Dialogue on Globalization

BRIEFING PAPER

FES SINGAPUR

The Future Role of the IMF: Asian Perspectives

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1 Introduction

The 1997 financial crisis really shook the Asian region. The financial system in three Asian economies collapsed in a few days. The crisis absorbed International Monetary Fund (IMF) and lender nations' funds for liquidity support of US$ 17.2 billion for Thailand, US$ 42.3 billion for Indonesia, US$ 58.4 billion for Korea, and US$ 1 billion for the Philippines. The rescue program, however, was not smooth, and in many cases it worsened the conditions. *Feridhanusetyawan and Anas* (2000) showed how the IMF's prescription to Indonesia made the economy plunge even deeper. The crisis really gave the region a very hard lesson on the importance of financial stability.

The 1997 financial crisis, on the other hand, also created momentum to speed up East Asian integration. The Asian Development Bank (ADB) reported in 2007 that intraregional trade within East and Southeast Asia doubled in value between 1995 and 2004 from US$ 651 billion to US$ 1,296 billion. Intraregional trade shares amounted to over 60% of total trade. The region also experienced higher trade growth compared to the world average within the period of 1995-2004. The growth in intra-Asian trade and Asia's trade growth with the world thus far had been largely driven by market forces rather than by discriminatory trade agreements. Apart from the ASEAN Free Trade Agreement (AFTA), regional and bilateral trade agreements were at their initial stages of development. The ASEAN-China Free Trade Agreement was put into force in January 2003. Bilateral agreements were mainly concluded later, creating a so called "bowl of noodles."

The severity of the crisis and the failure of the IMF in assisting countries in crisis, aggravated by disappointment in the slow progress of the reform in the Bretton Woods institution, had given rise to the creation of many initiatives aiming to establish a self-protecting mechanism within the region. Economic leaders in the region realized the importance of regional financial cooperation in preventing another crisis and, should one occur, mitigating its impact.

As a result many initiatives arose. Japan, induced to do so by *Eisuke Sakakibara*, proposed, at the IMF Annual meeting in Hong Kong in 1997, that the region should establish an Asian Monetary Fund. Leaders of the fourteen economies of the Asia Pacific region signed a framework agreement on financial cooperation known as the Manila Framework. ASEAN plus China, Japan, and South Korea (ASEAN+3) launched several initiatives, including reserve pooling, an economic review process, and development of Asian bond markets. There are a few other initiatives such as the SEACAN Expert Group on Capital Flows initiative, The EMEAP Governors and Deputies Meeting initiative, The APEC Finance Minister Meeting, and the informal ASEAN+3 Finance and Central Bank Deputies Meeting.

In the early stage of its development, the severity of the crisis and the disappointment with the IMF mechanism for handling the crisis were the main drivers behind regional financial cooperation. In the later period, the factors motivating this region to engage in closer regional financial cooperation differed somewhat. China and its open trade policy are considered an important factor that motivated the region to establish financial cooperation (Amyx, 2005). The post-crisis growth of the region, China's open trade policy, and its economic performance in particular, made huge resources available that needed to be channeled out of this region. Intensified intra-regional trade and investment is another factor which demonstrates that regional financial cooperation remains relevant and needs to be enhanced.

At present, with so many initiatives to improve regional financial cooperation that initially arose as a result of the mismanagement of the 1997 crisis, we need to examine whether these initiatives have improved financial cooperation within the region. How is the progress in achieving the objective? Should there be a converged initiative or will East Asia be able to muddle through with numerous initiatives to achieve meaningful financial cooperation within the region? This paper will discuss those issues, the development of the regional initiatives to date, and their relevance to the region's objective to have a mechanism for improved crisis management. This paper will also discus the relevance of those initiatives to the IMF reform.

2 Financial and Monetary Cooperation in Asia: The Initiatives

Asian Monetary Fund

In August 1997, during the IMF meeting in Hong Kong, Japan proposed the creation of an Asian Monetary Fund (AMF). However, most of the participants were surprised by the idea and rejected the proposal. It is important to note that ASEAN and South Korea were reported to be in support of the initiative (Lipscy 2003; Nasution, 2005). The purposes of an AMF would be to provide regional grouping for (1) policy dialogue and discussions on mutual interests, monitoring and surveillance, (2) liquidity assistance, and (3) exchange rate coordination. Although the name Asian Monetary Fund was never mentioned in the later initiatives in the region, the spirit remains, especially under the ASEAN+3 framework.

