbanking.com. Malaysia and China extend currency swap arrangement. 8 Feb 2012. http://www.centralbanking.com/central-banking/news/2144895/malaysia-china-extend-currency-swap-arrangement

Bloomberg News. China, Hong Kong Expand Currency-Swap Pact to $63 Billion. 22 Nov 2011. http://www.businessweek.com/news/2011-11-22/china-hong-kong-expand-currency-swap-pact-to-63-billion.html

Bangkok Post. China, govt sign currency swap deal. 23 Dec 2011. http://www.bangkokpost.com/news/asia/272071/china-govt-sign-currency-swap-deal

China Daily. China signs currency swap pact with Singapore. 23 July 2010. http://www.chinadaily.com.cn/china/2010-07/23/content_11043563.htm

MNI Deutsche Boerse Group. China Data Table: PBOC Currency Swap Agreements. 26 June 2012. https://mninews.deutsche-boerse.com/content/china-data-table-pboc-currency-swap-agreements-2

Table 5: Bilateral Swap Agreements , ASEAN+3 Countries, Up for Renegotiation

Country	Partner Country	Amount	Last BSA Signed (Year)
Japan	Indonesia	$12 billion	2009, but under the CMI
Rep. of Korea	Philippines	$ 2 billion	2008
PRC	Indonesia	$16 billion	2009
	Philippines	$ 2 billion	2007

Sources: Bank of Japan website. http://www.boj.or.jp/en/intl_finance/cooperate/index.htm/

MNI Deutsche Boerse Group. China Data Table: PBOC Currency Swap Agreements. 26 June 2012. https://mninews.deutsche-boerse.com/content/china-data-table-pboc-currency-swap-agreements-2

The Standard. Swap pool to hit US$120b. 23 Feb 2009. http://www.thestandard.com.hk/news_detail.asp?pp_cat=5&art_id=78611&con_type=1&d_str=20090223

Manila Bulletin. BSP Reviews Bilateral Swap Arrangements. 28 May 2012. http://mb.com.ph/node/360671/b

It is apparent that the CMIM was never intended for use by Korea or its two other biggest contributors, the PRC and Japan. This point has been reinforced by the bilateral swaps between these three countries announced virtually in tandem with the doubling of the Initiative. The Plus Three countries have also agreed to promote investment by the foreign reserve authorities in one another's government bonds.

So if the CMIM was never intended for use by its largest contributors, and if country quotas of the original five ASEAN countries are insufficient when judged by the experience of the AFC, could the CMIM be used by ASEAN's newer, smaller members? After all, for these countries, their full quotas are a quite substantial share of their individual reserves (Table 6). Nevertheless, they may still be insufficient for a bailout, however. For example, Cambodia's contribution of $240 million enables it to borrow up to five times that amount but only $360 million if it wants to avoid signing on to an IMF program. As of February 2012, Cambodia's total reserves (less gold) stood at $3.64 billion, which is just more than three times its borrowing limit with the CMIM. Should a crisis strike, and given the small size of Cambodia's country quota as a share of its reserves, Cambodia could either rely on its own reserves or would need to go beyond the CMIM, depending on the severity of the crisis. The same is likely to be true of the other new members of ASEAN.

Table 6: Total Reserves Minus Gold (current US$ million), CMIM Economies, Latest Available Data

Country	**Total Reserves**	**As of**
Brunei Darussalam	1,693	2011 Aug
Cambodia	3,640	2012 Feb
Hong Kong, China	294,493	2012 Mar
PRC.	3,326,602	2012 Mar
Indonesia	106,611	2012 Mar
Japan	1,248,875	2012 Apr
Rep. of Korea	313,801	2012 Mar
Lao PDR	703	2010 Dec
Malaysia	133,991	2012 Apr
Myanmar	6,732	2011 Sep
Philippines	65,685	2012 Mar
Singapore	243,582	2012 Mar
Thailand	170,729	2012 Apr
Viet Nam	14,815	2011 Oct
Total	**5,931,952**	

Source: IMF International Financial Statistics.