The Manila Framework

Senior officers of the ministries of finance and the central banks of 14 Asia Pacific economies,[1] who met between 18-19 November 1997 in Manila, agreed to develop a framework for cooperation to deal with the financial crisis in the region, known as the Manila Framework. They agreed to establish a regional surveillance mechanism to complement the global surveillance conducted by the IMF, enhance the economic and technical cooperation among themselves to strengthen the financial systems of the countries in the region in particular, and seek the possibility of cooperative financing arrangements to supplement the IMF rescue package. A year later, ASEAN leaders, recognizing the need to develop a more specific region-based and rapid-response surveillance mechanism, endorsed the Manila Framework within the ASEAN region by establishing the ASEAN Surveillance Process (ASP) to monitor and review the macroeconomic and financial development of the member countries.

This monitoring process is jointly conducted by the ASEAN Secretariat Surveillance Coordinating Unit (ASCU) and the Surveillance Contact Person[2] from each member country. The ASCU compiles submissions from each member country and prepares a consolidated report.[3] The ASCU also prepares regional and global economic reports. This, together with the consolidated country report, is then evaluated in the peer review process[4].

The core components of the ASP are the ASEAN Finance Ministers Meeting (AFMM), the ASEAN Select Committee, which comprises members of the ASEAN Senior Finance Official Meeting (ASFOM), and the ASEAN Central Bank Forum, where the peer review process is carried out. A surveillance-coordinating unit was set up at the ASEAN Secretariat, later renamed the Finance and Macroeconomic Surveillance Unit (FMSU). The FMSU is responsible for preparing, coordinating, reviewing, and consolidating inputs and information from member states and from international as well as regional financial institutions.[5] This FMSU report will be the main agenda discussed during the peer review process.[6] [7]

The draft report is circulated in the first stage of the peer review process (the deputy level) for comments. At this stage, the deputies perform a comprehensive review of the report, touching on the technical aspects as much as possible. At the second stage, i.e. at the ministerial level, the review focuses more on recent issues related to policy. It is important to note that both the ASEAN Surveillance Report and the results of the peer reviews are kept confidential.

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1 Australia, Brunei Darussalam, Canada, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States.

2 Surveillance Contact Persons are generally attached to the ministry of finance. ASCU work is essentially supported by a regional surveillance network which is comprised of contact persons and national surveillance units which are usually attached to the Central Banks.

3 In many cases, the ASCU was forced to collect information from publicly available resources to complement data and reports submitted by Surveillance Contact Persons.

4 Peer review is a process for reviewing reports prepared by the ASEAN Secretariat and the Surveillance Contact Persons, as well as reports from IMF, ADB, World Bank, and other related institutions. A Peer review is carried out in two stages. The first stage of the review process is conducted at the deputy or senior official level (including central bank officials from member countries) and includes a thorough review process. Ideally, most of the technical aspects should have been settled at this stage, but this is not always the case. Deputies tend to focus on their own countries' reports in order to weed out mistakes and/or "sensitive" issues. The second stage of the review is at the minister level (minister of finance), where policy issues become the focus of the agenda.

5 The FMSU is supported by the ASEAN Surveillance Technical Support Unit (ASTSU) at the ADB. To assist the FMSU, each member country must provide a Surveillance Contact whose main task is to submit a country report, which will be used as input to prepare the consolidated FMSU Report.

6 Periodic reports from countries such as Singapore, Malaysia, Indonesia, the Philippines, and Thailand are available on the websites of pertinent government authorities (i.e., ministries of finance or the central banks/monetary authorities).

7 The FMSU prepares a bi-annual consolidated assessment report (the ASEAN Surveillance Report, ASR), based on the countries' reports and data sets provided by the Surveillance Contacts as well as on the data and information gathered by the FMSU from other sources. A country report is prepared using the same data sets as those submitted to the IMF by the country in question. The data and reports submitted by Surveillance Contacts are based on a template and outline circulated by FMSU.