But the smaller, poorer economies of ASEAN+3—Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV)—face another potential risk by being part of the CMIM. To illustrate, consider a situation where some other country faces a liquidity crisis and decides that it will call upon the CMIM for at least part of its emergency funding needs. If this happens, the CLMV, like other members except the requesting country, will be called upon to contribute to their share (the "contribution" column in Table 2) to the rescue. As noted above, the contributions of the CLMV as a share of their respective national reserves is significant, and we could have a situation where the poorest economies are assisting in bailing out a much richer economy. If the requesting economy is afflicted by a crisis that in not purely domestic or of its own making, the possibility of contagion raises the vulnerability of other economies, and further increases the cost of having to contribute to its bailout. We have seen this happen during that euro area crisis when Slovakia, a much poorer country, contributed to Greece's bailout package. The CMIM agreement does provide for an opt-out or escape clause, but this requires either the approval of the EC or the existence of highly extenuating circumstances.[4] if one or more countries start opting out, and if this leads to a domino or snowballing effect, the CMIM will simply fail to deliver. The associated loss of credibility may be irreversible.

It has been suggested that member economies may have to move away from self-insurance in the form of holding large foreign reserves, and start shifting funds towards the CMIM. Apart from further increasing member economy's contributions to the CMIM, Sussangkarn (2011) also proposes attaching additional bilateral swaps from willing member economies to a CMIM swap. Although this is an interesting proposal, the question as to why bilateral swaps are being pursued in tandem with the CMIM needs to be answered first. If it is to circumvent the procedural difficulties and associated delays, these issues need to be addressed before any such linkage is likely to be possible. As noted earlier, it may well be the case that these bilateral swaps are being pursued as an alternative defense mechanism to the CMIM and therefore attaching them to the CMIM is either unlikely to be favored, if CMIM procedures apply, or purely cosmetic, if they do not.

If this is indeed the case with the CMIM, even the seemingly innocuous statement by Takehiko Nakao, Japan's vice finance minister for international affairs, that "having this kind of mechanism is better than having nothing", may have been more than just generous, but also possibly wrong.[5] If the CMIM is unusable for one or more members, it can actually reduce the capacity of these members to stave off a liquidity crisis by reducing their uncommitted national reserves—an economy's first line of defense. How can an unusable CMIM increase the vulnerability of members to crisis? Consider what happened during the GFC—Indonesia, Korea, and Singapore were forced to pursue bilateral swaps when capital started rapidly exiting their economies. The fact that they had to pursue this option itself suggests that national reserves were considered "insufficient". "Insufficient" in the sense that a country would not want to completely or even severely deplete its reserves in times of a crisis whose full magnitude is still unknown. In times of potential or impending crisis, perceptions matter even more—a view underlined by the fact that bilateral swaps are often negotiated before, rather than during or after, a liquidity shortfall. At the margin, however, it could be that the commitment that a country without plentiful reserves like Indonesia, for instance, had made to the CMIM could have made the difference in terms of such perceptions of sufficiency. The problem only grows in magnitude as the CMIM is expanded in size but continues to be unusable, for whatever reason. But the effects will vary by economy, depending on how abundant their reserves are to begin with—again, the smaller, poorer economies will be most at risk, while the bigger, richer ones will be least affected.

[4] The escape clause states: "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 majors* and domestic legal limitations, escape is possible without obtaining ELDMB approval."