ASEAN+3 Initiatives

A clear political signal for strengthening cooperation among East Asian countries also began right after the crisis hit. The leaders of ASEAN and China, Japan, and South Korea held an informal meeting in Kuala Lumpur in December 1997, discussing the prospects for the development of East Asia in the 21st century and the deepening of regional economic ties. Since then, ASEAN+3 countries have held a summit every year at the ASEAN+3 meetings as well as regular meetings of their finance ministers. At the second ASEAN+3 (APT) leaders meeting in Hanoi in 1998, South Korean president Kim Dae-jung proposed the establishment of an East Asian Vision Group (EAVG) to develop a road map for regional cooperation. Afterward, at the third APT leader meeting in Manila in 1999, the joint statement on the East Asia Cooperation was issued for the first time. This meeting succeeded in addressing eight fields of financial and economic cooperation. In addition, the three North East Asia economies decided to initiate a multiparty study project involving institutions of the three countries to discuss the prospect of establishing an FTA among themselves in Northeast Asia. Later on, at the fourth meeting in Singapore in 2000, the prospect of building formal institutional links between Southeast and Northeast Asia and the possible development of an East Asian free-trade area became more apparent.

The APT finance ministers first met on 30 April 1999, and since then the ministers have met annually. The finance ministers focused on three initiatives for regional financial cooperation, namely the Chiang Mai Initiative for Liquidity Support, Economic Review and Policy Dialogue Process (ERPD), and the Development of local-currency bond markets. The objectives of those initiatives are to prevent another crisis from happening and, should a crisis take place, to enable the region to better manage the crisis.

The Chiang Mai Initiative (CMI)

The Chiang Mai Initiative was agreed upon in May 2000. It established regional reserve pooling among the ASEAN+3 member countries. The CMI expanded the existing ASEAN Swap Arrangement (ASA), originally including the ASEAN 5 member countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), to include all the ASEAN members and augmented it with a network of bilateral swap arrangements (BSAs) among ASEAN countries, China, Japan, and Korea. Since the ASEAN+3 summit meeting in November 2000, Japan, China, and South Korea have been negotiating BSAs with each other and with the ASEAN countries. As of July 2007, 16 BSAs with a total value of US$ 83 billion had been concluded or were under negotiation in the framework of the CMI. Japan has been playing a leading role in terms of both number and volume. Japan concluded seven agreements[8], China concluded five[9], and Korea concluded also five agreements[10] (see Figure 1 on next page).

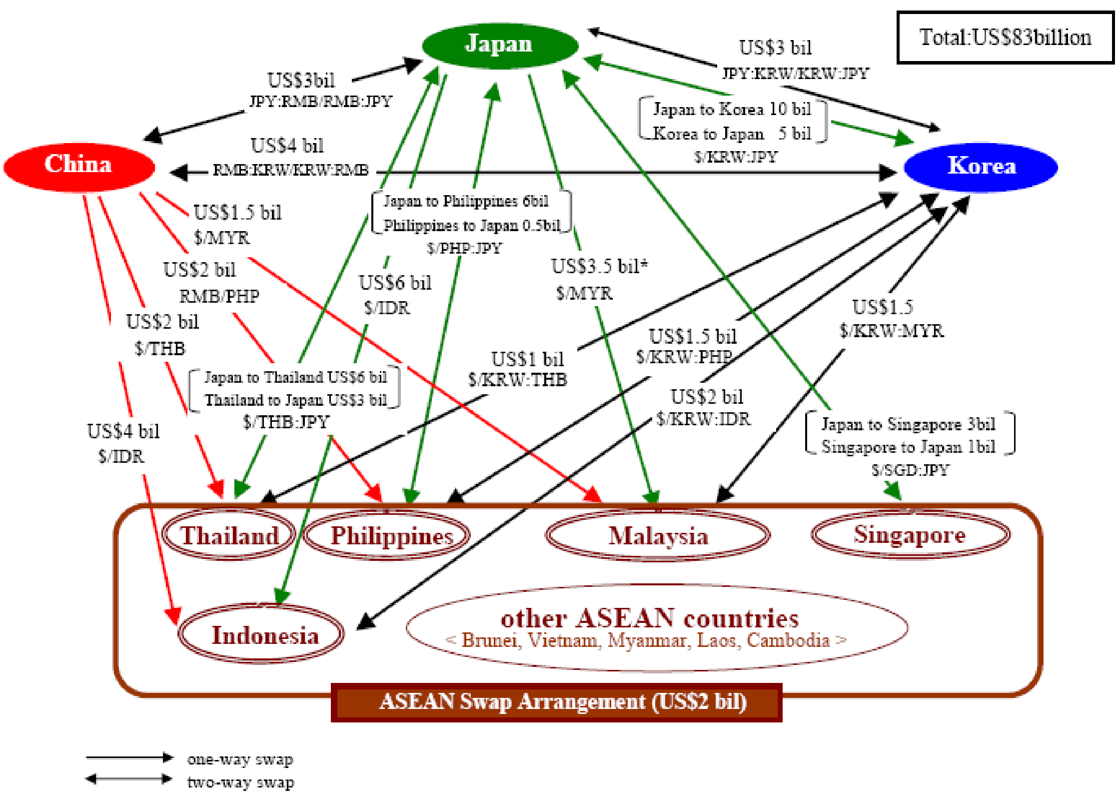
In addition to ASA and BSA, the third item of the CMI is the repurchase agreement. According to Park (2002), the repurchase agreement was also developed to supply short-term liquidity to contributor members for the sale and buyback of appropriate securities. The participating countries finalized the fundamental elements of the repurchase agreement through bilateral negotiation among the contracting countries. The securities of the repurchase agreement take the form of US Treasury notes or bills with a maturity of less than 5 years as well as government securities of counterpart countries involved in the repurchase agreement. The participating countries can draw on the repurchase agreement for the period of one week and the expiration date can be prolonged by agreement between the participant countries. The lowest repurchase transaction amount required is five percent of the total amount of the repurchase agreement. In each repurchase transaction, the buyer will be granted a margin of 102% for US Treasury notes and 105% for the government securities of the seller countries.