[5] Quoted in Anthony Rowley, Sid Verma and Mark Townsend (2012), "New Fund seen as Asia's own IMF", *Emerging Markets*, 4 May. Available at: http://www.emergingmarkets.org/Article/3023530/New-fund-seen-as-Asias-own-IMF.html?LS=EMS648101

Members also cannot operate by ignoring the amount of their reserves committed or promised to the CMIM, or the system will break down. For instance, consider again the case of the CLMV. Since these are economies without the ability to secure a bilateral swap given the low collateral value of their domestically-issued currencies, they may have to resort to the CMIM (and/or IMF) in times of crisis. If other members are also fearing or fighting their own liquidity crises, and therefore ignore their commitment, there is a real possibility that the CMIM may not be able to deliver on one or more requests from the CLMV. As with a domino effect with opt-out requests, this too would mark the end of the CMIM, both in theory and in practice.

It also remains to be seen whether the recent increase in bilateral currency swap arrangements among the Plus Three countries will be extended to other CMIM members to bolster existing swap lines with these countries. And even if they did, it is unclear if the Plus Three countries would be amenable to managing these bilateral swaps under the same conditions as the CMIM swap, unless of course they did not want them to be used.

The IMF has already raised the possibility of establishing a Multi-Country Swap Line (MSL) mechanism that would enable it to offer liquidity lines to a limited set of countries with sound policies and track records (IMF 2010b). This would form part of a broader Global Stabilization Mechanism (GSM), a framework that would allow proactive provision of financing during a systemic crisis to stem contagion. The GSM also envisions a multipolar liquidity safety network, involving national monetary authorities and regional RFMs, with the IMF at the center. The establishment of such a mechanism, and its involvement with the CMIM, would provide more avenues for increasing the size of liquidity support available to the region beyond the CMIM pool. Even this option for expansion, however, is contingent on the CMIM cleaning up and streamlining its operational procedures.

Expanding membership of the CMIM

If the CMIM is to become a stand-alone option, or if it is to evolve into an Asian Monetary Fund type institution some day, then the issue of membership needs to be considered. Expanding the membership of the CMIM has less to do with potentially increasing the size of the fund than it does with diversifying it. More than just increasing membership, there is a need to broaden it to include economies that are less directly or immediately connected to East Asian business cycles. This would increase the ability of the fund to cater for the liquidity needs of a clutch of countries requiring support in the event of a contagious crisis if a sufficient number of contributors are unaffected by it. There is no denying that the process of trying to expand membership is likely to be a complicated and sensitive one. But however difficult, the discussion needs to be started if the CMIM is to survive and prosper as a viable financial safety net, let alone evolve into a de facto Asian Monetary Fund.

The obvious candidates for the first enlargement would be those originally joining ASEAN+3 in the East Asian Summit—Australia, New Zealand, and India. India already has a bilateral swap with Japan, while Australia is a contributor to the recent standby arrangement with Indonesia, managed by ADB. Although this expansion makes sense regionally, it is unlikely to diversify the fund to any significant extent given that Australia's economic fortunes are very closely linked to the PRC's, and India's are increasingly becoming so. Even New Zealand's economic fortunes are indirectly linked through its strong ties to Australia, and growing ties with the PRC. But the larger the number of contributing members, the greater the likelihood that some will be largely immune from a contagious regional crisis. This is perhaps best illustrated by the fact that Australia was the only advanced country that did not undergo a recession when the GFC hit. Like any risk diversification exercise, the number usually matters.

Candidates for any subsequent enlargement are less obvious, although it is quite unlikely that either the US or Russia—the newest members of the ASEAN+8 grouping—are likely to want to participate. Should Timor Leste accede to ASEAN, this small island state will almost certainly also sign up for most of ASEAN's protocols, including presumably the CMIM. Should India join the CMIM, the possibility of other South Asian nations joining will also be significantly enhanced. There could be a snowballing effect following initial enlargement of membership of the CMIM.

Strengthening AMRO's credibility

Although these reforms are desirable, they are not equally important. If AMRO could gain credibility as an independent surveillance unit, the small size or membership of the CMIM would be less binding constraints. After all, even the IMF relied upon other partners to fund the bail-out in Asia in 1997–98 and now Europe. But the IMF led the rescue and set the terms, and this is what matters. AMRO needs to be able to do the same. In short, the amount of funds available need not be a constraint if the capacity to lead a rescue exists; in fact, even if the funds were sufficient, they may be of merit in a joint rescue program involving collaboration amongst other regional and/or non-regional partners. In this respect, it is also worth emphasizing that leading a rescue does not entail excluding the IMF, for instance, from participating in setting the terms either; it means having the final say, but not the only say.

Ultimately, the CMIM must rely more on its own independent assessment to make lending decisions—including both in the amount of loans and any conditionality. At present, AMRO still lacks the research capacity, human resources, experience, and the institutional setup to effectively serve as a professional secretariat to the CMIM. Although AMRO has come a long way as a relatively new institution, it still functions mostly as a research office for the CMIM, and undertakes a basic surveillance function producing macroeconomic and financial monitoring assessments. The current ERPD process[6] at which these assessment are presented is still largely a venue for information-sharing at best, and a beauty contest at worst, with weak peer review or policy coordination (Menon 2012). Unless there is a commitment from member countries to significantly increase the resourcing of AMRO so that it may strengthen and expand its functions, it is unlikely that it will be able to performs its role as an independent and credible surveillance unit, let alone a full functioning secretariat for the CMIM.

Although the Joint Statement of the 15th AFMM re-emphasized the importance of strengthening AMRO's role as an "independent regional surveillance unit in contributing to effective monitoring and analysis of regional economies, early detection of risks, swift implementation of remedial actions, and effective decision-making of the CMIM", they could propose little more than further collaboration and cooperation with the IMF, ADB, and World Bank. Although they requested the

Deputies to find out how AMRO's organizational capacity could be strengthened by the November 2012 Deputies' meeting, the fact that they never even alluded to the possibility of any increase in funding is telling.

If these are the things that the CMIM and AMRO need to do in order to become effective, there is also at least one thing that it should not do in order to achieve the same. It should avoid the temptation to give in to mission creep and focus on core functions, particularly surveillance activities. For instance, recent suggestions that AMRO should introduce a Regional Monetary Unit (Kawai 2010; Rana et al. 2012) are premature and could derail the building of core competencies. There is room for specialization and collaboration, and more specialized functions such as these should be left to other institutions.

[6] The ERPD is carried out in two stages. The first stage is an unofficial forum where surveillance reports (from AMRO, ADB, and IMF) are presented to the AFDM+3 held bi-annually in March or April and November. The second stage focuses more on issues related to policy involving the AFMM+3, and is conducted once a year on the sidelines of the ADB Annual Meeting.

Although the CMIM was established with the aim of supplementing existing international financial arrangements, ultimately its goal should be to be able to lead any rescue package in the region. As Henning (2011) and the ADB (2011) correctly note, the IMF is still unique among crisis-fighting facilities in the universality and diversity of its membership, its resources and its experience with designing rescue packages, and remains the final resort in efforts to combat regional contagion. In its current incarnation, it also seems unlikely that the CMIM alone will be adequate to address region-wide systemic financial crises. An optimistic scenario would see the CMIM evolve towards a regime in which the roles are reversed over time, with the CMIM defining conditionality and the IMF being a complementary source of funds. If this optimism is to be justified, then ASEAN+3 must commit to AMRO's development through a substantial increase in its resources. So far, there is little evidence of any such real commitment.

6. CONCLUSION

Financial safety nets in Asia take four forms. The first line of defense has always been national holdings of foreign exchange reserves. The second, and most popular of late, is bilateral foreign currency swap arrangement. The third is regional safety nets, and the one most discussed in this paper is the expanded CMIM. Finally, we have the global lender of last resort, the International Monetary Fund (IMF). The importance of strengthening regional financial safety nets grew from the Asian Financial Crisis (AFC) of 1997–98. When the AFC struck, the ASEAN Swap Arrangement (ASA) was basically too small (US$200 million) to be of any use. There was no alternative but to turn to the IMF for the massive bailouts required. The IMF grew extremely unpopular however, not just for the prescribed bitter medicine, but because it misdiagnosed the problems—a fact that it later acknowledged. There was a resurgence of nationalist sentiment that quickly grew regional.