8 with Korea, China, Indonesia, Malaysia, the Philippines, Thailand, and Singapore

9 with Korea, Indonesia, Malaysia, the Philippines, and Thailand.

10 with China, Indonesia, Malaysia, the Philippines, and Thailand

The Agreement on the Swap Arrangement under the Chiang Mai Initiative (as of July 10, 2007)



* **Including New Miyazawa Initiative**

The agreement between Japan and Malaysia: US$2.5 billion under the New Miyazawa Initiative
US$1 billion under the Chiang Mai Initiative

Note: Total amount includes those under negotiation for renewal, but does not include New Miyazawa Initiative and ASEAN swap arrangement.

Kawai and Houser (2007) reported that under the CMI BSA members requesting liquidity support can immediately obtain short-term financial assistance for the first 20 percent of the commitment fund, while the remaining 80 percent is linked to the IMF program. The amount of unconditional short-term financial assistance has increased compared to the early years of the CMI. However, the CMI does not have any permanent institution to manage the fund. The agent bank rotates among the members and has the task of confirming a request for liquidity and assessing and processing it quickly in consultation with other member banks. Member banks are allowed to swap their own currencies for major international currencies for a period of up to six months and for a sum up to twice the amount committed by the member under ASA. General terms of borrowing for BSA are: maturity of 90 days; renewable up to a maximum seven times. Interest rates are based on LIBOR plus a spread. For the first drawing and first renewal the spread is 150 basis points and 50 additional basis points for every two renewals, subject to a maximum of 300 basis points. The maximum amount of automatic disbursement = 10% of BSA. Additional assistance can be provided to members requesting it under an IMF program or an activated Contingent Credit Line.

Economic Review and Policy Dialogue (ERPD)

The ASEAN+3 Economic Review and Policy Dialogue (ERPD) was established in May 2000 to attain several objectives, including identifying possible financial crises and preventing them, monitoring regional capital flows, strengthening the banking and financial systems, reforming the international financial architecture, and enhancing the self-help and support mechanism in East Asia. *Kawai and Houser* (2007) elaborated that the ERPD processes include:

- assessment of global, regional and national economic conditions
- monitoring regional capital flows and currency markets
- analyzing macroeconomic and financial risks

- strengthening banking and financial system conditions
- providing an Asian voice for the reform of the international financial architecture.

However, ASEAN+3 ERPD has not been able to exercise surveillance on a daily basis, and thus its effectiveness remains limited as it lacks a formal institutional structure.