This led to the birth of the Chiang Mai Initiative (CMI) in 2000, which expanded the bilateral swaps of the ASA both in size and membership to include the PRC, Japan, and Korea. The CMI's first test came in September 2008 when, following the Lehman Brothers collapse, short-term capital quickly exited emerging economies. But when the Global Financial Crisis (GFC) hit, members of the CMI that required liquidity support did not turn to it but instead rushed to secure bilateral swaps with the US, the PRC, Japan, Australia, and the multilaterals. Once again, the regional financial safety net had failed its members. This brought about another significant change when in 2009 the CMI was multilateralized to become the CMIM, with the many swap lines now governed by a single agreement.

More recently, the CMIM has been doubled to US$240 billion, the share available without an IMF program increased to 30% (and maybe 40% in 2014), and the introduction of a precautionary line of credit similar to that of the IMF's. Its surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), has also been up and running in Singapore since 2011. All of this is impressive, and does reflect how far financial safety nets in Asia have come, but is it enough? Is it likely that the CMIM will be called upon when the next crisis strikes? Unfortunately, the CMIM still appears unusable, either as a co-financing facility with the IMF or as a stand-alone alternative. There are a number of reasons, and therefore an equal number of issues, that need to be addressed to make it viable.

First, as a reserve-pooling arrangement, there is no fund but a series of promises; this is not a problem *per se* but it is when there are no rapid-response procedures to handle a fast-developing financial emergency. Unless these procedures are stream-lined, the CMIM is unlikely to be called upon even as a co-financing facility when bilateral swaps or even the IMF may be able to deliver the needed liquidity in the required time. If the CMIM is to be a real substitute for the IMF and serve its role as a true regional alternative, then the size of the fund, or the portion de-linked from an IMF program, also needs to be increased substantially. Membership would also need to increase beyond ASEAN+3, not just to bolster the size of the fund, but to diversify it. But if AMRO could gain sufficient credibility, then the small size or membership of the CMIM would be less binding constraints. After all, even the IMF relied upon other partners to fund the bail-out in Asia in 1997–98 and now Europe. But the IMF led the rescue and set the terms, and this is what matters. AMRO needs to be able to do the same.

Without these changes, and still wary of the IMF stigma, ASEAN+3 is unlikely to turn to the CMIM as a co-financier or a substitute—which explains why countries continue to take the high-cost mercantilist route of self-insurance through excessive holdings of foreign exchange reserves, or why they continue to pursue bilateral swaps separately, often with other CMIM members. In fact, bilateral swaps are quickly becoming the main instrument in Asia's financial safety net. Furthermore, shifting national reserves to a regional fund that is unlikely to be used could actually be counter-productive as it weakens a country's first line of defense. Although ASEAN+3 may appear to have a co-financing facility with the IMF in the CMIM, it is not a useable one. If it wants its own regional safety net, it has a long way to go. How long is still unclear, but hopefully it can be made workable before, rather than because of, the next crisis.

REFERENCES:

ADB. 2011. Reshaping Global Economic Governance and the Role of Asia in the Group of Twenty (G20). Manila: ADB.

AMRO. 2012. Key Points of CMI Multilateralization Agreement. Available: http://www.amro-asia.org/wp-content/uploads/2011/12/Key-Points-of-CMIM.pdf

Arab Monetary Fund. 2011. Arab Monetary Fund Annual Report, 2010. Available: http://www.amf.org.ae/annualrep

ASEAN Secretariat. 2010. Financial Integration Factsheet.