Asian Bond Market Development (ABMD)

In an attempt to reduce the region's high reliance on short-term banking financing, the APT finance ministers adopted the ABMD in August 2003. It aims to develop efficient and liquid bond markets in Asia, enabling better utilization of Asian savings for Asian investments and is expected to mitigate currency and maturity mismatches in financing[11]. Under the ABMD, there are four working groups which work on the development of new securitized instruments, establishing a regional credit-guarantee mechanism, exploring an Asian settlement system, and strengthening Asian credit-rating agencies. Apart from the ABMD, which is an initiative focused more on information sharing and capacity building to develop the bond market (supply side), the EMEAP initiative for developing the Asian Bond Market is more demand side, as explained in the next section.

Informal ASEAN+3 Finance and Central Bank Deputies Meeting

The ASEAN+3 Finance and Central Bank Deputies (Informal AFDM+3) have met informally twice a year since its first meeting in 2002. There is no regular secretariat – the chair country acts as a virtual secretariat. ADB presents macroeconomic and structural issues in the world economy and in regional and individual countries.

EMEAP Governors and Deputies Meeting

EMEAP Governors and Deputies meetings (the executive meetings of East Asia Pacific central bank) form a cooperative organization of central banks and monetary authorities in the East Asia and Pacific region. Members are eleven economies, including Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zeeland, the Philippines, Singapore and Thailand. Central bank governors meet to exchange ideas and information regarding recent economic and financial developments in the region. The discussion is mainly about policy issues and macroeconomic surveillance focusing on GDP, the price of BPO, and long- and short-term interest rates.

On 2 June 2003, the EMEAP announced the launch of the first Asian Bond Fund (ABF), which has an initial size of about US$ 1 billion. The ABF invests in a basket of US-dollar-denominated bonds issued by Asian sovereign and quasi-sovereign issuers in EMEAP economies[12]. The ABF is managed by the Bank for International Settlements in a passive style[13]. EMEAP extended the ABF concept with the launching of the Asian Bond Fund 2 (ABF2) in December 2004. Implemented in April 2005, ABF2 invests in local-currency bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies[14]. It consists of two components: a Pan-Asian Bond Index Fund (PAIF) and a Fund of Bond Funds (FoBF). PAIF is a single bond fund index investing in sovereign and quasi-sovereign local-currency bonds issued in eight EMEAP economies. FoBF is a two-tiered structure with a parent fund investing in eight Single-market Funds, each of which will invest in local-currency sovereign and quasi-sovereign bonds issued in their respective markets[15][16].

SEACEN Export Group on Capital Flows

SEACEN (South East Asia Central Banks) research and training center was established in 1982 with 8 members: Indonesia, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Sri Lanka and Thailand. Currently, the membership includes Korea, China Taipei, Mongolia, Brunei and Fiji. The center reviews and analyzes financial, monetary, banking, and economic development. The SEACEN's main activities deal more with capacity building, such as training and research. However, it also conducts surveillance. The SEACEN Expert Group on Capital Flows was established

11 asiabondonline, accessed Oct 20 2007

12 other than Japan, Australia, and New Zealand

13 http://asianbondsonline.adb.org/regional/asean%203_asian_bond_markets_initiative/ related _initiatives/emep_asian_bond_fund.php , accessed October 27

14 other than Japan, Australia, and New Zealand

15 The structure of ABF2 is detailed in Appendix 1

16 PAIF and the eight Single-market Funds are passively managed by private fund managers against benchmark indexes16. PAIF, with an allocation of US$ 1 billion, is managed by State Street Global Advisors. Another US$ 1 billion is invested in the eight Single-market Funds investing in sovereign and quasi-sovereign local-currency-denominated bonds in their respective markets. (http://asianbondsonline.adb.org/regional/asean%203_asian_bond_markets_initiative/related_initiatives/emep_asian_bond_fund.php)

in 2000, responding to the concern expressed by the SEACEN governments over the need to manage capital flows to ensure stability in the regional financial markets. The SEACEN surveillance system is also not equipped with an early warning system.

Table.1. The Initiatives: A Summary

Initiatives	Type of Cooperation
Asian Monetary Fund	Policy dialogue, liquidity support(,) and exchange-rate coordination
ASEAN	Regional surveillance mechanisms and increased economic and technical cooperation
ASEAN+3	Chiang Mai initiatives (Swap facility) Economic Review and Policy Dialogue Asian Bond Market Development (supply side)
Informal ADFM+3 (Informal ASEAN+3 Finance and Central Bank Deputies Meeting)	Information exchange
Executive Meeting of East Asia Pacific Central Bank (EMEAP) Governors and Deputies Meeting	Exchange of Information at the governor and deputy levels; established working groups to work on financial issues; Asian Bond Fund
SEACEN Expert Group on Capital Flows	Surveillance

3 The Initiatives: An Assessment

Ten years after the crisis, East Asia has already brought about a number of initiatives that have attempted to improve financial cooperation among countries in the region. Under the ASEAN framework, regional surveillance mechanisms have been put in place. Under the ASEAN+3 framework, regional surveillance mechanisms have also been set up. In addition to that, swap facilities were made available and Asian Bond Market Initiatives were also implemented. EMEAP has pooled resources in the Asian Bond Fund and invested in the region's sovereign bonds. However, analysts were rather disappointed with the level of achievement in improving regional financial cooperation within this region.

In the following, we will review financial cooperation under the ASEAN and ASEAN+3 frameworks and disappointments with the level of achievement under these two frameworks.

ASEAN

ASEAN financial cooperation, as mentioned above, is aimed at providing monitoring and peer review for economic development in the member countries. However, both the monitoring and peer review processes are not adequate for crisis prevention and management.

On monitoring, the data template provided by the FMSU is not comprehensive and detailed enough. As Atje and Anas noted, the FMSU gives too much discretion to the Surveillance Contacts to tailor the details of their country reports. As a result, the reports show significant variations in terms of the breadth and the format of the report, thus rendering it difficult to conduct cross-country comparisons. Generally, the more advanced member countries provide more elaborate reports than the developing ones.

On peer review, the mechanism allows "sensitive issues" to be filtered out at the technical level, hence the peer review process might end up reviewing only good news while the bad news remains hidden. Consequently, the idea of peer review becomes meaningless. In other words, the peer review process under the ASEAN policy of non-interference in domestic policy is ineffective in putting pressure on member states to adopt certain policy recommendations.

On structural issues, there are several issues which might hamper the effectiveness of the ASEAN Surveillance Process. First, ASP lacks a reward and punishment scheme for ensuring that member states perform well. Second, the FMSU itself does not have enough resources, human resources in particular, to carry out the surveillance task.

ASEAN+3

ASEAN+3 has three initiatives which complement each other. Like ASEAN with ASA, ASEAN+3 has ASA plus bilateral swap facilities. Apart from that, it has the Economic Review and Policy Dialogue (ERPD) to monitor the development of the macroeconomic and financial conditions of the member countries. It also works on the development of the bond market. Although ASEAN+3 financial cooperation has a wider coverage of activities than the ASEAN framework, it is still far from being perfect.

The CMI, as a financial arrangement, has several limitations. Asami (2005) argues that the total amount of swap facilities available under the ASEAN+3 framework is not enough for a future capital account crisis. He also criticizes the high dependence of A+3 on the IMF process. Although the CMI is a regional monetary arrangement, in reality it relies on the IMF, since 90% of swap funds can be drawn subject to the borrowing government's acceptance of IMF conditionality. Furthermore, he asserts that the CMI's financial arrangements are inefficient. In the same vein, the North East ASIAN Think Tanks (NEAT) Working Group on East Asian Financial Cooperation (2005) also showed the main weakness of the ASEAN+3 framework of financial cooperation. First, the functions of the Chiang Mai swap agreement would not be able to meet the expanded need. Second, the size of the Chiang Mai swap agreement is inadequate for addressing short-term liquidity problems as well as preventing and solving other related problems in the region. Third, its bilateral agreement reveals insufficiencies. In addition to the above-mentioned weaknesses, ASEAN+3 does not have institutionalized arrangements, and this does not allow a more frequent and quick assessment of the vulnerability of the region and disbursement of the liquidity support under the CMI (Kawai and Houser 2007). The Bond Market Development Initiative has not yet demonstrated significant improvement on the supply side of the bond market in the region. Meanwhile, ERPD faces obstacles similar to those facing the ASP.