Azis, I. 2012. Asian Regional Financial Safety Nets? Don’t Hold your Breath. *Public Policy Review* 8 (330)(July): 357–76. Policy Research Institute. Ministry of Finance. Japan.

Banko Central ng Pilipinas (BSP). 2012. Chiang Mai Initiative Multilateralization FAQ.

ECB. 2011. The European Stability Mechanism. ECB Monthly Bulletin. July. Available: http://www.ecb.int/pub/pdf/other/art2_mb201107en_pp71–84en.pdf

Henning, R. C. 2004. East Asian Financial Cooperation. Washington, DC: Institute for International Economics.

Henning, R. C. 2011. Coordinating Regional and Multilateral Financial Institutions. Working Paper No. WP11–9. Washington, DC: Peterson Institute for International Economics. Paper commissioned by the ADB through Research and Development Technical Assistance Project 7501, Asia’s Strategic Participation in the Group of Twenty for Global Economic Governance Reform, Available: http://www.www.piie.com/publications/wp/wp11–9.pdf

Fernández-Arias, E., and E. Levy-Yeyati. 2010. Global financial safety nets: where do we go from here? IADB working paper series No 231 Washington DC: IADB. Available: http://www.iadb.org/en/research-and-data/publication-details,3169.html?pub_id=idb-wp-231

Hill, H. and J. Menon. 2012. Asia’s new financial safety net: Is the Chiang Mai Initiative designed not to be used? VoxEU 25 July. http://www.voxeu.org/article/chiang-mai-initiative-designed-not-be-used

IMF. 2010a. Seminar on Regional Financial Safety Nets—Background Information on Participating RFAs. 8 October 8.

IMF. 2010b. The Fund’s Mandate—Future Financing Role. Public Information Notice (PIN) No. 10/51. 22 April 2010. Available: http://www.imf.org/external/np/sec/pn/2010/pn1051.htm

IMF. 2011. Strengthening the International Monetary System: Taking Stock and Looking Ahead Prepared by the Strategy, Policy, and Review Department, in consultation with the Finance, Legal, Monetary and Capital Markets, and Research Departments. Available: http://www.imf.org/external/np/pp/eng/2011/032311.pdf

Jeanne, O. 2010. Dealing with Volatile Capital Flows. Peterson Institute for International Economics Policy Brief 10–14. Washington, DC: Peterson Institute for International Economics Policy. Available: http://www.relooney.info/0_New_7565.pdf

Kawai, M. 2010. Reform of the international financial architecture: An Asian perspective. Singapore Economic Review 53: 207–292.

Lamberte, M., and P. Morgan. 2012. Regional and Global Monetary Cooperation. ADBI Working Paper 346. Tokyo: ADBI.

Menon, J.. 2012. Regional and Global Financial Safety Nets. Presentation to the Conference on The Evolving Global Architecture: From a Centralized to a Decentralized System, Nanyang Technological University and ADB Institute, Singapore, 26–27 March.

Park, S. 2011. Global Financial Safety Net and Regional Financial Arrangement-IMF Cooperation. Korea Institute of Finance Weekly Economic Review 20: 30.

Pickford, S. 2011. Global Financial Safety Nets. Chatham House International Economics Briefing Paper. October 2011. Available: http://www.chathamhouse.org/sites/default/files/public/Research/International%20Economics/1011bp_pickford.pdf

Rana P. B, W. M. Chia, and Y. Jinjarak. 2012. ASEAN+3 Monetary Integration: Perception Survey of Opinion Leaders. Journal of Asian Economics 23: 1–12.

Sussangkarn, C. 2011. Institution Building for Macroeconomic and Financial Cooperation in East Asia. Available: http://www.amro-asia.org/wp-content/uploads/2011/11/CS-CMIM-AMRO.pdf

The Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting. 2012. 3 May. Manila, Philippines.

The Joint Statement of the Trilateral Finance Ministers and Central Bank Governors Meeting, 2012, 3 May. Manila, Philippines.