We found no evidence that regional financial cooperation in East Asia has failed to achieve its ultimate objective, as it has yet to be tested in a crisis. However, if the expectation is to have a self-help mechanism that can be used in the time of crisis, basically the form of the cooperation to date is not sufficient. We observed that the slow progress toward achieving meaningful cooperation within this region lies in a few factors.

First, the region lacks leadership. We can hardly see the driver behind this regional financial cooperation after ten years of effort in establishing meaningful cooperation. Strong leadership is required to enable the region to commit to bold decisions. In ASEAN, this leadership issue has been there for quite some time and has never been resolved. None of the ASEAN countries shows willingness to lead ASEAN in achieving significant progress in economic cooperation. In ASEAN+3, there is a historical and political barrier to having any of the Plus Three countries act as the leader of the initiatives. Meanwhile, ASEAN currently lacks leadership.

Second, currently there are too many initiatives to focus on. It is often mentioned that the region, especially at the government level, lacks resources. Having too many initiatives to work on with limited resources jeopardizes the quality of the initiatives. The region needs to focus on fewer initiatives (ideally one) to make meaningful cooperation attainable.

Third, different levels of income and stages of development make the process rather complex and require a more structural effort to map out the direction. To date, no single initiative has attempted to map out a direction that will suit all member countries.

Fourth, the urgency of having regional cooperation for crisis prevention and management no longer exists. The crisis was ten years ago and the Central Banks of the countries hit by the crisis have already improved their capacity in preventing and managing such crisis. In addition, countries in the region are building up trade surpluses and reserves.

Fifth, no single country is willing to provide substantial resources to make the initiatives really meaningful. Regional financial cooperation in East Asia was formed in a rather weak structure. There is no single initiative or framework agreement supported by a full-time secretariat that focuses on achieving the objective of establishing cooperation.

Last but not least, "non-interference" policy influences economic cooperation in East Asia. Most of the initiatives in ASEAN or ASEAN+3 rely on the decision-making process of the high-ranking officers meetings. It appears that the meetings are basically friendly exchanges of information rather than a peer-pressuring mechanism. ASEAN+3 high-ranking officials would never challenge other high-ranking officials, and this might limit the ability of the initiatives to provide objective assessment of the respective country.

4 The Way Forward

Experts seem to agree that regional financial cooperation is in demand in this region. The region has huge resources when needed, although the amount committed in the CMI was rather limited. It is probably that the form of cooperation now evolving has yet to find its perfect format. Given the lack of urgency for meaningful financial cooperation, we foresee that financial cooperation in East Asia is going to move forward rather slowly, much as it progressed in the past. We would predict that ASEAN+3 will be the main driver for regional financial cooperation. However, to make initiatives under the ASEAN+3 framework more effective, it would require a dedicated permanent institution, which should be independent of any of the member countries. A permanent institution should be the "kitchen" to prepare frequent analysis for the surveillance purpose, provide an early warning system for member countries, and administer disbursement of the fund when needed. Although the ultimate decision will rest with the member countries' leaders, this institution is needed for better management of cooperation. It is probably high time to reconsider an Asian Monetary Fund minus exchange-rate coordination for the region once again. Although on paper the AMF was rejected, at the practical level the evolution of the A+3 initiatives minus the institution bears a resemblance to the idea of an AMF.

The region should answer the question whether it will continue to consider having substantial (effective) regional financial cooperation as an important part of regionalism. If yes, the region should accelerate the process to be more substantial; a firm commitment is required. This will lead to a bigger amount of resources being pooled, a better surveillance mechanism, and a permanent institution. The independent permanent institution should create a reward and punishment mechanism since the peer-pressure mechanism has not been effectively practiced in current initiatives. We do not foresee an accelerating process taking place in the future unless one or more countries are committed to provide substantial resources and the political will to see bold decisions through. We also do not see other initiatives as the anchor of the regional financial cooperation, as it will require much more effort and political commitment from members to do so.

Given the lack of urgency and the slow progress of the regional financial cooperation within the region, it appears that the region will rely on the IMF once again should a crisis hit. If ASEAN+3 managed to speed up its process and make a bold decision regarding its framework of cooperation, ASEAN+3 would be a complement mechanism for IMF processes. If ASEAN+3 goes further toward achieving an AMF, the IMF will be redundant for the region. However, this last scenario would not be possible as member countries appeared reluctant to relinquish information regarding their financial sectors, not to mention to surrender their monetary policies.

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